Intermediate
Group I
Paper 5 : FINANCIAL ACCOUNTING
(SYLLABUS – 2016)

Objectives

1. **(a) Multiple choice questions:**

(i) Which of the following is revenue expenditure?
(A) Rent and rates for the factory or office premises;
(B) Depreciation on plant and machinery;
(C) Consumable stores;
(D) **All of above**

(ii) _________ is the agent to whom goods are sent for selling.
(A) **Consignee**
(B) Consignor
(C) Endorsee
(D) None of the above

(iii) ___________________________ is similar to the Cash Book A/c
(A) Income and Expenditure A/c
(B) **Receipts and Payments A/c**
(C) Balance Sheet
(D) None of the Above

(iv) Which of the following is a feature of Fixed Assets?
(A) It is expected to be realised in, or is intended for sale or consumption in the organisation's normal Operating Cycle,
(B) It is held primarily for the purpose of being traded,
(C) It is due to be realised within 12 months after the Reporting Date,
(D) **None of the above**

(v) Contingent Liability would appear
(A) On the liability side
(B) On the asset side
(C) **As a note in Balance Sheet**
(D) None of the above

(vi) Excess of minimum rent over royalty is known as
(A) Maximum rent
(B) Excess workings
(C) **Short workings**
(D) Deficiency of actual royalty

(vii) Capital expenses are shown in —
(A) **Balance Sheet**

(B) Profit and Loss A/c
(C) Trading A/c
(D) None of these

(viii) Which of the following item(s) is (are) shown in the Income and Expenditure Account?
(A) Only items of Capital nature
(B) Only items of Revenue nature, which are received during the period of Accounts
(C) **Only items of Revenue nature pertaining to the period of Accounts**
(D) Both the items of Capital and Revenue nature

(ix) These are accounts related to assets or properties or possessions.
(A) **Real Account**
(B) Personal Account
(C) Nominal Account
(D) Artificial Personal Account

(x) Receipts and Payments account is a
(A) Nominal Account
(B) Real Account
(C) Personal Account
(D) Artificial Personal Account

(xi) Which one is/ are the method/s of Accounting for Branches
(A) Final Accounts Method;
(B) Debtors Method and
(C) Stock and Debtors Method.
(D) **All of the above**

(xii) Bad Debts can directly be transferred to Profit and Loss Account or it can be routed through ______________________________.
(A) **Provision for Bad Debts Account**
(B) Provision for Discount on Debtors Account
(C) Provision for Discount on Creditors Account
(D) None of the above

(xiii) Gross Profit is equal to
(A) **Sales – Cost of goods sold**
(B) Sales – Closing Stock + Purchases
(C) Opening Stock + Purchases – Closing Stock
(D) None of the above

(xiv) The following account has a credit balance
(A) Plant and Equipment A/c
(B) **Sundry Creditors A/c**
(C) Purchase A/c
(D) None of the above

(xv) From the following details estimate the capital as on 31.03.2017, Capital as on 01.04.2016 ₹ 4,10,000. Drawings ₹ 40,000, Profit during the year ₹ 50,000
(A) ₹ 4,10,000

(B) ₹ 4,50,000
(C) ₹ **4,20,000**
(D) ₹ 4,00,000

(xvi) X Ltd. charges depreciation on diminishing balance method @ 10%. On 31.03.15 written down value of a machine is ₹32,400 that was put to use on 01.04.2013. The cost of the machinery as on 01.04.2013 was ______________
(A) ₹36,000
(B) ₹**40,000**
(C) ₹32,400
(D) None of the above

(xvii) Which of the following is a type of Voucher?
(A) Receipt Voucher
(B) Payment Voucher
(C) Non-Cash or Transfer Voucher
(D) **All of the above**

(xviii) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹54,000, then the amount of stock reserve on closing stock will be
(A) ₹18,000
(B) ₹**13,500**
(C) ₹9,000
(D) None of the above

(xix) Which of the following item does not match with receipts and payments account?
(A) It is a summarized cash book
(B) Transactions are recorded in it on cash basis
(C) **It records revenue transactions only**
(D) It serves the purpose of a real account

(xx) Which of the following is/ are the basic features of a Joint Venture
(A) The profit or loss on joint venture is shared between the co-venturers in the agreed ratio;
(B) The co-venturers may or may not contribute initial capital;
(C) The JV is dissolved once the purpose of the business is over;
(D) **All of the above.**

(b) Match the following:

	Column 'A'		Column 'B'
1.	**Primary book of entry**	**A.**	**Building**
2.	**Assets = Liabilities + Owners' Equity**	**B.**	**Non-Recurring in Nature**
3.	**Tangible Asset**	**C.**	**Journal**
4.	**Capital Receipts**	**D.**	**Accounting Equation**
5.	**Helps check the arithmetical accuracy**	**E.**	**Drawee**
6.	**Acceptance of Bills of Exchange**	**F.**	**Trial Balance**
7.	**Contra Transaction**	**G.**	**AS - 9**
8.	**Revenue Recognition**	**H.**	**Cash Book**

9.	**Amount of actual royalty over minimum rent**	**I.**	**Income & Expenditure A/c**
10.	**Not-for Profit Organizations**	**J.**	**Excess Working**

Answer:

	Column 'A'		Column 'B'
1.	Primary book of entry	C.	Journal
2.	Assets = Liabilities + Owners' Equity	D.	Accounting Equation
3.	Tangible Asset	A.	Building
4.	Capital Receipts	B.	Non-Recurring in Nature
5.	Helps check the arithmetical accuracy	F.	Trial Balance
6.	Acceptance of Bills of Exchange	E.	Drawee
7.	Contra Entry	H.	Cash Book
8.	Revenue Recognition	G.	AS - 9
9.	Amount of actual royalty over minimum rent	J.	Excess Working
10.	Not-for Profit Organizations	I.	Income & Expenditures A/c

(c) Fill in the blanks:

(i) ____________ exhibits the true financial position and operating results.
(ii) _______________ is the difference between the actual profit earned after the damage and that which should have been earned had no damage occurred.
(iii) Internal Liability represents _________________.
(iv) Transaction means exchange of money or money's worth for ____________ .
(v) In a Computerised Environment the processing of information will be by one or more __________.
(vi) __________ represents an amount of cash, goods or any other assets which the owner withdraws from business for his or her personal use.
(vii) Assets like brand value, copy rights, goodwill are known as _________ __________.
(viii) Rebate is given in case of _________ of a bill.
(ix) Goods costing ₹ 6,00,000 sent out to consignee at cost + 25%. Invoice value of the goods will be _________.
(x) When the agent is required to put in hard work in introducing a new product in the market ___________ commission is allowed.

Answer:

(i) Financial statement
(ii) Indemnity
(iii) proprietor's equity
(iv) Value
(v) Computers
(vi) Drawings
(vii) Intangible Assets
(viii) Retirement
(ix) ₹7,50,000
(x) Over-riding Commission

(d) State whether the following statements are true or false:

(i) **Cash Basis of Accounting is a method of recording transactions by which revenue , costs, assets and liabilities are reflected in the accounts for the period in which they accrue.**
(ii) **Economic benefits of Capital Expenditures are enjoyed for more than one accounting period.**
(iii) **The concept that business is assumed to exist for an indefinite period is referred to as Going Concern Concept.**
(iv) **In case of trading concern, the opening stock means the finished goods only.**
(v) **AS-3 deals with Inventories.**
(vi) **Under double entry system, preparation of trial balance is not possible whereas it is very much possible to prepare a trial balance in single entry system.**
(vii) **Sometimes the drawee pays the bill before the date of maturity this is known as Retirement of Bills.**
(viii) **Consignee is the person who sends goods to agents.**
(ix) **Average Clause is a clause contained in a Marine insurance policy.**
(x) **The minimum rent may be proportionately reduced in the event of strike.**

Answer:

(i) False;
(ii) True;
(iii) True;
(iv) True;
(v) False;
(vi) False;
(vii) True;
(viii) True;
(ix) False;
(x) True.

Study Note 1 – Fundamentals of Accounting

2. (a)

2017	Particulars	₹
January		
1	Mr. Rup commences business with cash	40,000
3	He paid into Current A/c	36,000
4	He received cheque from Vidyut Ltd. on account	1,500
7	He pays in bank Vidyut Ltd.'s cheque	1,500
10	He pays Vayu Ltd. by cheque and is allowed discount ₹40	660
12	Vishakha Ltd. pays into his Bank A/c	950
15	He receives cheque from Mr. Gun and allows him discount ₹70	900
20	He receives cash ₹350	
25	He pays into Bank, including cheques received on 15th and 20th	2,000
27	He pays by cheque for cash purchase	550
30	He pays sundry expenses in cash	100

Prepare Cash Book.

Answer:

Dr. **Cash Book** **Cr.**

Date	Particulars	L.F.	Cash ₹	Bank ₹	Disct ₹.	Date	Particulars	L.F.	Cash ₹	Bank ₹	Disct. ₹
2017 Jan.						2017 Jan.					
1	To Capital A/c		40,000			3	By Bank A/c	C	36,000		
3	To Cash A/c	C		36,000		7	By Bank A/c	C	1,500		
4	To Vidyut Ltd. A/c		1,500			10	By Vayu Ltd. A/c			660	40
7	To Cash A/c	C		1,500		25	By Bank A/c	C	2,000		
12	To Vishakha Ltd. A/c			950		27	By Purchase A/c		550		
15	To Mr. Gun A/c		900		70	30	By S. Expenses A/c		100		
20	To Sales A/c		350								
25	To Cash A/c	C		2,000		31	By Balance c/d		2,600	39,790	
			42,750	**40,450**					**42,750**	**40,450**	

(b) Mr. Mrinal could not agree the Trial Balance. He transferred to the Suspense Account of ₹296,being excess of the debit side total. The following errors were subsequently discovered:

(i) Sales Day Book was overcast by ₹400.
(ii) An amount of ₹55, received from Mr. Y, was posted to his account as ₹550.
(iii) Purchases return book total on a folio was carried forward as ₹331, instead of ₹222.
(iv) A cash sale of ₹2,235, duly entered in the Cash Book but posted to Sales A/c, as ₹1,235
(v) Rest of the difference was due to wrong total in Salaries A/c.

Show the entries to rectify the above errors and prepare Suspense Account.

Answer:

In the books of Mr. Mrinal
Journal

Date	Particulars	L.F	Debit	Credit
?			₹	₹
	Sales A/c Dr. To Suspense A/c (Being, Sales Book was overcast, now rectified)		400	400
	YA/c Dr. To Suspense A/c (Being, Amount received from Y ₹55 wrongly recorded as ₹550, now rectified)		495	495
	Returns outward A/c Dr. To Suspense A/c (Being, total of purchase return book was carried forward as ₹331, instead of ₹222, now rectified)		109	109
	Suspense A/c Dr. To Sales A/c (Being, Cash sales being ₹2,235, recorded only		1,000	1,000

	₹1,235 in sales A/c, now rectified)		
	Suspense A/c Dr. To Salaries A/c (Being, salary A/c was overcast by ₹300, now rectified.)	300	300

Suspense Account

Dr. **Cr.**

	₹		₹
To Sales A/c	1,000	By Difference in T. B.	296
To Salaries A/c	300	By Sales A/c	400
(bal. fig.)		By Y A/c	495
		By Returns Outwards A/c	109
	1,300		1,300

3. Expert Ltd. which depreciates its machinery at 10% p.a. on Diminishing Balance Method, had on 1st January 2016 ₹ 9,72,000 on the debt side of Machinery Account.

During the year 2016 machinery purchased on 1st January 2014 for ₹ 80,000 was sold for ₹ 45,000 on 1st July 2016 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 2014. Difference of depreciation up to 31st December, 2016 to be adjusted. The rate of depreciation remains same as before. Show Machinery Account.

Answer:

In the books of Expert Ltd.
Machinery Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2016 Jan. 1	To Balance b/d	9,72,000	2016 July 30	By Bank A/c Sale	45,000
July. 7	To Bank A/c Purchase	1,50,000		By profit and Loss A/c [Loss on Sale – Note 1]	15,000
	To Bank A/c -Installation changes	8,000		By Profit and Loss A/c [Undercharged Depreciation)	12,000
			Dec. 31	By Depreciation A/c [Annual depreciation - Note 4]	1,23,900
				By Balance c/d	9,34,100
		11,30,000			11,30,000

Workings:

1. Loss on Sale of Plant Sold

	₹
01.01.2014 Original Cost	80,000
31.12.2014 Less: Depreciation [10% of 80,000]	8,000
01.01.2015 Written Down Value	72,000
31.12.2015 Less: Depreciation [10% of 80,000]	8,000
01.01.2016 Written Down Value	64,000
01.07.2016 Depreciation [10% of 80,000 for 6 months]	4,000
Written Down Value	60,000
Selling price	45,000
Loss on Sale	15,000

2. Original Cost of Machinery on 01.01.2014

	₹
Book Value 01.01.2014	9,72,000
Added Back: Depreciation written off for 2015 $\left(\frac{10}{90} \text{x}\, 9{,}72{,}000\right)$	1,08,000
Book value on 01.01.2015	10,80,000
Added Back: Depreciation written off for 2014 $\left(\frac{10}{90} \text{x}\, 10{,}80{,}000\right)$	1,20,000
Value on 01.01.2014	12,00,000

3. Depreciation Undercharged

	₹
Depreciation @ 10% for 2 years (i.e., 2014 & 2015) ₹ 1,20,000 x 2	2,40,000
Value actually shown is ₹9,72,000	2,28,000
Undercharged depreciation = ₹9,72,000 - ₹9,60,000	12,000

4. Depreciation for 2016

	Old Machine
On Machine sold [See note No. 1]	4,000
On Machinery not sold 10% of [12,00,000 – 80,000]	1,12,000
On machinery Purchased for 6 Months $\left(\frac{10}{90} \text{x}\, 1{,}58{,}000 \times \frac{6}{12}\right)$	7,900
	1,23,900

4.(a) On January 1,2016, X Ltd. purchased a second-hand machine for ₹52,000 and spent ₹2,000 as shipping and forwarding charges, ₹5,000 as import duty, ₹500 as carriage inward,₹1,500 as repair charges, ₹500 as installation charges, ₹400 as brokerage of the middleman and ₹100 for an iron pad. It was estimated that the machine will have a scrap value of ₹2,000 at the end of its useful life which is 10 years. On 30th Sept.2016 repairs & renewals amounted to ₹2, 000. On July 2018, this machine was sold for ₹30,600.

