

**SAMPLE CONTENT**



# SMART NOTES

# SOLUTIONS

to **TEXTBOOK PROBLEMS**

- Chapterwise Flow
- Covers Relevant Board Questions & Solutions from **March 2014 to March 2023**

BOOK KEEPING &  
ACCOUNTANCY

Std. XII • COMMERCE



**Target** Publications® Pvt. Ltd.

# SMART NOTES

# SOLUTIONS TO

# TEXTBOOK PROBLEMS

in

## BOOK KEEPING & ACCOUNTANCY

## STD. XII (COMMERCE)

**MAHARASHTRA STATE BOARD**

(As per the latest textbook published by Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune)

### Salient Features:

- ☞ Based on the latest textbook
- ☞ Chapter-wise coverage of all sums & objectives in the flow of the textbook
- ☞ Includes detailed solutions to all 'Practical Problems' of the textbook
- ☞ Includes detailed solutions to relevant Board Questions from Mar'14 to Mar'23
- ☞ Solutions to all objective questions in the textbook covered
- ☞ Exam-like presentation of solutions to all problems
- ☞ Working notes provided to support solutions wherever required

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## PREFACE

**Smart Notes – Solutions to Textbook Problems in Book-Keeping & Accountancy** is a no-frills book curated for today's students to prepare them for their exams. The ultimate objective of this book is to provide students with a compilation of accurate solutions to all the unsolved problems in the textbook in a straight-forward manner.

The book is prepared according to the flow of the exercises given in the textbook at the end of each chapter. The objective questions given in the exercise section of the textbook are covered at the start of the chapter, along with their solutions. This is followed by 'Practice Problems' along with their detailed solutions.

The solutions have been provided exactly as the students are expected to write them in the board exams. All the required working notes supporting the solutions have also been provided. We have given the page number references of the textbook next to each practice problems to help students trace the question back to the textbook easily. The relevant board questions from Mar' 2014 to Mar' 2023 along with their detailed solutions are also covered in each chapter to ensure complete coverage of the chapter.

The journey to create a complete book is strewn with triumphs, failures, and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.

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From,  
Publisher

**Edition: Second**

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## PAPER PATTERN

Q. No.	Questions	Marks per Que.		Marks	
				without option	with option
1.	<b>From the following types of sub questions any 4 will be asked.</b>				
	A. Select the correct option and rewrite the sentence.	1	5	20	20
	B. Give one word / Phrase / term.	1	5		
	C. State true or false with reasons.	2 ½	5		
	D. Find the odd one	1	5		
	E. Complete the sentences.	1	5		
	F. Answer in one sentence only.	1	5		
	G. Do you agree or disagree with the following statements.	1	5		
	H. Calculate the following.	1	5		
	I. Give Specimen of Bill of Exchange	5	5		
	J. Complete the following table	1	5		
2.	<b>Solve any one from the following</b> Admission of a partner / Retirement of Partner Dissolution of Partnership firm/Bill of Exchange <b>(Any two problems will be asked)</b>		10	10	20
3.	<b>Solve any one from the following</b> Admission of a partner / Retirement of Partner Dissolution of Partnership firm/Bill of Exchange <b>(Any Two remaining problems from Q.2. will be asked)</b>		10	10	20
4.	<b>Solve any one from the following</b> Death of a partner / Issue of shares / Analysis of financial statements / Computer Accounting <b>(Any two problems will be asked)</b>		08	08	16
5.	<b>Solve any one from the following</b> Death of a partner / Issue of shares / Analysis of financial statements / Computer Accounting <b>(Any two remaining problems from Q.4. will be asked)</b>		08	08	16
6.	Problem On 'Not for Profit Concern'		12	12	24
7.	Problem On 'Partnership Final Accounts'		12	12	24
	<b>Total</b>			<b>80</b>	<b>116</b>

## Division of Marks as per type of question

Sr.No.	Objectives	Marks	Marks With Option	Percentage
1	Objective	20	20	25%
2	Problems	60	96	75%
	<b>Total</b>	<b>80</b>	<b>116</b>	<b>100%</b>

## Unit Wise Weightage

Sr. No.	Unit/sub-units	Marks		Marks	
		Problem	Objective	Problem	Objective
1	Introduction to Partnership and Partnership Final Accounts	12	04	12	04
2	Accounts of 'Not for Profit' Concerns	12	04	12	04
3	Reconstitution of Partnership (Admission of Partner)	20	02	40	02
4	Reconstitution of Partnership (Retirement of Partner)		02		02
5	Dissolution of Partnership Firm		02		02
6	Bills of Exchange		02		02
7	Reconstitution of Partnership (Death of Partner)	16	01	32	01
8	Company Accounts - Issue of Shares		01		01
9	Analysis of Financial Statements		01		01
10	Computer In Accounting		01		01
	<b>Total</b>	60	20	96	20
	<b>Grand Total</b>	<b>80</b>		<b>116</b>	

