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

Objectives

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

(i) In Hire Purchase system cash price plus interest is known as
(A) Capital value of asset
(B) Book value of asset
(C) **Hire purchase price of asset**
(D) Hire purchase charges

(ii) 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**

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

(iv) Kuntal draws a bill on shyam for ₹ 7,000 kuntal endorsed it to Ram. Ram endorsed it to Rahim. The payee of the bill will be:
(A) Kuntal
(B) Ram
(C) Shyam
(D) **Rahim**

(v) Bad debts are apportioned among departments in the proportion of
(A) Sales of each department
(B) **Number of units sold each department**
(C) Cost of sales of each department
(D) None of the above

(vi) Which of the following is not a Fundamental Accounting Assumption?
(A) Going Concern
(B) Consistency
(C) Accrual
(D) **Materiality**

(vii) ___________________ is equal to estimated selling price **less** the estimated costs of completion and the estimated costs necessary to make the sale.

(A) **Net Realisable value**
(B) Cost of Conversion
(C) Cost of Purchase
(D) None of the above

(viii)_____________ are investments which are held beyond the current period as to sale or disposal.
(A) **Non-current Investments**
(B) Current Investments
(C) Current Liabilities
(D) None of the above

(ix) An obligation which may or may not materialize is a/an _______________.
(A) Loss
(B) Asset
(C) **Contingent Liability**
(D) None of the above

(x) ________________ voucher denotes payment of cash.
(A) **Cash Payment**
(B) Cash Receipt
(C) Bank Payment
(D) All of the above

(xi) Which of the following is an example of Capital Expenditure?
(A) Inventory of raw materials, work-in-progress and finished goods;
(B) Insurance premium;
(C) Taxes and legal expenses;
(D) **None of the above.**

(xii) Which of the following errors is not disclosed by a Trial Balance?
(A) Errors of Omission
(B) Errors of Commission
(C) Compensating Errors
(D) **All of the above**

(xiii)___________ is specially suited to mines, oil wells, quarries, sandpits and similar assets of a wasting character.
(A) **Depletion**
(B) Depreciation
(C) Amortisation
(D) Delapidation

(xiv) The following account has a credit balance
(A) Plant and Equipment A/c
(B) **Loans 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) A and B purchased a piece of land for ₹30,000 and sold it for ₹60,000 in 2016. Originally A had contributed ₹12,000 and B ₹8,000. The profit on venture will be
(A) **₹30,000**
(B) ₹20,000
(C) ₹60,000
(D) Nil

(xvii) Ground Rent or Surface rent means
(A) Minimum Royalty payable
(B) Maximum Royalty payable
(C) **Fixed rent payable in addition to minimum rent**
(D) Rent recovered at the end of lease term

(xviii) AB Ltd. has signed at 31st December,2017 the Balance Sheet date, a contract where the Total Revenue is estimated at ₹15 Crores and Total Cost is estimated at ₹20 Crores. No work began on the contract. Is the Contractor required to give any accounting effect for the ended 31st December,2017?
(A) **Recognise expected loss of ₹5 Crores**
(B) Recognize ₹15 Crores as Profit
(C) No entry
(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.	Chronologically recording of transactions	A.	Machinery A/c
2.	Generally Accepted Accounting Principles	B.	Recurring in Nature
3.	Tangible Real A/c	C.	Journal
4.	Revenue Receipts	D.	GAAP
5.	Helps check the arithmetical accuracy	E.	Drawee
6.	Acceptance of Bills of Exchange	F.	Trial Balance

7.	**Dissolution of Firm**	**G.**	**AS - 10**
8.	**Property, Plant and Equipment**	**H.**	**Realisation A/c**
9.	**Amount of actual royalty over minimum rent**	**I.**	**Tournament expenses**
10.	**Not-for Profit Organizations**	**J.**	**Excess Working**

Answer:

	Column 'A'		Column 'B'
1.	Chronologically recording of transactions	C.	Journal
2.	Generally Accepted Accounting Principles	D.	GAAP
3.	Tangible Real A/c	A.	Machinery A/c
4.	Revenue Receipts	B.	Recurring in Nature
5.	Helps check the arithmetical accuracy	F.	Trial Balance
6.	Acceptance of Bills of Exchange	E.	Drawee
7.	Dissolution of Firm	H.	Realisation A/c
8.	Property, Plant and Equipment	G.	AS - 10
9.	Amount of actual royalty over minimum rent	J.	Excess Working
10.	Not-for Profit Organizations	I.	Tournament expenses

(c) Fill in the blanks:

(i) Revenue expenditure is incurred to earn revenue of the ___________ period.
(ii) The debts which may or may not be realized are called ___________debts.
(iii) The __________ __________ shows financial position of the business as on a particular date.
(iv) ___________ _________is the combination of both the basis i.e. Cash as well as Accrual basis.
(v) A transaction forgotten to be entered in books of accounts is an error of ___________.
(vi) In a Computerised Environment the processing of information will be by one or more __________.
(vii) ___________ represents an amount of cash, goods or any other assets which the owner withdraws from business for his or her personal use.
(viii) Assets like brand value, copy rights, goodwill are known as _________ __________.
(ix) Rebate is given in case of _________ of a bill.
(x) Goods costing ₹ 4,00,000 sent out to consignee at cost + 25%. Invoice value of the goods will be _________.

Answer:

(i) Current;
(ii) Doubtful;
(iii) Balance Sheet;
(iv) Hybrid/Mixed;
(v) Omission;
(vi) Computers;
(vii) Drawings;

(viii) Intangible Assets;
(ix) Retirement;
(x) ₹5,00,000.

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

(i) **The excess of expense over income is called Profit.**
(ii) **Current Liability represents a potential obligation that could be created depending on the outcome of an event.**
(iii) **The primary stage of accounting function is called Book-keeping.**
(iv) **In Dual Aspect Concept the assets represent economic resources of the business.**
(v) **According to AS-2 Inventories are held for sale in normal course of business.**
(vi) **Premium received on issue of shares is a revenue profit.**
(vii) **Depreciation is an actual loss.**
(viii) **Dishonour of a Bill means that the acceptor refuses to honour his commitment on due date and payment of the bill on presentation does not take place.**
(ix) **Consignee is the person who sends goods to agents.**
(x) **Average Clause is a clause contained in a fire insurance policy.**

Answer:

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

Study Note 1 – Fundamentals of Accounting

Q2. (a) State with reasons the nature of expenditure or receipts in each of the following cases:
(i) **Freight on new machine ₹5,000 and its installation cost ₹2,500.**
(ii) **Old Furniture sold for ₹800 (cost ₹4,000 but written down value ₹900).**
(iii) **₹1,50,000 spent for increasing the sitting capacity of a cinema hall and ₹7,500 paid for painting it.**
(iv) **Daily repairing cost of machineries of ₹5,000.**
(v) **Expenses incurred in connection with obtaining a licence for starting the factory were ₹ 30,000.**

Answer:

(i) Both ₹5,000 and ₹2,500 are Capital Expenditure because —
- these are incidental to the acquisition and starting of operation of the machine.
- the earning capacity of the business will increase.

(ii) The cost price need not be considered. The loss on sale ₹100 (₹900 – ₹800) is a revenue loss to be debited to Profit/Loss Account. The sale price received ₹800 is a capital receipt.

(iii) Increase of sitting capacity is a permanent improvement of the cinema hall. It will help to increase the earning capacity. So it is a capital expenditure. Cost of painting is a normal and regular expense. It is a revenue expense.

(iv) Daily repairing cost of machineries of ₹5,000 is to be treated as revenue expenses as it is recurring in nature.

(v) ₹ 30,000 incurred in connection with obtaining a license for starting the factory is a Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.

(b) On 1st April, 2015 Bosco Ltd. purchased machines for ₹2,40,000 and on 31st September 2016 it acquired additional machines at a cost of ₹ 40,000. On 30th June, 2017, one of the original machines which cost ₹10,000 was found to have become obsolete and was sold as a scrap for ₹1,000. It was replaced on the same date by a new machine costing ₹16,000. Depreciation is to be provided @ 15% per annum on the basis of diminishing balance method. Show machinery account for the first three years. The company closes its books on 31st March every year.

Answer:

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

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2015 April 1	To, Bank A/c	2,40,000	2016 March 31	By, Depreciation A/c By Balance c/d	36,000 2,04,000
		2,40,000			2,40,000
2016 April 1 Sept. 30	To, Balance b/d To, Bank A/c	2,04,000 40,000	2017 March 31	By Depreciation (30,600 +3,000) By Balance c/d	33,600 2,10,400
		2,44,000			2,44,000
2017 April 1 June 30	To Balance b/d To Bank A/c	2,10,400 16,000	2017 June 30 " " 2018 March 31 "	By Depreciation A/c By Bank A/c By Profit & Loss A/c By Depreciation A/c (30,478 + 1,800)	270 1,000 32,278 1,86,898
		2,26,400			2,26,400

Computation of Loss on Sale of Machinery on 30.06.2017:

	₹
Written down value on 01.04.2017	
= ₹10,000 – (1,500 + 1,276)	7,224
Depreciation from 01.04.2017 to 30.06.2017 @ 15%	270
	6,954

Less: Sale Value	1,000
Loss on Sale	5,954

Balance of Machinery Account on 1st April 2017, excluding the w.d.v of the machinery sold on 30th June,2017 = ₹(2,10,400 – 7,225) = ₹2,03,175.

3. On July 1,2015, River Ltd. purchased a second – hand machinery for ₹20,000 and spent ₹ 3,000 on Re-conditioning it. On January 1,2016 , another machinery was purchased worth ₹12,000. On July 30th, 2017, the machinery purchased on January 1,2016 was sold for ₹ 8,000.

Depreciation is written off @ 10% p.a on original cost. Accounts are closed on March 31st every year. Prepare Machinery Account for year ending 31st March 2017.

Answer:

Dr. Machinery Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2015 July 1 2016 Jan 1	To, Bank A/c (Machine-I) (20,000+3,000) To, Bank A/c (Machine-II)	23,000 12,000	2016 March,31	By, Depreciation A/c (Machinery-I) – ₹ 1,725 (for 9 mths) (Machinery-II) - ₹ 300 (for 3 mths) By, Balance c/d (Machinery-I)- ₹21,275 (Machinery-II)- 11,700	 2,025 32,975
		35,000			**35,000**
2016 April 1	To, Balance b/d Machine I- ₹ 21,275 Machine II- ₹11,700	32,975	2017 March 31	By, Depreciation (Machinery-I)- ₹2,300 (Machinery-II)- ₹1,200 By, Balance c/d (Machinery-I)- ₹ 18,975 (Machinery-II)- ₹ 10,500	 3,500 29,475
		32,975			**32,975**
2017 April 1	To, Balance b/d Machine I- ₹18,975 Machine II- ₹10,500	29,475	2017 July 30 2017 March 31	By,Depreciation (Machinery-II) (3 months) By, Bank A/c By, P&L A/c By, Depreciation (Machinery-I)-₹2,300 By, Balance b/d I- ₹ 16,675	 400 8,000 2,100 2,300 16,675
		29,475			**29,475**

4. (a) Rectify the following errors by passing necessary journal entries:

(i) Goods taken by the proprietor ₹3,000 for gift to his daughter were not recorded at all.

(ii) ₹3,000 received from Niraj against debts previously written off as bad debts have been credited to his personal account.

(iii) Received interest ₹300, posted to loan account.

(iv) A cheque received from Vishal, a debtor, for ₹4,000 was directly received by the proprietor who deposited it into his personal bank account.

Answer:

Books of …………

Journal

Date	Particulars	L. F.	Dr. Amount ₹	Cr. Amount ₹
	Drawings A/c Dr. To Purchase A/c [Goods taken by proprietor previously not recorded, now rectified]		3,000	 3,000
	Niraj's A/c Dr. To Trading A/c [Niraj's A/c wrongly credited for amount received against bad debts written of, now rectified]		3,000	 3,000
	Loan A/c Dr. To Interest Received A/c [Interest received wrongly credited to Loan A/c, now rectified]		300	 300
	Drawings A/c Dr. To Vishal's A/c [Debtors] [Cheque from a Debtor directly received and deposited into personal bank a/c by proprietor, now adjusted]		4,000	 4,000

(b) There was a difference in Trial Balance of Mr. S Basu, a trader, on 31st December, 2017 and the difference in books was carried to a Suspense Account and the books were closed. Subsequently on going through the books, the following errors were located:

- **₹ 1,296 paid for Repairs to Motor Car was debited to Motor Car Account as ₹ 696.**
- **A sale of ₹ 1,400 to Utpal Das entered in the Sales Book as ₹ 4,100.**
- **A cash discount of ₹ 1,000 received was entered in the Cash Book but was not posted in the ledger.**
- **₹ 500 being Purchase Returns posted to the debit of Purchases Account.**
- **The Purchase of a machine on 1st April, 2016 for ₹ 23,000 was entered in the Purchases Book.**
- **While carrying forward total of one page in Vikram Garg's Account, the amount of ₹ 1,000 was written on the credit side instead of the debit side.**
- **A cheque of ₹ 6,192 received from Vivek Basu (after allowing her a discount of ₹ 92) was endorsed to Arnab Ghosh in full settlement of ₹ 7,000. The cheque was finally dishonoured but no entries were passed in the books.**

Give the Journal entries to rectify the above and prepare the Suspense Account.

