CBSE Class 10 Elements of Book-Keeping and Accountancy 2026-27

# Sample Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

**Time Allowed: 3 hours** **Maximum Marks: 70**

## General Instructions

**(i)** This question paper contains **30 questions**. All questions are compulsory.

**(ii)** Q.**1 to 18** are **Multiple Choice Type Questions**, carrying **1 mark** each.

**(iii)** Q.**19 to 22** are **Short Answer Type Questions**, carrying **3 marks** each. They are to be answered in **60 to 80 words**.

**(iv)** Q.**23 to 26** are **Short Answer Type Questions**, carrying **4 marks** each. They are to be answered in **80 to 100 words**.

**(v)** Q.**27 to 30** are **Short Answer Type Questions**, carrying **6 marks** each. They are to be answered in **100 to 150 words**.

**(vi)** There is no change in the Question Paper Design and Assessment Pattern for Academic Session 2026-27.

**1A. Identify, which of the following is not a Capital Expenditure for a firm?** [1 mark]

(A) Purchase of machinery

(B) Purchase of a Building

(C) Loan taken from Bank

(D) Rent Received

**Correct Answer:** (D) Rent Received

**Solution:**

**Concept:**

- Capital expenditure is money spent to buy a fixed asset or to make it better, and the benefit lasts for many years.
- It is not a routine running cost and it is not income. We must find the item that does not fit this meaning.

**Step 1:** Check option (A) Machinery is a fixed asset. It is used in the business for many years, so buying it is capital expenditure.
So (A) is a capital expenditure and is not the answer.

**Step 2:** Check option (B) A building is also a fixed asset that serves the firm for a long time. Buying it is capital expenditure.
So (B) is a capital expenditure and is not the answer.

**Step 3:** Check option (C) A bank loan is a long-term source of funds. It is a capital item (a capital receipt that adds to liabilities), not a day-to-day income of the firm.
The firm does not earn it by running the business. So it belongs with the capital items and is not the odd one out.

**Step 4:** Check option (D) Rent received is the income the firm earns by letting out its property. It comes again and again every period.
It is a revenue receipt. It is not a spending on a fixed asset, so it can never be a capital expenditure.
So (D) is the item that is not a capital expenditure.

**Step 5:** Conclusion Rent Received is a revenue item, not a capital expenditure. This is option (D).

**Quick Tip to Solve:** Capital expenditure buys assets that last for years. Which option is regular income instead?

OR

**1B. Identify, which of the following is not a Capital Receipt for a firm?** [1 mark]

(A) Capital introduced by the owner

(B) Loan taken from bank

(C) Sale of old Machinery

(D) Cash sales

**Correct Answer:** (D) Cash sales

**Solution:**

**Concept:**

- A capital receipt is money received that adds to the capital or liabilities of the firm, or comes from selling a fixed asset. It does not come from the normal trading of the business.
- A revenue receipt is money received from normal business activity, such as sales.

**Step 1:** Check option (A) Capital brought in by the owner increases the owner's capital in the firm. So it is a capital receipt.

**Step 2:** Check option (B) A loan from a bank is borrowed money that raises the liabilities of the firm. So it is a capital receipt.

**Step 3:** Check option (C) Old machinery is a fixed asset. The money got by selling it is a capital receipt, because it is not income from daily trading.

**Step 4:** Check option (D) Cash sales are the main trading income of the firm and they happen again and again. This is a revenue receipt, so it is not a capital receipt.

**Step 5:** Conclusion Cash sales is a revenue receipt, so the answer is option (D).

**Quick Tip to Solve:** Sales of goods are the normal income of a trading firm. Is that capital or revenue in nature?

**2A. A firm purchased Machinery of Rs 14,00,000 on 1st April, 2025. Depreciation was to be charged @$7\frac{1}{2}$% p.a by written down value method. What will be the value of depreciation charged during the year?** [1 mark]

(A) Rs 1,50,000

(B) Rs 1,30,000

(C) Rs 1,40,000

(D) Rs 1,05,000

**Correct Answer:** (D) Rs 1,05,000

**Solution:**

**Concept:**

- In the written down value (WDV) method, depreciation is charged every year on the book value of the asset at the start of that year.
- In the first year the book value is the full cost, so depreciation is rate times cost.

**Step 1:** Note the given data Cost of machinery = Rs. 14,00,000. Rate = $7\frac{1}{2}\% = 7.5\%$. The asset was bought on 1st April, so the full year is counted.

**Step 2:** Apply the formula

$$\text{Depreciation} = \text{Cost} \times \frac{\text{Rate}}{100}$$

$$= 14{,}00{,}000 \times \frac{7.5}{100} = 1{,}05{,}000$$

**Step 3:** Check the other options (C) Rs. 1,40,000 is 10% of the cost, which is the wrong rate.
(A) Rs. 1,50,000 and (B) Rs. 1,30,000 do not equal 7.5% of Rs. 14,00,000 either, so they are wrong.

**Step 4:** Conclusion Depreciation for the year is Rs. 1,05,000, option (D).

**Quick Tip to Solve:** In the first year, WDV depreciation = rate % of the full cost.

**OR**

**2B. ABC Limited purchased Building of Rs 60,00,000 on 1st April, 2024. Depreciation was to be charged @10% p.a by Straight Line method. What will be the book value of the building at the end of the accounting year?** [1 mark]

(A) Rs 6,00,000

(B) Rs 54,00,000

(C) Rs 3,20,000

(D) Rs 1,60,000

**Correct Answer:** (B) Rs 54,00,000

**Solution:**

**Concept:**

- In the Straight Line method, the same amount of depreciation is charged every year, calculated on the original cost.
- Book value at the end of a year = cost - depreciation charged so far.

**Step 1:** Find the depreciation for the year

$$\text{Depreciation} = 60{,}00{,}000 \times \frac{10}{100} = 6{,}00{,}000$$

The building was bought on 1st April 2024, so the accounting year 2024-25 ends on 31st March 2025 and one full year of depreciation is charged.

**Step 2:** Find the book value

$$\text{Book value} = 60{,}00{,}000 - 6{,}00{,}000 = 54{,}00{,}000$$

**Step 3:** Check the other options (A) Rs. 6,00,000 is only the depreciation, not the book value.
(C) Rs. 3,20,000 and (D) Rs. 1,60,000 do not come from any correct step.

**Step 4:** Conclusion The book value at the year end is Rs. 54,00,000, option (B).

**Quick Tip to Solve:** Straight line: depreciation on original cost. Book value = cost minus one year's depreciation.

**3. A multinational company established its set up in India, under the Make-in-India scheme of the government. It spent Rs 3,60,00,000 on an advertisement campaign for the launch of a new product. The benefit of this advertisement is expected to continue for several years.**
**The amount of expenditure indicated in the above text can be categorised under the book of accounts as . (Choose the correct option to fill up the blank)** [1 mark]

(A) Capital Expenditure

(B) Deferred Revenue Expenditure

(C) Capital Gain

(D) Revenue Expenditure

**Correct Answer:** (B) Deferred Revenue Expenditure

**Solution:**

**Concept:**

- The company spent Rs. 3,60,00,000 on advertising to launch a new product.
- The benefit will be felt for several years, not just in this year.

**Step 1:** Recall the classes of expenditure Capital expenditure creates a fixed asset. Revenue expenditure gives benefit within the same year. Deferred revenue expenditure is revenue in nature, but its benefit lasts more than one year, so it is spread over a few years.

**Step 2:** Match the case with a class Advertising does not buy any physical asset, so it is revenue in nature. But a heavy launch campaign gives benefit for several years. This is the exact meaning of deferred revenue expenditure.

**Step 3:** Why the other options are wrong (A) Capital Expenditure: no fixed asset is bought.
(C) Capital Gain: this is a profit on sale of an asset, not a spending.
(D) Revenue Expenditure: it would be correct only if the benefit ended within the year, but here it continues for several years.

**Step 4:** Conclusion The expenditure is Deferred Revenue Expenditure, option (B).

**Quick Tip to Solve:** The spending is revenue in nature but its benefit lasts several years.

**4. On 1st April, 2025 Chopra Ltd. purchased Equipment and Machinery worth Rs 1,00,00,000. Depreciation was to be charged @ 10% p.a by fixed instalment system. On the same day, Khan and Peter Ltd purchased Machinery worth the same amount and charged depreciation @ 10% p.a by reducing instalment system. On 31st March, 2026 which of the following statement holds true?** [1 mark]

(A) Total Depreciation charged by the two companies will be same.

(B) Total Depreciation charged by Chopra Ltd. will be more than that charged by Khan and Peter Ltd.

(C) Total Depreciation charged by Chopra Ltd. will be lesser than that charged by Khan and Peter Ltd.

(D) Book value of the assets mentioned, will be same at the year ending March 31, 2025.

**Correct Answer:** (A) Total Depreciation charged by the two companies will be same.

**Solution:**

**Step 1:** Know the two methods Fixed instalment (straight line) method charges depreciation on the original cost every year.
Reducing instalment (written down value) method charges depreciation on the book value at the start

of each year.

**Step 2:** Depreciation of Chopra Ltd. for 2025-26

$$1{,}00{,}00{,}000 \times \frac{10}{100} = 10{,}00{,}000$$

**Step 3:** Depreciation of Khan and Peter Ltd. for 2025-26 This is the first year of the asset, so the book value at the start is the full cost of Rs. 1,00,00,000.

$$1{,}00{,}00{,}000 \times \frac{10}{100} = 10{,}00{,}000$$

In the first year both methods give the same charge. The difference shows up only from the second year.