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## Objective Type Questions

### (A) Select most appropriate answer from the alternatives given below and rewrite the sentences.

- When there is no partnership agreement between partners, the division of profits take place in \_\_\_\_\_ ratio.
  - equal
  - capital ratio
  - initial contribution
  - experience and tenure of partners
- To find out Net Profit or Net Loss of the business \_\_\_\_\_ account is prepared.
  - Trading
  - Capital
  - Current
  - Profit & Loss
- A \_\_\_\_\_ is an Intangible Asset.
  - Goodwill
  - Stock
  - Cash
  - Furniture
- In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of \_\_\_\_\_.
  - 5%
  - 6%
  - 10%
  - 9%
- Liability of partners in a partnership business is \_\_\_\_\_.
  - Limited
  - Unlimited
  - Limited and Unlimited
  - None of the above
- The Indian Partnership act is in force since \_\_\_\_\_.
  - 1932
  - 1881
  - 1956
  - 1984
- Maximum number of Partners in a firm are \_\_\_\_\_ according to Companies Act 2013.
  - 10
  - 25
  - 20
  - 50

Equal

Profit &amp; Loss

Goodwill

6%

Unlimited

1932

50

### (B) Write the Word / Term / Phrase which can substitute each of the following statements.

- Persons who form the partnership firm.
- Amount of cash or goods withdrawn by partners from the business from time to time.
- An association of two or more persons according to Indian Partnership Act 1932.
- Act under which partnership firms are regulated.
- Process of entering the name of partnership firm in the register of Registrar.
- Partnership agreement in written form.
- Under this method, capital balances of partners remain constant.
- Proportion in which partners share profits.

Partners

Drawings

Partnership firm

Indian Partnership Act  
1932

Registration

Partnership Deed

Fixed Capital Method

Profit Sharing Ratio





9. Such capital method in which only capital account is maintained for each partner.
10. The account to which all adjustment are made when capital is fixed.
11. Expenses which are paid before they are due.
12. The accounts that are prepared at the end of each accounting year.
13. An asset which can be converted into cash easily.
14. Order in which fixed assets are recorded first in Balance sheet.
15. The account in which selling expenses of business are recorded.
16. Debit balance of Trading Account. **(Mar'22)**
17. Credit balance of Profit & Loss Account. **(Mar'23)**

Fluctuating Capital Method

Partners' Current Account

Prepaid Expenses

Final Accounts

Current Asset / Liquid asset

Order of Liquidation

Profit and Loss Account

Gross Loss

Net Profit

**(C) State whether the following statements are True or False with reasons.**

**1. Partnership firm is a Non Trading Concern.**

**Ans:** False

**Reason:** Partnership firm is a trading concern. It is an organisation where there is an association of two or more persons coming together to carry on a business with a view to share profit or losses of a firm.

**2. Profit and Loss Account is a Real Account.**

**Ans:** False

**Reason:** Profit and Loss Account is a Nominal Account.

**3. Carriage Inward is carriage on purchases.**

**Ans:** True

**Reason:** The expenses incurred on carriage of purchases is carriage inward.

**4. Adjustments are recorded in Partners Current Account in Fixed Capital Method.**

**Ans:** True

**Reason:** In case of Fixed Capital Method, the capital of partners is to be kept fixed. Hence, all the adjustments are routed through Partners Current Account.

**5. Prepaid expenses are treated as liabilities.**

**Ans:** False

**Reason:** Prepaid expenses are the expenses that are not due but have been paid in advance. Hence, they are to be treated as assets.

**6. If Partnership Deed is silent, partners share profits and losses in proportion to their capital.**

**Ans:** False

**Reason:** If the Partnership Deed is silent, partners share profit and losses in equal ratio.

**7. Balance sheet is an Account.**

**Ans:** False

**Reason:** Balance sheet is a statement.

**8. Wages paid for installation of Machinery is a Revenue expenditure.**

**Ans:** False

**Reason:** Wages paid for installation of Machinery is a capital expenditure and is to be added in cost of Machinery.



9. **Income received in advance is a liability.**

**Ans:** True

**Reason:** Since the income is not due but already received, it is a liability.

10. **R.D.D. is created on creditors.**

**Ans:** False

**Reason:** R.D.D. is a provision against the doubtful debtors and hence is created on debtors.

11. **Depreciation is not calculated on Current Assets.**

**Ans:** True

**Reason:** Depreciation is calculated on fixed assets only and not on current assets.

12. **Goodwill is an intangible asset.**

**Ans:** True

**Reason:** Intangible assets are the assets which cannot be seen or touched. Hence, goodwill is an intangible asset.

13. **Indirect expenses are debited to Trading Account.**

**Ans:** False

**Reason:** Only direct expenses are debited to Trading Account. Indirect expenses are debited to Profit and Loss Account.

14. **Bank Loan is a current liability.**

**Ans:** False

**Reason:** Current liabilities are usually short term liabilities. Bank loan is usually a long term loan and hence is not a current liability.