Answer:

Books of Subhayan Basu
Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	(i) Profit & Loss Adjustment A/c (Repairs) Dr. To Motor Car A/c To Suspense A/c [Repairs to Motor Car ₹ 1,296 wrongly debited to Motor Car A/c as 696, now rectified]		1,296	 696 600
	(ii) Profit & Loss Adjustment A/c (Sales) Dr. To Suspense A/c [A Sale of ₹ 1,400 entered in the Sales Book as ₹ 4,100 now rectified]		2,700	 2,700
	(iii) Suspense A/c Dr. To Profit & Loss Adjustment A/c (Discount Received) [Cash discount received but not posted to the ledger, now rectified]		1,000	 1,000
	(iv) Suspense A/c Dr. To P&L A/c Adjustment A/c (Purchase ₹ 500 and Purchase Returns ₹ 500) [Purchase Returns posted to the debit of Purchase A/c, now rectified]		1,000	 1,000
	(v) Machinery A/c Dr. To Profit & Loss Adjustment A/c [Purchase of Machine debited to Purchase A/c, now rectified]		23,000	 23,000
	(vi) S. Debtors A/c Dr. To Suspense A/c [Page total of one Debtor A/c written on the side instead of in the debit side, now rectified]		2,000	 2,000
	(vii) Vivek Basu A/c Dr. *P/L Adjustment A/c (Disc. Recd.) Dr. To Arnab Ghosh A/c To P/L Adjustment A/c (Disc. Allowed) [Endorsed cheque dishonoured, now recorded]		6,284 808	 7,000 92

Notes:

* It is assumed that discount received at the time of endorsements are being disallowed/ cancelled.

** The entries have been made assuming that the Final Accounts have already been prepared.

Suspense Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To P/L Adjustment A/c (Disc. Recd.)	1,000	By P/L Adjustment A/c (Repairs)	600
To P/L Adjustment A/c (Purchase)	500	By P/L A/c (Sales)	2,700
To P/L Adjustment A/c (Purchase Return)	500	By Sundry Debtors A/c	2,000
To Difference in Books	3,300		
	5,300		5,300

Study Note 2: Accounting for Special Transactions

5. (a) R considered the debt of S as irrecoverable and wrote-off that debt of ₹ 1,200 as bad on 02.03.2016. On 30.6.2016, S paid cash ₹ 1,000 to R in full settlement of the account and on the date further goods were sold to S invoiced at ₹ 3,120. S paid by a cheque of ₹ 1,000 and accepted a bill of exchange for the balance of ₹ 2,120 at 2 months. R discounted the bill at the bank for ₹ 2,040. The bill at maturity was returned to R as dishonoured, noting charge being ₹ 5. Next day S accepted a fresh bill at one month and paid cash for the noting charge and interest at 6%. A day before due date, S paid cash ₹ 640 and accepted another bill for the balance sum at 3 months. After a month, thereafter, S, having become insolvent, paid a compensation of 50 p. in the rupee.
Show the entries in the books of R.

Answer:

In the Books of R
Journal

Date	Particulars	L.F.	Debit	Credit
2016			₹	₹
March 2	Bad Debts A/c Dr. To S's A/c (Amount due to S written-off as bad)		1,200.00	 1,200.00
June 30.	Bank A/c Dr. To Bad Debts Recovery A/c (Amount recovered from S written-off as bad)		1,000.00	 1,000.00
June 30	S's A/c Dr. To Sales A/c (Goods sold to S)		3,120.00	 3,120.00
June 30.	Bank A/c Dr. Bills Receivable A/c Dr. To S's A/c (cash and bill received from S)		1,000.00 2,120.00	 3,120.00
June 30.	Bank A/c Dr. Discount A/c Dr. To Bills receivable A/c (Bill discount by the bank)		2,040.00 80.00	 2,120.00
Sept. 3.	S's A/c Dr. To Bank A/c (Bill dishonoured by S, noting charge being ₹5)		2,125.00	 2,125.00
Sept. 4.	S's A/c Dr. To Interest A/c (Interest receivable from S on ₹2,120 @ 6% for 1 months)		10.60	 10.60
Sept. 4.	Bank A/c Dr. To S's A/c (Cash received from, S for interest and noting charges)		15.60	 15.60
Sept. 4.	Bills Receivable A/c Dr. To S's A/c (Fresh bill drawn and accepted by S)		2,120.00	 2,120.00
Oct. 7.	S's A/c Dr. To Bills receivable A/c		2,120.00	 2,120.00

Oct. 7.	(Bill dishonoured on maturity)			
Oct. 7.	Bank A/c Dr. To S's A/c (Cash received from S as part payment)		640.00	640.00
Nov. 7.	Bills receivable A/c Dr. To S's A/c (Fresh bill drawn and accepted by S)		1,480.00	1,480.00
Nov. 7.	S's A/c Dr. To Bills receivable A/c (Bill dishonoured as S became insolvent)		1,480.00	1,480.00
	Bank A/c Dr. Bad debts A/c Dr. To S's A/c (Cash received from S @ 50 in the rupee and the balance proved bad)		740.00 740.00	1480.00

(b) Sunil owed Anil ₹ 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April. Sunil accepts it and returns it to Anil. On 15th April, Anil discounts it with CT Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges ₹ 100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of ₹ 3,000 on 1st July. Before the new bill become due, Sunil retires the bill with a rebate of ₹ 500. Show journal entries in books of Anil.

Answer:

Journal entries in the books of Anil

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
April, 1	Bills Receivables A/c Dr. To, Sunil's A/c (Being acceptance by Sunil)		80,000	80,000
April, 15	Bank A/c Dr. Discount A/c Dr. To, Bills Receivables A/c (Being discounting of the bill @ 12% p.a. & discounting charges for 2.5 months)		78,000 2,000	80,000
June, 30	Sunil's A/c Dr. To, Bank A/c (Being dishonour of the bill & noting charges paid by bank)		80,100	80,100
June, 30	Bank A/c Dr. To, Cash A/c (Being cash paid to bank)		80,100	80,100
July, 1	Sunil's A/c Dr. To, Interest A/c (Being interest due from Sunil)		3,000	3,000

July, 1	Bills Receivables A/c Dr. To, Sunil's A/c (Being new acceptance by Sunil for ₹ 80,100 & interest of ₹ 3,000)		83,100	 83,100
July, 1	Bank A/c Dr. Rebate A/c Dr. To, Bills Receivables A/c (Being the amount received on retirement of the bill)		82,600 500	 83,100

6. (a) On 1st July, 2016 B. Dutta of Kolkata consigned 250 Computers costing ₹ 28,000 each to T. Ramasami, Chennai. Expenses of ₹ 17,000 were met by the consignor. T. Ramasami spent ₹ 14,500 for clearance on 31st July, 2016 and selling expenses were ₹ 1,500 per computer as and when the sale made by consignee. T. Ramasami sold on 4th September, 2016, 150 computers at ₹ 40,000 per computer and again on 21st September, 75 computers at ₹ 42,500.

Mr. Ramasami was entitled to a commission of ₹1,500 per computer sold plus one-fourth of the amount by which the gross sale proceeds less total commission there on exceeded a sum calculated at the rate of ₹ 35,000 per computer sold. T. Ramasami sent the account sale and the amount due to B. Dutta on 30th September, 2016 by bank demand draft. You are required to show the consignment account and T. Ramasami's account in the books of B. Dutta.

Answer:

Books of B. Dutta of Kolkata

Consignment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.07.16	To Goods Sent on	70,00,000	04.09.16	By T. Ramasami (Sales)	60,00,000
01.07.16	Consignment A/c		21.09.16	By T. Ramasami (Sales)	31,87,500
31.07.16	To Bank (Exp.) A/c	17,000	30.09.16	By Stock on	
04.09.16	To T. Ramasami	14,500		Consignment A/c	7,03,150
21.09.16	(Clearance Exp.)				
30.09.16	To T. Ramasami (Selling Exp.)	2,25,000			
30.09.16	To T. Ramasami (Selling Exp.)	1,12,500			
	To T. Ramasami (Commission)	5,32,500			
	To Profit & Loss A/c	19,89,150			
		98,90,650			98,90,650

T. Ramasami (Chennai) Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
04.09.13	To Consignment A/c	60,00,000	31.07.13	By Consignment A/c (Clearance Exp.)	14,500
21.09.13	To Consignment A/c	31,87,500	04.09.13		
			21.09.13	By Consignment A/c (Selling Exp.)	2,25,000
			30.09.13	By Consignment A/c (Selling Exp.)	1,12,500
			30.09.13	By Consignment A/c (Commission)	5,32,500*
				By Bank A/c	83,03,000
		91,87,500			91,87,500

Working Notes:

(i) Calculation of Commission

Let 'x' be total commission

x = (225 x 1,500) + ¼[60,00,000 + 31,87,500 – x – 1 (35,000 x 225)

x = 3,37,500 + ¼ (91,87,500 – x – 78,75,000)

$x = 3,37,500 + 3,28,125 - \frac{x}{4}$

$\frac{5}{4}x = 6,65,625$

x = 532500*

(ii)

Valuation of stock on consignment

Particulars	₹
250 – 150 – 75 = 25 computers @ ₹ 28,000	7,00,000
Add: Consignor's Expenses = $17,000 \times \frac{25}{250}$	1,700
Add: Share of consignee's Clearing Exp. $14,500 \times \frac{25}{250}$	1,450
Value of unsold stock	7,03,150

(b) **Mr. G of Bombay sent 100 T.V. sets to Mr. K of Chandigarh on consignment basis. The cost price of each set was ₹ 5,000. Mr. G paid ₹ 100 for Cartage, ₹ 1,500 for Railway Freight and ₹ 400 for Insurance Premium.**

Mr. G drew a bill payable after 2 months for ₹ 50,000. After it was duly accepted by Mr. K by way of advance remittance against the consignment, Mr. G discounted the bill for ₹ 49,900.

Mr. K paid ₹ 600 for Landing Charges, ₹ 100 for Clearing, ₹ 300 for Carriage to Godown, ₹ 500 for Godown Rent. ₹ 200 for Carriage to Customers, ₹ 360 for Insurance of Godown and ₹ 100 for Advertisement. He sold 10 sets for cash @ 5,400 each and 80 sets @ ₹ 5,500 each on credit but could not realize the sale proceeds of 2 sets.

Mr. K was entitled to receive 4% ordinary commission and 1% del credere commission. The net amount due from Mr. K was received in time.

Prepare the Consignment Account and Mr. K Account in the books of Mr. G.

Also show the necessary accounts in the books of Mr. K.

Answer:

Books of Mr. G
Consignment to Chandigarh Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Goods sent on Consignment A/c	5,00,000	By Mr. K (Total sales) A/c [10 × 5,400 + 80 × 5,500]	4,94,000
To Bank A/c :			
Cartage	100	By Stock of Consignment A/c	50,300
Railway Freight	1,500		
Insurance	400		
To Mr. K A/c :			
Landing Charges	600		
Clearing Charges	100		
Carriage to Godown	300		
Godown Rent	500		
Carnage to Customers	200		
Insurance of Godown	360		
Advertisement	100		
To Mr. K A/c :			
Ordinary Commission [4% of 4,94,000]	19,760		
Del Credere [1% of 4,94,000]	4,940		
To Profit & Loss (Profit on Consignment)	15,440		
	5,44,300		5,44,300

Mr. K Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Consignment to Chandigrah A/c	4,94,000	By Bill Receivable A/c (Advance)	50,000
		By Consignment to Chandigarh A/c	
		Expenses	2,160
		Commission	24,700
		By Bank-Balance Received	4,17,140
	4,94,000		4,94,000

Working Notes:

A. The Discount on Bill ₹100 has been considered as a general financial expense/loss. If it is considered as incidental to this consignment, it may be charged to Consignment Account. But in no case it should be considered for stock valuation.

B. Valuation of Unsold Stock

	Qty. (T.V. Sets)	₹
Goods Consigned	100	5,00,000 [Cost Price]
+ Non-Recurring Expenses :		
(a) Paid by Consignor [Cartage + Railway Freight + Insurance]		2,000

(b) By Consignee [Landing Charges + Clearing Exp. + Carriage to Godown]		1,000
	100	5,03,000
Qty of stock [Sent - Sold]	10	Value = $\frac{5,03,000 \times 10}{100}$
Market Price → Assumed higher		= 50,300

C. As Del Credere Commission is paid to consignee, no special entry for credit sales and no entry for Bad Debts are required in Mr. G's [Consignor's] books.

D. No entry needed in consignee's books for goods sent to him, consignor's expenses, bill discounted by consignor and unsold stock.

Books of Mr. K [Consignee]
Mr. G Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bill Payable A/c	50,000	By Bank (Cash Sales) A/c	54,000
To Bank-Expenses	2,160	By Consignment Debtors A/c (Credit Sales) [5,500 × 80]	4,40,000
To Commission [19,760 + 4,940]	24,700		
To Bank-Balance Sent	4,17,140		
	4,94,000		4,94,000

Consignment Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Mr. G A/c	4,40,000	By Bad Debts A/c [2 × 5,500]	11,000
		By Bank-Balance Realised A/c [5,500 × 80]	4,29,000
	4,40,000		4,40,000

Commission Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bad Debts A/c	11,000	By Mr. G A/c	24,700
To Profit & Loss A/c	13,700		
	24,700		24,700

7. (a) Amal and Bina entered into a joint venture for guaranteeing the subscription at par of 1,00,000 shares of ₹ 10 each of a Joint Stock Company. They agree to share profit and losses in the ratio of 2 : 3. The terms with the company are 4½% commission in cash and 6,000 shares of the company as fully paid-up.

The public took up 88,000 of the shares and the balance share of the guaranteed issue are taken up by Amal and Bina who provide cash equally. The commission in cash is taken by partners in the ratio of 5:4.

The entire shareholding of the joint venture is then sold through brokers – 25% price of ₹ 9. 50% at a price of ₹ 8.75; 15% at a price of ₹ 8.50 and the remaining 10% are taken over by

Amal and Bina equally at ₹ 8 per share. The sale proceeds of the shares are taken by the partners equally.

