CMA INTERMEDIATE

VIVITSU

REVIEWER™

GROUP – I

FINANCIAL ACCOUNTING

6

APPLICABLE FOR JUNE '26 & DECEMBER '26

CHAPTER-WISE COMPILATION OF PYP + MQP + WORKBOOK + SM + MCQ BANK

- REFERENCE TO ALL QUESTIONS
- LAST DAY REVISION QUESTIONS MARKED
- ABC ANALYSIS
- QUICK RECAP OF IMPORTANT CONCEPTS

REVIEWER™

FINANCIAL ACCOUNTING

CMA Intermediate

1st Edition

Publisher:

VIVITSU
STRIVING TOWARDS KNOWLEDGE

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Reviewer™

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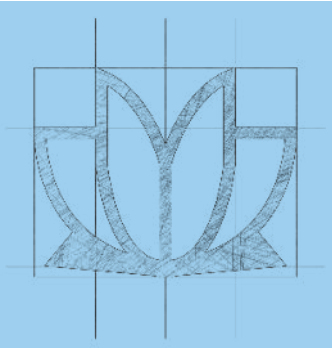
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To the one who's not just dreaming CMA —
but becoming it

CMA

Write your name here



What Matters in CMA?

1 CONCEPTUAL CLARITY

Accounting is not just about ***preparing statements*** — it's about interpreting what the numbers actually mean. Strong understanding of financial concepts helps you make better decisions and spot errors easily
Use this reviewer ***after each topic*** to test clarity of concepts. Focus on understanding the logic, not just memorising the format.

2 CONSISTENCY

Consistency is the key in accounting. Practising just ***2–3 questions daily*** can improve your speed, accuracy, and retention.

This ***chapter-wise book*** encourages regular revision and helps you stay prepared without waiting for the entire syllabus to finish.

3 CONFIDENCE

This book offers ***ICMAI-style questions*** with focused solving practice to help you approach problems correctly and score accurately.

Use the ***LDR questions*** for a final boost before the exam — you'll walk into the hall knowing you've got this.

Make the most of every resource to stay ahead.

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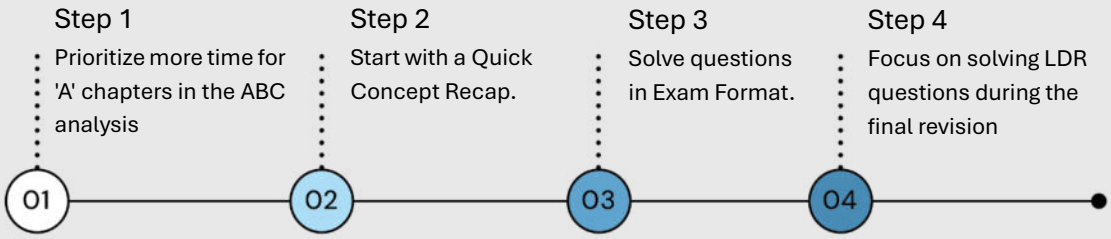
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Your journey from a CMA student to a professional, starts here. Scan to connect with us on LinkedIn for industry insights, career guidance, and expert articles.

Don't just study—study smart. Watch renowned professors solve the Vivitsu Reviewer with you on YouTube, breaking down every concept, question, and answer for better understanding and stronger retention.

STRATEGY TO SCORE

60+ in FINANCIAL ACCOUNTING



Step 1: Prioritize your chapters

Topics in the index are categorized as A, B, or C based on their importance. Focus more on 'A' chapters, as they carry the most weight, and give adequate attention to 'B' chapters. While all chapters must be covered, this approach helps manage time efficiently for better results.

Step 2: Start with a Quick Concept Recap

Use this powerful summary for a quick brush-up on key concepts before you attempt the chapter. This helps you identify and understand the core principles. If a question gives you trouble, return to this section / main study material to solidify the concept, then come back and solve it again.

Step 3: Practice in Exam Format

Always solve the question on your own before looking at the answer. If you get confused in MCQs and options or make a conceptual mistake, be sure to mark it to review during your next revision.

Step 4: Last Day Revision (LDR)

Focus on solving LDR questions during the final revision. On the day before your exam, prioritize these questions as they cover the most critical concepts from each chapter. You'll find a quick summary of LDR question numbers listed right before each chapter for easy reference.

Topic-wise Break up

Accounting Principles, Concepts and Conventions

Question 3 (MQP [1] 5 Marks Dec'24, PYP 5 Marks Dec'17)

Includes 100% coverage of Work Book+ SM + MCQ Bank + MQP + PYP

LDR Questions	Q 7, Q 20, Q 24, Q 31, Q 41, Q 43, Q 55 MCQ – 3, 18, 29, 45, 54, 61, 72

QUICK REVISION OF IMPORTANT CONCEPTS

FOUR FRAMEWORKS OF ACCOUNTING

Meaning: Framework = set of [illegible] for recognition, measurement, presentation & disclosure in financial statements.

Four Pillars of Accounting Framework:

1. Conceptual Framework: Objectives & fundamentals of financial reporting; guides recognition, measurement and qualitative features.
2. Legal Framework: Laws governing entities (Companies Act, Banking Regulation Act, etc.) and accounting requirements.
3. Institutional Framework: Standards issued by bodies like ICAI, Ind AS, Cost Accounting Standards for consist[illegible]
4. Regulat[illegible]

Purpose: Pro[illegible]

ACCOUNTING

GAAP (Gener[illegible]

- Common[illegible]
- Ensure c[illegible]
- In India:[illegible]

Accounting Principles:

- Basic rules guiding recording & reporting.
- Must be objective, reliable, factual and understandable.
- Divided into: (A) Concepts and (B) Conventions.

