Paper-5 : FINANCIAL ACCOUNTING

Study Note – 1: Accounting Process

1. **(a) The following errors were discovered in the books of a trader for the year ended December 31, 2014:**
   (i) The total of the Purchase Day Book had been undercast by ₹ 100.
   (ii) The discount column of the debit side of the Cash Book had been posted to the credit of the Discount Received Account ₹ 20.
   (iii) ₹ 76 paid for Repairs of Motor Van had been taken to Motor Van Account.
   (iv) A cheque received from B ₹ 39 had been debited in Cash Book but the double entry had not been completed.
   (v) The Returns Outward Book had been overcast by ₹ 50.
   Show the Rectification entries considering that the Final Accounts had already been prepared and the net profit arrived at amounted ₹ 24,320 (before corrections). Show the calculation of the net profit for the year

Answer:

(a)

Books of ……………….
Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	(i) Profit & Loss Adjustment A/c.... , ...Dr. To Suspense A/c [Purchase Day Book undercast, now rectified]		100	100
	(ii) Profit & Loss Adj. A/c (Disc. Allowed and Disc Received)… Dr. To Suspense A/c [Discount Received credited instead of Disc, allowed debited, now rectified]		40	40
	(iii) Profit & Loss Adjustment .... Dr. To Motor Van A/c [Repairs of Motor Van debited to Motor Van Account, now rectified]		76	76
	v) Suspense A/c .... Dr. To B A/c [Cash Received from B not credited to his account, now rectified]		39	39
	(v) Profit & Loss Adjustment A/c .... Dr. To Suspense A/c [Overcasting of Return Outward Book, now rectified]		50	50

Profit & Loss Adjustment Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Suspense A/c	100	By Net Profit b/d	24,320
" Suspense A/c	40		
" Motor Van A/c	76		
" Suspense A/c	50		
" Capital A/c (Adjusted Net Profit)	24,054		
	24,320		24,320

(b) Difference between Capital and Revenue Expenditure.

The following are the points of distinction between capital expenditure and revenue expenditure:

	Capital Expenditure		Revenue Expenditure
1.	The economic benefits of Capital expenditures are enjoyed for more than one accounting period.	1.	The economic benefits of Revenue expenditures are enjoyed within a particular accounting period.
2.	Capital expenditures are of non-recurring in nature.	2.	Revenue expenditures are of recurring in nature.
3.	All capital expenditures eventually become revenue expenditures like depreciation	3.	Revenue expenditures are not generally capital expenditures.
4.	Capital expenditures are not matched with capital receipts.	4.	All revenue expenditures are matched with revenue receipts.

Study Note – 2: Accounting Standard

2. (a) An industry borrowed ₹40,00,000 for purchase of machinery on 1.6.2013. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2014. What is the amount to be charged for the year ended 31.3.2014 to record the borrowing cost of loan as per AS 16.

Answer:

Particulars	₹
(i) Interest upto 31.3.2014 (40,00,000 x 9% x 10/12 months)	3,00,000
(ii) Less: interest relating to pre-operative period to be capitalized [3,00,000 x 7/10]	2,10,000
Amount to be charged to P & L A/c [3,00,000 x 3/10]	90,000

(b) In a production process, normal waste 5% of input , 5,000 Mt of input were put in process resulting in a wastage of 300 MT. Costs per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case?

Answer:

As per AS – 2 , abnormal amounts of waste materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

Calculation of Value of inventories

Particulars	Qty (MT)	Amount (₹)
Total Cost Less: Normal Waste @ 5%	5,000 (250)	50,00,000 -
Total Cost of expected Input	4,750	50,00,000
Less: Cost of Abnormal waste to be charged to profit & Loss A/c [(50,00,000 /4,750) x 50]	(50)	(52,632)
Cost of Inventory left	4,700	49,47,368

(c) Sterling Ltd. purchased a plant for US $20,000 on 31st December, 2013 payable after 4 months. The company entered into a forward contract for 4 months @₹ 48.85 per dollar. On 31st December, 2013, the exchange rate was ₹47.50 per dollar.

How will you recognize the profit or loss on forward contract in the books of Sterling Limited for the year ended 31st March, 2014

Calculation of Profit or Loss to be recognized in the books of Sterling Limited

Particulars	₹
Forward contract rate	48.85
Less: Spot rate	47.50
Loss	1.35
Forward Contract Amount	$20,000
Total loss on entering into forward contract = ($20,000 x ₹1.35)	₹27,000
Contract period	4 months
Loss for the period 1st January, 2014 to 31st March, 2014 i.e. 3 months falling in the year 2013-2014 will be (₹ 27,000 x 3/4)	20,250

Study Note – 3: Reconciliation Statements

Question No 3.

(a) Jay Prakash Ltd. makes up its accounts up to 31st December every year. It was able to take stock by physical inventory only on 10th January, 2014, on which date the stock at cost was valued at ₹ 2,05,000.
You ascertain the following regarding the period intervening between January 1 to January 10, 2014:

(i) Purchases totaled ₹ 58,000 and included (A) ₹ 13,000 in respect of goods received in December, 2013, (B) ₹ 6,000 in respect of goods received on 15th January, 2014 and (C) ₹ 2,000 in respect of goods received but returned to suppliers on January 9, 2014 for which no credit note has been received or passed through the books.

(ii) Sales totaled ₹ 70,000 and included (A) ₹ 3,550 in respect of goods which left the warehouse on 29th December, 2013, (B) ₹ 3,000 in respect of goods which were not despatched until 13th January' 2014 and (C) ₹ 2,000 in respect of goods in respect of goods invoiced and 5.1.2014 but returned by customers on January 8, 2014 for which no credit note had been passed but which were, in fact, included in stock taken on 10th January, 2014.

(iii) Other returns to suppliers totaled ₹ 2,700 and other returns by customers were ₹ 450.

(iv) The rate of gross profit was 20% on selling price with the exception of an isolated purchase on 5th December, 2013 of 10 identical articles which had cost ₹ 11,000. 5 Articles out of these were sold on January 5, 2014 at a profit of ₹ 1,000. The remainder had been included at Cost in Stock taken on 10.1.2014. Show the estimated value of stock on 31st December, 2013.

Answer:

Jay Prakash Ltd. Statement Showing Value of Stock on 31st December, 2013

Particulars	Amount (₹)	Amount (₹)
Stock on January 10, 2014		2,05,000
Add: (i) Cost of Goods Sold between 1.1.14 and 10.1.14 :	70,000	
Sales Less : Goods not despatched till 13.1.2014	3,000	
	67,000	
Less : Sales Returns	2,000	

	65,000	
Less : Sale of Isolated Purchase	6,500	
	58,500	
Less : Gross Profit, @ 20% on 58,500	11,700	
	46,800	
Add : Cost of Isolated Purchase	5,500	52,300
		2,57,300
Add :(ii) Purchase Returns		2,700
		2,60,000
	58,000	
Less :(i) Purchases between 1.1.2014 and 10.1.2014	6,000	
	52,000	
Less : Goods received on 15.1.2014	2,000	
	50,000	
Less : Goods returned on. 9.1.2014	360	50,360
Less :(ii) Sales Returns at Cost Price [450 - 20% of 450]		2,09,640

(b) Prepare a Bank Reconciliation Statement from the following data as on 30.11.2013:

- **(i) Balance as per Pass Book on 30.11.2013, overdrawn ₹ 9,204.**
- **(ii) Cheques drawn on 30.11.2013 but not cleared till December 2013, ₹3,225; ₹ 745 and ₹926.**
- **(iii) Bank Overdraft interest charged on 28.11.2013, not entered in Cash Book ₹ 1,610.**
- **(iv) Cheques received on 29.11.2013 entered in Cash Book but not deposited to Bank till 3rd December 2013, ₹11,322 and ₹1,730.**
- **(v) Cheque received amounting to ₹35 entered in the Cash Book twice.**
- **(vi) Bills Receivable due on 29.11.13 was sent to Bank for collection on 28.11.13, and was entered in Cash Book forthwith but the proceeds were not credited in Bank Pass Book till 3rd Dec. 2013, ₹ 2,980.**
- **(vii) A periodic payment by Bank for ₹ 80 understanding instruction not entered in Cash Book.**
- **(viii) Cheque deposited on 30th Nov.2013 dishonoured but the entry, therefore, was not made in the Cash Book ₹ 1,890.**

Answer:

In the books of ………..

Bank reconciliation Statement as at 30.11. 2013.

Particulars		**Amount (₹)**
Overdraft balance as per Pass Book		9,204
Add: Cheques drawn but not cleared (₹3,225 + ₹745 + ₹926)		4,896
		14,100
Less:		
(i) Interest on Bank overdraft not entered in Cash Book	1,610	
(ii) Cheques received and entered in the Cash Book as deposited into Bank but actually not deposited till 3rd Dec. 2013. (₹ 11,322 + ₹ 1,730)	13,052	
(iii) Cheque received and entered in the Cash Book twice	35	
(iv) Bills sent to Bank for collection but not credited till 3rd Dec. 2013	2,980	
(v) A periodic payment made by bank not entered in Cash Book	80	
(vi) Cheques deposited and dishonoured but not entered in Cash book	1,890	19,647
Bank balance as per Cash Book (Dr.)		5,547

Study Note – 4: Accounting for Depreciation

Question No 4.

(a) Amit Industries Ltd. is in the business of manufacturing and export. In 2011, the Government put a restriction on export of goods exported by Amit Industries Ltd leading to impairment of its assets. Amit Industries acquired at the end of 2007, identifiable assets worth ₹800 Lakhs for ₹1,200 lakhs, the balance being treated as Goodwill. The useful life of the identifiable assets is 15 years and depreciated on straight – line basis. When Government put the restriction at the end of 2011, the Company recognized the impairment loss by determining the recoverable amount of assets at ₹544 Lakhs. In 2013, the "restriction" was withdrawn by the Government and due to this favourable change, Amit Industries Ltd estimates its recoverable amount at ₹684 Lakhs.
Calculate and allocate Impairment Loss in 2011.
Compute reversal of Impairment Loss and its allocation in 2013.

Answer:

(i) Computation and allocation of Impairment Loss for the year ended 31.03.2011 (₹ Lakhs)

End of 2011	Goodwill	Identifiable Assets	Total
(a) Historical cost	400	800	1,200
(b) Accumulated/Amortization for the period 01.04.2007 to 31.03.2011	(320)(400 x 4/5)	(214)(800 x 4/15)	(534)
(c) Carrying Amount (a) – (b)	80	586	666
(d) Recoverable Amount as on 31.03.2013			544
(e) Impairment Loss			122
(f) Impairment Loss allocated first to Goodwill and balance to other assets	(80)	(42)	(122)
(g) Carrying Amount after Impairment Loss (c) – (f)	Nil	544	544

(ii) Reversal of Impairment of Loss as on 31.03.2013 (₹ Lakhs)

Particulars	Goodwill	Identifiable Assets	Total
1. Carrying Amount at the end of 2011 after recognition of Impairment Loss (as above)	Nil	544	544
2. Less: Depreciation/ Amortization for 2 years	NIL	(98) (544 x 2/11)	(98)
3. Carrying Amount at the end of 2013 (1) – (2)	NIL	446	446
4. Carrying Amount at the end of 2013 had there been no impairment (Cost – Accumulated Depreciation)	NIL	480	480
5. Recoverable Amount at the end of 2013 (Given)			684
6. Total Impairment Loss to be reversed (5) – (3)			238
7. Impairment Loss That can be reversed (4) – (3) or (6) whichever is lower			34
8. Revised Carrying Amount at the end of 2013 (3) + (7) [This amount should not exceed (4)]			480

(b) Ram Ltd. which depreciates its machinery at 10% p.a. on Diminishing Balance Method, had on 1st January 2013 ₹ 9,72,000 on the debt side of Machinery Account.
During the year 2013 machinery purchased on 1st January 2009 for ₹ 80,000 was sold for ₹ 45,000 on 1st July 2013 and a new machinery at a cost of ₹ 1,50,000 was purchased and installed on the same date, installation charges being ₹ 8,000.
The company wanted to change the method of depreciation from Diminishing Balance Method, to Straight Line Method which effect from 1st January 2011. Difference of

depreciation up to 31st December 2013 to be adjusted with Machinery Account. Show Machinery Account.

Answer:

In the books of Ram Ltd.
Machinery Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2013 Jan. 1	To Balance b/d	9,72,000	2013 July 30	By Bank A/c Sale	45,000
July	To Bank A/c Purchase	1,50,000		By Depreciation A/c $\left(₹80,000 \times \frac{10}{100} \times \frac{6}{12}\right)$	4,000
	To Bank A/c -Installation changes	8,000		By Profit and Loss A/c -Loss on Sale	15,000[1]
			Dec. 31	By Depreciation A/c	1,19,900[3]
				By Profit and Loss A/c Depreciation undercharged	12,000[2]
				By Balance c/d	9,34,100
		11,30,000			11,30,000

Workings:

1. Loss on Sale of Plant Sold

	₹
Book Value	80,000
Less: Depreciation @ 10% for $2\frac{1}{2}$ years on Straight Line Method	20,000
W.D.V. on 01.07.2013	60,000
Less: Sold for	45,000
∴ Loss on Sale	15,000

2. Depreciation Undercharged

	₹
Book Value $\left(₹8,00,000 \times \frac{100}{90} \times \frac{100}{90}\right)$	12,00,000
Depreciation @ 10% for 2 years (i.e., 2011 & 2012) ₹ 1,20,000 x 2 =	2,40,000
Less: Already charged as per Diminishing Balance Method – (₹1,20,000+ ₹ 1,08,000)	2,28,000
Depreciation undercharged	12,000

3. Depreciation for 2011

	Old Machine I		New Machine II
On 1.1.2011 Book Value	12,00,000	On 01.07.2013 – B.V.	15,800
Less: Sold	80,000	Depreciation @ 10% for 6 months	7,900
	11,20,000		
Depreciation @ 10%	1,12,000		

∴ Total Depreciation ₹ 1,12,000 + ₹ 7,900 = ₹ 1,19,900

Study Note – 5: Preparation of Final Accounts

Question No 5.

(a) A's Balance Sheet as at 30th June, 2011 included the following items in the list of current assets:

Debtors	98,000
Less : Provision for Bad Debts	2.450
	95,550

At the end of the two following financial years the gross amount of Debtors (before deducting a provision) were

Particulars	2012 (₹)	2013 (₹)
At 30th June	94,000	1,02,000

On each of these dates there was a Provision for Bad Debts calculated on the same percentage basis as at 30th June, 2011.

