GROUP I

PAPER 5

WORK BOOK

FINANCIAL ACCOUNTING

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
www.icmai.in

SYLLABUS - 2016

WORK BOOK

FINANCIAL ACCOUNTING

INTERMEDIATE

GROUP – I

PAPER – 5

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

www.icmai.in

First Edition : March 2018

Directorate of Studies

The Institute of Cost Accountants of India

12, Sudder Street, Kolkata – 700 016

www.icmai.in

FINANCIAL ACCOUNTING

INTERMEDIATE

GROUP – I

PAPER – 5

INDEX

Chapter – 1

FUNDAMENTALS OF ACCOUNTING

FUNDAMENTALS OF ACCOUNTING-BASICS

1. **Choose the correct alternative:**

   1. **The art of recording transactions in a set of books is referred to as __________.**
      (a) Book Keeping
      (b) Accounting
      (c) Auditing
      (d) Writing

   2. **Which of the following is/ are objective(s) of accounting?**
      (a) To compare income against expenses, and know the net result thereof.
      (b) To assess the financial position of an entity.
      (c) To provide a record for compliance with statutes and applicable laws.
      (d) All of the above

   3. **Gross working capital is equal to:**
      (a) Total Capital
      (b) Total Assets
      (c) Total Current Assets
      (d) Current Assets – Current Liabilities

   4. **The financial statement that reflects the financial position of an entity on a particular date is referred to as the ___________.**
      (a) Cash Flow Statement
      (b) Income Statement
      (c) Balance Sheet
      (d) None of the above

   5. **The amount invested by owners into business is called __________.**
      (a) Asset
      (b) Liability
      (c) Capital
      (d) Cash flow

Answer:

1. (a)
2. (d)
3. (c)
4. (c)
5. (c)

2. Match the following:

	Column A		Column B
1.	**Cash discount**	**A**	**Obligation that may or may not materialise**
2.	**Credit transactions**	**B**	**Excess of expenditure over income**
3.	**Liability**	**C**	**Transactions without immediate cash settlement**
4.	**Contingent liability**	**D**	**Amount owed by a business to external parties**
5.	**Loss**	**E**	**Allowance by seller to buyer for prompt payment**

Answer:

	Column A		Column B
1.	Cash discount	E	Allowance by seller to buyer for prompt payment
2.	Credit transactions	C	Transactions without immediate cash settlement
3.	Liability	D	Amount owed by a business to external parties
4.	Contingent liability	A	Obligation that may or may not materialise
5.	Loss	B	Excess of expenditure over income

3. Fill in the blanks:

1. _________ is the branch of accounting that deals with the process of ascertaining costs.
2. The main objective of accounting is to provide _________ information to the stakeholders.
3. When complete sequence of accounting procedure is done which happens frequently and repeated in same direction during an accounting period, it is called an ____________.
4. ______ represents the excess of total assets over total liabilities of a business.
5. A liability that is expected to be settled in an entity's normal operating cycle is called _________ liability.

Answer:

1. Cost Accounting
2. financial
3. Accounting Cycle
4. Net worth
5. Current

4. State whether the following statements are *True* or *False*:

1. **The transactions of a business are recorded in the journal chronologically and in a classified manner.**
2. **Book keeping being a routine and repetitive work, in today's world, it is taken over by the computer systems.**
3. **Information about financial position of a business is primarily provided in the Income Statement..**
4. **Trade discount is allowed by seller to buyer for making prompt payment.**
5. **Management accounting is primarily based on the data available from Financial Accounting.**

Answer:

1. False
2. True
3. False
4. False
5. True

ACCOUNTING PRINCIPLES, CONCEPTS & CONVENTIONS

5. Multiple choice questions:

Choose the correct alternative:

1. **Which of the following is a basic assumption?**
   - **(a) Business entity concept**
   - **(b) Matching concept**
   - **(c) Historical cost concept**
   - **(d) All of the above**
2. **Which of the following is not a Basic Principle?**
   - **(a) Dual aspect concept**
   - **(b) Revenue Realisation concept**
   - **(c) Accounting period concept**
   - **(d) Historical cost concept**
3. **'A business transaction be recorded only if it can be measured in terms of money' is the principle of which concept?**
   - **(a) Dual aspect concept**
   - **(b) Revenue Realisation concept**
   - **(c) Accrual concept**

(d) Money measurement concept

4. The modern approach of deciding debit and credit is also referred to as _______ approach.
   (a) Canadian
   (b) American
   (c) Indian
   (d) British

5. The accounts related to assets or properties or possessions are called _________.
   (a) Personal accounts
   (b) Representative Personal accounts
   (c) Nominal accounts
   (d) Real accounts

Answer:

1. (a)
2. (c)
3. (d)
4. (b)
5. (d)

6. Match the following:

	Column A		Column B
1.	**Cash book**	**A**	**Credit note issued to debtors**
2.	**Sales book**	**B**	**Cash memos**
3.	**Sales return book**	**C**	**Debit note issued to creditors**
4.	**Purchase book**	**D**	**Inward invoice**
5.	**Purchase return book**	**E**	**Outward invoice**

Answer:

	Column A		Column B
1.	Cash book	B	Cash memos
2.	Sales book	E	Outward invoice
3.	Sales return book	A	Credit note issued to debtors
4.	Purchase book	D	Inward invoice
5.	Purchase return book	C	Debit note issued to creditors

7. Fill in the blanks:

1. _________ concept treats a business as distinct from the individuals who own or manage it.
2. The left hand side of an account is called the _________-side while the right hand side of an account is called the ________-side.

3. **The widely accepted set of rules, conventions, standards, and procedures for reporting financial information are called ________.**

4. **______ basis of accounting is a method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts of the period in which actual receipts and payments are made.**

5. **_________ basis of accounting is recognised under the Companies statute.**

Answer:

1. Business/Separate entity
2. Debit, Credit
3. GAAP
4. Cash
5. Accrual

8. State whether the following statements are *true* or *false*:

1. **The Periodicity concept assumes that 'a business will run for an indefinite period'.**
2. **GAAP stands for Globally Accepted Accounting Practices.**
3. **Under Hybrid Basis of accounting, incomes are recorded on cash basis while expenses are recorded on accrual basis.**
4. **The components of the Accounting Equation are Expenses, Incomes and Equity.**
5. **All transactions are events, but all events are not transactions.**

Answer:

1. False
2. False
3. True
4. False
5. True

PRACTICAL ILLUSTRATIONS:

9. Recognise the accounting principle in the following cases:

(a) Transactions are recorded at their original cost.

(b) Inventories are valued at lower of its cost and realisable value.

(c) Accounting treatment once decided should not changed from one period to another.

(d) Unsold stock is deducted from the cost of goods available for sale to arrive at Cost of Goods Sold.

(e) A business is assumed to run for an indefinite period.

Solution:

(a) Historical cost concept

(b) Prudence/ Conservatism concept

(c) Concept of Consistency

(d) Matching concept

(e) Going Concern concept

10. Ascertain the debit and credit for the following particulars under the Modern Approach:

(a) Started business with cash.

(b) Purchased goods for cash.

(c) Purchased goods from Ms. B

(d) Paid wages to workers.

(e) Rent received from tenant.

(f) Sold goods on cash to Mr. A.

(g) Sold goods on credit to Mr. Z.

(h) Withdrew cash from business.

Solution:

	Effect of Transaction	Account	To be Debited / Credited
(a)	Increase in cash Increase in capital	Cash A/c Capital A/c	Debit Credit
(b)	Increase in goods Decrease in cash	Purchases A/c Cash A/c	Debit Credit
(c)	Increase in goods Increase in liability	Purchases A/c Ms. B A/c	Debit Credit
(d)	Increase in expense Decrease in cash	Wages A/c Cash A/c	Debit Credit
(e)	Increase in cash Increase in income	Cash A/c Rent Received A/c	Debit Credit
(f)	Increase in cash Decrease in goods	Cash A/c Sales A/c	Debit Credit
(g)	Increase in asset Decrease in goods	Mr. Z A/c Sales A/c	Debit Credit
(h)	Decrease in liability Decrease in cash	Drawings A/c Cash A/c	Debit Credit

11. Ascertain the debit and credit for the following particulars under the British Approach:

(a) Started business with cash.

(b) Purchased goods for cash.

(c) Purchased goods from Ms. B

(d) Paid wages to workers.

(e) Rent received from tenant.

(f) Sold goods on cash to Mr. A.

(g) Sold goods on credit to Mr. Z.

(h) Withdrew cash from business.

Solution:

	Name of Account	Nature of Account	Rule	To be Debited / Credited
(a)	Cash A/c Capital A/c	Real Personal	Comes in Giver	Debit Credit
(b)	Purchases A/c Cash A/c	Nominal Real	Expense Goes out	Debit Credit
(c)	Purchases A/c Ms. B A/c	Nominal Personal	Expense Giver	Debit Credit
(d)	Wages A/c Cash A/c	Nominal Real	Expense Goes out	Debit Credit
(e)	Cash A/c Rent Received A/c	Real Nominal	Comes in Income	Debit Credit
(f)	Cash A/c Sales A/c	Real Nominal	Comes in Income	Debit Credit
(g)	Mr. Z A/c Sales A/c	Personal Nominal	Receiver Income	Debit Credit
(h)	Drawings A/c Cash A/c	Personal Real	Receiver Goes out	Debit Credit

12. The following transactions relate to Mr. J for the month of January, 2018. You are required to prepare an accounting equation from these transactions:

2018 January	
1	Started business with cash ₹ 48,000.
4	Purchased goods in cash from D Bros. for ₹ 8,000.
6	Bought furniture worth ₹ 14,000 in cash.
9	Sold goods costing ₹ 2,500 to Mr. X for ₹ 4,000 in cash.
12	Purchased goods in credit from B & Sons. worth ₹ 28,000.
16	Sold goods costing ₹ 4,800 to Mr. Y for ₹ 6,000 on credit.
20	Paid ₹ 5,000 cash to B & Sons., the supplier.
22	Paid Salaries ₹ 1,600.
27	Received interest ₹ 1,400.
31	Collected ₹ 6,000 from his customer, Mr. Y

Solution:

Date	Transaction	Assets =	Liabilities +	Capital
2018 January				
1	Started business with cash ₹ 48,000.	48,000 =	--	48,000
4	Purchased goods in cash from D Bros. for ₹8,000.	+ 8,000 – 8,000	--	--
	Revised Accounting Equation	48,000 =	--	48,000
6	Bought furniture worth ₹ 14,000 in cash.	+ 14,000 – 14,000	--	--
	Revised Accounting Equation	48,000 =	--	48,000
9	Sold goods costing ₹ 2,500 to Mr. X for ₹ 4,000 in cash	+ 4,000 – 2,500	--	1,500
	Revised Accounting Equation	49,500 =	--	49,500
12	Purchased goods in credit from B & Sons. worth ₹ 28,000.	+ 28,000	+ 28,000	--
	Revised Accounting Equation	77,500 =	28,000 +	49,500
16	Sold goods costing ₹ 4,800 to Mr. Y for ₹ 6,000 on credit.	+ 6,000 – 4,800	--	1,200
	Revised Accounting Equation	78,700 =	28,000 +	50,700
20	Paid ₹ 5,000 cash to B & Sons., the supplier.	– 5,000	– 5,000	--
	Revised Accounting Equation	73,700 =	23,000 +	50,700
22	Paid Salaries ₹ 1,600.	– 1,600	--	– 1,600
	Revised Accounting Equation	72,100 =	23,000 +	49,100
27	Received interest ₹ 1,400.	+ 1,400	--	+ 1,400
	Revised Accounting Equation	73,500 =	23,000 +	50,500
31	Collected ₹ 8,000 from his customer, Mr. Y	+ 6,000 – 6,000	--	--
	Revised Accounting Equation	73,500 =	23,000 +	50,500

13. Chandra runs a stationery business. From the following information relating to his business prepare Income Statement under: (a) Cash Basis, (b) Accrual Basis, and (c) Hybrid Basis:

	₹
Cash purchases	**82,000**
Credit purchases	**1,35,000**
Salaries paid	**17,000**
Rent paid	**17,500**
Insurance paid	**18,500**
Cash sales	**2,20,000**
Credit sales	**3,00,000**
Outstanding Expenses: Salaries	**5,000**
Rent	**2,800**
Prepaid insurance	**3,000**

Solution:

(a) Under Cash Basis

Income Statement

Particulars	Amount (₹)	Amount (₹)
Incomes:		
Cash sales		2,20,000
Less: Expenses		
Cash purchases	82,000	
Salaries paid	17,000	
Rent paid	17,500	
Insurance paid	18,500	1,35,000
∴ Net Income		85,000

(b) Under Accrual Basis

Income Statement

Particulars		Amount (₹)	Amount (₹)
Incomes:			
Cash sales			2,20,000
Credit sales			3,00,000
			5,20,000
Less: Expenses			
Cash purchases		82,000	
Credit purchases		1,35,000	
Salaries paid	17,000		
Add: Outstanding	5,000	22,000	
Rent paid	17,500		
Add: Outstanding	2,800	20,300	
Insurance paid	18,500		
Less: Prepaid	3,000	15,500	2,74,800
∴ Net Income			2,45,200

(c) Under Hybrid Basis

Income Statement

Particulars	Amount (₹)	Amount (₹)
Incomes:		
Cash sales		2,20,000
Less: Expenses		
	82,000	

Cash purchases		1,35,000	
Credit purchases			
Salaries paid	17,000	22,000	
Add: Outstanding	5,000		
Rent paid	17,500	20,300	
Add: Outstanding	2,800		
Insurance paid	18,500	15,500	2,74,800
Less: Pre paid	3,000		54,800
∴ Net Loss			

CAPITAL & REVENUE TRANSACTIONS

14. Multiple choice questions:

Choose the correct alternative:

1. **Which of the following accounting concept is related to capital and revenue transactions?**
   - **(a) Dual Aspect concept**
   - **(b) Periodicity concept**
   - **(c) Money measurement concept**
   - **(d) Realisation concept**

2. **The purpose of distinguishing transactions between capital and revenue are:**
   - **(a) Ensuring proper accounting of transactions**
   - **(b) Determination of true operating result**
   - **(c) Proper disclosure of financial position**
   - **(d) All of the above**

3. **Which of the following is/are capital expenditure?**
   - **(a) Rent & Rates**
   - **(b) Salaries**
   - **(c) Overhauling of machinery**
   - **(d) Cost of goods sold**

4. **Which one of the following is an example of loss suffered on acquisition of an existing business ?**
   - **(a) Capital**
   - **(b) Revenue**
   - **(c) Normal**
   - **(d) None of the above**

5. **Capital Profit is credited to _________ Account.**
   - **(a) Reserve Capital**
   - **(b) General Reserve**
   - **(c) Reserve Fund**
   - **(d) Capital Reserve**

Answer:

1. (b)
2. (d)
3. (c)
4. (a)
5. (d)

15. Match the following:

	Column A		Column B
1.	**Revenue loss**	**A**	**Profit earned by selling goods above cost price**
2.	**Capital receipt**	**B**	**Raising of capital**
3.	**Capital Profit**	**C**	**Profit on reissue of forfeited share**
4.	**Revenue receipts**	**D**	**Bad debts arising out of credit sale**
5.	**Revenue Profit**	**E**	**Fees received for services rendered**

Answer:

	Column A		Column B
1.	Revenue loss	D	Bad debts arising out of credit sale
2.	Capital receipt	B	Raising of capital
3.	Capital Profit	C	Profit on reissue of forfeited share
4.	Revenue receipts	E	Fees received for services rendered
5.	Revenue Profit	A	Profit earned by selling goods above cost price

16. Fill in the blanks:

1. An expenditure, the benefit from which can be enjoyed, consumed or used over multiple accounting periods is referred to as _______ Expenditure.
2. Bad debt recovery is an example of ________ receipt.
3. ___________expenditure is non-recurring in nature.
4. The loss which does not arise to an entity in the regular course of its operations is known as ________ loss.
5. The profit which arises from the performance of regular operations of an entity is known as _________ profit.

Answer:

1. Capital
2. Revenue
3. Capital
4. Capital
5. Revenue

17. State whether the following statements are true or false:

1. **Normally, capital expenditure involves heavy cash outlay**
2. **Revenue Expenditures are recognized as Fixed Assets in the asset-side of the Balance Sheet.**
3. **Revenue Profit is ascertained by preparing the Income Statement.**
4. **Capital Receipts affect the operating result of an entity.**
5. **Revenue transactions relate only to the current accounting period.**

Answer:

1. True
2. False
3. True
4. False
5. True

ILLUSTRATIONS:

18. Classify the following expenses between capital and revenue:

(a) A machine purchased for ₹ 1,80,000 and incurred ₹ 1,500 for its carriage and ₹ 1,600 for its installation.

(b) Repainting charges paid for the factory shed ₹ 12,000.

(c) Amount paid as an advance to Creditors ₹ 20,500

(d) Major repairs incurred on old machine ₹ 14,700.

(e) Municipal tax paid ₹ 2,000 for the building.

Solution:

S.L. No	Capital/ Revenue	Explanation
(a)	Capital Expenditure	The purchase cost of machine is incurred for acquiring capital asset that is expected to provide benefits of enduring nature, while the carriage and installation expenses are incurred to put the capital asset to use which will provide benefits of enduring nature.

(b)	Revenue Expenditure	It is incurred for maintaining the factory shed, an existing capital asset.
(c)	Not an expenditure	It is a temporary payment made to the suppliers to be adjusted against future purchase of goods.
(d)	Capital Expenditure	It is incurred for improving the productive capacity of an existing capital asset and is expected to provide future economic benefits of enduring nature.
(e)	Revenue Expenditure	It is usually an annual outflow i.e. recurring in nature.

19. State which item of expenditure would be charged to capital and which to revenue:

a. **Freight and cartage on the new machine ₹ 150, erection charges ₹ 200.**

b. **Fixtures of the book value of ₹ 1,500 were sold off at ₹ 600.**

c. **A sum of ₹ 1,100 was spent on painting the factory.**

Solution:

S.L. No.	Nature	Explanation
a.	Capital Expenditure	It is incurred to put the capital asset to use and provides benefits of enduring nature.
b.	Revenue Loss	It does not provide any economic benefit to the entity.
c.	Revenue Expenditure	It is incurred for maintaining an existing capital asset.

20. State whether the following expenditures are capital or revenue in nature?

a. **Purchase of a head office premise by A Ltd. , a real estate development firm.**

b. **Purchase of investment for trading purpose by B Ltd., a wealth-management firm.**

c. **D Ltd., an engineering firm undertook major repairs of its machinery for the purpose of making it marketable.**

d. **Purchase of second-hand motor car for resale purpose by E Auto, a car dealer.**

Solution:

a. Since the head office premise will be used by A Ltd. for its own operations (and not resale) it is a capital expenditure.

b. Even though B Ltd. is a wealth-management firm, since it has made the investments for trading purpose, it is a revenue expenditure

c. Even though heavy repairing charges have been incurred, it is incurred for the purpose of making the machinery marketable. Hence, it is revenue expenditure.

d. As the motor car is acquired by E Auto with the intension of resale, it will be treated as revenue expenditure.

21. State instances when the following expenditures are considered to be as capital expenditure.

a. Repairing Charges

b. Legal Expenses

c. Interest expenses

d. Transport Expenses

e. Wages payment

Solution:

a. **Repairing Charges**: Major repairing charges paid for renovation of an old office building should be capitalized and debited to the cost of Building.

b. **Legal Expenses:** At the time of building acquisition, expenditure incurred on searching the title, court fees etc. should be treated as capital expenditure as they are non-recurring in nature.

c. **Interest**: Interest expenses on money borrowed for development of an intangible self-constructed asset, such as patent of a medicine, is to be capitalized and hence, included in the cost of patent.

d. **Transport Charges**: Transport charges paid for bringing machinery from a foreign country should be debited to Machinery Account.

e. **Wages:** Wages paid for installation/ erection of machinery should be considered as capital expenditure and it should be debited to Machinery Account.

ACCOUNTING FOR DEPRECIATION

22. Multiple choice questions:

Choose the correct alternative:

1. Which of the following is/ are objective(s) of providing depreciation?

(a) Determination of the true operating result

(b) For maintenance of capital

(c) For disclosure of the true value of the asset

(d) All of the above

2. Which of the following is not a feature of depreciation?

(a) It gradual and continuous decline in the value of fixed asset.

(b) It is an appropriation of profit.

(c) It a measure of the loss in service potential of a fixed asset.

(d) It is a permanent decline.

3. Which of the following is not a factor that is considered for measurement of depreciation?

(a) Cost of asset

(b) Life of asset

(c) Replacement value of asset

(d) Scrap value

4. **Which of the following is an internal factor that causes the depreciation?**

   (a) Wear and tear

   (b) Passage of time

   (c) Expiry of legal life of asset

   (d) None of the above

5. **Which of the following method of ascertaining depreciation is based on the 'Opportunity Cost' concept?**

   (a) Annuity

   (b) Depreciation Fund

   (c) Reducing Balance

   (d) Straight Line

Answer:

1. (d)
2. (b)
3. (c)
4. (a)
5. (a)

23. Match the following:

	Column A		**Column B**
1.	**Obsolescence**	**A**	**Deterioration in the value of an intangible Fixed Assets**
2.	**Amortisation**	**B**	**Gradual and continuous decline in the value of fixed asset**
3.	**Depreciation**	**C**	**A temporary change in the value of an asset**
4.	**Depletion**	**D**	**A sudden loss in the value of an asset**
5.	**Fluctuation**	**E**	**Fall in value of a wasting asset**

Answer:

	Column A		**Column B**
1.	Obsolescence	D	A sudden loss in the value of an asset
2.	Amortisation	A	Deterioration in the value of an intangible Fixed Assets
3.	Depreciation	B	Gradual and continuous decline in the value of fixed asset
4.	Depletion	E	Fall in value of a wasting asset
5.	Fluctuation	C	A temporary change in the value of an asset

24. Fill in the blanks:

1. **All fixed assets, except _____ are subject to depreciation.**
2. **______ refers to the deterioration in the value of an intangible Fixed Assets due to effluxion of time or expiration of legal right.**
3. **Under the _______ method of ascertaining depreciation, lower amount of profit is set aside as depreciation, and a higher amount of fund is created for replacement of asset.**
4. **If on the Balance Sheet date, the development of fixed assets is not fully complete, then it is referred to as ___________.**
5. **Under the Accumulated Depreciation Method of accounting, Fixed Asset Account appears in the Balance Sheet at __________.**

Answer:

1. Land
2. Amortisation
3. Sinking Fund
4. Capital Work-in-Progress
5. Original Cost

25. State whether the following statements are true or false:

1. **Depreciable amount is the cost of an asset or other amount substituted for cost less its residual value.**
2. **Depreciation includes amortisation of assets whose useful life is predetermined.**
3. **There are two methods of accounting for depreciation.**
4. **Provision for Depreciation A/c is a nominal account.**
5. **Asset-charge method of accounting provides more information relating to an asset than Asset-provision method of accounting.**

Answer:

1. True
2. True
3. True
4. False
5. False

NUMERICAL ILLUSTRATIONS:

26. P Ltd. acquired a machine for ₹ 6,00,000 on 1st April, 2007. Depreciation was to be charged at 20% on straight line method. During 2016-17, a modification was made to improve its technical reliability at a cost of ₹ 80,000 which it was considered would extend the useful life of the machine

for two years. At the same time an important component of the machine was replaced at a cost of ₹ 10,000 because of excessive wear and tear. Routine maintenance during the said accounting period cost Rs, 7,500. Show the Machinery A/c and Provision for Depreciation on Machine A/c for the three years ending on 31st March, 2017, assuming that the company follows a policy of charging full year's depreciation on additions. Also prepare the extracts of P/L A/c for the year ended 31.3.2017.

Solution:

Books of P Ltd.

Ledger

Dr. **Machinery A/c** ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
1.4.14	To Bank A/c [Acquisition of machine]	6,00,000	31.3.15	By Balance c/d	6,00,000
1.4.15	To Balance b/d	6,00,000	31.3.16	By Balance c/d	6,00,000
1.4.16	To Balance b/d	6,00,000	31.3.17	By Balance c/d	6,80,000
...	To Bank A/c [Cost of technical improvement –WN: 1]	80,000			
		6,80,000			6,80,000
1.4.17	To Balance b/d	6,80,000			

Dr. **Provision for Depreciation on Machine A/c** ***Cr.***

Date	Particulars	(₹)	Date	Particulars	(₹)
31.3.15	To Balance c/d	1,20,000	31.3.15	By Depreciation A/c [₹ 6,00,000 x 20%]	1,20,000
31.3.16	To Balance c/d	2,40,000	1.4.15	By Balance b/d	1,20,000
			31.3.16	By Depreciation A/c [₹ 6,00,000 x 20%]	1,20,000
		2,40,000			2,40,000
31.3.17	To Balance c/d	3,28,000	1.4.16	By Balance b/d	2,40,000
			30.3.17	By Depreciation A/c [WN: 5]	88,000
		3,28,000			3,28,000
			1.4.17	By Balance b/d	3,28,000

Dr. **Profit & Loss A/c for the year ended 31.3.17 (includes)** *Cr.*

Particulars	Amount (₹)	Particulars	Amount (₹)
To Replacement Expenses A/c [WN:2]	10,000		
To Maintenance Expenses A/c [WN:3]	7,500		
To Depreciation on Machinery A/c [WN:5]	88,000		

Working Notes:

1. **Cost of Technical improvement**

   Cost incurred for improving the technical reliability of the machine is a capital expenditure, and hence accounted for in Machinery A/c. Thus, depreciation is to be provided on such Technical improvement.

2. **Cost of replacement of component**

   It is Revenue expenditure, as it will not improve the productive capacity of the machine. Hence, such expenses will be accounted for as under:

Replacement Expenses A/c	Dr.	10,000	
To Bank A/c			10,000
Profit & Loss A/c	Dr.	10,000	
To Replacement Expenses A/c			10,000

3. **Routine maintenance**

   It being a revenue expenses will be charged to Profit & Loss A/c as follows:

Maintenance Expenses A/c To Bank A/c	Dr.	7,500	7,500
Profit & Loss A/c	Dr.	7,500	
To Maintenance Expenses A/c			7,500

4. **Remaining useful life on the date of technical improvement:**

   As the rate of depreciation is 20% under Straight Line Method, the useful life of the machine = 100/20 = 5 years on the date of acquisition (1.4.14)

   Remaining useful life when technical improvement has taken place in 2016-17 = (5 – 2) years = 3 years.

5. **Annual depreciation for 2016-17**

WDV of machine on 1.4.16: [₹ 6,00,000 – (1,20,000 X 2)]	3,60,000
Cost of Technical improvement made during 2016-17	80,000
	4,40,000
Revised estimated useful life of machine: [(3 + 2) years – WN: 4]	5
∴ Depreciation p.a. [₹ 4,40,000/ 5]	88,000

NB: Depreciation on Technical improvement has been calculated for full year as it is the company's policy to charge full year depreciation on additions.

27. Singh Transport Co. of Ambala purchased 4 Trucks at ₹ 2,50,000 each on 1 April, 2015. The company writes off depreciation @ 20% p.a. on original cost and observes calendar year as its accounting year.

On 1 October, 2017 one of the trucks got involved in an accident and was completely destroyed. Insurance company paid ₹ 1,00,000 in full settlement of the claim. On the same day the company purchased a used truck for ₹ 90,000 and spent ₹ 10,000 on its overhauling. Prepare Truck Account for three years ending on 31 December, 2017.

Solution:

Books of Singh Transport Co.

Ledger

Trucks A/c

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.15	To Bank A/c [Purchase of 4 trucks: 2,50,000 × 4]	10,00,000	31.12.15	By Depreciation A/c [₹ 10,00,000 × 20% × 9/12]	1,50,000
			31.12.15	By Balance c/d	8,50,000
		10,00,000			10,00,000
1.1.16	To Balance b/d	8,50,000	31.12.16	By Depreciation A/c [₹ 10,00,000 × 20%]	2,00,000
			31.12.16	By Balance c/d	6,50,000
		8,50,000			8,50,000
1.1.17	To Balance b/d	6,50,000	1.10.17	By Depreciation A/c [WN: 1]	37,500
1.10.17	To Bank A/c [Purchase & Overhaul: 90,000 + 10,000]	1,00,000	1.10.17	By Bank A/c [Insurance claim received]	1,00,000
			1.10.17	By Loss of Truck by Accident A/c [WN: 1]	25,000
			31.12.17	By Depreciation A/c [WN: 2]	1,55,000
			31.12.17	By Balance c/f	4,32,500
		7,50,000			**7,50,000**

Working Notes:

1. Loss of Truck by Accident

	₹
Original cost on 1.4.15	2,50,000
Less: Depreciation from 1.4.15 to 1.1.17 i.e. 1 yr. 9 months [₹ 2,50,000 X 20% X 21/12]	87,500

∴ WDV on 1.1.17	1,62,500
Less: Depreciation @ 20% p.a. for 9 months [₹ 2,50,000 X 20% X 9/12]	37,500
∴ WDV on 1.10.17	1,25,000
Insurance Claim Received	1,00,000
∴ Loss by Accident: (₹ 1,25,000 – ₹ 1,00,000)	25,000

2. Depreciation for 2017

Depreciation on 31.12.17 is to be calculated on trucks existing on 31.12.17, as follows:

	₹
On 3 trucks purchased on 1.4.15 [₹ 2,50,000 X 20% X 3]	1,50,000
On the truck purchased on 1.10.17 [₹ 1,00,000 X 20% X 3/12]	5,000
∴ Depreciation for 2017	1,55,000

28. On Apr. 1, 2015, Brite Ltd. purchased a machine for ₹ 1,50,000 and spent ₹ 30,000 on its installation. On Oct. 1, 2016, a new machine was purchased at a cost of ₹ 1,20,000. On June 30, 2017, the first machine got damaged and was sold as scrap for ₹ 25,000. On July 1, 2017, the machine was replaced by a new machine purchased for ₹ 2,60,000 and a sum of ₹ 40,000 was spent on its installation. Show machinery account for the three years ended 31st March, 2018 while charging depreciation @ 10% p.a. as per the diminishing balance method. Accounts of Brite Ltd. are closed every year on 31st March.

Solution:

Books of Brite Ltd.

Ledger

Dr. Machinery A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.15	To Bank A/c [Purchase & Installation – ₹ 1,50,000 + 30,000]	1,80,000	31.3.16	By Depreciation A/c [₹ 1,80,000 × 10%]	18,000
			31.3.16	By Balance c/d	1,62,000
		1,80,000			1,80,000
1.4.16	To Balance b/d	1,62,000	31.3.17	By Depreciation A/c [(₹ 1,62,000 × 10%) + (₹ 1,20,000 × 10% × 6/12)]	22,200
1.10.16	To Bank A/c [Purchase of new machine]	1,20,000	31.3.17	By Balance c/d	2,59,800
		2,82,000			2,82,000
1.4.17	To Balance b/d	2,59,800	30.6.17	By Depreciation A/c	3,645
1.7.17	To Bank A/c [Purchase & Installation –	3,00,000	30.6.17	By Bank A/c	25,000

	₹ 2,60,000 + 40,000]				
			30.6.17	By Loss on Machinery Damaged A/c [WN: 1]	1,17,155
			31.3.18	By Depreciation A/c [WN: 2]	33,900
				By Balance c/f	3,80,100
		5,59,800			**5,59,800**

Working Notes:

1. Sale of damaged machine on 1.7.17

	₹
Original cost on 1.4.15	1,80,000
Less: Depreciation for 2015-2016 [₹1,80,000 X 10%]	18,000
∴ WDV on 31.03.16/1.4.16	1,62,000
Less: Depreciation for 2016-2017 [₹ 1,62,000 X 10%]	16,200
∴ WDV on 31.3.17/ 1.4.17	1,45,800
Less: Depreciation for 3 months [1,45,800 X 10% X 3/12]	3,645
∴ WDV on 30.6.17	1,42,155
Scrap value	25,000
∴ Loss on Machine Damaged: (₹ 1,42,155 – ₹ 25,000)	1,17,155

2. Depreciation for 2017-18

Depreciation on 31.3.18 is to be calculated on machines existing on 31.3.18, as follows:

	₹
On machine purchased on 1.10.16 [₹ (1,20,000 – 6,000) X 10%]	11,400
On machine purchased on 1.7.17 [₹ (2,60,000 + 40,000) X 10% X 9/12]	22,500
∴ Depreciation for 2017-18	33,900

29. X Co. Ltd. provides depreciation on Plant and Machinery at 20% p.a. on reducing balances. On Apr. 1, 2017, the balance of the Plant and Machinery Account was ₹ 10,00,000. It was discovered in 2017-2018 that:

- **₹ 50,000 being repairs to Machinery incurred on June 30, 2015 had been capitalised.**
- **₹ 1,00,000 being the cost of a generator purchased on Oct. 1, 2014 has been written-off to Maintenance Account.**

The company Directors wants to rectify the mistakes while finalising the accounts for the year ended Mar. 31, 2018. A plant that cost ₹ 80,000 on Sept. 30, 2016 was scrapped and replaced with a more sophisticated one on Dec. 31, 2017 by spending ₹ 1,20,000. Scrap realised ₹ 20,000.

Prepare the Plant and Machinery Account as it would appear on Mar. 31, 2018 after providing depreciation for the year.

Solution:

Books of X Co. Ltd.

Dr. Plant and Machinery A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.17	To Balance b/f	10,00,000	31.12.17	By Bank A/c (Sale of Plant)	20,000
31.12.17	To Bank A/c	1,20,000	31.12.17	By Depreciation A/c (on Plant sold)	10,800
	(New plant purchased)		31.12.17	By Loss on Sale of Plant A/c [WN:1]	41,200
31.3.18	To P/L A/c [Prior period items - Rectification of maintenance – WN: 3]	57,600	31.3.18	By P/L A/c [Prior period items - [Rectification for repairs – WN: 2]]	34,000
			31.3.18	By Depreciation A/c [WN: 4]	1,96,320
			31.3.18	By Balance c/f	8,75,280
		11,77,600			11,77,600

Working Notes:

1. Sale of Plant on 31.12.16

	₹
Original cost on 30.9.16	80,000
Less: Depreciation @ 20% p.a. for 6 months [₹ 80,000 X 20% X 6/12]	8,000
∴ WDV on 1.4.17	72,000
Less: Depreciation @ 20% p.a. for 9 months [₹ 72,000 X 20% X 9/12]	10,800
∴ WDV on 31.12.17	61,200
Scrap realised	20,000
∴ Loss on sale: (₹ 61,200 – ₹ 20,000)	41,200

2. Prior period adjustment for repairs

Entry made		Reverse of entry made		Correct entry		Rectification entry	
Plant & Machinery A/c Dr.	50,000	Bank A/c	50,000	Repairs A/c Dr.	50,000	Repairs A/c Dr.	50,000
To Bank A/c	50,000	To Plant & Machinery A/c	50,000	To Bank A/c	50,000	To Plant & Machinery A/c	50,000

Repair costs were incurred on June 30, 2015, but depreciation was wrongly provided till Mar. 31,2017 i.e. for 21 months. [Since, the directors want to rectify the error on Mar. 31, 2018, depreciation was not incorrectly calculated for 2017-18.

∴ Excess depreciation to be written-back is calculated as under:

		₹
For 2015-16	[₹ 50,000 X 20% X 9/12]	7,500
For 2016-17	[(₹ 50,000 – 7,500) X 20%]	8,500
		16,000

Journal entry for writing back excess depreciation:

Plant & Machinery A/c	Dr.	16,000
To Depreciation A/c		16,000

Combining the above two rectification entries, we get:

P/L A/c (Prior period item)	Dr.	34,000
To Plant & Machinery A/c [₹ 50,000 – 16,000]		34,000

3. Prior period adjustment of maintenance

Entry made		Reverse of entry made		Correct entry		Rectification entry	
Maintenance A/c Dr.	1,00,000	Bank A/c	1,00,000	Plant & Machinery A/c Dr.	1,00,000	Plant & Machinery A/c Dr.	1,00,000
To Bank A/c	1,00,000	To Maintenance A/c	1,00,000	To Bank A/c	1,00,000	To Maintenance A/c	1,00,000

The Generator was purchased on Oct. 1, 2014 but depreciation was not provided till Mar. 31, 2017 i.e. for 30 months.

[Since, the directors want to rectify the error on Mar. 31, 2011, depreciation for 2017-18 will be correctly provided on 31.3.18.]

∴ additional depreciation to be provided is calculated as under:

		₹
For 2014-15	[₹ 1,00,000 X 20% X 6/12]	10,000
For 2015-16	[(₹ 1,00,000 – ₹ 10,000) X 20%]	18,000
For 2016-17	[(₹ 90,000 – ₹ 18,000) X 20%]	14,400
		42,400

Journal entry for providing additional depreciation

Depreciation A/c	Dr.	42,400
To Plant & Machinery A/c		42,400

Combining the above two rectification entries, we get:

Plant & Machinery A/c	Dr.	57,600
To P/L (Prior period item) [₹ 1,00,000 – ₹ 42,400]		57,600

4. Annual Depreciation for 2017-18

Depreciation on 31.3.18 is to be calculated on machines existing on 31.3.18, as follows:

	₹
On existing Plant & Machinery [₹ 9,51,600 (WN: 5) X 20%]	1,90,320
On machine acquired on 31.12.17 [₹ 1,20,000 X 20% X 3/12]	6,000
∴ Depreciation for 2017-18	1,96,320

5. Existing Plant & Machinery

= Opening WDV – Prior period adjustment for repairs + Prior period adjustment for maintenance – WDV of plant sold

= ₹ 10,00,000 – ₹ 34,000 + ₹ 57,600 – ₹ 72,000

= ₹ 9,51,600

30. The following information relates to Z Ltd.:

	Opening Balance (₹)	Closing Balance (₹)
Fixed Assets	**4,00,000**	**5,50,000**
Accumulated Depreciation	**80,000**	**1,35,000**

Additional information:

A part of a machine costing ₹ 60,000 has been sold for ₹ 30,000, on which accumulated depreciation was ₹ 15,000.

You are required to prepare the Fixed Assets Account, Accumulated Depreciation Account and Asset Disposal Account.

Solution:

Dr.	Fixed Assets A/c				Cr.
Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
	To Balance b/f	4,00,000		By Asset Disposal A/c [Cost of machinery sold transferred]	60,000
	To Bank A/c [Fixed Assets acquired- B/Fig]	2,10,000		By Balance c/f	5,50,000
		6,10,000			6,10,000

Dr.	Accumulated Depreciation A/c				Cr.
Date	Particulars	₹	Date	Particulars	₹
	To Asset Disposal A/c [Accumulated depreciation on machinery sold – transferred]	15,000		By Balance b/f	80,000
	To Balance c/f	1,35,000		By Depreciation A/c [Annual Depreciation –B/Fig]	70,000
		1,50,000			1,50,000

Dr.	Asset Disposal A/c				Cr.
Date	Particulars	₹	Date	Particulars	₹
	To Fixed Assets A/c (Cost of machine sold)	60,000		By Accumulated Depreciation A/c [Accumulated Depreciation on machinery sold]	15,000
				By Bank A/c (sale proceeds)	30,000
				By Loss on sale of machine A/c [WN: 1]	15,000
		60,000			60,000

Working Notes:

1. **Sale of machine**

	₹
Cost of machine sold	60,000
Less: Accumulated Depreciation on machine sold	15,000
∴WDV of machine sold	45,000
Sale Proceeds	30,000
∴ Loss on sale of machine (₹ 30,000 – ₹ 15,000)	15,000

RECTIFICATION OF ERRORS

31. Multiple choice questions:

Choose the correct alternative:

1. **Closing entries are passed for transferring the balances of nominal accounts to:**

   (a) Cash Flow Statement

   (b) Income Statement

   (c) Balance Sheet

   (d) None of the above

2. **Which account gets debited when Gross Profit is transferred from Trading Account to Profit & Loss Account?**

   (a) Trading Account

   (b) Profit & Loss Account

   (c) Capital Account

   (d) Gross Profit Account

3. **Rectification entries are passed in:**

   (a) Cash Book

   (b) Special Journal

   (c) General Journal

   (d) None of the Above

4. **When errors affecting the Trial Balance are made, it is the practice to put the difference in which account?**

   (a) Error Account

   (b) Rectification Account

   (c) Suspense Account

   (d) Capital Account

5. **Which account is involved for rectifying errors in nominal accounts after the final accounts have been drafted?**

   (a) Trading Account

   (b) Profit & Loss Account

   (c) Trading Adjustment Account

   (d) Profit & Loss Adjustment Account

Answer:

1. (b)
2. (a)
3. (c)
4. (c)
5. (d)

32. Match the following:

	Column A		Column B
1.	Compensating Error	A	Entering revenue transaction as capital transaction and vice versa
2.	Error of Commission	B	More than one error that set-off effect of each other
3.	Error of Principle	C	Entering to wrong head of account

4.	**Error of Omission**	**D**	**Suspense Account**
5.	**Single-sided Error**	**E**	**Transaction forgotten to be entered in books**

Answer:

	Column A		Column B
1.	Compensating Error	B	More than one error that set-off effect of each other
2.	Error of Commission	C	Entering to wrong head of account
3.	Error of Principle	A	Entering revenue transaction as capital transaction and vice versa
4.	Error of Omission	E	Transaction forgotten to be entered in books
5.	Single-sided Error	D	Suspense Account

33. Fill in the blanks:

1. **Rectification entries are also known as _______ entries.**
2. **______ entries are passed only for those ledger account balances that are carried forward from an earlier accounting period to the current accounting period.**
3. **_______ entry is passed with the closing balance of assets, liabilities and capital accounts in the last period's Balance Sheet.**
4. **When Gross Loss is transferred from Trading Account to Profit & Loss Account _____ Account gets credited.**
5. **Preparation of _____ and _______ happen to be cut-off points in the process of rectification of errors.**

Answer:

1. Correction
2. Opeaning
3. Opening
4. Trading
5. Trial Balance & Final Accounts

34. State whether the following statements are *true* or *false*:

1. **In opening entry, the accounts appearing in the assets-side of Balance Sheet are debited and those appearing in the liabilities-side of Balance Sheet are credited.**
2. **All real accounts are closed at the end of an accounting period by passing a closing entry.**
3. **When Net Profit is transferred from Profit & Loss Account, it is the Capital Account that gets credited.**
4. **Rectification of double-sided errors will never involve Suspense Account.**

5. **For rectifying a single-sided error that is identified before the preparation of Trial Balance no journal entry is to be passed.**

Answer:

1. True
2. False
3. True
4. False
5. True

NUMERICAL ILLUSTRATIONS:

35. **The following errors were detected in the books of Mr. Sujay while preparing the Trial Balance. You are required to rectify the errors.**
    - a. **Furniture purchased worth ₹ 4,500 wrongly passed through Purchases A/c.**
    - b. **Wages paid for installation of machinery ₹ 2,600 was included in Wages A/c.**
    - c. **Sales Day book was undercast by ₹ 6,000.**
    - d. **Goods sold to Pramit worth ₹ 6,900 has been credited to his account.**
    - e. **An amount of ₹ 6,300 paid in advance for insurance premium in the previous year, had not been brought forward as an opening balance in the current year.**
    - f. **Cash drawn by the proprietor of ₹ 6,000 was not posted in ledger account.**

Solution:

Books of Mr. Sujay
Journal Proper

Dr. ***Cr.***

Date	Particulars	L.F.	₹	Rs
a.	Furniture A/c Dr. To Purchases A/c (Being purchase of furniture wrongly recorded in Purchases A/c, now rectified)		4,500	 4,500
b.	Machinery A/c Dr. To Wages A/c (Being wages paid for installation of machinery wrongly included in Wages A/c, now rectified)		2,600	 2,600
c.	Sales A/c is to be credited by ₹ 6,000.			
d.	Pramit A/c is to be debited with ₹ 13,800.			
e.	Prepaid Insurance is to be debited by ₹ 6,300.			
f.	Drawings A/c is to be debited by ₹ 6,000.			

36. At Mar. 31, 2018, the accountant finds a difference in the Trial Balance. The difference has been carried to Suspense Account. Subsequently, the following errors are discovered before finalisation of accounts. Give Journal entries to rectify these errors and prepare the Suspense Account:

(i) Purchase of furniture for ₹ 1,000 passed through Purchase Book,

(ii) An amount of ₹ 550 received from Raja was posted to his account as ₹ 5,500.

(iii) An amount of ₹ 800 received from A, a debtor, has been treated as cash sale.

(iv) Discount allowed ₹ 150 was wrongly credited to Discount Received Account.

Solution:

Books of ………..

Journal Proper

Dr. ***Cr.***

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
(i)	Furniture A/c Dr.		1,000	
	Creditors A/c Dr.		1,000	
	To Purchases A/c			1,000
	To Creditors for Furniture A/c			1,000
	(Being purchase of furniture wrongly included in Purchase Day Book, now rectified)			
(ii)	Raja A/c (₹ 5,500 – ₹ 550) Dr.		4,950	
	To Suspense A/c			4,950
	(Being ₹ 550 received from Raja wrongly recorded in his account as ₹ 5,500, now rectified)			
(iii)	Sales A/c Dr.		800	
	To A A/c			800
	(Being cash collected from A wrongly included in Sales A/c, now rectified)			
(iv)	Discount Received A/c Dr.		150	
	Discount Allowed A/c Dr.		150	
	To Suspense A/c			300
	(Being Discount Allowed wrongly credited to Discount Received A/c , now rectified)			

Dr. **Suspense A/c** ***Cr.***

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/f [B/Fig.]	5,250	By Raja A/c	4,950
		By Discount Allowed A/c	150
		By Discount Received A/c	150
	5,250		5,250

37. A trader agreed his Trial Balance by putting the difference in a Suspense Account and prepared a Trading and Profit & Loss account and a Balance Sheet. On subsequent scrutiny the books disclosed several errors as detailed below:

a. A cheque of ₹ 750 received for loss of stock by fire been deposited in proprietor's private bank A/c but no entry has been passed in the books.

b. An item of purchases of ₹ 151 was entered in the Inward Invoice Book as ₹ 15 and posted to the Supplier's Account as ₹ 51.

c. A sales return of ₹ 500 was not entered in the financial accounts though it was duly taken in the stock book.

d. An amount of ₹ 300 was received in full settlement from a customer after he was allowed a discount of ₹ 50, but while writing the books, the amount received was entered in the discount column and the discount allowed was entered in the amount received column.

e. Bills receivable from Mr. X of ₹ 1,000 was posted to the credit of Bills Payable Account and also credited to the account of Mr. X.

Prepare Suspense A/c and Profit & Loss Adjustment A/c.

Solution:

Books of ....

Dr. **Suspense A/c** *Cr.*

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/f [Difference in books - B/ Fig]	2,036	By P & L Adjustment A/c By Bills Receivable A/c By Bills Payable A/c	36 1,000 1,000
	2,036		2,036

Dr. **Profit & Loss Adjustment A/c** *Cr.*

for the year ended........

Particulars	Amount (₹)	Particulars	Amount (₹)
To Creditors A/c	100	By Drawings A/c	750
To Suspense A/c	36	By Bank A/c (₹ 300 – ₹ 50)	250
To Sundry Debtors A/c (Sales return not recorded)	500		
To Capital A/c (B/ Fig.)	364		
	1,000		1,000

38. The Trial Balance extracted from a set of books showed a difference which was placed in a Sus-pense Account to prepare the Final Accounts at that time. Subsequently the following mistakes were detected:

a. A dishonoured cheque for ₹ 500 received from A and returned by the Bank had been cred-ited to the Bank Account and debited to Sundry Creditors Account.

b. Several items of furniture sold for ₹ 2,500 had been entered in the Sales Day Book.

c. Goods purchased from X, a supplier, for ₹ 155 had been posted to the debit of his account as ₹ 150.

d. ₹ 600 due from B had been omitted from the schedule of sundry debtors.

