Part - A: Financial Accounting I

1. All the ledger accounts which have zero balance are not considered while preparing trial balance.

2. The process of transferring entries from journal to their respective accounts in the ledger is known as posting.

3. Rules of debit and credit are the same of liabilities and capital because according to business entity concept proprietor and business are two separate entities and the amount invested (capital) by proprietors is considered as liability for the business entity.

4. Credit note is a document evidencing for the credit granted to the named person for the reason stated therein.

5. Informational needs of any three external users are as follows:

a. Creditors - Creditors who supply raw materials, goods, or services on credit basis use the information given by financial statements of a business entity to know its creditworthiness.

b. Banks and Financial Institutions - Banks and financial institutions provide loans and credit facilities to business entities that want to ensure the timely repayment by analysing financial statements.

c. Investors - Investors who invest in business entities concerned about return or investment. They rely on information provided by financial statements.

6. **Bank Reconciliation Statement**
as on 31st March, 2013

Particulars	(+) Items (₹)	(-) Items (₹)
Overdraft Balance as per Cash Book		20,250
a. Cheque issued but not presented for payment	2,500	
b. Post dated cheque entered in the cash book but not deposited in the bank		450
c. Cheques deposited into bank but not collected		5,100
d. Cheque dishonoured		2,000
e. Rebate on retiring bill not entered in the cash book	75	
Overdraft as per Pass Book	25,225	
	27,800	27,800

7. Double entry system of accounting is based on one of the fundamental accounting principles which is the 'dual aspect' principle. All the transactions in a business entity are recorded on the basis of dual aspect principle. According to dual aspect principle all the business transactions will have two effects. It further states that when a business transaction takes place it impacts minimum two accounts one being in the debit and other in the credit side.

8. Qualitative characteristics of accounting information:

a. Reliability: The information must be based on facts and can be verified through source documents by anyone. It must be free from bias and errors.

b. Relevance: The accounting information should be helpful for the users to make decisions.

c. Understandability: The information should be clear. Users should understand the information in the same way as it was prepared and conveyed.

9. Accounting Equation

Transactions	**Assets**									**=**	**Liabilities**	**+**	**Capital**		
	Cash	+	Building	+	Stock	+	Debtors	+	Accrued Interest	=	Creditors	+	Loan	+	Owner's Capital
1. Started business with cash	5,00,000	+	0	+	0	+	0	+	0	=	0	+	0	+	5,00,000
2. Purchased building from Yadav	0	+	10,00,000	+	0	+	0	+	0	=	0	+	10,00,000	+	0
New Equation	**5,00,000**	**+**	**10,00,000**	**+**	**0**	**+**	**0**	**+**	**0**	**=**	**0**	**+**	**10,00,000**	**+**	**5,00,000**
3. Paid interest on loan and installment	(2,20,000)	+	0	+	0	+	0	+	0	=	0	+	(20,000)	+	(20,000)
New Equation	**2,80,000**	**+**	**10,00,000**	**+**	**0**	**+**	**0**	**+**	**0**	**=**	**0**	**+**	**8,00,000**	**+**	**4,80,000**
4. Purchased goods on credit	0	+	0	+	1,00,000	+	0	+	0	=	1,00,000	+	0	+	0
New Equation	**2,80,000**	**+**	**10,00,000**	**+**	**1,00,000**	**+**	**0**	**+**	**0**	**=**	**1,00,000**	**+**	**8,00,000**	**+**	**4,80,000**
5. Goods returned to Yadav	0	+	0	+	(20,000)	+	0	+	0	=	(20,000)	+	0	+	0
New Equation	**2,80,000**	**+**	**10,00,000**	**+**	**80,000**	**+**	**0**	**+**	**0**	**=**	**80,000**	**+**	**8,00,000**	**+**	**4,80,000**
6. Goods costing ₹40,000 sold for ₹50,000 on credit	0	+	0	+	(40,000)	+	50,000	+	0	=	0	+	0	+	10,000
New Equation	**2,80,000**	**+**	**10,00,000**	**+**	**40,000**	**+**	**50,000**	**+**	**0**	**=**	**80,000**	**+**	**8,00,000**	**+**	

