CBSE Class X ELEMENTS OF BOOK-KEEPING AND ACCOUNTANCY Set 4 (135)

Time Allowed :3 Hours	Maximum Marks :70	Total Questions :30

General Instructions

1. This question paper contains **30 questions**.
2. **Question 1 to 18** carry **one** mark each.
3. **Question 19 to 22** carry **three** marks each.
4. **Question 23 to 26** carry **four** marks each.
5. **Question 27 to 30** carry **six** marks each.

Section A

Question 1 (A): Which of the following is not true about Capital Expenditure?

(a) Creates future benefits

(b) Incurred to acquire fixed assets

(c) Incurred to increase the economic life of existing fixed assets.

(d) Reduces the profit of the concern.

Correct Answer: (d) Reduces the profit of the concern.

Solution:

Capital expenditure refers to funds used to acquire or upgrade physical assets like buildings or equipment. It creates long-term benefits and is capitalized as an asset. It does not reduce the profit of the concern in the year it is incurred, as it is not treated as an expense but as an investment.

Quick Tip
Capital expenditure creates future benefits and is recorded as an asset rather than an expense.

OR

Question 1 (B): A company spent Rs. 20,000 on painting of its building. It should be recorded as:

(a) Revenue Expenditure

(b) Capital Expenditure

(c) Personal Expenditure

(d) Deferred Expenditure

Correct Answer: (a) Revenue Expenditure

Solution:

Painting of a building is considered maintenance, which does not create future benefits or increase the asset's economic life. Therefore, it is classified as a **Revenue Expenditure**, as it is a recurring cost and charged to the income statement.

Quick Tip
Revenue expenditure maintains assets in working condition and is treated as an expense, not an asset.

Question 2: Cost incurred for the maintenance of a shop is considered as:

(a) Loss

(b) Gain

(c) Capital Expenditure

(d) Revenue Expenditure

Correct Answer: (d) Revenue Expenditure

Solution:

The maintenance cost of a shop is a routine expense that does not enhance the asset's value or lifespan. It is treated as a **Revenue Expenditure**, which is debited to the income statement for the accounting period.

Quick Tip
Routine expenses like repairs or maintenance are classified as Revenue Expenditure and do not add to the asset's value.

Question 3 (A): Depreciation will be charged on which of the following?

(a) Fixed assets

(b) Capital

(c) Current assets

(d) Liquid assets

Correct Answer: (a) Fixed assets

Solution:

Depreciation is the systematic allocation of the cost of a **fixed asset** over its useful life. It applies to tangible assets like machinery, buildings, and equipment that deteriorate or lose value over time.

Quick Tip
Depreciation applies only to tangible fixed assets, not to current or liquid assets.

OR

Question 3 (B): The value of a fixed asset after deducting depreciation from the historical cost is called:

(a) Fair value

(b) Book value

(c) Market value

(d) Net realisable value

Correct Answer: (b) Book value

Solution:

The **Book Value** of a fixed asset is calculated by deducting the accumulated depreciation from the asset's historical cost. It represents the asset's recorded value in the books of accounts.

Quick Tip
Book value = Historical cost - Accumulated depreciation.

Question 4 (A): On 1st April, 2022 S. Ltd. purchased a Truck costing Rs. 16,00,000. Depreciation was to be charged @ 12% p.a. by written down value method. What will be the book value of the Truck on 31st March 2023?

(a) Rs. 14,08,000

(b) Rs. 12,00,000

(c) Rs. 15,00,000

(d) Rs. 8,00,000

Correct Answer: (a) Rs. 14,08,000

Solution:

Depreciation under the Written Down Value (WDV) method is calculated as:

$$\text{Depreciation} = \text{Cost} \times \text{Rate of Depreciation}$$

Given: Cost = Rs. 16,00,000, Rate = 12%

$$\text{Depreciation} = 16,00,000 \times \frac{12}{100} = Rs. 1,92,000$$

The book value after one year:

$$\text{Book Value} = \text{Cost} - \text{Depreciation}$$

$$\text{Book Value} = 16,00,000 - 1,92,000 = Rs. 14,08,000$$

Quick Tip
The Written Down Value method applies depreciation on the remaining book value each year, resulting in a decreasing depreciation amount over time.

