लेखाशास्त्र
Accountancy

कक्षा / Class XI

2026-27

विद्यार्थी सहायक सामग्री
Student Support Material

केन्द्रीय विद्यालय संगठन~Kendriya Vidyalaya Sangathan

विकास गुप्ता, भा.प्र.से.
आयुक्त
Vikas Gupta, IAS
Commissioner

तत् त्वं पूषन् अपावृणु
केन्द्रीय विद्यालय संगठन

केन्द्रीय विद्यालय संगठन
18, संस्थागत क्षेत्र, शहीद जीत सिंह मार्ग, नई दिल्ली-110016
Kendriya Vidyalaya Sangathan
18, Institutional Area, Shaheed Jeet Singh Marg, New Delhi-110016

संदेश

शिक्षा केवल पुस्तकों तक सीमित ज्ञान नहीं है; यह स्वयं को पहचानने, अपने विचारों को विस्तार देने और जीवन की चुनौतियों का आत्मविश्वास से सामना करने की सतत् यात्रा है। केन्द्रीय विद्यालय संगठन का सदैव यह प्रयास रहा है कि प्रत्येक विद्यार्थी के लिए ऐसा शिक्षण वातावरण हो, जहाँ जिज्ञासा को प्रोत्साहन मिले, सीखना आनंददायी बने और प्रत्येक बालक अपनी अंतर्निहित क्षमताओं को पहचानकर उन्हें विकसित कर सके।

राष्ट्रीय शिक्षा नीति 2020 ने शिक्षा को सिर्फ रटने से समझने, सूचना से ज्ञान और ज्ञान से जीवनोपयोगी दक्षताओं की ओर अग्रसर किया है। आज का समय कृत्रिम बुद्धिमत्ता (Artificial Intelligence – AI), डिजिटल नवाचार और निरंतर बदलती तकनीकों का है। ऐसे युग में केवल तथ्यों का ज्ञान पर्याप्त नहीं है; आवश्यक है कि विद्यार्थी मनन- चिंतन करना सीखें, प्रश्न पूछें, समस्याओं का समाधान खोजें और नए विचारों के साथ आगे बढ़ें। यही क्षमताएँ उन्हें भविष्य के लिए तैयार करेंगी।

इन्हीं उद्देश्यों को ध्यान में रखते हुए केन्द्रीय विद्यालय संगठन के पाँचों आंचलिक शिक्षा एवं प्रशिक्षण संस्थानों (ZIETs) के माध्यम से, समर्पित एवं अनुभवी शिक्षकों द्वारा कक्षा 9 से 12 के विद्यार्थियों के लिए यह विद्यार्थी सहायक सामग्री तैयार की गई है। यह केवल परीक्षा की तैयारी की संकलन सामग्री नहीं है, बल्कि विषयों को सरलता से समझने, अवधारणाओं को स्पष्ट करने, नियमित अभ्यास करने और आत्मविश्वास के साथ आगे बढ़ने का एक विश्वसनीय साथी है।

इस सामग्री में विषय-वस्तु को विद्यार्थियों की आवश्यकताओं के अनुरूप सरल, व्यवस्थित एवं दक्षता-आधारित दृष्टिकोण से प्रस्तुत किया गया है। मुझे प्रसन्नता है कि इसे हमारे शिक्षकों के अनुभव, नवाचार और विद्यार्थियों के प्रति उनकी प्रतिबद्धता ने समृद्ध बनाया है। मुझे विश्वास है कि यह सामग्री विद्यार्थियों की सीखने की यात्रा को अधिक सहज, रोचक और प्रभावी बनाएगी तथा उन्हें बोर्ड परीक्षाओं के साथ-साथ जीवन की व्यापक चुनौतियों के लिए भी तैयार करेगी।

मेरा विश्वास है कि जब एक जिज्ञासु विद्यार्थी, प्रेरित शिक्षक और सार्थक शिक्षण संसाधन एक साथ आते हैं, तब शिक्षा केवल उपलब्धि का माध्यम नहीं रहती, बल्कि व्यक्तित्व निर्माण की एक सशक्त प्रक्रिया बन जाती है। यही भावना इस विद्यार्थी सहायक सामग्री के केंद्र में है।

मेरी हार्दिक शुभकामनाएँ हैं कि आप सभी सीखने की इस यात्रा में निरंतर आगे बढ़ें, अपने सपनों को नए आयाम दें और ज्ञान, संवेदनशीलता तथा नवाचार के साथ राष्ट्र निर्माण में अपना महत्वपूर्ण योगदान दें।

शुभकामनाओं सहित ।

(विकास गुप्ता)

☎ 011-26512579 www.kvsangathan.nic.in commissioner-kvs@gov.in @KVS_HQ @KVSHQ @kvshqr

PATRON:

Sh. Vikas Gupta, Commissioner, KVS.

CO-PATRON:

Ms. Chandana Mandal, Additional Commissioner (Acad.), KVS (HQ.)

CO-ORDINATOR:

Sh. Somit Shrivastav, Joint Commissioner (Academics) &
Ms. P B S Usha, Joint Commissioner (Training), KVS (HQ.)

COVER DESIGN:

KVS Publication Section

EDITORS:

Sh. Sardar Singh Chauhan, Director I/C, KVS ZIET Bhubaneswar.

Sh. B L Morodia, Director, KVS ZIET Gwalior.

Smt. Shruti Bhargava, Director, KVS ZIET Chandigarh.

Sh. T Prabhudas, Director, KVS ZIET Mumbai.

Sh. P I T Raja, Director, KVS ZIET Mysuru.

CONTENT CREATORS & REVIEWED BY:

1. **Smt. Vandana Dalal, PGT (Comm.), PM Shri KV Jutogh Cantt., Gurugram Region.**
2. **Sh. Devender Singh, PGT (Comm.), PM Shri KV Birpur Dehradun, Dehradun Region.**
3. **Ms. Meenakshi Rawat, PGT (Comm.), PM Shri KV No. 2 AFS Chakeri Kanpur, Lucknow Region.**
4. **Sh. Tej Kumar Bhardwaj, PGT (Comm.), KV Mathura Cantt. Agra Region.**
5. **Smt. Teena Kaila, PGT (Comm.), PM Shri KVAFS Jaisalmer, Jaipur Region.**
6. **Sh. Shubham Chaudhary, PGT (Comm.), PM Shri KV AFS Sarsawa, Agra Region.**

INDEX

SYLLABUS

Accountancy (Subject Code-055) Class-XI (2026-27) Time: 3 Hours

Units		**Marks**
Part A: Financial Accounting-1		
	Unit-1: Theoretical Framework	**12**
	Unit-2: Accounting Process	**44**
Part B: Financial Accounting-II		
	Unit-3: Financial Statements of Sole Proprietorship	**24**
Part C: Project Work		**20**

PART A: FINANCIAL ACCOUNTING - I

Unit-1: Theoretical Framework

Units/Topics	Learning Outcomes
Introduction to Accounting • Accounting- concept, meaning, as a source of information, objectives, advantages and limitations, types of accounting information; users of accounting information and their needs. Qualitative Characteristics of Accounting Information. Role of Accounting in Business. • Basic Accounting Terms- Entity, Business Transaction, Capital, Drawings. Liabilities (Non-Current and Current). Assets (Non-Current, Current); Expenditure (Capital and Revenue), Expense, Revenue, Income, Profit, Gain, Loss, Purchase, Sales, Goods, Stock, Debtor, Creditor, Voucher, Discount (Trade discount and Cash Discount) **Theory Base of Accounting** •Fundamental accounting assumptions: GAAP: Concept •Basic Accounting Concept: Business Entity, Money Measurement, Going Concern,	**After going through this Unit, the students will be able to:** • Describe the meaning, significance, objectives, advantages and limitations of accounting in the modem economic environment with varied types of business and non-business economic entities. • identify / recognize the individual(s) and entities that use accounting information for serving their needs of decision making. • explain the various terms used in accounting and differentiate between different related terms like current and non-current, capital and revenue. • give examples of terms like business transaction, liabilities, assets, expenditure and purchases. • explain that sales/purchases include both cash and credit sales/purchases relating to the accounting year. • differentiate between income, profits and gains. • state the meaning of fundamental accounting assumptions and their relevance in accounting.

• Accounting Period, Cost Concept, Dual Aspect, Revenue Recognition, Matching, Full Disclosure, Consistency, Conservatism, • Materiality and Objectivity • System of Accounting. Basis of Accounting: cash basis and accrual basis • Accounting Standards: Applicability of Accounting Standards (AS) and Indian Accounting Standards (IndAS) • Goods and Services Tax (GST): Characteristics and Advantages.	•Describe the meaning of accounting assumptions and the situation in which an assumption is applied during the accounting process. •explain the meaning, applicability, objectives, advantages and limitations of accounting standards. •appreciate that various accounting standards developed nationally and globally are in practice for bringing parity in the accounting treatment of different items. •acknowledge the fact that recording of accounting transactions follows double entry system. •explain the bases of recording accounting transactions and to appreciate that accrual basis is a better basis for depicting the correct financial position of an enterprise. •Explain the meaning, advantages and characteristic of GST.

Unit-2: Accounting Process

Units/Topics	Learning Outcomes
Recording Business Transactions • Voucher and Transactions: Source documents and Vouchers, Preparation of Vouchers, Accounting Equation Approach: Meaning and Analysis, Rules of Debit and Credit. • Recording Transactions: Books of Original Entry- Journal • Special Purpose books: • Cash Book: Simple, cash book with bank column and petty cash book • Purchases book	**After going through this Unit, the students will be able to:** •explain the concept of accounting equation and appreciate that every transaction affects either both sides of the equation or a positive effect on one item and a negative effect on another item on the same side of accounting equation. •explain the effect of a transaction (increase or decrease) on the assets, liabilities, capital, revenue and expenses. •appreciate that on the basis of source

• Sales book • Purchases return book • Sales return book • Journal proper ***Note: Including trade discount, freight and cartage expenses for simple GST calculation.*** • Ledger: Format, Posting from journal and subsidiary books, Balancing of accounts **Bank Reconciliation Statement:** • Need and preparation, Bank Reconciliation Statement **Depreciation, Provisions and Reserves** • Depreciation: Meaning, Features, Need, Causes, factors • Other similar terms: Depletion and Amortisation • Methods of Depreciation: i. Straight Line Method (SLM) ii. Written Down Value Method (WDV) ***Note: Excluding change of method*** • Difference between SLM and WDV; Advantages of SLM and WDV • Method of recoding depreciation i. Charging to asset account ii. Creating provision for depreciation/accumulated depreciation account • Treatment of disposal of asset • Provisions, Reserves, Difference Between Provisions & Reserves. • Types of Reserves: i. Revenue reserve ii. Capital reserve iii. General Reserve	documents, accounting vouchers are prepared for recording transactions in the books of accounts. • develop the understanding of recording of transactions in journal and the skill of calculating GST. • explain the purpose of maintaining a Cash Book and develop the skill of preparing the format of different types of cash books and the method of recording cash transactions in Cash book. • describe the method of recording transactions other than cash transactions as per their nature in different subsidiary books . • appreciate that at times bank balance as indicated by cash book is different from the bank balance as shown by the pass book / bank statement and to reconcile both the balances, bank reconciliation statement is prepared. • develop understanding of preparing bank reconciliation statements. • appreciate that for ascertaining the position of individual accounts, transactions are posted from subsidiary books and journals proper into the concerned accounts in the ledger and develop the skill of ledger posting. • explain the necessity of providing depreciation and develop the skill of using different methods for computing depreciation. • understand the accounting treatment of providing depreciation directly to the concerned asset account or by creating provision for depreciation account. • appreciate the method of asset disposal through the concerned asset account or by preparing asset disposal

iv. Specific reserve v.Secret Reserve • Difference between capital and revenue reserve **Trial balance and Rectification of Errors** • Trial balance: objectives, meaning and preparation **(Scope:** *Trial balance with balance method only*) • Errors: classification-errors of omission, commission, principles & compensating; their effect on Trial Balance. • Detection and rectification of errors; Errors which do not affect trial balance Errors which affect trial balance Preparation of suspense account.	account. • appreciate the need to create reserves and also making provisions for events which may belong to the current year but may happen next year. • appreciate the difference between reserve and reserve fund. • state the need and objectives of preparing trial balance and develop the skill of preparing trial balance. • appreciate that errors may be committed during the process of accounting. • understand the meaning of different types of errors and their effect on trial balance. • develop the skill of identification and location of errors and their rectification and preparation of suspense account.

Part B: Financial Accounting – II

Unit 3: Financial Statements of Sole Proprietorship

Units/Topics	Learning Outcomes
Financial Statements Meaning, objectives and importance; Revenue and Capital Receipts; Revenue and Capital Expenditure; Deferred Revenue expenditure. Opening journal entry. Trading and Profit and Loss Account: Gross Profit, Operating profit and Net profit. Preparation. Balance Sheet: need, grouping and marshalling of assets and liabilities. Preparation. Adjustments in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, Goods taken for personal use/staff welfare, interest on capital and	**After going through this Unit, the students will be able to:** • state the meaning of financial statements • purpose of preparing financial statements. • state the meaning of gross profit, operating profit and net profit and develop the skill of preparing trading and profit and loss account. • explain the need for preparing balance sheet. • understand the technique of grouping and marshalling of assets and liabilities. • appreciate that there may be certain items other than those shown in trial balance which may need adjustments while preparing financial statements. • develop the understanding and skill to do adjustments for items and their

managers' commission. Preparation of Trading and Profit and Loss account and Balance Sheet of a sole proprietorship with adjustments. **Incomplete Records** Features, reasons and limitations. Ascertainment of Profit/Loss by Statement of Affairs method. (excluding conversion method)	presentation in financial statements like depreciation, closing stock, provisions, abnormal loss etc. develop the skill of preparation of trading and profit and loss account and balance sheet.

1. **Part C: Project Work (Anyone**)
2. Collection of source documents, preparation of vouchers, recording of transactions with the help of vouchers.
3. Preparation of Bank Reconciliation Statement with the given cash book and the pass book with twenty to twenty-five transactions.
4. Comprehensive project of any sole proprietorship business. This may state with journal entries and their ledgering, preparation of Trial balance. Trading and Profit and Loss Account and Balance Sheet. Expenses, incomes and profit (loss), assets and liabilities are to be depicted using pie chart / bar diagram. This may include simple GST related transactions

CHAPTER 1

INTRODUCTION TO ACCOUNTING

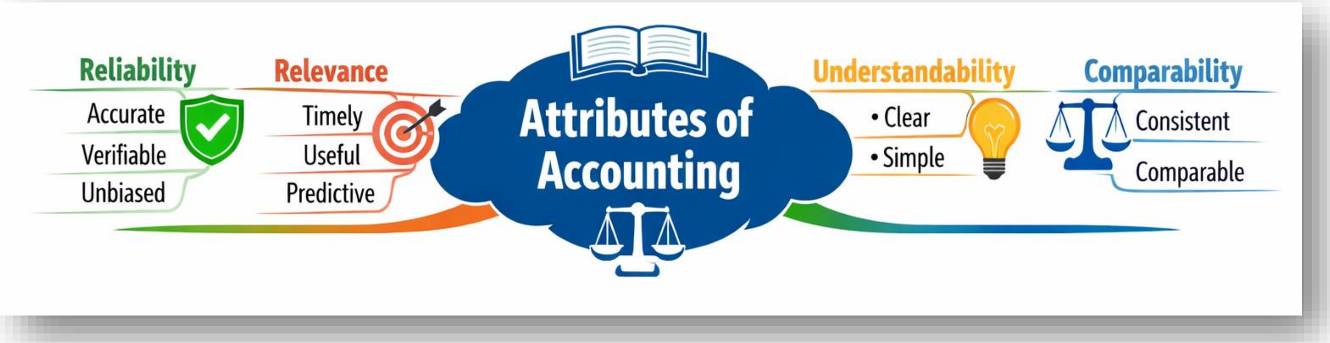
1. Meaning and Definition of Accounting:

- **Definition:** Accounting is the systematic process of **identifying, measuring, recording, and communicating** financial information about economic events of an organization to interested users.
- **Definition:** "Accounting is an art of recording, classifying and summarising in a significant manner and in terms of money; transactions and events which are, in part at least, of a financial character, and interpreting the results thereof". - **AICPA**

Core Attributes/Characteristics of Accounting

- **Identification:** Determining which economic events are of financial character and relate to the organization (**e.g.,** recording a cash sale, but not the appointment of a manager).
- **Measurement:** Quantifying business transactions in monetary units (**Rupees and Paise).**
- **Recording:** Entering the measured transactions into the books of accounts in a systematic and chronological order.
- **Communication:** Presenting the summarized data via financial reports (**Profit & Loss A/c, Balance Sheet) to the users at the right time.**

2. Qualitative Characteristics of Accounting Information



3. Objectives of Accounting

- **Maintenance of Records:** Systematically recording financial transactions because human memory cannot retain all daily business details.
- **Calculation of Profit and Loss:** Determining the net result of operations over a period by matching revenues against expenses ($Profit = Revenue - Expenses$).
- **Depiction of Financial Position:** Preparing a **Balance Sheet** to reveal the exact status of Assets (resources owned) and Liabilities (claims against resources) at the end of the accounting period.
- **Providing Information to Users:** Disseminating financial reports to both internal and external stakeholders for strategic planning and decision-making.

4. Users of Accounting Information

Users are broadly classified into two categories:

Internal Users (Inside the Organization)

- **Who they are:** Chief Executives, Financial Officers, Plant/Business Unit Managers, and Line Supervisors.

- **Why they need it:** To evaluate business performance, compare industry metrics, ensure adequate returns on investment, and make internal operating decisions.

External Users (Outside the Organization):

- **Investors/Potential Investors:** To assess risk, profitability, and return on investment before allocating capital.
- **Lenders & Financial Institutions (Banks):** To evaluate liquidity and creditworthiness to ensure loans and interest will be repaid.
- **Suppliers and Creditors:** To check if the business can settle its trade payables when due.
- **Government & Tax Authorities:** To verify compliance with regulations (like the Companies Act) and ensure correct assessment of taxes like Income Tax and GST/VAT.
- **Employees/Unions:** To judge job stability, evaluate wealth distribution, and negotiate bonuses.
- **Customers & Competitors:** Customers look for business continuity; competitors use it for strategic benchmarking.

5. Branches of Accounting

- **Financial Accounting:** Focused on keeping a systematic record of past financial transactions to determine profit/loss and ascertain financial position for external stakeholders.
- **Cost Accounting:** Focused on analysing and controlling costs associated with manufacturing products or rendering services, helping in price fixation.
- **Management Accounting:** Combines financial and cost data to generate future-oriented qualitative/quantitative reports (like sales forecasts, cash flows, and manpower needs) to help managers plan and control operations.

6. Basic Accounting Terms

- **Business Entity:** A specifically identifiable business enterprise that has its own distinct individual existence (e.g., ITC Limited).
- **Transaction:** An economic event involving exchange of value between two or more entities (can be cash or credit).
- **Assets:** Economic resources owned by an enterprise that hold monetary value and provide future economic benefits.
  - ***Current Assets**:* Held for a brief period, expected to be realized/sold within 12 months (e.g., Stock, Debtors, Cash).
  - ***Non-Current Assets**:* Held for long-term use in business operations (e.g., Machinery, Land & Building).
- **Liabilities:** Obligations or debts that an enterprise has to pay back to outsiders in the future.
  - ***Current Liabilities**:* Settled within 12 months or within the normal operating cycle (e.g., Bills Payable, Sundry Creditors).
  - ***Non-Current Liabilities**:* Long-term obligations payable after more than a year (e.g., Long-term Bank Loans).

- **Capital:** The amount or assets invested by the owner in the business. It is a claim on assets and represents an obligation for the business entity.
- **Drawings:** Any cash or goods withdrawn from the business by the owner for personal use, which ultimately reduces the owner's capital.
- **Revenues (Income):** Amounts earned by a business through selling its products, providing services, or receiving items like commission, interest, and rent.
- **Expenses:** Costs incurred during the process of earning revenue (e.g., wages, salaries, rent, depreciation).
- **Expenditure:** Spending money or incurring a liability for a benefit received.
  - ***Revenue Expenditure**:* Benefit is exhausted within one year (treated as an expense).
  - ***Capital Expenditure**:* Benefit lasts for more than a year (treated as an asset, e.g., purchasing machinery).
- **Profit vs. Gain:** * ***Profit:*** Excess of regular operating revenues over operating expenses during an accounting year.
  - ***Gain:*** Non-operating profit arising from incidental or irregular transactions (e.g., winning a lawsuit, profit on selling a fixed asset).
- **Loss:** Excess of expenses over related revenues. Also includes accidental money/goods lost without any return (e.g., theft or fire).
- **Discount:** Deductions offered in the price of goods.
  - ***Trade Discount**:* Allowed as a percentage of the list price at the time of sale (generally manufacturer to wholesaler/retailer).
  - ***Cash Discount**:* Allowed at the time of payment to encourage prompt and early payment by debtors.
- **Debtors:** Persons or entities who owe money to the business for buying goods or services on credit.
- **Creditors:** Persons or entities to whom the business owes money for providing goods or services on credit.
- **Goods:** The products/merchandise in which the business unit actively deals (buys, sells, or manufactures).
- **Voucher:** A piece of documentary evidence that supports a financial transaction (e.g., cash memo, invoice, receipt).
- **Stock (Inventory):** A measure of physical goods, spares, or raw materials on hand at a specific time (opening or closing stock).

PRACTICE QUESTIONS

01 MARK QUESTIONS	
1	Accounting is primarily concerned with: A. Recording only cash transactions B. Identifying, measuring, and communicating economic events C. Preparing tax returns D. Auditing financial statements
2	The main objective of accounting is to: A. Prepare audit reports B. Maintain systematic records and determine profit/loss C. File tax returns D. Control production costs
3	Comparability in accounting means: A. Information can be compared across time and entities B. Information is easy to understand C. Information is reliable D. Information is timely
4	Which of the following is NOT a function of accounting? A. Decision-making B. Forecasting weather C. Recording transactions D. Communicating results
5	The term 'entity' in accounting refers to: A. The owner's personal affairs B. The business organization treated separately from its owner C. Government departments D. A group of creditors

6 Accounting information is useful to investors because it helps them:

A. Determine tax liability B. Assess profitability and risk
C. Prepare budgets D. Control employee performance

7 Which qualitative characteristic ensures information is free from bias?

A. Relevance B. Reliability C. Understandability D. Comparability

8 Luca Pacioli is known for:

A. Inventing the calculator B. Introducing double-entry bookkeeping
C. Developing cost accounting D. Establishing the IASB

9 The process of recording transactions in books of accounts is known as:

A. Classification B. Summarizing C. Recording D. Communicating

10 Which of the following is an internal user of accounting information?

A. Investor B. Creditor C. Manager D. Government

MARKING SCHEME

1-b	**2-b**	**3-a**	**4-b**	**5-b**	**6-b**	**7-b**	**8-b**	**9-c**	**10-c**

3 MARKS QUESTIONS

1 Mr. Sharma, an investor, wants to compare the performance of Company A and Company B over the last three years. He finds that Company A has changed its method of stock valuation every year.

- Which qualitative characteristic of accounting information is being compromised?
- How does this affect Mr. Sharma's decision-making?
- Suggest a corrective measure.

2 A partnership firm prepares its accounts showing profits but does not provide details of expenses incurred.

- Which objective of accounting is not being fulfilled?
- State the impact on internal users.
- Suggest one improvement in reporting.

3 A partnership firm prepares its accounts showing profits but does not provide details of expenses incurred.

- Which objective of accounting is not being fulfilled?
- State the impact on internal users.
- Suggest one improvement in reporting.

4 A government agency uses accounting information of a company to levy taxes. However, the company delays submission of its accounts.

- Which attribute of accounting information is missing here?
- Explain how this affects the government's role.
- Suggest one step the company should take.

5 A manager relies on accounting information to plan future expansion. The information provided is accurate but presented in a highly technical format that employees cannot understand.

- Identify the attribute of accounting being ignored.
- Explain why this attribute is crucial for decision-making.
- Suggest one way to make the information more useful.

	MARKING SCHEME
1	*Attribute violated* → **Transparency / Full Disclosure** *Importance* → Ensures external users (investors, creditors, government) can make informed decisions. *Improvement* → Company should disclose contingent liabilities in notes to accounts.
2	*Attribute compromised* → **Comparability** *Impact* → Investor cannot reliably compare performance across years, leading to poor investment decisions. *Corrective measure* → Adopt a consistent method of stock valuation.
3	*Objective not fulfilled* → **Depicting financial position and providing complete information** *Impact* → Internal users (managers, partners) cannot assess expenses, affecting control and planning. *Improvement* → Firm should prepare detailed expense accounts and profit & loss statements.
4	*Attribute missing* → **Relevance (Timeliness)** *Impact* → Government cannot levy taxes accurately or on time. *Step* → Company should ensure timely preparation and submission of accounts.
5	*Attribute ignored* → **Understandability** *Importance* → Information must be clear and simple for effective decision-making. *Improvement* → Present data in simplified formats (charts, summaries, explanatory notes).
06 MARKS QUESTIONS	
1	*Bright Ltd.* prepared its accounts but did not disclose a pending lawsuit that could affect its financial position. • Identify the attribute of accounting violated. • Explain why this attribute is important. • State one impact on investors. • Suggest one corrective measure. • Name one objective of accounting not fulfilled. • Evaluate the effect on external users.
2	Ganesh started business for buying and selling of readymade garments with ₹ 8,00,000 as an initial investment. Out of this he paid ₹ 4,00,000 for the purchase of garments and ₹ 50,000 for furniture and ₹ 50,000 for computers and the remaining amount was deposited into the bank. He sold some of the ladies and kids garments for ₹ 3,00,000 for cash and some garments for ₹1,50,000 on credit to Rajesh. Subsequently, he bought men's garments of ₹ 2,00,000 from Satish. In the first week of the next month, a fire broke out in his office and stock of garments worth ₹ 1,00,000 was destroyed. Later, some garments which cost ₹1,20,000 were sold for ₹1,30,000. Expenses paid during the same period were ₹15,000. Gopal withdrew ₹ 20,000 from business for his domestic use. From the above, answer the following: (i) What is the amount of capital with which Gopal started the business? (ii) What fixed assets did he buy?

<table>
<tr><td></td><td>(iii) What is the value of the goods purchased?
(iv) Who is the creditor and state the amount payable to him?
(v) Who is the debtor and what is the amount receivable from him?
(vi) What is the total amount of expenses?</td></tr>
<tr><td>3</td><td>Explain the qualitative characteristics of accounting information.</td></tr>
<tr><td>4</td><td>Global Enterprises delayed preparation of accounts. The government could not levy taxes on time.
• Which attribute is missing?
• Explain its importance.
• State one impact on government.
• Suggest one corrective measure.
• Name one internal user affected.
• Evaluate the effect on external users.</td></tr>
<tr><td>5</td><td>Giving examples, explain each of the following accounting terms:
• • Fixed assets • Revenue • Expenses • Short-term liability • Capital • Gains</td></tr>
<tr><td colspan="2">MARKING SCHEME</td></tr>
<tr><td>1</td><td>Attribute violated → Reliability / Full Disclosure
Importance → Ensures unbiased and complete information
Impact → Investors may misjudge risk and profitability
Corrective measure → Disclose contingent liabilities in notes
Objective not fulfilled → Showing true financial position
Effect → External users lose trust in financial statements</td></tr>
<tr><td>2</td><td><table>
<tr><th>i</th><th>ii</th><th>iii</th><th>iv</th><th>v</th><th>vi</th></tr>
<tr><td>₹ 8,00,000</td><td>Furniture ₹ 50,000 and Computer ₹ 50,000</td><td>₹ 4,00,000+₹ 2,00,000= ₹ 6,00,0000</td><td>Satish ₹ 2,00,000</td><td>Rajesh ₹ 1,50,000</td><td>₹ 6,15,000</td></tr>
</table></td></tr>
<tr><td>3</td><td>Qualitative characteristics headings and explanation.</td></tr>
<tr><td>4</td><td>Attribute missing → Relevance (Timeliness)
Importance → Timely info aids decisions
Impact → Government cannot levy taxes accurately
Corrective measure → Ensure timely preparation of accounts
Internal user affected → Management
Effect → External users (investors, creditors) lose confidence</td></tr>
<tr><td>5</td><td>Correct explanation with example of the accounting terms.</td></tr>
</table>

CHAPTER-2
THEORY BASE OF ACCOUNTING

GAAP (Generally Accepted Accounting Principles)

Definition: The uniform set of rules, concepts, guidelines, and standards developed over time to bring consistency and comparability to financial reporting.

Nature: Man-made, flexible (evolves with time), and generally accepted.

Purpose: Eliminates subjectivity and bias; provides a "common language" for stakeholders.

Fundamental Accounting Concepts:

Business Entity Concept: * The business is treated as a separate legal/economic entity distinct from its owners.
Application: Capital is treated as a liability; owner's personal expenses are recorded as "Drawings".

Money Measurement Concept: * Only transactions that can be expressed in monetary terms are recorded.
Limitation: Qualitative aspects (e.g., skill of the manager, labour strikes) are completely ignored.

Dual Aspect Concept: * Every transaction has a double effect (Debit and Credit).

Going Concern Concept: * The assumption that the business will continue operations for an indefinite period and has no intention of liquidation.
Application: Why we distinguish between Capital Expenditure (Fixed Assets) and Revenue Expenditure (Expenses), and charge systematic depreciation.

Accounting Period Concept: * Life of the business is broken down into smaller intervals (usually 12 months / Financial Year) to measure performance.

Cost Concept (Historical Cost): * Assets are recorded at their original purchase price (including acquisition, transport, and installation costs), not current market value.

Revenue Recognition (Realisation): * Revenue is recognized when it is legally earned/realized (i.e., when the ownership of goods passes to the buyer), not necessarily when cash is physically received.
Exceptions: Hire purchase systems and long-term construction contracts (percentage of completion method).

Matching Concept: * Expenses incurred in an accounting period must be matched against the revenues earned during that same period.

Application: Leads to the creation of adjustments like Outstanding Expenses, Prepaid Expenses, Accrued Income, and Depreciation.

Full Disclosure: All material and significant financial information must be completely disclosed in the financial statements or attached footnotes (e.g., Contingent Liabilities).

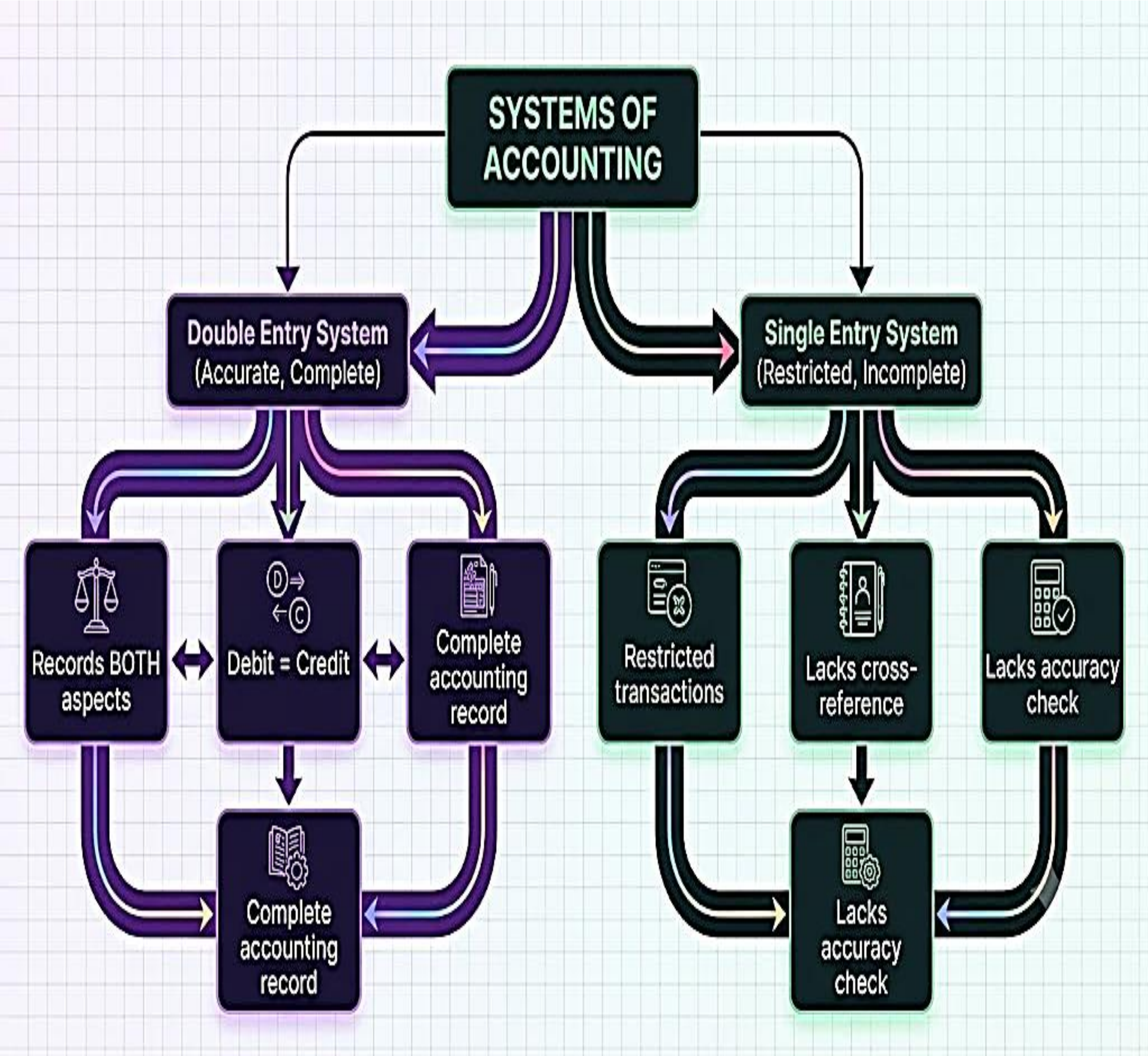
Consistency Concept: Accounting practices and methods (like depreciation methods—SLM vs. WDVM) must remain unchanged from year to year to ensure internal comparability.

Conservatism (Prudence): * "Anticipate no profits, but provide for all possible losses." **Application:** Valuing closing stock at cost or net realizable value (whichever is lower); creating a Provision for Bad and Doubtful Debts.

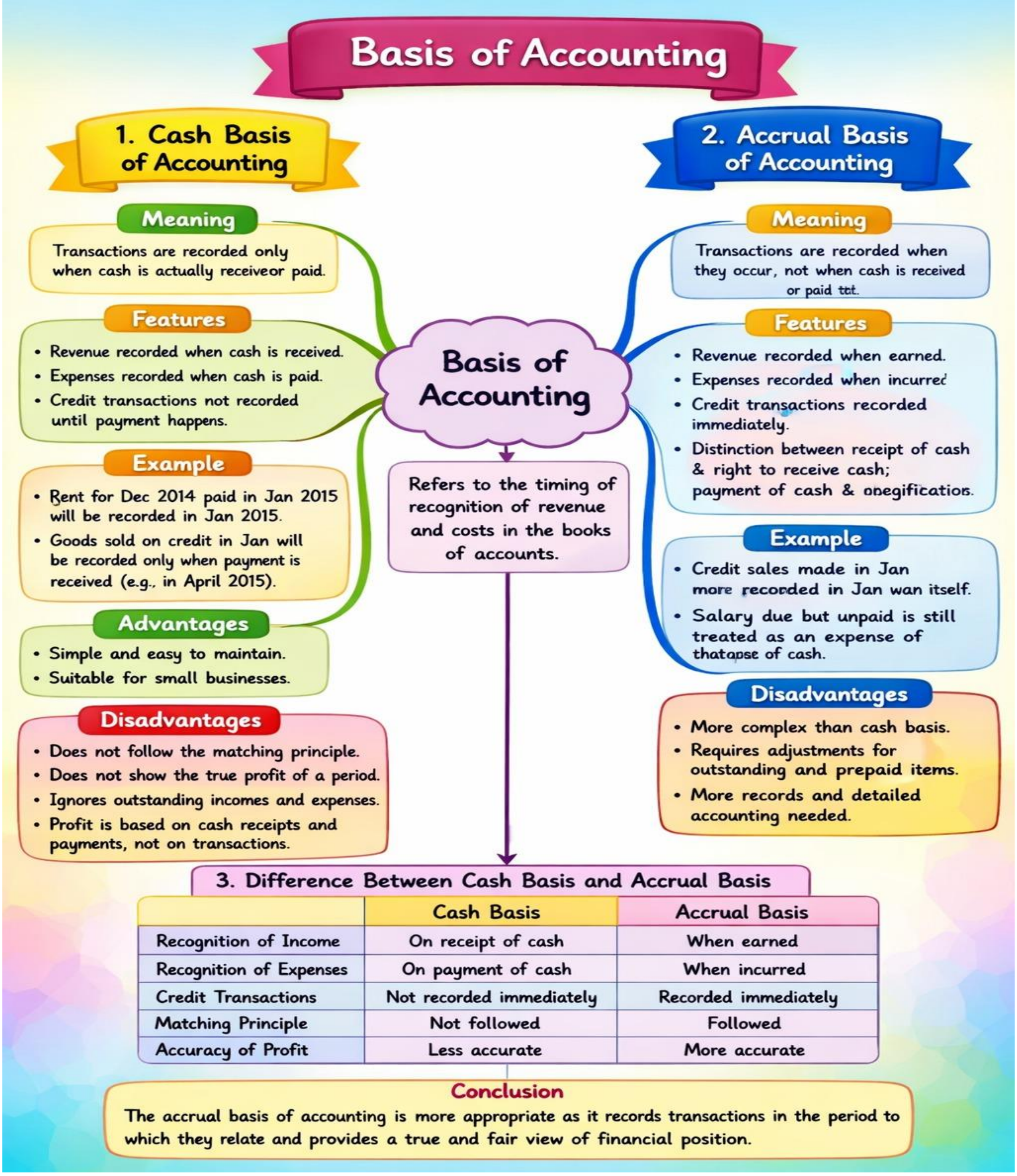
Materiality Concept: Items of insignificance relative to the business size do not need strict adherence to rules (e.g., treating a small stapler as an expense rather than a fixed asset).

Objectivity Concept: Every transaction must be supported by verifiable, objective evidence (vouchers, cash memos, invoices) to prevent personal bias.

SYSTEMS OF ACCOUNTING:



BASIS OF ACCOUNTING



Basis of Accounting

1. Cash Basis of Accounting

Meaning

Transactions are recorded only when cash is actually receiveor paid.

Features

- Revenue recorded when cash is received.
- Expenses recorded when cash is paid.
- Credit transactions not recorded until payment happens.

Example

- Rent for Dec 2014 paid in Jan 2015 will be recorded in Jan 2015.
- Goods sold on credit in Jan will be recorded only when payment is received (e.g., in April 2015).

Advantages

- Simple and easy to maintain.
- Suitable for small businesses.

Disadvantages

- Does not follow the matching principle.
- Does not show the true profit of a period.
- Ignores outstanding incomes and expenses.
- Profit is based on cash receipts and payments, not on transactions.

Basis of Accounting

Refers to the timing of recognition of revenue and costs in the books of accounts.

2. Accrual Basis of Accounting

Meaning

Transactions are recorded when they occur, not when cash is received or paid ttt.

Features

- Revenue recorded when earned.
- Expenses recorded when incurred
- Credit transactions recorded immediately.
- Distinction between receipt of cash & right to receive cash; payment of cash & obegificatios.

Example

- Credit sales made in Jan more recorded in Jan wan itself.
- Salary due but unpaid is still treated as an expense of thatapse of cash.

Disadvantages

- More complex than cash basis.
- Requires adjustments for outstanding and prepaid items.
- More records and detailed accounting needed.

3. Difference Between Cash Basis and Accrual Basis

	Cash Basis	Accrual Basis
Recognition of Income	On receipt of cash	When earned
Recognition of Expenses	On payment of cash	When incurred
Credit Transactions	Not recorded immediately	Recorded immediately
Matching Principle	Not followed	Followed
Accuracy of Profit	Less accurate	More accurate

Conclusion

The accrual basis of accounting is more appropriate as it records transactions in the period to which they relate and provides a true and fair view of financial position.

ACCOUNTING STANDARDS (AS) & IFRS / IND AS

Accounting Standards (AS): Written policy documents issued by expert accounting bodies (like ICAI in India) to harmonize diverse accounting policies.
Need: Enhances reliability, transparency, and global comparability.

IFRS (International Financial Reporting Standards): Global standards issued by the IASB to bring global uniformity.

Ind AS (Indian Accounting Standards): IFRS-converged standards formulated to bring Indian accounting on par with global benchmarks.

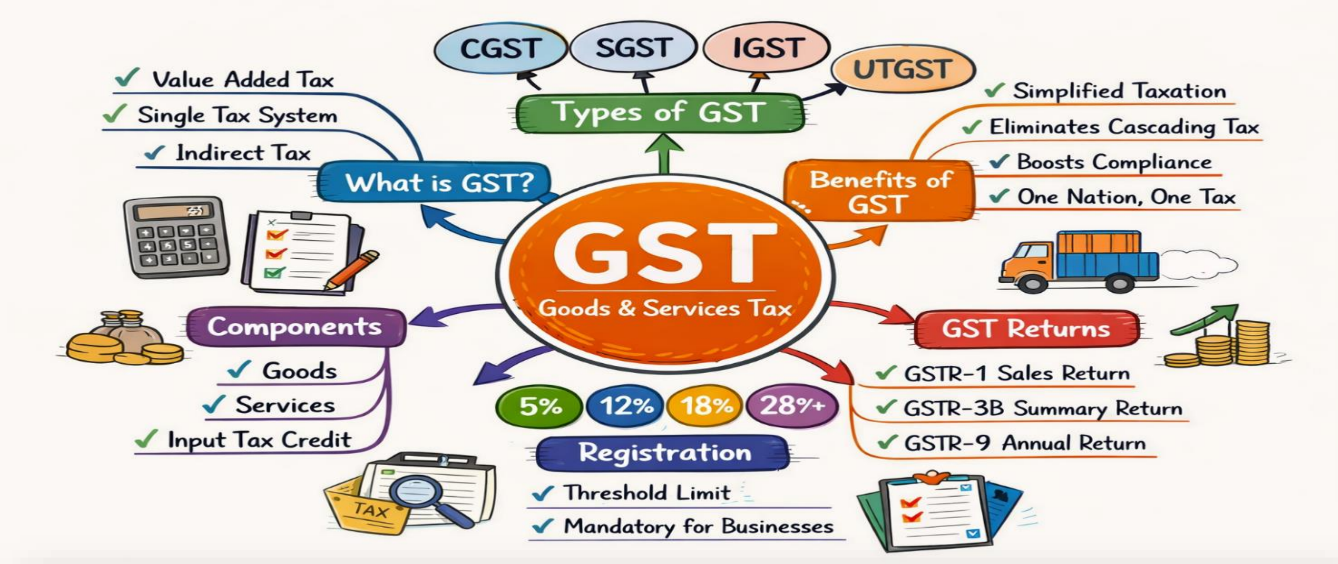
GOODS AND SERVICES TAX (GST)

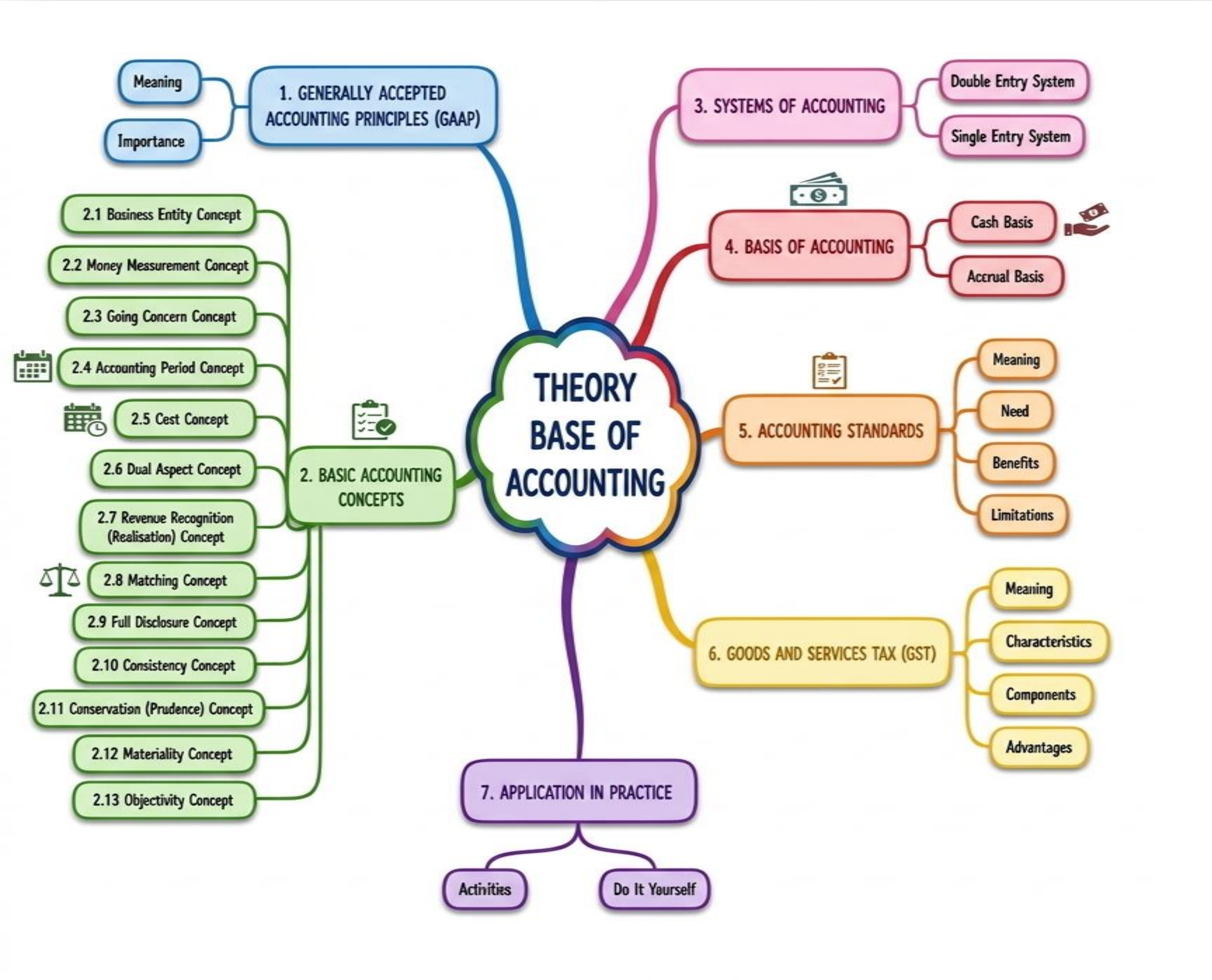
Core Principle: "One Nation, One Tax". Comprehensive, multi-stage, destination-based indirect tax that replaced older taxes like VAT, Service Tax, and Excise.