Show the necessary Entries in the Journal proper with suitable narration to rectify these errors. Also show how the non-detection of these errors affected last year's Profit and Loss Account.

Solution:

Books of...............
Journal Proper

Dr. ***Cr.***

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
a.	Sundry Debtors A/c Dr.		500	
	To Sundry Creditors A/c			500
	(Being dishonoured cheque received from A, wrongly debited to Sundry Creditors Account, now rectified)			
b.	Bank A/c / Debtors for Furniture A/c Dr.		2,500	
	P/L Adjustment A/c Dr.		2,500	
	To Furniture A/c			2,500
	To Debtors A/c			2,500
	(Being furniture sold for ₹ 2,500 wrongly entered in the Sales Day Book, now rectified)			
c.	Suspense A/c Dr.		305	
	To Sundry Creditors A/c [₹ 155 + 150]			305
	(Being goods purchased from X for ₹ 155, wrongly posted to the debit of his account as ₹ 150, now rectified)			
d.	Sundry Debtors A/c Dr.		600	
	To Suspense A/c			600
	(Being amount due from B, omitted from the schedule of sundry debtors, now rectified)			
	Capital A/c Dr.		2,500	
	To P/L Adjustment A/c			2,500
	(Being profit arising from result of rectification transferred to Capital account)			

Statement showing effect on last year's profit due to non detection of errors

Particulars	Effect on Profit Increase (₹)	Effect on Profit Decrease (₹)
a. Incorrect recording of cheque dishonoured in Sundry Creditors	Nil	Nil
Account.	2,500	-
b. Incorrect recording of sale of Furniture.	Nil	Nil
c. Incorrect recording of purchase of goods.	Nil	Nil
d. Non listing of B A/c in Sundry Debtors.		
	2,500	-
∴ Net increase in last year's Profit = ₹ 2,500		

39. The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of Final Accounts:

a. ₹ 5,000 received in respect of a Book Debt had been credited to Sales Account.

b. Sales Return Book was overcast by ₹ 2,000.

c. ₹ 4,000 depreciation of machinery had been omitted to be recorded in the books.

d. No Adjustment entry was passed for an amount of ₹ 5,000 relating to Advance Salary.

e. ₹ 600 paid for purchase of stationery has been debited to Purchases Account. However, such stationeries were consumed in the business.

State the effect of the above errors in Gross Profit and Net Profit.

Solution:

Effect of Errors on Gross profit & Net Profit

Sl. No.	Errors	Impact on Profit		Effect on Profit (₹)	
		Gross Profit	Net Profit	Gross Profit	Net Profit
a.	Amount received in respect of Book Debt had been credited to Sales Account	Overstated	Overstated	5,000	5,000
b.	Sales Return Book was over-cast	Understated	Understated	(2,000)	(2,000)
c.	Depreciation of machinery had been omitted to be recorded in the books.	No effect	Overstated		4,000
d.	No Adjustment entry was passed for an amount relating to Advance Salary.	No effect	Understated		(5,000)
e.	Purchase of Stationery has been debited to Purchases Account.	Understated	No effect	(600)	
	∴ Net Effect			2,400	2,000

Therefore, the above errors would have resulted in overstatement of Gross Profit and Net Profit by ₹2,400 and ₹ 2,000 respectively.

Chapter – 2

ACCOUNTING FOR SPECIAL TRANSACTIONS

BILL OF EXCHANGE

Section – A

1. **Multiple choice questions:**

Choose the correct alternative:

1. **Bill of exchange is covered by Negotiable Instrument Act:**
   - (a) 1881
   - (b) 1818
   - (c) 1881
   - (d) None of these

2. **Features of Bill of Exchange:**
   - (a) It is an instrument in writing
   - (b) It contains an unconditional order to pay
   - (c) The parties must be certain
   - (d) All of these

3. **Bill of Exchange involves:**
   - (a) Drawer
   - (b) Drawee
   - (c) Payee
   - (d) All of these

4. **Types of Bill of Exchange:**
   - (a) On demand or At sight
   - (b) After date
   - (c) After sight
   - (d) All of these

5. **Noting is**
   - (a) Dishonour of bill
   - (b) Authentication of dishonour
   - (c) Renewal of bill
   - (d) None of these

Answer:

1. (a)
2. (d)
3. (d)
4. (d)
5. (b)

2. Fill in the blanks:

1. **A bill must be stamped as per …………..Act**
2. **Bill of exchange must be stamped except…………..bill**
3. **Drawer is the person who ……… the bill**
4. **Payee is the person to whom the………. is payable**
5. **Accommodation bill is also known as ………….**

Answer:

1. Indian Stamp
2. demand
3. draws
4. bill money
5. kite bill

3. State whether the following statements are true or false:

1. **Bill of exchange is a negotiable instrument.**
2. **Cheque is a bill of exchange.**
3. **'Days of grace' is not applicable for on demand bill.**
4. **If the maturity day of a bill turns out as a public holiday then the due date shall be the preceding working day.**
5. **'Days of grace' is fully applicable for a cheque.**

Answer:

1. True
2. True
3. True
4. True
5. False

4. **Match the following:**

	Column - A		Column - B
1	Drawer	A	Debtor
2	Dishonour of bill	B	Dishonour
3	Retiring of bill	C	Nonpayment of bill
4	Drawee	D	Rebate
5	Noting	E	Creditor

Answer:

1. E
2. C
3. D
4. A
5. B

PROBLEMS AND SOLUTIONS

5. **A brought goods from B on 15th January, 1995 for ₹25000 for which he accepted a bill for 3 months drawn on him ₹20000 and paid ₹5000 by cheque. On 21.1.95 B discounted the bill at 15%. A being unable to meet the bill at maturity, requested B to accept ₹10000 in cash and to draw another bill for three months for balance sum –plus – interest @16% p.a. and B agreed. But before the maturity of the second bill A became insolvent and a dividend of 60 paise in the rupee was realized form his estate on 30th November.1995.**

   Pass the necessary journal entries in the books of B.

Solution:

In the books of B
Journal Entries

Date	Particulars	LF	Dr. ₹	Cr. ₹
15.1. 95	A A/C…………………………. Dr. To Sales A/C (Being goods sold on credit)		25000	 25000
15.1	Bank A/C ………………………………………Dr. Bills Receivable A/C………………………… ...Dr. To A A/C (Being a cheque for ₹ 5000 and an acceptance for the balance received from A))		5000 20000	 25000
21.1	Bank A/C ………………………………………Dr. Discount on bill A/C (15% of 20000)…………..Dr. To bill receivableA/C (Being the bill discounted @15%)		17000 3000	 20000
18.4	A A/C …………………………………………Dr. To Bank A/C		20000	 20000

	(being the bill received and discounted now dishonoured at maturity)			
18.4	A A/C...Dr. To Interest A/C (being interest receivable @16% p.a. for 3 months on the unpaid amount)		400	400
18.4	Cash A/C ……………………………………………Dr. Bill receivable A/c (balance 10000+interest 400)… Dr. To A A/C (being due from A including interest receivable received partly by cash and partly by an acceptance)		10000 10400	20400
21.7	A A/c………………………………………….Dr. To Bills receivable A/c (bill received but discounted on maturity)		10400	10400
30.11	Bank A/c (60% of 10400)……………….Dr. Bed debts A/c (40% of 10400)…………Dr. To A A/c (being final dividend recd. @ 60 parse in a rupee for dues from A and the balance treated as bed debt)		6240 4160	10400

6. **D owes ₹6000 to S. The debt is discharged by D on 1st June, 1995, by accepting two bills of exchanged drawn on him by S – one for ₹ 4000 at two months and the other for ₹ 2000 at 3 months. The first bill is enclosed in favour of Ramesh a creditor in full settlement of his debt for ₹ 4200. The second bill is discounted with his banker at 15% p.a. Both the bills were dishonoured, the noting charge in each case being ₹ 60. On 5th September D agreed to accept another bill for the total amount including interest @18% p.a. payable after 3 months.**

   On the due date the bill was dishonoured. D was declared insolvent and final dividend @40% was released from his estate.

   Show the journal entries in the books of S and D.

Solution:

In the Books of S
Journal Entries

Date	Particulars	LF	Dr. ₹	Cr. ₹
1.6. 95	Bill Receivable A/C …………………………………Dr. To D A/C (being two bills drawn on D and accepted by him for ₹4000 at two months and ₹ 2000 at 3 months)		6000	6000
1.6.	Ramesh A/C …………………………………..Dr. To Bills receivable A/C To Discount Received A/C (being the first a bill endorsed in favour of creditor Ramesh and discount received)		4200	4000 200

1.6	Bank A/C ……………………………………….Dr. Discount on bill A/C (15% of 20000*3/12)………….Dr. To Bill Receivable A/C (Being the bill discounted @15%)		1925 75	 2000
4.8	D A/C …………………………………….Dr. Discount Received A/c…………………………..Dr. To Remash A/C (Being endorsed bill dishonoured and discount received collected)		4060 200	 4260
4.9	D A/C..Dr. To Bank A/C (being discounted bill dishonoured and noting charges thereon))		2060	 2060
5.9	D A/C ……………………………………….Dr. To Interest A/c (being interest received on unpaid amount ₹ 6000 @ 18% p.a. for 3 months)		270	 270
5.9	Bills receivable A/c………………………..Dr. To D A/c (being bill drawn for amounts unpaid including noting charges and interest thereon))		6390	 6390
8.12	D A/c…………………………………………….Dr. To Bill Receivable A/c (being bill received and retained but dishonoured on maturity)		6390	 6390
30.11	Bank A/c (40% of 6390)………………Dr. Bed debts A/c (60% of 6390)…………Dr. To D A/c (being final dividend recd. @ 40 parse in a rupee for dues from D and the balance treated as bed debt)		2556 3834	 6390

In the Books of D

Journal Entries

Date	Particulars	LF	Dr. ₹	Cr. ₹
1.6. 95	S A/C …………………………………………….Dr. To Bills payable A/C (Being two bills of ₹ 4000 at 2 months and ₹ 2000 at 3 months accepted for S)		6000	 6000
4.8.	Bills payable A/C ………………………………Dr. Noting charge A/C ………………………………Dr. To S A/C (Being own acceptance not met at maturity and noting charge payable)		4000 60	 4060

4.9	Bills payable A/C ……………………………………Dr. Noting charge A/C …………………………………Dr. To S A/C (Being own acceptance not met at maturity and noting charge payable)		2000 60	 2060
5.9	Interest A/C ………………………………………..Dr. To S A/C (Being interest payable to S on unpaid amount @18% p.a. for 3 months)		270	 270
5.9	S A/c…………………………………………Dr. To Bills payable A/c (Being bill accepted in favour of S for unpaid amount including interest)		6390	 6390
8.12	D A/C ……………………………………Dr. To Interest A/c (being interest received on unpaid amount ₹ 6000 @ 18% p.a. for 3 months)		270	 270
5.9	Bills receivable A/c………………………..Dr. To D A/c (being bill drawn for amounts unpaid including noting charges and interest thereon))		6390	 6390
8.12	Bills payable A/c………………………………Dr. To S A/c (Being acceptance given but not met maturity)		6390	 6390
?	S A/c…………………………………………Dr. To Bank A/c To Deficiency A/c (Being final payment only @ 40% of outstanding amount)		6390	 2556 3834

7. Mr P.C. Nag draws a three months bill of exchange for ₹ 15000 on his debtors Sri Pronab Ghosh, who accepted it on 1st January, 1995. P.C. Nag discounts the bill on 4th January with his bank, the discount rate being 10% p.a. On the due date the bill was dishonoured by Pranab Ghosh, the noting charge being ₹ 50.

On 1st April, 1995 Pranab Ghosh makes an offer to P.C. Nag to pay him cash ₹5000 on account and to settle the balance by agreeing to accept one bill of exchange for ₹6000 at one moth and the other for the balance for 3 months, the latter including interest @12% p.a. for both the bills. P.C. Nag accepts the arrangements. The first bill met on due date but before maturity of the second bill Pranab Ghosh became insolvent and a dividend of ₹50 piese in the rupee is realized from his estate on 4th July, 1995.

Show the necessary journal entries in the books of P.C. Nag and Pranab Ghosh with narrations.

Solution:

In the Books of Mr P.C. Nag
Journal Entries

Date	Particulars	LF	Dr. ₹	Cr. ₹
1.1. 95	Bills receivable A/C Dr. To Pranab Ghosh A/C (Being a three months bill drawn on Pranab Ghosh and accepted by him)		15000	 15000
1.4	Bank A/C Dr. Discount on bill A/C (15000x10%x3/12) Dr. To Bills Receivable A/C (Being the above bill discounted @10%p.a. 3 months ahead of maturity)		14625 375	 15000
1.4	Pranab Ghosh A/C Dr. To Bank A/C (Being Pranab Ghosh's bill d iscounted but Dishonoured on maturity, noting charges being ₹50)		15050	 15050
1.4.	Cash A/C Dr. To Pranab Ghosh A/C (Being cash received from Pranab Ghosh in partial settlement of dues from him)		5000	 5000
1.4	Pranab Ghosh A/C Dr. To Interest A/C (Interest receivable from Pranab Ghosh @12% p.a.)		180	 180
1.4	Bills receivable A/C (10000+50+180) Dr. To Pranab Ghosh A/C (Being new bill drawn and accepted by ghosh)		10230	 10230
4.5	Bank A/C Dr. To Bills receivable A/C (Being the first one of the renewed bill's dishonoured on maturity)		6000	 6000
4.7	Pranab Ghosh A/C Dr. To Bills receivable A/C (Being the second one of renewed bills dishonoured on maturity)		4230	 4320
4.7	Bank A/C Dr. Bed Debt A/C Dr. To Pranab Ghosh A/C (Being 50%of the dues from Pranab Ghosh finally received and the balance treated as bed Debt)		2115 2115	 4230

In the Books of Pranab Ghosh
Journal Entries

Date	Particulars	LF	Dr. ₹	Cr. ₹
1.1. 95	P.C. Nag A/C Dr. To Bills Payable A/C (Being bills accepted for P.C Nag)		15000	 15000
1.4	Bills Payable A/C Dr. Noting charge A/C Dr. To P.C. nag A/C (Being the bill not met at maturity and noting due)		15000 50	 15050
1.4	Interest A/C Dr. To P.C. Nag A/C (Being Interest payable @12%)		180	 180
1.4.	P.C. Nag A/C Dr. To Cash A/C (Being cash paid in partial settlement of dues to P.C. nag)		5000	 5000
1.4	P.C. Nag A/C Dr. To Bills Payable A/C (Being new bill Accepted on renewal of dishonoured bill)		6000	 6000
1.4	P.C. Nag A/C Dr. To Bills Payable A/C (Being new bill accepted on renewal of dishonoured bill)		10230	 10230
4.5	Bills payable A/C Dr. To Bank A/C (Being own accepted honoured at maturity)		6000	 6000
4.7	Bills payable A/C Dr. To P.C. Nag A/C (Being own acceptance not met at maturity)		4230	 4320
4.7	P.C Nag A/C Dr. To Bank A/C To Deficiency A/C (Being 50% of dues paid)		4320	 2115 2115

Working

Interest on ₹ 6000 @12% p.a. for one month	**60**
Interest on Rs 4000 @ 12% p.a. for 3 months	**120**
Total	**180**
Due to P.C. Nag 15000+50+180-------------------------- 15230 **(-) cash and amount of 1st bill (5000+6000)------------ 11000** **Amount of 2nd bill**	**4230**

8. **Goutam and Karun enter into an accommodation arrangement where under the proceeds are to be shared as 2/3 and 1/3 respectively. Goutam draws a bill for ₹ 45000 on Karun on 1.4.2005 at 3 months. Goutam gets it discounted for ₹ 44600 and on 5.4.05, remits Karun's share to him. On due date, Karun pays the bill, though Goutam fails to remit his share. On 18.7.05, Goutam accepts a bill for ₹ 63000 drawn on him by Karun at 3 months, which Karun discounted on 19.7.05 for ₹ 61650 and remits ₹ 11100 to Goutam. Before the maturity of the second bill Goutam becomes insolvent and only 40% was realized from his estate on 20.10.05.**

   Pass the necessary journal entries in the books of Goutam.

Solution:

In the books of Goutam

Journal Entries

Date	Particulars	LF	Dr. ₹	Cr. ₹
1.4.05	Bills Receivable A/C………………………… Dr. To Karun A/C (Being a 3 months bill drawn on Karun and accepted by him)		45000	 45000
	Bank A/C ……………………………………Dr. Discount on Bill A/C………………………… ...Dr. To Bills Receivable A/C (Being the acceptance discounted)		44600 400	 45000
5.4.05	Karun A/C (45000*1/3)……………………..……Dr. To Bank A/C (44600*1/3) To Discount on Bill (400*1/3) (Being 1/3 rd of the proceeds remitted to Karun)		15000	 14867 133
18.7	Karun A/C …………………………………Dr. To Bills Payable A/C (Being a 3 months bill accepted for Karun)		63000	 63000
19.7	Bank A/C……………………………………Dr. Discount A/C (working note 1)……………......Dr. To Karun A/C (Being 2/3 rd of the proceeds of the new accepted received)		11100 900	 12000
20.10	Bills Payable A/C…………………………..Dr. To Karun A/C (Being own acceptance not met at maturity)		63000	 63000
	Karun A/C (working note 2)………………..Dr. To Bank A/C (40%) To Deficiency A/C (60%) (Being final dividend paid @40% of due to Karun)		42000	 16800 25200

Working Note-1

Proceeds of new acceptance in favour of Karun and discounted by him	₹
Proceeds of own acceptance (18.7.05) discounted by Karun (-) Payment by Karun of his acceptance	61,650 45,000
	16,650
2/3 of 16650= 11100. Discount shared = 2/3 of (63000-61650) = 900	

Working note-2:

Due to karun on the eve of own insolvency

Dr. **Karun Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
5.4	To Bank A/C	14867	1.4	By Bills Receivable A/C	45000
5.4	To Discount on Bill A/C	133	19.7	By Bank A/C	11100
18.7	To Bills Payable A/C	63000	19.7	By Discount A/C	900
20. 10	To Balance c/d	42000	20.10	By Bills Payable A/C	63000
		120000			**120000**

9. For mutual accommodation both S and G drew on 1.10.05. On the each other bill of exchange at 4 months for ₹ 3000 and immediately discounted these at 5%. Each agree to meet own acceptance at maturity and to bear own discounting expenses. S duly met his acceptance but G's acceptance was dishonoured and S w as asked to take it, noting charges being ₹ 15. G accepted a new bill drawn by S for 2 months for the amount due to him, plus interest @6%. This bill was duly met by G at maturity.

Show the necessary journal entries in the books of S.

Solution:

In the Books of S
Journal Entries

Date	Particulars	LF	Dr. ₹	Cr. ₹
1.10. 05	Bills Receivable A/C………………………… Dr. To G A/C (Being a 4 months bill drawn on G and accepted by him)		3000	 3000
1.10	G A/C …………………………………………Dr. To Bills Payable A/C (Being a 4 months bills accepted for G)		3000	 3000
1.10	Bank A/C ……………………………………Dr. Discount on Bill A/C………………………… ...Dr. To Bills Receivable A/C (Being the bill acceptance by G discounted @5%)		2950 50	 3000
4.2.06	Bills Payable A/C………………………………Dr. To Bank A/C (Being own acceptance met at maturity)		3000	 3000
4.2.06	G A/C……………………………………Dr. To Bank A/C (Being G's acceptance discounted but dishonoured noting charges being ₹ 15)		3015	 3015
4.2.06	G A/C …………………………………..Dr To Interest A/C (3015*6%*2/12) (Being interest due from G on 3015 @6% p.a. for 2 months)		30.15	 30.15

4.2.06	Bills Receivable A/C (3015+30.15)…………….Dr. To G A/C (Being bill of 2 months drawn on G and accepted by him)		3045.15	 3045.15
7.4.06	Bank A/C…………………………Dr. To Bills Receivable A/C (Being G's acceptance realized on maturity)		3045.15	 3045.15

CONSIGNMENT

10. Multiple choice questions:

Choose the correct alternative:

1. **A consignment business stands on the principle of __________ relationship.**
   - **(a) Borrower-Lender**
   - **(b) Principal-Agent**
   - **(c) Debtor-Creditor**
   - **(d) Drawer-Drawee**

2. **Which of the following is/ are feature(s) of consignment form of business?**
   - **(a) It is a business acquisition technique.**
   - **(b) The ownership of the goods that are lies with the consignee till they are sold.**
   - **(c) Revenue from consignment business is recognised by the consignor on sale of the goods sent by the consignee.**
   - **(d) All of the above.**

3. **Which of the following is not true in respect of the proforma invoice?**
   - **(a) It is a document sent by the consignee to the consignor.**
   - **(b) The details of the goods sent are recorded in this document.**
   - **(c) It acts as an evidence of the despatch of goods on consignment basis.**
   - **(d) It is a *memorandum* record.**

4. **The commission that is payable by the consignor to the consignee for bearing the risk attached to credit sale of the goods is:**
   - **(a) Ordinary commission**
   - **(b) Del-credere commission**
   - **(c) Extra ordinary commission**
   - **(d) None of the above**

5. **Consignment Account is by nature a _________ account.**
   - **(a) Nominal**
   - **(b) Personal**
   - **(c) Representative Personal**
   - **(d) Real**

Answer:

1. (b)
2. (c)
3. (a)
4. (b)
5. (a)

11. Match the following:

	Column A		Column B
1.	Over-riding commission	A	Evaporation of materials
2.	Consignment Inward Account	B	Temporary recording by consignee
3.	Del-credere commission	C	Extra commission
4.	Normal loss	D	Goods lost in transit
5.	Abnormal loss	E	Risk of Bad debts

Answer:

1. C
2. B
3. E
4. A
5. D

12. Fill in the blanks:

1. **The loss of goods which occurs due to the inherent nature of the goods involved is referred to as _________.**
2. **The commission that is payable by the consignor to the consignee for bearing the risk attached to credit sale of the goods is called _________ Commission. .**
3. **The document sent by the consignor to the consignee along with the goods sent on consignment is __________.**
4. **At the end of the accounting period, the Consignee prepares a document called ________ which discloses the details of the consignment transactions to the Consignor.**
5. **The party who sends the goods on consignment basis is referred to as the __________.**

Answer:

1. Normal Loss
2. Del Credere
3. Proforma Invoice
4. Account Sales
5. Consignor

13. State whether the following statements are true or false:

1. **Consignor may require the Consignee to send an amount as advance or security deposit for the goods that are sent on consignment.**
2. **Consignment sales can be made both only on credit basis.**
3. **Del-credere commission is calculated on the value of credit sales made by the consignee.**
4. **The goods sent on consignment may be recorded by the consignor either 'at Cost Price' or 'at Invoice Price'.**
5. **Consignment Debtors Account is always maintained in the books of the consignor.**

Answer:

1. True
2. False
3. False
4. True
5. False

NUMERICAL ILLUSTRATIONS:

14. S Ltd. of Surat consigned 5,000 litres of liquor costing ₹ 32 each to M Ltd. of Mumbai on 1.2.12. S Ltd. paid ₹ 5,000 as freight and insurance charges. During transit 200 litres were destroyed for which the insurance company agreed to pay ₹ 5,000 in full settlement. M Ltd. paid clearing charges ₹ 6,100; godown rent ₹ 300 and Salesman's salary ₹ 900. It was entitled to 6% ordinary commission and 4% del credere commission on sales. On 30.6.12 M Ltd. reported that 4,000 litres were sold at ₹ 1,65,000 and 100 litres were lost due to evaporation. A customer who bought liquor for ₹ 1,500 could pay only 40% of his amount. M Ltd. paid its balance due by a cheque. Show the Consignment Account in the books of S. Ltd.

Solution:

Books of S. Ltd.

Dr. **Consignment to Mumbai A/c** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.2.12	To Goods sent on Consignment A/c [5,000 X ₹ 32]	1,60,000	30.6.12	By M. Ltd. A/c [Sale]	1,65,000
1.2.12	To Bank A/c [Expenses incurred by consignor]		30.6.12	By Goods Destroyed-in-Transit A/c [WN:1]	6,600
	Freight and Insurance charges	5,000			
30.6.12	To M. Ltd. A/c [Expenses incurred by				

	consignee]					
	Clearing Charges	6,100		30.6.12	By Consignment Stock A/c [WN:1]	24,500
	Godown Rent	300				
	Salesman's salaries	900	7,300			
30.6.12	To M. Ltd. A/c [Commission due]					
	Ordinary commission [1,65,000 X 6%]	9,900				
	Del credere commission [1,65,000 X 4%]	6,600	16,500			
30.6.12	To P/L A/c [Profit on consignment – transferred]		7,300			
			1,96,100			1,96,100

WORKINGS:

Value of goods destroyed-in-transit & unsold stock

	Litres	₹
Cost of goods sent [5,000 X ₹ 32]	5,000	1,60,000
Add: Consignor's expenses (being, freight and insurance charges)	-	5,000
	5,000	1,65,000
Less: Goods destroyed -in-transit [₹ 1,65,000 X 200/5,000]	200	6,600
Goods received by consignee	4,800	1,58,400
Add: Non-recurring expenses incurred by consignee (being, clearing charges)	-	6,100
	4,800	1,64,500
Less: Normal loss	100	-
	4,700	1,64,500
Unsold Stock = [5,000 – 200 – 100 – 4,000] = 700 litres		
∴Value of 700 litres	₹1,64,500 X $\frac{700}{4,700}$	= ₹ 24,500

15. **Tumpa consigned 1,000 kg of rice @ ₹ 20 per kg to Pintu. She paid: Freight ₹ 2,500; Dock Charges ₹ 1,500; and Insurance ₹ 1000. 200 kg of rice was destroyed in transit due to an accident. An insurance claim of ₹ 3,500 was admitted by the insurance company. Pintu sold 720 kg rice @ ₹ 30 per kg and incurred clearing charges ₹ 1,800; carrying charges ₹ 1,200; Godown Rent ₹ 1,500 and selling expenses ₹ 1,000. Pintu is to receive an ordinary commission @ 8% on sales. He could not realise Rs, 2,000 from debtors and it was proved bad. Pintu remits ₹ 10,000 by a bank draft to Tumpa. Show the Consignment Account in the books of Consignor.**

Solution

Books of Tumpa

Dr. **Consignment A/c** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Goods sent on Consignment A/c [1,000 X ₹ 20]		20,000	By Consignment Debtors A/c [Sale: 720 X ₹ 30]	21,600
To Bank A/c [Expenses incurred]			By Goods Destroyed-in-Transit A/c [WN: 1]	5,000
Freight	2,500		By Consignment Stock A/c [WN: 1]	2,300
Dock Charges	1,500			
Insurance	1,000	5,000	By P/L A/c [Loss on consignment transferred]	5,328
To Pintu A/c [Expenses paid by consignee]				
Clearing Charges	1,800			
Carrying charges	1,200			
	3,000			
Godown Rent	1,500			
Selling Expenses	1,000	5,500		
To Pintu A/c [Commission due: ₹ 21,600 X 8%]		1,728		
To Consignment Debtors A/c [Bad Debt written-off]		2,000		
		34,228		34,228

WORKINGS:

1. Value of goods lost-in-transit and unsold stock

	Kg.	Amount (₹)
Cost of goods sent	1,000	20,000
Add: Consignor's expenses (being, freight; dock charges and insurance)	-	5,000

	1,000	25,000
Less: Goods lost in transit [₹ 25,000 X 200 / 1,000]	200	5,000
	800	20,000
Add: Non-recurring expenses incurred by consignee (being, Clearing charges and Carrying charges)	-	3,000
	800	23,000
Unsold Stock = [1,000 – (200 + 720)] = 80 units ∴ Value of 80 units	₹ 23,000 X $\frac{80}{800}$ = ₹ 2,300	

16. A of Agra sent on consignment goods valued ₹ 1,00,000 to B of Bhagalpur on Mar. 1, 2011. He incurred an expenditure of ₹ 12,000 on Freight and Insurance. A's accounting year closes on December 31. B was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. B took delivery of the consignment by incurring expenses of ₹ 3,000 for goods consigned.

On Dec. 31, 2011; B informed on phone that he had sold all the goods for ₹ 1,50,000 by incurring selling expenses of ₹ 2,000. He further informed that only ₹ 1,48,000 had been realised and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale. The consignor closes his books on Dec. 31 each year.

On Jan. 5, 2012; A received the cheque for the amount due from B and incurred bank charges of ₹ 260 for collecting the cheque. The amount was credited by the Bank on 9.1.2012.

Write up the Consignment A/c finding out the profit/loss on the consignment, B A/c, Provision for Expenses A/c and Bank A/c in the books of the consignor, recording the transactions upto the receipt and collection of the cheque.

Solution:

Books of A

Dr. Consignment to Bhagalpur A/c Cr.

Date	Particulars		Amount (₹)	Date	Particulars	Amount (₹)
1.3.11	To Goods sent on Consignment A/c		1,00,000	31.12.11	By B A/c [Sale]	1,50,000
1.3.11	To Bank A/c [Expenses incurred] Freight and Insurance		12,000			
31.12.11	To B A/c [Expenses paid by consignee]					
	Delivery Charges	3,000				
	Selling Expenses	2,000	5,000			
31.12.11	To B A/c [Commission due]					
	Ordinary Commission [1,50,000 X 5%]	7,500				
	Del credere Commission [1,50,000 X 3%]	4,500	12,000			

31.12.11	To Provision for Expenses A/c [Provision created for collection charges]	260			
31.12.11	To P/L A/c [Profit on consignment transferred]	20,740			
		1,50,000			1,50,000

Dr. **B A/c** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.11	To Consignment to Bhagalpur A/c [Sales]	1,50,000	31.12.11	By Consignment to Bhagalpur A/c [Expenses paid by consignee]	5,000
			31.12.11	By Consignment to Bhagalpur A/c [Commission due]	12,000
			31.12.11	By Balance c/d [Balance due: : B/Fig.	1,33,000
		1,50,000			1,50,000
1.1.12	To Balance b/d	1,33,000	5.1.12	By Cheque for Collection A/c [Final remittance]	1,33,000
		1,50,000			1,50,000

Dr. **Provision for Expenses A/c** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
9.1.12	To Cheque for Collection A/c [Bank charges deducted]	260	31.12.11	By Consignment to Bhagalpur A/c	260

Dr. **Bank A/c** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
9.1.12	To Cheque for Collection A/c [1,33,000 – 260]	1,32,740	9.1.12	By Balance c/f	1,32,740

Workings:

1. **Bank charges for collection of cheques:**
   The cheques collected will be settled in the next year. So, a provision is to be created for the related anticipated expenses (namely, Bank charges for collection of cheques) at the end of the current accounting period [as per the 'Doctrine of Conservatism'].
   31.12.11. Consignment A/c 260
   To Provision for Expenses A/c 260

2. **Cheques received from consignee:**
   As the cheque was encashed after few days of receiving of it, the amount has been debited to a temporary account called 'Cheques for Collection A/c'. So, journal entry will be
   5.1.12 Cheques for Collection A/c Dr. 1,33,000
   To B A/c 1,33,000

3. **Amount realised from cheques:**
   On receiving the amount, Bank A/c is to be debited and Provision for Expenses A/c is to be cancelled as the collection charges has been deducted by Bank, as under:
   9.1.12 Bank A/c Dr. 1,32,740
   Provision for Expenses A/c Dr. 260
   To Cheques for Collection A/c 1,33,000

17. On Jan. 1, 2012 goods costing ₹ 1,32,000 were consigned by Shri Ganesh of Chennai to his agent Shri Harish in Amritsar at a pro-forma invoice price of 20% above cost. Shri Ganesh paid freight and other forwarding charges amounting to ₹ 4,000. The consignee was allowed ₹ 2,000 p.a. towards establishment costs, 5% commission on gross sales. Shri Harish paid ₹ 1,000 as godown rent and insurance for three months ended Mar. 31, 2012.Three-fourths of the goods were sold at $33^1/_3$% profit on cost, half of which were credit sales. Balance stock was valued at pro-forma invoice price. Consignee reported that a customer who purchased goods worth ₹ 10,000 was untraceable and his balance was considered to be unrealisable. All other the debtors cleared their dues. Shri Harish cleared his dues by sending a bank draft on Mar. 31, 2012. Prepare necessary accounts in the books of Consignor, for 3 months ending on Mar. 31, 2012.

Solution:

Books of Shri Ganesh

Dr. Consignment to Amritsar A/c Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.1.12	To Goods sent on Consignment A/c [₹ 1,32,000 + 20% there off]	1,58,400	31.3.12	By Harish A/c [Cash Sales – WN:1]	66,000
1.1.12	To Bank A/c [Expenses incurred]		31.3.12	By Consignment Debtors A/c [Credit sales – WN:1]	66,000

	Freight and other Forwarding Charges		4,000			
31.3.12	To Harish A/c [Expenses paid by consignee] Establishment Charges [2,000 X 3/12] Godown Rent and Insurance	500 1,000	1,500	31.3.12	By Goods sent on Consignment A/c [Loading on goods sent: ₹ 1,32,000 X 20%]	26,400
				31.3.12	By Consignment Stock A/c [WN: 2]	40,600
31.3.12	To Harish A/c [Commission due: 1,32,000 X 5%]		6,600			
31.3.12	To Consignment Debtors A/c [Bad debt written off]		10,000			
31.3.12	To Stock Reserve A/c [WN:2]		6,600			
31.3.12	To P/L A/c [Profit on consignment transferred]		11,900			
			1,99,000			1,99,000

Dr. **Harish A/c** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.12	To Consignment to Amritsar A/c [Sales]	66,000	31.3.12	By Consignment to Amritsar A/c [Expenses incurred]	1,500
31.3.12	To Consignment Debtors A/c [Collection made by consignee: 66,000 – 10,000]	56,000	31.3.12	By Consignment to Amritsar A/c [Commission due]	6,600
			31.3.12	By Bank A/c [Final remittance - B/Fig.]	1,13,900
		1,22,000			1,22,000

Dr. **Consignment Debtors A/c** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.12	To Consignment to Amritsar A/c [Sales]	66,000	31.3.12	By Harish A/c [Amount recovered by consignee]	56,000
			31.3.12	By Consignment to Amritsar A/c [Bad debt written off]	10,000
		66,000			66,000

Dr. **Goods sent on Consignment A/c** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment to Amritsar A/c [Loading on goods sent]	26,400		By Consignment to Amritsar A/c [Invoice price of goods sent]	1,58,400
	To Purchases/Trading A/c [Transfer]	1,32,000			
		1,58,400			1,58,400

Workings:

1. **Cash & credit sales made by consignee**

	₹
Cost price of goods sent	1,32,000
Cost price of goods sold [₹ 1,32,000 X 3/4]	99,000
Add: Profit @ 33 $^1/_3$ % on Cost [₹ 99,000 X 33 $^1/_3$ %]	33,000
Total Sales	1,32,000
∴ Cash Sales [₹ 1,32,000 x 1/2]	66,000
∴ Credit Sales [₹ 1,32,000 x 1/2]	66,000

2. **Value of unsold stock**

	₹
Invoice Price of goods sent	1,58,400
Add: Consignor's expenses [Being, freight and other forwarding charges]	4,000
	1,62,400
Unsold Stock [(1- $^3/_4$) = $^1/_4$th of the total goods [$^1/_4$th ₹ 1,62,400]	40,600
Loading on stock on consignment = Total Load X ¼ = ₹ 26,400 X ¼	6,600

18. P of Kolkata consigned goods costing ₹ 45,000 to Q of Delhi. The invoice price was made so as to show a profit of 33$^1/_3$% on cost. P paid ₹ 300 as carriage and ₹ 1,200 as freight & insurance, Goods costing ₹ 5,000 were destroyed while in-transit and the insurance company admitted the full claim. In Delhi, Q paid ₹ 240 as carriage and ₹ 600 as godown rent. $^2/_3$ rd of the goods received by Q were sold by him. Q sent a cheque to P for the sale proceeds after deducting the expenses incurred by him and the commission due to him: ordinary @ 5% and del credere @ 2$^1/_2$%. Show the Consignment A/c and Q's A/c in P's Ledger.

Solution:

Dr. **Consignment to Delhi A/c** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Goods sent on Consignment A/c [₹ 45,000 + $33^1/_3$% thereof]		60,000	By Q A/c [Sale – WN :2]	35,556
To Bank A/c [Expenses incurred]			By Goods Destroyed-in-Transit A/c [WN:1]	6,834
Carriage	300		By Goods Sent on Consignment A/c	15,000
Freight & Insurance	1,200	1,500	[Load on goods sent: 45,000 X $^1/_3$]	
To Q A/c [Expenses paid by consignee]			By Consignment Stock A/c [WN: 1]	18,301
Carriage	240			
Godown Rent	600	840		
To Q A/c [Commission due]				
Ordinary Commission [35,556 X 5%]	1,778			
Del credere Commission [35,556 X $2^1/_2$%]	889	2,667		
To Goods Destroyed-in-Transit A/c [loading on goods destroyed –WN: 1]		1,667		
To Stock Reserve A/c [Loading on unsold stock – WN: 1]		4,444		
To P/L A/c [Profit on consignment transferred]		4,573		
		75,691		75,691

Dr. **Q A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Consignment to Delhi A/c [Sales]	35,556	By Consignment to Delhi A/c [Expenses incurred]	840
		By Consignment to Delhi A/c [Commission due]	2,667
		By Bank A/c [Final remittance: B/Fig.]	32,049
	35,556		35,556

Workings:

1. **Value of goods destroyed-in-transit and unsold stock**

	I.P. (₹)	Load (₹)
Goods sent	60,000	15,000 [45,000 X $^1/_3$]

Add: Consignor's expenses [being, Carriage and Freight & Insurance]	1,500	-
	61,500	15,000
Less: Goods destroyed-in-transit [Goods costing ₹ 5,000 were destroyed i.e. 5,000/ 45,000 = 1/9th of goods sent] ∴ Load on goods destroyed-in-transit = [15,000 X 1/9] = ₹ 1,667	6,833	1,667
	54,667	13,333
Add: Non-recurring expenses incurred by consignee [being, carriage]	240	-
	54,907	13,333
∴ Unsold stock = 1/3rd of goods received [See note] ∴ Value unsold stock ∴ Load on goods unsold stock = [13,333 X 1/3] = ₹ 4,444	54,907 X 1/3 = 18,302	

N.B.: As 2/3rd of the goods received by Q were sold by him, 1/3rd of the goods received were lying in godown as unsold stock.

2. **Sales made by consignee**

	₹
Cost of goods sent by consignor	45,000
Less: Cost of goods lost in transit	5,000
∴Cost of goods received by consignee	40,000
Cost of goods sold by consignor [40,000 X 2/3]	26,667
Add: Profit @ 33 1/3% on Cost	8,889
∴Sale made by consignee	35,556

19. The Account Sales received from an agent disclosed that the total sales effected by him during 2011-12 amounted to ₹ 4,50,000. This included ₹ 3,12,500 for sales made at invoice price which is cost plus 25% and the balance at 10% above the invoice price. He incurred expenses to the tune of ₹ 5,000 out of which a sum of ₹ 1,800 is recurring in nature. Forwarding expenses of the Consignor totaled ₹ 2,400. The Agent had remitted the balance due from him through Bank Draft after deducting the expenses. 5% commission on gross sales, bad debts ₹ 850 and a Bills payable accepted by him for ₹ 10,000. The value of unsold stock at original cost lying with the Agent as on 31st March, 2012 amounted to ₹ 50.000. You are required to prepare the Consignment Account and the Consignee's Account in the Books of the Consignor.

Solution:

Books of Consignor

Dr. Consignment A/c Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Goods sent on Consignment A/c [WN:1]	5,00,000		By Consignment Debtors A/c [Sale]	4,50,000
	To Bank A/c [Expenses incurred] Forwarding Expenses	2,400		By Goods sent on Consignment A/c [Load on goods sent – WN:1]	1,00,000
	To Consignee A/c [Expenses paid by consignee] Non-recurring Expenses [5,000 – 1,800] 3,200; Recurring Expenses 1,800	5,000		By Consignment Stock A/c [WN: 2]	63,200
	To Consignee A/c [Commission due: ₹ 4,50,000 X 5%]	22,500			
	To Consignment Debtors A/c [Bad debt]	850			
	To Stock Reserve A/c [Load on unsold stock – WN: 2]	12,500			
	To P/L A/c [Profit on consignment transferred]	69,950			
		6,13,200			6,13,200

Dr. Consignee A/c Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment Debtors A/c [Collection from debtors: ₹ 4,50,000 – ₹ 850]	4,49,150		By Bills Receivable A/c	10,000
				By Consignment A/c [Expenses incurred]	5,000
				By Consignment A/c [Commission due]	22,500
				By Bank A/c [Final remittance - B/Fig.]	4,11,650
		4,49,150			4,49,150

Workings:

1. **Goods sent on consignment**

	₹
Total sales	4,50,000
Less: Sales made at invoice price	3,12,500
∴ Sales made at invoice price plus 10%	1,37,500
∴ Total sales at invoice price	4,37,500
[₹ 3,12,500 + (₹ 1,37,500 X 100/110)]	
Less: Loading on above [₹ 4,37,500 X25/125]	87,500
∴Cost of Goods sold	3,50,000
Add: Unsold stock	50,000
∴Cost of goods sent on consignment	4,00,000
Add: Loading @ 25%	1,00,000
Goods sent on consignment [at IP]	5,00,000

2. **Value of unsold stock**

	₹
Original cost of unsold stock (given)	50,000
Add: Loading [₹ 50,000 X 25%]	12,500
	62,500
Add: Proportionate expenses of consignor [₹ 2,400 X 62,500 / 5,00,000]	300
Proportionate non-recurring expenses paid by consignee [₹ 3,200 X 62,500 / 5,00,000]	400
∴value of unsold stock	63,200

JOINT VENTURE ACCOUNTS

20. Multiple choice questions:

***Choose the correct alternative*:**

1. The nature of Joint Venture account is:

(a) A Nominal Account

(b) A Personal Account

(c) A Real Account

(d) None of the above

2. When Expenses paid for the joint venture, the amount is debited to:

(a) Expenses Account

(b) Purchase Account

(c) Joint Venture Account

(d) Venturer's Capital Account

3. **Joint Bank account is to be opened:**
   (a) **When no separate set of books for the venture are maintained**
   (b) **When separate set of books for the venture are maintained**
   (c) **Under both situations**
   (d) **Not under above any situation**

4. **In case of memorandum method when there are three Co-Venturers, each Co-Venturer opens in its books for the venture:**
   (a) **One Account**
   (b) **Two Accounts**
   (c) **Three Accounts**
   (d) **None Accounts**

5. **No entry is passed for goods supplied or expenses incurred on Joint Venture by the 'Other Co-venture' in case of:**
   (a) **Memorandum Joint Venture Account**
   (b) **Record maintained by one of the Co-ventures'**
   (c) **Keeping separate set of books**
   (d) **None of the above**

Answer:

1. (a)
2. (c)
3. (b)
4. (a)
5. (a)

21. State whether the following statements are true or false:

1. **Joint Venture has very long life.**
2. **Co-Ventures and Co-Partners are interchangeable terms.**
3. **Parties of joint venture are known as Co-Venturers**
4. **Joint Venture and Partnership are synonymous terms.**
5. **Co-Venturers work for commission.**

Answer:

1. False
2. False
3. True
4. False
5. False

22. Distinguishes between joint venture and partnership business.

Answer:

There are some similarities between joint venture and partnership business but there are some basic differences between the two which are given below:

Sl. No	Joint Venture	Partnership Business
1	It is ended after completion of the event or work.	It is a continuous process in nature.
2	There is no need of firm's name.	A Partnership firm must have a name.
3	No separate set of books is needed to be maintained; t he acco unt can be maintained even in one of the Co-Venturer's books only.	Different set of books have to be maintained.
4	The Co-Venturers are free to carry on a similar business.	No partner can carry on a similar nature of business.
5	A Minor cannot be a Co-Venturer as he is not competent to enter into a contract.	A Minor can also be admitted to the benefits of the firm.

23. State the differences between Joint Venture and Consignment.

Answer:

The differences between Joint Venture and Consignment are given below:

Sl. No.	Joint Venture	Consignment
1	It is a partnership business in nature (though temporary) since Co-Venturers are partners.	Consignee is not necessarily to be a partner. So, it is not a partnership business.
2	Relationship between Co-Venturers is that of the Partners.	The Consignor is principal while the consignee is agent.
3	Funds are provided by every Co-Venturer.	Only Consignor provides the funds in the business.
4	Each Co-Venturer has full right to act as a partner in the business.	Consignee works as an ag ent and has to follow the instructions of the Consignor.
5	Co-Venturers are to share profit or loss in their predetermined ratios or equally.	The Consignee is only to receive commission and reimbursement of expenses incurred on behalf of the consignor.

PROBLEMS AND SOLUTIONS

24. R and P are carrying on a business as contractors. They jointly take up the work of constructing a building of Mr. Bose at an agreed price of ₹ 5,00,000 payable as ₹ 3,00,000 in cash and ₹ 2,00,000 in fully paid shares of a company. A bank account is opened in which R and P paid ₹ 3,00,000 and ₹ 75,000 respectively.

The following costs were incurred in completing the construction:

(a) Salary paid – ₹ 1,00,000;

(b) Materials purchased – ₹ 2,00,000;

(c) Materials supplied by R from the stock of his own business – ₹ 50,000;

(d) Engineer's fees paid by P – ₹ 10,000.

The contract price was duly received. The accounts of the venture were closed; R taking up all the shares at an agreed valuation of ₹ 1,70,000 and P taking up the unused stock of materials at ₹ 15,000.

Prepare necessary accounts in the Ledger of the Venture assuming that a separate set of books are maintained for this purpose and that the net result of the same is shared by R and P in the ratio of 3:2.

Solution:

In the Books of R and P

Dr. Joint Venture A/C Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Joint Bank A/C		By Joint Bank A/C	
Salary	1,00,000	Contract price (cash)	3,00,000
Materials	2,00,000	By R A/C	
To R A/C		Shares taken over [Note 1]	1,70,000
Materials supplied	50,000	By P A/C	
To P A/C		Stock taken over	15,000
Engineer's Fees	10,000		
To Co-Venturer's Capital A/C			
Profit:			
R [3/5 X 1,25,000]	75,000		
P [2/5 X 1,25,000]	50,000		
	4,85,000		**4,85,000**

Dr. Joint Bank A/C Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To R A/C		By Joint Venture A/C	
Capital introduced	3,00,000	Salary	1,00,000
To P A/C		Materials	2,00,000
Capital introduced	75,000	By R A/C	
To Joint Venture A/C		Final settlement	2,55,000
Contract price (cash)	3,00,000	By P A/C	
		Final settlement	1,20,000
	6,75,000		6,75,000

Dr. **Co-Venturer's Capital A/C** **Cr.**

Particulars	R ₹	p ₹	Particulars	R ₹	P ₹
To Joint Venture A/C			By Joint Bank A/C		
Shares taken over	1,70,000	--	Capital introduced	3,00,000	75,000
Stock taken over	--	15,000	By Joint Venture A/C		
To Joint Bank A/C			Materials		
Final settlement	2,55,000	1,20,000	Engineer's Fees	50,000	--
			By Joint Venture A/C	--	10,000
			Profit		
				75,000	50,000
	4,25,000	1,35,000		4,25,000	1,35,000

Note: The loss on share ₹ (2,00,000 – 1,70,000) i.e. ₹ 30,000 can alternatively be adjusted through Shares account.