The actual amount of bad debts written off from Debtors Accounts over these periods were:

Particulars	2012 (₹)	2013 (₹)
For the year to 30th June	2,600	2,300

You are asked to show these transactions in Account Ledger for the period from 1st July, 2011 to 30th June, 2013

Answer:

Books of A

Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2011-12	To Sundry Debtors A/c	2,600	30.6.12	By Profit & Loss A/c	2,600
2012-13	To Sundry Debtors A/c	2,300	30.6.13	By Profit & Loss A/c	2,300

Provision for Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.06.12	To Profit & Loss A/c	100	01.07.11	By Balance b/f	2,450
	To Balance c/d $\left[*2\frac{1}{2}\% \text{ of } ₹94,000\right]$	2,350			
		2,450			2,450
30.06.12	To Balance c/d $\left[*2\frac{1}{2}\% \text{ of } ₹1,02,000\right]$	2,550	1.07.12	By Balance b/d	2,350
			30.6.13	By Profit & Loss A/c	200
		2,550			2,550
			1.07.13	By Balance b/d	2,550

Profit & Loss Account (includes) for the year ended 30.6.12

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bad Debts	2,600	By Provision for Bad Debts : Existing Provision 2,450 Less : New Provision required 2,350	100

Profit & Loss Account (includes) for the year ended 30.6.13

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Bad Debts		2,300		
`` Provision for Bad Debt :				
New Provision required	2,550			
Less : Existing Provision	2,350	200		

*Percentage of Provision as at 30th June, 2011 = $\frac{\text{Provision}}{\text{Debtors}}$ x100 = $\frac{₹2,450}{₹98,000}$ x = $2\frac{1}{2}$%

** For practical reasons, the application of this method is easier.

(b) The following balances were appearing in the books of CPL Ltd. as on 31.12.2013

		₹
(i)	**Sundry Debtors (including ₹ 4,000 due from X)**	**48,000**
(ii)	**Sundry Creditors (including ₹ 3,000 due to X)**	**36,000**
(iii)	**Provision for Doubtful Debts**	**2,500**
(iv)	**Provision for Discount on Debtors**	**1,200**
(v)	**Provision for Discount on Creditors**	**500**

No entry has been passed in the books to record the dishonor of two cheques of ₹ 1,000 and ₹ 1,500 respectively. These cheques were received from customers. First one is expected to be 75% bad and the second one is expected to be 50% bad.
A Provision for Doubtful Debts @ 5% on Debtors and @ 2% on Debtors and Creditors are maintained.
Prepare the Provisions Accounts.

Answer:

(b) Point to be noted:
The balances appearing in the books on 31.12.13 in the different Provision Accounts are actually balances on 1.1.13 or old provisions. The new provisions are to be made on 31.12.13. Books of CPL Ltd.

Provision for Doubtful Debts Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31.12.13	To Balance c/f [Note 1]	3,750	1.1.13	By Balance b/f	2,500
			31.12.13	"Profit & Loss A/c (Bal. figure)	1,250
		3,750			3,750

Provision for Discount on Debtors Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31.12.13	To Profit & Loss A/c (Bal. fig.)	345	1.1.13	By Balance b/f	1,200
	" Balance c/f [Note 2]	855			
		1,200			1,200

Provision for Discount on Creditors Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1.1.13	To Balance b/f	500	31.12.13	By Balance c/f [Note 3]	660
31.12.13	`` Profit & Loss A/c (Bal. fig)	160			
		660			660

Working Notes:

1.Particulars	₹

Debtors Balance as given	48,000
Less : Amount set off with creditors	3,000
Adjusted Debtors	45,000
∴ Closing Provision for Doubtful Debts [5% of 45,000]	2,250
Add : 75% of the first dishonoured amount or [75% of 1,000]	750
Add : 50% of the other dishonoured amount or [50% of 1,500]	750
Total Provision to be made	3,750

2. Provision for Discount on Debtors	₹
Debtors Balance as given	48,000
Less : Amount set off	3,000
	45,000
Less: *Provision for Doubtful Debts	2,250
	42,750

∴ Provision for Discount on Debtors = 2% of 42,750 = 855

* As the cheques have been dishonoured, the question of allowing discount for prompt payments does not arise. So the Provision for such Doubtful Debts has not been considered.

3. Provision for Discount on Creditors = 2% of (36,000 – 3,000) = ₹ 660.

(c) X –Ray Ltd gives you the following information for the year ended 31st March, 2013 :

(i) Sales for the year ₹ 48,50,000. The company sold goods for cash only.
(ii) Cost of goods sold was 75% of sales.
(iii) Closing inventory was higher than opening inventory by ₹ 50,000.
(iv) Trade creditors on 31.3.2013 exceed the outstanding on 31.3.2012 by ₹ 1,00,000.
(v) Tax paid during the year amounts to ₹ 2,00,000.
(vi) Amounts paid to trade creditors during the year ₹ 35,60,000.
(vii) Administrative and selling expenses paid ₹ 3,50,000.
(viii) One new machinery was acquired in December, 2012 for ₹ 6,50,000.
(ix) Dividend paid during the year ₹ 70,000.
(x) Cash in hand and at Bank on 31.3.2013 ₹ 90,000.
(xi) Cash in hand and at Bank on 1.4.2012 ₹ 70,000.

Prepare Cash Flow Statement for the period ended 31.3.2013 as per the prescribed Accounting Standard.

Answer:

X -Ray Ltd.

Cash Flow Statement (Under Direct Method) for the year ended 31st March, 2013

Particulars	₹	₹
Cash Flows from Operating Activities		
Cash Sales	48,50,000	
Less: Cash paid to Suppliers	(35,60,00)	
Less: Expenses paid	(3,50,000)	
Cash Generated from Operations	9,40,000	
Income-tax paid	2,00,000	
Net Cash from Operating Activities		7,40,000
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(6,50,000)	
Net Cash from Investing Activities		(6,50,000)
Cash Flows from Financing Activities		
Dividend Paid	(70,000)	
Net Cash from Financing Activities		(70,000)
Net Increase in Cash and Cash Equivalents		20,000
Cash and Cash Equivalents at the Beginning of the Period		70,000

Cash and Cash Equivalents at the End of the Period		90,000

Note: Under direct method, change in the items of working capital is not taken into consideration, only cash paid are taken into consideration.

Question No 6.

(a) The following is the Receipts and Payments Account of Young Club in respect of the year to 31st December, 2013:

Receipts	₹	Payments	₹
1.1.13		**31.12.13**	
To Balance b/d	**20,500**	**By Salaries**	**41,600**
31.12.13		**`` Stationery**	**8,000**
" Subscriptions : 2012	**800**	**`` Rates**	**12,000**
2013	**42,200**	**`` Telephone Charges**	**2,000**
2014	**1,600**	**`` Investment [4% Stock at par]**	**25,000**
`` Sport Making Profit	**31,000**	**`` Sundry Expenses**	**18,500**
`` Dividends on Investments	**20,000**	**`` Balance c/d**	**9,000**
	1,16,100		**1,16,100**

Additional Information available:

(i) There are 450 members each paying an annual subscription of ₹ 100. ₹ 900 being in arrears for 2012 at the beginning of 2013.

(ii) Stock of stationery on 31st December, 2012 was ₹ 4,000 and on 31st December, 2013 ₹ 1,800.

(iii) At 31st December, 2013 the rates were prepaid to the following 31st March, the yearly charges being ₹ 12,000. A quarter's charge for telephone is outstanding to the tune of ₹ 700. Expenses' accruing on 31st December, 2012, was ₹ 1,400.

(iv) At 31st December, 2012, the Buildings stood in the books at ₹ 2,00,000 on which depreciation is to be provided at 5% per annum. Investments on 31st December, 2012 were ₹ 4,00,000.

Prepare an Income & Expenditure Account for the year ended 31st December, 2013 and a Balance Sheet as on that date.

Answer:

(a) Working Notes:

1. Analysis of Subscriptions

(a) for 2012	₹
Total Amount due on 31.12.2012	900
Less: Received in 2013 on account	800
Still outstanding on 31.12.13	100

(b) for 2013	₹
Annual Amount [450 x ₹ 100]	45,000
Less: Received in 2013 on account	42,200
outstanding on 31.12.13	2,800

(c) For 2014: Received in Advance ₹ 1,600

2. Opening Capital on 31.12.2012 (or 1.1.2013)

Balance Sheet as on 01.01.2013

Liabilities	Amount	Assets	Amount

Outstanding Expenses	1,400	Cash	20,500
Capital Fund	6,24,000	Outstanding Subscription	900
(Excess of Assets over Liabilities)		Stock of Stationery	4,000
		Buildings	2,00,000
		Investments	4,00,000
	6,25,400		6,25,400

Young Club

Income and Expenditure Account for the year ended 31st December, 2013

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Salaries		41,600	By Subscription	42,200	
" Stationery Used :			Add: Outstanding		
Opening Stock	4,000		[Note 1 (b)]	2,800	45,000
Add: Purchases	8,000		`` Sport making Profit		31,000
	12,000		``Dividend on		
Less : Closing Stock	1,800	10,800	Investment		20,000
`` Rates	12,000				
Less : Prepaid Amount [¼th]	3,000	9,000			
`` Telephone Charges	2,000				
Add: Outstanding for '13	700	2,700			
`` Sundry Expenses	18,500				
Less: Outstanding for '12	1,400	17,100			
`` Depreciation on building		10,000			
[5% of 2,00,000]		5,400			
`` Surplus					
		96,000			96,000

(b)The Balance Sheet of New City College as at 31st March 2013 was as follows:

Liabilities	₹	Assets	₹
Capital Fund	**21,00,000**	**Land and Building**	**20,00,000**
Building Construction	**8,00,000**	**Furniture**	**3,00,000**
Fund General Fund	**6,40,000**	**Laboratory Equipment**	**2,50,000**
Outstanding Salary(teachers)	**1,60,000**	**Library Books**	**3,60,000**
		Investments	**6,50,000**
		Accrued Tuition Fee	**10,000**
		Cash and Bank	**1,30,000**
	37,00,000		**37,00,000**

The Receipts and Payments Account for the year ended 31st March 2014 was drawn as under:

Dr. **Cr.**

Receipts	₹	Payments	₹
To Opening Bal.(1/4/2013)	1,30,000	By Salaries & Allowances (teachers)	42,00,000
To Govt. Grants	50,00,000	By non- teaching staff	20,00,000
To Donation for Building Construction	2,00,000	By Printing & Stationary	80,000
		By Lab. Exp	60,000
To Tuition fees & session charges	18,20,000	By Lab. Equipment	1,20,000
		By Library Books	2,50,000
To Investment Income	70,000	By Office Equipment	60,000
To Rental Income(College Hall)	40,000	By Electricity & Telephone	75,000
		By Audit Fees	2,000
		By Municipal Taxes	1,000
		By Building Repairs	40,000
		By Purchase of Furniture	80,000
		By Games and Sports	20,000
		By Welfare Exp.	30,000
		By New Investments	1,50,000
		By Cl. Bal. (31/3/2014)	92,000
	72,60,00		72,60,000

Other information:

(i) Tuition fee outstanding as on 31/3/2014 – ₹40,000
(ii) Salary of teaching staff outstanding for March 2014-₹ 2,50,000
(iii) Books received as donations from various parties- ₹30000 (valued)
(iv) Outstanding building repair expenses as on 31/3/2014- ₹ 15,000
(v) Applicable depreciation rates:

Land and Building	2%
Furniture	8%
Lab. Equipment	10%
Library Books	20%

You are required to prepare the Income and Expenditure Account for the year ended 31st March 2014.

Answer:

New City College
Income and Expenditure Account for the year ended 31.3.2014

Dr. **Cr.**

Particulars		₹	Particulars		₹
To Salaries :			Tuition Fees	18,20,000	
Teaching staff	42,00,000		Add : Outstanding	40,000	
Add: Outstanding	2,50,000			18,60,000	
	44,50,000		Less: Accrued last year	10,000	18,50,000
Less: Last year Liability	1,60,000	42,90,000			
Non-teaching staff		20,00,000	Revenue Grant		50,00,000
Building Repairs	40,000		Investment Income		70,000
Add: Outstanding	15,000	55,000	Rental Income		40,000
Office Exp.		60,000	Value of donation of books		30,000
Printing & Stationary		80,000			
Lab. Exp		60,000			
Electricity & Telephone		75,000			
Audit Fee		2,000			
Municipal Tax		1,000			
Games& Sports		20,000			
Welfare Expenses		30,000			

Depreciation : Building	40,000				
Furniture	30,400	2,35,400			
Lab. Equip	37,000				
Book	1,28,000				
Excess of Income over Expenditure transferred to General Fund		81,600			
		69,90,000			**69,90,000**

(c) On 1.07.2013 , Nikita Mittal commenced her business with ₹5,00,000. On 1st Oct. she sold her private investments (Cost ₹50,000, Face value ₹40,000) at 125% of face value and brought the proceeds into her bussiness. Her drawings were ₹1,000 p.m. Goods costing ₹11,000 were taken by her for personal use. On 31.03.2012, Capital before adjustments ₹7,00,000, Outstanding Expenses ₹21,000 and Prepaid Expenses ₹4,000.Provide Interest on Capital @ 12% p.a and for group incentive to staff @5% on Net Profit after charging such incentive and interest on capital. Calculate the Profit/Loss for the year ended 31st March, 2014.

Answer:

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDING ON 31.03.2013

Particulars		₹
A. Capital at the end		7,00,000
B. Add: Drawings during the year [Cash (₹1,000 × 9) + Goods of ₹11,000		20,000
C. Less: Additional capital introduced during the year [₹40,000 + 25% of ₹40,000]		50,000
D. Adjusted Capital at the end (A + B - C)		6,70,000
E. Less: Capital in the beginning		5,00,000
F. Profit subject to adjustments (D – E)		1,70,000
G. Less: Adjustments Outstanding Expenses Prepaid Expenses Interest on capital (12% × 5,00,000 × 9/12) 45,000 (12% × 50,000 × 6/12) 3,000	 (21,000) 4,000 (48,000)	65,000
H. Net Profit before Group Commission for the year [F – G]		1,05,000
I. Less: Group Commission [₹1,05,000 ×5/105]		5,000
J. Net Profit [H – I]		1,00,000

Study Note – 6: Partnership

Question No 7.