Structural Breakdown:

Intra-State (Within same State): Split into CGST (Central GST) and SGST (State GST).

Inter-State (Between two States): Charged as IGST (Integrated GST).Output GST (Collected on Sales): Treated as a Liability.





PRACTICE QUESTIONS

	01 MARK QUESTIONS
1	Assertion (A): Accrual Basis of Accounting complies with GAAP. Reason (R): Accrual Basis of Accounting is based on the concept of realisation and expiration. Based on the above statements, which of the below options is correct? (a) Both Assertion (A) and Reason (R) are correct but Reason (R) is not the correct explanation of the Assertion (A). (b) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of the Assertion (A). (c) Both Assertion (A) and Reason (R) are not correct. (d) Assertion (A) is correct but Reason (R) is not correct.
2	In cash basis of accounting, expenses are accounted (a) when paid in cash. (b) when cash is not paid. (c) when cash is paid or not paid. (d) None of these.
3	D-Gadgets Traders deals in computer accessories such as Laptops, desktops, Tablets, Printers, Digital Diaries, I-Pods etc. In the books of the firm, Purchases refers to the purchase of (a) Tablets for donating to NGO. (b) Laptops for Office purpose. (c) Desktop for Proprietor's son. (d) Printers for Resale
4	Which of the following transaction cannot be measured in money terms? (a) Purchase of asset on credit (b) Purchase of asset for cash (c) Withdrawal by proprietor (d) Quality of employees
5	Net Profit is Gross Profit + Other Incomes - Indirect Expenses. Is it correct? Why?
	MARKING SCHEME
	1-c | **2-a** | **3-d** | **4-d** | **5-Yes**
	3 MARKS QUESTIONS
1	What are the advantages of cash basis of Accounting?
2	What are the disadvantages of accrual basis of accounting?
3	Dr. Asha Raman, a homeopath doctor in practice has been advised by his Accountant to maintain his accounts on Accrual Basis instead of the presently followed Cash Basis of Accounting. Do you agree with the advice of the Accountant? Give reasons.
4	Distinguish between Cash basis & Accrual basis of accounting on any bases.
5	Does cash basis of accounting violate GAAP? If yes, how. Explain
	MARKING SCHEME
1	Correct answer
2	Correct answer
3	No, I do not agree. Cash Basis of Accounting is more appropriate for Dr. Arvind Kishore because a medical practitioner receives his fee immediately after giving Consultancy.
4	Correct distinction on three bases.
5	Yes, as it does not follow matching principle and accrual principle.

6 MARKS QUESTIONS

1 Narender gave following information about his income and expenses for the year ended 31st March, 2025:

	₹
Expenses paid	1,80,000
Expenses paid in advance (not included in above)	20,000
Expenses not yet paid	10,000
Income received	2,40,000
Income received in advance (included in Income Received)	15,000
Income not yet received	12,000

Find the net income or profit of Narender if he adopts

(i) Cash Basis of Accounting, and (ii) Accrual Basis of Accounting.

2 From the following explain any two accounting concepts/ conventions with example:

(i) Money measurement (ii) Dual aspect (iii) Matching concept

3 Write the two aspects/effects of the following transactions:

S.No	**Transactions**	**1st Aspect**	**2nd Aspect**
1	Owner brings cash in business		
2	Goods purchased for cash		
3	Goods sold for cash		
4	Furniture purchased for cash		
5	Received cash from Sharma		
6	Purchased machine from Rama on credit		

4 State the accounting principle, concept or convention applicable in each of the following cases:

1. Closing stock is valued at cost price or market price, whichever is lower.
2. Business and owner are treated as separate entities.
3. Revenue is recognised when it is earned, not when cash is received.
4. Fixed assets are recorded in the books at the price paid to acquire them.
5. Financial statements are prepared for a fixed period, usually one year.
6. Anticipate no profit but provide for all possible losses.

MARKING SCHEME

1 (i) Profit-₹ 40,000; (ii) Profit- 47,000

2 Correct explanation

3

S.No	**Transactions**	**1st Aspect**	**2nd Aspect**
1	Owner brings cash in business	Cash	Owner's capital

<table>
<tr><td></td><td>
<table>
<tr><td>2</td><td>Goods purchased for cash</td><td>Goods received</td><td>cash</td></tr>
<tr><td>3</td><td>Goods sold for cash</td><td>Cash received</td><td>goods sold</td></tr>
<tr><td>4</td><td>Furniture purchased for cash</td><td>Furniture</td><td>cash</td></tr>
<tr><td>5</td><td>Received cash from Sharma</td><td>cash</td><td>Sharma</td></tr>
<tr><td>6</td><td>Purchased machine from Rama on credit</td><td>Machine</td><td>Rama</td></tr>
</table>
</td></tr>
<tr><td>4</td><td>1.Closing stock valued at lower of cost or market price-Conservatism Convention
2. Business and owner treated separately -Business Entity Concept
3. Revenue recognised when earned -Accrual Concept
4. Assets recorded at purchase price -Cost Concept / Historical Cost Concept
5. Accounts prepared for one year -Accounting Period Concept
6. Provide for losses but not anticipated profits -Conservatism Convention</td></tr>
</table>

CHAPTER 3
RECORDING OF TRANSACTIONS – I
Business Transactions and Source Document

Chapter at a glance:

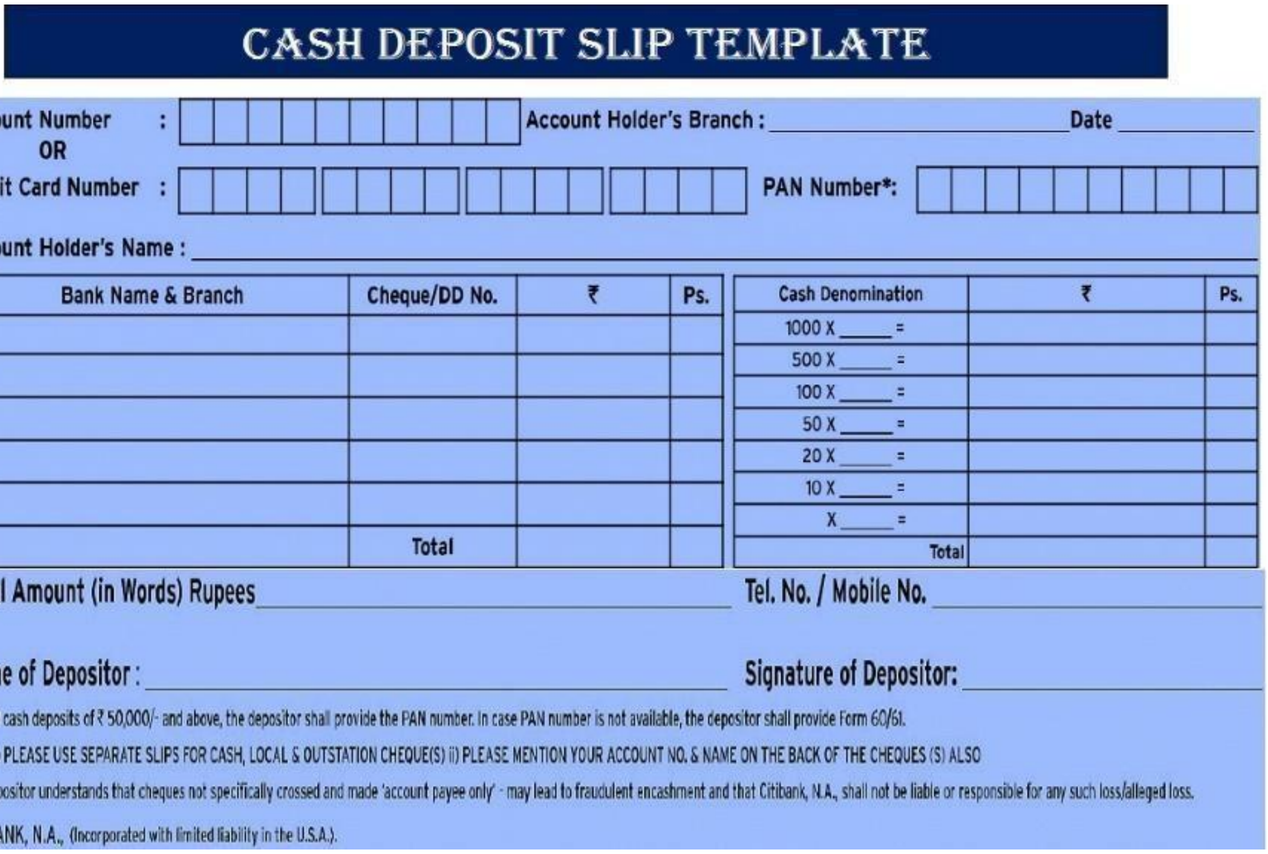
Business Transaction: A business transaction is the one showing the happenings in a business on daily basis. It has a twofold effect, affecting at least two accounts.

Source Document: It is a document evidencing business transaction. Different documents are prepared for different transactions.

Types of Source Documents:

1. **Cash Memo-**when a businessman sells and purchase goods for cash he gives and received cash memo.
2. **Invoice or Bill-** when a businessman sells goods on credit, he prepares a sale invoice which contain of all detail of transaction.
3. **Debit Note-**when a businessman returns goods to supplier, he prepares a debit note and sends to the supplier with the returned goods.
4. **Credit Note-** when goods are received back from a customer a credit note is sent to him that the customer account has been credited in our books.
5. **Pay in slip-** this is a form available in a bank and is used to deposit money in the bank.

Sample Formats of various source documents: -



CASH DEPOSIT SLIP TEMPLATE

Account Number : ☐☐☐☐☐☐☐☐☐☐ Account Holder's Branch : ____________ Date ________
OR
Credit Card Number : ☐☐☐☐ ☐☐☐☐ ☐☐☐☐ ☐☐☐☐ PAN Number*: ☐☐☐☐☐☐☐☐☐☐

Account Holder's Name : ____________________

Bank Name & Branch	Cheque/DD No.	₹	Ps.
	Total		

Cash Denomination	₹	Ps.
1000 X _____ =		
500 X _____ =		
100 X _____ =		
50 X _____ =		
20 X _____ =		
10 X _____ =		
X _____ =		
Total		

Total Amount (in Words) Rupees ____________________ Tel. No. / Mobile No. ____________

Name of Depositor : ____________________ Signature of Depositor: ____________

*For all cash deposits of ₹ 50,000/- and above, the depositor shall provide the PAN number. In case PAN number is not available, the depositor shall provide Form 60/61.

Note: i) PLEASE USE SEPARATE SLIPS FOR CASH, LOCAL & OUTSTATION CHEQUE(S) ii) PLEASE MENTION YOUR ACCOUNT NO. & NAME ON THE BACK OF THE CHEQUES (S) ALSO

The depositor understands that cheques not specifically crossed and made 'account payee only' - may lead to fraudulent encashment and that Citibank, N.A., shall not be liable or responsible for any such loss/alleged loss.

CITIBANK, N.A., (Incorporated with limited liability in the U.S.A.).

Vouchers

Document supporting a business transaction is called a voucher. It is prepared from a source document.

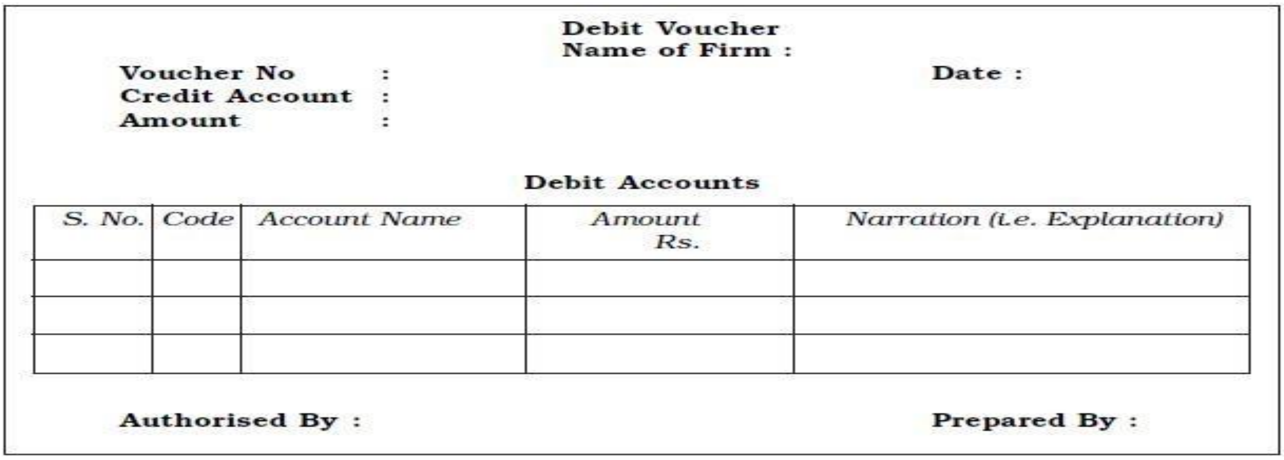
TYPE OF VOUCHER:

1. **Cash voucher-** Cash vouchers are prepared for cash transaction i.e. cash receipts and cash payments. These are of two types -
   (i) Debit voucher-its prepared for cash payment.
   (ii) Credit voucher- its prepared for cash receipts.

2. **Non-cash voucher/Transfer Voucher**-these vouchers are prepared for credit transactions like credit sale and purchase, depreciation, bad debts.

An accounting voucher must contain the following essential elements:

- It is written on a good quality paper;
- Name of the firm must be printed on the top;
- Date of transaction is filled up against the date and not the date of recording of transaction is to be mentioned;
- The number of the voucher is to be in a serial order;
- Name of the account to be debited or credited is mentioned
- Debit and credit amount is to be written in figures against the amount;
- Description of the transaction is to be given account wise;
- The person who prepares the voucher must mention his name along with signature; and
- The name and signature of the authorised person are mentioned on the voucher.



Debit Voucher
Name of Firm :

Voucher No :
Credit Account :
Amount :

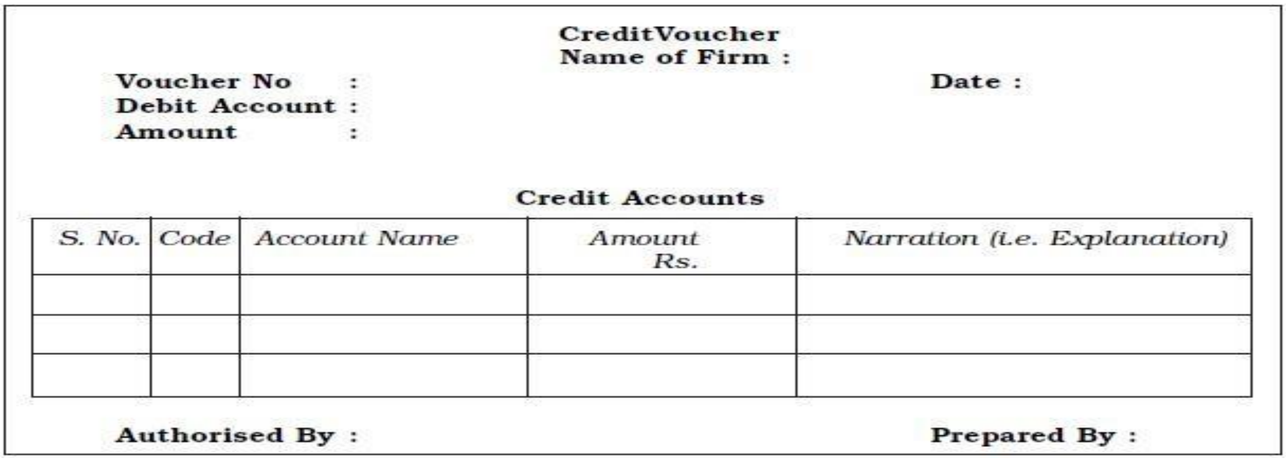
Date :

Debit Accounts

S. No.	Code	Account Name	Amount Rs.	Narration (i.e. Explanation)

Authorised By :

Prepared By :



CreditVoucher
Name of Firm :

Voucher No :
Debit Account :
Amount :

Date :

Credit Accounts

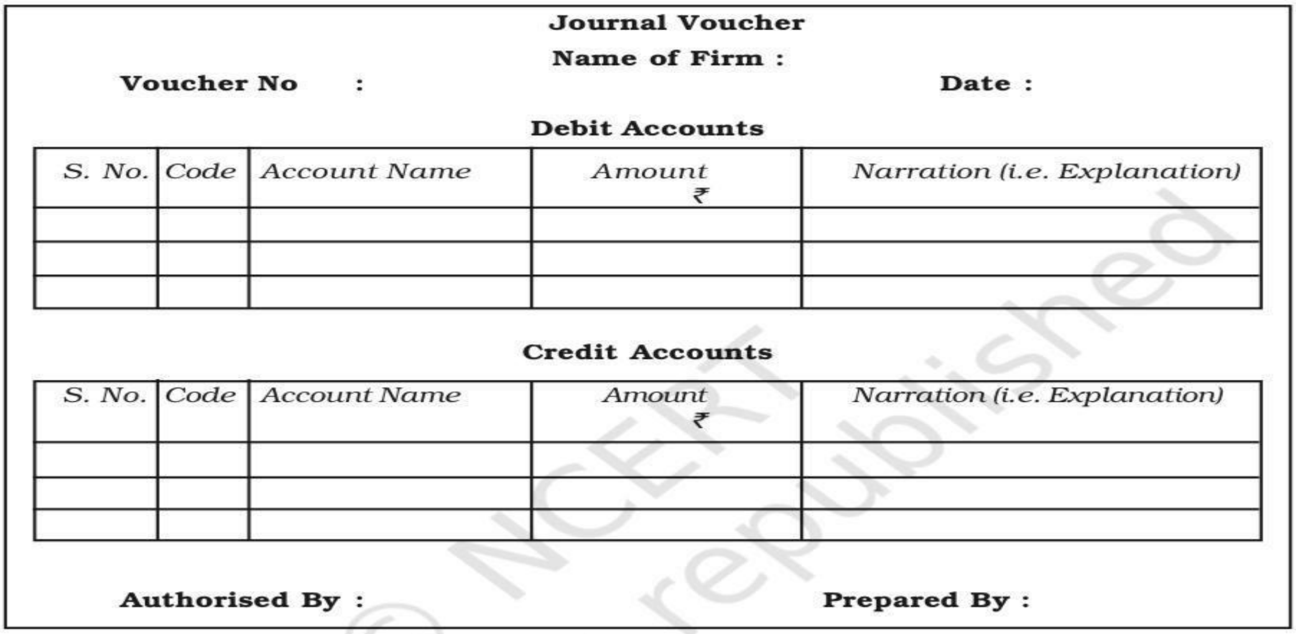
S. No.	Code	Account Name	Amount Rs.	Narration (i.e. Explanation)

Authorised By :

Prepared By :

Transactions with multiple *debits* and multiple *credits* are called complex transactions and the accounting voucher prepared for such transaction is known as

Complex Voucher/ Journal Voucher



Journal Voucher

Name of Firm :

Voucher No : **Date :**

Debit Accounts

S. No.	Code	Account Name	Amount ₹	Narration (i.e. Explanation)

Credit Accounts

S. No.	Code	Account Name	Amount ₹	Narration (i.e. Explanation)

Authorised By : **Prepared By :**

ACCOUNTING EQUATION:

The **Accounting Equation** is the foundation of double entry bookkeeping & represents the relationship between a company's assets, liabilities, and equity. The equation is:

Assets = Liabilities + Equity

Why does it matter?

It ensures that every financial transaction keeps the books balanced. If a company buys an asset, it must pay for it either by borrowing money (liability) or using the owner's funds (equity).

Process of Preparing the Accounting Equation

Preparing the accounting equation involves analyzing each financial transaction to determine how it affects **assets**, **liabilities**, and **equity**—while keeping the equation balanced: Assets = Liabilities + Equity

1. Identify the Transaction

- Review the transaction details (e.g., invoice, receipt, bank statement).
- Determine what is being exchanged (e.g., cash, goods, services, loans).

2. Classify the Accounts Involved

- Decide which elements of the equation are affected:
- ➢ Is it an **asset** (e.g., cash, inventory)?
- ➢ A **liability** (e.g., loan, accounts payable)?
- ➢ Or **equity** (e.g., capital, revenue, expenses)?

3. Determine the Increase or Decrease

- Figure out if each affected account increases or decreases.
- ➢ Buying an asset increases **assets**.
- ➢ Taking a loan increases both **assets** (cash) and **liabilities** (loan payable).
- ➢ Paying rent decreases **assets** (cash) and decreases **equity** (expense).

4. Apply the Change to the Equation

- Record the changes in the form of the accounting equation.
- Ensure **Assets = Liabilities + Equity** after the transaction is applied.

5. **Repeat for All Transactions**

- Continue this process for each transaction in the period.
- Maintain a cumulative update to the accounting equation after each one.

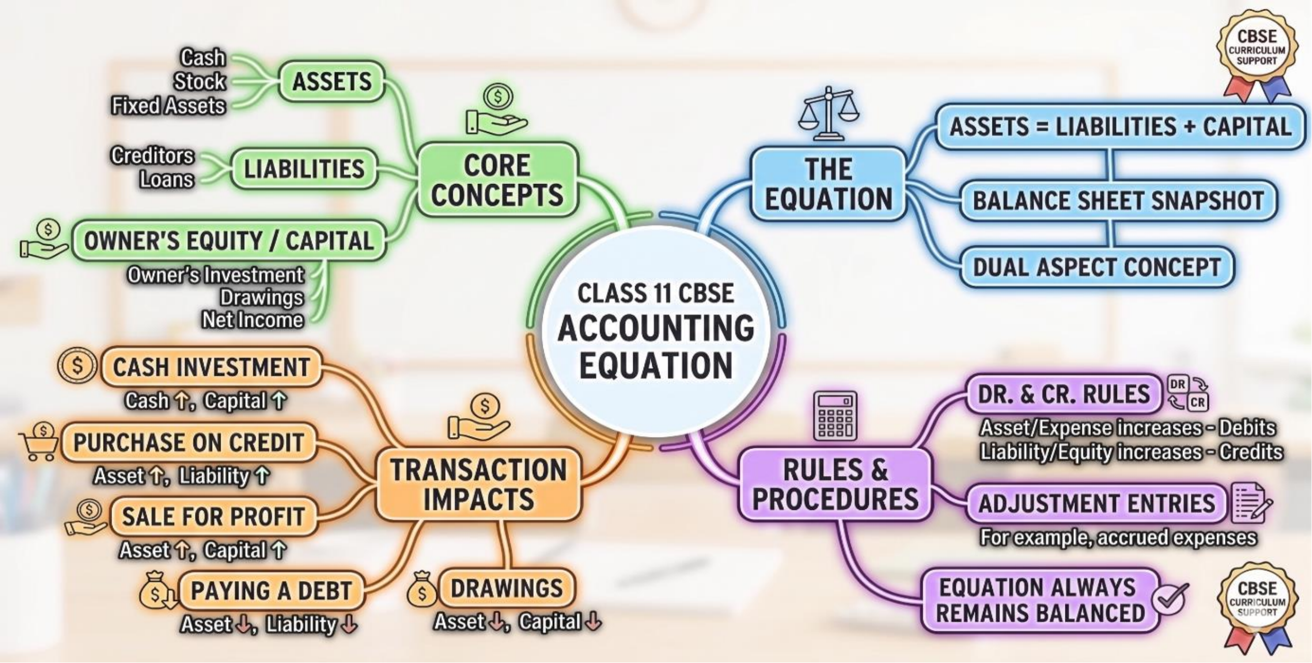


illustration 1

Find the capital of the business if total assets are ₹1,70,000 and its liabilities are ₹70,000

Solution:

Assets = Liabilities + Capital

So, Capital = Assets – Liabilities = ₹ 1,70,000 - ₹ 70,000 = ₹ 1,00,000

illustration 2

Aman commenced business on 1st April, 2025 with a capital of ₹50,000. On 31st March ,2026, his assets were worth ₹95,000 and liabilities of ₹30,000. Find the capital at the end of the year and profit earned during the year.

Solution*:*

Assets = Liabilities + Capital So, Capital = Assets - Liabilities

Closing Capital = ₹ 95,000 - ₹ 30,000 = ₹ 65,000

Profit = Closing capital – Opening capital = ₹ 65,000 - ₹ 50,000 = ₹ 15,000

illustration 3

1. Started business with cash ₹1,50,000
2. Purchased goods for cash ₹40,000
3. Purchased goods on credit ₹30,000
4. Sold goods for cash ₹50,000 (Cost ₹30,000)
5. Paid salary ₹5,000

Show the effect on the accounting equation.

Solution:

Transaction	Assets (₹)	Liabilities (₹)	Capital (₹)
1.Started business with cash ₹1,50,000	1. Cash +₹1,50,000	0	+₹1,50,000

2.Purchased goods for cash ₹40,000	2. Cash -₹40,000, Stock +₹40,000	0	No change
3.Purchased goods on credit ₹30,000	3. Stock +₹30,000	Creditors +₹30,000	No change
4. Sold goods for cash ₹50,000 (Cost ₹30,000)	4. Cash +₹50,000, Stock -₹30,000	0	+₹20,000 (profit)
5.Paid salary ₹5,000	5. Cash -₹5,000	0	-₹5,000 (expense)

illustration 4

1. Started business with ₹ 2,00,000.
2. Machinery Bought for ₹ 50,000
3. Took loan from bank ₹1,00,000.
4. Deposited ₹ 20,000 into bank.
5. Bought goods ₹ 40,000, half in cash, half on credit.

Show the effect on the accounting equation.

Solution:

Transaction	Assets (₹)	Liabilities (₹)	Capital (₹)
1.Started business with ₹2,00,000	Cash +₹2,00,000	0	+₹2,00,000
2.Bought machinery for ₹50,000	Cash -₹50,000, Machinery +₹50,000	0	No change
3.Took loan from bank ₹1,00,000	Cash +₹1,00,000	Loan +₹1,00,000	No change
4.Deposited ₹20,000 into bank	Bank +₹20,000, Cash -₹20,000	0	No change
5.Bought goods ₹40,000; half in cash, half on credit	Stock +₹40,000, Cash -₹20,000	Creditors +₹20,000	No change

MCQs

1	Business started with ₹1,00,000. Later, goods worth ₹40,000 were purchased on credit. What will the effect on the accounting equation? a. Assets increase ₹40,000, Liabilities increase ₹40,000. b. Assets decrease ₹40,000, Capital increases ₹40,000. c. Liabilities decrease ₹40,000, Capital decreases ₹40,000. d. Assets and Capital increase ₹40,000 each
2	If a firm buys furniture worth ₹20,000 for cash, what is the net effect on the accounting equation? (a) No change (b) Assets increase ₹20,000 (c) Assets decrease ₹20,000 (d) Capital increases ₹20,000
3	Goods worth ₹15,000 (cost) sold for ₹18,000. What is the impact on the accounting equation? (a) Capital increases by ₹3,000 (b) Assets decrease by ₹15,000 (c) Assets increase by ₹18,000 (d) All of the above
4	Owner withdrew ₹10,000 for personal use. What is the effect?

	a. Capital decreases by ₹10,000 b. Cash decreases, Capital remains unchanged c. Liabilities decrease by ₹10,000 d. No effect
5	Rent paid ₹5,000. What happens in the accounting equation? (a) Asset and liability increase (b) Asset decreases, Capital decreases (c) Capital increases (d) No effect

MCQ ANSWERS

1-a	**2-a**	**3-d**	**4-a**	**5-b**

Assertion Reason based questions.

	Answer the following Question on the basis of following options: a. Both A and R are true, and R is the correct explanation of A b. Both A and R are true, but R is not the correct explanation of A c. A is false, but R is true d. Both A and R are false
1.	**Assertion (A):** The accounting equation remains balanced after every business transaction. **Reason (R):** Every transaction affects two or more elements of the accounting equation.
2	**Assertion (A):** Purchase of machinery on credit increases liabilities &decreases assets. **Reason (R):** Buying machinery on credit reduces cash and increases creditors.
3	**Assertion (A):** Capital increases when income is earned. **Reason (R):** Income is an inflow of assets that increases the owner's equity.
4	**Assertion (A):** When the owner brings cash into the business, it is a liability. **Reason (R):** Capital is considered a liability of the business toward the owner.
5	**Assertion (A):** Withdrawal of cash by the owner for personal use increases business capital. **Reason (R):** Drawings are shown as assets of the business.

Answers of Assertion Reason based questions

1-a	**2-d**	**3-a**	**4-a**	**5-d**

Practice Questions –(Unsolved)

1	**Show the effect of the following transactions on the accounting equation:** a. Commenced business with cash ₹2,00,000 b. Bought machinery for ₹50,000 c. Took a loan from bank ₹1,00,000 d. Bought goods ₹60,000 (50% on credit) e. Sold goods for ₹40,000 (cost ₹25,000)
2	**Show the effect of the following transactions on the accounting equation:** a. Started business with cash ₹1,00,000 b. Purchased goods for cash ₹30,000 c. Bought furniture for ₹10,000 d. Sold goods (costing ₹20,000) for ₹25,000 on credit e. Paid rent ₹5,000
3	**Use the accounting equation to show the effect of the following:**

	a. Ram started business with cash ₹50,000 b. Purchased goods from Ramesh on credit ₹20,000 c. Deposited ₹10,000 into bank d. Purchased machinery for ₹15,000 e. Paid Ramesh ₹5,000 f. Withdrew ₹2,000 for personal use
4	**Show the effect of the following transactions on the accounting equation:** a. Harsh started business with cash ₹1,00,000 b. Purchased goods for cash ₹30,000 c. Purchased goods from Mohan on credit ₹20,000 d. Sold goods (cost ₹10,000) for ₹15,000 on credit e. Paid salary ₹5,000 f. Paid ₹10,000 to Mohan g. Withdrawn cash by Harsh for personal use ₹2,000
5	**Show an Accounting Equation for the following transactions:** a. Anjan Bhattacharya commenced business with cash ₹50,000 & ₹1,00,000 by cheque; goods ₹ 60,000; machinery ₹ 1,00,000 and furniture ₹ 50,000. b. 1/3rd of above goods sold at a profit of 10% on cost and half of the payment is received in cash. c. Depreciation on machinery provided @ 10%. d. Cash withdrawn for personal use ₹ 10,000. e. Interest on drawings charged @ 5%.

RULES OF DEBIT AND CREDIT

As already stated, every transaction involves a give and take aspect. In double entry accounting, every transaction affects and is recorded in at least two accounts. When recording each transaction, the *total amount debited must equal to the total amount credited.* In accounting, the terms — *debit* and *credit* indicate whether the transactions are to be recorded on the left-hand side or right-hand side of the account. In its simplest form, an account looks like the letter “T”. Because of its shape, this simple form is called a T-account. Notice that the “T” format has a left side and a right side for recording increases and decreases in the item. This helps in ascertaining the ultimate position of each item at the end of an accounting period.

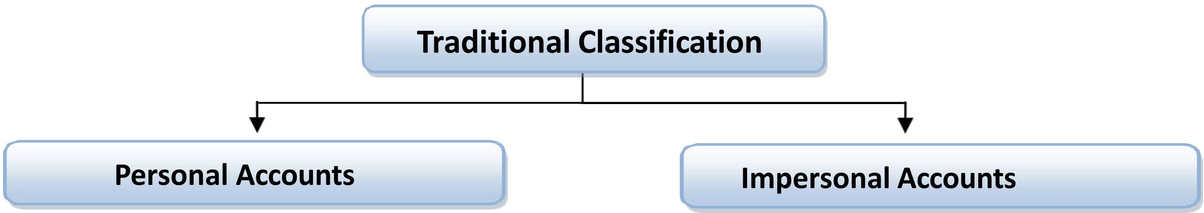
RULES OF DEBIT AND CREDIT:

Classification of Accounts:

Accounts can be classified in two ways:

(a) Traditional Classification: and (b) Modern Classification.

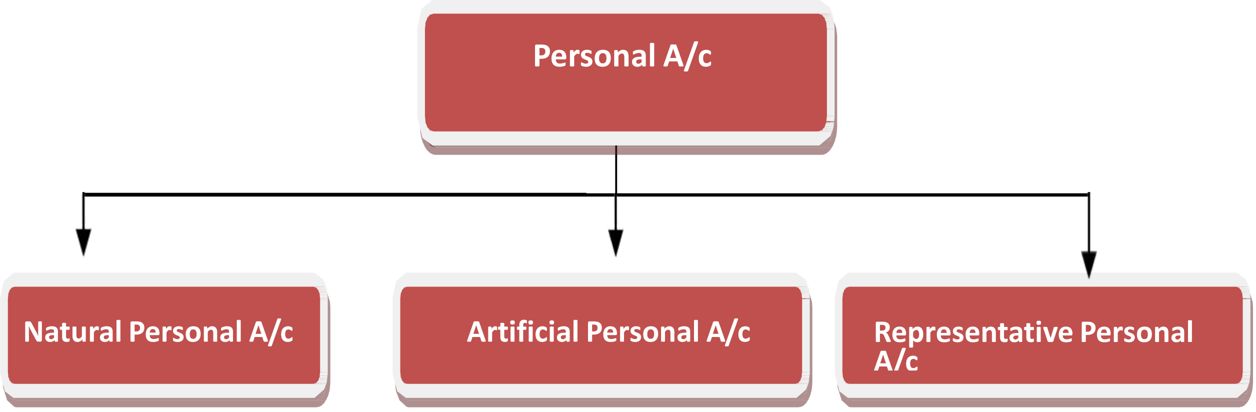
<u>(a) Traditional Classification</u>:



1. **Personal Accounts:** Accounts which relate to persons, i.e., individuals,

firms, companies, debtors or creditors, etc. are Personal Accounts. Ex. of Personal A/c are the accounts of Mohan & Co., a customer (Debtor).

Personal Accounts can be classified into three categories:



Natural Personal A/c's: The term 'Natural Person' means persons who are creations of God. Therefore, these will include accounts in individual name. Like Sita's A/c, Mohan's A/c, etc.

Artificial Personal A/c's: - These accounts include accounts of corporate bodies or institutions which are recognized as person in business dealings. Like the account of a limited company, the account of a club etc.

Representative Personal A/c's: - These are accounts which represent a certain person or a group of persons. Like if rent is due to the landlord, an Outstanding Rent Account will be opened in the books.

Rule of Debit and Credit - Debit the receiver, Credit the giver.

2. **Impersonal Accounts:** Account which are not personal such as Machinery A/c, Furniture A/c, Cash A/c etc. are termed as Impersonal Account. These can be further subdivided into two accounts;

(a) Real A/c's: Real accounts are the accounts which relate to tangible or intangible assets of the firm (excluding debtors.

Tangible assets like – Building, Land, Plant and Machinery and Investment, Cash in hand or stock. Intangible assets like- Patents, Trademark and Goodwill.

Rule of Debit and Credit - Debit what comes in, Credit what goes out

(ii) Nominal (Revenue or Expense) Accounts: - Accounts which relate to expenses, losses, gains, revenue, etc. are termed as Nominal Accounts. These are Rent A/c, Salary A/c, Sales A/c, Commission Received A/c etc.

Rule of Debit and Credit - Debit all expenses & losses, Credit all incomes & gains.

(b). Modern Classification: -

Under this classification, all the accounts are classified into the following five **categories.**

- **Asset Accounts:** Asset accounts are those accounts which relate to the economic resources of an enterprise such as Plant & Machinery, Land & Building etc.
- **Liability Accounts: -** Liability accounts are accounts of lenders, creditors for goods, outstanding expenses, etc.
- **Capital Accounts: -** These are the accounts of proprietors/partners who have invested amount in the business. It includes both Capital and Drawings Account.
- **Revenue Accounts: -** These are accounts of incomes and gains. Examples are - Sales, Discount received, Interest received, bad debts recovered etc.
- **Expense Accounts: -** These are the accounts of expenses or losses incurred in carrying the business. Examples are: Purchases, Wages, Salaries Discount allowed etc.

The rules applicable to the different kinds of accounts have been summarised in the following chart:

HEAD	DEBIT	CREDIT
ASSETS	INCREASE (+)	DECRESE (-)
LIABILITIES	DECRESE (-)	INCREASE (+)
CAPITAL	DECRESE (-)	INCREASE (+)
INCOME	DECRESE (-)	INCREASE (+)
EXPENSE	INCREASE (+)	DECRESE (-)

Illustration1: On which side will increase in following accounts be recorded? Also, mention the nature of accounts are debited and credited?

1. Cash	2. Creditors	3. Bank loan
4. Stock	5. Salary paid	6. Salary payable
7. Rent received	8. Sajan (Debtor)	9. Sharan (Customer)
10. Rajan(owner)	11. Sales	12. Interest Payable
13. Purchase	14. Drawings	15. Discount received
16. Accrued Commission	17. Depreciation	

Solution 1:

S/No.	Name of the Account	Nature of the A/c	Side in which Increase will be recorded
1	Cash	Asset	**Debit**
2	Creditors	Liability	**Credit**
3	Bank loan	Liability	**Credit**
4	Stock	Asset	**Debit**
5	Salary Paid	Expenses/ losses	**Debit**
6	Salary Payable	Liability	**Credit**
7	Rent Received	Income/ Revenue	**Credit**
8	Sajan (Debtor)	Asset	**Debit**
9	Sharan (Customer)	Asset	**Debit**
10	Rajan (Owner)	Capital	**Credit**

11	Sales	Income/ Revenue	**Credit**
12	Interest Payable	Liability	**Credit**
13	Purchase	Expenses/ losses	**Debit**
14	Drawings	Capital	**Credit**
15	Discount received	Income/ Revenue	**Credit**
16	Accrued Commission	Asset	**Debit**
17	Depreciation	Expenses/ losses	**Debit**

Illustration 2: Prepare 'T' Shape A/c of furniture and enter the following transactions

1. **Furniture purchased ₹50,000**
2. **Furniture sold costing ₹10,000**
3. **Furniture purchased ₹15,000**
4. **Old furniture discarded ₹5,000**
5. **Depreciation on furniture ₹3,000**

Solution: **FURNITURE A/C**

Particulars	Amt (₹)	Particulars	Amt (₹)
Cash - (Furniture purchased)	50,000	Cash – (Sale of furniture)	10,000
Cash - (Furniture purchased)	15,000	Furniture discarded	5,000
		Depreciation	3,000
		Balance	47,000
TOTAL	**65,000**	**TOTAL**	**65,000**

Question Bank MCQs/ VSA

1	Debit Note is issued for purchased goods returned to (a) Debtors (b) Creditor (c) Bank (d) Customer
2	When a customer returns the goods to supplier, which document is sent to him (a) An invoice is sent to him (b) A Debit Note is sent to him (c) A Credit Note is sent to him (d) None of the above.
3	Which document is used to deposit money in a bank account? (a) Debit Note (b)Credit Note (c) Pay in slip (d) Accounting voucher
4	When a trader sells goods on credit, he prepares- (a) Cash memo (b) invoice (c) receipts (d) debit note
5	Name the source document send to supplier when business return goods; (a) debit notes (b) credit note (c) invoice (d) cash memo
6	The document which is prepare for the purpose of recording of transaction is called: (a) Source of documents (b) voucher (c) journal (d) ledger
7	" It is a form available from a bank and is used to deposit money in the bank and has a counter foil which is returned to the depositor duly stamped and signed by the cashier of the bank" (a) Credit Note (b) Debit Note (c) Cheque (d) Pay-in-slip
8	Evidence documents to support transaction are: (a) Source document (b) Origin document (c) Business document (d) Resource document
9	A document showing a transaction that contains multiple debits and one credit and

	which contains multiple credits and one debit is called (a) Debit Voucher (b) Credit Voucher (c) Compound voucher (d) Transfer voucher
10	"Document of correct recording of a transaction is" (a) Source document (b) Journal (c) Invoice and Bill (d) Debit Note

Answers of MCQ:

1. Creditor	**2. A Credit Note is sent to him**	**3. Pay in slip**	**4. invoice**	**5. debit note**
6. Voucher	**7. Cheque**	**8. Source document**	**9. Compound voucher**	**10. Source document**

Short Answer type questions

Q1. What do you mean by voucher? Explain any three vouchers.

Ans. A voucher is an accounting record of business transactions that is supported by various Source documents. Various type of vouchers Debit voucher, Credit voucher transfer voucher, compound voucher.

Q2. Give essential elements of an accounting voucher.

Ans. It is written on a good quality paper;

- Name of the firm must be printed on the top;
- Date of transaction is filled up against the date and not the date of recording of transaction is to be mentioned;
- The number of the voucher is to be in a serial order;
- Name of the account to be debited or credited is mentioned
- Debit and credit amount is to be written in figures against the amount;
- Description of the transaction is to be given account wise;
- The person who prepares the voucher must mention his name along with signature; &
- The name and signature of the authorised person are mentioned on the Voucher

Q3. Why is the evidence provided by source documents important to accounting?

Ans. The evidence provided by the source document is important in the following manners:

1. It provides evidence that a transaction has occurred.
2. It provides important and relevant information about date, amount, parties involved & other details of a particular transaction.
3. It acts as a proof in the court of law.
4. It helps in verifying transactions during the auditing process.

Q4. What are source documents? Explain its types.

Ans. Source documents are the first record about the details of a business transaction.

1. **Cash memo-** when a businessman sells and purchase goods for cash he gives & received cash memo.
2. **Invoice or bill-** when a businessman sells goods on credit, he prepares a sale invoice which contain of all detail of transaction.

3. **Debit note-** when a businessman returns goods to supplier, he prepares a debit note and sends to the supplier with the returned goods.
4. **Credit note-** when goods are received back from a customer a credit note is sent to him that the customer account has been credited in our books.
5. **Pay in slip-** this is a form available in a bank and is used to deposit money in the bank.

Q5. Name and explain the two types of vouchers.

Ans. (i) Debit voucher- debit voucher-its prepared for cash payment

(ii) credit voucher.- credit voucher- its prepared for cash receipts.

Q6. What is debit note?

Ans. When business return goods to supplier. Business prepares a debit note and send it to the supplier with the return goods.

LONG ANSWER TYPE QUESTIONS

Q1. Describe the events recorded in accounting systems and the importance of source documents in those systems?

Ans. It is beyond human capabilities to memorize each financial transaction and that is why source documents have their own importance in accounting system. They are considered as evidence of transactions and can be presented in the court of law. Transactions supported by evidence can be verified. Source documents also ensure that transactions recorded in the books are free from personal biases.

A few events that are supported by source documents are given below.

1. Sale of goods worth Rs 200 on credit, supported by sales invoice/bill
2. Purchase of goods worth Rs 500 on credit, supported by purchase invoice/bill
3. Cash sales worth Rs 1,000, supported by cash Memo.
4. Cash purchase of goods worth Rs 400, supported by cash Memo.
5. Goods worth Rs 100 returned by customer, supported by credit Note.
6. Return of goods purchased on credit worth Rs 200, supported by debit note
7. Payment worth Rs 1,200 through bank, supported by cheques
8. Deposits into bank worth Rs 500, supported by pay-in slips.

Out of the above events, only those events that can be expressed in monetary terms, are recorded in the books of accounts. However, the non-monetary events are not recorded in accounts; for example, promotion of manger cannot be recorded but increment in salary can be recorded at the time when salary is paid or due.

Source document in accounting is important because of the below given reasons.

1. It provides evidence that transaction has actually occurred.
2. It provides information about the date, amount and parties involved and other details of a particular transaction.
3. It acts as evidence in the count of law.
4. It helps in verifying the transaction during the auditing process.