	4,90,000
7. Took goods of ₹ 10,000 from business for personal use	0 + 0 + (10,000) + 0 + 0 = 0 + 0 + (10,000)
New Equation	**2,80,000 + 10,00,000 + 30,000 + 50,000 + 0 = 80,000 + 8,00,000 + 4,80,000**
8. Accrued Interest	0 + 0 + 0 + 0 + 5,000 = 0 + 0 + 5,000
Accounting Equation	**2,80,000 + 10,00,000 + 30,000 + 50,000 + 5,000 = 80,000 + 8,00,000 + 4,85,000**

10. Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
i.	Purchases A/c Dr. Sales A/c Dr. To Suspense A/c (Purchases was passed through sales book, now rectified)		400 400	 800
ii.	Y's A/c Dr. To Suspense A/c (Sale was credited short in Y's account, now rectified)		90	 90
iii.	Sales A/c Dr. Suspense A/c Dr. To Furniture A/c (Sale of old furniture credited to sales account, now rectified)		450 90	 540
iv.	Drawings A/c Dr. To Purchases A/c (Goods withdrawn not recorded, now rectified)		100	 100
v.	P's A/c Dr. To Sales A/c (Sales were recorded short in sales book, now rectified)		27	 27
vi.	Sales Return A/c Dr. To Suspense A/c (Sales return book balance was not		210	 210

	recorded in books, now rectified)			

11. Journal

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
i.	Cash A/c Building A/c To Capital A/c (Commenced business with cash and building)	Dr. Dr.		1,00,000 50,000	 1,50,000
ii.	New Machine A/c To Old Machine A/c To Cash A/c (Old machine is exchange for new machine and balance paid in cash)	Dr.		2,40,000	 50,000 1,90,000
	Profit and Loss A/c To Old Machine A/c (Loss on exchange of old machineries written off)	Dr.		30,000	 30,000
iii.	Debtors A/c To Bank A/c (Cheque dishonoured)	Dr.		5,000	 5,000
iv.	Rent A/c Drawings A/c To Cash A/c (Paid rent to landlord, 1/3rd of which belongs to proprietor's residence)	Dr. Dr.		1,000 500	 1,500
v.	Charity A/c To Purchases A/c (Goods given as charity)	Dr.		500	 500

12.

Dr. Cash Book Cr.

Date	Particulars	L. F.	Cash (₹)	Bank (₹)	Disc. (₹)	Date	Particulars	L. F.	Cash (₹)	Bank (₹)	Disc. (₹)
2013						2013					
Jan 1	Balance b/d		22,500	-		Jan 1	Balance b/d		-	10,500	
Jan 5	Sales		21,000	-		Jan 2	Wages		600	-	
Jan 10	Cash	C	-	12,000		Jan 10	Bank	C	12,000	-	
Jan 31	Balance c/d		-	14,700		Jan 15	Purchases		-	15,000	
						Jan 20	Rent		1,500	-	
						Jan 25	Drawings		-	1,200	
						Jan 30	Salary		3,000	-	
						Jan 31	Balance c/d		26,400	-	
			43,500	26,700					43,500	26,700	

13. (i) Consistency principle is important for a business both from accounting and auditing point of view as having a consistent set of accounting principles, procedures helps accountants in recording business transactions in an orderly manner. While in the case of auditors, it helps comparing business data much easier as the same accounting methods are followed consistently. The accuracy of the provided information can be assured as there is no change when following consistency principle, which enables shareholders and management in making better business decisions.