(a) A, B and C were in partnership sharing profits and losses in the ratio of 9 : 4 : 2. B retired from the partnership on 31st March, 2014, when the firm's balance sheet was as under

Particulars		₹	Particulars	₹
Sundry creditors		**900**	**Cash and bank**	**426**
Capital accounts :			**Sundry debtors**	**600**
A	**4,050**		**Stock**	**1,200**
B	**1,800**		**Furniture**	**399**
C	**900**	**6,750**	**Plant**	**1,275**
			Land and building	**3,750**
		7,650		**7,650**

B's share in goodwill and capital was acquired by A and C in the ratio of 1 : 3, the continuing partners bringing in the necessary finance to pay off B. The partnership deed provides that on retirement or admission of a partner, the goodwill of the firm is to be valued at three times the average annual profits of the firm for the four years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March, 2014 in thousands of rupees were:

	₹
2010-11	**675**
2011-12	**375**
2012-13	**900**
2013-14	**1,050**

Answer:

(i) **Statement showing the partners' share**

Particulars	A	B	C	G
Ratio before retirement of B	9/15	4/15	2/15	-
Adjustment on retirement	(+) 1/15	-	(+)3/15	
New ratio before admission of G	10/15	-	-	5/15
On admission G Gift by A (12.5/100)	(-) 1/8			1/8
Purchase from A & C*	(-) 2/24	-	(-)1/24	(+)3/24
New ratio	11/24	-	7/24	6/24

* Purchase from A = 2/3 × 1/8 = 2/24
Purchase from C. = 1/3 × 1/8 = 1/24

(ii)

Journal Entries

	Particulars	Dr. ₹	Cr. ₹
1.	A's capital A/c Dr. C 's capital A/c Dr. To B's capital A/c (Being purchase by A and C of goodwill from B)	1,50,000 4,50,000	 6,00,000
2.	A's capital A/c Dr. To G's capital A/c (Being gift made by A to G)	11,25,000	 11,25,000
3.	Bank A/c Dr. To A's capital A/c To C's capital A/c To G's capital A/c (Being capital brought in by the partners)	46,50,000	 11,62,500 20,81,250 14,06,250
4.	B's capital A/c Dr. To Bank A/c (Being final payment made to B on retirement)	24,00,000	 24,00,000
5.	G's capital A/c Dr. To A's capital A/c To C's Capital A/c (Being goodwill adjusted on admission)	2,81,250	 1,87,500 93,750

(iii)

Balance Sheet as on 1st April, 2014

Liabilities		₹	Assets	₹
Sundry creditors		9,00,000	Cash and bank	26,76,000
Capital accounts :			Sundry debtors Stock	6,00,000 12,00,000
A	41,25,000		Furniture	399,000
C	26,25,000		Plant	1275,000
G	22,50,000		Land and building	3750,000
		99,00,000		**99,00,000**

Working Notes:

(1) Adjustment of Goodwill on Retirement

Value of Goodwill = (675 + 375 + 900 + 1050) × ¾ 2250

Share of B = 1,500 × 4/15 = 400

Adjustment through partners' capital accounts

A : ¼ *600=150(Dr.)

B : 4/15 *2250=600(Cr.)

C : ¾*600=450(Dr.)

(2) Closing Balances of Capital Accounts

B's share of capital and goodwill = 1,800 + 600 = 2400

This represents 4/15th share of capital and goodwill requirement of the firm. Thus, total capital and goodwill requirement = 2400*15/4=9000

Hence, closing capital balances (in new profit sharing ratio of 11: 7: 6) should be

A : 11/24*9,000=4125

C : 7/24*9,000=2625

G :6/24*9,000=2250

Gift by A to G : 1/2*2,250=1125

(Debit to A's capital A/c and credit to G's capital A/c)

(3) Adjustment of Goodwill on Admission

Goodwill of the firm = 2250

G's share of goodwill = ¼*2250

= 562.50

(a) Gift by A = ½*562.50

= 281.25

(Included in the gift of 1125 – see W.N. 2)

(b) Purchase from A and C = 281.25 (in 2 : 1 ratio)

Thus, adjustment of goodwill purchased through capital accounts

A : 2/3*281.25=187.50 (Cr.)

C : 1/3*281.25=93.75(Cr.)

G : 1/2*562.50=281.25(Dr.)

(4) Amount brought in by Partners

Partners' Capital Accounts

Dr. Cr.

Particulars	A ₹	B ₹	C ₹	G ₹	Particulars	A ₹	B ₹	C ₹	G ₹

To B	150	—	450	—	By Balance b/d	4050	1800	900	—
To G	1125	—	—	—	By A and C	—	600	—	—
To A & C	—	—	—	281.25	By Cash and Bank (Bal. figure)	1162.5	—	2081.25	1406.25
To Cash and Bank	—	2400	—	—					
To Balance c/d	4125	—	2625	2250	By A	—	—	—	1125.00
					By G	187.5	—	93.75	—
	5,400	2,400	3,075	2,531.25		5,400	2,400	3,075	2,531.2

(5) Cash and Bank

Amount given	426
Amount brought in by partners	4,650
	5,076
Less: Payment to B	2,400
	2,676

Net increase = ₹ 2676

(Equivalent to the value of goodwill)

(b) The firm of PQR was dissolved on 31.3.2014, at which date its Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Creditors	5,00,000	Fixed Assets	1,12,50,000
Bank Loan	12,50,000	Cash and Bank	5,00,000
P's Loan	25,00,000		
Capital			
P	37,50,000		
Q	25,00,000		
R	12,50,000		
	1,17,50,000		1,17,50,000

Partners share profits equally. A firm of Professional Accountants is retained to realize the assets and distribute the cash after discharge of liabilities. Their fees which are to include all expenses is fixed at ₹ 2,50,000. No loss is expected on realization since fixed assets include valuable land and building.

Realizations are:

Sl. No.	Amount in (₹)
1	12,50,000
2	37,50,000
3	37,50,000
4	75,00,000
5	75,00,000

The Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

In the Books of M/s PQR
Statement of Piecemeal Distribution
(Under Higher Relative Capital method)

Particulars	Amount available	Creditors	Bank Loan	P's loan	Capital A/cs		
					P	Q	R
	₹	₹	₹	₹	₹	₹	₹
Balance due		5,00,000	12,50,000	25,00,000	37,50,000	25,00,000	12,50,000
1st Instalment (including cash and bank balances)	12,50,000						
Less: Liquidator's Expenses and fees	2,50,000						
	10,00,000						
Less: Payment to Creditors and repayment of Bank Loan in the ratio of 2:5	(10,00,000)	(2,85,715)	(7,14,285)				
Balance Due	_	2,14,285	5,35,715	25,00,000	37,50,000	25,00,000	12,50,000
2nd Instalment	3750,000						
Less: Payment to Creditors and repayment of bank loan in full settlement	(7,50,000)	2,14,285	5,35,715	-	-	-	-
	30,00,000	-	-	-	-	-	-
Less: Repayment of P's Loan	25,00,000	-	-	(25,00,000)	-	-	-
	5,00,000						
Less: Payment to Mr. P towards relative higher capital (W.N. 1)	500000				5,00,000		
Balance Due	-	-	-	-	32,50,000	25,00,000	12,50,000
3rd Instalment	37,50,000						
Less: Payment to Mr. P towards higher relative capital (W.N. 2)	7,50,000				7,50,000		
	30,00,000	-	-	-	25,00,000	25,00,000	12,50,000
Less: Payment to Mr. Q & Mr. R towards excess capital (W.N. 1&2)	25,00,000				12,50,000	12,50,000	
	5,00,000	-	-	-	12,50,000	12,50,000	12,50,000
Less: Payment to all the partners equally	5,00,000				1,66,667	1,66,667	1,66,666
Balance due					10,83,333	10,83,333	10,83,334
4th Instalment	75,00,000						
Less: Payment to all the partners equally	75,00,000				25,00,000	25,00,000	25,00,000
Realisation profit credited to Partners					14,16,667	14,16,667	14,16,666
5th Instalment	75,00,000						
Less: Payment to all partners equally	(75,00,000)				12,50,000	12,50,000	12,50,000
Realisation profit credited to partners					26,66,667	26,66,667	26,66,666

Working Notes :

(i) Scheme of payment of ₹ 5,00,000 out of second Installment :

Particulars	Capital A/cs		
	P ₹	Q ₹	R ₹
Balance (i)	37,50,000	25,00,000	12,50,000
Profit sharing ratio (ii)	1	1	1
Capital taking P's Capital (iii)	12,50,000	12,50,000	12,50,000
Excess Capital (iv) = (i) –(iii)	25,00,000	12,50,000	
Profit Sharing Ratio	1	1	
Excess capital taking Q's Excess Capital as base (v)	12,50,000	12,50,000	
Higher Relative Excess (iv) – (iv)	12,50,000		

So Mr. P should get ₹ 12,50,000 first which will bring down his capital account balance from ₹ 37,50,000 to ₹ 25,00,000. Accordingly, surplus amounting to ₹ 5,00,000 will be paid to Mr. P towards higher relative capital.

(ii) Scheme of payment of ₹ 37,50,000 realized in 3rd Installment :

- Payment of ₹ 7,50,000 will be made to Mr. P to discharge higher relative capital. This makes the higher capital of both Mr. P and Mr. Q ₹ 12,50,000 as compared to capital of Mr. R.
- Payment of ₹ 12,50,000 each of Mr. P & Mr. Q to discharge the higher capital.
- Balance ₹ 5,00,000 equally to P, Q and R, i.e., ₹ 166,667 ₹ 1,66,667 and ₹ 1,66,666 respectively.

Question No 8.

(a) D, E and F were partners in business, sharing profits & losses in the ratio 2:1:1. Their Balance Sheet as at 31.3.14 is as follows :

Balance Sheet as at 31.3.14

Liabilities		₹ (In thousands)	Assets		₹ (In thousands)
Fixed Capital:			**Fixed Assets**		**900**
D	**600**		**Investments**		**150**
E	**300**		**Current Assets:**		
F	**300**	**1,200**	**Stock**	**300**	
Current Accounts:			**Debtors**	**180**	
D	**120**		**Cash & Bank**	**450**	**930**
E	**60**	**180**			
Unsecured Loans		**600**			
		1980			**1980**

On 1.4.14, it is agreed among the partners that AB (P) Ltd. a newly formed company with E and F having each taken up 300 shares of ₹ 10 each will take over the firm as a going concern including goodwill but excluding cash & bank balances. The following points are also agreed upon:

(i) Goodwill will be valued at 3 years purchase of super profits.

(ii) The actual profit for the purpose of goodwill valuation will be ₹ 300,000.

(iii) Normal rate of return will be 15% on fixed capital.

(iv) All other assets and liabilities will be taken over at book values.

(v) The purchase consideration will be payable partly in shares of ₹ 10 each and partly in cash. Payment in cash being to meet the requirement to discharge D, who has agreed to retire.

(vi) E and F are to acquire equal interest in the new company.

(vii)Expenses of liquidation ₹ 120,000.
You are required to prepare the necessary Ledger Accounts.

Answer:

Particulars	₹
Capital employed on 31.3.14 (Fixed capital)	12,00,000
Calculation of Goodwill :	
Weighted average of actual profits	3,00,000
Less: Normal profits at 15% of ₹ 12,00,000	1,80,000
Super profits	1,20,000
Goodwill at 3 years' purchase, i.e. 120,000 × 3	3,60,000
Calculation of Purchase Consideration :	
Total assets as per Balance Sheet	19,80,000
Less: Cash & Bank balances	4,50,000
	15,30,000
Add: Goodwill	3,60,000
	18,90,000
Less: Unsecured loans	6,00,000
Purchase Consideration	12,90,000

Dr. **Realization Account** **Cr.**

Particulars	₹	**Particulars**		₹
To Sundry Assets	15,30,000	By Unsecured loans		6,00,000
To Goodwill	3,60,000	By AB(P) Ltd.		12,90,000
To Bank : expenses	1,20,000	By Capital A/c:		
		D	60,000	
		E	30,000	
		F	30,000	1,20,000
	20,10,000			**20,10,000**

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	**D** ₹	**E** ₹	**F** ₹	**Particulars**	**D** ₹	**E** ₹	**F** ₹
To Realisation	60,000	30,000	30,000	By Bal. c/d	6,00,000	3,00,000	3,00,000
To Cash	8,40,000	–	–	By Cur. A/c	1,20,000	60,000	
To C (Cap. adj)	–	30,000	–	By Goodwill By E	18,00,000	90,000	90,000
To Shares in AB (P) Ltd.)	–	3,90,000	3,90,000	(Cap. adj)	–	–	30,000
	9,00,000	4,50,000	4,20,000		9,00,000	4,50,000	420,000

Dr. **Cash & Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	4,50,000	By Realisation A/c – expenses	1,20,000
To AB (P) Ltd. (Balancing Figure)	5,10,000	By A's Capital A/c	8,40,000
	9,60,000		**9,60,000**

Dr. **AB(P) Ltd. Account** **Cr.**

Particulars	₹	Particulars	₹
To Realisation	9,00,000	By Cash	5,10,000
		By Equity Shares (Balancing Fig.) (39,000 shares of ₹ 10 each)	390,000
	900,000		**900,000**

Proportion of equity capital E:F = 1:1
No. of shares 39,000 /2 =19,500 Shares

(b) The Capital Accounts of Adhar and Bhudhar stood at ₹40,000 and ₹30,000 respectively after the necessary adjustments in respect of the drawings and the net profits for the year ended 31st December, 2013. It was subsequently ascertained that 5% p.a. interest on Capitals and drawings was not taken into account in arriving at the net profit. The drawings of the partners had been: Adhar ₹1,200 at the end of each quarter and Bhudhar ₹1,800 at the end of each half year.
The Profits for the year as adjusted amounted to ₹20,000. The partners share profits in the proportion of Adhar $\frac{3}{5}$ and Bhudhar $\frac{2}{5}$.
You are required to pass journal entries and show the adjusted capital accounts of the partners.

Working notes:

1. Calculation of opening capitals (01.01.2013)

	Adhar ₹	Bhudhar ₹
Capital as on 31.12.2013	40,000	30,000
Added Back: Drawings already deducted [Adhar = 1,200 × 4]	4,800	
[Bhudhar = 1,800 × 2]		3,600
	44,800	33,600
Deducted: Share of Profits already credited[20,000 shared as $\frac{3}{5}$ and $\frac{2}{5}$]	12,00	8,000
Capital as on 01.01.2013	32,800	25,600
∴Interest on Capital @ 5% p.a	1,640	1,280

2. Interest on Drawings

	Adhar ₹	Bhudhar ₹
On 1,200 drawn at the end of first quarter $\left[1,200\times\frac{5}{100}\times\frac{9}{12}\right]$	45	
On 1,200 drawn at the end of second quarter $\left[1,200\times\frac{5}{100}\times\frac{6}{12}\right]$	30	
On 1,200 drawn at the end of 3rd quarter $\left[1,200\times\frac{5}{100}\times\frac{3}{12}\right]$	15	
On 1,200 drawn at the end of last quarter	Nil	
	90	
On 1,800 drawn at the end of 1st half year $\left[1,800\times\frac{5}{100}\times\frac{6}{12}\right]$		45
On 1,800 drawn at the end of 2nd half year		Nil
		45

3. Adjustment required

	Adhar ₹	Bhudhar ₹	Total ₹
Interest on Capitals (to be credited to capital)	1,640	1,280 45	2,920
Interest on Drawings (to be debited to capital)	90		135
Net Interest to be credited to Capital	1,550	1,235	2,785

₹2,785 wrongly shared as profits as $\frac{3}{5}$ and $\frac{2}{5}$ and credited	1,671,	1,114.	2,785
Difference	121 (excess cr.)	121 (under cr.)	