Q2. Differentiate between Source Documents and Vouchers

Ans. **Difference between Source Documents and Vouchers**

Basis	Source Documents	Vouchers
1.Meaning	It refers to the documents in writing, containing the details of events or transactions.	It is a document evidencing a business record.
2. Recording	It acts as a basis for preparing accounting voucher that helps in recording.	It acts as a basis for preparing accounting records.
3.Preparation	It is prepared at the time when an event or a transaction occurs.	It can be prepared either when transaction occurs, or later on
4.Legality/ Validity	It can be used as evidence in the court of law.	It acts as a basis for recording transactions.
5.Prepared By	It is prepared by the persons who are directly involved in the transactions, or who are authorized to prepare or approve. These documents.	Authorized accountants prepare it.
6.Examples	Cash memo, invoice, and pay-in-slip etc.	Cash voucher, credit voucher, transfer. voucher etc.

Books of Original Entry:

Journal- It is the book in which the transaction is recorded for the first time in chronological order. This sequence causes the journal to be called the Book of Original Entry.

The process of recording transactions in journals is called journalizing.

Format of Journal

Date	Particulars	LF	Debit	Credit

TYPES OF ENTRIES:

1. Simple Entry: It is that entry in which only two accounts are affected i.e. one account is debited and another account is credited with an equal amount.

2. Compound Entry: It is that entry in which more than two accounts are involved. Compound Entries can further be classified into single compound entry and double compound entry.

3. Opening Entry: The entry passed to record the closing balances of the previous year is called opening entry. While passing an opening entry, all assets' accounts are debited, and all liabilities accounts are credited.

Ledger:

The ledger is the principal book of accounting system. It contains different accounts where transactions relating to that account are recorded. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger.

Format of a ledger

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount

	To				By		

Posting from Journal:

Posting is the process of transferring the entries from the books of original entry (journal) to the ledger. In other words, posting means grouping of all the transactions in respect to a particular account at one place for meaningful conclusion and to further the accounting process.

Step 1: Locate in the ledger, the account to be debited as entered in the journal.

Step 2*:* Enter the date of transaction in the date column on the debit side.

Step 3*:* In the 'Particulars' column writes the name of the account through which it has been debited in the journal.

Step 4*:* Enter the page number of the journal in the folio column and in the journal write the page number of the ledger on which a particular account appears.

Step 5*:* Enter the relevant amount in the amount column on the debit side. Same procedure is followed for making the entry on the credit side of that account to be credited.

DIFFERENCE BETWEEN JOURNAL AND LEDGER

1.The Journal is the book of *first* entry (original entry); the ledger is the book of *second* entry.

2.The Journal is the book for *chronological* records; the ledger is the book for *analytical* records.

3.The Journal, as a book of source entry, gets greater importance as *legal evidence* than the ledger.

4.Transaction is the basis of classification of data within the Journal; *Account* is the basis of classification of data within the ledger.

5.Process of recording in the Journal is called Journalising; the process of recording in the ledger is known as *Posting.*

MCQ

1.	As per double entry system each transaction records: One account debit and one account (a) credit (b) both credit (c) both debit (d) only debit
2	Which book is called as books of original entry. (a) Journal (b) cash book (c) subsidiary books (d) all of these
3	Name the book in which all accounts are opened at a separate page: (a) Journal (b) ledger (c) cash book (d) subsidiary books
4	Ledger is prepared from the: (a) Journal (b) cash book (c) subsidiary books (d) all of these
5	Goods or cash withdrawn by the proprietor is debited to________ account. (a) Cash (b) Cash or goods (c) Drawings (d) Purchase
6	A furniture merchant used 2 chairs for his office use. Here credits to account. (a) Furniture A/c (b) Purchase A/c (c) Drawings A/c (d) Asset A/c
7	The process of recording a business transaction in the journal is called. (a) Costing (b) Posting (c) Balancing (d) Journalising

8	How many columns are there in a Ledger (on one side)? (a) Six (b) Four (c) Five (d) Seven
9	The journal entry to record the sales of services on credit should include: (a) Dr. to debtors & Cr. to capital. (b) Dr. to cash & Cr. to debtors. (c) Dr. to fees income & Cr. to debtors. (d) Dr. to debtors & Cr. to fees income
10	Find the incorrect statement: (a) Cr. a decrease in assets. (b) Cr. the increase in expenses. (c) Cr. the increase in revenue. (d) Cr. the increase in capital

ANSWERS OF MCQ

1-a	**2-a**	**3-b**	**4-d**	**5-c**	**6-b**	**7-d**	**8-b**	**9-d**	**10b**

Long Answers:

Q1. Ananth is a trader dealing in textiles. For the following transactions, pass journal entries for the month of January 2018.

1 Commenced business with cash ₹ 70,000.
2 Purchased goods from X and Co. on credit ₹ 30,000.
3 Cash deposited into bank ₹ 40,000.
4 Bought a building from L and Co. on credit ₹ 95,000.
5 Cash withdrawn from bank for office use ₹ 5,000.
6 Cash withdrawn from bank for personal use of Ananth ₹ 4,000
7 Towels given as charities ₹ 3,000.
8 Shirts taken over by Ananth for personal use ₹ 12,000.
9 Sarees distributed as free samples ₹ 3,000.
10. Goods (table clothes) used for office us ₹ 200

Ans. 1

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2018.	Cash A/c Dr.		70,000	
Jan	To Ananth's capital A/c			70,000
	(Commenced business with cash)			
Jan. 2	Purchases A/c Dr.		30,000	
	To X and Co. A/c			30,000
	(Credit purchases made)			
Jan. 3	Bank A/c Dr.		40,000	
	To Cash A/c			40,000
	(Cash deposited into bank)			
Jan. 4	Buildings A/c Dr.		95,000	
	To L and Co. A/c			95,000
	(Building bought on credit)			
Jan. 5	Cash A/c Dr.		5,000	
	To Bank A/c			5,000
	(Cash withdrawn from bank for office use)			
Jan. 6	Drawings A/c Dr.		4,000	
	To Bank A/c			4,000
	(Cash withdrawn from bank for personal use)			

Jan. 7	Charities A/c Dr.		3,000	
	To Purchases A/c			3,000
	(Goods given for charities)			
Jan. 8	Drawings A/c Dr.		12,000	
	To Purchases A/c			12,000
	(Goods taken over for personal use)			
Jan. 9	Sales promotion A/c Dr.		3,000	
	To Purchases A/c			3,000
	(Goods distributed as free samples)			
Jan.10	Office Expenses A/c Dr.		200	
	To Purchases A/c			200
	(Goods used for office use)			
	Total		**2,62,200**	**2,62,200**

Q2. Pass journal entries for the following transactions -

Date	***Details***	**Amt. (₹)**
Dec. 01	Business started with cash	1,20,000
Dec. 02	Opened a bank account with ICICI	4,00,00
Dec. 04	Goods purchased for cash	12,000
Dec. 10	Paid cartage	500
Dec. 12	Goods sold on credit to M/s Lara India	25,000
Dec. 16	Goods returned from Lara India	3,000
Dec. 18	Paid trade expenses	700
Dec. 19	Goods purchased on credit from Taranum	32,000
Dec. 20	Cheque received from M/s Lara India for final settlement and deposited same day into bank	11,500
Dec. 22	Goods returned to Taranum	1,500
Dec. 24	Paid for stationery	1,200
Dec. 26	Cheque given to Taranum on account	20,000
Dec. 28	Paid rent by cheque	4,000
Dec. 29	Drew cash for personal use	10,000
Dec. 30	Cash sales	12,000
Dec. 31	Goods sold to M/s Rupak Traders	11,000
Dec. 14	Cash received from M/s Lara India	10,000

Ans. 2 **Journal Entries**

Date	**Particulars**	**L.F**	**Dr. (₹)**	**Cr. (₹)**
2025 Dec. 1	Cash A/c Dr.		1,20,000	
	To Capital A/c			120,000
	(Business started with cash)			
2025 Dec. 2	Bank A/c Dr.		40,000	
	To Cash A/c			40,000
	(Opened a current account with ICICI bank)			
2025 Dec. 4	Purchases A/c Dr.		12,000	
	To Cash A/c			12,000
	(Goods purchased for cash)			

2025 Dec. 10	Cartage A/c Dr.		500	
	To Cash A/c			500
	(Cartage paid)			
2025 Dec. 12	Lara India A/c Dr.		25,000	
	To Sales A/c			25,000
	(Goods sold on credit)			
2025 Dec. 14	Cash A/c Dr.		10,000	
	To Lara India A/c			10,000
	(Cash received from Lara India)			
2025 Dec. 16	Sales Return A/c Dr.		₹3,000	
	To Lara India A/c			3,000
	(Goods returned from Lara India)			
2025 Dec. 18	Trade Expenses A/c Dr.		700	
	To Cash A/c			700
	(Trade expenses paid)			
2025 Dec. 19	Purchases A/c Dr.		32,000	
	To Taranum 's A/c			32,000
	(Goods purchased on credit)			
2025 Dec. 20	Bank A/c Dr.		11,500	
	Discount A/c Dr.		500	
	To Lara India A/c			12,000
	(Cheque received for final settlement)			
2025 Dec. 22	Taranum‘s A/c Dr.		1,500	
	To Purchase Return A/c			1,500
	(Goods returned to Taranum)			
2025 Dec. 24	Stationery A/c Dr.		1,200	
	To Cash A/c			1,200
	(Cash paid for stationery)			
2025 Dec. 26	Taranum‘s A/c Dr.		20,000	
	To Bank A/c			20,000
	(Cheque given to Taranum)			
2025 Dec. 28	Rent A/c Dr.		4,000	
	To Bank A/c			4,000
	(Rent paid by cheque)			
2025 Dec. 29	Drawings A/c Dr.		10,000	
	To Cash A/c			10,000
	(Cash withdrawn for personal use)			
2025 Dec. 30	Cash A/c Dr.		12,000	
	To Sales A/c			12,000
	(Goods sold for cash)			
2025 Dec. 31	Rupak Trader A/c Dr.		11,000	
	To Sales A/c			11,000
	(Goods sold on credit)			
	Total		**314,900**	**314,900**

POSTING IN THE LEDGER BOOKS							
Dr.	**CASH A/C**						**Cr.**
Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**
2025 Dec. 01	Capital		1,20,000	2025 Dec. 02	Bank		40,000
Dec. 14	Lara India		10,000	Dec. 04	Purchase		12,000
Dec. 30	Sales		12,000	Dec. 10	Cartage		500
				Dec. 18	Trade Expenses		700
				Dec. 24	Stationery		1,200
				Dec. 29	Drawings		10,000
	Total		**1,42,000**		**Total**		**55,400**
Dr.	**CAPITAL A/C**						**Cr.**
Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**
				2025 Dec. 01	Cash		1,20,000
	Total		**0**		**Total**		**1,20,000**
Dr.	**BANK A/C**						**Cr.**
Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**
2025 Dec. 02	Cash		40,000	2025 Dec. 26	Taranum's		20,000
Dec. 20	Lara India		11,500	Dec. 28	Rent		4,000
	Total		**51,500**		**Total**		**24,000**
Dr.	**PURCHASES A/C**						**Cr.**
Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**
2025 Dec. 04	Cash		12,000				
Dec. 19	Taranum		32,000				
	Total		**44,000**		**Total**		**0**
Dr.	**CARTAGE A/C**						**Cr.**
Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**
2025 Dec. 10	Cash		500				
	Total		**500**		**Total**		**0**
Dr.	**LARA INDIA**						**Cr.**
Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**
2025 Dec. 12	Sales		25,000	2025 Dec. 14	Cash		10,000
				Dec. 16	Sales return		3,000
				Dec. 20	Bank		11,500
				Dec. 20	Discount		500
	Total		**25,000**		**Total**		**25,000**
Dr.	**SALES A/C**						**Cr.**
Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**
				2025 Dec. 12	Lara India		25,000

				Dec. 30	Cash		12,000
				Dec. 31	Rupak Traders		11,000
	Total		**0**		**Total**		**48,000**
Dr.	**SALES RETURN A/C**						**Cr.**
Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**
2025 Dec. 16	Lara India		3,000				
	Total		**3,000**		**Total**		**0**
Dr.	**TRADE EXPENSE A/C**						**Cr.**
Date	**Particulars**	**J.F**	**Amount**	**Date**	**Particulars**	**J.F**	**Amount**
2025 Dec. 18	Cash		700				
	Total		**700**		**Total**		**0**
Dr.	**TARANUM A/C**						**Cr.**
Date	**Particulars**	**J.F**	**Amount**	**Date**	**Particulars**	**J.F**	**Amount**
2025 Dec. 22	Purchase Return		1,500	2025 Dec. 19	Purchase		32,000
Dec. 26	Bank		20,000				
	Total		**21,500**		**Total**		**32,000**
Dr.	**DISCOUNT ALLOWED A/C**						**Cr.**
Date	**Particulars**	**J.F**	**Amount**	**Date**	**Particulars**	**J.F**	**Amount**
2025 Dec. 20	Lara India		500				
	Total		**500**		**Total**		**0**
Dr.	**PURCHASE RETURN A/C**						**Cr.**
Date	**Particulars**	**J.F**	**Amount**	**Date**	**Particulars**	**J.F**	**Amount**
				2025 Dec. 22	Taranum		1,500
	Total		**0**		**Total**		**1,500**
Dr.	**STATIONERY A/C**						**Cr.**
Date	**Particulars**	**J.F**	**Amount**	**Date**	**Particulars**	**J.F**	**Amount**
2025 Dec. 24	Cash		1,200				
	Total		**1,200**		**Total**		
Dr.	**RENT A/C**						**Cr.**
Date	**Particulars**	**J.F**	**Amount**	**Date**	**Particulars**	**J.F**	**Amount**
2025 Dec. 28	Bank		4,000				
	Total		**4,000**		**Total**		**0**
Dr.	**DRAWINGS A/C**						**Cr.**
Date	**Particulars**	**J.F**	**Amount**	**Date**	**Particulars**	**J.F**	**Amount**
2025 Dec. 29	Cash		10,000				
	Total		**10,000**		**Total**		**0**

Dr.			**RUPAK TRADERS A/C**				**Cr.**
Date	**Particulars**	**J.F**	**Amount**	**Date**	**Particulars**	**J.F**	**Amount**
2025 Dec. 31	Sales		11,000				
	Total		**11,000**		**Total**		**0**

Trial Balance as of December 31, 2025

Name of Account	**L.F.**	**Dr. Bal. (₹)**	**Cr. Bal. (₹)**
Cash A/c *(₹1,42,000 - ₹64,400)*		77,600	
Capital A/c			1,20,000
Bank A/c *(₹51,500 - ₹24,000)*		27,500	
Purchases A/c		44,000	
Cartage A/c		500	
Lara India A/c *(Fully settled)*		—	—
Sales A/c			48,000
Sales Return A/c		3,000	
Trade Expenses A/c		700	
Discount Allowed A/c		500	
Taranum's A/c *(₹32,000 - ₹21,500)*			10,500
Purchase Return A/c			1,500
Stationery A/c		1,200	
Rent A/c		4,000	
Drawings A/c		10,000	
Rupak Traders A/c		11,000	
TOTAL		**1,80,000**	**1,80,000**

PRACTICE QUESTION (UNSOLVED)

Record the transactions in Journal and post them into ledger –

(i) Business commenced with a capital of ₹ 6,00,000.

(ii) ₹ 4,50,000 deposited in a bank account.

(iii) ₹ 2,30,000 Plant and Machinery Purchased by paying ₹ 30,000 cash immediately.

(iv) Purchased goods worth ₹ 40,000 for cash and ₹ 45,000 on account.

(v) Paid a cheque of ₹ 2, 00,000 to the supplier for Plant and Machinery.

(vi) ₹ 70,000 cash sales (of goods costing ₹ 50,000).

(vii) Withdrawn by the proprietor ₹ 35,000 cash for personal use.

(viii) Insurance paid by cheque of ₹ 2,500.

(ix) Salary of ₹ 5,500 outstanding.

(x) Furniture of ₹ 30,000 purchased in cash.

CHAPTER. 4

RECORDING OF TRANSACTIONS – II

CASH BOOK AND OTHER SUBSIDIARY BOOK

Cash book is used to record all cash receipts and payments in an accounting system. This book acts as both journal and ledger.

Types of Cash Books:

- **Single Column Cash Book:** It records only cash receipts and payments transactions.
- **Double Column Cash Book:** It Records cash receipts, payments, and bank transactions.
- **Petty Cash Book:** Records small cash payments for business.

Imprest system of petty cash book - this is the method for managing petty cash where a fixed amount of money is initially provided to a petty cashier and then replenished at the end of a period after expenses have been incurred.

Types of petty cash book

- Simple Petty cash book
- Analytical Petty cash book

Subsidiary Books:

These are special books that record specific types of transactions.

Types of Subsidiary Books*:*

- **Purchase Book:** Records all credit purchases of the business.
- **Sales Book:** Records all credit sales of the business.
- **Purchase Return Book:** Records all goods returned to suppliers.
- **Sales Return Book:** Records all goods returned by customers.
- **Bills Receivable Book:** Records all bills receivable transactions.
- **Bills Payable Book:** Records all bills payable transactions.
- **Journal Proper:** Records transactions that cannot be categorized into any of the other special purpose books.

Numerical Problems.

(Double column cash book without GST)

Q 1. Record the following transactions in a bank column cash book for December 2024: **(₹)**

01 Started business with cash	80,000
04 Deposited in bank	50,000
10 Received cash from Rahul	1,000
15 Bought goods for cash	8,000
22 Bought goods by cheque	10,000
25 Paid to Shyam by cash	20,000
30 Drew from Bank for office use	2,000
31 Rent paid by cheque	1,000

Ans: Dr BANK COLUMN CASH BOOK Cr

Date	**Particulars**	**L. F**	**Cash**	**Bank**	**Date**	**Particulars**	**L.F**	**Cash**	**Bank**
01	To Capital A/c		80,000		04	By bank A/c	C	50,000	
04	To Cash A/c	C		50,000	15	By Purchases A/c		8,000	
10	To Rahul A/c		1,000		22	By Purchases A/c			10,000
					25	By Shyam A/c		20,000	
30	To Bank A/c	C	2,000		30	By Cash A/c	C		2,000
					31	By Rent A/c			1,000
					31	By Balance c/d		5,000	37,000
			83,000	**50,000**				**83,000**	**50,000**

KEY POINTS TO REMEMBER:

- ❖Cash account is not opened in the ledger, if the cash book is maintained.
- ❖Cash book is balanced similarly to any other account.
- ❖Simple cash book does not record transactions relating to non-cash, cheque received or given and discount allowed or received.
- ❖All the entries recorded in the simple cash book have corresponding entry which is posted in the ledger.
- ❖Cash paid will not exceed the cash in hand. Hence, the cash book will not have a credit balance.

For Practice (UNSOLVED)

Q 1. Prepare a double column cash book with the help of following information for March 2026: **(₹)**

01 Started business with cash	1,20,000
03 Cash paid into bank	50,000
05 Purchased goods from Sushmita	20,000
06 Sold goods to Dinker and received a cheque	20,000
10 Paid to Sushmita cash	20,000
14 Cheque received on March 06, 2026 deposited into bank	
18 Sold goods to Rani	12,000
20 Cartage paid in cash	500
22 Received cash from Rani	12,000
27 Commission received	5,000
30 Drew cash for personal use	2,000

Answers - **Balance - Cash - ₹ 64,500; Bank - ₹ 70,000**

Q 2. On January 1, 2026, Mr Xavier commence a business with a cash balance of ₹50,000 in hand and a bank balance of ₹80,000. During the month of January 2026, the following transactions took place:

	(₹)
Jan 3: Purchased goods for cash	20,000
Jan 8. Sold goods for cash	15,000
Jan 12: withdrew cash for office use	10,000
Jan 18: Deposited into the bank	25,000
Jan 25: Received a loan from Mr. Y and deposited it into the bank	30,000
Jan 31: Paid rent by cheque	5,000

Record these transactions in the double column cash book with cash and bank columns and provide the closing balance at the end of January

Answers - Balance - Cash - ₹ 30,000, Bank - ₹ 1,20,000

Double column cash book with GST

Q 1. Prepare Two-column Cash Book of Vimal, Lucknow from the following transactions June 2025

June 1	Cash Balance ₹ 5,000
June 1	Bank Balance ₹17,500
June 5	Cash received from sale of shares ₹ 5,000.
June 6	Cheque received as advance against sale, paid into bank ₹ 50,000.
June 7	Paid S. Bose by cheque ₹ 12,500
June 9	Paid wages in cash ₹ 3,000

June 20 Received a cheque from A. Mukherji and sent to the bank ₹ 6,000.
June 21 Drawn from Bank ₹ 5,000
June 29 Paid office salaries in cash ₹ 4,000
June 30 Sold goods in cash for ₹ 8,000 plus CGST and SGST @ 6% each & banked the same
June 30 Paid rent by cheque including CGST and SGST @ 6% each ₹ 1,120.
June 30 Paid into bank 7,500 Discount received ₹ 200.

Dr. Cash book For the month of June 2025 Cr.

Date	**Particulars**	**L. F**	**Cash**	**Bank**	**Date**	**Particulars**	**L. F**	**Cash**	**Bank**
2025					**2025**				
June					**June**				
01	To Balance b/d		5,000	17,500	07	By S. Bose A/c			12,500
05	To Investment A/c		5,000		09	By Wages A/c		3,000	
06	To Advances A/c			50,000	21	By Cash A/c	C		5,000
20	To A Mukherji A/c			6,000	29	By Office Salaries A/c		4,000	
21	To Bank A/c	C	5,000		30	By Ren A/c			1,000
30	To Sales A/c			8,000	30	By Input CGST A/c			60
30	To Output CGST A/c			480	30	By Input SGST A/c			60
30	To Output SGSTA/c			480					
30	To Cash A/c	C		7,500	30	By Bank A/c	C	7,500	
					30	By Balance c/d		500	71,340
			15,000	**89,960**				**15,000**	**89,960**

For Practice (UNSOLVED)

Q1. Prepare Two-column Cash Book of Raman, Delhi from the following transactions: 2025

Oct. 1 Cash in Hand ₹ 25,000
Oct. 1 Cash at Bank ₹ 75,000
Oct. 7 Bought goods for ₹ 15,000 plus IGST @ 12% against cheque
Oct. 8 Bought goods for ₹ 5,000 plus CGST and SGST @ 6% each
Oct. 10 Honoured our own acceptance by cheque ₹ 5,000
Oct. 14 Paid petty expenses ₹ 150
Oct. 18 Rama who owed ₹ 5,000 became bankrupt and paid us 50 paise in a rupee
Oct. 20 Received cash from Manoj ₹ 7,500 Allowed discount ₹ 250
Oct. 23 Withdrew from bank ₹ 4,000
Oct. 24 Paid to Shyam & Co. ₹ 3,000 Received discount ₹ 100
Oct. 25 Withdrew from bank for personal expenses ₹ 3,000
Oct. 27 Sold goods for ₹ 11,000 plus CGST and SGST @ 6% against cash
Oct. 28 Received cheque for goods sold for ₹ 9,000 plus CGST and SGST @ 6% each
Oct. 29 Received repayment of a loan of ₹ 5,000 and deposited ₹ 3,000 out of it.

Answers - Cash Balance - ₹ 44,570, Bank balance - ₹ 59,280

Q 2. Enter the following transactions in the Cash Book of Chanda of Chandigarh: 2026

Jan 1 Chanda commences business with cash ₹ 1,00000
Jan 3, She opened a Bank Current Account with her Savings Account cheque ₹ 19,00,000
Jan 4, She receives cheque from Kartik & Co. on account ₹ 60,000
Jan 7 She pays in Bank Kartik & Co.'s cheque - ₹ 60,000

Jan 10 She advanced Ratnam & Co. by cheque ₹ 35,000
Jan 12 Tripti & Co. pays into her Bank A/c ₹ 47,500
Jan 15 She receives cheque from Nitara and allows him discount of ₹ 3,500, ₹ 45,000.
Jan 20 She receives cash ₹ 7,500 and cheque ₹ 10,000 from Kalyani against credit balance
Jan 25 She pays int Bank, including cheques received on 15th and 20th January ₹ 1,00,000
Jan 27 She pays by cheque for purchases of ₹ 27,500 plus CGST and SGST @ 6% each
Jan 28 Cheque received from Nitara was dishonored
Jan 30 She pays sundry expenses in cash ₹ 50.
Jan 30 She pays John & Co. in cash and is allowed discount of ₹ 3,500, ₹ 37,500.
Jan 31 She pays office rent ₹ 20,000 plus CGST and SGST @ 6% each by cheque
Jan 31 She draws a cheque for office use ₹ 40,000
Jan 31 She pays staff salaries by cheque ₹ 30,000
Jan 31 She pays cash for stationery ₹ 2,500 plus CGST and SGST @ 6% each
Jan 31 She purchases goods for cash ₹ 12,500 plus CGST and SGST @ 6% each
Jan 31 She pays Jagpal by cheque for commission ₹ 30,000 plus CGST and SGST @ 6%
Jan 31 She receives cheque for commission of ₹50,000 plus CGST and SGST @ 6% each from Raghubir & Co. and pays the same into bank
Jan 31 Cash sales ₹ 45,000 plus CGST and SGST @ 6% each.

Answers - Cash Balance - ₹ 98,550 Bank balance - ₹ 19,26,700

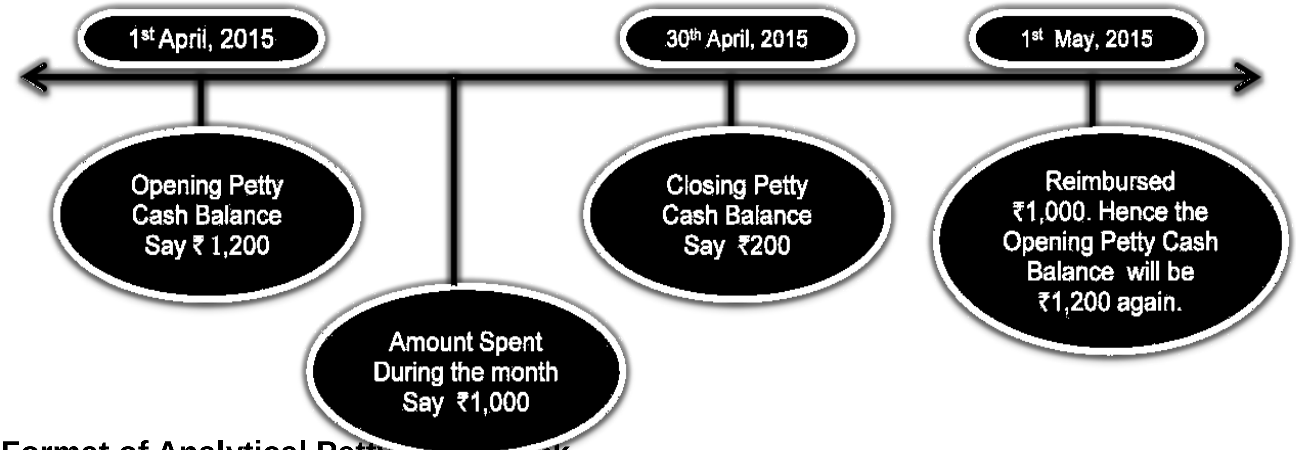
Petty cash book

Petty cash book is a book prepared by a petty cashier for the purpose of recording payment of petty cash expenses. In a business, there are number of small payments made for purchase of stationary items, stamps and conveyance expenses.

Advantages of Petty Cash Book

- ✓ Save time and effort: It saves the time of the chief cashier to execute his/her duties more effectively.
- ✓ Work Division: It enables control over incidents of fraud.
- ✓ Convenient: As per the materiality principle, the cash book provides only material and useful information.

Imprest System of Petty Cash: In this system, a definite amount is given to a petty cashier by the chief cashier in the beginning of an accounting period. This amount is called Imprest amount. The petty cashier makes payment for all expenses out of the Imprest amount.



Format of Analytical Petty Cash Book

Receipt	Date	V.	Particulars	Total	Conveyance	Stationery	Wages	Sundries

		No.		**Payment**				
	2016							

Illustration: From the following information, prepare an analytical petty cash book on the Imprest system for the month of Feb, 2026:

Date	Particulars	Amt (₹)
1	Received for petty cash ₹ 12,000	
2	Paid repair of furniture	640
4	Paid for office cleaning	400
5	Purchased stationery	350
8	Writing pads and register purchased	290
12	Refreshment given to customers	660
15	Paid for postage and telegram	135
17	Casual labor paid	800
21	Paid for postages	215
22	Taxi fare reimburses of manager	132
24	Sent registered notice to landlord	248
24	Cartage paid	345
28	Auto fare paid	185

Analytical Petty Cash Book

Receipt	Date	V. No.	Particulars	Total Payment	Conveyance	Cartage	Stationery	Postage, Telephone & Telegram	Wages	Sundries
	2016									
12,000	Nov-01		To Cash A/c							
	Nov-02		By Repair of Furniture	640						640
	Nov-04		By General Expenses	400						400
	Nov-05		By Stationery	350			350			
	Nov-08		By Stationery	290			290			
	Nov-12		By General Expenses	660						660
	Nov-15		By Postage and telegram	135				135		
	Nov-17		By Wages	800					800	
	Nov-21		By Postage and telegram	215				215		
	Nov-22		By Conveyance	132	132					
	Nov-24		By Postage and telegram	248				248		
	Nov-24		By Cartage	345		345				
	Nov-28		By Conveyance	185	185					
				4,400	**317**	**345**	**640**	**598**	**800**	**1700**
	Nov-30		By Balance c/d	7,600						
12,000				12,000						
7,600	Dec-01		To Balance b/d							
4,400	Dec-01		To Cash A/c							

OTHER SUBSIDIARY BOOKS AND GST

4.2 Purchases (Journal) Book

4.3 Purchases Return (Journal) Book

4.4 Sales (Journal) Book

4.5 Sales Return (Journal) Book

Subsidiary Books:

As the business grows and number of transactions increases, it becomes necessary for the business to divide the recording work. These are special books that record specific types of transactions.

Types of Subsidiary Books:

- ❖ **Purchase Book:** Records all credit purchases of the business.
- ❖ **Sales Book:** Records all credit sales of the business.
- ❖ **Purchase Return Book:** Records all goods returned to suppliers purchased on credit.
- ❖ **Sales Return Book:** Records all goods returned by customers sold on credit.
- ❖ **Bills Receivable Book:** Records all bills receivable transactions.
- ❖ **Bills Payable Book:** Records all bills payable transactions.

- **Journal Proper:** Records transactions that cannot be categorized into any of the other special purpose books.

Advantages of Maintaining Subsidiary Books: -

(a) Division of work (b) Leads to Specialization (c) Easy to maintain Ledger
(d) Check on frauds (e) Easy to fix responsibility
(f) Quick availability of required information.

Format of a Purchases Book

Date	Particulars	Invoice No.	L.F.	Details	Amount
	Name of the Supplier				

Difference Between Purchases Book & Purchases Account

Purchases Book	Purchases Account
It is a part of journal	It is a part of ledger
It does not have debit and credit column	It has a debit and credit column
Only credit purchases are recorded	Cash purchases as well as credit purchases are recorded
Total amount of purchases book is posted to purchases account periodically	Balance of the account is transferred to the trading account on debit side

Format of a Sales Book

Date	Particulars	Invoice No.	L.F.	Details	Amount
	Name of the Buyer				

Difference Between Purchases Book & Purchases Account

Sales Book	Sales Account
It is a part of journal	It is a part of ledger
It does not have debit and credit column	It has a debit and credit column
Only credit sales are recorded	Cash sales as well as credit sales are recorded
Total amount of sales book is posted to sales account periodically	Balance of the account is transferred to the trading account on credit side

Format of a Purchase Return Book

Date	Particulars	Debit Note No.	L.F.	Details	Amount
	Name of the Supplier				

Format of a Sales Return Book

Date	Particulars	Credit Note No.	L.F.	Details	Amount
	Name of the Buyer				

4.*6* Journal Proper

4.7 Balancing the Accounts

Transactions *Recorded in the Journal Proper*

- **Opening entry**: In the beginning of the accounting period, the opening entry is passed in the journal to open the books by bringing the balances of various assets, liabilities and capital appearing in the balance of the previous accounting period.
- **Closing entries**: The closing entry is passed in the journal for incomes and expenses transferred to the trading and profit and loss account.
- **Rectifying entries**: In the journal of proper, entries are recorded to rectify the errors in the books of original entry or ledger.
- **Transfer entries**: Through journal entry, an amount can be transferred from one

account to another account.

- **Adjustment entries**: To bring the unrecorded items in the books of accounts or to update ledger accounts adjusting entries are passed in the journal proper.
- **Other entries**:
  - ✓ An entry for cancellation of discount received or discount allowed previously at the time of dishonour.
  - ✓ Goods which are purchased/sold on credit for non-trading activities
  - ✓ Goods which are withdrawn for personal use by the owner of the firm
  - ✓ Goods which are distributed for sale promotion
  - ✓ Endorsement and bills of exchange
  - ✓ Loss of goods by theft, fire or any damage.

Subsidiary Books:

Q1. Record the following in the Purchase Book (assume all are credit transactions):

Date **Particulars**

May 2: Purchased from M/s Ramesh Traders: 10 fans 1,200 each
May 5: Bought from M/s Kumar Electronics: 5 heaters 800 each
May 9: Purchased office table for ₹5,000

Solution 1: **Purchase Book (without GST)**

Date	**Particulars**	**Invoice**	**No.**
May 2	M/s Ramesh Traders	---	12,000
	10 fans @ ₹1,200		
May 5	M/s Kumar Electronics	---	4,000
	5 heaters @ ₹800		
	Total		**16,000**

Q2. Purchases Book with GST

From the following transactions, prepare the Purchases Book of M/s Gupta Traders for April 2025. All purchases are Intra-State.

April 01: Purchased from M/s Verma Electronics
10 LED TVs 20,000 each, Trade Discount 10%, GST 12%

April 05: Bought from M/s Batra Appliances
5 Refrigerators 30,000 each, Trade Discount 5%, GST 18%

April 10: Cash purchase from M/s Arya Traders – ₹15,000 (Ignore as its cash basis)

Solution 2: **Purchases Book of M/s Gupta Traders for April 2025**

Date	**Invoice No.**	**Name of Supplier**	**Details**	**Amt (₹)**	**CGST (₹)**	**SGST (₹)**	**Total (₹)**
April 01	101	M/s Verma Electronics	10 LED TVs @ ₹20,000 = ₹2,00,000 Taxable Value = ₹1,80,000	1,80,000	10,800	10,800	2,01,600
April 05	102	M/s Batra Appliances	5 Refrigerators @ ₹30,000 = ₹1,50,000 Less: 5% T.D. =₹7,500 Taxable Value =₹1,42,500	1,42,500	12,825	12,825	1,68,150
			TOTAL	**3,22,500**	**23,625**	**23,625**	**3,69,750**

Q3. Sales Book with IGST:

From the following details, prepare Sales Book for M/s Royal Traders. Transactions are inter-state.

May 01: Sold to M/s Oberoi & Co.

15 Air Coolers @ ₹6,000 each, Trade Discount 5%, GST @18%

May 10: Sold goods to M/s Northern Distributors

10 Microwave Ovens @ ₹8,000 each, Trade Discount 10%, GST @12% **Solution 3:**

Sales Book of M/s Royal Traders – May 2025

Date	Invoice No.	Name of Supplier	Details	Amt (₹)	IGST(₹)	Total (₹)
May 01	201	M/s Oberoi & Co.	15 Air Coolers @ ₹6,000 = ₹90,000 Less: 5% = ₹4,500 Taxable = ₹85,500	85,500	15,390	1,00,890
April 05	202	M/s Northern Distributors	10 Microwaves @ ₹8,000 = ₹80,000 Less: 10% = ₹8,000 Taxable = ₹72,000	72,000	8,640	80,640
			TOTAL	**3,22,500**	**23,625**	**3,69,750**

Practice Questions (UNSOLVED)

Q1: Prepare a Sales Book for M/s Ahuja Electronics for May 2025. All sales are intra-state.

May 01: Sold to M/s Galaxy Traders

10 Air Conditioners @ ₹30,000 each, Trade Discount 10%, GST @12%

May 10: Sold to M/s Breeze Solutions

5 Refrigerators @ ₹25,000 each, Trade Discount 5%, GST @18%

May 15: Sold goods for cash ₹50,000 (Ignore – Cash transaction)

Ans - Grand Total ₹4,42,525

Q2: Prepare the Purchases Book of M/s Raghav Traders for June 2025. All purchases are inter- state (IGST applicable).

June 03: Bought from M/s Rishi Distributors

20 Washing Machines @ ₹18,000 each, Trade Discount 10%, GST @18%

June 07: Bought 10 Vacuum Cleaners @₹8,000 each from M/s Sparkle Ltd., Trade Discount 5%, GST @12%

Ans - Grand Total ₹4,67,440

Q3: Enter the following in the Sales Return Book. (Intra-state returns)

July 05: M/s Royal Enterprises returned 2 out of 10 ACs sold on May 01@ ₹30,000 each, with 10% T.D., GST @12%

July 12: M/s Breeze Solutions returned 1 Refrigerator @ ₹25,000, 5% T.D., GST @18%

Ans - Grand Total ₹88,505

Q4. Enter the following transactions in the Subsidiary Books: - 2025

March 01	sold goods to Ramesh ₹3,000 at 5% Trade discount.
March 04	Purchased goods from Ravi Prasad worth ₹1,000 at 10% trade discount.
March 07	Received a Debit note of ₹ 200 from Kabir.
March 10	Sent a Debit Note of ₹200 to Ravi Prasad.
March 14	Sent Invoice of ₹5,000 to Anand Nath subject to 10% trade discount.
March 18	Returned to Debasish worth ₹5,000 at 10% trade discount.
March 22	Placed an order worth ₹5,000 to Neha kumari.
March 26	Sent a credit note to Anand Nath of ₹400 (Including trade discount)

Ans: Purchase Book ₹ 900; Purchase Return Book ₹ 4,680
Sales Book ₹ 7,350 Sales return Book ₹ 590

Journal Proper

Use Journal Proper for:

* Opening entries	* Rectification entries
* Credit purchases/ sales of assets	* Goods given as charity/ loss

Q1: Pass journal proper entries for the following:

April 01: Opening balances – Cash ₹20,000; Stock ₹50,000; Creditors ₹30,000
April 10: Purchased furniture from M/s Modern Decor ₹25,000 on credit
April 15: Goods worth ₹2,000 given as charity
April 20: Purchased a computer for office use ₹40,000 from M/s Comp Tech on credit
April 25: Goods stolen – ₹5,000 (no insurance)

Solution: **Journal Proper**

Date	**Particulars**	**L.F.**	**Dr. (₹)**	**Cr. (₹)**
2026-04-01	Cash A/c		20,000	
	Stock A/c		50,000	
	To Creditors A/c			30,000
	To Capital A/c (Bal. fig.)			40,000
	(Being opening entry passed)			
2026-04-10	Furniture A/c		25,000	
	To M/s Modern Décor			25,000
	(Being furniture purchased on credit)			
2026-04-15	Charity A/c		20,000	
	To Purchases A/c			20,000
	(Being goods given as charity)			
2026-04-20	Computer A/c		40,000	
	To M/s Comp Tech			40,000
	(Being computer purchased on credit for office)			
2026-04-25	Loss by Theft A/c		50,000	
	To Purchases A/c			50,000
	(Being goods stolen, not insured)			

GST - GOODS AND SERVICES TAX

It is an indirect tax which replaces many other indirect taxes. It came into force on July 1, 2017.

Types of GST

CGST - Central goods & services tax. This applies to within the state transactions of goods & services.

SGST - State goods & services tax. This applies to within the state transactions of goods & services.

IGST - Integrated goods & service tax. This applies when transactions of goods & services take place between two states.

Tax Structure: ***GST has 4 Tiers of taxation -0. %, 5%, 18% and 40%***

Advantages of GST

- It is a Single Indirect Tax
- GST removes the traditional ‘tax-on-tax’ effect.
- GST reduces tax evasion.

- GST improves transparency and lower costs for goods and services.
- It is a simplified tax as it replaces many indirect taxes.

Characteristics of GST

- GST is an indirect tax.
- It is comprehensive as it covers wide range of product.
- Both central and state government collects and administer the GST.
- It focuses upon unified system of taxation.
- It is a destination-based tax as it collected from customer.

MCQs

1	Which of the following is not a type of GST? (a) IGST (b) CGST (c) SGST (d) KGST
2	When a firm maintains a cash book, it need not maintain ___. (a) Journal Proper (b) Purchases (journal) book (c) Sales (journal) book (d) Bank and cash account in the ledger
3	*Purchase returns book records* (a) Cash purchase (b) Credit sales (c) Return of sold goods (d)Return of goods purchased on credit
4	When a customer returns the goods to supplier, which document is sent to him (a) An invoice is sent to him (b) A Debit Note is sent to him *(c) A Credit Note is sent to him (d) None of the above.*
5	*Closing entries are recorded in* (a) Cash Book (b) Ledger (c) Journal Proper (d) Balance Sheet
6	*Purchase of fixed assets on credit is originally recorded in* (a) Purchases book (b) Ledger (c) Cash book (d) Journal proper
7	Goods purchased from Mr. Z, the payment for which is due after two months is recorded in (a) Purchase Book (b) Purchase Return Book (c) Journal Proper (d) None
8	The periodic total of sales return journal is posted to: (a) Sales A/c. (b) Goods A/c (c) Purchases return A/c. (d) Sales return A/c
9	Ramesh, a dealer of Television, sold an old furniture to Rafique for Rs. 3000 on credit. Identify the daybook to record this transaction. (a) Purchase daybook (b) Journal proper (c) Sales day book (d) Cash book
10	*The balance of sales daybook is ₹ 30,000. ₹5,000 were recovered from debtors. Then balance of daybook will be transferred by which amount?* (a) ₹ 25,000 (b) ₹ 30,000 (c) ₹ 20,000 (d) ₹ 35,000

Answer of MCQs

1	(d) KGST	2	(d) Bank & cash A/c in the ledger	3	(d)Return of goods purchased on credit	4	A Credit Note is sent to him	5	Journal Proper
6	(d)Journal proper	7	Purchase Book	8	Sales return A/c	9	b) Journal proper	10	(b) ₹30,000

Long Answer Type Questions

Q1. Explain any four Characteristics of GST.

Ans. Characteristics of Goods and Service Tax (GST) are as follows:

(a) GST is a Comprehensive Indirect Tax: GST is a comprehensive indirect tax which has replaced all indirect taxes levied by Centre and State Governments except Custom Duty, electricity, taxes on petroleum, taxes on alcoholic drinks and taxes levied by Local Bodies. All indirect taxes have been merged in a Single Tax i.e., GST.

(b) Uniform GST Rates: There are uniform rates of GST across all States and Union Territories.

(c) GST Paid is not a Cost: GST Paid on purchase of goods and services (termed as Input GST) is not a cost for the purchaser but is an Asset because it can be set off against GST Collected (termed as Output GST).

(d) GST is a Value Added Tax: GST is a value added tax because GST Paid is set off against GST Collected.

Q2. A Ltd., a manufacturing company, has now expanded its operations. Its sales are increasing rapidly and the demand for its products is also rising. It is expanding geographically to different states. Initially when the operations were small, its accountant Mr. Kumar maintained only a journal. But as the business expands and the number of transactions becomes large, it becomes cumbersome to journalise each transaction. So now a need is felt to prepare special journals or subsidiary books. So accordingly, Mr. Kumar instructs his subordinates to prepare various subsidiary books.

1. What will be the advantage of preparing these subsidiary books?
(a) Quick, efficient and accurate recording of business transactions
(b) Time consuming
(c) They prove economical and make division of labour possible in accounting work
(d) Both (a) and (c)

2. Sales book does not record cash sales of merchandise.
(a) True (b) False (c) Can't say (d) Partially true

3. If A Ltd. purchased furniture of 40,000 on credit; Mr. Kumar will record this transaction in
(a) Purchases book (b) Cash book (c) Journal proper (d) None of the above
Direction

Q3. Explain any six points depicting advantages of GST.

Ans. Objectives or Advantages of GST:

CHAPTER 5
BANK RECONCILIATION STATEMENT

MEANING OF BANK RECONCILIATION STATEMENT

Bank Reconciliation Statement is a statement prepared by the account holder on a particular date to reconcile the bank balance as per Cash Book with the balance as per Bank Statement or Bank Passbook showing entries that are reasons for the difference

NEED FOR AND IMPORTANCE OF BANK RECONCILIATION STATEMENT

Bank Reconciliation Statement is an important statement prepared because:

1. Errors, if any, committed in recording transactions either in the Cash Book or Bank Statement or Bank Passbook are identified.
2. Undue delay in the clearance of cheques deposited is known from the reconciliation
3. Regular reconciliation discourages embezzlements.
4. Reconciliation helps to verify the accuracy of entries recorded in the Cash Book and keep track of cheques, drafts, etc., that are deposited with the bank for collection.

MEANING OF CASH BOOK:

- It is a type of subsidiary book which records only cash and bank transactions in chronological order.
- All receipts in cash (including cheque) are recorded on the debit side, whereas all

payments in cash (including cheque) are recorded on the credit side of the cash book.

MEANING OF PASSBOOK:

- All the banks maintain an account of the account holder in their books. In the account, all the deposits by the account holder are recorded on the credit side and withdrawals on the debit side of the account.
- A copy of such account it is given to the account holder in the form of Statement or Passbook.
- Debit Balance in the Pass Book represents bank is to recover some amount from the account holder and credit balance means bank is to pay the account holder the required balance in the account.

