Maharashtra Board Class 12 Book Keeping and Accountancy (56) Set-J-897, 2024 Question Paper with Solutions

Time Allowed :3 Hour	Maximum Marks :80	Total Questions :7

1. Attempt all of the following subquestions:

1.(A) Find the odd one:

1.(A)(i) Subscribed Capital, Called up Capital, Paid up Capital, Equity Shares

Correct Answer: Equity Shares

Solution: Subscribed Capital, Called-up Capital, and Paid-up Capital represent different stages of capital commitment in a company, whereas Equity Shares refer to ownership units and do not represent a stage of capital.

1.(A)(ii) Building, Bills Payable, Furniture, Machinery

Correct Answer: Bills Payable

Solution: Building, Furniture, and Machinery are fixed assets (tangible property). Bills Payable, however, is a liability, making it the odd one out.

1.(A)(iii) Retaining of Bill, Noting of Bill, Discounting of Bill, Endorsing of Bill

Correct Answer: Noting of Bill

Solution: Noting, Discounting, and Endorsing of a Bill are all financial actions taken on a bill. Retaining of Bill means keeping it without taking any financial action, making it the odd one out.

1.(A)(iv) Audit Fees, Insurance, Medical Expenses, Sundry Receipts

Correct Answer: Sundry Receipts

Solution: Audit Fees, Insurance, and Medical Expenses are expenses incurred by a business. Sundry Receipts refer to income and not an expense, making it the odd one out.

1.(A)(v) General Reserve, Creditors, Investments, Capital

Correct Answer: Investments

Solution: General Reserve, Investments, and Capital are company-owned funds, whereas Creditors represent an external liability, making it the odd one out.

> Quick Tip
>
> Identifying the odd one requires understanding categories of financial terms, such as assets, liabilities, expenses, and revenues.

1.(B) Do you agree or disagree with the following statements:

1.(B)(i) 'Not for Profit' concerns do not prepare Balance Sheet.

Correct Answer: Disagree

Solution: Non-Profit Organizations (NPOs) do prepare a Balance Sheet (also called Receipts & Payments Account or Statement of Affairs). This statement shows their assets, liabilities, and capital funds, even though their primary objective is not profit-making.

1.(B)(ii) Current Account always shows a debit balance.
Correct Answer: Disagree
Solution: A Current Account can have either a debit or credit balance, depending on transactions.

- If deposits exceed withdrawals, the account has a credit balance.
- If withdrawals exceed deposits (overdraft), the account has a debit balance.

1.(B)(iii) A Bill of Exchange is a conditional order.
Correct Answer: Disagree
Solution: A Bill of Exchange is an unconditional order to pay a specified amount to a certain person at a fixed date. According to the Negotiable Instruments Act, bills of exchange must be unconditional to ensure clarity and enforceability.

1.(B)(iv) (4) Retiring partner is entitled to share in Reserve Fund and Accumulated Profit.
Correct Answer: Agree
Solution: A retiring partner is entitled to their share of:

- Reserve Fund (as it represents past profits accumulated).
- Accumulated Profits (which belong to all partners, including the retiring one).

The retiring partner's share is settled as per the partnership agreement.

1.(B)(v) On dissolution, Cash or Bank account is closed automatically. Correct Answer: Agree
Solution: On dissolution, all accounts must be closed manually by adjusting final payments to creditors, partners, and shareholders. The Cash or Bank Account is closed only after all transactions are settled, and the firm ceases operations.

> Quick Tip
>
> A Bill of Exchange is always unconditional, and a Current Account can have both debit or credit balances.

1.(C) Select the most appropriate alternative from those given below and rewrite the statements:

1.(C)(i) In case of dissolution, assets and liabilities are transferred to ____ Account.
(a) Bank
(b) Partners' Capital
(c) Realisation
(d) Partners' Current

Correct Answer: (c) Realisation

Solution: At the time of dissolution of a firm, all assets and liabilities are transferred to the Realisation Account to determine profit or loss on the sale of assets and settlement of liabilities.

1.(C)(ii) In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of ____.
(a) 5%
(b) 6%
(c) 10%
(d) 9%

Correct Answer: (b) 6%
Solution: According to the Indian Partnership Act, 1932, if there is no agreement, interest on a partner's loan is allowed at 6% per annum.