Answer:

Adjustment Entry:

Journal **Dr.** **Cr.**

Date	Particulars	L.F.	Amount ₹	Amount ₹
1.1.2014	Adhar's Capital Account ....Dr. To Bhudhar's Capital Account [Adjustment made for Interests on Capital and on Drawings not provided and the net amount wrongly shared as profits]		121	 121

Capital Account

Dr. **Cr.**

Date	Particulars	Adhar ₹	Bhudhar ₹	Date	Particulars	Adhar ₹	Bhudhar ₹
1.1.14	To Bhudhar's Capital	121		1.1.14	By Balance b/f	40,000	30,000
	To Balance c/f	39,879	30,121		Adhar's Capital		121
		40,000	30,121			40,000	30,121

Points to be noted:

1. Here opening Capitals can be 'found out. Information regarding annual profits and drawings are given. So interest on capitals (opening) can be calculated.
2. Interest on Drawings should also be calculated.

Study Note — 7: Royalty and Hire purchase

Question No 9.

(a) Banerjee & Co. purchased seven trucks on hire purchase on 1st July. 2012. The cash purchase price of each truck was ₹ 50,000. The company has to pay 20% of the cash purchase price at the time of delivery and the balance in five half yearly installment starting from 31st December, 2012 with interest at 5% per annum at half yearly rest. On the Company's failure to pay the installment due on 30th June 2013, it was agreed that the Company would return 3 trucks to the vendor and the remaining four would be retained. The vendor agreed to allow him a credit for the amount paid against these 3 trucks less 25%. Vendor after spending ₹ 1,000 on repairs sold away all the three trucks for ₹40,000.

Required: Show the relevant Accounts in the books of the purchaser and vendor assuming the books are closed in June every year and depreciation @ 20% p.a. is charged on Trucks.

Answer:

In books of Hire-Purchaser (Banerjee & Co.)

Trucks Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.07.12	To Hire Vendor's A/c (Cost of 7 Trucks @ ₹50,000 each)	3,50,000	30.06.13	By Depreciation A/c	70,000
				By Hire Vendor's A/c (Value of 3 Trucks returned to Vendor)	40,500
				By P & L A/c (Loss on default)	79,500
				By balance c/d	1,60,000
		3,50,000			3,50,000

Hire Vendor's Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.07.12	To Bank A/c (₹ 3,50,000 × 20/100)	70,000	01.07.12	By Trucks A/c	3,50,000
31.12.12	To Bank A/c [(20% of ₹ 2,80,000) + ₹7,000]	63,000	31.12.12	By Interest A/c [₹ 2,80,000 × 5/100 × 6/12]	7,000
30.06.13	To Trucks A/c (Value of Trucks returned)	40,500	30.06.13	By Interest A/c [₹2,24,000 × 5/100 × 6/12]	5,600
30.06.13	To Balance c/d	1,89,100			
		3,62,600			3,62,600

Working Notes:

1. Credit allowed Vendor against 3 trucks	₹
A. Total amount of principal paid against 7 trucks (₹ 70,000 + ₹ 56,000)	1,26,000
B. Total amount of principal paid against 3 trucks (₹ 1,26,000 × 3/7)	54,000
C. Credit allowed by Vendor (₹ 54,000 - 25% of ₹54,000)	40,500
2. Loss on return of 3 trucks	
A. Book value of 3 trucks returned [(₹50,000 × 3) less 20% of ₹ 1,50,000]	1,20,000
B. Less: Credit allowed by Vendor against these 3 Trucks	(40,500)
C. Loss on return of 3 Trucks (A — B)	79,500

In the books of hire vendor

Dr. Banerjee & Co's Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.07.12	To Hire Sales A/c	3,50,000	01.07.12	By Bank A/c	70,000
31.12.12	To Interest A/c	7,000	31.12.12	By Bank A/c	63,000
30.06.13	To Interest A/c	5,600	30.06.13	By Goods Repossessed A/c	40,500
			30. 06.13	By Balance c/d	1,89,100
		3,62,600			3,62,600

Dr. Goods Repossessed Account Cr.

Date	Particulars	₹	Date	Particulars	₹
30.06.13	To BANERJEE & Co.	40,500	30.06.13	By Bank A/c (Sales)	40,000
30.06.13	To Cash A/c (expenses)	1,000	30.06.13	By Profit and Loss A/c (Loss on sale)	1,500
		41,500			41,500

(b) Discuss about the Minimum Rent or Dead Rent.

Answer:

Minimum Rent / Dead Rent

A contract is entered into between the landlord and the lessee for payment of royalty, usually calculated upon the quantum of production or sale at a certain stipulated rate.

So, if there is little or no production or sale, the landlord would receive little or no royalty at all, thus affects the monetary interest of the landlord as well as the lessee. It is normally not acceptable to the owner, since sale or production mostly depends on the capacity of the person to whom the rights have been given. To avoid such a situation, the landlord and the lessee agreed upon a minimum periodical amount that the landlord will receive from the lessee, even if the actual royalty as calculated on the basis of actual production or sale is less than such minimum amount.

This assured and mutually agreed periodical minimum amount is known as **"Minimum Rent".**

Example: Suppose royalty per ton of production is ₹ 10 and the minimum (annual) rent is ₹ 4,00,000. Now, the actual production is 35,000 tons, then actual royalty would become ₹ 3,50,000. In this case the minimum rent of ₹ 4,00,000 will have to be paid by the lessee. On the other hand, if the actual production is 46,000 tons, then the actual royalty would become ₹ 4,60,000. In this case ₹ 4,60,000 will have to be paid by the lessee.

Thus, as there is a stipulation for minimum rent, then either the minimum rent or the actual royalty whichever is more shall have to be paid by the lessee.

The minimum rent is also called dead rent, certain rent, fixed rent, etc.

(c) From the following information of M/s Chennai Traders, you are required to prepare Hire Purchase Trading Account to ascertain the profit made during the financial year 2012-13.

Chennai Traders sell goods on hire purchase basis at cost plus 25%. The following details are available:

(1)	**Installment not due on 31st March, 2012-2013**	**4,50,000**
(2)	**Installment due and collected during the financial year 2012-13**	**12,00,000**
(3)	**Installment due but not collected during the financial year 2012-2013 which includes ₹ 15,000 for which goods were repossessed**	**75,000**
(4)	**Installment not due on 31st March, 2013 including ₹ 30,000 for which goods were repossessed**	
(5)	**Installment collected on repossessed stock**	**5,55,000**
(6)	**M/s Chennai Traders valued repossessed stock at 60% of original cost**	**22,500**

Answer:

Dr. Hire Purchase Trading Account Cr.

Particulars	₹	Particulars	₹
To Opening Balances		By Stock reserve (Opening)	90,000
H.P. Stocks	4,50,000	By Hire purchase sales	12,00,000
H.P. Debtors	—	By Goods sold on hire purchase (loading)	2,70,000
To Goods sold on Hire Purchase	13,80,000		
To Stock Reserve (Closing)	1,05,000	By Goods Repossessed	32,400
To Profit & Loss A/c (H.P. profit)	2,48,400	By Closing Balances:	
		- HP Stock	5,25,000
		- HP Debtors	60,000
	21,60,000		**21,60,000**

Working Notes:

Dr. 1. Memorandum Hire Purchase Stock Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	4,50,000	By Hire Purchase Debtors A/c	12,75,000
To Goods Sold on H.P. A/c	13,80,000	By Goods Repossessed A/c	30,000
		By Balance c/d[₹ 5,55,000 – ₹ 30,000]	5,25,000
	18,30,000		18,30,000

Dr. 2. Memorandum Hire Purchase Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	-	By Cash/Bank A/c	12,00,000
To Hire Purchase Stock A/c	12,75,000	By Goods Repossessed A/c	15,000
		By Balance c/d [₹ 75,000-₹ 15,000]	60,000
	12,75,000		12,75,000

3. Loss on repossessed goods

Installments collected	22,500
Installments due	15,000
Installments not due	30,000
	67,500
Hire Purchase Price of Repossessed goods	
Cost of Repossessed Goods (₹ 67,500 × 100/125)	54,000
Valuation of Repossessed Goods (₹ 54,000 × 60/100)	32,400
Less: Cost of installments due + Installments not yet due (₹ 15,000+₹ 30,000)×100/125	36,000
Loss on repossession	3,600

Question No 10.

(a) NN Ltd. owns certain patent rights. It has granted a license to AA Ltd. to use such rights on royalty basis. The Royalty payable is ₹ 50 per unit produced. AA Ltd. Has issued sub-license to KK Ltd. On the basis of a Royalty of ₹ 60 per unit sold. The minimum Royalty payable by KK Ltd is fixed at ₹ 75000.
- per annum. Short Workings can be recouped within one year from the last date of the year in which they occur.
The following particulars are available for the first three years of working:

AA Ltd.

Year	Sales (units)	Closing Stock (units)
1	6,000	1,500
2	7,500	3,000
3	13,500	4,500

KK Ltd.

Year	Production (units)	Closing Stock (units)
1	600	300
2	3,000	600
3	4,500	1,350

You are required to:

(a) Prepare in books of AA Ltd. a statement showing analysis of Royalties Receivable and Royalties Payable, and

(b) Show Royalty Receivable Account and Royalty Payable Account in books of AA Ltd.

Answer:

Books of AA Ltd.

Analysis of Royalty Payable

Year	Production (Consolidated Units)	Rate (₹)	Amount (₹)
1	7,500 + 600 = 8,100	50	4,05,000
2	9,000 + 3,000 = 12,000	50	6,00,000
3	15,000 + 4,500 = 19,500	50	9,75,000

Analysis of Royalty Receivable

Year	Sales Unit	Minimum Rent	Royalty @ ₹ 60	Excess of Royalty over Min. Rent	S/W Occurred (₹)	S/W Adjusted (₹)	S/W Lapsed (₹)	S/W c/f (₹)	Amount Receivable (₹)
1	300	75,000	18,000	-	57,000	-	-	57,000	
2	2,700	75,000	1,62,000	87,000	-	57,000	-	-	1,05,000
3	3,750	75,000	2,25,000	1,50,000	-	-	-	-	2,25,000

Royalty Payable Account

Dr Cr

Year End	Particulars	Amount (₹)	Year End	Particulars	Amount (₹)
1	To NN Ltd	4,05,000	1	By Royalty Receivable A/c	30,000
				By P/L A/c	3,75,000
		4,05,000			4,05,000
2	To NN Ltd	6,00,000	2	By Royalty Receivable A/c	1,50,000
				By P/L A/c	4,50,000
		6,00,000			6,00,000
3	To NN Ltd	9,75,000	3	By Royalty Receivable A/c	2,25,000
				By P/L A/c	7,50,000
		9,75,000			9,75,000

Royalty Receivable Account

Dr | Cr

Year End	Particulars	Amount (₹)	Year End	Particulars	Amount (₹)
1	To Royalty Payable A/c 600 × ₹50	30,000	1	By KK Ltd. By P/L A/c	18,000 12,000
		30,000			30,000
2	To Royalty Payable A/c To P/L A/c	1,50,000 12,000	2	By KK Ltd.	1,62,000
		1,62,000			1,62,000
3	To Royalty Payable A/c	2,25,000	3	By KK Ltd.	2,25,000

(b) A firm started business on 1st April, 2012. During the year ending on 31st March, 2013 its total purchases amounted to ₹ 52,540 and sales excluding hire purchase transactions amounted to ₹ 63,900. The following are the details of H.P. transactions:

Articles	Cost	Sale price	Deposit	Monthly installment	No. of installments paid in 2011-12
Radio	**400**	**600**	**100**	**20 of ₹25**	**8**
Motor Cycle	**1,500**	**2,400**	**400**	**10 of ₹ 200**	**4**
Refrigerator	**2,000**	**2,800**	**400**	**12 of ₹ 200**	**2**

The installments on the refrigerator could not be kept up and it was returned on 26th March, 2013. Stock in hand on 31st March, 2013 excluding the returned refrigerator was valued at ₹ 7,210.

Required: Prepare the Hire Purchase Trading Account and the General Trading Account.

Answer:

Dr. General Trading Account for the year ended on 31st March, 2013 Cr.

Particulars		₹	Particulars	₹
To Purchases	52,540		By Sales	63,900
Less: Sold on H.P.	3,900	48,640	By Closing Stock	7,210
To Gross Profit		22,470		
		71,110		71,110

Hire Purchase Trading Account

Dr. for the year ended on 31st March, 2013 Cr.

Particulars	₹	Particulars		₹
To Goods Sold on Hire Purchase	5,800	By Cash:		
To Stock Reserve	550	Down Payment	900	
To Gross Profit	778	Installments	1,400	2,300
		By Hire Purchase Stock at the end		1,500
		By Goods Repossessed (Cost equivalent)		1,428
		By Goods Sold on Hire Purchase (Loading)		1,900
	7,128			7,128

Working Notes:

	Total Installments	Installments Collected	Installment not due or unpaid
Radio	500	200	300
Motor cycle	2,000	800	1,200
Refrigerator	2,400	400	2,000

$$\text{Unrealised profit of installments not due} = \text{Installments not due} \times \frac{\text{Hirepurchase Price} - \text{Cost Price}}{\text{Hirepurchase Price}}$$

Radio = ₹ 300 × ₹ 200/600 = ₹100, Motor Cycle = 1,200 × ₹ 900/₹ 2,400 = ₹ 450, Cost Equivalent on Refrigerator = ₹ 2,000 × ₹ 2,000/ ₹ 2,800 = ₹1,428

Study Note — 8: Branch and Departmental Accounting

Question No 11.