OR

Question 4 (B): On 1st September 2022, A Ltd. purchased a machine costing Rs. 8,00,000. Depreciation was to be charged @ 15% p.a. by straight-line method. What amount of depreciation will be charged for the year ending on March 31, 2023?

(a) Rs. 80,000

(b) Rs. 70,000

(c) Rs. 60,000

(d) Rs. 90,000

Correct Answer: (b) Rs. 70,000

Solution:

Under the Straight-Line Method (SLM), depreciation is calculated as:

$$\text{Depreciation} = \text{Cost} \times \text{Rate} \times \text{Time}$$

Given: Cost = Rs. 8,00,000, Rate = 15%, Time = 7 months (September to March):

$$\text{Depreciation} = 8,00,000 \times \frac{15}{100} \times \frac{7}{12}$$

$$\text{Depreciation} = 8,00,000 \times 0.0875 = Rs.70,000$$

Quick Tip
In the Straight-Line Method, depreciation is calculated on the original cost of the asset, irrespective of its age.

Question 5 (A): Depreciation is provided in S.L.M. on cost of:

(a) Current Assets

(b) Liquid Assets

(c) Fixed Assets

(d) Fictitious Assets

Correct Answer: (c) Fixed Assets

Solution:

Depreciation is charged on **Fixed Assets** like buildings, machinery, and equipment. These assets have a useful life, and their cost is gradually allocated over their lifespan.

Quick Tip
Depreciation ensures that the cost of a fixed asset is spread over its useful life, matching cost with revenue generation.

OR

Question 5 (B): Estimated sale value of an asset after its working life is called:

(a) Original value

(b) Scrap value

(c) Market value

(d) Book value

Correct Answer: (b) Scrap value

Solution:

The **Scrap Value** of an asset is its estimated residual value at the end of its useful life. It represents the expected selling price of the asset after it becomes obsolete or unfit for further use.

Quick Tip

Scrap value is essential for calculating depreciation using methods like the Straight-Line Method.

Question 6 (A): Statement-I: Bank Reconciliation Statement is prepared annually to reconcile balance as per Cash Book with balance as per Bank Statement.
Statement-II: Bank Reconciliation statement is prepared by the bank and also the account holder.

(a) Both the statements are false.

(b) Both the statements are true.

(c) Only statement-II is true.

(d) Only statement-I is true.

Correct Answer: (d) Only statement-I is true.

Solution:

- **Statement-I** is correct: A Bank Reconciliation Statement (BRS) is prepared to reconcile the difference between the balance as per the Cash Book and the Bank Statement. It ensures accurate accounting records.
- **Statement-II** is incorrect: The bank does not prepare the BRS. It is prepared only by the account holder to identify discrepancies.

Quick Tip

A Bank Reconciliation Statement (BRS) helps identify errors, omissions, or timing differences between the Cash Book and Bank Statement.

OR

Question 6 (B): Which of the following transaction will be added while preparing Bank Reconciliation statement when debit balance as per Cash Book is given?

(a) Cheque issued but not yet presented for payment

(b) Cheque issued but omitted to be recorded in the Cash Book

(c) Any wrong debit given by bank in the Pass Book

(d) Bank charges and commission charged by bank.

Correct Answer: (b) Cheque issued but omitted to be recorded in the Cash Book

Solution:

- If a cheque issued is omitted to be recorded in the Cash Book, the balance as per the Cash Book will be lower. While preparing the Bank Reconciliation Statement, this amount must be added back to reconcile the balances.

Quick Tip
Ensure all issued cheques are recorded in the Cash Book to avoid discrepancies in the Bank Reconciliation Statement.