Prepare a Joint Venture Memorandum Account and the separate accounts of Amal and Bina in the books of Bina and Amal, respectively, showing the adjustment of the final balance between Amal and Bina.
Ignore interest and income-tax.

Answer:

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Amal (Cost of Shares) ,, Bina (Cost of Shares) ,, Profit to Joint Venture Amal 32,640 Bina 48,960	60,000 60,000 81,600	?	By Amal (Commission) Bina (Commission) ,, Amal (Sale Proceeds) Bina (Sale Proceeds) ,, Amal (Shares taken) Bina (Shares taken)	25,000 20,000 71,100 71,100 7,200 7,200
		2,01,600			2,01,600

In the books of Amal
Joint Venture with Bina

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Bank – Cost of Shares ,, Share of Profit ,, Bank – final settlement	60,000 32,640 10,660	?	By Bank – Commission ,, Bank – Sale Proceeds ,, Shares taken	25,000 71,100 7,200
		1,03,300			1,03,300

In the books of Bina
Joint Venture with Amal

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Bank – Cost of Shares ,, Share of Profit	60,000 48,960	?	By Bank – Commission ,, Bank – Sale Proceeds ,, Shares taken ,, Bank – Final settlement	20,000 71,100 7,200 10,660
		1,08,960			1,08,960

Workings:

A. Purchase of Shares

(1,00,000 – 88,000) = 12,000 @ ₹ 10 = ₹ 1,20,000 provided by Amal and Bina equally i.e., ₹ 60,000 each.

B. Calculation of Sales

6,000 Shares taken as Commission
12,000 shares purchase
Entire share-holding **18,000**

Particulars	₹
25% of 18,000 = 4,500 shares @ 9.00 =	40,500
50% of 18,000 = 9,000 shares @ 8.75 =	78,750
15% of 18,000 = 2,700 shares @ 8.50 =	22,950

1,42,200 x ½ = ₹ 71,100 made by Amal and Bina each.

C. Commission in Cash

1,00,000 Shares @ ₹ 10 = ₹ 10,00,000 x 4½% = ₹ 45,000 to be taken by Amal and Bina in the ratio 5:4.

D. Unsold Shares taken equally by Amal and Bina

10% of 1,800 shares @ ₹ 8.00 = ₹ 14,400 x ½ = ₹ 7,200 each.

(b) AA and BB entered into a Joint Venture for sale of notebooks. The following information is provided to you -

- **AA purchased 16,000 Notebooks at ₹20 each. He sent 9,000 Notebooks to BB and incurred Transport Charges ₹6,000. AA sold 5,000 Notebooks at ₹36, 1,500 Notebooks at ₹40, and 400 Notebooks at ₹42. The balance notebooks could not be sold since they were in damaged condition.**
- **BB received 9,000 Notebooks and sold 8,000 Notebooks at ₹36. Of the balance Notebooks, 200 were in damaged condition and considered non-saleable. BB took over the remainder good notebooks at an agreed price of ₹22 each.**
- **Shop Expenses incurred by the parties were - AA ₹64,000, BB₹88,000.**
- **Out of sale by BB, a customer for 500 Notebooks paid only 60% of the amount. Further enquiry revealed that nothing was realizable from him. Prepare the Memorandum Joint Venture Account in the above case. Also show, along with relevant Journal Entries - (a) Joint Venture with BB A/c, in AA's books, and (b) Joint Venture with AA A/c, in BB's books.**

Answer:

Memorandum Joint Venture Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Purchase Cost (16,000 x ₹20)	3,20,000	By Sales:	
To Transportation Charges	6,000	**AA**	
To Shop Expenses (64,000 + 88,000) To	1,52,000	(5,000 x 36) + (1,500 x 40) +	2,56,800
Bad Debts (500 x ₹36 x 40%)	7,200	(400 x 42)	
To Profit trfd to **AA** 38,600		**BB** (8,000 x ₹36)	2,88,000
BB 38,600	77,200	By Books taken over by **BB** (9,000 - 8,000 - 200) x ₹22	17,600
Total	**5,62,400**	**Total**	**5,62,400**

Note: Each Co-Venturer may prepare the Memorandum JV A/c, to ascertain the profit on JV.

In the books of AA
Journal Entries

	Particulars		Dr. ₹	Cr. ₹
1.	Joint Venture with BB A/c Dr. To, Bank A/c (Being 16,000 Notebooks purchased at ₹20 each i.e. ₹3,20,000 + Cost of Transport ₹6,000 + Own Shop Expense ₹64,000)		3,90,000	3,90,000
2.	Bank A/c Dr. To Joint Venture with BB A/c (Being sale of notebooks (5,000×36)+(1,500×40) + (400×42)]		2,56,800	2,56,800
3.	Joint Venture with BB A/c Dr. To, Profit and Loss A/c (being own share of profit on Joint Venture recognized)		38,600	38,600
4.	Bank A/c Dr. To, Joint Venture with BB A/c (Being final settlement received from BB, on completion of Joint Venture)		1,71,800	1,71,800

2. Joint Venture with BB Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank A/c (Expenses incurred)	3,90,000	By Bank A/c - Sales Collections	2,56,800
To Profit & Loss A/c (Share of Profit)	38,600	By Bank A/c - final settlement received	1,71,800
Total	**4,28,600**	**Total**	**4,28,600**

In the books of BB

1. Journal Entries

	Particulars		Dr.	Cr.
1.	Joint Venture with AA A/c To Bank A/c (Being Own Shop Expenses ₹88,000)	Dr.	88,000	88,000
2.	Bank A/c To Joint Venture with AA A/c [Being sale of notebooks (8,000 Notebooks x ₹36) less Uncollected Amount Bad Debts (500 notebooks x ₹36 x 40%)]	Dr.	2,80,800	2,80,800
3.	Notebook Stock A/c To Joint Venture with AA A/c (Being 800 notebooks taken over at ₹22 each)	Dr.	17,600	17,600
4.	Joint Venture with AA A/c To Profit and Loss A/c	Dr.	38,600	38,600

	(Being own share of profit on JV recognized)			
5.	Joint Venture with AA A/c To Bank A/c (Being final settlement paid to AA, on completion of JV)	Dr.	1,71,800	 1,71,800

2. Joint Venture with AA Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank A/c (Expenses incurred)	88,000	By Bank A/c - Sales Collections	2,80,800
To Profit & Loss A/c (Share of Profit)	38,600	By Bank A/c – taken over	17,600
To Bank A/c (Final Settlement paid)	1,71,800		
	2,98,400		**2,98,400**

8. (a) On 29th August, 2016 the godown of a trader caught fire and a large part of the stock of goods was destroyed. However, goods costing ₹1,08,000 could be salvaged incurring fire fighting expenses amounting to ₹4,700. The trader provides you the following additional information :

	₹
Cost of stock on 1st April, 2015	**7,10,500**
Cost of stock on 31st March, 2016	**7,90,100**
Purchases during the year ended 31st March, 2016	**56,79,600**
Purchases from 1st April, 2016 to the date of fire	**33,10,700**
Cost of goods distributed as samples for advertising from 1st April, 2016 to the date of fire	**41,000**
Cost of goods withdrawn by trader for personal use from 1st April, 2016 to the date of fire	**2,000**
Sales for the year ended 31st March, 2016	**80,00,000**
Sales from 1st April, 2016 to the date of fire	**45,36,000**

The insurance company also admitted fire fighting expenses. The trader had taken the fire insurance policy for ₹9,00,000 with an average clause. Calculate the amount of the claim that will be admitted by the insurance company.

Answer:

Memorandum Trading Account

for the period 1st April, 2016 to 29th August 2016

Dr. **Cr.**

Date	Particulars		₹	Date	Particulars	₹
	To Opening Stock		7,90,100		By Sales	45,36,000
	To Purchases	33,10,700			By Closing stock	
	Less: Advertisement	(41,000)		,,	(Bal. fig.)	8,82,600
	Drawings	(2,000)	32,67,700			

	To Gross Profit [30% of sales refer working Note]	13,60,800			
		54,18,600			54,18,600

Statement of Insurance Claim

Particulars	₹
Value of stock destroyed by fire	8,82,600
Less: Salvaged Stock	(1,08,000)
Add : Fire Fighting Expenses	4,700
Insurance Claim	7,79,300

Note: Because (policy amount is more than claim amount). Average clause will not apply. Hence, claim amount of only ₹7,79,300 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2016

Date	Particular	₹	Date	Particular	₹
	To Opening Stock	7,10,500		By Sales	80,00,000
	To Purchases	56,79,600		By Closing stock	7,90,100
	To Gross Profit	24,00,000			
		87,90,100			87,90,100

Rate of Gross profit in 2015 – 16

[(Gross profit /Sales) × 100] = (24,00,000/80,00,000) × 100 = 30%

(b) Ramasankar & Sons had taken out policies (without Average Clause) both against loss of stock and loss of profit, for ₹ 2,10,000 and ₹ 3,20,000 respectively. A fire occurred on 1st July, 2015 and as a result of which sales were seriously affected for a period of 3 months. Trading and Profit & Loss A/c of Ramasankar & Sons for the year ended on 31st March, 2015 is given below:

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Opening Stock	**96,000**	**By Sales**	**12,00,000**
To Purchases	**7,56,000**	**By Closing stock**	**1,85,000**
To Wages	**1,58,000**		
To Manufacturing Expenses	**75,000**		
To Gross Profit c/d	**3,00,000**		
Total	**13,85.000**	**Total**	**13.85,000**
To Administrative Expenses	**83,600**	**By Gross Profit b/d**	**3,00,000**

To Selling Expenses (Fixed)	**72,400**		
To Commission on Sales	**34,200**		
To Carriage Outward	**49,800**		
To Net Profit	**60,000**		
Total	**3,00,000**	**Total**	**3,00,000**

Further detail provided is as below:

(a) Sales, Purchases, Wages and Manufacturing Expenses for the period 01.04.2015 to 30.06.2015 were ₹ 3,36,000, ₹ 2,14,000, ₹ 51,000 and ₹ 12,000 respectively.

(b) Other Sales figure were as follows :

	₹
From 01.04.2014 to 30.06.2014	**3,00,000**
From 01.07.2014 to 30.09.2014	**3,20,000**
From 01.07:2015 to 30.09.2015	**48,000**

(c) Due to decrease in the material cost, Gross Profit during 2015-16 was expected to increase by 5% on sales.

(d) ₹ 1,98,000 were additionally incurred during the period after fire. The amount of policy included ₹ 1,56,000 for expenses leaving ₹ 42,000 uncovered.
Compute the claim for stock, loss of profit and additional expenses.

Answer:

Claims for loss of stock

Memorandum Trading Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To, Opening Stock	1,85,000	By Sales	3,36,000
To Purchases	2,14,000	By, Closing Stock (Bal. Fig.)	2,26,800
To Wages	51,000		
To Manufacturing expenses	12,000		
To Gross Profit @ 30% on sales (W.N.)	1,00,800		
	5,62,800		**5,62,800**

Claim for loss of stock will be limited to ₹2,10,000 only which is the amount of insurance policy and no average clause will be applied.

Loss of Profit:

(a) Short Sales:

Sales from 1st July 2014 to 30th Sept.2014	₹3,20,000
Add: 12% rise in 2015-16 over 2014-2015 (April-June ₹3,36,000 instead of ₹3,00,000)	₹38,400

	₹3,58,400
Less: Actual Sales from 1st July,2015 to 31st Sept 2015	₹ (48,000)
Short Sales	₹3,10,400

(b) Gross Profit ratio

$$\frac{\text{Net Profit} + \text{insured Standing Charges (2014 - 2015)}}{\text{Sales (2014 - 2015)}} \times 100$$

$\frac{₹60,000 + ₹1,56,000}{₹12,00,000} \times 100$	18%
Add: Expected rise due to decline in material cost	5%
Hence, Gross Profit Ratio	23%

(c) Loss of Gross Profit

23% on Short Sales ₹3,10,400 = ₹71,392

(d) Annual Turnover (12 months to 1st July,2015)

Sales for April 2014-March,2015	₹12,00,000
Less: From 1.4.2014 to 30.6.2014	₹ (3,00,000)
	₹9,00,000
Add: 12% increasing trend	₹1,08,000
	₹10,08,000
Add: From 1.4.2015 to 30.6.2015	₹3,36,000
	₹13,44,000
Gross profit on annual turnover @ 23%	**₹3,09,120**

(e) Amount allowable in respect of additional expenses

Least of following

(i)	Actual Expenses	₹1,98,000
(ii)	Gross Profit on sales during indemnity period 23% of ₹48,000	₹11,040
(iii)	$\frac{\text{Gross profit on annual (adjusted) Turnover}}{\text{Gross profit as above} + \text{Uninsured Charges}} \times \text{Additianal Expenses}$	
	$\frac{3,09,120}{3,51,120} \times 1,98,000$	₹1,74,316

Least i.e. ₹11,040 is admissible

Claim

Loss of Gross profit	₹71,392
Add: Additional expenses	₹11,040
	₹82,432

Insurance claim for loss of profit will be of ₹82,432 only.

Working Note:

Rate of Gross Profit in 2014-15

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$\frac{3,00,000}{12,00,000} \times 100 = 25\%$$

In 2015-16 Gross Profit is expected to increase by 5% as a result of decline in material cost, hence the rate of Gross Profit for loss of Stock is taken at 30%

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

9. On 31.12.2016, Sundry Debtors and Provision for Bad Debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2015, ₹ 3,000 are bad and written off on 30.9.2017, an amount of ₹ 400 was received on account of a debt which was written off as bad last year on 31.12.2017, the debtors left was verified and it was found that sundry debtors stood in the books were ₹ 40,000 out of which a customer Mr. X who owed ₹ 800 was to be written off as bad.
Prepare Bad Debt Account. Provision for Bad Debt Account. Assuming that some percentage should be maintained for provision for bad debt as it was on 31.12.2016.
Show also how it will appear in Profit & Loss Account. and Balance Sheet.