(a) A Chennai Merchant opens a New Branch in Mathura, which trades independently of the Head Office. The transactions of the Branch for the year-ended 31st March are as under -

Particulars		**₹**
Goods supplied by Head Office		**2,00,000**
Purchases from Outsiders:		
- Credit	**1,55,500**	
- Cash	**30,000**	**1,85,500**
Sales:		
- Credit	**2,50,500**	
- Cash	**46,000**	**2,96,500**
Cash received from Customers		**3,04,500**
Trade Creditors Paid		**1,42,500**
Expenses Paid by Branch		**89,500**
Furniture purchased by Branch on credit		**35,000**
Cash Received from Head Office initially		**40,000**
Remittances to Head Office		**1,10,000**

Prepare the Branch Final Accounts and the Branch Account in the Head Office Books on incorporation of the Branch Trial Balance in the Head Office Books, after taking the following into consideration:

(i) The Accounts of the Branch Fixed Assets are maintained in the Head Office books.
(ii) Write off Depreciation on Furniture at 5 percent per annum for full year.
(iii) A Remittance of ₹20,000 from the Branch to the Head Office is in Transit.
(iv) The Branch values its Closing Stock at ₹1,20,000.

Answer:

In the books of Mathura Branch

A. Trading and Profit and Loss Account for year ending 31st March

Particulars	**₹**	**₹**	**Particulars**	**₹**	**₹**
To Goods Supplied by HO		2,00,000	By Sales:		
To Purchases:			- Credit	2,50,000	
- Credit	1,55,500		- Cash	46,000	2,96,500
- Cash	30,000	1,85,500	By closing stock		1,20,000
To Gross Profit c/d (bal.fig.)		31,000			
		4,16,500			**4,16,500**
To Expenses (HO A/c Contra)		89,500	By Gross Profit b/d		31,000
To Depreciation on Furniture (35,000 × 5%)		1,750	By Net Loss (transferred to HO A/c) (**bal. fig.**)		60,250
		91,250			**91,250**

B. Balance Sheet as on year ended 31st March (before transfer of Branch Assets and Liabilities to HO A/c)

Capital and Liabilities	**₹**	**Properties and Assets**	**₹**
Head Office Account (Stage I Bal. WN 2)	36,500	Closing Stock	1,20,000
Trade Creditors	13,000	Cash in Hand **(WN 1)**	18,500
Creditors for Furniture	35,000		
Advances from Customers	54,000		
	1,38,500		**1,38,500**

Working Notes:

1. **Branch Cash Account** (to determine the closing Balance)

Receipts	₹	Payments	₹
To Head Office (Initial Receipt)	40,000	By Cash Purchases	30,000
To Cash Sales	46,000	By Trade Creditors	1,42,500
To Trade Debtors	3,04,500	By Expenses	89,500
		By Head Office A/c (Remittances made)	1,10,000
		By balance c/d **(balancing figure)**	**18,500**
	3,90,500		**3,90,500**

2. **Head office Account** (This is prepared to determine Closing HO Balance in Branch Books from **I Stage**)

Particulars	₹	Particulars	₹
To Branch Cash A/c (Note 2)	1,10,000	By Goods received from HO A/c	2,00,000
To Branch P & L A/c (Note 3)	60,250	By Branch Cash A/c	40,000
To Creditor for Furniture	35,000	By Depreciation on Furniture A/c(Note 1)	1,750
To Stage I balance c/d (bal. fig.)	36,500		
	2,41,750		**2,41,750**
To Branch Cash A/c	18,500	By balance b/d	36,500
To Branch Stock A/c	1,20,000	By Creditors A/c	13,000
		By Creditors for Furniture A/c	35,000
		By Advance from Customers	54,000
	1,38,500		**1,38,500**

3. **Mathura Branch Account in the books of Head office**

Particulars	₹	Particulars	₹
To Cash (Initial Investment)	40,000	By Cash (Remittance)	1,10,000
To Goods Sent to Branch A/c	2,00,00	By Branch Stock	1,20,000
To Branch Furniture	0 1,750	By Branch Cash	18,500
To Branch Trade Creditors	13,000	By General P & L A/c (Loss Transfer)	60,250
To Branch Creditors for Furniture	35,000	By Branch Furniture	35,000
To Branch Trade Debtors (Advances)	54,000		
	3,43,750		**3,43,750**

Notes:

1. Since Branch Accounts are maintained by at HO, the Entry passed in Branch and HO Books is are under –

Branch Books	Dr. (₹)	Cr. (₹)	Head Office Books	Dr. (₹)	Cr. (₹)
(a) For Purchase of Furniture			**(a) For Purchase of Furniture**		
Head Office A/c Dr.	35,000		Branch Furniture A/c Dr.	35,000	
To Creditors for Furniture		35,000	To Branch A/c		35,000
(b) For Depreciation			**(b) For Depreciation**		
Depreciation A/c Dr.	1,750		Branch A/c Dr.	1,750	
To Head Office A/c		1,750	To Branch Furniture A/c		1,750

2. It is assumed that the remittances of ₹1,10,000 include Cash in Transit of ₹20,000 from Branch to Head Office. The adjustment for this Cash in Transit is assumed to be made in Head Office Books.

3. It is assumed that the Branch transfers all its Assets and Liabilities including Profits / Losses after preparing Branch Trading and Profit & Loss A/c.

In the Books of Mathura Branch

Particulars		Dr. (₹)	Cr. (₹)
(a) For transfer of Branch Losses			
Head Office A/c	Dr.	60,250	
To Branch P & L A/c			60,250
(b) For transfer of Branch Assets			
Head Office A/c	Dr.	1,38,500	
To Closing Stock A/c			1,20,000
To Branch Cash A/c			18,500
(c) For transfer of Branch Liabilities			
Creditors A/c (1,55,500 -1,42,500)	Dr.	13,000	
Creditors for Furniture A/c	Dr.	35,000	
Advance from Customers A/c (3,04,500 - 2,50,500)	Dr.	54,000	
To Head Office A/c			1,02,000

(b) The following purchases were made by a business house having three departments:

Department A 1,000 units
Department B 2,000 units at a total cost of ₹ 1,00,000.
Department C 2,400 units

Stock on 1st January were: Department A 120 units; Department B 80 units and Department C 152 units

The Sales were

Department A 1,020 units at ₹ 20 each
Department B 2,000 units at ₹ 22.50 each
Department C 2,400 units at ₹ 25 each

The Rate of Gross Profits is the same in each case. Prepare the Departmental Trading Account.

Working Notes:

1. Calculation of Purchase Rate/Cost Price per unit

		A	B	C
(a)	Ratio of Selling Prices	20 8	22.50 9	25 10
(b)	Ratio of Questions Purchased	1,000 5	2,000 10	2,400 12
(c)	Composite Ratios [a x b]	40 4	90 9	120 12

$\therefore$ Purchases of each department are : A = $\frac{4}{25}$ x ₹ 1,00,000 = ₹ 16,000; B = $\frac{9}{25}$ x ₹ 1,00,000 = ₹ 36,000 C = $\frac{12}{25}$ x ₹ 1,00,000 = ₹ 48,000

$\therefore$ Cost Price per unit = $\left[\frac{\text{Purchases}}{\text{Units Purchased}}\right]$

$\left.\begin{array}{l} A = \frac{₹16,000}{1,000} = ₹\ 16 \\ B = \frac{₹36,000}{2,000} = ₹\ 18 \\ C = \frac{₹48,000}{24} = ₹\ 20 \end{array}\right\}$ This could be found out in a different way as illustrated in Illustration 7.

2. Valuation of Opening Stock
3. [Quantity x Cost Price Per Unit]

	₹
A = 120 x ₹ 16	1,920
B = 80 x ₹ 18	1,440
C = 152 x ₹ 20	3,040

4. Calculation of Sales

[Quantity Sold x Selling Price Per Unit]

	₹
A = 1,020 x ₹ 20	20,400
B = 1,920 x ₹ 22.50	43,200
C = 2,496 x ₹ 25	62,400

5. Valuation of Closing Stock

		A	B	C
(a)	Calculation of Units of Closing Stock			
	Units of Opening Stock	120	80	152
	+ Units Purchase	1,000	2,000	2,400
		1,120	2,080	2,552
	- Units Sold	1,020	1,920	2,496
	Units of Closing Stock	100	160	56
(b)	Values of Closing Stock [units x Cost Price]	100 x ₹ 16 = ₹ 1,600	160 x ₹ 18 = ₹ 2,880	56 x ₹ 20 = ₹ 1,120

Answer:

Departmental Trading Account for the year ended ………………

Dr. **Cr.**

	A ₹	**B** ₹	**C** ₹		**A** ₹	**B** ₹	**C** ₹
To Opening Stock	1,920	1,440	3,040	By Sales	20,400	43,200	62,400
To Purchases	16,000	36,000	48,000	By Closing Stock	1,600	2,880	1,120
To Gross Profit	4,080	8,640	12,480				
	22,000	46,080	63,520		22,000	46,080	63,520

Note: The correctness of the solution can be verified very easily. The Rate of G.P. $\left[\frac{GP}{Sales} \times 100\right]$ in each department is the same [here 20%].

Question No 12.

(a) Govind Limited has a Retail Branch at Noida. Goods are sold to Customers at Cost plus 100%. The Wholesale Price is Cost Plus 80%. Goods are invoiced to Noida at Wholesale Price. From the following particulars, find out the Profit made by the Head Office and Noida Branch for the year ended 31st March 20X2 using Invoice Method.

(b)

Particulars	**Head Office (₹)**	**Noida (₹)**
Stock on 1st April 20X1	**56,000**	**-**
Purchases	**3,00,000**	**-**
Goods Sent to Branch (at Invoice Value)	**1,08,000**	**-**
Sales	**3,06,000**	**1,00,000**
Expenses	**90,000**	**4,000**

Sales at Head Office are made only on Wholesale basis and Sales at Branch are made only to Customers. Stock at Branch is valued at Invoice Price.

Answer::

1. Trading and Profit and Loss Account for the year ended on 31st March

Particulars	HO	Branch	Particulars	HO	Branch
To Opening Stock	50,000	NIL	By Sales	3,06,000	1,00,000
To Purchases	3,00,000	NIL	By Goods Sent to Branch	1,08,000	-
To Goods received from HO	-	1,08,000	By Closing Stock (WN 1,2)	1,20,000	18,000
To Gross Profit (balancing figure)	**1,84,000**	**10,000**			
	5,34,000	**1,18,000**		**5,34,000**	**1,18,000**
To Expenses	90,000	4,000	By Gross Profit	1,84,000	10,000
To Net Profit (balancing figure)	**94,000**	**6,000**			
	1,84,000	**10,000**		**1,84,000**	**10,000**

Note: The Closing Stock of the Branch is taken at the Invoice Price, due to the requirement of the question.

2. General Profit and Loss Account

Particulars	₹	Particulars	₹
To Stock Reserve on Branch Closing Stk (18,000 × $\frac{80}{100}$)	8,000	By Head Office Profit	94,000
		By Branch Profit	6,000
		By Stock Reserve on Branch Opg Stk	Nil
To Net Profit (**balancing figure)**	92,000		
	1,00,000		**1,00,000**

Working Notes:

1. Computation of Branch Closing Stock at Invoice Price

Particulars	₹
Invoice Value of goods sent to Branch	1,08,000
Less: Invoice Value of goods sold by Branch (₹ 1,00,000 ×180 ÷ 200)	(90,000)
Branch closing stock (at Invoice Price)	18,000

2. Computation of Head Office closing Stock

Particulars	₹
Opening Stock	50,000
Add: Purchase	3,00,000
	3,50,000
Less: Cost of Goods sold by Head Office (₹3,06,000 × $\frac{100}{180}$)	(1,70,000)
	1,80,000
Less: Cost of Goods sent to Branch (₹1,08,000× $\frac{100}{180}$)	(60,000)
Head Office Closing stock	**1,20,000**

(c)

From the following data, prepare Departmental Trading and Profit and Loss Account for the year ended December 31, 2013.

	Departments	
	A	**B**

	₹	₹
Opening Stock	**40,000**	**----**
Purchases from outside	**2,00,000**	**20,000**
Wages	**10,000**	**1,000**
Transfer of goods from Department A	**---**	**50,000**
Closing Stock at cost to the Department	**30,000**	**10,000**
Sales to outsiders	**2,00,000**	**71,000**

B's entire stock represents goods from Department A which transfers them at 25% above its cost. Administrative and Selling Expenses amount to ₹ 15,000 which are to be allocated between Departments A and B in the ratio of 4 : 1 respectively. Also show the amount of provision to be made for unreaslied profit.

Answer:

……………..

Departmental Trading and Profit and Loss Account for the year ended 31.12.13

Dr. **Cr.**

Particulars	Dept. A ₹	Dept. B ₹	Particulars	Dept. A ₹	Dept. B ₹
To Opening Stock	40,000	---	By Sales	2,00,000	71,000
To Purchases	2,00,000	20,000	By Transfer	50,000	---
To Wages	10,000	1,000	By Closing Stock	30,000	10,000
To Transfer		50,000			
To Gross Profit c/d	30,000	10,000			
	2,80,000	81,000		2,80,000	81,000
To Administrative and Selling Expenses [4 : 1]	12,000	3,000	By Gross Profit b/d	30,000	10,000
To General Profit & Loss A/c [Departmental Net Profits]	18,000	7,000			
	30,000	10,000		30,000	10,000

(d)

General Profit and Loss Account for the year ended 31.12.13

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision on Stock [Note]	2,000	By Departmental Profit & Loss A/c:	
To Balance c/f / Capital A/c	23,000	A	18,000
		B	7,000
	25,000		25,000

Note:

B's Closing Stock = ₹ 10,000

A's Profit included there $\frac{25}{125}$ of ₹ 10,000 = ₹ 2,000

If this Provision had been shown in the Departmental Trading and Profit & Loss Account, it would be debited to A's column.

As a result the Departmental Net Profit of A would be shown as ₹ 16,000.

Study Note — 9: Self Balancing Ledgers and Sectional Balancing Ledgers

Question No 13.

The following pieces of information are available from the books of Mr. Ajana for the period to 30.9.13:

(i) Total sales during the period amounted to ₹62,200 which included sale proceeds of an old machine ₹ 3,400. The book value of the machine on the date of sale was ₹ 3,100. Cash sales during the period had been 80% less than credit sales.
(ii) The trader collected dues from customers by cash and cheques which actually represented 80% of the aggregate of his opening dues and credit sales during the period. However, this actual collection represented the amount received after allowing a discount of 5% of dues.
(iii) Bills Receivable drawn during the period totalled ₹5,000 of which bills amounting to 7 2,000 were endorsed in favour of suppliers. Of these endorsed bills, one for 7 600 was dishonoured for non-payment, the party being totally insolvent.
(iv) Purchases during this period were 66% of total sales. 25% of total purchases represented cash purchases.
(v) Cheques received from customers but dishonoured totalled ₹6,000. ₹500 is totally irrecoverable.
(vi) Bad Debts written off in earlier years but collected in this period amounted to ₹ 420.
(vii) Sundry Debtors as on 1.4.2013 were ₹ 22,250. Show the Debtors' Ledger Adjustment Account in the General Ledger of Mr. Ajana.