(ii) Materiality Concept - Materiality concept in accounting refers to the concept that all the material items should be reported properly in the financial statements. Material items are considered as those items whose inclusion or exclusion results in significant changes in the decision making for the users of business information.
Materiality concept also allows for the provision of ignoring other accounting principles if doing so doesn't have an impact on the financial statements of the concerned business entity.
For example - A customer who has defaulted in payment of ₹100 to a company that has a net asset of ₹ 5,000 crores is regarded as immaterial for the company. However, if the default amount is ₹ 200 crores, then it will have an impact on the company and hence to be considered material transaction.

14. **Journal**

In the Books of A

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2013 Feb. 1	B's A/c To Sales A/c (Goods sold on credit)	Dr.		1,20,000	 1,20,000
Feb. 1	Bills Receivable A/c (1) Bills Receivable A/c (2) Bills Receivable A/c (3) To B's A/c (Bills drawn)	Dr. Dr. Dr.		50,000 40,000 30,000	 1,20,000
Feb. 1	C's A/c To Bills Receivable A/c (1) (A endorsed bills receivable 1 in favour of C)	Dr.		50,000	 50,000
Feb. 4	Bank A/c Discounting Charges A/c **(40,000 x 12/100 x 2/12)** To Bills Receivable A/c (2) (Bill receivable 2 discounted)	Dr. Dr.		39,200 800	 40,000
Mar 4	No Entry				
Apr 4	No Entry				
Apr 30	Bill Sent for Collection A/c To Bills Receivable A/c (3) (Bill receivable 3 sent for collection)	Dr.		30,000	 30,000
May 4	Bank A/c Bank Charges A/c To Bill Sent for Collection A/c (Bill sent for collection, collected on maturity date and bank charges paid)	Dr. Dr.		29,750 250	 30,000

In the Books of B

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2013 Feb. 1	Purchases A/c To A's A/c (Goods purchased on credit)	Dr.		1,20,000	 1,20,000
Feb. 1	A's A/c To Bills Payable A/c (1) To Bills Payable A/c (2) To Bills Payable A/c (3) (Bills accepted)	Dr.		1,20,000	 50,000 40,000 30,000
Feb. 1	No Entry				
Feb. 4	No Entry				
Mar 4	Bills Payable A/c (1) To Bank A/c (Bill payable 1 matured on due date)	Dr.		50,000	 50,000
Apr 4	Bills Payable A/c (2) To Bank A/c (Bill payable 2 matured on due date)	Dr.		40,000	 40,000
Apr 30	No Entry				
May 4	Bills Payable A/c (3) To Bank A/c (Bill payable 3 matured on due date)	Dr.		30,000	 30,000

15.

Dr. **Machinery A/c** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹.)
2012 April 1	Balance b/d	50,00,000	2012 Oct. 1	Machinery Disposal A/c	10,00,000
			2013 Mar 31	Balance c/d	40,00,000
		50,00,000			50,00,000

Dr. Provision for Depreciation A/c Cr.

Date	Particulars	Amount (₹.)	Date	Particulars	Amount (₹)
2012 Oct 1	Machinery Disposal A/c (WN)	4,24,000	2012 April 1	Balance b/d	11,60,000
2013 Mar 31	Balance c/d	15,36,000	2013 Mar 31	Depreciation A/c **(₹ 40,00,000 x 20/100)**	8,00,000
		19,60,000			19,60,000

Dr. Machinery Disposal A/c Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Oct. 1	Machinery A/c	10,00,000	2012 Oct. 1	Bank A/c	6,00,000
Oct. 1	Profit and Loss A/c	24,000	Oct. 1	Provision for Dep. A/c	4,24,000
		10,24,000			10,24,000

Working Note: Calculation of Depreciation on Machinery Sold

Year	Calculation	Depreciation (₹)	Written Down Value (₹)
2010-11	₹ 10,00,000 x 20/100	2,00,000	8,00,000
2011-12	₹ 8,00,000 x 20/100	1,60,000	6,40,000
2012-13	₹ 6,40,000 x 20/100 x 6/12	64,000	5,76,000
		4,24,000	

Part - B: Financial Accounting II

16. Opening entry is referred to as the first entry that is recorded or which is brought forward from a previous accounting period to the new accounting period. In an ongoing business, the closing balance of the previous accounting period serves as an opening balance for the current accounting period.