Answer:

In the books of ....

Dr. Bad Debt Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2017 Sept. 30	To, Sundry Debtors A/c	3,000	2017 Dec. 31	By, Provision for Bad Debt A/c	3,800
Dec. 31	To, X A/c.	800			
		3,800			3,800

Dr. Provision for Bad Debt Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2017 Dec. 31	To, Bad Debt A/c " Balance c/d	3,800 3,920	2017 Dec. 31	By, Balance b/d	5,000
	[10% on ₹ 39,200, (₹ 40,000 - ₹ 800)]			" Profit & Loss A/c -for the provision required	2,720
		7,720			7,720

Workings : Calculation of '%' of Provision for bad debts —
(5,000/50,000 × 100) = 10%

Profit & Loss Account (Extract)
For the year ended 31.12.2014

Dr. Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To, Bad Debts		3,400	By Bad Debts Recovery A/c		400
			" Provision for Bad Debts: Existing Less: Provision Required	5,000 3,920	1,080

Balance Sheet (Extract)
As at 31.12.2015

Liabilities	Amount (₹)	Assets	Amount (₹)	Amount (₹)
		Sundry Debtors	40,000	
		Less: Bad Debts	800	
			39,200	
		Less: Provision for Bad Debts	3,920	35,280

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

Particulars	Debit (₹)	Credit (₹)
Stock as on 1st April 13	**35,000**	
Depreciation	**5,000**	
Accumulated depreciation		**40,000**
Fixed asset	**50,000**	
Loss on sale of fixed asset	**8,000**	
Investments	**1,25,000**	
Profit on sale of investments		**80,000**
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**

Particulars	Debit (₹)	Credit (₹)
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 2013** **As on 31st March 2014**	 **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	**16,64,000**	**16,64,000**

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	To, Asset (sold)	9,000	1- Apr-15	By Balance b/d (balancing figure)	44,000
31-Mar-16	To, Balance c/d	40,000	31 -Mar-16	By P & L (depreciation)	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		Sales	8,00,000
Finished goods	35,000		
Purchases	7,50,000		
		Closing stock:	
Gross Profit c/d (8,00,000×20%)	1,60,000	Finished goods (Balance in fig.)	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	80,000
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	2,34,000		
	3,69,000		369,000

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	2,34,000	4,74,000	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		1,25,000
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
		7,76,000			7,76,000

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. From the following data, prepare an Income and Expenditure Account for the year ended 31st December, 2016, and Balance Sheet as at that date of the Ganesh Hospital:

Receipts and Payments Account

for the year ended 31 December, 2016

Receipts	₹	₹	Payments	₹	₹
To Balance b/d			By Salaries:		
Cash	800		(₹ 7,200 for 2015)		31,200
Bank	5.200	6,000	By Hospital Equipment		17,000
To Subscriptions:			By Furniture purchased		6,000
For 2015		5,100	By Additions to Buildina		50,000
For 2016		24,500	By Printing and Stationery		2,400
For 2017		2,400			
To Government Grant:			By Diet expenses		15,600
For building		80,000	By Rent and rates		
For maintenance		20,000	(₹ 300 for 2017)		2,000
Fees from sundry patients		4,800	By Electricity and water charges		2,400
To Donations (not to be capitalised)		8,000	By office expenses		2,000
			By Investments		20,000
To Net collections from benefit shows		6,000	By Balances:		
			Cash	1,400	
			Bank	6,800	8,200
		1.56,800			1,56,800

Additional information :	₹
Value of building under construction as on 31.12.2016	1,40,000
Value of hospital equipment on 31.12.2016	51,000
Building Fund as on 1.1.2016	80,000
Subscriptions in arrears as on 31.12.2015	6,500
Investments in 8% Govt, securities were made on 1st July, 2016.	

Answer:

Ganesh Hospital
Income & Expenditure Account
for the year ended 31 December, 2016

Expenditure	₹	Income	₹
To Salaries	24,000	By Subscriptions	24,500

To	Diet expenses	15,600	By	Govt. Grants (Maintenance)	20,000
To	Rent & Rates	1,700	By	Fees, Sundry Patients	4,800
To	Printing & Stationery	2,400	By	Donations	8,000
To	Electricity & Water-charges	2,400	By	Benefit shows (net collections)	6,000
To	Office expenses	2,000	By	Interest on Investments	800
To	Excess of Income over expenditure transferred to Capital Fund	16,000			
		64,100			64,100

Balance Sheet as at 31st Dec, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Building:		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	50,000	1,40,000
Over Expenditure	16,000	65,300	Hospital Equipment:		
Building Fund:			Opening balance	34,000	
Opening balance	80,000		Addition	17,000	51,000
Add: Govt. Grant	80,000	1,60,000	Furniture		6,000
Subscriptions			Investments-		
received in advance		2,400	8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		2.27,700			2.27,700

Working Notes:

(1) Balance Sheet as at 31st Dec, 2015

Liabilities	₹	Assets	₹
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses:	7,200	Cash at Bank	5,200
Salaries payable		Cash in hand	800

	1,36,500		1,36,500

(2) Building	₹
Balance on 31st Dec. 2016	1,40,000
Paid during the year	(50,000)
Balance on 31st Dec. 2015	90,000
(3) Equipment	
Balance on 31st Dec. 2016	51,000
Paid during the year	(17,000)
Balance on 31st Dec. 2015	34,000
(4) Subscription due for 2015	
Receivable on 31st Dec. 2015	6,500
Received in 2016	(5,100)
Still Receivable for 2015	1,400

12. The following is the Income and Expenditure Account of GREEN CITY CLUB for the year ended March 31, 2015.

(Amount in ₹)

Particulars		Particulars	
To Salaries	**4,80,000**	**By Subscriptions**	**13,00,000**
To Rent	**1,20,000**	**By Entrance Fees**	**2,00,000**
To Printing & Stationery	**30,000**	**By Contribution for Annual Dinner**	**1,60,000**
To Travelling Expenses	**60,000**	**By Profit on Annual Sports**	**20,000**
To Annual Dinner Expenses	**1,40,000**		
To Secretary's Honorarium	**1,20,000**		
To General Expenses	**60,000**		
To Interest and Bank Charges	**18,000**		
To Audit Fees	**20,000**		
To Books & Periodicals	**30,000**		
To Depreciation	**25,000**		
To Excess of Income over Expenditure	**5,77,000**		
	16,80,000		**16,80,000**

The Income and Expenditure Account has been prepared after the following adjustments:

	₹
Subscription Outstanding on 31.03.2014.	**1,20,000**
Subscription received in Advance on 31.03.2014.	**90,000**
Subscription Outstanding on 31.03.2015	**80,000**
Subscription received in Advance on 31.03.2015	**1,40,000**

Salaries Outstanding at the beginning of the year and at the end of the year were ₹40,000 and ₹30,000 respectively.
Audit fees for the year (2014-15) has not been paid. Previous year's audit fee ₹15,000 was paid during the year.

The club's Assets on 31st March, 2014 were as follows:

	₹
Freehold Land	**10,00,000**
Sport Equipments	**2,60,000**

At the end of the year, after depreciation the equipments amounted to ₹ 2,70,000. Bank Loan of ₹ 1,00,000 as on 31st March, 2014 was still due at the end of the current year. On 31st March, 2015. Cash as Bank amounted to ₹ 6,97,000.

You are required to prepare:
(i) The Receipts and Payments Account for the year ended 31st March, 2015 and
(ii) Balance Sheet as on 31.03.2015.

Answer:

GREEN CITY CLUB
Receipts and Payments Account
For the year ended 31st March, 2015

Dr. **Cr.**

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d (Balancing Figure)	45,000	By Salaries (4,80,000-30,000)	4,50,000
To Subscription (Working Note-3)	13,90,000	By Outstanding salaries for 13-14	40,000
To Entrance Fees	2,00,000	By Rent	1,20,000
To Contribution for Annual Dinner	1,60,000	By Printing & Stationery	30,000
To Excess of Annual Sports Meet Receipts over expenditure	20,000	By Travelling Expenses	60,000
		By Annual Dinner Expenses	1,40,000
		By Secretary's Honourarium	1,20,000
		By General Expenses	60,000
		By Interest and Bank Charges	18,000
		By Outstanding Audit Fees for 13-14	15,000
		By Books and Periodicals	30,000
		By Sports Equipment (working Note-2)	35,000
		By Balance c/d	6,97,000
	18,15,000		18,15,000

Alternative Solution —

If a separate Salary Account is opened

Dr. **Salary Account** **Cr.**

Particulars	₹	**Particulars**	₹
To Bank A/c (Bal fig.)	4,90,000	By Balance b/d(O/S)	40,000
To Balance c/d (O/S)	30,000	By Income & Expenditure A/c (given)	4,80,000
	5,20,000		5,20,000

Receipts and Payments account
Dr. **For the year ended 31st March, 2015** **Cr.**

Receipts	₹	Payments	₹
To Balance b/d (Bal fig.)	45,000	By Salaries	4,90,000
To Subscription	13,90,000	By Rent	1,20,000

To Entrance Fees	2,00,000	By Printing & Stationery	30,000
To Contribution for Annual Dinner	1,60,000	By Travelling Expenses	60,000
To Profit on Annual Sports	20,000	By Annual Dinner Expenses	1,40,000
		By Secretary's Honorarium	1,20,000
		By General Expenses	60,000
		By Interest and Bank Charges	18,000
		By Outstanding Audit Fees	15,000
		By Books and Periodicals	30,000
		By Sports Equipment	35,000
		By Balance c/d	6,97,000
	18,15,000		**18,15,000**

Balance Sheet as on 31st March 2015

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	11,80,000		Freehold land		10,00,000
Add: Excess of Income over Expenditure	5,77,000	17,57,000	Sports equivalent	2,95,000	
Bank Loan		1,00,000	Less: Depreciation	25,000	2,70,000
Outstanding Salaries		30,000	Subscription in Arrear		80,000
Outstanding audit fees		20,000	Cash at Bank		6,97,000
Subscription in advance		1,40,000			
		20,47,000			20,47,000

Working Notes:

1. Opening Balance of Capital Fund

Balance Sheet as on 31st March, 2014

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund (Balancing Figure)	11,80,000	Freehold land	10,00,000
Bank Loan	1,00,000	Sports equivalent	2,60,000
Outstanding Salaries	40,000	Subscription in Arrear	1,20,000
Outstanding audit fees	15,000	Cash at Bank	45,000
Subscription in advance	90,000		
	14,25,000		14,25,000

2. Sports Equipment purchased during 2014-15

Sports Equipment Account

Dr. **Cr.**

		Amount (₹)			Amount (₹)
To	Balance b/d	2,60,000	By	Depreciation	25,000
To	Bank A/c - Purchase	35,000	By	Balance C/d	2,70,000
		2,95,000			2,95,000

3. Statement showing collection of subscription during 2014-15

	Amount (₹)	Amount (₹)
Subscription for 2014-15		13,00,000
Add: Subscription outstanding on 31.03.2014	1,20,000	
Add: Subscription received in advance on 31.03.2015	1,40,000	2,60,000
		15,60,000
Less: Subscription outstanding on 31.03.2015	80,000	
Less: Subscription received in advance on 31.03.2014	90,000	1,70,000
		13,90,000

Study Note 5: Preparation of Financial Statements from Incomplete Records

13. Laxman does not maintain proper books of account. However, he maintains a record of his bank transactions and is also to give the following information from which you are requested to prepare his final accounts for the year 2016:

Particulars	01.01.2016 (₹)	31.12.2016 (₹)
Debtors	**1,02,500**	**?**
Creditors	**?**	**46,000**
Stock	**50,000**	**62,500**
Bank Balance	**?**	**52,000**
Fixed Assets	**7,500**	**9,000**

Details of his bank transactions were as follows:

Particulars	₹
Received from Debtors	**3,40,000**
Additional Capital Brought in	**5,000**
Sale of Fixed Assets (Book value ₹ 2,500)	**1,750**
Paid to Creditors	**2,80,000**
Expenses Paid	**50,250**
Personal Drawings	**24,000**
Purchase of Fixed Assets	**5,000**

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000.