25. Azad and Arjun entered into a Joint Venture and opened a Fast Food Shop in Durga Puja festival at Jadavpur. Their profit sharing ratio is 1:1. Azad delivers stock of ₹ 50,000. He also paid carriage charges amounting to ₹ 2,500. Arjun incurred expenses on carriage and electricity charges for ₹ 6,500 and receives cash for sales ₹ 30,000. Arjun taken over stock at an agreed value of ₹ 10,000 for his personal use. At the end of the venture, Azad has taken over the remaining stock which was valued at ₹ 11,000.

You are required to prepare necessary ledger accounts in the books of Azad and Arjun.

Solution:

In the Books of Azad

Dr. **Joint Venture A/C** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Purchase A/C	50,000	By Arjun A/C	
To Bank A/C		Sale proceeds	30,000
Carriage	2,500	goods taken over	10,000
To Arjun A/C		By Purchases A/C	
Carriage and electricity	6,500	goods supplied	11,000
		By Arjun A/C	
		loss on venture at 1:1	4,000
		By Profit and Loss A/C	
		loss on venture at 1:1	4,000
	59,000		**59,000**

Dr. **Arjun A/C** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Joint Venture A/C Sale proceeds Goods taken over To Joint Venture A/C loss on venture at 1:1	 30,000 10,000 4,000	By Joint Venture A/C Carriage and electricity By Bank A/C Final Settlement	 6,500 37,500
	44,000		**44,000**

In the Books of Arjun

Dr. **Joint Venture A/c** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Azad A/C goods supplied To Azad A/C Carriage To Bank A/C Carriage and electricity	 50,000 2,500 6,500	By Bank A/C Sales proceeds By Drawing A/C Goods taken over By Azad A/C Stock taken over by Azad By Azad A/C - loss on venture at 1:1 By Profit and Loss A/C - loss on venture at 1:1	 30,000 10,000 11,000 4,000 4,000
	59,000		**59,000**

Dr. **Azad A/C** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Joint Venture A/C Stock taken over To Joint Venture A/C loss on venture To Bank A/C Final Settlement	 11,000 4,000 37,500	By Joint Venture A/C Goods supplied Carriage	 50,000 2,500
	52,500		**52,500**

26. Molu and Nilesh entered into a Joint Venture for purchase and sale of electronic goods, sharing profit & loss in this ratio of 3:2. They also agreed to receive 5% commission on their individual sales and the following information was extracted from the records.

July 1. 2017: Molu purchased goods worth ₹1,90,000 financed to the extent of 90% out of his funds and balance by loan from his friend Kartik.

Aug. 1 2017: Molu sent goods costing ₹1,70,000 to Nilesh and paid ₹1,410 as freight. Nilesh paid ₹13,410 to Molu.

Oct. 1, 2017: Nilesh sold all the goods sent to him. Molu paid the loan taken from his uncle including interest of ₹350.

All sales by either party were made at as uniform profit of 40% after cost. On November 30, 2017, they decided to close the venture by transforming the balance of goods unsold lying with Molu at a cost of ₹9,000 to a wholesale dealer. They further disclosed that goods worth ₹ 4,000 were taken personally by Molu at an agreed price of ₹ 5,000.

You are required to prepare the Memorandum Joint Venture Account, Joint Venture with Molu in the books of Nilesh and Joint Venture with Nilesh in the books of Molu.

Solution:

Memorandum Joint Venture A/C

Particulars	Amount ₹	Particulars	Amount ₹
To Molu A/C Purchase (Note) 1,90,000 Freight 1,410 Interest on loan 350	1,91,760	By Nilesh A/C - Sales (1,70,000 X 140%)	2,38,000
To Nilesh A/C Commission (5% on ₹ 2,38,000)	11,900	By Molu A/C Sales (190000 – 170000 – 9000-4000) i.e.,7000 X 140%	9,800
To Molu A/C Commission(5% on ₹ 9800)	490	Stock taken over	5,000
To Profit on Venture A/C Molu - (3 / 5) 34,590 Nilesh - (2 / 5) 23,060	57,650	Stock transferred to wholesale dealer	9,000
	2,61,800		2,61,800

In the Books of Molu

Dr. Joint Venture with Nilesh A/C Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c Cost of goods bought	1,90,000	By Bank A/C	13,410
To Bank A/c Freight 1,410 Interest on loan 350	1,760	By Drawing A/C stock taken over	5,000
To Commission A/C	490	By Stock transferred to wholesale dealer A/C	9,000
To P & L A/C Share of Profit	34,590	By Bank A/C Sale proceeds	9,800
		By Bank A/C Final settlement	1,89,630
	2,26,840		2,26,840

In the Books of Nilesh

Dr. Joint Venture with Molu A/C Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/C	13,410	By Bank A/C	2,38,000
To Commission A/C	11,900	Sale	
To P & L A/C			
Share of Profit	23,060		
To Bank A/C - Final settlement	1,89,630		
	2,26,840		**2,26,840**

Note:

1. Purchase includes goods for ₹ 19,000 (10% of total value of purchase) was bought by Loan.

INSURANCE CLAIM

26. Multiple choice questions:

Choose the correct alternative:

1. **Indemnity period means?**
   - **(a) It is the period that begins from the date of occurrence of damage and ends on any date within 12 months from the former.**
   - **(b) This period indicates the time-span during which the normal activities of the business are believed to be disrupted.**
   - **(c) Both of these**
   - **(d) None of these**

2. **Standing charges mean?**
   - **(a) Fixed charges**
   - **(b) Variable charges**
   - **(c) Both**
   - **(d) None of these**

3. **Gross profit means?**
   - **(a) Net profit plus insured standing charges**
   - **(b) Net profit minus insured standing charges**
   - **(c) Both of these**
   - **(d) All of these**

4. **Short sales mean?**
   (a) Standard sales exceeds actual sales
   (b) Actual sales exceeds standard sales
   (c) Both of these
   (d) None of these

5. **Standard turnover means?**
   (a) Turnover immediately preceding the date of damage
   (b) Turnover during damage period
   (c) Both of these
   (d) None of these

Answer:

1. (c)
2. (a)
3. (a)
4. (a)
5. (a)

27. Fill in the blanks:

1. Annual turnover is the turnover during the 12 months immediately……….. the date of the damage.
2. Standard turnover corresponds with the…………...period.
3. Under insurance claim 'Standing charges' means…….. Standing charges only.
4. If the policy value is ………….value of stock lost, is called over insurance.
5. Average clause arises in case of………….

Answer:

1. preceding
2. indemnity
3. insured
4. more than
5. under insurance.

28. State whether the following statements are true or false:

1. Increased cost of working means expenditure incurred during indemnity period.
2. Turnover means amount payable to the insured for his selling goods and services.
3. Salvage of stock means stock saved during accident.

4. **Unusual item and defective item is separate under insurance claim**
5. **Defective items mean goods which cannot fetch the usual rate of gross profit.**

Answer:

1. True
2. True
3. True
4. False
5. True

29. Match the following:

	Column - A		Column - B
1	Average clause	A	Policy value > value of stock lost
2	Over insurance	B	Loss of stock *Policy value Value of stock on the date of fire
3	Gross claim = net claim	C	Cannot fetch usual gross profit
4	Net claim in average clause	D	In case of over insurance
5	Defective items	E	Under insurance

Answer:

1. E
2. A
3. D
4. B
5. C

PROBLEMS AND SOLUTIONS

30. Fire occurred in the premises of X & Co. on 1st September 2016 and stock of the value of ₹ 101000 was salvaged and the business books and records were saved.

The following information was obtained.

Particulars	₹
Purchase for the year ended 31.3.2016	700000
Sales for the year ended 31.3.2016	1100000
Purchase from 1.3.2016 to 1.9.2016	240000
Sales from 1.3.2006 to 1.9.2016	360000
Stock on 31.3.2015	300000
Stock on 31.3.2016	340000

Further I formation is also given that the stock on 31.3.2016 was overvalued by ₹ 20000. Purchases and sales occur evenly over the months.

Calculate the amount of the claim to be presented to the insurance company in respect of losses. Rate of gross profit is to be based on the year ended 31.3.2016.

Solution:

In the books of X & Co.

Dr. Trading Account for the year ended 31.03.2016 Cr.

Particulars	₹	Particulars	₹
To Opening Stock	300000	By Sales	1100000
To Purchase	700000	By Closing Stock	320000
To Gross profit	420000	(₹ 340000 - ₹ 20000)	
	1420000		**1420000**

Rate of Gross profit for the year 2005-06: Gross profit/Sales*100= 420000/1100000*100
= 38.1818% (approx)

Dr. Estimated Trading Account for the period ended 1.09.2016 Cr.

Particulars	₹	Particulars	₹
To Opening Stock	320000	By Sales (360000*5/6)	300000
To Purchase (240000*5/6)	200000	By Closing Stock	334545
To Gross profit (38.1818%*300000)	114545	(balancing Figure)	
	634545		**634545**

Statement of Claim for Loss of Stock

Particulars	₹
Estimated value of stock on the date of fire	334545
(-) value of stock salvaged	101000
Claim for loss of stock	**233545**

31. From the following information, calculate the amount of claim for loss of stock with Insurance Company C Ltd:

Particulars	**₹**
Purchase for the year 2014	**915000**
Sales for the year 2014	**1200000**

Purchase from 1.1.2015 to 30.6.2015	**800000**
Sales from 1.1.2005 to 30.6.2015	**990000**
Stock on 1.1.2014	**135000**
Stock on 1.1.2015	**150000**

You are informed that:

(i) In 2005 the purchase prices raised by 20% above the level prevailing in 2014.

(ii) In 2005 the selling prices hiked by 10% over the level prevailing in 2014.

(iii) Salvaged value of stock ₹ 20000.

(iv) Fire insurance policy for ₹ 148750 to cover the loss of stock by fire.

Solution:

In the books of C Ltd.

Dr. Trading Account for the year ended 31.12.2014 Cr.

Particulars	**₹**	**Particulars**	**₹**
To Opening Stock	135000	By Sales	1200000
To Purchase	915000	By Closing Stock	150000
To Gross profit	300000		
	1420000		**1420000**

Dr. Estimated Trading Account for the period from 1.1.15 to 30.06.15 Cr.

Particulars	**Actual ₹**	**At last Year's rate ₹**	**Particulars**	**Actual ₹**	**At last Year's rate ₹**
To Opening Stock	150000	150000	By Sales	990000	900000
To Purchase	800000	666667	By Closing Stock	170000	141667
To Gross profit	210000	225000			
	1160000	**1041667**		**1160000**	**1041667**

Statement of Claim for Loss of Stock

Particulars	**₹**
Estimated value of stock on the date of fire on 30.06.05	170000
(-) value of stock salvaged	20000
Actual stock lost by fire	**150000**

The Policy value of the insured stock is ₹ 148750

The claim to be made after applying Average Clause= Actual Loss*Sum Insured/Value of Stock= 150000*148750/170000 = ₹ 131250.

Workings:

1. Rate of Gross profit for the year 2004-05: 300000/1200000*100=25%. It is assumed that this rate has not changed in 2005 though purchase and selling price have risen.
2. Purchase in 2005 at the price level of 2004 = ₹ 800000*100/120 = ₹ 666667.
3. Sales in 2005 at the price level of 2004 = ₹ 990000*100/110 = ₹ 900000.
4. Gross profit between 1.1.05 and 30.6.05 at last year's rate = 25% of 900000 = ₹ 225000.
5. Closing stock for this period at last year's rate ₹ 141667 (balancing figure). Stock on that date at current price = 141667 + 20% thereof = ₹ 170000.

32. A & Co. suffered a loss of stock due to fire on 31.3.2007. From the following information prepare a statement showing the claim for the loss to be submitted:

Particulars	**₹**
Purchase for the year 2006	**320000**
Sales for the year 2006	**405200**
Purchase from 1.1.2007 to 31.3.2007	**108000**
Sales from 1.1.2007 to 31.3.2007	**122800**
Stock on 1.1.2006	**76800**
Stock on 1.1.2007	**63600**

An item of goods purchased in 2005 at a cost of ₹ 20000 was valued at ₹ 12000 on 31.12.05. Half of these goods were sold during 2006 for ₹ 5200 and the remaining stock was valued at ₹ 4800 on 31.12.06. ¼th of the original stock was sold for ₹ 2800 in February'07 and the remaining stock was valued at 60% of the original cost. With the exception of this item, the rate of gross profit remained fixed. The stock salvaged was estimated at ₹ 24000. The insurance policy value was for ₹ 300000.

Solution:

In the books of A& Co.

Dr. Trading Account for the year ended 31.12.2006 Cr.

Particulars	**₹**	**₹**	**Particulars**	**₹**	**₹**
To Opening Stock	76800		By Sales	405200	
(-) Value of Abnormal item	12000	64800	(-) Sale of Abnormal item	5200	400000
To Purchase		320000	By Closing Stock	63600	
To Gross profit		74000	(-) Value of Abnormal item	4800	58800
		1420000			1420000

Rate of gross profit for the year 2006: 74000/400000*100=18.5%.

Dr. **Estimated Trading Account for the period from 1.1.07 to 31.3.07** Cr.

Particulars	₹	₹	**Particulars**	₹	₹
To Opening Stock		58800	By Sales	122800	
To Purchase		108000	(-) Sale of Abnormal Item	2800	120000
To Gross profit (₹ 120000*18.5%)		22200			
			By Closing Stock (balancing figure)		69000
		1041667		1160000	1041667

Statement showing Claim for Loss of Stock

Particulars	₹
Estimated value of stock on the date of fire on 31.3.07	69000
(+) Estimated value of abnormal item of stock	3000
(1-1/2-1/4)= 1/4*20000= 5000*60%	72000
(-) value of stock salvaged	24000
Actual stock lost by fire	48000

The Policy value of the insured stock is ₹ 300000. There is over insurance. The amount of claim is ₹ 48000.

33. From the following particulars, prepare a claim for loss of profits under the consequential loss policy:

Particulars	₹
Date of fire – 30.6.2016	**-**
Period of indemnity – 6 months	**-**
Sum insured	**40000**
Turnover for the year ended 30.6.16	**200000**
Net profit for the accounting year ending 31.3.16	**12500**
Standing charges for the accounting year ending 31.3.16	**28500**
Turnover for the year ending 31.3.16	**198000**
Turnover for the indemnity period from 1.7.16 to 31.12.16	**56000**
Turnover for the period from 1.7.15 to 31.12.15	**110000**

The turnover of the year 2016–17 had shown a tendency of increase of 10% over the turnover of the preceding year.

Solution:

1. **Calculation of rate of gross profit**

Particulars	₹
Net profit for the year 2015-16	12500
(+) Insured standing charges for the year (assumed that all standing charges are insured)	28500
Gross Profit	41000

Rate of gross profit = Gross Profit for 2015-16/Sales for 2015-16*100 = 41000/198000*100 = 20.7% (approx)

2. **Short Sales during the indemnity period**

Particulars	₹
Sales between 1.7.15 to 31.12.15	110000
(+) 10% increase in 2016-17	11000
Standard Turnover	121000
(-) Actual sales between 1.7.16 to 31.12.16	56000
Short Sales	65000

Gross profit lost in short sales = ₹ 65000*20.7% = ₹ 13455.

Statement of Claim

Particulars	₹
Gross profit lost	13455
(+) Expenses admissible as increased working cost	Nil
(-) Savings in standing charges	Nil
Gross Claim	13455

Insurable value of gross profit on sales for the year immediately preceding the fire
= ₹ 200000*20.7% = ₹ 41400.
Net Claim = Gross Claim/Insurable Value*Policy Value
Net Claim = ₹13455/₹ 41400*₹ 40000 = ₹ 13000.

Chapter – 3

PREPARATION OF FINANCIAL STATEMENTS OF PROFIT ORIENTED ORGANIZATIONS

Preparation of Financial Statements of Profit Oriented Organizations

1. **Multiple choice questions:**

Choose the correct alternative:

1. ________ Account charges the indirect expenses and losses against the Gross Profit and other indirect incomes to determine the Net Profit/ Loss of the concern during a particular accounting period.

    (a) Trading

    (b) Profit & Loss

    (c) Income & Expenditure

    (d) Receipts & Payments

2. Among the financial statements, ___________ is/ are referred to as 'point statement'.

    (a) Trading Account.

    (b) Profit & Loss Account

    (c) Balance Sheet

    (d) All of the above

3. The transactions relating to the current accounting period, which remain unaccounted for till the end of that accounting period, are simply referred to as ___________.

    (a) Adjustments

    (b) Events

    (c) Prior Period Items

    (d) None of the above.

4. The financial statements of a profit-oriented manufacturing organisation include:

    (a) Trading Account.

    (b) Profit & Loss Account

    (c) Balance Sheet

    (d) All of the above

5. Given that values of opening inventory, purchases and closing inventory for a particular accounting period are ₹ 1,50,000, ₹ 4,80,000 and ₹ 2,00,000, the Cost of Goods Sold will be:

    (a) ₹ 5,30,000

(b) ₹ **3,40,000**

(c) ₹ **8,30,000**

(d) ₹ **4,30,000**

Answer:

1. (b)
2. (c)
3. (a)
4. (d)
5. (d)

2. Match the following:

	Column A		Column B
1.	**Profit & Loss A/c**	**A**	**Gross Profit**
2.	**Trading A/c**	**B**	**Point Statement**
3.	**Rigidity Preference Order**	**C**	**Indirect incomes and expenses**
4.	**Balance Sheet**	**D**	**Order of Realisability**
5.	**Liquidity Preference Order**	**E**	**Order of Permanence**

Answer:

	Column A		Column B
1.	Profit & Loss A/c	C	Indirect incomes and expenses
2.	Trading A/c	A	Gross Profit
3.	Rigidity Preference Order	E	Order of Permanence
4.	Balance Sheet	B	Point Statement
5.	Liquidity Preference Order	D	Order of Realisability

3. Fill in the blanks:

1. **_____________ Account is the second component of the final accounts of a profit-oriented concern.**
2. **Trading Account is drafted to determine the _________ of a profit-oriented concern.**
3. **__________ refers to the arrangement or grouping of assets and liabilities in the Balance Sheet.**
4. **The excess of total income over total expenditure of a profit organisation is called ________.**
5. **_________ is prepared to show the financial position of the organisation on a specific date.**

Answer:

1. Profit & Loss
2. Gross Profit
3. Marshalling

4. Net Profit
5. Balance Sheet

4. State whether the following statements are *true* or *false*:

1. **Final Accounts can be prepared only from the Trial Balance.**
2. **The preparation of Profit & Loss Account starts with the Gross Profit/ Loss.**
3. **Every ledger account balance will appear in any one of the components of the final accounts.**
4. **Balance Sheet is prepared to show the financial position of the organisation on a specific date.**
5. **The financial statements of a profit-oriented manufacturing organisation include Manufacturing A/c and Balance Sheet.**

Answer:

1. False
2. True
3. True
4. True
5. False

NUMERICAL ILLUSTRATIONS:

5. From the following Trial Balance of Shri Ganesh préparé Trading and Profit & Loss A/c for the year ended Dec. 31, 2017 and Balance Sheet as on that date after taking into consideration the adjustments given at the end of the Trial Balance.

Trial Balance as on 31.12.17

	Dr. (₹)	Cr. (₹)
Sales	-	7,40,000
Purchase (adjusted)	6,99,200	-
Wages	900	-
Capital A/c	-	48,500
National Insurance	300	-
Carriage Inward	400	-
Carriage Outward	500	-
Lighting	600	-
Rates and Insurance (including premium of ₹ 300 p.a. paid upto 30th June, 2018)	400	-
Stock at 31.12.17	61,250	-
Cash in hand	1,750	-
SBI-Fixed Deposit	1,500	

SBI-Current A/c	500	
Interest on Deposit	-	600
Buildings	30,000	-
Discount Allowed	100	-
Debtors and Creditors	4,000	20,000
Furniture	8,000	
Dividend Received	-	300
	8,09,400	8,09,400

Adjustments:

(a) National Insurance balance also include employer's contribution ₹ 150. Wages are shown 'net' after deducting national insurance contribution borne by the employees.

(b) Owing to the nature of employment, some employees are housed in the building of the business. The rental value of such portion is assessed at ₹ 500.

(c) Sales as shown in the trial balance sheet include the sale of old furniture (effected half way through the year) realising ₹ 200. The book value of the furniture at the commencement of the period was ₹ 300. The depreciation has been written off at 20% p.a.

(d) The manager is to get a commission of 1/5 on the net profits after charging his commission but before considering income from dividend.

(e) Depreciate building by 5%.

Solution:

Books of Shri Ganesh

Dr. **Trading and Profit and Loss A/c for the year ended 31.12.2017** ***Cr.***

Particulars	₹	₹	Particulars	₹	₹
To Purchases (Adjusted)		6,99,200	By Sales	7,40,000	
To Wages	900		Less : Sale proceeds of Furniture	200	7,39,800
Add: Employees contribution to National Insurance	150				
Rental value of building	500	1,550			
To Carriage Inward		400			
To Gross Profit c/d		38,650			
		7,39,800			7,39,800
To National Insurance	300		By Gross Profit b/d		38,650
Less: Employee's contribution	150	150	By Interest on Deposit		600
To Carriage Outward		500	By Dividend Received		300
To Lighting		600	By Rental value of building occupied by employees		500
To Rates and Insurance	400				
Less : Prepaid [300 X 6/12]	150	250			
To Discount Allowed		100			

To Loss on Sale of Furniture [WN: 1]		70			
To Depreciation :					
Building	1,500				
Furniture [1,540 + 30 **(WN: 1)**]	1,570	3,070			
To Manager's Commission [WN: 2]		5,885			
To Capital A/c [Net Profit transferred]		29,425			
		40,050			40,050

Balance Sheet of Shri Ganesh as on 31.12.17

Liabilities	₹	₹	Assets	₹	₹
Capital	48,500		Building	30,000	
Add : Net Profit	29,425	77,925	Less : Depreciation @ 5%	1,500	28,500
Sundry Creditors		20,000	Furniture	8,000	
Outstanding Manager's Commission [WN: 2]		5,885	Less : Book value of assest sold	300	
				7,700	
			Less : Depreciation @ 20%	1,540	6,160
			SBI-Fixed Deposit		1,500
			Stock-in-Trade		61,250
			Sundry Debtors		4,000
			Prepaid Insurance		150
			SBI-Current a/c		500
			Cash in hand		1,750
		1,03,810			1,03,810

Working Notes:

1. **Profit/ Loss on sale of Furniture**

	₹
Book value of furniture	300
Less: Depreciation for 6 months [300 X 20% X 6/12]	30
WDV on the date of sale	270
Less: Sale proceeds	200
∴ Loss on sale of Furniture	70

2. **Manager's Commission**

Manager's Commission = 1/5 on the net profits (on after charging basis) but before considering income from dividend

= 1/6* of [Total credit of P/L A/c (exluding income from dividend) – Total debit of P/L A/c]

= 1/6 [₹ 40,050 – ₹ 4,740] = ₹ 5,885

N.B. * 1/5th on Net Profit on after charging basis i.e. $1/6^{th}$ of Net Profit on before charging basis.

6. From the following Trial Balance of Shri Shivam as on 31st March, 2018, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2018 and Balance Sheet as on that date, after making the necessary adjustments as mentioned here under:

Particulars	Dr. (₹)	Cr. (₹)
Shivam's capital		1,60,000
Shivam's drawings	24,000	
Furniture and Fixtures	8,000	
Plant and machinery	60,000	
Patents (ten years from 1.4.2017)	40,000	
Stock on 1.4.2017	40,000	
Purchases	1,70,000	
Salaries	14,800	
Wages	30,000	
Sundry debtors	20,400	
Sales		2,64,000
Cash in hand	13,250	
Land	28,350	
Loan from Shyam (at 6% from 1.10.2017)		20,000
Postage and Fax	3,000	
Rent, rates and taxes	7,200	
Bad debts	800	
Sundry creditors		24,000
Discount		1,200
Carriage Inward	400	
Interest on loan	300	
Insurance	1,600	
Travelling expenses	1,000	
Sundry Expenses	600	
Cash at bank	20,500	
Bank overdraft		15.000
	4.84.200	4.84.200

Adjustments:

(i) Stock as on 31.3.2018 is valued at ₹ 30,000.

(ii) A new machine was installed on 1st April, 2017 for ₹ 3,000. No entry in this respect was passed in the books. Wages of ₹ 1,000 paid for installing the machine were debited to Wages account,

(iii) Of the Sundry debtors, ₹ 200 are bad and are to be written off. You are required to maintain a provision for doubtful debts @ 5% on debtors and provision for discount on debtors @ 2%.

(iv) Goods costing Rs, 2,000 were given away as free samples for publicity,

(v) Depreciate Plant and Machinery at 20% per annum and Furniture and Fixtures at 10% per annum.

(vi) On 1.4.2017, machinery of the value of ₹ 10,000 was destroyed by fire and the insurance claim settled at ₹ 8,000 was credited to Machinery account.

(vii) Goods costing ₹ 1,000 were sent to a customer for ₹ 1,200 on 30th March, 2018 on sale or return basis. This was recorded as actual sales.

Solution:

Books of Shivam

Dr. **Trading and Profit & Loss Account for the year ended 31.3.2018** ***Cr.***

Particulars	₹	₹	**Particulars**	₹	₹
To Opening Stock		40,000	By Sales	2,64,000	
To Purchases	1,70,000		Less: Goods sent on approval basis	1,200	2,62,800
Less: Goods given away as free samples	2,000	1,68,000			
To Wages	30,000		By Closing Stock	30,000	
Less: Wages for installation of Machine	1,000	29,000	Less: Stock with customer (at cost)	1,000	31,000
To Carriage Inwards		400			
To Gross Profit c/d		56,400			
		2,93,800			2,93,800
To Salaries		14,800	By Gross Profit b/d		56,400
To Postage & Fax		3,000	By Discount (Received)		1,200
To Rent, rates & taxes		7,200			
To Bad Debts	800				
Add: Further Bad Debts	200	1,000			
To Interest on loan	300				
Add: Outstanding interest [(20,000 X 6% X 6/12) – 300]	300	600			
To Insurance		1,600			
To Travelling expenses		1,000			
To Sundry expenses		600			
To Advertisement [Distribution of free sample]		2,000			
To Provision for Doubtful Debts		950			
To Provision for Discount on Debtors		361			
To Depreciation:					
Plant & Machinery	12,400				
Furniture & Fixtures	800	13,200			
To Amortisation of Patents		4,000			
To Abnormal Loss [Loss of Machinery (WN: 1)]		2,000			
To Capital A/c [Net Profit Transferred]		5,289			
		57,600			57,600

Balance Sheet as at 31.12.2018

Liabilities	₹	₹	**Assets**	₹	₹
Capital Account	1,60,000		Patents	40,000	
Add: Net Profit	5,289		Less: Amortisation (1/10)	4,000	36,000
	1,65,289		Land		28,350
Less: Drawings	24,000	1,41,289	Plant & Machinery	60,000	
			Add: New machine installed	3,000	
6% Loan from Shyam		20,000		63,000	
Outstanding Interest on Loan		300	Add: Wages paid on installation	1,000	
				64,000	
Sundry Creditors		24,000	Less: Loss of machinery by fire [WN: 1]	2,000	
Creditors for Machinery		3,000		62,000	
Bank Overdraft		15,000	Less: Depreciation @ 15% p.a.	12,400	49,600
			Furniture & Fixtures	8,000	
			Less: Depreciation @10% p.a.	800	7,200
			Stock-in-Trade	30,000	
			Add: Stock with customers	1,000	31,000
			Sundry Debtors	20,400	
			Less: Goods sent on approval basis	1,200	
				19,200	
			Less: Bad Debts written-off	200	
				19,000	
			Less: Provision for Doubtful Debts @ 5%	950	
				18,050	
			Less: Provision for Discount on Debtors @ 2%	361	17, 689
			Cash at Bank		20,500
			Cash in Hand		13,250
		2,03,589			2,03,589

7. The following Trial Balance has been extracted from the books of Mr. Agarwal as on 31st March, 2018:

Trial Balance as at Mar. 31, 2018

	Dr. (₹)		**Cr. (₹)**
Purchases	**6,80,000**	**Sales**	**8,38,200**
Sundry Debtors	**96,000**	**Capital Account**	**1 ,97,000**
Drawings	**36,000**	**Sundry Creditors**	**1,14,000**

Bad Debts	2,000	Outstanding Salaries	2,500
Furniture & Fixtures	81 ,000	Sale of old papers	1,500
Office Equipments	54,000	Bank overdraft (UBI)	60,000
Salaries	24,000		
Advance Salaries	1,500		
Carriage Inward	6,500		
Miscellaneous Expenses	12,000		
Travelling Expenses	6,500		
Stationery & Printing	1,500		
Rent	18,000		
Electricity & Telephone	6,800		
Cash in hand	5,900		
Cash at Bank (SBI)	53,000		
Stock (1.4.2017)	50,000		
Repairs	7,500		
Motor Car	56,000		
Deprecation:			
Furniture	9,000		
Office Equipment	6,000		
	12,13,200		12,13,200

Additional Information:

a. Sales include ₹ 60,000 towards goods sold for cash on account of a joint business with Mr. Reddy. Such business earned a profit of ₹ 15,000 to which Mr. Reddy is entitled to sixty per cent.

b. The motor car account represents an old motor car which was replaced on 1.4.2017 by a new Motor Car costing ₹ 1,20,000 with an additional cash payment of ₹ 40,000 lying debited to Purchase Account.

c. UBI has allowed an overdraft limit against hypothecation of stocks keeping a margin of 20%. The present balance is the maximum as permitted by the bank.

d. Sundry Debtors includes ₹ 4,000 as due from Mr. Trivedi and Sundry Creditors includes ₹ 7,000 as payable to him.

e. On 31st March, 2018, outstanding rent amounted to ₹ 6,000 and you are informed that 50% of the total rent is attributable towards Agarwal's residence.

f. Depreciation to be provided on motor car @ 20% (excluding sold item).

Mr. Agarwal requests you to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2018 and a Balance Sheet as on that date.

Solution:

Books of Mr. Agarwal

Dr. **Trading and Profit & Loss Account for the year ended 31.3.2018** ***Cr.***

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		50,000	By Sales	8,38,200	
To Purchases	6,80,000		Less: Sale of Joint business	60,000	7,78,200
Less: Payment for Motor Car	40,000	6,40,000	By Closing Stock **[WN: 2]**		75,000
To Carriage Inward		6,500			
To Gross Profit c/d		1,56,700			
		8,53,200			8,53,200
To Salaries		24,000	By Gross Profit b/d		1,56,700
To Miscellaneous Expenses		12,000			
To Travelling Expenses		6,500	By Sale of old papers		1,500
To Stationery & Printing		1,500			
To Rent	18,000		By Profit from Joint business		6,000
Less: Related to proprietor's residence (50%)	9,000		[15,000 X 40%]		
	9,000		By Profit on Exchange of Motor Car [WN: 1]		24,000
Add Outstanding [See 'Problem Note']	3,000	12,000			
To Electricity & Telephone		6,800			
To Repairs		7,500			
To Bad Debts		2,000			
To Depreciation:					
Furniture	9,000				
Office Equipments	6,000				
Motor Car	24,000	39,000			
To Capital A/c [Net Profit transferred]		76,900			
		1,88,200			**1,88,200**

Balance Sheet as on 31.3.2018

Liabilities		₹	₹	Assets	₹	₹
Capital Account		1,97,000		Furniture & Fixtures		81 ,000
Add Net Profit		76,900		Office Equipments		54,000
		2,73,900		Motor Car	56,000	
Less: Drawings	36,000		2,28,900	Add: Net Exchange [WN: 1]	64,000	
Add: Rent paid for proprietor's					1,20,000	
residence (18,000 X 50%)]	9,000	45,000		Less: Depreciation @ 20%	24,000	96,000

Bank Overdraft from UBI [against hypothecation of Stock]		60,000	Stock-in-Trade [WN: 2]		75,000
Sundry Creditors	1,14,000		Sundry Debtors	96,000	
Less: Set-off	4,000	1,10,000	Less : Set-off	4,000	92,000
			Advance Salaries		1,500
Outstanding Salaries		2,500	Cash at Bank (S.B.I.)		53,000
Outstanding Rent [See 'Problem Note']		3,000	Cash in hand		5,900
Due to Mr. Reddy [For sale of Joint business]	60,000				
Less: Profit earned from Joint business	6,000	54,000			
		4,58,400			**4,58,400**

Working Notes:

1. Exchange of Motor Car

	₹
Original Cost of new Motor Car	1,20,000
Less: Payment made	40,000
∴ Exchange Value of old Motor Car	80,000
∴ WDV of old Motor Car	56,000
∴ Profit on Exchange	24,000

Correct Entry		Entry Passed		Rectification Entry	
Motor Car A/c Dr.	1,20,000	Purchases A/c Dr.	40,000	Motor Car A/c Dr.	64,000
To Profit on Exchange A/c	24,000	To Bank A/c	40,000	To Profit on Exchange A/c	24,000
To Motor Car A/c	56,000			To Purchases A/c	40,000
To Bank A/c	40,000				

2. Closing Stock on 31.3.2018

Let value of Closing Stock is 100.

∴ Margin = 20. Maximum Bank Overdraft that could have been raised = 100 – 20 = 80.

By the problem,

Bank Overdraft is ₹ 60,000.

∴ Value of Closing Stock = $\frac{60,000 \times 100}{80}$ = ₹ 75,000.

Chapter – 4

PREPARATION OF FINANCIAL STATEMENTS OF NON-FOR PROFIT ORGANIZATIONS

1. **Multiple choice questions:**

   Choose the correct alternative:

   1. **Income Statement of a charitable institution is known as __________.**

      (a) Trading A/c

      (b) Profit & Loss A/c

      (c) Income & Expenditure A/c

      (d) Receipts & Payments A/c

   2. **Which of the following is/ are feature(s) of Receipts & Payments A/c?**

      (a) It is a memorandum account.

      (b) It is prepared under cash basis.

      (c) It records transactions, of both capital and revenue nature.

      (d) All of the above

   3. **Which of the following is not a feature of Income & Expenditure A/c?**

      (a) It is nominal account.

      (b) It is prepared under accrual basis.

      (c) It records both capital and revenue natured transactions.

      (d) It records transactions of the current accounting period only.

   4. **Receipts & Payments A/c shows subscriptions collected Rs. 64,000; Subscriptions accrued in the beginning of the year and at the end of the year were ₹ 9,000 and ₹ 12,500 respectively; Advance subscription received at the end of the year was ₹ 2,500. The figure of subscription received that would appear in Income & Expenditure A/c will be:**

      (a) ₹ 58,000

      (b) ₹ 65,000

      (c) ₹ 70,000

      (d) ₹ 63,000

   5. **Income & Expenditure A/c shows subscriptions ₹ 20,000; Subscriptions accrued in the beginning of the year and at the end of the year were ₹ 4,000 and ₹ 6,500 respectively. The figure of subscription received that would appear in Receipts & Payments A/c will be:**

      (e) ₹ 17,500

      (f) ₹ 22,500

(g) ₹ 9,500

(h) ₹ 30,500

Answer:

1. (c)
2. (d)
3. (c)
4. (b)
5. (a)

2. Match the following:

	Column A		Column B
1.	Receipts & Payments A/c	A	Capital Fund
2.	Income & Expenditure A/c	B	Payable only once
3.	Subscriptions	C	Memorandum Account
4.	Balance Sheet	D	Income Statement
5.	Entrance Fee	E	Credit side of Income & Expenditure A/c

Answer:

	Column A		Column B
1.	Receipts & Payments A/c	C	Memorandum Account
2.	Income & Expenditure A/c	D	Income Statement
3.	Subscriptions	E	Credit side of Income & Expenditure A/c
4.	Balance Sheet	A	Capital Fund
5.	Entrance Fee	B	Payable only once

3. Fill in the blanks:

1. A non-profit organisation prepares the _____________ Account in a summarised form from the transactions appearing in the Cash Book.
2. In Receipts & Payments Account, all receipts (whether, capital or revenue) are recorded on the _____-hand side of this account, while all payments (whether, capital or revenue) are recorded on the ----______-hand side of this account.
3. Capital fund is reflected in the __________-side of the Balance Sheet.
4. The excess of income over expenditure of a non-profit organisation is called ________.
5. Legacies received for specific purpose is reflected on the _________-side of Receipts & Payments A/c.

Answer:

1. Receipts & Paymentrs
2. left, right
3. Liabilities
4. Surplus
5. Receipts

4. State whether the following statements are true or false:

1. **Receipts & Payments A/c determines the 'Surplus' or 'Deficit' of the accounting period by matching expenses/ losses against incomes and gains.**
2. **Receipts & Payments A/c is a summarised form of the Cash Book.**
3. **The capital of a non-profit organisation is referred to as Capital Fund or General Fund.**
4. **Income & Expenditure A/c records transactions of the current accounting period only, irrespective of the period of their cash flow.**
5. **Income & Expenditure A/c begins with the cash & bank balance at the beginning of the accounting period.**

Answer:

1. False
2. True
3. True
4. True
5. False

NUMERICAL ILLUSTRATIONS:

5. A summary of receipts and payments of Calcutta Swimming Club for one year is given below:

Dr. Receipts and Payments Account for the year ended 31.12.2017 Cr.

Receipts	₹	Payments	₹
To Opening Balance	3,000	By Salaries and Rent	1,500
To Subscription	20,000	By Electric Charge	300
To Donation	5,000	By Sports expenses	1,000
To Entrance Fee	1,000	By Sports goods purchase	9,000
To Interest	100	By Books purchase	5,000
To Charity Show receipts	2,400	By Miscellaneous expenses	700
		By Charity Show expenses	2,000
		By Investment	8,000
		By Closing Balance	4,000
	31,500		31,500

Following information is available at the end of the year:

(i) Of the total subscriptions received, ₹ 500 is for 2016 and ₹ 600 for 2018; but ₹ 100 is due for 2017.

(ii) The total sum received on Entrance Fees is to be transferred to Capital Fund.

(iii) Salary is remaining due to be paid ₹ 300.

(iv) Interest is receivable ₹ 500.

(v) The club had the following assets on the opening date of the year :

Sports Goods ₹ 3,000; Books ₹ 2,000; Investment ₹ 6,000.

From the above information prepare an Income and Expenditure Accent and also show the financial position of the Club as on 31st December, 2017.

Solution:

Calcutta Swimming Club

Dr. **Income & Expenditure A/c for the year ended Dec. 31, 2017** ***Cr.***

Expenditure		₹	Income		₹
To Salaries and Rent	1,500		By Subscription [WN: 2]		19,000
Add: Outstanding Salary	300	1,800	By Interest	100	
To Electric Charge		300	Add: Interest receivable	500	600
To Sports expenses		1,000	By Charity Show receipts		2,400
To Miscellaneous expenses		700			
To Charity Show expenses		2,000			
To Capital Fund [Surplus transferred]		16,200			
		22,000			22,000

Balance Sheet as at Dec. 31, 2017

Liabilities		₹	Assets		₹
Capital Fund on 1.1.17 [WN: 1]	14,500		Sports Goods on 1.1.17	3,000	
Add: Surplus	16,200		Add: Purchases during 2017	9,000	12,000
Entrance fees	1,000		Books on 1.1.17	2,000	
Donation [WN: 3]	5,000	36,700	Add: Purchases during 2017	5,000	7,000
			Investments		14,000
Advance Subscription		600	Subscription receivable		100
Outstanding Salary		300	Interest receivable		500
			Cash & Bank		4,000
		37,600			37,600

Working Notes:

1. Capital Fund on 1.1.17

Balance Sheet *as at* 1.1.17

Liabilities	₹	Assets	₹
Capital Fund [B/Fig.]	14,500	Sports goods	3,000
		Books	2,000
		Investment	6,000
		Subscription receivable	500
		Cash & Bank	3,000
	14,500		14,500

2. Subscriptions for the year 2017

Dr. **Subscriptions A/c** **Cr.**

Particulars	₹	Particulars	₹
To Subscription Receivable A/c	500	By Bank A/c	20,000
To Income & Expenditure A/c [Subscriptions for 2017 – B/Fig.]	19,000		
To Advance Subscription A/c	600	By Subscription Receivable A/c	100
	20,100		**20,100**

3. Donations: In the absence of any specific information, Donations received have been assumed to be 'capital receipts' and hence, added to the 'Capital Fund' in the Balance Sheet.

Alternatively, it could be treated as a 'Revenue Receipt' and credited to Income & Expenditure A/c.

6. The following is the Income and Expenditure Account of a club for the year ending 31st March, 2018:

Dr. ***Cr.***

Expenditure		₹	Income		₹
To Provisions used:			By Subscription	34,000	
Opening Stock	10,000		By Sale of Provisions	1,63,000	1,97,000
Add : Purchases	1,40,000				
	1,50,000				
Less : Closing Stock	5,000	1,45,000			
To Salaries	18,000				
To General Expenses	5,000				
To Depreciation on Equipments	1,000				
To Excess of income over expenditure	28,000	52,000			
		1,97,000			**1,97,000**

The following Balance Sheets are also given to you:

Liabilities	31.3.17	31.3.18	Assets	31.3.17	31.3.18
Creditors for provisions	8,000	10,000	Equipment (Cost *Less* Depreciation)	10,000	25,000
Capital Fund	47,000	75,000	Stock of Provisions	10,000	5,000
			Subscription receivable	5,000	10,000
			Cash at Bank & in hand	30,000	45,000
	55,000	**85,000**		**55,000**	**85,000**

Prepare the receipt and payments account for the year ended 31.3.2018 of the club.

Solution:

Books of Club
Receipts & Payments A/c for the year ended Mar. 31, 2018

Receipts	₹	Payments	₹
To Balance b/f:		By Payment to Creditors for Provisions [WN: 2]	1,38,000
Cash at Bank & Cash in Hand (given)	30,000	By Salaries	18,000
To Subscriptions [WN: 4]	29,000	By General Expenses	5,000
To Sale of Provisions	1,63,000	By Equipments [WN: 3]	16,000
		By Balance c/f:	
		Cash at Bank & Cash in Hand	45,000
	2,22,000		2,22,000

Working Notes:

1. **Provisions during 2017-18**

Dr. **Provisions A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.4.17	To Balance b/f	10,000	31.3.18	By Income & Expenditure A/c [Consumption of Provisions]	1,45,000
….	To Creditors for Provisions A/c [Purchases]	1,40,000	31.3.18	By Balance c/f	5,000
		1,50,000			1,50,000

N.B.: The preparation of this account is not necessary. But it has been shown to fully reflect the accounting of Provisions.

2. Payment to Creditors for Provisions

Dr. Creditors for Provisions A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
….	To Bank A/c [Payment – B/Fig.]	1,38,000	1.4.17	By Balance b/f	8,000
31.3.18	To Balance c/f	10,000	….	By Provisions A/c [Purchase of Provisions]	1,40,000
		1,48,000			1,48,000

3. Equipments purchased during 2017-18

Dr. Equipments A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.17	To Balance b/f	10,000	31.3.18	By Income & Expenditure A/c [Consumption of Provisions]	1,000
….	To Bank A/c [Purchase of Equipments–B/Fig.]	16,000	31.3.18	By Balance c/f	25,000
		26,000			26,000

4. Subscriptions received during 2017-18

Dr. Subscriptions A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.17	To Subscriptions Receivable A/c	5,000	….	By Bank A/c [Subscriptions received – B/Fig.]	29,000
31.3.18	To Income & Expenditure A/c	34,000	31.3.18	By Subscriptions Receivable A/c	10,000
		39,000			39,000

7. The following summary of the Cash Book has been prepared by the treasurer of a club:

Dr. Cr.

Receipts	₹	Payments	₹
To Balance b/d	4,740	By Wages of outdoor staff	13,380
To Subscriptions	29,720	By Restaurant Purchase	50,400
To Entrance Fees	3,200	By Rent 18 months to June 30, 2018	7,500
To Restaurant Receipts	56,800	By Rates & Taxes	2,200
To Games Competition Receipts	13,640	By Secretary's Salary	3,120
To Due to Secretary for Petty Expenses	80	By Lighting	7,700
		By Competition Prizes	4,000
		By Printing & Fixed Deposit	6,000
		By Placed in Fixed Deposit	8,000
		By Balance c/d	5,880
	1,08,180		**1,08,180**

On April, 1, 2017, the club's assets were: Furniture ₹ 48,000. Restaurant stock ₹ 2,600; Stock of prizes ₹ 800; ₹ 5,200 was owing for supplies to the restaurant.

On March 31, 2018, the Restaurant stocks were ₹ 3,000 and prizes in hand were ₹ 500, while the club owed ₹ 5,600 for restaurant supplies.

It was also found that subscriptions unpaid at March 31, 2018, amounted to ₹ 1,000 and that the figure of ₹ 29,720 shown in the Cash Book included ₹ 700 in respect of previous of previous year and ₹ 400 paid in advance for the following year.

Prepare an account showing the Profit or Loss made on the Restaurant and a General Income and Expenditure Account for the year ended 31.3.2018, together with a Balance Sheet as at that date, after writing 10% off the Furniture.

Solution:

Dr. Restaurant Trading A/c for the year ended Mar. 31, 2018 Cr.

Particulars	₹	Particulars	₹
To Opening Restaurant Stock	2,600	By Restaurant Receipts	56,800
To Restaurant Purchases [WN: 6]	50,800	By Closing Restaurant Stock	3,000
To Income & Expenditure A/c [Restaurant profit transferred]	6,400		
	59,800		59,800

Dr. General Income & Expenditure A/c for the year ended Mar. 31, 2018 Cr.

Expenditure	₹	Income	₹	
To Wages of outdoor staff	13,380	By Subscriptions [WN: 2]	29,620	
To Rent	5,000	By Games Competition Receipts	13,640	
To Secretary's salary	3,120	By Restaurant Trading A/c [Restaurant Profit]	6,400	
To Lighting	7,700			
To Competition prizes consumed [WN: 5]	4,300			
To Printing & Stationery	6,000			
To Rates & Taxes	2,200			
To Depreciation on Furniture (₹ 48,000 x 10%)	4,800			
To Capital Fund [Surplus transferred]	3,160			
	49,660		**49,660**	

Balance Sheet as at Mar. 31, 2018

Liabilities		₹	Assets		₹
Capital Fund on 1.4.17 [WN: 1]	50,390		Furniture on 1.4.17	48,000	
Add: Surplus	3,160		Less: Depreciation @ 10%	4,800	43,200
	53,550				
Add: Entrance Fees capitalised [WN: 3]	3,200	56,750	Fixed Deposit		8,000

		Restaurant Stock	3,000
		Stock of Prizes	500
Restaurant Suppliers	5,600	Outstanding Subscriptions	1,000
Outstanding Petty Expenses (Due to Secretary)	80	Prepaid Rent [WN: 4]	1,250
Advance Subscription	400	Cash & Bank	5,880
	62,830		**62,830**

Working Notes:

1. Capital Fund on 1.4.17

Balance Sheet as at 1.4.17

Liabilities	₹	Assets	₹
Capital Fund [B/Fig.]	50,390	Furniture	48,000
Restaurant Suppliers	5,200	Restaurant Stock	2,600
Outstanding Rent [WN: 4]	1,250	Stock of Prizes	800
		Outstanding Subscriptions	700
		Cash & Bank	4,740
	56,840		**56,840**

2. Subscriptions for the year 2017-18

Dr. Subscriptions A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.17	To Outstanding Subscription A/c	700			
31.3.18	To Income & Expenditure A/c [Subscriptions for 2017 – B/Fig.]	29,620	….	By Bank A/c [as per Receipts & Payments A/c]	29,720
31.3.18	To Advance Subscription A/c	400	31.3.18	By Outstanding Subscriptions A/c	1,000
		30,720			**30,720**

3. **Entrance Fees**: In the absence of any specific information, the Entrance Fees received have been fully capitalised i.e. transferred to Capital Fund. Alternatively, it could have been treated as a 'Revenue Receipt' and credited to Income & Expenditure A/c.