17. Closing stock in financial statements will be shown as:
In trading account - Credit side
In balance sheet - Assets side

18. Three types of software are as follows:

a. **Application Software -** Application software is the user oriented program that is designed and developed to perform specific tasks. For example, word processor, games, media player, etc.

b. **Operating Software -** Operating software is a program that makes an interface between the user and the hardware. Operating software accepts the command for operations. For example, macOS, Linux, Android, etc.

c. **Utility Software -** Utility software is a set of programs used to perform supporting operations in a computer. For example, antivirus software, backup software, etc.

19. (i) Calculation of operating profit:

Particulars	Amount (₹)
Net Profit	2,00,000
Add: Interest on Loan	40,000
Less: Rent Received	(20,000)
Gain on Sale of Machine	(30,000)
Donation (assumed it is included in net profit)	(4,000)
Operating Profit	1,86,000

(ii) The cost of obtaining a license to carry out a business is a capital expenditure.
License to carry out the business will last for more than one year, also it is obtained before commencement of business and hence it will be considered as a capital expenditure.

20. Calculation of Profit or Loss:

Particulars	Amount (₹)
Closing Capital	33,000
Add: Drawings	6,000
Less: Opening Capital	(30,000)
Profit	9,000

Working Note:

Statement of Affairs
as on 31st March, 2013

Capital and Liabilities	Amount (₹)	Assets	Amount (₹)
Capital (bal. fig.) Creditors	33,000 18,000	Cash Stock Debtors	1,800 28,200 21,000
	51,000		51,000

21. Factors affecting sourcing the accounting software:

a. **User friendliness:** A software that is easy to use and is more adaptable to the needs of the user is always a hit with the business. It should present the most basic information required for decision making.

b. **Features:** A company or a business should pay attention to the features that the software provides as it is helpful in choosing the right software required, as per the requirements of the business.

c. **Compatibility:** A software should be compatible with any other software that is being used to run the business. In simple words, the software should be running smoothly on the platform being used. For this, the organisation should check if the software is compatible across multiple platforms.

d. **Security:** Security is a primary concern in an ever expanding world of software. Coupled with advances in technology, intruders often cause data breaches in large organisations, which leads to loss of revenue and reputation.

e. **Price:** One of the most important factors that influence business decisions regarding the choice of accounting software is the price. Software that lacks most of the features required for your business, yet highly priced should be strictly avoided.

f. **Size of the Organisation:** The type of software is also dependent upon the size of the organisation. Standard software can be used for small organisations while a customised software is required for large organisations.

22.

Statement of Affairs

Capital and Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	3,00,000	Cash in Hand	40,000
Capital	8,20,000	Furniture	4,50,000
		Stock in trade	1,00,000
		Building	5,00,000
		Bills Receivable	30,000
	11,20,000		11,20,000

Statement of Profit or Loss

Particulars	Amount (₹)
Closing Capital	8,20,000
Add: Drawings	40,000
Less: Additional Capital	(1,60,000)
Less: Opening Capital	(7,50,000)
Loss during the year	50,000

23.

Dr. **Trading A/c** **Cr.**

for the year ended 31st March, 2015

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	11,150	Sales	
Purchases		1,58,700	1,55,500
1,15,000	1,12,400	Less: Returns	35,000
Less: Returns	15,100	(3,200)	
(2,600)	51,850	Closing Stock	
Wages			
Gross Profit	1,90,500		1,90,500

Dr. **Profit and Loss A/c** **Cr.**

for the year ended 31st March, 2015

Particulars	Amount (₹)	Particulars	Amount (₹)
Incidental Trade Expenses	5,600	Gross Profit	51,850
Insurance	925	Commission Received	
Audit Fees	400	1,350	1,600
Salaries	7,600	Add: Accrued	
Discount Allowed	3,750	250	1,000
Depreciation:		Interest	
Freehold Premises		700	1,200
2,500	3,400	Add: Accrued	2,100
Furniture	4,500	300	250
900	31,825	Rent	
Interest on Capital		1,300	
Net Profit	58,000	Less: Advance	58,000
		(100)	
		Discount Received	
		Interest on Drawings	