Answer:

Laxman

Trading and Profit and Loss Account for the year ended 31st December, 2016

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	50,000	By Sales A/c (Note 6)	3,25,000
To Purchases (Note 7)	2,72,500	By Closing Stock	62,500
To Gross Profit (c/d)	65,000		
	3,87,500		3,87,500
To Expenses	49,250	By Gross Profit b/d	65,000
To Depreciation on Fixed Assets	1,000		
To Loss on Sale of Fixed Assets	750		

To Net Profit c/d	14,000		
	65,000		65,000

Balance Sheet of Lucky as at 31st December, 2016

Particulars	₹	Particulars	₹
Capital Account:		Fixed Assets	9,000
Opening Balance (Note 5)	1,71,000	Stock	62,500
Add: Capital Introduced	5,000	Debtors (Note 3)	87,500
Add: Net Profit	14,000	Bank	52,000
	1,89,000		
Less: Drawings	25,000		
	1,65,000		
Creditors	46,000		
	2,11,000		2,11,000

Working Notes:

(1) Bank Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d (Balancing figure)	64,500	By Creditors A/c	2,80,000
To Debtors A/c	3,40,000	By Expenses A/c	49,250
To Capital A/c	5,000	By Drawings A/c	25,000
To Fixed Assets A/c (Sale)	1,750	By Fixed Assets A/c (Purchase)	5,000
		By Balance c/d	52,000
	4,11,250		4,11,250

(2) Fixed Assets Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	7,500	By Bank A/c	1,750
To Bank A/c	5,000	By Loss on Sale of Fixed Assets A/c	750
		By Depreciation A/c (Balancing figure)	1,000
		By Balance c/d	9,000
	12,500		12,500

(3) Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	1,02,500	By Bank A/c	3,40,000
To Sales A/c (Note 6)	3,25,000	By Balance c/d (Balancing figure)	87,500
	4,27,500		4,27,500

(4) Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank A/c	2,80,000	By Balance b/d (Balancing figure)	53,500
To Balance c/d	46,000	By Purchases A/c (Note 7)	2,72,500
	3,26,000		3,26,000

(5) Balance Sheet as at 31st January, 2016

Dr. **Cr.**

Liabilities	₹	Assets	₹
Capital (Balancing figure)	1,71,000	Fixed Assets	7,500
Creditors (Note 4)	53,500	Debtors	1,02,500
		Stock	50,000
		Bank (Note 1)	64,500
	2,24,500		2,24,500

(6) Calculation of Sales

Particulars	Amount (₹)
Cost of goods sold	2,60,000
Profit 25%	65,000
Sales	3,25,000

(7) Purchases:

Opening Stock + Purchases – Closing Stock = Cost of Goods Sold
Or, Purchases = Cost of Goods Sold – Opening Stock + Closing Stock
Or, Purchases = ₹2,60,000 - ₹50,000 + ₹62,500 = ₹2,72,500

14. The details of Assets and Liabilities of Mr. 'A' as on 31-3-2015 and 31-3-2016 are as follows:

	31-3-2015	31-3-2016
	₹	₹
Assets:		
Furniture	**50,000**	
Building	**1,00,000**	
Stock	**1,00,000**	**2,50,000**
Sundry Debtors	**60,000**	**1,10,000**
Cash in hand	**11,200**	**13,200**
Cash at Bank	**60,000**	**75,000**
Liabilities:		
Loans	**90,000**	**70,000**
Sundry Creditors	**50,000**	**80,000**

Mr. 'A' decided to provide depreciation on building by 2.5% and furniture by 10% for the period ended on 31-3-2016. Mr. 'A' purchased jewellery for ₹24,000 for his daughter in December 2015. He sold his car on 30-3-2013 and the amount of ₹40,000 is retained in the business. You are required to :

(i) Prepare statement of affairs as on 31-3-2015 & 31-3-2016.

(ii) Calculate the profit received by 'A' during the year ended 31-3-2016.

Answer:

1. Statement of Affairs (₹)

Capital & Liabilities	31.3.15	31.3.16	Assets	31.3.15	31.3.16
Capital (Bal. Fig.)	2,41,200	4,40,700	**Fixed assets:**		
Non-current liabilities			Furniture	50,000	45,000
loan"	90,000	70,000	Building	1,00,000	97,500
Current liabilities			**Current Assets:**		
creditors	50,000	80,000	Stock	1,00,000	2,50,000
			Debtors	60,000	1,10,000
			Cash	11,200	13,200
			Bank	60,000	75,000
Total	**3,81,200**	**5,90,700**	**Total**	**3,81,200**	**5,90,700**

Computation of Profit:

Capital Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Drawing (Jewellery)	24,000	By Balance b/d	2,41,200
To Balance C/d	4,40,700	By Additional Capital (Sale of Car.)	40,000
		By Profits for the year (Bal. Fig.)	1,83,500
	4,64,700		4,64,700

Study Note 6: Partnership

15. P, Q and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet as on 31.3.2016 is as under :

Liabilities	Amount ₹	Assets	Amount ₹
Capital – P	**60,000**	**Machinery**	**80,000**
Capital - Q	**50,000**	**Furniture**	**15,000**
Capital – R	**40,000**	**Motor Car**	**30,000**
Sundry Creditors	**72,000**	**Stock**	**50,000**
Bank Loan	**30,000**	**Sundry Debtors**	**60,000**
Other Liabilities	**20,000**	**Cash at Bank**	**37,000**
	2,72,000		**2,72,000**

P retired on 1.9.2016 and the partnership deed provided inter alia that in the event of admission, retirement or death of a partner, the assets and liabilities are to be revalued and that goodwill of the firm is to be computed on the basis of 2 years purchase of the correct profit of the last 4 years.
During the period he drew ₹30,000, interest on drawings @ 6% p.a.

It is discovered that the accounts required adjustments owing to certain mistakes in earlier years. On 1.10.2013 repairs to machinery for ₹ 6,000 had been wrongly debited to the Machinery Account, and on 1.4.2014 a piece of furniture, whose book value was ₹2,000 was disposed of for ₹800 but the proceeds were wrongly credited to Sales Account. The partners had been charging depreciation on all fixed assets at 10% p.a. on the reducing balance system on a time basis. Profits for the last four years without adjusting the above mentioned mistakes were as follows:

2012-13 ₹20,000; 2013-14 ₹24,000; 2014-15 ₹32,000; 2015-16 ₹36,000.

Revaluation on the date of retirement was:

Machinery- ₹90,000; Furniture- ₹10,000; Motor car - ₹22,000.

Partner will also be given proportionate share of profits based on the last year's profit. Determine the amount to be paid to the retiring partner.

Answer:

Statement showing computation of the amount to be paid to the retiring partner:

Particulars	Amount(₹)
Capital	60,000
Share of Loss on revaluation	(808)
Proportionate share of goodwill [₹52,880 × $\frac{3}{6}$]	26,440
Proportionate share of last year's profit - [₹36,693 × $\frac{3}{6} \times \frac{5}{12}$]	7,644
Drawings	(30,000)
Interest on Drawings[₹30,000 × $\frac{6}{100} \times \frac{5}{12} \times \frac{1}{2}$]	(375)
Amount to be paid to the retiring partner	**62,901**

Workings:

A.

Dr. **Revaluation Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To, Motor Car A/c	8,000		By, Machinery A/c	14,617
	To, Furniture A/c	5,000			
	To, Partner's Capital A/c (P-₹ 808; Q-₹ 539; R-₹ 270)	1,617			
		14,617			**14,617**

B. Ascertainment of Adjusted Profits

	2012-13 ₹	2013-14 ₹	2014-15 ₹	2015-16 ₹
Profits without adjustment	20,000	24,000	32,000	36,000
Less : Repairs previously capitalised		(–) 6,000		
Add : Depreciation wrongly charged on the above		(+) 300	(+) 570	(+) 513
Less : Sale of Furniture wrongly credited to Sales			(–) 800	
Less : Loss on sale of Furniture not recorded (₹ 2,000 – 800)			(–) 1,200	
Add : Depreciation on Furniture wrongly provided			(+) 200	(+) 180
Adjusted Profits	20,000	18,300	30,770	36,693

C. Ascertainment of the Value of Goodwill and its Adjustment

Aggregate adjusted profits for 4 years: ₹ 1,05,763; Average Profits — ₹1,05,763 / 4 = ₹ 26,440.
Goodwill at 2 years' purchase of average profit = ₹ 52,880 (₹ 26,440 × 2).

16. L and H are partners of the firm LH & Co., from 1.4.2013. initially both of them contributed ₹2,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.03.2017 were finalized, the partners decided to share profits and losses equally with effect from 01.04.2013.
It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	2014 ₹	2015 ₹	2016 ₹	2017 ₹
Profit as per accounts prepared and finalized	**2,80,000**	**5,20,000**	**6,40,000**	**7,20,000**
Expenses not provided for (as at 31st March)	**60,000**	**40,000**	**72,000**	**48,000**
Incomes not taken into account (as at 31st March)	**36,000**	**30,000**	**24,000**	**42,000**

The partners decided to admit C as a partner with effect from 01.04.2017. It was decided that C would be allotted 20% share in the form and he must bring 20% of the combined capital of L and H.
Following is the Balance Sheet of the firm as on 31.03.2017 before admission of C and before adjustment of revised profits between L and H.

Balance Sheet of LH & Co. as at 31.03.2017

Liabilities	₹	Assets	₹
Capital Accounts:		**Plants and machinery**	**1,20,000**
L	**4,23,000**	**Cash in hand**	**20,000**
H	**3,03,000**	**Cash at bank**	**10,000**
Sundry Creditors	**4,54,000**	**Stock in trade**	**6,20,000**
		Sundry debtors	**4,10,000**
	11,80,000		**11,80,000**

You are required to prepare:

(i) **Profit and Loss Adjustment Account;**

(ii) **Capital Account of the partners; and**

(iii) **Balance Sheet of the firm after the admission of C.**

Answer:

Profit and Loss Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Expenses not provided (year 2014-2017)	2,20,000	By, Income not considered (for years 2014-2017)	1,32,000
		By, Partners' Capital Account (Loss) L H	 44,000 44,000
	2,20,000		**2,20,000**

Note: It is assumed that expenses and incomes not taken into account in earlier years were fully ignored.

Partners' Capital Account

Dr. **Cr.**

Particulars	L	H	C	Particulars	L	H	C
	₹	₹	₹		₹	₹	₹
To P& L Adjustment A/c	44,000	44,000	---	By, Balance b/d	4,23,000	3,03,000	---
To H A/c	1,20,000	---	---	By L A/c	---	1,20,000	---
To Balance c/d	2,59,000	3,79,000	1,27,600	By Cash A/c	---	---	1,27,600
	4,23,000	4,23,000	1,27,600		4,23,000	4,23,000	1,27,600

Balance Sheet of LH & Co.
As on 01.04.2017
(After admission of C)

Liabilities	₹	Assets	₹
Capital Account : L H C Sundry Creditors Outstanding Expenses	 2,59,000 3,79,000 1,27,600 4,54,000 2,20,000	Plant and Machinery Sundry Debtors Stock in Trade Accrued Income Cash in Hand (20,000+1,27,600) Cash at Bank	1,20,000 4,10,000 6,20,000 1,32,000 1,47,600 10,000
	14,39,600		**14,39,600**

Working Notes:

1. Calculation of Profit and Loss distributed among partners

Profit for the year ended	31.03.2014	₹2,80,000
	31.03.2015	₹5,20,000
	31.03.2016	₹6,40,000
	31.03.2017	₹7,20,000
Total profit		**₹21,60,000**

Particulars	L ₹	H ₹	Total ₹
Profit shared in old ratio i.e. 5:4	12,00,000	9,60,000	21,60,000
Profit to be shared as per new ratio i.e. 1:1	10,80,000	10,80,000	21,60,000
Excess / (Deficit) Share	1,20,000	(1,20,000)	

L to be debited by ₹1,20,000 and H to be credited by ₹1,20,000.

2. Capital brought in by C

Capital to be brought in by C must be equal to 20% of the combined capital of L and H

Capital of L	(4,23,000 – 44,000 – 1,20,000)	₹2,59,000
Capital of H	(3,03,000 – 44,000 + 1,20,000)	₹3,79,000
Combined Capital		₹6,38,000

20% of the combined capital brought in by C (20% of ₹6,38,000) =₹1,27,600.

17. Good, Better and Best are in partnership sharing profits and losses in the ratio 3:2:4. Their capital account balances as on 31st March,2015 are as follows:

Good	**₹1,70,000 (Cr.)**
Better	**₹1,10,000 (Cr.)**
Best	**₹1,22,000 (Cr.)**

Following further information provided:

1. **₹22,240 is to be transferred to General Reserve.**
2. **Good, Better and Best are paid monthly salary in cash amounting to ₹2,400, ₹1,600 and ₹1,800 respectively.**
3. **Partners are allowed interest on their closing capital balance @ 6% p.a. and are charged interest on drawings @ 8% p.a.**
4. **Good and Best are entitled to commission @ 8% and 10% respectively of the net profit before making any appropriation.**
5. **Better is entitled to commission @15% of net profit before charging interest on drawings but after making all other appropriations.**
6. **During the year Good withdraw ₹2,000 at the beginning of every month, Better ₹1,750 at the end of every month and Best ₹1,250 at the middle of every month.**
7. **Firm's Accountant is entitled to a salary of ₹2,000 per month and a commission of 12% of net profit after charging such commission.**

The Net Profit of the firm for the year ended on 31st March, 2015 before providing for any of the above adjustments was ₹2,76,000.

You are required to prepare Profit and Loss Appropriation Account for the year ended on 31st March,2015.

Answer:

Profit and Loss Appropriation Account
For the year ended on 31st March,2015

Particulars		₹	Particulars		₹
To General Reserve		22,240	By Net Profit (As per W.N. 1)		2,25,000
To Salaries to partners			By Interest on drawings (Refer W.N. 3)		
Good	28,800		Good	1,040	
Better	19,200		Better	770	
Best	21,600	69,600	Best	600	2,410
To Interest on Capital					
Good	10,200				
Better	6,600				
Best	7,320	24,120			
To Commission to partners					
Good	18,000				
Better (Refer W.N. 4)	10,281				
Best	22,500	50,781			
To Partners' Capital A/cs (profit)					
Good	20,223				
Better	13,482				
Best	26,965	60,669			
		2,27,410			**2,27,410**

Working Notes:

1. Profit and Loss Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Salary (Firm's Accounting)	24,000	By Profit	2,76,000
To Commission (Firm's Accountant) (W.N.2)	27,000		
To Net Profit transferred to P&L Appropriation A/c	2,25,000		
	2,76,000		**2,76,000**

2. Commission of Firm's Accountant

[Profit after salary of Firm's Accountant/112%]×12%
= [(2,76,000 - 24,000)/112%] × 12% = ₹27,000

3. Interest on Drawings

Particulars	₹
Good (at the beginning of every month) (₹2,000 × 6.5 × 8%)	1,040

Better (at the end of every month) (₹1,750 × 5.5 × 8%)	770
Best (at the middle of every month) (₹1,250 × 6 × 8%)	600
	2,410

4. Commission of Better

Commission of Better = [Net profit for appropriation (excluding interest on drawings) – General Reserve – Interest on Capital – Salaries to partners – Commission to Good and Best] × 15%

Commission to Better = ₹[2,25,000 – 22,240 – 24,120 – 69,600 – 18,000 – 22,500] × 15%
= ₹68,540 × 15%
= ₹10,281.