Question 7: A bill dated 1st February, 2023 is payable three months after date. The maturity date of the bill will be:

(a) 3rd May, 2023

(b) 10th April, 2023

(c) 8th April, 2023

(d) 11th April, 2023

Correct Answer: (d) 11th April, 2023

Solution:

The maturity date of a bill is calculated as follows:

1. Add 3 months from the bill date (1^{st} February 2023):

- February $\rightarrow$ March $\rightarrow$ April.

The bill becomes due on 1^{st} May 2023.

2. Add a grace period of 3 days as per the standard practice:

- 1^{st} April + 3 days = 11^{th} April, 2023.

Thus, the maturity date is **11^{th} April, 2023**.

Quick Tip
While calculating the maturity date for bills of exchange, add the given months and include a standard 3-day grace period.

Question 8: The Bill receivable account is a/an:

(a) Personal Account

(b) Asset Account

(c) Nominal Account

(d) Real Account

Correct Answer: (b) Asset Account

Solution:

The Bill Receivable Account represents an amount owed to the business, which is an **Asset**. It is recorded on the asset side of the Balance Sheet under current assets.

Quick Tip

Bills receivable are treated as current assets because they are expected to be realized within a year.

Question 9: Credit balance as per Cash Book was Rs. 30,000, cheque deposited Rs. 5,000 were not credited by bank and cheque issued Rs. 7,000 were not presented for payment. What will be the resulting balance as per Bank Statement?

(a) Rs. 42,000

(b) Rs. 28,000

(c) Rs. 27,000

(d) Rs. 32,000

Correct Answer: (b) Rs. 28,000

Solution:

The formula to reconcile the Bank Statement is:

$$\text{Balance as per Cash Book} + \text{Cheques issued but not presented} - \text{Cheques deposited but not credited}$$

Given: - Balance as per Cash Book = Rs. 30,000 - Cheque deposited but not credited = Rs. 5,000 (deduct) - Cheque issued but not presented = Rs. 7,000 (add)

$$\text{Resulting Balance} = 30,000 + 7,000 - 5,000 = Rs.28,000$$

Quick Tip

To reconcile balances, always add cheques issued but not presented and subtract cheques deposited but not yet credited.

Question 10 (A): A bank reconciliation statement is –

(a) A part of Cash Book

(b) A part of Bank Pass Book

(c) A statement prepared by the bank

(d) A statement prepared by a customer

Correct Answer: (d) A statement prepared by a customer

Solution:

A **Bank Reconciliation Statement (BRS)** is prepared by the account holder (customer) to reconcile the balance as per the Cash Book and the Bank Pass Book. It identifies any discrepancies caused by timing differences or errors.

Quick Tip
The BRS ensures accurate records by reconciling differences between the Bank Pass Book and Cash Book.

OR

Question 10 (B): A Pass Book is a copy of:

(a) A customer's account in the bank's books

(b) Cash book relating to bank column

(c) Cash book relating to cash column

(d) Firm's receipts

Correct Answer: (a) A customer's account in the bank's books

Solution:

A Pass Book is a **mirror copy** of the customer's account maintained in the bank's ledger. It records all transactions related to the customer's account, such as deposits, withdrawals, and charges.

Quick Tip
The Pass Book reflects the bank's view of a customer's account and helps in reconciliation.

Question 11 (A): Gross profit of the firm was Rs. 1,20,000. There were salary of staff Rs. 50,000 and interest received Rs. 40,000. Net Profit will be

(a) Rs. 2,10,000

(b) Rs. 1,10,000

(c) Rs. 90,000

(d) Rs. 1,30,000

Correct Answer: (d) Rs. 1,30,000

Solution:

The formula for Net Profit is:

$$\text{Net Profit} = \text{Gross Profit} - \text{Expenses} + \text{Other Income}$$

Given: - Gross Profit = Rs. 1,20,000 - Expenses (Salary) = Rs. 50,000 - Interest Received = Rs. 40,000

$$\text{Net Profit} = 1,20,000 - 50,000 + 40,000 = Rs.1,30,000$$

Quick Tip

Net Profit accounts for all incomes and expenses after calculating the Gross Profit.