15. **Net profit is debit balance of Profit & Loss Account.**

**Ans:** False

**Reason:** Net profit is credit balance of Profit & Loss Account. Net loss is debit balance of Profit & Loss Account.

(D) **Find the odd one.**

1. **Wages, Salary, Royalty, Import Duty**

**Ans:** Salary – All others are debited to Trading Account.

2. **Postage, Stationery, Advertising, Purchases**

**Ans:** Purchases – All others are debited to Profit and Loss Account.

3. **Capital, Bills Receivable, Reserve Fund, Bank overdraft**

**Ans:** Bills Receivable – All others are recorded on Balance Sheet liability side.

4. **Building, Machinery, Furniture, Bills payable**

**Ans:** Bills Payable – All others are recorded on Balance Sheet asset side.

5. **Discount received, Dividend received, Interest received, Depreciation**

**Ans:** Depreciation – All others are income.

(E) **Complete the sentences.**

1. Partners share profit & losses in \_\_\_\_\_ ratio in the absence of partnership deed.

Equal

2. Registration of Partnership is \_\_\_\_\_ in India.

Optional

3. Partnership business must be \_\_\_\_\_.

Lawful

4. Liabilities of Partners in Partnership firm is \_\_\_\_\_.

Unlimited, Joint and Several

5. The balance of Drawings Account of a partner is transferred to his \_\_\_\_\_ account under the Fixed Capital Method.

Current



6. The interest on capital of a partner is debited to \_\_\_\_\_ account.
7. Partners are \_\_\_\_\_ liable for the debts of the firm.
8. Partnership Deed is an \_\_\_\_\_ of Partnership. **(Mar'22)**
9. The withdrawal by partner for personal use from the firm is \_\_\_\_\_ to his account.
10. Commission payable to partner is \_\_\_\_\_ to the firm.
11. When partners adopt Fixed Capital Method then they have to operate \_\_\_\_\_ Account.
12. If Partners Current Account shows \_\_\_\_\_ balance it is shown to the liability side of Balance sheet.
13. The expenses paid for trading purpose are known as \_\_\_\_\_ expenses.
14. Cash receipts which are recurring in nature are called as \_\_\_\_\_ Receipts. **(Mar'22)**
15. Return outward are deducted from \_\_\_\_\_. **(Mar'22)**
16. Expenses which are paid before due date are called as \_\_\_\_\_.
17. Assets which are held in the business for a long period are called \_\_\_\_\_.
18. Trading Account is prepared on the basis of \_\_\_\_\_ expenses.
19. When commission is allowed to any partner, it is \_\_\_\_\_ of the business.
20. When goods are distributed as free samples, it is treated as \_\_\_\_\_ of the business.

Profit and Loss

Joint and severally

Agreement

Debited

Expense

Current

Credit

Trade

Revenue

Purchases

Prepaid

Fixed assets

Direct

Expenditure

Advertisement

**(F) Answer in one sentence only.**

**1. What is fluctuating capital?**

**Ans:** Fluctuating capital is a method of maintaining capital account in which the capital balances of partners change every year.

**2. Why is Partnership Deed necessary?**

**Ans:** Partnership Deed is a written agreement which contains terms and conditions agreed upon by all the partners. It also regulates the rights, duties and liabilities as well.

**3. If the Partnership Deed is silent, in which ratio the partners will share the profit or loss?**

**Ans:** If the Partnership Deed is silent, the partners will share the profit or loss in equal ratio.

**4. What is the Fixed Capital Method?**

**Ans:** Fixed Capital Method is a method of maintaining capital account in which the capital balance remains fixed. All the adjustments are done through current account. There is no addition or subtraction from capital during the year.

**5. How many partners are required to form a Partnership Firm?**

**Ans:** Minimum two partners are required to form a Partnership Firm.

**6. What is Partnership Deed?**

**Ans:** Partnership Deed is a document containing the partnership agreement among the partners. It contains the terms and conditions which are agreed upon by all the partners.

**7. What are the objectives of the Partnership firm?**

**Ans:** The main objective of the Partnership firm is to earn profit.

**8. What rate of interest is allowed on partner's loan in the absence of an agreement?**

**Ans:** In the absence of an agreement, interest at the rate of 6% p.a. is allowed on partner's loan.



**9. What is the minimum number of partners in a partnership firm according to Indian Partnership Act, 1932?**

**Ans:** Minimum two partners are required in a partnership firm according to Indian Partnership Act, 1932.

**10. What is liability of a partner?**

**Ans:** Liability of a partner is unlimited, joint and several. If assets of business are not sufficient to pay liabilities then personal properties of partners can be used. Similarly, if anyone of the partner is declared insolvent then his liability will be borne by other solvent partners.