1.(C)(iii) If an asset is taken over by the partner, ____ account is debited.
(a) Revaluation
(b) Capital
(c) Asset
(d) Balance Sheet

Correct Answer: (b) Capital
Solution: When a partner takes over an asset, the value of the asset is debited to the Partner's Capital Account as it reduces the amount due to the partner.

1.(C)(iv) The balance of the Capital Account of a retired partner is transferred to his ____ Account, if it is not paid.
(a) Loan
(b) Personal
(c) Current
(d) Son's

Correct Answer: (a) Loan
Solution: If the retiring partner's capital balance is not immediately paid, it is transferred to the Loan Account and treated as a liability of the firm.

1.(C)(v) (5) Income and Expenditure Account is a ____ Account.
(a) Capital
(b) Real
(c) Personal
(d) Nominal

Correct Answer: (d) Nominal
Solution: The Income and Expenditure Account is a Nominal Account as it records revenues and expenses of a Non-Profit Organization (NPO) during an accounting period.

💡 Quick Tip

The Realisation Account is used during dissolution, and a retiring partner's unpaid capital is converted into a loan.

1.(D) Write a word/term/phrase as a substitute for each of the following statements:

1.(D)(i) Tally software is classified into this category.

Solution: Tally is an Accounting Software used for financial transactions, bookkeeping, and GST compliance.

1.(D)(ii) Partnership Agreement in written form.

Solution: A Partnership Deed is a legal document that outlines the rights, duties, and responsibilities of partners in a firm.

1.(D)(iii) An asset which can be converted into cash immediately.

Solution: Liquid Assets are those assets that can be quickly converted into cash without a significant loss in value. **Examples:** Cash, Bank Deposits, Marketable Securities.

1.(D)(iv) A person who represents the deceased partner.

Solution: A Legal Representative is a person (heir/executor) who manages the assets, liabilities, and legal matters of a deceased partner.

1.(D)(v) (5) The debit balance of the Income and Expenditure Account.

Solution: A Deficit occurs when expenses exceed income in a Non-Profit Organization's Income and Expenditure Account.

💡 Quick Tip

A Partnership Deed is a legal document that defines partner responsibilities, profit sharing, and dispute resolution.

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2. Seeta and Geeta share profits and losses in the ratio of 3:2 in a partnership firm. Their Balance Sheet as on 31st March, 2020 was as under:
Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Bank	11,250
Seeta	22,500	Bills Receivable	5,700
Geeta	18,000	Debtors	31,200
	40,500	Less: R.D.D (1,200)	30,000
Creditors	18,750	Stock	18,000
Bills Payable	15,000	Furniture	7,050
Bank Loan	24,000	Machinery	7,500
General Reserve	3,750	Building	22,500
Total	1,02,000	**Total**	1,02,000

On 1st April, 2020, they admitted Reeta on the following terms:

1. For half ($\frac{1}{2}$) share in future profit, Reeta should bring ₹15,000 as capital and ₹7,500 for goodwill in cash.
2. Furniture should be appreciated up to ₹8,025 and building be appreciated by 20%.
3. R.D.D. is to be maintained at ₹1,500.
4. The stock is to be reduced by 10% and machinery depreciated by 5%.
5. Half of the amount of goodwill is withdrawn by old partners.

Solution:
Journal Entries in the Books of the Firm

Date	Particulars	Dr. (₹)	Cr. (₹)
1-Apr-2020	Bank A/c Dr.	22,500	
	To Reeta's Capital A/c	15,000	
	To Goodwill A/c	7,500	
1-Apr-2020	Furniture A/c Dr.	975	
	Building A/c Dr.	4,500	
	To Revaluation A/c	5,475	
1-Apr-2020	Revaluation A/c Dr.	1,500	
	To R.D.D A/c	300	
	To Stock A/c	1,800	
	To Machinery A/c	375	
1-Apr-2020	Revaluation A/c Dr.	75	
	To Seeta's Capital A/c	45	
	To Geeta's Capital A/c	30	
1-Apr-2020	Goodwill A/c Dr.	7,500	
	To Seeta's Capital A/c	4,500	
	To Geeta's Capital A/c	3,000	
1-Apr-2020	Seeta's Capital A/c Dr.	2,250	
	Geeta's Capital A/c Dr.	1,500	
	To Bank A/c	3,750	