OR

Question 11 (B): Gross profit of the firm was Rs. 5,00,000. Which of the following will result in an increase of Net Profit?

(a) Advertisement

(b) Rent

(c) Commission received

(d) Repairs

Correct Answer: (c) Commission received

Solution:

The formula for Net Profit is:

$$\text{Net Profit} = \text{Gross Profit} - \text{Expenses} + \text{Other Income}$$

Given:

- Gross Profit = Rs. 5,00,000
- Expenses include: Advertisement, Rent, Repairs (which reduce Net Profit)
- Other Income includes: Commission received (which increases Net Profit)

$$\text{If Commission Received} = X \text{ then Net Profit} = \text{Gross Profit} - \text{Total Expenses} + X$$

Where X is the additional income from commission.

Quick Tip

Reminder Net Profit increases with additional income streams and decreases with additional expenses post-calculating Gross Profit.

Question 12: When Bank Reconciliation Statement is prepared with credit balance as per Pass Book, the balance derived will be:

(a) Debit Balance as per Cash Book

(b) Credit Balance as per Cash Book

(c) Debit Balance as per Bank Book

(d) Either (a) or (b) is possible

Correct Answer: (a) Debit Balance as per Cash Book

Solution:

A **Credit Balance** in the Pass Book indicates a favorable balance (amount deposited). The corresponding balance in the Cash Book would be a **Debit Balance**, as the two records are mirror images of each other.

Quick Tip
A credit balance in the Pass Book always corresponds to a debit balance in the Cash Book.

Question 13: A bill of exchange consists of:

(a) An order to pay

(b) A request to pay

(c) A promise to pay

(d) Acceptance by the drawer

Correct Answer: (a) An order to pay

Solution:

A bill of exchange is a financial instrument that contains an **order to pay** a specific sum of money by one party (the drawee) to another party (the payee) at a specified time.

Quick Tip
A bill of exchange is different from a promissory note as it is an order to pay, not a promise.

Question 14 (A): Generally, incomplete records are maintained by ____.

(a) Trader

(b) Society

(c) Company

(d) Government

Correct Answer: (a) Trader

Solution:

Incomplete records (also called single-entry accounting) are generally maintained by **small traders** or individuals who do not follow double-entry accounting due to simplicity and cost constraints.

Quick Tip
Incomplete records are commonly used by small businesses with limited transactions.

OR

Question 14 (B): If capital at the end of the year is Rs. 40,000; Additional Capital introduced during the year Rs. 30,000; drawing for the year Rs. 20,000 and loss for the year is Rs. 60,000, then capital at the beginning of the year was:

(a) Rs. 90,000

(b) Rs. 80,000

(c) Rs. 70,000

(d) Rs. 10,000

Correct Answer: (c) Rs. 70,000

Solution:

The formula to calculate capital at the beginning of the year is:

$$\text{Capital at Beginning} = \text{Capital at End} - \text{Additional Capital} + \text{Drawings} + \text{Loss}$$

Given: - Capital at End = Rs. 40,000 - Additional Capital = Rs. 30,000 - Drawings = Rs. 20,000 - Loss = Rs. 60,000

$$\text{Capital at Beginning} = 40,000 - 30,000 + 20,000 + 60,000 = Rs.70,000$$

Quick Tip
Capital at the beginning can be derived by adjusting additional capital, drawings, and profit/loss to the closing capital.

Question 15: Balance Sheet shows:

(a) Profit or Loss

(b) Financial Position

(c) Errors of Accounts

(d) Total Debtors

Correct Answer: (b) Financial Position

Solution:
A **Balance Sheet** is a financial statement that shows the **financial position** of a business at a specific date. It reports the assets, liabilities, and equity of the business.

Quick Tip
The Balance Sheet reflects the company's financial health, including what it owns and owes.

Question 16: Excess of debit in Profit and Loss Account is called:
(a) Net profit
(b) Net loss
(c) Gross profit
(d) Gross loss

Correct Answer: (b) Net loss

Solution:
If the debit side of the Profit and Loss Account exceeds the credit side, it indicates a **Net Loss**. This happens when total expenses exceed total revenues.