**11. In the absence of Partnership Deed, what is the rate of interest on loan advanced by partner to the firm is allowed?**

**Ans:** In the absence of an agreement, interest at the rate of 6% p.a. is allowed on partner's loan.

**12. What do you mean by pre-received income?**

**Ans:** Income which is not due but received in advance is called as pre-received income.

**13. What is the effect of the adjustment of provision for discount on debtors in the final accounts of partnership?**

**Ans:** Following are the two effects of provision for discount on debtors:  
Effect 1 : It is reduced from debtors balance given in Balance Sheet.  
Effect 2 : It is debited to Profit and Loss Account.

**14. When is Partners Current Account opened?**

**Ans:** When the partners wish to keep their capital balances constant, partners current account is opened for recording all the adjustments.

**15. As per which principle of accounting closing stock is valued at cost price or at market price whichever is less?**

**Ans:** The valuation of closing stock is based on Accounting Standard 2 and on the concept of conservatism.

**16. What is the provision of Indian Partnership Act with regard to interest on capital?**

**Ans:** As per the Indian Partnership Act, if the partnership deed is silent, then interest on capital is not allowed.

**17. Why is Balance Sheet prepared?**

**Ans:** Balance Sheet is prepared to ascertain financial position of the firm on a particular day.

**18. Why wages paid for installation of Machinery are not shown in Trading Account?**

**Ans:** Wages paid for installation of Machinery is not revenue expenditure. It is incurred so that the machinery can be brought in working condition. Hence it is added to Machinery and not shown in trading account.

**19. What do you mean by indirect income?**

**Ans:** Indirect income is the income that is earned from non-trading activities. e.g. Commission, rent, discount, interest on investment etc.

**20. Why partners' capital is treated as long term liability of business?**

**Ans:** Partners are assumed to be with the firm for long term. Hence, the capital due to partners is also treated as long term liability of business.

**(G) Do you agree or disagree with the following statements?**

**1. When partnership deed is silent, partners share profits of the firm according to capital ratio.**

**Ans:** Disagree – When partnership deed is silent, partners share profits of the firm equally.

**2. Current account always shows a debit balance.**

**Ans:** Disagree – Current account can show a debit or credit balance.

**3. It is compulsory to have a partnership agreement in writing.**

**Ans:** Disagree – Partnership agreement can be oral or in writing. However, it is advisable to have it in writing to avoid future disputes.

**4. Partnership Firm is a trading concern.**

**Ans:** Agree – Partnership firm is a business to earn profits. Hence, it is a trading concern.



**5. An interest on capital is an expenditure for the partnership firm.**

**Ans:** Agree – Partnership firm will have to pay interest on capital to the partner. Hence, it is expenditure for the firm.

**6. Partnership is an association of two or more persons.**

**Ans:** Agree – Partnership is formed by minimum two partners. The maximum number can be up to 50.

**7. Partners are entitled to get Salary or Commission.**

**Ans:** Disagree – As per the provision made in the Indian Partnership Act, 1932, no salary, commission, allowance or any remuneration is to be given to any of the partners for any extra work done for the firm.

**8. The balance of Capital Account remains constant under Fixed Capital Method.**

**Ans:** Agree – In fixed capital method, all the adjustments are done in current account and thus the balance of capital account remains constant.

**9. The Indian Partnership Act, came into existence in the year 1945.**

**Ans:** Disagree – The Indian Partnership Act came into existence in the year 1932.

**10. Profit and Loss Account reflects the true financial position.**

**Ans:** Disagree – Profit and Loss Account reflects the profitability of the firm during a particular period. However, Balance Sheet reflects the true financial position.

**11. Amount withdrawn by partner from his business will be debited to Current Account.**

**Ans:** Agree – Amount withdrawn by partner is to be treated as drawings and hence debited to current account.  
[Note: This question has been modified.]

**12. Sold but undispached goods must be part of valuation of closing stock.**

**Ans:** Disagree – Once the goods are sold, the ownership gets transferred. Hence, they must not be part of valuation of closing stock.

**13. Carriage Inward is a selling and distribution overhead.**

**Ans:** Disagree – Carriage inward is spent on purchase of goods. Hence, it is a direct expense and not a selling and distribution overhead.

**14. Gross profit is an operation profit.**

**Ans:** Disagree – Gross profit indicates profit earned only on trading of goods. Net profit is the income left with the business after deducting all the expenses.

**15. All financial expenditures are debited to profit and loss account.**

**Ans:** Agree – All indirect expenses are debited to profit and loss account.

**16. Free distribution of goods is debited to trading account.**

**Ans:** Disagree – Free distribution of goods is credited to trading account.

**(H) Calculate the following.**

**1. Undervaluation of Closing Stock by 10%. Closing Stock was ₹ 30,000. Find out the value of Closing Stock.**

**Ans:** Current value of Closing stock = ₹ 30,000  
This is undervalued by 10%.

∴ Actual value of closing stock  $\times \frac{90}{100}$  = Current value

$$\begin{aligned}\text{Actual value of Closing stock} &= \text{current value} \times \frac{100}{90} \\ &= 30,000 \times \frac{100}{90} = ₹ 33,333\end{aligned}$$