**Step 4:** Check each statement (A) Both charged Rs. 10,00,000, so the total depreciation is the same. TRUE.
(B) Chopra's charge is not more than the other company's. FALSE.
(C) Chopra's charge is not less than the other company's. FALSE.
(D) The assets were bought on 1st April 2025, so they did not exist on 31st March 2025. Also the book value at 31st March 2026 would be Rs. 90,00,000 in both cases, but the statement names the wrong date. FALSE.

**Step 5:** Conclusion Depreciation is equal for the first year, so statement (A) holds true.

**Quick Tip to Solve:** In the very first year, both methods work on the same cost. Compare the two charges.

**5. Bank Reconciliation statement is prepared by the . (Choose the correct option to fill up the blank)**

[1 mark]

(A) Owner of the business

(B) Banks

(C) Tax Authorities

(D) Creditors

**Correct Answer:** (A) Owner of the business

**Solution:**

**Step 1:** Recall the purpose A Bank Reconciliation Statement (BRS) explains the difference between the bank balance shown in the firm's cash book and the balance shown in the bank's pass book.
The firm wants to know why the two balances differ, so the firm prepares it.

**Step 2:** Who prepares it The owner of the business (through the accountant) prepares it from the firm's own records, to check its cash book against the bank statement.

**Step 3:** Why the other options are wrong (B) Banks give the pass book or statement, but they do not reconcile it with the firm's cash book.
(C) Tax authorities check returns and have no role in this.
(D) Creditors are parties to whom the firm owes money. They do not prepare it.

**Step 4:** Quick recheck The BRS is an internal check made by the firm. This confirms that the owner of the business is the correct answer.

**Step 5:** Conclusion The statement is prepared by the owner of the business, option (A).

**Quick Tip to Solve:** Who keeps the cash book and wants to match it with the pass book?

**6. Read the following statements carefully:**
**Statement 1: Bank Reconciliation Statement is prepared to find out the reasons for the difference between Cash Book balance and Pass Book balance.**
**Statement 2: Timing differences such as cheques issued but not presented may cause the difference.**
**In light of the given statements, choose the correct option from the following:** [1 mark]

(A) Statement 1 is true and Statement 2 is false.

(B) Statement 1 is false and Statement 2 is true.

(C) Both Statements 1 and 2 are true.

(D) Both Statements 1 and 2 are false.

**Correct Answer:** (C) Both Statements 1 and 2 are true.

**Solution:**

**Step 1:** Check Statement 1 The whole aim of a Bank Reconciliation Statement is to find the reasons why the balance in the cash book and the balance in the pass book are different. So Statement 1 is TRUE.

**Step 2:** Check Statement 2 When a firm issues a cheque, it credits the bank column in the cash book at once. The bank pays only when the party presents the cheque, which can take days.
For this period the two balances differ. This is a timing difference. So Statement 2 is TRUE.

**Step 3:** Choose the option Both are true. Only option (C) says that both statements are true, so (A), (B) and (D) are wrong.

**Step 4:** Conclusion Both statements are true, option (C).

**Quick Tip to Solve:** Check each statement against the purpose of a BRS and the idea of timing differences.

**7. Debit balance as per Cash book is Rs 1,40,000. Cheques issued but not presented were Rs 18,000 and cheques deposited but not cleared were Rs 1,20,000. What will be resulting balance after preparing Bank Reconciliation Statement?** [1 mark]

(A) Credit Balance as per Pass Book Rs 38,000

(B) Credit Balance as per Pass Book Rs 58,000

(C) Debit Balance as per Pass Book Rs 38,000

(D) Debit Balance as per Pass Book Rs 22,000

**Correct Answer:** (A) Credit Balance as per Pass Book Rs 38,000

**Solution:**

**Step 1:** Start with the cash book balance A debit balance in the cash book (bank column) means the firm has money in the bank, which is a favourable balance. The pass book shows the same position from the bank's side, so a favourable balance is a credit balance in the pass book.

**Step 2:** Cheques issued but not presented The firm has already reduced its cash book for these cheques, but the bank has not paid them yet. So the pass book balance is higher by Rs. 18,000. We add it.

$$1{,}40{,}000 + 18{,}000 = 1{,}58{,}000$$

**Step 3:** Cheques deposited but not cleared The firm has already added these in the cash book, but the bank has not credited them yet. So the pass book balance is lower by Rs. 1,20,000. We subtract it.

$$1{,}58{,}000 - 1{,}20{,}000 = 38{,}000$$

**Step 4:** State the result The balance is Rs. 38,000 and it is favourable, so it is a Credit balance as per Pass Book.
Options (C) and (D) call it a debit balance, which would mean an overdraft, so they are wrong. Option (B) Rs. 58,000 comes from wrong adjustments.

**Step 5:** Conclusion Credit Balance as per Pass Book is Rs. 38,000, option (A).

**Quick Tip to Solve:** Add cheques issued but not presented; subtract cheques deposited but not cleared.

**8A. A limited liability partnership firm, purchased machinery, land and office furniture for its business. At the end of the year, the accountant calculated depreciation only on assets whose value decreases with usage.**
**Identify, on which of the following assets, depreciation will not be charged?** [1 mark]

(A) Building

(B) Machinery

(C) Land

(D) Office furniture

**Correct Answer:** (C) Land

**Solution:**

**Step 1:** Recall what depreciation is Depreciation is the fall in the value of a fixed asset because of wear and tear, use, passage of time or obsolescence. It is charged only on assets that lose value this way.

**Step 2:** Check the options (A) A building wears out with time and weather, so depreciation is charged.
(B) Machinery wears out through use, so depreciation is charged.
(D) Office furniture wears with use, so depreciation is charged.
(C) Land does not wear out with use and it has an unlimited life. Its value usually does not fall, so no depreciation is charged.

**Step 3:** Real life meaning Land has a nearly unlimited life and keeps its value with use. This is why the accountant leaves it out when charging depreciation.

**Step 4:** Conclusion No depreciation is charged on Land, option (C).

**Quick Tip to Solve:** Which asset does not wear out through use?

OR

**8B. Rohit purchased a machine for Rs 5,00,000. The accountant estimated its useful life as 10 years and scrap value Rs 50,000.**
**Identify, which of the following information is not required for calculating depreciation using the Straight Line Method?** [1 mark]

(A) Cost of the asset

(B) Market demand

(C) Scrap Value

(D) Estimated Life

**Correct Answer:** (B) Market demand

**Solution:**

**Step 1:** Recall the formula In the Straight Line Method,

$$\text{Annual depreciation} = \frac{\text{Cost} - \text{Scrap value}}{\text{Estimated useful life}}$$

**Step 2:** See what the formula needs It needs three things: cost of the asset, scrap value and estimated life. These are options (A), (C) and (D).

**Step 3:** Find the odd one Market demand is not part of the formula. It has no effect on the deprecia-

tion amount. So it is the information not required.

**Step 4:** Optional working

$$\frac{5{,}00{,}000 - 50{,}000}{10} = 45{,}000 \text{ per year}$$

**Step 5:** Conclusion Market demand is not needed, option (B).

**Quick Tip to Solve:** Write the SLM formula and see which option is missing from it.

**9. Read the following Assertion (A) and Reason (R). Choose the correct options from those given below:**

**Assertion (A): If Bank Reconciliation Statement is prepared with Pass Book balance in the beginning of the period, the difference of Rs 10,000 (Rs 21,000 deposited but Rs 11,000 recorded in Cash Book) will be added.**

**Reason (R): The bank has recorded Rs 21,000 while the Cash Book shows only Rs 11,000, therefore the Pass Book balance is higher by Rs 10,000.**

**Options:** [1 mark]

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

**Correct Answer:** (D) Assertion (A) is false, but Reason (R) is true.

**Solution:**

**Concept:**

- The firm deposited Rs. 21,000 but wrongly wrote Rs. 11,000 in its cash book.
- The bank recorded the correct amount of Rs. 21,000.
- So the pass book shows Rs. 10,000 more than the cash book.

**Step 1:** Check the Reason (R) R says the bank has recorded Rs. 21,000, the cash book shows Rs. 11,000 and the pass book balance is higher by Rs. 10,000. This matches the facts. R is TRUE.

**Step 2:** Check the Assertion (A) A says that if we start the BRS from the pass book balance, the difference of Rs. 10,000 will be added.
The pass book is already higher by Rs. 10,000. To reach the cash book balance we must remove this extra amount, so we subtract Rs. 10,000, not add it.
So A is FALSE.

**Step 3:** Choose the option A is false and R is true, which is option (D). Options (A), (B) and (C) all say that A is true, so they are wrong.

**Step 4:** Conclusion Assertion is false and Reason is true, option (D).

**Quick Tip to Solve:** From the Pass Book balance, should the extra Rs. 10,000 be added or deducted to reach the Cash Book balance?

**10. Read the following Assertion (A) and Reason (R). Choose the correct options from those given below:**
**Assertion (A): A bill of exchange must be issued by the drawer and accepted by the drawee.**
**Reason (R): A bill of exchange is a written document which is unconditional by definition.**
**Options:** [1 mark]

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

**Correct Answer:** (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

**Solution:**

**Step 1:** Recall the definition A bill of exchange is a written, unconditional order, signed by the drawer, telling the drawee to pay a fixed sum of money to a named person or to the bearer, on demand or after a fixed period.

**Step 2:** Check the Assertion (A) The drawer makes (draws) the bill. It becomes a valid bill and a liability of the drawee only after the drawee accepts it by signing. So A is TRUE.

**Step 3:** Check the Reason (R) The definition says the order is written and unconditional. So R is TRUE.

**Step 4:** Check whether R explains A R tells us what kind of document a bill is. It does not tell why the drawer must issue it and the drawee must accept it. So R is not the correct explanation of A.