18. Q, R, S, and T are sharing profits and losses in the ration 5:5:4:2. Frauds committed by S during the year were found out and it was decided to dissolve the partnership on 31st March 2016 when their Balance Sheet was as under:

Liabilities	**₹**	**Assets**	**₹**
Capital		**Building**	**1,20,000**
Q	**90,000**	**Stock**	**85,500**
R	**90,000**	**Investments**	**29,000**
S	**---**	**Debtors**	**42,000**
T	**35,000**	**Cash**	**14,500**
General reserve	**24,000**	**S**	**15,000**
Trade Creditors	**47,000**		
Bills Payables	**20,000**		
	3,06,000		**3,06,000**

Following information is given to you:

(i) **A cheque for ₹4,300 received from debtors was not recorded in the books and was misappropriated by S.**

(ii) **Investments costing ₹5,400 were sold by S at ₹7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.**

(iii) **A creditors agreed to take over investments of the book value of ₹5,400 at 8,400. The rest of the creditors were paid off at a discount of 2%.**

(iv) **The other asets realized as follows:**

Building	**105% of book value**
Stock	**₹78,000**
Investments	**The rest of investments were sold at a profit of ₹4,800**
Debtors	**The rest of the debtors were realized at a discount of 12%**

(v) **The bills payable were settled at a discount of ₹400.**

(vi) **The expenses of dissolution amounted to ₹4,900.**

(vii) **It was found out that realization from S's private assets would only be ₹4,000.**

Prepare the necessary Ledger Accounts.

Answer:

Realisation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Building	1,20,000	By Trade creditors	47,000
To Stock	85,500	By Bills payable	20,000
To Investment	29,000	By Cash	
To Debtors	42,000	Building 1,26,000	
To Cash –creditors paid	37828	Stock 78,000	
To Cash – expenses	4,900	Investments 23,000	
To Cash – bills payable (20,000 – 400)	19,600	Debtors 33,176	2,60,176
To Partners' Capital A/cs		By Debtors – unrecorded	4,300
Q 171		By Investments – unrecorded	7,900
R 171			
S 137			
T 69	548		
	3,39,376		**3,39,376**

Cash Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	14,500	By Realisation – creditors paid	37,828
To Realisation Assets realized Building 1,26,000 Stock 78,000 Investments 23,000 Debtors 33,176	2,60,176	By Realisation – bills payable	19,600
To S's Capital A/c	4,000	By Realisation – expenses	4,900
		By Capital Account Q 90,528 R 90,528 T 35,292	2,16,348
	2,78,676		**2,78,676**

Partners' Capital Accounts

Dr. Cr.

Particulars	Q	R	S	T	Particulars	Q	R	S	T
To Balance b/d			15,000		By Balance b/d	90,000	90,000	-	35,000
To Debtors – misappropriation			4,300		By General Reserve	7,500	7,500	6,000	3,000
To Investment – misappropriation			7,900		By Realization profit	171	171	137	69
To S's capital A/c (W.N. 4)	7,143	7,143		2,777	By Cash A/c			4,000	
To Cash A/c	90,528	90,528		35,292	By Q's Capital A/c			7,143	
					By R's Capital A/c			7,143	
					By, t's Capital A/c			2,777	
	97,671	**97,671**	**27,200**	**38,069**		**97,671**	**97,671**	**27,200**	**38,069**

Working Notes:

1. Amount paid to creditors

Book Value	₹47,000
Less: creditors taking over investments	₹(8,400)
	₹38,600
Less: Discount @ 2%	₹(772)
	₹37,828

2. Amount received from sale of investments

Book Value	₹29,000
Less: misappropriation by S	(5,400)
	₹23,600
Less: Taken over by a creditor	(5,400)
	₹18,200
Add: Profit on sale of investments	4,800
	₹23,000

3. Amount received from debtors

Book Value	₹42,000
Less: Unrecorded receipt	(4,300)
	₹37,700
Less: Discount @ 12%	(4,524)
	₹33,176

4. Deficiency of S

Balance of capital as on 31st March 2016	₹15,000
Debtors – misappropriation	4,300
Investment – misappropriation	₹7,900
	₹27,200
Less: Realisation Profit	(137)
General reserve	₹(6,000)
Contribution from private assets	₹(4,000)
Net deficiency of capital	**₹17,063**

This deficiency of ₹17,063 in S's capital account will be shared by another partners Q, and T in their capital ratio of 90:90:35 by
Accordingly,

Q's share of deficiency = ₹[17,063 × (90/215)] = ₹7,143
R's share of deficiency = ₹[17,063 × (90/215)] = ₹7,143
T's share of deficiency = ₹[17,063 × (35/215)] = ₹2,777

19. X, Y and Z are in partnership sharing Profits and Losses in the ratio 2: 2: 1. Partnership deed provides that all the partners are entitled to interest @ 9% per annum on fixed capital of ₹ 10,00,000 contributed in profit sharing ratio. Z is entitled for 10% commission of net profit after such commission, for special performance.

On 01.09.2014, it was decided to retire X on health grounds and admit A, the son of X as partner with 1/5th share in Profit and Loss: other decisions taken on this date were as follows:

(i) Firm's fixed capital to be raised to ₹15,00,000 and partners to maintain fixed capital in profit sharing ratio and, interest on capital shall be paid @ 10% per annum from 01/09/2014.
(ii) No commission to be paid to Z from 01.09.2014.
(iii) Goodwill is assessed at ₹3,00,000.
(iv) X was paid ₹2,50,000 in cash on retirement.
(v) Balance claim payable to X was to be credited to A's fixed capital account and current account.
(vi) Profit for the accounting year 2014-15 before interest on capital, Z's commission was ₹ 9,00,000.
You are required to prepare:
(i) Profit and Loss Appropriation A/c of the firm for the year ended 31st March, 2015.
(ii) Partners Current A/cs.

Answer:

Profit & Loss Appropriation Account
for the year ending 31st March, 2015

Dr. **Cr.**

Particulars	For the period 1.04.14 to 31.08.14	For the period 01.09.14 to 31.03.15		For the period 01.04.14 to 31.08.14	For the period 1.09.14 to 31.03.15
	₹	₹		₹	₹
To Interest on Capital	37,500	87,500	By Net Profit	3,75,000	5,25,000
To Z's Commission	30,682		(Before interest & Commission)		
To Tran. to Current A/c					
X	1,22,727	---			
Y	1,22,727	2,33,333			
Z	61,364	1,16,667			
A	---	87,500			
	3,75,000	5,25,000		3,75,000	5,25,000

Partners' Current Account

Dr. **Cr.**

Particulars	**X**	**Y**	**Z**	**A**	**Particulars**	**X**	**Y**	**Z**	**A**
	₹	₹	₹	₹		₹	₹	₹	₹
From 1.4.14 to 31.8.14					By X's Capital (transfer)	4,00,000	---	---	---
To X's Capital	---	80,000	40,000	---	By Interest on Capital	15,000	15,000	7,500	---
To Bank	2,50,000	---	---	---	By Commission	---	---	30,682	---
To A's Capital	3,00,000	---	---	---	By Y's Capital	80,000	---	---	---
To A's Current	1,07,727	---	---	---	By Z's Capital	40,000	---	---	---
To Balance c/d	---	57,727	59,546	---	By P/L Appropriate A/c	1,22,727	1,22,727	61,364	---

From 1.9.14 to 31.3.15	6,57,727	1,37,727	99,546	---		6,57,727	1,37,727	99,546	---
To Y's Capital	---	---	---	40,000	By Balance b/d	---	57,727	59,546	---
To Z's Capital	---	---	---	20,000	By X's Current A/c	---	---	---	1,07,727
To Balance c/d	---	3,77,727	2,19,546	1,52,727	By A's Capital A/c	---	40,000	20,000	---
					By Interest on Capital	---	46,667	23,333	17,500
					By P/L Appropriate A/c	---	2,33,333	1,16,667	87,500
	---	3,77,727	2,19,546	2,12,727		---	3,77,727	2,19,546	2,12,727

Working Notes:

A. New Profit Sharing Ratio:

A's share = 1/5
Y's share = 1 – 1/5 = 4/5 × 2/3 = 8/15
Z's share = 4/5 × 1/3 = 4/15
Hence, New Sharing Ratio of Y, Z & A is 8 : 4 : 3

B. Adjustment of Goodwill:

At the time of retirement of X

Particulars	X (₹)	Y (₹)	Z (₹)
Goodwill as per old ratio 2 : 2 : 1	1,20,000	1,20,000	60,000
Less: Goodwill in Y & Z 2 : 1	---	2,00,000	1,00,000
Net	1,20,000 (Cr.)	80,000 (Dr.)	40,000 (Dr.)

At the time of admission of A	Y	Z	A
Goodwill in 2 : 1	2,00,000	1,00,000	---
Less: Goodwill in new ratio (8:4:3)	1,60,000	80,000	60,000
Net	40,000 (Cr.)	20,000 (Cr.)	60,000 (Dr.)

C. Interest on Partner's Capital

For 1.04.14 to 31.08.14 on fixed capital of X, Y & Y (2 : 2 : 1)

X – (10,00,000 × 2/5)× 9/100 × 5/12 = 4,00,000 × 9/100 × 5/12 = ₹ 15,000
Y – 4,00,000 × 9/100 × 5/12 = ₹ 15,000
Z – (10,00,000 × 1/5) × 9/100 × 5/12 = 2,00,000 × 9/100 × 5/12 = ₹ 7,500
Total Interest for first 5 months = ₹37,500

For 01.09.14 to 31.03.15 on Fixed Capital of Y = 15,00,000 × 3/15 = 3,00,000

Interest on Y's Capital = 8,00,000 × 10/100 × 7/12 = ₹ 46,667
Z's Capital = 4,00,000 × 10/100 × 7/12 = ₹ 23,333
A's Capital = 3,00,000 × 10/100 × 7/12 = ₹ 17,500
Total Interest = ₹ 87,500.

D. Z's Commission:

Particulars	₹
Profit for the period 1.04.14 to 31.08.14 = 9,00,000 × 5/12 =	3,75,000
Less: Interest on Capital	37,500
Profit before Commission	3,37,500

Z's Commission = 3,37,500 × 10/110 = ₹ 30,682

E. Distribution of Profit among Partners:

	X (₹)	Y (₹)	Z (₹)	A (₹)
Profit for first 5 months:				
3,75,000 – 37,500 – 30,682 = 3,06,818				
Among X, Y and Z in the ratio 2 : 2 : 1	1,22,727	1,22,727	61,364	---
Profit for last 7 months:				
5,25,000 – 87,500 = 4,37,500 among Y, Z & A in the ratio 8 : 4 : 3	---	2,33,333	1,16,667	87,500

Study Note 7 – Self Balancing Ledger

20. (a) From the following prepare General Ledger Adjustment 'account in Debtors Ledger and Debtors Ledger adjustment in General Ledger:

Balance as on 1.4.2016	
Debit balances in Debtors Ledger	**2,46,200**
Credit balances in Debtors Ledger	**3,400**
Transactions during the month of April, 2016	
Credit sales	**9,74,900**
Sales return	**21,700**
Cash received from debtors	**8,62,100**
Discount allowed to debtors	**39,200**
Bills receivable received from debtors	**51,200**
Bills receivable dishonoured	**3,500**
Bills payable given to suppliers	**27,000**
Credit balance in Debtors ledger on 30.4.2016	**5,200**

Answer:

In Debtors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	***Particulars***	₹	**Date**	**Particulars**	₹
1.04.16	To Balance b/d	3,400	1.04.16	By Balance, b/d	2,46,200
1.04.16 to 30.04.16	To Debtors Ledger Adjustment A/c:		1.04.16 to 30.04.16	By Debtors Ledger Adjustment A/c:	
	Sales Return'	21,700		Credit sales	9,74,900
	Cash Received	8,62,100		B/R dishonoured	3,500
	Discount allowed	39,200	30.04.16	By Balance c/d (given)	5,200
	B/R Received	51,200			
	To Balance c/d (balancing figure)	2,52,200			
		12,29,800			12,29,800

In General Ledger
Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.4.16	To Balance b/d	2,46,200	1.04.16	By Balance b/d	3,400
1.04.16 to 30.04.16	To General ledger adjustment A/c:		1.04.16 to 30.4.16	By General ledger adjust-ment A/c:	
	Sales	9,74,900		Sales return	21,700
	B/R dishonoured	3,500		Cash received	8,62,100
30.04.16	To Balance c/d	5,200	30.04.16	Discount allowed	39,200
				B/R received	51,200
				By Balance c/d (Bal. fig-)	2,52,200
		12,29,800			f2,29,800

(b) The balance on the Sales Ledger Control Account of Quick Ltd. on Sept. 30,2016 amounted to ₹ 9,700 which did not agree with the net total of the list of Sales Ledger Balance on that date.

Errors were found and the appropriation adjustments when made balanced the books. The errors were:

(i) A Bad Debt amounting to ₹850 had been written-off in the sales ledger, but had not been posted to the Bad Debts Account, or entered in Control Account.

(ii) An item of goods sold to Amar for ₹450 had been entered once in the Day Book but posted to his account twice.

(iii) No entry had been made in the Control Account in respect of the transfer of a debit of ₹260 from Kumar's Account in the Sales Ledger to his account in the purchase ledger.