Balance Sheet

as at 31st March, 2015

Capital and Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		Freehold Premises	
75,000		50,000	47,500
Less: Drawings		Less: Depreciation –	16,200
(6,000)		(2,500)	4,000
Less: Int. on Drawings		Debtors	2,600
(250)	1,03,275	Investments	
Less: Income Tax	12,415	Bill Receivable	3,600
(1,800)	100	Office Furniture	2,540
Add: Interest on Cap.		4,500	3,800
4,500		Less: Depreciation -	35,000
Add: Net Profit		(900)	300
31,825		Cash	250
Creditors		Bank	
Advance Rent	1,15,790	Stock	1,15,790
		Accrued Interest	
		Accrued Commission	

Working Notes 1:

Evaluation of Depreciation

Depreciation on Freehold Premises = ₹ 50,000 × 5/100 =₹ 2,500
Depreciation on Office Furniture = ₹ 4,500 × 20/100 = ₹ 900

Working Notes 2:

Evaluating Interest on Capital

Interest on Capital = ₹ 75,000 × 6/100 = ₹ 4,500

OR

Statement of Affairs

as on April 01, 2014

Capital and Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors Bills Payable Capital (Balancing Figure)	5,000 2,000 1,12,000	Cash in Hand Cash at Bank Stock Debtors Bills Receivable Furniture Investment	5,000 50,000 20,000 10,000 10,000 4,000 20,000
	1,19,000		1,19,000

Statement of Affairs

as on March 31, 2015

Capital and Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors Bills Payable Capital (Balancing Figure)	23,000 21,000 1,75,000	Cash in Hand Cash at Bank Stock Debtors Bills Receivable Furniture Investment Car	18,000 45,000 15,000 40,000 12,000 24,000 25,000 40,000
	2,19,000		2,19,000

Statement of Profit or Loss

Particulars	Amount (₹)
Closing Capital Add: Drawings (2,500 x 12) Less: Additional Capital Less: Opening Capital	1,75,000 30,000 (15,000) (1,12,000)
Profit Before Adjustment Less: Car Depreciation (40,000 x 5)/100 Less: Furniture Depreciation (24,000 x 10)/100 Less: Outstanding Rent	78,000 (2,000) (2,400) (3,000)
Profit for the year	70,600

24.

Dr. Trading A/c Cr.
for the year ended 31st March, 2014

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock Purchases Wages General Expenses (1/5th) Taxes and Insurance (1/5th) Power Gross Profit (balancing figure)	32,400 94,000 14,400 1,000 506 4,480 30,934	Sales Closing Stock	1,30,720 47,000
	1,77,720		1,77,720

Dr. Profit and Loss A/c Cr.

for the year ended 31st March, 2014

Particulars	Amount (₹)	Particulars	Amount (₹)
Depreciation: (WN1) Machinery 1,868 Scooter 480	 2,348	Gross Profit Commission Received	30,934 2,640

Old Bad Debts 1,100 Add: Further Bad Debts 320 Add: New Provision (WN2) 612 Less: Old Provision (1,800) O/s Interest on Bank O/D Taxes & Insurance 2,630 Less: Prepaid (100) Less: T/f to Trading A/c (506)	 232 1,400 2,024 4,000 210 1,000 2,560 1,800 18,000		
General Expenses 5,000	33,574		33,574
Less: T/f to Trading A/c (1,000) Charity Scooter Expenses Trade Expenses Outstanding Manager's Commission (WN3) Net Profit (balancing figure)			