**Step 5:** Choose the option Both true, but R does not explain A: option (B).

**Step 6:** Conclusion Option (B).

**Quick Tip to Solve:** Check each statement alone, then ask whether R gives the reason for A.

**11. Read the following statements carefully:**
**Statement 1: A bill of exchange accepted by Dilawar in favour of Bhuwan represents a liability for Dilawar.**
**Statement 2: The same bill of exchange which is accepted by Dilawar in favour of Bhuwan represents as an asset for Bhuwan.**
**In light of the given statements, choose the correct option from the following:** [1 mark]

(A) Statement 1 is true and Statement 2 is false.

(B) Statement 1 is false and Statement 2 is true.

(C) Both Statements 1 and 2 are true.

(D) Both Statements 1 and 2 are false.

**Correct Answer:** (C) Both Statements 1 and 2 are true.

**Solution:**

**Step 1:** Identify the parties Dilawar accepts the bill, so he is the drawee. He has to pay the amount on the due date. Bhuwan is the person who will receive the money.

**Step 2:** Check Statement 1 For the acceptor, the bill is a promise to pay. It is recorded as Bills Payable,

which is a liability. Statement 1 is TRUE.

**Step 3:** Check Statement 2 For the person who will receive the money, the bill is a right to receive cash. It is recorded as Bills Receivable, which is an asset. Statement 2 is TRUE.

**Step 4:** Choose Both are true, so the answer is option (C).

**Step 5:** Journal view In Dilawar's books the entry is Creditor to Bills Payable. In Bhuwan's books it is Bills Receivable to Debtor. This shows the liability for one party and the asset for the other.

**Step 6:** Conclusion Option (C), both statements are true.

**Quick Tip to Solve:** Bills Payable is a liability for the acceptor; Bills Receivable is an asset for the holder.

**12A. On 1st May 2024, Rajesh issued a bill of exchange Rs 1,00,000 on Roshan for a period of 3 months. The maturity date of bill will be . (Choose the correct option to fill up the blank)** [1 mark]

(A) 4th August 2024

(B) 3rd August 2024

(C) 1st August 2024

(D) 5th August 2024

**Correct Answer:** (A) 4th August 2024

**Solution:**

**Step 1:** Recall the rule The maturity date of a bill is the date it falls due after adding three days of grace to the end of the period of the bill.

**Step 2:** Find the nominal due date The bill is drawn on 1st May 2024 for 3 months. Three months after 1st May is 1st August 2024.

**Step 3:** Add the days of grace Add 3 days of grace: 1st August + 3 days = 4th August 2024.

**Step 4:** Check the other options (C) 1st August is the date without grace days. (B) and (D) add 2 and 4 days, which is wrong.

**Step 5:** Calculation summary Date of bill 1 May 2024 + 3 months = 1 August 2024. Add 3 days of grace = 4 August 2024.

**Step 6:** Conclusion The maturity date is 4th August 2024, option (A).

**Quick Tip to Solve:** Add the 3 months, then add 3 days of grace.

OR

**12B. On 15 October 2024, Bharat issued a bill on Laxman of Rs 1,05,000. Laxman accepted the bill. Ram transferred the bill to Shatrughan and Shatrughan further transferred back to Ram.**
**In the light of the above text, will receive the amount on due date of the bill. (Choose the correct option to fill up the blank)** [1 mark]

(A) Ram

(B) Laxman

(C) Bharat

(D) Shatrughan

**Correct Answer:** (A) Ram

**Solution:**

**Step 1:** Name the parties Bharat is the drawer (he issued the bill). Laxman is the drawee and acceptor (he must pay on the due date). Ram and Shatrughan are holders who pass the bill by endorsement.

**Step 2:** Trace the bill Bharat issued the bill on Laxman, and Ram became its holder. Ram endorsed it to Shatrughan. Then Shatrughan endorsed it back to Ram.

**Step 3:** Find the holder on the due date After the last endorsement the bill is again with Ram. The holder of the bill on the due date presents it to the acceptor and receives the money. So Ram will receive the amount.

**Step 4:** Why the other options are wrong (B) Laxman is the person who pays, not the one who receives. (C) Bharat has already parted with the bill. (D) Shatrughan has endorsed the bill back, so he no longer holds it.

**Step 5:** Conclusion Ram will receive the amount, option (A).

**Quick Tip to Solve:** Who holds the bill after all the transfers?

**13. Read the following statements carefully:**
**Statement 1: Statement of Profit and Loss is prepared to determine Profit or Loss in case of Accounts from Incomplete Records.**
**Statement 2: Balance Sheet can be prepared with Accounts from Incomplete Records.**
**In light of the given statements, choose the correct option from the following:** [1 mark]

(A) Statement 1 is true and Statement 2 is false.

(B) Statement 1 is false and Statement 2 is true.

(C) Both Statements 1 and 2 are true.

(D) Both Statements 1 and 2 are false.

**Correct Answer:** (A) Statement 1 is true and Statement 2 is false.

**Solution:**

**Concept:**

- Under incomplete records, the firm does not keep the full double entry books.
- Many accounts and a trial balance are missing.

**Step 1:** Check Statement 1 The profit or loss of the year can still be found by preparing a statement of profit and loss (conversion method) from the available information. So Statement 1 is TRUE.

**Step 2:** Check Statement 2 A Balance Sheet needs a complete set of records based on double entry. Where records are incomplete, a Statement of Affairs is prepared instead to show assets, liabilities and capital. So Statement 2 is FALSE.

**Step 3:** Choose Statement 1 true, Statement 2 false: option (A).

**Step 4:** Summary Profit or loss can be found in incomplete records, but the financial position is shown by a Statement of Affairs and not by a Balance Sheet.

**Step 5:** Conclusion Option (A).

**Quick Tip to Solve:** In incomplete records the financial position is shown by a Statement of Affairs, not a Balance Sheet.

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**14A. Net Profit of Nimit Kumar and Sons was Rs 24,50,000. There were indirect Incomes of Rs 5,40,000 and indirect expenses of Rs 9,70,000.**
**Calculate and choose the value of the amount of Gross Profit.** [1 mark]

(A) Rs 29,90,000

(B) Rs 28,80,000

(C) Rs 14,80,000

(D) Rs 34,20,000

**Correct Answer:** (B) Rs 28,80,000

**Solution:**

**Step 1:** Write the relation Net Profit = Gross Profit + Indirect Incomes - Indirect Expenses.
So Gross Profit = Net Profit + Indirect Expenses - Indirect Incomes.

**Step 2:** Put in the values

$$\text{Gross Profit} = 24{,}50{,}000 + 9{,}70{,}000 - 5{,}40{,}000$$

$$= 34{,}20{,}000 - 5{,}40{,}000 = 28{,}80{,}000$$

**Step 3:** Check by working forward 28,80,000 + 5,40,000 = 34,20,000. Then 34,20,000 - 9,70,000 = 24,50,000, which is the given Net Profit.

**Step 4:** Reject the wrong options (A) Rs. 29,90,000 comes from adding indirect income to net profit. (C) Rs. 14,80,000 comes from subtracting indirect expenses. (D) Rs. 34,20,000 forgets to deduct indirect incomes.

**Step 5:** Conclusion Gross Profit is Rs. 28,80,000, option (B).

**Quick Tip to Solve:** Net profit = gross profit + indirect incomes - indirect expenses. Reverse it.

OR

**14B. Gross Loss of the firm run by Mr Crust stands at Rs 11,50,000. There were indirect Incomes of Rs 5,40,000 and indirect expenses of Rs 9,70,000.**
**Calculate and choose the value of the amount of Net Loss.** [1 mark]

(A) Rs 15,80,000

(B) Rs 16,80,000

(C) Rs 15,40,000

(D) Rs 17,80,000

**Correct Answer:** (A) Rs 15,80,000

**Solution:**

**Step 1:** Write the relation A gross loss starts the profit and loss account with a loss. Indirect expenses add to the loss and indirect incomes reduce the loss.
Net Loss = Gross Loss + Indirect Expenses - Indirect Incomes.

**Step 2:** Put in the values

$$11,50,000 + 9,70,000 - 5,40,000$$

$$= 21,20,000 - 5,40,000 = 15,80,000$$

**Step 3:** Select the option Rs. 15,80,000 is option (A). The other options do not match this calculation.

**Step 4:** Conclusion Net Loss is Rs. 15,80,000, option (A).

**Quick Tip to Solve:** Net loss = gross loss + indirect expenses - indirect incomes.

**15. Bank Reconciliation Statement is prepared to reconcile and balances. (Choose the correct option to fill up the blank)** [1 mark]

(A) Ledger Accounts and Cash Book

(B) Trial Balance and Pass Book

(C) Cash Book and Pass Book

(D) Vouchers and Pass Book

**Correct Answer:** (C) Cash Book and Pass Book

**Solution:**

**Step 1:** Recall the purpose A Bank Reconciliation Statement matches the bank balance in the firm's cash book with the balance in the bank's pass book.

**Step 2:** Choose the pair The pair is Cash Book and Pass Book. This is option (C).

**Step 3:** Why the other options are wrong (A) Ledger accounts and cash book are both kept by the firm. They are checked through the trial balance, not through BRS.
(B) The trial balance is not compared with the pass book.
(D) Vouchers are source documents, not a balance.

**Step 4:** Conclusion BRS reconciles the Cash Book and Pass Book balances, option (C).

**Quick Tip to Solve:** Which two records show the same bank account but kept by two different parties?

**16. A bill of exchange enables the buyer to buy the goods on credit and pay after the period of credit. However, the seller of goods even after extension of credit can get payment immediately by . (Choose the correct option to fill up the blank)** [1 mark]

(A) retaining the bill till maturity.