Quick Tip
Net loss occurs when a business's expenses are greater than its revenue in a given accounting period.

Question 17 (A): Closing Stock is shown on the ____.

(a) Debit side of trading account

(b) Debit side of Profit & Loss account

(c) Credit side of Profit & Loss account

(d) Credit side of trading account

Correct Answer: (d) Credit side of trading account

Solution:

Closing Stock is shown on the **Credit side of the Trading Account**. It represents the unsold goods at the end of an accounting period and is also shown as a current asset in the Balance Sheet.

Quick Tip
Closing Stock appears on the credit side of the Trading Account to match against the cost of goods sold.

OR

Question 17 (B): Rent from Tenant is shown on the ____.

(a) Debit side of trading account

(b) Debit side of Profit & Loss account

(c) Liabilities side of balance sheet

(d) Assets side of balance sheet

Correct Answer: (b) Debit side of Profit & Loss account

Solution:

Rent from Tenant is an income for the business and is shown on the **Credit side** of the Profit and Loss Account. This helps in determining the net profit or loss of the business.

Quick Tip
Incomes like rent received are recorded on the credit side of the Profit and Loss Account.

Question 18: In single entry system ____ are recorded.

(a) cash receipts

(b) cash payments

(c) Both cash receipts and cash payments

(d) Credit transactions

Correct Answer: (c) Both cash receipts and cash payments

Solution:

The **Single Entry System** records only **cash receipts** and **cash payments**. It does not record credit transactions or maintain a complete double-entry system.

Quick Tip

The single entry system is simple and economical but lacks accuracy and completeness as it omits credit transactions.

Question 19: Give any three examples of Capital expenditure.

Correct Answer: 1. Purchase of land or building.

2. Installation of new machinery.

3. Expenditure incurred to extend the life of existing fixed assets.

Solution:

Capital Expenditure refers to spending incurred to acquire or improve fixed assets, which provide long-term benefits to the business. These are treated as assets, not expenses.

Quick Tip

Capital expenditures are non-recurring and appear as assets on the Balance Sheet, not in the Profit & Loss Account.

Question 20: Rita incurred the following expenditure on various items during the year ended 31st March, 2023. Identify the name/type of expenditure.

(a) Rs. 25,000 paid for the installation of a new machine.

(b) Repairs of Rs. 5,000 necessitated by negligence.

(c) Cost of air-conditioning of the office of the General Manager.

Correct Answer:

(a) Capital Expenditure

(b) Revenue Expenditure

(c) Capital Expenditure

Solution:

1. **Installation of a new machine:** This is **Capital Expenditure** as it creates a new fixed asset providing long-term benefits.
2. **Repairs due to negligence:** This is **Revenue Expenditure** as it is recurring and does not create a new asset.
3. **Air-conditioning for the office:** This is **Capital Expenditure** as it improves the value and functionality of the office.

Quick Tip
Capital expenditures create or improve fixed assets, while revenue expenditures maintain the existing assets without increasing their value.

Question 21: Under which method of charging depreciation more amount is charged in the initial years as compared to the later years of its life? Give any two merits of this method.

Correct Answer: Written Down Value (WDV) Method

Solution:

The **Written Down Value (WDV) Method** charges depreciation on the book value of the asset, which decreases over time. As a result, higher depreciation is charged in the initial years, and the amount decreases in later years.

Merits of the WDV Method: 1. It matches depreciation expense with the asset's usage, which is higher in the initial years.

2. It reduces the tax burden in the early years, as higher depreciation leads to lower taxable

profits.

Quick Tip
The WDV method is suitable for assets that lose value rapidly in their initial years, such as machinery and vehicles.

Question 22 (A): On 1st January, 2023, X sold goods to Y for Rs. 50,000. On the same date X drew a bill on Y for Rs. 50,000 due after three months. Y accepted the bill and returned it to X. X retained the bill till the due date, and Y met the bill on due date. Pass journal entries for the above transactions in the books of X.