Revaluation Account

Particulars	Dr. (₹)	Particulars	Cr. (₹)
To R.D.D Increase	300	By Furniture Appreciation	975
To Stock Depreciation	1,800	By Building Appreciation	4,500
To Machinery Depreciation	375		
To Profit Transferred:	75		
Seeta (3:2)	45		
Geeta (3:2)	30		
Total	2,550	**Total**	5,475

Adjusted Balance Sheet as on 1st April, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:	59,250	Bank	30,000
Seeta	24,750	Bills Receivable	5,700
Geeta	19,500	Debtors	31,200
Reeta	15,000	Less: R.D.D (1,500)	29,700
Creditors	18,750	Stock	16,200
Bills Payable	15,000	Furniture	8,025
Bank Loan	24,000	Machinery	7,125
General Reserve	3,750	Building	27,000
Total	1,20,750	**Total**	1,20,750

Quick Tip

On admission of a partner, goodwill is credited to old partners, and assets are revalued to reflect the current market value.

OR

2(b). The balance sheet of Shivshakti Traders, Mumbai is as follows. Partners share profit and losses as 5:2:3.

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Bank	18,600
Bills Payable	1,800	Debtors	25,200
General Reserve	21,000	Less: R.D.D (1,200)	24,000
Capital Accounts:		Stock	30,600
Raj	54,000	Building	60,000
Rahul	48,000	Plant and Machinery	48,000
Nitin	26,400		
Total	1,81,200	**Total**	1,81,200

Rahul retired from the business on 1st April, 2020 on the following terms:

1. The assets were revalued as under:
   - Plant and Machinery to be depreciated by 10%.

- R.D.D. to be increased up to ₹1,500.
- Building is appreciated by 10%.
- Stock at ₹42,000.

2. The goodwill of retiring partner is valued at ₹12,000 and the remaining partners decided that goodwill will be written back in their new profit-sharing ratio, which will be 5:3.
3. Amount due to Rahul at the time of retirement is to be transferred to his loan account.

2(b)(a). Profit and Loss Adjustment Account (Revaluation Account)
Solution:

Particulars	**Dr. (₹)**	**Particulars**	**Cr. (₹)**
To Plant and Machinery Depreciation (10%)	4,800	By Stock Increase	11,400
To R.D.D Increase	300	By Building Appreciation (10%)	6,000
To Profit Transferred:	12,300		
Raj (5/10)	6,150		
Rahul (2/10)	2,460		
Nitin (3/10)	3,690		
Total	17,400	**Total**	17,400

2(b)(b). Partners' Capital Account
Solution:

Particulars	**Raj (₹)**	**Rahul (₹)**	**Nitin (₹)**
To Goodwill Written Off	7,500	0	4,500
To Rahul's Loan A/c (Settlement)	0	69,960	0
By Balance b/d	54,000	48,000	26,400
By Revaluation Profit	6,150	2,460	3,690
By General Reserve	10,500	4,200	6,300
By Goodwill Share	7,500	0	4,500
Total	70,650	69,960	40,890

2(b)(c). Adjusted Balance Sheet as on 1st April, 2020
Solution:

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Creditors	30,000	Bank	18,600
Bills Payable	1,800	Debtors	25,200
Rahul's Loan A/c	69,960	Less: R.D.D (1,500)	23,700
Capital Accounts:		Stock	42,000
Raj	70,650	Building	66,000
Nitin	40,890	Plant and Machinery	43,200
Total	1,81,200	**Total**	1,81,200

Explanation of Adjustments:

- Profit and Loss Adjustment Account: Records revaluation of assets and distribution of profits among partners.
- Partners' Capital Account: Adjusts each partner's share, goodwill adjustments, and the transfer of Rahul's amount to his loan account.
- Balance Sheet: Reflects the adjusted figures post-retirement of Rahul.

Quick Tip

At retirement, a partner's goodwill is shared among remaining partners in their new profit-sharing ratio.

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3. Lal, Bal, and Pal were partners sharing profits and losses in the ratio of 2:2:1. The following is the Balance Sheet as on 31st March, 2020.