Answer:

Working Notes:
(i) Calculation of credit sales during the period
Cash Sales were 80% less than credit sales. So if credit sale was ₹100, cash sale was ₹ 20.

So out of total sales credit sales were $\frac{100}{100+20}$ or $\frac{5}{6}$ ths

	₹
Sales including Proceeds of Sale of Asset	62,200
Less : Sale Proceeds of Old Machine (Book value requires no attention)	3,400
Total Sales of Goods	58,800

and credit sales = $\frac{5}{6}$ of 58,800 = ₹ 49,000

(ii) Collection from debtors and discount allowed
Actual Collection = 80% of (Opening Debtors + Credit Sales) = 80% of (22,250 + 49,000) = ₹ 57,000

As discount allowed = 5% $\therefore$ Collection = 95%; $\therefore$ Discount allowed = $\frac{5}{95}$ of collection =

$\frac{1}{19}$ × 57,000 = ₹ 3,000

(iii) There will be no entry here for purchases, bill endorsed to supplier and bad debts subsequently recovered.
(iv) Total bad debts written off = ₹ 600 + ₹ 500 = ₹1,100

Solution:

In the General Ledger of Mr. Ajana
Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹

1.4.13 30.9.13	To Balance b/f `` General Ledger Adj. A/c : Sales (Credit) Creditors (Endorsed Bill Dishonoured) Bank (Cheques received but Dishonoured)	22,250 49,000 600 6,000	30.9.13	By General Ledger Adj. A/c : Cash/Bank (Received) Bill Receivable Discount Allowed Bad Debts `` Balance c/f	 57,000 5,000 3,000 1,100 11,750
		77,850			77,850

Question No 14.

J. B. Ltd, that adopted sectional balancing system, maintains two sales ledgers named as "Bangla" and "outside Bangla". Prepare the Debtors Ledger Control Accounts in the General Ledger from the following particulars:

	Bangla ₹	**Outside Bangal** ₹
Opening Balances : Debit	**18,000**	**30,000**
Credit	**500**	**200**
Sales	**32,000**	**40,000**
Collections from Debtors	**22,000**	**50,000**
Returns Inward	**2,000**	**3,000**
Discounts allowed	**1,500**	**900**
Bills Received	**1,800**	**1,000**
Bills Discounted	**—**	**500**
Bills Dishonoured	**400**	**—**
Bad Debts written off	**1,900**	**2,800**
Closing credit balances	**300**	**400**

Goods sold on credit for ₹ 2,000 to S. Mitra of "Bangla' had been correctly debited to the individual count of the debtor but in error has been entered in "Outside Bangla" analysis column in Sales Journal and has been posted accordingly.

Solution:

Debtors Ledger Control Account

Dr. **Cr.**

Date	**Particulars**	**Bangla**	**Outside Bangla**	**Date**	**Particulars**	**Bangla**	**Outside Bangla**
	To Balance b/f `` Sales `` Bill Receivable (Dishonoured) ``Transfer Balance c/d	18,000 32,000 400 2,000 300	30,000 40,000 --- 400		By Balance b/f `` Returns Inward `` Cash `` Discount Allowed `` Bad Debts `` Bills Receivable `` Transfer Balance c/d	500 2,000 22,000 1,500 1,900 1,800 23,000	200 3,000 50,000 900 2,800 1,000 2,000 10,500
		52,700	70,400			52,700	70,400

Question No 15.

Mr. Nimbupani, the accountant F.F.C. Ltd., committed some errors in preparing the accounts of the concern for the year accounting year ending on 31.3.2000.
You are requested to show the necessary entries assuming
A. There is no self-balancing system and
B. There is self-balancing system.

You may use Suspense Account, if required:
(i) Mr. Sur returned goods of the value of ₹ 1,200 which were entered in the sales day book and posted to the credit of his account.

(ii) Goods sold to Mr. Bhattasali for ₹ 2,000 was correctly recorded in the sales day book but wrongly posted as 20 to the debit of the account of Mr. Bhattacharjee.
(iii) Mr. Moitra returned goods of the value of ₹ 420 but this was posted to the debit of his account.
(iv) Discount allowed ₹ 4,000 were recorded in the Sales Ledger but were not adjusted in the Sales Ledger.

Solution :

F.F.C. Ltd.
Journal Entries

	If there is no Self-Balancing System		If there is Self-Balancing System
1.	Sales A/c .... Dr. 1,200 Sales Returns A/c .... Dr. 1,200 To Suspense A/c .... 2,400 [Goods returned and posted to Sales A/c and Sales Returns A/c not debited, now rectified]	1.	(a) Same (b) General Ledger Adj. A/c... Dr. 2,400 (in Sales Ledger) To Sales Ledger Adj. A/c 2,400 (in General Ledger)
2.	Bhattasali A/c …………….Dr. 2,000 To Bhattacharjee/c 20 To Suspense A/c 1,980 [Sale to Bhattasali for ₹ 2,000 wrongly debited to Bhattacharjee A/c as ₹ 20, now rectified.]	2.	Same entry in Sales Ledger.
3.	Suspense A/c ....Dr. 840 To Moitra A/c 840 [Goods returned by Moitra debited to his A/c, now rectified.]	3.	Same entry in Sales Ledger.
4,	Discount Allowed A/c. …Dr. 4,000 To Suspense A/c 4,000 [Discount Allowed but not adjusted in General Ledger, now rectified.]	4.	Same entry in Sales Ledger.

Study Note — 10: Accounting For Service Sectors

Question No 16:

(a) Write short note on Effect of Uncertainties on Revenue Recognition.

Answer:
Para 9 of AS 9 on "Revenue Recognition" deals with the effect of uncertainties on Revenue Recognition. The Para states:

(i) Recognition of revenue requires that revenue is measurable and at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.

(ii) Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc. revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize, revenue only when it is reasonably certain that the ultimate collection will be made. When there is uncertainty as to ultimate collection, revenue is recognized at the, time of sale or rendering of service even, though payments are made by installments.

(iii) When the uncertainty relating to collectability arises subsequent to the time of sale or rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

(iv) An essential criterion for the recognition of revenue is that the consideration receivable for the sale of goods, the rendering of services or from the use by others of enterprise resources is reasonably determinable. When such consideration is not determinable within reasonable limits; the recognition of revenue is postponed.

(v) When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognized.

(b) The company undertook a contract for building a crane for ₹ 15 lacs. As on 31.03.14 it incurred a cost of ₹ 2.25 lacs and expects that there will be ₹ 13.5 lacs more for completing the crane. It has received so far ₹ 1.5 lacs as progress payment.

Answer:

Para 21 of AS 7 (Revised) 'Construction Contracts' provides that when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively with reference to the stage of completion of the contract activity at the reporting date.

As per para 32 of the standard, during the early stages of a contact it is often the case that the outcome of the contract cannot be estimated reliably. Nevertheless, it may be probable that the enterprise will recover the contract costs incurred. Therefore, contract revenue is recognized only to the extent of costs incurred that are expected to be recovered. As the outcome of the contract cannot be estimated reliably, no profit is recognized. Para 35 of the standard states that when it is probable that the total contacts costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately. Thus the foreseeable loss of ₹ 75000 (expected cost ₹ 15.75 lacs less contract revenue ₹ 15 lacs should be recognized as an expense in the year ended 31st March, 2014.

Also, the following disclosures should be given in the financial statements:

(i) the amount of contract revenue recognized as revenue in the period;
(ii) the aggregate amount of costs incurred and loss recognized up to the reporting date;
(iii) amount of advances received;
(iv) amount of retentions; and
(v) gross amount due from/due to customers Amount.

Question No.17

(a) P Ltd., used certain resources of Q Co. Ltd. In return Q Ltd. received ₹ 30 lacs and ₹ 45 lacs as interest and royalties respective from Y Co. Ltd. during the year 2013-2014.

You are required to state whether and on what basis these revenues can be recognized by Q Ltd.

Answer:

As per para 13 of AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognized when no significant uncertainty as to measurability or collectability exists. These revenues are recognized on the following bases:

(i) **Interest:** on a time proportion basis taking into account the amount outstanding and the rate applicable.

(ii) **Royalties:** on an accrual basis in accordance with the terms of the relevant agreement.

(b) Briefly describe with reference to Accounting Standard 7 on Accounting for construction contracts, the methods which may be used for recognizing revenue on construction contracts.

Answer

As per Accounting Standard 7 on Accounting for Construction Contracts, two methods of accounting commonly followed by contractors for recognizing revenue on construction contracts are the percentage of completion method and the completed contract method.

Under the percentage of completion method, revenue is recognized as the contract activity progresses based on the stage of completion reached. The costs incurred in reaching the stage of completion are matched with this revenue, resulting in the reporting of results which can be attributed to the proportion of work completed. Although (as per the principle of 'prudence') revenue is recognized only when realized, under this method, the revenue is recognized as the activity progresses even though in certain circumstances it may not be realized.

Under the completed contract method, revenue is recognized only when the contract is completed or substantially completed; that is, when only minor work is expected other than warranty obligation. Costs and progress payments received are accumulated during the course of the contract but revenue is not recognized until the contract activity is substantially completed.

Under both methods, provision is made for losses for the stage of completion reached on the contract. In addition, provision is usually made for losses on the remainder of the contract.

It may be necessary for accounting purposes to combine contracts made with a single customer or to combine contracts made with several customers if the contracts are negotiated as a package or if the contracts are for a single project. Conversely, if a contract covers number of projects and if the costs and revenues of such individual projects can be identified within the terms of the overall contract, each such project may be treated as equivalent to a separate contract.

Question No.18

Y. Ltd. undertook a contract No. 80 for ₹ 7,50,000. The contract account showed the following particulars:

2012 :

Materials ₹ 30,000, Wages ₹ 25,000, Overheads ₹ 10,000, Plant ₹ 1,00,000 and Materials at site at close ₹ 3,000.

2013:

Materials ₹ 1,00,000, Wages ₹ 60,000, Overheads ₹ 15,000, Materials returned, ₹ 8,000. The Plant at its depreciated value was transferred to contract No. 88. Uncertified work ₹ 15,000.

2014:

Materials ₹ 1,60,000, Wages ₹ 1,00,000, Overheads ₹ 28,000 and Materials ₹ 4,000.

The amount of work certified at the end of the first year was ₹ 1 ,00,000. The work certified upto the end of the second year was ₹ 4,00,000 and the work certified in the third year was ₹ 3,50,000. 80 percent of the certified work was received in cash.

Profit to be taken credit for are one-third and one-half on cash basis in each of the two years1 respectively. Depreciate plant by 10 percent on balance at the beginning of each year.

Prepare accounts in respect of the contract at the end of each year.

2012 :	₹	2012 :	₹
To Materials	30,000	By Work-n-Progress A/c :	
To Wages	25,000	Materials	3,000
To Overheads	10,000	Plant	90,000
To Plant	1,00,000	Certified Work	1,00,000
To Balance c/d	28,000		
	1,93,000		1,93,000
To Profit & Loss Account	7,467	By Balance b/d	28,000
To Work-in-Progress Account	20,533		
	28000		28,000

	₹		₹
2013 :		**2013 :**	
To Work-in-Progress —		By Work-in-Progress— Opening provision transferred	20,533
Opening balance transferred:	3,000	By Materials — returned	8,000
Materials	90,000	By Contract No. 88 — Plant transferred	81,000
Plant	1,00,000		
Certified Work	1,00,000	By Work-in-Progress c/d:	
To Materials	60,000	Uncertified Work	15,000
To Wages	15,000	Certified Work	4,00,000
To Overheads	1,56,533		
To Balance c/d			
	5,24,533		5,24,533
To Profit & Loss Account	62,613	By Balance b/d	1,56,533
To Work-in-Progress	93,920		
	1,56,533		1,56,533
2014 :		**2014 :**	
To Work-in-Progress :		By Work-in-Progress	93,920
Uncertified Work	15,000	By Bank — sale of materials	4,000
Certified Work	4,00,000	By Contractee's Account (4,00,000 + 3,50,000)	7,50,000
To Materials	1,60,000		
To Wages	1,00,000		
To Overheads	28,000		
To Profit & Loss Account	1,44,920		
	8,47,920		8,47,920

Notes:

Profit credited in 2012 and 2013

Particulars	2012 (₹)	2013 (₹)
Accounting profit	28,000	1,56,533
Cash Profit – on 80% basis	22,400	1,25,226
Proportionate profit to be credited	1/3 x 22,400	1/2 x 1,25,226
	=7,467	=62,613

In absence of specific direction, on profit in 2012 would have been considered as extent of completion was less than 1/3.

In 2014 the entire work was certified and hence no provision is necessary.

Study Note — 11: Accounting for Special Transactions

Question No 19.

(a) On 01-04-2012, Mr. T. Shakharan purchased 5,000 equity shares of ₹100 each in V Ltd. @ ₹ 120 each from a broker, who charged 2% brokerage, he incurred 50 paisa per ₹ 100 as cost of shares transfer stamps. On 31-01-2013 bonus was declared in the ratio of 1 : 2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 31-01-2013, Mr. T. Shekharan sold bonus shares to a broker, who charged 2% brokerage. Show the Investment Account in the books of T. Shekharan, who held the shares as Current Assets and closing value of investments shall be made at cost or market value whichever is lower.

Solution:

Investment Account

for the year ended 31st March, 2013
(Scrip: Equity Shares of V Ltd.)

Dr. Cr.

Date	Particulars	Nominal Value (₹)	Cost (₹)	Date	Particulars	Nominal Value	Cost (₹)
1.04.12	To Bank A/c	5,00,000	6,15,000	31.3.13	By Bank A/c	2,50,000	2,20,500
31.01.13	To Bonus Shares	2,50,000	-	31.03.13	By Balance c/d	5,00,000	4,10,000
31.03.13	To P & LA/c	-	15,500				
		7,50,000	6,30,500			7,50,000	6,30,500

Working Notes:

(i) Calculation of Cost of Equity Shares purchased

$= (5,000 \times ₹120) + (2\% \text{ of } ₹6,00,000) + \frac{1}{2}\% \text{ 0f } ₹6,00,000) = ₹6,15,000$

(ii) Calculation of Sale Proceeds of Equity Shares sold

$(2,500 \times ₹90) - (2\% \text{ of } ₹2,25,000) = ₹2,20,500$

(iii) Calculation of Profit on Sale of Bonus Shares = Sale proceeds - Average cost

$= 2,20,500 - \left(6,15,000 \times \frac{2,50,000}{7,50,000}\right) = ₹15,500$

(iv) Valuation of equity shares at the end

$\text{Cost} = 6,15,000 \times \frac{5,00,000}{7,50,000} = ₹4,10,000$

Market value = 5,000 shares × ₹90 = ₹4,50,000

Closing balance has been valued at ₹4,10,000 i.e. at cost which is lower than the market value.