Prepare the Machinery Account for the first 3 years.

Answer:

Total Cost of Machinery = Purchase price+ Expenses to be capitalized
= ₹52,000 + ₹2,000 +₹ 5,000 + ₹500 + ₹1,500 + ₹500 + ₹400 +₹100
= ₹62,000

Amount of depreciation p.a. $= \dfrac{\text{Total Cost of Machine - Estimated Scrap Value}}{\text{Expected Useful Life}}$

$= \dfrac{₹62{,}000 - ₹2000}{10}$

= ₹6,000

Dr. **Machinery Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01.01.2016	To, Bank A/c (Cost)	52,000	31.12.2016	By, Depreciation A/c	6,000
	To, Bank A/c (Expenses)	10,000		By, Balance c/d	56,000
		62,000			62,000
01.01.2017	To Balance b/d	56,000	31.12.2017	By, Depreciation A/c	6,000
				By, Balance c/d	50,000
		56,000			56,000
01.01.2018	To, Balance b/d	50,000	31.07.2018	By, Depreciation A/c	3,000
				By, Bank A/c	36,000
				By, profit and Loss A/c	11,000
		50,000			50,000

Working Notes:

(i) Book Value as on date of sale = ₹50,000 - ₹3,000 = ₹47,000.

(ii) Loss on sale = Book Value as on date of sale – Sale proceeds
= ₹47,000 - ₹30,600 = ₹16,400

(iii) The amount spent on repairs & renewals on 30.09.2016 is of revenue nature and not of capital nature and hence, not debited to Machinery Account.

(b) First Class Ltd. purchased a machine costing ₹2,50,000 for its manufacturing operations and paid shipping costs of ₹40,000. First Class Ltd. spent an additional amount of ₹10,000 for testing and preparing the machine for use. What amount should First Class Ltd. record as the cost of the machine?

Answer:

As per AS – 10, the cost of PPE should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. In this case the cost of machinery includes all expenditures incurred in acquiring the asset and preparing it for use. Cost includes the purchase price, freight and handling charges, insurance cost on the machine while in transit, cost of special foundations, and costs of assembling, installation and testing. Therefore the cost to be recorded is ₹3,10,000 (₹2,50,000 + ₹40,000 + ₹20,000).

Study Note 2: Accounting for Special Transactions

5. (a) Give necessary entries as would appear in M's Books:

2017 May 5 M drew three bill on N for ₹5,000, ₹4,000 and ₹3,000 payable at 4,3 and 2 months respectively.

May 12 He endorsed the first bill in favour of his creditor O at ₹4,750.

May 19 He discounted the second bill with his banker for ₹3,800.

May 26 He was paid the proceeds of the third bill at a rebate of 5% on the total amount of the bill.

On due dates the first and second bills were dishonoured but the third one was paid.

Answer:

In the Books of M

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017				
May 5	Bills Receivable A/c Dr. To, N's A/c (being Three bills for ₹5,000,₹4,000 and ₹3,000 were received from N)		12,000	 12,000
May 12	O's A/c Dr. Discount A/c Dr. To, Bills receivable A/c (being , the first bill for ₹5,000 was endorsed in favour of O for ₹4,750)		4,750 250	 5,000
May 19	Bank A/c Dr. Discount A/c Dr. To, Bills Receivable A/c (Being , the second bill for ₹4,000 was discounted with Bank)		3,800 200	 4,000
May 26	Bank A/c Dr. Rebate allowed A/c Dr. To, Bills receivable A/c (being , the third bill was retired at a rebate of 5% on the amount of the bill)		2,850 150	 3,000
Aug. 8	N's A/c Dr. To, Bank A/c (Being, the second bill dishonoured on maturity)		4,000	 4,000
Aug. 8	N's A/c Dr. To, O's A/c (Being, the second bill dishonoured on maturity)		5,000	 5,000

Note: the third bill has been paid before maturity and the entry for its payment has been passed on May 26.

(b) Subhash owed money to Vikash and hence accepted two bills each of ₹50,000 at three months duration drawn on him by the latter on 1st January,2017. Vikash discounted one of the bills with his bank for net proceeds of ₹48,000 and endorsed the other in favour of Mahesh to whom he owed a like sum, on the same date.
Subhash paid the bill held by Mahesh on the due date, but failed to meet the bill presented by the bank. The bank debited Vikash's account on 4th April, 2017 inclusive of bank changes of ₹10. Subhash paid the amount inclusive of changes to Vikash on 10th April,2017.

Show the journal entries in the books of Subhash

Answer:

Journal of Subhash

Date	Particulars	L.F.	Dr. (₹)	Cr.(₹)
2017				
Jan. 1	Vikash's A/c Dr. To, Bills Payable A/c (Being acceptance of two drafts of ₹50,000 each for three months)		1,00,000	 1,00,000
April 4	Bills Payable A/c Dr. To, Cash A/c (Being honour of own acceptance at maturity)		50,000	 50,000
April 4	Bills Payable A/c Dr. Sundry Charges A/c Dr. To Vikash's A/c (Being dishonor of own acceptance at maturity and sundry charges at ₹10 recoverable from us)		50,000 100	 50,100
April 10	Vikash's A/c Dr. To Cash A/c (Being discharge for the dishonoured acceptance)		50,100	 50,100

6. **(a) Vipin consigned 2,000 metric tonne of chemicals at a cost of ₹800 per metric tonne to Jivan. Vipin paid freight and insurance charges of ₹20,000. Of the above, 500 metric tone of chemicals were destroyed by fire during transit. Jivan cleared the balance of 1,500 metric tone of chemicals and sold 1,000 metric tonne at an average price of ₹1,000 per metric tone Jivan incurred the following expenses: Godown rent ₹5,000; Insurance ₹3,000; and Clearing charges ₹4,500. Insurance claim received against fire ₹4,00,000 after admitting the salvage value of stock destroyed by fire at ₹10,000. Jivan was entitled to a commission of 8% on sale proceeds. Jivan sends the balance to Vipin after adjusting his commission and expenses out of the sales proceeds.**

Prepare a Consignment Account and Jivan's Account in the books of Vipin.

Answer:

In the books of Vipin
Consignment to Jivan Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To, Goods Sent to Consignment A/c	16,00,000	By, Abnormal Loss A/c (Note 1)	3,95,000
To, Bank A/c (Freight and Insurance)	20,000	By, Jivan's A/c	10,00,000
To, Jivan's A/c (Total Expenses)	12,500	By, Stock on Consignment A/c	4,16,500
To, Jivan A/c (Commission)	80,000		
To, Profit and Loss on Consignment A/c	99,000		
	18,11,500		**18,11,500**

Jivan Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Consignment to Jivan A/c	10,00,000	By, Consignment to Jiven A/c (Expenses)	12,500
		By, Consignment to Jivan A/c (Commission)	80,000
		By, Bank A/c (Final payment)	8,87,500
	10,00,000		**10,00,000**

Working Notes:

(1) Valuation of Abnormal Loss		(2) Valuation of Closing Stock	
Cost of goods sent (2,00 mt)	16,00,000	Total cost of goods sent (2,000 mt)	16,20,000
Add: Non-recurring expenses upto the accident	20,000	Less: Abnormal Loss	4,05,000
Total cost of goods sent (2,000 mt)	16,20,000	Value of the goods received by Jivan	12,15,000
Therefore, value of abnormal loss (₹16,20,000/2,000) × 500	4,05,000	Add: Non-recurring expenses of Jivan (clearing charges)	4,500
Less: Salvage Value	10,000	Total cost of goods received by Jivan (1,500 mt)	12,19,500
Actual value of abnormal loss	3,95,000	Therefore, value of closing stock (₹12,19,500/ 1,500) 500	4,06,500
		Add: Salvage Value of damaged stock	10,000
			4,16,500

(b) On 1st Aug, 2015, Viru of Delhi sends 500 cases of sunglasses costing ₹600 each to Dhoni of Ranchi, on consignment basis. Viru paid freight and insurance amounting to ₹4,800. Dhoni makes an advance of ₹45,000.

On Dec. 31st,2015 Dhoni forwards an Account sales to Viru showing:

- 360 cases had been sold for ₹800 each on cash basis.
- 90 cases had been sold for ₹900 each on credit basis
Dhoni had paid ₹4,400 for carriage and ₹1,400 for rent of godown.

The consignee was entitled to an ordinary commission of 10% and del Credere commission of 5%. Dhoni realized all the due from the customers and remitted the balances due by bank draft with such account sales.
You are required to make journal entries in the books of Dhoni assuming he closes his books on Dec. 31 every year.

Answer:

In the books of Dhoni

Date	Particulars	Dr. (₹)	Cr.(₹)
01.08.2015	Viru A/c Dr.	45,000	

	To, Bank A/c (Being advance given to Viru)		45,000
31.12.2015	Viru A/c Dr. To, Bank A/c [₹4,400 + ₹1,400] (Being expenses incurred on behalf of consignor for carriage and godown rent)	5,800	 5,800
31.12.2015	Bank A/c Dr. Consignment Debtors A/c [90× ₹900] Dr. To, Viru A/c (Being 360 cases of sunglasses sold on cash basis and 90 cases sold on credit basis on behalf of Viru)	2,88,000 81,000	 3,69,000
31.12.2015	Bank A/c Dr. To, Consignment Debtors A/c (Being amount realised from the debtors)	81,000	 81,000
31.12.2015	Viru A/c Dr. To, Commission Earned A/c [3,69,000 × 10% + ₹3,69,000 × 5%] (being ordinary commission @10% and del Credere commission @ 5% earned on sale on behalf of Viru)	55,350	 55,350
31.12.2015	Viru A/c [₹3,69,000-₹45,000-₹5,800-₹55,350] Dr. To, Bank A/c (Being bank draft send to consignor as final remittance)	2,62,850	 2,62,850
31.12.2015	Commission Earned A/c Dr. To, P/L A/c (Being earned commission transferred to P/L A/c)	55,350	 55,350

7. JIBAN and MITRIK decided to work in joint venture with the following scheme, agreeing to share profits in the ratio of 2/3 and 1/3:
They guaranteed the subscription at par of 50 lakhs shares of ₹ 10 each in RAINBOW LTD. and to pay all expenses up to allotment in consideration of RAINBOW LTD. issuing to them 3,00,000 other shares of ₹ 10 each fully paid together with a commission @ 5% in cash which will be taken by JIBAN AND MITRIK in 3 : 2.

Co-ventures introduced cash as follows:

JIBAN:	**Stamp charges, etc.**	**₹ 1,65,000**
	Advertising charges	**₹ 1,35,000**
	Car expenses	**₹ 1,54,000**
	Printing charges	**₹ 1,88,000**
MITRIK:	**Rent**	**₹ 1,30,000**

Solicitor's charges **₹ 80,000**

Application fell short of the 50 lakhs shares by 1,20,000 shares and MITRIK introduced ₹ 12,00,000 for the purchase of those shares.
The guarantee having been fulfilled, Rainbow Ltd. handed over to the ventures 3,00,000 shares and also paid the Commission in cash. All their holdings were subsequently sold by the venture MITRIK receiving ₹ 12,50,000 and JIBAN ₹ 25,00,000.
You are required to prepare the:

(i) Memorandum Joint Venture Account and
(ii) Joint Venture Account with MITRIK – in the Books of JIBAN.