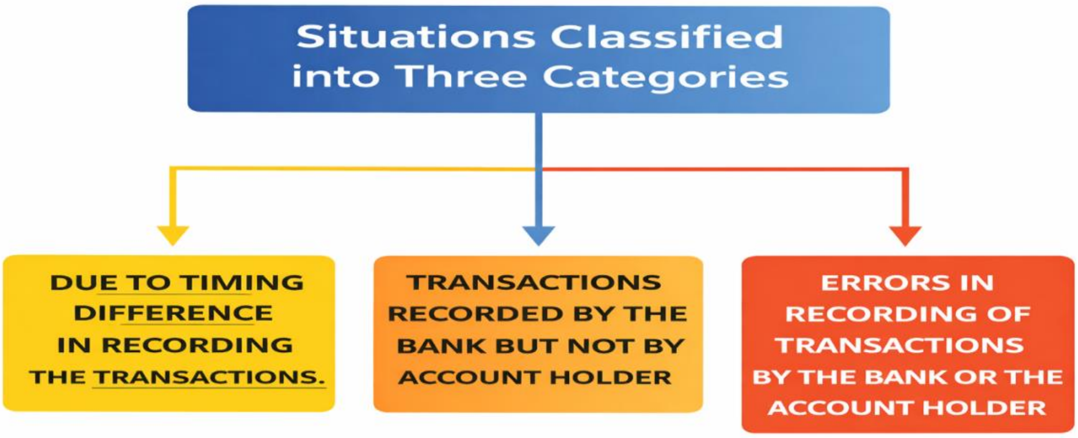
FORMAT OF BANK RECONCILIATION STATEMENT (SINGLE COLUMN)

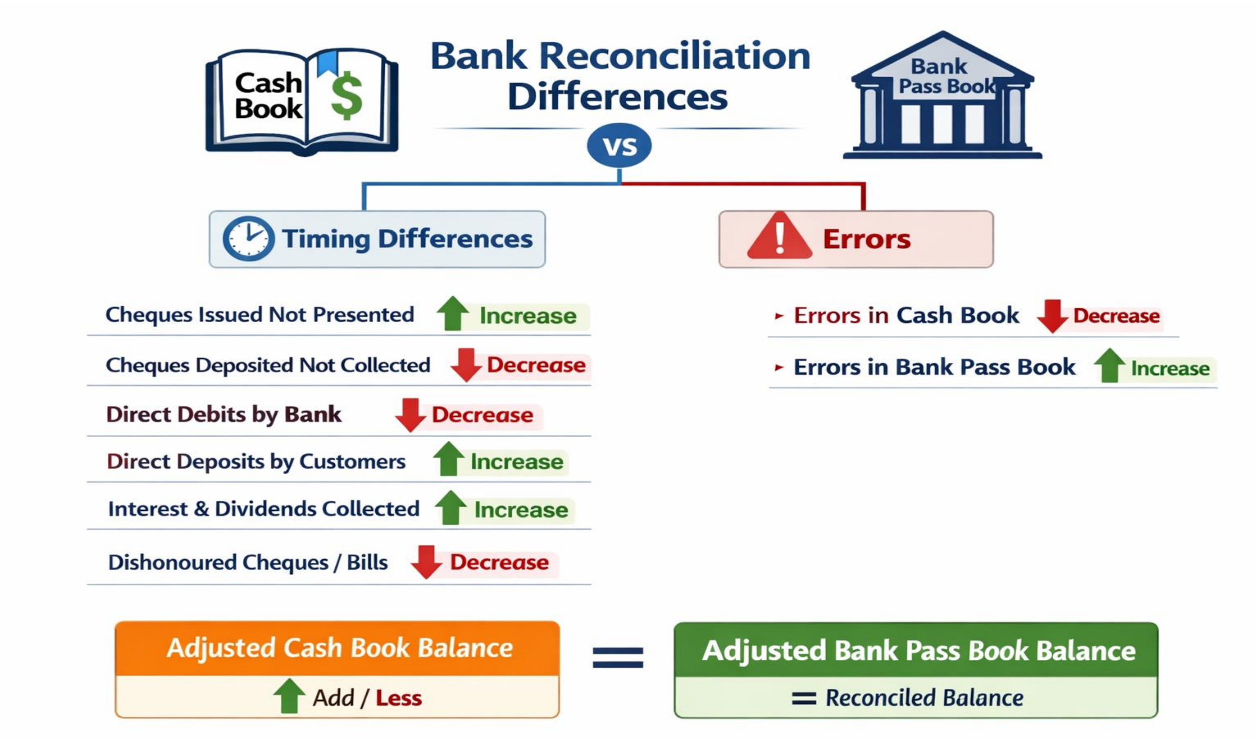
	Particulars	***Amount ₹***
Add:	**Balance as per cash book** **Cheques issued but not presented** **Interest credited by the bank**	**......** **......** **......**
		......
Less:	**Cheques deposited but not credited by the bank** **Bank charges not recorded in the cash book**	**......** **......**
	Balance as per the passbook	**xxxx**

(DOUBLE COLUMN)

	Particulars	**Amt ₹ (+)**	**Amt ₹(-)**
	Balance as per cash book	**......**	
	Cheques issued but not presented `	**......**	
	Interest credited by the bank	**......**	
	Cheque deposited but not credited by the bank		**......**
	Bank charges not recorded in the cash book		**......**
	Balance as per the passbook.		**xxxx**

REASONS FOR DIFFERENCE BETWEEN BANK BALANCE AS PER CASH BOOK & BANK STATEMENT OR BANK PASSBOOK





PREPARATION OF BANK RECONCILIATION STATEMENT

BANK RECONCILIATION STATEMENT SITUATIONS			
▼			
FAVOURABLE BALANCES (Positive Cash/Bank Assets)		UNFAVOURABLE / OVERDRAFT BALANCES (Bank Liabilities)	
▼	▼	▼	▼
SITUATION 1 Debit Balance as per Cash Book	**SITUATION 2 Credit Balance as per Passbook**	**SITUATION 3 Credit Balance as per Cash Book**	**SITUATION 4 Debit Balance as per Passbook**
▼	▼	▼	▼
STARTING POINT: Cash Book (Favourable)	**STARTING POINT: Passbook (Favourable)**	**STARTING POINT: Cash Book (Overdraft)**	**STARTING POINT: Passbook (Overdraft)**
▼	▼	▼	▼
ADJUSTMENT LOGIC: • Add items that increase Passbook • Less items that decrease Passbook *(Think from Bank's perspective)*	**ADJUSTMENT LOGIC:** • Add items that increase Cash Book • Less items that decrease Cash Book *(Think from Firm's perspective)*	**ADJUSTMENT LOGIC:** • Add items that decrease Passbook • Less items that increase Passbook *(Reverse of Situation 1)*	**ADJUSTMENT LOGIC:** • Add items that decrease Cash Book • Less items that increase Cash Book *(Reverse of Situation 2)*
▼	▼	▼	▼

TARGET BOOK: Balance as per Passbook (Credit / Favourable)	TARGET BOOK: Balance as per Cash Book (Debit / Favourable)	TARGET BOOK: Balance as per Passbook (Debit / Overdraft)	TARGET BOOK: Balance as per Cash Book (Credit / Overdraft)

THE FOLLOWING STEPS MAY BE INITIATED TO PREPARE THE BANK RECONCILIATION STATEMENT

A. DEALING WITH FAVOURABLE BALANCES:

i. The first item in the statement is generally the balance as shown by the cash book. Alternatively, the starting point can also be the balance as per passbook.

ii. The cheques deposited but not yet collected are deducted.

iii. All the cheques issued but not yet presented for payment, amounts directly deposited in the bank account are added.

iv. All the items of charges such as interest on overdraft, payment by bank on standing instructions and debited by the bank in the passbook but not entered in cash book, bills and cheques dishonoured etc. are deducted.

v. All the credits given by the bank such as interest on dividends collected, etc. and direct deposits in the bank are added.

vi. Adjustment for errors are made according to the principles of rectification of errors.

vii. Now the net balance shown by the statement should be same as shown by the passbook.

Illustration 1. From the following particulars of Mr. Satwik, prepare bank reconciliation statement as on March 31, 2026.

i. Bank balance as per cash book Rs.50,000.

ii. Cheques issued but not presented for payment RS. 6,000.

iii. The bank had directly collected dividend of Rs.8,000 and credited to bank account but was not entered in the cash book.

iv. Bank charges of Rs.400 were not entered in the cash book.

v. A cheques for Rs. 6,000 was deposited but not collected by the bank

SOL. Bank Reconciliation Statement of Mr. Satwik as on March 31, 2026

	Particulars	Plus (₹)	Minus (₹)
i.	Balance as per cash book	50,000	
ii.	Cheques issued but not presented for payment	6,000	
iii.	Dividends collected by the bank	8,000	
iv.	Cheque deposited but not credited by the bank		6,000
v.	Bank charges debited by the bank		400
vi.	Balance as per passbook.		57,600
		64,000	**64,000**

illustration 2. The bank passbook of M/s. Mitali & Co. showed a balance of Rs.45,000 on May 31, 2025.

I. Cheques issued before May 31, 2025, amounting to Rs. 25,940 had not been presented for encashment.

ii.Two cheques of Rs. 3,900 and Rs. 2,350 were deposited into the bank on May 31 but the bank gave credit for the same in June 2025.

iii. There was also a debit in the passbook of Rs. 2,500 in respect of a cheque dishonoured on 31.5.2025.

Prepare a bank reconciliation statement as on May 31, 2025.

SOL. Bank Reconciliation Statement of Mitali & Co as on May 31, 2025

	Particulars	(+) Amt ₹	(-) Amt ₹
i.	Balance as per passbook	45,000	
ii.	Cheques deposited but not collected by the bank (₹ 3,900 + ₹ 2,350)	6,250	
iii.	Cheque dishonored recorded only in passbook	2,500	
iv.	Cheques issued but not presented for payment		25,940
v.	Balance as per cash book		27,810
		53,750	**53,750**

A) DEALING WITH UNFAVOURABLE BALANCE(OVERDRAFT)

- **Definition of an Overdraft:** An overdraft occurs when a bank account balance becomes negative, meaning the business has effectively borrowed money from the bank.
- Cash **Book Representation:** In the business's cash book, an overdraft is reflected as a **credit balance** (unlike a positive balance, which is a debit balance).
- Bank **Statement Representation:** On the bank statement (passbook), an overdraft is indicated by a **debit balance**, often followed by **Dr.** or **OD**.
- Treatment **in Reconciliation:** When preparing a Bank Reconciliation Statement (BRS), an overdraft is treated as a **negative figure**.

Illustration 3. On March 31, 2025, Ramesh had on overdraft of ₹ 8,000 as shown by his cash book. Cheques amounting to ₹ 2,000 had been paid in by him but were not collected by the bank. He issued cheques of ₹ 800 which were not presented to the bank for payment. There was a debit in his passbook of ₹ 60 for interest and ₹100 for bank charges. Prepare bank reconciliation statement

SOLUTION:

Bank Reconciliation Statement of Ramesh as on April 01, 2025

	Particulars	**(+) Amt ₹**	**(-) Amt ₹**
1.	Overdraft as per cash book		8,000
2.	Cheques deposited but not yet collected/charged by the bank		2,000
3.	Bank charges		60
4.	Cheques issued but not presented for payment	800	100
5.	Balance as per bank passbook (overdraft)	9,360	
		10,160	10,160

Illustration 4. From the following particulars of Dhruv & Co. prepare a bank reconciliation statement on December 31, 2025.

	₹
I. Overdraft as per passbook	20,000
ii. Interest on overdraft	2,000
iii. Insurance Premium paid by the bank	200
iv. Cheque issued but not presented for payment	6,500

v. Cheque deposited but not yet cleared	6,000
VI. Wrongly debited by the bank	500

Solution:

Bank Reconciliation Statement of Dhruv & Co as on December 31, 2025

S.No.	Particulars	(+) Amt ₹	(-) Amt ₹
1.	Overdraft as per passbook		20,000
2.	Interest on overdraft	2,000	
3.	Insurance premium paid by the bank	200	
4.	Cheque issued but not presented for payment		6,500
5.	Cheques deposited but not yet cleared	6,000	
6.	Wrongly debited by the bank	500	
7.	**Balance as per the cash book (overdraft)**	**17,800**	

PRACTICE QUESTIONS:

MCQ 1 MARK QUESTIONS	
1.	A cheque of ₹5,000 issued by a firm has not yet been presented for payment. What will be its effect while preparing BRS starting from Cash Book Balance? A. Add ₹5,000 B. Deduct ₹5,000 C. No effect D. Double the amount
2.	Application-Based MCQ A cheque deposited into the bank for ₹4,000 has not yet been credited by the bank. While preparing BRS from Cash Book balance, the amount will be: A. Added B. Deducted C. Ignored D. Multiplied
3.	The bank collected interest on investments of ₹1,000 directly and credited the Passbook. The accountant has not yet recorded it in the Cash Book.

	What treatment should be made while preparing BRS from Cash Book balance? A. Deduct ₹1,000 B. Add ₹1,000 C. No effect D. Add twice the amount
4.	Assertion–Reason **Assertion (A):** Bank charges cause a difference between Cash Book and Pass Book balances. **Reason (R):** Bank charges are first recorded by the bank and later entered in the Cash Book. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.
5.	A customer directly deposits ₹8,000 into the firm's bank account. The firm has not yet recorded this transaction. What will be the impact on Passbook balance? A. Both A and R are true and R is the correct explanation of A. B. Decrease by ₹8,000 C. No change D. Increase by ₹16,000
6.	Cash Book shows a Favourable bank balance of ₹20,000. Cheque issued but not presented for payment = ₹3,000. Find Passbook Balance. A. ₹17,000 B. ₹20,000 C. ₹23,000 D. ₹26,000
7.	Which of the following is NOT a reason for disagreement between Cash Book and Passbook balances? A. Cheque issued but not presented B. Cheque deposited but not credited C. Difference in accounting principles D. Bank charges
8.	The Passbook shows a balance of ₹50,000. A cheque deposited for ₹7,000 is yet to be credited by the bank. The balance as per Cash Book should be: A. ₹43,000 B. ₹50,000 C. ₹57,000 D. ₹63,000
9.	Which of the following transactions decreases the Passbook balance without an immediate entry in the Cash Book? A. Interest credited by bank B. Direct deposit by customer C. Bank charges D. Cheque issued but not presented
10	A student observes that: • Current Passbook Balance = ₹30,000 • Interest credited by bank = ₹500 • Bank charges = ₹100 • Both transactions are not recorded in the Cash Book. What is the net effect on Cash Book Balance? A. Increase by ₹600 B. Increase by ₹400 C. Decrease by ₹400 D. No effect
ANSWERS OF MCQ	
1.	A. Add ₹5,000
2.	B. Deducted
3.	B. Add ₹1,000
4.	A. Both A and R are true, and R is the correct explanation of A.
5.	A. Both A and R are true, and R is the correct explanation of A.
6.	C. ₹23,000
7.	C. Difference in accounting principles

8.	C. ₹57,000
9.	C. Bank charges
10.	B. Increase by ₹400
LONG QUESTIONS 6 MARKS	
1.	From the following transactions and particulars provided by **M/s. Alpha Traders**, construct a comprehensive Bank Reconciliation Statement as of **March 31, 2026**. **(i) Bank** balance as per Cash Book (Debit / Favorable balance) showing a value of ₹45,000. **(ii) Cheques** issued to various trade creditors totaling ₹12,000 on March 28, 2026, out of which cheques worth ₹4,500 were presented and cleared by the bank in April 2026. **(iii)** Cheques amounting to ₹8,500 were deposited into the bank for collection on March 29, 2026, but the bank credited these entries in the ledger only on April 3, 2026. **(iv)** An institutional debtor directly transferred ₹6,200 via NEFT into the firm's bank account, an entry that appeared exclusively in the Passbook with no corresponding record in the Cash Book. **(v)** Bank charges for account maintenance amounting to ₹350 and a recurring insurance premium of ₹2,400 paid understanding instructions were debited by the bank but not recorded in the Cash Book. **(vi) A** Bill Receivable for ₹3,000, which had been previously discounted with the bank, was dishonored upon maturity. The bank debited the account along with notification, but no adjusting entry has been passed in the Cash Book.
2.	From the following particulars, prepare a Bank Reconciliation Statement for M/s. Shreyas Traders as of March 31, 2026 **(i)** Credit balance (favorable) as per Passbook on March 31, 2026.45,000 **(ii)**Cheques issued before March 31, 2026, but not yet presented for payment.12,500 **(iii)**Cheques deposited into the bank for collection but not cleared by the bank yet.18,200 **(iv)**A bills receivable for ₹5,000 were discounted with the bank. It was dishonored on March 30, 2026, but no entry was made in the Cash Book.5,000 **(v)**Insurance premium is directly paid by the bank under a standing order, not recorded in the Cash Book.2,400 **(vi)**Bank untraceably credited ₹1,500 in the Passbook for interest on investments, which was not recorded in the Cash Book.1,500 **(vii)**A cash discount allowed to a customer was wrongly recorded in the bank column of the Cash Book.800
3.	From the following particulars, prepare a Bank Reconciliation Statement for M/s. Alpha Traders as on 31st March 2026: **(i)** Bank Overdraft (unfavorable balance) as per Cash Book on 31st March 2026 was ₹ 45,000. **(ii)** Cheques issued before 31st March but not yet presented for payment amounted to ₹ 18,500. **(iii)** Cheques worth ₹ 22,000 were deposited into the bank for collection but were not cleared up or credited by the bank until 3rd April 2026. **(iv)** A customer directly deposited ₹ 12,000 into the firm's bank account, which was recorded only in the Passbook.

(v) Bank charges and interest on overdraft amounting to ₹ 1,800 were debited by the bank but not entered in the Cash Book.

(vi) A bill receivable for ₹ 6,000 previously discounted with the bank was dishonored, but no intimation was received by the firm before 31st March.

(vii) Insurance premium of ₹ 3,500 was paid directly by the bank under a standing instruction, which has not yet been recorded in the Cash Book.

ANSWER TO LONG QUESTIONS 6 MARKS

1.

BANK RECONCILITATION STATEMENT as on 31 March 2026

Particulars	+ Item	- Item
Balance as per Cash Book (Debit / Favorable)	45,000	
Cheques issued but not yet presented for payment (₹12,000 - ₹7,500)	4,500	
Cheques deposited but not yet cleared/credited by the		8,500
Direct deposit by a customer/debtor into the bank account	6,200	
Bank charges recorded exclusively in the Passbook		350
Insurance premium paid directly by the bank understanding instructions		2,400
Discounted bill receivable dishonored by the bank		3,000
Total	**55,700**	**55,700**

2.

BANK RECONCILITATION STATEMENT as on 31 March 2026

Particulars	+ Item	- Item
Balance as per Passbook (Credit / Favorable)	45,000	
Cheques issued but not yet presented for payment		12,500
Cheques deposited but not yet cleared	18,200	
Discounted Bill Receivable dishonored	5,000	
Insurance premium paid directly by the bank	2,400	
Interest on investments directly collected by the bank		1,500
Cash discount wrongly entered in the bank column	800	
Debit Balance (Favorable) as per Cash Book (71,400-14,000)		57,400
Total	**71,400**	**71,400**

3.

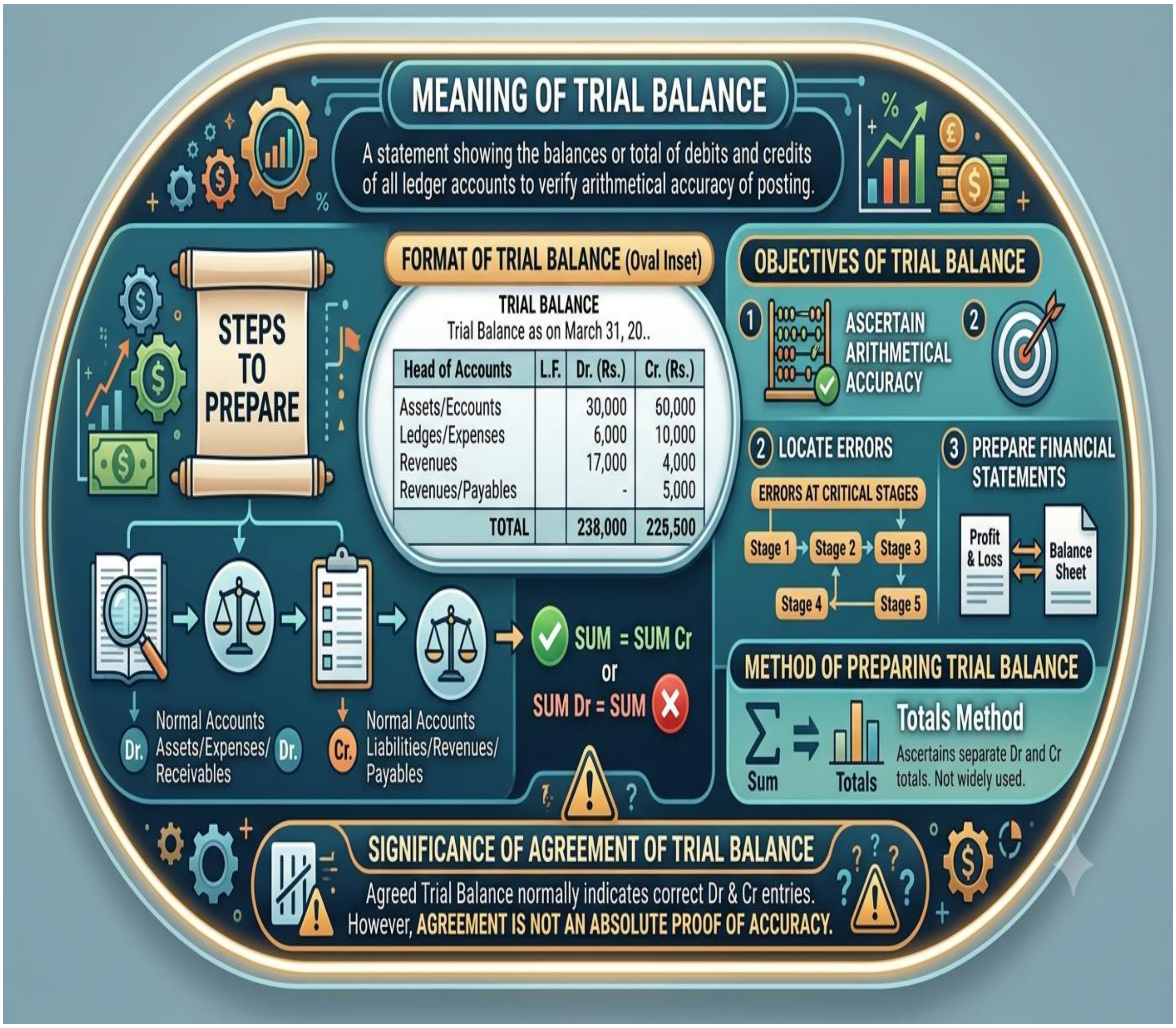
BANK RECONCILITATION STATEMENT as on 31 March 2026

Particulars	+ Item	- Item
Bank Overdraft (unfavorable balance) as per Cash Book		45,000
Cheques issued before 31st March but not yet presented for payment	18,500	
Cheques deposited into the bank but not cleared/credited until 3rd April		22,000
Direct deposit by a customer into the bank account, recorded only in Passbook	12,000	
Bank charges and interest on overdraft debited by the Bank		1,800
Bill receivable discounted with bank now dishonored, no prior intimation		6,000
Insurance premium paid directly by the bank understanding instructions		3,500
Total Column Progress / Balances	**30,500**	**78,300**
Bank Overdraft (unfavorable balance) as per Passbook		**47,800**

CHAPTER 5
RECTIFICATION OF ERRORS

MEANING OF TRIAL BALANCE:

A trial balance is a statement showing the balances, or total of debits and credits, of all the accounts in the ledger with a view to verify the arithmetical accuracy of posting into the ledger accounts.



FORMAT OF TRIAL BALANCE

TRIAL BALANCE As on March 31, 20……..

Head of Accounts	L.F.	Dr. (₹)	Dr. (₹)
TOTAL			

STEPS TO PREPARE TRIAL BALANCE:

- Ascertain the balances of each account in the ledger.

- List each account and place its balance in the debit or credit column, as the case may be. (If an account has a zero balance, it may be included in the trial balance with zero in the column for its normal balance).
- Compute the total of debit balances column.
- Compute the total of the credit balances column.
- Verify that the sum of the debit balances equals the sum of credit balances. If they do not tally, it indicates that there are some errors. So, one must check the correctness of the balances of all accounts. It may be noted that all assets' expenses and receivables account shall have debit balances whereas all liabilities, revenues and payables accounts shall have credit balance.

METHOD OF PREPARING TRIAL BALANCE

Balance method:

Under this method, balances of each side in the ledger (debit and credit) is ascertained separately & shown in the trial balance in the respective columns.

OBJECTIVES OF TRIAL BALANCE

The trial balance is prepared to fulfil the following objectives:

1. **Ascertain the arithmetical accuracy of the ledger accounts:**

The primary objective of preparing a trial balance is to verify whether all debit and credit entries have been properly recorded in the ledger and that all individual accounts are correctly balanced. It serves as an executive summary of the ledger, acting as a structured list containing all ledger accounts and their respective final balances.

2. Help in locating errors: When a trial balance fails to tally (debit and credit totals are unequal), it confirms that at least one accounting error has occurred. Errors happen at one of five critical stages:

- Stage 1: Totalling of subsidiary books.
- Stage 2: Posting journal entries into the ledger.
- Stage 3: Calculating individual account balances.
- Stage 4: Carrying account balances over to the trial balance.
- Stage 5: Totalling the final trial balance columns.

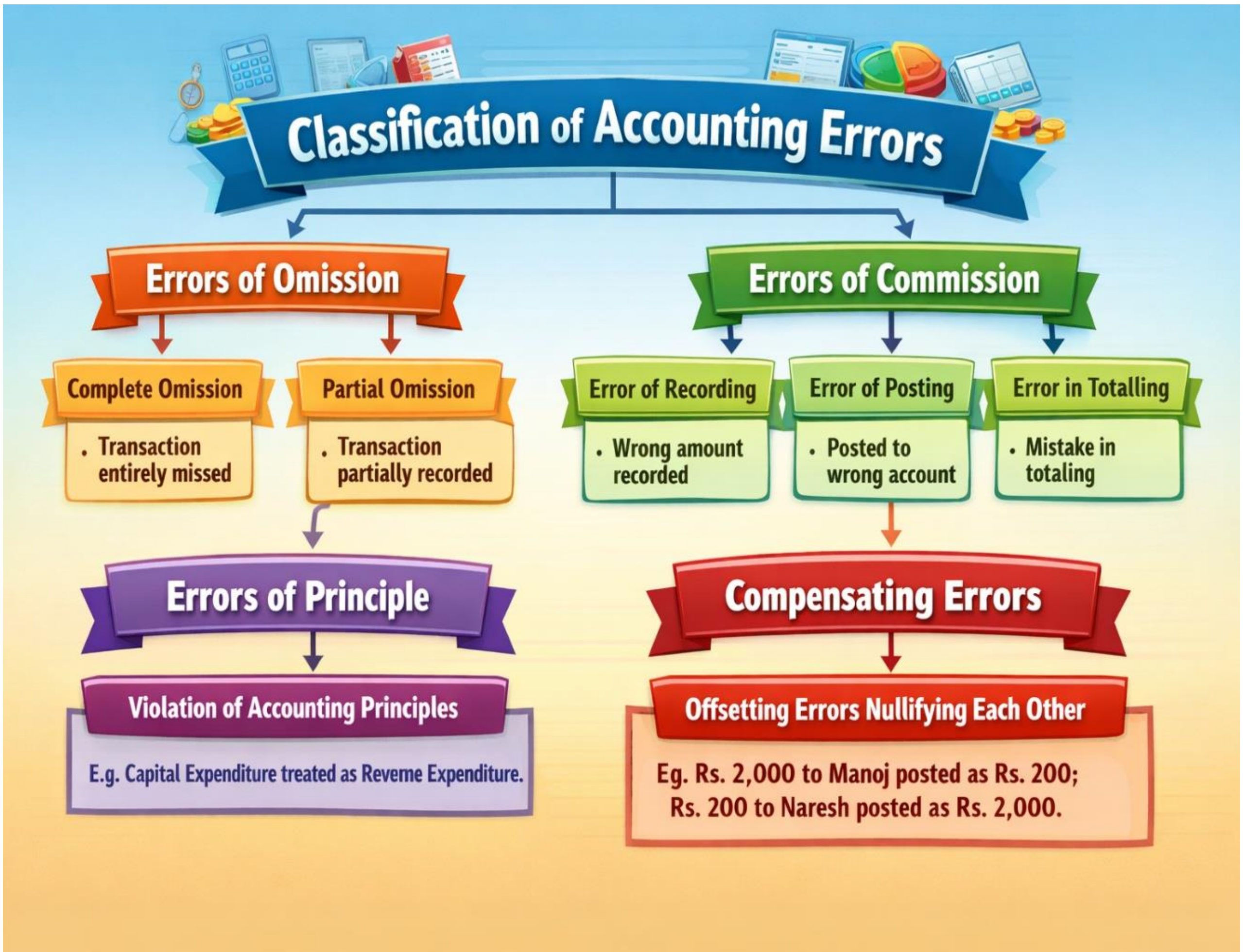
3. To help in the preparation of the financial statements. (Profit & Loss account and Balance Sheet): The trial balance serves as the vital bridging link between primary accounting records and the final preparation of financial statements. Once a trial balance is prepared, accountants do not need to look back at or refer to individual ledger accounts to compile financial statements. Having a tallied trial balance is recognized as the essential first step in initiating the final financial reporting process.

SIGNIFICANCE OF AGREEMENT OF TRIAL BALANCE

It is important for an accountant that the trial balance should tally. Normally a tallied trial balance means that both the debit and the credit entries have been made correctly for each transaction. However, the agreement of trial balance is not absolute proof of accuracy of accounting records.

CLASSIFICATION OF ERRORS:

1. Errors of Omission:
    A. Complete Omission B. Partial Omission:
2. Errors of Commission
3.Errors of principle:
4. Compensating errors:



ERRORS ARE OF FOLLOWING TWO CATEGORIES:

RECTIFICATION OF ERRORS

Errors, whether affecting the Trial Balance or not, should be detected and rectified.The procedure followed to rectify the errors committed and to set right accounting records is called **Rectification of Errors.**

RECTIFICATION OF ERRORS IS DISCUSSED BELOW UNDER THE FOLLOWING HEADINGS:

1. Rectification of Errors before Preparation of the Trial Balance

i) Errors which affect only one account or one-sided errors

One-sided errors are those errors which affect the agreement of the trial balance. These errors affect only one account, and one side i.e. debit or the credit side of the account. If these errors are identified before the preparation of the trial balance, they are rectified by writing an explanatory note. Errors are rectified by debiting the relevant account for short debit or excess credit and by crediting the account for short credit or excess debit. **Examples of errors which affect one account are casting, carry forward, posting, balancing and omitting to show an account in the trial balance.**

Debit A/c = Short Debit / Excess
Credit A/c = Short Credit /Excess Debit

- **Rectification of errors caused by casting and carry forward**

While carrying over the balance from one page to the next page, the error of carry forward or casting arises. This error can be rectified by writing an explanation and by passing an appropriate entry.

For example, individual entries are correctly recorded in a sales return book but the totaling or casting of the sales return book is undercast or overcast by ₹20,000. This error can be rectified by entering the amount in the sales return account as

“To Undercasting of Sales Return Book ₹20,000.”

KEY POINTS TO REMEMBER

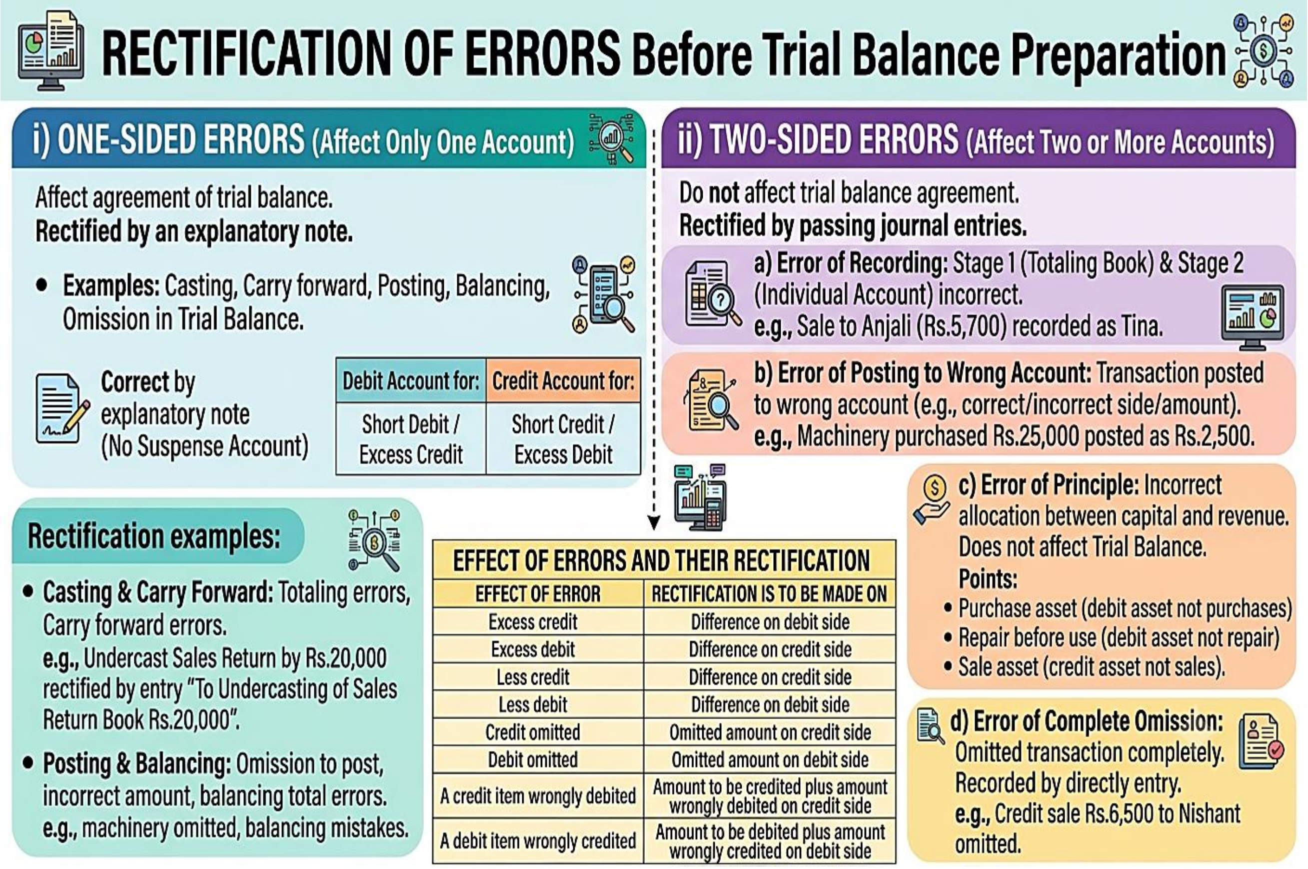
* **Errors are corrected before the preparation of the trial balance. Hence, the correction is made without the help of suspense account.**

* **One-sided error can be rectified by passing a journal entry with the help of suspense account.**

EFFECT OF ERRORS AND THEIR RECTIFICATION

EFFECT OF ERROR	RECTIFICATION IS TO BE MADE ON
Excess credit	Difference on the debit side
Excess debit	Difference on the credit side
Less credit	Difference on the credit side
Less debit	Difference on the debit side

Credit omitted	Omitted amount on the credit side
Debit omitted	Omitted amount on the debit side
A credit item wrongly debited in the account	Amount to be credited plus amount wrongly debited on the credit side
A debit item wrongly credited in the account	Amount to be debited plus amount wrongly credited on the debit side



RECTIFICATION OF ERRORS Before Trial Balance Preparation

i) ONE-SIDED ERRORS (Affect Only One Account)

Affect agreement of trial balance.
Rectified by an explanatory note.

- **Examples:** Casting, Carry forward, Posting, Balancing, Omission in Trial Balance.

Correct by explanatory note (No Suspense Account)

Debit Account for:	Credit Account for:
Short Debit / Excess Credit	Short Credit / Excess Debit

Rectification examples:

- **Casting & Carry Forward:** Totaling errors, Carry forward errors. **e.g.,** Undercast Sales Return by Rs.20,000 rectified by entry "To Undercasting of Sales Return Book Rs.20,000".
- **Posting & Balancing:** Omission to post, incorrect amount, balancing total errors. **e.g.,** machinery omitted, balancing mistakes.

ii) TWO-SIDED ERRORS (Affect Two or More Accounts)

Do **not** affect trial balance agreement.
Rectified by passing journal entries.

a) Error of Recording: Stage 1 (Totaling Book) & Stage 2 (Individual Account) incorrect. **e.g.,** Sale to Anjali (Rs.5,700) recorded as Tina.

b) Error of Posting to Wrong Account: Transaction posted to wrong account (e.g., correct/incorrect side/amount). **e.g.,** Machinery purchased Rs.25,000 posted as Rs.2,500.

c) Error of Principle: Incorrect allocation between capital and revenue. Does not affect Trial Balance.
Points:
- Purchase asset (debit asset not purchases)
- Repair before use (debit asset not repair)
- Sale asset (credit asset not sales).

d) Error of Complete Omission: Omitted transaction completely. Recorded by directly entry. **e.g.,** Credit sale Rs.6,500 to Nishant omitted.

EFFECT OF ERRORS AND THEIR RECTIFICATION

EFFECT OF ERROR	RECTIFICATION IS TO BE MADE ON
Excess credit	Difference on debit side
Excess debit	Difference on credit side
Less credit	Difference on credit side
Less debit	Difference on debit side
Credit omitted	Omitted amount on credit side
Debit omitted	Omitted amount on debit side
A credit item wrongly debited	Amount to be credited plus amount wrongly debited on credit side
A debit item wrongly credited	Amount to be debited plus amount wrongly credited on debit side

2.) Rectification of Errors after Preparation of the Trial Balance but before Preparation of the Final Accounts:

i) Errors not affecting the trial balance or two-sided errors are rectified by passing journal entry without creating the suspense account.

ii) Errors affecting only one account or one-sided errors are rectified by

- Firstly, by placing the difference in the trial balance under the suspense account.
- Secondly, by passing the journal entry debiting or crediting the suspense account.

SUSPENSE A/C

Suspense Account is the account to which the amount being the difference in trial balance is temporarily placed. This account is created to avoid any delay in creation of the financial statements. If the debit column is less than the credit column, then the suspense account is debited and if the credit column is less than the debit column, then the suspense account is credited. **SUSPENSE A/C IS USED FOR RECTIFYING ALL ONE-SIDED ERRORS.**

For example, purchases done from Rohan worth ₹10,000 recorded as ₹1,000. Here, the transaction is recorded for ₹1,000 instead of ₹10,000. This is an error of wrong recording of amount. Purchases A/c requires a further debit of ₹ 9,000 and Rohan's A/c requires a further credit of ₹ 9,000. **The rectifying entry is:**

Purchases A/c	Dr.	9,000	
To Rohan's A/c			9,000

(Being goods purchased from Rohan of ₹ 10,000 wrongly recorded as ₹1,000, now rectified)

For example, sales book totalled as ₹ 5,000 instead of ₹ 50,000. Here, the total sales of the book are short by ₹ 45,000. This error can be rectified by any of the following two:

- If the error is located before preparing trial balance, then ₹ 45,000 should be recorded in the credit side of sales account.
- If an error is located after preparing the trial balance, then assuming that a suspense account is opened, the following entry needs to be recorded.

Rectified Entry

Suspense A/c	Dr.	45,000	
To Sales A/c			45,000

(Being sales book wrongly totalled as ₹5,000 instead of ₹50,000)

PRACTICE QUESTIONS:

MCQ 1 MARK	
S.No	**QUESTIONS**
1.	The preparation of a Trial Balance helps primarily in achieving which of the following objectives? (A) To ascertain the true net profit or loss of the business enterprise for an accounting period. (B) To verify the arithmetical accuracy of the ledger postings and double-entry system. (C) To provide conclusive evidence that no errors or frauds exist in the books of A/c. (D) To determine the exact market valuation of assets and liabilities of the business.
2.	Wages paid for the installation of an office computer were debited to the Wages Account. Which type of accounting error does this transaction represent? (A) Error of Commission (B) Error of Omission (C) Error of Principle (D) Compensating Error
3.	Goods worth ₹4,800 returned by a customer, Amit, were correctly recorded in the Sales Return Book but omitted from being posted to Amit's ledger A/c. What will be the direct impact of this error on the Trial Balance? (A) The debit total will exceed the credit total by ₹4,800. (B) The credit total will exceed the debit total by ₹4,800. (C) The Trial Balance totals will remain matched and balanced. (D) The debit total will exceed the credit total by ₹9,600.
4.	A credit purchase of machinery from dynamic traders for ₹12,000 was completely recorded in the Purchase Book instead of the Journal Proper. What is appropriate for correcting journal entries? (A) Debit Machinery A/c ₹12,000; Credit Dynamic Traders A/c ₹12,000 (B) Debit Machinery A/c ₹12,000; Credit Purchase A/c ₹12,000

	(C) Debit Purchase A/c ₹12,000; Credit Machinery A/c ₹12,000 (D) Debit Machinery A/c ₹12,000; Credit Suspense A/c ₹12,000
5.	Which of the following errors is classified as a 'Double-sided Error' that can be resolved completely without affecting or utilizing the Suspense A/c? (A) Goods sold to Rohit for ₹3,000 posted to Mohit's Account. (B) Sales Book total cast short under by ₹1,500. (C) A cash credit payment of ₹900 to a vendor omitted from ledger posting. (D) An amount of ₹600 received from interest completely unposted from the cash book.
6.	A company's Suspense Account has a debit balance of ₹1,200. After tracing errors, it is found that a credit sale of ₹600 to Neha was entirely omitted from the books. When this error is fully rectified, what will be the final balance of the Suspense Account? (A) Nil (Fully balanced) (B) Debit Balance of ₹1,200 (C) Debit Balance of ₹600 (D) Credit Balance of ₹600
7.	Which of the following errors will cause the total of the Trial Balance to disagree (not match)? (A) An amount of ₹5,000 paid for machinery completely omitted from being recorded in the journal. (B) A credit sale of ₹2,500 to Rohan recorded in the sales book as ₹5,200. (C) A purchase return of ₹1,200 posted twice to the creditor's ledger account but correctly entered in the return book. (D) Wages paid for installation of a new machine debited to the Wages Account.
8.	A tallied Trial Balance will not reveal. (A) Error of Principle (B) Compensating Error (C) Error of Complete (D) Omission All of these
9.	Preparation of a Trial Balance is (A) Compulsory (B) Optional (C) Compulsory or Optional (D) None of these
10.	An amount of ₹750 received from a debtor, Mr. Verma, was correctly entered in the Cash Book but posted to his ledger account as ₹570. If this single-sided error is rectified AFTER the closing of accounts and preparation of the Trial Balance, what entry must be passed? (A) Debit Mr. Verma A/c ₹180; Credit Suspense A/c ₹180 (B) Debit Suspense A/c ₹180; Credit Mr. Verma A/c ₹180 (C) Debit Cash A/c ₹180; Credit Mr. Verma A/c ₹180 (D) No journal entry is required; a simple statement correction in the ledger suffices
	ANSWERS OF MCQ
1.	**(B)** To verify the arithmetical accuracy of the ledger postings and double-entry system.
2.	**(C)** Error of Principle
3.	**(A)** The debit total will exceed the credit total by ₹4,800.
4.	**(B)** Debit Machinery A/c ₹12,000; Credit Purchase A/c ₹12,000
5.	**(A)** Goods sold to Rohit for ₹3,000 posted to Mohit's Account.
6.	**(B)** Debit Balance of ₹1,200
7.	**(C)** A purchase return of ₹1,200 posted twice to the creditor's ledger account but correctly entered in the return book.

8. **(D)** Omission All of these

9. **(B)** Optional

10. **(B)** Debit Suspense A/c ₹180; Credit Mr. Verma A/c ₹180

SHORT QUESTIONS OF 4 MARKS

1. From the following ledger balances extracted from the books of M/s Sharda Traders as on 31st March 2026, prepare a correct Trial Balance. Identify the nature of each balance and arrange them systematically under the Debit & Credit columns.

Heads of Accounts	Amt (₹)	Heads of Accounts	Amt (₹)
Capital	1,20,000	Sales	1,50,000
Purchases	85,000	Return Inwards	4,000
Opening Stock	25,000	Discount Allowed	1,500
Sundry Debtors	42,000	Sundry Creditors	28,000
Plant & Machinery	60,000	Salaries & Wages	18,000
Bank Overdraft	12,500	Rent Received	3,500
Cash in Hand	4,500	Carriage Inwards	2,500

2. An inexperienced accountant compiled the following Trial Balance for M/s Radhika Enterprises as on 31st December 2025. The Trial Balance totals do not match, and many items are incorrectly categorized based on accounting rules. Critically examine the ledger accounts, **identify the error &** prepare a redrafted Correct Trial Balance.