(B) discount the Bills on Exchange

(C) sending Bills for collection

(D) endorsing the bill to a third party

**Correct Answer:** (B) discount the Bills on Exchange

**Solution:**

**Concept:**

- The seller has given credit to the buyer, but the seller needs cash now.
- The question asks how he can get the money at once.

**Step 1:** Check the options (A) Retaining the bill till maturity means he must wait for the due date, so he gets no immediate cash.
(B) Discounting the bill means getting it cashed from the bank before maturity. The bank pays the amount less a discount (its charge), so the seller gets money immediately.
(C) Sending the bill for collection gives cash only after the bank collects it on the due date.
(D) Endorsing the bill to a third party passes the bill to settle a debt of the seller. It does not give the seller cash.

**Step 2:** Conclusion Discounting the bill with the bank gives immediate payment, option (B).

**Quick Tip to Solve:** Which action brings the seller cash today, less a small charge?

**17A. Statement of financial position produced from incomplete accounting record is commonly known as . (Choose the correct option to fill up the blank)** [1 mark]

(A) Balance Sheet

(B) Profit and Loss account

(C) Statement of Affairs

(D) Statement of financial position

**Correct Answer:** (C) Statement of Affairs

**Solution:**

**Concept:**

- A statement of financial position lists assets and liabilities on a date.
- With complete double entry records it is called a Balance Sheet.

**Step 1:** What happens with incomplete records When the books are incomplete, the same kind of statement is prepared from the information available and is called a Statement of Affairs.

**Step 2:** Check the options (A) Balance Sheet is for complete records. (B) Profit and Loss account shows income and expenses, not assets. (D) Statement of financial position is the general name and is not the special name for incomplete records.

**Step 3:** Quick recheck Complete records give a Balance Sheet. Incomplete records give a Statement of Affairs. This confirms option (C).

**Step 4:** Conclusion It is called a Statement of Affairs, option (C).

**Quick Tip to Solve:** Which name is used for the Balance Sheet of an incomplete records firm?

**OR**

**17B. Amount of Capital in case of Accounts from Incomplete Records is calculated by preparing . (Choose the correct option to fill up the blank)** [1 mark]

(A) Balance Sheet

(B) Statement of Profit and Loss

(C) Statement of Affairs

(D) Profit and Loss Account

**Correct Answer:** (C) Statement of Affairs

**Solution:**

**Step 1:** Recall the idea Capital is the owner's money in the business. It is equal to assets minus outside liabilities.

**Step 2:** Where it is found In incomplete records, the assets and liabilities are listed in a Statement of Affairs. The balancing figure is the capital.

**Step 3:** Check the other options (A) A Balance Sheet needs complete records. (B) and (D) show profit or loss, not capital.

**Step 4:** Conclusion Capital is found by preparing a Statement of Affairs, option (C).

**Quick Tip to Solve:** Capital = assets minus liabilities, listed in which statement?

**18. While preparing Statement of Affairs, total of assets side was Rs 28,50,000 and Creditors amounted to Rs 12,00,000. The balancing figure of Rs 16,50,000 will be known as (Choose the correct option to fill up the blank)** [1 mark]

(A) Profit or Loss

(B) Capital

(C) Net Assets

(D) Deficiency

**Correct Answer:** (B) Capital

**Solution:**

**Step 1:** Use the Statement of Affairs rule In a Statement of Affairs, the liabilities side contains outside liabilities and the balancing figure is the owner's capital. Capital = Assets - Liabilities.

**Step 2:** Calculate

$$28{,}50{,}000 - 12{,}00{,}000 = 16{,}50{,}000$$

This matches the balancing figure given in the question.

**Step 3:** Check the options (A) Profit or loss is found by comparing two capitals, not from one statement. (C) Net Assets is not the term used for the balancing figure of a Statement of Affairs. (D) Deficiency arises only when liabilities are more than assets, which is not the case here.

**Step 4:** Conclusion The balancing figure is Capital, option (B).

**Quick Tip to Solve:** Assets minus outside liabilities gives which figure?

**19(I). Kamakhya started business with the following assets:**
**Cash Rs 10,50,000 and Bank Balance Rs 12,50,000.She purchased Furniture of Rs 4,80,000 and Equipment of Rs 4,20,000.She spent Rs 1,30,000 for advertisement and paid rent of Rs 2,40,000.On the basis of above information, calculate the following values:**

**Capital invested in business by Kamakhya** [1 mark]

**Solution:**

**Concept:**

- Capital is the amount of money, or the value of assets, that the owner brings into the business to start it.
- It is the owner's own investment, so the business owes it back to the owner.

**Step 1:** Pick out what Kamakhya brought in The question says she started the business with cash and a bank balance. These are the only items she introduced at the start.
The furniture and equipment were bought later, and the advertisement and rent were paid later. These are day-to-day transactions made out of the money already in the business, so they are not new capital.

**Step 2:** Add the cash and the bank balance Capital = Cash + Bank Balance
Capital = Rs. 10,50,000 + Rs. 12,50,000 = Rs. 23,00,000

**Step 3:** Conclusion Kamakhya invested cash of Rs. 10,50,000 and a bank balance of Rs. 12,50,000 in the business.

**Quick Tip to Solve:** Capital is what the owner brings in at the start. Add only the cash and the bank balance.

**19(II). Total Capital Expenditure** [1 mark]

**Solution:**

**Concept:**

- Capital expenditure is money spent on buying or improving a fixed asset.
- The benefit of such spending lasts for more than one year, and the asset adds to the earning power of the business.

**Step 1:** Sort each item in the case Cash and bank balance: this is the capital brought in, not an expenditure.
Furniture Rs. 4,80,000: a fixed asset, so it is capital expenditure.
Equipment Rs. 4,20,000: a fixed asset, so it is capital expenditure.
Advertisement Rs. 1,30,000: the benefit is used up within the year, so it is revenue expenditure.
Rent Rs. 2,40,000: a running cost of the year, so it is revenue expenditure.

**Step 2:** Add the capital items Total Capital Expenditure = Furniture + Equipment
= Rs. 4,80,000 + Rs. 4,20,000 = Rs. 9,00,000

**Step 3:** Conclusion Only the furniture and the equipment are capital expenditure.

**Quick Tip to Solve:** Capital expenditure buys a long-lasting asset. Add the furniture and the equipment.

**19(III). Total Revenue Expenditure** [1 mark]

**Solution:**

**Concept:**

- Revenue expenditure is money spent on the day-to-day running of the business.
- Its benefit is used up in the same year, and it is charged to the Profit and Loss Account.

**Step 1:** Pick the revenue items from the case Advertisement Rs. 1,30,000 is spent to promote sales this year, so it is revenue expenditure.
Rent Rs. 2,40,000 is a regular cost of using the premises, so it is revenue expenditure.
Furniture and equipment are fixed assets, so they are not revenue expenditure.

**Step 2:** Add the revenue items Total Revenue Expenditure = Advertisement + Rent
= Rs. 1,30,000 + Rs. 2,40,000 = Rs. 3,70,000

**Step 3:** Conclusion Advertisement and rent are the revenue expenditure of the year.

**Quick Tip to Solve:** Revenue expenditure is a running cost of the year. Add advertisement and rent.

**20(I). Pratyaksh owns a manufacturing business. During the year he made the following payments:Purchased a new machine to increase production capacity.Paid salaries to office staff.Spent money on repairing the existing machinery.Based on the above information, answer the following:**

**Identify one Capital Expenditure and one Revenue Expenditure from the case.** [1 mark]

**Solution:**

**Step 1:** Recall the two types of expenditure Capital expenditure buys or improves a fixed asset, and its benefit lasts for many years. Revenue expenditure is spent on running the business, and its benefit ends within the year.

**Step 2:** Test the first payment A new machine to increase production capacity is a fixed asset. It will be used for many years and it raises output. So this is capital expenditure.

**Step 3:** Test the other two payments Salaries to office staff are a regular running cost of the year, so they are revenue expenditure.
Repairs of existing machinery only keep the machine working as before. They do not add a new asset, so they are also revenue expenditure.

**Step 4:** Conclusion The new machine is capital expenditure. Salaries (or repairs) are revenue expenditure.

**Quick Tip to Solve:** Ask whether the payment creates a lasting asset or only runs the business.

**20(II). How does each type of expenditure affect the earning capacity of the business?** [1 mark]

**Solution:**

**Step 1:** Think about what earning capacity means Earning capacity is the ability of the business to produce goods and earn profit. It depends on the assets and the running of the business.

**Step 2:** Effect of capital expenditure Capital expenditure adds a new asset or improves an existing one. In this case the new machine increases the production capacity. More goods can be made and sold in the years to come, so the earning capacity goes up.

**Step 3:** Effect of revenue expenditure Revenue expenditure such as salaries and repairs keeps the business running at its present level. Repairs keep the machine in working order. They do not add any new asset or long-term value, so the earning capacity is only maintained, not raised.

**Step 4:** Conclusion Capital expenditure raises the earning capacity. Revenue expenditure maintains it.

**Quick Tip to Solve:** Capital expenditure adds new assets or capacity. Revenue expenditure only keeps things running.

**20(III). Where will these expenditures be shown in the financial statements?** [1 mark]

**Solution:**

**Step 1:** Recall the two financial statements The Profit and Loss Account shows the income and the expenses of the year, and it gives the net profit. The Balance Sheet shows the assets and the liabilities on a date.

**Step 2:** Place the capital expenditure The new machine is an asset that stays for many years. So it is shown in the Balance Sheet on the assets side, under Fixed Assets. Each year a part of its cost is written off as depreciation.

**Step 3:** Place the revenue expenditure Salaries and repairs are used up in the year. So they are shown in the Profit and Loss Account as expenses. They are deducted from income, so they reduce the profit of the year.