Balance Sheet as on 31st March, 2020

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital Accounts:		Machinery	50,000
Lal	60,000	Investment	24,000
Bal	20,000	Debtors	55,000
Pal	20,000	Less: R.D.D (3,000)	52,000
General Reserve	6,000	Stock	20,000
Creditors	48,000	Profit and Loss A/c	18,000
Bills Payable	14,000	Bank	4,000
Total	1,68,000	**Total**	1,68,000

On the above date, the partners decided to dissolve the firm.

1. Assets were realised as under:
   - Machinery ₹45,000
   - Stock ₹18,000
   - Investment ₹21,000
   - Debtors ₹45,000
2. Dissolution expenses were ₹3,000.
3. Goodwill of the firm realised ₹24,000.

3(a). Realisation Account
Solution:

Particulars	**Dr. (₹)**	**Particulars**	**Cr. (₹)**
To Machinery	50,000	By Bank (Machinery)	45,000
To Investment	24,000	By Bank (Stock)	18,000
To Debtors	55,000	By Bank (Investment)	21,000
To Stock	20,000	By Bank (Debtors)	45,000
To Creditors	48,000	By Bank (Goodwill)	24,000
To Bills Payable	14,000	By Partners' Capital A/c (Loss)	3,000
To Dissolution Expenses	3,000	Lal (2/5)	1,200
		Bal (2/5)	1,200
		Pal (1/5)	600
Total	1,68,000	**Total**	1,68,000

3(b). Partners' Capital Account
Solution:

Particulars	Lal (₹)	Bal (₹)	Pal (₹)
To Realisation A/c (Loss)	1,200	1,200	600
To Cash/Bank A/c (Final Payment)	64,800	22,800	25,800
By Balance b/d	60,000	20,000	20,000
By General Reserve	2,400	2,400	1,200
By Profit	3,600	1,600	5,200
Total	66,000	24,800	27,000

3(c). Bank Account
Solution:

Particulars	Dr. (₹)	Particulars	Cr. (₹)
To Balance b/d	4,000	By Dissolution Expenses	3,000
To Realisation A/c	1,53,000	By Lal (Final Payment)	64,800
		By Bal (Final Payment)	22,800
		By Pal (Final Payment)	25,800
Total	1,57,000	**Total**	1,57,000

Explanation of Adjustments:

- Realisation Account: Records the sale of assets, payment of liabilities, and expenses.
- Partners' Capital Account: Reflects the final settlements of partners' capital balances.
- Bank Account: Shows cash inflow from the sale of assets and outflow for liability payments and final settlement.

> Quick Tip
>
> At the time of dissolution, all assets are sold, liabilities paid, and the remaining balance is distributed among partners according to their capital balances.

OR

3(a). Journalise the following transactions in the books of Mr. Arvind.

(A) Bank informed that Sam's acceptance for ₹30,000 sent to bank for collection has been honoured and bank charges debited ₹200.
(B) Arun informed Arvind that Neena's acceptance for ₹25,000 endorsed to Arun has been dishonoured. Noting charges paid by Arun amounted to ₹400.
(C) Bank informed that Jay's acceptance of ₹35,000 which was discounted with bank was dishonoured, bank. paid noting charges ₹500.
(D) Arvind sold goods to Sagar for ₹20,000 on credit and drew a bill for two months on Sagar

for the same amount.

(E) Neeta retired her acceptance to Arvind of ₹16,500 by paying cash ₹16,000.

Solution: Topic: Journal Entries for Bills of Exchange Transactions

Journal Entries in the Books of Mr. Arvind

Date	Particulars	Dr. (₹)	Cr. (₹)
(A)	Bank A/c Dr. Bank Charges A/c Dr. To Bills Receivable A/c (Being Sam's acceptance collected by the bank and bank charges deducted)	29,800 200 30,000	
(B)	Arvind's A/c Dr. To Arun's A/c To Noting Charges A/c (Being Neena's acceptance dishonoured and noting charges paid by Arun)	25,400 25,000 400	
(C)	Jay's A/c Dr. To Bank A/c To Noting Charges A/c (Being Jay's acceptance dishonoured and noting charges paid by bank)	35,500 35,000 500	
(D)	Sagar's A/c Dr. To Sales A/c (Being goods sold on credit to Sagar and bill drawn for the same)	20,000 20,000	
(E)	Cash A/c Dr. Discount Allowed A/c Dr. To Neeta's A/c (Being Neeta retired her acceptance by paying ₹16,000 in cash)	16,000 500 16,500	

Explanation of Entries:

- (A) The bill received from Sam was collected by the bank, but bank charges of ₹200 were deducted.
- (B) Neena's bill was dishonoured, and noting charges were paid by Arun, which Arvind needs to reimburse.
- (C) Jay's bill was dishonoured after it was discounted with the bank, and noting charges were borne by the bank.
- (D) Goods were sold on credit to Sagar, and a bill was drawn for the same amount.
- (E) Neeta settled her acceptance early by paying ₹16,000 instead of ₹16,500, leading to a discount allowed of ₹500.