Accounting Concepts (Basic Assumptions)

- Entity – Business separate from owner.
- Going Concern – Business continues indefinitely.
- Periodicity – Life divided into accounting periods.
- Money Measurement – Record only monetary transactions.
- Accrual – Record income & expenses when earned/incurred.
- Dual Aspect – Every transaction has two effects (Assets = Liabilities + Capital).
- Matching – Match revenue with related expenses.
- Realisation – Recognize revenue when realized.
- Cost – Record assets at historical cost.

Accounting Conventions (Practical Guidelines)

- Conservatism – Provide for losses, not anticipated gains.
- Consistency – Follow same methods over time.
- Materiality – Record significant information only.
- Full Disclosure – Disclose all material facts.

CAPITAL AND REVENUE TRANSACTIONS

Capital Expenditure

- Benefit > one accounting period; non-recurring.
- Shown in Balance Sheet; depreciated over time.
- For acquiring/improving fixed assets or earning capacity.
- Ex: Purchase of machinery, building, installation cost.

Last Day Revision Questions

Last Day Revision Questions mentioned right at the beginning of each chapter
Easy to find 1 day before the exam

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4.4	Treatment of Joint Life Policy	–	–	–	–	–	–	–	4.4.1 – 4.4.13	C
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4.6	Amalgamation of Partnership Firms	–	–	–	–	–	–	–	4.6.1 – 4.6.11	C

Prioritize using ABC Analysis

Each chapter is categorized as A , B or C

A : Very Important, Read on priority

B : Moderately Important

C : Less Critical but still essential

CHAPTER 6.2 : DEPARTMENTAL ACCOUNTS

C

LDR Questions | Q 8, Q 9 MCQ - 3

QUICK REVIEW OF IMPORTANT CONCEPTS

MEANING OF DEPARTMENTAL ACCOUNTS

- Large organisations divide activities into departments to measure performance separately.
- Separate Trading A/c → P&L A/c prepared for each department.
- Common expenses/incomes are apportioned on logical basis.
- Inter-department transfers treated as sales for one & purchases for another.
- If transfer at profit and stock remains unsold → Provision for Unrealised Profit required.

1) Departmental Trading Account

Dr.	Dept A	Dept B	Cr.	Dept A	Dept B
To Opening Stock	xx	xx	By Sales	xx	xx
To Purchases	xx	xx	By Transfer (to other dept)	xx	xx
To Wages	xx	xx	By Closing Stock	xx	xx
To Direct Expenses	xx	xx			
To Gross Profit c/d	xx	xx			

2) Departmental Profit & Loss Account

Dr.	Dept A	Dept B	Cr.	Dept A	Dept B
To Rent	xx	xx	By Gross Profit b/d	xx	xx
To Salaries	xx	xx	By Interest Received	xx	xx
To Depreciation	xx	xx			
To Other Indirect Expenses	xx	xx			
To Net Profit → General P&L	xx	xx			

3) General Profit & Loss Account

Dr.	Amount	Cr.	Amount
To General Expenses	xx	By Gross Profit b/d	xx
To Financial Expenses	xx	By Net Profit (Dept A)	xx
To Provision for Unrealised Profit	xx	By Net Profit (Dept B)	xx
To Net Profit → Capital	xx		

4) Transferor Department A/c

Dr.	Amount	Cr.	Amount
To Transferee Dept (returns)	xx	By Transferee Dept (goods transferred)	xx

5) Transferee Department A/c

Dr.	Amount	Cr.	Amount
To Transferor Dept (goods received)	xx	By Transferor Dept (returns)	xx

6) Provision for Unrealised Profit A/c

Dr.	Amount	Cr.	Amount
To General P&L (opening reversal)	xx	By General P&L (creation on closing stock)	xx

7) Working Note — Provision for Unrealised Profit

Particulars	Amount
Closing stock from transferor dept	xx
× GP rate	xx
Provision for Unrealised Profit	xx

Quick Review of Important Concepts

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4	**Partnership Accounting**	18	18	22	20	22	22	20.33		
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4.2	Retirement of Partner	-	-	-	-	-	-	-	4.2.1 – 4.2.20	B
4.3	Death of Partner	-	-	-	-	-	-	-	4.3.1 – 4.3.7	C
4.4	Treatment of Joint Life Policy	-	-	-	-	-	-	-	4.4.1 – 4.4.3	C
4.5	Dissolution of Partnership Firms including Piecemeal Distribution	-	-	-	-	-	-	-	4.5.1 – 4.5.25	A
4.6	Amalgamation of Partnership Firms	-	-	-	-	-	-	-	4.6.1 – 4.6.11	C

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ABC Analysis

A Very Important, Read on priority

B Moderately Important

C Less critical but still essential

Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.

WHAT DOES REVIEWER INCLUDE?

This Reviewer offers 100% coverage, including all questions from:

- **SM: ICMAI Study Material Questions**
- **WB: ICMAI Work Book Questions**
- **MCQ Bank**
- **PYP: Past Year Papers**
- **MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)**

CHAPTER 1: ACCOUNTING FUNDAMENTALS

A

LDR Questions	Q 7, Q 20, Q 24, Q 31, Q 41, Q 43, Q 55 MCQ – 3, 18, 29, 45, 54, 61, 72

QUICK REVIEW OF IMPORTANT CONCEPTS

FOUR FRAMEWORKS OF ACCOUNTING

Meaning: Framework = set of rules/guidelines for recognition, measurement, presentation & disclosure in financial statements.

