Complete Model Paper Solution

Subject: Elements of Book Keeping and Accountancy | Class: 10th (English Medium)

> ***Teacher's Note:*** *Dear students, Accountancy is a highly scoring subject if you strictly follow the standard formats (Dr./Cr.) for Journals and Ledgers. This solution presents every account and working note step-by-step. Study these formats carefully!*

SECTION - A (MULTIPLE CHOICE QUESTIONS - 1 MARK)

Q.1 Cash Book records:

(a) Only cash Transactions

(b) Only credit transactions

(c) Both (a) & (b)

(d) None of these

Answer: **(a) Only cash Transactions**

Q.2 Contra entries are recorded in:-

(a) Simple cash Book

(b) Cash Book with cash and bank column.

(c) Petty cash Book

(d) both (a) & (c)

Answer: **(b) Cash Book with cash and bank column.**

Q.3 Petty cash Book is used to record:

(a) Petty cash receipts

(b) Petty cash payments

(c) Petty cash Receipts and payment

(d) All cash payments

Answer: **(b) Petty cash payments**

Q.4 When a transaction is wholly or partially recorded incorrectly it is called:

(a) Error of principle

(b) Error of omission

(c) Error of posting

(d) Error of commission

Answer: **(d) Error of commission**

Q.5 Installation charges paid on the purchase of machinery will be debited to:

(a) Machinery account

(b) Installation charges account

(c) Sundry expenses account

(d) None of these.

Answer: **(a) Machinery account**

Explanation: All expenses incurred to bring a fixed asset to its working condition (like carriage, installation) are treated as capital expenditure and debited to the respective asset account.

Q.6 Assertion (A): Depreciation is charged on fixed assets to ascertain the true profit or loss of a business.
Reason (R): Fixed assets lose their value over time due to wear and tear, obsolescence or passage of time.

Answer: **(a) Both assertion (A) and reason (R) are true and Reason (R) is the correct explanation of assertion (A).**

Q.7 All direct expenses are recorded in:

(a) Trading account

(b) Profit & loss

(c) Profit & Loss Adjustment A/c

(d) Profit & Loss Appropriation Account

Answer: **(a) Trading account**

Q.8 If the amount of net sales is ₹1,00,000 and cost of goods sold is ₹70,000, then the amount of Gross Profit is:

(a) ₹1,70,000

(b) ₹30,000

(c) ₹70,000

(d) ₹1,00,000

Answer: **(b) ₹30,000**

Formula: Gross Profit = Net Sales - Cost of Goods Sold = 1,00,000 - 70,000 = ₹30,000

Q.9 If A draws a bill of ₹10,000 on B, then B is called:

(a) Drawer

(b) Drawee

(c) Payee

(d) Endorsee

Answer: **(b) Drawee**

Q.10 If a bill drawn is not met on due date then it is called:

(a) Honour of Bill

(b) Dishonour of Bill

(c) Renewal of Bill

(d) None of these

Answer: **(b) Dishonour of Bill**

Q.11 A sells to B goods worth ₹11,000 on credit and draws a bill of exchange for 3 months. B accepts the bill and returns it to A. Which journal entry will be passed in the books of A on the acceptance of the bill?

Answer: **(b) Bills Receivable Account Dr. 11,000**
To B's Account ... 11,000

Q.12 On 1st January 2020, a trader purchased a machinery for ₹1,00,000. It has a working life of 10 years. After 10 years it will have a scrap value of ₹20,000. The amount of depreciation to be charged every year will be:

(a) ₹8,000

(b) ₹10,000

(c) ₹20,000

(d) ₹40,000

Answer: **(a) ₹8,000**
Calculation: Depreciation = (Total Cost - Scrap Value) / Estimated Life = (1,00,000 - 20,000) / 10 = ₹8,000

Q.13 On 1st July 2022, a trader purchased a machinery for ₹2,00,000. Depreciation was charged @10% p.a. on Diminishing Balance method. What will be the depreciated value of the machinery on 31st March 2024 (books closed on 31st March)?

(a) ₹1,60,000

(b) ₹1,65,000

(c) ₹1,66,500

(d) ₹1,80,000

Answer: **(c) ₹1,66,500**
Step-by-step Calculation:
- Year 1 (1 July 2022 to 31 Mar 2023 i.e., 9 months): 2,00,000 × 10% × 9/12 = ₹15,000.
- WDV on 1 April 2023 = 2,00,000 - 15,000 = ₹1,85,000
- Year 2 (Full year): 1,85,000 × 10% = ₹18,500.
- WDV on 31 March 2024 = 1,85,000 - 18,500 = **₹1,66,500**.