[N.B.: Unless specifically instructed in the problem, students can make any one of the above-mentioned assumptions, by giving a proper note.]

4. **Rent for 2017-18**

Rent has been paid for a period of 18 months till June 30, 2018 i.e. for the period 1.1.2017 to 30.6.2018.

But the current accounting period of the club is 2017-18 i.e. 1.4.2017 to 31.3.2018.

So, the total rent paid for the 18 month period includes rent paid for the year 2017-18 and additional 6 months rent, which includes 3 months of 2016-17 and 3 months for 2018-19.

- **3 months of 2016-17: It implies 'Outstanding Rent on 1.4.17' amounting to ₹ 1,250 [₹ 7,500 x 3/18]**
- **3 months of 2018-19: It implies 'Prepaid Rent on 31.3.18' also amounting to ₹ 1,250 [₹ 7,500 x 3/18]**

∴ Rent for the year 2017-18 is ascertained as under:

Dr. Rent A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
....	To Bank A/c	7,500	1.4.17	By Outstanding Rent A/c [7,500 x 3/18]	1,250
	[Till 18 months till June 30, 2018]		31.3.18	By Income & Expenditure A/c	5,000
				[Rent for 2017-12 –B/Fig.]	
			,,	By Prepaid Rent A/c [7,500 x 3/18]	1,250
		7,500			7,500

5. **Consumption of Prizes during 2017-18**

Dr. Competition Prizes A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.17	To Balance b/f	800	31.3.18	By Income & Expenditure A/c	4,300
	[Opening Stock of Prizes]			[Consumption of Prizes – B/Fig.]	
....	To Bank A/c [Purchase of Prizes]	4,000	31.3.18	By Balance c/f [Closing Stock of Prizes]	500
		4,800			4,800

6. **Restaurant Purchases during 2017-18**

Dr. Restaurant Suppliers A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
....	To Bank A/c [Payments for purchases]	50,400	1.4.17	By Balance b/f	5,200
31.3.18	To Balance c/f	5,600	....	By Restaurant Purchases A/c [B/Fig.]	50,800
		56,000			56,000

8. **The Income and Expenditure Account of the Angels Club for the year 2017 is as follows:**

Expenditure	₹	Income	₹
To Salaries	2,40,000	By Subscriptions	3,40,000
To Printing & Stationery	12,000	By Entrance Fees	8,000
To Postage	1,000	By Contribution for Dinner	72,000
To Telephone	3,000		
To General expenses	2,400		
To Interest and Bank charges	11,000		
To Audit fees	5,000		
To Annual Dinner expenses	50,000		
To Depreciation	14,000		
To Surplus	60,000		
	4,20,000		4,20,000

The following further information is supplied:

	₹
Subscriptions outstanding on 31.12.16	32,000
Subscriptions outstanding on 31.12.17	36,000
Subscriptions received in advance on 31.12.16	26,000
Subscriptions received in advance on 31.12.17	16,800
Salaries outstanding on 31.12.16	12,000
Salaries outstanding on 31.12.17	16,000
Audit fees of 2016 paid during 2017	4,000
The club owned a building since 2016	3,80,000
The club had sports equipment on 31.12. 16 valued at	1,04,000
At the end of the year after depreciation of ₹ 14,000 equipments amounted to	1,26,000
In 2016, the club has raised a bank loan which is still unpaid	60,000
Cash in hand on 31.12.17	57,000
Audit fees for 2017 not paid	5,000

Prepare the Receipts and Payments Account of the Club for 2017 and the Balance Sheet as on 31st December, 2017. All Working should form part of your answer.

Solution:

Angels Club
Receipts & Payments A/c for the year ended Dec. 31, 2017

Receipts	₹	Payments	₹
To Balance b/f [B/Fig.]	27,200	By Salaries [WN:3]	2,36,000
To Subscriptions [WN: 2]	3,26,800	By Printing & Stationery	12,000
To Entrance Fees	8,000	By Postage	1,000
To Contribution for Dinner	72,000	By Telephone	3,000
		By General Expenses	24,000
		By Interest and Bank Charges	11,000
		By Audit Fees [WN:3]	4,000

		By Annual Dinner expenses	50,000
		By Sports Equipments [WN:5]	36,000
		By Balance c/f	57,000
	4,34,000		4,34,000

Balance Sheet as at Dec. 31, 2017

Liabilities		₹	Assets		₹
Capital Fund on 1.1.17 [WN: 1]	4,41,200		Building		3,80,000
Add: Surplus	60,000	5,01,200	Sports Equipment on 1.1.17	1,04,000	
			Add: Purchase during 2017 [WN: 5]	36,000	
				1,40,000	
			Less: Depreciation (given)	14,000	1,26,000
Bank Loan		60,000	Accrued Subscription		36,000
Pre received Subscription		16,800	Cash in Hand		57,000
Outstanding Salary		16,000			
Outstanding Audit Fees		5,000			
		5,99,000			5,99,000

Working Notes:

1. Capital Fund on 1.1.17

Balance Sheet as at 1.1.17

Liabilities	₹		₹
Capital Fund [B/Fig.]	52,920	Club Building	3,80,000
Bank Loan	60,000	Sports Equipments	1,04,000
Advance Subscription: For 2017	26,000	Outstanding Subscription: For 2016	32,000
Outstanding Salaries	12,000	Cash & Bank [From Receipts & Payments A/c]	27,200
Outstanding Audit Fess	4,000		
	5,43,200		5,43,200

2. Subscriptions received during 2017

Dr. Subscriptions A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
1.1.17	To Outstanding Subscriptions A/c	32,000	1.1.17	By Advance Subscription A/c	26,000
31.12.17	To Income & Expenditure A/c [Subscriptions for 2017]	3,40,000	….	By Bank A/c [Subscriptions received during 2017 – B/Fig.]	3,26,800
31.12.17	To Advance Subscription A/c	16,800	31.12.17	By Outstanding Subscriptions A/c	36,000
		3,88,800			3,88,800

3. Salaries paid during 2017

Dr. Salaries A/c Cr.

Particulars	₹	Particulars	₹
To Receipts & Payments A/c	2,36,000	By Outstanding Salaries A/c	12,000
[Salaries paid during 2017 – B/Fig.]		By Income & Expenditure A/c	2,40,000
To Outstanding Salaries A/c	16,000	[Salaries for 2017 – Given]	
	2,52,000		**2,52,000**

4. Audit Fees paid during 2017

Dr. Audit Fees A/c Cr.

Particulars	₹	Particulars	₹
To Receipts & Payments A/c	4,000	By Outstanding Audit Fees A/c	4,000
[Audit Fees paid during 2017 – B/Fig.]		By Income & Expenditure A/c	5,000
To Outstanding Audit Fees A/c	5,000	[Audit Fees for 2017 – Given]	
	9,000		**9,000**

5. Purchase of Sports Equipments during 2017

Dr. Sports Equipments A/c Cr.

Particulars	₹	Particulars	₹
To Balance b/f	1,04,000	By Depreciation A/c	14,000
To Receipts & Payments A/c	36,000	By Balance c/f	1,26,000
[Purchase during 2017 – B/Fig.]			
	1,40,000		**1,40,000**

9. The following are the items of Receipts and Payments of the Bengal Club as summarized from the books of accounts maintained by the Secretary:

Dr. Cr.

Receipts	₹	**Payments**	₹
To Opening balance (1.1.17)	**4,200**	**By Manager's Salary**	**1,000**
To Entrance Fees (2016)	**1,000**	**By Printing and Stationery**	**2,600**
To Do (2017)	**10,000**	**By Advertising**	**1,800**
To Subscriptions (2016)	**600**	**By Fire Insurance**	**1,200**
To Do (2017)	**15,000**	**By Investments Purchased**	**20,000**
To Interest Received on Investments	**3,000**	**By Closing balance 31.12.17**	**7,600**
To Subscriptions (2018)	**400**		
	34,200		**34,200**

It was ascertained from enquiry that the following represented a fair picture of the Income and Expenditure of the Club for the year 2017 for audit purpose:

Dr. Cr.

Expenditure	₹	**Income**	₹
To Manager's Salary	**1,500**	**By Entrance Fees**	**10,500**

To Printing & Stationery 2,000		**By Subscription**	**15,600**
Add : Accrued 400	**2,400**	**By Interest on Investments**	**4,000**
To Advertising (accrued Nil)	**1,600**		
To Audit Fees	**500**		
To Fire Insurance	**1,000**		
To Depreciation	**4,940**		
To Expenditure	**18,160**		
	30,100		**30,100**

You are required to prepare the Balance Sheet of the Club as on 31.12.10 and 3.12.17, it being given that the values of the Fixed Assets as on 31.12.10 were: Building ₹ 44,000; Cricket Equipments ₹ 25,000 and Furniture ₹ 4,000. The rates of depreciation are: Building @ 5%, Cricket Equipments & 10% & Furniture @ 6%.

You are entitled to make assumptions as may be justified.

Solution:

Bengal Club
Balance Sheet as at Dec. 31, 2016

Liabilities	₹	Assets	₹
Capital Fund [B/Fig.]	78,000	Building	44,000
		Cricket Equipment	25,000
Accrued Printing & Stationery [WN: 5]	600	Furniture	4,000
Accrued Advertising [WN: 6]	200	Entrance Fees Receivable	1,000
		Arrear Subscription	600
		Cash & Bank	4,200
	78,800		**78,800**

Balance Sheet as at Dec. 31, 2017

Liabilities	₹	₹	Assets	₹	₹
Capital Fund on 1.1.17 [Calculated Above]	78,000		Building on 1.1.17	44,000	
Add: Surplus	18,160	96,160	Less: Depreciation @ 5%	2,200	41,800
Advance Subscriptions		400	Cricket Equipment on 1.1.17	25,000	
Outstanding Manager's Salary [WN: 4]		500	Less: Depreciation @ 10%	2,500	22,500
Accrued Printing & Stationery (Given)		400			
Outstanding Audit Fees		500	Furniture on 1.1.17	4,000	
			Less: Depreciation @ 6%	240	3,760
			Investment		20,000
			Accrued Interest on		1,000

			Investments		
			Prepaid Fire Insurance		200
			Entrance Fees Receivable		500
			Arrear Subscriptions		600
			Cash & Bank		7,600
		97,960			**97,960**

Working Notes:

1. Entrance Fees receivable on 31.12.17

Dr. **Entrance Fees A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.1.17	To Entrance Fees Receivable A/c	1,000	….	By Bank A/c	11,000
31.12.17	To Income & Expenditure A/c	10,500	31.12.17	By Entrance Fees Receivable A/c [B/Fig.]	500
		11,500			11,500

N.B.: The balancing figure in Entrance Fees A/c has been assumed to be receivable/ arrear for the current year.

2. Arrear Subscriptions on 31.12.17

Dr. **Subscriptions A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.1.17	To Arrear Subscriptions A/c	600	….	By Bank A/c [₹ 600 + 15,000 + 400]	16,000
31.12.17	To Income & Expenditure A/c	15,600	31.12.17	By Arrear Subscriptions A/c [B/Fig.]	600
,,	To Advance Subscription A/c	400			
		16,600			16,600

N.B.: The balancing figure in Subscriptions A/c has been assumed to be arrear for the current year.

3. Accrued Interest on 31.12.17

	₹
Interest on Investment for 2017 (as per Income & Expenditure A/c)	4,000
Less: Interest received on Investment (as per Receipts & Payments A/c)	3,000
∴ Accrued Interest on 31.12.17	1,000

4. Outstanding Manager's Salary on 31.12.17

Dr. **Manager's Salary A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
....	To Bank A/c	1,000	31.12.17	By Income & Expenditure A/c	1,500
31.12.17	To Outstanding Manager's Salary [B/Fig.]	500			
		1,500			1,500

N.B.: The balancing figure in Manager's Salary A/c has been assumed to be outstanding for the current year.

5. Accrued Printing & Stationery on 1.1.17

Dr. **Printing & Stationery A/c** **Cr.**

Date	**Particulars**	₹	**Date**	**Particulars**	₹
....	To Bank A/c	2,600	1.1.17	By Accrued Printing & Stationery A/c [B/Fig.]	600
31.12.17	To Accrued Printing & Stationery A/c	400	31.12.17	By Income & Expenditure A/c	2,400
		3,000			3,000

N.B.: The balancing figure in Printing and Stationery A/c has been assumed to be accrued/ outstanding for preceding year.

6. Accrued Advertisement on 1.1.17

Dr. **Advertisement A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
....	To Bank A/c	1,800	1.1.17	By Accrued Advertisement A/c [B/Fig.]	200
			31.12.17	By Income & Expenditure A/c	1,600
		1,800			1,800

N.B.: Since, Accrued Advertisement on 31.12.17 is given to be Nil, the balancing figure has been taken as Accrued Advertisement as on 1.1.17.

7. Prepaid Insurance on 31.12.17

Dr. **Fire Insurance A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
....	To Bank A/c	1,200	31.12.17	By Income & Expenditure A/c	1,000
			,,	By Prepaid Insurance A/c [B/Fig.]	200
		1,200			1,200

N.B.: The balancing figure in Fire Insurance A/c has been assumed to be paid in advance for the coming year.

Chapter – 5

PREPARATION OF FINANCIAL STATEMENTS OF FROM INCOMPLETE RECORDS

1. Multiple Choice Questions

Choose the correct alternative:

1. Which of the following is/ are feature(s) of Single Entry System?

(a) It is a casual, unscientific and unreliable approach of recording transactions.

(b) it is a mixture on no entry, single entry and double entry.

(c) Usually, only the cash and personal accounts are recorded.

(d) All of the above

Answer:

1. (d)

2. Fill in the blanks:

1. Under theory Net Worth Approach, the operating result of an entity is determined by comparing the ____________ of the entity at two different points of time.

Answer:

1. Net Worth or Capital

3. State whether the following statements are true or false:

1. Single entry system is a defective approach of recording transactions.

Answer:

1. True

4. Mr. A keeps his books on Single Entry System. The following balances and some other information have been found from his books. You are required to prepare a Profit & Loss Statement for the year ended 31.12.2017.

	31.12.2016 ₹	31.12.2017 ₹
Cash in hand	21,600	20,000
Bank Overdraft	20,000	15,000
Stock-in-Trade	11,200	22,800
Sundry Debtors	12,000	18,000
Sundry Creditors	12,000	9,000
Bills Receivable	7,000	9,000
Bills Payable	2,000	1,000
Land & Building	50,000	50,000
Furniture	5,000	5,000

Other information:

(a) **During the year Mr. A had drawn ₹ 16,000 in cash and Rs, 4,000 in goods for his personal use.**

(b) **Depreciation is to be charged on Land & Building and on Furniture at 2% p.a. and 10% p.a. respectively.**

(c) **Provision for Bad Debt is to be made at 5% and provision on Bills Receivable at 2 ½ % is to be made.**

Solution:

Mr. A

Statement of Profit & Loss for the year ended 31.12.2017

Particulars		Amount ₹	Amount ₹
Capital Balance on 31.12.17 [WN: 1]			99,800
Add: Drawings : Cash		16,000	
Goods		4,000	20,000
			1,19,800
Less: Capital Balance on 1.1.17 [WN: 1]			72,800
∴ Trading Profit			47,000
Less: Depreciation:			
on Land & Building [₹ 50,000 X 2%]	1,000		
on Furniture [₹ 5,000 X 10%]	500	1,500	
Less: Provision for Bad Debts [₹ 18,000 X 5%]	900		
Provision for Bills Receivable [₹ 9,000 X 2 ½ %]	225	1,125	2,625
∴Net Profit			44,375

Working Notes:

1. **Capital Balance on 1.1.17 & 31.12.17**

Statement of Affairs

Liabilities	1.1.17	31.12.17	Assets	1.1.17	31.12.17
Capital [B/Fig.]	72,800	99,800	Land & Building	50,000	50,000
Sundry Creditors	12,000	9,000	Furniture	5,000	5,000
Bills Payable	2,000	1,000	Stock–in-Trade	11,200	22,800
Bank Overdraft	20,000	15,000	Sundry Debtors	12,000	18,000
			Bills Receivable	7,000	9,000
			Cash-in-hand	21,600	20,000
	1,06,800	1,24,800		1,06,800	1,24,800

5. Kapil does not keep complete records of his business transactions. His statement of affairs as on 1st April, 2016 is given below:

Liabilities	₹	Assets	₹
Sundry Creditors	16,500	Cash	7,450
Outstanding Expenses	3,500	Sundry Debtors	25,350
Capital	50,000	Stock	30,300
		Furniture	6,900
	70,000		70,000

For the year ended 31st March, 2017, his drawings have been ₹ 15,000. Goods worth ₹ 600 have also been withdrawn by him for personal use. On 1st October, 2016, there was a transfer of his household furniture worth ₹ 2,100 to the business. On 31st March, 2017, his assets and liabilities were as under:

Liabilities	₹	Assets	₹
Sundry creditors	18,600	Cash	6,580
Outstanding expenses	4,300	Sundry debtors	36,900
		Stock	40,320
		Furniture	9,000
		Prepaid Rent	400

Depreciate Furniture @ 10% per annum, create a Provision for Bad Debts on Sundry Debtors @ 5% and allow 5% Interest on Capital which was at the beginning. Ascertain the profit or loss for the year ended 31st March, 2017 and prepare the Statement of Affairs as on 31st March, 2017.

Solution:

Books of Kapil
Statement of Profit & Loss for the year ended 31.3.2017

Liabilities	₹	Assets	₹
Sundry Creditors	18,600	Furniture	9,000
Outstanding Expenses	4,300	Stock	40,320
		Sundry debtors	36,900
		Prepaid Rent	400
Capital balance (31.3.17) c/d	70,300	Cash	6,580
	93,200		93,200
Capital Balance b/d (1.4.16)	50,000	Capital Balance b/d (31.3.17)	70,300
Fresh Capital introduced [as Furniture]	2,100	Drawings: Cash	15,000
		Goods	600
Gross profit c/d	33,800		
	85,900		85,900

Provision for Bad Debt [36,900 X 5%]	1,845	Gross profit b/d	33,800
Depreciation [WN: 1]	795		
Interest on Capital [₹ 50,000 X 5%]	2,500		
Net Profit [to be added with Capital]	28,660		
	33,800		33,800

Statement of Affairs as 31.3.2017

Liabilities	₹	₹	Assets	₹	₹
Capital	50,000		Furniture	9,000	
Add: Further Capital	2,100		Less: Depreciation [WN: 1]	795	8,205
Net profit	28,660		Stock		40,320
Interest on Capital	2,500		Sundry Debtors	36,900	
	83,260		Less: Provision for bad debts	1,845	35,055
Less: Drawings [₹ 15,000 + ₹ 600]	15,600	67,660	Prepaid Rent		400
Sundry Creditors		18,600	Cash		6,580
Outstanding Expenses		4,300			
		90,560			90,560

Working Notes:

1. Depreciation on Furniture

	₹
On ₹ 6,900 @ 10% for full year	690
On ₹ 2,100 [₹ 9,000 – ₹ 6,900] @ 10% for 6 month	105
	795

6. From the following information determine the cash and bank balance as on 30.11.2017

	₹
Written down value of Land & Building	**32,000**
Accumulated Depreciation on Land & Building	**2,000**
Insurance Premium paid in advance	**900**
Creditors	**13,000**
Debtors	**5,000**
Furniture	**12,000**
Capital	**55,000**
Cash & Bank Balance	**?**

Solution:

Determination of Cash and Bank Balance

Statement of Affairs as on 30.11.2017

Liabilities	Amount ₹	Assets	Amount ₹	Amount ₹
Capital	55,000	Land and Building [at Cost – 32,000 + 2,000]	32,000	
Creditors	13,000	Less: Accumulated Depreciation	2,000	34,000
		Furniture		12,000
		Debtors		5,000
		Prepaid Insurance		900
		Cash and Bank [B/Fig.]		18,100
	68,000			68,000

7. From the following particulars, ascertain Credit Sales and Credit Purchases during 2016-17:

Balance on 1.4.2016:	₹
Sundry Debtors	56,000
Sundry Creditors	26,000
Bills Receivable	10,000

Transactions during the year:

	₹
Amount received from debtors	1,90,000
Amount paid to creditors	1,10,000
Amount received against maturity of bill	49,200
Discount allowed	2,800
Bad Debts	2,700
Return Inward	6,200
Return Outward	1,000

Balance on 31.3.2017:	₹
Sundry Debtors	37,800
Sundry Creditors	18,800
Bills Receivable	7,500

Solution:

Computation of Credit Sales during 2016-17

Dr. Sundry Debtors A/c Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.16	To Balance b/f	56,000	….	By Bank A/c [Collection]	1,90,000
….	To Sales A/c [Credit Sales: B/Fig.]	2,30,200	….	By Discount Allowed A/c	2,800
			….	By Bad Debts A/c	2,700
			….	By Return Inward A/c	6,200
			….	By Bills Receivable A/c [Acceptances Received - WN: 1]	46,700
			31.3.17	By Balance c/f	37,800
		2,86,200			2,86,200

Computation of Credit Purchases during 2016-17

Dr. Sundry Creditors A/c Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
….	To Bank A/c [Payment]	1,10,000	1.4.16	By Balance b/f	26,000
….	To Return Outward A/c	1,000			
31.3.17	To Balance c/f	18,800	….	By Purchases A/c [Credit Purchases: B/Fig.]	1,03,800
		1,29,800			1,29,800

Working Notes:

1. Acceptance received during 2016-17

Dr. Bills Receivable A/c Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.16	To Balance b/f	10,000	….	By Bank A/c [B/R matured]	49,200
….	To Sundry Debtors A/c [Acceptance received – B/Fig.]	46,700	31.3.17	By Balance c/f	7,500
		56,700			56,700

8. X does not maintain proper books of account. From the following information, prepare Trading and Profit & Loss Account for the year ended December, 31, 2017 and a Balance Sheet as on that date:

Assets and Liabilities	On 31. 12.2016 ₹	On 31. 12.2017 ₹
Sundry Debtors	9,000	12,500
Stock	4,900	6,600
Furniture	500	750
Sundry Creditors	3,000	2,250

Analyses of the other transactions are:

	₹
Cash collected from Debtors	30,400
Cash paid to Creditors	22,000
Salaries	6,000
Rent	750
Office Expenses	900
Drawings	1,500
Fresh Capital Introduced	1,000
Cash Sales	750
Cash Purchases	2,500
Discount Received	350
Discount Allowed	150
Return Inward	500
Return Outward	400
Bad Debts	100

He had ₹ 2,500 cash at the beginning of the year.

Solution:

Books of Mr. X

Dr. Trading and Profit and Loss A/c for the year ended 31.12.2017 Cr.

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		4,900	By Sales		
To Purchases :			Cash	750	
Cash	2,500		Credit [WN: 3]	34,650	
Credit [WN: 4]	22,000			35,400	
	24,500		Less : Return Inward	500	34,900
Less : Return Outward	400	24,100	By Closing Stock		6,600
To Gross Profit c/d		12,500			
		41,500			41,500
To Salaries		6,000	By Gross Profit b/d		12,500

To Rent		750	By Discount Received		350
To Office Expenses		900			
To Discount Allowed		150			
To Bad debt		100			
To Capital A/c [Net Profit transferred]		4,950			
		12,850			12,850

Balance Sheet as at 31.12.17

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital [WN: 1]	13,900		Furniture		750
Add: Further capital	1,000		Stock-in-Trade		6,600
Net Profit	4,950		Sundry Debtors		12,500
	19,850		Cash [WN: 2]		750
Less: Drawings	1,500	18,350			
Sundry Creditors		2,250			
		20,600			20,600

Working Notes:

1. Balance of capital as on 1.1.17

Balance Sheet as at 1.1.17

Liabilities	Amount ₹	Assets	Amount ₹
Capital [B/Fig.]	13,900	Furniture	500
Sundry Creditors	3,000	Stock-in-Trade	4,900
		Sundry Debtors	9,000
		Cash	2,500
	16,900		16,900

2. Cash balance as on 31.12.17

Dr. Cash Book (Single column) Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Balance b/f	2,500		By Sundry Creditors A/c	22,000
	To Sundry Debtors A/c	30,400		By Salaries A/c	6,000
	To Sales A/c	750		By Rent A/c	750
	To Capital A/c	1,000		By Office Expenses A/c	900
				By Drawings A/c	1,500
				By Purchases A/c	2,500

				By Furniture A/c [750 -500]	250
				By Balance c/f [B/Fig.]	750
		34,650			34,650

3. **Credit sales during the year**

Dr. **Sundry Debtors A/c** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Balance b/f	9,000		By Cash A/c	30,400
	To Sales A/c [B/Fig.]	34,650		By Discount Allowed A/c	150
				By Return Inward A/c	500
				By Bad Debt A/c	100
				By Balance c/f	12,500
		43,650			43,650

4. **Credit purchases during the year**

Dr. **Sundry Creditors A/c** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Cash A/c	22,000		By Balance b/f	3,000
	To Discount Received A/c	350		By Purchases A/c [B/Fig.]	22,000
	To Return Outward A/c	400			
	To Balance c/f	2,250			
		25,000			25,000

9. Anand started business on 1.1.2016 with his own capital ₹ 20,000 and an interest free loan of ₹ 20,000 from a friend. His business makes toys, which are selling at ₹ 40 each. Anand, who has little knowledge of accountancy, produced the following information at the end of the first year's trading; Cash received: Sale proceeds of 2,000 toys ₹ 80,000. Cash paid: Wages ₹ 28,000; Raw Materials ₹ 13,600; Rent ₹ 8,000; General Expenses ₹ 4,800; Loan repaid ₹ 6,000.

You ascertain the following additional information:

1. **A further 300 toys sold in 2016, but not received for the year end.**
2. **₹ 3,600 of raw materials received in the year, but not paid for.**
3. **The only stock at 31.12.2016 was ₹ 1,600 raw materials.**
4. **The rent covered the period from 1.1.2016 to 31.3.2017.**
5. **Expenses included ₹ 800 withdrawn by Anand for his own use.**
6. **The initial capital and loan of ₹ 40,000 was used to buy Machinery [with 4-year life and an anticipated residual value of ₹ 8,000].**
7. **The Wages figure included ₹ 10,000 for installing the machinery.**

8. **The Machinery is to be depreciated under reducing balance method @ 25% p.a. for the whole year.**

Prepare a Trading and Profit & Loss Account for the year ended 31.12.2016 and a Balance Sheet as on the date.

Solution:

Books of Anand

Dr. **Trading and Profit & Loss A/c for the year ended 31.12.17** ***Cr.***

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Purchases:			By Sales:		
Cash	13,600		Cash	80,000	
Credit	3,600	17,200	Credit [300 X ₹ 40]	12,000	92,000
To Wages	28,000		By Closing Stock		1,600
Less: Installation Charges of Machinery	10,000	18,000			
To Gross Profit c/d		58,400			
		93,600			93,600
To Rent	8,000				
Less: Prepaid [WN: 2]	1,600	6,400	By Gross Profit b/d		58,400
To General Expenses	4,800				
Less: Expenses of Proprietor	800	4,000			
To Depreciation on Machinery [WN: 3]		12,500			
To Capital A/c [Net Profit transferred]		35,500			
		58,400			58,400

Balance Sheet as on 31.12.17

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital	20,000		Machinery	40,000	
Add: Net Profit	35,500		Add: Installation Charges	10,000	
	55,500			50,000	
Less: Drawings	800	54,700	Less: Depreciation [WN: 3]	12,500	37,500
Loan from friend [₹ 20,000 – ₹ 6,000]		14,000	Stock-in-Trade		1,600
Creditors [Problem Note]		3,600	Debtors [Problem Note: 300 × ₹ 40]		12,000

			Prepaid Rent [WN: 2] Cash [WN: 1]		1,600 19,600
		72,300			72,300

Working Notes:

1. Cash balance on 31.12.17

Dr. **Cash A/c** ***Cr.***

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Capital A/c	20,000		By Machinery A/c	40,000
	To Loan A/c [Loan taken from friend]	20,000		By Wages A/c	28,000
	To Sales A/c [Sale proceeds]	80,000		By Purchases A/c [Purchase of Raw Materials]	13,600
				By Rent A/c	8,000
				By General Expenses A/c	4,800
				By Loan Repaid A/c	6,000
				By Balance c/f [Closing Balance: B/Fig.]	19,600
		1,20,000			1,20,000

2. Prepaid Rent

Rent has been paid for 15 months. It covers the period from 1.1.2016 to 31.3.2017. So, 3 month's Rent (from 1.1.12 to 31.3.12)

Has been paid in advance by the proprietor.

So, Prepaid Rent = ₹ 8,000 X 3/15 = ₹ 1,600

3. Depreciation on Machinery

Depreciation Machinery = [Purchase Cost + Installation Charges] X 25% = ₹ (40,000 + 10,000) X 25% = ₹ 12,500

The residual value of Machinery is not to be considered as rate of depreciation is mentioned in the problem.

10. Raja, a sole trader furnishes you with the following bank summary for the year ended December 31, 2017

	₹	₹	₹
Balance on December 31, 2016			**11,000**
Add: Deposits:			
Cash [out of cash sales]		**1,25,000**	

Collection from Credit Customers		3,50,000	
Income from Personal Investment		36,000	5,11,000
			5,22,000
Deduct:			
Cash Withdrawn from:			
Shop Expenses	40,000		
Personal Drawings	20,000	60,000	
Cheques issued to Suppliers of:			
Goods	3,50,000		
Services	40,000	3,90,000	
Cheques issued for Personal Purposes		55,000	
Bank Charges		500	5,05,500
Balance on December 31, 2017			16,500

Raja informs you that he had the following Assets and Liabilities in addition to the Bank Balances described on December 31:

Asset & Liabilities	2017 ₹	2016 ₹
Assets:		
Cash Balance	7,000	4,000
Amounts due from Customers	37,000	27,500
Unsold Inventory at Cost	13,000	10,000
Prepaid Expenses	3,000	2,000
	60,000	43,500
Liabilities:		
Creditors for:		
Goods	23,000	28,000
Services	2,500	1,500
	25,500	29,500

He also informs you that:

(a) He uses 75% of cash sale proceeds for making cash purchases; the remaining balance being deposited in Bank.

(b) He had allowed cash discount of ₹ 5,000 to his credit customers for prompt payment; he was allowed cash discount ₹ 7,000 by his suppliers of goods for prompt payment.

(c) Collections from credit customers and payments to suppliers of goods are invariable by crossed cheques.

Raja ask you to show his capital account and prepare:

(i) Receipt and payment account for the year ended December 31, 2017

(ii) Trading and Profit & Loss account for the year ended December 31, 2017

(iii) Balance Sheet as on December 31, 2017

Solution:

Books of Raja

Receipt and Payment A/c for the year ended Dec. 31, 2017

Receipts	Amount ₹	Payments	Amount ₹
To Opening Balance		By Cash Purchases [WN:6]	3,75,000
Cash	4,000	By Payment to Suppliers	3,50,000
Bank	11,000	By Payments for Services:	
To Cash Sales [WN:6]	5,00,000	Cash	37,000
To Collection from Customers	3,50,000	Cheques	40,000
Capital Introduces:		By Bank Charges	500
Income from Personal Investment	36,000	By Drawings [₹ 20,000 + ₹ 55,000]	75,000
		By Closing Balance:	
		Cash	7,000
		Bank	16,500
	9,01,000		9,01,000

Dr. **Trading and Profit & Loss A/c for the year ended Dec. 31, 2017** **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		10,000	By Sales:		
To Purchases:			Cash [WN:6]	5,00,000	
Cash [WN:6]	3,75,000		Credit [WN:3]	3,64,500	8,64,500
Credit [WN:4]	3,52,000	7,27,000	By Closing Stock at Cost		13,000
To Gross Profit c/d		1,40,500			
		8,77,500			8,77,500
To Expenses [WN:5]		77,000	By Gross Profit b/d		1,40,500
To Bank Charges		500	By Discount Received		7,000
To Discount Allowed		5,000			
To Capital A/c [Net Profit transferred]		65,000			
		1,47,500			1,47,500

Balance Sheet as on Dec. 31, 2017

Liabilities	Amount ₹	Amount ₹	Liabilities	Amount ₹	Amount ₹
Capital:			Inventory		13,000

Opening Capital [WN:1]	25,000		Customers		37,000
Add: Net Profit	65,000		Prepaid Expenses		3,000
Further Capital	36,000		Bank		16,500
[income from personal investment]					
	1,26,000		Cash		7,000
Less: Drawings [₹ 20,000 + ₹ 55,000]	75,000	51,000			
Creditors for:					
Goods		23,000			
Services		2,500			
		76,500			76,500

Working Notes:

1. Capital balance on 1.1.2017

Balance Sheet as on 1.1.2017

Liabilities	Amount ₹	Amount ₹	Liabilities	Amount ₹	Amount ₹
Capital [Opening Capital: B/Fig.]		25,000	Inventory		10,000
Creditors for:			Customers		27,500
Goods		28,000	Prepaid Expenses		2,000
Services		1,500	Bank		11,000
			Cash		4,000
		54,500			54,500

2. Expenses Paid during 2017

Dr. **Cash A/c** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Balance b/f	4,000		By Purchases A/c [WN:6]	3,75,000
	To Sales A/c [WN:6]	5,00,000		By Bank A/c [Amount deposited]	1,25,000
	To Bank A/c [Withdrawn from bank for shop expenses]	40,000		By Expenses A/c [Expenses paid: B/Fig.]	37,000
				By Balance c/f	7,000
		5,44,000			5,44,000

3. Credit Sales during 2017

Dr. **Customers A/c** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Balance b/f	27,500		By Bank A/c	3,50,000
	To Sales A/c [Credit Sales: B/Fig.]	3,64,500		By Discount Allowed A/c	5,000
				By Balance c/f	37,000
		3,92,000			3,92,000

4. Credit Purchases during 2017

Dr. **Creditors A/c** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Bank A/c	3,50,000		By Balance b/f	28,000
	To Discount Received A/c	7,000		By Purchases A/c [Credit purchases: B/Fig.]	3,52,000
	To Balance c/f	23,000			
		3,80,000			3,80,000

5. Expenses to be transferred to Profit & Loss A/c

	₹
Expenses Paid: Cash [WN:2]	37,000
Cheque	40,000
	77,000
Add: Prepaid Expenses on 31.12.10	2,000
Outstanding Expenses on 31.12.2017	2,500
	81,500
Less: Prepaid Expenses on 31.12.2017	3,000
	78,500
Less: Outstanding Expenses on 31.12.2016	1,500
∴ Expenses to be debited to Profit & Loss A/c	77,000

6. Cash Sales & Cash Purchases during 2017

75% of Cash Sale proceeds are used for Cash Purchases

∴ 25% Amount of Cash Sale proceeds deposited into Bank

∴ Cash Sales = Cash deposited X 100/25 = ₹ 1,25,000 X 100/25 = ₹ 5,00,000

∴ Cash Purchases = 75% of Cash Sale proceeds = ₹ 5,00,000 X 75% = ₹ 3,75,000

11. Paresh runs a circulating library and his accounts are in a mess. One Bank Account has been used for both the business as well as his personal transactions. After looking into his records you gather the following information:

1. Payments for Magazines for the year ended March 31, 2018 – ₹ 9,700 by cheque.

2. **Payment of delivery Peon's Wages for the year ended March 31, 2018 – ₹ 2,200.**
3. **Payment of other Expenses for the year ended March 31, 2018 – ₹ 3,080 by cheque.**
4. **Subscription collected – ₹ 21,095.**
5. **He has taken ₹ 500 per month in cash from the subscription collection to pay to his wife for their household and personal expenses, depositing the balance of the collections into the Bank.**
6. **During the year he bought a second hand car (not used for the business) from a friend for ₹ 4,000. However, as the friend owed him ₹ 250 for subscription, the matter was settled by a cheque for the difference.**
7. **As assurance policy on his life matured during the year and realized ₹ 7,000.**
8. **Paresh issued a cheque from business bank account for ₹ 1,200 to a friend as loan. The friend is repaying by installments, and owes ₹ 500 on March 31, 2018. Such transaction is to be considered as personal transaction of proprietor.**
9. **Magazine subscription for the year amounting to ₹ 400 had to be written off by Paresh as irrecoverable.**
10. **Other personal payments by cheques total ₹ 2,350.**
11. **The cash collected includes ₹ 600 in respect of magazine subscription written off as irrecoverable in a previous year.**
12. **Paresh runs the business from his flat for which a rent of ₹ 90 per month is included in the payments for other expenses ₹ 3,080. The living accommodation may be regarded as two-thirds of the whole.**
13. **The following balances may be accepted as correct:**

	March 31	
	2017	**2018**
	₹	**₹**
Cash in hand	**115**	**70**
Bank balance	**4,720**	**5,880**
Subscription receivable [Debtors]	**1,830**	**2,105**
Creditors for Purchase of Magazine	**900**	**840**
Stock of Magazine, at Cost	**2,450**	**830**

You are required to prepare:

a) **A Cash and Bank Account for the year;**

b) **Paresh [Proprietor's] Capital Account for the year;**

c) **An Income and Expenditure Account of the circulating Library for the year ended March 31, 2018; and**

d) **A Balance Sheet of the Business as on March 31, 2018.**

Solution:

Note:

1. **Payment of delivery Peon's Wages:** The mode of payment for wages is not mentioned in the problem. However, the balancing figures in Cash column & Bank column of Cash Book come to ₹ 1,345 and ₹ 855 respectively i.e. ₹ 2,200 in aggregate. It is exactly the amount of wage payment. So, it can be understood that payment of wages was made partially in cash and partially through cheques.

2. **Payment of other expenses includes payment for rent (both for business as-well-as personal purpose):**

   Payment for rent = ₹ 90 X 12 = ₹ 1,080. ∴ Payment for other expenses = ₹ 3,080 – ₹ 1,080 = ₹ 2,000

   However, 2/3rd of such rent is related to the living accommodation of the proprietor i.e. an item of 'Drawings'. ∴ Drawing relating to Rent = 1,080 X 2/3 = ₹ 720

3. **Collection of subscription and payment for household and personal expenses:** Out of the total subscription received (₹ 21,095), amount withdrawn for personal use = ₹ 500 X 12 = ₹ 6,000. ∴ Amount deposited into Bank = ₹ 21,095 – ₹ 6,000 = ₹ 15,095

4. **Purchase of second-hand car (not used for the business):**

Value of car	₹ 4,000
Less: Adjustment for subscription	₹ 250
∴ Amount to be paid	₹ 3,750

   As the car is used other than business purpose, it will be considered as 'Drawings' of the proprietor. However, ₹ 250 is to be adjusted in subscription for the value of car as the amount is due from the same party.

   Journal entry:

Drawing A/c	Dr. 4,000	
To Subscription A/c		250
To Bank A/c		3,750

5. **Maturity of assurance policy:** It is assumed to have been brought into the business by the proprietor. Thus, it is considered as further capital introduced.

6. **Providing loan to friend**

   It is to be considered as personal transaction. The cheque was issued from business bank account for ₹ 1,200 and installment already received back to the extent of ₹ 700 (₹ 1,200 – ₹ 500). So, the net balance of ₹ 500 is to be considered as drawings.

   Alternatively, total payment for such loan of ₹ 1,200 can be treated as 'Drawings' and refund of ₹ 700 can be treated as fresh capital introduction.

a. Cash and Bank Account for the year

Books of Paresh

Dr. Cash and Bank A/c Cr.

Date	Receipts	Cash ₹	Bank ₹	Date	Payments	Cash ₹	Bank ₹
	To Balance b/f	115	4,720		By Magazine A/c		9,700
	To Subscription A/c	21,095			By Other Expenses A/c [3,080 – 1,080]		2,000
	To Cash A/c (C) [Subscription deposited: (21,095 – 6,000)]		15,095		By Rent A/c		1,080
					By Bank A/c [Subscription deposited] (C)	15,095	
	To Recovery of Subscription A/c	600			By Drawing A/c [₹ 500 X 12]	6,000	
	To Capital A/c [Policy money deposited]		7,000		By Drawings A/c [Purchase of car]		3,750
					By Drawings A/c [Loan to friend]		500
					By Drawings A/c [Personal payment]		2,350
					By Peon's Wages A/c [Note: 1 – B/Fig.]	1,345	855
					By Balance c/f	70	5,880
		22,510	26,815			22,510	26,815

b. Paresh [Proprietor's] Capital Account for the year

Dr. Capital A/c Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Drawings A/c [WN: 2]	13,570		By Balance b/f [WN:1]	8,215
	To Balance c/f	8,045		By Bank A/c [Policy money matured]	7,000
				By Income & Expenditure A/c [Surplus transferred]	6,400
		21,615			21,615

c.

Dr. Income & Expenditure A/c for the year ended March 31, 2018 Cr.

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock of Magazine		2,450	By Subscription [WN:3]		22,020
To Purchase of Magazine [WN: 4]		9,640	By Recovery of Subscription		600
To Delivery Peon's Wages		2,200	By Closing Stock of Magazine		830
To Other Expenses	3,080				
Less: Rent included above	1,080	2,000			
To Rent	1,080				
Less: Rent of living room [₹ 1,080 X 2/3]	720	360			
To Bad Debts [Subscription written-off]		400			
To Capital A/c [Surplus transferred]		6,400			
		23,450			23,450

d.

Balance Sheet as on March 31, 2018

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital [From Capital A/c]		8,045	Stock of Magazine		830
Creditors for Magazine		840	Sundry Debtors		
			Subscription Receivable		2,105
			Cash at Bank		5,880
			Cash in hand		70
		8,885			8,885

Working Notes:

1. **Capital balance on 1.4.2017**

Balance Sheet as on 1.4.2017

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital [Opening Capital: B/Fig.]		8,215	Stock of Magazine		2,450
Creditors for Magazine		900	Subscription Receivable		1,830
			Cash at Bank		4,720
			Cash in hand		115
		9,115			9,115

2. Drawings during 2017-18

	₹
Rent of premises used for personal purposes	720
Monthly cash withdrawn [500 X 12]	6,000
Purchase of car used for personal purpose [₹ 4,000 – ₹ 250]	3,750
Waiver of Outstanding Subscription for purchase of personal car	250
Loan to Friend treated as personal transaction	500
Personal Payment of proprietor	2,350
	13,570

3. Subscription to be transferred to Income & Expenditure A/c

Dr. **Debtors (Subscription) A/c** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Balance b/f	1,830		By Cash A/c [Subscription received]	21,095
	To Income & Expenditure A/c [Subscription for the year: B/Fig.]	22,020		By Bad Debts A/c [Subscription written-off]	400
				By Drawings A/c [Adjustment for personal car]	250
				By Balance c/f	2,105
		23,850			23,850

4. Purchase of Magazine during 2017-18

Dr. **Creditors for Magazine A/c** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Bank A/c [Payment for magazine]	9,700		By Balance b/f	900
	To Balance c/f	840		By Purchases A/c [Purchase of magazine: B/Fig.]	9,640
		10,540			10,540

Chapter – 6

PARTNERSHIP

Admission, Retirement, Death, Dissolution & Insolvency

1. **Multiple Choice Questions**

Choose the correct alternative

1. **When is Revaluation Account prepared?**

   (a) At the time of Admission

   (b) At the time of Retirement

   (c) At the time of Death

   (d) All of the above

2. **Goodwill bought in by incoming partner in cash is taken away by the old partners in:**

   (a) Old Profit Sharing Ratio

   (b) New Profit Sharing Ratio

   (c) Sacrificing Ratio

   (d) Capital Ratio

3. **The Balance of Joint Life Policy (JLP) Account as shown in the Balance Sheet represents:**

   (a) Annual premium of JLP

   (b) Total premium paid by the partners

   (c) Amount receivable at maturity

   (d) Surrender value of the policy

4. **The solvent partners must share the deficiency of an insolvent partner in**

   (a) Capital Ratio

   (b) Profit Sharing Ratio

   (c) Any one of the above

   (d) None of the above

5. **Upon retirement of a partner, the combined shares of profit of continuing partners will:**

   (a) Reduce

   (b) Increase

   (c) Remain Same

(d) Any one of the above

Answer:

1. (d)
2. (c)
3. (d)
4. (a)
5. (c)

2. Match the following pairs:

	Column A		Column B
1.	Goodwill	A.	Nominal Account
2.	Super Profit	B.	Average Profit Method
3.	Revaluation Account	C.	Average Profit – Normal Profit
4.	Capital Employed	D.	Intangible
5.	Valuation of Goodwill	E.	Tangible Trading Assets – Trading Liabilities

Answer:

1. D
2. C
3. A
4. E
5. B

3. Fill in the blanks:

1. **If there is any change in profit sharing ratio of the partners, the old partnership will be …………………**
2. **At the time of admission of a partner, General Reserve is distributed among the partners in……………….sharing ratio.**
3. **The amount due to deceased partner is paid to his/ her…………………..**
4. **Profit or loss on revaluation of assets and liabilities is shared by the………………**
5. **Surplus capital method is suitable when all partners are ………………..**

Answer:

1. Terminated
2. Old Profit

3. Executors
4. Old Partners
5. Solvent

4. State whether the following statements are true or false:

1. **Changes in profit sharing ratio among the existing partners may occur at any time during the financial year.**
2. **It is necessary to revalue of assets and liabilities at the time of admission of a new partner.**
3. **The surrender value of Joint Life Policy is distributed among all partners in their old ratio upon retirement.**
4. **After the death of a partner, the combined shares of continuing partners decrease.**
5. **Loss on Realisation should be distributed according to capital ratio.**

Answer:

1. True
2. True
3. True
4. False
5. False

NUMERICAL EXAMPLES AND QUESTION ANSWERS

5. State five rules which are applicable in the absence of Partnership Deed.

Answer:

The rules are as follows:

(a) Profit sharing ratio will be equal to all existing partners.

(b) No Salary or Remuneration to be paid to the partners.

(c) No Interest on Capital to be charged.

(d) No Interest on Drawings to be charged.

(e) Rate of interest on Loan advanced by the partner @6% p.a.

6. Define Partnership. State its features.

Answer:

When two or more persons agreed to carry on a business and share profit or losses of the business is known as partnership. The Indian partnership Act, 1932, defines Partnership as follows:

Partnership is the relation between persons and who have agreed to share the profits of a business carried on by all or any of them acting for all.

The main features of Partnership are:

(i) Two or more persons: It is an association of two or more persons for a common interest.

(ii) Agreement: The Partnership is an agreement. It may be either oral or in writing.

(iii) Lawful Business: Partnership is formed to carry on a business; so it must follow the law.

(iv) Profit Sharing: Profit or loss of the firm is to share by the partners in an agreed ratio and equally where the ratio is not agreed.

7. Amal and Bimal share profits and losses in the Ratio of 4:3. They admit Kamal with 3/7th share; which he gets 2/7th from A and 1/7 from B. Calculate new profit sharing ratio.

Solution:

Calculation of new profit sharing ratio:

Amal's new share : = 4/7 - 2/7 =2/7

Bimal's new share : = 3/7 - 1/7=2/7

Kamal's new share : = 2/7 + 1/7=3/7

Therefore, New Profit sharing Ratio is 2/7 : 2/7 : 3/7.i.e., **2 : 2 : 3**

8. A and B are partners sharing profit and losses in the ratio of 3 : 2. C is coming as a new partner for 1/5th share of future profit. Calculate new profit sharing and sacrificing ratio.