Answer:

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To Mitrik:			By Jiban:	
	Cost of Shares	12,00,000		Commission (3/5)	15,00,000
	To Jiban:			By Mitrik:	
	Stamp changes	1,65,000		Commission (2/5)	10,00,000
	Advertising charges	1,35,000		By Jiban:	
	Printing charges	1,88,000		Sale proceeds of shares	25,00,000
	Car expenses	1,54,000		By Mitrik:	
	To Mitrik:			Sale proceeds of shares	12,50,000
	Rent	1,30,000			
	Solicitor's charges	80,000			
	To Profit on Venture Jiban (2/3) 27,98,667 Mitrik (1/3) 13,99,333	41,98,000			
		62,50,000			62,50,000

In the books of Jiban
Joint Venture Account with Mitrik

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank-Stamp, Adv. Car exp. & Printing	6,42,000	By Bank (Commission)	15,00,000
To Share of Profit	27,98,667	By Bank (Sale Proceeds of Shares)	25,00,000
To Bank (Remittance)	5,59,333		
	40,00,000		40,00,000

8. From the following information, compute the amount of claim under the loss of profit policy:

Sum Insured	**₹ 1.20 Lakh**
Indemnity Period	**6 Months**
Reason for Damage	**Due to Fire Accident on 1.3.2015**
Period of Interruption	**1.3.2015 to 31.7.2015**
Accounting Year	**Calender Year**

Gross Profit Ratio	**25%**
Increase in Cost of working	**₹ 0.30 Lakh**
Saving in insured Standing Charges	**₹ 0.09478 Lakh**
Turnover For the year ended 31st Dec, 2014	**₹10.00 Lakh**
Turnover For the period from 1.3.2014 to 28.2.2015	**₹ 9.00 Lakh**
Turnover For the period from 1.3.2014 to 31.7.2014	**₹ 5.00 Lakh**
Turnover For the period from 1.3.2015 to 31.7.2015	**₹ 3.00 Lakh**
Sales were evenly throughout the period Standing Charges (out of which ₹ 50,000 have not been insured)	**₹ 2.50 Lakh**

Answer:

STATEMENT OF CLAIM

Particulars	₹
A. Gross Profit on Turnover lost in claim period	40,000
B. Add: Net claim for the Increased Cost of Working	14,000
C. Total Claim (A + B)	54,000
D. $\text{Net Claim} = \text{Total Claim} \times \frac{\text{Sum Insured}}{\text{Sum Insurable}} = \frac{₹54,000 \times ₹1,20,000}{₹1,80,000}$	36,000

Working Notes:

(i) Agreed G.P. Ratio = G.P. Ratio as per last accounting year + Agreed Increase/Decrease

$$\text{G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Turnover of Last Accounting year}} \times 100$$

$$= \frac{0 + ₹2,00,000}{₹10,00,000} \times 100 = 20\%$$

Note: Net Profit for the year ended 31st Dec, 2014 = Gross profit - All Standing Charges

=25% of ₹ 10,00,000 - ₹2,50,000 = 0

(ii) Claim Period being the least of the Indemnity Period (6 months) & Dislocation Period (5 months) is 5 months.

(iii) CALCULATION OF TURNOVER LOST IN CLAIM PERIOD

Particulars	₹
A. Turnover for the corresponding claim period in the preceding year	5,00,000
B. Add: Agreed Increase	--
C. Less: Actual Turnover during the claim period	₹3,00,000
D. Turnover lost in claim period (A+B-C)	₹2,00,000

(iv) Gross Profit Lost = Turnover lost during the claim period × Agreed G.P. Ratio
= ₹2,00,000 × 20% = ₹40,000

(v) Sum Insurable = Adjusted Turnover during 12 months immediately

preceding the fire × Agreed G.P. Ratio
= ₹9,00,000 × 20% = ₹1,80,000

(vi) CALCULATION OF THE NET CLAIM FOR THE INCREASED COST OF WORKING

Particulars	₹
A. Gross claim for Increased Cost of Working (being the least of the following	₹23,478
1. Actual Expenses	₹30,000
2. Proportionate Increased Cost of Working $\text{Increased Cost of Working} \times \frac{\text{Gross Profit on Adjusted Turnover}}{\text{Gross Profit as above} + \text{Uninsured Standing Charges}}$ $= \grave{}30,000 \times \frac{20\% \text{ of } \grave{}9,00,000}{\grave{}1,80,000 + \grave{}50,000}$	₹23,478
3. Maximum saving of liability of the insurer = Reduction in Turnover avoided through Increased Cost of Working × Agreed G.P. Ratio = ₹3,00,000 × 20%	₹60,000
B. Less: Saving in Insured Standing Charges	₹9,478
C. Net claim for Increased Cost of Working (A-B)	₹14,000

(vii) In the absence of information. It has been assumed that the Actual Turnover in the claim period has been effected as a result of additional expenses.

9. From the following information, compute the amount of claim under loss of Stock Policy:

Sum Insured	**₹ 48,000**	**Stock as on 1.1.2014**	**₹73,500**
Accounting Year	**Calender Year**	**Stock as on 31.12.2014**	**₹ 79,600**
Value of Salvaged	**₹5,800**	**Purchases during 2014**	**₹ 3,98,000**
G.P. Ratio	**Uniform from year to year**	**Sales during 2014**	**₹ 4,87,000**
Reason for Damage on 30.6.2015	**Due to fire accident**	**Purchases from 1.1.2015 to 30.6.2015**	**₹ 1,62,000**
		Sales from on 1.1.2015 to 30.6.2015	**₹2,31,200**

In valuing the stock at 31st December, 2014,₹2,300 had been written off certain stock which was poor selling line, it having a cost of ₹6,900. A portion of these goods were sold in March, 2015 at a loss of ₹250 on original cost of ₹3,450. The remainder of this stock was now estimated to be worth its original cost for the purpose of claim. Subject to above exception, gross profit had remained at an uniform rate throughout the year.

Answer:

STATEMENT OF CLAIM

Particulars		₹
A. Estimated Value of Stock As at date of fire		
(a) Book-Value of Normal Items	₹54,600	
(b) Current Value of Abnormal Items [50% of ₹6,900]	₹3,450	58,050
B. Value of Salvaged Stock		5,800
C. Estimated Value of Stock Lost by fire (A - B)		52,250

D. Amount of claim by applying Average clause:	
Loss suffered $\times \frac{\text{Sum Insured}}{\text{Actual Insurable Value}} = ₹52,250 \times \frac{₹48,000}{₹58,050}$	43,204

Working Notes:

(I) TRADING ACCOUNT FOR THE YEAR ENDING ON 31st DEC, 2014

Particulars	₹	Particulars		₹
To Opening Stock	73,500	By Sales		4,87,000
To Purchases	3,98,000	By Closing Stock Valued	₹79,600	
To Gross Profit (b.f)	97,400	*Add:* w/o	₹2,300	81,900
GPR = $\frac{₹97,400}{₹4,87,000} \times 100 = 20\%$				
	5,68,900			5,68,900

(II) MEMORANDUM TRADING ACCOUNT FOR THE PERIOD FROM 01.01.2015 TO 30.06.2015

Particulars	Normal Items ₹	Abnormal Items	Total Items ₹	Particulars	Normal Items ₹	Abnormal Items	Total Items ₹
To Opening Stock	75,000	4,600	79,600	By Sales	2,28,000	3,200	2,31,200
To Purchases	1,62,000	900	1,62,000	By Closing Stock	54,600	2,300	56,900
	2,82,600	5,500	2,88,100		2,82,600	5,500	2,88,100

Study Note 3 : Preparation of Financial Statements of Profit Oriented Organisation

10. J.Das provides you with the following T. B. as on 31st March 2016

Particulars	Debit (₹)	Credit (₹)
Stock as on 1st April 15	**35,000**	
Depreciation	**5,000**	
Accumulated depreciation		**40,000**
Fixed asset	**50,000**	
Loss on sale of fixed asset	**8,000**	
Investments	**1,50,000**	
Profit on sale of investments		**1,05,000**

Particulars	Debit (₹)	Credit (₹)
Sales at 20% gross margin		800,000
Purchases	7,50,000	
Customers' accounts	1,00,000	20,000
Creditors' accounts	5000	60,000
Expenses	42,000	
Discount	18,000	12,000
Commission	50,000	80,000
Amounts due to principals		8,000
Amounts due from dealers	75,000	
Deposits with Principals	1,00,000	
Deposits from dealers		1,50,000
Cash	7,000	
Income on investments		5,000
Interest on deposits with Principals		12,000
Interest on deposits from dealers	18,000	
Prepaid/outstanding expenses As on 31st March 2015 As on 31st March 2016	 7,000 9,000	 13,000 6,000
Fixed deposits with bank	2,00,000	
Interest on fixed deposits with bank		20,000
Drawings/Capital	60,000	3,00,000
Banks		58,000
Total	16,89,000	16,89,000

The cost of fixed assets sold is ₹ 30,000, accumulated depreciation being ₹ 9,000.
Prepare the financial statements. Also, separately show Accumulated depreciation Account, and Expenses Account.

Answer:

Dr. Accumulated Depreciation Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Mar-16 31-Mar-16	To, Asset (sold) To, Balance c/d	9,000 40,000	1- Apr-15 31 -Mar-16	By Balance b/d (balancing figure) By P & L (depreciation)	44,000 5,000
		49,000			49,000
				By balance b/d	40,000

Dr. Expenses Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1-Apr-15	To, Balance (pre paid)	7,000	1- Apr-15	By, Balance b/d (due)	13,000
31-Mar-16	To, Cash paid (balancing figure)	45,000	31-Mar-16	By, P & L A/c (42,000-13,000+7,000)	36,000
31-Mar-16	To, Balance b/d (due)	6,000	31-Mar-16	By, Balance c/d (pre paid)	9,000
		58,000			58,000
1-Apr-17	To Balance b/d (pre paid)	9,000	1-Apr-17	By, Balance b/d (due)	6,000

Dr. Trading Account for the year ended 31st March 2016 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening stock Finished goods Purchases Gross Profit c/d (8,00,000×20%)	 35,000 7,50,000 1,60,000	Sales Closing stock: Finished goods (Balance in fig.)	8,00,000 1,45,000
	9,45,000		9,45,000

Dr. Profit and Loss Account for the year ended 31st March 2016 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative expenses	-	Gross Profit b/d	1,60,000
Expenses	36,000	Profit on sale of investment	1,05,000
Depreciation	5,000	Discount received	12,000
Loss on sale of fixed asset	8,000	Commission received	80,000
Discount allowed	18,000	Income from investments	5,000

Commission given	50,000	Interest deposits with principals	12,000
Interest on deposits to dealers	18,000	Interest bank deposits	20,000
Net profit	2,59,000		
	3,94,000		394,000

Sales	8,00,000	
Gross margin on sales @ 20%	1,60,000	
Cost of goods sold	6,40,000	
Goods available for sale	7,85,000	(this is op stock 35,000 + purchases 750,000)
Hence, closing stock should be	1,45,000	(785,000- 640,000)

Now, the balance sheet is given below.

Balance Sheet as on 31st March 2016

Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
Jamnadas's Capital	3,00,000		Fixed Assets:	80,000	
Less: Drawings	(60,000)		Less: Acc. Dep for sold	(30,000)	
Add: Net Profit for the year	2,59,000	4,99,000	Balance of assets	50,000	
			Depreciation opening	44,000	
Long term Liabilities:			Less: Acc Dep for sold	(9,000)	
Current Liabilities:			Add for the year	5,000	
Sundry creditors		60,000	Net Acc. Dep	40,000	
Advance from Customers		20,000	Net fixed Asset		10,000
Dues to Principals		8,000			
Bank overdraft		58,000	Investments		1,50,000
Outstanding expenses		6,000			
Deposits from dealers		1,50,000	Current Assets:		
			Stocks		1,45,000
			Sundry debtors		1,00,000
			Deposits with Principals		1,00,000
			Cash in hand		7,000

			Fixed deposit with Bank		2,00,000
			Dues from dealers		75,000
			Advance to suppliers		5,000
			Prepaid expenses		9,000
		8,01,000			8,01,000

Please carefully interpret the balances given. Customer balances are in debit as well as credit column. While debit indicates Debtor and credit means advances received from customers. Same logic will apply to suppliers, commission, discounts. Computation of closing stock was very important in this case.

Study Note 4: Preparation of Financial Statement of Not-for Profit Organisation

11. Prepare the Income & Expenditure Account and the Balance Sheet from the following information:

RECEIPTS AND PAYMENTS ACCOUNT OF GOLDEN CLUB, DELHI

Dr. for the year ending on 31st March, 2016 Cr.

Receipts		₹	Payments	₹
To Balance b/f (cash)		1,050	By Upkeep of fields	220
To Subscriptions:			By Salaries	600
2014-2015	40		By Drama Expenses	450
2015-2016	2,050		By Newspapers	150
2016-2017	60	2,150	By Books	100
To Admission Fees		40	By Municipal Taxes	40
To Life Membership subscription		100	By Charity	350
To Donations (on 1.11.2015)		500	By 12% General Investments	
To Subscription for Tournament			(on 1.11.2015)	500
(on 1.11.2015)		1,500	By 12% Tournament Fund	
To Sales of old newspapers		45	Investments (on 1.11.2015)	1,500
To Sale of old bats etc.		50	By Tournament Expenses	1,200
| To Proceeds of drama tickets		950	By Bats, Balls etc.	700
To Sale of old furniture		60	By Printing & Stationery	100
(costing ₹100)			By Furniture	250
To Interest on 12% General		12.50	By Prizes	1,115
Investments			By Balance c/f (Cash)	3,750

To Interest on 12% Tournament			
Fund Investments	**37.50**		
To Subscription for Governor's Party	**3,450**		
To Prize Fund	**1,080**		
	11,025		**11,025**

Additional Information:

(a) There are 500 members each paying an annual subscription of ₹5. ₹50 are still in arrear, for the year 2014-2015.

(b) Municipal taxes amounting to ₹40 per year have been paid upto June 30, 2016 and ₹50 are outstanding for salaries.

(c) On 1.4.2015 the club owned building valued at ₹5,000, Stock of Bats and Balls ₹1,500, Printing and Stationery ₹200, Cash at Bank ₹3,000, Books ₹500 and Furniture ₹600.

(d) Write 50% off Bats and Balls (without considering sale), 25% off printing and stationery.

(e) Special subscription for governor's party outstanding ₹550.

(f) Admission fees to be treated as of revenue nature but Life Membership is to be treated as of Capital nature.

Answer:

INCOME & EXPENDITURE ACCOUNT OF GOLDEN CLUB

Dr. for the year ending on 31st March, 2016 Cr.