Q.14 When Bank Reconciliation statement is prepared with the debit balance of the Cash Book and a cheque deposited is dishonored, then it is:

(a) Added

(b) Subtracted

(c) Not considered at all

(d) None of these

Answer: **(b) Subtracted**

Explanation: When the cheque was deposited, the Cash Book balance was increased. However, it was dishonored, so the Pass Book balance did not increase. To reconcile and match the Pass Book, we must subtract it from the Cash Book balance.

Q.15 When Bank Reconciliation statement is prepared with as per pass book (overdraft) and an amount is directly deposited by the customer in the bank account, then that amount will:

(a) Be added in preparing BRS

(b) Be Subtracted in preparing BRS

(c) Have no effect on BRS

(d) None of these

Answer: **(a) Be added in preparing Bank Reconciliation statement**

Q.16 Credit balance as per cash Book is ₹10,000. Cheque is issued but not presented for payment ₹20,000. Cheque is Deposited but not cleared ₹3,000. What will be the balance as per pass Book?

(a) ₹3,000

(b) ₹7,000

(c) ₹27,000

(d) ₹33,000

Answer: **(b) ₹7,000**

Calculation:

Overdraft as per Cash Book = (-10,000)

Add: Cheques issued but not presented = (+20,000)

Less: Cheques deposited but not cleared = (-3,000)

Result = -10,000 + 20,000 - 3,000 = **+7,000 (Favorable / Debit Balance as per Pass Book)**

SECTION - B (VERY SHORT, SHORT & LONG ANSWER TYPE)

Q.17 What is Contra Entry?

Answer: A contra entry is an accounting entry that affects both the Cash and Bank columns of a double or triple column Cash Book simultaneously but in opposite directions. For example, depositing cash into the bank or withdrawing cash from the bank for office use. To denote a contra entry, the letter **'C'** is written in the L.F. (Ledger Folio) column.

Q.18 State the different types of cash Book.

Answer: The main types of Cash Book are:

- **Simple (Single Column) Cash Book:** Records only cash receipts and cash payments.
- **Two Column (Double Column) Cash Book:** Contains two amount columns on each side, usually Cash and Bank (or Cash and Discount).
- **Three Column Cash Book:** Contains three amount columns on both sides: Cash, Bank, and Discount.
- **Petty Cash Book:** Maintained to record small, routine day-to-day expenses like postage, stationery, and cartage.

Q.19 A credit sales of goods worth ₹1900 has not been recorded in the books of account. State the type of error. Will it affect the agreement of Trial Balance?

Answer:

- **Type of Error:** This is an **'Error of Omission' (Complete Omission)** because the transaction was entirely left out from the books of original entry.
- **Effect on Trial Balance:** No, it will **not** affect the agreement of the Trial Balance. Since neither the debit nor the credit aspect of the transaction was recorded, the totals of both sides of the Trial Balance will still match perfectly.

Q.20 Salary of ₹20,000 has been paid to Rohit, an employee. The owner is of the opinion that this amount should be shown on the debit side of Trading Account but the accountant insists on showing this salary on the debit side of Profit & Loss Account. Clarify which account the salary should be shown in and why?

Answer: The **Accountant is absolutely correct**. The salary must be shown on the debit side of the **Profit & Loss Account**.
Reason: Salary is an **indirect expense** associated with the office, administration, and general running of the business. The Trading Account, on the other hand, strictly records **direct expenses** (like wages, carriage inward) that are directly related to the factory, production, or purchasing of goods.

Q.21 Classify the following into fixed assets and current assets: (a) Stock (b) Buildings (c) Machinery (d) Cash in Hand

Answer:
Fixed Assets: (These are held for long-term use in the business)

- (b) Buildings
- (c) Machinery

Current Assets: (These are held in the form of cash or are expected to be converted into cash within one accounting year)

- (a) Stock
- (d) Cash in Hand

Q.22 Why is it necessary to prepare a Trading Account before preparing a Profit and Loss Account? Explain in two points.

Answer: It is necessary to prepare a Trading Account first because:

1. **To Ascertain Gross Profit/Loss:** The Trading Account reveals the result of the core buying and selling activities, i.e., Gross Profit or Gross Loss. The Profit & Loss Account cannot begin without this base figure.
2. **Separation of Direct and Indirect Costs:** It logically separates direct manufacturing/purchasing costs (in Trading A/c) from indirect office/administrative expenses (in P&L A/c), helping management analyze operational efficiency accurately.