(b) On 1st April, 2013, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹15 per share (face value ₹ 10 each). He provides you the further information:

(i) On 20th June, 2013, he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.

(ii) On 1st August 2013, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

(iii) On 31st October, 2013, the directors of P Ltd. announced a right sssue which entitle the holders to subscribe three shares for every seven shares at ₹15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹2 per share and subscribe the rest on 5th November, 2013.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2014.

Answer:

Investment account in the books of Rajat
(Equity Shares in P Ltd.)

Dr. Cr.

Date	Particulars	No. of shares	₹	Date	Particulars	No. of shares	₹

01.04.13	To Balance b/d	50,000	7,50,000	05.11.13	By Bank A/c		
20.06.13	To Bank A/c	10,000	1,60,000		(sale of rights)	-	20,000
01.08.13	To Bonus issue	10, 000	-	31.03.14	By Balance c/d		
05.11.13	To Bank A/c				(Bal.flg.)	90,000	11,90,000
	(right shares)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

(i) Bonus Shares = (50,000 + 10,000)/6 = 10,000 shares

(ii) Right Shares = [(50,000 + 10,000 + 10,000)/7] × 3 = 30,000 shares

(iii) Sale of Rights = (30,000 shares × 1/3)× ₹2 = ₹ 20,000

(iv) Rights subscribed = (30,000 Shares x 2/3)× ₹15 = ₹3,00,000

Question No.20

(a) From the following, prepare an account current as sent by Arun to Bhola on 30th June, 2013, charging interest on debits @ 6% p.a. and on credits @ 4% p.a.:

Year 2013		₹
Jan. 1	**Balance due from Bhola**	**600**
Jan. 10	**Sold goods to Bhola,**	**520**
Jan. 17	**Bhola returned goods**	**125**
Feb. 10	**Bhola paid by cheque**	**400**
Feb. 14	**Bhola accepted Arun's draft for one month**	**300**
Apr. 29	**Goods sold to Bhola**	**615**
May 15	**Received cash from Bhola**	**700**
June 5	**Bhola accepted Arun's bill for 3 months**	**500**

Answer:

Bhola in Account Current with Arun
for the year ending on 30th June 2013

Date	Particulars	Amount ₹	Days	Product	Date	Particulars	Amount ₹	Days	Product
2013					2013				
Jan 1	To Balance b/d	600	181	1,08,600	Jan 17	By Sale Return	125	164	20,500
Jan 10	To Sales A/c	520	171	88,920	Feb 10	By Bank A/c	400	140	56,000
Apr 29	To Sales A/c	615	62	38,130	Feb 14	By B/R A/c (Due			31,500
Jun 30	To Interest A/c	27.21	—	—		date: Mar. 17)	300	105	32,200
	To Balance c/d	262.79	—	—	May 15	By Cash A/c			-35,000
				—	June 5	By B/R (Due	700	46	
						date: 8th Sept.	500	(70)	
		2,025	—	2,35,650			2,025	—	1,05,200

Interest on debit side Product Total = 2,35,650 × $\frac{6}{100} \times \frac{1}{365}$ = 38.74

Interest on Credit side Product Total = 1,05,200 × $\frac{4}{100} \times \frac{1}{365}$ = 11.53

$\boxed{\text{Net} = 27.21}$

(b) Shankar owed to Ramesh the following sums of money on the due dates given below:

Due date	Amount Due (₹)
10th Aug.	**500**
25th Aug.	**300**
5th Sep.	**1,000**
10th Sep.	**800**
15th Sep.	**400**

Calculation the average due date on which Shankar may pay the total sum due.

Solution:

Calculation of Average Due Date [BASE DATE: 10TH AUG.]

A Date of Maturity	B Amount (₹)	C No. of days from base date	D = B × C Product
10th Aug.	500	0	0
25th Aug.	300	15	4,500
5th Sept.	1,000	26	26,000
10th Sept.	800	31	24,800
15th Sept.	400	36	14,400
	3,000		69,700

Average Due Date = Base date + $\frac{\text{Total Products}}{\text{Total Amount}}$ Days

= 10th Aug. + (69,700/3,000) days

Average Due Date = 10th Aug. + 23.23 days = 2nd September

Question No.21

(a) Calculate No. days from the base date (i.e. 16th Aug) X owes Y ₹2,000 on 16th Aug.

Date	No. of days from Base date	Amount (₹)
20th Oct	**2months**	**5,000**
20th Oct	**60 days**	**6,000**

Solution:

Due date of Bill (including 3 grace days)	No. of days from Base date	Amount (₹)
16th Aug.	0	2,000
23rd Dec.	15 + 30 + 31 + 30 + 23 = 129	5,000
22nd Dec.	15 + 30 + 31 + 30 + 22 = 128	6,000

(b) Arjun of Ahmedabad consigned 40,000 lb. of linseed oil (in 10 lb. tins) to Bhimani of Bhilwara. The cost of oil was ₹ 2 per lb. Arjun paid ₹ 6,000 for freight and insurance. During transit 50 tins were totally destroyed for which the insurance company directly to the consignors ₹ 1,900 in full settlement of the claim.

Bhimani accepted a bill drawn on him by the consignor for ₹ 15,000 for 3 months. Arjun discounted the bill for ₹14,750 immediately.

Bhimani sold.35,000 lbs. of oil @ ₹ 3 per lb. and paid the following expenses :

Godown Rent 2,200 and Advertisement ₹ 4,200. He sold further the remaining stock of oil to Kamlani on credit for ₹ 19,000 but the latter was declared insolvent and only 25 paise per rupee was realized from him. Bhimani charged a commission of 3 per cent plus 3 per cent del credere.

Show the Journal Entries in the books of Bhimani assuming that he paid the amount due by a bank draft.

Books of Bhimani
Journal

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
	Arjun A/c Dr. To Bill Payable A/c [Acceptance given on a bill drawn by Arjun]		15,000	 15,000
	Bank A/c ....Dr. To Arjun A/c [Consignment goods sold on Arjun's behalf for cash]		1,05,000	 1,05,000
	Kamlani A/c (Consignment Debtors) ....Dr. To Arjun A/c [Consignment goods sold on Arjun's behalf on credit]		19,000	 19,000
	Arjun A/c ....Dr. To Bank A/c [Godown Rent and Advertisement expenses paid on consignment]		6,400	 6,400
	Arjun A/c ....Dr. To Commission A/c [Commission due from Arjun @ 3% ordinary and 3% del credere on sales]		7,440	 7,440
	Arjun A/c ....Dr. To Bank A/c [Balance remitted by a draft to Arjun]		95,160	 95,160
	Bank A/c ....Dr. Bad Debts A/c ....Dr. To Kamlani A/c [Final dividend realized from Debtor]		14,250 4,750	 19,000
	Commission A/c ....Dr. To Bad Debts A/c `` Profit & Loss A/c [Bad debts written off against commission and the balance of the latter A/c transferred]		7,440	 4,750 2,690

Question No.22

(a) Mother Dairy Products Ltd. of Vadodara has given the following particulars regarding its tinned milk sent on consignment to Baba Stores of Kolkata

	Cost Price (₹)	Selling Price (₹)	Quantity Consigned
1 kg. Tin	**45 each**	**60 each**	**6,000 tins**
500 gms Tin	**25 each**	**35 each**	**8,000 tins**

The consignment was booked on freight "To Pay" basis. The freight was charged @ 2½% of selling value.
During transit 100, 1kg tins got damaged and the transporters agreed to pay ₹ 4,000 as damage charge.
Baba Stores could sell 5,000, 1kg tins and 6,000, 500 gms. tins. It paid storage ₹ 360 and insurance of stores ₹ 240.
Show the Consignment Account in the books of Amul Products which paid to consignee a fixed commission of 5% on sales.

Answer:

Books of Mother Dairy Products Ltd.
Consignment to Kolkata Account

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹
To Goods Sent on Consignment A/c [6,000 x ₹45 + 8,000 × ₹ 25]		4,70,000	By Loss in Transit A/c [Working Note 2]	4,650
`` Baba Stores A/c [Working Note 1]	16,000		`` Baba Stores A/c [5,000 × ₹ 60 +6,000 × ₹ 35]	5,10,000
Freight	360		``Stock on Consignment A/c [Working Note 3]	93,600
Storage Insurance of Stores	240	16,600		
`` Baba Stores A/c: Commission [@ 5% on 5,10,000]		25,500		
'' Profit & Loss A/c (Profit)		96,150		
		6,08,250		6,08,250

Working Notes:

1. **Calculation of Freight** [To Pay" basis means the consignee is to pay freight on the sales value of goods consigned]

	₹
Sales Value of Total Goods Consigned	
For 1 kg tins 6,000 × ₹60	3,60,000
For 500 gms. tins. 8,000 × ₹35	2,80,000
	6,40,000
Freight 2 ½% of 6,40,000	₹16,000

1. **Loss in Transit** [100 1kg tins]

	₹
Cost [100 × 45]	4,500
Add: Freight [2 ½% of sales value or 2 ½ of 100 × ₹60]	150
	4,650
Less: Damage charge accepted	4,000
Actual Loss to be charged to P/L	650

2. **Stock on consignment**

	Qty	Cost/Unit Rate	Value (₹)	Sales Value
1kg tins [6,000 – 100 – 5,000]	900	45	40,500	900 × 60 = 54,000
500 gms. Tins [8,000 – 6,000]	2,000	25	50,000	2,000 × 35 = 70,000
			90,500	1,24,000
Add: Freight @ 2 ½% of 1,24,000			3,100	
			93,600	

(b) On 20th July, 2013 the godown and the business premises of a merchant were affected by fire. From the accounting records salvaged, the following information is made available to you:

	₹
Stock of Goods on 1st April, 2012	**1,00,000**
Stock of Goods at 10% lower than cost on 31st March, '13	**1,08,000**
Purchases of Goods for the year 1st April, 2012 to 31st March. '13	**4,20,000**
Sales for the same period	**6.00,000**
Purchases less returns from 1st April, '13 to 20th July, '13	**1,40,000**
Sales Returns for the above period	**3,10,000**

Sales up to 20th July, 2013 included ₹40,000 for which goods had not been despatched. Purchases up to 20th July, 2013 did not include ₹ 20,000 for which purchase invoices had not been received from suppliers, though goods had been received at the godown.
Goods salvaged from the accident were worth ₹12,000 and these were handed over to the insured. Ascertain the value of the claim for the loss of goods/stock which could be preferred to the insurer.

Answer:

Dr. **Cr.**

Trading Account for the year ended 31.03.2013

Particulars	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock	1,00,000	By Sales		6,00,000
`` Purchases	4,20,000	`` Closing Stock	1,08,000	
`` Gross Profit	2,00,000	Add: Under Valuation $\left[\frac{10}{90}\text{ of } 1,08,000\right]$	12,000	1,20,000
	7,20,000			7,20,000

Rate of Gross Profit in 1995-96 = $\frac{₹2,00,000}{₹6,00,000} \times 100 = 33^1/_3\%$ on sales.

The net purchases in current year should be ₹ 1,40,000 + ₹ 20,000 = ₹ 1,60,000
Similarly Sales = ₹ 3,10,000 – ₹ 40,000 = ₹ 2,70,000

Memorandum Trading Account for the period from 1.4.13 to 20.7.13

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	1,20,000	By Sales	2,70,000
`` Purchases	1,60,000	" Closing Stock (Balancing Figure)	1,00,000
`` Gross Profit $\left[\frac{1}{3}\text{ of } 2,70,000\right]$	90,000		
	3,70,000		3,70,000

Statement of Claim for Loss of Stock

Particulars	₹
Estimated Value of Stock on 20.7.13	1,00,000
Less : Value of Salvaged Stock	12,000
Stock Lost by Fire	88,000

Question No.23

On 01.07.2013 Anil, for mutual accommodation of himself and Sunil, drew on the other a bill for ₹ 10,000 payable at 3 months date. The bill was discounted with Punjab National Bank at 5% and half of the proceeds were remitted to Sunil on 02.07.2013. On 02.07.2013, Sunil drew a bill on Anil for ₹ 4,000 payable at 3 months date. He discounted the bill with Central Bank of India at 10% and remitted half of the proceeds to Anil. Sunil became bankrupt on 31.08.2013 and only 25% was received by Anil on 20.09.2013 as the first and final dividend from his estate. Show the journal entries in the books of Anil.

Answer:

In the books of Anil
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
01.07.13	Bills Receivable A/c Dr. To, Sunil A/c (Being bill drawn for mutual accommodation for 3 months)		10,000	 10,000
02.07.13	Bank A/c Dr. Discount A/c Dr. To, Bills Receivable A/c (Being bill discounted by the bank)		9,875 125	 10,000
02.07.13	Sunil A/c Dr. To, Bank A/c To, Discount A/c (Being half the proceeds remitted to Sunil)		5,000	 4,937.5 62.5
02.07.13	Sunil A/c Dr. To, Bills Payable A/c (Being bills accepted for 3 months)		4,000	 4,000
02.07.13	Bank A/c Dr. Discount A/c Dr. To, Sunil A/c (Being proceeds received from Sunil)		1,950 50	 2,000
31.08.13	Sunil A/c Dr. To, Bank A/c (Being bill dishonoured as Sunil became insolvent)		10,000	 10,000
20.09.13	Bank A/c Dr. Bad Debts A/c Dr. To, Sunil A/c (Being amount realized from the official liquidator of Sunil @ 25% and the balance proved bad)		1,750 5,250	 7,000
05.10.13	Sunil A/c Dr. To, Bank A/c (Being bill honoured at maturity)		4,000	 4,000

Question No. 24

Sourav and Sachin entered into a joint venture for buying and selling plastic goods and agreed to share profits and losses in the ratio of 3 : 2.
On October 1, 2012, Sourav purchased goods at a cost of ₹ 60,000 and half of the goods were handed over to Sachin. On October 15, he again purchased goods worth ₹ 20,000. He incurred expenses ₹ 2,000.
On October 15, Sachin also made a purchase of ₹ 37,500 and, on the same day, he sent to Sourav goods worth ₹ 15,000. He incurred expenses of ₹ 900. On October 20, Sourav in, order to help Sachin, sent ₹ 16,000 to him. Both the parties sold goods at a profit of 25% on Sale.
On March 31, 2012; Sourav had unsold stock of goods of ₹ 12,500, of these, goods costing ₹ 5,000 were taken away by him and the remainder sold for ₹ 8,000. Sachin was able to sell away complete goods excepting goods costing ₹ 2,500 which were badly damaged and were treated as un saleable. ₹ 3,000 owing to Sourav were unrecoverable and treated as joint loss.
On March 31, 2013 both the parties decided to close the books. You are required to prepare:
(i) The Joint Venture Account as it would appear in the books of Sourav recording his own transactions, and
(ii) A Memorandum Joint Venture Account, showing the profits of the business.