Four Pillars of Accounting Framework:

1. Conceptual Framework: Objectives & fundamentals of financial reporting; guides recognition, measurement and qualitative features.
2. Legal Framework: Laws governing entities (Companies Act, Banking Regulation Act, etc.) and accounting requirements.
3. Institutional Framework: Standards issued by bodies like ICAI, Ind AS, Cost Accounting Standards for consistency.
4. Regulatory Framework: Rules by regulators (RBI, SEBI, IRDAI, etc.) affecting accounting & reporting.

Purpose: Provides base for corporate accounting, ensures uniformity, reliability and better financial reporting.

ACCOUNTING PRINCIPLES, CONCEPTS AND CONVENTIONS

GAAP (Generally Accepted Accounting Principles):

- Common set of rules, standards & procedures for recording and reporting financial transactions.
- Ensure uniformity, consistency and comparability of financial statements.
- In India: Based on ICAI standards + applicable laws (e.g., Companies Act, 2013).

Accounting Principles:

- Basic rules guiding recording & reporting.
- Must be objective, reliable, feasible and understandable.
- Divided into: (A) Concepts and (B) Conventions.

Accounting Concepts (Basic Assumptions)

- Entity – Business separate from owner.
- Going Concern – Business continues indefinitely.
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Accounting Conventions (Practical Guidelines)

- Conservatism – Provide for losses, not anticipated gains.
- Consistency – Follow same methods over time.
- Materiality – Record significant information only.
- Full Disclosure – Disclose all material facts.

CAPITAL AND REVENUE TRANSACTIONS

Capital Expenditure

- Benefit > one accounting period; non-recurring.
- Shown in Balance Sheet; depreciated over time.
- For acquiring/improving fixed assets or earning capacity.
- Ex: Purchase of machinery, building, installation cost.

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Revenue Expenditure

- Benefit for current period; recurring.
- Charged to Income Statement.
- For day-to-day operations.
- Ex: Salaries, rent, repairs, depreciation.

Deferred Revenue Expenditure -Heavy expense with future benefit; partly written off over time (now mostly treated as revenue as per AS-26).

Capital vs Revenue Receipts

- Capital receipts: Non-operating, non-recurring; shown in Balance Sheet (e.g., issue of shares).
- Revenue receipts: From regular operations; credited to Income Statement (e.g., sales).

Capital vs Revenue Profit/Loss

- Capital profit/loss: From non-operating activities; usually transferred to capital reserve.
- Revenue profit/loss: From normal business operations; shown in Income Statement.

ACCOUNTING CYCLE, ANALYSIS OF TRANSACTIONS ETC

Accounting Cycle: - Process of identifying, recording, classifying and reporting transactions in financial statements.

Steps:

1. Identify transactions
2. Journalise (Books of original entry)
3. Post to ledger
4. Trial balance
5. Adjustment entries
6. Adjusted trial balance
7. Prepare financial statements
8. Close books

Transactions: - Events with monetary impact causing change in assets, liabilities, capital, income or expenses.

Chart of Accounts: - List of all ledger accounts with codes; helps classification and easy reporting.

Accounting Equation:

- Assets = Liabilities + Equity
- Foundation of double-entry system.

Double Entry System:

- Every transaction has two aspects (Debit & Credit).
- Total debits = total credits.
- Journal → Ledger → Trial Balance → Financial Statements.

Books of Original Entry:- Journals/subsidiary books where transactions are first recorded chronologically.

Finalisation:

- Nominal accounts → Income Statement.
- Real & personal accounts → Balance Sheet (financial position).

JOURNAL & LEDGER

Journal (Book of Original Entry)

- First record of transactions in chronological order.
- Process = *Journalising*; entry = *Journal Entry* with narration.
- Based on source documents (invoice, debit/credit note, etc.).
- Types:
  - Special Journals (Cash Book, Purchase Book, Sales Book, Returns, Bills Receivable/Payable).
  - General Journal (Journal Proper) – for adjustments, rectifications, asset purchase/sale, opening & closing entries.

Rules of Journalising (Golden Rules):

- Personal A/c → Debit receiver, Credit giver
- Real A/c → Debit what comes in, Credit what goes out
- Nominal A/c → Debit expenses/losses, Credit incomes/gains

(Or Accounting Equation approach)

Functions: Chronological record, analysis of debit/credit, legal evidence.

6. Provision for Discount on Creditors

Expected discount received from creditors; treated as anticipated gain.

- Provision for Discount on Creditors A/c Dr → P&L A/c
  Shown as deduction from creditors in Balance Sheet.(Generally avoided due to prudence concept.)

Questions & Answers

1.1 Four Frameworks of Accounting

Question 1 **(PYP 3 Marks June'23)**

The conceptual framework is a body of interrelated objectives and fundamentals. Explain.

Answer 1

Conceptual framework:

The conceptual framework is a body of Interrelated objectives and fundamentals. The objectives identify the goals and purposes of financial Reporting and the fundamentals are the underlying concepts that help achieve those objectives. Those concepts provide guidance in selecting transactions, events and circumstances to be accounted for, how they should be recognized and measured, and how they should be summarized and reported. It states the objectives of general purpose financial Reporting and the information provided by it. Conceptual framework also guides on the qualitative characteristics that the financial statements must possess. Conceptual framework also plays an important role in the development of institutional framework and assists preparers to develop consistent accounting policies when no accounting standard applies to a particular transaction or other event, or when a standard allows a choice of accounting policy.