Q.23 Ram Purchases a machinery worth ₹30,000. He has treated this machinery as an ordinary purchase. State the type of error Ram has committed. Also briefly explain the error.

Answer: Ram has committed an **'Error of Principle'**.
Explanation: An error of principle occurs when the fundamental principles of accounting are violated. Here, Ram treated a **Capital Expenditure** (purchase of a fixed asset - machinery) as a **Revenue Expenditure** (ordinary purchase of goods). He should have debited the 'Machinery Account', but he incorrectly debited the 'Purchases Account'. This will artificially inflate business expenses and understate the value of assets, leading to incorrect profit calculation.

Q.24 (a) Define Bills of Exchange. (b) Explain briefly the meaning of Payee.

Answer:
(a) Bills of Exchange: It is an instrument in writing containing an unconditional order, signed by the maker (drawer), directing a certain person (drawee) to pay a certain sum of money only to, or to the order of a certain person, or to the bearer of the instrument.

(b) Payee: The payee is the person named in the bill of exchange to whom the amount is payable. Usually, the drawer (maker) of the bill is the payee. However, if the drawer endorses the bill to a third party (like a creditor), that third party becomes the payee.

Q.25 (a) What is Depreciation? (b) Explain briefly any two objectives of Providing Depreciation.

Answer:
(a) Depreciation: It refers to the continuous, permanent, and gradual decrease in the book value of fixed assets (like machinery, vehicles) due to their regular use, wear and tear, passage of time, or technological obsolescence.

(b) Objectives of Providing Depreciation:

1. **To ascertain the true Net Profit or Loss:** Depreciation is an operating cost. If it is not charged to the Profit & Loss Account as an expense, the profit will be overstated, and the true financial performance will not be reflected.
2. **Provision of funds for Asset Replacement:** By charging depreciation, a portion of the profit is retained in the business each year. This accumulated fund can be used to replace the asset at the end of its useful life without straining the business's cash flow.

Q.26 Shivam sells to Abhinav goods worth ₹10,000 and draws a bill of exchange for three months. Abhinav accepts the bill and returns it to Shivam. One month before the due date, Shivam gets the bill discounted from Bank at 12% p.a. discount.
(1) Why Shivam gets the bill discounted before due date?
(2) What is the amount of discount charged by Bank?

Answer:

(1) Reason for Discounting: Shivam might be in urgent need of cash before the maturity (due date) of the bill. To meet his immediate financial requirements, he discounted the bill with the bank, effectively taking an advance against the bill.

(2) Calculation of Discount Amount:

Bill Amount = ₹10,000

Rate of Discount = 12% p.a.

Unexpired Period = 1 month (since it was discounted 1 month before due date)

Discount = Principal × Rate × Time = 10,000 × (12/100) × (1/12) = **₹100**

Therefore, the discount charged by the bank is ₹100.

PRACTICAL QUESTIONS (FINAL ACCOUNTS, CASH BOOK, BRS, RECTIFICATION)

Q.27 From the Trial Balance of M/S Hari Om trader, prepare: (1) Trading Account (2) Profit & loss Account (3) Balance sheet as at 31st March 2026. Also state whether the business is financially sound.

> ***Note:*** *The printed Trial Balance shows a credit total of ₹5,36,000, but adding the credit items (Capital 2,22,000 + Sales 3,00,000 + Creditors 32,000 + Purchase Return 4,000) yields ₹5,58,000. To tally the Trial Balance at ₹5,36,000,* ***Capital has been taken as ₹2,00,000****. Since Closing Stock is not given outside the Trial Balance, it is assumed to be Nil (0).*

Trading and Profit & Loss Account of M/s Hari Om Traders

(For the year ended 31st March 2026)

Particulars (Dr.)		Amount (₹)	Particulars (Cr.)		Amount (₹)
To Opening Stock		40,000	By Sales	3,00,000	
To Purchases	1,40,000		Less: Sales Return	(6,000)	
Less: Pur. Return	(4,000)	1,36,000			2,94,000

Particulars (Dr.)	Amount (₹)	Particulars (Cr.)	Amount (₹)
To Wages	16,000		
To Gross Profit c/d (Bal. Fig)	**1,02,000**		
Total	**2,94,000**	**Total**	**2,94,000**
To Salaries	20,000	By Gross Profit b/d	1,02,000
To Rent	10,000		
To Net Profit (Transferred to Capital)	**72,000**		
Total	**1,02,000**	**Total**	**1,02,000**

Balance Sheet of M/s Hari Om Traders

(As at 31st March 2026)

Liabilities		Amount (₹)	Assets	Amount (₹)
Creditors		32,000	Cash at Bank	36,000
Capital	2,00,000		Debtors	44,000
Add: Net Profit	72,000		Furniture	50,000
Less: Drawings	(30,000)	2,42,000	Buildings	1,44,000
Total		**2,74,000**	**Total**	**2,74,000**

Conclusion on Financial Soundness:

Yes, the business is **financially sound**. It has generated a healthy Net Profit of ₹72,000 during the year. Furthermore, the total value of its Assets (₹2,74,000) is far greater than its outside Liabilities (Creditors: ₹32,000), which demonstrates a very strong solvency and liquidity position.