Expenditure		₹	Income		₹
To Upkeep of fields		220	By Subscription (500 x ₹ 5)		2,500
To Salaries paid	600		By Admission Fees		40
Add: Outstanding at end	50	650	By Donations		500
To Drama Expenses		450	By Sale of old newspapers		45
To Newspapers		150	By Sale of old bats etc.		50
To Municipal Taxes Paid	40		By Proceeds of drama tickets		950
Add: Pre. in the beginning	10		By Interest on General Invest..		
Less: Prepaid at end	10	40	(500x12/100x5/12)		
To Charity		350	Received	₹12.5	
To Loss on sale of furniture		40	Accrued	₹12.5	25
To Printing & Stationery		75			
To Bats & balls consumed		1,100			
To Prize Exp. (1,115-1,080)		35			
To Surplus		1,000			
		4,110			4,110

BALANCE SHEET OF GOLDEN CLUB AS AT 31 ST MARCH, 2016

Liabilities		₹	Assets		₹
Capital Fund:			Cash in hand		3,750
Opening Balance	11,950		Cash at bank		3,000
Add: Surplus	1,000		Outstanding Subscription:		
Add: Life Membership			for 2014-2015	50	
subscription	100	13,050	for 2015-2016	450	500
Tournament Fund:			Printing & Stationery:		
Opening Balance	Nil		Opening Balance	200	
Add: Subscription	1,500		*Add:* Purchases	100	
Add: Interest on				300	
Tournament Fund			*Less:* Charged	75	225
Invest. [1500x12% x 5/12]	75		Stock of Bats & Ball:		
Less: Tournament expenses	1,200	375	Opening Balance	1,500	
Subscription for Governor's			*Add:* Purchases	700	
Party Received	3,450		.	2,200	
Add: Outstanding	550	4,000	*Less:* Charged	1,100	1,100
Outstanding Salaries		50	Books:		
Advance Subscription		60	Opening Balance	500	
			Add: Additions	100	600
			12% Investments		2,000
			Furniture:	600	
			Add: Additions	250	
			Less: Sale	100	750
			Building		5,000
			Accrued Interest:		
			on General Investments	12.5	
			on Tournament Fund		
			Investments	37.5	50
			Outstanding subscription		550
		17,535			17,535

Working Notes:

BALANCE SHEET OF GOLDEN CLUB AS AT 31 ST MARCH, 2015

Liabilities	₹	Assets	₹
Capital Fund (balancing figure)	11,950	Cash in hand	1,050

		Cash at bank	3,000
		O/s subscription (50 + 40)	90
		Printing & Stationery	200
		Stock of Bats & Balls	1,500
		Books	500
		Furniture	600
		Building	5,000
		Prepaid Municipal Taxes	10
	11,950		**11,950**

Notes:

4. Since yearly municipal charges are₹ 40, ₹ 10 must have been paid during the previous year for current year.
5. Excess Prize Expenses have been charged to Income & Expenditure Account.

12. How will you deal with the following items while preparing the Income and Expenditure Account for the year ending on March 31, 2016 and a Balance Sheet as on that date?

Particulars	**As at 1.4.2015**	**As at 31.3.2016**
Creditors for Sports Materials	**2,000**	**1,200**
Stock of Sports Materials	**2,100**	**500**

12015-2016, the payment made to these creditors was ₹10,800. Cash Purchases 20% of Credit purchases.

Answer:

AN EXTRACT OF INCOME AND EXPENDITURE ACCOUNT

for the year ending on 31st March, 2016

Expenditure	₹	**Income**	₹
To Sports Materials consumed	13,600		

AN EXTRACT OF BALANCE SHEET AS AT 31 ST MARCH, 2016

Liabilities	₹	Assets	₹
Creditors for Sports Materials	1,200	Stock of Sports Materials	500

Working Notes:

(I) CREDITORS FOR SPORTS MATERIALS ACCOUNT

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Bank A/c To Balance c/d	10,800 1,200	By Balance b/d By Stock of Sports Materials A/c (Credit purchases) (b. f.)	2,000 10,000
	12,000		12,000

Dr. (II) STOCK OF SPORTS MATERIALS ACCOUNT Cr.

₹	₹	₹	₹
To Balance b/d To Creditors for Sports Materials (transfer) To Bank A/c (cash purchases)	2,100 10,000 2,000	By Income and Expenditure A/c (Sports Materials consumed) (Balancing figure) By Balance c/d	13,600 500
	14,100		14,100

13. The Receipts and Payments account of Ting-Tong Club prepared on 31st March, 2016 is as follows:

RECEIPTS AND PAYMENTS ACCOUNT

Receipts		**₹**	**Payments**	**₹**
To Balance b/d		**450**	**By Expenses (including**	
To Annual Income from Subscription			**Payment for sports material ₹2,700)**	**6,500**
***Add:* Outstanding of**	**4,590**		**By Loss on Sale of Furniture**	
last year received this year	**180**		**(cost price ₹ 450)**	**180**
	4,770		**By Balance c/d**	**90,450**
***Less:* Prepaid of last year**	**90**	**4,680**		
To Other fees		**2,000**		
To Donation for Building		**90,000**		
		97,130		**97,130**

Additional Information:

Ting-Tong Club had balances as on 1.4.2015:

Furniture ₹1,800; Investment at 5% ₹27,000; Sports material ₹6,660; Balance as on 31.3.2016: Subscription Receivable ₹270; Subscription received in advance ₹90; Stock of sports material ₹1,800.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2016 and Balance Sheet on that date.

Answer:

Corrected Receipts and Payments Account of Ting-Tong Club
Dr. for the year ended 31st March, 2016 Cr.

Receipts		₹	Payments	₹
To Balance b/d		450	By Expenses (₹ 6,500 - ₹ 2,700)	3,800
To Subscription			By Sports Material	2,700
Annual Income	4,590		By Balance c/d	90,720
Less: Receivable at end	270		(Cash in Hand and at Bank)	
Add: Advance at end	90			
Add: Receivable at the end	180			
Less: Advance received at end	90	4,500		
To Other fees		2,000		
To Donation for Building		90,000		
To Sale of Furniture		270		
		97,220		97,220

Income and Expenditure Account of Ting-Tong Club
Dr. for the year ended 31st March, 2016 Cr.

Expenditure		₹	Income	₹
To Sundry Expenses		3,800	By Subscription	4,590
To Sports Material			By Other fees	2,000
Balance as on 1.4.2016	6,660		By Interest on investment	1,350
Add: Purchases	2,700		(5% on ₹ 27,000)	
Less: Balance as on			By Deficit: Excess of Expenditure	
31.3.2016	(1,800)	7,560	over Income	3,600
To Loss on Sale of Furniture		180		
		11,540		11,540

Balance Sheet of Ting-Tong Club
as on 31st March, 2016

Liabilities		₹	Assets		₹
Capital Fund	36,000		Furniture	1,800	
Less: Excess of Expenditure			*Less:* Sold	(450)	1,350
over Income	(3,600)	32,400	5% Investment		27,000
Building Fund		90,000	Interest Accrued on Investment		1,350
Subscription Received in Advance		90	Sports Material		1,800
			Subscription Receivable		270
			Cash in Hand and at Bank		90,720
		1,22,490			1,22,490

Working Note:

Balance Sheet of Ting-Tong Club as on 1st April, 2015

Liabilities	₹	Assets	₹
Subscription Received in Advance Capital Fund (Balancing Figure)	90 36,000	Furniture Investment Sports Material Subscription Receivable Cash in Hand and at Bank	1,800 27,000 6,660 180 450
	36,090		36,090

Study Note 5: Preparation of Financial Statements from Incomplete Records

14. The following is the balance sheet Mainak on 31st March, 2016:

Liabilities	₹	Assets	₹
Capital	**10,00,000**	**Fixed Assets**	**4,00,000**
Creditors (Trade)	**1,40,000**	**Stock**	**3,00,000**
Profit & Loss A/c	**60,000**	**Debtors**	**1,50,000**
		Cash & Bank	**5,50,000**
	12,00,000		**12,00,000**

The management estimates the purchases and sales for the year ended 31st March,2017 as under:

Particulars	Upto 28.02.2017	31.03.2017
Purchases	**₹14,10,000**	**₹1,10,000**
Sales	**₹19,20,000**	**₹2,00,000**

It was decided to invest ₹1,00,000 in purchases of fixed assets, which are depreciated @10% on cost.

The time lag for payment to the Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a balance sheet as at 31st March,2017 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances.

Answer:

Draft Balance Sheet as at 31st March,2017

Liabilities	₹	Assets	₹
Capital	10,00,000	Fixed Assets 4,00,000	

Profit & Loss A/c		Additions 1,00,000	
As on 01.04.2016 60,000		5,00,000	
Add: net Profit for		Less: depreciation 50,000	4,50,000
the year 3,74,000	4,34,000	Stock in Trade	3,36,000
Creditors (Trade)	1,10,000	Sundry Debtors	2,00,000
		Cash & Bank	5,58,000
	15,44,000		**15,44,000**

Working Notes:

(i) Projected Trading and Profit & Loss Account
For the year ending 31st March,2017

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Opening stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock (Balancing Figure)	3,36,000
To Gross Profit (30% on Sales)	6,36,000		
	24,56,000		**24,56,000**
To Sundry Expenses (10% of the Sales)	2,12,000	By Gross Profit b/d	6,36,000
To Depreciation	50,000		
To Net profit	3,74,000		
	6,36,000		**6,36,000**

(ii) Cash and Bank Account

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Balance b/d	3,50,000	By Sundry Creditors (₹1,40,000 + ₹14,10,000)	15,50,000
To Sundry debtors (₹1,50,000 + ₹19,20,000)	20,70,000	By Expenses	2,12,000
		By Fixed Assets	1,00,000
		By Balance c/d	5,58,000
	24,20,000		**24,20,000**

(iii) It has been assumed that entire sales and purchases are on credit basis.

15. Mohan & Sons is running a Restaurant where sports facilities are also provided in waiting hall and provides you the following information:

Particulars	**As on 01.04.2016 ₹**	**As on 31.03.2017 ₹**
Furniture	**2,20,000**	**?**
Sports Equipment	**2,20,000**	**?**
China Glass, Cutlery etc.	**25,000**	**?**
6% Govt. Securities [Face value ₹3,00,000]	**2,50,000**	**?**
Stock of Sports Materials	**3,000**	**500**
Advances to Suppliers of Sports Materials	**1,000**	**500**
Due to Suppliers of Sports Materials	**3,000**	**1,800**

Stock of Stationery	2,000	?
Unpresented cheques being payment for stationery	1,000	400
Interest on loan Outstanding	4,750	3,500
Interest on loan Received-in-Advance	1,400	2,600
Outstanding Miscellaneous expenses	4,750	3,500
Miscellaneous Expenses paid in advance	1,400	2,600
Outstanding Wages	5,000	4,000
Cash Balance	10,000	30,000
Bank Balance as per pass Book	5,00,000	?
Stock of Provisions	30,000	3,80,000
Debtors for Provisions	30,000	40,000
Creditors for Provisions	1,00,000	50,000
Loans given	7,20,000	?

2. **Payment as per Pass Book**

Particulars	₹
Suppliers of Sports materials	10,800
Miscellaneous Expenses	74,400
Wages	51,000
Stationery	1,600
Furniture (Purchased on 01.10.2016)	1,50,000
Sports Equipments (purchased on 01.102016)	1,50,000
8% R.B.I Tax Free Bonds (Purchased on 01.01.2017) [Face Value ₹1,00,000]	79,200
Creditors for Provisions	10,50,000

3. **Payment as per Pass Book**

Particulars	₹
Interest on Loans	74,450
Interest on 6% Govt. Securities (after T.D.S. @ 10%)	8,100
Collection from Debtors for Provisions	8,90,000
Loan Repayments	2,00,000

4. (a) Cash Purchases of Provisions – 1/11 th of Total Purchases
   (a) Cash Sales Provisions — 10% of Total Sales
5. Depreciation Rates:
   (a) On Chain Glass & Cutlery – 20%
   (b) On Furniture – 10% p.a.
   (c) On Sports Equipment – 10%
6. The cost of the boarding expenses – restaurant staff ₹20,000 – other staff ₹7,500.
7. Furniture (having a book value of ₹20,000 as on 01.04.2016) was sold at a loss of 20% on 31.12.2016 and a cheque was duly received and credited.
8. Write 25% off Stationery.

Prepare Restaurant Trading Account, Profit and Loss Account and the Closing Balance Sheet.