1.2 Accounting Principles, Concepts and Conventions

Question 2 **(PYP 5 Marks Dec'23)**

Explain the following accounting conventions:

(i) Full Disclosure (ii) Consistency (iii) Materiality (iv) Conservatism

Answer 2

(i) According to the Convention of Full Disclosure, all significant information relating to the economic affairs of the entity should be reported in the financial statements in an understandable manner.

(ii) According to the Convention of Consistency, accounting practices once selected and adopted should be consistently applied year after year.

(iii) According to the Convention of Materiality, a transaction should be reported in the financial statements on the basis of its materiality. An item is material if it can influence the decision of the user.

(iv) According to the Convention of Conservatism, anticipated losses should be accounted for while anticipated incomes should not be accounted.

Question 3 **(MQP [1] 5 Marks Dec'24, PYP 5 Marks Dec'17)**

Which factors are governing the selection the application of accounting policies.

Or

Methods/Criteria to the selection and application of Accounting policies.

Answer 3

The primary consideration in the selection of accounting policies by an enterprise is that the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended on that date. The major considerations governing the selection and application of accounting policies are:

a. Prudence In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

b. Substance over Form The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.
c. Materiality Financial statements should disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

1.3 Capital and Revenue Transactions

Question 4 (WB)

State with reasons the nature of expenditure or receipts in each of the following cases:

(a) Freight on new machine ₹ 8,000 and its installation cost ₹ 4,000.
(b) Old Furniture sold for ₹ 1400 (Cost ₹ 8,000 but written down value ₹ 1,800)
(c) ₹ 8,000 spent to double the production capacity of a machine.
(d) Compensation paid to a retrenched employee ₹ 4,000
(e) ₹ 2,00,000, spent for increasing the sitting capacity of a cinema hall and ₹ 10,000 paid for painting it.

Answer 4

(a) Both ₹ 8,000 and ₹ 4,000 are capital expenditure because these are incidental to the acquisition and starting of operation of the machine, the earning capacity of the business will increase.
(b) The cost price need not be considered, the loss on sale ₹ 400 (₹ 1800 - ₹ 1400) is a revenue loss to be debited to the Profit/Loss Account. The sale price received ₹ 1400 is a capital receipt.
(c) It is a capital expenditure as it has resulted into a permanent improvement of the working potential of the machine.
(d) It is a revenue expenditure as it has been paid in lieu of salary for the period of notice before retrenchment. But its nature is special, it is not a regular expense. So it should be treated us a deferred revenue expenditure to be charged against profits of more than one year.
(e) Increase of sitting capacity is a permanent improvement of the cinema hall.it will help to increase the earning capacity. So, it is a capital expenditure. Cost of painting is a normal and regular expense. It is a revenue expense.

Question 5 (WB)

State with reasons the nature of expenditure or receipts in each of the following cases:

(a) Employees State Insurance Premium ₹ 1600
(b) Expenses incurred in connection with obtaining licence, for starting the factory ₹ 20,000.
(c) Rings and Pistons of an Engine changed at a cost of ₹ 10,000 to get full efficiency.
(d) A factory shed was constructed at a cost of ₹ 4,00,000. ₹ 20,000 had been incurred to construct temporary huts for storing building materials.
(e) A firm of builders spent ₹ 8,00,000 for purchasing a plot of land erected its own office over 1/4th of the site. The remaining area was developed for sale to the public.

Answer 5

(a) It is a regular or recurring payment – a periodical cost.it is a revenue expense.
(b) It is a capital expenditure. It will create a right to carry on the business over a number of years.
(c) The change of ring and pistons will not enhance the capacity of the engine. It will restore the lost efficiency as no additional benefit will be enjoyed, the cost related to the change is a revenue expense.
(d) Both ₹ 4,00,000 and ₹ 20,000 should be treated as capital expenditure. The first is paid to acquire an asset and the second is incidental to the acquisition.

¼ the of cost of land or ₹ 2,00,000 is a capital expenditure.it helps to acquire office premises, a fixed asset. The rest ₹ 6,00,000 is a revenue expenditure as the trading activities of the builders, firm include buying and selling of lands.

Question 6 (PYP 7 Marks Dec'24)

State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

(i) Expenses incurred in connection with obtaining a license for starting the factory were ₹10,000.
(ii) ₹1,000 paid for removal of stock to a new site.
(iii) Rings and Pistons of an engine were changed at a cost of ₹5,000 to get full efficiency.

(iv) ₹2,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.

(v) ₹10,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.

(vi) A factory shed was constructed at a cost of ₹1,00,000. A sum of ₹5,000 had been incurred for the construction of the temporary huts for storing building materials.

(vii) A pair of bullocks of ₹50,000 was killed by lightning.

Answer 6

(i) Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.

(ii) Revenue Expenditure because it is not enhancing the value of the asset and it is also required for starting the business on the new site.

(iii) Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

(iv) Revenue Expenditure.

(v) Revenue Expenditure. [As per As-26]

(vi) Both are Capital Expenditure

(vii) Capital loss. Live stock is a fixed asset.

Question 7 **(MQP[2] 7 Marks June'23,MQP[1] 7 Marks Dec'25)** **LDR**

Classify the following items as capital or revenue expenditure with reason:

(i) An extension of railway tracks in the factory area;

(ii) Wages paid to machine operators;

(iii) Installation costs of new production machine;

(iv) Materials for extension to foremen's offices in the factory;

(v) Rent paid for a running factory;

(vi) Payment for computer time to operate a new stores control system,

(vii) Wages paid to own employees for building the foremen's offices.