Heads of Accounts	Dr. Bal. (₹)	Cr. Bal. (₹)
Stock (1st Jan, 2025)	16,000	—
Purchases	—	72,000
Sales	1,15,000	—
Sundry Debtors	—	34,000
Sundry Creditors	22,500	—
Bad Debts Written off	—	1,800
Returns Outward	2,200	—
Furniture & Fixtures	—	15,000
Insurance Premium	2,400	—
Loan from Bank	25,000	—
Capital Account	—	65,000
Wages & Salaries	14,100	—
TOTAL	**1,82,200**	**1,87,800**

ANSWERS OF SHORT QUESTIONS

1

S.No.	Heads of Accounts	Debit Balance (₹)	Credit Balance (₹)

1	Capital Account	—	1,20,000
2	Sales Account	—	1,50,000
3	Purchases Account	85,000	—
4	Return Inwards Account	4,000	—
5	Opening Stock	25,000	—
6	Discount Allowed	1,500	—
7	Sundry Debtors	42,000	—
8	Sundry Creditors	—	28,000
9	Plant & Machinery	60,000	—
10	Salaries & Wages	18,000	—
11	Bank Overdraft	—	12,500
12	Rent Received	—	3,500
13	Cash in Hand	4,500	—
14	Carriage Inwards	2,500	—
	TOTAL	**2,42,500**	**2,42,500**

2

S.No.	Heads of Accounts	Correct Debit (₹)	Correct Credit (₹)
1	Stock (Opening)	16,000	—
2	Purchases	72,000	—
3	Sales	—	1,15,000
4	Sundry Debtors	34,000	—
5	Sundry Creditors	—	22,500
6	Bad Debts Written off	1,800	—
7	Returns Outward	—	2,200
8	Furniture & Fixtures	15,000	—
9	Insurance Premium	2,400	—
10	Loan from Bank	—	25,000
11	Capital Account	—	65,000
12	Wages & Salaries	14,100	—
	TOTAL	**1,55,300**	**1,55,300**

LONG QUESTIONS 6 MARKS

1. The bookkeeper of M/s Sharda & Co. found the following errors in the account books before the preparation of the Trial Balance. Rectify these errors by passing appropriate Journal entries or explanatory statements as required under this stage.

(1) A purchase of goods from Rohan worth ₹8,500 was correctly recorded in the Purchases Book but omitted to be posted to Rohan's Personal Account.

(2) The total of the Sales Return Book was undercast by ₹1,200 for the month of March**.**

(3) Goods returned to Rohit worth ₹3,400 were recorded accurately in the Purchase Return Book but posted to the debit of his account as ₹4,300.

(4) An amount of ₹6,000 received from Varun, a debtor, was correctly credited to the Cash Book but posted to the debit side of Varun's Account.

(5) A credit sale of old furniture to Ms. Priya for ₹4,500 was fully omitted from being recorded in the books.

(6) The Purchases Book was overcast by ₹2,500.

2. Rectify the following errors:

Credit purchases from Raghu ₹20,000

(1) Were recorded as ₹10,000. **(2)** Were posted to his account as ₹2,000.

(3) Were posted to Raghav's account. **(4)** Were posted to the debit of Raghu's A/c.

(5) Were posted to the debit of Raghav. **(6)** Were recorded through sales book.

3. Trial balance of Anant Ram did not agree. It showed an excess credit of Rs. 16,000. He put the difference to suspense account. Subsequently the following errors were located:

(1) Cash received from Mohit ₹4,000 was posted to Mahesh as ₹1,000.

(2) Cheque for ₹5,800 received from Arnav in full settlement of his account of ₹6,000, was dishonoured. No entry was passed in the books on dishonour of the cheque.

(3) ₹800 received from Khanna, whose account had previously been written off as bad, was credited to his account.

(4) Credit sales to Manav for ₹5,000 was recorded through the purchases book as ₹2,000.

(5) Purchases book undercast by ₹1,000.

(6) Repairs on machinery ₹1,600 wrongly debited to Machinery A/c as ₹ 1,000.

ANSWER - LONG QUESTIONS

1. The Trial Balance of M/s Zenith Electronics did not agree, showing an excess debit of ₹16,300. The accountant placed the difference into a Suspense A/c & later identified the following errors. Pass the necessary rectifying Journal entries and prepare the Suspense A/c to close it.

(1) Goods sold to Amit on credit for ₹14,000 were passed through the Purchases Book. However, Amit's Personal A/c was correctly debited.

(2) A credit purchase of plant and machinery for ₹45,000 from Alpha Traders was recorded in the Purchases Book as ₹54,000.

(3) Cash received from Vivek, a customer, amounting to ₹ 7,800, was posted to the credit of Vinay's A/c as ₹8,700.

(4) The Sales Book total for a week was carried forward as ₹21,500 instead of ₹12,500.

(5) An amount of ₹3,500 spent on the repair & overhauling of second-hand machinery purchased was debited to the Repairs and Maintenance A/c.

(6) A check of ₹5,200 received from Mohit was dishonored and debited to the Allowance and Discount A/c.

2.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1	Purchases A/c Dr.		10,000	
	To Raghu's A/c			10,000
	(Credit purchases from Raghu recorded as ₹10,000 instead of ₹20,000, now rectified)			
2	Suspense A/c Dr.		18,000	
	To Raghu's A/c			18,000
	(Credit purchases from Raghu ₹20,000 posted to his account as ₹2,000)			
3	Raghav's A/c Dr.		20,000	
	To Raghu's A/c			20,000
	(Credit purchases from Raghu wrongly credited to Raghav, now rectified)			
4	Suspense A/c Dr.		40,000	
	To Raghu's A/c			40,000
	(Credit purchases from Raghu ₹ 20,000 wrongly posted to the debit of his account, now rectified)			
5	Suspense A/c Dr.		40,000	
	To Raghav's A/c			20,000
	To Raghu's A/c			20,000
	(Credited purchases from Raghu ₹ 20,000 wrongly debited to Raghav., now rectified)			
6	Sales A/C Dr.		20,000	
	Purchases A/c Dr.		20,000	
	To Raghu's A/c			40,000
	(Credit purchase from wrongly recorded through sales book, now rectified)			

3.

JOURNAL

DATE	PARTICULARS	L.F	Dr. (₹)	Cr. (₹)
1	Mahesh A/c Dr. Suspense A/c Dr. To Mohit's A/c (Cash received from Mohit ₹4,000 wrongly posted to Mahesh as ₹1,000, now rectified)		1,000 3,000	 4,000
2	Arnav's A/c Dr. To Bank A/c To Discount Allowed A/c (Cheque received from Arnav for ₹5,800 in full settlement of his account of ₹ 6,000, dishonoured but no entry made in books, now rectified)		6,000	 5,800 200
3	Khanna's A/c Dr. To Bad debts recovered A/c (Bad debts recovered wrongly credited to Khanna's account, now rectified)		800	 800
4	Manav's A/c Dr. To Purchases A/c To sales A/c (Credit sales to Manav ₹5,000 wrongly recorded through purchases book as ₹2,000, now rectified)		7,000	 2,000 5,000
5	Purchases A/c Dr. To Suspense A/c (Purchases book undercast by ₹1,000)		1,000	 1,000
6	Repairs A/c Dr. To Machinery A/c To Suspense A/c (Repairs on machinery ₹ 1,600 wrongly debited to machinery account as ₹1,000 now rectified)		1,600	 1,000 600

Dr. **SUSPENSE ACCOUNT** **Cr.**

Date	Particulars	Amt	Date	Particulars	Amt
	To Difference as per trial bal. To Mohit	16,000 3,000		By Purchases By Repairs By Balance c/d	1,000 600 17,400
		19,000			**19,000**

CHAPTER 7
DEPRECIATION, PROVISION AND RESERVES

MEANING OF DEPRECIATION:

Depreciation may be described as a permanent, continuing and gradual shrinkage in the book value of fixed assets. It is based on the cost of assets consumed in a business and not on its market value.

"Depreciation" means decline in the value of a fixed assets due to use, passage of time or obsolescence. In other words, if a business enterprise procures a machine and uses it in production process then the value of machine declines with its usage. Even if the machine is not used in production process, we cannot expect it to realise the same sales price due to the passage of time or arrival of a new model (obsolescence). It implies that fixed assets are subject to decline in value and this decline is technically referred to as depreciation.

FEATURES OF DEPRECIATION

✓ Depreciation decreases the book value of fixed assets. ✓ It occurs due to wear and tear, passage of time, and obsolescence. ✓ It is charged continuously every year. ✓ It is an expense deducted before calculating taxable profit. ✓ It is a non-cash expense and does not involve cash outflow	Remember the word **"DOCEN"**: **D** – Decline in value **O** – Obsolescence **C** – Continuing process **E** – Expired cost **N** – Non-cash expense

NEED FOR DEPRECIATION:

NEED FOR DEPRECIATION	PURPOSE
Matching of Costs and Revenue	Correct calculation of profit
Consideration of Tax	Reduces taxable profit
True and Fair Financial Position	Shows correct asset value
Compliance with Law	Fulfils legal and accounting requirements

CAUSES OF DEPRECIATION:

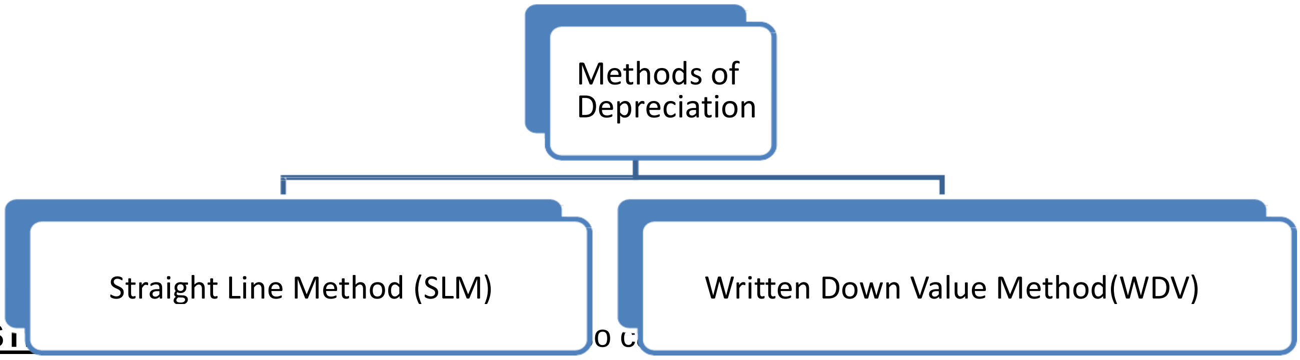
CAUSE	MEANING	EXAMPLE
Wear and tear	Loss of value due to use or passage of time	Machinery becomes old after regular use
Expiration of Legal rights	Legal rights expire after a fixed period	Patent expires after its legal life
Obsolescence	Asset becomes outdated due to modern technology	Old computer replaced by advanced model
Abnormal Factors	Sudden decline in value due to unforeseen events	Fire, flood, earthquake damage assets

DEPRECIATION AND OTHER SIMILAR TERMS: Depletion and Amortisation

(i) **Depletion**: The term depletion is used in the context of extraction of natural resources like mines, quarries, etc. that reduces the availability of the quantity of the material or asset.

(ii) **Amortisation**: Amortisation refers to writing-off the cost of intangible assets like patents, copyright, trademarks, franchises, goodwill which have utility for a specified period of time.

METHODS OF DEPRECIATION



S o c amount of depreciation remains constant from year to year over the useful life of the asset. According to this method, a fixed and an equal amount is charged as depreciation in every accounting period during the lifetime of an asset.

The depreciation amount to be provided under this method is computed by using the following formula:

$$\textbf{Depreciation} = \frac{\textbf{Cost of asset - Estimated net residual value}}{\textbf{Estimated useful life of the Asset}}$$

WRITTEN DOWN VALUE METHOD (WDV): Under this method, depreciation is charged on the book value of the asset. Since book value keeps on reducing by the annual charge of depreciation, it is also known as 'reducing balance method'.

Difference between Straight line method and written down value method:

Basis	Straight line Method	Written Down Value Method
Basis of charging depreciation	Original cost	Book value
Annual depreciation charge	Fixed	Decline year after year
Complexity	Easy to calculate and understand.	Comparatively more difficult to calculate
Recognition by law	Not Recognised	Recognised
Suitability	It is suitable for assets in which repair charges are less, the possibility of and obsolescence is low	It is suitable for assets, which are affected by technological changes and require more repair expenses with the passage of time

Advanges of Straight line method

- Simple and Easy to Understand
- Simple Record Keeping
- Easy Comparison of Profits
- Equal Charge Every Year

Limitations of Straight line method

- Increasing Repair Costs Not Considered
- Not suitsble for Rapidly Obsolete Assets
- Ignores Actual Usage of Asset
- Increasing repair cost not considered

Advantages of Written down value method

- Realistic Depreciation
- Higher Depreciation in Early Years
- Suitable for Machinery and Vehicles
- Balances Repair Costs

Limitations of Written down value method

- Complex Calculations
- Difficult Profit Comparison
- Asset Never Becomes Zero
- Unequal Depreciation Charges

METHODS OF RECORDING DEPRECIATION:

***Charging to Asset Account:** According to this arrangement, depreciation is deducted from the depreciable cost of the asset (credited to the asset account) and charged (or debited) to profit and loss account.

* **Creating provision for depreciation/accumulated depreciation account:** This method is designed to accumulate the depreciation provided on an asset in a separate account called 'Provision for Depreciation' or 'Accumulated Depreciation' account. By such accumulation of depreciation, the asset account need not be disturbed in any way, and it continues to be shown at its original cost over the successive years of its useful life.

Recording of Depreciation–

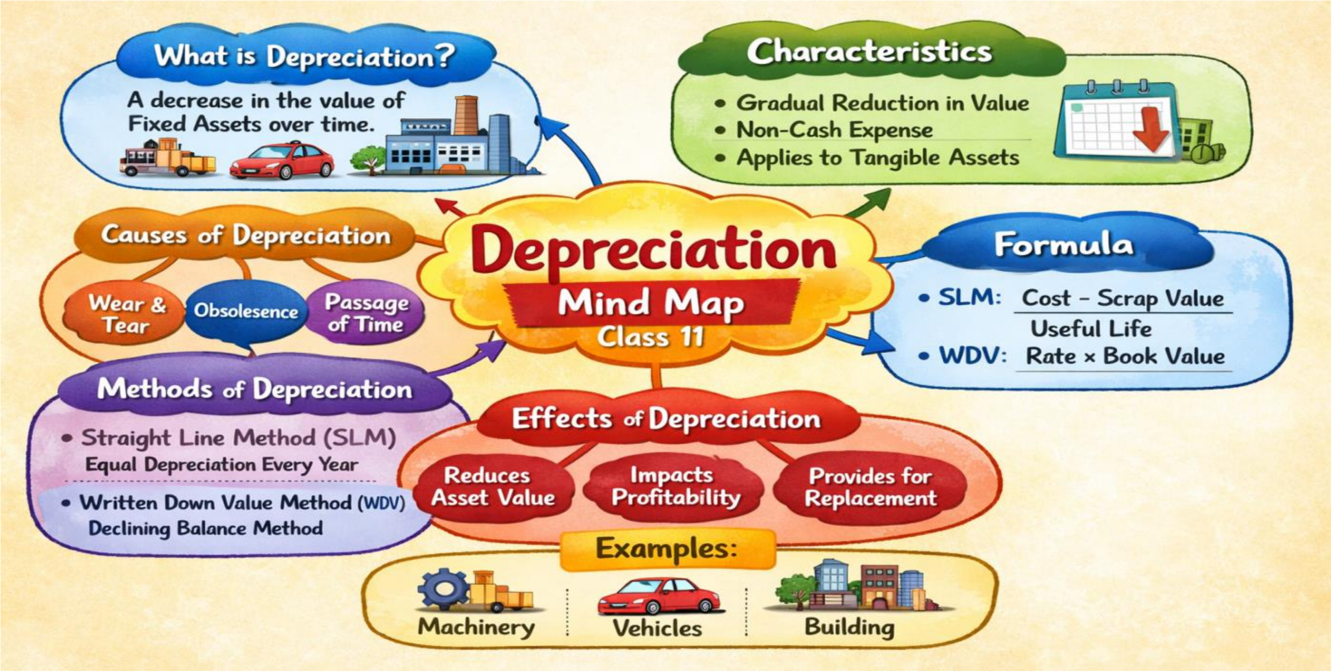
Transaction	Charging to Asset Account	Creating Provision for Depreciation
Purchase of asset	Asset A/c------Dr. To Bank/Vendor	Asset A/c ------Dr. To Bank/Vendor
For Depreciation	Depreciation A/c------- Dr. To Asset A/c	Depreciation A/c-----Dr. To Provision for Depreciation A/c
For transfer of Dep. to P&L A/c.	P&L A/c --------Dr. To Depreciation A/c	P&L A/c-------- Dr. To Depreciation A/c
For sale of Asset	Bank A/c ------Dr.(sale value) P&L A/c……Dr.(if loss) To Asset (book value of Asset) To P&L A/c (if Profit)	Bank A/c ------Dr.(sale value) Provision for Depreciation A/c….Dr P&L A/c……Dr.(if loss) To Asset (Original cost of Asset) To P&L A/c (if Profit)

USE OF ASSET DISPOSAL ACCOUNT

- Asset disposal account is designed to provide a complete and clear view of all the transactions involved in the sale of an asset under one account head.
- The concerned variables are the original cost of the asset, depreciation accumulated on the asset up to date, sale price of the asset, value of the part of the asset retained for use, if any and the resultant profit or loss on disposal.
- The balance of this amount is transferred to the profit and loss account.

JOURNAL ENTRIES:

For transfer of Asset-to-Asset Disposal A/C at the time of sale of Asset	Asset Disposal A/c-------------------Dr. To Asset A/c
Transfer of Accumulated Depreciation to Asset Disposal (If Provision for Depreciation is created)	Provision for Depreciation Dr. To Asset Disposal A/c
Sale of Asset	Bank A/c ------ Dr. (Sale value) P&L A/c-------- Dr. (If loss on sale of asset) To Asset Disposal A/c To P&L A/c. (If Gain on sale of Asset)



PROVISION AND RESERVE

Provision: Provision is an amount set aside from the profits for meeting any liability in future, the amount of which is not known, accurately determined at the time of finalization of statements.

In other words, Provision is to be made in respect of a liability, which is certain to be incurred, but its exact amount is not known.

- Provision is a charge against profits, which means that irrespective of the fact whether business enterprises is earning sufficient profit or not, provision has to made in the financial statements

- It is necessary to take into account such an expected loss while calculating true and fair profit/loss according to the principle of Prudence or Conservatism.
- Example1.Provisions for depreciation 2.Provisions for bad debts 3.Provisions for tax etc.
- In the balance sheet, the amount of provision may be shown either:

* By way of deduction from the concerned asset on the assets side. For example provision for doubtful debts.

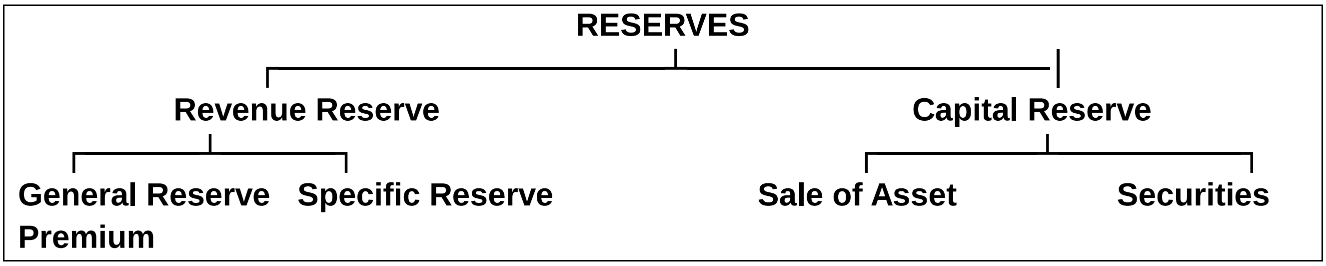
* In the liabilities side of the balance sheet along with current liabilities, for example provision for taxes and provision for repairs and renewals.

Reserve: Reserve means an amount set aside out of profits and other surpluses to meet future uncertainty, in other words a reserve is meant for meeting any unknown liability or loss in the future.

1. It is created out of profits (Appropriation of profit) for Strengthening the financial position
2. Creation of reserve is not legal necessity.
3. It is a source of internal financing and enhances the reputation of the business.
4. General reserve, Capital reserve etc.

DIFFERENCE BETWEEN PROVISION AND RESERVE:

Basis	Provision	Reserve
1.Basic Nature	To satisfy a known liability	To satisfy an unknown liability.
2.Purpose	Created to compensate for a particular loss	Created to strengthen the financial position of the business
3.Accounting treatment	Provisions are shown in the debit side of Profit and loss account	Reserves are shown in the debit side of Profit & loss appropriation account
5.Presentation in Balance Sheet	It is either seen on the asset side by deduction from the respective asset or on the liabilities side as a separate item	It is seen under the heading 'Reserves and Surplus' in liabilities side of Balance sheet
6.Compulsion	Creation of provision is necessary as per law	The creation of reserves is not compulsory as per law



DIFFERENCE BETWEEN CAPITAL AND REVENUE RESERVE:

Basis	Revenue Reserve	Capital Reserve
Source	created out of revenue profit, i.e., revenue earned from normal activities of business operations	created out of capital profit, i.e., gain from other than normal activities of business operations, such as sale of fixed assets, etc

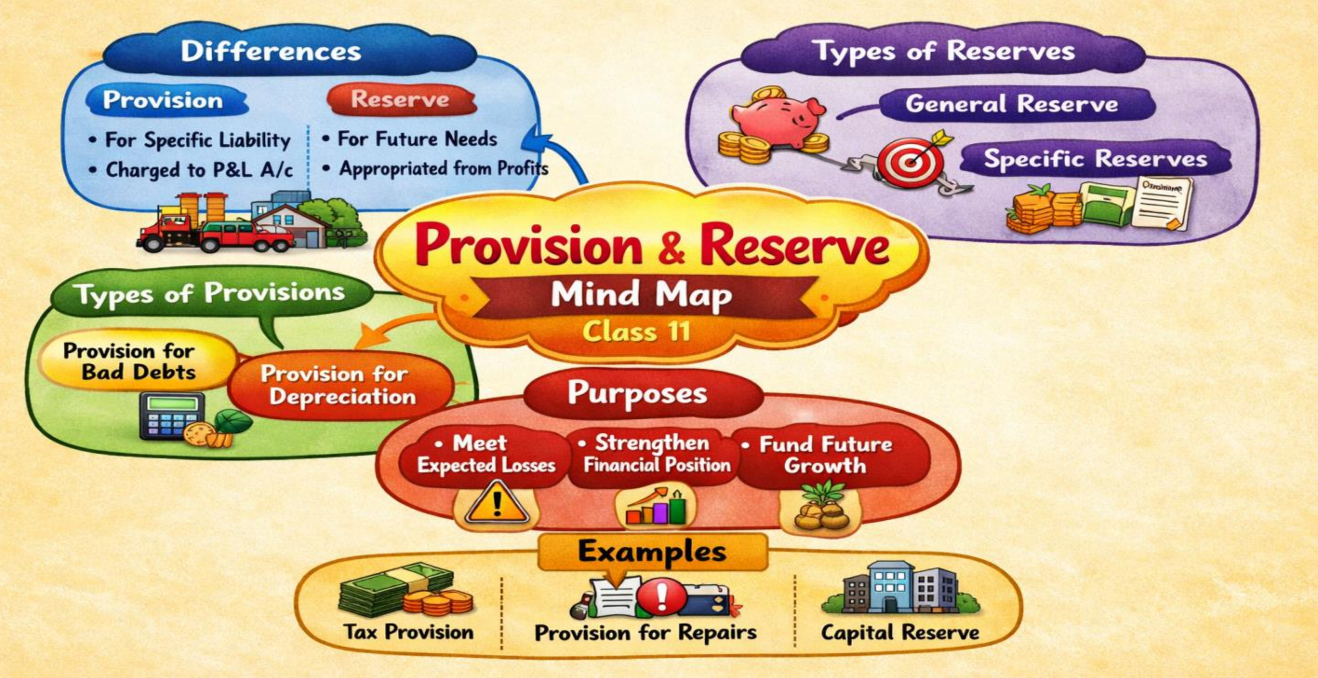
Dividend	It can be used for distribution of dividends	It cannot be used for distribution of dividend
Purpose	Created for strengthening the financial position of the business	It is created for compliance of legal requirements or accounting practices.

SECRET RESERVE:

Secret reserve is a reserve which does not appear in the balance sheet. It may also help to reduce the disclosed profits and also the tax liability. The secret reserve can be merged with the profits during the lean periods to show improved profits.

Secret reserve can also be created by way of:

- Undervaluation of inventories/stock
- Charging capital expenditure to profit and loss account
- Making excessive provision for doubtful debts
- Showing contingent liabilities as actual liabilities



MCQ'S(1Marks)

1	Which of the following is not a feature of written down value method of depreciation? (a)The book value of the asset becomes zero at any one point of time (b)The depreciation is calculated on the book value of assets and not on the cost (c)The amount of depreciation charged on a specific asset reduces every year (d)There is no need to estimate the residual value and estimated life at the time of deciding the amount of depreciation	1
2	If an asset costing ₹1,20,000 is depreciated by Straight Line Method @ 10% p.a., it will be zero after (a) 8 years (b) 12 years (c) 10 years (d) 6 years	1
3	Which one of the following is not a feature of reserve? (a) It cannot be used for distribution dividend (b) It is an appropriation of profit.	1

	(c) It strengthens the financial position of the firm (d) It has no effect on taxable profit	
4	The balance of machinery on March 31,2021 is ₹1,60,000. The machinery was purchased on April 1, 2019. Depreciation is charged @ 10% p.a. by Straight Line Method. The cost price of the machine as on April1, 2019 is ₹. _______. (a) ₹2,00,000 (b) ₹3,00,000 (c) ₹1,92,000 (d) ₹2,60,000	1
5	In the books of Vandana Ltd. the Machinery A/c shows a debit balance of ₹48,000 as on April 1, 2023.The original cost of which was ₹75,000. The Machinery was sold on September 30, 2025, for ₹42,000. The company charges depreciation @ 20% p.a. on Straight line Method. The depreciation for 2023-2024 is: (a) ₹15,000 (b) ₹9,600 (c)₹4,800 (d) ₹7,500	1
6	The book value of machinery on the date of sale is ₹45000. The original price of it was ₹85,000. The company sold it at a profit of ₹7,000. What is the sale proceed? (a) ₹92,000 (b) ₹78,000 (c) ₹52,000 (d) ₹ 38,000	1
7	X Ltd was running a manufacturing business. there was a suit going on against X Ltd for defective goods supplied worth ₹ 1,00,000. X Ltd deliberately shows this as a real liability in the Balance Sheet so as to undertake its profits. This is done in order to: (a) Avoid tax (b) Show a better financial position. (c) Create secret reserve (d) None of the above.	1
8	Extraction of coal from coal mine reduce the available quantity of coal stock, it is known as: (a) Depreciation (b) Amortisation (c) Obsolescence (d) Depletion	1
9	**Assertion (A):** Depreciation is fall in the value of a Fixed Tangible Asset because of usage, passage of time and accident etc. **Reasoning (R):** Depreciation can be charged on all fixed assets whether they are tangible or intangible. (A) Both Assertion & Reason are correct, and Reason is the correct explanation of the Assertion. (B) Both Assertion & Reason are correct, but Reason is not the correct explanation of the Assertion. (C) Only Assertion is correct (D) Only Reason is correct	1
10	What will be the percentage of depreciation under straight line method in the following cases:- Original cost of machine- ₹4,50,000 Scrap value after 9 years- ₹ 45,000 Repair charges in 2nd year-₹ 30,000 (A)10% (B) 15% (C) 4.5% (D) 11.11%	1

QUESTIONS FOR 3 MARKS

1	Distinguish between ‘Revenue Reserve’ and ‘Capital Reserve’ on the basis of: (a) Source of Creation (b)Purpose (c)Usage	**3**
2	State any three Causes of depreciation**.**	**3**

3	Distinguish between ‘Provision ‘and ‘reserve’ on the basis of: (a) Nature (b) Purpose (c) Accounting treatment	**3**
4	Explain the following terms: (a) Secret Reserve (b) Capital Reserve (c) Revenue Reserve	**3**
5	A machine costing ₹1,00,000 has a residual value of ₹10,000 & a useful life of 9 years. Calculate annual depreciation & Rate of depreciation under Straight Line Method**.**	**3**

QUESTIONS FOR 4 MARKS

Q1	What is depreciation? Explain the need of charging depreciation.	4
Q2	Distinguish between Straight line method and written down value method of depreciation.	4
Q3	Although, written down value method is based upon a more realistic assumption, it suffers from some limitations. Give any four such limitations.	4
Q4	Name the method that assumes that an asset should be depreciated more in the earlier years and less in later years of use. State any three advantage of this method.	4
Q5	A machine costing ₹80,000 was purchased on 1st April 2021. Depreciation is charged at 10% per annum on SLM. On 1st October 2023, the machine was sold for ₹60,000. Calculate the profit or loss on sale of the machine.	4

QUESTIONS FOR 6 MARKS

Q1	On 1st April,2017, Madan Ltd. Purchased a machinery for ₹ 3,90,000 on which they spent ₹ 5,000 for carriage, ₹ 2000 for brokerage of the middleman, ₹ 2,500 for installation and ₹ 500 for an iron pad. On 1st November 2018, they purchased another machinery for ₹1,00,000 and immediately spent ₹20,000 on its overhauling. On 30th September. 2019 the machinery purchased in 2017 was sold at a loss of ₹1,27,800. The company charges depreciation @10%p.a. on written down value basis. Accounts are closed on 31st March every year.Prepare Machinery Account up to 31st March 2020.	6
Q2	A Ltd. purchased a machine for ₹ 5,00,000 on 1st April, 2012. Further additions were made on 1st October 2012 for ₹ 4, 00, 000.On 1st January, 2015, 1st machine was sold for ₹ 2, 85,000. Prepare Machine A/c for three years ending 31st March 2015 if depreciation is to be charged @ 10% p.a. on straight line basis.	6
Q3	Following balances appear in the books of MK Traders : 2024 1st April Machinery A/c 60,000 Provision for Depreciation A/c 36,000 On 1st April, 2024, they decided to dispose off a machinery for ₹ 8,400 which was purchased on 1st April 2020 for ₹ 16,000. Prepare Machinery Account and Provision for Depreciation Account for the year ended 31st March, 2025. Depreciation was charged @10% p.a. on cost following Straight Line Method**.**	6

ANSWERS (1 MARK)

Q1-a	Q2-c	Q3-a	Q4-a	Q5-d	Q6-c	Q7-c	Q8-d	Q9-c	Q10-a

ANSWERS (3 MARKS)

1

Basis	Revenue Reserve	Capital Reserve
1.Source	created out of revenue profit, i.e., revenue earned from normal activities of business operations	created out of capital profit, i.e., gain from other than normal activities of business operations, such as sale of fixed assets, etc
2.Purpose	Created for strengthening the financial position of the business	It is created for compliance of legal requirements or accounting practices.
3.Usage	A specific revenue reserve can be utilised only for the earmarked purpose, but general reserve can be used for any purpose.	It can be utilised for specific purpose as provided in the law in force

2 **Causes of Depreciation:**

1. Wear and Tear due to Use or Passage of Time
2. Expiration of Legal Rights
3. Obsolescence

3

Basis	Provision	Reserve
Nature	To satisfy a known liability	To satisfy an unknown liability.
Purpose	Created to compensate for a particular loss	Created to strengthen the financial position of the business
Accounting treatment	Provisions are shown in the debit side of Profit & loss A/c	Reserves are shown in the debit side of Profit & loss appropriation A/c

4 **(a) Secret Reserve:** Secret reserve is a reserve which does not appear in the balance sheet. It may also help to reduce the disclosed profits and also the tax liability.

(b) Revenue reserve: Revenue reserves are created from revenue profits which arise out of the normal operating activities of the business and are otherwise freely available for distribution as dividend.

(c) Capital Reserve: Capital reserves are created out of capital profits which do not arise from the normal operating activities. Such reserves are not available for distribution as dividend.

5 **Depreciation**$= \frac{\text{Original cost of asset-Residual value of Asset}}{\text{Estimated life of Asset}}$

$$= \frac{1,00,000-10000}{9} = \frac{90,000}{9} = ₹10,000$$

Rate of Depreciation= Annual Depreciation/ Original cost of asset x 100

= 10,000/1,00,000 x 100=10**%**

ANSWERS (4MARKS)

1 **"Depreciation"** means decline in the value of a fixed assets due to use, passage of time or obsolescence.

Need for depreciation:

1. Matching of Costs and Revenue 2. Consideration of Tax
3. True and Fair Financial Position 4. Compliance with Law

2

Basis	**Straight Line Method**	**Written Down Value Method**
Basis of charging depreciation	Original cost	Book value
Annual depreciation charge	Fixed	Decline year after year
Complexity	Easy to calculate & understand.	Comparatively more difficult to calculate
Recognition by law	Not Recognised	Recognised

3 Limitations of Written down value method:

(a) Complex Calculations (b) Difficult Profit Comparison
(c) Asset Never Becomes Zero (d) Unequal Depreciation Charges

4 Written down value method.

Advantages of written down value Method:

(a) Realistic Depreciation (b) Higher Depreciation in Early Years
(c) Suitable for Machinery and Vehicles (d) Balances Repair Costs

5

Cost of Machine on 1st April 2021	= 80,000
Less: Depreciation on 31st March 2022	= 8,000
Book value on 1st April 2022	= 72,000
Less: Depreciation on 31st March 2022	= 8,000
Book value on 1st April 2023	= 64,000
Less: Depreciation up to 1st Oct 2023	= 4,000
Book value on 1st Oct 2023	= 60,000
Less: Sale value of Asset	= 60,000
Profit/loss on sale of Asset	**= NIL**

ANSWERS (6MARKS)

Q 1

Date	**Particulars**	**Amt**	**Date**	**Particulars**	**Amt**
2017 Apr 1 Apr 1	To Bank a/c To Bank a/c (5000+2000+2500-500)	3,90,000 10000	2018 Mar31 Mar31	By Depreciation a/c By Balance c/d	40,000 3,60,000
		4,00,000			**4,00,000**
2018 Apr 1 Nov1	To Bal c/d To Bank a/c To bank a/c (overhauling)	3,60,000 1,00,000 20,000	2019 Mar31 Mar31	By Depreciation a/c (36000+5000) BY balance c/d (3,24,000+1,15,000)	41,000 4,39,000
		4,80,000			**4,80,000**
2019 Apr 1	To Bal c/d I. 3,24,000 II.1,15,000	4,39,000	2019 30Sep 30Sep 30Sep 2020 Mar31 Mar31	By Bank a/c By Depreciation a/c (for 6 Month)(I) By Statement of profit & Loss By Depreciation (II) By Balance c/d	1,80,000 16,200 1,27,800 11,500 1,03,500
		4,39,000			**4,39,000**

Q
2

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
2012			**2013**		
1 Apr	To bank	5,00,000	31Mar	By depreciation	
1 Oct	To bank	4,00,000		(i)50,000 (ii) 20,000	70,000
			31Mar	By balance c/d (i)4,50,000 (ii)3,80,000	8,30,000
		9,00,000			**9,00,000**
2013			2014		
1 Apr	To balance b/d (i)4,50,000 (ii)3,80,000	8,30,000	31Mar	By depreciation (i)50,000 (ii) 40,000	90,000
			31Mar	By balance c/d (i)4,00,000 (ii)3,40,000	7,40,000
		8,30,000			**8,30,000**
2014			2015		
1 Apr	By balance b/d		1 Jan	By depreciation	37,500
	(i)4,00,000		1 Jan	By Cash(sale)	2,85,000
	(ii)3,40,000	7,40,000	1 Jan	By Profit & loss	77,500
			31Mar	By depreciation	40,000
			31Mar	By balance c/d	3,00,000
		7,40,000			**7,40,000**

3

Dr MACHINERYA/C Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2024	To Bal b/d	60,000	2024	By provision for Dep	6400
Apr-1			Apr-1	By Bank	8400
			2025	By Profit & loss A/C	1200
			31 Mar	By Bal c/d	44,000
		60,000			**60,000**

PROVISION FOR DEPRECIATION A/c

Date	Particulars	Amt	Date	Particulars	Amt
2024	To Machinery (For 4	6,400	2024	By Bal b/d(I)	36,000
Apr-1	years 16,000@10%)		1 Apr		
2025	To Bal c/d	34,000	2025		
31 Mar			31Mar	By Depreciation	4,400
		40,400			40,400

CHAPTER 8
FINANCIAL STATEMENT- I

Meaning of Financial Statements:

Financial Statements means such statements which reflect the profitability and financial position of the business at the end of accounting period. A set of financial statements or Final Accounts include:

- Income Statement (Trading and Profit and Loss Account): It shows financial performance in the form of Profit earned or Loss incurred by an enterprise, at the end of accounting period.
- Statement of Financial Position (Balance Sheet): It shows financial position with the help of assets and liabilities of an enterprise at a particular point of time.

(Nowadays, in addition to the above mentioned two basic financial statements. Two other statements, namely a Statement of Retained Earnings and a Cash Flow Statement, are also generally included in financial statements.)

Objectives of Preparing Financial Statements:

(i) To provide an accurate and reliable representation of financial performance (*i.e.* profit or loss) of the business.

(ii) To provide an accurate and reliable representation of financial position (*i.e.* Assets/ Liabilities) of the business.

Importance of Financial Statements:

Financial Statements (Final Account) generally include preparation of Trading and Profit and Loss Account (Also known as Income statement) and Balance Sheet (Also known as Position statement). So, the importance of preparing both the statements is as follows:

(1) Trading and Profit & Loss Account:

(i) **Computation of Gross profit or Gross Loss**: Trading account is prepared to compute the gross profit/loss incurred by the business during the accounting period.

(ii) **Computation of Net profit or Net Loss**: Profit and Loss account is prepared to compute the Net profit/loss incurred by the business during the accounting period.

(iii) To make comparisons with the previous year's financial performance.

(iv) To get the details of direct and indirect expenses, revenues, and other incomes of the business for taking appropriate decisions.

(v) To determine the amount to be set aside from net profit in the form of reserves to meet future uncertainties.

(2) *BALANCE SHEET:*

(i) Balance sheet is prepared to know the asset owned and liabilities owed by the business at a particular point of time.

(ii) This helps to determine solvency position by computing Current Ratio and Debt to Equity Ratio which are computed from the balance sheet.

(iii) This also help to make comparison of current year's financial position with previous year's financial position.

Users of financial statements:

Name	Type of User	Accounting Information required
1.Owner	Internal	They are interested to know the profit earned or loss incurred, besides safety of their investment (*i.e.* capital)
2.Management	Internal	They use accounting information to make informed decisions such as determining selling price, cost control and reduction etc.
3.Government	External	Government authorities make use of financial statements to compile national income accounts and other information. 'The information so available enables them to take policy decisions. Government levies taxes such as GST and Income Tax. The government authorities assess the correct tax dues from analysis of the financial statements.
4.Prospective Owners	External	They require information about the past profits and financial position as indication of likely future.
5.Banks	External	Banks provide loans to businesses. They require performance of business to know whether it is progressing as projected to ensure safety, service and recovery of loan advanced.

Capital vs. Revenue Expenditures:

Most important difference in accounting is between capital and revenue items. The difference is important for making the trading and profit and loss account and balance sheet. The revenue items form part of the trading and profit and loss account, the capital items help in the preparation of a balance sheet

Expenditure:

- Whenever payment and/or incurrence of an outlay are made for a purpose other than the settlement of an existing liability, it is called expenditure.
- The expenditures are incurred with a view point they would give benefits to the business.

Revenue Expenditure:

- Revenue Expenditure is an expenditure benefit of which is consumed or exhausted within the accounting period.
- In other words, an expenditure which is not capital expenditure is revenue expenditure.
- Normally, they are incurred for day to day conduct of a business.

Capital Expenditure:

- If the benefit of expenditure extends more than one accounting period, it is termed as *Capital expenditure.*
- It is of non-recurring nature.
- It brings in to existence of a new fixed asset.
- It results in an increase in the value of fixed assets already occupied, e.g., development of property.
- Normally, it involves a large amount.

Examples of capital Expenditure:

- Purchase of fixed assets such as building, land, machinery, furniture, etc.
- Purchase of intangible assets such as goodwill, parents, trademark, etc.

- Expenses for extension or improvement of fixed assets.

Accounting Treatment

Expenditure	Treatment in Final Accounts
Revenue Expenditure	Shown in the Debit Side of Trading A/c or Profit and Loss A/c
Capital Expenditure	Debited to the relevant asset account and shown in the assets side of the Balance Sheet.

Deferred Revenue Expenditure: Revenue expenditures, which are likely to give benefit for more than one accounting period, are termed as deferred revenue expenditure. In normal usage, the advertising expenditure is termed as revenue expenditure, but the heavy expenditure incurred on advertising is likely to benefit the business firm for more than one accounting period is treated as deferred revenue expenditure.

Difference between Capital and Revenue Expenditure:

Basis	Revenue Expenditure	Capital Expenditure
Purpose	To carry on Day-to-Day Business Activities.	To purchase of fixed assets
Period	Benefit is consumed with in the accounting period	Benefits to more than one accounting period
Recording	Debited to Concerned Expense A/c.	Debited to concerned Assets A/c
Capacity	Maintain earning capacity of business.	Increases the earning capacity of business
Nature of A/c	It is a Nominal/ Expense A/c.	It is a Real/ Asset A/c.

Capital vs. Revenue Receipts:

To determine the true and fair financial performance and financial position of a business concern it is important to make a difference between capital receipts & revenue receipts.

Capital Receipts:

- Receipts that are not received from operating activities.
- If the receipt simply an obligation to return the money, these are capital receipts.
- Capital receipts do not affect profit or loss of the business. Hence, they are shown in the balance sheet.
- Examples are capital contributed by owner, borrowings and sale proceeds of fixed assets. Revenue Receipts:
- The amount received or receivable in the normal course of business for example sale of goods or rendering of services.
- Revenue receipts arise from operating activities in the normal course of business.
- These are transferred to credit side of Trading A/c or Profit & Loss A/c.
- Examples are Cash Sales, cash received from debtors, commission received, bad debts recovered etc.

Financial Statements or Final Accounts:

Financial Statements or Final Accounts are prepared at the end of accounting period to assess financial performance (profit or Loss) during the accounting period and financial position at the end of accounting period. It consists of:

(1) **Trading and Profit and Loss A/c (Income statement)**

(2) **Balance Sheet (Position Statement**)

Balance Sheet shows financial position in the form of assets, liabilities, and capital. These are prepared based on trial balance and additional information, if any.

Trading and Profit and Loss A/c:

Trading and Profit and Loss account, also known as Income statement, shows the financial performance in the form of profit earned or loss sustained by the business. Let us discuss these two accounts in detail:

(A) Trading A/c:

1. It is the first stage in the preparation of financial statement of an enterprise.
2. Net Sales is transferred to the credit and Cost of Goods Sold is transferred to the debit of the account.
3. It is prepared on an accrual basis of accounting.
4. Balance of this account is either Gross Profit or Gross Loss.
5. Gross Profit or Gross Loss is transferred to Profit & Loss A/c.

Relevant Items in Trading A/c:

1. **Opening stock** In the trading account **it appears on the debit side** because it forms the part of cost of goods sold for the current accounting year.

2. **Purchases and Purchases Return**: Goods, which have been bought for resale appear as purchases **on the debit side of** the trading account. They include both cash as well as credit purchases. Goods which are returned to suppliers are termed as purchases return. It is shown **by way of deduction from purchases** and the computed amount is known as Net purchases.

3. **Direct Expenses**: expenses which are incurred on purchase of goods and/or raw material for manufacturing of goods. These are shown in the Debit Side of Trading account.

(i) Carriage of Freight or Cartage Inwards: these refers to the cost of bringing the goods purchased into the place of business. These are **shown in the Dr. side of the Trading A/c.**

(ii) Wages: amount paid to the workers in a factory or stores. It is shown on the **debit side of the Trading A/c.**

(iii) Fuel/Water/Power/Gas: These items are used in the production process and hence are part of expenses. These are shown in the **Debit side of the Trading A/c.**

(iv) Other factory expenses/Consumable Stores: These are incurred to keep the machine in the working condition and include engine oil, oil grease, etc. consumed in the factory.

4. Sales and Sales Return: Sales account in trial balance shows gross total sales (cash as well as credit) made during the year. It is shown **on the credit side of the trading account**. Goods returned by customers are called **return inwards** and are shown as deduction from total sales and the computed amount is known as **net sales**.

5. Closing Stock or Inventory: Closing Stock (Inventory) is the value of unsold goods, raw materials and semi- finished (WIP) goods at the end of the accounting period. Closing Stock is valued at cost or net realisable (market value), whichever is less.

Closing stock is usually given outside the Trial Balance. It is recorded in the books by passing entry which is given below:

Closing Stock A/c ….Dr
To Trading A/c.
(Closing Stock brought into books)

*Due to this, closing stock is shown in the credit side of trading account and on the asset side of balance sheet.