Solution:

The following journal entries will be recorded in the books of X:

Date	**Particulars**	**Debit (Rs.)**	**Credit (Rs.)**
1st Jan 2023	Y's A/c Dr. To Sales A/c *(Being goods sold to Y on credit)*	50,000	 50,000
1st Jan 2023	Bills Receivable A/c Dr. To Y's A/c *(Being bill accepted by Y and retained by X)*	50,000	 50,000
1st April 2023	Cash/Bank A/c Dr. To Bills Receivable A/c *(Being bill honored by Y on maturity date)*	50,000	 50,000

Quick Tip

Bills receivable are treated as assets in the books of the drawer and are honored when paid by the drawee on the due date.

OR

Question 22 (B): On 1st December, 2023 Z purchased goods from R for Rs. 35,000 and accepted a bill for two months. The bill was met on due date. Pass journal entries for the above transactions in the books of Z.

Solution:

The following journal entries will be recorded in the books of Z:

Date	**Particulars**	**Debit (Rs.)**	**Credit (Rs.)**
1st Dec 2023	Purchases A/c Dr. To R's A/c *(Being goods purchased on credit)*	35,000	 35,000
1st Dec 2023	R's A/c Dr. To Bills Payable A/c *(Being bill accepted by Z)*	35,000	 35,000
1st Feb 2024	Bills Payable A/c Dr. To Cash/Bank A/c *(Being bill met on maturity date)*	35,000	 35,000

Quick Tip

Bills payable are treated as liabilities in the books of the acceptor and must be settled on the maturity date to avoid dishonor.

Question 23: On 15th March, 2023 Y accepted a bill drawn upon him by X for four months for Rs. 10,000. X discounted the bill on 15th April, 2023 at 18% p.a. from his bank and Y met the bill on maturity. Give the Journal Entries in the books of X and Y.

Solution:

The following journal entries will be recorded in the books of X and Y:

In the books of X:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
15th March 2023	Bills Receivable A/c Dr. To Y's A/c *(Being bill drawn and accepted by Y)*	10,000	 10,000
15th April 2023	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c *(Being bill discounted at 18% p.a. for 4 months)*	9,850 150	 10,000
15th July 2023	No Entry (Bill met by Y)		

In the books of Y:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
15th March 2023	X's A/c Dr. To Bills Payable A/c *(Being bill accepted in favor of X)*	10,000	 10,000
15th July 2023	Bills Payable A/c Dr. To Cash/Bank A/c *(Being bill honored on maturity date)*	10,000	 10,000

Quick Tip

When bills are discounted, the bank deducts interest in advance. Ensure the discount is recorded as an expense.

Question 24 (A): From the following information, prepare Bank Reconciliation Statement of Sohan as on 31st March, 2023:

(a) Cash Book showed a debit balance of Rs. 3,72,000.

(b) Cheque issued but not yet presented for payment amounted to Rs. 72,000.

(c) Dividend received by the bank, but not entered in the Cash Book Rs. 5,000.

(d) Interest allowed by the Bank Rs. 1,250.

Solution:

Bank Reconciliation Statement of Sohan as on 31st March, 2023:

Particulars	**Add (Rs.)**	**Less (Rs.)**
Debit balance as per Cash Book	3,72,000	
Cheque issued but not yet presented	72,000	
Dividend received by bank (not entered in Cash Book)	5,000	
Interest allowed by bank	1,250	
Adjusted Balance as per Bank Statement	4,50,250	

Explanation: 1. Cheques issued but not yet presented for payment increase the Bank Statement balance.

2. Dividend and interest allowed by the bank increase the balance, but these were not recorded in the Cash Book.

Quick Tip

Add any receipts or credits not recorded in the Cash Book and deduct outstanding payments when reconciling balances.

OR

Question 24 (B): Prepare Bank Reconciliation statement of Kumar as on 31st March, 2024:

(a) Pass Book showed a credit balance as on the date Rs. 15,000.