Answer 7

(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Wages paid to machine operators should be treated as a Revenue Expenditure as it will yield benefit for the current period only.

(iii) Installation costs of new production machine should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

(iv) Materials for extension to foremen's offices in the factory should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

(v) Rent paid for the factory should be treated as a Revenue Expenditure because it will benefit the Company only during the current period.

(vi) Payment for computer time to operate a new stores control system should be treated as Revenue Expenditure because it has been incurred to carry on the normal business.

(vii) Wages paid for building foremen's offices should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

1.4 Accounting Cycle, Analysis of Transactions etc

Question 8 **(PYP 4 Marks June'23)**

The accounting cycle consists of certain sequential steps. List out those steps.

Answer 8

Stages of Accounting Cycle.

The accounting cycle consists of the following sequential steps:

1. Identifying transactions: The first step in the accounting cycle is to analyze events to determine if they are " transactions ". Transactions are the starting point from which the rest of the accounting cycle follows.
2. Recording transactions in books of original entry: The second step in the accounting cycle is to record the identified transactions in the relevant books of original entry as journal entries.

CHAPTER 2.1 : ACCOUNTING FOR BILLS OF EXCHANGE

B

LDR Questions	Q 3, Q 5, Q 9, Q 11 MCQ – Q 5, Q 15

QUICK REVIEW OF IMPORTANT CONCEPTS

Parties:

- Drawer: person who draws the bill
- Payee: person who receives payment
- Drawee: person who accepts and pays

Essential Elements:

- In writing and signed
- Certain parties and certain sum
- Unconditional order to pay
- Properly stamped

Types of Bills:

- Demand bill – payable on presentation
- Inland bill – payable within one country
- Trade bill – arises from business transaction
- Usance bill – payable after a specified time
- Foreign bill – payable outside India
- Accommodation bill – drawn without consideration

Maturity & Grace Days:

- Demand bills: no grace days
- If due date is a national holiday → previous working day
- Time bills (after date/after sight): 3 days grace added
- If emergency holiday → next working day

Situation	Drawer Books	Drawee Books
Acceptance of bill	Bills Receivable Dr → Drawee	Drawer Dr → Bills Payable
Discounting with bank	Bank Dr + Discount Dr → Bills Receivable	—
Endorsement to creditor	Creditor Dr → Bills Receivable	—
Sent for collection	Bills for Collection Dr → Bills Receivable	—
Honour (bill retained)	Bank/Cash Dr → Bills Receivable	Bills Payable Dr → Bank/Cash
Honour (discounted/endorsed earlier)	—	Bills Payable Dr → Bank/Cash
Dishonour	Drawee Dr → Bills Receivable + Bank (Noting)	Bills Payable Dr + Noting → Drawer
Renewal – cancel old bill	Drawee Dr → Bills Receivable	Bills Payable Dr → Drawer
Renewal – interest	Drawee Dr → Interest	Interest Dr → Drawer
Renewal – part payment	Bank/Cash Dr → Drawee	Drawer Dr → Bank/Cash
Renewal – new bill accepted	Bills Receivable Dr → Drawee	Drawer Dr → Bills Payable
Retirement of bill	Bank/Cash Dr + Rebate Allowed Dr → Bills Receivable	Bills Payable Dr → Bank/Cash + Rebate Received
Insolvency of drawee	Bad Debts Dr → Drawee	Deficiency Dr → Drawer

Question & Answers

Question 1 (SM)

Calculate the due dates of the bills in the following cases

Sl. No.	Date of Bill	Tenure (Period)
1	1st January 2023	4 months
2	23rd November 2023	2 months

CHAPTER 6.2 : DEPARTMENTAL ACCOUNTS

C

LDR Questions	Q 8, Q 9 MCQ - 3

QUICK REVIEW OF IMPORTANT CONCEPTS

MEANING OF DEPARTMENTAL ACCOUNTS

- Large organisations divide activities into departments to measure performance separately.
- Separate Trading A/c → P&L A/c prepared for each department.
- Common expenses/incomes are apportioned on logical basis.
- Inter-department transfers treated as sales for one & purchases for another.
- If transfer at profit and stock remains unsold → Provision for Unrealised Profit required.

1) Departmental Trading Account

Dr.	Dept A	Dept B	Cr.	Dept A	Dept B
To Opening Stock	xx	xx	By Sales	xx	xx
To Purchases	xx	xx	By Transfer (to other dept)	xx	xx
To Wages	xx	xx	By Closing Stock	xx	xx
To Direct Expenses	xx	xx			
To Gross Profit c/d	xx	xx			

2) Departmental Profit & Loss Account

Dr.	Dept A	Dept B	Cr.	Dept A	Dept B
To Rent	xx	xx	By Gross Profit b/d	xx	xx
To Salaries	xx	xx	By Indirect Income	xx	xx
To Depreciation	xx	xx			
To Other Indirect Expenses	xx	xx			
To Net Profit → General P&L	xx	xx			

3) General Profit & Loss Account

Dr.	Amount	Cr.	Amount
To General Expenses	xx	By Dept Net Profit (A)	xx
To Financial Expenses	xx	By Dept Net Profit (B)	xx
To Provision for Unrealised Profit	xx		
To Net Profit → Capital	xx		