**2. Calculate 12.5% p. a. depreciation on Furniture -**

i. on ₹ 2,20,000 for 1 year

ii. on ₹ 10,000 for 6 months

**Ans:** Rate of Depreciation = 12.5%

Depreciation = Cost of asset  $\times$  Rate  $\times$  Period



$$a. \text{ Depreciation} = 2,20,000 \times \frac{12.5}{100} \times 1 = ₹ 27,500$$

$$b. \text{ Depreciation} = 10,000 \times \frac{12.5}{100} \times \frac{6}{12} = ₹ 625$$

3. **Insurance Premium paid for the year ending 1<sup>st</sup> September, 2019 amounted to ₹ 1,500. Calculate prepaid insurance assuming that the year ending is 31<sup>st</sup> March, 2019.**

**Ans:** Insurance Premium for entire year = ₹ 1,500

To calculate Premium for the period 01.09.2018 to 31.03.2019. i.e., 7 Months.

$$\therefore \text{ Insurance Premium} = 1,500 \times \frac{7}{12} = ₹ 875$$

$\therefore$  Insurance premium for the year ending 31<sup>st</sup> March, 2019 is ₹ 875

$\therefore$  Prepaid Insurance premium for the year ended = ₹ 1,500 – ₹ 875 = ₹ 625

4. **Find out Gross profit / Gross Loss: Purchases ₹ 30,000, Sales ₹ 15,000, Carriage Inward ₹ 2,400, Opening Stock ₹ 10,000, Purchase Returns ₹ 1,000, Closing Stock ₹ 36,000.**

**Ans:** Trading account

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening stock		10,000	By Sales		15,000
To Purchase	30,000		By Closing Stock		36,000
Less: Purchases Return	1,000	29,000			
To Carriage inward		2,400			
To Gross Profit c/d		9,600			
		<b>51,000</b>			<b>51,000</b>

5. **Borrowed Loan from Bank of Maharashtra ₹ 2,00,000 on 1st October 2019 at rate of 15% p.a. Calculate Interest on Bank Loan for the year 2019-20 assuming that the financial year ends on 31<sup>st</sup> March, every year.**

**Ans:** Loan borrowed = ₹ 2,00,000

Rate of interest = 15% P.a.

Duration = 01.10.2019 to 31.03.2020 i.e 6 Month

Interest amount = Loan amount  $\times$  Rate of interest  $\times$  Duration

$$= 2,00,000 \times \frac{15}{100} \times \frac{6}{12} = ₹ 15,000$$

### Textbook Practical Problems

- Q.1. Amitbhai and Narendrabhai are in partnership sharing profits and losses equally. From the following Trial Balance and Adjustments given below, you are required to prepare Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.**

[Textbook page no. 54]

#### Trial Balance as on 31<sup>st</sup> March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Plant and Machinery	2,80,000	<b>Capital A/c:</b>	
Factory Building	75,000	Amitbhai	3,50,000
Sundry Debtors	28,700	Narendrabhai	3,00,000
Purchases	85,500	Sales	1,80,00
Bad Debts	500	Bills Payable	8,500
Sales Return	2,200	Discount	1,200
10% Govt. Bond	40,000	Creditors	38,500
(Purchased on 1 <sup>st</sup> Oct, 2018)		R.D.D.	2,700
Import Duty	1,800	Bank Loan	15,000



Legal Charges	2,000	Purchase Return	2,000
Motive Power	12,000		
Warehouse Rent	1,800		
Cash in Hand	20,000		
Cash at Bank	70,000		
Advertisement	10,000		
(for 2 years, w.e.f 1 <sup>st</sup> Jan, 2019)			
Salaries	3,800		
Rent	1,500		
<b>Drawings:</b>			
Amitbhai	2,400		
Narendrabhai	3,200		
Furniture	1,95,800		
Bills Receivable	20,700		
Freehold Property	41,000		
	<b>8,97,900</b>		<b>8,97,900</b>

**Adjustments:**

- Stock on hand on 31<sup>st</sup> March, 2019 was valued at ₹ 43,000.
- Uninsured Goods worth ₹ 8,000 were stolen.
- Create R.D.D. at 2% on Sundry Debtors.
- Mr. Patil, our customer became insolvent and could not pay his debts of ₹ 500.
- Outstanding Expenses - Rent ₹ 800 and Salaries ₹ 300.
- Depreciate Factory Building by ₹ 2,500 and Furniture by ₹ 1,800.