Quick Tip

When a bill is dishonoured, the amount is debited back to the drawee's account along with any noting charges.

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4. Mohini Company Limited issued 25,000 equity shares of ₹100 each payable as follows:

- On Application ₹20
- On Allotment ₹30
- On First Call ₹20
- On Second and Final Call ₹30

Applications were received for 22,000 equity shares, and allotment of shares was made accordingly. All money was received by the company. Pass Journal Entries in the books of Mohini Co. Ltd.

Solution:

Journal Entries in the Books of Mohini Co. Ltd.

Date	Particulars	Dr. (₹)	Cr. (₹)
(1)	Bank A/c Dr. To Equity Share Application A/c (Being application money received for 22,000 shares at ₹20 per share)	4,40,000 4,40,000	
(2)	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital)	4,40,000 4,40,000	
(3)	Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received for 22,000 shares at ₹30 per share)	6,60,000 6,60,000	
(4)	Bank A/c Dr. To Equity Share First Call A/c (Being first call money received for 22,000 shares at ₹20 per share)	4,40,000 4,40,000	
(5)	Bank A/c Dr. To Equity Share Second and Final Call A/c (Being second and final call money received for 22,000 shares at ₹30 per share)	6,60,000 6,60,000	

Explanation of Entries:

- (1) Application money received for 22,000 shares at ₹20 per share.
- (2) Application money transferred to Share Capital Account.
- (3) Allotment money received for 22,000 shares at ₹30 per share.
- (4) First Call money received for 22,000 shares at ₹20 per share.
- (5) Second and Final Call money received for 22,000 shares at ₹30 per share.

Quick Tip

In share issue transactions, all application money first goes to the Application Account, and upon allotment, it is transferred to the Share Capital Account.

OR

4(b). Write the features of Computerized Accounting System.

Solution: Features of a Computerized Accounting System:

1. **Automation:** The entire process of accounting, from recording transactions to generating financial statements, is automated.
2. **Accuracy:** Reduces errors in calculations and data entry, ensuring precise financial records.
3. **Speed:** Transactions are processed much faster compared to manual accounting.

4. **Scalability:** Can handle large volumes of financial data efficiently.

5. **Integration:** Easily integrates with other business applications such as inventory management, payroll, and taxation.

6. **Security:** Provides restricted access to authorized users, ensuring data confidentiality.

7. **Backup and Recovery:** Enables automatic backups, reducing the risk of data loss.

8. **Data Analysis and Reporting:** Generates real-time reports and financial analysis for better decision-making.

9. **Multi-User Access:** Allows multiple users to work simultaneously without data conflicts.

10. **Compliance with Accounting Standards:** Ensures adherence to financial regulations and tax laws.

> Quick Tip
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> A Computerized Accounting System improves efficiency by reducing human intervention and increasing accuracy in financial transactions.

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5. Suresh, Naresh, and Paresh were equal partners. On 31st March, 2019, their Balance Sheet was as follows:

Balance Sheet as on 31st March, 2019

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital Accounts:		Land and Building	2,00,000
Suresh	2,50,000	Furniture	1,50,000
Naresh	1,00,000	Debtors	1,50,000
Paresh	1,00,000	Cash	1,00,000
Sundry Creditors	1,50,000		
Total	6,00,000	**Total**	6,00,000

Suresh died on 30th June, 2019, and the following adjustments were agreed upon:

1. Furniture to be adjusted to its market price of ₹1,70,000.

2. Land and building to be depreciated by 10%.

3. Provide R.D.D. at 5% on debtors.

4. The profit up to the date of death of Suresh is to be calculated on the basis of average profit of last year, which was ₹90,000.