If closing stock is shown inside the trial balance, it means that it has been adjusted by debiting closing stock and crediting purchases account. In case of **Adjusted purchase**, the following entry will be passed for closing stock

Closing Stock A/c Dr
To Purchases A/c.
(Closing Stock brought into books)

***Due to this, closing stock is then not shown in the credit side of the Trading A/c** but **it is shown on the asset side of the balance sheet.**

Closing Entries Related to Trading A/c

For items in Debit side: Trading A/c…… Dr. To Opening stock A/c To Purchase A/c To Sale return A/c To Direct Expense A/c	**For items in Credit side:** **Sale A**/c …… …………………………..Dr. Purchase Return A/c……………… ..Dr. Closing stock A/c……………………… Dr. To Trading A/c
For transferring Gross profit Trading A/c…… .Dr. To Profit & loss A/c	**For transferring Gross loss** Profit & loss A/c………….. ...Dr. To Trading A/c

FORMAT OF TRADING A/C

Trading A/c of …….For the year ended………………………

Particulars	Amt (₹)	Particulars	Amt (₹)
To Opening Stock	xxx	By Sales	xxx
To Purchases	xxx	**Less:** Returns Inward	(xxx)
Less: Returns Outward	(xxx)	Net Sales	xxx
Net Purchases	xxx	By Closing Stock	xxx
To Carriage/Inward Freight	xxx	By Gross Loss c/d*	
To Wages (Direct)	xxx		
To Fuel/Power (Factory)	xxx		
To Other Direct Expenses	xxx		
To Gross Profit c/d*	xxx		
Total	**xxx**	**Total**	**xxx**

*****Either Gross Profit or Gross Loss will exist.

Concept of Gross Profit: (Using Formulas)

1. Gross profit can be calculated with the help of following equation

Gross Profit = Net Sales – Cost of Goods Sold

Or

Gross Profit=Net Sales – (Adjusted Purchase +Direct Expenses)

2. Net Sales = Sales – Sales Return

3. Net Purchase=Total Purchase – Purchase Return

4. Cost of Goods Sold= Opening Stock + Net Purchase +Direct Expenses–Closing Stock

5. Adjusted Purchase =Opening Stock+ Net Purchase –Closing Stock

(A) Profit and Loss Account

- It is the second stage in the preparation of final accounts.
- Gross profit and non-operating incomes are transferred to the credit side while indirect expenses and losses are transferred to debit side of the account.
- It relates to accounting period and is prepared at the end of that period.
- Balance of the account is either Net Profit or Net Loss.
- Net profit or Net Loss affects the capital.Net profit increases the capital, while net loss decreases it.
- It shows financial performance of business during an accounting period.

Items in Profit and Loss A/c:

Indirect Expenses are transferred to the debit and Indirect Incomes are transferred to the credit of Profit &loss Account. Profit & Loss Account is balanced and the balance (Net Profit or Net Loss) is transferred to Capital Account.

Items of Debit Side:

- Salaries, Office Rent, Office Electricity, Printing and Stationery, Postage, Courier, telephone and Internet, Administrative Expenses, Salesmen Commission, Freight on Sales or Freight Outwards,

Insurance Expenses, Advertisement Expenses, Selling and Distribution expenses, Interest on loan, Discount allowed, Bad debts, Depreciation, Loss of goods by fire or theft or Damage, Insurance Premium, General/Sundry Expenses

Items of Credit Side:

- Interest on fixed deposit, Rent received, Cash discount received, gain on sale of fixed assets, Interest on Drawings, Bad Debts Recovered.

(B) FORMAT OF PROFIT & LOSS A/C

Profit & loss A/c of …….For the year ended………………………

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	xxx	By Gross Profit b/d	xxx
To Rent, Rates & Taxes	xxx	By Commission Received	xxx
To Insurance	xxx	By Discount Received	xxx
To Printing & Stationery	xxx	By Interest Received	xxx
To Postage & Telephone	xxx	By Rent Received	xxx
To Office Expenses	xxx	By Dividend Received	xxx
To Advertisement	xxx	By Other Indirect Incomes	xxx
To Bad Debts	xxx	By Net Loss (Transferred to Capital A/c)	
To Depreciation	xxx		

To Interest on Loan	xxx		
To Legal Charges	xxx		
To Audit Fees	xxx		
To Discount Allowed	xxx		
To Charity/Donations	xxx		
To Net Profit *(Transferred to Capital A/c)	xxx		
Total	**xxx**		**xxx**

Closing Entries related to Profit and Loss Account:

For items in Debit side: Profit & loss A/c. Dr. To Indirect Expenses A/c	For items in credit side: Other Incomes A/c….Dr. To Profit & loss A/c
In Case of Net Profit: Profit & loss A/c…Dr. To Capital	In Case of Net Loss: Capital …Dr. To Profit & loss A/c

Calculation of Net Profit (using formula)

Net Profit = Gross Profit+ Other Incomes –Indirect Expenses

Operating Profit (EBIT) and Net Profit:

- It is the profit earned through the normal operations and activities of the business.
- Operating profit is the excess of operating revenue over operating expenses. It is also called Earnings Before Interest & Tax (EBIT)
- Net Profit is a profit earned through operating and non-operating activities of business.
- Operatingexpensesareexpensesthatareassociatedwithoperatingactivitiesofthe business such as cost of goods sold, salary paid to staff, rent, repair, depreciation etc.
- Non-Operating Expenses are expenses that are not associated with operating activities of the business such as interest on loan, charity, donation, loss on sale of fixed assets etc.
- Operating Incomes are incomes that arise from its operating activities of the business such as income earned from sale of goods.
- Non-operating income are incomes that are earned not from business activities but as an indirect income of business such as interest received on investment, profit on sale of fixed assets etc.
- Operating Profit=Gross Profit–Operating Expenses

Or

- Operating Profit= Net sales–Cost of Goods Sold–Operating Expenses

Or

- Operating Profit=Net Profit+ Non-Operating Expenses–Non-Operating Incomes
- Operating Profit = Net Sales – Operating Cost
- Operating Cost=Cost of Goods sold +Operating Expenses

Balance Sheet:

- The balance sheet is a statement prepared for showing the financial position of the business summarising its assets and liabilities at a given date.
- The assets reflect debit balances and liabilities (including capital) reflect credit balances.
- It is prepared at the end of the accounting period after the trading and profit and loss account have been prepared.
- It is called balance sheet because it is a statement of balances of ledger accounts that have not been transferred to trading and profit and loss account and are to be carried forward to the next year with the help of an opening entry made in the journal at the beginning of the next year.

Preparation of Balance Sheet*:*

- All the account of assets, liabilities and capital are shown in the balance sheet.
- Accounts of capital and liabilities are shown on the left-hand side , known as *Liabilities.*
- Assets and other debit balances are shown on the right-hand side, known as *Assets.*
- There is no prescribed form of Balance sheet, for a proprietary and partnership firms.
- *Schedule III Part I of the Companies Act 2013* prescribes the format and the order in which the assets and liabilities of a company should be shown.

(C) FORMAT OF BALANCE SHEET

Balance sheet of ………………………As on……………………………………..

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital	xxx	Cash in Hand	xxx
Add: Net Profit	xxx	Cash at Bank	xxx
Add: Additional Capital	xxx	Bills Receivable	xxx
Less: Drawings	(xxx)	Debtors	xxx
Adjusted Capital	xxx	Less: Provision for Doubtful Debts	(xxx)
		Net Debtors	xxx
Long-term Loan	xxx	Closing Stock	xxx
Bank Loan	xxx	Investments	xxx
Mortgage Loan	xxx	Furniture	xxx
Current Liabilities		Plant & Machinery	xxx
Creditors	xxx	Building	xxx
Bills Payable	xxx	Land	xxx
Outstanding Expenses	xxx	Goodwill	xxx
Income Received in Advance	xxx	Patents, Copyrights, etc.	xxx
Total	**xxx**	**Total**	**xxx**

Marshalling and Grouping of Assets and Liabilities:

A major concern of accounting is about preparing and presenting the financial statement. The information so provided should be a decision useful for the users. Therefore, putting items of similar nature under a common accounting head is called **Grouping.**

In a balance sheet, the assets and liabilities are arranged either in the order of liquidity or permanence. Arrangement of assets and liabilities in a particular order is known as **Marshalling.**

In case of permanence, assets, which are to be used permanently in the business are written first followed by the current assets and assets that are most liquid such as cash in hand are written last. Liabilities are also shown in order of permanency as capital is shown first, then long-term liabilities and short-term liabilities and creditors in last.

In case of liquidity, assets that are most liquid are written first followed by less liquid assets and fixed assets in the end. Liabilities first shown are short-term liabilities and then long-term liabilities and capital in last.

MCQ'S(1Marks)

1	Choose the correct chronological order of ascertainment of the following profits from the profit and loss account: (a) Operating Profit, Net Profit, Gross Profit (b) Operating Profit, Gross Profit, Net Profit (c) Gross Profit, Operating Profit, Net Profit (d) Gross Profit, Net Profit, Operating Profit	1
2	**Assertion(A):** Profit and Loss Account is a periodic statement because it is prepared for a particular period **Reason(R):** Balance Sheet is a point statement because it is prepared on a particular date. Based on the above statements, which of the following options is correct? (a) Both(A) and(R)are true and(R) is the correct explanation of (A)	1

	(b) Both(A) and(R)are true and(R)is not the correct explanation of (A) (c) (A) is true, but (R) is false (d) (A)is false, but(R)is true	
3	Which of the following is correct: (a) Operating profit = Operating profit – Non-operating expenses – Non-operating incomes (b) Operating profit = Net profit + Non-operating expenses + Non-operating incomes (c) Operating profit = Net profit + non-operating expenses – Non-operating incomes (d) Operating profit = Net profit – Non-operating expenses + Non-operating incomes	1
4	If sales are ₹2,000 and the rate of gross profit on cost of goods sold is 25%, then the cost of goods sold will be: (a) ₹1,500 (b) ₹1,600 (c) ₹1,700 (d) ₹1,800	1
5	Direct Expenses are entered in: (a) Trading Account (b) Profit & Loss A/c (c) Balance sheet (d) None of these	1
6	Annual insurance premium paid for machinery is considered as: (a) Revenue expenditure (b) Deferred revenue expenditure (c) Capital expenditure (d) Expenses	1
7	Revenue Expenditure if accounted as capital expenditure will result in (a) Profit overstated (b) Profit understated (c) Asset Understated (d) No effect	1
8	Which statement shows financial position of the business? (a)Trading Account (b) Profit and Loss A/c (c)Balance Sheet (d)Trail Balance	1
9	Which type of expense out of the following are shown in Trading Account? (a) Direct Expenses (b) Indirect Expenses (c) Direct and Indirect Expenses (d) None of these	1
10	**Assertion (A):** Expenditure which results in acquisition of fixed asset is a Capital Expenditure **Reason (R):** It gives benefit of enduring nature and helps in revenue generation over more than one Accounting period or periods. Based on the above statements, which of the following options is correct? (a) Both(A) and(R)are true and(R) is the correct explanation of (A) (b) Both(A) and(R)are true and(R)is not the correct explanation of (A) (c) (A) is true, but(R) is false (d) (A)is false, but(R) is true	1

QUESTIONS FOR 3 MARKS:

<table>
<tr><td>1</td><td>Ascertain cost of goods sold from the following:
<table>
<tr><td>Indirect Expenses</td><td>₹ 30,400</td><td>Sales</td><td>₹ 2,40,000</td></tr>
<tr><td>Direct Expenses</td><td>₹ 37,200</td><td>Return Inwards</td><td>₹ 24,000</td></tr>
<tr><td>Net Purchase</td><td>₹ 1,44,000</td><td>Return Outwards</td><td>₹ 16,000</td></tr>
<tr><td>Closing Inventory</td><td>₹ 56,000</td><td>Opening Inventory</td><td>₹ 32,000</td></tr>
</table></td><td>3</td></tr>
<tr><td>Q2</td><td>Operating profit earned by M/s Arora & Sachdeva in 2024-25 was ₹ 17,00,000. Its non-operating income was 1,50,000 and non-operating expenses were ₹ 3,75,000. Calculate the amount of net profit earned by the firm.</td><td>3</td></tr>
<tr><td>Q3</td><td>Compute Operating Profit from the following:
Revenue from operation Sales ₹ 22,20,000 ; Cost of goods sold ₹ 20,00,000; Opening Inventory ₹ 2,20,000; Purchases ₹ 20,00,000; Closing Inventory ₹2,20,000</td><td>3</td></tr>
</table>

	Selling and distribution expenses ₹ 9,150;Office and Administrative expenses ₹ 1,73,250 (including interest on loans ₹ 11,000; Loss on sale of furniture ₹ 17500; Donation ₹ 2,550 and Loss by fire ₹ 10,000)	
Q4	State whether the following are capital expenditure, revenue expenditure or deferred revenue expenditure? (1) A. Payment of ₹10,000 annual fire insurance premium. (2) B. Advertisement expenditure is incurred for launching a new product. (3) C.₹15,000 installations paid on new machinery.	3
Q5	Sales ₹1,00,000; Cost of Goods Sold ₹ 80,000; Closing Stock ₹ 10,000; Operating Expenses ₹ 5,000; Freight Inward ₹ 1,000; Freight Outward ₹ 3,000. Calculate Operating profit.	3

QUESTIONS FOR 4 MARKS:

<table>
<tr><td>Q1</td><td>Calculate Gross Profit when Total Purchases during the year are ₹ 8,00,000, Returns Outward ₹ 20,000, Direct Expenses ₹ 60,000 and 2/3rd of the goods are sold for ₹6,10,000.</td><td>4</td></tr>
<tr><td>Q2</td><td>(a) From the following calculate operating profit:
<table>
<tr><th>Particular</th><th>Amount</th></tr>
<tr><td>Net profit</td><td>2,00,000</td></tr>
<tr><td>Rent received</td><td>20,000</td></tr>
<tr><td>Gain on sale of machine.</td><td>30,000</td></tr>
<tr><td>Interest on loans</td><td>40,000</td></tr>
<tr><td>Donation</td><td>4,000</td></tr>
</table>
(b)Explain any two characteristics of Balance Sheet</td><td>4</td></tr>
<tr><td>Q3</td><td>What is grouping and marshalling of Assets and Liabilities'? Explain.</td><td>4</td></tr>
<tr><td>Q4</td><td>Calculate value of Opening stock from the following:
<table>
<tr><td>Cash Sales</td><td>40,000</td></tr>
<tr><td>Sales Return (Out of Credit Sales)</td><td>5,000</td></tr>
<tr><td>Purchases Return</td><td>4,000</td></tr>
<tr><td>Closing Stock</td><td>36,000</td></tr>
<tr><td>Credit Sales</td><td>1,65,000</td></tr>
<tr><td>Purchases</td><td>1,24,000</td></tr>
<tr><td>Carriage Inwards</td><td>8,000</td></tr>
<tr><td>Rate of Gross Profit</td><td>40% on Sales</td></tr>
</table></td><td>4</td></tr>
<tr><td>Q5</td><td>Calculate Gross Profit and Cost of Goods Sold from the following information:
Net Sales ₹ 1,00,000; Gross Profit 33⅓ % on cost.</td><td>4</td></tr>
</table>

ANSWERS (1 MARK)

Q1-c	**Q2-b**	**Q3-c**	**Q4-b**	**Q5-a**	**Q6-a**	**Q7-a**	**Q8-c**	**Q9-a**	**Q10-a**

ANSWERS (3 MARKS)

Q1	Cost of Goods Sold=Net Purchases+ Opening Inventory+ Direct Expenses-Closing Inventory = 1,44,000 + 32,000 + 37,200 - 56,000 = **₹ 1,57,200**
Q2	Net Profit = Operating Profit + Non -operating Income – Non-operating Expenses = 17,00,000 + 1,50,000 – 3,75,000 **= ₹ 14,75,000**
Q3	Operating Profit= Gross profit (Revenue from operation–COGS)–Operating Expenses =₹ 2,20,000– {(1,73,250 - 11,000 - 17,500 - 2,550 - 10,000) + (9,150)} =₹ 2,20,000 - {1,32,200 + 9,150} **= ₹ 78,650**

Q4	(1) Revenue expenditure (2) Deferred revenue expenditure (3) Capital expenditure
Q5	Gross Profit= Net Sales- Cost of goods sold =1,00,000 - 80,000 **= ₹ 20,000** Operating Profit= Gross Profit - Operating expenses + Operating income =20,000 - 5,000 **= ₹ 15,000**

ANSWERS (4 MARKS)

Q1	Net Purchase=Total Purchase-Return Outward = 8,00,000 - 20,000 **= ₹ 7,80,000** Cost of goods sold = 7,80,000 + 60,000 = ₹8,40,000 Cost of goods sold of 2/3rd Goods = 2/3rd of 8,40,000 = 5,60,000 Gross Profit = Net Sales - Cost of goods sold = 6,10,000 - 5,60,000 **= ₹ 50,000**
Q2	(a) Operating profit = Net profit + Non-operating exps - Non operating incomes = 2,00,000 + 44,000 - 50,000 **= ₹ 1,94,000** (b)Two features of Balance sheet: *The balance sheet is a statement prepared for showing the financial position of the business summarising its assets and liabilities at a given date. *The assets reflect debit balances & liabilities (including capital) reflect credit balances
Q3	Putting items of similar nature under a common accounting head is called **Grouping.** In a balance sheet, the assets and liabilities are arranged either in the order of liquidity or permanence. Arrangement of assets and liabilities in a particular order is known as **Marshalling.** **In case of permanence,** assets, which are to be used permanently in the business are written first followed by the current assets & assets that are most liquid such as cash in hand are written last. Liabilities are also shown in order of permanency as capital is shown first, then long-term liabilities & short-term liabilities and creditors in last. **In case of liquidity,** assets that are mostly liquid are written first followed by less liquid assets and fixed assets in the end. Liabilities first shown are short-term liabilities & then long-term liabilities & capital in last.
Q4	Net Sales=Cash Sales+ Credit Sales − Sales Return =40,000 + 1,65,000 = ₹ 2,00,000 Gross Profit=2,00,000 × 40/ 100 **= ₹80,000** COGS=Net Sales−Gross Profit =2,00,000−80,000 **= ₹1,20,000** COGS = Opening Stock + Net Purchases + Carriage Inwards − Closing Stock 1,20,000 = Opening Stock + 1,20,000 + 8,000 − 36,000 Opening Stock = **₹ 28,000**
Q5	When Gross Profit = 33⅓% on Cost:; Cost: Sales = 3:4 Cost = 3/4th of sales = 3/4th of 1,00,000 **= ₹ 75,000** Gross Profit = Net Sales - Cost of goods sold=1,00,000 - 75,000 **= ₹ 25,000**

CHAPTER 09

ADJUSTMENTS IN PREPARATION OF FINANCIAL STATEMENTS

Meaning of Adjustment entries:

Adjustment entries are journal entries made at the end of an accounting period to update and correct account balances before preparing financial statements. They ensure that financial statements accurately reflect a business's financial position based on the accrual method of accounting.

PURPOSE OF ADJUSTMENT ENTRIES

Adjustment entries are made at the end of an accounting period to ensure that the final accounts show the **TRUE PROFIT OR LOSS** and the **TRUE FINANCIAL POSITION** of the business.

1. To ensure the accuracy and completeness of financial statements and to make them align with the **ACCRUAL BASIS OF ACCOUNTING.**

Records incomes when earned and expenses when incurred.

2. To determine the **TRUE NET PROFIT OR LOSS** of a business by including all relevant income and expenses for the period.

REVENUES (Earned) - EXPENSES (Incurred) = NET PROFIT OR LOSS

INCOME STATEMENT (Profit or Loss Account)

All incomes and expenses of the period are included.

BALANCE SHEET

Assets and Liabilities are accurately stated.

3. Adjustments are also essential for reflecting the **TRUE FINANCIAL POSITION** of a company on the **BALANCE SHEET.**

Ensures that Assets and Liabilities are accurately stated.

4. Adjustment entries are used to **RECTIFY ERRORS** made in the books of account during the accounting period.

5. To record **UNRECORDED ITEMS** such as:

- INCOMES ACCRUED BUT NOT RECEIVED
- EXPENSES INCURRED BUT NOT YET PAID

IN SHORT

Adjustments ensure that:

- ✓ All transactions of the period are recorded.
- ✓ Final accounts are accurate and complete.
- ✓ True Profit/Loss and True Financial Position are revealed.

6. The purpose of making various adjustments is to ensure that the final accounts reveal the **TRUE PROFIT OR LOSS** and the **TRUE FINANCIAL POSITION** of the business.

Adjustments in Financial Statements

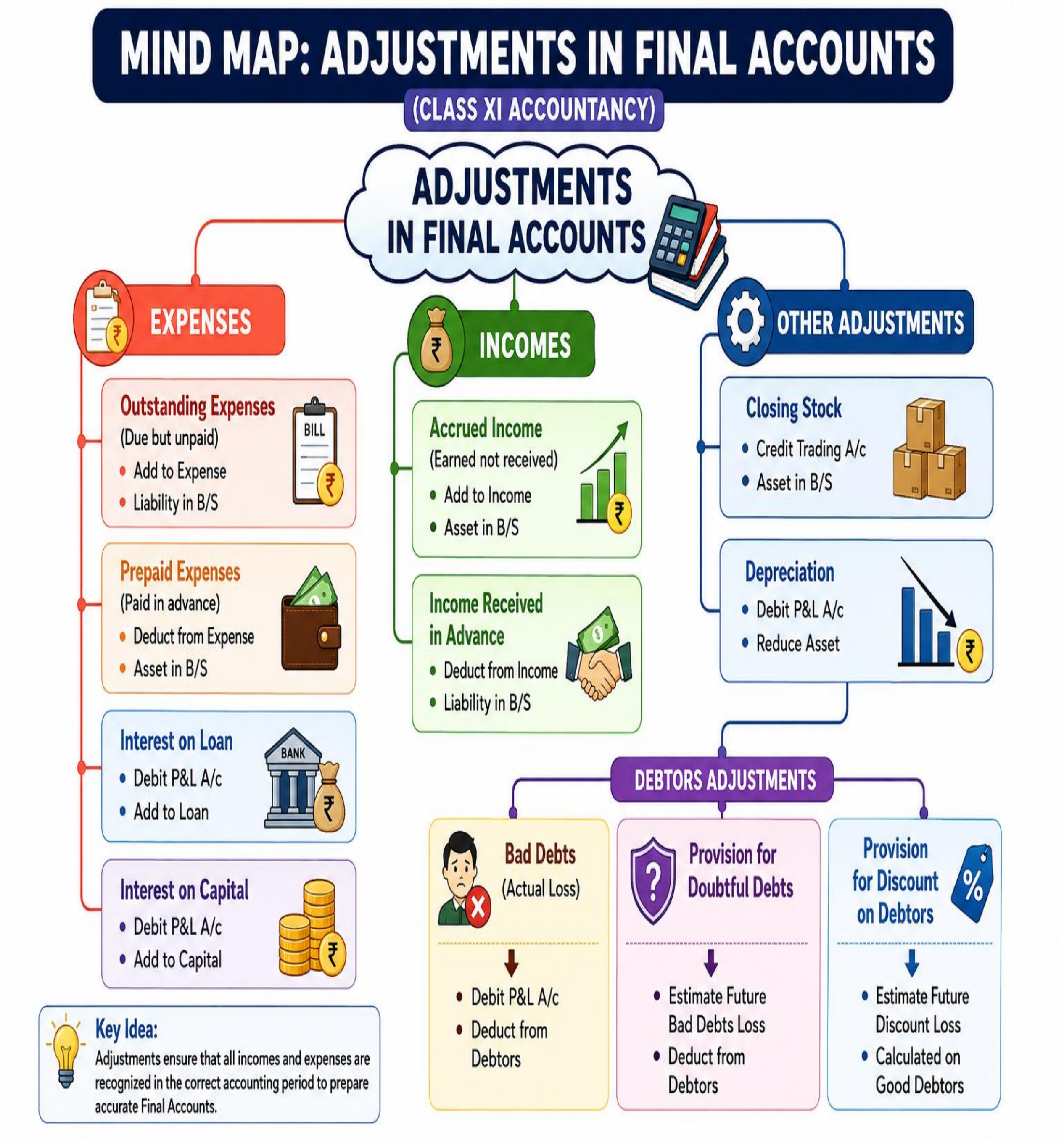
S. No.	Adjustment	Purpose / Meaning
1	Closing Stock	Unsold goods remaining at the end of the accounting period.
2	Outstanding Expenses	Expenses incurred but not yet paid.
3	Prepaid Expenses	Expenses paid in advance for future periods.
4	Accrued Income	Income earned but not yet received.
5	Income Received in Advance	Income received before it is earned.
6	Depreciation	Reduction in the value of fixed assets due to use, wear and tear, or obsolescence.
7	Bad Debts	Amounts due from debtors that are irrecoverable.
8	Provision for Doubtful Debts	Estimated amount of debts that may become bad in future.
9	Provision for Discount on Debtors	Reserve created for discount likely to be allowed to debtors.
10	Abnormal Loss	Loss arising from unusual events such as fire, theft, or accident.
11	Goods Taken for Personal Use / Staff Welfare	Goods withdrawn by the proprietor for personal use or distributed for staff welfare.
12	Interest on Capital	Interest allowed to the proprietor on capital invested in the business.
13	Manager’s Commission	Commission payable to the manager based on net profit as per agreement.

Memory Trick for Adjustments:

"Inside = Once, Outside = Twice"

Inside Trial Balance → Write **Once**

Outside Trial Balance (Adjustments) → Write **Twice**



MIND MAP: ADJUSTMENTS IN FINAL ACCOUNTS

(CLASS XI ACCOUNTANCY)

ADJUSTMENTS IN FINAL ACCOUNTS

EXPENSES

Outstanding Expenses
(Due but unpaid)
- Add to Expense
- Liability in B/S

Prepaid Expenses
(Paid in advance)
- Deduct from Expense
- Asset in B/S

Interest on Loan
- Debit P&L A/c
- Add to Loan

Interest on Capital
- Debit P&L A/c
- Add to Capital

Key Idea:
Adjustments ensure that all incomes and expenses are recognized in the correct accounting period to prepare accurate Final Accounts.

INCOMES

Accrued Income
(Earned not received)
- Add to Income
- Asset in B/S

Income Received in Advance
- Deduct from Income
- Liability in B/S

OTHER ADJUSTMENTS

Closing Stock
- Credit Trading A/c
- Asset in B/S

Depreciation
- Debit P&L A/c
- Reduce Asset

DEBTORS ADJUSTMENTS

Bad Debts
(Actual Loss)
- Debit P&L A/c
- Deduct from Debtors

Provision for Doubtful Debts
- Estimate Future Bad Debts Loss
- Deduct from Debtors

Provision for Discount on Debtors
- Estimate Future Discount Loss
- Calculated on Good Debtors

Adjustment	Trading A/c	P & L A/c	Balance Sheet
Loss of Goods (Not Insured)	Deduct from Purchases/ Credit Side	Net Loss (Debit Side)	No Asset
Loss of Goods (Full Claim Accepted)	Deduct from Purchases/ Credit Side	No Loss	Insurance Claim (Asset)
Loss of Goods (Partial Claim)	Deduct from Purchases/ Credit Side	Uninsured Loss (Debit Side)	Insurance Claim (Asset)
Goods Taken by Proprietor	Deduct from Purchases	—	Deduct from Capital
Goods Distributed as Samples	Deduct from Purchases	Advertisement Expense	—
Goods Given as Charity	Deduct from Purchases	Charity Expense	—
Contingent Liability	—	—	Footnote Only

***Treatment of Further Bad Debts, Provision for Doubtful Debts & Provision for Discount on Debtors*.**

Adjustment Entries and Their Treatment

Adjustment	Journal Entry	Treatment in Profit & Loss A/c	Treatment in Balance Sheet
Further Bad Debts Written Off	Bad Debts A/c Dr. To Sundry Debtors A/c	Added to Bad Debts on Debit side of P&L A/c	Deducted from Sundry Debtors
Creation of New Provision for Doubtful Debts	Profit & Loss A/c Dr. To Provision for Doubtful Debts A/c	Debit side of P&L A/c (New Provision – Old Provision)	Deducted from Sundry Debtors
Creation of Provision for Discount on Debtors	Profit & Loss A/c Dr. To Provision for Discount on Debtors A/c	Debit side of P&L A/c	Deducted from Debtors after deducting Bad Debts and Provision for Doubtful Debts

Profit & Loss Account (Extract)

Particulars	Amt (₹)	Particulars	Amt (₹)
To Bad Debts	xxx		
Add: Further Bad Debts	xxx		
Total Bad Debts	xxx		
To Increase in Provision for Doubtful Debts	xxx		
(New Provision – Old Provision)			
To Provision for Discount on Debtors	xxx		

Balance Sheet (Assets Side)

Particulars	Amt (₹)
Sundry Debtors	xxx
Less: Further Bad Debts	(xxx)
Less: Provision for Doubtful Debts	(xxx)
Less: Provision for Discount on Debtors	(xxx)
Net Sundry Debtors	xxx

Working Note

Particulars	Amt (₹)
Sundry Debtors	xxx
Less: Further Bad Debts	(xxx)
Debtors after Bad Debts	xxx
Less: Provision for Doubtful Debts @ ___%	(xxx)
Debtors after Provision for Doubtful Debts	xxx
Less: Provision for Discount on Debtors @ ___%	(xxx)
Net Debtors shown in Balance Sheet	xxx
Increase in Provision for Doubtful Debts = New Provision – Old Provision	xxx
Provision for Discount on Debtors is calculated on Debtors remaining after deducting Further Bad Debts and Provision for Doubtful Debts.	

Manager's Commission – Journal Entry, Calculation and Treatment

Particulars	Details
Meaning	Sometimes, in addition to salary, a manager is entitled to a commission on net profit to motivate him to improve business performance.
Nature of Adjustment	Outstanding Expense at the end of the accounting period.
Adjusting Journal Entry	**Manager's Commission A/c Dr.** **To Outstanding Commission A/c**
Treatment in Profit & Loss A/c	Shown on the **Debit Side** as an expense.
Treatment in Balance Sheet	Shown under **Current Liabilities** as **Outstanding Commission**.

Calculation of Manager's Commission

Basis of Commission	Formula
1. Commission on Net Profit Before Charging Such Commission	Commission = Net Profit before Commission × Commission Rate / 100
2. Commission on Net Profit After Charging Such Commission	Commission = Net Profit before Commission × Commission Rate / (100 + Commission Rate)

S.No	PRACTICE QUESTIONS -01 MARK
1	At the end of the accounting year, salary of ₹ 8,000 remains unpaid. Which of the following treatments is correct? A. Add to Salary Expense and show as Asset B. Deduct from Salary Expense and show as Liability C. Add to Salary Expense and show as Liability D. Show only in Balance Sheet
2	If manager is entitled to a commission of 5% on the profits before charging his commission, he will get a commission of ₹ on a net profit of Rs.16800 (A) ₹ 800 (B) ₹ 884 (C) ₹ 840 (D) ₹ 1020
3	A business paid insurance premium of ₹12,000 for one year on 1st January 2025. On 31st March 2025, the prepaid portion will be shown: A. Debit side of Trading A/c B. Asset side of Balance Sheet C. Liability side of Balance Sheet D. Credit side of P&L A/c
4	**Assertion (A):** Closing stock appears on the credit side of Trading Account. **Reason (R):** Closing stock represents goods unsold at the end of the accounting period. A. Both A and R are true, and R is the correct explanation of A. B. Both A and R are true, but R is not the correct explanation of A. C. A is true, but R is false. D. A is false but R is true.

5 In the Trial Balance are shown Debtors ₹2,400, Bad Debts ₹ 221, Bad Debts Provision ₹ 324. For creating a Provision for Doubtful debts @ 10% on debtors the P & L A/c will be debited by :

(A) ₹ 137 (B) ₹ 173 (C) ₹ 373 (D) ₹ 82

6 **Read the following information**:

A firm has debtors of ₹1,00,000. It creates:

- Provision for Doubtful Debts @ 5%
- Provision for Discount on Debtors @ 2%

Which statement is correct?

A. Both provisions are shown on the Liability side.
B. Both provisions are deducted from Debtors.
C. Only Provision for Discount is deducted from Debtors.
D. Only Provision for Doubtful Debts is deducted from Debtors.

7 Case of bonus pending in court till the date of final accounts is shown:

(A) P & L A/c (B) Liabilities (C) Assets (D) Footnotes

8 Consider the following statements:

Statement I: Interest on Capital is an expense for the business.

Statement II: Interest on Capital is added to the proprietor's capital account.

A. Both Statements I and II are true. B. Both Statements I and II are false.
C. Statement I is true, but Statement II is false. D. Statement I is false, but Statement II is true.

9 Consider the following statements:

Statement I: Goods withdrawn by the owner for personal use are treated as drawings.

Statement II: Such goods are added to purchases in the Trading Account.

A. Both statements are true.
B. Both statements are false.
C. Statement I is true, but Statement II is false.
D. Statement I is false, but Statement II is true.

10 The following adjustments were identified at year-end:

1. Manager's commission ₹15,000 remains unpaid.
2. Income earned but not received ₹6,000.
3. Rent received in advance ₹4,000.

Which of the following will appear on the Liability side of the Balance Sheet?

A. Accrued income only
B. Manager's commission outstanding and rent received in advance
C. Accrued income and manager's commission outstanding
D. All three items

3 MARKS QUESTIONS

1 A business received rent of ₹24,000 during the year. It was found that ₹6,000 relates to the next year. Explain why the entire ₹24,000 cannot be treated as current year's income.

2 A debtor owing ₹5,000 became insolvent. The business expects that 3% of the remaining debtors may also become doubtful. Why are Bad Debts and Provision for Doubtful Debts treated separately?

3 A machine costing ₹1,50,000 is depreciated @10% p.a. A student argues that depreciation should be shown only in the Balance Sheet because no cash is paid. Do you agree? Give reasons.

4 Business distributed goods costing ₹4,000 as free samples to customers. Why is this adjustment not shown as drawings?

5 The following adjustments are to be made:

- Closing Stock ₹40,000
- Goods withdrawn by proprietor ₹5,000.
- Goods distributed as free samples ₹3,000

State the accounting treatment of each item.

Q.N **4 MARKS QUESTIONS**

1 Suresh’s Trial Balance as on 31st March,2025gives the following information:

Head of Accounts	Dr. Amt (₹)	Cr. Amt (₹)
10%Investment	2,00,000	---
Interest Received	-------	5,000

Show how the above items would appear in the Profit& Loss Account and Balance Sheet.

2

Head of Accounts	Dr. Amt (₹)	Cr. Amt (₹)
Debtors	6,00,000	
Prov. for doubtful debts		20,000
Bad debts	10,000	

Additional Information:

(i) Further Bad Debts ₹15,000.

(ii) Maintain Provision for Doubtful Debts @ 5%.

(iii) Create Provision for Discount on Debtors @ 2%.

Show the treatment of all adjustments in the Profit & Loss Account and Balance Sheet.

3

Head of Accounts	Dr. Amt (₹)	Cr. Amt (₹)
Machinery	4,00,000	
Bank loan		2,00,000

Additional Information:

A. Depreciate Machinery @ 10%.

B. Interest on Loan @ 12% is outstanding for one year.

C.Show the treatment in the Profit & Loss Account and Balance Sheet.

4 Commission received during the year is ₹15,000. Further commission of ₹3,000 has become due but not received. Pass adjustment entry and show treatment.

5

Head of Accounts	Dr. Amt (₹)	Cr. Amt (₹)
Debtors	6,00,000	
Prov. for doubtful debts		20,000
Bad debts	10000	

Additional Information:

1. Further Bad Debts ₹12,000.
2. Maintain Provision for Doubtful Debts @ 8% on Debtors.

Show the treatment of the above items in the Profit & Loss Account & Balance Sheet.

6 MARKS QUESTIONS

1 From the following Trial Balance and other information, prepare Trading & Profit and Loss Account for the year ended 31st March 2025 and Balance Sheet as at that date:

Particular	Dr. (₹)	Cr. (₹)
Sundry Debtors	3,50,000	
Stock on1stApr,2023	2,50,000	
Cash in Hand	400	
Cash at Bank	18,000	
Plant and Machinery	2,00,000	
Sundry Creditors		1,20,000
General Expenses	12,000	
Sales		14,50,000
Salaries	25,000	
Carriage Inwards	5000	
Rent	10,000	
Bills Payable		80,000
Purchases	12,50,000	
Discounts	11,000	
Premises	4,00,000	
Capitalon1stApr,2018		8,50,000
Insurance	1,000	
Commission Received		32,400
Total	25,32,400	25,32,400

Additional Information:

1.Closing stock ₹25,000

2.Provide bad debts ₹12,000 and create provision for doubtful debts @5%

3.Charge depreciation@10% on Plant and Machinery

4.There is prepaid insurance of ₹500

5.Outstanding rent ₹1,000

2 Below is the Trial Balance of Sh. Gopi Chand on 31st March 2023. You are required to prepare Trading and Profit and Loss account for the year ended 31st March 2023 and Balance sheet as at that date using the following adjustment

Debit Balances	₹	Credit Balances	₹

Opening Stock	45,000	Sundry Creditors	22,100
Purchases	1,20,000	Return Outwards	2,500
Return Inwards	3,200	Sales	3,50,000
Carriage Inwards	2,400	Capital	2,00,000
Carriage Outwards	1,500	Loan from Bank	24,000
Office Furniture	8,000	Discount Received	2,000
Sundry Debtors	68,000	Commission	1,600
Dock Charges	5,000		
Electric Charges	10,000		
Fuel, Gas and Water	12,000		
Bad debts	1,100		
Advertisement	25,000		
Salary	36,000		
Cash in hand	8,100		
Cash at bank	30,000		
Motor vehicles	58,000		
Repairs	3,000		
Interest on Bank Loan	2,400		
Rent	24,500		
Business Premises	1,06,000		
Drawings	33,000		
	6,02,200		**6,02,200**

Adjustments:

a) Stock at the end is ₹75,000

b) Outstanding Wages is ₹500

c) Bad debts are ₹ 2000 and provision for bad debts is 5% on sundry debtors.

d)Depreciation on Motor vehicles is 10% p. a

3 Following balances were extracted from the books of Vijay on 31st March 2021

Particulars	Amount (₹)	Particulars	Amount (₹)
Drawings	20,000	Capital	2,45,000
General Expense	47,400	Creditors	25,000
Building	1,10,000	Loan	78,800
Insurance	13,150	Sales	6,53,600
Wages	72,000	Provision of Doubtful Debts	9,000
Debtors	62,800	Bills payable	38,500
Machinery	93,400	Bank overdraft	33,000
Bad Debts	5,500	Commission	13,200
Stockon1stApril, 2020	1,62,000		
Motor Car	20,000		
Purchases	4,70,000		
Car expenses	18,000		
Cash	800		
Charity	1,050		

Total	**10,96,100**	**Total**	**10,96,100**

Prepare Trading and Profit and Loss Account for the year ended 31st March,2021and Balance Sheet as at that date after giving effect to the following adjustments:

1. Stock as on 31stMarch, 2021 was valued at ₹2,30,000.
2. Write off further ₹ 1,800 as bad debts and maintain the provision for Doubtful Debts at 5%.
3. Depreciate Machinery at 10%.
4. Provide ₹ 7,000 as outstanding interest on loan.

ANSWERS -1 MARKS QUESTIONS

Q.NO.	**1-c**	**2-c**	**3-b**	**4-a**	**5-a**	**6-b**	**7-d**	**8-a**	**9-c**	**10-b**

ANSWERS -3 MARKS QUESTIONS

Q.NO	ANSWERS	MM
1	• According to the Matching Principle, only current year's income should be recorded. • ₹6,000 relates to the next year. • Therefore: Income in P&L A/c = ₹18,000 • ₹6,000 shown as Liability (Income Received in Advance). Therefore: Income in P&L A/c = ₹18,000	3
2	• Bad Debts represent actual loss already incurred. • Provision for Doubtful Debts represents expected future loss. • Both are charged to P&L A/c but shown separately.	3
3	No. Depreciation is an expense of the business. It reduces net profit and must be debited to P&L A/c. It is also deducted from Machinery in the Balance Sheet.	3
4	• Goods were used for business promotion. • It is an advertisement expense, not personal use. • Therefore: Purchases are reduced by ₹4,000. Advertisement Expense is debited in P&L A/c	3
5	see table below	3

Adjustment	**Trading A/c**	**P&L A/c**	**Balance Sheet**
Closing Stock	Credit Side ₹40,000	—	Asset ₹40,000
Drawings	Deduct from Purchases	—	Deduct from Capital
Free Samples	Deduct from Purchases	Advertisement Expense ₹3,000	—

ANSWERS -4 MARKS QUESTIONS

1

Solution: **Profit and Loss A/c For the year ended.....**

4

Particulars	Amount	Particulars	Amt
		Interest 5,000 **Add:** Accrued Interest 15,000	20,000

Balance Sheet As on ....

Liabilities	Amount	Assets	Amount
		Investment 2,00,000 **Add:** Accrued Interest 15,000	2,15,000

2

4

Step 1: Calculate Adjusted Debtors
Debtors = ₹6,00,000
Less: Further Bad Debts = ₹15,000
Adjusted Debtors = ₹5,85,000

Step 2: Calculate New Provision for Doubtful Debts
Provision @ 5% on ₹5,85,000 = ₹5,85,000 × 5/100= ₹29,250
Existing Provision = ₹20,000
Increase in Provision = ₹29,250 − ₹20,000= ₹9,250

Step 3: Calculate Provision for Discount on Debtors
Provision for Discount is calculated after deducting Provision for Doubtful Debts from Debtors.
Good Debtors = ₹5,85,000 − ₹29,250= ₹5,55,750
Provision for Discount @ 2% = ₹5,55,750 × 2/100= ₹11,115

P&L A/c For the year ended.....

Particulars		Amt (₹)	Particulars	Amt (₹)
To Bad debts	10,000			
Add :further bad debts	15,000			
Add :PFDD	9,250			
Add :prov. for discount on debtors	11,115	45365		

Balance Sheet As on ....

Liabilities	Amt (₹)	Assets		Amt (₹)
		Debtors:	6,00,000	
		Less :further bad debts	15,000	
		less :PFDD	29,250	
		Less :prov. for discount on debtors	11,115	5,44,635

3

Step 1: Calculate Depreciation on Machinery
Machinery = ₹4,00,000
Depreciation @ 10%
= ₹4,00,000 × 10/100 = **₹40,000**

Step 2: Calculate Outstanding Interest on Loan
Bank Loan = ₹2,00,000
Interest @ 12% p.a.
= ₹2,00,000 × 12/100 = **₹24,000**
Since the interest is outstanding for one year, the entire amount remains unpaid.

Treatment in Profit & Loss Account &Profit & Loss Account (Debit Side)

Particulars	Amount (₹)
Depreciation on Machinery	40,000
Interest on Bank Loan	24,000
Total	**64,000**

Balance Sheet As on ....

Liabilities	Amt (₹)	Assets	Amt (₹)
Bank Loan 2,00,000 Add: Outstanding Interest on Loan 24,000	2,24,000	Machinery 4,00,000 Less: depreciation 40,000	3,60,000

4

4

Adjusting Entry:

Accrued Commission A/c Dr. ₹3,000

To Commission A/c ₹3,000

Treatment:

Profit & Loss Account (Credit): ₹18,000

Balance Sheet (Assets): Accrued Commission ₹3,000

4

5

Step 1: Calculate Adjusted Debtors

Debtors = ₹6,00,000

Less: Further Bad Debts = ₹12,000

Adjusted Debtors = **₹5,88,000**

Step 2: Calculate New Provision for Doubtful Debts

Provision required @ 8% on ₹5,88,000:- 588000*5/100=47040

Existing Provision = ₹20,000 Additional Provision required:

₹47,040−₹20,000=₹27,040

P&L A/c(For the year ended.....)

Particulars	Amt (₹)	Particulars	Amt (₹)
To Bad debts 10,000 Add :further bad debts 12,000 Add :PFDD 27,040	49,040		

Balance Sheet As on ....