(b) Cheques issued but not presented for payment Rs. 4,800.

(c) Interest credited by bank amounted to Rs. 150.

(d) Bank charges amounted to Rs. 25 were not entered in the Cash Book.

Solution:

Bank Reconciliation Statement of Kumar as on 31st March, 2024:

Particulars	**Add (Rs.)**	**Less (Rs.)**
Credit balance as per Pass Book	15,000	
Cheque issued but not presented	4,800	
Interest credited by bank	150	
Bank charges not recorded in Cash Book		25
Adjusted Balance as per Cash Book	19,950	

Explanation: 1. Cheques issued but not presented increase the balance in the Pass Book.

2. Interest credited by the bank increases the Pass Book balance.

3. Bank charges reduce the balance.

Quick Tip

Always adjust for unrecorded transactions like bank charges and interest when preparing the Bank Reconciliation Statement.

Question 25: Manu started business with a capital of Rs. 4,00,000 on 1st June, 2023. He

introduced additional capital of Rs. 75,000. He withdrew Rs. 8,000 per month during this period. If the closing capital as on 31st December, 2023 was Rs. 4,50,000, calculate profit & loss for the year ended 31st December, 2023.

Solution:

The formula to calculate profit/loss is:

$$\text{Profit/Loss} = \text{Closing Capital} - \text{Opening Capital} - \text{Additional Capital} + \text{Drawings}$$

Given:

- Opening Capital = Rs. 4,00,000
- Additional Capital = Rs. 75,000
- Withdrawals = Rs. 8,000 per month for 7 months (June to December):

$$\text{Drawings} = 8,000 \times 7 = Rs.56,000$$

- Closing Capital = Rs. 4,50,000

Calculation:

$$\text{Profit/Loss} = 4,50,000 - 4,00,000 - 75,000 + 56,000$$

$$\text{Profit/Loss} = Rs.31,000\,(\text{Profit}).$$

Quick Tip
To determine profit or loss using the capital approach, adjust for additional capital introduced and drawings made during the period.

Question 26 (A): Why is Trading Account prepared? Name any two items that are transferred to the credit of Trading Account.

Solution:

The **Trading Account** is prepared to determine the **Gross Profit or Gross Loss** of a business during an accounting period. It records direct incomes and direct expenses related to the core business operations.

Two items transferred to the credit of Trading Account: 1. Sales (Net Sales). 2. Closing Stock.

Quick Tip
The Trading Account focuses on direct transactions, like purchases and sales, to ascertain Gross Profit or Loss.

OR

Question 26 (B): What are Direct Expenses? Give any two examples of Direct Expenses.

Solution:

Direct Expenses are costs directly attributable to the production of goods or rendering of services. These expenses are incurred during the manufacturing or trading activities.

Two examples of Direct Expenses: 1. Wages paid for production. 2. Carriage Inwards.

Quick Tip
Direct expenses are directly related to the production process and are debited to the Trading Account.

Question 27: Following is the position statement of Rakesh who maintains his accounts

in incomplete system as on 31st March, 2022 and 31st March, 2023:

Particulars	**31st March, 2022 (Rs.)**	**31st March, 2023 (Rs.)**
Machinery	16,000	16,000
Furniture	4,000	4,000
Stock	14,000	10,000
Sundry Debtors	8,000	9,000
Bank	400	3,600
Sundry Creditors	10,000	7,000

Additional Information:

- Fresh Capital introduced = Rs. 600. - Drawings = Rs. 4,100.

Solution:

To calculate the profit, we use the formula:

$$\text{Profit} = \text{Closing Capital} - \text{Opening Capital} - \text{Fresh Capital Introduced} + \text{Drawings}$$

Step 1: Calculate Capital at the beginning and end of the year.