4) Transferor Department A/c

Dr.	Amount	Cr.	Amount
To Transferee Dept (returns)	xx	By Transferee Dept (goods transferred)	xx

5) Transferee Department A/c

Dr.	Amount	Cr.	Amount
To Transferor Dept (goods received)	xx	By Transferor Dept (returns)	xx

6) Provision for Unrealised Profit A/c

Dr.	Amount	Cr.	Amount
To General P&L (opening reversal)	xx	By General P&L (creation on closing stock)	xx

7) Working Note — Provision for Unrealised Profit

Particulars	Amount
Closing stock from transferor dept	xx
× GP rate	xx
Provision for Unrealised Profit	xx

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Questions & Answers

Question 1 (MQP[1] 7 Marks June'24)

Mithil Mukherjee sells two products manufactured in her own factory. The goods are made in two departments, X and Y, for which separate sets of accounts are maintained. Some of the manufactured goods of department X are used as raw materials by department Y, and vice versa. From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y:

Particulars	Department X	Department Y
Total units manufactured	10,00,000	5,00,000
Total cost of manufactured	₹10,000	₹5,000

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former.

Answer 1

Suppose, a is the total cost of Department X, and
b is the total cost of Department Y

a = ₹ 10,000 + $\frac{1}{5}$ b

b = ₹ 5,000 + $\frac{1}{4}$ a

or, a = ₹ 10,000 + $\frac{1}{5}$ $(5{,}000 + \frac{1}{4}a)$

= ₹ 10,000 + 1,000 + $\frac{1}{20}$a = ₹ 11,000 + $\frac{1}{20}$ a

Or, 20 a = ₹ 2,20,000 + a

Or, 19a = ₹ 2,20,000

= ₹ $\frac{2{,}20{,}000}{19}$ = ₹11,579

Now, b = ₹5,000 + $\frac{1}{4}$ a

=₹ 5,000 + $\frac{1}{4}$ × 11,579 =₹ 5,000 + ₹ 2,895 = ₹ 7,895

Total Cost goods manufactured

Particulars	Amount (₹)	Amount (₹)
	Department X	Department Y
Cost (already given)	10,000	5,000
Add: Cost of goods transferred	1,579	2,895
	11,579	7,895
Less: Transfer to department	2,895	1,579
Net Cost of Goods manufactured	8,684	6,316

Question 2 (SM, MQP[2] 9 Marks Jun'23, PYP 9 Marks Dec'17, Dec'18)

The following details are available in respect of a business for a year.

Department	Opening Stock	Purchase	Sales
X	120 units	1,000 units	1,020 units at ₹ 20.00 each
Y	80 units	2,000 units	1,920 units at ₹ 22.50 each
Z	152 units	2,400 units	2,496 units at ₹ 25.00 each

The total value of purchases is ₹ 1,00,000. It is observed that the rate of Gross Profit is the same in each department. Prepare Departmental Trading Account for the above year.

Answer 2

Computation of Closing Stock Quantity (in units)

Particulars	X	Y	Z
Opening Stock	120	80	152
Add: Purchases	1,000	2,000	2,400
Less: Units Sold	(1,020)	(1,920)	(2,496)
Closing Stock	**100**	**160**	**56**

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Computation of Gross Profit Ratio

We are informed that the GP Ratio is the same for all departments. Selling Price is given for each department's products but the Sale Quantity is different from that of Purchase Quantity. To find the Uniform GP Rate, the sale value of Purchase Quantity should be compared with the Total Cost of Purchase, as under. Assuming all purchases are sold, the sale proceeds would be

Particulars		₹
Department X	1,000 units @ ₹ 20.00	20,000
Department Y	2,000 units @ ₹ 22.50	45,000
Department Z	2,400 units @ ₹ 25.00	60,000
Total Sale Value of Purchase Quantity	**1,25,000**	
Less: Cost of Purchase	1,00,000	
Gross Profit Amount	**25,000**	
Gross Profit Ratio	25,000 ÷ 1,25,000	20% of Selling Price

Computation of Profit and Cost for each article

Department	Selling Price	Profit at 1/5 of SP	Cost = Sales – Profit
Department X	₹ 20.00	1/5 of ₹ 20.00 = 4.00	₹ 16.00
Department Y	₹ 22.50	1/5 of ₹ 22.50 = 4.50	₹ 18.00
Department Z	₹ 25.00	1/5 of ₹ 25.00 = 5.00	₹ 20.00

Dr. Departmental Trading Account for the year ended... Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)	Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)
To Op. stock	1,920	1,440	3,040	6,400	By Sales	20,400	43,200	62,400	1,26,000
To Purchase	16,000	36,000	48,000	1,00,000	By Cl. stock	1,600	2,880	1,120	5,600
To Gross Profit	4,080	8,640	12,480	25,200					
Total	**22,000**	**46,080**	**63,520**	**1,31,600**	**Total**	**22,000**	**46,080**	**63,520**	**1,31,600**

Opening and Closing Stocks are valued at Cost as indicated in WN 3 above. Sale Amount in the Trading Account is computed for the Sale Quantity only. Gross Profit is calculated at 20% of Sale Value.

Question 3 (SM)

M/s Auto Garage consists of three departments: Spares, Services and Repairs. Each department being managed by a departmental manager whose commission was respectively 5%, 10% and 10% of the respective departmental profit. In the absence or inadequacy of profit, a minimum commission of ₹ 3,000 is to be paid to managers. Interdepartmental transfers of goods and services are made on the basis of loaded price given as under:

From Spares to Services 5% above cost

From Spares to Repairs 10% above cost

From Repairs to Services 10% above cost

In respect of the year ended 31st March 2023 the books has already been closed and positions drawn. Subsequently it was discovered that closing stock of departments had included inter-departmental transferred goods at loaded price instead of the correct cost price. From the following information prepare a revised statement recomputing the departmental profit or loss.

