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CLASS: XI - ACCOUNTANCY

.Bills of Exchange are written unconditional orders ,by one party to another, to pay a certain sum, either immediately or on a fixed date, in consideration of goods and services received.

.BOE are generally drawn by the creditor upon his debtor.

.According to Section 5 of the Negotiable Instruments Act,1881, BOE is an instrument in writing.

.There are two types of Bills of Exchange-

(i)Trade Bill-A trade bill is a bill of exchange drawn and accepted for a trade transaction.

(ii)Accommodation Bill-These bills are drawn to help the other partyi.e.,bills drawn for mutual benefit are known as accommodation bills.

.For accommodation bills drawee is called the accommodating party and the drawer is called the accommodated party.

.No special entries are passed for accommodation bills.Incase,the proceeds of the bills are shared, an entry for the proportionate amount of discount is passed along with the entry for remittance.

.Accounting treatment of accommodation bill can be studied with respect to the following three

Cases-

- 1.WHEN ACCOMMODATION BILL IS DRAEN FOR THE ACCOMMODATION OF THE DRAWER ONLY.
- 2.WHEN ACCOMMODATION BILL IS DRAWN FOR THE ACCOMMODATION OF DRAWER ND THE DRAWEE BOTH.
- 3.WHEN BOTH THE PARTIES DRAW ACCOMMODATION BILL ON EACH OTHER FOR THEIR OWN ACCOMMODATION.

Answer the following questions:-

Q.1Name any two types of commonly used negotiable instrumens.

Q.2When a bill is called draft?

Q.3 X draws a bill on Y for Rs 60,000.X wants to endorse it to Z in settlement of Rs 70,000 @2% discount with the help of Y's acceptance and balance in cash .How much cash X will pay to Z?(Choose the correct option)

(A)Rs 8,600 (B)Rs 5,000 (C)Rs 7,600 (D)Rs 5,600

Q.4 Enumerate the facts which are noted by the notary when a bill is dishonored

Q.5 Briefly explain the purpose and benefits of retiring the bills of exchange to the debtor and creditor.

Q.6 State whether the following statements are true or false:

(i)A bill of exchange is drawn by the creditor.

(ii)A bill of exchange is drawn for all cash transactions.

(iii)A Promissory note must be accepted by the Drawee.

(iv)The time of payment of a negotiable instrument need not be certain.

Q.7State with reasons whether the following statements are true or false-

(i) A cancellation entry is required, when bill is renewed.

(ii)At the time of Renewal of bill ,Interest Account is debited in the books of Drawee.

Q.8 Why is interest debited in the books of drawee at the time of Renewal of a bill?

Important points to be remembered:

Interest on capital: The cost of using capital invested by the proprietor is interest on capital.

Interest on capital is an expense for the firm, hence debited to profit and loss account and added to capital.

Journal entry: Interest on Capital a/c Dr

To Capital a/c

Profit and Loss a/c Dr

To Capital a/c

Interest on Drawings: Interest on drawings is charged from the owner for the withdrawals made by him. It is an income for the business, hence credited to profit and loss account and added to drawings.

Journal entry: Drawings a/c Dr

To Interest on Drawings

Interest on Drawings a/c Dr

To Profit and loss a/c

Loan: If loan appears on the credit side of Trial balance then it is a liability for the firm.

Interest on loan: Interest on loan will appear on the debit side of profit and loss account.

Journal entry: Interest on Loan a/c Dr

To Loan a/c

Profit and Loss a/c Dr

To Interest on Loan a/c

Loan: When loan appears on the debit side of Trial balance then it is an asset for the firm and appears in the asset side of the balance sheet.

Interest on loan: For the above loan interest will be shown on the credit side of profit and loss account.

Journal entry: Loan a/c Dr

To Interest on Loan a/c

Interest on Loan a/c Dr

To Profit and Loss a/c

Goods sent on sale or approval basis considered as actual sales:

In such cases sales and debtors will be reduced by the selling price.

And Closing stock will be increased by the cost price.

Q1. What are Financial Statements?

Q2. A firm spends Rs 6,00,000 for the publicity of new product in the market. Which type of expenditure is it?

Q3. If 'Adjusted purchases' and 'Closing stock' are given in the trial balance then what will be the treatment of closing stock. Specify the reason for such treatment.

Q4. State whether the following are capital or revenue expenditure.

- a. Expenditure incurred on repairs and whitewashing at the time of purchase of an old building
- b. Depreciation charged on plant.
- c. Expenditure incurred in maintenance of tea garden which will produce tea after four years.
- d. Expenses incurred on the repair of office building.

Q5. Calculate the missing figures in the following cases:

Case	Cost of goods sold	Gross profit(in%)	Sales(in Rs)
1.	60,000	20% of sales	?
2.	?	25% of cost of goods sold	2,00,000
3.	90,000	20% of COGS	?
4.	?	30%	1,00,000

Q6. State with reasons whether the following statements are true or false:

- a. 25% profit on sales is equal to 33 1/3% profit on cost.
- b. Income tax paid by a sole trader should be debited to profit and loss a/c.
- c. Closing stock is always valued at cost price.
- d. An expenditure intended to benefit the current period is revenue expenditure.
- e. 'Marshalling' and 'Grouping' has the same meaning.
- f. Profit and Loss account is a point statement, while Balance sheet is a period statement.
- g. Deferred revenue expenditure is current years revenue expenditure to be paid in later years.

Q6. In 2017, some goods were purchased but these could not be sold in that year. The cost price of the goods was Rs 20,000. During the year Rs 3,000 was spent as cartage and Rs 4,000 as wages. On 31st March 2018 the market value of the goods was 18,400. At what figure should the stock be valued. Will your answer change if the market value was Rs 21,300.

Q7. In 2018, stock in the beginning was 20,000. Stock at the end was 18,000. Purchases were Rs 1,10,000 and direct expenses were 28,000. Rate of gross profit on sales was 1/6. Calculate the amount of sales.

Q8. Fill in the blanks:

- a. Expenses and incomes of ----- nature are shown in Trading and Profit and Loss Account.
- b. Bad debts recovered are recorded on the ----- side of Profit and Loss account.
- c. Excess debit over credit in the trading account represents -----.
- d. Withdrawal of goods from stock by the proprietor for personal use will reduce ----- and -----.
- e. Closing stock is accounted in the books by crediting the ----- account.
- f. If Opening and closing stock are 30,000 each. Purchases are 70,000, manufacturing expenses are 20,000 and sales are 1,25,000, the gross profit will be -----.

Q9. State the meaning of and the effect of the following on financial statements:

- a. Outstanding expenses
- b. Prepaid expenses
- c. Earned income
- d. Unearned income

Q10. Following is the extract of Trial balance as on 31st March, 2018

Particulars	Amount(Dr)	Amount(Cr)
Debtors	2,06,000	
Bad Debts	5,000	
Provision for D/D		7,000

Additional Information:

- a. Write off Rs 6,000 as further bad debts.
 - b. Create provision for D/D @10% on Debtors
 - c. Create provision for discount on debtors @5% on Debtors.
- Show the effect on the Profit and Loss a/c and Balance Sheet.

Q11. Tick the correct answer from the given choices:

1. Closing stock is valued at :
 - a. Cost price
 - b. Market price
 - c. Cost price or Market price, whichever is less
 - d. Cost price or Market price, whichever is more
2. Prepaid insurance when appearing inside the trial balance will be shown in:
 - a. Profit and loss a/c
 - b. Balance sheet
 - c. Both a and b
 - d. None of the above

Q12. What is the need for making adjustments while preparing Final accounts?