Liabilities	Amt (₹)	Assets	Amt (₹)
		Debtors: 6,00,000 Less :further bad debts 12,000 less :PFDD 47,040	5,40,960

4

ANSWERS -6 MARKS QUESTIONS

1 **Trading and Profit and Loss A/c for *the year ended 31stMarch 2025*** 6

Dr. (Expenses/Losses)	Amt (₹)	Cr. (Incomes/Gains)	Amt (₹)
To Opening Stock	2,50,000	By Sales	14,50,000
To Purchases	12,50,000	By Closing Stock	25,000
To Carriage Inwards	5,000	By Gross Loss c/d	30,000
Trading Account Total	**15,05,000**	**Trading Account Total**	**15,05,000**
To General Expenses	30,000	By Gross Loss b/d	30,000
To Salaries	12,000	By Commission	32,400
To Bad Debts	25,000	By Net Loss (Tr to Capital A/c)	1,06,000
To Provision for Doubtful Debts	12,000		
To Depreciation on Plant & Machinery	16,900		
To Rent	10,000		
Add: Outstanding Rent	1,000		
Adjusted Rent	**11,000**		
To Insurance	1,000		
Less: Prepaid Insurance	(500)		
Adjusted Insurance	**500**		
To Discount Allowed	11,000		
Total	**1,68,400**	**Total**	**1,68,400**

Balance Sheet
As on31st March 2025

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital	8,50,000	**Sundry Debtors**	3,50,000
Less: Net Loss	(1,06,000)	Less: Bad Debts	(12,000)
Adjusted Capital	**7,44,000**	Less: Provision for Doubtful Debts	(16,900)
Sundry Creditors	1,20,000	**Net Sundry Debtors**	**3,21,100**
Bills Payable	80,000	Closing Stock	25,000
Outstanding Rent	1,000	Cash in Hand	400
		Cash at Bank	18,000
		Plant & Machinery	2,00,000
		Less: Depreciation	(20,000)
		Plant & Machinery (Net)	**1,80,000**
		Prepaid Insurance	500
		Premises	4,00,000
Total	**9,45,000**	**Total**	**9,45,000**

2

Trading and Profit & Loss Account for the Year Ended 31st March 2023

6

Dr. (Expenses/Losses)	Amt (₹)	Cr. (Incomes/Gains)	Amt (₹)
To Opening Stock	45,000	**By Sales**	3,50,000
To Purchases	1,20,000	Less: Return Inwards	(3,200)
Less: Return Outwards	(2,500)	**Net Sales**	**3,46,800**
Net Purchases	**1,17,500**	By Closing Stock	75,000
To Carriage Inwards	2,400		
To Dock Charges	5,000		
To Electric Charges	10,000		
To Fuel, Gas and Water	12,000		
To Outstanding Wages (Adj. b)	500		
To Gross Profit c/d (Balancing Figure)	2,29,400		
Trading Account Total	**4,21,800**	**Trading Account Total**	**4,21,800**
To Carriage Outwards	1,500	By Gross Profit	2,29,400
To Bad Debts	1,100	By Discount Recd	2,500
Add: Further Bad Debts (Adj. c)	2,000	By Commission	1,100
Add: New Provision for Bad Debts (Adj. c)	3,300		
Total Bad Debts & Provision	**6,400**		
To Advertisement	25,000		
To Salary	36,000		
To Repairs	3,000		
To Interest on Bank Loan	2,400		
To Rent	24,500		
To Depreciation on Motor Vehicles (Adj.d)	5,800		
To Net Profit (Transferred to Capital A/c)	1,28,400		
Total	**2,33,000**	**Total**	**2,33,000**

Balance Sheet *As at 31st March 2023*

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Capital	2,00,000		**Fixed Assets:**		
Add: Net Profit	1,28,400		Business Premises		1,06,000
	3,28,400		Office Furniture		8,000
Less: Drawings	(33,000)	**2,95,400**	Motor Vehicles	58,000	
			Less: Depreciation (10%)	(5,800)	**52,200**
Current Liabilities:			**Current Assets:**		
Loan from Bank		24,000	Closing Stock		75,000
Sundry Creditors		22,100	Sundry Debtors	68,000	
Outstanding Wages		500	*Less: Further Bad Debts*	(2,000)	
				66,000	
			Less: Provision for Bad Debts (5%)	(3,300)	**62,700**
			Cash at Bank		30,000
			Cash in Hand		8,100
Total		**3,42,000**	**Total**		**3,42,000**

3

Trading and Profit & Loss Account For the year ended 31st March 2021

6

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Opening Stock	1,62,000	**By Sales**	6,53,600
To Purchases	4,70,000	**By Closing Stock**	2,30,000
To Wages	72,000		
To Gross Profit c/d	1,79,600		
Total	**8,83,600**	**Total**	**8,83,600**
To General Expense	47,400	**By Gross Profit**	1,79,600
To Insurance	13,150	**By Commission**	13,200
To Charity	1,050		
To Car Expenses	18,000		
To Bad Debts	5,500		
Add: Further Bad Debts	1,800		
Add: New Provision (5% of ₹59,500)	2,975		
Total Bad Debts & Provision	10,275		
Less: Old Provision	(9,000) 1,275		
To Depreciation on Machinery	9,340		
To Outstanding Interest on Loan	7,000		
To Net Profit	1,04,385		
Total	**1,92,800**	**Total**	**1,92,800**

(Note: New Provision is calculated on Debtors after further bad debts, i.e., ₹62,800 - ₹1,800 = ₹59,500. 5% of ₹59,500 = ₹2,975).

Balance Sheet as on 31st March, 2021

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Capital Account			**Fixed Assets**		
Opening Balance	2,45,000		Building		1,10,000
Add: Net Profit	1,04,385		Machinery	93,400	
	3,49,385		Less: Depreciation (10%)	(9,340)	84,060
Less: Drawings	(20,000)	3,29,385	Motor Car		20,000
Long-Term Liabilities					
Loan	78,800		**Current Assets**		
Add: Outstanding Interest	7,000	85,800	Closing Stock		2,30,000
Current Liabilities			Debtors	62,800	
Creditors		25,000	Less: Further Bad Debts	(1,800)	
Bills Payable		38,500		61,000	
Bank Overdraft		33,000	Less: New Provision (5%)	(3,050)	57,950
			Cash		800
Total		**5,11,685**	**Total**		**5,11,685**

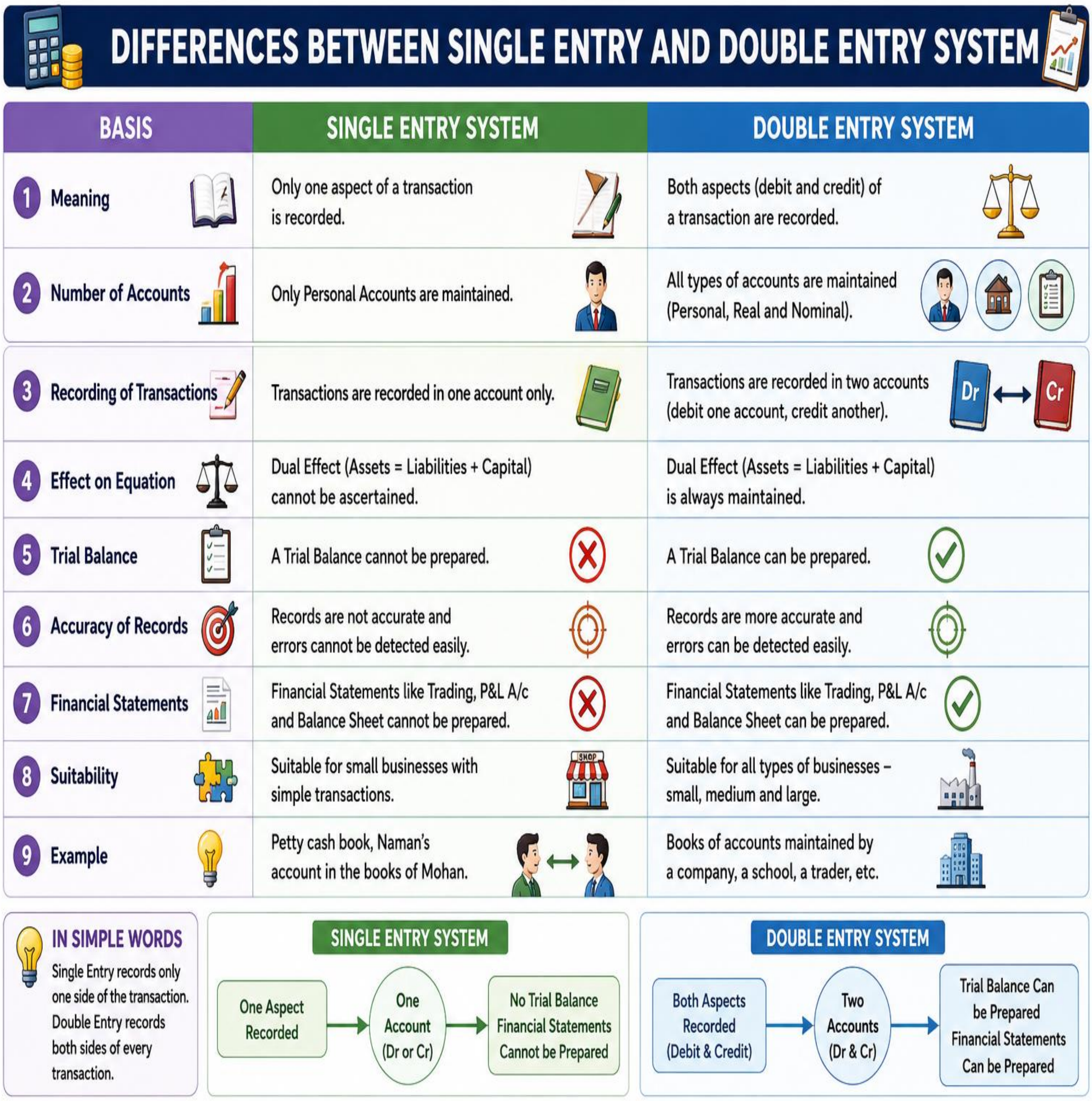
ACCOUNTS FROM INCOMPLETE RECORDS
(SINGLE ENTRY SYSTEM)

<u>Meaning:</u>

It is a system where all accounts are not maintained properly as per double entry. It is used by small businesses.

Features:

1. Only personal and cash accounts are maintained.
2. Real and nominal accounts may not be recorded.
3. It is simple and easy to use.
4. It is not reliable for financial decisions. **Limitations:**
1. True profit or loss cannot be calculated.
2. Financial position cannot be known accurately.
3. Errors and frauds cannot be easily detected.



DIFFERENCES BETWEEN SINGLE ENTRY AND DOUBLE ENTRY SYSTEM

BASIS	SINGLE ENTRY SYSTEM	DOUBLE ENTRY SYSTEM
1 Meaning	Only one aspect of a transaction is recorded.	Both aspects (debit and credit) of a transaction are recorded.
2 Number of Accounts	Only Personal Accounts are maintained.	All types of accounts are maintained (Personal, Real and Nominal).
3 Recording of Transactions	Transactions are recorded in one account only.	Transactions are recorded in two accounts (debit one account, credit another). Dr ↔ Cr
4 Effect on Equation	Dual Effect (Assets = Liabilities + Capital) cannot be ascertained.	Dual Effect (Assets = Liabilities + Capital) is always maintained.
5 Trial Balance	A Trial Balance cannot be prepared. ✗	A Trial Balance can be prepared. ✓
6 Accuracy of Records	Records are not accurate and errors cannot be detected easily.	Records are more accurate and errors can be detected easily.
7 Financial Statements	Financial Statements like Trading, P&L A/c and Balance Sheet cannot be prepared. ✗	Financial Statements like Trading, P&L A/c and Balance Sheet can be prepared. ✓
8 Suitability	Suitable for small businesses with simple transactions.	Suitable for all types of businesses – small, medium and large.
9 Example	Petty cash book, Naman's account in the books of Mohan.	Books of accounts maintained by a company, a school, a trader, etc.

IN SIMPLE WORDS

Single Entry records only one side of the transaction. Double Entry records both sides of every transaction.

SINGLE ENTRY SYSTEM

One Aspect Recorded → One Account (Dr or Cr) → No Trial Balance Financial Statements Cannot be Prepared

DOUBLE ENTRY SYSTEM

Both Aspects Recorded (Debit & Credit) → Two Accounts (Dr & Cr) → Trial Balance Can be Prepared Financial Statements Can be Prepared

Statement of Affairs Method (Single Entry System) – Short Notes

Meaning:

The **Statement of Affairs Method** is used to calculate the profit or loss of a business when complete accounting records are not maintained under the **Single-Entry System**. It is similar to a Balance Sheet but is prepared from incomplete records.

Objective: - To find out:

- **Opening Capital**
- **Closing Capital**
- **Profit or Loss** during the accounting period

Formula for Calculating Profit

Profit=Closing Capital+Drawings−Additional Capital Introduced−Opening Capital

If the result is negative, it represents **Loss**.

Steps Involved:

1. **Prepare Opening Statement of Affairs**
   - Determine opening capital.
   - Capital = Assets – Liabilities.
2. **Prepare Closing Statement of Affairs**
   - Determine closing capital at the end of the year.
3. **Calculate Profit or Loss**
   - Use the capital comparison method.

Features:

- Based on incomplete records.
- Similar in form to a Balance Sheet.
- Assets and liabilities are often estimated.
- Suitable for small businesses maintaining single-entry records.

Format of Statement of Affairs

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	xxx	Cash	xxx
Bank Loan	xxx	Debtors	xxx
Outstanding Expenses	xxx	Stock	xxx
Capital (Balancing Figure)	xxx	Furniture	xxx
Total	**xxx**	**Total**	**xxx**

Quick Exam Tip:- **Capital = Assets – Liabilities (Prepare Statement of Affairs at the beginning and end of the year, compare capitals, adjust drawings and additional capital introduced, and then calculate profit or loss)**

Statement of Profit or Loss… For the Year Ended ___________

Particulars	Amount (₹)
Capital at the End of the Year	XXXXX
Add: Drawings During the Year	XXXXX
Adjusted Closing Capital	XXXXX
Less: Capital at the Beginning of the Year	XXXXX
Add: Drawings During the Year (if not already adjusted)	XXXXX
Less: Additional Capital Introduced During the Year	XXXXX
Net Profit / Loss	XXXXX

PRACTICE QUESTIONS

(01) MARK QUESTIONS

1	**Rohan maintains records of cash received, cash paid, and personal accounts of debtors and creditors. He does not maintain complete accounting records. Which system of accounting is being followed by Rohan?** a) Double Entry System b) Single Entry System c) Cash Basis System d) Mercantile System	1
2	**A trader wants to ascertain profit under the Single-Entry System. He prepares Statements of Affairs at the beginning and end of the year. Which method is being used?** a) Balance Sheet Method b) Trading Account Method c) Statement of Affairs Method d) Cash Book Method	1
3	**Aman's business had total assets of ₹4,50,000 and external liabilities of ₹1,20, 000.The capital of the business will be:** (a) ₹3,30,000 (b) ₹5,70,000 (c) ₹4,50,000 (d) ₹1,20,000	1
4	**Assertion (A):** Single Entry System is an incomplete system of maintaining accounting records. **Reason (R):** Under this system, both aspects of every transaction are recorded completely. a) Both A and R are true, and R is the correct explanation of A. b) Both A and R are true, but R is not the correct explanation of A. c) A is true, but R is false. d) A is false, but R is true.	1
5	**Assertion (A):** Profit under the Statement of Affairs Method is determined by comparing the opening and closing capital of the business. **Reason (R):** In the Single-Entry System, complete records of all transactions are generally not maintained. a) Both A and R are true, and R is the correct explanation of A. b) Both A and R are true, but R is not the correct explanation of A. c) A is true, but R is false. d) A is false, but R is true.	1
6	**Statement I:** Single Entry System is also known as an incomplete system of accounting. **Statement II:** Trial Balance can always be prepared under Single Entry System. Choose the correct option: a) Both statements are true. b) Both statements are false. c) Statement I is true, but Statement II is false. d) Statement I is false, but Statement II is true.	1
7	**Statement I:** Capital under Statement of Affairs is calculated as Assets minus Liabilities.	1

	Statement II: Statement of Affairs is exactly the same as a Balance Sheet prepared under Double Entry System. a) Both statements are true. b) Both statements are false. c) Statement I is true, but Statement II is false. d) Statement I is false, but Statement II is true.	
8	Neha runs a boutique and follows the Single-Entry System. Her accountant informed her that some business information cannot be obtained accurately because complete records are not maintained. Which of the following is a limitation of Single-Entry System? (a) Easy error detection (b) Complete records (c) Inaccurate determination of profit (d) Preparation of Trial Balance	1
9	At the beginning of the year, Mohan's assets were ₹5,00,000 and liabilities were ₹1,50,000. At the end of the year, assets became ₹6,80,000 and liabilities ₹2,00,000. During the year, he introduced additional capital of ₹50,000 and withdrew ₹30,000 for personal use. Profit for the year is: (a) ₹3,50,000 (b) ₹5,00,000 (c) ₹1,50,000 (d) ₹6,50,000	1
10	Aman runs a small stationery shop. He maintains a cash book and keeps records of amounts receivable from customers and payable to suppliers. However, he does not maintain complete books of accounts. On 1st April 2024, his capital was ₹2,50,000. On 31st March 2025, his capital was ₹3,20,000. During the year, he withdrew ₹20,000 for personal use and introduced additional capital of ₹30,000. Which system of accounting is being followed by Aman? a) Double Entry System b) Single Entry System c) Cash Basis Accounting d) Computerised Accounting	1

3 MARKS QUESTIONS

<table>
<tr><th>Q.NO</th><th></th><th>MM</th></tr>
<tr><td>1</td><td>A trader maintains only a cash book and personal accounts of debtors and creditors. He does not record all transactions completely. Answer the following:
a) Which system of accounting is being followed?
b) State one advantage of this system. c)State one limitation of this system.</td><td>3</td></tr>
<tr><td>2</td><td>The following information relates to M/s Raj Traders as on 31st March 2025:
<table>
<tr><th>Particulars</th><th>(₹)</th></tr>
<tr><td>Cash in Hand</td><td>20,000</td></tr>
<tr><td>Debtors</td><td>80,000</td></tr>
<tr><td>Stock</td><td>1,50,000</td></tr>
<tr><td>Furniture</td><td>50,000</td></tr>
<tr><td>Creditors</td><td>70,000</td></tr>
<tr><td>Bank Loan</td><td>30,000</td></tr>
</table>
Calculate the Capital by preparing a Statement of Affairs.</td><td>3</td></tr>
</table>

3 The capital of a business on 1st April 2024 was ₹2,80,000. On 31st March 2025, it was ₹3,60,000. During the year, the proprietor withdrew ₹25,000 for personal use and introduced additional capital of ₹15,000. Calculate the profit earned. 3

4 Read the following information: 3

- Assets on 1 April 2024 = ₹6,00,000
- Liabilities on 1 April 2024 = ₹2,20,000
- Assets on 31 March 2025 = ₹7,40,000
- Liabilities on 31 March 2025 = ₹2,60,000
- Drawings during the year = ₹40,000
- Additional Capital Introduced = ₹20,000

Calculate the profit earned during the year.

5 A trader says, "Since I can calculate my profit using the Statement of Affairs Method, there is no need for me to maintain complete books of accounts. "Do you agree with the statement? Give any **two reasons** in support of your answer. 3

4 MARKS QUESTIONS

1 The following information was extracted from the records of M/s Gupta Traders: **4**

Particulars	Opening (₹)	Closing (₹)
Cash in Hand	30,000	45,000
Debtors	1,20,000	1,50,000
Stock	1,80,000	2,20,000
Furniture	70,000	90,000
Building	2,00,000	2,00,000
Total Assets	**6,00,000**	**7,05,000**
Creditors	1,00,000	1,20,000
Bank Loan	80,000	90,000
Outstanding Expenses	40,000	50,000
Total Liabilities	**2,20,000**	**2,60,000**

Additional capital introduced during the year amounted to ₹40,000 and drawings were ₹25,000. Calculate the profit earned during the year using the Statement of Affairs Method.

2 Mohan Lal keeps incomplete records of his business. From the following particulars to determine the profit/loss made by his business during the Accounting Period. **4**

Particulars	1-4-2023	31-03-2024
Cash in Hand	4,500	3,500
Bank Balance	8,500	7,500
Furniture	12,000	10,800
Stock	21,800	23,000
Creditors	24,000	25,400
Debtors	23,600	24,800

<table>
<tr><td></td><td>Additional information: - During the year, he withdrew Rs.500 per month for household needs and withdrew goods worth Rs.3,000 for domestic purpose. During the year, he sold his motorbike for Rs.10,000 and introduced Rs.8,000 into the business. Compute his Profit or Loss during the year.</td><td></td></tr>
<tr><td>4</td><td>The following information relates to the business of Mr. X:
<table>
<tr><th>Particulars</th><th>Amount (₹)</th></tr>
<tr><td>Capital at the end of the year</td><td>4,00,000</td></tr>
<tr><td>Drawings during the year</td><td>₹5,000 per month</td></tr>
<tr><td>Personal investment sold</td><td>80,000</td></tr>
<tr><td>Profit on sale of investment</td><td>25%</td></tr>
<tr><td>Amount introduced into business from sale proceeds</td><td>Entire amount</td></tr>
<tr><td>Profit earned during the current year</td><td>80,000</td></tr>
</table>
Calculate the Opening Capital using the Statement of Affairs Method.</td><td>4</td></tr>
</table>

Answers of 01) mark questions

ANS	**1-b**	**2-c**	**3-a**	**4-c**	**5-a**	**6-c**	**7-c**	**8-c**	**9-c**	**10-b**

ANSWERS FOR 3 MARKS QUESTIONS

<table>
<tr><td>1</td><td>A) Single Entry System B) It is simple and economical to maintain. C)Accurate profit and financial position cannot be determined.</td><td>3</td></tr>
<tr><td>2</td><td>Statement of Affairs
<table>
<tr><th>Liabilities</th><th>Amt (₹)</th><th>Assets</th><th>Amt (₹)</th></tr>
<tr><td>Creditors</td><td>70,000</td><td>Cash in Hand</td><td>20,000</td></tr>
<tr><td>Bank Loan</td><td>30,000</td><td>Debtors</td><td>80,000</td></tr>
<tr><td>Capital (Balancing Figure)</td><td>2,00,000</td><td>Stock</td><td>1,50,000</td></tr>
<tr><td></td><td></td><td>Furniture</td><td>50,000</td></tr>
<tr><td>Total</td><td>3,00,000</td><td>Total</td><td>3,00,000</td></tr>
</table></td><td>3</td></tr>
<tr><td>3</td><td>Profit = Closing Capital + Drawings − Additional Capital − Opening Capital
= ₹3,60,000 + ₹25,000 − ₹15,000 − ₹2,80,000 = ₹90,000.
Profit Earned = ₹ 90,000</td><td>3</td></tr>
<tr><td>4</td><td>Opening Capital = ₹ 6,00,000 − ₹ 2,20,000 = ₹ 3,80,000
Closing Capital = ₹ 7,40,000 − ₹ 2,60,000 = ₹ 4,80,000
Profit Earned = ₹ 4,80,000 + ₹ 40,000 − ₹ 20,000 − ₹ 3,80,000 = ₹ 1,20,000</td><td>3</td></tr>
<tr><td>5</td><td>No, I do not agree.
Reasons:
1. Profit calculated through the Statement of Affairs Method is only an estimate and may not be fully accurate.
2. Complete books of accounts help in detecting errors and frauds and provide a reliable picture of the financial position of the business.</td><td>3</td></tr>
</table>

ANSWERS FOR 4 MARKS QUESTIONS

1 4

Statement of affairs as on 1st April 2024

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	1,00,000	Cash in Hand	30,000
Bank Loan	80,000	Debtors	1,20,000
Outstanding Expenses	40,000	Stock	1,80,000
Capital (Balancing Figure)	3,80,000	Furniture	70,000
		Building	2,00,000
Total	**6,00,000**	**Total**	**6,00,000**

Statement of affairs as on 31st March 2025

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	1,20,000	Cash in Hand	45,000
Bank Loan	90,000	Debtors	1,50,000
Outstanding Expenses	50,000	Stock	2,20,000
Capital (Balancing Figure)	4,45,000	Furniture	90,000
		Building	2,00,000
Total	**7,05,000**	**Total**	**7,05,000**

Calculation of Profit

Particulars	Amt (₹)
Closing Capital	4,45,000
Add: Drawings	25,000
	4,70,000
Less: Additional Capital Introduced	(40,000)
Adjusted Capital	**4,30,000**
Less: Opening Capital	(3,80,000)
Profit Earned During the Year	**50,000**

2 4

Statement of Affairs as on 1 April 2023 (Opening)

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	24,000	Cash in Hand	4,500
Capital (Balancing Figure)	46,400	Bank Balance	8,500
		Furniture	12,000
		Stock	21,800
		Debtors	23,600
Total	**70,400**	**Total**	**70,400**

Statement of Affairs as on 31 March 2024 (Closing)

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	25,400	Cash in Hand	3,500
Capital (Balancing Figure)	44,200	Bank Balance	7,500
		Furniture	10,800
		Stock	23,000
		Debtors	24,800
Total	**69,600**	**Total**	**69,600**

Calculation of Profit/Loss

Particulars	**Amt (₹)**
Closing Capital (31-03-2024)	44,200
Add: Drawings (₹500 × 12 months)	6,000
Add: Goods withdrawn for domestic use	3,000
	53,200
Less: Additional Capital Introduced	(8,000)
Adjusted Closing Capital	**45,200**
Less: Opening Capital	(46,400)
Loss during the year	**1,200**

4 **Calculate Additional Capital Introduced** **4**

Particulars	**Amt (₹)**
Cost of Personal Investment Sold	80,000
Add: Profit on Sale (25% of ₹80,000)	20,000
Sale Proceeds Introduced into Business	**1,00,000**

Calculate Total Drawings

Particulars	**Amount (₹)**
Drawings per Month	5,000
Number of Months	12
Total Drawings	**60,000**

Calculate Opening Capital

Formula:

Opening Capital=Closing Capital+Drawings–Additi. Capital Introduced–Profit

Particulars	**Amount (₹)**
Closing Capital	4,00,000
Add: Drawings	60,000
	4,60,000
Less: Additional Capital Introduced	(1,00,000)
	3,60,000
Less: Profit during the year	(80,000)
Opening Capital	**2,80,000**

PRACTICE PAPER-1 CLASS-XI
SUBJECT: ACCOUNTANCY

Time: 3 Hrs. **MM: 80**

General Instructions:

(i) This question paper contains 34 questions. All questions are compulsory.
(ii) This question paper is divided into two parts, Part A and B.
(iii) Question 1 to 16 and 26 to 29 carries 1 mark each.
(iv) Questions 17 to 20, 30 and 31 carries 3 marks each.
(v) Questions from 21and 32, 33 carries 4 marks each.
(vi) Questions from 22 to 25 and 34 carries 6 marks each.
(vii) There is no overall choice. However, an internal choice has been provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.

S.No	PART-A FINANCIAL ACCOUNTING–I	MM
1	A concept that a business enterprise will not be sold or liquidated in the near future is known as: (a) Going concern (b) Economic Entity (c) Monetary Unit (d) None of these.	1
2	Sundry creditors Account is a (a) Revenue A/c (b) Capital A/c (c) Liability A/c (d) none of these.	1
3	An item of ₹ 72 has been debited to a Personal A/c as ₹ 27, is an error of: a) Error of Principle b) Error of Omission c) Error of Commission d) None of the above	1
4	Star Ltd; follows the written down value method of depreciating washing machine year after year due to: (a) Comparability (b) Convenience (c) Consistency (d) All of these. **OR** Goods sold when returned by the purchaser are termed as sales return or return outward. true or false	1
5	Which of the following is not a current liability? (a) Debentures (b) Bills Payable (c) Creditors (d) Short term loans	1
6	**Assertion (A):** Double Entry System of accounting is an Accounting System by which both aspects, i.e. Debit & Credit of a financial transaction are recorded. **Reason (R): Single** Entry System of accounting is a System of accounting by which both aspects, i.e. Debit and Credit may or may not be recorded. (a) Both (A) and (R) are true and (R) is the correct explanation of (A). (b) Both (A) and (R) are true and (R) is not the correct explanation of (A). (c) (A) is true, but (R) is false. (d) (A) is false, but (R) is true	1
7	Match the following:	1

Column A	Column B
(a) Contingent Liability	(i) An amount received in advance for goods

<table>
<tr><td></td><td>
<table>
<tr><td></td><td>or services yet to be delivered</td></tr>
<tr><td>(b) Deferred Revenue</td><td>(ii) An obligation that may arise depending on the outcome of a future event</td></tr>
<tr><td>(c) Accrued Income</td><td>(iii) Expenses incurred but not yet paid</td></tr>
<tr><td>(d) Outstanding Expenses</td><td>(iv) Income earned but not yet received</td></tr>
<tr><td>(e) Capital Expenditure</td><td>(v) Expenditure that provides benefits over more than one accounting period</td></tr>
</table>
Select the correct option:
A. (a)-(ii), (b)-(i), (c)-(iv), (d)-(iii), (e)-(v); B. (a)-(i), (b)-(ii), (c)-(iii), (d)-(v), (e)-(iv)
C. (a)-(iii), (b)-(iv), (c)-(i), (d)-(ii), (e)-(v); D. (a)-(iv), (b)-(iii), (c)-(ii), (d)-(i), (e)-(v)
</td><td></td></tr>
<tr><td>8</td><td>Debit balance of passbook means:
(a) Positive i.e. Favourable Balance (b)Negative i.e. Unfavourable Balance
(c) Either Positive or Negative Balance (d) None of the above</td><td>1</td></tr>
<tr><td>9</td><td>Based on the following two statements, identify the correct option out of the following:
Assertion (A): Intangible Fixed Assets are the assets whose benefit is exhausted within the accounting period.
Reason (R): Current Assets are the assets that give the benefit of enduring nature.
(a) Both Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of the Assertion (A).
(b) Both Assertion (A) and Reason (R) are correct, Reason (R) is the correct explanation of the Assertion (A).
(c) Both Assertion (A) and Reason (R) are not correct.
(d) Assertion (A) is correct, but Reason (R) is not correct.</td><td>1</td></tr>
<tr><td>10</td><td>Lives stock includes:
(a) Goods (b) Stock (c) Life Insurance Policy (d) Animals
OR
Fixed Liabilities include:
(a) Short-term Loans (b) Creditors (c) Bank Overdraft (d) Long-term Loans</td><td>1</td></tr>
<tr><td>11</td><td>Which of the following statements correctly describes the cost Concept?
(a) Assets are shown in the books at the price at which it was purchased plus cost of improvement minus depreciation till date.
(b) Assets are shown in the books at the price it was purchased
(c) Assets are shown in the books at the price it was purchased plus cost of improvement.
(d) Assets are shown in the books at the price it was purchased or market price whichever is less.</td><td>1</td></tr>
<tr><td>12</td><td>Under the Accrual Basis of Accounting, expenses are recorded.
(a) On payment (b) On being incurred (c) Either (a) or (b); (d)None of these</td><td>1</td></tr>
<tr><td>13</td><td>Valuation of Stock at the lower of cost or net realizable value is an example of:</td><td>1</td></tr>
</table>

<table>
<tr><td></td><td>(a) Consistency Convention (b) Conservatism Convention
(c) Realisation Concept (d) Matching Concept</td><td></td></tr>
<tr><td>14</td><td>A machine is purchased on 1st April 2022 for ₹ 80,000. Expenses incurred on its installation is ₹20,000. The residual value at the end of its expected useful life of 4 years is estimated at ₹10,000. The amount of depreciation under Straight Line Method, for the year ended on 31st March 2023 will be:
a) ₹22,500 b) ₹20,000 c) ₹17,500 d) ₹13,125
OR
Original cost of an asset is ₹1, 26,000; Salvage value is ₹ 6,000; Useful life is 6 years. The rate of depreciation under Straight Line Method will be:
a) 15.87% b) 16.67% c) 15.80% d) 16.56%</td><td>1</td></tr>
<tr><td>15</td><td>Balance as per Bank Passbook is ₹ 31,000 (Dr.) If a direct deposit of ₹ 20,000 and bank charges of ₹1,000 are not recorded in Cash Book, balance as per Cash Book will be ₹ 50,000 (Cr.). TRUE/ FALSE
OR
Which of the following will not require adjustment in the Cash Book Balance?
a) Error in Bank Passbook. (b) Cheque issued but not presented for payment.
c) Cheque deposited but not cleared. (d) All of these.</td><td>1</td></tr>
<tr><td>16</td><td>Which of the following errors will not affect the trial balance:
a) Wrong balancing of an A/c.
b) Wrong totalling of an A/c.
c) Omission of an A/c. from the trial balance.
d) Writing an amount in the wrong account but on the correct side.</td><td>1</td></tr>
<tr><td>17</td><td>Distinguish between Reserves and Provisions on the basis of:
a. Nature. b. Purpose. c. Investment</td><td>3</td></tr>
<tr><td>18</td><td>Enter the following transactions in Purchases Book of M/s. Gurman Brothers, Mumbai
<table>
<tr><td>2026
April 1</td><td>Purchased goods from Joshi Bros., Mumbai vide Invoice No. 210:
10 Philips Tube lights @ 120 each
50 Crompton Bulbs @100 each (Trade Discount is 10%)</td></tr>
<tr><td>April 6</td><td>Purchased against cash 20 Havel's Tube lights @ 180 each less 10% Trade Discount</td></tr>
<tr><td>April 10</td><td>Purchased goods from Rajesh Electric Store, Delhi vide Invoice No. 18:
25 Heaters @ 2560 each, 10% Trade Discount
15 Crompton Fans @1,600 each, 10% Trade Discount Paid Packing Charges 100</td></tr>
<tr><td>April 15</td><td>Purchased a Laptop for ₹ 50,000 from Computer Mart.</td></tr>
<tr><td>April 16</td><td>Purchased goods from Supreme Electric Store, Delhi vide Invoice No. 125:
5 dozen Philips Bulbs @ 7100 each</td></tr>
</table></td><td>3</td></tr>
</table>

<table>
<tr><td></td><td><table><tr><td></td><td>25 Power Plugs @ 180 each
Trade Discount is 10% and freight charges are ₹ 275.</td></tr></table></td><td></td></tr>
<tr><td>19</td><td>M/s Aryan Enterprises, Delhi carried out the following transactions during August 2025. Pass journal entries for each, assuming GST rates as applicable:
(a) Purchased goods worth ₹1, 00,000 from M/s Delhi Traders (located in the same state) with CGST @9% and SGST @9%.
(b) Sold goods worth ₹80,000 to M/s Mumbai Distributors of Mumbai with GST @18%.
(c) Purchased machinery worth ₹50,000 from M/s Gujarat Machines (inter-state purchase) with IGST @18%</td><td>3</td></tr>
<tr><td>20</td><td>Differentiate between Accrual Basis and Cash Basis of Accounting.</td><td>3</td></tr>
<tr><td>21</td><td>Show the effect of the following transactions on the accounting equation:
(a) Started business with ₹2, 00,000 cash and stock worth ₹1, 00,000.
(b) Purchased machinery worth ₹50,000 on credit.
(c) Paid ₹10,000 as advance rent.
(d) Sold goods costing ₹40,000 for ₹60,000; received ₹30,000 in cash and rest on credit.
(e) Paid ₹5,000 to creditors in full settlement of ₹5,200.</td><td>4</td></tr>
<tr><td>22</td><td>Rectify the following errors by passing Journal entries:
i) ₹ 10,800 received from Mohan was posted to the debit of his account.
ii)₹ 2,000 being purchase return was posted to the debit of Purchase A/c..
iii) Discount received ₹400 was posted to the debit of Discount Allowed A/c.
iv) ₹11,480 paid for repairs of motor car were debited to Motor Car A/c as ₹1,480.
v) A sale of ₹ 23,500 to Raman was entered in the Sales Book as ₹25,300.
vi) While carrying forward the balance on one page in Pawan’s A/c., the amount of ₹ 2,500 was written on the credit side instead of the debit side.</td><td>6</td></tr>
<tr><td>23</td><td>Record the following transactions in Double Columns Cash Book and Balance the book on 31st March,2022:
<table>
<tr><td>2022</td><td></td><td></td></tr>
<tr><td>Mar. 1</td><td>Cash in hand</td><td>12,750</td></tr>
<tr><td></td><td>Cash at Bank</td><td>72,400</td></tr>
<tr><td>Mar. 4</td><td>Received from Ashok cash ₹ 1,200 and a cheque for ₹ 3,200, allowed discount ₹ 400.</td><td></td></tr>
<tr><td>Mar. 7</td><td>Paid salary to staff by cheque</td><td>25,600</td></tr>
<tr><td>Mar. 9</td><td>Withdrawn cash from bank for office use</td><td>21,900</td></tr>
<tr><td>Mar. 12</td><td>Interest paid by bank-on-bank balance.</td><td>1,200</td></tr>
<tr><td>Mar. 16</td><td>Furniture purchased in cash</td><td>16,500</td></tr>
<tr><td>Mar. 21</td><td>Paid Mohan & Co. by cheque, discount received ₹ 100.</td><td>10,900</td></tr>
<tr><td>Mar. 24</td><td>Proprietor withdrew from office cash for his personal use.</td><td>11,600</td></tr>
<tr><td>Mar. 29</td><td>Sold goods to Manoj for cash.</td><td>14,800</td></tr>
</table></td><td>6</td></tr>
</table>

	Mar. 31 | Deposited office cash into bank | 21,200	
24	On 31st March 2024, Bank Passbook of Naresh & Co. showed an overdraft of ₹10,700. From the following particulars, Prepare B.R.S i) Cheques issued before 31st March 2024 but presented for payment after that date amounted to ₹ 900. ii) Cheques paid into the bank but not collected and credited until 31st March 2024 amounted to ₹ 2,200. iii) Interest on overdraft amounting to ₹ 1,200 did not appear in the Cash Book. iv) ₹ 5,000 being interest on investments collected by the bank & credited in the Passbook were not shown in the Cash Book. v) Bank charges of ₹50 were not entered in the Cash Book. vi) ₹800 in respect of dishonoured cheque were entered in the Passbook but not in the Cash Book.	6
25	Tarun Oil Mills purchased machinery costing ₹ 3, 00,000 on 1st April 2021. It purchased more machinery on 1st January 2023 for ₹ 2, 00,000. On 1st April 2023, one-third of the machinery that was installed on 1st April 2021 became obsolete & was sold for ₹ 70,000. Depreciation is charged at 10% p.a, on original cost. Prepare Machinery A/c for the first three years ending on 31st March 2024. Also show the balance of Machinery A/c on 1st April, 2024. **OR** The following balances appeared in the books of Priyank Ltd. as on 1/4/2023: Machinery A/c 25,00,000 Provision for Depreciation A/c 5,00,000 Depreciation is provided at 10% per annum on the original cost on 3lst March every year. On 1st October 2023, a machine which was purchased on 1st December 2020 for ₹ 1,20,000 was sold for ₹ 34,000. Prepare Machinery A/c & Provision for Depreciation A/c for the year 2023-24.	6
	PART B FINANCIAL ACCOUNTING–II	
26	Kabir Bros. provide the following information. Opening Stock ₹ 50,000 Purchases ₹3,80,000 Goods given as charity ₹20,000; Goods taken by the proprietor for personal use ₹ 10,000; Net Sales ₹5,00,000; Closing Stock 80,000. Adjusted purchase amount will be: (a) ₹ 3,50,000 (b) ₹3,20,000 (c) ₹ 3,30,000 (d) ₹1,80,000	1
27	Allow interest on capital ₹10,000. Identify the correct entry for the above: (a) Interest on Capital A/c Dr. 10,000 To Cash A/c 10,000 (b) Cash A/c Dr. 10,000 To Interest on Capital 10,000 (c) Interest on Capital A/c Dr. 10,000 To Capital A/c 10,000	1

(d) Capital A/c Dr. 10,000
To Interest on Capital 10,000

28 Navya Traders provided the following information on 31st March 2025: 1

Loss made during the year ……………………(5,000)
Capital (1.4.2024) …………………………… 80,000
Additional Capital …………………………… 25,000
Drawings …………………………………….. 13,000

What will be the closing capital?

(a) 87,000 (b) 90,000 (c) 1,08,000 (d) 85,000

29 When closing capital is less than opening capital then result will be: 1

(a) Profit (b) Loss (c) No profit, No loss (d) Loss if there is no drawings

30 Compute cost of goods sold & Gross profit for the year 2017 with the help of the following information 3

Sales ₹20,00,000, Purchases ₹15,00,000 , Wages ₹1,00,000;
Stock (1 Apr, 2016) ₹3,00,000; Stock (March 31, 2017) ₹4,00,000;
Freight Inwards ₹1,00,000

OR

From the following figures, Calculate Gross Profit and Cost of Goods Sold:

Net Sales during the year: ₹24,00,000 ; Gross Profit: 20% on cost

31 Explain any three advantages of Single-Entry System of Accounting. 3

32 Following is the extract from the Trial Balance of a firm as at 31st March 2023: 4

TRIAL BALANCE as at 31st March 2023

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

Additional Information:

i) Additional bad debts ₹10,000.

ii) Maintain the Provision for Doubtful Debts@ 10% on sundry debtors.

Show the treatment of the above adjustments in Profit & Loss A/c & in Balance sheet as on 31st March 2023.

33 Ravi does not keep his books under double entry system. His position on 31st March, 2016 and 31st March, 2017 are given as under: 4

Particulars	**31st March 2016**	**31st March 2017**
Creditors	45,000	93,000
Loan from wife	66,000	57,000
Debtors	22,500	------
Land & Building	89,600	90,000
Cash in Hand	7,500	8,700
Bank Overdraft	25,000	--------

Furniture	1,300	1,300

During the year Ravi sold his private car for ₹50,000 & invested this amount into the business. He withdrew from the business ₹1,500 per month up to October 31, 2016 & thereafter ₹4,500 per month as drawings. You are required to calculate profit or loss for the year ended March 31, 2017

34 From the following balances of M/s Keshav Bros. You are required to prepare Trading and Profit & Loss account for the year ended March 31, 2024. 6

Trial Balance (As on 31st March, 2024)

	Dr. (₹)	**Cr. (₹)**
Plant & Machinery	1,30,000	
Cash on hand	22,500	
Cash at Bank	35,000	
Purchases and Sales	2,50,000	3,00,000
Return inwards	2,000	
Return outwards		2,500
Carriage inwards	500	
Carriage outwards	700	
Factory rent	1,450	
Stock as on 01-04-2023	60,000	
Bad debts	3,500	
Office rent	2,300	
Bad debts provision		1,550
Debtors	50,000	
Creditors		2,50,000
Capital		2,20,000
Insurance	780	
Rent received		10,380
Bills payable		70,000
Furniture	22,500	
Buildings	2,80,000	
Wages	1,200	
Salary	2,500	
Commission received		16,000
Commission paid	500	
Bills Receivable	3,000	
Interest	2,000	
	8,70,430	**8,70,430**

Additional information:

a. Closing stock is valued at ₹ 70,000.
b. Provision for bad debts @ 5% and further bad debts ₹ 2,000.

c. Rent received in advance ₹6,000.
d. Prepaid insurance ₹200.
e. Depreciation on furniture @ 5%, plant & machinery @ 6%, building @ 7%.

OR

From the following Trial Balance and other information, prepare Trading and Profit and Loss Account for the year ended 31st March, 2025 and Balance Sheet as at that date:

Particular	**Dr. (₹)**	**Cr. (₹)**
Sundry Debtors	3,50,000	
Stock on1st Apr,2023	2,50,000	
Cash in Hand	400	
Cash at Bank	18,000	
Plant and Machinery	2,00,000	
Sundry Creditors		1,20,000
General Expenses	12,000	
Sales		14,50,000
Salaries	25,000	
Carriage Inwards	5000	
Rent	10,000	
Bills Payable		80,000
Purchases	12,50,000	
Discounts	11,000	
Premises	4,00,000	
Capitalon1st Apr,2018		8,50,000
Insurance	1,000	
Commission Received		32,400
Total	**25,32,400**	**25,32,400**

Additional Information:

1.Closing stock ₹25,000
2.Provide bad debts ₹12,000 and create provision for doubtful debts @5%
3.Charge depreciation@10% on Plant and Machinery
4.There is prepaid insurance of ₹500
5.Outstanding rent ₹1,000

PRACTICE PAPER-2 CLASS: XI
SUBJECT: ACCOUNTANCY (055)

Max.Marks:80 **Time: 3 hours**

General Instructions: -

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts, Part A and B.
3. There is no overall choice. However, an internal choice has been provided in 7 questions of One Mark, 2 questions of Three Marks, 1 question of Four Marks and 2 questions of Six Marks,

PART - A (FINANCIAL ACCOUNTING - I

1	Raghu is a stationeries dealer. Which one of the following will not be recorded in his books? a) Purchase of books for ₹.50,000 b) Textbooks worth ₹. 40,000 taken to Business c) Sale of household furniture for ₹.5,000 d) Drawing sheet of ₹.300 given to his friend as gift	**1**
2	Credit side of trial balance shows which of the following account: (a) Sales A/c b) Purchases Return A/c (c) Capital A/c (d) All of these **OR** Errors not disclosed by the trial balance- (a) Compensating errors b) Errors of principles c) Errors of omission. d) All of these.	**1**
3	₹10,000 are the Imprest amount with the cashier. The following expenses were incurred during the year – Wages = ₹2,450; Tiffin = ₹2,050; Small Repairs = ₹1500; General Expenses = ₹800. Calculate the amount left with cashier. (a)₹1,600 (b) ₹3,400 (c) ₹3,200 (d) ₹3,000	**1**
4	Ram has returned goods worth ₹.3500 to Krishna as he found it defective. Which document will be prepared by Ram. (a) Invoice/Bill (b) Debit Note (c) Credit Voucher (d) Credit Note	**1**
5	Which of the following best describes the effect of underestimating depreciation expense. a) Assets are understated b) Net profit is overstated c) Liabilities are overstated d) Owner's capital is understated. **OR** Which of the following is a valid reason for charging depreciation? a) To reduce profit (b) To increase asset value. c) To maintain cash balance. (d) To match cost with revenue.	**1**
6	On purchase of an assets, amount spent on its carriage is debited to: (a) Purchases A/c (b) Carriage A/c (c) Asset A/c (d) Installation Expenses A/c	**1**
7	**Assertion** (**A**): Accounting Standards are written statements specifying uniform rules and practices for preparing financial statements. **Reason** (**R**): Accounting Standards are formulated by Companies Act, 2013. In the context of the above two statements, which of the following is correct?	**1**

	(a) Both (A) and (R) are true and (R) is the correct explanation of (A). (b) Both (A) and (R) are true and (R) is not the correct explanation of (A). (c) (A) is true, but (R) is false. (d) (A) is false, but (R) is true.	
8	Machine was purchased for ₹. 2,00,000 and installation charges were ₹ 50,000. If the machine is depreciated at 10% p.a. On WDV what will the depreciation for the first year be? (a) ₹20,000 (b) ₹25,000 (c) ₹22,500 (d) ₹15,000	**1**
9	Bank reconciliation statement is prepared by- (a) Banker (b) Auditors (c) Accountant (d) Teacher	**1**
10	The term sales is used only for the sales of ……… and is never used for the sale of (a) Investments (b) Assets, Goods (c) Intangible Assets, Goods (d) Goods, Assets	**1**
11	Assertion (A): Bank Reconciliation Statement is not a part of Double Entry Book-keeping. Reason (R): It is a method to ensure that there are no errors in recording bank transactions in the cash book. In the context of the above two statements, which of the following is correct? a) Both (A) and (R) are true and (R) is the correct explanation of (A). b) Both (A) and (R) are true and (R) is not the correct explanation of (A). c) (A) is true, but (R) is false. d) (A) is false, but (R) is true.	**1**
12	Profits on sale of assets is used to create: (a) General Reserve (b) Specific Reserve (c) Capital Reserve (d) All of these	**1**
13	Computers purchased for office use should be debated to: (a) Office Expenses A/c (b) Office Equipment A/c (c) Purchase A/c (d) Miscellaneous Expenditure A/c **OR** Payment of Income Tax ₹.5,000 will be debited to: (a) Income Tax A/c (b) Drawing A/c (c) Capital A/c (d) Profit & Loss A/c	**1**
14	Interest credit by the bank but not recorded in the cash book will – (a) Added to the passbook balance (b) Added to the cash book balance (c) Deducted from the cash book balance (d) Not affects the BRS.	**1**
15	If the total trial balance do not match, it indicates: (a) Correct books of accounts (b) Company is profitable (c) Presence of some errors (d) All balances are accurate	**1**
16	Purchase of goods from Mukesh ₹15,000 is wrongly debited to purchase account and credit to cash account. Trial balance will: (a) Show difference of ₹15,000 (b) Not show any difference (c) Show excess debit (d) Show excess credit	**1**
17	Differentiate between Reserve and Provision on the basis of: (i) Purpose (ii) Nature (iii) Legal compulsion.	**3**
18	Prepare Accounting Equation from the following: (a) Started business with Cash ₹ 1,00,000 & Goods ₹ 20,000.	**3**

(b) Sold 50% of the above goods as a profit of ₹ 2,000 to Ram.
(c) Ram paid 90% of his amount in full settlement.

