INDEX – CMA INTER GROUP 1

NOTE: FOLLOW THE SEQUENCE GIVEN BELOW WHILE STUDYING

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CHAPTER 1. JOINT VENTURE ACCOUNT

Meaning: When two or more persons join together for a specific business, it is called Joint Venture. It is a case of a partnership (without firm name) coming into existence for limited purpose. It is temporary and no liability attached to any party after the transaction or the particular series of transaction is complete. **The partners in this case are called "Co-venturers'.**

Main features of a Joint Venture:

1. Two or more persons join together for a single venture.
2. There association or partnership terminates on completion of venture.
3. They share profit and losses in the agreed proportion in the absence of agreement they share profit or loss equally.
4. Interest on capital, salary to co-ventures may be paid as per agreement. In the absence of agreement, no interest or salary is payable.
5. Since joint venture is for a single venture, generally no firm name is used.

Maintenance of Accounts : There are two methods of maintaining account with respect to joint Venture Transactions:

1) **Separate Set of Books**

Main accounts prepared under the method are:

a) **Joint Bank account (showing receipt and payment of cash):** The parties first pay their contribution to joint funds into the joint bank account and then payments on joint account are made out of the joint bank account.
b) Joint Venture Account (showing purchase of goods, expenses, sale of goods etc.)
c) Personal Account of co-venturers (showing investment, entitlements, receipts drawing by co-ventures)

Balance of Joint Venture account will show profit or loss on joint venture and is transferred in due proportions to the accounts of the parties who, at the close of the venture, receive the amounts due to them form the joint bank account.

(2) Accounts in the Books of each Co-venture:

First Approach:

- Under this approach each Co-venture maintains joint venture A/c and Personal A/c of the other co-venturer.
- Joint venture account contains all expenses, cost of goods, sales etc.
- Balance of Joint venture account shows profit or loss.
- Personal account of the other co-venturer contains his investments for Joint venture, his receipts and sales affected by him. In addition, any direct or indirect personal transaction is also shown in the co-venture's persona account.

Second Approach:

Memorandum joint venture Method:

Under this method joint ventures accounts are prepared on memorandum basis in the books of each co-venturers just to find out the profit or loss but not as part of ledger. Each co-venturer prepares following accounts.

1. Memorandum Joint Venture Account
2. Joint Venture with other Co-venturer A/c (i.e. Personal Account of other co-venturer)

- Memorandum Joint Venture Account contains cost of goods, expenses etc. in the debit side and sales andclosing stock in the credit side. Balance of Memorandum Joint Venture Account Shows profit or loss onJoint Venture.
- Entries in Memorandum Joint Venture Account are not made through journal entries.

Joint Venture with other Coventurer Account is the personal account of the other party. But it contains the transactions of the co-venturer in whose books this account is maintained.

- For example, in the books of Amit "Joint Venture with Sumit A/c" will contain the transaction of Amit(goods purchased, expenses incurred, sales affected).
- Further any personal transaction in the nature of cash paid or received or bill of exchange accepted or drawn will also entered in this account.
- Balance of this account will show the amount due from or due to other co-venturer.

This account is prepared in the following manner: --

- Goods sent or cash spent on Joint-Venture is debited to this account.
- No account is taken of goods used or cash spent on Joint venture by the other party.
- If any cash or acceptance is received on account of joint Venture, or from the other party, this account is credited.
- This account is then debited with own share of profit, the credit being given to profit and loss account.
- If the memorandum Joint Venture Account shows a loss, the profit and Loss Account is debited and this account will be credited with own share of loss.
- The balance in this account will now show the amount owing to other party, i.e. if the credit side is bigger or amount owed by the other party, i.e. if the debit side is bigger.

Question:1 (Separate set of books are maintained)

IOCM and DLF entered into a Joint Venture to construct a building for the contract price of Rs. 10,00,000.
They deposited Rs. 3,00,000 and Rs. 2,00,000 in a Joint Bank.
Following payments were made on account of Joint Venture:-

Raw materials	=	Rs. 1,40,000
Wages	=	Rs. 60,000
Administration Exp.	=	Rs. 20,000

Joint venture was completed and contract price was received. Profit sharing ratio was 3:2.
Prepare necessary accounts.

Question:2 IOCM and TATA entered into a Joint venture to buy and sell commodity 'X' into the market. They opened a Joint Bank and deposited Rs. 8,00,000 in their profit sharing ratio, which was equal. They purchased goods worth Rs. 5,00,000 and paid Rs. 60,000 as salary to staffs and Rs. 40,000 as advertisement expense. They also purchased machine for Rs 1,00,000. IOCM also supplied materials worth Rs. 20,000. TATA paid Rs. 30,000 as rent from his personal account.

Sales were made for Rs. 10,00,000 and unused goods worth Rs. 40,000 was taken over for Rs. 12,000 by TATA. At the end of Joint Venture machine was sold for Rs. 60,000. Prepare necessary accounts.

Question:3 A and B entered into Joint venture and deposited Rs. 3,00,000 in a Joint Bank in the ratio of 2:1. They purchased goods worth Rs. 1,60,000 and paid advertisement expense Rs. 20,000. They sold 70% of the goods at a profit of 50%. 20% goods were used by B for his personal purpose at an agreed value of Rs. 35,000. Remaining goods were lost due to fire and nothing could be recovered. Prepare necessary accounts.

Question:4 M and S decided to undertake joint venture and share profit and losses in the ratio of 3:2. M and S deposited Rs 3,000 and Rs 5,000 respectively in the Bank Account. It was mutually agreed that amount deposited in joint bank account will be utilized only for purchase of goods. Expenses will be paid by partners personally. M purchased 80 quintals of wheat @ Rs 90 per quintal and spent Rs. 300 as expenses. S sold 60 Qtl wheat @ Rs 105 per Qtl and paid Rs 150 as sales expenses. S purchased 10 Qtls sugar for Rs 2,100 and spent Rs 100 for bringing it to godown. M sold 8 Qtls sugar for Rs 1,900 and spent Rs 200 as expenses.

With the help of above, prepare Joint Venture Account, Joint Bank A/c and Personal accounts and also prepare Balance Sheet as on that date.

Question:5 Surya, Prakash and Aakash Jointly undertake to erect a theatre building for D Ltd. at a price of Rs. 5,00,000 to be paid as to Rs. 4,00,000 in cash by instalments and Rs. 1,00,000 in Debentures of the Company. They contribute: Surya Rs 60,000, Prakash Rs 75,000 and Aakash Rs. 40,000. These amounts are deposited in a Joint Bank Account

Surya gets the plans prepared and pays Rs 7,000 architects' fees. Prakash brings into the venture a concrete mixer of the value of Rs 25,000 and Aakash brings into the venture a motor truck of the book value of Rs 20,000 They buy a plant for Rs 24,000. Materials worth Rs 2,40,000 are purchased for cash and a sum of Rs 1,95,000 is paid for wages.

On completion of the venture, Surya takes over unused materials to the value of Rs 14,000. Prakash takes back the concrete mixer at a valuation of Rs 12,000, and Aakash takes the motor truck at Rs 8,000. The plant is sold as scrap for Rs 6,000. When the contract price was fully received, Surya took over the Debentures at a valuation of Rs 80,000.

Show the Joint Venture Account, the Joint Bank Account and the account of the ventures, after the final distribution and the settlement of accounts.

When transactions are recorded in the book of either party

Question:6 Ram and Mohan entered into joint venture to buy and sell new year gifts. Ram purchased goods costing Rs 4,00,000 and paid freight of Rs 24,000. He sent 70% of the goods to Mohan to be sold for mutual benefit. Mohan received the goods and incurred Rs 20,000 on rent, Rs 14,000 on advertisement. Ram and Mohan made sales of Rs 3,00,000 and Rs 4,80,000 respectively. Unused goods costing Rs 16,000 were withdrawn by Mohan at an agreed value of Rs 19,000. Prepare necessary accounts in the book of Ram.

Question:7 Ankit of delhi purchased 9000meters of cloths at Rs 80 per meter and paid Rs 24,000 as freight. He had also supplied material worth Rs 80,000. He sent 65% of the goods to Navendu of patna to be sold for their mutual benefit. Navendu received the consignment and paid Rs 65,000 as rent, Rs 28,000 on advertisement and Rs 26,000 as salary. Navendu had also supplied material costing Rs 20,000. Earlier Ankit had received an advance of Rs Rs 2,00,000 from Navendu. They made sales of Rs 9,00,000 and Rs 10,00,000 respectively. Unsold goods costing Rs 40,000 were withdrawn by Ankit at cost less 20%. Both of them were entitled for commission @ 5% on their respective sales. Prepare necessary accounts in the book of Ankit.

Question:8 Avinash and Srikant entered into joint venture to construct a building for IOCM Pvt ltd for the contract price of Rs 12,00,000 payable in cash. Avinash purchased material costing Rs 6,00,000 and paid freight of Rs 20,000. He had also supplied machine worth Rs 2,00,000 to the joint venture. Srikant also paid Rs 60,000 as rent and Rs 20,000 as advertisement. Avinash drew upon Srikant a bill for Rs 2,50,000 which was duly accepted by Srikant. The bill was discounted with bank for Rs 2,42,000. Goods costing Rs 15,000 lost in transit against which insurance company paid Rs 8,000 to Avinash in full settlement. Some of goods were lost due to Avinash negligence for which he agreed to compensate joint venture a sum of 28,000. At the end of joint venture machine was taken by Avinash at an agreed value of Rs 1,30,000. Prepare necessary accounts in the book of both the parties assuming that profit sharing ratio was 3:2 and contract price was received by Avinash..

Question:9 Sujata of Srinagar purchased 1,000 meters of Kashmiri silk at Rs 60 per meter and sent it to Desai of Mumbai to be sold for mutual benefit. Sujata spent Rs 3,000 on packing, insurance etc. Desai received the consignment and paid Rs 3,700 as freight and Rs 300 as cartage to his shop. Sujata drew upon Desai for Rs 50,000. The draft was accepted and Sujata got it discounted for Rs 47,750. Desai sold 900 meters at Rs 90 per meter and had to pay Rs 1,770 as expenses. Sujata took over the remaining quantity at cost plus 10%. Sujata is to be allowed a commission on sales at 5% and Profits are to be shared in the ratio of Sujata 3/5 and Desai 2/5. Prepare ledger accounts in the books of both the parties.

Question:10 A and B entered into a joint venture as dealers in land with effect from 1st July, 2016. On the same day, A advanced Rs 9,00,000 and a plot of land measuring 9,000 sq. meters was purchased. It was decided to sell the land in smaller plots and B got a plan prepared at the cost of Rs. 10,000. In the said plant 1/3rd of the total area of the land was left for public roads and the remaining land was divided into 6 plots of equal size. On the 1st October, 2016, two of the plots were sold at Rs. 300 per sq. meter, the buyer deducting Rs. 10,000 per plot for stamp duty and registration expenses agreed to be borne by the sellers. The remaining plots were sold at net price of Rs. 250 per sq. meter on 1st December, 2016. The sale proceeds of all the plots were received by A. After charging interest at 18% per annum on the investment of A (allowing for money received by him) and allowing 1% on the sale proceeds of the plots as commission to B, the net profit of the Joint Venture is to be shared in proportion of ¾ to A and 1/4 to B. draw up the joint venture account and personal accounts of A and B showing the Balance payable by one to the other. Accounts were settled on 31st December, 2016.

Question:11 Manjit and Ranjit entered into Joint Venture agreement to share the profits and Losses in the ratio of 2: 1. Manjit supplied goods worth Rs.60,000 to Ranjit incurring expenses amounting to Rs.2,000 for freight and insurance. During transit Goods costing 5,000 became damaged and a sum of Rs.3,000 was recovered from the Insurance Company. Ranjit reported that 90 % of the remaining goods were sold at a profit of 30 % on their original cost. Towards the end of the venture, a fire occurred and as a result the balance stock lying unsold with Ranjit was damaged. The goods were not insured and Ranjit agreed to compensate 80% of the aggregate of the original cost of such goods and proportionate expenses incurred. A part from joint venture share of profits, Ranjit was also entitled under the agreement to a commission of 5% of net profits of joint venture after

charging such commission. Selling expenses incurred by Ranjit totaled Rs. 1,000. Ranjit had earlier remitted to an advance of Rs 10,000, Ranjit duly paid the balance due to Manjit by draft. **PREPARE in Manjit's books**, (i) Joint Venture A/c (i) Ranjit's A/c.

Question:12 IOCM and HDFC Bank entered into a Joint venture to underwrite 5,00,000 equity shares of Rs. 10 each of a new issue of Alaska Ltd. Alaska Ltd. agrees to allot them as fully paid 4000 shares in the company in connection with the venture.

The following expenses are incurred:

IOCM -	Printing and stationary	Rs. 5,000
	Postage	Rs. 1,000
	Advertisement	Rs. 3,000
HDFC Bank -	Postage	Rs. 750
	Solicitors fees	Rs. 3,500

The public subscription was for 4,80,000 shares only and the short subscription was financed by Co- Venturers in the ratio of 3:1. Alaska Ltd paid the consideration to Co-Venturers.

IOCM sold 60% of their total holding @ Rs. 12 per share and HDFC Bank sold 30% of their holding @ Rs. 15 per share. Remaining shares were taken over by HDFC bank at Rs. 14 per share. At the end of joint venture, they settled their account among themselves. Prepare necessary accounts in the books of IOCM

Question:13 A and B were partners in a joint venture sharing profit and losses in the proportion of four-fifths and one-fifth respectively. A supplied goods to the value of Rs 50,000 and incurs expenses amounting to Rs 5,400. B supplies goods to the value of Rs 14,000 and his expenses amount to Rs 800. B sells goods on behalf of the joint venture and realizes Rs. 92,200. B is entitled to a commission of 5% on sales. B settled his account by Bank draft. Give journal entries and necessary account in the books of A.

MEMORANDUM JOINT VENTURE METHOD

Question:14 Solve question no 6 by memorandum joint venture method.

Question:15. Solve question no 7 by memorandum joint venture method.

Question:16. Solve question no 8 by memorandum joint venture method.

Question:.17 Ram and Mohan entered into a Joint Venture to purchase and sell new year gifts. They agreed to share the profits and losses equally. On 4 November, 2003 Ram purchased goods worth Rs. 1,00,000 and spent Rs. 6,000 in sending the goods to Mohan. He also paid Rs. 2,000 for insurance. On the same date, Ram drew a bill of exchange upon Mohan for Rs. 1,00,000 at two months. He got the bill discounted @ 18% per annum.

Mohan spent Rs. 3,000 on cartage, Rs 5,000 as rent and Rs 5,000 on advertisement. He sold all the gifts for Rs 2,00,000 after retaining gift worth Rs 2,000 for his personal use. He sent a cheque to Ram for the amount due on 8th January, 2004. You are required to prepare:

1. Memorandum joint venture account, and
2. Joint venture with Mohan Account in the books of Ram.

Question:18 A and B enter into a joint venture and agreed to share profits and losses equally. It is also agreed between them that A should make purchases for the joint venture at Ahmedabad, where he resides and consign the same to B at Mumbai. Accordingly, A purchased goods worth Rs 62,000 and sent them to Mumbai and in so doing he had to pay Rs 1,300 for insurance and Rs 3,700 for carriage, freight and other expenses.

B reported after some time that he had sold some goods for Rs 60,000 and the remaining goods could not be sold on account of bad market conditions. A and B then handed over the unsold goods to local merchant, C, at Mumbai, who agreed to sale the goods on their behalf. C was to be paid all the expenses in that connection and was to be allowed a commission at the rate of 2 1/2% on the sale price of the goods sold.

C, after some time, sent to B a cheque for Rs 4,500 after deducting expenses Rs. 375 and commission. The sale price of goods sold by C was Rs 5,000. C returned the unsold goods to B. A and B then decided to close the joint venture, B taking up the balance of the goods unsold which had cost Rs 25,000 at a discount of 8%. B sent a statement of account to A showing the following payments made by him: Carriage. Rs 1,600; Office expenses Rs 2,800; Insurance Rs 2,500, Office and Godown rent Rs 1,500; Brokerage, Rs 3,600. He also sent a cheque for Rs 70,000 to A.

You are required to prepare the necessary accounts in A's ledger showing his share of profit or loss on the joint venture and the amount due to or by B.