5(a). Profit and Loss Adjustment Account (Revaluation Account)
Solution:

Particulars	**Dr. (₹)**	**Particulars**	**Cr. (₹)**
To Land and Building Depreciation (10%)	20,000	By Furniture Appreciation	20,000
To R.D.D Increase (5% on ₹1,50,000)	7,500	By Profit Transferred:	7,500
To Profit Transferred:	7,500	Suresh (1/3)	2,500
		Naresh (1/3)	2,500
		Paresh (1/3)	2,500
Total	35,000	**Total**	35,000

5(b). Partners' Capital Account
Solution:

Particulars	**Suresh (₹)**	**Naresh (₹)**	**Paresh (₹)**
To Executor of Suresh A/c (Final Settlement)	2,87,500	0	0
By Balance b/d	2,50,000	1,00,000	1,00,000
By Revaluation Profit	2,500	2,500	2,500
By Profit Share (₹90,000 $\times$ 1/3)	30,000	0	0
Total	2,87,500	1,02,500	1,02,500

5(c). Adjusted Balance Sheet of the Continuing Firm as on 30th June, 2019
Solution:

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Sundry Creditors	1,50,000	Land and Building (90%)	1,80,000
Executor of Suresh A/c	2,87,500	Furniture	1,70,000
Capital Accounts:		Debtors (After 5% R.D.D)	1,42,500
Naresh	1,02,500	Cash	1,47,500
Paresh	1,02,500		
Total	6,42,500	**Total**	6,42,500

Explanation of Adjustments:

- Profit and Loss Adjustment Account: Reflects revaluation of assets and liabilities.
- Partners' Capital Account: Adjusts each partner's capital, including profit up to the date of death and revaluation profit.
- Balance Sheet: Shows the adjusted financial position of the firm after the death of Suresh.

Quick Tip

At the time of a partner's death, revaluation of assets and settlement of the deceased partner's share must be made before preparing the new balance sheet.

OR

5(ii). Convert the following Trading and Profit and Loss Account into Vertical Income Statement for the year ended 31st March, 2020.
Trading and Profit and Loss Account (for the year ended 31st March, 2020)

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Opening Stock	50,000	By Sales	6,00,000
To Purchases	4,50,000	By Closing Stock	1,50,000
To Carriage	20,000		
To Direct Expenses	30,000		
To Wages	50,000		
To Gross Profit c/d	1,50,000		
Total	7,50,000	**Total**	7,50,000

Particulars	Amount (₹)	Particulars	Amount (₹)
To Office Expenses	62,500	By Gross Profit b/d	1,50,000
To Finance Expenses	15,000		
To Selling Expenses	50,000		
To Net Profit c/d	22,500		
Total	1,50,000	**Total**	1,50,000

Solution: Vertical Income Statement for the year ended 31st March, 2020

Particulars	Amount (₹)
Revenue:	
Sales	6,00,000
Add: Closing Stock	1,50,000
Total Revenue	7,50,000
Less: Cost of Goods Sold (COGS)	
Opening Stock	50,000
Purchases	4,50,000
Carriage	20,000
Direct Expenses	30,000
Wages	50,000
Total COGS	6,00,000
Gross Profit	1,50,000
Less: Operating Expenses	
Office Expenses	62,500
Finance Expenses	15,000
Selling Expenses	50,000
Total Operating Expenses	1,27,500
Net Profit	22,500

Explanation of Vertical Income Statement:

- Revenue Section: Includes Sales and Closing Stock.
- Cost of Goods Sold (COGS): Includes all direct expenses such as purchases, wages, and carriage.
- Gross Profit: Difference between total revenue and COGS.
- Operating Expenses: Includes office, finance, and selling expenses.
- Net Profit: The final profit after deducting all expenses.

Quick Tip

A Vertical Income Statement presents financial data in a step-wise manner, making it easy to analyze profitability.