**Step 4:** Conclusion Machine: Balance Sheet (Fixed Assets). Salaries and repairs: Profit and Loss Account.

**Quick Tip to Solve:** An asset goes to the Balance Sheet. A running expense goes to the Profit and Loss Account.

**21(I). Xperia ltd. has been using such a method of charging depreciation where more amount is charged in the initial years as compared to later years?**

**Name the method used by the company.** [1 mark]

**Solution:**

**Step 1:** Recall the two common methods There are two common methods of charging depreciation. In the Straight Line Method the same amount is charged every year. In the Written Down Value Method the depreciation is charged at a fixed rate on the book value of the asset at the start of each year.

**Step 2:** See what happens in the Written Down Value Method The book value falls every year, because depreciation is deducted from it. So a fixed rate on a smaller book value gives a smaller amount each year. The charge is highest in the first year and falls in later years.

**Step 3:** Match with the case The company charges more in the early years and less in the later years.

That is exactly the pattern of the Written Down Value Method.

**Step 4:** Conclusion The company is using the Written Down Value Method (also called the Diminishing Balance Method).

**Quick Tip to Solve:** In which method does depreciation fall every year because the book value falls?

**21(II). State any two merits of this method.** [2 marks]

**Solution:**

**Step 1:** Recall how the method works In the Written Down Value Method the depreciation is calculated on the book value, which falls every year. So the charge is high in the early years and low in the later years.

**Step 2:** Merit 1: better matching of cost with revenue A new asset gives its best output in the early years, so it earns more revenue then. Charging more depreciation in those years puts a higher cost against the higher revenue. In later years the repairs go up, but the depreciation is lower, so the total burden on profit stays fairly even.

**Step 3:** Merit 2: recognition of actual wear and tear An asset loses more of its value in the early years of use. The method charges more in those years, so the book value of the asset is close to its real value.

**Step 4:** Conclusion Two merits are better matching of cost with revenue and recognition of actual wear and tear.

**Quick Tip to Solve:** Think of the early years of an asset: high earnings, fast loss of value.

**22(a). Donald sold goods worth Rs 41,30,000 to Vladimir and issued a bill for four months. The bill was duly accepted.**
**Pass necessary journal entries in the books of acceptor of the bill if the bill is retained till maturity.** [3 marks]

**Solution:**

**Step 1:** Find who the acceptor is The acceptor is the person who accepts the bill and promises to pay it. Here Vladimir bought the goods and accepted the bill, so Vladimir is the acceptor. We write the entries in his books. For him the bill is a liability, so it is recorded as Bills Payable.

**Step 2:** Record the purchase of goods Vladimir buys goods on credit from Donald. Purchases is an expense of trading, so Purchases A/c is debited. Donald is a person who gave the goods, so Donald's A/c is credited.

**Step 3:** Record the acceptance of the bill By accepting the bill, Vladimir settles his open debt to Donald and takes on a bill to be paid later. So Donald's A/c is debited (his debt is cleared) and Bills Payable A/c is credited (a new liability).

**Step 4:** Record the payment on maturity The bill is for four months. When the due date comes, Vladimir pays Rs. 41,30,000. The liability ends, so Bills Payable A/c is debited and Bank A/c is credited. The acceptor has to pay the amount whoever holds the bill, so this entry is the same whether the drawer retains the bill or not.

**Step 5:** Write the journal entries

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| On purchase | Purchases A/c ... Dr.<br>To Donald A/c<br>(Goods purchased on credit from Donald) | | 41,30,000 | 41,30,000 |
| On acceptance of bill | Donald A/c ... Dr.<br>To Bills Payable A/c<br>(Bill accepted in favour of Donald) | | 41,30,000 | 41,30,000 |
| On maturity | Bills Payable A/c ... Dr.<br>To Bank A/c<br>(Bill paid on due date) | | 41,30,000 | 41,30,000 |

**Step 6:** Conclusion In the books of Vladimir (acceptor) three entries are passed, each for Rs. 41,30,000.

**Quick Tip to Solve:** Write the entries for the buyer, who accepted the bill: the bill is a liability for him.

**OR**

**22(b). On March 15, 2024 Balwan sold goods for Rs 13,25,000 to Sumit on credit. Sumit accepted a bill for three months drawn on him by Balwan. Ten days later, Balwan endorsed the bill to his creditor Arpita Sood in settlement of his dues of Rs 14,25,000. The bill was duly met on due date. Record the necessary journal entries in the books of Balwan.** [3 marks]

**Solution:**

**Concept:**

- Balwan is the drawer. He sold goods for Rs. 13,25,000 on credit on 15 March 2024.
- Sumit accepted a three-month bill, so Balwan holds a bill receivable. Ten days later is 25 March 2024, when he endorsed the bill to his creditor Arpita Sood.

**Step 1:** Record the credit sale and the acceptance Sumit owes Rs. 13,25,000, so Sumit's A/c is debited and Sales A/c is credited. When Sumit accepts the bill, his debt is replaced by a bill. So Bills Receivable A/c is debited and Sumit's A/c is credited.

**Step 2:** Record the endorsement Balwan owed Rs. 14,25,000 to Arpita. He gives her a bill of Rs. 13,25,000 and she accepts it in full settlement. So Arpita's A/c is debited by the full Rs. 14,25,000 because her debt is cleared. Bills Receivable A/c is credited by Rs. 13,25,000 because the bill has gone out. The difference is Rs. 14,25,000 - Rs. 13,25,000 = Rs. 1,00,000. This is a gain for Balwan, as he has cleared a bigger debt with a smaller bill. So Discount Received A/c is credited.

**Step 3:** Look at the due date The bill falls due on 18 June 2024 (three months from 15 March plus three days of grace). Sumit pays the bill to Arpita, who is now its holder. Balwan receives nothing and pays nothing, so no entry is passed in his books.

**Step 4:** Write the journal entries

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| 2024 Mar 15 | Sumit A/c ... Dr.<br>To Sales A/c<br>(Goods sold to Sumit on credit) | | 13,25,000 | 13,25,000 |
| Mar 15 | Bills Receivable A/c ... Dr.<br>To Sumit A/c<br>(Bill accepted by Sumit for 3 months) | | 13,25,000 | 13,25,000 |
| Mar 25 | Arpita Sood A/c ... Dr.<br>To Bills Receivable A/c<br>To Discount Received A/c<br>(Bill endorsed to Arpita Sood in settlement of dues) | | 14,25,000 | 13,25,000<br>1,00,000 |
| On due date | No entry<br>(Bill already endorsed, so settlement is complete in Balwan's books) | | | |

**Step 5:** Conclusion Balwan passes three entries and no entry on the due date. Discount Received is Rs. 1,00,000.

**Quick Tip to Solve:** The bill is endorsed to a creditor. Debit the full debt cleared and credit the bill plus the difference.

**23(A). On 31 October, 2025 Cash Book of M/s Raghuwar Dayal and Sons showed positive balance of Rs 4,50,000. On comparing it with the Pass book, the following points came into consideration.**
**(a) Cheques issued but not yet presented for payment amounted to Rs 1,60,000.**
**(b) Cheques deposited in bank and cleared but omitted to be entered in Cash Book amounted to Rs 1,20,000.**
**(c) Interest allowed by Bank amounted to Rs 15,000.**
**Prepare Bank Reconciliation Statement.** [4 marks]

**Solution:**

**Concept:**

- A Bank Reconciliation Statement explains why the Cash Book balance and the Pass Book balance are different.
- We start with the Cash Book balance, Rs. 4,50,000, which is a positive (debit) balance, and adjust it to reach the Pass Book balance.

**Step 1:** Decide the treatment of item (a) Cheques issued but not yet presented have been entered in the Cash Book as payments, but the bank has not paid them yet. So the Pass Book balance is still higher than the Cash Book. To move from the Cash Book to the Pass Book we ADD Rs. 1,60,000.

**Step 2:** Decide the treatment of item (b) Cheques deposited and cleared, but not entered in the Cash Book, are already credited by the bank. So the Pass Book balance is higher by Rs. 1,20,000. We ADD Rs. 1,20,000.

**Step 3:** Decide the treatment of item (c) Interest allowed by the bank is credited in the Pass Book, but the firm has not entered it in the Cash Book. So the Pass Book balance is higher by Rs. 15,000. We ADD Rs. 15,000.

**Step 4:** Work out the Pass Book balance Rs. 4,50,000 + Rs. 1,60,000 + Rs. 1,20,000 + Rs. 15,000 = Rs. 7,45,000
Here is the statement.

**Step 5:** Bank Reconciliation Statement as on 31 October 2025

| Particulars | Plus (+) Amount (Rs.) | Minus (-) Amount (Rs.) |
|---|---|---|
| Balance as per Cash Book (positive) | 4,50,000 | |
| Add: Cheques issued but not yet presented for payment | 1,60,000 | |
| Add: Cheques deposited and cleared but omitted to be entered in Cash Book | 1,20,000 | |
| Add: Interest allowed by Bank not recorded in Cash Book | 15,000 | |
| Balance as per Pass Book | | 7,45,000 |

**Step 6:** Conclusion The balance as per the Pass Book is Rs. 7,45,000.

**Quick Tip to Solve:** Start with the Cash Book balance. Add the items that make the Pass Book balance higher.

OR

**23(B). Fill in the blanks with appropriate terms:**
**(I) Cheques deposited into the bank are recorded on the side of the bank column in the Cash Book.**
**(II) A Bank Reconciliation Statement is prepared to the bank balances shown in the Cash Book and the Pass Book.**
**(III) Cheques issued to parties are entered on the side of the bank column of the Cash Book.**
**(IV) The credit side of the Pass Book should match the column of the Cash Book, while the debit side of the Pass Book should match the column of the Cash Book when there are no differences.** [4 marks]

**Solution:**

**Step 1:** Blank (I): cheques deposited A cheque deposited into the bank brings money in. In the bank column of the Cash Book, receipts are recorded on the debit side. So the answer is debit.