Solution:

Calculation of new profit sharing ratio and sacrificing ratio:

Let total Profit = 1

New partner's share = 1/5

Therefore, Remaining share = 1 – 1/5 = 4/5

A's new share = 3/5 of 4/5 i.e. 12/25

B's new share = 2/5 of 4/5 i.e. 8/25

C's Share = 1/5

The new profit sharing ratio of A, B and C is :

= 12/25 : 8/25 : 1/5 x 5/5

= 12/25 : 8/25 : 5/25

= **12 : 8 : 5**

The Sacrificing ratio of the existing old partners:

A's Sacrifice = 3/5 – 12/25 = 15 – 12/25 = 3/25

B's Sacrifice = 2/5 – 8/25 = 10 – 8/25 = 2/25

Therefore, Sacrificing Ratio = **3 : 2**

9. The profit sharing ratio of Arvind and Gobind is 5:3. Dipak was admitted as a new partner. Arvind sacrificed 1/5th of his share and Gobind 1/3rd of his share for Dipak. Calculate the new profit sharing and sacrificing ratio.

Solution:

Calculation of new profit sharing ratio and sacrificing ratio:

Arvind sacrificed 1/5th of his share = 1/5 of 5/8 = 5/40 i.e., 1/8

Gobind sacrificed 1/3rd of his share = 1/3 of 3/8 =3/24 i.e., 1/8

Therefore, sacrificing ratio of Arvind and Gobind is 1/8 : 1/8 i.e., **1 : 1**

Arvind's new share = 5/8 – 1/8 = 4/8

Gobind's new share = 3/8 – 1/8 = 2/8

Dipak's new share = 1/8 + 1/8 = 2/8

Therefore, New Profit Sharing ratio of Arvind, Gobind and Dipak is

= 4/8 : 2/8 : 2/8

= **2 : 1 : 1**

10. Roni and Toni are partners in a firm sharing profit and losses in the ratio of 5 : 3. Raju joined the firm as a new partner for 1/4th share in the future profit. Raju brought ₹ 60,000 for his share of goodwill and ₹2,00,000 in cash as his capital. The premium for goodwill is withdrawn by the Roni and Toni immediately after the admission. The new profit sharing ratio of the partners is decided as 2 : 1 : 1. Pass necessary journal entries in the books of the firm.

Solution:

In the books of Roni, Toni and Raju

Journal

Date	Particulars	LF	Debit Amount (₹)	Credit Amount (₹)
-	Bank A/c Dr. To Raju's Capital A/c To Premium for Goodwill A/c (Being capital and share of goodwill brought in by cash)		2,60,000	 2,00,000 60,000
-	Premium for Goodwill A/c Dr. To Roni's Capital A/c To Toni's Capital A/c (Being the Premium for Goodwill is shared by Toni and Roni according to their sacrificing sharing ratio)		60,000	 30,000 30,000
-	Roni's Capital A/c Dr. Toni's Capital A/c Dr. To Bank A/c (Being Premium for Goodwill is withdrawn)		30,000 30,000	 60,000

Working Note:

Calculation of sacrificing ratio [Old Ratio – New Ratio]

Roni's share = 5/8 – 2/4 = 1/8

Toni's share = 3/8 – 1/4 = 1/8

i.e., Roni : Toni = **1 : 1** or **equally**

11. Arun and Barun are partner sharing profit and losses in the ratio of 7: 3. The Balance Sheet of the firm on 31st March, 2017 was as follows:

Balance Sheet as on 31.03.2017

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital :			**Goodwill**	**20,000**
Arun	**88,000**		**Plant and Machinery**	**45,000**
Barun	**64,000**	**1,52,000**	**Land and Building**	**40,000**
Sundry Creditors		**70,000**	**Furniture**	**13,600**
Reserve Fund		**18,000**	**Sundry Debtors**	**45,000**
			Bills Receivable	**29,400**
			Stock	**35,000**
			Bank	**12,000**
		2,40,000		**2,40,000**

Karan joined the partnership as a new partner for 1/6th share of future profits and losses of the firm on the following terms:

i. **Stock is revalued at ₹39,000; one unrecorded assets for ₹ 2,000 to be recorded for unexpired Rent.**
ii. **Depreciation to be charged for Plant and Machinery ₹6,000, Land and Building ₹ 4,400 and Furniture are depreciated by 10%.**
iii. **Karan brought ₹40,000 as his capital and ₹ 12,000 for his share of goodwill.**
iv. **Capital of the partners shall be proportionate to their profit sharing ratio. Adjustment of Capitals to be made by Cash.**

Prepare Revaluation Account, Partners Capital Account, Cash Account and Balance Sheet of the new firm.

Solution:

In the books of Arun, Barun and Karan

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars		Amount (₹)
To Plant and Machinery A/C	6,000	By Stock A/C		4,000
To Land and Building A/C	4,400	By Unexpired Rent A/C		2,000
To Furniture A/C	1,360	By Partners Capital A/C		
		- Arun's Capital	4,032	
		- Barun's Capital	1,728	
		(loss on revaluation)		5,760
	11,760			11,760

Dr. Partner's Capital Accounts Cr.

Particulars	Arun (₹)	Barun (₹)	Karan (₹)	Particulars	Arun (₹)	Barun (₹)	Karan (₹)
To Goodwill A/C	14,000	6,000	-	By Balance b/d	88,000	64,000	-
To Revaluation A/C - loss.	4,032	1,728	-	By Reserve Fund A/C	12,600	5,400	-
To Bank A/C - Excess capital withdrew [bal. fig.]	-	5,272	-	By Premium for Goodwill A/C	8,400	3,600	-
				By Bank A/C - Capital brought in	-	-	40,000
To Balance c/d [Note:2]	1,40,000	60,000	40,000	By Bank A/C - Further capital [bal. fig.]	49,032	-	-
	1,58,032	73,000	90,000		1,58,032	73,000	90,000

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	12,000	By Barun's Capital A/C	5,272
To Arun's Capital A/C		- Excess capital withdrew	
- Further capital	49,032		
To Premium for Goodwill A/C	12,000		
To Karan's Capital A/C	1,13,032	By Balance c/d	1,13,032

Balance Sheet as on 31.03.2017

Liabilities		Amount (₹)	Assets	Amount (₹)
Capitals A/C:			Bank	1,07,760
Arun	1,40,000		Bills Receivable	29,400
Barun	60,000		Sundry Debtors	45,000
Karan	40,000	2,40,000	Stock	39,000
Sundry Creditors		70,000	Furniture	12,240
			Unexpired Rent	2,000
			Land and Building	35,600
			Plant and Machinery	39,000
		3,10,000		3,10,000

Working Note:

1. Calculation of New profit Sharing Ratio:

Karan's share of profit = 1/6th

Therefore, Remaining Profit (i.e., 1 – 1/6) or 5/6th to be shared by Arun and Barun according to their existing profit sharing ratio.

Arun's share = 5/6 x 7/10 = 7/12

Barun's shares = 5/6 x 3/10 = 3/12

Karan's share = 1/6 x 2/2 = 2/12

New profit sharing ratio of Arun, Barun and Karan = 7/12 : 3/12 : 2/12

= 7 : 3 : 2.

2. Adjustment of Capital of partners in their profit sharing ratio:

Karan brought capital for 1/6 share = ₹ 40,000

Total Capital of the firm = ₹ 40,000 × 6/1 = ₹ 2,40,000

Therefore, new capital of the partners are:

Arun's Capital = ₹ 2,40,000 × 7/12 = ₹ 1,40,000

Barun's Capital = ₹ 2,40,000 × 3/12 = ₹ 60,000

Karan's Capital = ₹ 2,40,000 × 2/12 = ₹ 40,000

12. Amir, Boby and Chetan were the partners in a firm sharing profits and losses equally. The Balance Sheet of the firm as on.31.12.2017 was as follows:

Balance Sheet as at 31.12.17

Liabilities		Amount (₹)	Assets		Amount (₹)
Amir	30,000		Goodwill		18,000
Boby	30,000		Land and Building		60,000
Chetan	25,000	85,000	Machinery		40,000
Reserve Fund		38,000	Debtors	48,000	
8% Mortgage Loan		60,000	Less: Provision	3,000	45,000
Creditors		20,000	Stock		22,000
Bills payable		20,000	Bank		38,000
		2,23,000			2,23,000

Chetan has decided to retire from partnership and remaining partners will continue the business. The following adjustment to be considered at his retirement:

a. **Create provision for discount on Creditors of ₹ 1,600; the Provision for Doubtful Debt to be raised by ₹ 1,000; the value of Land and Building to be appreciated by 15%; Depreciate Machinery by 10%; the amount for ₹ 4,000 of Bills Payable was not likely to be claimed.**

b. **Goodwill to be valued on 3 years' purchase of average profit of last 4 years which were 2014 : ₹56,000 (loss); 2015 : ₹ 22,000; 2016: ₹54,200; 2017 : ₹24,800.**

c. **Amir and Boby have decided to show the firm's total capital at ₹1,00,000 which would be according to their new profit sharing ratio at 2:3. The adjustments to be made in cash.**

Prepare Revaluation Account, Partners' Capital Account and Balance Sheet of the new partners as on 31.12.17.

Solution:

In the books of Amir, Boby and Chetan

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for Doubtful Debts A/C	1,000	By Land and Building A/C	9,000
To Depreciation on Machinery A/C	4,000	By Provision for discount on	
To Partner's Capital A/C		Creditors A/C	1,600
- Amir's Capital 3,200		By Bills Payable A/C	4,000
- Boby's Capital 3,200			
- Chetan's Capital 3,200	9,600		
	14,600		14,600

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	Amir ₹	Boby ₹	Chetan ₹	Particulars	Amir ₹	Boby ₹	Chetan ₹
To Goodwill A/C	6,000	6,000	6,000	By Balance b/d	30,000	30,000	25,000
To Chetan's Capital	2,250	9,000	-	By Reserve	12,667	12,667	12,666
A/C	-	-	46,116	By Revaluation A/C	3,200	3,200	3,200
To Chetan's Loan A/C	40,000	60,000	-	- profit			
To Balance c/d				By Amir's Capital A/C	-	-	2,250
				By Boby's Capital A/C	-	-	9,000
				By Bank A/C (Def.)	2,383	29,133	-
				By Balance b/d			
	48,250	75,000	52,116		48,250	75,000	52,116
					40,000	60,000	-

Balance Sheet as at 31.12.07

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/C		Land & Buildings	69,000
Amir's 40000		Machinery	36,000
Boby's 60000	1,00,000	Debtors 48,000	
Bills Payable	16,000	Less: Provision 4,000	44,000
Creditors	18,400	Stock	22,000
8% Mortgage Loan	60,000	Bank	69,516
Chetan's Loan	46,116		
	2,40,516		2,40,516

Working Note:

The value of Goodwill is 3 years' purchase of average profit of last 4 years

= (- 56,000 (loss) + 22,000 + 54,200 + 24,800) / 4 X 3

= ₹ 33,750. The value of Goodwill is adjusted against partners' capital accounts.

13. **Rahul, Ranjit and Rakes are the partners of a firm sharing profits and losses in the ratio of 5:3:2. The Balance sheet of the firm as on 31st December 2016 is:**

Balance Sheet as on 31st December 2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Plant	50,000
Rahul 40,000		Land and Building	40,000
Ranjit 35,000		Furniture & Fixture	24,000
Rakes 25,000	1,00,000	Debtors	8,000
Reserve Fund	10,000	Stock	15,000
Creditors	28,000	Bank	13,000
Outstanding Expenses	12,000		
	1,50,000		1,50,000

Rahul has died on 1st July 2017 on the following terms-

i. **Plant to be valued at ₹ 48,000.**

ii. **Land and Building revalued at ₹ 50,000.**

iii. **Furniture & Fixture are to be increased by ₹ 2,000.**

iv. **Interest on Capital is to be charged at 10% p.a.**

v. **Profit for the year 2017 has been accrued on the same scale as it was in 2016.**

vi. **Goodwill of the firm is valued at 2 years' purchase of the average profits of the last five years which were: 2012 – ₹ 15,000; 2013 – ₹ 13000; 2014 – ₹ 12,000; 2015 – ₹ 15,000 and 2016 – ₹ 20,000**

vii. **₹ 12,000 of the due to Rahul is to be paid in cash to Rahul's Executor and the balance is to transfer to his loan account.**

Prepare Revaluation Account, Rahul's Capital Account and Rahul's Executors Account.

Solution:

In the books of Rahul, Ranjit and Rakes

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Plant A/C	2,000	By Furniture & Fixture A/C	2,000
To Capital Accounts A/C		By Land and Buildings A/C	10,000
Rahul	5,000		
Ranjit	3,000		
Rakes	2,000		
	12,000		12,000

Dr. **Rahul's Capital Account** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Rahul's Executors A/C	72,000	By Balance b/d	40,000
- Transferred.		By Reserve fund A/C	5,000
		[₹ 10,000 X 5/10]	
		By Interest on capital A/C	2,000
		By Revaluation A/C	5,000
		By Ranjit's Capital A/C	9,000
		By Rakes's Capital A/C	6,000
	72,000		72,000

Dr. **Rahul's Executor's Account** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/C	12,000	By Rahul's Capital A/C	72,000
To Rahul's Executor's Loan A/C	60,000		
	72,000		72,000

Working Notes:

(a) Interest on Rahul's Capital = ₹ 40,000 X 10/100 X 6/12 = ₹ 2,000

(b) Since, profit for the year 2017 has been accrued on the same scale as it was in 2016, therefore, profit for 6 months upto June 2017 is ₹ 20000 X 6/12 = ₹ 10,000.

And, Rahul's Share of profits = 10,000 X 5/10 = ₹ 5000.

(c) Total Goodwill of the firm =

Average profits for last 5 years = ₹ 75000/5 = ₹ 15000

Therefore, Goodwill = ₹ 15000 X 2 years = ₹ 30,000

Rahul's share of Goodwill = ₹ 30,000 X 5/10 = ₹ 15000 (to be adjusted against capital accounts of partners in Gaining Ratio 3:2)

14. P, Q and R are the partners in Bosco Engineering Works sharing profits and losses at 6: 3 : 5. The Balance Sheet as on 31.12.2017 is given below:

Balance Sheet as on 31st December 2017

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital Accounts:			**Land and Building**	**10,000**
P	**25,000**		**Furniture & Fixture**	**5,000**
R	**15,000**	**40,000**	**Debtors**	**30,000**
Current Accounts:			**Stock**	**23,100**
P	**1,000**		**Bank**	**2,500**
R	**500**	**1,500**	**Q's Current Accounts**	**4,900**

Reserve	**1,400**		
Creditors	**28,600**		
Mortgage Loan	**4,000**		
	75,500		**75,500**

It was decided by the partners to dissolve the partnership on 31.12.2017. The following amount has been realized:

Furniture & Fixture ₹ 2,000; Land and Building ₹ 6,000; Debtors ₹ 20,000 and Stock ₹ 15,000. Creditors are agreed to forgo 25% in full settlement of their total dues. The full amount of Mortgage Loan has been paid. Realisation expenses paid for ₹ 1,650. It was ascertained that Q had become insolvent. Q's estate had contributed only 50 paise in a rupee.

You are required to prepare Realisation Account, Bank Account and Partners Capital Account following the rule given in Garner Vs. Murray.

Solution:

In the books of Bosco Engineering Works

Dr. Realisation Account Cr.

Particulars		Amount (₹)	Particulars		Amount (₹)
To Land and Building A/C		10,000	By Creditors A/C		28,600
To Furniture & Fixture A/C		5,000	By Mortgage Loan A/C		4,000
To Debtors A/C		30,000	By Bank A/C		
To Stock A/C		23,100	(assets realised)		
To Bank A/C			- Land and Building	6,000	
(payment of liabilities)			- Furniture & Fixture	2,000	
- Creditors	21,450		- Debtors	20,000	
- Mortgage Loan	1,650		- Stock	15,000	43,000
- Realisation Expenses	4,000	27,100	By Partners Capital A/C		
			- P [19,600 X 6/14]	8,400	
			- Q [19,600 X 3/14]	4,200	
			- R [19,600 X 5/14]	7,000	19,600
		95,200			95,200

Dr. Bank Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,500	By Realisation A/C	27,100
To Realisation A/C	43,000	By P's Capital Accounts A/C	23,850
To P's Capital Accounts A/C	8,400	By R's Capital Accounts A/C	14,350
To R's Capital Accounts A/C	7,000		
To Q's Capital Accounts A/C	4,400		
	65,300		65,300

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Current A/C	-	4,900	-	By Balance b/d	25,000	-	15,000
To To Realisation A/C				By Current A/C	1,000	-	500
- Loss	8,400	4,200	7,000	By Reserve A/C	600	300	500
To Q's Capital A/C	2,750	-	1,650	By Bank A/C			
[Note: 1]				- Cash brought in			
To Bank A/C	23,850	-	14,350	against loss	8,400	-	7,000
-Balance paid off.				By Bank A/C			
				-[(9,100 – 300) x 50%]	-	4,400	-
				By P's Capital A/C &			
				R's Capital A/C	-	4,400	-
	35,000	9,100	23,000	[Note: 1]	35,000	9,100	23,000

Working Note:

1. Q's total deficiency of ₹ [(9,100 – 300) x 50%] or ₹ 4,400 to be shared by P and R in their Fixed Capital Ratio i.e., 25,000 : 15,000 or 5 : 3.

AMALGAMATION OF THE FIRMS

Multiple Choice Questions

15. *Choose the correct alternative*

1. **Profit on realization is transferred to partners capital account in:**
   - **(a) Equally**
   - **(b) Capital ratio**
   - **(c) Profit sharing ratio**
   - **(d) None of these**

2. **When revaluation account is opened then:**
   - **(a) Assets are sold in the open market**
   - **(b) Assets are remained in the same firm**
   - **(c) Assets are not in the hands of the same firm**
   - **(d) None of these**

3. **The basis of computation of purchase consideration is:**
   - **(a) Capital**
   - **(b) Liabilities taken over**
   - **(c) Net assets**
   - **(d) None of these**

4. **When the books of amalgamation of firms are being closed then assets and liabilities are transferred to:**
   - **(a) Capital account**
   - **(b) Revaluation account**
   - **(c) Realization account**
   - **(d) None of these**

5. **When realization account is opened then:**
   - **(a) The assets are not in the hands of same firm**
   - **(b) The assets are in the same firm**
   - **(c) Both of these**
   - **(d) None of these**

Answer:

1. (c)
2. (b)
3. (c)
4. (c)
5. (a)

16. Fill in the blanks:

1. **Amalgamation of the firm is used to be done to avoid…………**
2. **Amalgamation of the firm is used to be done to ……profit**
3. **When two or more firms carrying on business of same nature, decided to amalgamate is called…………….**
4. **Amalgamation of firms indicates………..of two or more existing firms.**
5. **Amalgamations of firms secure internal & external……….of large scale production.**

Answer:

1. competition
2. maximize
3. amalgamation of firms
4. winding up
5. economies

NUMERICAL EXAMPLES

17. Two partnership firm, carrying on business under the style of X & Co. and Y & co. respectively, decided to amalgamate into Z &Co. with effect from 1st January 2012. The respective Balance Sheets are:

Balance Sheet of X &Co. as on 31 December,2011

Liabilities	₹	Assets	₹
Mr B's Capital Accounts	19000	Plant & Machinery	10000
Sundry Creditors	10000	Stock -in -trade	20000
Bank Overdraft	15000	Sundry debtors	10000
		Mr A's Capital Account	4000
	44000		44000

A and B share profits and losses in the proportion of 1: 2.

Balance Sheet of Y & Co. as on 31 December, 2011

Liabilities	₹	Assets	₹
Mr X's Capital Account	10000	Investment	5000
Mr Y's Capital Account	2000	Stock-in-trade	5000
Sundry Creditors	9500	Sundry Debtors	10000
		Cash in hand	1500
	21500		21500

X and Y share profit and losses equally. The following further information is given:

a. **All fixed assets are to be devalued by 20%.**
b. **All stock in trade is to be appreciated by 50%.**
c. **X & Co owes ₹ 5000 to Y & Co. as on 31 December, 2011. This debit is settled at ₹ 2000**
d. **Investment is to be ignored for the purpose of amalgamation, being valueless.**
e. **The fixed capital accounts in the new firm are to be: Mr A ₹ 2000; Mr B ₹ 3000 ;Mr X ₹ 1000 ;Mr Y ₹ 4000.**
f. **Mr B takes over bank overdraft of X & Co. and gifts to Mr A the account of money to be brought in by Mr A to make up his capital contribution.**
g. **Mr X is paid off in cash from Y & Co. and Mr Y brings in sufficient cash to make up his required capital contribution.**

Pass necessary Journal Entries to close the books of both the firms as on 31 December, 2011.

Answer:

In the books of X & Company

Journal Dr. Cr.

Date	Particulars	₹	₹
2011	Realization A/c Dr.	40000	
Dce.31	To Plant and Machinery A/c		10000
	To Stock-in-trade A/c		20000
	To Sundry Debtors A/c		10000
	(Being the different assets transferred to Realisation Account)		

	Sundry Creditors A/c Dr. To Realization A/c (Being sundry creditors transferred to Realisation Account)	10000	 10000
	Bank Overdraft A/c Dr. To B Capital A/c ((Being overdraft taken by B)	15000	 15000
	Z & Co. A/c (Note 1) Dr To Realization A/c ((Being purchase consideration due from Z & Co.)	41000	 41000
	Realization A/c (Note 2) Dr To A Capital A/c To B Capital A/c (Being profit on realization)	11000	 3667 7333
	B Capital A/c (Note5) Dr To A Capital A/c (Being deficit in A's Capital made good by B)	2333	 2333
	A Capital A/c Dr B Capital A/c (See Note) Dr. To Z & Co. A/c (Being the capital accounts to the partners closed by transfer to Z & Co.)	2000 39000	 41000

Note : It should be noted that the credit balance in B's capital account in ₹ 39000. His agreed capital in Z & Co. is ₹ 3000 only. Since there is no liquid assets in X & Co. from which B can be repaid, the excess amount of ₹ 36000 should be taken over by Z & Co. as loan from B.

In the books of Y & Company

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

Date	Particulars	₹	₹
2011 Dce.31	Realization A/c Dr To Plant and Machinery A/c To Stock-in-trade A/c To Sundry Debtors A/c (Being the different assets transferred to Realisation Account)	20000	 5000 5000 10000
	Sundry Creditors A/c Dr To Realization A/c (Being sundry creditors transferred to Realisation Account)	9500	 9500
	Z & Co. A/c (Note 1) Dr To Realisation A/c ((Being purchase consideration due from Z & Co.)	5000	 5000
	X Capital A/c Dr Y Capital A/c Dr To Realisation A/c (Note 2) (Being loss on realization transferred to Partner's Capital Accounts equally)	2750 2750	 5500

	Cash A/c Dr To Capital A/c (Being the necessary amount brought in by to make up his required capital contribution)	4750	 4750
	X Capital A/c Dr To Cash A/c (Being the excess capital paid by cash)	6250	 6250
	X Capital A/c Dr Y Capital A/c Dr To Z & Co. A/c (Being the capital accounts of the partners closed by transfer to Grey & Co.)	1000 4000	 5000

Working Notes:

(1) Calculations of Purchase Consideration

Assets taken over :	**X & Co.**	**Y & Co.**
Plant and Machinery	8000	-
Stock-in-trade	30000	7500
Sundry Debtors	10000	7000
(A)	48000	14500
Liabilities taken over : Sundry creditors (B)	7000	9500
Purchase consideration (A-B)	41000	5000

Dr. **(2) Realisation Account** Cr.

Date	Particulars	X&Co.	Y& Co.	Date	Particulars	X &Co.	Y& Co.
2011	To Investment A/c	-	5000	2011	By Sundry	10000	9500
Dce.31	To Plant and			Dce.31	creditors A/c		
	Machinery A/c	10000	-		By Z & Co. A/c	41000	5000
	To Stock-in-trade				By X Capital A/c	-	2750
	A/c	20000	5000		(Loss)	-	
	To Sundry Debtors				By Y Capital A/c		2750
	A/c	10000	10000		(Loss)		
	To A Capital A/c	3667	-				
	To B Capital A/c	7333	-				
		51000	20000			51000	20000

Dr. **(3) Partners' Capital Account** **Cr.**

Date	Particulars	A	B	Date	Particulars	A	B
2011	To Balance b/d	4000	-	2011	By Balance b/d	-	19000
Dce.31	To A Capital A/c	-	2333	Dce.31	By Realisation A/c (profit)	3667	7333
	To Z & Co. A/c	2000	39000		By B Capital A/c	2333	-
					By Bank O verdarft A/c	-	15000
		6000	41333			6000	41333

Dr. **(4) Partners' Capital Account** **Cr.**

Date	Particulars	X	Y	Date	Particulars	X	Y
2011	To Realisation A/c	2750	2750	2011	By Balance b/d	10000	2000
Dce.31	To Z & Co. A/c			Dce.31	By Cash A/c	-	4750
	To Cash A/c	1000	4000				
			-				
		6250					
		6000	41333			6000	41333

18. The Balance sheet of two partnership firms PQ and RS as on 31.12.2011 are as below (all figures in rupees):

Liabilities	PQ	RS	Assets	PQ	RS
Capital: P	**60000**	**-**	**Machinery**	**60000**	**20000**
Q	**30000**	**-**	**Furniture**	**8000**	**6000**
R	**-**	**36000**	**Stock**	**32000**	**24000**
S	**-**	**24000**	**Debtors**	**18000**	**30000**
Bank loan	**10000**	**-**	**Investments**	**-**	**18000**
Bills payable	**30000**	**40000**	**Cash**	**12000**	**2000**
	130000	**100000**		**130000**	**100000**

PQ absorbed RS on 01.01.2012 on the following terms:

(a) That the investment of RS to be sold out and the investment realized ₹ 24000;

(b) That the stock of RS be reduced to ₹ 22000;

(c) That the machinery of RS will be increased by 40% ;

(d) That the furniture of RS will be reduced by 10% ;

It was further decided that for PQ, following are the adjustments to made:

i. Asset are to be revalued as following stock: ₹ 40000; Machinery: ₹ 84000; Furniture: ₹ 7200; and

ii. Bank loan to be repaid

You are required to show necessary Leger Accounts to close the books of RS to prepare necessary Journal Entries and Balance Sheet of PQ after absorption.

Solution:

Working Notes:

Calculation of Purchase Consideration

Assets taken over :	
Machinery	28000
Furniture	5400
Stock	22000
Debtors	30000
Cash (24000+2000)	26000
Less : Liability taken over- Bills payable	
Purchase Consideration	
	111400
	40000
	71400

In the books of RS

Dr **Realisation Account** **Cr**

Date	Particulars	₹	Date	Particulars	₹
2012 Jan.1	To Machinery A/c	20000	2012 Jan.1	By Bills Payable A/c	40000
	To Furniture A/c	6000		By PQ A/c	71400
	To Stock A/c	24000			
	To Debtors A/c	30000			
	To Cash A/c	26000			
	To Partners' Capital A/cs : R- 2700 S- 2700	5400			
		111400			111400

Dr **PQ Account** **Cr**

Date	Particulars	₹	Date	Particulars	₹
2012 Jan.1	To Realisation A/c	71400	2012 Jan.1	BY Capital in PQ A/c	71400

Dr **Cash Account** **Cr**

Date	Particulars	₹	Date	Particulars	₹
2012 Jan.1	To balance b/d	2000	2012 Jan.1	By Realisation A/c	26000
	To Investment A/c	24000			
		26000			26000

Dr Partner's Capital Account Cr

Date	Particulars	R	S	Date	Particulars	R	S
2012 Jan.1	To Capital in PQ A/c	41700	29700	2012 Jan.1	By balance b/d	36000	24000
					By Profit on sale of Investment A/c	3000	3000
					By Realisation A/c	2700	2700
		41700	29700			41700	29700

In the books of PQ

Journal Dr Cr

Date	Particulars		₹	₹
2012 Jan.1	Bank Loan A/c	Dr	10000	
	To Cash A/c			10000
	(Being the bank loan repaid)			
	Stock A/c	Dr	8000	
	Machinery A/c	Dr	24000	
	To Revaluation A/c			32000
	(Being the increase in value of assets)			
	Revaluation A/c	Dr	800	
	To Furniture A/c			800
	(Being the decrease in value of furniture)			
	Revaluation A/c	Dr	312000	
	To P Capital A/c			15600
	To Q Capital A/c			15600
	(Being the profit and on revaluation transferred to Partners' Capital A/cs in profit-sharing ratio)			
	Machinery A/c	Dr	28000	
	Furniture A/c	Dr	5400	
	Stock A/c	Dr	22000	
	Debtors A/c	Dr	30000	
	Cash A/c	Dr	26000	
	To Bills Payable A/c			40000
	To R Capital A/c			41700
	To S Capital A/c			29700
	(Being the introduction of capital by R &S)			

Dr Partner's Capital Account Cr

Date	Particulars	P	Q	Date	Particulars	P	Q
	To Balance c/d	75600	45600		By Balance b/d	6000	30000
					By Revaluation A/c (profit)	15600	15600
		75600	45600			75600	45600

Balance Sheet as on 1st January, 2012

Liabilities	₹	*Assets*	₹
Capital Accounts			
P	75600	Machinery	112000
Q	45600	Furniture	12600
R	41700	Stock	62000
S	29700	Debtors	48000
Bills payable	70000	Cash	28000
	262600		**262600**

19. A and B are partners of AB & Co. sharing profit and losses in the ratio of 3:1 and B and C are partners of BC & Co. sharing profit and losses in the ratio of 2:1. On 31st March, 2012, they decided to amalgamate and form a new firm ABC &Co. wherein A, B and C would be partners sharing profits and losses in the ratio of 3:2:1.

The Balance Sheet of two firms on the above date were as under:

Liabilities	AB & Co. (₹)	BC & Co. (₹)	Assets	AB & Co. (₹)	BC & Co. (₹)
Capital :			**Fixed Assets:**		
A	96,000	-	Building	20,000	-
B	64,000	80,000	Machinery	60,000	64,000
C	-	40,000	Furniture	8,000	2,400
Reserves	20,000	60,000	**Current Assets:**		
Creditors	48,000	46,400	Stock	48,000	56,000
Due to AB & Co.	-	40,000	Debtors	64,000	80,000
Bank Loan	32,000	-	Cash	20,000	40,000
			Due from BC & Co.	40,000	-
			Advances	-	24,000
	2,60,000	2,66,400		2,60,000	2,66,400

The amalgamated new firm ABC & Co. took over the business on the following terms:

(a) Building of AB & Co. was valued at ₹ 40,000.

(b) Machinery of AB & Co. was valued at ₹ 90,000 and that of BC & Co. at ₹ 80,000.

(c) Goodwill of AB & Co. was valued at ₹ 20,000 and that of BC & Co. at ₹ 16,400 but no goodwill account was to appear in the books of ABC & Co.

(d) Partners of the new firm will bring necessary cash to pay other partners to adjust their capital according to the profit sharing ratio.

Show journal entries in the books of ABC & Co. and prepare the Balance Sheet as on 31st March, 2012.

Solution:

In the books of ABC & Co.

Journal Dr. Cr.

Date	Particulars	₹	₹
2012 Mar 31	Building A/c Dr.	40,000	
	Machinery A/c Dr.	90,000	
	Furniture A/c Dr.	8,000	
	Stock A/c Dr.	48,000	
	Debtors A/c Dr.	64,000	
	Cash A/c Dr.	20,000	
	Due from BC & Co A/c Dr.	40,000	
	Goodwill A/c Dr.	20,000	
	To Creditors A/c		48,000
	To Bank Loan A/c		32,000
	To A Capital A/c		1,63,500
	To B Capital A/c		86,500
	(Being the different assets and liabilities taken over from AB & Co.)		
	Machinery A/c Dr.	80,000	
	Furniture A/c Dr.	2,400	
	Stock A/c Dr.	56,000	
	Debtors A/c Dr.	80,000	
	Cash A/c Dr.	40,000	
	Advance A/c Dr.	24,000	
	Goodwill A/c Dr.	16,400	
	To Creditors A/c		46,400
	To Due to AB & Co. A/c		40,000
	To B Capital A/c		1,41,600
	To C Capital A/c		70,800
	(Being different assets and liabilities taken over from BC & Co.)		
	Due from AB & Co. A/c Dr.	40,000	
	To Due to BC & Co. A/c		40,000
	(Being the adjustment of mutual indebtedness)		
	Goodwill A/c (20,000+16,400) Dr.	36,000	
	To A Capital A/c		18,200
	To B Capital A/c		12,133
	To C Capital A/c		6,067
	(Being the goodwill written-off in the ratio of 3:2:1)		
	Cash A/c Dr.	73,967	
	To A Capital A/c		67,700
	To C Capital A/c		6,267
	(Being necessary cash brought in by partners to make their capital in profit sharing ratio)		
	B Capital A/c Dr.	73,967	
	To Cash A/c		73,967
	(Being the cash paid to B)		

Balance Sheet of ABC & Co. as at 31st March, 2012

Liabilities	₹	Assets	₹
Partner's Capital:		**Fixed Assets:**	
A	2,13,000	Building	40,000
B	1,42,000	Machinery	1,70,000
C	71,000	Furniture	10,400
Creditors	94,400	**Current Assets:**	
Bank Loan	32,000	Stock	1,04,000
		Debtors	1,44,000
		Advances	24,000
		Cash	60,000
	5,52,400		**5,52,400**

Workings Notes:

(1) Calculation of Purchase Consideration

Particulars	AB & Co. (₹)	BC & Co. (₹)
Assets taken over:		
Building	40,000	-
Machinery	90,000	80,000
Furniture	8,000	2,400
Stock	48,000	56,000
Debtors	64,000	80,000
Cash	20,000	40,000
Due from BC & Co.	40,000	-
Advances	-	24,000
Goodwill	20,000	16,400
(A)	3,30,000	2,98,000
Liabilities taken over:		
Creditors	48,000	46,400
Due to AB & Co.	-	40,000
Bank Loan	32,000	-
(B)	80,000	86,400
Purchase Consideration		
(A-B)	2,50,000	2,12,400

Dr. **(2) Realisation A/c** **Cr.**

Date	Particulars	AB & Co.	BC & Co.	Date	Particulars	AB & Co.	BC & Co.
	To Building A/c	20,000	-		By Creditors A/c	48,000	46,400
	To Machinery	60,000	64,000		By Due to AB &		
	A/c				Co.	-	40,000
	To Furniture A/c	8,000	2,400		By Bank Loan		
	To Stock A/c				A/c	32,000	-
	To Debtors a/c	48,000	56,000		By ABC & Co.		
	To Cash A/c	64,000	80,000		A/c	2,50,000	2,12,400
	To Due from BC	20,000	40,000		(Purchase		
	&Co. a/c	40,000	-		Consideration)		
	To Advances						
	A/c	-	24,000				
	To Partner's						
	Capital A/cs:						
	A	52,500	-				
	B	17,500	-				
	B	-	21,600				
	C	-	10,800				
		3,30,000	**2,98,000**			**3,30,000**	**2,98,000**

In the books of AB & Co.

Dr. **(3) Partner's Capital Accounts** **Cr.**

Particulars	A	B	Particulars	A	B
To Balance c/d	1,63,000	86,500	By Balance b/d	96,000	64,000
			By Reserve A/c	15,000	5,000
			By Realisation A/c	52,500	17,500
	1,63,500	86,500		1,63,500	86,500

In the books of BC & Co.

Dr. **(4) Partner's Capital Accounts** **Cr.**

Particulars	A	B	Particulars	A	B
To Balance c/d	1,41,600	70,800	By Balance b/d	80,000	40,000
			By Reserve A/c	40,000	20,000
			By Realisation A/c	21,600	10,800
	1,41,600	70,800		1,41,600	70,800

In the books of ABC & Co.

Dr. **(5) Partner's Capital Accounts** **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Goodwill A/c(written-off)	18,200	12,133	6,067	By Balance b/d:			
				AB & Co.	1,63,500	86,500	-
To Cash A/c	-	73,967	-	BC & Co.	-	1,41,600	70,800
To Balance c/d (Note 6)	2,13,000	1,42,000	71,000	By Cash A/c	67,700	-	6,267
	2,31,000	**2,28,100**	**77,067**		**2,31,200**	**2,28,100**	**77,067**

(6) Total Capital of Partners in ABC Co.:

	₹
A--- 1,63,500 + 0	1,63,500
B --- 86,500 + 1,41,600	2,28,100
C --- 0 + 70,800	70,800
	4,62,400
Less: Goodwill written off	36,400
Total Capital after Goodwill adjustment	**4,26,000**

A's Capital = 3/6*4,26,000 = 2,13,000

B's Capital = 2/6* 4,26,000 = 1,42,000

C's Capital = 1/6*4,26,000 = 71,000

20. M/s A and Co., having A and B as equal partners, decided to amalgamate with C and Co., having C and D as equal partners on the following terms and condition :

1. **The new firm AC and Co. to pay ₹ 12,000 to each firm for Goodwill.**
2. **The new firm to take over investments at 10% depreciation, land at ₹ 66,800, premises at ₹ 53,000, machinery at ₹ 9,000 and only the trade liabilities of both the firms. The Debtors being taken over at given value.**
3. **Type writers (written off) worth ₹ 800, belonging to C & Co., and not appearing in the balance sheet was also not taken over by the new firm.**
4. **Bills Payable pertains to trade transaction only.**
5. **All the four partners in the new firm to bring in ₹ 1, 60,000 as capital in equal shares.**

The following were the Balance Sheets of both firms on the date of amalgamation:

Liabilities	A & Co.	C & Co.	Assets	A & Co.	C & Co.
Trade Creditors	20,000	10,000	Cash	15,000	12,000
Bills Payable	5,000	-	Investments	10,000	8,000
Bank Overdraft	2,000	10,000	Debtors ₹ 10,000		
A's Loan	6,000	-	Less: ₹ 1,000	9,000	4,000
Capitals :			Furniture	12,000	6,000
A	35,000	-	Premises	30,000	-
B	22,000	-	Land	-	50,000
C	-	36,000	Machinery	15,000	-
D	-	20,000	Goodwill (Purchased)	9,000	-
General Reserve	8,000	3,000			
Investment Fluctuation Fund	2,000	1,000			
	1,00,000	80,000		1,00,000	80,000

Assuming immediate discharge of bank overdraft, pass necessary Journal Entries to close the books of A & Co. and C & Co. Also pass Journal entries in the books and prepare the Balance Sheet of the New Firm.

Solution:

In the books of A & Co.

Journal

Date	Particulars		Dr. ₹	Cr. ₹
	Bank Overdraft A/c	Dr.	2,000	
	To Cash A/c			2,000
	(Being the payment of overdraft.)			
	Realization A/c	Dr.	99,000	
	To Cash A/c			13,000
	To Investment A/c			10,000
	To Debtors A/c			10,000
	To Furniture A/c			12,000
	To Premises A/c			30,000
	To Machinery A/c			15,000
	To Goodwill A/c			9,000
	(Being the transfer of different assets to Realization account)			
	Provision for Bad Debts A/c	Dr.	1,000	
	Trade Creditors A/c	Dr.	20,000	
	Bills Payable A/c	Dr.	5,000	
	To Realisation A/c			26,000
	(Being the different liabilities and provisions transferred to Realisation Account)			
	M/s AC & Co. (new firm) A/c	Dr.	80,000	
	To Realisation A/c (Note 1)			80,000
	(Being the purchase consideration due from the new firm)			
	A Capital A/c (Note 6)	Dr.	6,000	
	B Capital A/c	Dr.	6,000	
	To Realisation A/c			12,000

	(Being furniture taken by the partners equally)		
	General Reserve A/c Dr. Investment Fluctuation Fund A/c Dr. To A Capital A/c To B Capital A/c (Being the reserve and Surplus distributed between the partners equally)	8,000 2,000	 5,000 5,000
	Realisation A/c (Note 2) Dr. To A Capital A/c To B Capital A/c (Being the profit on realisation transferred to the partners' Capital Accounts equally)	19,000	 9,500 9,500
	A's Loan A/c Dr. To A Capital A/c (Being A's loan transferred to his Capital Account)	6,000	 6,000
	Cash A/c Dr. To B Capital A/c (Being cash brought in by B to raise capital equal to ₹ 40,000)z	9,500	 9,500
	A & B Capital in M/s AC &Co A/c Dr. To M/s Ac & Co A/c (Being the settlement of purchase consideration)	80,000	 80,000
	A Capital A/c Dr. B Capital A/c Dr. To A Capital in AC & Co A/c To B Capital in AC & Co A/c (Being the final adjustment to close the books of account)	49,500 40,000	 40,000 49,000

In the books of C & Company

Journal

Date	Particulars	Dr. ₹	Cr. ₹
	Bank Overdraft A/c Dr. To Cash A/c (Being the payment of overdraft)	10,0000	 10,000
	Office Equipment (Typewriters) A/c Dr. To C Capital A/c To D Capital A/c (Being recording of typewriters previously written-off)	800	 400 400
	Realization A/c Dr. To Investment A/c To Debtors A/c To Furniture A/c To Land A/c To Office Equipment A/c (Being the transfer of different assets to Realisation Account)	68,800	 8,000 4,000 6,000 50,000 800
	Trade Creditors A/c Dr. To Realisation A/c	10,000	 10,000

	(Being the liability transferred to Realisation Account)		
	M/s AC & Co. (New firm) A/c Dr.	80,000	
	To Realisation A/c (Note 1)		80,000
	(Being purchase consideration due from the new firm)		
	C Capital A/c Dr.	3,400	
	D Capital A/c Dr.	3,400	
	To Realisation A/c		6,800
	(Being furniture and typewriter taken over by the partners equally)		
	General Reserve A/c Dr.	3,000	
	Investment Fluctuation Fund A/c Dr.	1,000	
	To C Capital A/c		2,000
	To D Capiatl A/c		2,000
	(Being the reserve and surplus distributed among the partners equally)		
	Realisation A/c Dr.	28,000	
	To C Capital A/c		14,000
	To D Capiatl A/c		14,000
	(Being the profit on realization transferred to the Partner's Capital Accounts equally)		
	Cash A/c Dr.	7,000	
	To D Capital A/c		7,000
	(Being cash brought in by D raised his capital to ₹ 40,0000)		
	C and D Capital in A & Co. A/c Dr.	80,000	
	To M/s AC & Co. A/c		80,000
	(Being the settlement of purchase consideration)		
	C Capital A/c Dr.	49,000	
	D Capital A/c Dr.	40,000	
	To C Capital in AC & Co. A/c		40,000
	To D Capital in AC & Co. A/c		40,000
	To Cash A/c		9,000
	(Being the final adjustment to close the books of account)		

In the books of AC & Co.

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

Date	Particulars	₹	₹
	Goodwill A/c Dr.	12,000	
	Cash A/c Dr.	13,000	
	Investment A/c Dr.	9,000	
	Debtors A/c Dr.	10,000	
	Premise A/c Dr.	53,000	
	Machinery A/c Dr.	9,000	
	To Provision for Bad Debts A/c		1,000
	To Trade Creditors A/c		20,000
	To Bills Payable A/c		5,000
	To A Capital A/c		40,000
	To B Capital A/c		40,000

	(Being the assets and liabilities taken over by the new firm)		
	Goodwill A/c Dr.	12,000	
	Investment A/c Dr.	7,200	
	Debtors A/c Dr.	4,000	
	Land A/c Dr.	66,800	
	To Trade Creditors A/c		10,000
	To C Capital A/c		40,000
	To D Capital A/c		40,000
	(Being the assets and liabilities taken over by the new firm)		

Balance Sheet of AC & Co. as at…….

Liabilities	₹	Assets	₹
Partner's Capitals:		Goodwill	24,000
A	40,000	Land	66,800
B	40,000	Premise	53,000
C	40,000	Machinery	9,000
D	40,000	Investments	16,200
Creditors	30,000	Debtors *Less:* Provision(14,000-	13,000
Bills Payable	5,000	1,000)	13,000
		cash	
	1,95,000		**1,95,000**

Working Notes:

(1) Calculation of Purchase Consideration

Assets taken over:	**A & Co.**	**C & Co.**
Cash(see tutorial note below)	13,000	-
Investment	9,000	7,200
Debtors	9,000	4,000
Premises	53,000	-
Machinery	9,000	-
Land	-	66,800
Goodwill	12,000	12,000
	1,05,000	90,000
Liabilities taken over:	20,000	10,000
Trade Creditors	5,000	-
Bills Payable	25,000	10,000
Purchase Consideration	80,000	80,000

CONVERSION AND SALE OF PARTNERSHIP TO LTD. COMPANY

21. Multiple choice questions:

Choose the correct alternative

1. **Which of the following is called acquisition of business?**
   - (a) Conversion of a partnership
   - (b) Conversion of a sole proprietorship
   - (c) Both
   - (d) None of these

2. **Unpaid balance must be paid in:**
   - (a) Debenture
   - (b) Preference share
   - (c) Equity share
   - (d) Cash

3. **Computation of purchase consideration under net asset basis:**
   - (a) Total assets
   - (b) Total liabilities
   - (c) Fixed assets plus current assets minus current liabilities taken over
   - (d) None of these

4. **When the total of assets taken over is higher than total of current liabilities taken over, then t**
   - (a) Capital reserve
   - (b) Goodwill
   - (c) Revaluation reserve
   - (d) None of these

5. **Which of the following is/are payment basis of discharging purchase consideration?**
   - (a) Cash
   - (b) Share
   - (c) Both
   - (d) Debenture

Answer:

1. (c)
2. (d)
3. (c)
4. (b)

5. (c)

22. Fill in the blanks:

1. **Capital reserve arises when payment is…….than net assets taken over.**
2. **Nest assets = total assets taken over…….current liabilities taken over**
3. **Goodwill = payments…….net assets taken over**
4. **Conversion of a firm indicates……….. existing firms.**
5. **Unrecorded liability is transferred to……………. account.**

Answer:

1. less
2. minus
3. greater than
4. winding up
5. realization

23. Ram, Manas and Param are equal partners of M/S. Zindal & Co. The Balance Sheet of the firm as on 31.12.2011 was as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital Account:			Fixed Assets:		
Ram	50000		Land	50000	
Manas	100000		Building	70000	
Param	(30000)	120000	Plant & Machinery	200000	320000
Loan from bank		500000	Current Assets:		
Creditors		100000	Stock	300000	
			Debtors	100000	400000
		720000			720000

On the date, it is decided to convert the partnership into limited company called Handal limited on the following items

a. **Land to be revalued at ₹ 150000**
b. **Plant and machinery is to be revalued at ₹ 250000.**
c. **Depreciation amounting ₹ 20000 is to be written off on building.**
d. **A provision of 10% books valued to be mate of obsolete stock.**
e. **Provision of doubtful debts made at 10% of debtors.**
f. **A discount of 6% would be earned on creditors when paid out.**
g. **The new company issue ₹ 12000 equity shares 10 each credited as full paid up, such share capital being valued at ₹ 150000 and the balance payable is to be discharge by issue of 10% debentures of ₹ 100 each.**

Show the necessary ledger Accounts to close the books of Zindal &co. and show the opening balance sheet of the new company. All partners are solvent and have sufficient cash resource as

may be necessary to settle the respective accounts, Shares and debentures are divided equal among the partner.