Question:19 (Underwriting of Shares)

B and P entered into a joint venture to guarantee the subscription at par of 17,000 shares of Rs. 10 each in a company sharing profits and losses in the ratio of 5 : 4. They agreed to pay all expenses upto allotment in consideration of the company issuing to them 2,300 other shares of Rs. 10 each, fully paid. B provided cash for the following expenses : Registration and filing fees Rs. 1,200. Advertisement Rs. 2,000 and printing and stationery Rs. 600. P supplied cash for the following other expenses : Rent for office Rs. 900, salaries to staff Rs. 500, postage Rs. 100, petty expenses Rs. 62 and solicitor's fee Rs. 400. Applications fell short of the 17,000 shares by 700 shares and by arrangement P found cash in full to purchase these on Joint Account. The company handed B and P 2,300 shares. The total holding of B and P was sold at Rs. 9 per share. B received the proceeds of 2,000 shares and P of the remainder. Prepare Joint Venture Account and separate accounts of B and P.

Question:20. (Memorandum Joint Venture Account)

A and B decided to enter into joint venture for the sale of electric motors. On 21 May, 2003, A purchased 200 electric motors at Rs. 1,750 each and despatched 150 motors to B incurring Rs. 10,000 as freight and insurance charges. Ten electric motors were damaged in transit. On 1 February, 2004, Rs. 5,000 was received by A from the insurers in full settlement of his claim. On 15 March, 2004, A sold 50 electric motors at Rs. 2,250 each. He received Rs. 1,50,000 from B on 1 April, 2004.

On 25 May, 2004 B took delivery of electric motors and incurred the following expenses :

Clearing charges Rs, 1,700; Repairs for motors damaged in transit Rs, 3,000; Godown rent Rs, 6,000.

He sold the electric motors as below :

01.02.2004 10 damaged motors @ Rs. 1,700 each

01.02.2004 40 motors @ Rs. 2,000 each

15.03.2004 20 motors @ Rs. 3,150 each

01.04.2004 80 motors @ Rs. 2,500 each

It is agreed that they are entitled to commission at 10% on the respective sales affected by them and that the profits and losses shall be shared by A and B in the ratio of 2 : 1.

B remits to A the balance of money due on 5 April, 2004.

Prepare : (i) Joint Venture Account in the books of A and (ii) Memorandum Joint Venture Account.

[CA-NOV 97]

CHAPTER 2. BILLS OF EXCHANGE

Introduction

Generally when goods are sold on credit, seller would like that purchaser should give promise in writing to pay amount of goods on creation date. Now it become an commercial practice that creditor gives written promises to debtor in proper form and which is properly stamped for paying at certain specified date. These written promises are often accepted by banks and they advance money against these. The written promises may be in form as Bill as exchange and promissory note.

Bill of exchange (Definition)--According to section 5 of Negotiable instrument Act 1881, A bill of exchange is an instrument in writing containing an unconditional order sighed by the maker directing a certain person to pay a certain some of money only to, or to the order of certain person to the bearer of instruments.

In other words, a bill of exchange is an unconditional order in writing given by the creditor to debtors in writing which is payable on demand at a fixed future time, a certain sum of money.

Essential features of Bill of Exchange are as follows:-

(1) It must be in writing and unconditional order.
(2) It must be dated.
(3) It must contain promise to pay certain sum of money.
(4) Money will be payable to certain person or payable to bearer of Bill at exchange.
(5) Amount payable accepted by creditor in writing on its face.

Specimen of Bill of Exchange

Rs.20,000/- Delhi
Oct 10,2018

Stamp
Three months after date pay to M/s Tata Sons or order the sum of Rs.20,000/- for value received

To
Concept online classes

A-1161, MAYUR VIHAR , Delhi –96

Stamp

- **A foreign bill of exchange is generally drawn-up in triplicate.**
- **Section 12 of negotiable instruments Act 1881 says that all instruments which are not inland instruments are foreign.**

Following are examples of foreign Bill of exchange and Promissory Note

1. A bill drawn in India on a person resident outside India and made payable outside India.
2. A bill drawn outside India and made payable outside India.
3. A bill drawn outside India on a person resident outside India
4. A bill drawn outside India and made payable in India.

Promissory Notes

According to section 4 of Negotiable instrument Act 1881, A promissory note is an instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instruments. **Under section 31(2) of the reserve bank of India Act a promissory note cannot be made payable to bearer.**

It has following feature or characteristics :-

1. It must be in writing and unconditional promise to pay.
2. Mere acknowledgement of debt is not promissory note.
3. The person who makes promise(promisor) to pay must sign the instrument.
4. The payee must be certain person.
5. Amount payable on promissory note must be certain Amount. It must not contain contingent additions or subtractions for example, promise to pay Rs.10,000/- including all fines and penal interest is not certain.
6. payment must be in legal currency of the country.
7. It should not be made payable to bearer.
8. It should be properly stamped.

Specimen of promissory note

Rs,50,000/- only
CONCEPT ONLINE CLASSES
61, MAYUR VIHAR ,
Delhi –96
31st Dec. 2006
Six months after date, I promise to pay XYZ (Payee) or his order the sum of Rs.50,000/- only
To
xyz
Ashok Vihar (COC)
Delhi –52

Stamp

Distinction Between Bills of Exchange and Promissory Note:

Bill of Exchange	Promissory Notes
◆ It is an unconditional order directing a certain person to pay a certain sum of money	◆ It is an unconditional promise to pay a certain sum of money.
◆ Generally, there are three parties in the bill of exchange- the drawer, the drawee and the payee.	
◆ A bill of exchange requires acceptance by the drawee after if is drawn by the drawer.	◆ There are two parties in a promissory note- the promisor or maker and the payee.
◆ Bill of exchange may be payable either on order or to the bearer.	
◆ In case of Bills of exchange notice of dishonour is given to all parties concerned.	
◆ The maker (Drawer) of the Bill is liable only when drawee does not make payment.	◆ This does not require acceptance. It is writtenby the person who will pay the amount.
◆ In Case of foreign bills protest is necessary if it is required as per law of the country where bill has been drawn.	◆ Promissory note can not be payable to bearer
	◆ In case of promissory note, notice of dishonour is not required.
	◆ The maker is primarily liable to pay the amount.
	◆ Protest is not required for promissory note.

Cheque: A Cheque is a bill of exchange drawn on a specified banker and payable on demand. It includes the electronic image of a truncated cheque and a cheque in the electronic form. **A cheque is a bill of exchange with two additional qualifications.**

- It is always drawn on a specified bank and
- It is always payable on demand.

Distinction between Bills of Exchange and Cheque:

Bill of Exchange	Cheque
• This requires acceptance by the drawee. • This can be drawn on any person including bank. • Notice of dishonour is necessary. • A bill of exchange may be payable either on demand or after a specified period. • A bill of exchange generally requires stamping. • Bills of exchange can not be crossed • A time bill should be presented on the due date.	• This does not require acceptance. • This can be drawn on Bank only. • Notice of dishonour is not necessary. • Cheque is always payable on demand • This does not require stamping. • A cheque may be crossed. • A cheque can be presented at any time within 6 months from the date of cheque.

Negotiability: --Promissory Notes, Bill of Exchange and Cheque all are negotiable instrument. The holder can claim payment on them subject to conditions that the holder takes them: -

(i) without notice of defect in the title of the transferor, i.e. in good faith.
(ii) for consideration and
(iii) Before maturity.

Example:-- If A steals a bill of exchange and passes it on to B who is not aware of A's mode of acquiring the bill and who takes it for the value and before the due date of the bill, B will be entitled to get payment on the bill. Here B is a holder in due course. **A holder in due course always gets a good title in case of forgery.** Moreover whoever gets the bill after the holder in due course will also get a good title to it; it has been purged of all defects.

The instrument may be passed on from one person to another by endorsement and delivery. The liability of the endorser to subsequent parties is same as in the case of endorsement of cheque. Thus, if a bill of exchange is dishonored, i.e. if payment is not made on the due date by the promisor (drawee in case of bill of exchange), money can be claimed from any of the previous endorsers, the payee and the maker of the instrument.

Discounting of Bills:-- When the bill is taken to a bank and the necessary cash is received, the act is known as discounting. The bank will always deduct a small sum depending upon the rate of interest and the period of maturity.

Maturity of a promissory note or bill of exchange: "The maturity of a promissory note or bill of exchange is the date at which it falls due." A promissory note or a bill of exchange may be payable:-

a) On demand; or
b) On a specified date, or
c) After a specified period.

In the first case amount is payable on the instrument, when the demand is made. In the second case, payment can be claimed on a specified date. In the third case, date of maturity has to be calculated. Every instrument, payable otherwise than 'on demand' is entitled to three days of grace.

The following instruments are not entitled to 'days of grace'.

(a) A cheque
(b)A bill or note payable 'at sight' or on presentment' or 'on demand',

© A bill or note in which no time is mentioned.

The following instruments are entitled to 'days of grace':

(a) A bill or note payable on a specified day,
(b)A bill or note payable 'after sight,

(c)A bill or note payable at a certain period after date,

(d)A bill or note payable at a certain period after the happening of a certain event.

- **(m.imp)Calculation of date of maturity :--**

If a promissory note or bill of exchange is made payable after stated number of months after date or after sight or after a certain event, it becomes payable three days after the corresponding date of the month after the stated number of months. If the month in which the period would terminate has nocorresponding day. The period shall be held to terminate on the last day of such month.

1. In the above case, the day on which the instrument is drawn or presented for acceptance or sight or the day on which the event happens is to be excluded.
2. When the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the preceding day. E.g. A bill falling due for payment on August 15 will have to be paid on August 14.

Dishonour of bill:

A bill may be dishonored either by non-acceptance or by non-payment. When an instrument is dishonored the holder must give notice of dishonour to the drawer or his previous holders if he wants to make them liable.

Dishonoured by non acceptance:

A bill is said to be dishonored by non acceptance:-
(1)when the drawee does not accept it within 48 hours from the time of presentation for acceptance.
(2)When presentation for acceptance is excused and the bill remained unaccepted.
(3)When the drawee is incompetent to contract.
(4)When the drawee is fictitious person or after reasonable search, can not be found.

Dishonored by non payment:- A promissory note, a bill of exchange or cheque is said to be dishonored by non payment: ---
When the maker of the note, acceptor of the bill or drawee of the cheque makes default in payment upon being duly required to pay the same; and
When presentation for payment is excused and the installment when overdue remains unpaid.

Record of bills of exchange or promissory notes:

- A person who receives a promissory note or receives an accepted bill of exchange will treat it as new assets under the name of Bills Receivable
- A parts "who issues a promissory note or accept a Bill of Exchange will treat it as liability under theheading of Bills Payable.

Noting charges:-

"Noting" must be recorded with Notary Public within a reasonable time after the dishonour and must contain the fact of dishonour, the date of dishonour, the reason if any given for such dishonour and the noting charges. For this service they charge a small fee. This fee is known as noting charges. Noting charges have to be born by the person responsible for dishonour. Hence, when a bill is dishonored, the amount due is the amount of the bill plus the noting charges. However, if the acceptor proves that the bill was not properly presented to him for payment, he may escape his liability.

Renewal of a bill -- Sometime the accepter is unable to pay the amount and he himself moves that he should be given an extension of time. In such a case, a new bill will be drawn and the old bill will be cancelled. If this happens, entries should be passed for cancellation of the bill as in case of dishonour of bill. When the new bill is received, entries for receipt of bill will be repeated.

Accommodation of Bills -- Bills of exchange are usually drawn to facilitate trade transaction, finance actual purchase and sale of goods. But apart from, financing transaction in goods, bills may also be used for raising fund temporarily.

Suppose, A needs finance to the extent of Rs. 10000/- for 3 months. In this case he may induce his friend B to accept a Bill of Exchange drawn on him for Rs. 10000/- for 3 months. A can then get the bill discounted with his bank paying a small sum of discount. Thus he can use the funds for 3 months and just before maturity, he will remit the amount to B to whom the bill will be presented by the bank for payment.

If both A and B need money, the same device can be used. Either A accepts a bill of exchange or B does. In either case the bill will be discounted with the bank and proceeds divided between the two parties according to mutual agreement. The discounting charges must also be born by two parties in the same ratio in which the proceeds are divided on the due date the acceptor will receive from the other party his share. The bill will then be met. When bills are used for such purpose, they are known as accommodation bills.

- ⇨ In case of accommodation of bills, all the journal entries are passed in the books of two parties as same in the ordinary bills.
- ⇨ The only additional entries to be passed are for sending the remittance to the other parties and also debiting the other parties with the requisite amount of discount.

Bankruptcy: Bankruptcy/Insolvency of a person means person who has accepted the bill is unable to pay his liabilities and

- When it is known, the acceptor of the bill has become insolvent; entry for dishonour of his acceptancemust be passed.
- When and if an amount is received, cash account will be debited and personal account of debtor will becredited.
- The remaining amount will be irrecoverable and should be written off as bad debt.

CONCEPT BUILDING QUESTION

(IF BILL HONOURED ON DUE DATE)

Question: 1 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. On the due date bill was met.

Question:2 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Bill was discounted by firm @ 12% p.a. On the due date bill was met.

Question:3 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor for Rs. 2,00,000. On due date bill was met.

Question:4 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor for Rs. 2,20,000 in full settlement of his claim.

Question:5 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor, for Rs. 2,20,000 in part settlement of his claim.

Question:6 Firm sold goods costing Rs. 1,60,000 for Rs. 2,00,000 to X and received his acceptance payable after 3 months. Firm sent bill to his bank for collection. On due date bill was met. Bank charged Rs. 50 for his service.

IF BILL DISHONOURED ON DUE DATE

Question:7 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months.Bill was dishonored on due date. Noting charges paid Rs.200.

Question:8 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Bill was discounted by firm @ 12% p.a. Bill was dishonored on due date. Noting charges Rs. 200.

Question:9 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor for Rs. 2,00,000. Bill was dishonored on due date and noting charges paid Rs. 200.

Question:10 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C,a creditor for Rs. 2,20,000 in full settlement of his claim. Bill was dishonored on due date and noting charges paid Rs. 200.

Question:11 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor, for Rs. 2,20,000 in part settlement of his claim. Bill was dishonored on due date and noting charges paid Rs. 200.

Question:12 Firm sold goods costing Rs. 1,60,000 for Rs. 2,00,000 to X and received his acceptance payable after 3 months. Firm sent bill to his bank for collection. Bill was dishonored and noting charges paid Rs. 200.

AFTER DISHONOURED

Question.13 Assume after question 7 to 12 , Mr. X requested to pay Rs. 1,20,200 immediately and to give a new acceptance for the balance amount together with interest @ 12% p.a. payable after 2 months. On the due date bill was met.

Question.14 Assume after question 7 to 12, Mr. X requested to pay Rs. 1,20,200 immediately together with interest at the rate of 12% p.a. on the balance amount for 3 months and to accept a new bill for the balance amount. On the due date of renewed bill, Mr. X became insolvent and official receiver declared a first and final dividend of 60% of the amount due.

Renewal of Bill

Question:15 Mohan sold goods to Gupta on 1st September, 2005 for Rs. 1,600. Gupta immediately accepted a three months bill. One due date Gupta requested that the bill be renewed for a fresh period of two months. Mohan agrees provided interest at 9% was paid immediately in cash. To this Gupta was agreeable. The second bill was met on due date. Give Journal entries in the books of Mohan.

Under Rebate

Question:16 On 1stJanuary, 2006, A sells goods for Rs. 10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 1st March, 2006, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of A.

Question:17 On 1st April 2009 Rohit sold goods to Mahesh for Rs 10,000 and drew upon him a bill for the amount at 3 months. Mahesh accepted the bill . On 4th April 2009 , Rohit got the bill discounted with his bankers @ 10% per annum. Just before the due date , Mahesh approached Rohit with a request for renewal of the bill for 3 month . Rohit agreed on the conditions that new bill will be drawn for Rs 10310 which included Rs 310 by way of interest .Mahesh found the condition reasonable and accepted the new bill on 4th july ,2009 . On 29th September, 2009 Mahesh was declared insolvent . On 2nd November, 2009 a first and final dividend of 40 paise in a rupee was received from the insolvent 's receiver .

Question:18 On 1st January 2010, Arun purchased from Barun goods invoiced at Rs 10,000. On the same date Barun drew upon Arun a bill for the amount at 2 months and Arun accepted the same. On 4th January 2010 Barun got the bill discounted with his bank @ 12% per annum. On due date, Arun told Barun that he was not in a position to pay the full amount and requested Barun to accept Rs 5000 in cash and Drew a fresh bill at 2 months for the remaining amount plus interest at 15% P.A. Barun agreed . The second bill was duly met on the due date. Give journal entries to record the above transaction in the books of Barun.

MUTUAL ACCOMODATION (YE CONCEPT SIRF HUM HI SAMAJH SAKTE HAI, AUR KOI NAHI, FEEL GOOD)

Question:19. For helping Mr. X, Y gave his acceptance for Rs. 20,000 payable after 3 months. X discounted the bill with his bank @ 18% p.a. Just before due date X remitted the necessary amount to Y. On due date bill was met. Make journal entries.