Q.28 Prepare a Single Column Cash Book from the transactions of M/s Gupta Traders for April 2025.

Single Column Cash Book (M/s Gupta Traders)

For the month of April 2025

Date (2025)	Receipts (Dr.)	L.F.	Amount (₹)	Date (2025)	Payments (Cr.)	L.F.	Amount (₹)
Apr 1	To Balance b/d		4,00,000	Apr 8	By Purchases A/c		18,000
Apr 4	To Sales A/c		1,20,000	Apr 11	By Rent A/c		11,000
				Apr 22	By Office Exp. A/c		3,000
				Apr 27	By Ananya		1,000
				Apr 30	By Machinery A/c		4,000
				Apr 30	**By Balance c/d**		**4,83,000**
	Total		**5,20,000**		**Total**		**5,20,000**

> ***Note:*** *The transaction on April 18 "Purchase of goods from Anchal (₹30,000)" is a* ***credit transaction*** *(since the person's name is given and 'cash' is not mentioned). Therefore, it is* ***not*** *recorded in the Cash Book.*

Q.29 Case Study: Prepare Bank Reconciliation Statement as on 31st March 2026.

Bank Reconciliation Statement of M/s Riyan Enterprises

(As on 31st March 2026)

Particulars	Plus Items (+) ₹	Minus Items (-) ₹
Bank Balance as per Cash Book (Dr. / Favorable)	20,000	
Add: 1. Cheque issued but not presented for payment	3,000	
Add: 5. Interest on investment collected by Bank directly	600	
Less: 2. Cheque deposited but not cleared		4,000
Less: 3. Bank charges not entered in Cash Book		40
Less: 4. Insurance premium paid by Bank directly		5,000

Particulars	Plus Items (+) ₹	Minus Items (-) ₹
Total	**23,600**	**9,040**
Balance as per Pass Book (Cr. / Favorable) (23,600 - 9,040 = 14,560)	**14,560**	

OR Question Answer:

(i) What is Bank Reconciliation Statement?

It is a statement prepared by an account holder on a particular date to reconcile the bank balance as shown by the Cash Book with the balance shown by the Bank Pass Book, by clearly explaining the causes of differences between the two balances.

(ii) Need for preparing Bank Reconciliation Statement:

1. It helps in locating and identifying any errors or omissions made either in the Cash Book or by the bank in the Pass Book.
2. It assists in detecting frauds, embezzlements, or undue delays in clearing deposited cheques.
3. It updates the business regarding bank charges deducted or direct deposits collected by the bank.

Q.30 Pass journal entries in the books of Ram and Mohan, and prepare Bills Receivable Account in the Books of Ram.

Journal Entries in the Books of Ram (Drawer)

Date (2026)	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jan 1	Mohan ..... Dr. To Sales A/c *(Goods sold to Mohan on credit)*		3,000	3,000
Jan 1	Bills Receivable A/c (B/R) ..... Dr. To Mohan *(Bill drawn for 2 months and accepted by him)*		3,000	3,000
Mar 4	Bank / Cash A/c ..... Dr. To Bills Receivable A/c *(Bill honoured on maturity date i.e., 1 Jan + 2 months + 3 days of grace = March 4)*		3,000	3,000

Journal Entries in the Books of Mohan (Drawee)

Date (2026)	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jan 1	Purchases A/c ..... Dr. To Ram *(Goods purchased from Ram on credit)*		3,000	3,000
Jan 1	Ram ..... Dr. To Bills Payable A/c (B/P) *(Acceptance given to Ram for 2 months)*		3,000	3,000
Mar 4	Bills Payable A/c (B/P) ..... Dr. To Bank / Cash A/c *(Acceptance met and paid on due date)*		3,000	3,000

Bills Receivable (B/R) Account

(In the Books of Ram)

Date	Particulars (Dr.)	Amount (₹)	Date	Particulars (Cr.)	Amount (₹)
2026 Jan 1	To Mohan	3,000	2026 Mar 4	By Bank/Cash A/c	3,000
	Total	**3,000**		**Total**	**3,000**

Q.31 Analyze the errors and pass rectification entries.