**Solution:**

**In the books of Amitbhai and Narendrabhai,  
Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2019**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Purchases	85,500		By Sales	1,80,000	
Less: Purchase Return	2,000	83,500	Less: Sales Return	2,200	1,77,800
To Import Duty		1,800	By Goods lost by theft		8,000
To Motive Power		12,000			
To Gross Profit c/d		1,31,500	By Closing stock		43,000
		<b>2,28,800</b>			<b>2,28,800</b>
To Salaries	3,800		By Gross Profit b/d		1,31,500
Add: Outstanding	300	4,100	By Discount		1,200
To Rent	1,500		By Interest on 10% Government		2,000
Add: Outstanding	800	2,300	Bonds		
To Legal charges		2,000	By Old R.D.D	2,700	
To Warehouse Rent		1,800	Less: Bad Debts	500	
To Advertisement	10,000		Less: New Bad Debts	500	
Less: Prepaid Advertisement	8,750	1,250	Less: New R.D.D	564	1,136
To Goods lost by theft		8,000			
To Depreciation					
Factory Building	2,500				
Furniture	1,800	4,300			
To Net Profit (Transferred to Partners' Capital A/c)					
Amitbhai	56,043				
Narendrabhai	56,043	1,12,086			
		<b>1,35,836</b>			<b>1,35,836</b>



Balance Sheet as on 31<sup>st</sup> March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
<b>Capital A/c:</b>			Plant and Machinery		2,80,000
Amitbhai	3,50,000		Factory Building	75,000	
Less: Drawings	2,400		Less: Depreciation	2,500	72,500
	3,47,600		Furniture	1,95,800	
Add: Net Profit	56,043	4,03,643	Less: Depreciation	1,800	1,94,000
Narendrabhai	3,00,000		Freehold Property		41,000
Less: Drawings	3,200		Sundry Debtors	28,700	
	2,96,800		Less: New Bad Debts	500	
Add: Net profit	56,043	3,52,843		28,200	
			Less: New R.D.D.	564	27,636
Creditors		38,500	10% Government Bond	40,000	
Bills Payable		8,500	Add: Interest Accrued	2,000	42,000
Bank Loan		15,000	Bills Receivable		20,700
Outstanding Expenses			Prepaid Advertisement		8,750
Rent	800		Closing Stock		43,000
Salaries	300	1,100	Cash at Bank		70,000
			Cash In Hand		20,000
		<b>8,19,586</b>			<b>8,19,586</b>

Working Notes:

i. Prepaid Advertisement:

Advertisement for 2 years

∴ Advertisement for 24 months w.e.f. 1<sup>st</sup> Jan, 2019  
Upto 31<sup>st</sup> March, 2019

$$= 10,000 \times \frac{3}{24} = ₹ 1,250$$

∴ Prepaid Advertisement = 10,000 – 1,250 = ₹ 8,750/-

ii. Calculation of New R.D.D.

Sundry Debtors	=	28,700
Less : New Bad Debts	=	500
		28,200

$$\text{R.D.D. @ 2\%} = 28,200 \times \frac{2}{100} = ₹ 564$$

iii. 10% Government Bonds are purchased on 1<sup>st</sup> October, 2019. Hence interest shall be accrued for 6 months.

$$\therefore \text{Accrued Interest} = 40,000 \times \frac{10}{100} \times \frac{6}{12} = 2,000$$

**Q.2. From the following Trial Balance of M/s Mitesh and Mangesh, you are required to prepare Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.**

[Textbook page no. 55]

Trial Balance as on 31<sup>st</sup> March, 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock as on (01.04.2018)	25,000	Sundry Creditors	38,000
Building	48,500	Sales	1,75,000
Carriage	1,780	<b>Capital A/c:</b>	
Factory Insurance	2,700	Mitesh	1,50,000
Postage	1,600	Mangesh	50,000





Bills Receivable	13,700	Outstanding Salaries	2,000
Sundry Debtors	52,200	Bills Payable	18,000
Return Inward	1,600	Return Outward	1,800
Purchases	68,900	<b>Current A/c:</b>	
Audit fees	1,800	Mitesh	3,000
Loose Tools	32,000	Mangesh	2,000
Manufacturing Expenses	1,820		
Electricity Charges	2,600		
General Expenses	3,400		
Export Duty	1,000		
Cash in Hand	75,000		
Bank Balance	29,000		
Conveyance	4,100		
Furniture	64,000		
Salaries	2,000		
Rent, Rate and Taxes	3,700		
<b>Drawings:</b>			
Mitesh	1,200		
Mangesh	2,200		
	<b>4,39,800</b>		<b>4,39,800</b>

**Adjustments:**

- Mitesh and Mangesh are sharing Profit and Losses in the ratio 3:1.
- Partners are entitled to get Commission @ 1% each on Gross Profit.
- The closing stock is valued at ₹ 23,700.
- Outstanding Expenses - Audit fees ₹ 400; Carriage ₹ 600.
- Building is valued at ₹ 46,500.
- Furniture is depreciated by 5%.
- Provide Interest on Partners' capital at 2.5% pa.
- Goods of ₹ 900 were taken by Mangesh for his personal use.
- Write off ₹ 1,000 as Bad Debts and maintain R.D.D. at 3% on Sundry Debtors.