Question:20. For mutual accommodation of X and Y, X drew a bill for Rs. 60,000, Which was duly accepted by Y. X discounted the bill with his bank @ 12% p.a. for 3 months and remitted 1/3rd of the proceeds to Y. Just before due date, X remitted the balance amount to Y and Y met the bill on due date. Make journal entries.

Question:21. Anil drew a bill for Rs. 20,000 on Sunil and Sunil drew a bill for Rs. 30,000 on Anil for mutual accommodation for 3 months. Both of them discounted their bill with bank @ 12% p.a. Just before due date they settled their account among themselves. On the due date, both met their bill.

Question.22(IMP Question) Bose and Mitra were in need of funds. On 1st May, 2014 Bose accepted Mitra's draft for Rs.6,000 at 3 months. Mitra got it discounted at 6%p.a. and remitted 1/3 of the proceeds to Bose. On the due date Mitra was not able to send the amount instead he accepted to Bose's bill for Rs. 4,500 at two months. Bose got it discounted for 4,420. Out of this Rs. 280 were sent to Mitra . Before the maturity of the renewed bill, Mitra became insolvent and only 60% was realized from his estate. Give Journal entries in the books of Bose and Mitra.

Question:23 Sohan drew an accommodation bill for Rs 12,000 on Mohan. The proceeds are to be shared by Sohan and Mohan in the ratio of 2:1 respectively. Mohan accepts the bill. Sohan gets the bill discounted at a discount of Rs 720 and remits 1/3rd of the proceeds to Mohan. Before the due date, Mohan draws an accommodation bill for Rs 16,800 to arrange the funds to pay the first bill. The second bill is discounted for Rs 16320. The first bill is paid with the proceeds and a sum of Rs 2880 is remitted to Sohan.

Sohan become insolvent before the due of the second bill and Mohan received 50 paise in a rupee as the first and final dividend from sohan's estate . Pass necessary journal entries in the books of Mohan and prepare sohan's account in the ledger of Mohan .

Question:24 On 1st December 2004 Shyam accepted for mutual accommodation a bill drawn on his by Ram for Rs 80000 at three month . The bill was discounted at 5% per annum and the proceeds were shared equally .On the same day and for the same purpose , Shyam received an acceptances from Ram for Rs 90000 at three months. The bill was discounted for Rs 1800 as discount and the proceeds were shared as to two thirds to Shyam and one third to Ram . On the due date Shyam met his acceptence , but Ram could not do so because he had become insolvent . On 31st march , 2005 his estate paid a first and final dividend of 50 paise in a rupee. Pass the journal entries for the transactions in the books of Shyam.

Answer:

Journal entries in the books of shyam

Date	Particular	Dr	Cr
2004 Dec 1	Ram To Bills payable A/c (being acceptance given to Ram)	80000	 80000
Dec 1	Bill receivable A/c To Ram (being acceptances given by Ram for mutual)	90000	 90000
Dec 1	Bank A/c Discount A/c To bills receivable A/c (Being bill discount with the bank)	88200 1800	 90000
Dec 1	Ram To banks To discount A/c (being one –third proceeds sent to ram)	30000	 30000
Dec1	Banks A/c Discount A/c To Ram (being one –half of proceeds received from Ram)	39500 500	 40000
2005 March 4`	Bills payable A/c To bank A/c (being our acceptances met on due date)	80000	 80000
Mar 4	Ram To banks A/c (being dishonour of ram ‘s acceptance due to insolvency)	90000	 90000
March 4	Bank A/c Bad-debts To Ram (being receipt of 50 paise in the rupee as dividend from Ram’s estate)	35000 35000	 70000

Ram ‘s A/c

Particular	Amount	Particular	Amount
To bills payable A/c	80000	By bills receivable A/c	90000
To banks A/c	29400	By bank A/c	39500
To discount A/c	600	By discounts A/c	500
To bank A/c	90000	By banks A/c	35000
		By bad debts	35000
	2,00,000		2,00,000

Question:25 Mr. David draws two bills of exchange on 1.1.95 for Rs. 6,000 and Rs. 10,000. The bill of exchange for Rs. 6,000 is for two months while the bill of exchange for Rs. 10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.95 Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.95 Mr. Thomas retires the acceptance for Rs. 10,000, the interest rebate i.e. discount being Rs. 100. Before the due date of the renewed bill, Mr. Thomas became insolvent and only 50 paisa in a rupee could be recovered from his estate. You are required to give the Journal entries in the books of Mr. David.

CHAPTER 3. CONSIGNMENT ACCOUNT

Consignment Sale

Where one person in firm sends goods to another person or firm on the basis that the goods will be sold on and at the risk of the former, it is called consignment sale.
The party who sends the goods is called consignor and the party to whom goods are sent is called consignee or agent.
The consignee does not buy these goods but merely undertake to sell them on behalf of the consignor.
The sale proceeds belong to the consignor and the consignee merely gets the agreed commission for his service in addition to any expenses he might have incurred.
The relationship between the consignor and the consignee is that of principal and agent.

Account Sales :- After sale of goods, consignee sends a statement to consignor. This statement is called account sales. In this statement gross value,expenses and commission of consignee, advance paid by consignee and net amount due by consignee are shown.

Types of commission

1. Del – Credere Commission

The additional commission for which the consignee guarantees debt is called del-credere commission.
This commission save consignor from loss of bad debts only.
The agent is responsible for bad debts due but not for loss due to a dispute between the buyer and the seller.
The del-credere commission is payable on total sales and not merely on credit sales.

2. Ordinary Commission

Ordinary commission is a commission which consignee gets as his remuneration from the consignor for the sales made on behalf of the consignor.
In this case the consignee does not guarantee that all those who buy on credit will pay up. The consignee is not responsible for bad debts.

3. Over ridding commission. It is allowed to increase sales volume/ sales price. It is calculated as per instruction given in question.

Most important -- Discount paid on bills receivable discounted by Consignor

There are two alternative treatments for the aforesaid discount:
If discount is treated as "consignment expenses" it is debited to consignment account
If discount is treated as "financial charges', it is debited to profit and loss account.

Books of consignor

To know the profit and the loss made on a consignment separately a consignment account is opened.
A consignment account is not a personal account but is in the nature of a special type of a trading and profit and loss account which show profit or loss made on the particular consignment.
If goods are consigned to a number of parties, the profit and loss on consignment to each consignee may be ascertained separately.

Valuation of Closing Stock

The goods lying unsold with the Consignee at the end of the accounting year is usually valued at cost.
In this case cost means, cost at which goods sent on consignment plus all non-recurring (non-selling) expenses incurred till the goods reach the premises of the consignee.
Such expenses include packing freight, cartage, insurance in transit, octroi, import duty, customs charges, packing, loading & unloading charges.
But expenses incurred after the goods have reached the consignee godown are not treated as part of the cost of purchase for valuing stock on hand, i.e. expenses like godown rent, godown insurance, sales expenses e.t.c. are not included in the value of stock.

- **(imp) Distinction between Consignment and sale**

Consignment	Sale
• Ownership of goods is not transferred to consignee. • Consignee is not liable for losses. • All expenses are born by consignor. • The document sent along with goods sent to consignee is called 'Performa invoice". • Consignee does not become debtor on receipt of goods. He becomes debtor on sale of goods. • Consignee receives commission on sale of goods.	• Ownership of goods is transferred to the buyer. • Buyer is liable for losses. • Buyer meets his own expenses. • The document sent on sale of goods is called 'Invoice'. • Buyer becomes debtor immediately on receipt of goods. • Buyer does not receive any commission. He earns profit on sale of goods.

Distinction between Abnormal Loss And Normal Loss

Abnormal Loss	Normal Loss
• Abnormal loss occurs due to accident natural calamities or negligence. • This loss does not affect Gross Profit. • Accounting entry is made for such loss. • This loss can be insured against various contingencies. • This loss is not certain. This depends on the happening of certain event.	• Normal loss occurs due to inherent characteristic of goods, e.g. normal leakage, evaporation etc. • This loss effect Gross Profit. • No accounting entry is made for such loss. This is automatically absorbed in Gross profit. • This loss can not be insured. • This loss is almost certain. This occurs during transit or storage due to inherent characteristic of goods.

Question.1 20,000 units of commodity 'X' were consigned by Ram of Delhi at an invoice cost of Rs 100 each to Mohan of Mumbai. Ram paid freight Rs 12,000, Insurance Rs 8000.
Mohan received the consignment and incurred the following expenses:-

Clearing charges	=	Rs. 5,000
Freight to the godown	=	Rs. 7,000
Rent of godown	=	Rs. 3,000
Insurance	=	Rs. 2,000
Advertisement	=	Rs. 12,000
Loading and unloading charges	=	Rs. 3,000

Mohan sold all the goods @ Rs. 250 each.
He was entitled to a commission of 5% on sales.
Prepare consignment account and Mohan account in the book of Ram.

Question.2 Assume in Question No. 1, Mohan sold only 80% of the consignment @ Rs. 250 each.
Prepare necessary ledgers in the books of Ram.

Question.3 X sends goods costing Rs. 2,00,000 to Y to be sold at a minimum profit of 10% on cost. He will be allowed a general commission of 5% on sales and 25% of any excess realized over minimum quoted price.
Y sold all the consignment for Rs. 3,00,000.
Calculate the total commission payable to Mr. Y.

Question.4 IOCM of Delhi forwarded to TATA of Mumbai a consignment of 100 drums of coconut Oil of Rs. 500 per drums. Following expenses were incurred by consignor.

Freight	=	Rs. 10,000
Insurance	=	Rs. 8,000
Loading charges	=	Rs. 2,000
Rent of consignee'godown	=	Rs. 3,000

TATA received the consignment and sent an **account sale** informing that he sold 80% of the consignment @ Rs. 1000 per drum and incurred following expenses

Clearing charges	=	Rs. 2,000
Freight	=	Rs. 3,000
Advertisement	=	Rs, 20,000

Consignee was entitled to 5% as general commission and 2% as del- Credere commission. Actual loss due to bad debts was Rs 8500.
Prepare consignment account and consignee account in the book of IOCM.

Question.5 10,000 Pens were sent by Rohit of Delhi to Mohit of Mumbai costing Rs. 20 each. Rohit incurred Rs. 5,000 on sending the goods to Mohit place.
Mohit received the consignment and incurred Rs. 10,000 as recurring and 5,000 as non-recurring expense. He reported that 70% of the consignments were sold @ Rs. 60 each and 10% of the consignment were lost due to fire. He was entitled to commission @ 5%.
Prepare consignment A/c and Mohit A/c in book of Rohit.

Question.6 5,000 units of commodity X were consigned by Mohanlal to Sohanlal @ Rs. 40 each. Mohanlal incurred Rs. 20,000 on sending the goods to consignee. During transit 10% of the consignments were lost due to fire. Insurance company admitted the claim for Rs. 12,000. Sohanlal received the remaining consignment and sent an account sale showing that 70% of goods received were sold @ Rs. 100 each.
He incurred Rs. 20,000 as selling and Rs. 8,000 as non-selling expenses. He was entitled to commission @ 5%.
Prepare consignment Account and Sohanlal Account in the book of Mohanlal.

Question. 7 M/s Lal sent 4000 Kg of coconut oil costing Rs. 20 each to M/s Hara, Paid Freight Rs. 6000 and Loading charges Rs. 4000. M/s Hara received the consignment and incurred Rs. 4000 as recurring and Rs. 6000 as non-recurring expenses. He reported a normal loss of 5% and he sold 80% of the consignment @ Rs. 50 each.
He was entitled to commission of 2% on sale. Prepare consignment A/c.

Question.8 (advance against security) The Narang oil mills, Delhi consigned 5000 Kg of mustered oil to Mr. Gupta of Kanpur on 1st Jan. 2016. The cost of the oil was Rs. 40 per kg. The Narang mills paid Rs. 15,000 for packing fright and insurance. During transit 100 kg were destroyed for which insurance Co. paid directly to the consignor Rs. 4000 in full settlement of the claim. Narang oil mills had received Rs 50,000 in advance as security against consignment.

Mr. Gupta took delivery of the consignment on the 15 Jan. On 31st March 2016, Mr Gupta sent account sales that 4000 Kg were sold at Rs.52, the expenses being on godown rent Rs.2000; on advertisement Rs.3000 and on salesman salaries Rs.5500. Mr. Gupta is entitled to a commission of 4 % plus 2% del-credere . A party, who had bought 400 Kg, was able to pay only 90% of the amount due from it. Mr Gupta reported a loss of 50 Kg due to leakage. Assuming that Mr. Gupta paid the amount due by bank draft. Show the journal entries and necessary ledger account in the books of both the parties .The Narang oil mills Ltd
closes books on 31st March.

Question. 9 X Consigned 10,000 liters of Oil costing Rs 20 each to Y of Mumbai, incurring Rs. 5000 as non-recurring expense. During transit 10% of consignment were lost due to fire and insurance company Paid Rs. 20,000 to X in full settlement of claim.
Y received the consignment and incurred Rs. 30,000 as recurring and Rs. 10,000 as non-recurring expense. He sold 70% of the consignment received at 100% profit on cost. He also reported a further loss of 10% due to fire in his godown and 5% due to normal leakage.
He was allowed a commission of 2% on sales. Y used 5 liters of Oil for his personal purpose at an agreed price of Rs. 35 per litre. Prepare consignment A/c and Y A/c in the book of X.

Question.10 Assume in Question No.5 goods were sent at an invoice price of 25% on cost.
Prepare necessary accounts in the book of consignor.

Question. 11 Sarika mills Ltd. of Delhi sent 500 pieces of shirt to fancy store, Bombay on consignment basis. The consignee is entitled to receive 5% commission plus expenses. The cost to Sarika mills Ltd. is Rs. 120 per piece.

Fancy store, Bombay, pay the following expenses:
Railway freight, etc - Rs. 1,000
Godown rent and insurance - Rs. 1,500
Sarika mills Ltd., draw on the consignees a draft for Rs.30,000 which is duly accepted. It is discounted for Rs.28,650. Later fancy store Bombay, report that the entire consignment has been sold for Rs.78,000.
Show journal entries and important ledger accounts in the books of consignor & consignee.
Answer:

Consignment (To Bombay) Account

Particular	Amount	Particular	Amount
To goods sent to consignment	60000	By fancy store Bombay – Sale	78000
To fancy store (Bombay) expense	2500		
To Fancy store (Bombay)-Commission	3900		
To Profit & Loss A/c	11600		
	78000		**78000**

Fancy Store (Bombay) Account

Particular	Amount	Particular	Amount
To Consignment A/C		By Bill receivable A/C	30000
-Sale proceeds	78000	By Consignment A C(exp.)	2500
		By Consignment A/c (Commission)	3900
		By Balance c/d	41600
	78000		**78000**

Question.12 100 Television were consigned by M/s Lal & Com. Delhi to M/s Time center of Patna at an invoice cost of Rs.3000 each M/s Lal & Com. paid freight Rs.18000, insurance Rs.2200. During the transit, 10 T.V were totally damaged by fire and to be thrown in a way. M/s Time center took delivery of the remaining T. V.

M/s Time center had sent a bank draft to Lal & Company for Rs. 100000 as an advance payment and later sent an account sales showing that 80 T.V. were sold at Rs.4400 each. Expenses incurred by Time centre on godown rent and advertisement etc, amounted to Rs. 12,000. Time center is entitled to commission of 5%. One of the credit customers could not pay for 2 T.V. Record the journal entries and prepare the consignment A/C, M/s Time center Account and Profit & Loss A/C in the books of M/s Lal & Co assuming that nothing has been recovered from the insurance Co. due to a defect in the policy. M/s Time center settle his account immediately.