(iv) The Discount Allowed column in the Cash Book had been under cast by ₹280.

You are required to give the journal entries, where necessary, to rectify these errors, indicating whether or not any control accounts is affected, and to make necessary adjustments in the Sales Ledger Control Account bringing down the balance.

Answer:

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2016 Sept. 30				
	Bad Debts A/c Dr. To, Sales Ledger Control A/c (Bad Debts written-off without recording in general ledger, now rectified.)		850	850
	Amar's Account should be credited by ₹450. It will not affect Control Account.		----	----
	Purchase Ledger Control A/c Dr. To, Sales Ledger Control A/c (Transfer of debit of Kumar's Account to Purchase Ledger , not recorded, now rectified.)		260	260

	Discount Allowed A/c Dr. To, Sales Ledger Control A/c (Discount allowed account undercast, now rectified.)		280	 280

In General Ledger
Sales Ledger Control Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2016 Sept. 30	 To Balance b/d	 9,700	2016 Sept. 30	By Bad Debts A/c By, Transferred (Purchases Ledger Control) A/c By, Discount Allowed A/c By, Balance c/d	850 260 280 8,310
		9,700			9,700
Oct. 1	To, Balance c/d	8,310			

Study Note 8: Royalties

21. A Ltd. obtain from S.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 ₹ 1,50,000 p.a. with a right of recoupment of short-working over the first four years of the lease. From the following details, show (i) Short-working Account, (ii) Royalty Account and (iii) S.S. Ltd. Account in the books of A. Ltd.

Year	**Sales (Tons) ₹**	**Closing Stock (Tons) ₹**
2012	**4,000**	**600**
2013	**7,000**	**800**
2014	**9,600**	**1,200**
2015	**11,200**	**1,000**
2016	**16,000**	**1,600**

Answer:

Workings:

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

Year	Sales	+	Closing Stock	-	Opening Stock	=	Net Production
2012	4,000	+	600	-	Nil	=	4,600
2013	7,000	+	800	-	600	=	7,200
2014	9,600	+	1200	-	800	=	10,000
2015	11,200	+	1000	-	1200	=	11,000
2016	16,000	+	1600	-	1000	=	16,600

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 ₹
2012	4,600	15	69,000	1,50,000	81,000	---	81,000	---	1,50,000
2013	7,200	15	1,08,000	1,50,000	42,000	---	1,23,000	---	1,50,000
2014	10,000	15	1,50,000	1,50,000	---	---	1,23,000	---	1,50,000
2015	11,000	15	1,65,000	1,50,000	---	15,000	---	1,08,000	1,50,000
2016	16,600	15	2,49,000	1,50,000	---	---	---	---	2,49,000

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

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012	To Bank A/c	1,50,000	2012	By Royalty A/c	69,000
				" Short-working A/c	81,000
		1,50,000			1,50,000
2013	To Bank A/c	1,50,000	2013	By Royalty A/c	1,08,000
				" Short-working A/c	42,000
		1,50,000			1,50,000
2014	To Bank A/c	1,50,000	2014	By Royalty A/c	1,50,000
		1,50,000			1,50,000
2015	To Bank A/c	1,50,000	2015	By Royalty A/c	1,65,000
	To Short-Working A/c	15,000			
		1,65,000			1,65,000
2016	To Bank A/c	2,49,000	2016	By Royalty A/c	2,49,000
		2,49,000			2,49,000

Dr. Short-Working Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012	To S. S. Ltd. A/c (Landlord)	81,000	2012	By Balance c/d	81,000
		81,000			81,000
2013	To Balance b/d	81,000	2013	By Balance c/d	1,23,000
	" S. S. Ltd. A/c (Landlord)	42,000			
		1,23,000			1,23,000

2014	To Balance b/d	1,23,000	2014	By Balance c/d	1,23,000
		1,23,000			1,23,000
2015	To Balance b/d	1,23,000	2015	By S. S Ltd. (Landlord) A/c " Profit and Loss A/c	15,000 1,08,000
		1,23,000			1,23,000

Dr. **Royalty Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012	To S. S. Ltd. A/c	69,000	2012	By Profit & Loss A/c	69,000
2013	To S. S. Ltd. A/c	1,08,000	2013	By Profit & Loss A/c	1,08,000
2014	To S. S. Ltd. A/c	1,50,000	2014	By Profit & Loss A/c	1,50,000
2015	To S. S. Ltd. A/c	1,65,000	2015	By Profit & Loss A/c	1,65,000
2016	To S. S. Ltd. A/c	2,49,000	2016	By Profit & Loss A/c	2,49,000

22. Vasu took a mine on lease from Vamsi at a royalty of ₹12,500 a year. Each year's excess of minimum rent over royalties is recoverable during the first three years of lease. In the event of strike and minimum rent not being reached, it was provided that the actual royalties earned for the year would fulfill all rental obligations.

The output for the first four years was as follows:

1st year – 2000 tons

2nd year – 2500 tons

3rd year – 4000 tons

4th year – strike (2400 tons)

Royalty is ₹4 per ton.

Prepare Royalties Account, Short workings account and Vamsi account in the books of Vasu.

Answer:

Royalties Table

Year	Output in tons	Royalties @ 4 per ton	Minimum Rent	Short Workings	Surplus	Short workings recouped	Short workings in recouped transfer to P/L A/c	Amount paid to landlord
1	2,000	8,000	12,500	4,500	-	-	-	12,500 (MR)
2	2,500	10,000	12,500	2,500	-	-	-	12,500 (MR)
3	4,000	16,000	12,500	-	3,500	3,500	3,500	12,500 (R-SWR)
4	2,400 (Strike)	9,600	9,600	-	-	-	-	9,600 (R)

In the Books of Vasu (Lessee)

Dr. Royalties Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1st year	To Vamsi A/c	8,000	1st year	By Production A/c	8,000
		8,000			**8,000**
2nd Year	To Vamsi A/c	10,000	2nd Year	By Production A/c	10,000
		10,000			**10,000**
3rd Year	To Vamsi A/c	16,000	3rd Year	By Production A/c	16,000
		16,000			**16,000**
4th Year	To Vamsi A/c	9,600	4th Year	By Production A/c	96,000
		9,600			**9,600**

Dr. Short Workings Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1st year	To Vamsi A/c (arrival)	4,500	1st year	By bal c/d	4,500
		4,500			**4,500**
2nd Year	To Bal b/d	4,500	2nd Year	By Bal c/d	7,000
	To Vamsi A/c (arrival)	2,500			
		7,000			**7,000**
3rd Year	To Bal b/d	7,000	3rd Year	By Vamsi (recovered)	3,500
				By P/L A/c (irrecauped)	3,500
		7,000			**7000**

Dr. Vamsi Account (Lessor) Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1st year	To Bank A/c	12,500	1st year	By Royalties A/c	8,000
				By Short working a/c	4,500
		12,500			**12,500**
2nd Year	To Bank A/c	12,500	2nd Year	By Royalties A/c	10,000
				By Short working a/c	2,500
		12,500			**12,500**
3rd Year	To Short workings recovered a/c	3,500	3rd Year	By Royalties A/c	16,000
	To Bank	12,500			
		16,000			**16,000**
4th year	To Bank A/c	9,600	4th year	By Royalties a/c	9,600
		9,600			**9,600**

Study Note 9: Hire-Purchase and Installment System

23. On 1st January 2016, Amir purchased from Salman a plant valued at ₹7,45,000; payment to be made by four semi-annual instalments of ₹2,10,000 each; interest being charged at 5% per half year. Amir paid the first instalment on 1st July 2016 but failed to pay the next. Salman repossessed the plant on 4 January 2017. On 5 January 2017, after negotiation, Amir was allowed to retain the plant of which the original cash price was ₹3,90,000 and he was to bear the loss on the remainder which was taken over by Salman on that date for ₹3,75,000. Salman waived the interest after 31 December 2016. Another agreement was signed for payment of the balance amount.

Required: Show ledger accounts the necessary records in the books of Amir charging depreciation at 10% per annum half yearly on the written down value.

Answer:

Machinery Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.2016	To, Salman's A/c	7,45,000	30.6.2016	By, Depreciation A/c	37,250
				By, Balance c/d	7,07,750
		7,45,000			7,45,000
1.7.2016	To, Balance b/d	7,07,750	31.12.2016	By, Depreciation A/c	35,388
				By, Balance c/d	6,72,362
		7,07,750			7,07,750
1.1.2017	To, Balance b/d	6,72,362	5.1.2017	By, Salman's A/c	3,75,000
	To, P&L A/c (Bal.Fig.) (3,75,000-3,20,387)	54,613		By, Balance c/d	3,51,975
		7,26,975			7,26,975

Salman's Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
30.6.2016	To, Balance c/d	7,82,250	1.1.2016	By Plant on Hire Purchase A/c	7,45,000
				By, Interest A/c [₹7,45,000 × 5%]	37,250
		7,82,250			7,82,250
1.7.2016	To, Bank A/c	2,10,000	1.7.2016	By Balance A/c	7,82,250
31.12.2016			31.12.2016	By, Interest A/c [₹5,72,250 × 5%]	28,613
		8,10,863			8,10,863
5.1.2017	To, Machinery A/c	3,75,000	1.1.2017	By, Balance b/d	6,00,863
	To, Balance c/d	2,25,863			
		6,00,863			6,00,863

Working Note:

Particulars	Repossessed (₹)	Retained (₹)
A. Cash Price of the Plant	3,55,000	3,90,000
B. Less: depreciation @ 10% for 6 months	(17,750)	(19,500)
C. Book Value	3,37,250	3,70,500
D. Less: Depreciation @ 10% for 6 months	(16,863)	(18,525)
E. Book Value	3,20,387	3,51,975

24. Mr. M purchased a machinery from Mr. N on hire purchase basis on the following terms:

(a) Cash Price — ₹10,00,000
(b) Cash Down Payment — 25%
(c) Four annual equal instalments of ₹2,50,000 each to be paid at the end of each year.

Compute the payment of interest pertaining to each accounting year assuming that the sales were made uniformly throughout the year.

Answer:

If the sales take place uniformly throughout the year, the average period over which the price will remain unpaid in the first year will be only six months.

Statement showing the interest pertaining to each year

A	B	C	D	E	F
Year ended on	**Amount used**	**Period of use (Months)**	**Product**	**Ratio**	**= ₹2,50,000 × E/300 Amount of Interest for each accounting year**
31.12.2013	10,00,000	6	60,00,000	60	50,000
31.12.2014	10,00,000	6	60,00,000		
	7,50,000	6	45,00,000	105	87,500
31.12.2015	7,50,000	6	45,00,000		
	5,00,000	6	30,00,000	75	62,500
31.12.2016	5,00,000	6	30,00,000		
	2,50,000	6	15,00,000	45	37,500
31.12.2017	2,50,000	6	15,00,000	15	12,500
			Total	**300**	**2,50,000**

Study Note 10: Branch and Departmental Accounts

25. (a) Give the journal entries in the books of Head Office to rectify or adjust the following:

(i) Goods sent to Branch ₹12,000 stolen during transit. Branch manager refused to accept any liability.
(ii) Branch paid ₹15,000 as salary to the officer of Head Office on his visit to the branch.
(iii) On 28th March, 2016, the Head Office dispatched goods to the Branch invoiced at ₹25,000 which is not received by Branch till 31st March,2016.

(iv) A remittance of ₹10,000 sent by the branch on 30th March,2016, received by the Head Office on 1st April,2016.
(v) Head Office made payment of ₹25,000 for purchase of goods by Branch and wrongly debited its own purchase account.

Answer:

Particulars			Dr. Amount ₹	Cr. Amount ₹
(i)	Loss of goods due to theft during transit A/c To, Purchases A/c (Being goods lost on account of theft during transit)	Dr.	12,000	12,000
(ii)	Salaries A/c To, Branch A/c (Being salary paid by the branch for H.O employee)	Dr.	15,000	15,000
(iii)	No entry in the books of Head Office for goods sent to branch not received by branch till 31st March,2016			
(iv)	Cash in Transit A/c To, Branch A/c (Being remittance by branch not received by 31st March, 2016)	Dr.	10,000	10,000
(v)	Branch A/c To, Purchases A/c (Being rectification of entry for payment for goods purchased by branch wrongly debited to purchase account)	Dr.	25,000	25,000

(b) Following is the information of the Odisha branch of Superb Ltd., New Delhi for the year ended 31st March,2016:

(1) Goods are invoiced to the branch at cost plus 20%
(2) The sale price is cost plus 50%
(3) Other information:

Stock as on 01.04.2015	**₹2,20,000**
Goods sent during the year	**₹11,00,000**
Sales during the year	**₹12,00,000**
Expenses incurred at the branch	**₹45,000**

Ascertain:
(i) The profit earned by the branch during the year
(ii) Branch stock reserve in respect on unrealized profit.

Answer:

Calculation of Profit earned by the branch
In the books of Odisha Branch
Trading Account

Dr. **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Opening Stock	2,20,000	By, Sales	12,00,000
To Goods received by Head Office	11,00,000	By Closing Stock (refer W.N)	3,60,000
To Expenses	45,000		
To Gross profit	1,95,000		
	15,60,000		15,60,000

(iii) Stock reserve in respect of unrealized profit
=₹3,60,000 × (20/120) =₹60,000

Working Note:

Cost Price	₹100
Invoice Price	₹120
Sale Price	₹150

Calculation of closing stock at invoice price

Opening stock at invoice price	2,20,000
Goods received during the year at invoice price	11,00,000
	13,20,000
Less: Cost of goods sold at invoice price	(9,60,000)
Closing Stock	3,60,000

Sales	= ₹12,00,000
Less: Profit	$12,00,000 \times \frac{1}{3} = 4,00,000$
Cost of Goods Sold	₹8,00,000

Cost of goods sold at invoice price = ₹8,00,000 × 120% = ₹9,60,000

Note: it is assumed that all figures given in the questions is at invoice price.