Answer:

Restaurant Trading Account
For the year ended 31st March,2017

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	30,000	By Sales of Provisions	
To Purchases of Provisions		Cash Sales 1,00,000	
Cash Purchases 1,00,000		Credit Sales 9,00,000	10,00,000
Credit Purchases 10,00,000	11,00,000	By Boarding Expenses of restaurant & other Staff	27,500
To Boarding Expenses of Restaurant staff	20,000	By Stock of Provisions	3,80,000
To Wages	50,000		
To Gross Profit transferred to Income & expenditure A/c	2,07,500		
	14,07,500		**14,07,500**

PROFIT & LOSS ACCOUNT
Dr. **for year ended 31st March 2017** **Cr.**

Particulars	₹	Particulars	₹
To Depreciation on Cutlery	5,000	By Gross Profit from Restaurant	2,07,500
To Depreciation on Furniture	29,000	By Interest on Loan A/c	72,000
To Depreciation on Sport Equipment	37000	By Interest on Govt. Securities	
To Sports Materials Consumed	12,600	Received 8,100	
To Stationery w/o	750	T.D.S 900	
To Miscellaneous Expenses A/c	72,000	Add: Accrued Interest <u>9,000</u>	18,000
To Loss on Sale of Furniture	3,700	By Accrued Interest on 8% RBI Tax	2,000
To Boarding Expenses of other Staff	7500	free Bonds	
To Net Profit t/f to Capital A/c	1,31,950		
	2,99,500		2,99,500

BALANCE SHEET AS AT 31 MARCH, 2017

Liabilities	₹	Assets	₹
Capital Fund:		Furniture	3,22,500
Opening Balance 19,02,100		Sport Equipment	
Add: Net Profit 1,31,950	20,34,050	Opening Balance 2,20,000	
Interest on Loan received in	2,600	Add: Purchases 1,50,000	
Outstanding Misc. Expenses	3,500	Less: Depreciation (37,000)	3,33,000
Outstanding Wages	4,000	China, Glass Cutlery	20,000
Due to Suppliers of Sports	1,800	Govt. Securities	
Creditors for Provisions	50,000	(Face Value ₹3,00,000)	2,50,000
		8% RBI Tax free Bonds	
.		(Face Value ₹1,00,000)	79,200
		Stock of Provisions	3,80,000
		Stock of Sports Material	500

		Stock of Stationery	2,250
		Debtors for Provisions	40,000
		Advance to Suppliers of Sports Materials	500
		Interest on Loan Outstanding	3,500
		Prepaid Misc. Expenses	2,600
		Accrued Interest on Govt. Securities	9,000
		Accrued Interest on 8% RBI Tax free Bonds	2,000
		T.D.S	900
		Cash	30,000
		Bank	1,00,000
		Loan Given	5,20,000
	20,95,950		20,95,950

Working Notes:

Dr. (I) INTEREST ON LOAN ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Interest on Loan Outstanding A/c (beginning)	4,750	By Interest on Loan received in advance A/c (beg)	1,400
To Profit & Loss A/c (b.f.)	72,000	By Bank A/c	74,450
To Interest on Loan received in advance A/c (end)	2,600	By Interest on Loan Outstanding A/c (end)	3,500
	79,350		79,350

Dr. (II) MISCELLANEOUS EXPENSES ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Expenses Prepaid A/c (beginning)	1,400	By Exp. Outstanding A/c (beg.)	4,750
		By Profit & Loss A/c (b.f.)	72,000
To Bank A/c	74,450	By Expenses Prepaid A/c (end)	2,600
To Expenses Outstanding A/c (end)	3,500		
	79,350		79,350

Dr. (III) SUPPLIERS OF SPORTS MATERIALS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d (advance)	1,000	By Balance b/d (outstanding)	3,000
To Bank A/c	10,800	By Stock of Sports Material A/c (b.f.)	10,100
To Balance c/d (outstanding)	1,800		
		By Balance c/d (advance)	500
	13,600		13,600

Dr. (IV) STOCK OF SPORTS MATERIALS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d To Supplier's A/c	3,000 10,100	By P & L A/c (consumed) (b.f.) By Balance c/d	12,600 500
	13,100		13,100

Purchases of Stationery as per Cash Book
= Payment as per Pass Book + Unpresented cheques at the end
- Unpresented cheques at the beginning
= ₹ 1,600 + ₹400 - ₹ 1,000 = ₹ 1,000

Dr. (VI) STOCK OF STATIONERY ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d To Purchases A/c	2,000 1,000	By Profit & Loss A/c (consumed) By Balance c/d	750 2,250
	3,000		3,000

Dr. (VII) DEBTORS FOR PROVISIONS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d To Credit Sales	30,000 9,00,000	By Bank A/c By Balance c/d	8,90,000 40,000
	9,30,000		9,30,000

Dr. (VIII) CREDITORS FOR PROVISIONS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Bank A/c To Balance c/d	10,50,000 50,000	By Balance b/d By Credit purchases	1,00,000 10,00,000
	11,00,000		11,00,000

Dr. (IX) FURNITURE ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d	2,20,000	By Depreciation A/c.	
To Bank A/c	1,50,000	Sold (20,000 x 10% x 9/12)	1,500
		By Bank A/c (sales)	14,800
		By Profit & Loss A/c (Loss)	3,700
		By Depreciation A/c	
		Old (2,00,000x10%)	20,000
		New (1,50,000 x 10% x 6/12)	7,500
		By Balance c/d	3,22,500
	3,70,000		3,70,000

Dr. **(X) CASH & BANK ACCOUNT** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d: Cash	10,000	By Creditors for Provisions A/c	10,50,000
Bank Balance as per Pass Book	5,00,000	By Wages A/c	51,000
To Debtors for Provisions A/c	8,90,000	By Suppliers of Sports Materials	10,800
To Interest on Govt. Securities	8,100	By Furniture A/c	1,50,000
To Interest on Loan	74,450	By Miscellaneous Expenses A/c	74,450
To Cash Sales of Provisions	1,00,000	By Sport Equipment	1,50,000
To Furniture	14,800	By Stationery A/c	1,600
To Loan Repayment	2,00,000	By Cash Purchases of Provisions	1,00,000
		By 8% RBI Tax free Bonds	79,200
		By Balance c/d (cash)	30,000
		Bank	1,00,300
	17,97,350		17,97,350

(XI) BANK RECONCILIATION STATEMENT

Particulars	31.3.2016	31.3.2017
A. Bank Balance (overdraft) as per Pass Book	5,00,000	1,00,300
B. Less: Unpresented cheques for stationery	(900)	(300)
C. Bank Balance (overdraft) as per Cash Book	4,99,100	1,00,000

(XII) BALANCE SHEET AS AT 31 MARCH, 2016

Liabilities	₹	Assets	₹
Capital Account	19,02,100	Furniture	2,20,000
Creditors for Provisions	1,00,000	Sport Equipment	2,20,000
Due to Suppliers of Sports Materials	3,000	China, Glass Cutlery	25,000
Interest on Loan received in ad.	1,400	Govt. Securities	
Outstanding Misc. Expenses	4,750	(Face Value ₹3,00,000)	2,50,000
Outstanding Wages	5,000	Stock of Provisions	30,000
		Stock of Sports Material	3,000
		Stock of Stationery	2,000
		Debtors for Provisions	30,000
		Advance to Supp. of Sports Materials	1,000
		Interest on Loan Outstanding	4,750
		Prepaid Misc. Expenses	1,400
		Cash	10,000
		Bank Balance As per Cash Book	4,99,100
		Loan given	7,20,000
	20,16,250		20,16,250

Study Note 6: Partnership

16. A, B and C have been in business partnership for some years, Sharing Profit and in the proportions of 4:3:3.
The balances in the books of the firm as on 31st March, 2015 subject to final Adjustment, were as under:

(Amount in ₹)

	Dr. (₹)	Cr. (₹)
Capital Account - A		3,00,000
Capital Account - B		1,50,000
Capital Account - C		1,80,000
Profit for the year before charging interest		3,12,000
Land and Buildings	2,40,000	
Furniture and Fixtures	45,000	
Stock	3,75,000	
Debtors	60,000	
Bank	1,20,000	
Creditors		90,000
Partner's Drawings - A	48,000	
Partner's Drawings - B	72,000	
Partner's Drawings - C	72,000	
Total	10,32,000	10,32,000

C died on 30.09.2014. the Partnership deed provided that:

(1) Interest was to be credited on Capital accounts of partners at 10% p.a. on the balance at the beginning of the year.
(2) On the death of a Partner:
  (i) Goodwill was to be valued at three years' purchase of average Annual Profits of three years up to the date of death, after deducting interest on Capital Employed at 8% P.A. and a fair remuneration for each of the partners;
  (ii) Fixed Assets were to be valued by an independent valuer and all other assets and liabilities to be taken at Book Value.
(3) Wherever necessary, profit or loss should be apportioned on a time basis.
(4) The amount due to the deceased partner's Sole Heir was to receive interest @ 12% P.A. from the date of death until paid.

It was ascertained that:

(a) Profits for three years, before charging partners' interest were: 2011-12 – ₹ 3,36,000, 2012-13 – ₹ 3,78,000 and 2013-14 – ₹ 3,60,000 respectively.
(b) The independent valuation at the date of death revealed: Land and Buildings – ₹ 3,00,000 and Furniture and Fixtures – ₹ 30,000.
(c) A fair remuneration for each of the Partners would be ₹ 75,000 P.A. and that the Capital employed in business to be taken as ₹ 7,80,000 throughout.

It was agreed among the Partners that –

(i) Goodwill was not to be shown as an asset of the firm as on 31.03.2015. therefore, adjustment for goodwill was to be made in Capital Accounts.
(ii) A and B would share equally from the date of death of C.
(iii) Depreciation on revised value of assets would be ignored.

You are required to prepare:

(i) Revaluation Account
(ii) Partners' Capital Accounts
(iii) Partner's Current Accounts
(iv) C's Heir Account
(v) Balance Sheet as on 31.03.2015

Answer:

(i)

In the books of ABC firm
Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Furniture and Fixture A/c	15,000	By Land and Building A/c	60,000
To Partners' Capital A/cs (A-₹ 18,000, B-₹ 13,500, C-₹ 13,500)	45,000		
	60,000		60,000

(ii)

Partners' Capital Accounts

Dr. **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To C's Capital A/c – Goodwill	19,980	39,960	--	By Balance b/d	3,00,000	1,50,000	1,80,000
To C's Current A/c – Transfer	--	--	25,650	By Revaluation A/c	18,000	13,500	13,500
To C's Heir A/c	--	--	2,27,790	By A's Capital A/c – Goodwill	--	--	19,980
To Balance c/d	2,98,020	1,23,540	--	By A's Capital A/c – Goodwill	--	--	39,960
	3,18,000	1,63,500	2,53,440		3,18,000	1,63,500	2,53,440

(iii)

Partners' Current Accounts

Dr. **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Balance b/d	48,000	72,000	72,000	By P/L Appropriation A/c (Interest on Capital A/c)	30,000	15,000	9,000
To Balance c/d	91,716	40,266	--	By P/L Appropriation A/c	1,09,716	97,266	37,350
				By Capital A/c – (Transfer)	--	--	25,650
	1,39,716	1,12,266	72,000		1,39,716	1,12,266	72,000

(iv)

C's Heir Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance c/d	2,41,458	By C's Capital A/c	2,27,790
		By Profit & Loss Appropriation A/c	13,668
	2,41,458		2,41,458

(v)

Balance Sheet as on 31st March 2015

Liabilities	₹	Assets	₹
Capital Account - A	2,98,020	Land and Buildings	3,00,000
Capital Account - B	1,23,540	Furniture and Fixtures	30,000
Current Account - A	91,716	Stock	3,75,000
Current Account - B	40,266	Debtors	60,000
C's Heir Account	2,41,458	Bank	1,20,000
Creditors	90,000		
	8,85,000		8,85,000

Working Notes:

(1) Adjustment in Regard to Goodwill

Particulars		Amount (₹)
Aggregate profits for three years upto date of death (30.09.2014) are as follows:		
Profit for the year ended 30th Sept. 2012: (½ of ₹ 3,36,000 + ½ of ₹ 3,78,000)		3,57,000
Profit for the year ended 30th Sept. 13: (½ of ₹ 3,78,000 + ½ of ₹ 3,60,000)		3,69,000
Profit for the year ended 30th Sept. 14: (½ of ₹ 3,60,000 + ½ of ₹ 3,12,000)		3,36,000
Total profits for three years		10,62,000
Average profits (₹10,62,000 ÷ 3)		3,54,000
Less: Interest on capital employed (8% on ₹ 7,80,000)	62,400	
Fair remuneration to partners	2,25,000	2,87,400
Adjusted average profit for goodwill		66,600
Goodwill is the purchase of 3 year's profit = 3 × ₹ 66,600		1,99,800

Partners	A (₹)	B (₹)	C (₹)

Right of goodwill before death (4:3:3)	79,920	59,940	59,940
Right of goodwill after death (1:1)	99,900	99,900	--
Gain (+)/Sacrifice(-)	(+) 19,980	(+) 39,960	(-) 59,940

(2) Profit & Loss Appropriation Account

Dr. **Cr.**

Particulars	01.04.14 to 30.09.14	01.10.14 to 31.03.15	Particulars	01.04.14 to 30.09.14	01.10.14 to 31.03.15
To Partners' Current A/c			By Profit & Loss A/c (Apportioned on time basis)	1,56,000	1,56,000
Interest on Capital A/c - A	15,000	15,000			
Interest on Capital A/c – B	7,500	7,500			
Interest on Capital A/c - C	9,000	--			
To Interest on hire C's A/c (-12%)	--	13,668			
Partners' Current A/cs - A	49,800	59,916			
Partners' Current A/cs – B	37,350	59,916			
Partners' Current A/cs - C	37,350	--			
	1,56,000	1,56,000		1,56,000	1,56,000

17. A,B & C are partners in a firm sharing profits & losses in the ratio of 5:3:2. They decide to share future profits and losses in the ratio of 2:5:3 with effect from 1st April,2016. Their Balance Sheet showed a debit balance of ₹8,000 in Profit & Loss Account and a balance of ₹48,000 in General Reserve. For this purpose, it was agreed that —

(a) The goodwill of the firm be valued at ₹60,000.
(b) The Land (having book value ₹1,00,000) be valued at ₹1,60,000.
(c) The Stock (having book value of ₹1,00,000) be depreciated by 6%.
(d) Creditors amounting to ₹800 were not likely to be claimed.
(e) Unrecorded Investments to be valued at ₹45,200.

Give the necessary single adjusting entry to record the above arrangement.