Answer:

Consignment to Patna A/c

Particular	Amount	Particular	Amount
To Goods sent on consignment	3,00,000	By Time center (Patna) A/C	
To bank Account:		—Sales	3,52,000
Freight- 18000		By Abnormal loss A/C	32,020
Insurance- 2200	20,200	(Loss by fire)	
To Time center (Patna) A/C		By Stock on consignment	32,020
--Godown rent & Adv.	12,000		
--Commission	17,600		
--Bad debts (2 x 4400)	8800		
To Profit & Loss A/C (profit)	57,440		
	416040		416040

Time Centre (Patna) Account

Particulars	**Amount**	**Particulars**	**Amount**
To Consignment to Patna A/c	3,52,000	By Bank (Bank draft as advanced)	1,00,000
To Balance c/d (Amount of advance relating to 10 T.V)	10,000	By Consignment to Patna A/c Godown rent and	
		advertisement -12000	20,800
		Bad debts - 8800	
		By Consignment to Patna (Comm.)	17,600
		By Bank	2,23,600
	3,62,000		3,62,000

Abnormal Loss Account

Particulars	Amount	Particulars	Amount
To Consignment to Patna A/C (Loss by Fire)	32020	By Profit & Loss A/C –Transfer	32020
	32020		32020

Working Notes

Abnormal Loss

Particulars	Quantity	Rs.	Working
Cost of goods sent on consignment @3000 Non recurring expense paid by Consignor	100	300000 20200	
	100	320200	
Cost of abnormal loss 10 units	10	32020	(320200/100*10)
	90	288180	
Non recurring expense paid by Consignee	------	NIL	
	90	288180	
CLOSING STOCK(10 UNITS)	10	32020	(288180/90*10)

Question.13 Imperial Ltd., Delhi forwarded on 1st December 2002, 100 Bicycles to Mr. Manak of Ranchi to be sold on behalf of Imperial Ltd. The cost of one Bicycle was Rs.1600 but the invoice price was Rs. 1800. Imperial Ltd. incurred Rs. 10,000 on freight and insurance. Manak received the consignment on 15th Dec 2002 and accepted a 3 months draft drawn upon him by Imperial Ltd. for 40,000, Manak paid Rs.2500 as rent and Rs.2500 as insurance and by 31st march had disposed of 80 bicycles at Rs.2060 each. Manak is entitled to a commission of 5% on sales including a del-credere commission of 1%. Manak sold 20 bicycles on credit and

was not able to recover sale proceeds of 2 bicycles because of insolvency of the debtor. Give Ledger accounts in the books of imperial Ltd. who closes their accounts on 31st March.

Answer:

Consignment to Ranchi Account

Date	Particulars	Amt.	Date	Particulars	Amt.
2002 Dec-1	To Goods sent on Consignment (invoice value)	 180000	2002 Mar-31	By Manak (Sale Proceed) By Goods sent on	 1,64,800
Dec. 1 2003	To Bank- Freight & Insurance	10000		Consignment A/c -(Loading)	20,000
Mar -31	To Manak: -Rent 2500 -Insurance- 2500 To Manak- (commission)	 5000 8240		By Consignment stock	38,000
Mar. 31	To Consignment Stock Reserve. A/c To P & Loss A/c-trf of profit	4000 15560			
		222800			222800

Goods Sent on Consignment Account

Date	Particulars	Amount	Date	Particulars	Amount
2002 Mar-31	To consignment to Ranchi Account (difference between invoice value and cost)	 20,000	2002 Dec-1	By consignment to Ranchi Account (invoice value)	 1,80,000
	To trading A/C / Purchases A/c	1,60,000			
		1,80,000			1,80,000

Consignment Stock Account

Date	Particulars	Amount	Date	Particulars	Amount
2002			2002		
Mar-31	To Consignment to Ranchi A/c	38000	Mar-31	By Balance c/d	38000
	Total	38000		Total	38000

Manak Account

Date	Particulars	Amount	Date	Particulars	Amount
2003			2002		
Mar-31	To Consignment to Ranchi Account (Sale proceeds)	164800	Dec- 15 2003	By Bill receivable A/C	40000
			Mar-31	By Consignment to Ranchi A/C (exp.)	5000
			Mar-31	By Consignment to Ranchi A/C (commission)	8240
			Mar-31	By Balance c/d	1,11,560
		164800			164800

Working Notes **Closing stock**

Particulars	Quantity	Rs.	Working
Cost of goods sent on consignment @1600 Non recurring expense paid by Consignor	100	160000 10000	
	100	170000	
Non recurring expense paid by Consignee	------	NIL	
	100	170000	
CLOSING STOCK(20 UNITS) At COST PRICE	20	34000	(170000/100*20)
Load on 20 units @200 each		4000	
		38000	At I.P

Question.14 (Over-ridding commission) Ajay sends goods on consignment to Arun. The terms are that Arun will receive 10% commission on the invoice price (which is cost plus 25%) and 20% of any price realised above invoice price. Arun will meet his expenses himself, goods to be sent freight paid.

Ajay sent goods whose cost was Rs. 16,000 and spent Rs.1500 on freight, forwarding etc. Arun accepted a bill for Rs. 16,000 immediately on receiving the consignment. His expenses were Rs.200 as rent and Rs 100 as insurance. Arun sold 3/4th of the goods for Rs. 19500. Part of the sales was on credit and one customer failed to pay Rs. 400. Prepare consignment Account and Arun's account in the books of Ajay and Ajay's Account in the books of Arun.

Answer: **Consignment A/C**

PARTICULAR	**AMOUNT**	**PARTICULAR**	**AMOUNT**
To Goods sent On Consignment	20000	By Arun's A/c	19500
To bank(freight)	1500	By goods sent on consignment (load)	4000
To Arun's A/c		By closing Stock	4375
Bad debts - 400	400		
To Arun's A/c (comm)	2400		
To profit on consignment	3575		
	27875		27875

Arun's A/c

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To consignment (S ales)	19500	By Bill Receivable	16000
		By Consignment A/c (Exp.)	400
		By Consignment A/c (comm.)	2400
		By bank (bal. fig.)	700
	19500		19500

Working Notes: **Closing stock**

Particulars	Rs.	Working
Cost of goods sent on consignment Non recurring expense paid by Consignor	16000 1500	
	17500	
Non recurring expense paid by Consignee	NIL	
	17500	
CLOSING STOCK(1/4) At COST PRICE	4375	(17500*1/4)

Question.15 (concept building question) On 20 Jan 2002 M/s. Mohan Brothers of Mumbai forwarded to Ramesh of Lucknow a consignment of 25 drums of coconut oil of Rs. 510 per dram. They paid Rs. 150 on freight on 18th March 2002. Consignor received an account sales, on 31st March showing that goods had realised Rs 15000 gross including Rs. 5000 sold on credit and that following expenses had been incurred. Octroi and insurance—Rs.100: Storage Rs. 30; Cartage Rs.25: Freight on sales Rs.95; Commission @ 3% and del-credere commission 2%.

One customer owing Rs. 200 failed to pay because of insolvency and another customer deducted Rs.150 because of dispute regarding quality. Ramesh sent a bill of exchange for the balance due. Prepare necessary accounts in the books of consignor and consignee. Also show net profit/net loss of consignee.

Answe **Consignment A/c**

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To Goods Sent On Consignment (25 x 510)	12750	By Ramesh 's A/c	15000
To bank (Freight)	150		
By Ramesh 's A/c			
Octroi - 100			
Storage – 30			
Contage - 25			
Freight - 95			
Discount -150	400		
To Ramesh's A/c (comm.)	750		
To profit on consignment	950		
	15000		15000

Ramesh's A/c

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To consignment A/c (S ales)	15000	By Consignment A/c (Exp.)	400
		By Consignment A/c (comm.)	750
		By Bill Receivable (Bal. fig)	13850
	15000		15000

Question. 16 (imp question) Vikram Milk Food s Co. Ltd. of Vikrampur sent to Sunder stores, sonepuri 5000 kg of baby food packed in 2000 tins of net weight of 1 Kg and 6000 packets of net weight of 1/2 kg for sale on consignment basis. The consignee's commission was fixed at 5% of sales proceeds. The cost price and selling price of the product were as under.

	1kg tin	½ kg pack
Cost Price	Rs. 10	Rs. 6
Selling Price	Rs. 15	Rs. 7

The consignment was booked on freight 'to pay' basis and freight charges come to 2% of selling value. One case containing 50, 1kg tin was lost in transit and the transport carrier admitted a claim of Rs. 450.

At the end of the first half year the following information is gathered from the 'Account Sales' sent by the consignee:

(i) Sale proceeds 1500 1 kg tin
4000 ½ kg packets

(ii) Store Rent and insurance charges Rs. 600.

Show the Consignment A/c and Consignee's Account in the books of Vikram Milk Food Co. Ltd,. Assuming that the consignee had paid the amount due form Delhi. **[Ans. Profit on consignment : 7,365]**

Question .17 Sanjay consigned 40 machines to Ram on 1st Jan 2002 on the following terms:-

All machines were to be sold 20% above cost of Rs. 10000. Any deficit in selling price is to be borne by Ram while Ram is to retain 50 % of any surplus price realised,

Ram is to be paid 3% commission and 2% Del credere commission on all sales. Sanjay incurred freight charges of Rs. 40000 in consigning the machines. Ram sent account sale on 31st December 2002 disclosing:

10 machines sold for Rs. 12000 each
5 machines sold for Rs. 10000 each
15 machines sold for Rs. 14000 each.

Ram had incurred unloading charges of Rs. 4000 and selling expenses of Rs. 6000. He had collected the entire sale proceeds except Rs. 2000 which had become a bad debt. Ram sent a bank draft for the net amount due to Sanjay.

On 30 June 2003 Ram sent a further account Sale disclosing:

10 machines sold at Rs. 12000 each, selling expenses were Rs. 1500. He also sent a draft for the net amount due. Sanjay closes his books on 31st December each year. Write up the ledger accounts in the books of Sanjay recording the above transactions.

Question. 18 (concept building question) The Cochin Consignment Account in the books of Ranaji of Mumbai showed a debit balance of Rs. 1500 representing the cost of 10 fans on 1st Jan. 2016. The invoice value of each fan was Rs. 175. On 1st March 2016, Ranaji sent a further consignment to cochin of 40 fans costing Rs.160 each invoiced proforma at Rs. 180 each. The freight and other charges amounted to Rs. 210. On 1st June 2016, Cochin agent sent an account sales showing that 8 fans from the old stock realised Rs. 140 each and 25 fans from the second consignment realised Rs. 200 each and 15 fans remained in stock unsold. Two fans from the old stock being unsaleable at Cochin, were returned to Mumbai, for which the Cochin agent spent Rs. 30.

The Cochin agent is entitled to a selling commission of 10%, which cover all out of pocket expenses in respect of consignment. Show necessary accounts in the books of consignors, supposing he closes his books on 30 June

Question. 19 Mr. Y consigned 800 pockets of tooth- paste, each pocket containing 100 tooth pastes. Cost price of each pocket was Rs.900. Mr. Y spent Rs. 100 per packet as cartage, freight, insurance and forwarding charges. One packet was lost in the way and Mr. Y lodged claim with the insurance company and could get Rs 570 as claim on average basis. Consignee took delivery of the rest of the packets and spent Rs.39,950 as other non -recurring expenses and Rs. 22,500 as recurring expenses. He sold 740 packets at the rate of Rs. 12 per toothpaste. He was entitled to 2% commission on sales plus 1 % del-credere commission.

You are required to prepare consignment Account. Calculate the cost of Stock at the end. Abnormal loss and profit & loss on consignment

Answer: **Consignment Account**

To Good sent on consignment A/c (800 x Rs. 900)	7,20,000	By Consignee's Account (sales: 740 x 100 x Rs. 12)	8,88,000
To cash Account (Exp: 800 x Rs. 100)	80,000	By Abnormal Loss A/c	1000
To Consignee's A/c Recurring expenses 22,500 Non-recurring Expenses 39,950	62450	By Consignment Stock A/c	61,950
To Consignee's A/c Commission @ 2% 17,760 Del Credere commission@ 1% 8,880	26640		
To Profit on consignment	61,860		

Consignee's A/c

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To consignment A/c (S ales)	888000	By Consignment A/c (Exp.)	62450
		By Consignment A/c (comm.)	26640
		By bank (bal. fig.)	798910
	888000		888000

Abnormal Loss A/c

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To consignment A/c	1000	By bank	570
		By profit & loss A/c (bal. fig.)	430
	1000		1000

Working Notes

Abnormal Loss

Particulars	Quantity	Rs.	Working
Cost of goods sent on consignment @900 Non recurring expense paid by Consignor	800	720000 80000	
	800	800000	
Cost of abnormal loss one packet	1	1000	(800000/800*1)
	799	799000	
Non recurring expense paid by Consignee	------	39950	
	799	838950	
CLOSING STOCK 59 units	59	61950	(838950/799*59)

Question. 20 X of Calcutta on 15th January 2017 sent to Y of Mumbai a Consignment of 250 television costing Rs. 10,000 each. Expenses of Rs. 7,000 were met by the consigner. Y of Mumbai spent Rs. 4,500 for clearance on 30th January, 2017 and the selling expenses were Rs. 500 per television as and when the sale made by Y.

Y sold on 4th march, 2017 150 television at Rs. 14,000 per T.V and again on 10th April, 2017, 75 T.V at Rs. 14,400

Mr. Y was entitled to a commission of Rs. 500 per T.V sold plus one–fourth of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated at the rate of Rs. 12,500 per T.V Sold. Y Sent the account sale and the amount due to X on 30th April, 2017 by Bank demand draft.

You are required to show the consignment account and Y's account in the books of X.

Question. 21 Ramesh consigned 2,000 MT of chemicals at a cost of Rs. 800 per MT to John. Ramesh paid freight and insurance charges of Rs. 20,000. Of the above 500 MT of chemicals were destroyed by fire during transit. John cleared the balance of 1,500 MT of chemicals and sold 1,000 MT at average price of Rs. 1,000 per MT. John incurred the following expenses: Godown rent Rs. 5,000, Insurance Rs. 3,000. Clearing charges Rs. 4,500. Insurance claim received against fire Rs. 4,00,000 after admitting the salvage value of stock destroyed by fire at Rs. 10,000. John was entitled to a commission of 10%on sales proceeds. John sends the balance to Ramesh after adjusting his commission and expenses out of the sales proceeds.

Prepare a Consignment Account and John's Account in the books of Ramesh.

Question. 22 X of Delhi purchased 10,000 meters of cloth for Rs. 2,00,000 of which 5,000 meters were sent on consignment to Y of Agra at the selling price of Rs.30 per meter. X paid Rs. 5,000 for freight ad Rs. 500 for packing etc.

Y sold 4,000 mtrs at Rs. 40/meter and incurred Rs.2,000 for selling expenses. Y is entitled to a commission of 5% on total sale proceeds plus a further 20% on any surplus price realized over Rs. 30 per meter.

3000 meters were sold at Delhi at Rs. 30 per meter less Rs 3,000 for expenses and commission. Owning to fall in market price, the stock of cloth in hand is to be reduced by 10%.

Prepare the Consignment Account and trading and Profit & Loss account in books of X and his account in the books of Y.

Hint:

(1)	Calculation of Commission payable to Y	Rs.
	Total Sales proceeds of Y	1,60,000
	Surplus proceeds realized over Rs. 30 per meter [4000 x (Rs. 40 – 30)]	40,000
	Commission :-	
	5% of total sales proceeds (5% of Rs. 1,60,000)	8,000
	20% of surplus (20% of Rs. 40,000)	8,000
		16,000

Question. 23 A of Agra sent on consignment goods valued Rs. 1,00,000 to B of Mumbai on 1st March, 1999. He incurred in expenditure of Rs 12,000 on freight and insurance. A's accounting year closes on 31st December. 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 Rs. 3,000 for goods consigned.

On 31.12.1999, B informed on Phone that he had sold all the goods for Rs. 1,50,000 by incurring selling expenses of Rs. 2,000. He further informed that only Rs. 1,48,000 had been realized and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the account sale.

On 5.1.2000, A received the cheque for the amount due from B and incurred bank charges of Rs.260 for collecting the cheque. The amount was credited by the Bank on 9.1.2000.

Write up the Consignment Account finding out the Profit / loss on the consignment, B's A/c. Provision for expenses A/c and Bank Accounts in the books of the consignor, recording the transactions upto the receipt and collection of the cheque.

Answer: **Books of Mr. A**

Consignment Account

1999		Rs.	1999	Rs.	
Mar-1	To Goods sent on consignment A/c	1,00,000	Dec.31	By B's account	1,50,000
Dec-31	To Cash Account (Freight and Ins.)	12,000			
	To B's Account:				
	Clearance expenses 3,000				
	Commission @ 5%				
	On Rs. 1,50,000 7,500				
	Selling expenses 2,000				
	Commission @ 3%				
	on Rs. 1,50,000 4,500	17,000			
	To Prov. for exp. (Bank charges)	260			
	To Profit and Loss A/c				
	(Profit on consignment)	20,740			
		1,50,000			1,50,000

B's Account

1999		Rs.	1999		Rs.
Dec-31	To Consignment A/c	1,50,000	Dec.31	By Consignment A/c	
				Clearance expenses 3,000	
				Selling expenses 2,000	
				Commission 7,500	
				Del credere commission 4,500	17,000
				By Balance C/d	1,33,000
		1,50,000			1,50,000

Bank Account

2000		Rs.	2000		Rs.
Jan. 5	To B's Account	1,33,000	Jan. 5	By Bank charges	260
			Jan. 5	By Balance c/d	1,32,740
		1,33,000			**1,33,000**

Question. 24 (concept building question) M/s Ram & Co. of Delhi purchased 20,000 pieces of sarees @ Rs. 200 per saree. Out of these, 12,000 sarees were sent on consignment to M/s Laxman Traders of Mumbai at the selling price of Rs. 240 per saree. The consignor paid Rs. 6,000 for packing and freight. M/s Laxman Traders sold 10,000 sarees @ Rs. 250 per saree and incurred Rs. 2,000 towards selling expenses and admitted Rs. 10,00,000 to Delhi on account. M/s Laxman Traders are entitled to a commission of 5% on total sales plus a further 20% commission on any surplus price realized over Rs. 240 per saree.