**Step 2:** Blank (II): purpose of the statement The Cash Book and the Pass Book often show different balances for known reasons. A Bank Reconciliation Statement is prepared to reconcile, that is, to explain and match, the two balances. So the answer is reconcile.

**Step 3:** Blank (III): cheques issued A cheque issued to a party sends money out. Payments are recorded on the credit side of the bank column in the Cash Book. So the answer is credit.

**Step 4:** Blank (IV): matching the two books The Pass Book is the bank's copy of our account, so it is the mirror image of the Cash Book. When the bank credits our account for deposits, the Cash Book shows the same deposits on its debit side. So the credit side of the Pass Book matches the debit column of the Cash Book.
When the bank debits our account for withdrawals, the Cash Book shows the same payments on its

credit side. So the debit side of the Pass Book matches the credit column of the Cash Book. The answers are debit and credit.

**Step 5:** Conclusion The completed sentences use debit, reconcile, credit, and debit and credit.

**Quick Tip to Solve:** The Pass Book is the bank's mirror of the Cash Book, so debit and credit swap sides.

**24. On 25 November, 2024, Tomas issued a bill on a for Rs 1,30,000 and on the same date drew a bill for 4 months. The bill was accepted by Narender. Thomas discounted the bill from his bank @ 18% p.a. The bill was duly met on due date. Give necessary journal entries in the books of Drawer and Drawee.** [4 marks]

**Solution:**

**Step 1:** Know who is who Tomas drew the bill, so he is the drawer. Narender accepted it, so he is the drawee (acceptor). The bill is for Rs. 1,30,000 for 4 months from 25 November 2024. The due date is 25 March 2025, with three days of grace it is 28 March 2025.

**Step 2:** Work out the discount Tomas discounted the bill with his bank at 18 percent per year for 4 months.
Discount = 1,30,000 x 18/100 x 4/12 = Rs. 7,800
Amount received from the bank = Rs. 1,30,000 - Rs. 7,800 = Rs. 1,22,200.
The discount of Rs. 7,800 is a loss of the drawer, so it is debited to Discount A/c.

**Step 3:** Entries in the books of Tomas (drawer) On drawing and acceptance, Tomas gets a bill receivable and Narender's debt is replaced by the bill. So Bills Receivable A/c is debited and Narender's A/c is credited with Rs. 1,30,000.
On discounting, the bill goes to the bank and the bank pays Rs. 1,22,200. So Bank A/c is debited by Rs. 1,22,200, Discount A/c by Rs. 7,800, and Bills Receivable A/c is credited by Rs. 1,30,000.
On the due date the bank collects from Narender, so Tomas passes no entry.

**Step 4:** Entries in the books of Narender (drawee) On acceptance, Narender owes a bill instead of an open debt. So Tomas's A/c is debited and Bills Payable A/c is credited with Rs. 1,30,000.
On the due date he pays the full Rs. 1,30,000 to whoever holds the bill (the bank). So Bills Payable A/c is debited and Bank A/c is credited.

**Step 5:** Write the journal entries **Journal Entries in the Books of Tomas (Drawer)**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| 2024 Nov 25 | Bills Receivable A/c ... Dr.<br>To Narender A/c<br>(Bill drawn on Narender and duly accepted) | | 1,30,000 | 1,30,000 |
| Nov 25 | Bank A/c ... Dr.<br>Discount A/c ... Dr.<br>To Bills Receivable A/c<br>(Bill discounted with bank @ 18% p.a. for 4 months) | | 1,22,200<br>7,800 | 1,30,000 |
| On maturity | No entry<br>(Bill already discounted and met by Narender) | | | |

**Journal Entries in the Books of Narender (Drawee)**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| 2024 Nov 25 | Tomas A/c ... Dr.<br>To Bills Payable A/c<br>(Bill accepted for 4 months) | | 1,30,000 | 1,30,000 |
| On maturity | Bills Payable A/c ... Dr.<br>To Bank A/c<br>(Bill met on due date) | | 1,30,000 | 1,30,000 |

**Step 6:** Conclusion The discount is Rs. 7,800 and Tomas receives Rs. 1,22,200 from the bank.

**Quick Tip to Solve:** Find the discount for 4 months at 18% p.a. Then pass entries for the drawer and for the drawee.

**25. (I) Elaborate the difference between income statement and position statement.**
**(II) State the formula for 'Cost of Goods Sold'.** [4 marks]

**Solution:**

**Step 1:** Part (I): understand the two statements The income statement (Profit and Loss Account) tells us how the business performed over a period, such as a year. The position statement (Balance Sheet) tells us what the business owns and owes on one particular day.

**Step 2:** Part (I): write the differences

| **Basis** | **Income Statement** | **Position Statement (Balance Sheet)** |
|---|---|---|
| Meaning | Shows the revenues and expenses of a period and the resulting profit or loss | Shows the assets, liabilities and capital of the business |
| Time | Covers a period of time (a month, a quarter or a year) | Prepared as on a specific date, usually the last day of the year |
| Nature | Dynamic report, it measures performance | Static report, a snapshot of financial health |
| Items shown | Incomes and expenses (nominal accounts) | Assets, liabilities and capital (real and personal accounts) |
| Purpose | To find the net profit or net loss | To show the financial position of the business |

**Step 3:** Part (II): recall what cost of goods sold covers Cost of Goods Sold is the cost of the goods that were actually sold in the year. We start with the stock at the beginning, add the goods bought and the direct costs of getting them ready for sale, and then remove the stock that is still unsold at the end.

**Step 4:** Part (II): write the formula Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses - Closing Stock
Purchases here means net purchases, that is, purchases less purchase returns. Direct expenses are costs like wages and carriage inwards.

**Step 5:** Conclusion The income statement is a dynamic report for a period. The position statement is a static snapshot on a date.

**Quick Tip to Solve:** One shows performance over a period, the other shows position on a date. COGS removes closing stock from goods available.

**26. Jamshed Ji started business on 31st October, 2024 with Capital of Rs 41,50,000. During the year he undertook the following transactions:**
**Introduced additional capital on 31st December, 2024 of Rs 4,40,000.He withdrew Rs 2,10,000 per month for his household expenses.He spent Rs 1,30,000 from the business to buy mobile phone for his wife.If his Capital as on March 31st 2025, stands at Rs 44,70,000 as on March 31, 2025. You are required to calculate profit or loss made by him for the year ended March 31, 2025 by preparing Statement of Profit and Loss.** [4 marks]

**Solution:**

**Concept:**

- The books are not complete, so we find the profit from the change in capital.
- Profit = Closing Capital - Opening Capital + Drawings - Additional Capital introduced.
- We add drawings back because they reduced the capital, and we remove the extra capital because it did not come from profit.

**Step 1:** Find the drawings The business started on 31 October 2024, so the monthly withdrawals run for November, December, January, February and March. That is 5 months.
Monthly withdrawal for household = Rs. 2,10,000 x 5 months = Rs. 10,50,000.
The mobile phone for his wife was bought with business money for a personal use, so it is also drawings: Rs. 1,30,000.
Total Drawings = Rs. 10,50,000 + Rs. 1,30,000 = Rs. 11,80,000.

**Step 2:** Adjust the closing capital Closing capital = Rs. 44,70,000.
Add drawings: Rs. 44,70,000 + Rs. 11,80,000 = Rs. 56,50,000.
Less additional capital: Rs. 56,50,000 - Rs. 4,40,000 = Rs. 52,10,000. This is the adjusted closing capital.

**Step 3:** Subtract the opening capital Net profit = Rs. 52,10,000 - Rs. 41,50,000 = Rs. 10,60,000.

**Step 4:** Statement of Profit and Loss for the year ended 31 March 2025

| **Particulars** | **Amount (Rs.)** |
|---|---|
| Capital at the end of the year (31.03.2025) | 44,70,000 |
| Add: Drawings during the year | 11,80,000 |
| | 56,50,000 |
| Less: Additional Capital introduced (31.12.2024) | (4,40,000) |
| Adjusted Capital at the end of the year | 52,10,000 |
| Less: Capital at the beginning (31.10.2024) | (41,50,000) |
| Net Profit made during the year | 10,60,000 |

**Step 5:** Conclusion Jamshed Ji made a net profit of Rs. 10,60,000.

**Quick Tip to Solve:** Profit = closing capital + drawings - additional capital - opening capital. The phone is also drawings.

**27. CLOSE AI Ltd. purchased a computer and other peripherals worth Rs 39,50,000 on 1st July 2023 and spent Rs 2,20,000 on installation and Rs 1,30,000 on transportation. The same is to be depreciated @10%p.a. on written down value.**
**If the books are closed on 31st march every year:**
**(I) Pass necessary journal entries on the date of purchase and depreciation charged for the year ended March 31, 2024 and March 31, 2025.**
**(II) Also determine the books value of Machinery to be shown in the Balance Sheet as at March 31, 2025.** [6 marks]

**Solution:**

**Step 1:** Find the cost of the asset The cost of an asset includes the purchase price and every cost needed to bring it to its place and make it ready for use. So installation and transportation are added to the price.
Cost = Rs. 39,50,000 + Rs. 2,20,000 + Rs. 1,30,000 = Rs. 43,00,000.

**Step 2:** Depreciation for the first year The asset was bought on 1 July 2023 and the books close on 31 March 2024. So it was used for 9 months (July to March).
Depreciation = 43,00,000 x 10/100 x 9/12 = Rs. 3,22,500.
Book value on 31 March 2024 = Rs. 43,00,000 - Rs. 3,22,500 = Rs. 39,77,500.