Solution:

In the books of Zindal & Co

Dr. **Realisation Account** **Cr**

Particulars	₹	Particulars	₹
To Land A/c,	50000	By, loan from bank A/c,	500000
To Building A/c,	70000	By, creditors A/c,	100000
To Plant and machinery A/c,	200000	By, new company A/c,	216000
To Stock A/c,	300000	(purchase confederation)	
To Debtors A/c,	100000		
To Partners' Capital A/c,			
Ram	32000		
Manas	32000		
Param	32000		
	816000		816000

Dr. **Partners' Capital Account** **Cr.**

Particullars	Ram	Manas	Param	Particullars	Ram	Manas	Param
To Balance B/d.	-	-	30000	By Balance B/d	50000	100000	-
To Equity sh. In new company	50000	50000	50000	By Realisation A/c (profit)	32000	32000	32000
To 10% debenture in new co.	20000	22000	22000	By Bank A/c (Cash brought in)	-	-	70000
To Bank A/c	10000	60000	-				
	82000	**132000**	**102000**		**82000**	**132000**	**102000**

Dr. **Bank Account** **Cr.**

Particulars	₹	Particullars	₹
To, partners' capital A/c	70000	By, Ram A/c	10000
		By, Manas A/c	60000
	70000		**70000**

Zindal limited

Balance sheet as at 31st December, 2011

Particulars	Note No.	Figure as at the End of the current reporting period (₹)
(1)	(2)	(3)
1. EQUITY AND LIABILITIES		
(1) Share holders' Fund :		
(a) share capital	(1)	120000
(b) reserves and surplus	(2)	30000
(c) money received against share warrants		-
(2) Share application money pending Allotment:		
(3) Non-current liabilities :		-
(a) long term borrowings		
(b) deferred Tax liabilities (net)	(3)	566000
(c) Other long term liabilities		-
(d) long –term provisions		-
(4) Current liabilities:		-
(a) short term borrowings		
(b) trade payables		-
(c) other current liabilities		94000
(d) long term provisions		-
		-
TOTAL		810000
II. ASSETS		
(1) Non-current assets		
(a) fixed assets		
(i)Tangible assets	(4)	450000
(ii) Intangible assets		-
(iii)Capital working progress		-
(b) noncurrent investments		-
(c) deferred Tax assets (Net)		-
(d) long term loan and advance		-
(f) other non-current assets		-
(2) Current assets:		-
(a) current investments		
(b) inventories		-
(c) trade receivable		270000
(d) cash and cash equivalent		90000
(e) short term loan and advance		-
(f) other current assets		-
		-
TOTAL		810000

Notes of accounts:

(1) Share capital

Particulars	₹
Authorized share capital. ....EQUITY SHARE OF ₹.......each	....
Issued and subscribed capital 12000Equity shares of ₹10 each	120000

(2) Reserve and Surplus

Particulars	₹
Securities premium	30000

(3) long-term borrowing

(3) long-term borrowing	₹
(i) Secured loan	
10%debentures	66000
(ii) unsecured bank loans	500000
	566000

(4) Fixed assets

(4) Fixed assets	₹
Tangible assets	
Land	150000
Building	50000
Building	50000
Plant and machinery	250000
	450000

Working notes:

(1) Calculation of Purchase Consideration

Particulars	₹	₹
Assets take over by new company		
Land	150000	
Building (₹70000-20000)	50000	
Plant and machinery	250000	
Stock	270000	
Debtors(₹1,00000-10000)	90000	810000
Liabilities taken Over by the new company		
Loan from bank	500000	
Creditors (₹100000-6000)	94000	594000
Total purchase considerations		216000

(2) Discharge of Purchase Consideration

Particulars	₹
Equity shares (12000 of ₹10 each issued at a premium of ₹2.50 each)	150000
10% Debenture of ₹100 each (balancing figure)	66000
	216000

24. A, B and C were in business sharing profit and losses in the ratio of 2:1:1. Their Balance Sheet as at 31.03.2012 is as follows:

Balance Sheet as at 31.03.2012

Liabilities		Amount ₹	Assets		Amount ₹
Fixed Capital:			Fixed Assets		3,00,000
A	2,00,000		Investments		50,000
B	1,00,000		Current Assets:		
C	1,00,000	4,00,000	Stock	1,00,000	
Current Accounts:			Debtors	60,000	
A	40,000		Cash & Bank	1,50,000	3,10,000
B	20,000	60,000			
Unsecured Loans		2,00,000			
		6,60,000			6,60,000

On 1.04.2012, it is agreed among the partners that BC (P) Ltd. A newly formed company with B and C having each taken up 100 shares of ₹ 10 each will take over the firm as a going concern including goodwill but excluding cash and bank balance. The following points also agreed upon:

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

(b) The actual profit for the purpose of goodwill valuation will be ₹ 1,00,000.

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

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

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

(f) B and C are to acquire capital interest in the new company.

(g) Expenses of liquidation ₹ 40,000.

You are required to prepare the necessary Ledger Accounts.

Solution:

In the books of the firm

Dr. Realization account Cr.

Particulars	₹	Particulars		₹
To fixed assets A/C	300000	By unsecured loan A/C		200000
To investment A/C	50000	By BC (P) ltd.		430000
To stock A/C	100000	By Partners capital A/C s		
To debtors A/C	60000	A	20000	
To goodwill A/C (note 1 and 3)	120000	B	10000	
To bank A/C	40000	C	10000	40000
	670000			670000

Dr. Partners' Capital Account Cr.

Particulars	A	B	C	Particulars	C	B	C
To realization A/C	280000	10000	10000	By balance b/d	200000	100000	10000
To cash A/C	280000	-	-	By current A/C	40000	20000	-
To Cash A/C (note6)	-	-	-	By goodwill A/C (note3)	60000	30000	30000
To share in BC (P) Ltd. A/C	-	130000	130000	By cash A/C (note 6)	-	-	10000
	300000	150000	140000		300000	150000	140000

Dr. **BC (P) LTD. Account** **Cr.**

Particulars	₹	Particulars	₹
To realisation A/C	430000	By cash A/c (note 4)	170000
(purchase consideration)		By shares in BC (p) Ltd. A/C	260000
	430000		430000

Dr. **Cash and Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	150000	By Realisation A/C (expenses)	40000
To C Capital A/C (note 6)	10000	By B Capital A/C (note 6)	10000
To BC (P) Ltd. (note 4)	170000	By A Capital A/C	280000
	330000		330000

Working notes:

(1) Calculation of goodwill ₹ **(2) Calculation of purchase ₹**

Capital employed (Fixed)	400000	Goodwill (note1)	120000
Actual profit	100000	Fixed assets	300000
Less : n ormal profit @15% on capital employed	60000	Investments	50000
		Stock	100000
Super profit	40000	Debtors	60000
			630000
Good will = ₹ 4000 * 3	120000	Less : unsecured loan	200000
			430000

(3) Goodwill has been recorded in the books by debiting goodwill account and crediting Partners capital accounts in the profit Sharing ratio of 2:1:1. After recording goodwill in the books, it is transferred to Realisation Account by debiting realization account and crediting goodwill account.

(4) Amount payable to A ₹ 280000. After meeting realisation expenses cash in hand is ₹ 110000. Therefore, ₹ 170000 must be received from BC (p) Ltd. to discharge A in full.

(5) Purchase consideration is agreed at ₹ 430000. ₹ 170000 (note 4) was paid to cash and balance ₹ 260000 will be paid in share in BC (P) ltd.

B's share in BC (P) Ltd. will be ₹ 130000 and C's share in BC (P) LTD. Will be also ₹ 130000.

(6) C's capital account of their firm is showing balance of BC ₹120000 (₹ 100000+ ₹30000- ₹10000) therefore, he will bring ₹ 10000 in cash to make up the deficit.

B's capital account of the farm is showing a balance of ₹ 140000 (₹100000 + ₹20000 + ₹ 30000-₹10000). Therefore B will take away ₹ 1000 from the firm.

25. Raju, Jyoti and Bhola carry on business in partnership under the style of M/s R & Co sharing profits and losses in the ratio of 5:3:2. They have floated R Pvt. Ltd for the purpose of takeover of their business. The following is the Balance Sheet of the firm as on 31st December, 2011:

Liabilities	**₹**	**Assets**		**₹**
Capital Account:		**Cash**		**6000**
Raju	**101000**	**Bank**		**14000**
Jyoti	**151000**	**Debtors**	**60000**	
Bhola	**133000**	**(-) Provision**	**2000**	**58000**
		Stock		**42000**
Creditors	**50000**	**Fixed Assets at WDV**		**300000**
		Expenditure related to R. Pvt. Ltd:		
		Formation Expenses	**12000**	
		Bank Account (note-1)	**3000**	**15000**
	435000			**435000**

Note-1: (In the name of R. Pvt. Ltd.) Deposit of par value of 300 equity shares of ₹ 10 each, subscribed equally by the partners as subscribers to the memorandum and article of association. On that day R Pvt Ltd took over the business for a total consideration of ₹ 5,00,000 (excluding 300shares allotted as subscribers of memorandum). The purchase consideration was to be discharge by the allotment of equity shares of ₹10 each at par in the profit- sharing ratio and 15% debenture of ₹100 each at par for surplus capital. The directors of R Pvt Ltd revalued fixed assets of R & Co. as ₹ 4,00,000.

You are asked to: (a) State the number of equity shares and debenture allotted by R. Pvt Ltd to Raju, Jyoti & Bhola. (b) Show the journal entries in connection with the above transaction in the books of R. Pvt Ltd. Show your workings.

Solution:

Statement showing distribution of purchase consideration among the partners

Particulars		**Raju**	**Jyoti**	**Bhola**
Balance of capital accounts		101000	151000	133000
Add: profit on realization (note-2)		59000	35400	23600
Final Balance of capital accounts	(A)	160000	186000	156600
Profit sharing ratio	(B)	5	3	2
Capital per profit sharing ratio	(A/B)	32000	62133	78300
Capital in profit sharing ratio (taking Raju's capital as basis)		160000	96000	64000
Total equity shares to be issued including initial allotment of ₹ 3000	(C)	160000	96000	64000

Less: initial allotment	1000	1000	1000
Further issue of shares Allotment of debentures for the balance (A-C)	159000 -	95000 90400	64000 92600
No. of equity shares issued No. of debentures issued	16000 -	9600 904	6400 926

In the books of R (Pvt.) Ltd

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

Date	Particulars	₹	₹
	Bank A/c Dr To,equity share capital A/c (Being the allotment of 300 Eq.sh of ₹ 10 each for Raju ,Jyoti, Roger as subscribers to Memorandum)	3000	3000
	Goodwill A/c (balancing figure) Dr	18,000	
	Fixed assets A/c Dr	4,00,000	
	Stock A/c Dr	42,000	
	Sundry debtors A/c Dr	60,000	
	Bank A/c Dr	14,000	
	cash A/c Dr	6,000	
	Preliminary expenses A/c Dr	12,000	
	To, sundry creditors A/c		50,000
	To, Provision for bad debt A/c		2000
	To, equity share capital A/c		3,18,000
	To, debenture A/c		1,82,000
	(Being the various assets and liabilities taken over and the issue of 31,800 equity shares and 1820 debentures in settlement of purchase consideration.)		

Dr. **(1) Realization Accounts** **Cr.**

Particulars	₹	Particulars	₹
To cash a/c	6000	By provision for doubtful debt a/c	2000
To banks a/c	14000	By creditors	50000
To debtors a/s	60000	By R Pvt Ltd.	500000
To stock a/c	42000		
To fixed assets a/c	300000		
To formation expenses a/c	12000		
To partners capital a/c (Profit) Raju- ₹ 59000, Jyoti- ₹ 35400, Bhola- ₹ 23600	118000		
	552000		552000

(1) Formation expenses is an asset to the R Pvt Ltd. And it is to be taken over by the company.

(2) In the books of the firm, the firm, the bank account (Deposit for shares in R Pvt Ltd) to be closed by passing following entry:

Shares in R Pvt Ltd A/c Dr. ₹ 3000

To, bank account (Deposit for shares) ₹ 3000

26. S Ltd. Agreed to purchase the business of a firm consisting of two brothers, K. Som and D. Som as on 31st March, 2012. The Balance Sheet of that date was as follows:

Liabilities	₹	Assets	₹
Capital Accounts		**Land and Buildings**	**47000**
K Som	**76000**	**Plant and Machinery**	**28000**
D Som	**58000**	**Furniture and fixture**	**7000**
General Reserve	**30000**	**Stock in trade**	**62000**
Sundry Creditors	**37000**	**Sundry Debtors**	**55000**
Outstanding Expenses	**3000**	**Cash**	**5000**
	204000		**204000**

The company agreed to take over the liabilities and the assets with exception of cash, the agreed purchases price being ₹ 1, 80,000 to be satisfied as to ¼ in cash and ¾ by the issue of fully paid equity shares of ₹ 10 each at an agreed value of ₹12.50 per share. The company made the following revaluations of the asset taken over when bringing them into books: Land and Building ₹ 62,000; Plant and Machinery ₹ 25,000; Furniture and Fixtures ₹ 5,000; Stock-in-Trade ₹ 58,000; Sundry Debtor ₹ 50,000.

Give the entries necessary to record the acquisition of the business in the book of the company.

Solution:

In the books of the S Ltd.

Journals

Date	Particulars	Dr. ₹	Cr. ₹
1.4.12	Goodwill A/c (Note 1) Dr.	20,000	
	Land and Building A/c Dr.	62,000	
	Plant and Machinery A/c Dr.	25000	
	Furniture and Fixtures A/c Dr.	5000	
	Stock-in-trade A/c Dr.	58000	
	Sundry Debtors A/c Dr.	50000	
	To Sundry Creditor A/c		37000
	To Outstanding Expenses A/c		3000
	To Business Purchase A/c		1,80,000
	(Being different assets and liabilities of the firm taken over at agreed Value. The difference between purchase		

	consideration and net Assets has been transferred to Goodwill Account)		
	Business Purchase Account Dr. To Cash A/C To Equity Share Capital A/C To Securities Premium A/C (Being the purchase consideration paid off by issuing 10800 equity shares of ₹ 10 each at a premium of ₹ 2.50 as per Board's Resolution No….Dated…….	180000	 45000 108000 27000

Working Note:

Calculation of Goodwill / Capital Reserve.

Asset Taken over (at agreed value)	₹
Land and Building	62,000
Plant and Machinery	25,000
Furniture and Fixtures	5,000
Stock-in-Trade	28,000
Sundry Debtors	50000
Total	2,00,000
Liabilities Taken over (at agreed value)	
Sundry Creditor	37,000
Outstanding Expenses	3000
(A) Net Asset Taken over	1,60,000
(B) Purchase Consideration Paid	1,80,000
Goodwill (B-A)	20,000

27. A and B were carrying on business sharing profit and loss equally. The firm's balance sheet as at 31.12.2.11

Was:

Liability		₹	Assets		₹
Sundry creditors		**60000**	**Stock**		**60000**
Bank overdraft		**35000**	**Machinery**		**150000**
Capital A/Cs :			**Debtors**		**70000**
A	**140000**		**Joint life policy**		**9000**
B	**130000**	**270000**	**Lease hold premises**		**34000**
			Profit and loss A/C		**26000**
			Drawings Account:		
			A	**10000**	
			B	**6000**	**16000**
		365000			**365000**

The business was carried on till 30.6.12. The partners withdrew in equal amounts half the amount of profit made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by ₹10000 and bank overdraft by ₹15000.

On 30.6.2012, stock was valued at ₹ 75000 and debtors at ₹ 60000; the joint policy had been surrendered for ₹9000 before 30.6.2012 and other item remain same as at 31.12.2011.

On 30.06.2012, the firm sold the business to a limited company. The value of goodwill was fixed at ₹100000 and the rest of assets were valued on the basic of balance sheet as at 30.6.2012. The company paid the purchase consideration in equity share of ₹ 10 each.

You are required to prepare:

(a) Balance sheet of the farm as at 30.6.2012

(b) The realisation account; and

(c) Partners' capital account shoeing the final settlement between them.

Solution:

Workings:

(1) Ascertainment of profit for the months ended 30th June ,2012

	₹	₹
<u>Closing assets:</u>		75000
Stock sundry debtors		6000
Machinery less depreciation		142500
Lease hold property less written off		32300
		309800
<u>Less: closing liabilities</u>		
Sundry creditors		
Bank overdraft	50000	70000
<u>Closing net assets</u>	20000	
Combined capital:		239800
A- ₹(140000-13000-10000)		
B- ₹ (130000-13000-6000)	117000	
Profit before adjusting the drawings	111000	228000
Add; combined drawings during the 6 months (equal to 6 months)		11800 11800
Profit for 6 months		**23600**

(2) Ascertainment of purchase confederation :

Closing net assets (as above) ₹ 239800 + Goodwill ₹100000 =₹339800

Balance Sheet as on 30.06.2012

Liabilities	₹	₹	Assets	₹	₹
Capital Account:			Machinery	150000	
A-Balance as on	117000		less depreciation	7500	142000
1.1.12	11800				
Add: profit for 6					
months	128800	122900			
	5900		lease hold premises	34000	
Less: drawings for	111000		Less: written off @5%	1700	
6months	11800		p.a.		32300
B-balance as	122800				
on1.1.2012	5900	116900			75000
Add: profit for 6		50000	Stock		60000
months		20000	Sundry debtors		
Less: Drawings for 6		309800			309800
months					
Sundry creditors					
Bank over draft					

Dr. **Realisation account** **Cr.**

Particulars	₹	Particulars	₹
To Machinery A/C	142500	By Sundry creditors A/C	50000
To lease hold premises A/C	32300	By Bank A/C	20000
To stock A/C	75000	By Purchase company A/C	339800
To Sundry debtors A/C	60000	(Purchase confederation)	
To A capital A/C	50000		
To B capital A/C	50000		
	409800		409800

Dr. **Partners' capital Account** **Cr.**

Date	Particulars	A	B	Date	Particulars	A	B
1.1.2012	To, profit and	13000	13000	1.1.2012	By Balance b/d	140000	130000
	loss A/C			30.6.2012	By profit and loss	11800	11800
	To, drawings	10000	6000		appropriation		
30.6.2012	A/C	5900	5900		A/C	50000	50000
	To, drawings	172900	166900		By Realisation		
	A/C				A/C		
	To, share in						
	purchasing co.						
	A/C						
		201800	191800			201800	191800

28. **P and Q were in partnership sharing profits in the proportion 3:2. On 31st march 2012, they accepted an offer from S. Ltd to acquire at that date their fixed assets and stock at an agreed price of ₹ 7,20,000. Debtors, creditors and bank overdraft would be collected and discharged by the partnership.**

The purchase consideration of ₹ 7,20,000 consisted of cash ₹ 3,60,000, debenture in S Ltd.(at par) ₹ 1,80,000 and 12,000 equity share of ₹ 10 each in S.Ltd. P will be employed in X Ltd. but, since Q was retiring, P agreed to allow him ₹ 30,000 in compensation, to be adjusted through their capital accounts. Q was to receive 1800 share in S. Ltd and the balance due to him in cash.

The sale of the assets to X Ltd. took place as agreed; the debtors realised ₹ 60,000 and creditors were settled for ₹ 1,71,000. The partnership then ceased business.

Liabilities	₹	Assets	₹
P capital account	1,20,000	Fixed assets	4,80,000
Loan: P	2,10,000	Stock	45,000
Bank overdraft	1,50,000	Debtors	75,000
creditors	1,80,000	Q capital Account	60,000
	6,60,000		6,60,000

You are required to pass necessary journal entries and show (a) Relation account (b) bank account (c) partner's capital accounts, in columnar form showing the final settlement.

In the books of the firm

Journal

Date	Particulars		Dr. ₹	Cr. ₹
31/03/12	Realisation A/c	Dr	600000	
	To, Fixed assets A/c			480000
	To, stock A/c			45000
	To, debtors A/c			75000
	(Being different assets transferred to realisation account)			
	Creditors A/c	Dr	180000	
	To, Realisation/c			180000
	(Being creditors accounts transferred to realisation account)			
	P Loan A/c	Dr	210000	
	To, P capital A/c			210000
	(Being P's loan transferred to his capital account.)			
	S. Ltd A/c	Dr	720000	
	To, realisation A/c			720000
	(Being purchase consideration due from S. Ltd)			
	Bank A/c	Dr	360000	
	Debentures in S. Ltd A/c	Dr	180000	
	Shares in S. Ltd A/c	Dr	180000	
	To, S. Ltd A/c			720000
	(Being purchase consideration received)			
	Bank A/c	Dr	60000	
	To, Realisation A/c			60000
	(Being realisation of debtors)			

	Realisation A/c Dr To bank A/c (Being payment to creditors)	171000	 171000
	Realisation A/c Dr To, P capital A/c To, Q capital A/c (Being the profit on realisation transferred to partners' capital account in the ratio 3:2)	189000	 113400 75600
	P Capital A/c Dr To, Q Capital A/c (Being adjustment for compensation)	30000	 30000
	P capital A/c Dr To, Shares in S. Ltd A/c To, Debentures in S. Ltd A/c To, Bank A/c (Being the final settlement of accounts)	413400	 153000 180000 80400
	Q capital A/c Dr To, shares in S. Ltd A/c To, bank A/c (Being the final settlement of accounts)	45600	 27000 18600

Dr Realisation Account Cr

Particulars	₹	Particulars	₹
To fixed assets	480000	By creditors	180000
To stocks	45000	By bank a/c (debtors realisation)	60000
To debtors	75000	By S Ltd.	
To bank a/c (payment to creditors)	171000	Cash	360000
To P Capital (profit)	113400	Debentures	180000
To Q Capital (profit)	75600	Shares in S Ltd.	180000
	960000		960000

Dr Bank Account Cr

To realisation	60000	By Balance b/d	150000
To S Ltd	360000	By realisation	171000
		By P Capital A/c	80400
		By Q Capital A/c	18600
	420000		420000

Dr Partners' Capital Account Cr

Particulars	P	Q	Particulars	P	Q
To balance b/d	-	60000	By Balance b/d	120000	-
To Q Capital A/c	30000	-	By Loan	210000	-
To Shares in S Ltd	153000	27000	By Realisation	113400	
To Debentures in S Ltd	180000	-		-	75600
To Bank A/c (Final payment)	80400	18600	By P Capital A/c		30000
	443400	105600		443400	105600

Note: The ₹ 10 equity shares in S Ltd have a value of ₹ 15 each placed upon them.

Chapter – 7

SELF BALANCING LEDGER

1. **Multiple Choice Questions**

   Choose the correct alternative:

   1. **Which of the following transactions will not appear under Control/Adjustments Accounts under self-balancing system?**
      a) Credit sales
      b) Amount paid to creditors
      c) Provision for doubtful debt
      d) B/R dishonoured

   2. **Which of the following transactions will appear under Control/Adjustments Accounts under self-balancing system?**
      a) Cash sales
      b) B/R as endorsed dishonoured
      c) Bad debt recovery
      d) B/R discounted

   3. **Total Debtor Account and Total Creditors Account are maintained under**
      a) Self-balancing system
      b) Sectional balancing system
      c) Both the system
      d) None of the above

   4. **Which of the following is true?**
      a) Under self-balancing system all the ledger are self-balanced.
      b) Under self-balancing system only General Ledger is self-balanced.
      c) Under Sectional Balancing system only Debtors' Ledger is self-balanced.
      d) Under Sectional Balancing system only Creditors' Ledger is self-balanced.

   5. **Which of the following is true?**
      a) Self-balancing system is based on double entry system of book keeping.
      b) Self-balancing system is not based on double entry system of book keeping.
      c) Sectional balancing system is based on double entry system of book keeping.
      d) Sectional balancing system is not based on double entry system of book keeping.

Solution:

1. (c)
2. (b)
3. (b)
4. (a)
5. (a)

2. State whether following statements are true and false.

1. **All debtors' related transactions are recorded in General Ledger Adjustment Account under Debtors Ledger.**
2. **All creditors' related transactions are recorded in General Ledger Adjustment Account under Creditors Ledger.**
3. **All debtors' related transactions are recorded in Creditors Ledger Adjustment Account under General Ledger.**
4. **All creditors' related transactions are recorded in Debtors Ledger Adjustment Account under General Ledger.**
5. **Under Self Balancing Ledger system trial balance can be prepared for each individual ledger.**

Answer:

1. True
2. True
3. False
4. False
5. True.

3. Match the following:

1	**Sales Ledger Adjustment A/c is kept in**	**A**	**Purchase Ledger**
2	**Purchase Ledger Adjustment A/c is kept in**	**B**	**General Ledger**
3	**General Ledger Adjustment A/c (for creditors) is kept in**	**C**	**Sales Ledger**
4	**General Ledger Adjustment A/c (for debtors) is kept in**	**D**	**General Ledger**

Solution:

1. B/D
2. D/B
3. A
4. C

QUESTIONS AND ANSWERS AND NUMERICAL EXAMPLES

3. What are the advantages of Self Balancing System?

Answer:

The advantages of Self-Balancing System are:

(i) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.

(ii) This system helps to prepare interim account and draft final accounts as a complete trial balance can be prepared before the obstruction of individual personal ledger balances.

(iii) Various works can be done quickly as this system provides sub-division of work among the different employees.

(iv) This system is particularly useful -.

- where there are a large number of customers or suppliers and
- where it is desired to prepare periodical accounts.

(v) Committing fraud is minimized as different ledgers are prepared by different clerks.

(vi) Internal check system con be strengthened as it becomes possible to check the accuracy of each ledger independently.

4. Distinguish between Self Balancing System and Sectional Balancing System.

Solution:

Self-Balancing System	Sectional Balancing System
Here all the three ledgers i.e. Sales/ Debtors Ledger, Purchase/ Creditors Ledger and General Ledger are made separately self-balanced.	Under this system only the General Ledger is made self-balanced.
Separate trial balance can be prepared at the end of each separate edger.	Here, trial balance can be prepared only in the General Ledger.
Here adjustment accounts are prepared on complete double entry principle.	Here list of debtors and creditors are prepared at the end of Debtors and Creditors ledger.
It is actually an extension of sectional balancing system.	It is not an extension of self-balancing system.

5. The following information is available in the books of Y and Sons for the year ending on 31.03.2017:

i. Total sales amounted to ₹120000 including the sale of old machinery for ₹4800 (book value is ₹ 7000). Total cash sales were 80% less than total credit sales.

ii. Cash collected from debtors amounted to 60% of the aggregate of the opening debtors and credit sales for the period. Debtors were allowed cash discount for ₹5200.

iii. Bills receivable drawn during the years ₹24000 of which bills amounting to ₹6000 were endorsed in favour of suppliers. Out of these endorsed bills receivable, a bill for ₹1200 was dishonoured for non-payment as the party became insolvent, his estate realizing nothing.

iv. **Cheques received from Sundry Customers for ₹12000 were dishonoured; a sum of ₹1000 is irrecoverable; bad debts written off in the earlier year now realized ₹5000**

v. **Sundry Debtors as on 1.4.2016 stood at ₹80000**

You are required to show the Debtors Ledger Adjustment Account in General Ledger.

Solution:

In the General Ledger

Dr. Debtors Ledger Adjustment Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.16	To balance b/d	80000	31.03.17	By General Ledger Adjustment A/c (In Debtors Ledger)	
31.03.17	To General Ledger Adjustment A/c (In Debtors Ledger)			Cash collected	106800
	Sales	98000		Discount allowed	5200
	B/R dishonoured	1200		B/R received	12000
	Chequedishonoured	12000		Bad debts	2200
			31.03.17	By balance c/d	65000
		191200			**191200**

Workings:

1. Computation of credit sales:

   Cash sales were 80% less than credit sales. So, if credit sales are RS. 100 cash sales are ₹20. So total sales are ₹120. Here total sales = ₹(120000-2400) = ₹117600.

   Amount of credit sales = ₹117600×100/120 = ₹98000.

2. Cash received:

   Cash received is 60% of opening debtors plus credit sales i.e. ₹(80000+98000) =₹178000.

   So, cash received = ₹178000×60/100 = ₹106800.

6. **A Ltd. divides its Debtor Ledger into two sections: A-L and M-Z each being self-balancing. The following details have been extracted from the books of the company for the month of March 2017.**

Particulars	A-L(₹)	M-Z(₹)
Ledger balances as on 01.03.2017 (Dr.)	2500	3000
Ledger balances as on 01.03.2017 (Cr.)	500	200
Credit Sales for the month	25000	20000
Cash received	10000	14000
Discount allowed	1000	500
Returns inwards	2000	2000
Bad Debt written off	500	600
Bills receivable	4000	5000
Bad debt recovery	200	800
Bills dishonoured	2000	3000

During the month some goods amounting to ₹2000 were sold to Mr. J was wrongly posted to Mr. G Account. Cash received from Mr. Ishan ₹3000 was wrongly posted to Mr. Shaan Account.

Prepare General Ledger Adjustment Account in Debtors Ledger.

Solution:

In Debtors' Ledger

Dr. General Ledger Adjustment Account Cr.

Date	Particulars	A-L Amount (₹)	M-Z Amount (₹)	Date	Particulars	A-L Amount (₹)	M-Z Amount (₹)
01.03.17	To Balance b/f	500	200	01.03.17	By Balance b/f	2500	3000
31.03.17	To Debtors Led. Adj. A/C (In General Ledger)			31.03.17	By Debtors Led. Adj. A/C (In General Ledger)		
	Cash received				Credit sales		
	Discount allowed	10000	14000		B/R dishonoured	25000	20000
	Returns inward	1000	500		Correction	2000	3000
	Bad Debt	2000	2000			3000	Nil
	B/R received	500	600				
	Correction	4000	5000				
	To Balance c/f	3000	Nil				
31.03.17		11500	3700				
		32500	**26000**			**32500**	**26000**

Note: 1. No entry is required for bad debt recovery.

Note: 2. No entry is required under self-balancing system for incorrect posting of sales, as it involves corrections within individual accounts in the same ledger.

7. The summarized analysis of the accounts of the outstanding debtors of a firm at the date of the annual closing of account is as under:

Debtors	Credit Sales (₹)	Cash Received (₹)	Returns Inward (₹)	Bills Received (₹)	Discount Allowed (₹)	Bad Debt (₹)
A	6000	4000	0	0	500	0
B	4000	2000	1000	0	0	0
C	10000	6000	0	0	0	0
D	20000	12000	2000	2000	1000	500
E	24000	16000	3000	2000	1000	1000

Debtors' balance at the beginning of the year was ₹14500. Out of the above receipts of a bill for ₹1700 given by S was dishonoured, noting charges amounting to ₹20. Prepare Debtors Ledger Adjustment Account in General Ledger and General Ledger Adjustment Account in Debtors Ledger.

Solution:

Calculation of total of different transactions

Debtors	Credit Sales (₹)	Cash Received (₹)	Returns Inward (₹)	Bills Received (₹)	Discount Allowed (₹)	Bad Debt (₹)
A	6000	4000	0	0	500	0
B	4000	2000	1000	0	0	0
C	10000	6000	0	0	0	0
D	20000	12000	2000	2000	1000	500
E	24000	16000	3000	2000	1000	1000
Total	64000	40000	6000	4000	2500	1500

In General Ledger

Dr. Debtors' Ledger Adjustment Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/f	14500	By Genera Led. Adjustment A/C	
To General Led. Adjustment A/C		(in Debtors' Ledger)	
(in Debtors' Ledger)		Returns Inward	6000
Credit Sales	64000	Cash Received	40000
B/R Dishonoured	1700	B/R received	4000
Noting charges	20	Discount Allowed	2500
		Bad Debt	1500
		By Balance c/f	26220
	80220		**80220**

In Debtors' Ledger

Dr. General Ledger Adjustment Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Debtors Led. Adjustment A/C		By Balance b/f	14500
(In General Ledger)		By Debtors Led. Adjustment A/C	
Returns Inward	6000	(In General Ledger)	
Cash Received	40000	Credit Sales	64000
B/R received	4000	B/R Dishonoured	1700
Discount Allowed	2500	Noting charges	20
Bad Debt	1500		
To Balance c/f	26220		
	80220		**80220**

8. **The following errors were detected on 31.12.2017 after preparation of Trial Balance but before preparation of Final Accounts.**
   - i. **Purchases day book was undercast by ₹5000**
   - ii. **Sales day book was overcast by ₹2000**
   - iii. **A cheque of ₹20000 issued to Mr. M was recorded as having been issued to Mr. K**
   - iv. **Goods worth ₹3000 were returned by Mr. D, recorded in the Day Book as ₹30000**

   Prepare necessary Journal entries assuming that the ledgers are kept under self-balancing system.

Solution:

Journal Entries

Date	Particulars	Amount (₹)	Amount (₹)
i	Purchase A/C To Suspense A/C	5000	 5000
	General Ledger Adjustment A/C (in Creditors Ledger) To Creditors Ledger Adjustment A/C (in Gen. Ledger)	5000	 5000
ii	Suspense A/C To Sales A/C	2000	 2000
	Debtors Ledger Adjustment A/C (in General Ledger) To General Led. Adjustment A/C (in Debtors Ledger)	2000	 2000
iii	Mr. M A/C To Mr. K A/C	20000	 20000
iv	Mr. D A/C To Returns Inward A/C	27000	 27000
	Debtors Ledger Adjustment A/C (in General Ledger) To General Led. Adjustment A/C (in Debtors Ledger)	27000	 27000

Note: the adjustment in (iii) is a transaction within Creditors Ledger. So no rectification entry is required to be passed in Self Balancing System.

9. From the following particulars prepare the Debtors and Creditors Ledger Adjustment A/c in General Ledger:

Particulars	Debtors Ledger (₹)	Creditors Ledger (₹)
Debit balance on Jan. 1, 2017	1,50,000	13,500
Creditors balance as on Jan. 1, 2017	10,000	1,25,000
Credit sales and purchases	5,80,000	4,00,000
Cheques received and issued	4,80,000	3,50,000
Advance paid to creditors	—	20,000
Returns	4,300	2,800
Discounts allowed and received	2,900	3,600
Bill of exchange issued and accepted	54,200	26,900
Bad Debts	2,000	----
Provision for bad debt	-----	3,000
Reserve for discounts	10,000	5,000
Transfer from Debtors Ledger to Creditors Ledger	10,000	10,000
Debit balance on Dec. 31, 2017	?	12,850
Credit balance on Dec. 31,2017	7,280	?

Solution:

In the Books of...........
In Debtors Ledger

Dr. **General Ledger Adjustment A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.1.17	To Balance b/f	10,000	1.1.17	By Balance b/f	1,50,000
31.12.17	To Debtors Ledger Adjustment A/c:		31.12.17	By Debtors Ledger Adjustment A/c:	
	Cheque received	4,80,000		Credit Sales	5,80,000
	Return Inward	4,300	31.12.17	By Balance c/f	7,280
	Discount Allowed	2,900			
	Bills Receivable drawn	54,200			
	Bad debt	2,000			
	Transfer from debtors ledger to				
	Creditors Ledger	10,000			
31.12.17	To Balance c/f[B/Fig.]	1,73,880			
		7,37,280			**7,37,280**

In Creditors Ledger

Dr. General Ledger Adjustment A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
1.1.14	To Balance b/f	1,25,000	1.1.14	By Balance b/f	13,500
31.12.14	To Creditors Ledger Adjustment A/c:		31.12.14	By Creditors Ledger Adjustment A/c:	
	Credit Purchases	4,00,000		Cheque issued	3,50,000
31.12.14	To Balance c/f	12,850		Advance given	20,000
				Return Outward	2,800
				Discount Received	3,600
				Bills Payable accepted	26,900
				Transfer from Debtors Ledger to Creditors Ledger	10,000
			31.12.14	By Balance c/f [B/Fig.]	1,11,050
		5,37,850			**5,37,850**

Workings:

1. **Provision for Bad Debt & Reserve for Discounts on Debtors and Creditors: No entry is required to be passed for these transactions under Self-Balancing system as they do not involve Debtors or Creditors A/c.**

10. The following information is available from the books of the trader for the period 1st January to 31st March 2017.

a) Total sales amounted to ₹76000 including the sale of old furniture for ₹10000 (book value is ₹12300). The total cash sales were 80% less than total credit sales.

b) Cash collection from Debtors amounted to 60% of the aggregate of the opening Debtors and Credit safes for the period. Discount allowed to them amounted to ₹2,600

c) Bills receivable drawn during the period totaled ₹7,000 of which bills amounting to ₹3,000 were endorsed in favour of suppliers. Out of these endorsed bills, a Bill receivable for ₹1,500 was dishonoured for non-payment, as the party became insolvent and his estate realized nothing.

d) Cheques received from customer of ₹5,000 were dishonoured; a sum of ₹500 is irrecoverable.

e) Bad Debts wrftten-off in the earlier year realized ₹2,500.

f) Sundry debtors on 1st January stood at ₹40,000.

You are required to show the Debtors Ledger Adjustment Account in the General Ledger.

Solution:

In the General Ledger

Dr. Debtors Ledger Adjustment Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.01.17	To balance b/d	40000	31.03.17	By General Ledger	
31.03.17	To General Ledger			Adjustment A/c	
	Adjustment A/c			(In Debtors Ledger)	
	(In Debtors Ledger)			Cash collected	57000
	Sales	55000		Discount allowed	2600
	B/R dishonoured	1500		B/R received	7000
	Chequedishonoured	5000		Bad debts	2000
			31.03.17	By balance c/d	32900
		101500			**101500**

Workings:

1. Computation of credit sales:

   Cash sales were 80% less than credit sales. So, if credit sales are RS. 100 cash sales are ₹20. So total sales are ₹120. Here total sales = ₹(76000-10000) = ₹66000.

   Amount of credit sales = ₹66000×100/120 = ₹55000.

2. Cash received:

   Cash received is 60% of opening debtors plus credit sales i.e. ₹(40000+55000) =₹95000.

   So, cash received = ₹95000×60/100 = ₹57000.

11. From the following particulars, which have been extracted from the book of A & Co., for the year ended 31.01.2012, prepare General Ledger Adjustment Account in the Creditors Ledger and Debtors Ledger Adjustment Account in the General Ledger:

Particulars	Amount ₹	Particulars	Amount ₹
Debtors Balance (01 .01 .2012) Dr.	**20,000**	**Bills Receivable received**	**3,000**
Debtors Balance (01 .01 .2012) Cr.	**300**	**Bills Receivable endorsed**	**800**
Creditors Balance (01.01.2012) Dr.	**200**	**Bills Receivable as endorsed discounted**	**300**
Creditors Balance (01.01.2012) Cr.	**15,000**	**Bills Receivable discounted**	**1,400**
Purchases (including Cash ₹4,000)	**12,000**	**Bills Receivable dishonoured**	**400**
Sales (including Cash ₹6,000)	**25,000**	**Interest charged on dishonoured bills**	**30**
Cash paid to suppliers in full settlement of claims for ₹9,000	**8,500**	**Transfer from one ledger to another**	**600**
Cash received from customers in full settlement of claims of ₹15,000	**14,100**	**Returns (Cr.)**	**700**
Bills Payable accepted (including renewals)	**2,000**	**Debtors Balance (31.12.2012) Cr.**	**450**
Bills Payable withdrawn upon renewals	**500**	**Creditors Balance (31.12.2012) Dr.**	**10,870**

Solution:

In the Creditors Ledger

Dr. **General Ledger Adjustment Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012			2012		
Jan 1	To, Balance b/d	15,000	Jan 1	By, Balance b/d	200
Dec. 31	To, Creditors LedgerAdjustment A/c:		Dec. 31	By, Creditors Ledger AdjustmentA/c:	
	Purchases	8,000		Cash	8,500
"	Bills Payable Withdrawn	500		Discount Received (9,000-8,500)	500
	Bills Receivable Dishonoured	300		Returns Outward	700
	(as endorsed)			Bills Payable	2,000
				Bills Receivable (endorsed)	800
				Transfer	600
	To, Balance c/d	170		By, Balance c/d	1 0,870
		23,970			23,970
2013 Jan. 1	To, Balance b/d	10,870	2013 Jan. 1	By, Balance c/d	170

In the General Ledger

Dr. **Debtors Ledger Adjustment Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Jan.l	To, Balance b/d	20,000	2012 Jan. 1	By, Balance b/	300
Dec .31	To, General LedgerAdjustment A/c:		Dec. 31	By, General Ledger AdjustmentA/c:	
	Sales	19,000		Cash	14,100
	Bills Receivable endorseddishonoured	300		Discount Allowed (15,000-14,100)	900
	Bills Dishonoured	400		Bills Receivable	3,000
				transfer	600
	To, Balance c/d	450		By, Balance c/d	21,250
		40,150			40,150
2013			2013		
Jan. 1	To, Balance b/d	21,250	Jan. 1	By, Balance b/d	450

12. Prepare Total Debtors Account (or Debtors Control Account) and Total Creditors Account (or Creditors Control Account) from the following particulars as on 31.03.2013.

Particulars	Amount ₹	Particulars	Amount ₹
Debtors balance (01.04.2012) Dr.	20,000	Discount Allowed to Debtors	6,000
Debtors balance (01.04.2012) Cr.	6,000	Credit Purchase	80,000
Creditors balance (01.04.2012) Dr.	16,000	Cash paid to Creditors	5,000
Creditors balance (01.04.2012) Cr.	2,000	Discount Received	6,000
Sales (including Cash Sales ₹16,000)	1 ,36,000	Returns Outward	4,000
Returns Inward	10,000	Bills Payable Accepted	10,000
Cash Received from Customer	70,000	Transfer from bought ledger to sale ledger	12,000
Bad Debts	6,000		
(Cash Received from Debtors ₹6,000 against a debt previously written off)		Credit balance in sold ledger on 31.03.2013	8,000
Bills Receivable received	12,000	Debit balance in bought ledger on 31.03.2013	6,000
Bills Receivable dishonoured	4,000	Noting Charges charged from Debtors	200
Bills Receivable endorsed to creditors	2,000	Provision made for Discount on Creditors	2,000
Endorsed bill dishonoured	1,000		
Provision made for Bad Debts	8,000		
Provision made for Discount on Debtors	2,000		

Solution:

In the books of.....................

Dr. Total Debtors or Debtors Control Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012			2012		
April 1	To, Balance b/d	20,000	April 1	By Balance b/d	6,000
	To, Sales (₹1,36,000-₹16,000)	1 ,20,000		Return Outwards	1 0,000
	To, B/R Dishonoured	4,000		By, Cash Received	70,000
	To, Total Creditors A/c (Endorsed B/R Dishonoured)	1,000		By, Bad Debts	6,000
	To, Noting Charges	200		By,B/R Received	1 2,000
2013 Mar.31	To, Balance c/d	8,000	2013 Mar.31	By, Discount Allowed	6,000
				By, Transfer	12,000
				By, Balance c/d	31,200
		1,53,200			1 ,53,200
April 1	To, Balance b/d	31,200	April 1	By, Balance b/d	8,000

Note: Recovery of Bad Debts, provision for Bad Debts, Provisions for Discount on Debtors, Provision for discount on Creditors, Cash Sales etc. will not appear in Total Debtors or Debtors Control Account.

13. **The balance on the Sales Ledger Control Account of Q Ltd, on Sept, 30, 2012 amounted to ₹9,600 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) Debit balance in the sales ledger amounting to ₹306 had been omitted from the list of balances.

(ii) A Bad Debt amounting to ₹750 had been written-off in the sales ledger, but had not been posted to the Bad Debts Account, or entered in Control Account.

(iii) An item of goods sold to Amar for ₹400 had been entered once in the Day Book but posted to his account twice.

(iv) ₹70 Discount Allowed to Manoj had been correctly recorded and posted in the books. This sum had been subsequently disallowed, debited to Manoj's account, and entered in the discount received column of the Cash Book.

(v) No entry had been made in the Control Account in respect of the transfer of a debit of 7260 from Kumar's Account in the Sales Ledger to his account in the purchase ledger.

(vi) 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.

Solution:

In the books of ……

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
2012 Sept. 30				
	₹306 should be added to Sales Ledger Balances and it will not affect Control Account			
	Bad Debts A/c Dr. To, Sales Ledger Control A/c (Bad Debts written-off without recording in general ledger, now rectified.)		750	 750
	Amar's Account should be credited by ₹400. It will not affect Control Account.			
	Discount Received A/c Dr. To, Purchases Ledger Control A/c Sales Ledger Control A/c Dr. To, Discount Allowed A/c (Discount previously allowed cancelled, which was wrongly treated as discount received, now rectified.)		70 70	 70 70
	Purchase Ledger Control A/c Dr.		260	

	To, Sales Ledger Control A/c (Transfer of debit of Kumar's Account to Purchase Ledger, not recorded, now rectified.)			260
	Discount Allowed A/c Dr. To, Sales Ledger Control A/c (Discount allowed account undercast, now rectified.)		280	 280

14. What is Adverse Balance of debtors ledger/creditors ledger in the context of Self Balancing Ledger.

Solution:

Sometimes it may happen that debtors ledger shows a credit balance and creditor ledger shows a debit balance i.e., the adverse balance of debtors ledger and creditors ledger. Usually, credit balance in debtors' ledger may happen on account of advance taken from debtors or allowances given to customers for different products after closing the accounts. Similarly, debit balance in creditors ledger may appear on account of excess payment made or goods returned to creditors after closing the accounts etc. Thus, these contra transactions are to be adjusted. But, one must remember that credit balance in one ledger must not be set off against debit balance of another ledger. These should separately be treated.

15. Prepare a Sales Ledger Adjustment Account and a Purchase Ledger adjustment accounting In the General Ledger, for the year ended 31st March, 2013 from the following information:

Particulars	₹	Particulars	₹
Customers' Account debit balance as on 01.04.2012	2,300	Goods returns by debtors	2,000
Customers' Account credit balance as on 01.04.2012	200	Cash discount allowed to debtors	600
Suppliers' Account credit balance as on 01.04.2012	4,000	Cash discount received from creditors	130
Suppliers' Account debit balance as on 01.04.2012	540	Trade discount received from the suppliers	8,000
Credit sales during the year	29,400	Bad debts written- off during the year	400
Credit purchases during the year	27,800	Bad debts recovered during the year	80
Cash sales during the year	22,600	Transfer from creditors ledger to debtors ledger	240
Cash Purchases during the year	5,800	Bills receivable dishonoured	320
Cheques received from credit customers	18,000	Bills payable dishonoured	180
Cash received from credit customers	2,000	Cheqes received from debtors returned dishnoured	750
Cheques issued to the creditors during the year	21,000	Cheqes issued to creditors returned dishnoured	290

Gods returned to the creditors	**1,400**	**Customers' Account credit balance as on 31.03.2013**	**310**
Bills payable accepted during the year	**1,800**	**Supplier's Account debt balance as on 31.03.2013**	**420**
Bills received during the year	**1,500**		

Solution:

In the books of...........

In General Ledger

Dr. Sales Ledger Adjustment Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1.04.12	To Balance b/d	2,300	01.04.12	By Balance b/d	200
31.03.13	To General Ledger Adjustment A/c:		31.03.13	By General Ledger	
	Credit sales	29,400		Adjustment A/c:	
	Bills receivable (dishonoured)	320		Cheque received	1 8,000
	Chequedishonoured	750		Cash received	2,000
				Bill receivable	1,500
				Sales return	2,000
31.03.13	To Balance c/d	310		Discount allowed	600
				Bad debts	400
				Transfer	240
			31.03.13	By Balance c/d	8,140
		33,080			**33,080**

Dr. Purchases Ledger Adjustment Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.12	To Balance b/d	540	01.04.12	By Balance b/d	4,000
31.03.13	To General Ledger Adjustment A/c:		31.03.13	By General Ledger Adjustment A/c:	
	Cheque issued	21,000		Credit purchases	27,800
	Bills payable accepted	1,800		Bills payable	
	Discount received	130		dishonored	180
	Goods returned	1,400	31.03.13	Cheque issued	
	Transfer	240		dishonoured	290
31.03.13	To Balance c/d	7,580			
				By Balance c/d	420
		32,690			**32,690**

Chapter – 8

ROYALTIES

Multiple Choice Questions

1. ***Choose the correct alternative:***

1. Which of the following is the type of royalty?

(a) Copyright

(b) Mining royalty

(c) Patent royalty

(d) All of these

2. What is minimum rent?

(a) Assured and mutually agreed periodical minimum amount

(b) Minimum periodical amount

(c) Amount paid by lessee to landlord

(d) None of these

3. Royalty is

(a) A contract

(b) Landlord to lessee

(c) Use of asset

(d) All of these

4. Short working

(a) Shortage of royalty

(b) Minimum rent exceeds the actual royalty

(c) Shortage of actual rent

(d) None o these

5. Dead rent is

(a) Minimum rent

(b) Short working

(c) Surface rent

(d) None of these

Answer:

1. (d)
2. (a)
3. (d)
4. (b)
5. (a)

2. Fill in the blanks:

1. **Short working is alternatively termed as ……….**
2. **Redeemable dead rent is the amount by which minimum rent……the actual royalty**
3. **Excess working is the amount by which the actual royalty ……… the minimum rent.**
4. **Ground rent refers to the fixed yearly or half yearly rent payable by the lessee in addition to the ……………….**
5. **Surface rent is also termed as ………….**

Answer:

1. redeemable dead rent
2. exceeds
3. exceeds
4. minimum rent
5. Ground rent.