**Solution:**

**In the books of M/s Mitesh and Mangesh,  
Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2019**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening stock		25,000	By Sales	1,75,000	
To Purchases	68,900		Less: Return Inward	1,600	1,73,400
Less: Return Outward	1,800	67,100	By Goods taken by Mangesh		900
To Carriage	1,780				
Add: Outstanding	600	2,380			
To Manufacturing Expenses		1,820			
To Factory Insurance		2,700	By Closing Stock		23,700
To Gross Profit c/d		99,000			
		<b>1,98,000</b>			<b>1,98,000</b>
To Postage		1,600	By Gross Profit b/d		99,000
To Audit Fees	1,800				
Add: Outstanding	400	2,200			
To Electricity Charges		2,600			
To General Expenses		3,400			
To Export Duty		1,000			



To Conveyance		4,100			
To Salaries		2,000			
To Rent, Rate & Taxes		3,700			
To Depreciation					
Building	2,000				
Furniture	3,200	5,200			
To Interest on Partners Capital A/c:					
Mitesh	3,750				
Mangesh	1,250	5,000			
To Commission to Partners on Gross Profit					
Mitesh	990				
Mangesh	990	1,980			
To Bad Debts (New)	1,000				
Add: R.D.D (New)	1,536	2,536			
To Net Profit (Transferred To Partners Current A/c)					
Mitesh	47,763				
Mangesh	15,921	63,684			
		<b>99,000</b>			<b>99,000</b>

Balance Sheet as on 31<sup>st</sup> March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
<b>Capital A/c:</b>			Building	48,500	
Mitesh	1,50,000		Less: Depreciation	2,000	46,500
Mangesh	50,000	2,00,000	Furniture	64,000	
<b>Current A/c:</b>			Less: Depreciation	3,200	60,800
Mitesh	54,303		Bills Receivable		13,700
Mangesh	17,061	71,364	Sundry Debtors	52,200	
Sundry Creditors		38,000	Less: New Bad Debts	1,000	
Outstanding Salaries		2,000		51,200	
Bills Payable		18,000	Less: New R.D.D	1,536	49,664
Outstanding Expenses			Loose Tools		32,000
Audit fees	400		Closing Stock		23,700
Carriage	600	1,000	Bank Balance		29,000
			Cash in Hand		75,000
		<b>3,30,364</b>			<b>3,30,364</b>

Partners' Current Account

Dr.			Cr.		
Particulars	Mitesh ₹	Mangesh ₹	Particulars	Mitesh ₹	Mangesh ₹
To Drawings	1,200	2,200	By Balance b/d	3,000	2,000
To Additional Drawings	—	900	By Commission on Gross Profit	990	990
			By Interest on Capital	3,750	1,250
To Balance c/d	54,303	17,061	By Net Profit	47,763	15,921
	<b>55,503</b>	<b>20,161</b>		<b>55,503</b>	<b>20,161</b>



**Q.3. From the following Trial Balance and Adjustments given below of Reena and Aarti, you are required to prepare Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.**

[Textbook page no. 56]

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Purchases	35,500	Sales	58,200
Sundry Debtors	40,000	Sundry Creditors	25,700
Sales Returns	1,000	Purchase Returns	500
Opening Stock	18,100	R.D.D.	800
Bad Debts	500	Discount	50
Land and Building	25,000	Commission	250
Furniture	20,000	<b>Capital A/c:</b>	
Discount	1,000	Reena	50,000
Royalties	700	Aarti	30,000
Rent	1,900		
Salaries	3,000		
Wages	800		
Insurance	1,500		
<b>Drawings:</b>			
Reena	2,000		
Aarti	1,000		
Cash at Bank	11,500		
Cash in Hand	2,000		
	<b>1,65,500</b>		<b>1,65,500</b>

**Adjustments:**

- Closing Stock valued at ₹ 22,000.
- Write off ₹ 900 for Bad & doubtful debts and create a provision for Reserve for Doubtful Debts ₹ 1,000.
- Create a provision for Discount on Debtors @ 3% and creditors @ 5%.
- Outstanding Expenses - Wages ₹ 700 and Salaries ₹ 800.
- Insurance is paid for 15 months, w.e.f. 1st April 2018.
- Depreciate Land and Building @ 5%.
- Reena and Aarti are sharing Profits & Losses in their Capital Ratio.

**Solution:**

**In the books of Reena and Aarti,**

**Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2019**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening stock		18,100	By Sales	58,200	
To Purchases	35,500		Less: Sales Return	1,000	57,200
Less: Purchases Returns	500	35,000			
To Royalties		700			
To Wages	800				
Add: Outstanding	700	1,500			
To Gross Profit c/d		23,900	By Closing Stock		22,000
		<b>79,200</b>			<b>79,200</b>
To Bad Debts	500		By Gross Profit b/d		23,900
Add: Bad Debts (New)	900		By Discount		50
Add: R.D.D (New)	1,000		By R.F.D.C		1,285
Less: R.D.D (Old)	800	1,600	By Commission		250
To Discount		1,000			