**Step 3:** Depreciation for the second year In the Written Down Value method, the rate is applied on the book value at the start of the year, which is Rs. 39,77,500. The asset is used for the full year.
Depreciation = 39,77,500 x 10/100 = Rs. 3,97,750.
Book value on 31 March 2025 = Rs. 39,77,500 - Rs. 3,97,750 = Rs. 35,79,750.

**Step 4:** Part (I): journal entries The purchase is recorded at the full cost of Rs. 43,00,000 in the Machinery A/c, and the payment is taken as made through the bank. Depreciation is debited to Depreciation A/c and credited to the asset account, because the asset is shown at its written down value.

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| 2023 Jul 1 | Machinery A/c ... Dr.<br>To Bank A/c<br>(Computer and peripherals purchased including installation and transportation) | | 43,00,000 | 43,00,000 |
| 2024 Mar 31 | Depreciation A/c ... Dr.<br>To Machinery A/c<br>(Depreciation charged @10% p.a. on WDV for 9 months) | | 3,22,500 | 3,22,500 |
| 2025 Mar 31 | Depreciation A/c ... Dr.<br>To Machinery A/c<br>(Depreciation charged @10% p.a. on WDV for the year) | | 3,97,750 | 3,97,750 |

**Step 5:** Part (II): value shown in the Balance Sheet Book value of Machinery as on 31 March 2025 = Rs. 43,00,000 - Rs. 3,22,500 - Rs. 3,97,750 = Rs. 35,79,750.

**Step 6:** Conclusion The machinery is shown at Rs. 35,79,750 in the Balance Sheet on 31 March 2025.

**Quick Tip to Solve:** Add installation and transport to the cost. Charge 9 months in year 1 and then 10% on the reduced balance.

**28(I). Rohit runs a small bookstore and maintains a bank account with MDFC Bank, Jaipur Branch. While checking his records on 31 March 2025, he noticed that the balance shown in his Cash Book did not match the balance shown in the Pass Book.**
**To resolve the issue, Rohit consulted his friend Ankit, a Chartered Accountant. After examining the records, Ankit identified the following reasons for the difference and decided to prepare a statement to reconcile the balances:**
**a) A customer directly deposited Rs 12,000 into the bank account, but Rohit had not yet recorded it in the Cash Book.**
**b) The bank charged Rs 1,500 as bank charges during the month, which was not recorded in the Cash Book.**
**c) During the month, cheques amounting to Rs 25,000 were issued, out of which cheques worth Rs 15,000 were presented for payment.**
**d) Interest of Rs 3,000 was credited by the bank but was not entered in the Cash Book.**
**e) Cheques amounting to Rs 40,000 were deposited in the bank, out of which only Rs 32,000 were cleared by the bank.**
**Based on the above case, answer the following questions:**
**If the Pass Book balance is taken as the starting point, how will item (a) be treated?** [1 mark]

**Solution:**

**Concept:**

- A customer deposited Rs. 12,000 directly into the bank account.
- The bank received the money and credited it.
- Rohit did not know about it, so he did not enter it in his Cash Book.

**Step 1:** Check which book already has the item The Pass Book is the bank's record. It already shows the deposit of Rs. 12,000. So the Pass Book balance already includes this amount.

**Step 2:** Decide the treatment when we start from the Pass Book In a Bank Reconciliation Statement we adjust the starting balance only for items that are missing from it. Item (a) is not missing from the Pass Book, it is missing from the Cash Book. So no adjustment is made to the Pass Book balance for item (a).
If we had started from the Cash Book, we would ADD Rs. 12,000, because the Cash Book is the book that does not have it.

**Step 3:** Why adding or subtracting it from the Pass Book balance would be wrong Adding or subtracting Rs. 12,000 on the Pass Book balance would count the deposit twice or remove it from a balance that rightly contains it. The reconciliation would then not agree with the Cash Book.

**Step 4:** Conclusion Item (a) needs no adjustment when we start from the Pass Book balance, as it is already included there.

**Quick Tip to Solve:** Is the deposit already in the Pass Book? If yes, the Pass Book balance needs no change for it.

**28(II). If the Cash Book balance is taken as the starting point, how will item (b) be treated?** [1 mark]

**Solution:**

**Concept:**

- The bank charged Rs. 1,500 and deducted it from Rohit's account.
- The Pass Book shows the deduction.
- Rohit has not entered it in the Cash Book, so the Cash Book balance is Rs. 1,500 too high.

**Step 1:** Decide the treatment when we start from the Cash Book We start from the Cash Book balance, so we must adjust it for the items that the Cash Book does not have. Bank charges reduce the money in the bank, so they are deducted.

**Step 2:** Write the adjustment Corrected Cash Book balance = Cash Book balance - Rs. 1,500.
So item (b) is SUBTRACTED from the Cash Book balance.

**Step 3:** Conclusion Bank charges of Rs. 1,500 are subtracted from the Cash Book balance.

**Quick Tip to Solve:** A charge that only the bank has recorded reduces the money in the bank.

**28(III). If the Pass Book balance is taken as the starting point, how will item (c) be treated?** [1 mark]

**Solution:**

**Step 1:** Find the cheques not yet presented Cheques of Rs. 25,000 were issued, and only Rs. 15,000 were presented to the bank. Cheques not yet presented = Rs. 25,000 - Rs. 15,000 = Rs. 10,000.

**Step 2:** Understand the effect on each book Rohit has entered all the cheques issued, Rs. 25,000, on the credit side of his Cash Book. The bank has paid only Rs. 15,000. So the Pass Book still holds Rs. 10,000 that Rohit has already treated as paid out.

**Step 3:** Decide the treatment when we start from the Pass Book The Pass Book balance is higher than the Cash Book balance by Rs. 10,000 because of these cheques. To reach the Cash Book balance, we must subtract Rs. 10,000 from the Pass Book balance.

**Step 4:** Conclusion The unpresented cheques of Rs. 10,000 are subtracted from the Pass Book balance.

**Quick Tip to Solve:** Only cheques not yet presented matter: 25,000 - 15,000. The bank has not deducted them yet.

**28(IV). If the Cash Book balance is taken as the starting point, how will item (d) be treated?** [1 mark]

**Solution:**

**Concept:**

- The bank credited interest of Rs. 3,000 to Rohit's account.
- It is a gain for Rohit, and the Pass Book shows it.
- Rohit did not enter it, so his Cash Book balance is Rs. 3,000 too low.

**Step 1:** Decide the treatment when we start from the Cash Book We start from the Cash Book, so we adjust it for items the Cash Book misses. Interest is money added to the bank account, so it is added.

**Step 2:** Write the adjustment Corrected Cash Book balance = Cash Book balance + Rs. 3,000.
So item (d) is ADDED to the Cash Book balance.

**Step 3:** Conclusion The interest of Rs. 3,000 is added to the Cash Book balance.

**Quick Tip to Solve:** Interest credited by the bank increases the money in the bank account.

**28(Name).** **Name the statement that Ankit should prepare to reconcile the difference between the Cash Book and Pass Book balances.** [1 mark]

**Solution:**

**Step 1:** Find the problem in the case Rohit's Cash Book shows one bank balance and the Pass Book (the bank's statement) shows another. The two should match, but they do not.

**Step 2:** Recall the tool for this problem When the bank column of the Cash Book and the Pass Book show different balances, an accountant prepares a statement that lists every reason for the difference. This statement starts with one balance and ends with the other, so that the two can be agreed.

**Step 3:** Name it This statement is called the Bank Reconciliation Statement. Items (a) to (e) in the case are exactly the kind of items that appear in it: direct deposits, bank charges, cheques not yet presented, interest and cheques not yet cleared.

**Step 4:** Conclusion Ankit should prepare a Bank Reconciliation Statement.

**Quick Tip to Solve:** Which statement lists the reasons why the Cash Book and the Pass Book balances differ?

**28(V).** **If the Pass Book balance is taken as the starting point, how will item (e) be treated?** [1 mark]

**Solution:**

**Step 1:** Find the cheques not yet cleared Cheques of Rs. 40,000 were deposited, and only Rs. 32,000 were cleared by the bank. Cheques not yet cleared = Rs. 40,000 - Rs. 32,000 = Rs. 8,000.

**Step 2:** Understand the effect on each book Rohit has entered the full Rs. 40,000 as receipts in his Cash Book. The bank has credited only Rs. 32,000. So the Pass Book balance is lower than the Cash Book balance by Rs. 8,000.

**Step 3:** Decide the treatment when we start from the Pass Book To reach the Cash Book balance from the Pass Book balance, we must add the Rs. 8,000 that the bank has not credited yet.

**Step 4:** Conclusion The uncleared cheques of Rs. 8,000 are added to the Pass Book balance.

**Quick Tip to Solve:** Only cheques not yet cleared matter: 40,000 - 32,000. The bank has not credited them yet.

**29(a).** **The following statement of financial position relates to Mr. Arvind, who maintains his books under the incomplete records system, as on 31 March 2024 and 31 March 2025.**

| Particulars | 31 March 2024 (Amount in Rs ) | 31 March 2025 (Amount in Rs ) |
|---|---|---|
| Cash | 25,000 | 40,000 |
| Bank | 12,000 | 18,000 |
| Debtors | 45,000 | 32,000 |
| Creditors | 18,000 | 24,000 |
| Furniture | 70,000 | 90,000 |
| Bills Receivable | 8,000 | 10,000 |
| Bills Payable | 6,000 | 5,000 |

**During the year 2024-25, he introduced additional capital of Rs 60,000 into the business and withdrew Rs 6,000 per month for personal expenses.**
**Required:**
**Calculate the profit or loss made by him for the year ending 31 March 2025.** [6 marks]

**Solution:**

**Concept:**

- Mr. Arvind does not keep full books, so we find his profit from the change in his capital.
- Capital = Assets - Liabilities. We prepare a Statement of Affairs for each date to find the opening and closing capital.