3. State whether the following statements are true or false:

1. **Minimum rent is also called fixed rent or certain rent.**
2. **Recoupment of short working is done through excess working.**
3. **Fixed right does not deal with short working.**
4. **Dead rent is irrecoverable rent.**
5. **Ground rent refers to the fixed yearly or half yearly rent payable by the lessee to the landlord in addition to the minimum rent.**

Answer:

1. True
2. True
3. False
4. False
5. True.

4. Match the following:

	Column – A		Column – B
1	Fixed right	A	Landlord to lessee
2	Ground rent	B	Surface rent
3	Dead rent	C	Strike and lockout
4	Royalty	D	Recoup short working within a certain period
5	Proportionately reduction in minimum rent	E	Fixed rent

Answer:

1. D
2. B
3. E
4. A
5. C

NUMERICAL EXAMPLES

5. **Mr. Mukunda took a lease of mines from Mr. Amar, with effect from January 1, 2008, for a period of 20 years. The terms of agreement provided for the payment of Royalty @ Re. 0.60 per ton raised, subject to a minimum rent of Re. 12,000 per annum, with a right to recoup shortworkings, within a period of 3 years immediately succeeding the year in which the shortworking arises. It was further agreed that the minimum rent should be reduced proportionately, in case of strikes or lock-outs in any year.**

   You are furnished with the following details:

Year	Tons raised
2012	23,000
2013	18,700
2014	15,400
There was a strike period of 3 months, from October to December	
2015	19,000
2016	20,600
2017	22,600

   The balance in Shortworking Account, as on January 1, 2012, was ₹ 4,900, of which ₹ 2,200 arose in 2009 and the balance in 2010.

   You are required to show the Royalty A/C, Shortworking A/C and Mr. Amar's A/C in the books of Mr. Mukunda for all the above 6 years.

Solution:

Workings:

Analysis of Royalty

Year	Output (Tons)	Actual Royalty ₹	Minimum Rent ₹	Short-working ₹	Short-working Recouped ₹	Payment ₹	Short-working lapsed ₹	Short-working c/f
2012	23,000	13,800	12,000	______	1,800	12,000	400[1]	2,700[2]
2013	18,700	11,220	12,000	780	_______	12,000	2,700[2]	780
2014	15,400	9,240	9,000[3]	______	240	9,000	______	540
2015	19,000	11,400	12,000	600	_______	12,000	______	1,140
2016	20,600	12,360	12,000	______	360	12,000	180	600
2017	22,600	13,560	12,000	______	600	12,960	______	______

Notes: 1. Out of the shortworking of ₹ 2,200 arising in 2009 ₹ 1,800 is recouped in 2012 and the balance ₹ (2,200-1,800) or ₹ 400 lapses in 2012.

2. Shortworking of 2010 ₹ (4,900-2,200) or ₹ 2700 is carried forward in 2012 because the period of recoupment of this expires in 1985.

3. Minimum Rent for 2014 is 9/12of ₹ 12,000 or ₹ 9,000.

In the Books of Mr. Mukunda

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

		₹			₹
2012 Dec.31	To Amar a/c	13,800	2012 Dec.31	By production a/c	13,800
2013 Dec.31	To Amar a/c	11,220	2013 Dec.31	By production a/c	11,220
2014 Dec.31	To Amar a/c	9,240	2014 Dec.31	By production a/c	9,240
2015 Dec. 31	To Amar a/c	11,400	2015 Dec. 31	By production a/c	11,400
2016 Dec.31	To Amar a/c	12,360	2016 Dec.31	By production a/c	12,360
2017 Dec.31	To Amar a/c	13,560	2017 Dec.31	By production a/c	13,560

Dr. **Shortworkings Account** ***Cr.***

		₹			₹
2012 Jan.1	To balance b/d	4,900	2012 Dec.31	By Amar A/c	1,800
				By profit & loss A/c	400
				By balance c/d	2,700
		4,900			4,900
2013 Jan.1	To balance b/d	2,700	2013 Dec.31	By Profit &loss A/c	2,700
Dec.31	To Amar A/c	780		By balance C/d	780
		3,480			3,480
2014 Jan.1	To balance b/d	780	2014 Dec.31	By Amar A/c	240
				By balance c/d	540
		78			780
2015 Jan.1	By balance b/d	540	2015 Dec.31	By balance c/d	1,140
Dec.31	To Amar A/c	600			
		1,140			1,140
2016 Jan.1	To balance b/d	1,140	2016 Dec.31	By Amar A/c	360
				By Profit & loss A/c	180
				By balance c/d	600
		1,140			1,140
2017 Jan.1	To balance b/d	600	2017 Dec.31	By Amar A/c	600

Dr. **Amar Account** *Cr.*

2012 Dec. 31	To Shortworking A/c To Bank	₹ 1,800 12,000 13,800	2012 Dec. 31	By Royalty A/c	₹ 13,800 13,800
2013 Dec.31	To Bank	12,000 12,000	2013 Dec.31	By Royalty A/c By Shortworking A/c	11,220 780 12,000
2014 Dec.31	To Shortworking A/c To Bank	240 9,000 9,240	2014 Dec.31	By Royalty A/c	9,240 9,240
2015 Dec.31	To Bank	12,000 12,000	2015 Dec.31	By Royalty A/c By Shortworking A/c	11,400 600 12,000
2016 Dec.31	To Shortworking A/c To Bank	360 12,000 12,360	2016 Dec.31	By Royalty A/c	12,360 12,360
2017 Dec.31	To Shortworking A/c To Bank	600 12,960 13,560	2017 Dec.31	By Royalty A/c	13,560 13,560

6. Vendor Ltd. leased out three machines for manufacturing burners to Singur Stove Manufacturers in three successive years. The terms of lease for the machines were as follows:

i. The lessee would pay a royalty of 50 paise for every 10 burners produced subject to a minimum payment of ₹ 500 per annum for every machine.

ii. The lessee could recoup any shortworking arising in the first year of the leased machine in the second year only, but not afterwards.

Details of the three machines on lease are given bellow:

Machine No.	**1**	**2**	**3**
Date of commencement of lease	**1.1.2014**	**1.1.2015**	**1.1.2016**
Production of burners for the Year ended 31st December (numbers):			
2014	**8,000**	**-----**	**-----**
2015	**15,000**	**10,000**	**-----**
2016	**17,400**	**9,600**	**8,000**
2017	**18,000**	**12,400**	**7,400**

You are requested to show the Ledger Accounts giving effect to the above tramsactions in the books of Singur Stove Manufacturers.

Solution:

Analysis of Royalty

Year	Machine No.	Output	Actual Royalty	Minimum Rent	Short Working	Short Working Recouped	Payment	Short Working Lapsed	Short Working c/f
		Units	₹	₹	₹	₹	₹	₹	₹
2014	1	8,000	400	500	100	------	500	------	100
2015	1	15,000	750	500	------	100	650	------	-------
	2	10,000	500	500	------	------	500	------	-------
2016	1	17,400	870	500	------	------	870	------	-------
	2	9,600	480	500	20	------	500	20	-------
	3	8,000	400	500	100	------	500	------	100
2017	1	18,000	900	500	------	-------	900	------	-------
	2	12,400	620	500	------	-------	620	------	-------
	3	7,400	370	500	130	-------	500	230	-------

Books of Singur Stove Manufactures

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

Date	Particulars	₹	Date	Particulars	₹
2014 Dec. 31	To Vendor Ltd. A/c	400	2014 Dec.31	By Manufacturing A/c	400
2015 Dec. 31	To Vendor Ltd. A/c	1,250	2015 Dec. 31	By Manufacturing A/c	1,250
2016 Dec. 31	To Vendor Ltd. A/c	1,750	2016 Dec. 31	By Manufacturing A/c	1,750
2017 Dec. 31	To Vendor Ltd. A/c	1,890	2017 Dec. 31	By Manufacturing A/c	1,890

Dr. **Shortworking Account** ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
2014 Dec. 31	To Vendor Ltd. A/c	100	2014 Dec. 31	By Balance c/d	100
2015 Jan. 1	To Balance b/d	100	2015 Dec. 31	By Vendor Ltd. A/c	100
2016 Dec. 31	To Vendor Ltd. A/c	120	2016 Dec. 31	By Profit & Loss A/c	20
				By Balance c/d	100
		120			120
2017 Jan. 1	To Balance b/d	100	2017 Dec. 31	By Profit & Loss A/c	230
Dec. 31	To Vendor Ltd. A/c	130			
		230			230

Dr. **Vendor Ltd. Account** ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
2014 Dec. 31	To Bank	500	2014 Dec. 31	By Royalty A/c	400
				By Shortworking A/c	100
		500			500
2015 Dec. 31	To shrtworking A/c	100	2015 Dec. 31	By Royalty A/c	1,250
	To Bank	1,150			
		1,250			1,250

2016 Dec. 31	To Bank	1,870	2016 Dec. 31	By Royalty A/cBy Shortworking A/c	1,750 120
		1,870			1,870
2017 Dec. 31	To Bank	2,020	2017 Dec. 31	By Royalty A/c By Shortworking A/c	1,890 130
		2,020			2,020

7. Alok Co. Ltd. Hold a lease of mines from Sri A. koley for a period of 40 years from 1st July, 2015. Under the lease, royalty of 50 paise per ton merging in a minimum rent of ₹ 40,000 a year is payable haif-yearly on 30th June and on 31st December. They granted a sub-lease for 20 years from 1st January, 2016 to Nitu Co. Ltd. of one-half of the area for a royalty of 75 paise a ton merging in a minimum rent of ₹ 30,000 a year payable half-yearly on 30th June and 31st December. Alok Co. Ltd. are entitled under the lease from the landlord to recoup shortworkings out of subsequent excess workings without any limitation of period, but Nitu Co. Ltd. under the sub-lease are allowed to recoup shortworkings out of excess workings in any of the three half years immediately following that in which the short workings accrued.

Minerals raised were as follows:

				Combined Total Tons	By Nitu Co. Ltd. Tons
Half year	**ended**	**31st Dec.**	**2015**	**8,000**	**__**
"	**"**	**30th June**	**2016**	**20,000**	**10,000**
"	**"**	**31st Dec.**	**2017**	**31,000**	**16,000**
"	**"**	**30th June**	**2018**	**45,000**	**25,000**
"	**"**	**31st Dec.**	**2019**	**40,000**	**10,000**

Show the necessary ledger accounts in the books in the books of Alok Co. Ltd. which are balanced annually on 31st December.

Solution:

Workings:

Analysis of Royalty Payable

Half Year	Output	Actual Royalty	Minimum Rent	Short-working	Short-working Recouped	Payment	Short-working Lapsed	Short-working c/f
	Tons	₹	₹	₹	₹	₹	₹	₹
Dec. 31,' 15	8,000	4,000	20,000	16,000	__	20,000	__	16,000
June 30, '16	20,000	10,000	20,000	10,000	__	20,000	__	26,000
Dec. 31, '16	31,000	15,500	20,000	4,500	__	20,000	__	30,500
June 30, '17	45,000	22,500	20,000	—	2,500	20,000	__	28,000
Dec. 31, '17	40,000	20,000	20,000	—	—	20,000	__	28,000

Analysis of Royalty Receivable

Half Year	Output	Actual Royalty	Minimum Rent	Short-working	Short-working Recouped	Payment	Short-working Lapsed	Short-working c/f
	Tons	₹	₹	₹	₹	₹	₹	₹
June 30, '16	10,000	7,500	15,000	7,500	__	15,000	__	7,500
Dec. 31, '16	16,000	12,000	15,000	3,000	__	15,000	__	10,500
June 30, '17	25,000	18,750	15,000	__	3,750	15,000	__	6,750
Dec. 31, '17	10,000	7,500	15,000	7,500	__	15,000	3,750	10,500

Alok Co. Ltd.

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

Date	Particulars	₹	Date	Particulars	₹
2015 Dec. 31	To A. Koley A/c	4,000	2015 Dec. 31	By Production A/c	4,000
2016 June 30	To A. Koley A/c	10,000	2016 Dec. 31	By Royalty Receivable A/c	13,000
Dec. 31	To A. Koley A/c	15,500	Dec. 31	By Production A/c	12,500
		25,500			22,500
2017 June 30	To A. Koley A/c	22,500	2017 Dec. 31	By Royalty Receivable A/c	17,500
Dec. 31	To A. Koley A/c	20,000		By Production A/c	25,000
		42,500			42,500

Dr. ***Shortworking Recoupable Account*** ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
2015 Dec. 31	To A.Koley A/c	16,000	2015 Dec. 31	By Balance b/d	16,000
2016 Jan. 1	To Balance b/d	16,000	2016 Dec. 31	By Balance b/d	30,500
June 30	To A.Koley A/c	10,000			
Dec. 31	To A.Koley A/c	4,500			
		30,500			30,500
2017 Jan.1	To Balance b/d	30,500	2017 June 30	By A.Koley A/c	2,500
			Dec. 31	By Balance b/d	28,000
		30,500			30,500
2018 Jan. 1	To Balance b/d	28,000			

Dr. ***A. Koley*** **Account** *Cr.*

2015		₹	2015		₹
Dec. 31	To Bank	20,000	Dec. 31	By Royalty Payable A/c	4,000
			Dec. 31	ByShortworking Recoupable A/c	16,000
		20,000			20,000
2016			2016	By Royalty Payable A/c	10,000
June 30	To Bank	20,000	June 30	ByShortworking Recoupable A/c	10,000
Dec. 31	To Bank	20,000	June 30	By Royalty Payable A/c	15,500
				ByShortworking Recoupable A/c	4,500
			Dec. 31		
		40,000	Dec. 31		40,000
				By Royalty Payable A/c	22,500
2017			2017	By Royalty Payable A/c	20,000
June 30	To Shortworking Recoupable A/c	2,500	June 30		
June 30	To Bank	20,000	Dec. 31		
Dec. 31	To Bank	20,000			
		42,500			42,500

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

2016		₹	2016		₹
Dec. 31	To Royalty Payable A/c (@50 paise per ton on 26,000 tons)	13,000	June 30	By Nitu Co Ltd. A/c	7,500
Dec. 31	To Profit & Loss A/c	6,500	Dec. 31	By Nitu Co Ltd. A/c	12,000
		19,500			19,500
2017			2017		
Dec. 31	To Royalty Payable A/c (@50 paise per ton on 35,000 tons)	17,500	June 30	By Nitu Co Ltd. A/c	18,750
Dec. 31	To Profit & Loss A/c	8,750	Dec. 31	By Nitu Co Ltd. A/c	7,500
		26,250			26,250

Dr. ***Shortworking Recoupable Account*** ***Cr.***

		₹			₹
2016			2016		
Dec. 31	To Balance c/d	10,500	June 30	By Nitu Co Ltd. A/c	7,500
			Dec. 31	By Nitu Co Ltd. A/c	3,000
		10,500			10,500
2017			2017		
June 30	To Nitu Co Ltd. A/c	3,750	Jan. 1	By Balance b/d	10,500
Dec. 31	To Profit & Loss A/c	3,750	Dec. 31	By Nitu Co Ltd. A/c	7,500
Dec. 31	To Balance c/f	10,500			
		18,000			**18,000**

Dr. ***Nitu Co. Ltd. Account*** ***Cr.***

2016		₹	**2017**		₹
June 30	To Royalty Receivable A/c	7,500	June 30	By Bank	15,000
June 30	To Shortworking Allowable A/c	7,500	Dec. 31	By Bank	15,000
Dec. 31	To Royalty Receivable A/c	12,000			
Dec. 31	To Shortworking Allowable A/c	3,000			
		30,000			30,000
2017			2017		
June 30	To Royalty Receivable A/c	18,750	June 30	By Shortworking Allowable A/c	3,750
Dec. 31	To Royalty Receivable A/c	7,500	June 30	By Bank	15,000
Dec. 31	To Shortworking Allowable A/c	7,500	Dec. 31	By Bank	15,000
		33,750			**33,750**

Chapter – 9

HIRE-PURCHASE AND INSTALLMENT SYSTYEM

Multiple choice questions:

1. ***Choose the correct alternative***

1. **Under Hire-Purchase agreement ownership is transferred:**
   - (a) As soon as the first installment is paid
   - (b) Until the last installment is paid
   - (c) Both the cases
   - (d) None of these
2. **Full cash price of the asset is forfeited under:**
   - (a) Asset accrual method
   - (b) Credit purchase with interest method
   - (c) Both the methods
   - (d) None of these
3. **Under installment system, the seller treats the transaction as a**
   - (a) Credit sale
   - (b) Cash sale
   - (c) Mix sale
   - (d) None of these
4. **Interest is charged on the amount**
   - (a) Paid amount
   - (b) Outstanding amount
   - (c) Hire-Purchase price
   - (d) None of these
5. **Assets are generally repossessed at a mutual agreed**
   - (a) value
   - (b) current price
   - (c) Installments due
   - (d) None of these

Answer:

1. (b)
2. (b)
3. (a)
4. (b)
5. (a)

2. Fill in the blanks:

1. **Selling price under Hire-purchase basis is…than selling price under cash basis.**
2. **The act of revival of custody of the asset is called………**
3. **The buyer gets possession and ownership of the asset under………system right from signing the contract.**
4. **Under Hire- purchase system ownership of the asset is transferred as soon as…….. installment is paid.**
5. **Every installment paid under Hire-purchase system consists of partly …….. and partly interest charge.**

Answer:

1. more
2. repossession
3. installment
4. last
5. capital payment.

3. State whether the following statements are true or false:

1. **The buyer gets immediate possession but not ownership of the asset under installment payment system on signing of contract.**
2. **The possession and ownership of the asset is immediately transferred to the buyer under Hire-purchase system on signing the contract.**
3. **Down payment plus installments including interest is termed as cash price**
4. **The Hire-purchaser records the asset at Hire-purchase price**
5. **Repossession of the asset is done by Hire-vendor due to non-payment of installments in due time.**

Answer:

1. False
2. False

3. False
4. False
5. True

4. Match the following:

	Column - A		Column - B
1	**Hire-Purchaser can record the asset at its**	**A**	**Cash price + interest**
2	**Hire-Purchase price**	**B**	**Interest**
3	**Installment payment system-Ownership transferred**	**C**	**Capital expenditure**
4	**Excess of Hire-purchase price o ver cash price**	**D**	**When first installment is paid**
5	**Payment towards cash price under Hire-purchase system**	**E**	**Cash down price**

Answer:

1. E
2. A
3. D
4. B
5. C

QUESTIONS AND NUMERICAL EXAMPLES

5. State the differences between Hire Purchase and Instalment Payment System.

Solution:

Hire-Purchase V/s Installment Payment

Sl. No.	Hire-Purchase (HP)	Installment Payment
1	It is Hiring-cum-purchase contract	It is outright sale contract
2	Hire-Purchase Act 1972 controls the HP transactions	Installment payment transaction is not controlled by any such Act
3	Ownership of the goods is transferred after payment of last installment	Ownership is transferred immediately after sale
4	HP agreement can be cancelled before payment of last installment by Hire-purchaser	The purchase has no such right
5	Hire-Vendor has the right to repossess the goods if default is made	Seller has no right t repossess the goods but can file a suit for damages.
6	Hire-purchaser cannot sell the goods since he does not possess the ownership of the goods	Purchaser c an sell the goods as he owns the title of the goods

6. State the differences between Ordinary Purchase and Hire Purchase

Solution:

Ordinary Purchase V/S Hire- Purchase

Sl. No.	Ordinary Purchase	Hire-Purchase (HP)
1	Ownership of the goods is transferred immediately after purchase	Ownership of the goods is transferred after payment of last installment
2	The purchaser can resale the goods any time	Hire-purchaser cannot sell the goods since he does not possess the ownership of the goods
3	Seller cannot repossess the goods	Seller can repossess the goods due to non-payment of installments
4	The purchaser is not the bailee of the goods	The purchaser is the bailee of the goods
5	The purchaser has no option to return the goods	The purchaser has option to return the goods to its actual owner

7. A Ltd. had purchased a machinery on 1.1.2013 on hire purchase system from B Ltd. The terms are that A Ltd. would pay ₹ 20,000 down on signing of the agreement on that date and four annual installments of ₹ 1000 each. A Ltd charged depreciation @10% per annum on cost under diminishing balance system. B Ltd charged interest @10% per annum in their contract.

Prepare machinery account and account of B Ltd. in the books of A Ltd.

Working notes:

Particulars	Amount ₹
Last installment [4th]	11,000
Less : interest included [$\frac{10}{110}$ of 11,000]	1,000
	10,000
Add : installment [3rd]	11,000
	21,000
Less : interest included [$\frac{10}{110}$ of 11,000]	1,909
	19,019
	11,000
Add : installment [2nd]	30,019
	2,735
Less : interest included [$\frac{10}{110}$ of 11,000]	27,356
	11,000
	38,356
Add : installment [1st]	3,486
Less : interest included [$\frac{10}{110}$ of 11,000]	34,870
	20,000
	54,870
Add : down payment	
Cash Price	

In the Books of A Ltd.

Dr. **Machinery account** *Cr.*

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.13	To B Ltd. A/c	54,870	31.12.13	By depreciation A/c	5,487
				By balance c/d	49,383
		54,870			54,870
1.1.14	To Balance b/d	49,383	31.12.14	By depreciation A/c	4,938
				By balance c/d	44,445
		49,383			49,383
1.1.15	To Balance b/d	44,445	31.12.15	By depreciation A/c	4,445
				By balance c/d	40,000
		44,445			44,445
1.1.16	To Balance b/d	40,000	31.12.16	By depreciation A/c	4,000
				By balance c/d	36,000
1.1.17	To Balance b/d	40,000			40,000
		36,000			

Dr. ***B Ltd. Account*** *Cr.*

Date	particulars	Amount ₹	Date	particulars	Amount ₹
1.1.13	To bank A/c	20,000	1.1.13	By motor car A/c	54,870
31.12.13	To bank A/c	11,000	31.12.13	By interest A/c	3,486
	To balance c/d	27,356			
		58,356			58,356
31.12.14	To bank A/c	11,000	1.1.14	By balance b/d	27,356
	To balance c/d	19,091	31.12.14	By interest A/c	2,735
		30,091			30,091
31.12.15	To bank A/c	11,000	1.1.15	By balance b/d	19,091
	To balance c/d	10,000	31.12.15	By interest A/c	1,909
		21,000			21,000
31.12.16	To bank A/c	11,000	1.1.16	By balance b/d	10,000
			31.12.16	By interest A/c	1,000
		11,000			11,000

Note: The dates of payments of installments have been assumed to be 31st December every year.

8. On 1.1.14 Mr. Sen purchased a machine under higher purchased from Mr Das. The cash price of the machine was ₹ 15500.The payments for the purchased were agreed to be made as follows:

On signing the agreement on 1.1.14 ₹ 3000, at the time of year ending- –first year ₹ 5,000, second year ₹ 5,000, and third year ₹ 5,000.

Make necessary ledger accounts in the books of Gupta assuming depreciation was charged annually @10% on the diminishing balance method.

Workings notes:

Apportionment of Annual interests

	₹
Hire purchase price=Total payments = [3,000+5,000*3]	18,000
Cash price	15,500
Total interest	**2,500**

It should be apportioned among the three years in the diminishing ratio of 3:2:1 .Because the outstanding amounts to the vendor will decrease accordingly. Thus annual interests would be---

2014 = $\frac{3}{6}$ of ₹ 2,500 = ₹ 1,250

2015 = $\frac{2}{6}$ of ₹ 2,500 = ₹ 833 and

2016 = $\frac{1}{6}$ of ₹ 2,500 = ₹ 417

In the books of Books of Sen

Dr ***Das Account*** ***Cr***

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.14	To bank A/c	3,000	1.1.14	By machinery A/c	15,500
31.12.14	To bank A/c	5,000	31.12.14	By interest A/c	1,250
	To balance b/d	8,750			
		16,750			16,750
31.12.15	To bank A/c	5,000	1.1.15	By balance b/d	8,750
	To balance b/d	4,583	31.12.15	By interest A/c	833
		9,583			9,583
31.12.16	To bank A/c	5,000	1.1.16	By balance b/d	4,583
			31.12.16	By interest A/c	417
		5,000			5,000

Dr **Interest Account** ***Cr.***

Date	***Particulars***	***Amount ₹***	***date***	***Particulars***	***Amount ₹***
31.12.14	To Das A/c	1,250	31.12.14	By profit & loss A/c	1.250
	And so on…….	***1250***			***1250***

Dr **Depreciation Account** ***Cr.***

Date	***Particulars***	***Amount ₹***	***date***	***Particulars***	***Amount ₹***
31.12.14	To Machinery A/c	1,550	31.12.14	By profit & loss A/c	1.550
	And so on…….	***1550***			***1550***

Dr **Machinery Account** *Cr.*

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.14	To Das A/c	15,500	31.12.14	By depreciation A/c By balance c/d	1,550 13,950
		15,500			15,500
1.1.15	To balance b/d	13,950	31.12.15	By depreciation A/c By balance c/d	1,395 12,555
		13,950			13,950
1.1.16	To balance b/d	12,555	31.12.16	By depreciation A/c By balance c/d	1,255 11,300
		12,555			12,555

9. X Ltd. Purchased a scooter van on hire purchase from Y Ltd. On 1.1.2016.The terms of payment was ₹ 10,000 on delivery, ₹ 10,400 at the end of first year, ₹ 9600 at the end of the second year, and ₹ 8800 at the end of the third year, inclusive of finance charges.

X Ltd. provided depreciation at 10% per annum on the original cost. Show the accounts in the books of Y Ltd.

Working note:

Calculation of cash price and interests

The amounts of the annual installments are changing because the annual interests are different over year. It is assumed that the payment for principal amount is the same every year and it is P. The interests will decrease in the ratio of 3:2:1.Let interests be detonated by i.

Payment in 2016 = P+i = ₹ 8.800 ……………………………………(i)

Payment in 2015 = P+2i = ₹ 9,600……………………………………(ii)

And Payment in 2014 = P+3i = ₹10,400……………………………………(iii)

If (i) and (ii) are added, 2P+3i = ₹18,400

Again P+3i = ₹ 10,400……………[as per (iii) above]

P = 8,000

Interests included in installments are

2014 = 10,400 - 8,000 =2,400, 2015 = 9,600 - 8,000 =1,600 , and 2016 = 8,800 - 8,000 = 800

And cash price =10,000 +3 * 8,000 = ₹ 34,000

In the Books of Y Ltd.

Dr. **X Ltd. Account** ***Cr.***

	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.14	To H.P sales A/c	34,000	1.1.14	By bank A/c	10,000
31.12.14	To interest A/c	2,400	31.12.14	By bank A/c	10,400
				By balance c/d	16,000
		36,400			36,400
1.1.15	To balance b/d	16,000	31.12.15	By bank A/c	9,600
31.12.15	To interest A/c	1,600		By balance c/d	8,000
		17,600			17,600
1.1.16	To balance b/d	8,000	31.12.16	By bank A/c	8,800
31.12.16	To interest A/c	800			
		8,800			8,800

Dr. **Interest Account** ***Cr.***

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.12.14	To profit & loss A/c	2,400	31.12.14	By X Ltd. a/c	2,400
31.12.15	To profit & loss A/c	1,600	31.12.15	By X Ltd. a/c	1,600
31.12.16	To profit & loss A/c	800	31.12.16	By X Ltd. a/c	800

10. Kundu Transporter purchases a truck on hire purchase from Koley Motor for ₹ 56,000. Payment to be made as ₹ 15,000 down cash and 3 installments of ₹ 15,000 each at the end of each year. Rate of interest is charged at 5% p.a. Buyer depreciates assets at 10% p.a. on written down value method. Because of financial difficulties Modern Transporter after having paid the down cash and the first installment at the end of the first year could not pay the second installment and Koley motors took possession of the Truck.

Prepare (a) The Truck Account (b) Seller' Account in the books of the buyer assuming that year ends on 31st December.

Working Note:

Calculation of Interests

	Amount
Opening date (First year) Cash price	56,000
Same date Less : Down Payment	15,000
	41,000
Add: Interest for the first year[5%of 41,000]	2,050
	43,050
Less: Installment	15,000
	28,050
Add: Interest [5%of 28,050]	1,403
Surrendered Asset	29,453

In the Books of Kundu Transporter

Dr. **Truck Company** *Cr.*

Date	Particulars	Amount	Date	Particulars	Amount
1st yr. Op.Dt	To Koley Motor	56,000	At yr. end	By Depreciation A/c@10%	5,600
					50,400
		56,000		By Balance c/d	56,000
2nd yr.		50,400			5,040
Op. dt.	To Balance B/d			By Depreciation	29,453
				By Koley Motor (surrender)	15,907
		50,400		By Profit &Loss A/c	50,400

Dr. **Koley Motor Account** *Cr.*

Date	Particulars	Amount	Date	Particulars	Amount
1st yr Op. dt	To Bank A/c	15,000	1st yr Op.dt.	By Truck A/c	56,000
	To Bank A/c	15,000		By Interest A/c	2,050
Cl.dt.	To Balance B/d	28,050			
		58,050			58,050
			Op.dt. 2nd yr.	By Balance B/d	28,050
Cl.dt.	To Machinery A/c (Balance transferred)	29,453	Cl.dt.	By Interest	1,403
		29,453			29,453

11. Laxman purchased 7 Trucks on hire-purchase on 1st July 2014. The Cash Price of each Truck was ₹ 50,000. He was to pay 20% of Cash Price at the time of delivery and the balance of five half-yearly installments starting from 31.12.2014 with interest at 5% per annum. On Laxman's failure to pay the installment due on 30th June, 2015, it was agreed that Laxman would return 3 Trucks to the Vendor and the remaining 4 would be retained by him. The returning price of 3 trucks was ₹ 40,500. Laxman charges depreciation @ 20% per annum. Vendor after spending ₹ 1,000 on repairs sold away all the three trucks for ₹ 40,000.

Show Trucks Account and Vendor's Account in the books of Laxman and Laxman's Account and Goods Repossessed Account in the books of the Vendor assuming that their books are closed on 30th June each year.

Answer:

In the Books of Laxman

Dr. Trucks Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.07.14	To Hire Vendor A/c (Cash price of 7 Trucks @ ₹50,000 each)	3,50,000	3.06.15	By Depreciation A/c [20% of 3,50,000]	70,000
				By Hire Vendor A/c (Adjustment for 3 Trucks at a agreed value)	40,500
				By Profit & Loss Account (Loss on Surrender)	79,500
				By Balance c/f [4/7 of (3,50,000-70,000]	1,60,000
		3,50,000			**3,50,000**

Dr. Hire Vendor Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.07.14	To Bank A/c [Down Payment @20% of 3,50,000]	70,000	1.07.14	By Trucks A/c	3,50,000
31.12.14	To Bank A/c [Working Note]	63,000	31.12.14	By Interest A/c [5%of (3,50,000 – 70,000) for ½ year]	7,000
30.06.15	To Trucks A/c (Adjustment for 3 Trucks at agreed value)	40,500	30.6.15	By Interest A/c [working Note]	5,600
	Balance c/f	1,89,100			
		3,62,600			**3,62,600**

In the Books of Hire Vendor

Dr. **Laxman Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.07.14	To Hire Purchase Sales A/c [Down Payment @ 20% of 3,50,000]	3,50,000	1.7.14	By Bank A/c [20% of ₹ 3,50,000]	70,000
			31.12.14	By Bank A/c	63,000
31.12.14	To Interest A/c	7,000	30.6.15	By Goods Repossessed A/c [Agreed value]	40,500
30.6.15	To Interest A/c [Working Note]	5,600		By Balance c/f	1,89,100
		3,62,600			**3,62,600**

Dr. **Goods Repossessed Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
30.06.15	To Laxman A/c	40,500	30.06.15	By Bank A/c (Sale Proceeds)	40,000
	To Bank A/c (cost of repairs)	1,000		By Profit & Loss A/c (Loss on Sale)	1,500
		41,500			41,500

Working Notes:

1. Value of each Bare Installment [i.e. exclusive of interest] = Amount ₹ Payable by Installments/ No. of Installments
   = 80% of 3,50,000/5
   = ₹ 56,000

2. **Calculation of Interest**

				Amount ₹
1.7.2014	Cash Price			3,50,000
	Less: Down Payment			70,000
				2,80,000
31.12.2014	Add: Interest @ 5% p.a.	[5/100 *2,80,000*6/12]		7,000
				2,87,000
	Less: Half Yearly Installment	[56,000+7,000]		63,000
				2,24,000
30.6.2015	Add: Interest	[2,24,000*5/100*6/12]		5,600
Loss on Surrender & value of Trucks Retained				
			Trucks Retained[4]	***Trucks Retained[3]***

Value on 1.7.14	4*50,000 = 2,00,000	3*50,000=1,50,000
Depreciation on 30.6.15 @ 20%	40,000	30,000
	---------	---------
W.D. Value on 30.6.15	1,60,000	1,20,000
Agreed Value		40,500

Loss on Surrender		79,500

Special Note: The question does not state that although Laxman retained 4 trucks, whether he paid the proportionate Amount ₹ of inst6alment on those 4 trucks on 30.6.15. It is assumed that he did not pay anything. So the entire balance is due from him.

12. Annu Transport Agency purchased 2 Motor Vans costing ₹ 80,000 each from Devi Auto Company on 1st January 2015 on the hire purchase system. The terms of payment were as follows: Payment of ₹ 20,000 each for Motor Van on delivery. Reminder in three equal instalments together with interest @ 10% p.a. to be paid at the end of each year. Annu Transport Agency writes off 20% depreciation each year on the diminishing balance method. Hire Purchase paid two instalments due on 31st December, 2015 and 2016 but could not pay the final installment. Devi Auto Company repossessed one Motor Van adjusting its value against the Amount ₹ due. The repossession was done on the basis of 25% depreciation on the Fixed Installment method.

Write up the Ledger accounts in the books of Annu Transport Agency.

Working Notes:

Particulars of Payments		
	For each van	***For 2 vans***
Cash Price	80,000	1,60,000
Down Payment	20,000	40,000
Instalments	3 instalments of ₹20,000 each together with interest	3 instalments of ₹40,000 each together with interest
Calculation of Interest and Depreciation : Shown within the Ledger Accounts		
Valuation of the repossessed Van [as independently made]		

		Amount ₹
	Cash price of one Van	80,000
Less:	Depreciation @25% of 80,000 for 2015, 2016 and 2017	60,000
		20,000
4.	***Value of Asset not take back as per books of the hire purchaser*** [See the Asset A/c] Depreciation value of 2 vans after depreciation on the date of repossession = (1,02,400-20,480) = 81,920 Value of the Van not repossessed =1/2 of 81,920 = 40,960	

Solution:

In the Books of Annu Transport Agency

Dr. ***Motor Van Account*** ***Cr.***

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.50	To Devi Auto Co. A/c	1,60,000	31.12.15	By Depreciation A/c [20% of 1,60,000	32,000
				By Balance c/d	1,28,000
		1,60,000			1,60,000
		1,28,000	31.12.16	By Depreciation A/c [20% of 1,28,000	25,600
1.1.16	To balance b/d			By Balance c/d	1,02,400
		1,28,000			1,28,000
		1,02,400	31.12.17	By Depreciation A/c [20% of 1,02,400]	20,480
1.1.17	To balance b/d			By Devi Auto Co. A/c (Adjustment for the repossessed van)	20,000
				By Profit & loss A/c [Loss on surrender= Bal. figure]	
				By Balance c/f [1/2 of (1,02,400- 20,480)	20,960
					40,960
		1,02,400			**1,02,400**

Dr. **Devi Auto Co. Account** ***Cr.***

Date	Particulars	Amount ₹	Date	Particular	Amount ₹
1.01.15	To Bank A/c	40,000	31.12.15	By Motor van A/c	1,60,000
31.12.15	To Bank A/c [40,000 + 12,000]	52,000		By Interest A/c [10% of (1,60,000-40,000)	12,000
	To Balance c/d	80,000			
		1,72,000			1,72,000
			1.1.16	By Balance b/d	80,000
31.12.16	To Bank a/c [40,000 + 8,000]	48,000	31.12.16	By Interest A/c [10% of 80,000]	8,000
	To Balance c/d	40,000			
		88,000			88,000
			1.1.17	By Balance b/d	40,000
31.12.17	To Motor Van A/c (Adjustment for the van surrendered)	20,000	31.12.17	By Interest A/c [10% of 40,000]	4,000
	To Balance c/f	24,000			
		44,000			**44,000**

Chapter – 10

BRANCH AND DEPARTMENTAL ACCOUNTS

Multiple Choice Questions

1. ***Choose the correct alternative***

1. **Adjustment for unrealized profit on stock arises when**
   (a) There is no inter-departmental transfer of goods.
   (b) Goods are transferred by the transferor department at cost.
   (c) Goods are transferred by the transferor department at cost plus profit.
   (d) None of the above.
2. **In Departmental Accounting, Lighting and Heating expenses are apportioned between departments in the ratio of**
   a) Sales
   b) Purchase
   c) No. of light points
   d) Production orders
3. **In which of the following methods of Branch accounting abnormal loss does not require any separate treatment?**
   (a) Debtors System
   (b) Stock and Debtors System
   (c) Branch Trading and Profit &Loss Account System
   (d) All of the above
4. **Which account is used for transactions concerned with head office supplying resources to the branch?**
   (a) Capital account
   (b) Current account
   (c) Branch account
   (d) Joint venture account
5. **Branches not keeping full system of accounting are called ——————**
   (a) Independent branches
   (b) Partial branches
   (c) Dependent branches
   (d) None of these

6. The head office prepares branch account to find out ———————— earned by branch
   (a) Dividend
   (b) Revenue
   (c) Capital
   (d) Profit
7. ———————— account is a practical means of controlling the stock at branch.
   (a) Bank Account
   (b) Branch account
   (c) Branch Stock Account
   (d) Branch Stock Adjustment Account

Answer:

1. (c)
2. (c)
3. (a)
4. (c)
5. (a)
6. (d)
7. (c)

2. Match the following:

	Expenses		Allocation Bases
1.	Discount Allowed	A	No. of employees
2.	Canteen expenses	B	Floor space
3.	Rent	C	Value of Machinery
4.	Insurance on Machinery	D	Sales

Answer:

1. D
2. A
3. B
4. C

3. State whether the following statements are true or false

1. Insurance on Stock should be apportioned based on Average Value of Stock ratio.

2. **In the final Balance Sheet closing stock of a department receiving goods from another department at cost plus 10% profit, should be shown at the cost to the receiving department.**
3. **For apparent profit or loss (i.e. difference between sales price and invoice price), journal entry is passed involving Branch Stock A/c and Branch Stock Adjustment A/c.**
4. **Under Stock Debtors System of Branch accounting Branch Stock A/C is maintained at cost price.**
5. **The objective of keeping Branch Stock A/c at invoice price under Stock Debtors System is to ensure control over stock.**
6. **Branch Stock Adjustment A/C is used to record the loading on stock and on goods sent and to record the apparent profit or loss.**

Answer:

1. True
2. False
3. True
4. False
5. True
6. True.

NUMERICAL EXAMPLES

4. **From the following details regarding the Kolkata Branch of X and Co., prepare a Branch Account in respect of the year 2017: (all figures in ₹)**

Stock on 1.1.2017	**24000**	**Returns to head office**	**9600**
Stock on 31.12.2017	**19200**	**Bad debts**	**1200**
Debtors on 1.1.2017	**20000**	**Discounts allowed**	**620**
Debtors on 31.12.2017	**23000**	**Returns to from customers**	**6000**
Goods sent to branch during 2017	**84000**	**Expenses paid by the head office:**	
Cash sales	**51600**	**Salaries and wages**	**16800**
Credit sales	**72000**	**Rent (from 1.1.2017 to 31.3.2018)**	**10500**
Normal loss	**4000**	**Sundry expenses**	**7200**

Solution:

In the books of X and Co.

Dr. **Kolkata Branch Account** ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
2017 Jan.1	To Balance b/d		2017 Dec. 31	By Goods Sent to Branch A/c (Returns)	9,600
	Sock	24,000		By Bank A/c:	
	Debtors	20,000		Cash sales	51600
Dec. 31	To Goods Sent to Branch A/c	84,000		Collection from debtors	61,180

				(Note 2)	
	To Bank A/C:			By Balance c/d:	
	Salaries & wages	16,800		Stock	19,200
	Rent	10,500		Debtors	23,000
	Sundry expenses	7,200		Prepaid Rent (Note 3)	2,100
	To General Profit &Loss A/c	4,180			
		166,680			**166,680**

Notes:

(1) Under this method, normal loss, credit sales, sales returns, bad debts, discount allowed to debtors, etc., are to be ignored.

(2) The amount of cash received from debtors is not given. It has been found out by preparing Memorandum Debtors Account as follows:

Dr. **Memorandum Branch Debtors Account** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	20,000	By Bad Debts	1,200
To Sales (credit)	72,000	By Discount allowed	620
		By Returns inward	6,000
		By Bank (Balancing figure)	61,180
		By Balance c/d	23,000
	92,000		**92,000**

(3) Pre-paid rent = 10500/15×3 = ₹ 2100

5. ABC Company is having its branch at Mumbai. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, prepare Branch Account in the books of Head Office.

Particulars	₹	Particulars	₹
Stock on 1st April, 2016 (Invoice Price)	**30,000**	**Discount Allowed to Debtors**	**160**
		Expenses Paid by Head Office:	
Sundry Debtors on 1st April, 2016	**18,000**	**Rent**	**1,800**
Cash in Hand as on 1st April, 2016	**800**	**Salary**	**3,200**
Office Furniture on 1st April, 2016	**3,000**	**Stationery and Printing**	**800**
Goods Invoiced from the Head Office (Invoice Price)	**1,60,000**	**Petty Expenses Paid by the Branch**	**600**
Goods Return to Head Office	**2,000**	**Depreciation to be Provided on Branch Furniture at 10% p.a.**	
Goods Return by Debtors	**960**	**Stock on 31st March, 2017 (at Invoice Price)**	**28,000**
Cash Received from Debtors	**60,000**		
Cash Sales	**1,00,000**		
Credit Sales	**60,000**		

Solution:

In the books of ABC Company

Dr. Mumbai Branch Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2016	To Balance b/d :		2017	By Stock Reserve A/c (Note 1)	6,000
April 1	Stock	30,000	March 31	By Bank A/c (Remittances)	1,60,000
	Sundry Debtors	18,000 800		By Goods Sent to Branch A/c	
	Cash in Hand	3,000		(Returned to H.O.)	2,000
	Office Furniture	1,60,000		By Goods Sent to Branch A/c	
2017	To Goods Sent to Branch A/c			(Note 2)	31,600
March 31				By Balance c/d :	
	ToBankA/c:	1,800 3,200		Stock	28,000
	Rent	800		Sundry Debtors (Note 4}	16,880
	Salary	5,600		Cash (Note 4) (800 -600)	200
	Stationery & Printing	24,180		Furniture (3,000 -300)	2,700
	To Stock Reserve A/c (Note 3)				
	To General Profit and Loss A/c	2,47,380			247380

Working Notes:

(1) Loading on opening stock = 20% of ₹ 30,000 = ₹ 6,000.

(2) Loading on goods sent = 20% (₹1,60.000-2,000) = ₹ 31,600.

(3) Loading on closing stock = 20% of ₹ 28,000 = ₹ 5,600.

Dr. (4) Memorandum Debtors Account Cr.

Date	Particulars	RS.	Date	Particulars	RS.
1.4.2010	To Balance b/d	18,000	31.3.201	By Discount Allowed A/c	160
31.3.2011	To Sates A/c	60,000	1	By Sales Return A/c	960
				By Bank A/c	60,000
				By Balance c/d (Balancing figure)	16,880
		78,000			78,000

6. **K Ltd. Of Kanpur has a branch at Kolkata. Goods sent to branch are invoiced at selling price i.e. cost plus 33%. From the following particulars, you are required to prepare Branch Stock Account and Branch Adjustment Account as they would appear in the head office books.**

Particulars	₹
Stock on 01.04.2016 at invoice price	**15000**
Stock on 01.04.2016 at invoice price	**12000**
Goods sent to Kolkata during the year at invoice price	**100000**
Sales at branch:	
On credit	**32000**

For cash	**75000**
Returns to head office at invoice price	**5000**
Invoice value of goods lost by fire not covered by insurance	**1000**

Solution:

In the books of K Ltd.

Dr. **Kolkata Branch Stock Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.04.16	To balance b/d	15000	31.03.17	By Goods Sent to Branch A/c (returns)	5000
31.03.17	To Goods Sent to Branch A/c	100000		By Cash A/c (Cash sales)	75000
	To Branch Adjustment A/c (Surplus)	10000		By Branch Debtors A/c (Credit Sales)	32000
				By Goods lost by Fire A/c(Note4)	1000
				By Balance c/d	12000
		125000			**125000**

Dr. **Kolkata Branch Adjustment Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.03.17	To Goods Sent to Branch A/c (Note 3)	1250	01.04.17	By Stock Reserve A/c (Note 1)	3750
	By Goods lost by Fire A/c(Note4)	250	31.03.17	By Goods Sent to Branch A/c (Note 2))	25000
	To Stock Reserve A/c (Loading on cl. stock)	3000		By Branch Stock A/c (Surplus)	10000
	To General P/L A/c (Note 5)	34250			
		38750			**38750**

Workings:

(1) Goods are sent at cost plus 33%. Therefore the loading is 25% of invoice price. Loading on opening stock = 25% of ₹15000 = ₹3750

(2) Loading on goods sent = 25% of ₹100000 = ₹25000

(3) Loading on goods returned = 25% of ₹5000 = ₹1250

(4) Loading on goods lost by fire = 25% of ₹1000 = ₹250

(5) Cost of goods lost by fire (₹1000 – 250) =₹750 should not be charged to Branch as it is an Abnormal Loss.

7. **From the following particulars relating to Kanpur Branch for the year ending 31.12.2012, prepare Branch Account in the books of head office.**

	₹		₹
Balances on 1.1.2012:		Cash paid by debtors direct to head office	22000
Stock	40000	Discount allowed	1100
Debtors	14000	Cash sent to branch for expenses:	
Petty cash	1500	Rent: ₹12,000; Salaries; ₹5,400; Petty cash: ₹4,000	
Furniture	12000	Insurance (from 1.4.2012 to 31.3.2013)	1600
Prepaid fire insurance	1150	Goods returned by the branch	4000
Outstanding salaries	2100	Goods returned by the debtors	7000
Goods sent to branch	280000	Stockon31.12.2012	38000
Cash sales	330000	Petty expenses paid by the branch	2850
Credit sales	183000	Provide depreciation on furniture @ 10% p.a.	
Cash received from debtors	135000	Loss of stock by fire	4800

Solution:

In the books of the Head Office

Dr. Kanpur Branch Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Jan.1	To Balance b/d:		2012 Jan. 1	By Balance b/d:	
	Stock	40,000		Outstanding salaries	2:100
	Debtors	14,000	Dec. 31	By Bank A/c:	
	Petty cash	1,500		Cash sales	3,30,000
	Furniture	12,000		Collection from Debtors	1,35,000
	Prepaid fire insurance	1,150		Direct payment to H.O.	22,000
Dec. 31	To Goods Sent to Branch A/c	2,80,000		By Goods sent to Branch (Returns)	4,000
	To Bank A/c:			By Loss of stock by fire (Note 5)	4,800
	Rent	12,000		By Balance c/d:	
	Salaries	5,400		Stock	38,000
	Petty Cash	4000		Debtors	31900
	Insurance	1600		Furniture	10800
	To General P/L A/c	210000		Petty Cash	2650
				Prepaid fire insurance	400
		581650			**581650**

Working Notes:

Dr. (1) Memorandum Branch Debtors A/C Cr.