	Spares (₹)	Service (₹)	Repairs (₹)
Net Profit/Loss as per accounts	19,000 (loss)	25,200 (profit)	36,000 (profit)
Inter-departmental transfers included at loaded price in the departmental stocks	---	32,500 (₹10,500 from Spares and ₹22,000 from Repairs)	2,100 (from Spares)

Answer 3

Statement showing computation of correct departmental profit:

Particulars	Spares (₹)	Service (₹)	Repairs (₹)
Net Profit/(Loss) as per accounts	(19,000)	25,200	36,000
Add: Managerial Remuneration:			
[Spares: Higher of (19,000 × 5/95) and 3,000]	3,000	-	-
[Service: Higher of (22,500 × 10/90) and 3,000]	-	3,000	-

[Repairs: Higher of (36,000 × 10/90) and 3,000]	-	-	4,000
∴ Profits before Managerial Remuneration	(16,000)	28,200	40,000
Less: Unrealised Profits of transferor department [WN:1]	691	-	2,000
	(16,691)	28,200	38,000
Less: Managerial Remuneration:			
[Spares: Higher of (16,691 × 5%) and 3,000]	3,000	-	-
[Service: Higher of (28,200 × 10%) and 3,000]	-	3,000	-
[Repairs: Higher of (38,000 × 10%) and 3,000]	-	-	3,800
∴ Correct departmental profit	(19,691)	25,200	34,200

Working Notes:

Transferor	Transferee		
	Services (₹)	Repairs (₹)	Total (₹)
Spares	500 [10,500 × 5/105]	191 [2,100 × 10/110]	691
Repairs	2,000 [22,000 × 10/110]	..	2,000

Question 4 (WB)

X Ltd has three departments A, B and C. from the particulars given below, compute - (a) Values of Stock as on 31st December, and (b) Department Results.

Particulars	A	B	C
Stock (at year beginning)	₹12,000	₹18,000	₹6,000
Purchases	₹73,000	₹62,000	₹24,000
Actual Sales	₹86,250	₹79,700	₹37,300
Gross Profit on Normal Selling Price	20%	25%	33⅓%

During the year, certain items were sold at discount, and these discounts were reflected in the value of Sales shown above. The items sold at discount were –

Particulars	A	B	C
Sales at Normal Price	₹ 5,000	₹ 1,500	₹ 500
Sales at Actual Price	₹ 3,750	₹ 1,200	₹ 300

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Answer 4

1. Computation of Cost of Goods Sold

Particulars	A	B	C
Sales at Actual Price	86,250	79,700	37,300
Less: Sales at Discounted Price	(3,750)	(1,200)	(300)
Net Sales at Normal Price	82,500	78,500	37,000
Add: Normal Value of Discounted Sales	5,000	1,500	500
Total Sales at Normal Selling Price	100%=87,500	100%=80,000	100%=37,500
Less: GP on Normal Selling Price	20% = 17,500	25% = 20,000	33.33% = 12,500
Total Cost of Goods Sold	**80%=70,000**	**75%=60,000**	**66.67%=25,000**

2. Computation of Value of Closing Stock

Particulars	A	B	C
Opening Stock	12,000	18,000	6,000
Add: Purchases	73,000	62,000	24,000
Less: Cost of Goods Sold	85,000	80,000	30,000
Closing Stock	(70,000)	(60,000)	(25,000)
Closing Stock	15,000	20,000	5,000

3. Departmental Trading and Profit and Loss A/c for the year ending 31st December (in ₹.)

Particulars	A	B	C	Particulars	A	B	C
To Opening Stock	12,000	18,000	6,000	By Sales	86,250	79,700	37,300
To Purchases	73,000	62,000	24,000	By Closing Stock (WN 2)	15,000	20,000	5,000
To Gross Profit	16,250	19,700	12,300				
Total	**1,01,250**	**99,700**	**42,300**	**Total**	**1,01,250**	**99,700**	**42,300**

Answer 1

Sr. No.	Particulars	Calculation of Due Date
1	Date of drawing of bill	01.01.2023
	Period / Tenure (month)	4
		01.05.2023
	Days of grace	3
	Due date / Maturity date	04.05.2023
2	Date of drawing of bill	23.11.2023
	Period / Tenure (month)	2
		23.01.2024
	Days of grace	3
	Due date / Maturity date	26.01.2024
	But 26.01.2024 is a National Holiday. So due date would be one day before i.e. 25.01.2024	

Question 2 (SM)

X sold goods for ₹ 20,000 to Y on credit on January 01, 2023. X drew a bill of exchange upon Y for the same amount for three months. Y accepted the bill and returned it to X. Y met his acceptance on maturity. Record the necessary journal entries under the following circumstances:

(i) X retained the bill till the date of its maturity and collected directly

(ii) X discounted the bill @ 12% p.a. from his bank on January 01, 2023

(iii) X endorsed the bill to his creditor Z, on January 01, 2023

(iv) X retained the bill and on March 31, 2023 X sent the bill for collection to its bank. On April 05, 2023 bank advice was received.