Answer:

Calculation of Gain/Sacrificing of Share

Particulars	A	B	C
Their Old Shares	5/10	3/10	2/10
Their New Shares	2/10	5/10	3/10
Difference	3/10	(2/10)	(1/10)
	Sacrificing Partner	Gaining Partner	Gaining Partner

Particulars	₹
A. General reserve	48,000
B. Less: Debit Balance of P&L A/c	(8,000)
C. Value of Goodwill	60,000
D. Unrecorded Investments	45,200
E. Increase in Value of Land	60,000
F. Decrease in Value of Stock	(6,000)
G. Decrease in Creditors	800

H. Net Effect of Adjustment to be made	2,00,000

Adjusting Entry

Date	Particulars	L.F.	Dr. (₹)	Cr.(₹)
	B's Capital A/c [₹2,00,000 × 2/10] Dr. C's Capital A/c [₹2,00,000 × 1/10] Dr. To, A's Capital A/c [₹2,00,000 × 3/10] (Being, the adjustment made on account of change in profit sharing ratio by debiting gaining partner and crediting sacrificing partners)		40,000 20,000	 60,000

18. AA, BB & CC who are presently sharing profits & losses in the ratio 5:3:2, decide to admit EE for 1/6th share with effect from 1st April,2016. An extract of their Balance Sheet as at 31st march,2016 is as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	**3,00,000**	**Land and Building**	**2,50,000**
Outstanding Rent	**10,000**	**Plant and Machinery**	**1,00,000**
		Stock	**80,000**
		Debtors 3,00,000	
		Less: Provision 10,000	**2,90,000**

It is decided that:

- **(i) Land and Building be valued at 3,00,000**
- **(ii) Plant & Machinery be depreciated by 15%**
- **(iii) Stock is found overvalued by ₹38,000**
- **(iv) Provision for doubtful debts is to be made equal to 5% of debtors.**
- **(v) An item of ₹30,000 included in Sundry Creditors is not likely to be claimed**
- **(vi) Rent of ₹4,000 still Outstanding.**
- **(vii) Out of the amount of insurance which was debited entirely to P&L A/c, ₹5,000 be carried forward as an unexpired insurance.**
- **(viii) Out of total commission received ₹3,000 is to be treated as advance commission. This amount was earlier credited to Profit and Loss Account.**
- **(ix) An unaccounted accrued income of ₹1,000 be provided for.**
- **(x) A debtor whose dues of ₹5,000 were written off as bad debts paid ₹4,000 in full settlement.**

Pass necessary Journal Entries and prepare Revaluation Account.

Answer:

Adjusting Entry

Date	Particulars	L.F.	Dr. (₹)	Cr.(₹)
1.	Land & Building A/c Dr. To Revaluation A/c (Being, the increase in value of Land & Building recorded)		50,000	 50,000
2.	Revaluation A/c Dr.		15,000	

	To Plant & Machinery A/c (Being the decrease in value of Plant & machinery recorded)			15,000
3.	Revaluation A/c Dr. To Stock A/c (Being the decrease in value of stock recorded)		38,000	 38,000
4.	Revaluation A/c [₹15,000 - ₹10,000] Dr. To Provision for Doubtful Debts A/c (Being the short provision now created)		5,000	 5,000
5.	Creditors A/c Dr. To Revaluation A/c (Being the decrease in the amount of Creditors recorded)		30,000	 30,000
6.	Revaluation A/c Dr. To Outstanding Rent A/c (Being the Outstanding Rent recorded)		4,000	 4,000
7.	Prepaid Insurance A/c Dr. To Revaluation A/c (Being the prepaid insurance recorded)		5,000	 5,000
8.	Revaluation A/c Dr. To Commission received in advance A/c (Being the commission received in advance recorded)		3,000	 3,000
9.	Accrued Income A/c Dr. To Revaluation A/c (Being the Accrued Income recorded)		1,000	 1,000
10.	Bad Debts Recovered A/c Dr. To, Revaluation A/c (being the Bad Debts recovered, recorded)		4,000	 4,000
11.	Revaluation A/c Dr. To, AA's capital A/c To BB's Capital A/c To CC's Capital A/c (Being the transfer of profit on revaluation to old partners' capital account in their old profit sharing ratio)		25,000	 12,500 7,500 5,000

Revaluation Account

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Stock	38,000	By Land and Building	50,000
To Provision for Doubtful Debts	5,000	By Sundry Creditors	30,000
To Plant & Machinery A/c	15,000	By Prepaid Insurance	5,000
To Outstanding rent A/c	4,000	By Accrued Income	1,000
To Commission received in advance A/c	3,000	By bad Debts recovered	4,000
To Profit on Revaluation transferred to: AA's Capital A/c	 12,500		

BB's Capital A/c CC's Capital A/c	7,500 5,000		
	90,000		90,000

19. M,N & O were carrying on business in partnership , sharing profits & losses in the ratio of 2:3:5 respectively. They sold the business to MNO Ltd. The following is the Balance Sheet of the firm as at 31st March,2017:

Liabilities	₹	Assets	₹
Capital Accounts: **M** **N** **O** **Sundry Creditors**	**45,612** **21,168** **3,780** **29,440**	**Sundry Assets**	**1,00,000**
	1,00,000		**1,00,000**

The Company took over the firm's business for a total consideration of ₹1,05,000. The purchase consideration was to be discharges by a cash payment of ₹44,100, the allotment of 2,100 15% Preferense Shares of ₹10 each (Issued at ₹9 each) and the balance by allotment of 2,100 Equity Shares of ₹10 each. Realisation Expenses ₹10,500, Equity Shares are taken over by the partners at an agreed market value of ₹52,500.
Prepare Realiseation Account, Partners' Capital Accounts, Cash Account, MNO Ltd.'s Account, Preference Shares in MNO Ltd. Account and Equity Shares in MNO Ltd. Account in the books of a firm.

Answer:

Realisation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Sundry Assets	1,00,000	By Sundry Creditors	29,440
To Cash A/c (Realisation Exp.)	10,500	By Equity Shares in MNO Ltd. (52,500 – 42,000)	10,500
To Profit on Realisation transferred to: M's Capital A/c N's Capital A/c O's Capital A/c	 6,888 10,332 17,220	By MNO Ltd. (Purchase Consideration)	 1,05,000
	1,44,940		1,44,940

Capital Accounts of Partners

Dr. **Cr.**

Particulars	M ₹	N ₹	O ₹	Particulars	M ₹	N ₹	O ₹
To Balance c/d	52,500	31,500	21,000	By Balance b/d	45,612	21,168	3,780
				By Realisation A/c	6,888	10,332	17,220
	52,500	31,500	21,000		52,500	31,500	21,000
To Equity Shares	26,250	15,750	10,500	By Balance b/d	52,500	31,500	21,000

To 15% Pref Shares	9,450	5,670	3,780				
To Cash	16,800	10,080	6,720				
	52,500	31,500	21,000		52,500	31,500	21,000

Note: Unless otherwise agreed, Shares and Cash are distributed in the ratio of final claims [i.e. 52,500:31,500:21,000 or 5:3:2]

Cash Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To MNO Ltd.	44,100	By Realisation A/c (Expenses)	10,500
		By M's Capital A/c	16,800
		By N's Capital A/c	10,080
		By O's Capital A/c	6,720
	44,100		44,100

MNO Ltd. Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Realisation A/c	1,05,000	By Cash A/c	44,100
		By Pref. Shares in MNO Ltd.	18,900
		By Equity Shares in MNO Ltd.	42,000
	1,05,000		1,05,000

Preference Shares in MNO Ltd. Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To MON Ltd. A/c	18,900	By M's Capital A/c	9,450
		By N's Capital A/c	5,670
		By O's Capital A/c	3,780
	18,900		18,900

Equity Shares in MNO Ltd. Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To MON Ltd. A/c	42,000	By M's Capital A/c	26,250
To Realisation A/c	10,500	By N's Capital A/c	15,750
		By O's Capital A/c	10,500
	52,500		52,500

20. P, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as on 31st March, 2016:

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital Accounts:			**Premises**		**2,80,000**
P	**7,00,000**		**Furnitures**		**30,000**
T	**3,00,000**	**10,00,000**	**Stock-in-Trade**		**2,00,000**
Trade Creditors		**3,00,000**	**Trade Debtors**	**3,50,000**	
			Less: Provision for Bad Debts	**50,000**	**3,00,000**
			Cash at Bank		**1,40,000**

			Capital Accounts:		
			Q	**2,00,000**	
			R	**1,50,000**	**3,50,000**
		13,00,000			**13,00,000**

It has been agreed to dissolve the partnership on 1st April, 2016, on basis of following points agreed upon:

(i) P is to take over Trade Debtors at 80% of Book Value (₹ 3,50,000);
(ii) T is to take over the stock in Trade at 95% of the value; and
(iii) R is to discharge Trade Creditors.
(iv) The realisation is : Premises ₹ 2,75,000 and Furnitures ₹ 25,000.
(v) The expenses of realisation come to ₹ 30,000.
(vi) Q is found insolvent and ₹ 21,900 is realised from his estate.

Note: The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to Prepare:
(a) Realisation Account
(b) Bank/Cash Account
(c) Capital Accounts of the Partners.

Answer:

In the books of P, Q, R & T
Realisation Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2016	To Trade Debtors A/c	3,50,000	2016	By Provision for Bad debts A/c	50,000
April 1	To Stock in Trade A/c	2,00,000	April 1	By Trade Creditor A/c	3,00,000
	To Premises A/c	2,80,000		By P's Capital A/c (Trade Debtors taken over)	2,80,000
	To Furniture A/c	30,000		By T's Capital A/c (Stock-in-trade taken over)	1,90,000
	To R's Capital A/c (Trade credit discharged)	3,00,000		By Bank A/c (Assets realised)	3,00,000
	To Bank/Cash (Expenses)	30,000		By Partners Capital A/cs P: ₹ 28,000: Q: ₹7,000 R: ₹14,000: T: ₹ 21,000)	70,000
		11,90,000			11,90,000

Bank/Cash Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2016	To Balance b/d	1,40,000	2016	By Realisation A/c (expenses)	30,000
April	To Realization A/c	3,00,000	April 1	By Partners Capital A/cs	
	To Partners' Capital A/cs:			P:	2,90,430
	P:	28,000		R:	1,50,000
	Q:	21,900		T:	54,470
	R:	14,000			
	T:	21,000			
		5,24,900			5,24,900

Partners' Capital Accounts (Amount in ₹)

Dr. **Cr.**

Particulars	P	Q	R	T	Particulars	P	Q	R	T
To Balance b/d	-	2,00,000	1,50,000	-	By Balance b/d	7,00,000		-	3,00,000
To Realisation A/c	2,80,000	-	-	1,90,000	By Realisation A/c	-	-	3,00,000	-
ToRealisation A/c (Loss)	28,000	7,000	14,000	21,000	By Bank/Cash A/c	28,000	-	14,000	21,000
To Capital A/c (WN-2)	1,29,570	-	-	55,530	By Bank/Cash (W-I)	-	21,900	-	-
To Bank /Cash A/c	2,90,430	-	1,50,000	54,470	By P's Capital A/c	-	1,29,570	-	-
					By T's Capital A/c	-	55,530	-	-
	7,28,000	2,07,000	3,14,000	3,21,000		7,28,000	2,07,000	3,14,000	3,21,000

Working Notes:

(1) Solvent partners should bring in cash to make good the loss on realization.

(2) Q's deficiency of ₹ 1,85,100 (₹ 2,07,000 - ₹ 21,900) should be shared by P and T in the ratio of their capital i.e. 7:3. R will not bear any loss on deficiency, because at the time of dissolution he had a debit balance in his Capital Account.

(3) The amount realised from the estate of Q is ₹ 21,900.

Study Note 7: Self Balancing Ledger

21. From the following information, prepare Debtors' Ledger Adjustment Account in General Ledger and General Ledger Adjustment Account in Debtors' Ledger, for the year ending on 31st March, 2017:

Particulars	₹
Trade Debtors as on 1.4.2016	**1,10,000**
Credit Sales	**6,10,000**
Return Inwards	**10,000**
Discount Allowed	**5,000**
Cheque Dishonoured	**1,00,000**
Bad Debts Received	**10,000**
Cash received from Debtors	**1,00,000**
Cheques received from Debtors	**2,00,000**
Bills Receivable drawn	**3,00,000**
Bad Debts	**5,000**
B/R Dishonoured	**1,00,000**

Answer:

Dr. **DEBTORS'LEDGER ADJUSTMENT ACCOUNT** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.04.2016	To Balance b/d	1,10,000	31.03.2017	By General Ledger	
31.03.2017	To General Ledger			Adjustment A/c:	
	Adjustment A/c:			Cash (Received)	1,00,000

	Credit Sales	6,10,000		Bank (Cheque Rec.) B/R (Drawn) Returns inwards Discount allowed Bad Debt w/o By Balance c/d	2,00,000 3,00,000 10,000 5,000 5,000 1,00,000
		7,20,000			7,20,000

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT IN DEBTORS LEDGER Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.2017	To Debtors Ledger Adjustment A/c:		01.04.2016	By Balance b/d	1,10,000
	Cash (Received)	1,00,000	31.03.2017	By Debtors Ledger Adjustment A/c:	
	Bank (Cheque Rec.)	2,00,000		Credit Sales	6,10,000
	B/R (Drawn)	3,00,000			
	Returns inwards	10,000			
	Discount allowed	5,000			
	Bad Debt w/o	5,000			
	To Balance c/d	1,00,000			
		7,20,000			7,20,000

22. Pass the necessary journal entries using a Suspense Account presuming (i) when the system of self-balancing is not in use and (ii) when the system of self-balancing is in use.

(i) Goods of the value of ₹600 returned by Mr. Saha were entered in the Sales Day Book and posted therefrom to the credit of his account.