6,000 sarees were sold at Rs. 220 per saree by the consignor. Owing to fall in the market price, the value of stock of sarees in hand is to be reduced by 10% . Prepare the consignment Account and the account of M/s Laxman traders in the books of the consignor.

Answer: **In the Books of M/s Ram & Co., Delhi**

Consignment Account

	Rs.		Rs.
To Goods sent on consignment A/c (12,000 x 240)	28,80,000	By Laxman Traders (sales) (10,000 x 250)	25,00,000
To Bank (expenses)	6,000	By Goods sent on consignment	
To Laxman Traders (expenses)	2,000	(loading: 12,000x40)	4,80,000
To Laxman Traders (commission)	1,45,000	By Stock on consignment	4,32,900
To Stock Reserve	72,000		
To Net Profit	3,07,900		
Total	34,12,900	Total	34,12,900

Laxman Traders account

	Rs.		Rs.
To Consignment A/c (sales)	25,00,000	By Consignment A/c (expenses)	2,000
		By Consignment A/c (com.)	1,45,000
		By Bank	10,00,00
		By Balance c/d	13,53,000
Total	25,00,000	Total	25,00,000

Working Notes :

Commission payable

5% on 25,00,000 =	1,25,000	
20% on 1,00,000=	20,000	
		1,45,000

Valuation of Closing stock on consignment

2,000 sarees x Rs.240 =	4,80,000
Add: proportionate expenses	
6,000x2,000/12,000	1,000
Less: 10%	4,81,000
Value of Closing stock	48,100
Loading on Closing Stock	
2,000 sarees x Rs.40 =	80,000
Less: 10%	8,000
	72,000

Question. 25 (Loss of Goods Due To Consignee's Negligence) R of Ranchi consigned goods costing Rs. 1,60,000 to M of Mumbai. The terms of the consignment were :

(a) Consignee to get a commission of 5 per cent on cash sales and 4 per cent on credit sales.

(b) Any goods taken by the consignee himself or goods lost through consignee's negligence, shall be valued at cost plus 12.5 per cent and no commission would be allowed on them.

The expenses incurred by the consignor were : carriage and freight Rs. 6,720 and insurance Rs. 3,440. The consignor received Rs. 50,000 as advance against the consignment. Account sales together with a draft for the balance due was received by the consignor showing the following position : Goods costing Rs. 1,28,000 were sold by M and goods costing Rs. 4,000 were lost through M's negligence. The expenses incurred by M were : advertisement Rs. 1,720 and other selling expenses Rs. 1,080. Show the ledger accounts in the books of R.

Answer: **Dr.** **Consignment To Mumbai Account** **Cr.**

	Rs.			Rs.
To Goods Sent on Consignment Account	1,60,000	By M: Cash sales	1,40,000	
To Cash (Expenses)	10,160	Credit sales	1,08,000	2,48,000
To M (Expenses) :	2,800	By M (Goods taken		
To M (Commission) (7,000+4,320)	11,320	over and lost) (12,000+12.5% of		13,500
To Profit & Loss Account	98,490	Rs. 12,000)		
		By Consignment Stock Account		21,270
	2,82,770			2,82,770

Working Notes

(i) Stock has been valued as under :

Total cost of the goods consigned 1,60,000
Less : cost of the goods sold 1,28,000
32,000
Add : Cost of the goods taken over by M and
lost through his negligence 12,000
20,000
Add : Proportionate expenses incurred by consignor :
(20,000x10,160)71,60,000 1,270
21,270

(ii) Expenses paid by consignee are selling expenses (i.e., recurring expenses) and hence ignored for stock valuation,

(iii) Proportionate amount of advance 6,250 (1/8 of Rs. 50,000) being retained against the unsold stock.

Question. 26 (Goods Stolen) On 1 January 2004, goods cost price of which was Rs. 66,000 were consigned by Ram Dhan of Delhi to Agent Haldi Ram of Dadri at a Performa invoice price of 20% above cost. Haldi Ram paid freight and other forwarding charges amounting to Rs. 2,000. He was allowed Rs. 1,000 per month towards establishment cost; 5% commission on gross sales and 3% del credere commission. Haldi Ram paid Rs. 500 as rent of godown for 3 months ended 31 March 2004. Three fourth of the goods were sold for Rs. 66,000 half of which were credit sales. Half of the balance of the goods was stolen, but the stock being insured, a claim lodged for Rs. 7,000 was settled for Rs. 6,900. Write up the consignment account, consignee's account and stock lost on consignment account as on 31 March 2004 in the books of Ram Dhan.

Dr. Consignment to Dadri Account Cr.

Jan. 1, 2004	Rs.	31 March 2004	Rs.
To Goods Sent on Consignment		By Haldi Ram' A/c (Sales)	
Account (66,000+13,200)	79,200	Cash Sales 33,000	
To Haldi Ram (Expenses) :		Credit Sales 33,000	66,000
Freight and other		By Goods Sent on Consign-	
forwarding charges 2,000		ment (Load)	13,200
Establishment cost 3,000		By Abnormal Loss	
(1,000*3)		(Goods stolen)	8,500
Godown Rent 500	5,500	By Consignment Stock A/c	
To Haldi Ram (Commission)		(At Invoice Price)	10,150
(5% on Rs. 66,000) 3,300			
(3% on Rs. 66,000) 1,980	5,280		
To Stock Reserve Account			
(1/6 of Rs. 9,900)			
To Profit and Loss Account	6,220		
(Profit)			
	97,850		97,850

Working Notes

(i) Calculation of Abnormal Loss

Cost of the goods damaged **[1/8 of Rs. 66,000]** **8,250**
Add : Expenses **(1/8 of Rs. 2,000)** **250**
8,500

(3/4 of the Goods were sold. Only 1/4 were left.
1/2 of 1/4 i.e. 1/8 were stolen) (ii) Valuation of Consignment Stock

Invoice price of the goods unsold 9,900
(1/8 of Rs. 79,200)
Add : Expenses (1/8 **of Rs.** 2,000) 250
10,150

(iii) Stock Reserve

1/6 of Rs. 9,900 **1,650**
(Load on Cost is 20/100, therefore Load on Sale
or invoice price is 20/120 or 1/6)

Question. 27 (Loss-In-Transit)

Nagaraj of Kolkata consigned 100 radio sets costing Rs. 500 each to Ram **Lal** of Patna. The invoice was made Performa at Rs. 600 per set. Ram Lal was entitled to a commission of 7.5% on sales *plus* 22.5% *del credere* commission and 10% of any excess price realised over invoice price. Ram Lal was to bear all expenses incurred after the goods reached his godown.

While sending the goods, Nagaraj paid Rs. 1,500 as forwarding expenses and insurance. In transit 10 radio sets were damaged and Nagaraj recovered Rs. 4,000 from Insurance Company. Ram Lal took delivery of the remaining radio sets paying Rs. 4,500 as freight, cartage etc. Ram Lal sold 70 radio sets at Rs. 800 each, 30 of them on credit. Out of which the proceeds of 3 radio sets could not be recovered because of disappearance of the customers. He paid Rs. 500 as storage and selling expenses. Ram Lal sent a bank draft for the amount due to Nagaraj. Show Consignment Account, Ram Lal's Account, Stock Destroyed Account and Goods Sent on Consignment Account in the books of Nagaraj. **[B. Com]**

Answer:

Dr. Consignment to Patna Account Cr.

	Rs.		Rs.
To Goods Sent on Consign-		By Ram Lal (Sales)	56,000
ment Account (100 x 600)	60,000	(70 X 800)	
To Cash Account (Expenses)	1,500	By Stock Destroyed Account	5,150
To Ram Lal (Expenses)	5,000	(Loss in-transit)	
(4,500 + 500)		By Goods Sent on Consign-	
To Ram Lal (Commission) :		ment Account (Load)	10,000
7.5% of Rs. 56,000	4,200	By Consignment Stock	
2.5% of Rs. 56,000	1,400	Account	13,300
10% of Rs. 14,000	1,400	(At invoice Price)	
To Stock Reserve Account	2,000		
(20x100)			
To Profit and Loss Account	8,950		
(Profit)			
	84,450		84,450

Important Calculations

(i) Value of the goods destroyed

	Rs.
Cost of 10 sets (500 x 10)	5,000
Add : Proportionate expenses paid by the consignor (1,500X 10/100)	150
	5,150

(ii) Value of consignment stock

Invoice Price of the unsold Stock (20 * 600)		12,000
Add : Proportionate expenses paid by the Consignor	(20/100 X1,500)	300
Add : Proportionate expenses paid by the Consignee	(20/90X 4,500)	1,000
		13,300

(iii) Calculation of Commission

	Rs.
Ordinary Commission : 7.5% of Rs. 56,000	4,200
Del credere Commission : 2.5% of Rs. 56,000	1,400
Overriding Commission : 10% of Rs.1,4000	1,400

Sale Price	56,000
Less : Invoice Price 70 x 600	42,000
Excess Realised Price Over Sale Price	14,000

Question. 28 (With Opening Stock And Returns) On 1 April, the Consignment to Rangoon Account in the books of Modern Novel Stores, New Delhi, showed a debit balance of Rs. 5,500. This represented the invoice value 100 novels at 25% above cost at Burma Book Depot. On 10 April, they sent another 5,000 books on fiction at a Performa price of Rs. 125 each which was 25% above cost. They paid for packing Rs. 1,000, insurance Rs. 700 and freight Rs. 10,000.

Consignees received the books at the airport on 15 April and paid customs duty and clearing charges Rs. 5,000 and sent a two months bill for 75% of the invoice price. After one month of the receipt of the consignment, the consignee returned 100 books being defective. They paid freight and insurance Rs. 500. By the end of 31 December they had sold the opening stock of 100 books at Rs. 80 each and 4,500 new books at Rs. 150 each. Their expenses were : Advertising Rs. 15,000; salary Rs. 20,000 and service charges Rs. 1,500.

After deducting their expenses and commission at 10% on sale price, consignees sent a bank draft for the remaining balance. Show the consignment, consignee' and goods sent on consignment accounts.

Answer:

Dr. Consignment To Rangoon Account Cr.

	Rs.		Rs.
To Consignment Stock Account **(Opening)** b/d	5,500	By Stock Reserve Account **(Load on opening stock)**	1,100
To Goods Sent on Consignment Account	6,25,000	By Goods Sent on Consignment Account **(Load)**	1,25,000
To Cash Account (Exp.)	11,700	By Goods Sent on	
To Burma Book Depot. (Exp.)	5,000	Consignment **(Returns)**	12,500
To Burma Book Depot.	500	**(100x125)**	
(Expenses on books returned)		By Burma Book Depot	
To Burma Book Depot		(Sale Proceeds)	
Advertising 15,000		(100 x 80) 8,000	
Salary 20,000		(4,500 x 150) 6,75,000	6,83,000
Service Charges 1,500	36,500	By Consignment Stock Account	
To Stock Reserve Account			64,170
To Goods Sent on Consignment Account (Load on books returned)	2,500		
To Burma Book Depot (Commission)	68,300		
To Profit and Loss Account	1,18,270		
	8,85,770		8,85,770

Working Notes

(i) Profit margin (or load/is *25% o£ cost* price which is equal to 20% on invoice (or loaded) price as given below.

Cost Price + Load = Invoice Price = 100 + 25% = 125

If load is 25 (i.e. 25% of cost (100), then

Invoice Price is Rs. 125. So load of Rs. 25 on Rs. 125 means 1/5 of invoice price or 20% of Rs. 125 (invoice price)

(ii) When opening stock is at invoice price, the stock reserve is 20% of invoice price. i.e. 1/5 of Rs. 5500 = Rs. 1,100. This is an opening balance of stock reserve account taken on the credit side of the Consignment to Rangoon. Account,

(iii) The profit margin (Load) included in Goods Sent on Consignment, Goods Returned and Closing stock is 1/5 or 20% of the invoice price,

(iv) Value of the closing stock is arrived as : Rs.

Invoice Price of 500 books @ Rs. 125 each = 62,500

Add : Proportionate expenses paid by :

(Consignor : $\frac{500}{5,000}$ X 11,700 1,170

Add : Proportionate expenses paid by

Consignee : $\frac{500}{5,000}$ X 5,000 500

64,170

(v) Stock Reserve is to be calculated at 20% on Rs. 62,500 only i.e. 12,500. We should not consider proportionate expenses

(vi) Expenses on advertising, salary and service charges are recurring or indirect expenses and hence not considered for stock valuation

Question. 29 (Fall In The Market Value) Vandana Traders of Delhi purchased 10,000 pieces of Sarees @ 100 per Saree. Out of these Sarees, 6,000 were sent on consignment to Vastralaya of Jabalpur at the selling price of Rs. 120 per Saree. The consignors paid Rs. 3,000 for packing and freight. Vastralaya sold 5,000 Sarees at Rs. 125 per Saree and incurred Rs. 1,000 for selling expenses and remitted Rs. 5,00,000 to Delhi on account. They are entitled to a commission of 5% on total sales *plus* a further 20% commission on any surplus realised over Rs. 120 per Saree. 3,000 Sarees were sold at Delhi at Rs. 110 per Saree. Owing to fall in market price, the value of the stock of Sarees in hand is to be reduced by 10%. Prepare the consignment account and trading account in the books of Vandana Traders and their account in the books of the agents M/s. Vastralaya of jabalpur. **[C.A. (Entrance)]**

(**In the Books Of Vanadana Traders) Consignment To Jabalpur Account**

	Rs.		Rs.
To Goods Sent on Consign-		By Vastralaya —Sales	6,25,000
ment Account	7,20,000	By Goods Sent on Consign-	
To Bank Account (Expenses)	3,000	ment Account: Load	1,20,000
To Vastralaya (Expenses)	1,000	By Stock on Consignment at	
To Vastralaya (Commission)	36,250	Invoice Price	1,08,450
To Stock Reserve	18,000		
To Trading Account—transfer			
of Gross Profit	75,200		
	8,53,500		8,53,500

It is assumed that market price at Delhi is now Rs. 90 per Saree.

Dr. Trading Account For the Year Ending On... Cr.

	Rs.		Rs.
To Purchases	10,00,000	By Goods Sent on Consignment	6,00,000
To Gross Profit c/d	20,000	By Sales	3,30,000
		By Closing Stock	90,000
	10,95,250		10,95,250

In the Books of Vastralaya

Vandana Traders Cr.

	Rs.		Rs.
To Bank Account (Expenses)	10,000	By Bank Account—Sale	6,25,000
To Commission Account	36,250		
To Bank (Remittances)	5,00,000		
To Balance c/d	87,750		
	6,25,000		6,25,000

(1) Stock at the end (Delhi)

	Rs.
1,000 Saree @ Rs. 100 each	1,00,000
Less : Reduction in Market Price	10,000
	90,000

(3) Commission

5% on total sales of Rs. 6,25,000	31,250
20% on Surplus over Invoice Price	5,000
(Rs. 6,25,000 - Rs. 6,00,000 = 25,000)	36,250

CHAPTER 4 DEPRECIATION ACCOUNT

Introduction:-

Fixed Assets like Plant & Machinery, furniture etc. purchased, used for production or providing services for number of accounting years, but its value decreases with passage of time and utilization .i.e. by normal wear and tear, change in technology etc. So this diminution in value must be charged from P & L A/c for calculating exact profit. This charge to Profit and loss Account called Depreciation.

Characteristics of depreciation:

- It is related to depreciable fixed assets only.
- It is fall in the book value of depreciable fixed assets.
- The fall in the book value of an asset is due to the use of the asset
- It is a permanent decrease in the book value of an asset.
- It is continuous decrease in the book value of an asset.