Particulars	₹	Particulars	₹
To balance b/d	14000	By Bank (135000+22000)	157000
To Sales	183000	By Discount Allowed	1100
		By Returns	7000
		By Balance c/d	31900
	197000		**197000**

Dr. (2) Branch Petty Cash A/C Cr.

Particulars	₹	Particulars	₹
To balance b/d	1500	By Petty Exp.	2850
To Bank	4000	By Balance C/d	2650
	5500		5500

(3) Value of Furniture after depreciation = 12000-1200 = 10800

(4) Prepaid insurance = 1600*3/12 = 400

(5) Abnormal loss i.e. goods lost by fire will not appear in Branch Account.

8. Mr. X, a cloth trader of Kolkata opened a Branch at Kanpur on 1-4-2012. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 25% of the cost price of Head Office. The following are the particulars relating to the transactions of the Kanpur Branch:

Particulars	₹
Goods sent to Branch (at cost to H.O.)	**450000**
Sales — Cash	**210000**
— Credit	**320000**
Cash collected from Debtors	**285000**
Return from Debtors	**10000**
Discount Allowed	**8500**
Cash sent to Branch -	
for Freight	**30000**
for Salaries	**8000**
for other expenses	**12000**
Spoiled clothes written off at invoice price	**10000**
Normal loss estimated at	**15000**

Prepare Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the Branch.

Solution:

In the books of Mr. X

Dr. Branch Stock Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To, Goods Sent to Branch A/c (₹4,50,000+25% of ₹4,50,000)	5,62,500		By, Cash Sales A/c	2,10,000
	To, Branch Debtors A/c	10,000		By, Branch Debtors (Cr. Sales)	3,20,000
				By, Branch adjustment A/c (Normal Loss)	1 5,000
				By, Branch adjustment A/c (Spoiled)	2,000
				By, Profit & Loss A/c (Spoiled)	8,000
				By, Stock Shortage	17,500
		5,72,500			5,72,500

Dr. Branch Debtors Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To, Goods sent to Branch	3,20,000		By, Cash A/c	2,85,000
				By, Discount A/c	8,500
				By, Branch stock (return)	10,000
				By, Balance c/d	1 6,500
		3,20,000			3,20,000

Dr. Branch Adjustment Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To, Branch A/c (Spoilage)	2,000		By, Stock Reserve A/c	1,12,500
	To, Stock Shortage (of ₹17,500)	3,500			
	To Normal Loss	15000			
	To Gross Profit c/d	92000			
		112500			112500

Dr. **Branch Profit and Loss Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To, Freight	30,000		By, Gross Profit b/d	92,000
	To, Salaries	8,000			
	To, Other expenses	1 2,000			
	To, Spoilage	8,000			
	To, Stock shortage	14,000			
	To, Net Profit c/d	20,000			
		92,000			92,000

9. A Kolkata head office passes an entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in April, 2014, make the entry in the books of Kolkata head office:

(a) Delhi branch:

(i) Received goods from Nagpur branch ₹9,000 and Ahmedabad branch RS.6,000.

(ii) Sent goods to Ahmedabad branch ₹15,000 and Nagpur branch ₹12,000.

(ii) Received bills receivable from Ahmedabad branch ₹9,000.

(iv) Sent acceptances to Nagpur branch ₹6,000 and Ahmedabad branch ₹3,000.

(b) Kanpur branch [apart from (a) above:

(i) Received goods from Nagpur branch ₹15,000 and Delhi branch ₹6,000.

(ii) Cash sent to Nagpur branch ₹3,000 and Delhi branch ₹6,000.

(c) Nagpur branch [apart from (a) and (b) above]:

(i) Sent goods to Ahmedabad branch ₹9,000.

(ii) Received bills receivable from Ahmedabad branch ₹9,000.

(in) Received cash from Ahmedabad ₹5,000.

Solution:

Statement showing net effect of Inter-branch Transactions

	Delhi ₹	Kanpur ₹	Nagpur ₹	Ahmedabad ₹
(a) Delhi Branch:				
(i)	(-) 15,000		(+) 9,000	(+) 6,000
(ii)	(+) 27,000		(-) 12,000	(-) 15,000
(iii)	(-) 9,000			(+) 9,000
(iv)	(+) 9,000		(-) 6,000	(-) 3,000
(b) Kanpur Branch :				
(i)	(+) 6,000	(-) 21,000	(+) 15,000	

(ii)	(-) 6,000	(+) 9,000	(-) 3,000	
(c) Nagpur Branch :				
(i)			(+} 9,000	(-) 9,000
(ii)			(-) 9,000	(+) 9,000
(iii))			(-) 5,000	(+) 5,000
Net Adjustment	(+) 12,000	(-) 12,000	(-) 2,000	(+) 2,000

Note: Values received by a branch are to be debited to it and have been indicated by (-) sign. Similarly, values given by a branch are to be credited to it and have been, indicated by (+) sign.

In the books of Head Office

Journal

Date	Particulars		Dr. (₹)	Cr.(₹)
2014 Apr. 30	Kanpur Branch A/c . *Dr.*		12,000	
	Nagpur Branch A/c *Dr.*		2,000	
	To Delhi Branch A/c			12,000
	" Ahmedabad Branch A/c			2,000
	(Adjustment for inter-branch transactions during April, 2014)			

10. P.K. Co. Ltd. with their head office at Kolkata, invoiced goods to their Mumbai branch at invoice price. The invoice price is 20% *less* than list price, which is cost *plus* 100% with instruction that sales are made at list price.

From the following particulars ascertain the profit earned by the head office and branch:

	Kolkata H.O.(₹)	Mumbai Branch(₹)
Opening stock	**40,000**	**32,000**
Purchases	**2,00,000**	**---**
Goods sent to branch at cost price	**62,500**	**—**
Goods received from head office at invoice price	**—**	**96,000**
Sales	**1,70,000**	**80,000**
Trade expenses	**14,000**	**8,000**

Stock at head office is valued at cost price but those of branch are valued at invoice price.

Solution:

Dr. **Branch Trading and Profit and Loss Account** **Cr.**

For the year ended...........

	H.O.	Branch		H.O.	Branch
To Opening stock	40,000	32,000	By Sales	1,70,000	80,000
" Purchases	2,00,000	—	" Goods to branch	1,00,000	—
" Goods from head office	—	1,00,000	" Closing stock :		
" Gross profit c/d	1,22,500	16,000	in hand	92,500	64,000
			in transit	—	4,000
	3,62,500	1,48,000		3,62,500	1,48,000
To Trade expenses	14,000	8,000	By Gross profit b/d	1,22,500	16,000
" Provision for unrealised profit	13,500	—			
" Net profit	95,000	8,000			
	1,22,500	16,000		1,22,500	16,000

Working Note:

When cost price is ₹100, list price is 200 (cost price + 100%) and invoice price ₹ 160 (list price - 20%).

Closing stock of head office:

	₹	₹
Opening stock		40000
Purchases		200000
		2400000
Less : Cost of goods sold : 100/200 * ₹1,70,000	8500	
Less : Cost of goods transferred to branch	62500	
		147500
Closing stock		92500

Closing stock of branch:

	₹
Opening stock {at invoice price)	32000
Invoice price of goods sent by head office : 160/1oo *62500	100000
	132000
Less : Invoice price of goods sold : 160/2oo *80000	64000
Closing stock (at invoice price)	68000
Stock-in-transit: ₹(1,00,000 - 96,000)	4000
Stock at branch	64000
	68000

11. P& Co. with their head office at Kolkata, invoiced goods to their Bangalore branch at 20% *less* than list price, which is cost *plus* 100%, with instruction that cash sales are made at invoice price and credit sales at list price.

From the following particulars, prepare branch stock account, branch adjustment account, branch profit and loss account and branch debtors account for the year ended 31.12.14 :

	₹		₹
Stock on 1.1.14 *(at invoice price)*	**24000**	**Cash received from debtors**	**171268**
Debtors 1.1.14	**20000**	**Expenses at branch**	**34732**
Goods received from head office *(at invoice price)*	***264000***	**Remittance to head office**	**240000**
Goods returned to head office *(at invoice price)*	***2000***	**Debtors 31.12.14**	**48732**
Sales		**Stock on 31.12.14 *(at invoice price)***	**30800**
— cash	**92000**		
— credit	**200000**		

Solution:

In the books of P & Co,

Dr. Branch Stock Account Cr.

1.1.14	Rs.	31.12.14	Rs.
To Balance b/f	24,000	By Bank (cash sales)	92,000
31.12.14		" Branch debtors (credit sales)	2,00,000
To Goods Sent to Branch A/c	2,64,000	" Goods Sent to Branch A/c	2,000
" Branch Adjustment A/c	40,000	(returns from branch)	
(apparent gross profit)		" Stock Shortage A/c (see Note 2)	3,200
		" Balance c/f	30,800
	3,28,000		3,28,000

Dr. Branch Stock Adjustment Account Cr.

31.12.14	Rs.	1.1.14	Rs.
To Goods Sent to Branch A/c		By Balance b/f	
(load on returns from branch) :		(load on opening stock) :	
60/160 * Rs.2000	750	60/160 x Rs.24,000	9,000
" Stock Shortage A/c		31.12.14	
(load on stock shortage) :		By Goods Sent to Branch A/c	
60/160 * 3,200	1,200	(load on goods sent) :	
" Branch Profit and Loss A/c	1,34,500	60/160 * 2,64,000	99,000
(gross profit transferred)		" Branch Stock A/c	40,000
(balancing figure)		(apparent gross profit)	
" Balance c/f			
(load on closing stock) :			
60/160 *30800	11,550		
	1,48,000		1,48,000

Dr. **Branch Profit and Loss Account** Cr.

31.12.14	Rs.	31.12.14	Rs.
To Branch Expenses A/c	34,732	By Branch Stock Adjustment A/c	1,34,500
" Stock Shortage A/c : $^{100}/_{160}$ x 3,200	2,000	(gross profit)	
" General Profit and Loss A/c	97,768		
(branch net profit transferred)			
	1,34,500		1,34,500

Dr. **Branch Debtors Account** Cr.

1.1.14	Rs.	31.12.14	Rs.
To Balance b/f	20,000	By Bank	1,71,268
31.12.14		" Balance c/f	48,732
To Branch Stock A/c (credit sales)	2,00,000		
	2,20,000		2,20,000

Working Notes:

(1) When cost price is ₹ 100, list price is ₹ 200 (i.e., cost price *plus* 100%), and invoice price is ₹ 160 (i.e., list price *minus 20%).*

(2) Calculation of stock shortage:

	₹	₹
Stock on 1.1.14 at invoice price		24000
Goods from head office at invoice price		264000
		288000
Less : Returns to head office at invoice price		2000
		286000
Less : Cash sales	92000	
Invoice value of credit sales: $^{160}/_{200}$* 2,00,000	160000	
		252000
Stock that should have been on 31.12.14 at invoice price 34,000		34000
Less ; Actual stock on 31.12.14 at invoice price		30800
Stock shortage at invoice price		3200

12. From the following Trial Balance, prepare Departmental Trading and Profit and Loss Account for the year ended 31.12.2017 and a Balance Sheet as on that dale in the books of S & Co. (all figures in rupees):

Particulars		Dr.	Cr
Stock on 1.1. 2017	**Dept A**	**10800**	
	Dept B	**9800**	
Purchases	**Dept A**	**19600**	
	Dept B	**14700**	

Sales	Dept A		33800
	Dept B		27040
Wages	Dept A	2680	
	Dept B	480	
Rent		3740	
Salaries		2640	
Lighting and Healing		840	
Discount allowed		882	
Discount received			266
Advertising		1476	
Carriage inwards		938	
Furniture and fittings		1200	
Plant and Machinery		8400	
Sundry Debtors		3640	
Sundry Creditors			7474
Capital			19060
Drawings		1800	
Cash In hand		64	
Cash at bank		3960	
Total		87640	87640

The following information is also provided:

(a) Rent, lighting and heating, salaries and depreciation are to be apportioned to A and B Departments as 2 : 1.

(b) Other expenses and incomes are to be apportioned to A und B Departments on suitable basis.

(c) The following adjustments are to be made:

Rent pre-paid ₹740; Lighting and heating outstanding ₹360; and Depreciation on Furniture & Fittings and Plant & Machinery @ 10% p. a.

(d) The stock at 31.12.2017: Department A — ₹ 5496; Department B — ₹4802.

Solution:

In the books of S & Co.

Departmental Trading and Profit & Loss Account

Dr. For the year ended 31st December, 2017 Cr.

Particulars	Dept A	Dept B	Particulars	Dept A	Dept B
ToOpening Stock	10800	9800	By Sales	33800	270404802
To Purchases	19600	14700	By Closing Stock	5496	
To Carnage Inwards (Note 1)	536	402			
To Wages	2680	480			
To Gross Profit b/d	5680	6460			
	39296	31842		39296	31842

To Rent	2000	1000	By Gross Profit b/d	5680	6460
To Salaries	1760	880 400	By Discount received (Note 1)	152	114
To Lighting and healing	800490	196			
To Discount allowed	820	656	By Net Loss - transferred to Capital	678	-----
To Advertisement	640	320			
To Depreciation	------	2926			
To Net Profit - transferred to Capital					
	6510	6574		6510	6574

Balance Sheet of S& Co. as at 31st December, 2017

Liabilities	₹	₹	Assets	₹	₹
Capital (opening)	19060		Plant and Machinery Less:	8400 840	
Add Profit from Dept. B	2926		Depreciation		
	21986				7560
Less- Loss from Dept. A	678		Furniture and Fittings Less:	1200	
			Depreciation	120	
Less: Drawings	21308				1080
	1800	19508	Sundry Debtors		3640
Outstanding exp. for lighting		360	Stock in trade		10298
and heating Sundry Creditors			Cash at bank		3960
		7474	Cash in hand		64
			Prepaid rent		740
		27342			**27342**

Working Note: (1) Carriage inwardsand discount received are apportioned in the purchase ratio and discount allowed and advertisement in the sales ratio.

(2) Rent net of prepaid rent and Lighting including outstanding lighting expenses have been distributed in 2:1.

13. X Limited has three departments and submits the following information for the year ending on 31st March, 2017

Particulars	A	B	C	Total (₹)
Purchases (units)	**5,000**	**10,000**	**15,000**	**-----**
Purchases(Amount)	**------**	**-----**	**-----**	**8,40,000**
Sales (units)	**5,200**	**9,800**	**15,300**	**------**
Selling price (₹ per unit)	**40**	**45**	**50**	
Closing stock (units)	**400**	**600**	**700**	

You are required to prepare Departmental Trading Account of X Limited assuming that the rate of profit on sales uniform in each case.

Solution:

In the books of X Ltd.

Dr. Departmental Trading Account for the year ended 31.12.2017 Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Opening Stock	14400	10800	30000	By Sales (Note 6)	206000	441000	765000
(Note 4)	120000	270000	450000	By Closing Stock	9600	16200	21000
To Purchases	83200	176400	306000	(Note 5)			
(Note 2)							
To Gross Profit							
	217600	**457200**	**786000**		**217600**	**457200**	**786000**

Working Notes:

(1) Calculation of Profit Margin Rate

Particulars		₹
Department A (5,000 units @ ₹ 40)	2,00,000	
Department B (10,000 units @ ₹ 45)	4.50,000	
Department C (15.000 units @ ₹ 50)	7,50,000	
Total Sales Value		14,00,000
Less: Purchases (given)		8,40.000
Gross Profit		5,60,000

Gross Profit Rate = (560000/1400000) x 1OO = 40%x=

(2) Calculation of Purchase Price and Total Purchases etc.

Sr. No.	Particulars	A	B	C
1.	Closing Stock (units)	400	600	700
2.	Purchases (units)	5000	10000	15000
3.	Sales (units)	5200	9800	15300
4.	Opening Stock (units) = (1+3-2)	600	400	1000
5.	Selling price per unit (₹)	40	45	50
6.	G.P @ 40%	16	18	20
7.	Cost per unit (₹) = (5-6)	24	27	30
8.	Purchases (Rs) = (2*7)	120000	270000	450000
9.	Opening Stock (₹) = (4*7)	14400	10800	30000
10.	Closing Stock (₹)	9600	16200	21000
11.	Sales (₹) = (3*5)	208000	441000	765000

14. **Excel Manufacturers carried on business with two departments: Raw Materials and Manufacturing. The finished goods are produced by the Manufacturing Department with raw materials supplied from Raw Materials Department at selling price.**

Prepare Departmental Trading and Profit and Loss Account for the year ending on31st December, 2017 after allocation of expenses on reasonable basis between the two departments.

Necessary particulars are furnished below:

Particulars	Raw Materials Department(₹)	Manufacturing Department(₹)
Opening Stock	60000	10000
Purchases	400000	3000
Raw materials transferred to Manufacturing	60000	-----
Department	440000	90000
Sales	------	12000
Manufacturing Expenses	800	400
Selling Expenses	40000	12000
Closing Stock		

It is estimated that the cost of closing stock in the hands of Manufacturing Department consists of 80% forraw materials and 20% for manufacturing expenses. The rate of gross profit earned during the preceding year by the Raw Materials Department was 10%. Other administrative expenses are as follows:(i) Salaries ₹ 2,500; (ii) Insurance premium ₹ 800.

Solution:

In the books of Excel Manufacturers

Dr. Departmental Trading and Profit and Loss Account Cr.

For the year ended 31st December, 2017

Particulars	R.M. Dept (₹)	Mfg. Dept (₹)	Total (₹)	Particulars	R.M. Dept (₹)	Mfg. Dept (₹)	Total (₹)
To Opening Stock	60,000	10,000	70,000	By Sales	4,40,000	90,000	5,30,000
To Purchases	4,00,000	3,000	4,03,000	By Raw Materials	60,000	-----	----
To Manufacturing Expenses	----	12,000	12,000	transferred to			
To Raw Materials from Mfg.	-----	60,000	----	Manufacturing Dept.	40,000	12,000	52,000
Dept.				By Closing Stock			
To Gross Profit c/d	80,000	17,000	97,000				
	5.40.000	1,02.000	5,82,000		5,40,000	1,02,000	5,82,000
To Selling Expenses	800	400	1,200		80,000	17,000	97,000
To Salaries (Note 3)	2,119	381	2,500	By Gross Profit b/d			
To Insurance Premium	656	144	800				
(Note 4) To Net Profit c/d	76,425	16,075	92,500				
	80,000	17,000	97,000		80,000	17,000	97,000
To Provision to Unrealized			1,536	By Net Profit b/d			92,500
Profit on Closing Stock				By Provision for Unrealized			800
(Note 1)			91,764	Profit on Opening Stock			
To Capital A/c (Net Profit							
transferred)							
			93,300				**93,300**

Working Moles:

(1) Gross Profit Ratio of Raw Materials Department = ** ×100 = 16%.

(2) Provision for Unrealized Profit on Opening Stock = (10000 x 80%) x 10% = ₹800. Provision for Unrealized Profit on Closing Stock = (12000 x 80%) x 16% = ₹1,536.

(3) Salaries can be sharedbythe R.M. Dept. and Mfg. Dept. in the ratioofSalesofeach department. The ratio will be:(4,40,000 + 60,000) : 90,000or 5,00,000 :90,000or 50 :9.

(a) Raw materials department's share =2,500 /59x 50=₹2.119

(b) Manufacturing department's share = 2,500/59x 9 = ₹381.

(4) Insurance premium can be shared by R.M. Dept. and Mfg. Dept. in the ratio of average stock of each department. The ratio willbe: (60000+40000)/2 : (10000+12000)/2 i.e. 50:11.

(a) Raw materials department's share=800/6l x 50 = ₹656

(b) Mfg. department's share = 800/ 61 x 11 = ₹144.

15. Mr. Y is the proprietor of a retail business which has two main departments which sell respectively Computers and Printers. On 31.12.2017, the balances in the books of the business were as follows:

Particulars	Dr. (₹)	Cr.(₹)
Capital		71,000
Sales — Computers		59,000
Printers		29,500
Purchases — Computers	20,000	
Printers	10,000	
Stock on 1.1.2017 — Computers	2,320	
Printers	2,136	
Salaries — Computers	20.560	
Printers	15,440	
Advertising	615	
Discount allowed — Computers	400	
Printers	200	
Drawings	3,000	
Buildings (Cost)	43.000	
Equipment at W.D.V. — Computers	18,000	
Printers	7,000	
Debtors and Creditors	10,200	5,319
Bank	5,600	
Rent and Rates	1.580	
Canteen Charges	875	
Heating and Lighting	880	
Insurance of Stock	940	
General Administrative Expenses	2,073	
Total	1,64.819	1,64,819

Additional information —

(i) At 31.12.2017, the following amounts were outstanding:

Salaries— Computers ₹250; Printers ₹170; Heating and Lighting ₹20.

(ii) The general administrative expenses and the rent and rates included prepayments of ₹33 and ₹80 respectively.

(iii) Stocks at 31.12.2017 were: Computers₹2,800; Printers ₹2,450.

(iv) Depreciation is to be provided on equipment at 10% on W.D.V.

(v) The managers ofthe Computers and Printers departments are to be paid a commission of 5% of the net profit (priorto the commission payment) of the respective departments.

(vi) In apportioning the various expenses between the two departments due regard is to be given to the following information:

	Number of Workers	Average Stock Levels (₹)	Floor Area (sq.mt)
Hardware	**18**	**5,000**	**8,000**
Electrical	**12**	**4,400**	**4,000**

(vii) The general administrative expenses are primarily incurred in relation to the processing of purchases and sales invoices.

Prepare a Departmental Trading and Profit and Loss Account and the Balance Sheet.

Solution:

In the Books of Mr. Y

Dr. Departmental Trading and Profit and Loss Account Cr.

For the year ended 31st December, 2017

Particulars	Computers ₹	Printers ₹	Particulars	Computers ₹	Printers ₹
To Opening Stock	2,320	2,136	By Sales	59,000	29.500
To Purchases	20,000	10,000	By Closing Stock	2,800	2,450
To Gross Profit c/d	39,480	19,314			
	61,800	31,950		61,800	31,950
To Salaries (plus outstanding)	20,810	15,610	By Gross Profit b/d	39,480	19,814
To .Advertising (Note 1)	410	205			
To Discount .Allowed	400	200			
To Rent and Rates (Note 1)	1,000	500			
To Canteen Charges (Note 1)	525	350			
ToHealingand Lighting (Notel)	600	300			
To Insurance of Stock (Note 1)	500	440			
To General Administrative Exp. (Note 1)	1,360	680			
To Depreciation on Equipment	1,800	700			
To Managers' Commission	604	41			
To Net Profit (transferred to Capital)	11,471	788			
	39,480	**19,814**		**39,480**	**19,814**

Balance Sheet as on 31.12.2017

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital (Opening)	71,000		Building (Cost)		43,000
Add. Profit from Computer	11,471		Equipment at w.d.v (18000+7000)	25000	
Add. Profit from Printer	788		Less. Depreciation (1800+700)	2500	22,500
	83,259		Stock (2800+2450)		5,250
Less. Drawings	3,000	80,259	Debtors		10,200
Creditors		5,319	Bank		5,600
Outstanding salaries (250+170)		420	Prepaid Gen. Adm. Expenses		33
Outstanding Heating and lighting		20	Prepaid Rent and Rates		80
Outstanding Commission (604+41)		645			
		86,663			**86,663**

Note: (1) Rent and rates (1580 -80prepaid) = ₹1500 is apportioned in floor area ratio; Lighting and heating (880+20outstanding) = 900 is apportioned in floor area ratio; General administrative expenses (2073-33 prepaid) = ₹2040 is apportioned in the ratio of total of sales and purchases; Advertising is distributed in sales ratio and insurance is distributed in average stock level.

16. A Ltd. has two departments P and Q. Department P sells goods to department Q at normal selling price. From the following particulars prepare Departmental Trading and Profit and Loss Account for the year ended on 31.12.2017 and also ascertain the net profit to be included in the Balance Sheet.

Particulars	Dept. P (₹)	Dept. Q (₹)
Opening stock	**5,00,000**	**Nil**
Purchases	**28,00,000**	**3,00,000**
Goods from department P	**—**	**8,00,000**
Wages	**3,50,000**	**2,00,000**
Travelling expenses	**20,000**	**1,60,000**
Dosing stock at cost to the department	**8,00,000**	**2,09,000**
Sales	**30,00,000**	**20,00,000**
Printing and stationery	**30,000**	**25,000**

The following expenses incurred for both the departments were not apportioned between the departments:

(a) Salaries ₹3,30,000.

(b) Advertisement expenses ₹1,20,000.

(c) General expenses ₹5,00,000.

(d) Depreciation is to be charged @ 30% on the machinery value of ₹96,000.

The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and depreciation apportioned in the ratio of 2:1 and 1:3 respectively. General expenses are to be apportioned in the ratio of 3:1.

Solution:

In the books of A Ltd.
Departmental Trading and Profit and Loss Account
Dr. For the year ended 31.12.2017 Cr.

	Dept. P ₹	Dept. Q ₹		Dept. P ₹	Dept. Q ₹
To Opening stock	5,00,000	-------	By Sales	30,00,000	20,00,000
" Purchases	28,00,000	3,00,000	" Department Q (transfer of goods)	8,00,000	------
" Department P (transfer of goods)	------	8,00,000	" Closing stock	8,00,000	2,09,000
" Wages	3,50,000	2,00,000			
" Gross profit c/d	9,50,000	9,09,000			
	46,00,000	**22,09,000**		**46,00,000**	**22,09,000**
To Salaries (2:1)	2,20,000	1,10,000	By Gross profit b/d	9,50,000	9,09,000
" Travelling expenses	20,000	1,60,000			
" Printing and stationery	30,000	25,000			
" Advertisement expenses (3 : 2)	72,000	48,000			
" General expenses (3 : 1)	3,75,000	1,25,000			
" Depreciation on machinery (1:3)	7,200	21,600			
" Departmental profit	2,25,800	4,19,400			
	9,50,000	**9,09,000**		**9,50,000**	**9,09,000**

Dr. General Profit and Loss Account Cr.

For the Year ended 31.12.2017

Particulars	**₹**	**Particulars**	**₹**
To Provision for unrealised profit on stock	38,000	By Departmental profit:	
" Net profit	6,07,200	Department P	2,25,800
		Department Q	4,19,400
	6,45,200		**6,45,200**

Working Notes:

(1) Advertisement expenses have been apportioned in the ratio of sales to outsiders (i.e., 3: 2). No advertisement is needed for inter-departmental sales.

(2) Provision for unrealised profit on stock:

Rate of gross profit in department P: (950000/3800000)×100 = 25%

Proportion of goods from department P in the stock of department Q

₹ 8,00,000/ ₹(3,00,000 + 8,00,000) ×209000 = ₹1,52,000.

Unrealised profit = 25% of ₹1,52,000 = ₹38,000.

17. **X & Co. has three operating departments. The details of operations of each department during 2014 had been as follows:**

Particulars	Dept. I ₹	Dept. II ₹	Dept. III ₹
Sales to customers	4,00,000	6,00,000	8,00,000
Purchases from outsiders	3,00,000	4,00,000	5,00,000
Opening stock (out of local purchase)	80,000	1,00,000	1,20,000
Transfer to department *III*	1,35,000	----	-----
Closing stock	50,000	50,000	1,00,000
Common expenses:			
Selling commission		36,000	
Depreciation		45,000	
Administration expenses -		1,60,000	
Interest on capital		90,000	
Stock of department III includes 20% transfers from department I.			

Prepare departmental profit and loss account and ascertain the net profit of the company after considering the following details:

Particulars	Dept. I	Dept. II	Dept. III
Fixed assets installed (₹)	360000	200000	160000
Capital employed (₹)	200000	300000	300000
Administration expenses to be shared	4/10	3/10	3/10

Department I transfers supplies to department III at normal selling price *less* 10%.

Solution:

In the books of X & Co.

Dr. Departmental Profit and Loss Account Cr.

For the year ended 31st December, 2014

	Deptt. I	Deptt. 11	Deptt. III	Total		Deptt. I	Deptt. 11	Deptt. III	Total
To Opening stock	80,000	1,00,000	1,20,000	3,00,000	By Sales	4,00,000	6,00,000	8,00,000	18,00,000
" Purchases	3,00,000	4,00,000	5,00,000	12,00,000	" Department III (transfer of goods)	1,35,000	-	-	1,35,000
" Department I (transfer of goods)	-	-	1,35,000	1,35,000	" Closing stock	50,000	50,000	1,00,000	2,00,000
" Gross profit c/d	2,05,000	1,50,000	1,45,000	5,00,000					
	5,85,000	6,50,000	9,00,000	21,35,000		5,85,000	6,50,000	9,00,000	21,35,000
To Administration expenses (4:3:3)	64,000	48,000	48,000	1,60,000	By Gross profit b/d	2,05,000	1,50,000	1,45,000	5,00,000
" Depreciation									

(36 : 20 : 16)	22,500	12,500	10,000	45,000					
" Selling commission (4:6:8)	8,000	12,000	16,000	36,000					
" Interest on capital (2:3:3)	22,500	33,750	33,750	90,000					
" Departmental profit c/d	88,000	43,750	37,250	1,69,000					
	2,05,000	1,50,000	1,45,000	5,00,000		2,05,000	1,50,000	1,45,000	5,00,000
To Provision for unrealised profit on stock				6,667	By Departmental profit b/d				1,69,000
" Net profit				1,62,333					
				1,69,000					**1,69,000**

Working Note:

Provision for unrealised profit on stock :	
Sales to customers by department I	400000
Normal sales price of goods transferred to department III: ($^{100}/_{90}$ * ₹ 1,35,000)	150000
Total sales of department I (at normal selling price)	550000
Less: Cost of goods sold : ₹(80,000 + 3,00,000 - 50,000)	330000
Normal gross profit of department I.	220000

Rate of gross profit of department I: (220000/550000)*100 = 40%

When normal selling price is ₹100, transfer price to department III is ₹90 (i.e., ₹100 *less* 10%), cost price is ₹ 60 i.e., ₹ (100 - 40) and profit on transfer is ₹ 30 i.e., ₹ (90 - 60).

Goods from department I in the stock of department III = 20% of ₹ 1,00,000 = ₹ 20,000.

Unrealised profit = 30/90 * ₹ 20,000 = ₹6,667.

18. The firm AB & Co. has two departments — cloth and tailoring. Tailoring department gets all its requirements of cloth from the cloth department at the usual selling price. From the following particulars prepare departmental trading and profit and loss account for the year ended 31st March, 2017:

Particulars	Cloth Department (₹)	Tailoring Department (₹)
Opening Stock	**60000**	**8000**
Purchases	**340000**	**5000**
Raw materials transferred to Manufacturing Department	**50000**	**-----**
Sales	**400000**	**80000**
Manufacturing Expenses	**------**	**12000**
Selling Expenses	**5000**	**2000**
Closing Stock	**100000**	**15000**

The stock in tailoring department may be assumed to consist 80% cloth and 20% other expenses. General expenses of the business for the year came to ₹23,000. In 2016-17 the cloth department earned a gross profit of30% on sales.

Solution:

In the books of ………

Dr. Departmental Trading and Profit and Loss Account Cr.

For the year ended 31st March, 2015

	Cloth ₹	Tailoring ₹	Total ₹		Cloth ₹	Tailoring ₹	Total ₹
To Opening stock	60,000	8,000	68,000	By Sales A/c	4,00,000	80,000	4,80,000
" Purchases	3,40,000	5,000	3,45,000	" Tailoring department (transfer)	50,000	--	----
" Cloth department (transfer)	----	50,000	----	" Closing stock	1,00,000	15,000	1,15,000
" Manufacturing expenses	-----	12,000	12,000				
" Gross profit c/d	1,50,000	20,000	1,70,000				
	5,50,000	95,000	5,95,000		5,50,000	95,000	5,95,000
To Selling expenses	5,000	2,000	7,000	By Gross profit b/d	1,50,000	20,000	1,70,000
" Departmental profit c/d	1,45,000	18,000	1,63,000				
	1,50,000	20,000	1,70,000		1,50,000	20,000	1,70,000
To General expenses			23,000	By Departmental profit b/d			1,63,000
" Provision for unrealised profit on stock			2,080				
" Net profit			1,37,920				
			1,63,000				1,63,000

Working Notes:

(1) Calculation of provision for unrealised profit on stock:

Rate of gross profit in cloth department: 150000/450000 ×100 = 33**%

Element of cloth:

in opening stock of tailoring department: 80% of ₹8,000 = ₹6,400.

in closing stock of tailoring department: 80% of ₹ 15,000 = ₹ 12,000.

Provision required on closing stock : $33^1/3$% of ₹ 12,000 =	₹ 4000
Less : Provision already existing on opening stock : 30% of ₹6,400	1920
Additional provision to be made	2080

(2) Total opening and closing stocks could be shown at cost price and increase in provision for unrealised profit could be debited to transferor department's profit and loss account.

19. Department X sells goods to department Y at a profit of 25% on cost and to department Z at 10% profit on cost. Department Ysellsgoods to X and Z at a profit of 15% and 20% on sales, respectively. Department Z charges 20% and 25% profit on cost to department X and *Y* respectively.

Department managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging manager's commission, but before adjustment of unrealised profit are as under:

	₹
Department X	**36000**
Department Y	**27000**
Department Z	**18000**

Stock lying at different departments at the end of the year are as under:

	Dept. X	Dept. Y	Dept. Z
	₹	₹	₹
Transfer from Department X	—	15000	11000
Transfer from Department Y	14000	—	12000
Transfer from Department Z	6000	5000	—

Find out the correct departmental profit after charging manager's commission.

Solution:

Statement Showing Correct Departmental Profits

Particulars	Deptt. X.	Deptt. Y	Deptt. Z
	₹	₹	₹
Profits after charging managers' commission	36,000	27,000	18,000
(but before adjusting unrealised profits)			
Add back : Managers' commission (10/9o)	4,000	3,000	2,000
	40,000	30,00	20,000
Less : Unrealised profit on stock (see *Note)*	4,000	4,500	2,000
Profits before charging managers' commission	36,000	25,500	18,000
Less : Managers' commission @ 10%	3,600	2,550	1,800
Correct departmental profits	3X400	22,950	16,200

Working Note:

Unrealised profit on stock :	₹
Profit of department X :	
on stock held by department Y : $^{25}/_{125}$× ₹15,000	3000
on stock held by department Z : $^{10}/_{110}$×₹ 11,000	1000
	4000
Profit of department Y :	
on stock held by department X : *15/100*× 14,000	2100
on stock held by department Z : $^{20}/_{100}$×₹12,000	2400

	4500
Profit of department Z :	
on stock held by department X : $^{20}/_{120}$× Rs 6,000	1000
on stock held by department Y : $^{25}/_{125}$× ₹ 5,000	1000
	2000

20. S & Co. has two departments *A* and B. From the following particulars prepare departmental trading account and consolidated trading account for the year ending December 31, 2014:

	Dept A (₹)	Dept. B (₹)
Opening stock (at cost)	**20000**	**12000**
Purchases	**92000**	**68000**
Carriage	**2000**	**2000**
Wages	**12000**	**8000**
Sales	**140000**	**112000**
Purchased goods transferred		
by B to A	**10000**	
by A to B		**8000**
Finished goods transferred :		
by B to A	**35000**	
by A to B		**40000**
Return of finished goods :		
by B to A	**10000**	
by A to B		**7000**
Closing stock :		
***(i)* Purchased goods**	**4500**	**6000**
***(ii)* Finished goods**	**24000**	**14000**

You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

Solution:

In the books of S & Co.

Dr. Departmental Trading Account Cr.

For the year ended December 31, 2014

	A (₹)	B (₹)		A (₹)	B (₹)
To Opening stock	20,000	12,000	By Sales	1,40,000	1,12,000
" Purchases	92,000	68,000	" Transfer :		
" Transfer :			Purchased good	8,000	10,000
Purchased goods	10,000	8,000	Finished goods	40,000	35,000
Finished goods	35,000	40,000	" Returns :		
" Returns :			Finished goods	7,000	10,000
Finished goods	10,000	7,000	" Closing stock :		

“ Carriage	2,000	2,000	Purchased goods	4,500	6,000
“ Wages	12,000	8,000	Finished goods	24,000	14,000
“ Gross profit	42,500	42,000			
	2,23,500	**1,87,000**		**2,23,500**	**1,87,000**

Dr. **Consolidated Trading Account** **Cr.**

For the year ended December 31, 2014

	₹		₹
To Opening stock	32,000	By Sales	2,52,000
“ Purchases	1,60,000	“ Closing stock :	
“ Carriage	4,000	Purchased goods	10,500
“ Wages	20,000	Finished goods (see *Note)*	35,860
“ Gross profit	82,360		
	2,98,360		**2,98,360**

Working Note:

Calculation of closing stock of finished goods after eliminating unrealised profit :

	Deptt. A (₹)	**Deptt. B (₹)**
Sales	1,40,000	1,12,000
Add : Transfer of finished goods to other department	40,000	35,000
	1,80,000	1,47,000
Less : Return of finished goods from other department	10,000	7,000
Net sales	1,70,000	1,40,000
Gross profit	42,500	42,000
Rate of gross profit = (Gross Profit/Net Sales)*100	25%	30%
Finished goods from other department included in closing stock	(20% of 24,000)	(20% of 14,000)
	or ₹4,800	or ₹2,800
Unrealised profit included in closing stock	(30% on 4,800)	(25% on 2,800)
	or ₹1,440	Or ₹700
Closing stock of finished goods: ₹(24,000 + 14,000)		38,000
Less: Unrealised profit : ₹(1,440 + 700)		2,140
Adjusted closing stock of finished goods		35,860

Chapter – 11

COMPUTARISED ACCOUNTING SYSTEM

Computerized Accounting System

1. Multiple choice questions:

Choose the correct alternative

1. Which of the following is/are computerized accounting system?

(a) Processing of any information

(b) involving computer(s)

(c) operated by entity or third party

(d) All of these

2. Threat to Computerized accounting system are-

(a) Control

(b) Security

(c) Integrity

(d) All of these

3. Hacking into the computer server deals with-

(a) Unauthorized access to data

(b) Threat to computer usage

(c) Security

(d) All of these

4. Which of the following is code accounting software?

(a) More convenient

(b) Less complex

(c) Less risky

(d) None of these

5. Codification needs

(a) Complexity

(b) Spelling

(c) Systematic grouping

(d) None of these

Answer:

1. (d)
2. (d)
3. (d)
4. (a)
5. (c)

2. Fill in the blanks:

1. **Coding accounting system is more convenient as complexity is……**
2. **Computer data hacking concerns with ……… system of the software.**
3. **Computerized accounting system means …….. through computer.**
4. **Computer software includes ……….. that performs a desired function.**
5. **Computer software for accounting system may be acquired or ……………. specifically for the business.**

Answer:

1. high
2. security
3. data processing
4. programme
5. developed.

3. State whether the following statements are *true* or *false*:

1. **The acquired software may consist of a spread sheet package.**
2. **The data hacking is a question against security system.**
3. **Computerized accounting system delays the accounting function.**
4. **Data processing is done though software.**
5. **Non coded accounting system is more convenient system.**

Answer:

1. True
2. True
3. False
4. True
5. False.

4. Match the following:

	Column - A		Column - B
1.	Grouping of accounts	A	Specific requirement
2	Coded accounting system	B	Software
3	Customized accounting software	C	Assets, liabilities, receipt & expenditure
4	Software development	D	High complexity
5	Accounting programme	E	Need to conduct feasibility study

Answer:

1. C
2. D
3. A
4. E
5. B

QUESTIONS AND ANSWERS

5. What is Computerized Accounting System?

Answer:

Computerized Accounting System refers to the processing of information with the help of computers and accounting software. The computer receives the data as its inputs and processes it as per the accounting rules and generates various types of information as the organization need.

6. State the Features of Computerized Accounting System

Answer:

The features of Computerized Accounting System are as follows:

a. Computerized accounting system is designed to automate and integrate all the business operations like sales, purchase, and manufacturing. In computerized accounting, accurate, up-to-date business information is available at any time.

b. Computerized accounting has user friendly templates which provides fast, accurate data entry of the transactions; thereafter all documents and reports can be generated automatically, at the press of a button.

c. The system can cope easily with the increase in the volume of business. It requires only additional data operators for storing additional vouchers

d. It is capable of offering quick and quality reporting because of its speed and accuracy.

e. This system is highly secure and the information can be kept confidential in comparison to manual accounting system.

f. This system generates real-time, comprehensive MIS reports and ensures access to complete and critical information, immediately.

g. It makes sure that the critical financial information is accurate, controlled and safe from data corruption.

7. Discuss the significance of Computerized Accounting System

Answer:

Following are the significances of computerized accounting system.

a. The speed with which accounts can be maintained is several folds higher.

b. It helps in automatically correcting the balances of ledger accounts.

c. It helps in automatic tallied trial balances unless some mistake is made while recording the opening balance.

d. It automatically generates income statement.

e. It automatically generates balance sheet.

8. Discuss the Advantages of Computerized Accounting System

Answer:

Computerized accounting system has the following advantages

1. It can generate reports and information in desired format as and when need.
2. Any kind of alterations in transactions could be done are easily and gives changed outcome immediately.
3. It ensures effective control over the system.
4. It is economical in the accounting data processing.
5. It maintains data privacy.

9. Discuss the Disadvantages of Computerized Accounting System

Answer:

Computerized accounting system has the disadvantages

1. More investment is required in a shorter period of time due to quicker obsolescence of technology.
2. Power interruption may cause the data corruption or loss.
3. There is a possibility of data hacking.
4. Unspecific reports cannot be generated.

10. Write a note on Classification of Accounts.

Answer:

Classifications of accounts are the process of grouping of the ledger accounts and organize them under major heads of accounts. The group of account determines where to place a particular ledger account under trading account, Profit and Loss A/c or Balance sheet. It helps in presenting summarized reports and information.

Basically, there are four groups of accounts viz. Assets, Liabilities, Income and Expenditure.

Ledger Hierarchy

All accounting packages have pre-defined accounting groups. They are called reserved groups. Reserve groups can be studied under three heads.

1. Accounting Groups of Trading Account
2. Accounting Groups of Profit and Loss Account
3. Accounting Groups of Balance Sheet

Accounting Groups of Trading Account

Sales Account

Direct Income

Purchase Account

Direct Expenses

Accounting Groups of Profit and Loss Account

Indirect income

Indirect expenses

Accounting Groups of Balance Sheet

Liabilities Side

Capital Account

Reserves and Surplus

Loans (Liability)

Bank over draft Accounts

Secured Loans

Unsecured Loans

Current Liabilities

Sundry Creditors

Duties and Taxes

Provisions

Assets Side

Fixed Assets

Investment

Current Asset

Cash in Hand

Bank Account

Sundry Debtors

Stock in hand

Deposits

Loans and Advances (Asset)

Miscellaneous Expenses

Suspense Account

11. Write a note on Codification of Accounts

Answer:

Giving a numerical number or alphabet or both to a particular account for identification is known as Codification of Accounts. For example, of the primary code '1' can be given to Asset, '2' to Liabilities, '3' to Income and '4' to Expenditure. Again for fixed assets the code can be given as 1.1 and the current assets can be coded as 1.2. Thus Building under Fixed Assets can be coded as 1.1.1 and Furniture can be coded as 1.1.2, Cash Account can be coded as 1.2.1 and so on.

12. What is Pre-Packaged Accounting Software:

Answer:

There are several user friendly, inexpensive and reliable prepackage accounting software are available in the market for the extensive use in small and medium organizations. The installations of this software are very simple through an installation diskette or CD which is provided with the software. A network version of the software is also generally available which needs to be installed on the server and work can be performed from the various workstations or nodes connected to the server. Along with the software a user's manual is provided which guides the user on how to use the software. The version of the software should be latest. It should take regular updates to take care of the changes of law as well as add features to the existing software. This software normally has a section which provides for the creation of a company. The name, address, phone numbers and other details of the company like VAT registration number, PAN and TAN numbers are fed into the system. The accounting period has to be set by inserting the first and the last day of the financial year.

13. Mention the Advantages of Pre-Packaged Accounting Software

Answer:

Pre-package accounting software has the following advantages

a. Pre-package accounting software is very easy to install through CD drive.

b. These packages are relatively less expensive
c. These software are very easy to use
d. Back up procedure is very simple in hard disk
e. Some software provides a certain flexibility in report formats
f. These packages are very effective for small and medium size organization.

14. State the Disadvantages of Pre-Packaged Accounting Software

Answer:

Pre-package accounting software has the following disadvantages

a. A standard package may not be able to take care of all the complexities of a business.
b. These packages may not cover all the functional areas of the business operations. Customization of the accounting package is not always possible as per the requirement of the customer.
c. All kinds of reports requirements of management may not be available in a standard package.
d. Security is generally missing in a pre-packaged accounting package.
e. Certain bug may remain in the software that takes long time to rectify by the vendor which is very common in the initial years of the software.

15. State the Factors of Consideration for Selection of Pre-Packaged Accounting Software

Answer:

For the selection of a pre-package accounting software, the following factors to be considered

a. The buyer of the software should be ensured that the package is fulfilling the business requirements
b. The buyer should be ensured that the package can produce all reports completely.
c. The software should be user friendly or easy to use
d. The installation and running cost of the software should be low
e. It should be ensured that the vendor has a good reputation
f. It should be ensured whether the vendor is prepared to give updates regularly

16. What is Customized Accounting Software?

Answer:

Customized accounting software is one which is developed on the basis of specific requirements of the organization. A feasibility study is first made before the decision to develop software is made. The life cycle of a customized accounting software begins with the organization providing the user requirements. Based on these user requirements the system analyst prepares a requirement specification which is given for approval by the user management. Once the requirement specification is approved, the designing process begins. Development, testing and implementation are the other components of the system development life cycle.

17. Mention the Advantages of Customized Accounting Software

Answer:

The customized accounting software has the following advantages

a. The functional areas which are not covered in pre-packaged software gets computerized.

b. The input screens can be tailor made to match the input documents for ease of data entry.

c. It provides many MIS reports as per the specification of the organization.

d. It facilitates the use of Bar-code scanners as input devices suitable for the specific needs of an individual organization.

e. It can suitably match with the organizational structure of the company.

18. Mention the Disadvantages of Customized Accounting Software

Answer:

The customized accounting software has the following disadvantages

a. Partial or unclear prerequisite provisions may results in a defective or incomplete system.

b. Bugs may remain in the software because of poor testing.

c. Certification may not complete.

d. Regular change made to the system with scarce change management practice may result in system negotiation.

e. The vendor may not be reluctant to give the support of the software due to other commitments.

f. Its control measures may be insufficient.

g. There may be hindrance in completion of the software due to problems with the vendor or inadequate project management.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

Website: www.icmai.in
E-mail: studies@icmai.in
Toll Free:1800 345 0092 / 1800 110 910

Follow us on

HEADQUARTERS
CMA Bhawan
12 Sudder Street, Kolkata-700 016, India
Tel:+91-33-2252 1031/1034/1035/1492/1602/1619/7373/7143
Fax: +91-33-2252 7993/1026/1723

DELHI OFFICE
CMA Bhawan
3, Institutional Area, Lodhi Road, New Delhi - 110 003
Tel: +91-11-24622156/57/58, 24618645
Fax: +91-11-43583642