(c) A 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 Deficiences	450		
To general P/L A/c (Bal. fig)	17,620		
	42,270		42,270

26.(a) A firm has two departments- Cloth and Ready-Made clothes department. The cloths are made by the firm itself out of cloth supplied by the cloth department at its usual selling price. From the following figures, prepare departmental Profit and Loss Account for the year 2016:

	Cloth Department	**Ready-made clothes Department**
Opening Stock	**1,44,000**	**28,800**
Purchases	**10,80,000**	**14,400**
Sales	**12,00,000**	**3,60,000**
Transfer to Ready-made clothes department	**2,40,000**	**—**
Expenses –Manufacturing	**—**	**40,800**
Expenses- selling	**24,000**	**2,400**
Closing Stock	**1,80,000**	**36,000**

The stocks in the ready-made clothes department may be considered as consisting of 80% cloth and the rest as expenses. The cloth department made a gross profit of 25% in 2015. General expenses of the business as a whole came to ₹ 1,08,000.

Answer :

Dr. **Departmental Profit & Loss Account for the year 2016** Cr.

Particulars	Clothes ₹	Ready-made clothes ₹	Particulars	Clothes ₹	Ready-made clothes ₹
To Opening Stock	1,44,000	28,800	By Sales	12,00,000	3,60,000
To Purchases	10,80,000	14,400	By Ready-made department (transfer)	2,40,000	—
To Cloth Department (Transfer)	—	2,40,000			
			By Closing stock	1,80,000	36,000

To Manufacturing expenses	—	40,800			
To Gross Profit c/d	3,96,000	72,000			
	16,20,000	3,96,000		16,20,000	3,96,000
To General Expenses (ratio of sales 24:6)	86,400	21,600	By Gross Profit b/d	3,96,000	72,000
			By Stock	5,760	—
To Selling Expenses	24,000	2,400			
To Stock Reserve	7,920	—			
To Net Profit	2,83,440	48,000			
	4,01,760	72,000		4,01,760	72,000

Working Notes:

(i) Opening stock Reserve

Cost of cloth in ready-made department

80% of ₹ 28,800	₹ 23,040
Gross Profit @ 25%	₹ 5,760

(ii) Gross Profit Rate in cloth department in 2014

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 \quad \text{or,} \quad \frac{3,96,000}{14,40,000} \times 100 = 27.5\%$$

(iii) Stock Reserve on closing stock in 2012 : 27.5% of ₹ 36,000 × 80% = ₹ 7,920.

Alternatively, stock reserve may be charged to combined Profit and Loss Account.

(b) The proprietors of Dhoora Departmental store wish to ascertain approximately separate net profits of their two particular departments A and B for the year ended 31st March, 2017. It is not possible to take stock on that date. However, normal rates of Gross Profit (before charging direct expenses) for the department concerned were 40% and 30% on sales respectively. There are six departments in the stores. The following figures were extracted from the books for the year ending 31st March, 2017:

	Department A (₹)	**Department B (₹)**
Stock (April 1, 2014)	**3,00,000**	**2,80,000**
Sales	**14,00,000**	**12,00,000**
Purchases	**9,00,000**	**7,20,000**
Direct Expenses	**1,83,000**	**2,84,000**

The total indirect expenses of all the six departments for the period were ₹3,60,000. These expenses (except one-third which is to be divided equally) are to be charged in proportion to departmental sales. The total sales of the other departments were ₹14,00,000. The Manager of each department is also entitled to a commission of 2 % on the turnover of his department. Prepare Departmental Trading and Profit& Loss Account in columnar form for the year ending 31st March,2017 making a stock reserve of 5% for each department on the estimated value of stock on 31st March,2017.

Answer:

Departmental Trading and Profit & Loss Account
For the year ending 31st March, 2017

(₹ in '000)

Particulars	Dept. A (₹)	Dept. B (₹)	Total (₹)	Particulars	Dept. A (₹)	Dept. B (₹)	Total (₹)
To Opening Stock	300	280	580	By Sales	1,400	1,200	2,600
To Purchases	900	720	1,620	By Closing Stock	360	160	520
To Direct Exp.	183	284	467	(Balancing Figure)			
To G.P. C/d	377	76	453				
	1,760	**1,360**	**3,120**		**1,760**	**1,360**	**3,120**
To Indirect Exp.				By G.P. b/d	377	76	453
-Equal Allocation:	20	20	40	By Net Loss	--	48	48
-Sales basis Allocation	84	72	156				
To Manager's commission @ 2% on Sales	28	24	52				
To Stock Reserve @ 5% on Closing Stock	18	8	26				
To Net Profit	227	--	227				
	377	**124**	**501**		**377**	**124**	**501**

Working Notes:

A. Gross profit before direct expenses:

	A (₹)	B (₹)
A – 40% of ₹14,00,000	5,60,000	---
B – 30% of ₹12,00,000	---	3,60,000
Less: Direct Expenses	1,83,000	2,84,000
Net Gross Profit	3,77,000	76,000

B. Allocation of Indirect Expenses:

Equal Allocation – 3,60,000 × 1/3 = 1,20,000 × 1/6 = ₹ 20,000 for each department.

Sales Basis – Sales Ratio for A, B and other 4 departments = 14,00,000 : 12,00,000 : 14,00,000 or 7 : 6 : 7.

Indirect expenses for this basis = 3,60,000 × 2/3 = ₹ 2,40,000.

Share of Dept. A = 2,40,000 × 7/20 = ₹ 84,000

Share of Dept. B = 2,40,000 × 6/20 = ₹ 72,000.

Study Note 11 – Computerised Accounting System

27. (a) Discuss the salient features of Computerised Acoounting System.

Answer:

Computer information system environment exists when one or more computer(s) of any type or size is (are) involved in the processing of any information, whether those computers are operated by the entity or by a third party.
A computerised accounting environment will therefore have the following salient features:

1. The processing of information will be by one or more computers.
2. The computer or computers may be operated by the entity or by a third party.
3. The processing of financial information by the computer is done with the help of one or more computer softwares.
4. 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.
5. The computer software used for the accounting system may be an acquired software or may be developed specifically for the business.
6. Acquired software may consist of a spread sheet package or may be prepackaged accounting software.

27. (b) List the significances of computerised accounting system.

Answer:

Significance of computerised accounting system
• The speed with which accounts can be maintained is several fold higher;
• Automatic Correct Balancing of Ledger Accounts;
• Automatic Tailied Trial balance unless some mistake is made while recording the opening balance;
• Automatic Income Statement;
• Automatic Balance Sheet.

Study Note 12 – Accounting Standards

Q.28 (a) Draft the Accounting Policies to be disclosed in the financial statement for Inventories.

Answer: Inventories are valued as under:

Poultry for livestock breeding	At cost
Raw Materials and packing materials	At cost or net realizable value, whichever is lower
Work-in-progress	At cost or net realizable value, whichever is lower
Finished Goods	At cost or net realizable value, whichever is lower
Stores and spares	At cost
By products	At estimated selling price

28. (b) MM Ltd. sold its building to NN Ltd. for ₹120 lakhs on 30.09.2015 and gave possession of the property to NN Ltd. However, documentation and legal formalities are pending. Due to this, the company has not recorded the sale and has shown the amount received as an advance. The book value of the building is ₹50 lakhs as on 31st March,2016. Do you agree with this treatment/ if do not agree, explain the reasons with reference to the the accounting standard.

Answer:

Principles of prudence, substance over form and materiality should be looked into, to ensure true and fair consideration in a transaction.

The economic reality and substance of the transaction is that the reights and beneficial interest in the property has been transferred although legal title has not been transferred. Hence, MM Ltd. should record the sale and recognize the profit of ₹70 lakhs in its financial statements for the year ended 31st March, 2016; value of building should be removed balance sheet. Therefore the treatment given by the company is not correct.

28. (c) In a production process, normal waste is 5% of input. 7500 MT of input were put in process resulting in a wastage of 450 MT. Cost per MT of input is ₹1,000. The entire quantity of waste is on stock at the year end. If waste has Nil realizable value. What is the cost per unit.

Answer:

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

In this case, normal waste is 375 MT and abnormal waste is 75MT. Cost per unit (₹1000 × 7500) ÷ 7125 = ₹ 1052.63.

The cast of 375 MT will be included in determining the cost of inventories (finished goods) at the year-end. The cost of abnormal waste amounting to ₹78,947.25 (75 MT × ₹1052.63) will be charges in the profit and loss statement.

Cost per unit = 7500 × ₹1000/7125 = ₹1052.63

29. (a) Can PT Ltd. a wire netting company, while valuing its finished stock at the yearend include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses?

Answer:

As per AS 2 "Valuation of Inventories", cost of inventories comprise of all cost of purchase, cost of conversion and other costs incurred in brining the inventories to their present location and condition.

Interest and other borrowing costs are usually considered as overheads that don't contribute to bringing the inventories to their present location and condition. Therefore, the proposal of PT Ltd. to include interest on bank over draft as a element of cost is not acceptable. Interest on bank overdraft will not form part of cost of production.

29. (b) Mukta Ltd. purchased a machinery costing ₹2,50,000 for its manufacturing operations and paid shipping costs of ₹40,000. Mukta Ltd. spent an additional amount of ₹20,000 for testing and preparing the machine for use. What should Mukta Ltd. record as the cost of the machinery?

Answer:

As per AS – 10, the cost of Property, Plant and Equipments 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).

29. (c) Om Ltd. uses horses to transport material from one place to another place on hilly area where construction activity is going on. It purchases horses worth ₹80,000 for transporting material on 01.04.2016. Useful life of horses was estimated 5 years, therefore company decided to write off depreciation on horses as per SLM over 5 years. Comment.

Answer

The treatment followed by the company is not correct as per AS – 10, this excluded biological assets from scope of AS – 10. Therefore, depreciation accounting is not applicable to Live Stock.

30. (a) A firm of contractors obtain a contract for construction of a bridge across river Hindan. The following details are available in the records kept for the year ended 31 st March, 2017.

Particulars	₹ in lakhs
Total Contract Price	2,000
Work Certified	1,400
Work Not Certified	400
Estimated Further Cost to Completion	700
Progress Payment: Received	1,000
To be Received	200

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS - 7.

Answer:

Amount to be disclosed as per Disclosure Requirements of AS - 7

	Particulars	₹ in Lakhs
A	**Additions** during the year Cost Incurred during the year (1,400 + 400) Revenue recognized during the year (2,000 x 1,400)/2,500	 1,800 1,120
	Total [A]	2,920
B	**Deductions** during the year Expenses recognized during the year (Work certified) Expected loss [(₹ 1,400 lakhs + ₹ 400 lakhs + ₹ 700 lakhs) ₹2,000 lakhs] - [₹ 1,400 lakhs - ₹ 1,120]	 1,400 220
	Total [B]	1,620
C	Balance [A - B] As per disclosure requirement of AS - 7	1,300
D	Progress Billings	1,200
E	Amount due from customers for contract work [D - E]	100
F	Progress payment received	1,000
G	Retentions [D – F]	200

30. (b) An amount of ₹9,90,000 was incurred on a contract work upto 31.03.2017. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹22,500. It is estimated that by spending an additional amount of ₹60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7.

Answer 30 (a):

As per AS – 7 when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to stage of completion of the contract activity at the reporting date.

Thus, estimated profit amounting ₹1,88,571 should be recognised as revenue in the Statement of Profit and Loss.

Particulars	₹
Expenditure incurred upto 31.03.2015	9,90,000
Estimated additional expenses (including provision for contingency)	60,000
A. Estimated Cost	10,50,000
B. Contract Price	12,50,000
C. Total estimated profit [(A-B)]	2,00,000

D. Percentage of Completion (9,90,000/10,50,000)×100	94.29%
Computation of estimate of the profit to be taken to Profit and loss Account: = Total estimated profit × (Expenses incurred till 31.03.2015/ Total estimated cost) = 2,00,000 × (9,90,000/10,50,000) = ₹1,88,571.	

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

Answer :

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

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

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

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

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

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

30. (d) On 25th September, 2015, PA Limited obtained advertisement rights to World Cup Hockey Tournament to be held in Nov/Dec, 2017 for ₹ 1,040 lakhs.

They furnish the following information:

1. **The company obtained the advertisements for 70% of available time for ₹ 1,400 lakhs by 30th September, 2017.**
2. **For the balance time they got bookings in October, 2017 for ₹480 lakhs.**
3. **All the advertisers paid the full amount at the time of booking the advertisements.**
4. **40% of the advertisements appeared before the public in Nov. 2017 and balance 60% appeared in the month of December, 2017.**

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2017 as per Accounting Standard-9.

Answer:

As per AS 9 in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Further, AS 9 states that revenue from advertising should be recognized when the service is completed. The service as regards advertisement is deemed to be completed when the related advertisement appears before the public.
In the given problem, 40% of the advertisement appeared before the public in November, and balance 60% in December.

Calculation of Total Profit

Particulars	₹
Advertisement for 70% of available time obtained 30th September,2017	1,400
Advertisement for 30% of available time obtained by October, 2017	480
Total	1,880
Less: Cost of advertisement rights	(1,040)
Profit	840

The profit amounting ₹ 840 lakhs should be apportioned in the ratio of 40 :60 for the months of November and December, 2017. Thus, the company should recognise ₹ 336 lakhs (i.e.₹840 lakhs x 40%) in November, 2017 and rest ₹504 lakhs (i.e. ₹ 840 lakhs x 60%) in December, 2017.