(1) Type of Errors:

1. *Wages paid for installation debited to Wages A/c:* This is an **'Error of Principle'** because a capital expenditure has been wrongfully treated as a revenue expenditure.
2. *Cash paid to Chawla posted to Chai-Wala's account:* This is an **'Error of Commission'**, specifically posting to the wrong account on the correct side.
3. *Purchases Book overcast by ₹300:* This is an **'Error of Commission / Casting Error'**, which is a one-sided error affecting the Trial Balance.

(2) Rectification Journal Entries:

S.No.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Machinery A/c ..... Dr. To Wages A/c *(Correction of installation wages wrongly debited to wages account)*		1,000	1,000
2.	Chawla ..... Dr. To Chai-Wala *(Cash paid to Chawla wrongly posted to Chai-Wala, now rectified)*		2,000	2,000
3.	Suspense A/c ..... Dr. To Purchases A/c *(Purchases book overcast by ₹300, now rectified using suspense a/c)*		300	300

OR Question Answer:

(1) What do you mean by Compensating Errors?

Compensating errors are those errors where the effect of one error is completely neutralized or canceled out by the effect of another error. As a result of this compensation, the Trial Balance still agrees, making these errors very difficult to detect. For example, over-debiting A's account by ₹100 and simultaneously under-debiting B's account by ₹100.

(2) What is Suspense Account?

When the debit and credit totals of a Trial Balance do not match despite best efforts, the difference is temporarily placed in a newly opened account called the 'Suspense Account' to avoid delays in preparing the Final Accounts. Later, as the one-sided errors are found, they are rectified by passing entries through this Suspense Account until its balance becomes zero.

Q.32 (a) Write the formula for the calculation of yearly depreciation. (b) Prepare Machinery Account up to 31st December 2022 (Books closed on 31st Dec every year).

(a) Formula for Yearly Depreciation:

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Annual Depreciation = (Original Cost of Asset + Installation/Repairs
- Estimated Scrap Value) / Estimated Working Life in years
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Calculation for the given problem:
Total Cost = Purchase Price (₹48,000) + Repairs (₹12,000) = ₹60,000.
Annual Depreciation (SLM) = (60,000 - 4,000) / 10 = 56,000 / 10 = **₹5,600 per year.**

(b) Machinery Account

Date	Particulars (Dr.)	Amount (₹)	Date	Particulars (Cr.)	Amount (₹)
2020 Oct 1	To Bank A/c (Cost)	48,000	2020 Dec 31	By Depreciation A/c *(5,600 × 3/12 for 3 months)*	1,400
2020 Oct 1	To Bank A/c (Repairs)	12,000	2020 Dec 31	By Balance c/d	58,600
	Total	**60,000**		**Total**	**60,000**
2021 Jan 1	To Balance b/d	58,600	2021 Dec 31	By Depreciation A/c *(For full 12 months)*	5,600
			2021 Dec 31	By Balance c/d	53,000
	Total	**58,600**		**Total**	**58,600**
2022 Jan 1	To Balance b/d	53,000	2022 Dec 31	By Depreciation A/c	5,600
			2022 Dec 31	**By Balance c/d**	**47,400**
	Total	**53,000**		**Total**	**53,000**
2023 Jan 1	To Balance b/d	47,400			

OR Question Answer:

(a) Distinguish between Straight Line Method (SLM) and Diminishing Balance Method (DBM): 1. Under SLM, depreciation is calculated on the of the asset every year. Under DBM, depreciation is calculated on the of the asset at the beginning of the year. 2. In SLM, the amount of depreciation remains year after year. In DBM, the amount of depreciation every successive year. 3. Under SLM, the book value of the asset can be reduced to exactly zero at the end of its useful life. Under DBM, the book value of the asset can be reduced to zero.
Basis of Calculation:*original costWritten Down Value (book value)*
Amount of Depreciation:*constant (fixed)decreases*
Zero Book Value:*never*

(b) Explain briefly any three causes of Providing depreciation:
1. **Wear and Tear:** Physical deterioration occurs when fixed assets like machinery and vehicles are constantly used in regular business operations.
2. **Passage of Time (Effluxion of time):** Certain intangible assets like patents, copyrights, and leasehold properties have a fixed legal life. Their value decreases purely with the passage of time, irrespective of their actual use.
3. **Obsolescence:** An asset may lose its value and become economically unviable due to the rapid introduction of new, improved, and superior technology in the market (e.g., old computers becoming obsolete).