To R.F.D.D.		1,143			
To Rent		1,900			
To Salaries	3,000				
<i>Add: Outstanding</i>	800	3,800			
To Insurance	1,500				
<i>Less: Prepaid</i>	300	1,200			
To Depreciation on Land & Building		1,250			
To Net Profit (transferred to Partners' Capital A/c)					
<i>Reena</i>	8,495				
<i>Aarti</i>	5,097	13,592			
		<b>25,485</b>			<b>25,485</b>

**Balance Sheet as on 31<sup>st</sup> March, 2019**

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
<b>Capital A/c:</b>			Land and Building	25,000	
<i>Reena</i>	50,000		<i>Less: Depreciation</i>	1,250	23,750
<i>Less: Drawings</i>	2,000		Sundry Debtors	40,000	
	48,000		<i>Less: Bad Debts (New)</i>	900	
<i>Add: Net Profit</i>	8,495	56,495		39,100	
<i>Aarti</i>	30,000		<i>Less: R.D.D (New)</i>	1,000	
<i>Less: Drawings</i>	1,000			38,100	
	29,000		<i>Less: R.F.D.D.</i>	1,143	36,957
<i>Add: Net Profit</i>	5,097	34,097	Prepaid Insurance		300
Sundry Creditors	25,700		Furniture		20,000
<i>Less: R.F.D.C</i>	1,285	24,415	Closing Stock		22,000
Outstanding Expenses			Cash in Bank		11,500
Wages	700		Cash in Hand		2,000
Salaries	800	1,500			
		<b>1,16,507</b>			<b>1,16,507</b>

Working Note:

- i. Prepaid Insurance:  
Insurance paid for 15 months = 1,500
- ∴ Insurance for 12 months =  $1,500 \times \frac{12}{15} = 1,200$
- ∴ Prepaid Insurance = 1,500 – 1,200 = 300

**Q.4. From the following Trial Balance of M/s Meera and Madhav, prepare Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.** [Textbook page no. 57]

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (01.04.2018)	25,000	Bank Overdraft	5,000
Debtors	80,500	Bills Payable	12,500
Bills Receivable	10,000	Creditors	68,000
Purchases	2,08,500	Sales	3,25,000
Returns	1,000	Outstanding Rent	2,000
Carriage Inward	3,000	Unpaid Wages	1,500



Carriage Outward	4,500	<b>Capital A/c:</b>	
Motor Vehicle	55,000	Meera	75,000
General Expenses	1,800	Madhav	75,000
Export Duty	900	Purchase Return	1,000
Advertisement	4,800		
(For 3 years from 01.10.2018)			
Printing and Stationery	1,200		
<b>Drawings:</b>			
Meera	3,500		
Madhav	2,000		
Leasehold Premises	1,10,000		
Cash at Bank	45,000		
Furniture	8,300		
	<b>5,65,000</b>		<b>5,65,000</b>

**Adjustments:**

- Closing Stock is valued at ₹ 32,000.
- Provide Provision for Doubtful Debts ₹ 2,000.
- Create Reserve for Discount on Debtors @ 3%.
- Value of Leasehold Premises on 31<sup>st</sup> March, 2019 ₹ 1,00,000.
- Outstanding Expenses Printing & Stationery ₹ 500.

**Solution:**

In the books of M/s. Meera and Madhav,  
Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2019

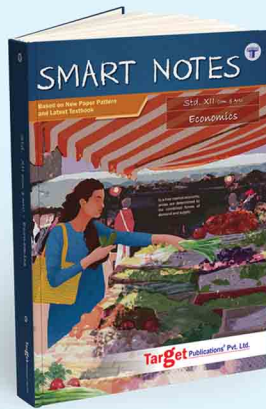
Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening stock		25,000	By Sales	3,25,000	
To Purchases	2,08,500		Less: Returns	1,000	3,24,000
Less: Returns	1,000	2,07,500			
To Carriage Inward		3,000	By Closing Stock		32,000
To Gross Profit c/d		1,20,500			
		<b>3,56,000</b>			<b>3,56,000</b>
To Carriage Outwards		4,500	By Gross Profit b/d		1,20,500
To General Expenses		1,800			
To Export duty		900			
To Advertisement	4,800				
Less: Prepaid	4000	800			
To Printing & Stationery	1,200				
Add: Outstanding	500	1,700			
To R.D.D. (New)		2,000			
To R.F.D.D.		2,355			
To Depreciation on Leasehold Premises		10,000			
To Net Profit (Transferred to Partners' Capital A/c)					
Meera	48,223				
Madhav	48,222	96,445			
		<b>1,20,500</b>			<b>1,20,500</b>



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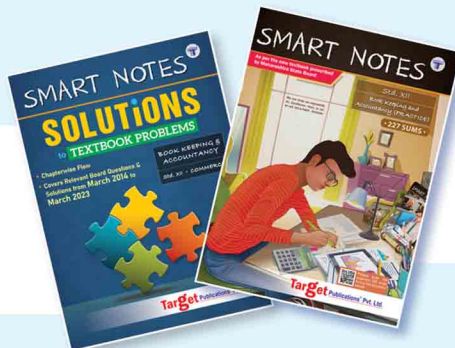


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