In the books of Sourav
Joint Venture with Sachin Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount ₹
2012 Oct. 1	To Purchases	60,000	2013	By Sales 70,000	
15	To Bank—Expenses	20,000	Mar. 31	Less : Bad Debts 3,000	67,000
15	To Bank—Advance	2,000	``	By Purchases -Stock taken over	5,000
20	To Cash A/c	16,000	``	By Sales A/c — Stock Sold	8,000
2013 Mar. 31	Share of Profit	15,760	``	By Bank-remittances received	33,760
		1,13,760	``		1,13,760

In the books of Sourav & Sachin
Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013			2013		
Oct. 1	**To Purchase**		Mar.		
	Sourav	60,000	31	**By Sales:**	
	Sourav	20,000		Sourav	70,000
	Sachin	37,500		Sachin	66,667
				Sourav	8,000
15	**To Expenses:**	2,000		**By Stock**	
	Sourav	900		- Taken over by Sourav	5,000
	Sachin	3,000			
	Bad Debts incurred by Sourav				
	To Profit on Venture				
2013	Sourav ₹ 15,760	26,267			
Mar. 31	Sachin ₹ 10,507				
		1,49,667			1,49,667

Workings:
Computation of Sales

Particulars	Sourav (₹)	Sachin (₹)
Purchases (60,000 + 20,000)	80,000	37,500
Add: Received from other party	15,000	30,000
	95,000	67,500
Less: Sent to other party	30,000	15,000
	65,000	52,500
Less: Stock	12,500	2,500
Cost of Goods Sold	52,500	50,000
Add: Profit at 25% on Sales i.e., 33 1/3% on cost	17,500	16,667
Sales	70,000	66,667

Study Note — 12: Banking, Electricity and Insurance Company

Question No.25

Prudence Life Insurance Co. furnishes you the following information:

	₹
Life Insurance fund on 31.3.2014	**1,30,00,000**
Net liability on 31.3.2014 as per actuarial valuation	**1,00,00,000**
Interim bonus paid to policyholders during intervaluation period	**7,50,000**

You are required to prepare :

(i) Valuation Balance Sheet;
(ii) Statement of Net Profit for the valuation period; and
(iii) Amount due to the policyholders.

Answer

Prudence Life Insurance Co.
Valuation Balance Sheet as at 31st March, 2014

Particulars	₹	Particulars	₹
To Net Liability as per actuarial valuation To Surplus	100,00,000 30,00,000	By Life Assurance Fund	130,00,000
	130,00,000		130,00,000

Statement showing Net profit for the valuation Period

Particulars	₹
Surplus as per Balance sheet (i.e. Valuation Balance sheet)	30,00,000
Add: Interim bonus paid	7,50,000
	37,50,000

Amount due to policyholders

Particulars	₹
95% of net profit due to policyholders (95% of ₹ 37,50,000)	35,62,500
Less: Interim bonus already paid	7,50,000
	28,12,500

Question No.26

From the following figures appearing in the books of Fire Insurance division of HBC General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2014 :

Particulars		Direct Business (₹)	Re-Insurance (₹)
Claim paid during the year		**70,05,000**	**10,50,000**
Claim Payable —	**1st April, 2014**	**11,44,500**	**1,30,500**
	31st March, 2013	**12,18,000**	**79,500**
Claims received		**–**	**3,45,000**
Claims Receivable —	**1st April, 2013**	**–**	**97,500**
	31st March, 2014	**–**	**1,69,500**
Expenses of Management (includes ₹ 52500 Surveyor's fee and ₹ 67500 Legal expenses for settlement of claims)		**3,45,000**	**–**

Answer:

HBC General Insurance Company
(Abstract showing the amount of claims)

	₹ '000	₹ '000
Claims less Re-insurance:		
Paid during the year	7,830.0	
Add: Outstanding claims at the end of the year	1,128.0	
	8,958.0	
Less: Outstanding claims at the beginning of the year	1,177.5	7,780.5

1. Claims paid during the year

	₹ '000	₹ '000
Direct business	7,005	
Reinsurance	1,050	8,055
Add: Surveyor's fee	52.5	
Legal expenses	67.5	120
		8,175
Less: Claims received from re-insurers		345
		7,830

2. Claims outstanding on 31st March, 2014

	₹ '000	₹ '000
Direct business	1,218.0	
Reinsurance	79.5	1,297.5
Less: Claims receivable from re-insurers		169.5
		1,128

3. Claims outstanding on 1st April, 2013

	₹ '000	₹ '000
Direct business	1,114.0	
Reinsurance	130.5	1,275.0
Less: Claims receivable from re-insurers		97.5
		1,177.5

Question No.27

From the following calculate Weighted Average Rate of Depreciation considering the rates as per Appendix-III

Assets	**Closing Balance At Cost**
1. Land under full ownership	**13,00,000**
2. Land under Lease	**4,30,000**
3. (a) Building & Civil Engineering Works other than Kutcha Roads	**33,00,000**
(b) Railways Sidings	**40,00,000**
(c) Temporary Erections such as Wooden Structures	**10,00,000**
4. IT Equipments	**20,00,000**
5. Self Propelled Vehicles	**30,00,000**
6. Portable Air Conditioning Plants	**25,00,000**
7. (a) Apparatus other than Motors let on hire	**15,00,000**
(b) Motors let on hire	**2,00,000**
8. Communication Equipments	**5,00,000**
9. Office Furniture, Furnishing, Equipments, Fittings & Apparatus	**5,00,000**
10. Plants & Machinery in generating stations	**252,00,000**
11. Cooling Towers & Circulating Water Systems	**10,00,000**
12. Hydraulic Works Forming part of the Hydro-dams, etc.	**20,00,000**

13. Transformers & Switchgear	**205,00,000**
14. Lighting Arrestor, Batteries, Overhead lines including cable support	**42,00,000**
15. Meters	**20,00,000**
16. Static Air Conditioning Plants	**100,00,000**
17. Street Light Fittings	**47,85,000**
18. Vehicles other than Self Propelled Vehicles	**2,15,000**

Answer:

WEIGHTED AVERAGE RATE OF DEPRECIATION

Assets	Rate	Cost	Depreciation
1. Land under full ownership	0.00%	13,00,000	0
2. Land under Lease	3.34%	4,30,000	14,362
3. (a) Building & Civil Engineering Works other than Kutcha Roads	3.34%	33,00,000	1,10,220
(b) Railways Sidings	3.34%	40,00,000	1,33,600
(c) Temporary Erections such as Wooden Structures	100.00%	10,00,000	10,00,000
4. IT Equipments	15.00%	20,00,000	3,00,000
5. Self Propelled Vehicles	9.50%	30,00,000	2,85,000
6. Portable Air Conditioning Plants	9.50%	25,00,000	2,37,500
7. (a) Apparatus other than Motors let on hire	9.50%	15,00,000	1.42,500
(b) Motors let on hire	6.33%	2,00,000	12,660
8. Communication Equipments	6.33%	5,00,000	31,650
9. Office Furniture, Furnishing, Equipments, Fittings & Apparatus	6.33%	5,00,000	31,650
10. Plants & Machinery in generating stations	5.28%	252,00,000	13,30,560
11. Cooling Towers & Circulating Water Systems	5.28%	10,00,000	52,800
12. Hydraulic Works Forming part of the Hydro-dams, etc.	5.28%	20,00,000	1,05,600
13. Transformers & Switchgear	5.28%	205,00,000	10,82,400
14. Lighting Arrestor, Batteries, Overhead lines including cable support	5.28%	42,00,000	2,21,760
15. Meters			
16. Static Air Conditioning Plants	5.28%	20,00,000	1,05,600
17. Street Light Fittings	5.28%	100,00,000	5,28,000
18. Vehicles other than Self Propelled Vehicles	5.28%	47,85,000	2,52,648
	5.28%	2,15,000	11,352
		901,30,000	59,89,862

Question No.28

Discuss the applicability of Accounting Standard on Electricity Company.

Answer:

The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements prepared for this purpose meet the common needs of most users.

However, financial statements do not provide all the information that users may need to make economic decisions since

(a) these largely portray the financial effects of past events, and

(b) do not necessarily provide non-financial information.

Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. The users may wish to assess the stewardship or accountability of management in order to make economic decisions;

these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management.
Considering the various uses and to achieve a standardised comparability of the financial statements over a period of time or across organizations, the accounting standards have been promulgated. The management of any company is mandated as per the Companies Act, 2013 to declare that the company has followed the Accounting Standards prescribed under Companies Act, 2013.

Considering these issues it is important that the requirements of these Standards are complied with in the accounting functions to the extent applicable. Although all the accounting standards are applicable to the electricity companies, some of the specific applications have been discussed below:

1. (AS) 2 – Valuation of Inventories

The revised standard came into effect in respect of accounting periods commencing on or after 1.4.1999 and is mandatory in nature.

The Standard mandates the following:

(i) Inventories should be valued at the lower of cost and net realisable value.
(ii) The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Specific issues relating to electricity companies:

(i) The unique feature of Power sector is that electricity cannot be stored and hence there are no finished goods or work in progress in stock. The inventories would generally comprise materials, stores and supplies and fuels. As per AS 2 these are required to be valued at lesser of cost or Net Realisable Value (NRV). Generally, the materials, stores and supplies and fuels are valued at cost.
(ii) The cost of purchase of materials especially coal and fuel which forms major part of inventory should include:
- All duties and taxes (except those that are subsequently recoverable from the taxing authorities)
- Freight inwards on an actual basis.
- All expenditure attributable to bring the inventories to the current location and condition which includes freight cost, handling cost and other direct costs (like coal handling costs, cost of employees involved in transportation of fuel and converting it to the consumable stage).

2. Accounting Standard (AS) 6 – Depreciation Accounting

This Standard deals with depreciation accounting and applies to all depreciable assets, except the following items to which special considerations apply:

(i) Forests, plantations and similar regenerative natural resources
(ii) Wasting assets including expenditure on the exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources
(iii) Expenditure on research and development
(iv) Goodwill
(v) Livestock

This statement also does not apply to land unless it has a limited useful life for the enterprise.
The depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset.

Specific issue relating to electricity companies:

Under the provisions of the Electricity Act, depreciation has to be provided at the rates prescribed by the Government of India / Regulatory Commission so as to ensure that 90% of the cost of each asset is provided for during its' useful life. In respect of assets for which no specific rates have been prescribed by the regulatory authorities depreciation shall be

provided for as per the minimum rates prescribed under Schedule II to the Companies Act, 2013.
The provisions regarding depreciation have already been discussed in detail.

3. **Accounting Standard (AS) 9 – Revenue Recognition**
This Accounting Standard is mandatory for all companies. In case of electricity companies, significant revenues are from the sale of power. It should be ensured that the revenue from units generated is recognised commencing 00.00 hours as on 1st April.
Power generation utility business is highly capital intensive. Adequate care should be taken to ensure that the capital and revenue expenses are differentiated and accounted for. The capitalisation principles should be applied as a test to ensure that the capital expenses are accounted properly in accordance with the standard.

Question No.29

The following is an extract from the Trial Balance of Utsav Bank Ltd. as on 31st March 2013:

	₹
Rebate on Bills Discounted on 01.04.2012	**68,259 (Cr.)**
Discount Received	**1,70,156(Cr)**

Analysis of the bills discounted reveals:

Amount (₹)	**Due Date**
2,80,000	**June 1,2012**
8,72,000	**June 8,2012**
5,64,000	**June 21,2012**
8,12,000	**July 1,2012**
6,00,000	**July 5,2012**

You are required to find out the amount of discount to be credited to Profit and Loss Account for the year ending 31st March 2013, and pass journal entries.
The rate of discount may be taken at 10% p.a.
Rebate on bills discounted as on 31st March 2013 (for unexpired portion) is calculated as:

Answer:

	Amount (₹)
On ₹ $2,80,000 \times \frac{62}{365} \times \frac{10}{100}$	4,756
On ₹ $8,72,000 \times \frac{69}{365} \times \frac{10}{100}$	16,484
On ₹ $5,64,000 \times \frac{82}{365} \times \frac{10}{100}$	12,671
On ₹ $8,12,000 \times \frac{92}{365} \times \frac{10}{100}$	20,467
On ₹ $6,00,000 \times \frac{96}{365} \times \frac{10}{100}$	15,781
	70,159

Thus, amount of discount to be credited to Profit and Loss Account

Particulars	**Amount (₹)**
Rebate on Bill Discounted (01.04.2009)	68,259
Add: Discount Received	1,70,156
	2,38,415
Less: Rebate on Bills Discounted (31.03.2010)	70,159
	1,68,256

In the Books of Utsav bank Ltd.
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2013 March 31	Rebate on Bills Discounted A/c Dr. To, Interest and Discount A/c (Transfer of unexpired discount as on 31.03.2010)		68,259	68,259
	Interest and Discount A/c Dr. To, Rebate on Bills Discounted A/c (Unexpired discount considered as on 31.03.2010)		70,159	70,159
	Interest and Discount A/c Dr. To, Profit and Loss A/c (Interest and Discount transferred to P&L A/c.)		1,68,256	1,68,256

Question No. 30

Save Money Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any Interest since March, 2013:

	Term Loan	Export Loan
Balance Outstanding on 31.03.2012	**₹ 105 lakhs**	**₹ 90 lakhs**
DICGC/ECGC cover	**40%**	**50%**
Securities held	**₹ 45 lakhs**	**₹ 30 lakhs**
Realisable value of Securities	**₹ 30 lakhs**	**₹ 24 lakhs**

Compute necessary provisions to be made for the year ended 31st March, 2013.

Answer:

Particulars	Term Loan (₹ in lakhs)	Export Credit (₹ in Lakhs)
Balance outstanding on 31.03.	105.00	90.00
Less: Realisable Value of Securities	30,00	24.00
	75.00	66.00
Less: DICGC cover @40%	30.00	-
ECGC cover @50%	-	33.00
Unsecured balance	**45.00**	**33.00**

Required Provision:

Particulars	Term Loan (₹ in lakhs)	Export Credit (₹ in lakhs)
100% for unsecured portion	45.00	33.00
100% for secured portion	30.00	24.00
Total provision required	**75.00**	**57.00**