Concept of Depreciation:-

- Depreciation means diminution in the value or utility of asset due to normal wear and tear, efflux of time, accident, obsolescence, and fall in market value, depletion or exhaustion or similar causes.
- **Diminution means** – decrease in market value of asset.
- **Wear and Tear** – Due to actual use of assets.
- **Efflux Of time** – Due to passage of time, even if assets are not used.
- **Accident-** Due to any causes like fire, etc.
- **Obsolescence-** Due to technological changes, improvement in production method, changes in market demand for product and service and legal and other restriction.
- **Exhaustion or Depletion-** decrease in value of assets (natural resources) due to consumption i.e. coal mines, etc.
- Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of asset.
- Depreciation includes amortization of assets whose useful life is predetermined.
- Depreciation is charge against profit, it is immaterial whether business enterprises earned profit or not and asset has been used or not.
- Depreciation is provided to ensure sufficient cash for assets replacement.
- Depreciation is process of allocation of cost of fixed assets.
  Depreciable Assets:- are those which are expected to be used during more than one accounting period and have limited useful life.

Objective for providing Depreciation:-

Prime objectives for providing Depreciation are:-

(1) **Correct Income Measurement: -** Depreciation should be charged for proper estimation of periodic Profit or Loss.
(2) **True position statement: -** Depreciation should be charged to know actual financial position.
(3) **Funds For replacement: -** Charging depreciation help to General adequate fund in the hand of business for replacement of asset at the end of its useful life.
(4) **Determine True Cost of production:-** For determining true Cost of production, it is necessary to charge depreciation since it's a item of cost.

Factors in the Measurement:-

Following factors require to be considered for calculating depreciation.
(1)Cost of assets including expenses for installation, commissioning, trial run etc.
(2)Estimated useful life of asset.
(3)Estimated scrap value (if any) at the end of useful life of asset.

Cost of assets:-

Means money spent on acquisition, installation, cost of site preparation, delivery and handling charges, and commissioning as well as on addition or improvement of assets.

Useful life:-

The period over which depreciable assets is expected to be used by enterprises.
The total number of units expected to be produced or obtained from use of asset of enterprises.

Scrap value:-

Determination of scrap value is matter of estimation based on many factors.

- If its value is not significant then it is not considered, if its value is significant its value is considered for charging depreciation at the time of acquisition/installation or at the time of subsequent revaluation of assets.

(1) **Depreciable Amount**:-

- It's a historical cost less estimated residual value.

Method of Providing Depreciation :-

- Methods are based upon formula developed by study over a period of years.
- Two most common method are

- Straight line Method (Most easy method).
- Reducing balance method (Income Tax recognized it).

1. Straight Line Method:-

- In this method a fixed Amount is written off during the working life till asset become nil.
- This method is simple and accurate.
- This method is also known as fixed Installment method /Original cost method.
- Lease holds property generally depreciated by fixed installment method.

$$\text{Straight Line Depreciation} = \frac{\text{Cost of Assets-Scrap value}}{\text{Useful life.}}$$

2. Reducing Balance Method/ diminishing value method/ written down method:--

- Under this method, a fixed percentage of diminishing value of asset is written off each year
- Annual charge of depreciation decreases from year to year.

CHANGE IN METHOD OF DEPRECIATION:

According to **Accounting Standard 10**issued by ICAI, the depreciation method selected should be applied consistently, to provide comparability of the results of operations of the enterprise from period to period.

- A change from one method of providing depreciation to another method should be treated as change in accounting estimate.
- When such a change in the method of depreciation should apply on all assets existing in the group with **prospective effect only.**

CONCEPT BASED QUESTIONS:

Question 1: On 1st Oct.,15, IOCM purchased a building on Hire purchase basis, Payable Rs. 2,00,000 as down and balance in three installments of Rs. 2,00,000, 1,50,000 and 1,00,000 respectively. The above installments include Rs. 40,000, Rs. 30,000 and Rs. 20,000 as interest.Calculate the price at which the building will be recorded in the books of account.

Question 2: On 1st Feb.17, X Ltd. purchased a machine for Rs. 2,00,000. On 1st July,17 it was put to use (installed) and incurred Rs. 25,000 on its installation. But the actual use started on 1Nov 17.

Calculate deprecation for 2017 and 2018. Rate of depreciation 10% p.a. on written down value.

Question 3: On 1st Jan 14, IOCM purchased a machine for Rs. 2,00,000. On 1st Oct.14, a new machine was purchased for Rs. 1,00,000. On 1st Jan. 15, Company purchased another machine for Rs. 50,000 and on the same date first machine was sold for Rs. 1,10,000. On 31st Dec.15, a new machine was purchased for Rs. 1,50,000. On 1st March,17, Second machine became obsolete and sold for Rs. 30,000. Prepare machinery A/c. Rate of deprecation 10% p.a. on WDV. Accounts are closed on 31st Dec every Year.

Question 4: IOCM purchased on 1 Jan 2008 a machine for Rs. 2,40,000 and spent Rs 10,000 on its installation. On 1 October 2008, a new machine costing Rs 3,00,000 was purchased. On 1 April 2009, a new machine was purchased for Rs. 1,00,000. On 1 July 2009, first machine became obsolete and sold for Rs 60,000. On the same day company purchased a new machine for Rs 1, 50,000.

Depreciation was provided annually on 31 December @ 10%p.a. on the original cost of asset. In 2011, however, the company changed the method of providing depreciation and adopted the method of writing off 15% on the written down value. Prepare machinery A/C as it would stand at the end of each year from 2008 to 2011.

Question 5: X ltd purchased on 1 April 2008 a machine for Rs. 3,60,000. It was installed (put to use) on 1 July 2008 and incurred Rs 40,000 as installation charge. On 1 Feb 2009 company purchased another machine for Rs. 2,00,000 and paid Rs. 40,000 on its registration and Rs 10,000 as commission. On 31 Dec 2009 a second hand machine costing Rs 5,00,000 was purchased and incurred Rs 50,000 on its repair.

During 2010, on 1 April first machine became obsolete and auctioned it for Rs 80,000 and paid 10% commission on its sale. On the same date a new machine costing Rs 2,40,000 was purchased .

On 31st Dec 2012, company decided to change the method of charging depreciation from WDV @ 10% to SLM. Prepare machinery A/C from 2008 to 2012 assuming that accounts are closed each year on 31 December.**(HUM MEIN HAI DUM)**

Provision for depreciation

Question 6: On 1st Jan., 14, X Ltd purchased a machine was purchased for Rs. 1,00,000. On 1stjuly 2015 a new machine was purchased for Rs 250,000. On 1st Jan,17, first machine became obsolete and sold for Rs. 20,000. Depreciation is charged @ 10% p.a. on WDV.

Prepare machine A/c, provision for depreciation A/c and depreciation A/c. Accounts are closed on 31st Dec. every year.

Question 7: On 1st April 1997 a firm purchased machinery for 2,00,000. On 1st October in the same accounting year, additional machinery costing Rs. 1,00,000 was purchased. On 1st October 1998, the machinery purchased on 1st April, 1997 having become obsolete, was sold for Rs. 90,000. On 1st October 1999, new machinery was purchased for Rs. 2,50,000 while the machinery purchased on 1st October 1997 was sold for Rs. 85,000 on the same day.

The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year. Show machinery Account, Provision for Depreciation Account for the Period of three years ending 31st March, 2000.

Question 8: On 1Jan 2008, X ltd purchased a machine for Rs 5,00,000. On 1 July 2009, a new machine costing Rs 3,00,000 was purchased. On 1 October in same accounting year a new machinery costing Rs. 1,80,000 was purchased.

During 2010, on 1stDecember company purchased another machine for Rs 1,50,000. On 1 January, company sold its first machine for RS 1,60,000. On 1 April 2012 second machine also became obsolete and sold it for Rs. 80,000. Depreciation is charged @ 10 % on its diminishing value. Prepare machinery A/C, provision for depreciation A/C and machine disposal A/C, assuming that accounts are closed each year on 31st December

Question 9:(Concept of change of method of Depreciation with provision for depreciation)

On 1 Jan 2008, X ltd purchased a machine for Rs 2,00,000. On 1 October 2008, company purchased another machine for Rs. 1,20,000. On 1 July 2009, a new machine costing Rs 80,000 was purchased. On 1 November 2009, company sold its first machine for Rs 45,000. On 31 Dec. 2011, company decided to change the method of depreciation from SLM @10% to WDV.
Prepare machinery A/C and provision for Depreciation and machinery sold account.

PRACTICE QUESTIONS

Question 10: On July1, 1997, A Co. Ltd. Purchases second-hand machinery for Rs. 60,000 and spent Rs. 9,000 on reconditioning and installing it. On January 1,1998 the firm purchases new machinery worth Rs. 36000. On June 30,1999, the machinery purchased on January 1, 1998 was sold for Rs. 24,000 and on July 1, 1999 fresh plant was installed. Payment for this plant was to be made as follows:

July 1,1999	15,000
June 30,2000	19,800
June30, 2001	17,400

Payment in 2000 and 2001 include interest of Rs.4,800 and Rs.2,400 respectively. The company writes off 10 % on the original Cost. The accounts are closed every year on 31s March. Show the Machinery Account for the year ending 31st March. 2000.
B.COM(HONS DELHI)

Question 11:X Co. Ltd. has plant and machinery which on 1st Jan. 1998 was entered in the ledger under two separate account viz. Machinery Rs. 1,28,600 and Provision for Depreciation of Machinery Rs. 72,520. The company maintains a machinery register showing full details. Depreciation is being charged @ 10% p.a. on cost. On 30.6.98 it was decided to stop operation of a section of the plant immediately and sell its machinery ; this had been purchased on 1.1.1989 at a cost (including erection) of Rs. 12,000. It was sold on 15.12.1998 to Alfa Ltd. for Rs. 1600 (ex-factory). The Cost of wages for dismantling was Rs. 100. New and more efficient machinery was purchased from Bita Ltd. on 1.8.98 at a cost (including erection) of Rs. 20,000. This new machinery commenced operation on 1.10.98. Open machinery account provision for depreciation on machinery account and scraped machinery account..
(bas pyar ho gaya mujhe)

Question 12: P**.** Ltd. which depreciates its machinery at 10 % p.a. on Diminishing Balance Method, had on 1st January 2003 Rs.9,72,000 on the debit side of Machinery Account. During the year 2003, Machinery purchased on 1st January 2001 for Rs.80,000 was sold for Rs.45,000 on 1st July 2003 and a new machinery at a cost of Rs. 1,50,000 was purchased and installed on the same date, installation charges being Rs.8,000. The Company wanted to change the method of depreciation from Diminishing Balance Method to Straight Line Method with effect from 1st January 2001. Difference of depreciation upto 31st December 2003 to be adjusted. The rate of depreciation remains the same as before. Show Machinery Account. **(CMA INTER 12 MARKS)**

Question 13: A Company had a balance of Rs.4,05,000 on 1st January, 2003 in its Machinery Account. 10 % p.a. depreciation was charged by w.d.v method. On 1st July 2003, the company sold a part of machinery for Rs.87,500, which was purchased on 1st January2001 for Rs. 1,20,000 as a part of it become useless, and on the same i.e., on 1st July, 2003, the company purchased a new machine for Rs.2,50,000. On 31st December, 2003, the Directors of the company decide to adopt the fixed installment method of deprecation from 1st January, 2001 instead of diminishing balance method. The rate of depreciation will remain the same. Prepare machinery account in the books of Company for the year ending 2003. **[CA-Nov.2004]**

Question 14: X Ltd. purchased on 1st January 2001 a second hand plant for Rs.60,000 and immediately spent Rs.40,000 in putting the same in working condition. On 1st July 2001 additional machinery costing Rs.40,000 was purchased. On 1st January 2003 the plant purchased on 1st January 2001 became obsolete and was sold for Rs.50,000. On 1st July 2003 new machinery was purchased at a cost of Rs. 1,20,000. The firm provided depreciation on straight line method at 10 % per annum on the original cost of the assets. In 2005 the company decided to provide depreciation on written down value basis at 15% p.a. Show Machinery Account for the calendar years 2001 to 2005.

Answer: **Plant and Machinery Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
01.01.01	To Bank A/c (cost)	60,000	31.12.01	By Depreciation A/c:	
01.01.01	To Bank A/c (Overhaul)	40,000		Machine I 10,000	
01.07.01	To Bank A/c (Machine II)	40,000		Machine II 2,000	12,000
				By Balance c/d:	
				Machine I 90,000	
				Machine II 38,000	1,28,000
		1,40,000			1,40,000
01.01.02	To Balance b/d:			By Depreciation A/c:	
	Machine I 90,000			Machine I 10,000	
	Machine II 38,000	1,28,000		Machine II 4,000	14,000
				By Balance c/d:	
				Machine I 80,000	
				Machine II 34,000	1,14,000
		1,28,000			1,28,000
01.01.03	To Balance b/d:		**01.01.03**	By Bank A/c (Sale Proceeds)	50,000
	Machine I 80 000	1,14,000		By P&L A/c (Loss on Sale)	30,000
	Machine II 34,000	1,20,000		(Rs. 80,000 – Rs. 50,000)	
	To Bank A/c		**31.12.03**	By Depreciation A/c	
	(Machine III)			Machine II 4,000	
				Machine III 6,000	10,000
				By Balance C/d	
				Machine II 30,000	
				Machine III 1,14,000	1,44,000
		2,34,000			2,34,000
01.01.04	TO Balance b/d		**31.12.04**	By Depreciation A/c	
	Machine II 30,000			Machine II 4,000	
	Machine III 1,14,000	1,44,000		Machine III 12,000	16,000
				By Balance c/d	
				Machine II 26,000	
				Machine III 1,02,000	1,28,000
		1,44,000			1,44,000
01.01.05	To Balance b/d		**31.12.05**	By Depreciation A/c	
	Machine II 26,000			Machine II 3,900	
	Machine III 1,02,000	1,28,000		Machine III 15300	19,200
			31.12.05	By Balance c/d	
				Machine II 22100	
				Machine III 86700	1,08,800
		1,28,000			1,28,000

Question 15: Hanuman Enterprises purchased on 1.4.95 certain machinery for Rs.72,800 and paid Rs.2,200 on its installation. On 1.10.95 another machinery for Rs.25,000 was acquired. On 1.4.96.the first machinery was sold at Rs.50,000 and on the same date a fresh machinery was purchased at a cost of Rs.45,000.Depreciation was annually provided on 31st March at 10 % p.a. on written down value. On 1.4.97, however, the firm decided to change the method of providing depreciation and adopted the method of providing depreciation @ 10% p.a. on the original cost. Ascertain the value of Machinery as on 31.3.98. **[Ans. Balance of Machinery A/C as on 31.3.98 : Rs.54,750]**

Question 16: On 1st January2001, X Ltd. purchased a machinery for Rs. 12,00,000. On 1st July 2003, a part of the machinery purchased on 1st January, 2001 for Rs.80,000 was sold for Rs.45,000 and a new machinery at a cost of Rs.1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10 % p.a. depreciation on the original cost of the machinery.
Show the necessary ledger accounts assuming that (a) Provision for Depreciation Account is maintained (b) Provision for depreciation Account is not maintained. **[Ans. (a) Machinery Rs.12,78,000; Provision for Depreciation Rs.3,43,900 Loss on Disposal Rs.15,000 (b) Machinery A/c Rs..9,34,100.]**

Question 17:(Provision For Depreciation, Sale of Asset and Change in Method From the Back Date) On 1 April, 1998 a new plant was purchased for Rs. 80,000 and a further sum of Rs. 4,000 was spent on its installation. On 1 October,2000 another plant was acquired for Rs. 50,000. Due to an accident on 3 January, 2001 the first plant was totally destroyed and was sold for Rs. 2,000 only. On 21.1.2002 a second hand plant was purchased for Rs. 60,000 and a further sum of Rs. 10,000 was spent for bringing the same to use on and from 15.3.2002. Depreciation has been provided at 10 per cent on straight line basis. It was a practice to provide depreciation for full year on all acquisitions made at any time during any year and to ignore depreciation on any item sold or disposed of during the year. None of the assets were insured. The accounts are closed annually to 31 March. It is now decided to follow the rate of 20 percent on diminishing balance method with retrospective effect in respect of the existing items of plant and to make the necessary adjustment entry on 1 April, 2002. Required : (i) A Plant Account; (ii) Provision for Depreciation Account; (iii) Journal Entries, where necessary.

Question 18: Voltas Ltd. bought a truck on 1 January, 2000 for Rs. 60,000 and a sum of Rs. 20,000 was spent for various accessories. On 1 July, 2001 another vehicle was purchased for Rs. 52,000. On 1 July 2002, the first truck was sold for Rs. 60,000. On the same date, another truck was purchased for Rs. 50,000. On 1 July 2003, the second vehicle was sold for Rs. 46,000. Rate of depreciation was 10% on the original cost annually on 31 December. In 2002 the method of charging depreciation has changed to diminishing value method, on the balance existing on 31-12-2002 the rate being 15%. p.a Prepare Truck Account for 2000, 2001, 2002 and 2003.
[B.Com (Hons.)]