Answer 2

In the Books of X Journal

(i) When the bill is retained till its maturity

Date 2023	Particulars		L.F	Dr. (₹)	Cr. (₹)
January 1	Y's A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Being goods sold to Y's on credit)				
January 1	Bills Receivable A/c	Dr.		20,000	
	To Y's A/c				20,000
	(Being received Y's acceptance payable afterthree months)				
April 4	Bank A/c	Dr.		20,000	
	To Bills Receivable A/c				20,000
	(Being Y met his acceptance on maturity)				

(ii) When the bill was discounted from the book

Date 2023	Particulars		L.F	Dr. (₹)	Cr. (₹)
January 1	Y's A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Sold goods to Y's)				
January 1	Bills Receivable A/c	Dr.		20,000	
	To Y's A/c				20,000
	(Received Y's acceptance three months)				
January 1	Bank A/c	Dr.		19,400	
	Discount A/c (₹ $20,000 \times 12\% \times \frac{3}{12}$)	Dr.		600	
	To Bills Receivable A/c				20,000
	(Y's acceptance discounted with the bank)				

(iii) When X endorsed the bill in favour of his creditor Z

Date 2023	Particulars		L.F	Dr. (₹)	Cr. (₹)
January 1	Y's A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Sold goods to Y's on credit)				
January 1	Bills Receivable A/c	Dr.		20,000	
	To Y's A/c				20,000
	(Received Y's acceptance three months)				
January 1	Z's A/c	Dr.		20,000	
	To Bills Receivable A/c				20,000
	(Y acceptance endorsed in favour of Z)				

(iv) When the bill was sent for collection by X to the bank

Date 2023	Particulars		L.F	Dr. (₹)	Cr. (₹)
Jan. 01	Y's A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Sold goods to Y's on credit)				
Jan. 01	Bills Receivable A/c	Dr.		20,000	
	To Y's A/c				20,000
	(Received Y's acceptance payable after three months)				
Mar. 31	Bills Sent for Collection A/c	Dr.		20,000	
	To Bills Receivable A/c				20,000
	(Bills sent for collection)				
Apr. 05	Bank A/c	Dr.		20,000	
	To Bills sent for collection A/c				20,000
	(Bills sent for collection collected by the bank)				

The following journal entries will be made in the books of Y under all the four circumstances

In the Books of Y Journal

Date 2023	Particulars		L.F.	Dr. (₹)	Cr. (₹)
Jan. 01	Purchases A/c	Dr.		20,000	
	To X's A/c				20,000
	(Purchases goods from X on credit)				
Jan. 01	X's A/c	Dr.		20,000	
	To Bill's Payable A/c				20,000
	(Accepted bill drawn by X payable after three months)				
Apr. 04	Bills payable A/c	Dr.		20,000	
	To Bank A/c				20,000
	(Met acceptance maturity)				

Question 3 **(SM, MQP[1] 7 Marks Dec'25)** LDR

Mr. X sold goods for ₹ 15,000 to Mr. Y and immediately drew a bill upon him on Jan. 01, 2023 payable after 3 months. On maturity the bill was dishonoured and ₹ 50 were paid by the holder of the bill as noting charges. The journal entries will be recorded in the books of Mr. X and Mr. Y as given below under the following circumstances:

i. When the bill was kept by Mr. X till maturity.

ii. When the bill was discounted by Mr. X with his bank immediately @ 12% p.a.

iii. When the bill was endorsed by Mr. X in favour of his creditor Miss. Z.

Answer 3

In the Books of X Journal

i. When the bill was retained till its maturity

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Jan. 01	Y's A/c	Dr.		15,000	

	To Sales A/c				15,000
	(Sold goods to Y)				
Jan. 01	Bills Receivable A/c	Dr.		15,000	
	To Y's A/c				15,000
	(Received Y's acceptance)				
Apr. 04	Y's A/c	Dr.		15,050	
	To Bills Receivable A/c				15,000
	To Cash A/c				50
	(Y dishonored his acceptance and paid ₹ 50 as noting charges)				

ii. When the bill was discounted with the bank

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Jan. 01	Y's A/c	Dr.		15,000	
	To Sales A/c				15,000
	(Sold goods to Y)				
Jan. 01	Bills Receivable A/c	Dr.		15,000	
	To Y's A/c				15,000
	(Received Y's acceptance payable after threemonths)				
Apr. 04	Bank A/c	Dr.		14,550	
	Discount A/c			450	
	To Bills Receivable A/c				15,000
	(Y's acceptance discounted)				
Apr. 04	Y's A/c	Dr.		15,050	
	To Bank A/c				15,050
	(Y dishonoured his acceptance on maturityand bank paid noting charges of ₹50)				

iii. When the bill was endorsed to Z

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Jan. 01	Y's A/c	Dr.		15,000	
	To Sales A/c				15,000
	(Sold goods to Y)				
Jan. 01	Bills Receivable A/c	Dr.		15,000	
	To Y's A/c				15,000
	(Received Y's acceptance)				
Jan. 01	Z's A/c	Dr.		15,000	
	To Bills Receivable A/c				15,000
	(Y's acceptance endorsed in favour of Z)				
Apr. 04	Y's A/c	Dr.		15,050	
	To Z's A/c				15,050
	(Y dishonoured his acceptance on maturity and Z paid ₹ 50 as noting charges)				

The following journal entries will be made in the books of Y in all the three cases.

In the Books of Y Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Jan. 01	Purchases A/c	Dr.		15,000	
	To X's A/c				15,000
	(Purchase goods from X)				
Jan. 01	X's A/c	Dr.		15,000	
	To Bills Payable A/c				15,000
	(Accepted X's draft)				