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6. Dr. Anish Korgaonkar started practice as a Medical Practitioner on 1st April, 2019. He provides the Receipts and Payments Account for the year ended 31st March, 2020. Based on the adjustments, prepare the Income and Expenditure Account and Balance Sheet as on 31st March, 2020.
6(a). Income and Expenditure Account for the year ended 31st March, 2020
Solution:

Expenditure	Amount (₹)	Income	Amount (
To Drugs Consumed (₹14,000 - ₹2,000)	12,000	By Visit Fees (₹20,000 + ₹4,000)	24,000
To Salaries (₹24,000 + ₹2,000 O/S)	26,000	By Dispensary Receipts (₹60,000 + ₹1,000)	61,000
To Rent (₹8,000 + ₹1,000 O/S)	9,000	By Sundry Receipts	10,000
To Conveyance (₹8,000 - 40% domestic)	4,800		
To Stationery	1,000		
To Electrical Charges	10,000		
To Journals	1,000		
To Depreciation on Furniture (8% of ₹16,000)	1,280		
To Depreciation on Equipment (₹1,000)	1,000		
To Surplus (Net Income)	28,920	**Total**	95,720

Table 1: Placeholder caption for Expenditure and Income statement

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6(b). Balance Sheet as on 31st March, 2020
Solution:

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding Rent	1,000	Cash Balance	4,000
Outstanding Salaries	2,000	Visit Fees Receivable	4,000
Capital (₹50,000 + ₹28,920 Net Income)	78,920	Dispensary Receipts Receivable	1,000
		Drugs Stock	2,000
		Furniture (₹16,000 - ₹1,280 Depreciation)	14,720
		Equipment (₹20,000 - ₹1,000 Depreciation)	19,000
Total	81,920	**Total**	81,920

Explanation of Adjustments:

- Receipts in Arrears: Visit fees ₹4,000 and dispensary receipts ₹1,000 are added to income.
- Outstanding Expenses: Salaries ₹2,000 and Rent ₹1,000 added to liabilities and expenditure.
- Stock of Drugs: ₹2,000 is deducted from drug expenses.
- Depreciation: Furniture is depreciated at 8% (₹1,280), Equipment is depreciated by ₹1,000.
- Conveyance: 40% used for personal purposes is deducted from total.

Quick Tip

An Income and Expenditure Account records only revenue items, while a Balance Sheet records assets and liabilities.

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7. Mama and Kaka are partners in a partnership firm sharing profits and losses equally. You are required to prepare the Profit and Loss Account for the year ended 31st March, 2019, and the Balance Sheet as on that date.
7(a). Profit and Loss Account for the year ended 31st March, 2019
Solution:

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries	10,000	By Gross Profit	69,000
To Export Duty	5,000	By Interest Received	3,000
To Interest on Loan (₹60,000 × 10% × 6/12)	3,000		
To Insurance (₹30,000 - ₹7,500 Prepaid)	22,500		
To Depreciation on Land	Building (10% of ₹1,00,000)	10,000	
To Depreciation on Furniture (5% of ₹80,000)	4,000		
To Bad Debts Written Off	2,000		
To R.D.D. (5% of ₹50,000)	2,500		
To Net Profit c/d	13,000	**Total**	72,000

7(b). Partners' Capital Account
Solution:

Particulars	Mama (₹)	Kaka (₹)
To Balance c/d	1,06,500	1,06,500
By Balance b/d	1,00,000	1,00,000
By Net Profit (₹13,000 ÷ 2)	6,500	6,500
Total	1,06,500	1,06,500

7(c). Balance Sheet as on 31st March, 2019
Solution:

Liabilities	Amount (₹)	Assets	Amount (₹)
10% Bank Loan	60,000	Land	90,000
Bills Payable	16,000	Building (After 10% Depreciation)	90,000
Capital Accounts:		Furniture (After 5% Depreciation)	76,000
Mama	1,06,500	Debtors	47,500
Kaka	1,06,500	(Rs.52,000 - Rs.2,000 Bad Debts - Rs.2,500 R.D.D.)	
Total	2,89,000	Closing Stock	69,000
		Prepaid Insurance	7,500
		Total	2,89,000

Explanation of Adjustments:

- Gross Profit: Given as ₹69,000.
- Prepaid Insurance: ₹7,500 deducted from Insurance Expense.
- Depreciation: 10% on Land & Building (₹10,000) and 5% on Furniture (₹4,000).
- Bad Debts Written Off: ₹2,000 deducted from debtors.
- R.D.D.: 5% on Sundry Debtors after Bad Debts (₹2,500).
- Closing Stock: ₹69,000 included in Balance Sheet.

Quick Tip

In a partnership, profits are divided equally unless stated otherwise in the agreement.