Answer:

Dr. **Truck Account** Cr.

2000		Rs.	2000			Rs.
Jan.l	To Cash	60,000	Dec. 31	By Depreciation Account		8,000
	To Cash (Accessories)	20,000		By Balance c/d		72,000
		80,000				80,000
2001			2001			
Jan.l	To Balance b/d	72,000	Dec. 31	By Depreciation Account		
	To Cash (Truck II)	52,000		Truck I	8,000	10,600
				Truck II	2,600	
				By Balance/d		1,13,400
		1,24,000				1,24,000
2002	To Balance b/d	1,13,400	2002	By Cash (Sale of Truck I)		60,000
Jan.1	To Cash (Truck III)	50,000	Julyl	By Depreciation Truck I (1)		4,000
			Dec. 31	By Depreciation Account (2)		11,160
				By Balance c/d		88,240
		1,63,400				1,63,400
2003			2003			
Jan.1	To Balance b/d	88,240	Julyl	By Cash (Sale of Truck II)		46,000
July1	To Profit Loss A/c	7,160	Dec. 31	By Depredation (for 6 months) (3)		3,150
				By Depreciation (Truck III) (4)		6,938
				By Balance c/d		39,312
2004						
Jan1	To Balance b/d	95,400				95,400
		39,312				

Working Notes
Concept of Exchange of old assets and loss by fire

1) Depreciation written off in2002 :
   Book value of Second Truck on Jan. 1, 2002
   Rs. 49,400 (52,000-2,600).
   Depreciation @ 15% of 49400 = 7410
   Dep. on Truck III @ 15% on 50,000 for 6 months= 3750

(2) Truck 4: Book Value (1.7.2002)	50,000
Depreciation in 2002 (for 6 months) @ 15%	3,750

	46,250
Depreciation in 2003 @ 15%	6,938
Book Value on 1.1.2004	39,312

Question 19:(Exchange and Loss By Accident) The following information is available from the records of Well Planned Limited in respect of Motor Vehicles used by it in its business: Vehicle No. 1 was purchased for Rs. 20,000 on 1 January, 2012. It was sold for Rs. 2,000 on 1 July, 2015. Vehicle No. 2 was purchased on 1 July, 2012 for Rs. 18,000. Vehicle No. 3 was purchased on 1 January, 2014 for Rs. 12,000 and it was exchanged for a new vehicle No. 5 on January, 1 2016. The cash price of the Vehicle No. 5 was Rs. 10,000 on that date. Vehicle No.4 was purchased on 1 July 2014 for Rs. 10,500. On 1 July, 2017 this vehicle met with an accident and was sold for Rs. 2,500. The company also received Rs. 1,500 from the insurance company in full satisfaction of its claim.

Note: When a vehicle has been used for a part of the year, depreciation is calculated in proportion to such part only.

Required : A consolidated Motor Vehicle Account for the years 2012-17. Depreciation is written off at the rate of 20% p.a. on the original cost**. (HUM MEIN HAI DUM. AUR KISI KE BAS KI BAAT NAHI)**

Other methods of depreciation

1. Sum of years of Digit Method.

- It is a variation of Reducing Balance method.

Formula for calculating Depreciation.

The number of years (including present year) of remaining life of asset.

Original cost − scrap value × ----------

Total of all digit of life of assets (in years)

Suppose the estimated life of assets is 10 year, the total of all digits from 1 to 10 is 55 .i.e. 10+9+8+7+6+5+4+3+2+1 or by formula.

$$\frac{N(n+1)}{2} = \frac{10 \times 11}{2} = 55$$

Depreciation to be written off in the first year will be 10/55 of the cost of asset less estimated scrap value and depreciation for second year will be 9/55 of cost of assets less estimated scrap value and so on.

Question 20. cost of machine= 2,00,000
Scrap value of machine = 50,000
Estimated life of asset = 5 years
Calculate depreciation by sum of year's digit method for the first year and 4th year.

Question 21. Cost of machine = 4,00,000
Scrap value of machine = 1,00,000
Estimated life of asset = 40 years.
Calculate depreciation by sum of years digit method for the first year and 40th year.

(1) **Annuity Method**

- In this method element of interest on capital invested also considered and it write off the value of asset as well as interest cost over the life of assets.
- It is assumed that capital invested on assets if invested elsewhere would earned interest which must be considered as part of cost of Assets.
- Amount of Depreciation is to be charged annually is ascertained from Annuity Tables, to write off interest on capital as well as capital invested on assets.

Relevant Journal entries are:-

(1) For charging interest on assets Account
Assets A/c Dr.
To Interest A/c
(2) For charging Depreciation on asset
Depreciation A/c Dr.
To Assets A/c
(3) For transferring depreciations to P & L A/c

Profit and loss A/c Dr.
To Depreciation A/c

(4) For transferring interest to Profit & Loss A/c
Interest A/c Dr.
To P & L A/c

Question 22.

A lease is purchased on 1st Jan. 2002 for 4 years at a cost of Rs. 20000. It is proposed to depreciate the lease by annuity method charging 5% interest. A reference to the annuity table shows that to depreciate Re. 1 by annuity method over 4 years charging 5% interest, one must write off a sum of Rs. 0.282012 (To write off Rs. 20000, one has to write off every year Rs. 5640.24 (i.e 0.282012 x 20000)
Show the lease account for four year and also the relevant entries in the profit and loss account.

Sol. **Lease A/c**

2002	Account		
1 Jan To Bank	20000	31Dec By Dep. A/c	5640.24
31 Dec To Interest A/C	1000	By Balance c/d	15389.76
(5% on Rs. 20000)	21000		21000
2003			
1 Jan To Bal. b/d	15359.79	31 Dec. By Depreciation	5640.24
31Dec To Interest A/c	16127.75	By Bal. c/d	10487.51
		31 Dec. By Dep. A/c	16127.75
2004		By Balance c/d	
1 Jan To Balance b/d	10487.51		5640.25
31 Dec. To Interest A/C	524.38		5371.65
	11011.89	31 Dec. By Depreciation	11011.89
2005			
1 Jan To Balance b/d	5371.65		5640.24
To Interest A/c	268.59		
	5640.24		5640.24

Profit and Loss Account

2002			
31 Dec. By Depreciation	5640.24	31 Dec. By Int.	1000
	5640.24		1000
2003		2003	
31 Dec. By Depreciation	5640.24	31 Dec. By Interest	767.99
	5640.24		767.99
2004		2004	
31 De. By Depreciation	5640.24	31 Dec. By Interest	524.38
	5640.24		524.38
2005		2005	
31 Dec. By Depreciation	5640.24	31 Dec. By Interest	268.59
	5640.24		268.59

Sinking Fund Method:-

The sinking fund method is adopted to provide depreciation in a case where the nature of assets is such as which require large fund at the time of replacement of such assets. The depreciation fund ensure that when replacement is due , ready cash will be available.

The amount written off as depreciation is kept aside and invested in readily saleable securities. The interest received on securities is also reinvested. The securities accumulate and when the life of the assets expires, the securities are sold and new assets are purchased with the help of the sale proceeds.

Since, the securities always earn some interest, it is not necessary to invest the amount equal to full amount of depreciation. It may be something less.

- ⇨ How much amount is to be invested every year so that a given sum is available at the end of a given period, depends on the rate of interest and will be known from the sinking fund table.
- ⇨ Sinking fund table shows- how much is to be invested every year together with interest earned so that at the end of the period one get Rs. 1.00.

At the end of First year: 1 For transferring of depreciation to sinking fund: Depreciation A/c Dr To Depreciation Fund A/c. (Being amount of depreciation transferred to Depreciation Fund)	[with the installment calculated with the help of Sinking Fund Table]
2. For charging depreciation to Profit & Loss A/c: Profit &Loss A/c Dr. To Depreciation A/c (Being the provision made for depreciation)	
3. On investment of amount of depreciation: sinking fund Investment A/c Dr. To Bank A/c (Being cash invested)	
At the end of Second Year: 1. For interest earned on Depreciation fund investment: Bank A/c Dr. To interest on Sinking Fund investment A/c (being receipt of interest on Sinking Fund Investment)	[with the amount of interest actually received on investment]
2. For transfer of aforesaid interest to Sinking Fund interest on Sinking Fund investment A/c Dr. To Sinking Fund A/c (Being amount of depreciation transferred to depreciation fund)	[with annual investment]
3. For transferring of depreciation to sinking Fund A/c depreciation A/c Dr. To Sinking Fund A/c (Being amount of depreciation transferred to Depreciation Fund)	
4. For charging depreciation to Profit & Loss A/c profit & Loss A/c Dr. To Depreciation A/c (Being the provision made for depreciation)	
5. On investment of amount of depreciation and interest: Sinking Fund Investment A/c Dr. To Bank (Being amount of installment of depreciation and interest invested)	

In the last year: 1. On receipt of interest on sinking Fund Investment: Bank A/c Dr. To Interest on Sinking Fund Investment A/c (Being receipt of interest on Sinking Fund Investment A/c)	[with the amount of interest actually received on investment]
2. On transfer of amount of interest to Depreciation fund A/c: Interest on Sinking Fund Investment A/c Dr. To Sinking Fund A/c (Being traf. of int. on Sinking Fund Investment to Sinking Fund A/c)	
3. For transferring of depreciation to Sinking Fund A/c: Depreciation A/c Dr. To sinking Fund A/c (Being transfer of depreciation to Sinking Fund A/c)	[with annual investment]
4. For charging depreciation to Profit & Loss A/c: Profit and Loss A/c Dr. To Depreciation A/c (Being provision of Depreciation.)	
5. On receipt of amount from Sinking Fund Investment: Bank A/c Dr. To Sinking Fund Investment A/c (Being cash received on Sinking Fund Investment)	[with the net sale proceed; of depreciation fund Investment]

6. For transfer of profit (if any) earned on Sinking Fund Investment: Sinking Fund Investment A/c Dr. To Sinking Fund A/c (Being traf. of profit on Sinking Fund investment to Sinking Fund A/c.)	
7. For transfer of loss (if any) incurred on Sinking Fund Investment: Sinking Fund A/c Dr. To Sinking Fund Investment A/c (Being transfer of loss on Depreciation Fund Investment to Depreciation fund A/c)	
8. Sinking Fund A/c Dr. To fixed assets A/c (Being transfer of Balance of fixed Assets to Dep. Fund A/c)	[with the book value of assets]
9. Sinking fund A/c Dr. To Profit and Loss A/c (Being transfer of balance of Sinkingg Fund A/c to profit and Loss A/c)	
10. Profit and Loss A/c DR. To Sinking Fund A/c (Being transfer of balance of Sinking Fund A/c to P & L A/c)	

(2) **Machine hour Method:-**

- Under this method, depreciation is calculated on the basis of machine hour that machine worked.
- Machine hour rate of depreciation is calculated after estimating the total number of hours that machine would work during its whole life.
- However total number of machine hour during its life may varied from time to time on consideration of changes in economic and technological conditions, so in those circumstances we will adjust depreciation accordingly.
- It is slight variation of straight line method.

Question 23:- machine was purchased for Rs. 3, 00,000 having an estimated total working hour of 24000 hours. The scrap value is expected to be Rs. 20000 and anticipated pattern of distribution of effective hours is as follows

Year	
1—3	3000 hour per year
4—6	2600 hour per year
7—10	1800 hour per year

Solution:-

Annual depreciation under Machine hour Rate Method.

Year	Annual Depreciation		
1—3	$(300000-20000) \times \frac{3000}{24000}$	=	Rs. 35000
4—6	$(300000-20000) \times \frac{2600}{24000}$	=	Rs. 30333
7—10	$(300000-20000) \times \frac{1800}{24000}$	=	Rs. 21000

(3) **Production Units Method:-**

- Under this Method, depreciation is calculated; on the basis of production units that machine will produce during its useful life.

$$\text{Depreciation for the period} = \text{Depreciable Amount} \times \frac{\text{Production during the year}}{\text{Estimated total production}}$$

Question 24:-
A Machine is purchased for Rs. 200000. Its estimated useful life is 10 years with a Residual value of Rs. 20000. The Machine is expected to produce 1.5 lakh units during its life time. Expected production is as follows:

Year	Production
1—3	20000 Units per year
4—7	15000 Units per year
8—10	10000 Units per year

Sol.

Year	Annual Depreciation		
1—3	(200000-20000) x 20000/150000	=	Rs. 24000
4—7	(200000-20000)x 15000/1500000	=	Rs. 18000
8—10	(200000-20000)x 10000/150000	=	Rs. 12000

(4) **Depletion Method:-**
- This method is adopted for wasting assets like quarries, mines etc.
- Under this method, depreciation is calculated on the basis of quantity extracted from total estimated quantity.
- Annual depreciation will be quantity extracted multiplied by rate per unit.

Question 25:-
M/S Rinku & Co. took lease of a quarry on 1-1-2003 for Rs. 100,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction Pattern is given on following table:

Year	Quantity of Mineral Extracted
2003	2000 Tonnes
2004	10000 Tonnes
2005	15000 Tonnes

Show the Quarry Account and Depreciation Account for each year from 2003 to 2005.

Solution **Quarry lease Account**

2003			2003	By Depreciation	100000
1Jan	To Bank A/c	10000000	31Dec.		9900000
		10000000		By Bal. c/d	10000000
2004					
1Jan	To Balance b/d	9900000	31Dec.	By Depreciation	500000
		9900000	2004	A/c	9400000
					9900000
2005	To Balance b/d	9400000	2005	By Depreciation	750000
1Jan		9400000	31Dec.	A/C	8650000
				By Balance c/d	9400000

Depreciation Account

2003			2003		
31Dec	To Quarry Lease A/c	100000	31Dec	By P & L A/c	100000
		100000			
2004					100000
31Dec	To Quarry Lease A/c	500000	2004		
		500000	31Dec	By P & L A/c	500000
2005					500000
31Dec	To Quarry Lease A/c	750000	2005	By P & L A/c	750000
		750000	31Dec		750000

CHAPTER 5. RECTIFICATION OF ERRORS

The term 'error' refers to **unintentional mistakes** in financial information, e.g. mathematical or clerical mistakes, oversight or misinterpretation of facts, or unintentional misapplication of accounting policies.

While recording transactions and events various errors may be committed unintentionally. When a journal entry contains an error, the entry can be erased or crossed out and corrected—if the error is discovered immediately. However, if the errors are detected after posting to ledger accounts, the correcting entries are made. The correcting entry is recorded in journal and posted to the general ledger exactly as regular entries are.

Example:

(i) A repair expenses was erroneously debited to Plant and machinery on November 25. The error is discovered on December 31:

Corrective Entry: 31st Dec. Repair Expenses A/c ———— Dr.

To Plant and Machinery A/c

The corrective entry shows a credit to plant and machinery to cancel of offset the erroneous debit to plant and machinery.

(ii) A collection on account was erroneously credited to sales on Jan.1 The error is discovered on Mach 26.

Corrective Entry: March 26 Sales Account Dr.

To sundry Debtors A/c

The debit to Sales in the correcting entry offset the incorrect credit to sales in the erroneous entry. The credit to Account Receivable in the correcting entry places the collected amount where it belongs.

Some errors are counter balanced:--- Accounting errors that are undetected can affect a variety of items, including revenues and expenses for a given period. Some errors are counterbalanced by offsetting errors in the ordinary accounting process in the "next period. Such errors misstate net income in both periods, but by the end of the second period the errors are counterbalance, and they affect the balance sheet of only first period, not the second period.

Example: A payment of Rs. 10,000 in March 2003 for Rent for the month April 2003. Instead of recording it as prepaid rent, the payment was recorded as Rent Expenses.

The effect of this recording error would be to:

i. overstate rent expenses for the year 2002-2003 and understate year-end assets by Rs. 10,000 for the first year end and
ii. Understate rent expense for the second year.

Errors that are not counterbalanced in the ordinary book-keeping process will keep subsequent balance sheets in error until specific correcting entries are made.