**Step 1:** Opening capital on 31 March 2024 Assets = 25,000 + 12,000 + 45,000 + 70,000 + 8,000 = Rs. 1,60,000.
Liabilities = 18,000 + 6,000 = Rs. 24,000.
Capital = Rs. 1,60,000 - Rs. 24,000 = Rs. 1,36,000.

| **Liabilities** | **Rs.** | **Assets** | **Rs.** |
|---|---|---|---|
| Creditors | 18,000 | Cash | 25,000 |
| Bills Payable | 6,000 | Bank | 12,000 |
| Capital (balancing figure) | 1,36,000 | Debtors | 45,000 |
| | | Furniture | 70,000 |
| | | Bills Receivable | 8,000 |
| | 1,60,000 | | 1,60,000 |

**Step 2:** Closing capital on 31 March 2025 Assets = 40,000 + 18,000 + 32,000 + 90,000 + 10,000 = Rs. 1,90,000.
Liabilities = 24,000 + 5,000 = Rs. 29,000.
Capital = Rs. 1,90,000 - Rs. 29,000 = Rs. 1,61,000.

| **Liabilities** | **Rs.** | **Assets** | **Rs.** |
|---|---|---|---|
| Creditors | 24,000 | Cash | 40,000 |
| Bills Payable | 5,000 | Bank | 18,000 |
| Capital (balancing figure) | 1,61,000 | Debtors | 32,000 |
| | | Furniture | 90,000 |
| | | Bills Receivable | 10,000 |
| | 1,90,000 | | 1,90,000 |

**Step 3:** Find the drawings He withdrew Rs. 6,000 every month for 12 months.
Drawings = Rs. 6,000 x 12 = Rs. 72,000.

**Step 4:** Find the profit Closing Capital = Opening Capital + Capital introduced - Drawings + Profit
Rs. 1,61,000 = Rs. 1,36,000 + Rs. 60,000 - Rs. 72,000 + Profit
Rs. 1,61,000 = Rs. 1,24,000 + Profit
Profit = Rs. 1,61,000 - Rs. 1,24,000 = Rs. 37,000.

**Step 5:** Conclusion Mr. Arvind made a profit of Rs. 37,000 in 2024-25.

**Quick Tip to Solve:** Find capital on both dates (assets minus liabilities). Add back drawings, deduct the capital introduced.

OR

**29(b). (I) Explain the meaning of Accounts from Incomplete Records.**
**(II) Distinguish between a Balance Sheet and a Statement of Affairs.** [6 marks]

**Solution:**

**Step 1:** Part (I): meaning Accounts from Incomplete Records is also called the Single Entry System. In this method the business does not record both aspects of each transaction as the double entry system requires. Only some records are kept, mostly personal accounts such as debtors and creditors, and cash and bank. Many real and nominal accounts are missing.
Small traders and sole proprietors use it because it is simple and cheap. But since the two aspects of a transaction are not recorded, it is not scientific and not fully reliable. The true profit or financial position can only be found by rebuilding the accounts, for example with a Statement of Affairs.

**Step 2:** Part (II): meaning of the two statements A Balance Sheet is a formal statement prepared under the double entry system. It shows assets, liabilities and capital on a particular date, based on ledger accounts and the trial balance.
A Statement of Affairs is prepared under the single entry system. It shows assets, liabilities and the estimated capital on a particular date, and it is used to find capital or profit and loss when records are incomplete.

**Step 3:** Part (II): write the differences

| Basis | Balance Sheet | Statement of Affairs |
|---|---|---|
| System | Prepared under the double entry system | Prepared under the single entry (incomplete records) system |
| Basis of preparation | Ledger balances and trial balance | Available records, memory and estimates |
| Capital | Shown from the capital account, adjusted for profit and drawings | Found as the balancing figure (assets - liabilities) |
| Accuracy | Accurate, the two sides agree on their own | Estimates are used, so it may not be fully accurate |
| Purpose | To show the true financial position | To find capital, and through it profit or loss |

**Step 4:** Conclusion These are the meaning and the differences asked in the question.

**Quick Tip to Solve:** Incomplete records are the single entry system. Compare the two statements on system, capital, accuracy and purpose.

**30. The following is the Trial Balance of Mr. Karan Mehta, a businessman based in Mumbai, for the year ending 31 March 2025.**

| Name of Account | Debit Balance (Amount in Rs ) | Credit Balance (Amount in Rs ) |
|---|---|---|
| Furniture and Equipment | 4,00,000 | |
| Plant and Machinery | 3,00,000 | |
| Goodwill | 65,000 | |
| Opening Stock (1 April 2024) | 60,000 | |
| Debtors / Creditors | 85,000 | 55,000 |
| Purchases / Sales | 2,50,000 | 4,50,000 |
| Returns | 25,000 | 15,000 |
| Rent | 70,000 | |
| Commission Received | | 60,000 |
| Wages | 40,000 | |
| Discount | 12,000 | 25,000 |
| Capital | | 8,52,000 |
| Cash in Hand | 90,000 | |
| Bank Balance | 1,00,000 | |
| Bank Loan | | 80,000 |
| Drawings | 40,000 | |
| Total | 15,37,000 | 15,37,000 |

**The closing stock on 31 March 2025 was valued at Rs 75,000.**
**Required:**
**Prepare the following accounts:**
**(I) Trading Account**
**(II) Profit and Loss Account for the year ended 31 March 2025**
**(III) Balance Sheet as on that date.** [6 marks]

**Solution:**

**Concept:**

- Some lines hold two balances.
- Purchases Rs. 2,50,000 (debit) and Sales Rs. 4,50,000 (credit).
- Returns: the debit of Rs. 25,000 is Sales Returns and the credit of Rs. 15,000 is Purchases Returns.
- Discount: the debit of Rs. 12,000 is Discount Allowed (a loss) and the credit of Rs. 25,000 is Discount Received (a gain).
- Debtors Rs. 85,000 are an asset, and Creditors Rs. 55,000 are a liability.

**Step 1:** Part (I): Trading Account Net purchases = Rs. 2,50,000 - Rs. 15,000 = Rs. 2,35,000.
Net sales = Rs. 4,50,000 - Rs. 25,000 = Rs. 4,25,000.
Debit side total = 60,000 + 2,35,000 + 40,000 = Rs. 3,35,000.
Credit side total = 4,25,000 + 75,000 = Rs. 5,00,000.
Gross Profit = Rs. 5,00,000 - Rs. 3,35,000 = Rs. 1,65,000.
**Trading Account for the year ended 31 March 2025**

| Particulars | Amount (Rs.) | Particulars | Amount (Rs.) |
|---|---|---|---|
| To Opening Stock | 60,000 | By Sales 4,50,000<br>Less: Sales Returns (25,000) | 4,25,000 |
| To Purchases 2,50,000<br>Less: Purchases Returns (15,000) | 2,35,000 | By Closing Stock | 75,000 |
| To Wages | 40,000 | | |
| To Gross Profit c/d | 1,65,000 | | |
| | 5,00,000 | | 5,00,000 |

**Step 2:** Part (II): Profit and Loss Account Start with the gross profit of Rs. 1,65,000 on the credit side. Add the incomes: commission received Rs. 60,000 and discount received Rs. 25,000. Deduct the expenses: rent Rs. 70,000 and discount allowed Rs. 12,000.
Net Profit = 1,65,000 + 60,000 + 25,000 - 70,000 - 12,000 = Rs. 1,68,000.
**Profit and Loss Account for the year ended 31 March 2025**

| Particulars | Amount (Rs.) | Particulars | Amount (Rs.) |
|---|---|---|---|
| To Rent | 70,000 | By Gross Profit b/d | 1,65,000 |
| To Discount Allowed | 12,000 | By Commission Received | 60,000 |
| To Net Profit transferred to Capital A/c | 1,68,000 | By Discount Received | 25,000 |
| | 2,50,000 | | 2,50,000 |

**Step 3:** Part (III): Balance Sheet Capital = Opening capital + Net profit - Drawings = 8,52,000 + 1,68,000 - 40,000 = Rs. 9,80,000.
Closing stock of Rs. 75,000 is shown as a current asset. Goodwill, furniture, plant, debtors, cash and bank are shown at their trial balance values.
Liabilities = 9,80,000 + 55,000 + 80,000 = Rs. 11,15,000.
Assets = 4,00,000 + 3,00,000 + 65,000 + 85,000 + 90,000 + 1,00,000 + 75,000 = Rs. 11,15,000.
Both sides are equal.
**Balance Sheet of Mr. Karan Mehta as on 31 March 2025**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Capital 8,52,000<br>Add: Net Profit 1,68,000<br>Less: Drawings (40,000) | 9,80,000 | Furniture and Equipment | 4,00,000 |
| Creditors | 55,000 | Plant and Machinery | 3,00,000 |
| Bank Loan | 80,000 | Goodwill | 65,000 |
| | | Debtors | 85,000 |
| | | Cash in Hand | 90,000 |
| | | Bank Balance | 1,00,000 |
| | | Closing Stock | 75,000 |
| | 11,15,000 | | 11,15,000 |

**Step 4:** Conclusion Gross profit is Rs. 1,65,000, net profit is Rs. 1,68,000, and the Balance Sheet totals Rs. 11,15,000.

**Quick Tip to Solve:** Net out the returns first. Closing stock goes to the credit of Trading A/c and to the assets in the Balance Sheet.