OR

Prepare the Purchase Book of M/s Modern Stationers from the following:

June 1st 2025	Purchased from Monu Stationery Mart i) 80 dozen pencils @ ₹25 per dozen. ii) 20 dozen registers @ ₹15 per register.
June 10th	Purchased from Aman Furniture 2 Tables @ ₹1,500 per table
June 15th	Purchase 3 dozen Ink-pots @ ₹ 80 per dozen from Shiv Paper Co. and receive cash discount of ₹50.
June 18th	Purchased from Sohan Bros. (i) 5 reams of white paper ₹50 per ream. (ii) 120 pens ₹60 per dozen. Less: Trade Discount of 10%

19 Ramesh started business with ₹5,00,000. He also took a loan of ₹1,00,000 for business purposes. He purchased ₹ 1,50,000 machinery & furniture ₹20,000. He used ₹20,000 from the business fund to pay his personal liability.
Identify and explain the accounting concept involved in the above case. **3**

20 "Accounting information should be comparable." Do you agree with this statement? Give two reasons. **3**

OR

Identify the stakeholder group who would be most interested in the following
(a) The ethical or environment activities of the firm.
(b) Whether the firm has a long-term future.
(c) The ability of the firm to carry on providing quality products.

21 Fill in the missing information in the following Journal Entries: **4**

	Particulars	**L.F.**	**Dr. (₹.)**	**Cr. (₹.)**
(a)	Purchases A/c Dr.		2,000	
	To Ram A/c			2,000
	(Goods purchased from Ram)			
(b)	Cash/Bank A/c Dr.		5,000	
	To Commission Received in Advance A/c			5,000
	(Commission received in advance)			
(c)	Cash A/c Dr. -------------------------		_______	
	Discount Allowed A/c Dr.		225	
	To Sales A/c To -------------------------------			_______
	(Goods sold for ₹ 5,000 subjected to 10% Trade Discount and ______ % Cash Discount)			

22 Pass Journal Entries to rectify the following errors: **6**
a) Total sales book overcast by ₹400.

b) Bill for ₹820 received from Ramesh for repairs to Machinery was entered in the Purchase book as ₹720.

c) ₹800 paid for Rent wrongly debited to Landlord’s A/c.

d) Goods amounting to ₹4,000 have been sold on credit, but no entry has been made in the books.

e) Payment of ₹500 to Mohan and ₹600 to Sohan was made but Mohan was debited with ₹600 and Sohan with ₹500.

f) Sold goods ₹ 5,000 to Ram was omitted to be record.

23. Prepare a Bank Reconciliation Statement as on 31st December 2023. Overdraft as per Passbook of Gupta bros. shows ₹35,000. **6**

i) The payment of cheques for ₹1550 was recorded twice in the passbook.

ii) Withdrawal column of the passbook under cast by ₹400.

iii) A Cheque of ₹200 has been debited in the bank column of the Cash Book but it was Not sent to bank at all.

iv) A cheque of ₹450 debited to Bank A/c of the passbook has been omitted to be recorded in cash book.

v) A cheque of ₹500 sent for collection was dishonored by the bank.

24. Record the following transactions in a Double Cash Book: **6**

2026 June	**Particulars**	**(₹)**
1	Cash in Hand Cash at Bank	5,000 95,000
2	Received a cheque for rent and paid it into bank	990
5	Bought goods for ₹50,000; Trade Discount 20%. Payment made by cheque.	
15	Paid trade expenses	120
16	Paid rent	400
17	Paid insurance charges	100
25	Sold goods for ₹80,000; Trade Discount 10%. Received a cheque for the same.	
28	Received cheque from John & Co.	6,000
30	Purchased 100 National Plan Certificates of ₹100 each @ ₹95 each and paid for them by cheque.	

25. The following balances appear in the books Daga Ltd. as on 1st April 2026: **6**

Machinery A/c	₹ 5,00,000
Provision for Depreciation A/c	₹ 2,25,000

The machinery was depreciated at 10% p.a. on the Fixed Instalment Method and accounts are closed on 31st March every year.

On 1st October 2026, a machinery which was purchased on 1st July 2024 for ₹1,00,000 was sold for ₹42,000 and on the same date fresh machinery was purchased for ₹2,00,000.

Prepare the Machinery A/c & Provision for Depreciation A/c for the year 2026-27.

OR

Raj Ltd. bought a machine on 1st April 2020 for ₹2,40,000 and spent ₹4,000 on its carriage and ₹6,000 towards installation cost. On 1st July 2021 it purchased second-hand machinery for ₹75,000 and spent ₹25,000 on its overhauling. On 1st January 2023 it was decided to sell the machinery bought on 1st April 2020 at a loss of ₹20,000. It bought another machine on the same date for ₹40,000. Company decided to charge depreciation @ 15% p.a. on Written Down Value Method.
Prepare Machinery Account for 3 years. Books are closed each year on 31st March.

PART - B (FINANCIAL ACCOUNTING - II)

26 Calculate the gross profit if rate of gross profit is 25% on cost & sales are₹1,25,000. **1**

(a) ₹60,000 (b) ₹36,000 (c) ₹25,000 (d) ₹30,000

OR

Heavy amount spent for the advertisement of new company product is …..

(a) Revenue Expenditure (b) Deferred Revenue Expenditure
(c) Capital Expenditure (d) Both (a) & (c)

27 What is the limitation of single-entry system? **1**

(a) Simple to maintain (b) Suitable for small business.
(c) No check on arithmetic accuracy (d) Maintain both side of each transaction.

28 Choose the Current liabilities from the following : **1**

(a) Cash (b) Stock (c) Creditors (d) All of these

29 A trader started the year with the capital of ₹2,00,000. At the end of the year his assets amounted to ₹3,50,000 & liabilities ₹1,00,000. What is the profit or loss made during the year? **1**

(a) ₹1,50,000 profit (b) ₹50,000 profit (c) ₹50,000 loss (d) ₹2,50,000 loss

OR

Capital in the beginning of the year is ₹1,20,000. At the end of the year his capital amounted to ₹1,80,000. He withdrew ₹20,000 during the year and introduced additional capital of ₹10,000. What is the profit or loss made during the year?

(a) ₹40,000 (b) ₹60,000 (c) ₹70,000 (d)₹ 80,000

30 Show the effect on Profit & Loss A/c and Balance Sheet of the following: **3**

Extracts of Trial Balance As at 31stMarch 2025

Bad-Debts	36,000
Provision for Bad & Doubtful Debts (01/04/2024)	75,000
Sundry Debtors	20,00,000

Adjustments:

(i) Write off further Bad-Debts ₹20,000
(ii) Provision for Doubtful-Debts is to be maintained at 5% on Sundry Debtors.
(iii) Create a provision for discounts on Sundry Debtors at 3%.

OR

Calculating Operating Profit from the following:
Net Profit ₹5,00,000; Dividend Received ₹6,000; Loss by Fire₹50,000; Loss on Sale of Furniture ₹12,000; Salaries₹1,20,000; Donation ₹5,100; Interest on Loan from

	Bank ₹10,000; Rent Received₹24,000	
31	Calculate Gross Profit when: Total Purchases during the year are ₹6,80,000; Return Outward ₹30,000; Carriage Inwards₹20,000; Carriage Outwards ₹15,000; Wages ₹50,000; 3/4 of the goods are sold for ₹6,00,000.	**3**
32	Write the difference between capital expenditure and revenue expenditure with two examples of each.	**4**
33	Miss Parul runs a small business. She was not maintaining her accounts on the Double Entry System. On 1st April 2025 she started the business with a Capital of ₹85,000. On 31st March 2026 her incomplete records could provide the following data: i) Amount due to suppliers of raw materials ₹27,500. ii) Stock of Raw Material ₹2,000 and Finished Products ₹2,500. iii) Fixed Assets ₹34,000. iv) Amount due from customer's ₹42,000. v) She had withdrawn ₹2,500 per month to meet her personal expenses. vi) She introduced ₹7,000 as capital during the year. vii) She has Cash at Bank ₹37,000 and Cash in Hand ₹800. viii) Outstanding electricity bill ₹2,250. Calculate the Profit/Loss of her business during the year using Statement of Affairs Method.	**4**
34	Prepare Trading and Profit & Loss Account for the year ending 31st March 2026 after making all adjustments:	

Name of Account	Amt (₹)	Name of Account	Amt (₹)
Drawings	4,000	Capital	1,50,000
Plant and Machinery	70,000	Sundry Creditors	17,000
Vehicle	16,000	Sales	50,000
Sundry Debtors	30,000	Commission	3,000
Purchases	25,000		
Wages	5,000		
Cash at Bank	10,000		
Salaries	17,000		
Repairs	2,000		
Stock on 01-04-2025	9,000		
Rent	5,000		
Carriage Inwards	1,000		
Carriage Outwards	2,000		
Bad debts	4,000		
Freehold Premises	20,000		
	2,20,000		**2,20,000**

Adjustments: -

1. Closing Stock was valued at ₹.10,000(Market Price ₹.12,000)
2. Outstanding Salaries ₹.3,000.
3. Prepaid Rent ₹.1,000.
4. Depreciate Plant and Machinery by 10%.

OR

From the following balances of R Ltd and adjustments, prepare Trading and Profit & Loss Account for the year ending 31.03.2026 and Balance Sheet as on that date

Particulars	₹	**Particulars**	₹
Opening Stock	15,000	Rent	4,000
Purchases	1,09,000	Rent Outstanding	600
Sales	1,80,000	Provision for Doubtful Debts	1,000
Manufacturing Wages	8,000	Furniture (Purchased on 01.10.2025 for ₹ 1,000)	5,000
Fuel, power, light	12,000	Bills Receivable	6,000
Salaries	11,000	Bills Payable	1,600
Bad Debts	500	Machinery	72,000
Income Tax	5.500	Sundry Debtors	28,000
Loan to Manav @ 10% p.a (01.04.2026)	5,000	Sundry Creditors	13,000
Interest on Loan to Manav	300	Capital	1,00,000
Commission Received	4,500		
Cash in hand	20,000		

Adjustments:

i) Closing Stock at cost was ₹ 35,000. Its net realizable value (market value) was ₹ 30,000.

ii) Write off further ₹ 500 as bad debt. Also, maintain a Provision for Doubtful Debts @ 5% on Sundry Debtors

iii) Create a provision of 2% for discount on Debtors

iv) Commission received includes ₹ 3,000 received in advance

v) Depreciate furniture by 10% p.a.

vi)Salaries for the month of March 2026 were outstanding.

PRACTICE PAPER-3- CLASS: XI
SUBJECT: ACCOUNTANCY (055)

Max.Marks:80 **Time: 3 hours**

General Instructions:

1) This question paper comprises 34 questions and all questions are compulsory
2) This question paper contains two parts A and B.
3) Question1 to 16 and 26 to 29 carries 1 marks each.
4) Question17 to 20 and 30, 31 carries 3 marks each.
5) Question from 21,32 and 33 carries 4 marks each.
6) Question from 22 to 25 and 34 carries 6 marks each.

There is no overall choice. However, an internal choice has been provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.

	PART A-FINANCIAL ACCOUNTING	
QN	**QUESTION**	**MARKS**
1	Which qualitative characteristics of accounting information are reflected if financial records are free from complex terminology? a) Comparability b) Understandability c) Relevance d) Reliability	1
2	Which one of the following is not an objective of accounting? a) to provide information about the liabilities and capital of the enterprise b) to provide information about the personal property of the proprietor c) to maintain record of business transactions d) to provide information regarding the profit and loss of enterprise **OR** Which external user of accounting information is most interested in knowing the long-term solvency position of the firm? a) Employees b) Management c) Bank & financial institutions (d) Researchers	1
3	Mohan commenced business on 1st April 2025 with a capital of ₹ 10,00,000. On 31st March 2026, his assets were worth ₹12,00,000 and outside liabilities ₹50,000. Find out his closing capital. (a) ₹15,50,000 (b) ₹11,50,000 (c) ₹5,50,000 (d) None of these	1
4	Which of the following is recorded in the Cash Book? (a) Credit sales (b) paid salary (c) Depreciation on Machinery (d) All of these **OR** Debit balance of ₹50,000 in the Cash Column of the Cash Book shows that: (a) ₹50,000 has been paid out. (b) ₹50,000 is owing. (c) The amount received exceeds the amount paid by ₹50,000 (c) ₹50,000 has been debited to the Bank A/c.	1
5	Purchase Book records only........................purchase of goods. a) Cash b) Credit c) Revenue d) Deferred revenue **OR** Fill in the missing figures assuming CGST 6% and SGST @ 6%: -	1

<table>
<tr><td></td><td>August 05 Purchases A/c Dr 1,40,000
__________ Dr 16,800
To Sandhya 1,56,800
(Purchase of goods from outside the state)
a) Input CGST b) Input SGST c) Input IGST d) Debtors</td><td></td></tr>
<tr><td>6</td><td>The term ‘Depletion’ is used for which types of assets?
(a) Liquid assets (b)Fixed Assets (c) Wasting assets (d) Intangible assets</td><td>1</td></tr>
<tr><td>7</td><td>Cheques issued by the bank but not yet presented for payment. what will be its effect on cash book
a) Increases the Cash book b) increases the Pass book
c)decreases the Cash book d) decrease the Pass book</td><td>1</td></tr>
<tr><td>8</td><td><table>
<tr><td>(a) Compensating Error</td><td>(i) Goods purchased from Rajeshwar on credit ₹400 are recorded in Purchase Book as ₹.4,000.</td></tr>
<tr><td>(b) Error of Omission</td><td>(ii) A repair of Machinery ₹6,000 debited to Machinery A/c.</td></tr>
<tr><td>(c) Error of Principle</td><td>(iii) Shyam’s A/c was debited with ₹ 200 instead of ₹ 2,000 while Ram’s A/c was debited with ₹2,000 instead of ₹ 200.</td></tr>
<tr><td>(d) Error of Commission</td><td>(iv) Credit purchase from Somesh ₹14,000 were not recorded</td></tr>
</table>
Match the following: -
(a) a-(i),b-(iii), c-(ii), d (iv.) (b) a-(ii), b-(iii), c-(i), d (iv.)
(c) a-(iii), b-(iv), c-(ii), d (i.) (d) a-(iv), b-(iii), c-(ii), d (i.)</td><td>1</td></tr>
<tr><td>9</td><td>Salary to a manager will be recorded in the book of account but appointment of a manager is not recorded due to:
(a) Money measurement (b)Accounting period (c)Full disclosure (d)Business entity</td><td>1</td></tr>
<tr><td>10</td><td>If cost price of an asset is ₹.15,00,000 and depreciation is charged @20% p.a. on diminishing balance method, then book value at end of two years is-
(a) ₹3,20,000 (b) ₹9,60,000 (c) ₹2,40,000 (d) ₹5,00,000
OR
On 1st April, 2025 a machinery purchased for ₹ 2,00,000. Depreciation is charged @ 10 % p.a. on original cost method and books are closed on 31 March each year. On 1st July, 2025 the machinery is sold for ₹2,20,000.
Loss on sale will be:
(a) ₹1,70,000 (b) ₹3,90,000 (c) ₹8,40,000 (d) ₹85,000</td><td>1</td></tr>
<tr><td>11</td><td>When Bank Reconciliation Statement is prepared with Credit balance as per Passbook, the Balance derived will be
a) Credit Balance as per Cash Book b) Debit Balance as per Passbook
Debit Balance as per Cash Book d) Both (A) and (C)</td><td>1</td></tr>
<tr><td>12</td><td>Which of the following is not a reason due to errors made by the business while preparing bank reconciliation statement?
a) Uncollected cheques.
b) Receipt side of Cash Book overcast
c) Cheques debited in Cash Book but not banked.</td><td>1</td></tr>
</table>

	d) Bank Charges recorded twice in Cash Book.	
13	Passbook is a copy of: (a) Bank transactions in the cash book (b) Receipts & Payments of the Business (c) Customer's A/c prepared by the bank (d) All cash & Bank transactions	1
14	Which among the following is the correct difference between Provision and reserve? a) Provision is created out of legal necessity whereas Reserve is created as a matter of prudence b) Provision is invested whereas reserve is not invested c) Provision is an appropriation to profit whereas reserve is a charge against profit d) Provision can be used as a distribution of dividend whereas a reserve cannot be allowed to be used for distribution of dividend.	1
15	Suspense A/c appears in the Trial Balance because of: (a) One-sided errors (b) Compensating errors (c) Errors of principle (d)None of these **OR** If P has been debited by ₹. 40 instead of ₹400 and Q has been debited by ₹400 instead of ₹40, it will be called: (a) One-sided errors (b) Compensating errors (c) Errors of principle (d)None of these	1
16	Suspense Account may have following balances: (a) Debit Balance (b) Credit Balance (c) Debit or Credit Balance (d) None of these	1
17	What is meant by Accounting? Explain any two limitations of accounting. OR Explain the following: 1) Profit 2) Gain 3) Expenses	3
18	Explain the following accounting concepts with Example: (a) Accounting Period concept (b) Revenue Recognition concept	3
19	Explain any three benefits of accounting standards.	3
20	Differentiate between Provision and Reserve on the following basis: 1) Meaning 2) Object 3) Presentation in Balance Sheet	3
21	Journalize in the books of Suresh April 2025 1) Sold goods costing ₹20,000 to Bhaskar for cash at a profit of 20% on cost, less 10% Trade discount. 2) Salary payable to Mr. Chirag ₹2,000 3) Goods costing ₹1,500 given as charity 4) ₹12,000 due from Sanjay is not recoverable **OR** Prepare accounting equations on the basis of the following: a) Sagar started business with cash ₹ 2,00,000 b) Purchased goods from Naresh for cash ₹ 40,000 c) Sold goods to Bishnu cost ₹10,000 at ₹12,000 d) Bought furniture on credit ₹ 7,000	4
22	ZENIX Ltd purchased a machinery on 31st July 2024 for ₹3,00,000. Another machinery was purchased on 1st October, 2025, for ₹5,00,000. On 31st December 2026, machinery which was purchased in 2024, was sold at ₹1,45,000 and new machinery was purchased for ₹9,00, 000. Company providing depreciation of machinery under Original Cost method and books of accounts closed on 31st March	6

	every year. Prepare Machinery Account for the year 2026-27.	
23	Prepare double column cash book from the following transactions for the month of: Sep. 2025. 01 Cash in hand ₹87,500 and cash at bank ₹50,000 03 Purchased goods for cash ₹3,000 04 Received a cheque from Divya ₹10,000 05 Sold good for cash ₹ 7,000 05 Divya ‘s cheque was deposited into bank 06 Purchased goods and paid by cheque ₹ 20,000 06 Paid establishment expenses by cheque ₹1,000 09 Cash sales ₹70,00 10 Deposited into bank ₹10,000 16 Paid trade expenses ₹500 cash 27 Received commission by cheque ₹ 6,000 31 Withdrew for personal use ₹1,200	6
24	From the following particulars prepare Bank Reconciliation Statement as on July 31st, 2025: - a) Debit balance as per cash book ₹70,000 b) A cheque of ₹ 500 issued in favor of Rabiya has not been presented for payment. c) A bill for ₹ 700 retired by Bank on our behalf under a rebate of ₹ 20 the full amount of the bill was credited in cash book. d) A cheque of ₹ 295 deposited in Bank has been dishonored. e) A sum of ₹800 deposited in the Bank has been credited as ₹ 80 in the passbook. f) Payment side of Cash Book has been under cast by ₹ 200. OR Prepare a Bank Reconciliation Statement as on 31st July, 2025 from the following information: a) Credit balance (Overdraft) as per Cash Book ₹ 25,000. b) A cheque of ₹ 35,000 issued to a creditor was not presented into the bank. c) Cheques paid into the bank for collection ₹ 60,000 but cheques of ₹ 44,000, could only be collected in July 2025. d) In the Cash Book, a bank charge of ₹150 was recorded twice while another bank charge of ₹ 40 was not recorded at all. e) A customer directly deposited 9,000 into the bank ₹9,000. f) Dividend collected and deposited by bank ₹ 6,000	6
25	Rectify the following errors: i) A sale of ₹325 was posted to sales a/c as ₹535 ii) Furniture Purchased worth ₹.32,000 was recorded through purchase account. iii) A sum of ₹2000 for household rent has been posted twice to the rent A/C. iv) A credit sale of goods ₹1,250 to Ramesh has been wrongly passed through the Purchases book. v) A cheque for ₹1,050 received from Rohan was dishonored and had been posted to the debit of the Sales Return Account.	6

	vi) Sales Account has been casted short by ₹300.	
	PART B	
26	Cost of Goods sold ₹5,80,000 and Gross Loss ₹80,000.Net Sales will be a) ₹5,00,000 b) ₹3,40,000 c) ₹ 80,000 d) ₹5,70,000 **OR** Value of Closing Stock is shown at: a) Cost Price b) Market Price c) Cost and Market Price whichever is less d) None of these	1
27	Sundry expenses are shown in: a) Balance Sheet b)Trading Account c)Profit & Loss Account d)None of these **OR** Wages and Salaries are shown in a) Trading Account b)Profit & Loss A/c c)Balance Sheet d)None of these	1
28	If Capital at the end of the year is ₹40,000; Capital introduced during the year ₹30,000 drawings for the year ₹20,000 and loss for the year is ₹60,000 , then capital at the beginning of the year was; a) ₹90,000 (b) ₹80,000 (c) ₹70,000 (d) ₹10,000	1
29	When closing capital is less than opening, it denotes: a) Profit b) Loss c) Loss, if there is no drawing d) None of the above	1
30	State with reason whether following expenditure are Capital, Revenue or Deferred revenue: i) Replacement of old machinery for new machinery . ii) ₹1,500 were spent on repair of machinery. iii) ₹10,000 was paid as brokerage charges on issue of share .	3
31	Following information was taken from an Income statement: - Opening stock ₹5,000; Sales ₹16,000; carriage inwards ₹1,000; sales return ₹1,000; Gross profit ₹.6,000; Purchase ₹10,000; and purchase returns ₹900. Calculate closing stock and cost of goods sold. **OR** Ascertain cost of goods sold from the following opening stock ₹8,500; purchase ₹30,700; direct expense ₹4,800; indirect expense ₹5,200; closing stock ₹9,000	3
32	Calculate closing stock from the following details: - Opening stock ₹20,000; cash sales ₹60,000; purchases ₹70,000 Credit sales ₹40,000; Rate of gross profit on cost $33\frac{1}{3}$%.	4
33	Rakesh started business on 1stApril 20 with a Capital of ₹8,50, 000.On 31stMarch 2020, his Assets were ₹11,0,000 and Liabilities were ₹1,80, 000.He withdrew during the year for personal use ₹3,000 per month up to 31st July 2018 and there-after ₹6,000 per month up to 31st March 2020. During the year he sold his personal investments of ₹60,000 at a loss of 10% and invested this amount in the business. You are required to prepare a Statement of Profit or Loss for the year ending 31stMarch 2020	4
34	From the following trial balance of M/S Sanjeev as on 31st March 2026 prepare Trading and profit and loss account and Balance Sheet	6

Heads of account	**Dr (₹.)**	**Heads of account**	**Cr (₹.)**

Drawings	18,000	Capital	80,000
Purchase	82,600	Sales	1,55,000
Stock 01.04.2025	42,000	Returns outwards	1,600
Carriage inward	1,200	Bank Loan	25,000
Wages	4,000	creditors	18,900
Power	6,000		
Machinery	50,000		
Furniture	14,000		
Rent	22,000		
Salary	15,000		
Insurance	3,600		
Debtors	20,600		
Cash	1,500		
Total	**2,80,500**		**2,80,500**

ADJUSTMENTS:

a) Closing stock on 31.03.2026 was ₹64000

b) Outstanding wages ₹2400

c) Bad debts ₹600 and create a provision for doubtful debts @5%

d) Charge depreciation on machinery 10% and furniture @5% pa.

e) Insurances premium is paid per annum, ended 31st May 2022.

OR

From the following balances prepare Trading and Profit and Loss Account and Balance Sheet as on 31st March 2024.

Particulars	**₹**	**Particulars**	**₹**
Capital	60,000	Sales tax paid	7,000
Stock(as on 1-4-2023)	16,000	Life Insurance Premium	2,800
Purchases	85,000	Plant & M/C	20,000
Return Inward	3,000	Rebates	600
Sales	1,23,000	Rent	11,000
Return Outward	1,000	Repairs	2,000
Sundry Debtors	16,000	Lighting	2,500
Furniture	10,000	Salaries	13,500
Computer	20,000	Bank	6000
Freight and Duty	3,000	Carriage Inward	2,800
Loan from Bank @ 10% p.a	20,000	Carriage outward	2,000
Interest on Loan	1,000	Trade expenses	1,600
Sales tax Collected	10,000	Bills payable	8,000
Wages	8,000	Sundry creditors	11,800

Adjustments: -

i) Stock on 31st March 2024 was valued at ₹26,000.

ii) Goods worth ₹2000 were distributed as free samples.

iii) Goods worth ₹2500 were used for personal purpose by proprietor and goods worth ₹700 were given away as charity.

iv) Charge depreciation on Computer and Furniture @ 10%.

v) Rent for March 2024 is still outstanding.

PRACTICE- PAPER-1 MARKING SCHEME
CLASS-XI; SUBJECT- ACCOUNTANCY

PART-A FINANCIAL ACCOUNTING-I

1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
A	**C**	**C**	**C/F**	**A**	**C**	**A**	**B**
9	**10**	**11**	**12**	**13**	**14**	**15**	**16**
C	**D/D**	**A**	**B**	**B**	**A**	**T/A**	**D**

17 One mark for each correct difference (1 X 3=3)

18

In the Books of M/s Gurman Brothers, Mumbai
Purchases Book
For the Month of April, 2026

Date	**Particulars**	**Invoice No.**	**L.F.**	**Amount ₹**	
2026				**Details**	**Total**
Apr. 1	**Joshi Bros., Mumbai**	210			
	10 Philips Tube lights @ ₹120			1,200	
	50 Crompton Bulbs @ ₹100			5,000	
				6,200	
	Less: Trade Discount @ 10%			620	**5,580**
Apr. 10	**Rajesh Electric Store, Delhi**	18			
	25 Heaters @ ₹2,560			64,000	
	15 Crompton Fans @ ₹1,600			24,000	
				88,000	
	Less: Trade Discount @ 10%			8,800	
				79,200	
	Add: Packing Charges			100	**79,300**
Apr. 16	**Supreme Electric Store, Delhi**	125			
	5 dozen Philips Bulbs (60) @ ₹7,100			4,26,000	
	25 Power Plugs @ ₹180			4,500	
				4,30,500	
	Less: Trade Discount @ 10%			43,050	
				3,87,450	
	Add: Freight Charges			275	**3,87,725**
	Purchases A/c Dr.				**4,72,605**

Notes: **Cash purchase on April 6** is **not entered**, Laptop **purchased on April 15** is a **fixed asset**, not goods for resale, so

19

Journal Entries in the Books of M/s Aryan Enterprises, Delhi
August 2025

Date	**Particulars**	**L.F.**	**Debit (₹)**	**Credit (₹)**
	(a) Purchase of goods from Delhi Traders within the state)			
	Purchases A/c Dr.		1,00,000	
	Input CGST A/c Dr.		9,000	
	Input SGST A/c Dr.		9,000	
	To Delhi Traders A/c			1,18,000
	(Being goods purchased on credit from Delhi Traders and GST charged @ 9% CGST and 9% SGST)			

	(b) Sale of goods to Mumbai Distributors (Inter-state Sale)			
	Mumbai Distributors A/c Dr.		94,400	
	To Sales A/c			80,000
	To Output IGST A/c			14,400
	(Being goods sold on credit to Mumbai Distributors and IGST charged @18%)			
	(c) Purchase of machinery from Gujarat Machines (Inter-state Purchase)			
	Machinery A/c Dr.		50,000	
	Input IGST A/c Dr.		9,000	
	To Gujarat Machines A/c			59,000
	(Being machinery purchased on credit from Gujarat Machines and IGST charged @18%)			

20 Correct difference

21 Effect of Transactions on Accounting Equation

Accounting Equation: Assets = Capital + Liabilities

Transactions	Cash ₹	Stock ₹	Machinery ₹	Advance Rent ₹	Debtors₹	Creditors₹	Capital₹
Balance	**2,15,000**	**60,000**	**50,000**	**10,000**	**30,000**	**44,800**	**3,20,200**

22

	Particular	LF	Amt (Dr)	Amt (Cr)
1	Suspense A/c Dr To Mohan (Being the error of posting ₹10,800 received from Mohan to the debit side of his account instead of the credit side rectified.)		21,600	21,600
2	Suspense A/c Dr To Purchase To Purchase Return (Being purchase return of ₹2,000 wrongly debited to Purchases Account rectified.)		4,000	2,000 2,000
3	Suspense A/c Dr To Dis. Allowed To Dis. Received (Being discount received wrongly posted to the debit of Discount Allowed Account rectified.)		400	200 200
4	Repair A/c Dr To Motor Car To Suspense (Being repairs to motor car wrongly debited to Motor Car Account as ₹1,480 instead of debiting Repairs Account with ₹11,480 rectified.)		11,480	1,480 10,000
5	Sales A/c Dr To Raman A/c (Being sale to Raman of ₹23,500 entered in Sales Book as ₹25,300, resulting in overstatement of sales and Raman's account by ₹1,800, rectified.)		1,800	1,800

6	Pawan's A/c Dr To Suspense (Being debit balance of Pawan's Account wrongly carried forward to the credit side rectified.)		5,000	5,000

23

Double Column Cash Book

Date	Particular	LF	Cash	Bank	Date	Particular	LF	Cash	Bank
2022					**2022**				
1/3	To Bal b/d		12,750	72,400	7/3	By salary			25,600
4/3	To Ashok		1,200	3,200	9/3	By Cash	C		21,900
9/3	To Bank	C	21,900		16/3	By Furniture		16,500	
12/3	To Int.			1,200	21/3	By Mohan			10,900
29/3	To Sales		14,800		24/3	By Drawing		11,600	
31/3	To Cash	C		21,200	31/3	By Bank	C	21,200	
					31/3	By Bal c/d		1,350	39,600
			50,650	**98,000**				**50,650**	**98,000**

The closing balances as of 31st March 2022, are **Cash in hand: 1,350** and **Cash at Bank: 39,600**.

24

Bank Reconciliation Statement as at 31 March 2024

Particular	Plus (₹)	Minus (₹)
Overdraft as per Passbook		10,700
Add: Cheques issued but not yet presented	2,200	900
Add: Interest on investments collected by bank (not in Cash Book)	1,200	5,000
Less: Cheques paid into bank but not yet credited	50	
Interest on overdraft (not in Cash Book)	800	
Bank charges (not in Cash Book)	12,350	
Dishonoured cheque (entered in Passbook only)		
Overdraft as per Cash Book (balancing figure)	**16,600**	**16,600**

25

Machinery Account

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2021 Apr. 1	To Bank A/c	3,00,000	**2022 Mar. 31**	By Depreciation A/c	30,000
			Mar. 31	By Balance c/d	2,70,000
	Total	**3,00,000**		**Total**	**3,00,000**
2022 Apr. 1	To Balance b/d	2,70,000	**Mar. 31**	By Depreciation A/c	35,000
2023 Jan. 1	To Bank A/c	2,00,000	**Mar. 31**	By Balance c/d	4,35,000
	Total	**4,70,000**		**Total**	**4,70,000**
2023 Apr. 1	To Balance b/d	4,35,000	**Apr. 1**	By Bank A/c (Sale of Machinery)	70,000
			Apr. 1	By Loss on Sale of Machinery A/c	10,000
			Mar. 31	By Depreciation A/c	40,000
			2024 Mar. 31	By Balance c/d	3,15,000
	Total	**4,35,000**		**Total**	**4,35,000**

OR

Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2023 Apr. 1	To Balance b/d	25,00,000	2023 Oct. 1	By Bank A/c (Sale of Machinery)	34,000
			2023 Oct. 1	By Loss on Sale of Machinery A/c	52,000
			2023 Oct. 1	By Provision for Depreciation A/c	34,000
			2024 Mar. 31	By Balance c/d	23,80,000
	Total	**25,00,000**		**Total**	**25,00,000**

Provision for Depreciation A/c

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2023 Oct. 1	To Mach A/c	34,000	2023 Apr. 1	By Balance b/d	5,00,000
2024 Mar. 31	To Balance c/d	7,10,000	2024 Mar. 31	By Dep A/c	2,44,000
	Total	**7,44,000**		**Total**	**7,44,000**

Loss on Sale = ₹86,000 − ₹34,000 = ₹52,000

PART-B FINANCIAL ACCOUNTING-II

26-c	**27-c**	**28-a**	**29-b**

30

Calculate Cost of Goods Available for Sale

Particulars	Amt (₹)
Opening Stock	3,00,000
Add: Purchases	15,00,000
Add: Wages	1,00,000
Add: Freight Inwards	1,00,000
Cost of Goods Available for Sale	20,00,000

Cost of Goods Sold = ₹16,00,00O

Calculate Gross Profit

Gross Profit= Sales−Cost of Goods Sold =₹20,00,000−₹16,00,000 =₹4,00,000 = **₹4,00,000**

OR

Cost of Goods Sold = ₹20,00,000

Now, Gross Profit=Sales−Cost of Goods Sold =₹24,00,000−₹20,00,000 =₹4,00,000

31 CORRECT ANS

32 New Provision ₹40,000

Debited in Profit & Loss A/c is (₹16,000 + ₹40,000)- ₹20,000=₹36,000

Balance Sheet (Asset Side) ₹3,60,000

33 Opening Capital on 31, March 2016 is ₹15,100

Closing Capital on 31,March 2017 is ₹38,300

Total Drawings: ₹33,000 ; Additional Capital ₹50,000

The Profit for the year ended March 31,2017 is ₹36,400

34 Trading Account-Gross Profit ₹ 57,350

Profit and Loss A/c -₹ 36,275

OR

Trading Account-Gross Loss ₹ 30,000

Profit and Loss A/c -₹ 1,06,000

PRACTICE- PAPER-2 MARKING SCHEME
CLASS-XI; SUBJECT- ACCOUNTANCY

1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
(C)	(d) OR (d)	(c)	(b)	(b) OR (D)	(c)	(c)	(b)
9	**10**	**11**	**12**	**13**	**14**	**15**	**16**
(a)	(c)	(d)	(c)	(b) or (b)	(b)	(c)	(b)

17 Difference between Reserve and Provision

transaction	Assets Cash + Stock + Debtors	Capital + Liability = Capital	
(a) Started Business	1,00,00 + 20,000	= 1,20,000	1
(b) Sold Goods	------ - 10,000 + 12,000	= + 2,000	1
(c) Ram paid 90% full settlement	1,00,000+10,000 + 12,000	= 1,22,000	
	+ 10,800+---------- 12,000	= (-) 1,200	1
Final Equation	1,10,800 + 10,000 + -----	= 1,20,800	

OR

Purchase Book-<u>6,356</u>

19 (a) Business Entity. (b) Money measurement. (c) Cost Concept. And their explanation

20 Yes, accounting information should be comparable, because –

(i) Comparability is needed to make inter-firm comparisons.

(ii) Comparability is needed to make inter-period comparisons.

Or

(a) Social Responsibility Groups.

(b) Potential Investors and Long-term Creditors.

(c) Public or Customers

21 CORRECT Journal ENTRIES

22

Journal

Sales A/c Dr. 400 1
To Suspense A/c 400

Repairs A/cDr. 820 1
To Purchases A/c 720
To Ramesh 100

Rent A/c Dr. 800 1
To Landlord's Personal A/c 800

Debtors A/c Dr. 4,000 1
To Sales A/c 4,000

Sohan Dr. 100 1
To Mohan 100

Ram A/c Dr. 5,000 1
To Sales A/c 5,000

23 Overdraft as per Cash Book ₹ 32,700

24

Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
1	To Balance b/d	5,000	95,000	5	By Purchase A/c		40,000
2	To Rent A/c		990	15	By Trade Exp. A/c	120	
25	To Sales A/c		72,000	16	By Rent A/c	400	
28	To John & Co.		6,000	17	By Ins. Charges A/c	100	
				30	By Investment A/c		9,500
				30	By Balance c/d	4,380	1,24,492
		5,000	**1,73,990**			**5,000**	**1,73,990**

25

Machinery A/c

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2022			**2022**		
April 1	To Balance b/d	5,00,000	Oct. 1	By Bank A/c	42,000
Oct. 1	To Bank A/c	2,00,000	Oct. 1	By Provision for Dep. A/c	32,500
			Oct.1	By State. of P & L	25,500
			2023 March 31	By Balance c/d	6,00,000
		7,00,000			**7,00,000**

Provision for Depreciation A/c

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2022 Oct.1	To Machinery A/c (7,500+20,000+5,000)	32,500	2022 April 1	By Balance b/d	2,25,000
2023 March 31	To Balance c/d	2,47,500	Oct. 1	By Depreciation A/c (6 month)	5,000
			2023 March 31	By Depreciation A/c (40,000 + 10,000)	50,000
		2,80,000			**2,80,000**

26	**27**	**28**	**29**
c/b	**c**	**c**	**b/b**

30

Profit & Loss A/c

To Bad-Debts 36,000 Add : Further Bad-Debts 20,000 Add : New Provision 99,000 (5% on 19,80,000) 155,000 1,55,000 Less : Old Provision 75,000 To Provision for Discount	80,000		

30.

Sundry Debtors		20,00,000	
Less: Further	Bad-Debts	20,000	19,80,000
Less: New Provision (5% on 1,980,000)	99,000		
Less: Prov. For Discount (3% on 1,88,100)	56,430		18,24,570

Operating Profit = = 5,47,100

31 Cost of Goods Sold = Purchases – Return Outwards + Carriage Inwards + Wages

= ₹.6,80,000 – ₹.30,000 + ₹.20,000 + ₹.50,000 = ₹.7,20,000

3/4th of the goods are sold for ₹.6,00,000

Cost of 3/4th of the goods sold = 7,20,000 x ¾ = ₹.5,40,000

Gross Profit = Sales – Cost of Goods Sold = ₹.6,00,000 – ₹.5,40,000 =**₹.60,000**

32

Basis	**Capital Expenditure**	**Revenue Expenditure**
Nature	Long-term benefit	Short-term/recurring benefit
Purpose	Increases earning capacity	Maintains earning capacity
Examples	Purchase of machinery, building	Salaries, rent, repairs

33

Liabilities	Amt.	Assets		Amt.
Creditors	27,500	Stock :		
Outanding Elec. Bill	2,250	Raw Material	2,000	
Closing Capital	88,550	Finished Products	2,500	4,500
		Fixed Assets		34,000
		Debtors		42,000
		Cash at Bank		37,000
		Cash in Hand		800
	1,18,300			1,18,300

		Rs.
Capital at the end		88,550
Add: Drawings (2,500 x 12)		30,000
		1,18,550
Less: Fresh Capital	7,000	
Capital at the beginning	85,000	(-) 92,000
Profit		26,550

34 Gross Profit ₹ 20.000 Net Loss ₹10,000 **OR**

Gross Profit ₹ 66,000 Net Profit ₹ 49,653

Balance Sheet ₹ 163,353

PRACTICE- PAPER-3 MARKING SCHEME
CLASS-XI; SUBJECT- ACCOUNTANCY

	Ans : 1.b; 2.b or c; 3.b; 4.a or c; 5.b or c; 6.c; 7.c; 8.c; 9.a; 10.b or a; 11.d; 12. a; 13.c; 14.a; 15.a or b; 16.c;.
17	Correct answer **OR** Correct answer
18	a) Accounting period -Correct Explanation b) revenue recognition - Correct Explanation
19	Benefits of Accounting Standards
21	1. Cash A/c Dr 21,600 To Sales A/c 21,600 (Being goods sold for cash at 10% Trade Discount) 2. Salary Dr 2,000 To O/s Salary A/c 2,000 (Being salary due) 3. Charity A/c Dr 1,500 To Purchase A/c 1,500 (Being charity made) 4. Bad Debts A/c Dr 12,000 To Debtors A/c 12,000 (Being debtors become bad) **OR** **Total Asset = ₹ 2,09,000;** (₹ Cash 1,60,000 + Goods ₹ 30,000 + Debtors ₹ 12,000 + Furniture ₹ 7,000) **Total Liabilities = ₹ 2,09,000** (Creditors ₹ 7,000 + Capital ₹ 2,02,000)
22	**Machinery A/c**

Date	**Particulars**		**₹**	**Date**	**Particulars**		**₹**
2026 April 01	To Balance b/d (2,20,000 + 4,25,000)		6,45,000	2026 Dec.31	By Depreciation A/c (for 9 months)		22,500
Dec. 31	To Bank A/c		9,00,000	2027	By Bank A/c		1,45,000
					By Profit & Loss A/c		52,500
					By Depreciation A/c (50,000 + 22,500)		72,500
				Mar. 31	By Balance c/d (3,75,000 +8,77,500)		12,52,500
			15,45,000				15,45,000

23

Cash Book

Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
Sept. 01	To Bal b/d	87,500	50,000	2025			
08	To Sales	7,000		03	By purchase	3,000	
10	To Cheque-in-Hand		10,000	12	By purchase		20,000
18	To Sales	7,000		15	By Est. exp		1000
27	To Cash (c)		10,000	20	By Bank (c)	10,000	
	To Commission		6,000	24	By trade exp	500	
				30	By Drawing	1,200	
				30	Bal c/d	86,800	55,000
		1,01,500	**76,000**			**1,01,500**	**76,000**

24

BRS- ₹69,305 OR ₹ 110

25

i. Sales A/c Dr 210 To Suspense A/c 210	ii. Furniture A/c Dr 32,000 To Purchase A/c 32,000
iii) Drawing A/c Dr 2,000 Suspense A/c Dr 2,000 To Rent A/c 4,000	iv. Ramesh Dr 2,500 To Purchase A/c 1,250 To Sales A/c 1,250
v) Rohan Dr 1,050 To Sales Return A/c 1,050	vi) Suspense A/c Dr 300 To Sales A/c 300

PART-B

26 **Ans: 26 (a) OR (c); 27 (c) OR (a); 28 (a) ; 29 (c).**

30

(i) Capital Expenditure Reason

(ii) Capital Expenditure

(iii) Revenue Expenditure Reason

31

Calculation of Cost of Goods Sold = ₹ 16,000 - ₹ 1,000 - ₹ 6,000 = ₹ 9,000

Calculation of closing Stock= 5,000 + 10,000 - 900 + 1,000 -9,000= 16,000 - 9,900 = **₹ 6,100**

OR

Cost of goods sold = Opening stock + Purchases + Direct Expenses - Closing stock

= ₹ 8,500 + ₹ 30,700 + ₹ 4,800 - ₹ 9,000 = **₹ 35,000**

32 Stock Close = ₹15,000

33

31st March 2020 Closing Capital (11,00,000– 1,80,000)=	₹ 9,20,000
Add: -Drawing made during the year {(3,000 X 4+6,000 X 8) = ₹12,000 +₹ 48,000.}	60,000
	9,80,000
Less:-Additional Capital (60,000 X 90/100) =	(54,000)
	9,26,000
Less:- Opening Capital	(8,50,000)
Profit for the year =	**₹ 76,000**

34 **Gross profit = ₹ 82,400; Net profit = ₹ 35,000; Balance sheet total = ₹ 1,43,400**

Or

Gross Profit = ₹ 37,500; Net Loss= ₹ 4,500

****