Balance Sheet

as at 31st March, 2014

Capital and Liabilities	Amount (₹)	Assets	Amount (₹)
Capital 49,000 Add: Net Profit 18,000 Less: Drawings (4,000) Current Liabilities: Sundry Creditors	 63,000 5,000 1,800 7,700	Fixed Assets: Machinery 18,680 Less: Depreciation (1,868) Scooter 4,000 Less: Depreciation (480)	 16,812 3,520 22,000 47,000

Outstanding Manager's Commission Bills Payable Outstanding Interest on Bank Overdraft Bank Overdraft	1,400 22,360	Building Current Assets: Stock Prepaid Insurance Debtors	100 11,628 200
	1,01,260	12,560 Less: Bad Debts (320) Less: PFBD (612) Cash in Hand	1,01,260

Working Notes 1: Depreciation Evaluation

Machinery Depreciation = ₹ 18,680 × 10/100 = ₹ 1,868

Working Notes 2: Provision for doubtful debts Evaluation

Provision for doubtful debts = (Sundry Debtors−Further Bad debts) x Rate/100

= ₹ (12,560−320) × 5/100 = ₹ 612

Working Notes 3: Manager's Commission Evaluation

Profit before Manager's Commission= ₹ 19,800 (₹ 33,574− ₹ 13,774)

Manager's Commission = ₹ 19,800 × 10/110 = ₹ 1,800

OR

Dr. **Trading A/c** **Cr.**

for the year ended 31st March, 2015

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock Purchases 85,500 Less: Purchases Return (2,000) Less: Lost by Fire	16,000 73,500 4,500 750	Sales 1,44,800 Less: Sales Return (300) Closing Stock	 1,44,500 11,500

(10,000) Power Carriage Inwards	11,500 49,750		
Wages Gross Profit (balancing figure)	1,56,000		1,56,000

Dr. **Profit and Loss A/c** **Cr.**

for the year ended 31st March, 2015

Particulars	Amount (₹)	Particulars	Amount (₹)
Depreciation: (WN1) Traveller's Sample 450 Plant & Machinery 1,000 Rent & Insurance 9,950 Less: Prepaid (WN2) – (100) New Provision 1,000 Less: Old Provision – (300) Traveller's Commission Traveller's Salaries Salaries	 1,450 9,850 700 1,445 4,550 17,200 2,500 10,000 800 4,300	Gross Profit Rent Received Discount Received Net Loss (balancing figure)	49,750 300 900 1,845
Discount Allowed Loss by Fire	52,795		52,795
Advertisement Development Expenditure written-off (WN3) General Charges			

Balance Sheet

as at 31st March, 2015

Capital and Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		<u>Fixed Assets:</u>	
20,500		Plant & Machinery	
Less: Net Loss	16,155	10,000	9,000
(1,845)		Less: Depreciation -	
Less: Drawings		<u>(1,000)</u>	900
<u>(2,500)</u>	18,400	Traveller's Samples	2,500
<u>Current Liabilities:</u>		1,350	
Creditors- Expenses		Less: Depreciation –	11,500
3,400		<u>(450)</u>	3,200
Creditors- Trade –		Goodwill	100
<u>15,000</u>		<u>Current Assets:</u>	55
		Stock	
		Advertisement Development	6,300
		Prepaid Insurance	1,000
		Cash in Hand	
	34,555	Debtors	34,555
		7,300	
		Less: PFDD	
		<u>(1,000)</u>	
		Cash at Bank	

Working Notes 1: Depreciation Evaluation

Plant and Machinery = ₹ 10,000 x 10/100 = ₹ 1,000

Traveller's Samples = ₹ 1,350/3 = ₹ 450

Working Notes 2: Prepaid Insurance Evaluation

Prepaid Insurance= 600 x 2/12 = ₹ 100

Working Note 3: Write off Advertising Development Expense
Advertising Development Expense Written off = ₹4,000 x (20/100) = ₹ 800

Working Notes 4: Manager's Commission Evaluation

Since, there is a net loss, therefore, there will be no commission for the manager.