Opening Capital (as on 31st March, 2022):

$$\text{Assets} - \text{Liabilities} = (16,000 + 4,000 + 14,000 + 8,000 + 400) - 10,000 = 32,400$$

Closing Capital (as on 31st March, 2023):

$$\text{Assets} - \text{Liabilities} = (16,000 + 4,000 + 10,000 + 9,000 + 3,600) - 7,000 = 35,600$$

Step 2: Apply the formula.

$$\text{Profit} = \text{Closing Capital} - \text{Opening Capital} - \text{Fresh Capital Introduced} + \text{Drawings}$$

$$\text{Profit} = 35,600 - 32,400 - 600 + 4,100$$

$$\text{Profit} = Rs.6,700$$

Conclusion: The profit for the year ending 31st March, 2023 is Rs. 6,700.

Quick Tip

When using the incomplete records system, always calculate capital as Assets minus Liabilities to determine profit or loss.

Question 28: Debit balance shown by the Cash Book of Shyam Limited was Rs. 3,92,000.

(a) Cheques issued for Rs. 92,000 was not presented for payment.

(b) Dividend received by the bank, Rs. 5,000 not entered in the Cash Book.

(c) Bank had credited Rs. 1,250 as Interest which was not recorded in Cash Book.

(d) Bank charges debited Rs. 200.

(e) Cheque deposited into bank Rs. 320 but it is dishonoured.

Prepare Bank Reconciliation Statement.

Solution:

Bank Reconciliation Statement of Shyam Limited as on 31st March:

Particulars	**Add (Rs.)**	**Less (Rs.)**
Debit balance as per Cash Book	3,92,000	
Cheques issued but not presented	92,000	
Dividend received by bank	5,000	
Interest credited by bank	1,250	
Bank charges debited		200
Cheque dishonoured		320
Adjusted Balance as per Bank Statement	4,90,050	

Quick Tip
When preparing a Bank Reconciliation Statement, add unrecorded receipts and subtract any unrecorded payments or dishonoured cheques.

Question 29: Chandra Ltd. purchased a second-hand machine for Rs. 80,000 on 1st July, 2020 and spent Rs. 30,000 on its overhaul and installation. Depreciation was to be provided @ 10% p.a. by written down value method. Prepare machinery account for 3 years assuming the books are closed on 31st March every year.

Solution:

Machinery Account (WDV Method)

Date	**Particulars**	**Debit (Rs.)**	**Credit (Rs.)**
2020			
1st July	To Bank A/c (Cost + Installation)	1,10,000	
31st March	By Depreciation A/c (10% on Rs. 1,10,000)		11,000
31st March	By Balance c/d		99,000
2021			
1st April	To Balance b/d	99,000	
31st March	By Depreciation A/c (10% on Rs. 99,000)		9,900
31st March	By Balance c/d		89,100
2022			
1st April	To Balance b/d	89,100	
31st March	By Depreciation A/c (10% on Rs. 89,100)		8,910
31st March	By Balance c/d		80,190

Quick Tip

The Written Down Value (WDV) method applies depreciation on the book value at the beginning of each year.

Question 30: Prepare Trading Account, Profit and Loss Account, and Balance Sheet of M/s Sharma and Sons from the following information for the year ending 31st March, 2023 when closing stock was valued at Rs. 20,000.

Trial Balance as on 31-3-2023

Name of Account	**Debit Balance (Rs.)**	**Credit Balance (Rs.)**
Opening Stock	19,400	–
Purchase and Sale	6,50,000	7,80,000
Returns	20,000	20,000
Debtors and Creditors	38,000	87,200
Bills Payable	–	25,200
Machinery	1,00,000	–
Building	2,50,000	–
Bank	10,000	–
Wages	40,000	–
Salaries	40,000	–
Interest	15,000	–
Capital	–	3,60,000
Total	12,72,400	12,72,400

Solution:

Trading Account for the year ending 31st March, 2023:

Particulars	**Rs.**	**Particulars**	**Rs.**
Opening Stock	19,400	Sales	7,80,000
Purchases	6,50,000	Closing Stock	20,000
Wages	40,000	**Gross Loss c/d**	1,09,400
Total	7,09,400	**Total**	7,09,400

Quick Tip

Trading Account helps determine Gross Profit or Loss by comparing direct revenues and expenses.