(ii) An amount of ₹300, entered in the Sales Returns Book, has been posted to the debit of Mr. P, who returned the goods.

(iii) A sale of ₹1,000 made to Mr. Gupta was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Rayas ₹100.

(iv) The total of "Discount Allowed" column in the Cash Book for the month of Jan, amounting to ₹ 1,000 was not posted.

Answer:

When the System of Self Balance is not in use

JOURNAL

Date	Particulars	L.F,	Dr.(₹)	Cr.(₹)
(a)	Sales A/c Dr. Sales Returns A/c Dr. To Suspense A/c (The value of goods returned by Mr. Saha wrongly posted to Sales and omission of debit to Sales Returns A/c, now rectified)		600 600	 1,200

(b)	Suspense A/c Dr. To Mr. P (Wrong debit to Mr. P for goods, returned by him, now rectified)		600	600
(c)	Mr Gupta A/c Dr. To Mr Ray A/c To Suspense A/c (Omission of debit to Mr. Gupta and wrong credit to Mr. Ray for sale of ₹ 1000, now rectified)		1,000	100 900
(d)	Discount A/c Dr. To Suspense A/c (The total of Discounts allowed during Jan, not posted from the Cash Book, error now rectified)		1,000	1,000

When the System of Self Balancing is in use

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
(a)(i)	Sales A/c Dr. Sales Returns A/c Dr. To Suspense A/c (in Sales Ledger)		600 600	1,200
(ii)	General Ledger Adjustment A/c (In Sales Ledger) Dr. To Sales Ledger Adjustment A/c (In General Ledger)		1,200	1,200
(b)	Suspense A/c Dr. To Mr. P (In Sales Ledger)		600	600
(c)	Mr. Gupta A/c Dr. To Mr. Ray A/c To Suspense A/c (In Sales lLedger)		1000	100 900
(d)	Discount A/c Dr. To Suspense A/c (In Sales ledger)		1,000	1,000

Study Note 8: Royalties

23. A Ltd. obtain from B.S. Ltd. a lease of some coal-bearing land, the terms being a royalty of ₹ 15 per ton of coal raised subject to a minimum rent of ₹ 75,000 p.a. with a right of recoupment of short-working over the first four years of the lease.
From the following details, show (i) B.S. Ltd. Account and (ii) Short-working Account in the books of A. Ltd.

Year	Sales (Tons) ₹	Closing Stock (Tons) ₹
2009	**2,000**	**300**

2010	**3,500**	**400**
2011	**4,800**	**600**
2012	**5,600**	**500**
2013	**8,000**	**800**

Answer:

Workings:

[Coal raised i.e., Production = Sales + Closing Stock – Opening Stock.]

Year	Sales	+	Closing Stock	-	Opening Stock	=	Net Production
2009	2,000	+	300	-	Nil	=	2,300
2010	3,500	+	400	-	300	=	3,600
2011	4,800	+	600	-	400	=	5,000
2012	5,600	+	500	-	600	=	5,500
2013	8,000	+	800	-	500	=	8,300

In the books of A. Ltd.
Memorandum Royalty Statement

Year	Quantity	Rate ₹	Royalty ₹	Minimum Rent ₹	Short working ₹	Recoupment ₹	Short working carried forward ₹	Short working Transferred to P&L A/c or lapsed ₹	Payment to Landlord ₹
2009	2,300	15	34,500	75,000	40,500	---	40,500	---	75,000
2010	3,600	15	54,000	75,000	21,000	---	61,500	---	75,000
2011	5,000	15	75,000	75,000	---	---	61,500	---	75,000
2012	5,500	15	82,500	75,000	---	7,500	---	54,000	75,000
2013	8,300	15	1,24,500	75,000	---	---	---	---	1,24,500

Dr. B. S. Ltd. (Landlord) Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009	To Bank A/c	75,000	2009	By Royalty A/c	34,500
				" Short-working A/c	40,500
		75,000			75,000
2010	To Bank A/c	75,000	2010	By Royalty A/c	54,000
				" Short-working A/c	21,000
		75,000			75,000
2011	To Bank A/c	75,000	2011	By Royalty A/c	75,000
		75,000			75,000

2012	To Bank A/c To Short-Working A/c	75,000 7,500	2012	By Royalty A/c	82,500
		82,500			82,500
2013	To Bank A/c	1,24,500	2013	By Royalty A/c	1,24,500
		1,24,500			1,24,500

Dr. Short-Working Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009	To B. S. Ltd. A/c (Landlord)	40,500	2009	By Balance c/d	40,500
		40,500			40,500
2010	To Balance b/d " B. S. Ltd. A/c (Landlord)	40,500 21,000	2010	By Balance c/d	61,500
		61,500			61,500
2011	To Balance b/d	61,500	2011	By Balance c/d	61,500
		61,500			61,500
2012	To Balance b/d	61,500	2012	By B. S Ltd. (Landlord) A/c " Profit and Loss A/c	7,500 54,000
		61,500			61,500

Study Note 9: Hire-Purchase and Installment System

24.(a) On 1.2013 Veer purchased a machine from Ganpati on hire purchase basis. The terms of agreement provided for 40% as cash down payment and the balance in three instalment of ₹ 2,60,000 on 31.12.2013, ₹2,84,000 on 31.12.2015 and ₹2,20,000 on 31.12.2016. The rate of interest charged by the vendor is 10% p.a. compounded annually. Calculate the cash price.

Answer:

COMPUTATION OF CASH PRICE AND PERIODIC INTEREST

20.

A Instalment Number	B Closing Balance after the payment of instalment	C Instalment Amount	D = B + C Closing Balance before the payment of instalment	E = D×R/(100 + R) Interest D×10/110	F=D-E Opening Balance
III	Nil	2,20,000	2,20,000	20,000	2,00,000

II	2,00,000	2,84,000	4,84,000	44,000	4,40,000
	4,40,000	—	4,40,000	40,000	4,00,000
I	4,00,000	2,60,000	6,60,000	60,000	6,00,000

Let the Cash Price be X

X = ₹ 6,00,000 + 40% of X

0.6X = ₹ 6,00,000

X = ₹ 6,00,000/0.6 = ₹ 10,00,000

(b) A Transport purchased from Mumbai Motors 3 Tempos costing ₹1,00,000 each on the hire purchase system on 01.01.2013. Payment was to be made ₹60,000 down and the remainder in 3 equal annual instalments payable on 31.12.2013, 31.12.2014 and 31.12.2015 together with interest @9% p.a. A Transport writes off depreciation at the rate of 20% p.a. on the diminishing balance. It paid the instalment due at the end of the first year i.e. 31.12.2013 but could not pay the next on 31.12.2014. Mumbai Motors agreed to leave one Tempo with the purchaser on 31.12.2014 adjusting the value of the other 2 Tempos against the amount due on 31.12.2014. The Tempos were valued on the basis of 30% depreciation annually on W.D.V. basis.

Show the necessary accounts in the books of A Transport for the year 2013,2014 and 2015.

Answer:

Tempos Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.01.13	To, Mumbai Motors A/c (₹1,00,000 × 3)	3,00,000	31.12.13	By, Depreciation A/c (20% on ₹3,00,000)	60,000
				By, Balance c/d	2,40,000
		3,00,000			3,00,000
01.01.2014	To, Balance b/d	2,40,000	31.12.14	By, Depreciation A/c	48,000
			31.12.14	By, Mumbai Motor's A/c (Value of 2 tempos taken away)	98,000
			31.12.14	By, P&L A/c (Loss)	30,000
			31.12.14	By, Balance (Value of Tempo left)	64,000
		2,40,000			2,40,000
01.01.15	To, Balance b/d	64,000	31.12.15	By, Depreciation A/c	12,800
			31.12.15	By, Balance c/d	51,200
		64,000			64,000

Mumbai Motor's Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.01.13	To, Bank A/c (Down Payment)	60,000	01.01.13	By, Tempos A/c (₹1,00,000 × 3)	3,00,000
31.12.13	To, Bank A/c	1,01,600	31.12.13	By, Interest A/c (9% on ₹2,40,000)	21,600
31.12.13	To, Balance c/d	1,60,000			

		3,21,600			3,21,600
31.12.14	To Tempos A/c	98,000	01.01.14	By, Balance b/d	1,60,000
31.12.14	To, Balance c/d	76,400	31.12.14	By, Interest A/c (9% on ₹1,60,000)	14,400
		1,74,400			1,74,400
31.12.15	To Bank A/c	83,276	01.01.15	By, Balance b/d	76,400
			31.12.15	By, Interest A/c (9% on ₹76,400)	6,876
		83,276			83,276

Working Notes:

1. Value of a Tempo left with the buyer = ₹1,00,000 × 80% × 80% = ₹64,000
2. Value of Tempos taken away by the seller = ₹1,00,000 × 2 × 70% × 70% = ₹98,000
3. Loss on Tempos taken away = Book Value – Agreed Value
   = [2 × ₹1,00,000 × 80% × 80%] - ₹98,000 = ₹30,000

Study Note 10: Branch and Departmental Accounts

25. Head Office sends goods to its Branch at selling price which is arrived at faster adding 33 1/3% to cost price and all expenses are met by the Branch out of remittance from Head Office. All collections by Branch are sent to Bank in the account of Head Office.

The following particulars are available in respect of the Branch for the year ended 31st March, 2016:

	₹
Stock as on 31st March, 2015 (At selling Price)	**32,000**
Goods from H.O	**1,80,000**
Cash sales paid into Bank	**1,30,680**
Credit Sales	**38,400**
Debtors (on 31st March, 2015)	**8,540**
Cash collections from Debtors sent to Bank	**36,340**
Expenses	**24,200**
Deficiency in Branch Stock on actual stock taking	**600**

You are required to show the necessary accounts in the books of Head office recording the above transactions for the year ended 31st March 2016.

Answer:

In the Books of Head Office

Dr. Branch Stock Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/f	32,000	By Bank (Cash Sales)	1,30,680
		By Branch debtors (credit sales)	38,400
To Goods sent to branch	1,80,000	By Stock Deficiency	600
		By balance c/f	42,320

	2,12,000		**2,12,000**

Dr. Goods Sent to Branch Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Branch Stock adj. A/c	45,000	By Branch Stock A/c	1,80,000
To Trading A/c (B/F)	1,35,000		
	1,80,000		1,80,000

Dr. Branch Stock Adjustment Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Stock Deficiency (load)	150	By Balance b/f (load on opening stocks)	8,000
To Branch P/L A/c (B/F)	42,270	By Goods sent to branch	45,000
To Balance c/f (load on closing stock)	10,580		
	53,000		53,000

Dr. Branch Debtors Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/f	8,540	By Bank (collection)	36,340
To Branch Stock A/c (Sales)	38,400	By Balance c/f (bal. fig)	10,600
	46,940		46,940

Dr. Stock Deficiency Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Branch Stock A/c	600	By Stock Adjustment A/c	150
		By Branch P/L A/c (Bal. fig)	450
	600		600

Dr. Branch Profit & Loss Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Branch expenses	24,200	By Stock Adjustment A/c	42,270
To Stock Deficiencies	450		
To general P/L A/c (Bal. fig)	17,620		
	42,270		42,270

26. From the following, Prepare Departmental Trading Account, General Profit & Loss Account and the Balance Sheet as at 31st March, 2015:

Particulars	Dr.(₹)	Cr. (₹)
Capital		**3,00,000**
Fixed Assets	**1,50,000**	

Opening Stock:		
Department M	**30,000**	
Department N	**40,000**	
Purchases:		
Department M	**10,00,000**	
Department N	**15,00,000**	
Sales:		
Department M		**20,00,000**
Department N		**32,00,000**
General Expenses	**13,06,750**	
Debtors	**11,00,000**	
Bank	**2,06,250**	
Creditors		**2,00,000**
Drawings	**2,80,000**	
Discount Received	**—**	**25,000**
Discount Allowed	**52,000**	**—**
Rent & Rates	**60,000**	**—**
	57,25,000	**57,25,000**

Additional Information:

(a) Closing Stock of Department M is ₹1,30,000. It includes Stock of ₹40,000 which N Department has sent to M Department.

(b) Closing Stock of N Department ₹2,60,000. It includes Stock of ₹90,000 which M Department has sent to N Department.

(c) Sales of M Department include goods of ₹2,00,000 transferred to N Department. Sales of N Department, include goods of ₹3,00,000 transferred to M Department. Both of these transfers have been made at market price.

(d) Opening Stock of M Department includes goods of ₹10,000 taken from N Department and Opening Stock of N Department includes goods of ₹15,000 taken from M department.

(e) Depreciate Fixed Assets @ 10% p.a. The Area occupied by Deptt. M and Deptt. N is in the ratio of 3 : 2.

Answer:

Departmental Trading Account
Dr. for the year ended 31st March, 2015 Cr.

Particulars	M ₹	N ₹	Particulars	M ₹	N ₹
To Opening Stock	30,000	40,000	By Sales	20,00,000	32,00,000
To Purchases	10,00,000	15,00,000			
To Gross Profit c/d	11,00,000	19,20,000	By Closing Stock	1,30,000	2,60,000
	21,30,000	34,60,000		21,30,000	34,60,000

To Discount Allowed	20,000	32,000	By Gross Profit b/d	11,00,000	19,20,000
To Rent & Rates	36,000	24,000	By Discount Received	10,000	15,000
To Net Profit	10,54,000	18,79,000			
	11,10,000	19,35,000		11,10,000	19,35,000

Dr. General P&L Account for the Year ended 31st March, 2015 Cr.

Particulars		₹	Particulars		₹
To General Expenses		13,06,750	By Net Profit b/d:		
To Depreciation:		15,000	M	10,54,000	
To Stock Reserve: (Closing Stock)			N	18,79,000	29,33,000
Dept. M	24,000		By Stock Reserve (Opening Stock)		
Dept. N	49,500	73,500	Dept M	6,000	
To Net Profit		15,52,000	Dept N	8,250	14,250
		29,47,250			29,47,250

Balance Sheet as at 31st March, 2015

Liabilities		₹	Assets		₹
Capital	3,00,000		Fixed Assets	1,50,000	
Add: Net Profit	15,52,000		*Less:* Depreciation	(15,000)	1,35,000
Less: Drawings	2,80,000	15,72,000	Bank		2,06,250
Creditors		2,00,000	Debtors		11,00,000
Stock Reserve (Net):			Closing Stock:		
Closing Stock	73,500		Deptt. M	1,30,000	
Opening Stock	(14,250)	59,250	Deptt. N	2,60,000	3,90,000
		18,31,250			18,31,250

Working Notes:

(i) Percentage of Profit: $M = \frac{11,00,000}{20,00,000} \times 100 = 55\%$, $N = \frac{19,20,000}{32,00,000} \times 100 = 60\%$

(ii) Opening Stock Reserve: $M = 10,000 \times \frac{60}{100} = ₹6,000$, $N = 15,000 \times \frac{55}{100} = ₹8,250$

(iii) Closing Stock Reserve: $M = 40,000 \times \frac{60}{100} = ₹24,000$, $N = 90,000 \times \frac{55}{100} = ₹49,500$

(iv) Stock Reserve is calculated on unsold stock of inter-department sales. Hence Stock of Department M is adjusted according to the profit rate applicable to N. Similarly stock of Department N is adjusted according to the profit rate applicable to M.

(v) Discount Received are divided in the ratio of purchase value i.e., 10 : 15
Rent and rates are divided in the ratio of area i.e., 3 : 2
Discount allowed are divided in the ratio of Sales i.e., 20 : 32

Study Note 11: Computerised Accounting System

27. (a) Discuss the advantages of Customised Accounting Packages.

Answer:

Advantages of a customised accounting packages —

1. The functional areas which are not covered in pre-packaged software gets computerised.
2. The input screens can be tailor made to match the input documents for ease of data entry.
3. It provides many MIS reports as per the specification of the organisation.
4. It facilitates the use of Bar-code scanners as input devices suitable for the specific needs of an individual organisation.
5. It can suitably match with the organisational structure of the company

27. (b) List the disadvantages of pre-packaged accounting software.

Answer:

Following are the disadvantages of pre-packaged accounting software:

Does not cover Peculiarities of Specific Business	A standard package may not be able to take care of the complexities of a specific business.
Does not cover all Functional Areas	These packages may not cover all functional areas such as production process.
Customisation may not be Possible: is not Sufficient or Serve the Purpose:	These packages may not be customised as per needs of customers.
Reports Generated	All reports required for exercising management control may not be available in a standard package.
Lack of Security	Security is generally missing in a pre-packaged accounting package since any person can view data of all companies with common access password.
Bugs in the software	Certain bugs may remain in the software which takes long to be rectified by the vendor and is common in the initial years of the software.

Study Note 12: Accounting Standards

28 (a) Akash Ltd. manufacture computers, during the year ended 31st March,2016 the company manufactured 550 computers, it has the policy of valuing finished goods stock of goods at a standard cost of ₹1.8 lakhs per computer. The details of the costs are as under:

Particulars	₹ in lakhs
Raw material consumed	**400**
Direct Labour	**250**
Variable production overheads	**150**
Fixed production overheads (Including interest of ₹ 100 lakhs)	**290**

Compute the value of cost per computer for the purpose of closing stock.

Answer:

As per AS 2 , on valuation of Inventories, finished stock of goods should be valued on the basis of absorption costing. While absorbing fixed production overheads the normal production capacity is considered. In this case finished stock has been valued at a standard cost of ₹1.8 lakhs per computer which incidentally synchronises with the value computed on the baisi of absorption costing as under:

Particulars		₹ in lakhs
Materials		400
Direct Labour		250
Variable Production Overheads		150
Fixed Production Overheads	₹290 Lakhs	
Less: Interest	₹100 Lakhs	190
Total Cost		990
Number of computers produced 550 (Assumed to be normal production)		
Cost per computer 990/550 = ₹1.80 lakhs		

Policy of the company to value closing stock is not as per AS 2. As per AS 2, The techniques of standard cost method may be used for convenience if the result approximates to the actual cost and standard cost is regularly reviewed if necessary. In the instant case, the cost of inventory can be conveniently calculated as per absorption costing. Therefore, there is no reason that standard costing method should be adopted.

(b) Explain the methods/criteria for the selection and application of Accounting Policies.

Answer:

The major considerations governing the selection and application of accounting policies are:

Prudence – Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement. These uncertainties may be regarding collectability of recoverable, number of warranty claims that may occur. Prudence means making of estimates that are required under conditions of uncertainty.

Substance over form – It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.

Materiality – Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/ user of financial statement.

29. (a) Comfort Ltd. has undertaken bridge construction contract as per detail given below, bridge will be constructed in 3 years:

a. Initial Contract revenue ₹1,800 crores
b. Initial contract cost ₹1,600 crores

Particulars	Years		
	1st	2nd	3rd
Estimated contract cost	**1,610**	**--**	**--**
Increase in contract revenue	**--**	**40**	**--**
Estimated additional increase cost	**--**	**30**	**--**

Contract cost incurred upto	**322**	**1,168**	**1,640**

At the end of 2nd year cost incurred includes ₹20 crores, for material stored at the sites to be used in 3rd year to complete the project.

Answer:

Particulars	**₹ in crores**		
	1st	**2nd**	**3rd**
(i) Initial revenue agreed	1,800	1,800	1,800
(ii) Variation	--	40	40
(iii) Total Contract Value	1,800	1,840	1,840
(iv) Contract cost incurred upto the date of reporting	322	1,168 (incl. ₹20 crores of Material)	1,640
(v) Estimated cost to complete	1,288	472	--
(vi) Total estimated contract cost	1,610	1,640	1,640
(vii) Estimated Profit	190	200	200
(viii) Stage of Completion (d/f × 100)	20% (322/1,610 × 100)	70% (1,168 - 20/1,640 × 100)	(1,640/1,640 × 100)

Amount of revenue, expenses and profit recognized in statement of Profit and Loss Account in three years:

1st Year	**Upto reporting date**	**Recognised in prior year**	**Recognised in current year**
Revenue	360	--	360
Expenses	322	--	322
Profit	38	--	38
2nd Year			
Revenue (1,840×70%)	1,288	360	928
Expenses (1,640×70%)	1,148	322	826
Profit	140	38	102
3rd Year			
Revenue	1,840	1,288	552
Expenses	1,640	1,148	492
Profit	200	140	60

(b) When can revenue be recognized in the case of transaction of sale of goods?

Answer:

According to AS-9, Revenue Recognition, revenue from the sales transaction should be recognized only when the following provision is made/satisfied: The seller has transferred the property in the goods to the buyer for consideration. The transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. If such risks are not involved/ associated with sale, revenue in such a situation is recognized at the time of transfer of risks and rewards of ownership to the buyer.

Moreover, no uncertainty should exist regarding the amount of consideration which will be derived from such sale of goods

(c) A publishing company undertook repair and overhauling of its machinery at a cost of ₹2.50 lakhs to maintain them in good condition and capitalized the amount, as it is more that 25% of the original cost of the machinery. As an auditor, what would you do in this situation?

Answer

Size of the expenditure is not the criteria to decide whether subsequent expenditure should be capitalized. The important question is whether the expenditure increases the expected future benefits from the asset beyond its pre-assessed standard of performance as per AS 10. Only then it should capitalize. Since in this case, only the benefits are maintained at existing level, the expenditure should not be capilised. If under the circumstances the amount is material the auditor should qualify his report.

Short Notes

30. Write short notes on the following:

(a) Items excluded from Inventory as per AS 2

Answer:

AS-2 excludes the following though appears to be inventory in common parlance:

(a) Work-in-progress in construction contract and directly related service contract (ref: AS-7), inventories not forming part of construction work-in-progress will attract AS-2
(b) Work-in-progress arising in the ordinary course of business of service providers.
(c) Shares, debentures and other financial instruments held as stock-in-trade (ref: AS-13 as Current Investments)
(d) Producer's inventories like livestock, agricultural and forest product, mineral oil/gasses as measured at net realizable value as per trade practices at certain stage of production.

(b) Advantages of Accounting Standards.

Answer:

Advantages of Accounting Standards:

a. It provides the accountancy profession with useful working rules.
b. It assists in improving quality of work performed by accountant.
c. It strengthens the accountant's resistance against the pressure from directors to use accounting policy which may be suspected in that situation in which they perform their work.
d. It ensures the various users of financial statements to get complete crystal information on more consistent basis from period to period.
e. It helps the users compare the financial statements of two or more organisaitons engaged in same type of business operation.

(c) Salient features of Computerised Accounting System.

Answer:

A computerised accounting environment will have the following salient features:

a. The processing of information will be by one or more computers.
b. The computer or computers may be operated by the entity or by a third party.
c. The processing of financial information by the computer is done with the help of one or more computer softwares.
d. A computer software includes any program or routine that performs a desired function or set of functions and the documentation required to describe and maintain that program or routine.
e. The computer software used for the accounting system may be an acquired software or may be developed specifically for the business.
f. Acquired software may consist of a spread sheet package or may be prepackaged accounting software.

(d) The main differences between a Branch Account and a Department Accounts.

Answer:

The main differences between a Branch Account and a Department Accounts are:

Sl.No.	Basis	Branch Accounts	Departmental Accounts
1.	Allocation of expenses	In case of branch accounting allocation of common expenses does not arise.	Allocation of common wealth is the fundamental consideration here
2.	Result of the operation	It shows that trading result of each individual branch.	It shows the trading result of each individual department.
3.	Maintenance of accounts	Method of Branch Accounting depends on the nature and type of branch whether dependent or independent.	It is centrally maintained.
4.	Types of accounting	It is practically a condensation of accounts.	It is a segment of accounts
5.	Control	It is not possible to control all branch by the H.O.	Effective control is possible by the departmental supervisors who is closely related and who is to keep a constant watch over the departments.

(e) Recoupment of Short workings:

Answer:

Generally the royalty agreement contains a provision for carrying forward of short workings with a view to adjust it in the future. In the subsequent years, such shortworking is adjusted against the surplus royalty. This process of adjustment is called recoupment of short workings.

The right of recoupment of short workings enables the lessee to recover the excess payment, made in the earlier years to meet the condition of payment of minimum rent. A time is usually agreed upon the number of years for which such short workings can be recouped. This time limit for recoupment of short workings may be fixed or fluctuating. If the short workings cannot be recouped within the specified time, they lapse and are charged to Profit and Loss Account in the year when that specified time limit for recoupment ends.

(f) Advantages of Self-Balancing System:

Answer:

The advantages of Self-Balancing system are:

(a) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.
(b) This system helps to prepare interim account and draft final accounts as a complete trial balance can be prepared before the abstruction of individual personal ledger balances.
(c) Various works can be done quickly as this system provides sub-division of work among the different employees.
(d) This system is particularly useful (i) where there are a large number of customers or suppliers and (ii) where it is desired to prepare periodical accounts.
(e) Committing fraud is minimized as different ledgers are prepared by different clerks.
(f) Internal check system can be strengthened as it becomes possible to check the accuracy of each ledger independently.

(g) Piecemeal Distribution

Answer:

Piecemeal Distribution

On the dissolution of a partnership, assets are sometimes realized gradually over a period of time. In such a case it may be agreed that different parties are to be paid in order of preference as and when assets are realized without unnecessarily waiting for the final realization of all the assets.

The order of the payment will be as follows :

(i) Realisation expenses
(ii) For provision for expenses that are to be made
(iii) Preferential creditors (say, Income Tax or any payment made to the Government)
(iv) Secured creditors – upto the amount realized from the disposal of assets by which they are secured and for the balance, if any, to be paid to unsecured creditors
(v) Unsecured creditors – in proportion to the amount of debts, if more than one creditor
(vi) Partners' loan – if there is more than one partner – in that case, in proportion to the amount of loan
(vii) Partners' capital – the order of payment may be made by any one of the following two methods: (a) Surplus Capital Method/ Proportionate Capital Method/ Highest Relative Capital Method (b) Maximum Possible Loss Method.

(h) Debts:

The amount which is receivable from a person or a concern for supplying goods or services is called Debt. Debts may be classified into :
(i)Bad debts; (ii) Doubtful debts and (iii) Good debts

(i) Bad Debts: Bad debts are uncollectable or irrecoverable debt or debts which are impossible to collect is called Bad Debts. If it is definitely known that amount recoverable from a customer cannot be realized at all, it should be treated as a business loss and should be adjusted against profit. In short, the amount of bad debt should be transferred to Profit and Loss Account for the current year to confirm the principles of matching.

(ii) Doubtful Debts: The ebts which will be receivable or cannot be ascertainable at the date of preparing the final accounts (i.e., the debts which are doubtful to realise) is known as doubtful debts. Practically it cannot be treated as a loss on that particular date, as such, it cannot be written off. But, it should be charged against Profit and Loss Account on the basis of past experience of the firm.

(iii) Good Debts: The debts which are not bad i.e., there is neither any possibility of bad debts nor any doubts about its realization, is called good debts. As such, no provision is necessary for it.