A Trial Balance is very good way of giving a clear indication of some mistakes that may be there. This will be shown immediately, if the totals of the two columns of the trial balance differ. Thus, trial balance is essential to ensure that mistakes do not remain unearthed. However, the agreement of trial balance do not show conclusively that no mistakes have remain undetected. Some errors will not be disclosed by the trial balance whereas some will be. An agreed trial balance, therefore, is only a reasonable proof of arithmetic accuracy of books

DIFFERENCE IN TRIAL BALANCE: ERRORS

Apart from error in totalling the two columns of trial balance, the following mistakes will be shown up by the trial balance , because then the trial balance will not agree:

(a) Mistake in transferring the balance of an account to Trial balance.
(b) Omitting to write the balance of an account in the trial balance.
© Mistake in balancing
(d) Making an entry on the wrong side.
(e) A mistake in the casting of subsidiary books.
(f) Omitting to post the discount columns of the cash book.

In spite of the agreement of the trial balance, the following types of error will not be disclosed because they do not upset the equation: DEBIT = CREDIT.

Omitting to record a transaction entirely in subsidiary books.

A wrong entry in the subsidiary books.

1. Posting an entry on the correct side but in the wrong account head
2. An error of principle- where by an assets is transferred as an expense or liability is treated as an income.
3. Compensating errors.

- **CLASSIFICATION OF ERRORS(most. imp)**

a)	Error of omission	➢ A transaction entirely omitted to record in original books or partially omitted while posting.
b)	Error of commission	➢ Wrong posting either of amount or on the wrong side, or in the wrong account.
c)	Error of principle	➢ Wrong classification of expenditure or receipt
d)	Compensating error	➢ One error compensated by the error i.e. an error which cancels themselves out.

- **STEPS TO LOCATE A MISTAKES**

The following steps are suggested to find out errors:

1. Total the debit and credit columns of trial balance again
2. See the balances of all accounts, including the cash and bank balances, have been written in the trial balance.
3. Find out the difference in die trial balance. Look for such accounts as show this amount it is possible that the balance of the particular account has been omitted from the trial balance. Account showing equal to half the difference should also be checked; the amount may have been written on the wrong side of the trial balance.
4. See that there are no mistakes in the balancing of the various accounts.
5. Recheck the totals of the subsidiary books, especially if the mistake is of 1,10,100 and so on.
6. If the difference is a large one, compare the figures with the trial balance of the corresponding date of the previous year, Any account showing rather large difference over the figure HI she corresponding trial balance of the previous year, should be rechecked.
7. Posting of all amounts corresponding to the differences or half the difference should be checked
8. If the differences are still not traced posting of all accounts will have to be checked

RECTIFICATION OF ERRORS:-- Correction of errors, if located after some time, is always made by a proper journal entry and not by simply crossing the wrong amount and inserting the right one. A complete explanation for the correction made should be given so that no difficulty is experienced later when accounts are checked.

From the point of view of rectification, errors are of two type:—

(a) Error that affect the trial balance; and
(b) Errors that do not affect the trial balance.

SUSPENSE ACCOUNT:-- If the difference in the trial balance is not quickly located, it is usual to put the difference to suspense account in order to make the trial balance balanced.

(c) If the debit side is short, the suspense account will be debited saying "To differences in trial balance" and
(d) Similarly, the suspense account will be credited if the credit side is short.
(e) The difference in the trial balance is due to type of mistakes which affect only one account such as wrong posting of an account, mistake in totalling a subsidiary book etc. Such types of mistakes are only reflected in suspense account.

When the difference in trial balance is put to suspense account the account to be corrected will be debited or credited as the case may be and the journal entry will be completed by crediting or debiting the suspense account. When all the mistakes have been corrected, the suspense account will show no balance.

CORRECTION IN THE NEXT TRADING PERIOD:-- Since it is necessary to ascertain the profit or loss of each period separately, it would be necessary to rectify errors in such a way as not to affect the current year's expenses, losses or incomes.

To take an example, if an error committed in 2001-2002 is rectified in 2002-2003 by debiting purchase account, it would mean that it would be treated as expenditure for 2002-2003. This would be wrong and (proper way is to leave the purchase account and all other nominal account for 2002-2003 unaffected *by* cm n 2001-2002.

For this purpose, a separate account, profit and loss adjustment account, should be opened and all debit and credit in respect of nominal accounts for errors committed in previous trading period should be passed through that account. The balance of this account is finally transferred to the capital account

Distinction between Error of Principal and Error of Omission (most imp.)

Errors of Principal	Errors of Omission
• This error does not affect Trial Balance, • This error is due to wrong classification of Capital and Revenue expenditure or personal and nominal account • This is not a clerical error. • This error affects profit of the business. • This error will affect value of asset or liability	• This error may affect Trial Balance • This error is due to complete omission of a transaction or partial omission • This is a error may or may not affect profit of the business. • This error may or may not affect value of assets or liability

QUESTION 1. Pass journal entries to rectify the following errors and prepare suspense account:

I. Rs. 1,080 received from Mohan was posted to the debit of his account.
II. Rs. 200 being purchases returns was posted to the debit of purchases account.
III. Rs. 400 received as discount was posted to the debit of discount account.
IV. Rs. 1,148 paid for repairs of motor car was debited to motor car account as Rs. 148.
V. Rs. 400 paid to Suresh was debited to Satish.

QUESTION 2. On 28th February,2017, the trial balance of X did not agree. X put the difference in a newly opened suspense account. Subsequently, the following errors were located:

i. The returns inward book for January,2017 had been cast Rs.1000 short.
ii. A purchase of Rs. 1,671 had been posted to the debit of the creditor's account as Rs. 1,617. The creditor is Panna and Co.
iii. A sale of Rs. 2,000 to Singh and Co. was credited to the account of the customer.
iv. A sale of Rs. 4,000 has been passed through the purchases book. The customer's account has, however, been correctly debited.
v. While carrying forward the total of sales book from one page to the next, the amount was written as Rs. 1,76,658 instead of Rs. 1,67,568.

Pass journal entries to rectify the above mentioned errors. Also prepare the suspense account assuming that all errors have been located.

QUESTION 3. A merchant while balancing his books of account finds that the trial balance shows excess debit of Rs. 1,700. Being required to prepare the final accounts, he places the difference to a newly opened suspense account which he carries forward. In the next accounting year, the following errors are discovered:

i. Goods bought from Narayan amounting to Rs. 5,000 had been posted to the credit of Narayan as Rs. 5,500.
ii. A discounted bill receivable for Rs. 20,000 was returned by the bank, as having been dishonored. The amount of the bill was credited to bank and debited to bills receivable account.
iii. An item of Rs. 1,000 entered in the sales return book was posted to the debit of Pandey who had returned the goods.
iv. Sundry items of furniture sold for Rs. 26,000 had been entered in the sales book. Ignore depreciation and profit or loss on the sale.
v. Discount amounting to Rs. 200 from a creditor had been duly entered in the creditor's account, but not posted to discount account.

Draft journal entries necessary for rectifying the abovementioned errors. Prepare the suspense account and show the ultimate effect of the errors on the last year's profit by preparing profit and loss adjustment account.

QUESTION 4. An accountant prepared a trial balance on 31st december,2017, which revealed a difference in the books of account. He put the difference in a newly opened suspense account. He detected the following errors:

i. The total of the returns outward book, Rs. 4,200 had not been posted in the ledger.
ii. A purchase of Rs. 3,500 for Y had not been entered in the purchases book. However, Y's account had been correctly credited with the amount.
iii. A sale of Rs. 3,900 to Z had been credited to his account as Rs. 2,900.
iv. Furniture sold for Rs. 5,400 had been entered as Rs. 4,500 in sales books.
v. Goods worth Rs. 500 taken by proprietor for personal use had not been recorded at all.
vi. Wages paid for on installation of machinery, Rs. 1,000 had been debited to wages account.

Pass journal entries to rectify the above mentioned errors and prepare suspense account assuming that all the errors have been located.

QUESTION 5. Pass journal entries to rectify the following errors assuming the existence of suspense account:

(i) Goods bought from Vijay amounting to Rs. 27,500 were posted to the credit of his account as Rs. 25,700.
(ii) Sales book was overcast by Rs. 10,000.
(iii) While carrying forward the total of one page of the purchases book to the next page, the amount of Rs. 64,750 was written as Rs. 61,750.
(iv) Purchases returns to Goenka Brothers worth Rs. 15,500 were not recorded in purchases returns book, but the account of Goenka Brothers was duly debited for the amount.
(v) Drawings of goods by proprietor costing Rs. 1,500 were not recorded in the books of account.

The suspense account had a debit balance of Rs. 1,600 prior to the above adjustments. Prepare the suspense account and comment on the same.

Answer : **Journal entries**

(i)	Suspense A/c To Vijay (Being goods brought from Vijay amounting to Rs. 27,500 was posted to credit of his account as Rs. 25,700)	Dr.	1,800	1,800
(ii)	Sales A/c To Suspense A/c (Being sales book was over cast by Rs. 10,000)	Dr.	10,000	10,000
(iii)	Purchases A/c To Suspense A/c (Being balance of purchases book carried forward as 61,750 instead of 64,750)	Dr.	3,000	3,000
(iv)	Suspense A/c To Purchases Return A/c (Being Purchases return to Goenka Brother worth Rs. 15,500 were not recorded in Purchase Return Book, now rectified)	Dr.	15,500	15,500
(v)	Drawings A/c To Purchases A/c (Being drawing of goods not recorded earlier, now rectified)	Dr.	1,500	1,500

Suspense A/c

Particulars	**Amount**	**Particulars**	**Amount**
To Balance B/d	1,600	By Sales A/c	10,000
To Vijay	1,800	By Purchases A/c	3,000
To Purchase Return A/c	15,500	By Balance c/d	5,900
	18,900		18,900
To Balance B/d	5,900		

QUESTION 6. Rectify the following errors and prepare the suspense account on the assumption that all the errors has been located and rectified:

(i) A Sum of Rs. 10,800 received from Mohan was posted to the debit of his account.
(ii) Rs. 2,000 being purchases returns were posted to the debit of purchases account.
(iii) Discount received Rs. 400 was posted to the debit of discount account.
(iv) Rs. 11,480 paid for repairs of motor car were debited to motor car account as Rs. 1,480.
(v) A sale for Rs. 23,500 to Sethi was entered in the sales book as Rs. 25,300.
(vi) While carrying forward the balance on one page in kalra's account, the amount of Rs. 2,500 was written on the credit side instead of the debit side.

Answer :

(i)	Suspense A/c Dr. To Mohan A/c (Being a sum of Rs. 10,800 was received from Mohan, posted to his debit, now rectified)	21,600	 21,600
(ii)	Suspense A/c Dr. To Purchase A/c To Purchase Return A/c (Being purchases return wrongly debited to Purchase A/c, now rectified)	4,000	 2,000 2,000
(iii)	Suspense A/c Dr. To Discount A/c (Being discount received was debited to discount A/c, now rectified)	800	 800
(iv)	Repairs A/c Dr. To Motor Car A/c To Suspense A/c (Being repairs to Motor car was debited to motor car A/c, now rectified)	11,480	 1,480 10,000
(v)	Sales A/c Dr. To Sethi A/c (Being sales of Rs. 23,500 to sethi entered in sales Book as Rs. 25,300, now rectified)	1,800	 1,800
(vi)	Kalara Dr. To Suspense A/c (Being debit balance of Rs. 25,00 in Kalra's A/c wrongly written on the credit side of the A/c now rectified	5,000	 5,000

Dr. Suspense A/c Cr.

Particulars	Amount	Particulars	Amount
To Mohan	21,600	By Difference in Trial Balance	11,400
To Purchase A/c	2,000	(Bal. Fig)	
To Purchase Return A/c	2,000	By Repairs A/c	10,000
To Discount A/c	8,00	By Kalara	5,000
To Return Outward A/c			
	26,400		26,400

QUESTION 7. On 28th February, 2017, the trial balance of Zahir did not agree. The proprietor put the difference in a newly opened suspense account. Subsequently, the following errors were located:

(i) The purchases book for January, 2017 has been cast Rs. 1,000 short.

(ii) A credit sale for Rs. 6,000 has been passed through the purchases book. The customer's account has, however, been correctly debited.

(iii) A credit purchase for Rs. 6,710 had been posted to the debit of the creditor's account as Rs. 6,170; Rajan being the concerned creditor.

Pass journal entries to rectify the above mentioned errors. Also prepare the suspense account assuming that there are no other errors.

Answer

1)	Purchase A/c To suspense A/c (being purchased book has cast short now rectified)	1000	 1000
2)	Suspense A/c To purchases To sales A/c (being a credit sales has been pass through the purchases book now rectified)	12000	 6000 6000
3)	Suspense Dr To Rajan (being credit purchase for Rs 6710 to Rajan's debit now rectified)	12880	 12880

Suspense A/c

Particulars	Amount	Particulars	Amount
To Purchases A/c	6000	By Differences in trial balances	238800
To Sales A/c	6000	By purchases	1000
To Rajan A/c	12800		
	24880		24880

QUESTION 8. A book –keeping finds that trial balances is out by excess debit of Rs 500. He puts the differences to a newly opened suspense account. Later on he detects the following errors :
1) Goods worth Rs 15000 purchased from Ravi but entered in the sales book .
2) Received a promissory note for Rs 25000 from Arun but entered in the bill payable book.
3)An item of Rs 3500 relating to prepaid rent accounted was omitted to be brought forward .
4) An item of Rs 2000 in respect of purchased returns to Roshan had been wrongly entered in the purchased book .
5) Rs 5000 paid to Hari against acceptances was debited to Harish
6) A bill was received for repairs of furniture for Rs 2500 . The amount was debited to furniture account .
Pass journal entries to rectify the above errors .

Answer :-

1)	Purchases A/c Sales A/c To Ravi (being goods purchased from Ravi entered in sales book now rectified)	15000 15000	 30000
2	Bill receivables A/c Bill payable A/c To Arun (being promissory note received from Arun entered in bills payable book now rectified)	25000 25000	 50000
3	Prepaid Rent A/c To Suspense A/c (being prepare rent accounted omitted to be brought forward now rectified)	3500	 3500
4	Suspense A/c To Purchase A/c To Purchase returns A/c (being Purchase returns to Roshan wrongly entered in purchase book mow rectified)	4000	 2000 2000
5)	Bills payable A/c To Harish (being cash paid to Hari against our acceptances debited to Harish now rectified)	5000	 5000
6)	Repairs A/c To Furniture A/c (being repairs to furniture debited to furniture A/c now rectified)	2500	 2500

QUESTION 9. On 31st March 2017 the trial balances of Kunal did not agree. To prepare the final accounted the proprietor put the differences in a newly opened suspense account. In the next accounting year the following errors were located :
1) Rs 18500 paid for the purchased of a machinery was charged to office expenses account .
2) Cash sales of Rs 3550 was posted as Rs 3505
3) Purchase return book was under cast by Rs 100.
Pass journal entries to rectify the above mentioned errors .

Answer :

Machine A/c To Offices expenses (being of machines charges to expenses accounted error now rectified)	18500	 18500
Suspense A/c To cash sales (being short cash sales , error now recorded and rectified)	45	 45
Suspense A/c To Purchases Return A/c (under cast of Purchases Return books error now rectified)	100	 100

QUESTION 10. On 31st March 2017 an accounted of a sole proprietorship concern could not agree his trial balances . He put the difference in a newly opened suspense accounted and closed the books of accounted for the year. In the subsequent accounting year the following error in the books for the year 2016-17 were located :

1) Rs 8000 paid for purchase of office furniture was posted to the purchase account.
2) The sales book was over casted by Rs 100.
3) Erections of machinery Rs 2750 had been debited to wages accounted as Rs 5250.
4) A cheque for 7330 was received from Rao after allowing him a discount of Rs 70 . It was endorsed in favour of Sen in full settlement of Rs 7500, The cheque was dishonoured but no entry for dishonour was passed in the books.
Pass journal entries for rectify the above mentioned errors. Also prepare the suspense account and Profit and loss adjustment assuming that all the errors have been located.

Answer :-
Rectifying journal Entries

Furniture A/c To P& L Adjustment A/c (being the cost of office furniture purchased wrongly debited to purchase A/c now rectified)	8000	 8000
P&L adjustment A/c To Suspense A/c (being sales book was overcast now rectified)	100	 100
Machinery A/c Suspense A/c To Profit & Loss Adjustment A/c (being Rs 2750 paid for erection of machinery debited to wages A/c as Rs 5250 now rectified)	2750 2750	 5500
Rao Profit & loss Adjustment A/c To Sen (being cheques received from endorsed in favour of Sen in full settlement of Rs 7500 was dishonoured & now the entry was made)	7400 100	 7500

Suspense A/c

Particulars	Amount	Particulars	Amount
To profit & loss A/c Adjustment A/c	2500	BY differences in Trial balances BY Profit & loss Adjustment A/c	2400 100
	2500		2500

Profit & loss Adjustment A/c

Particulars	Amount	Particulars	Amount
To suspense A/c	100	By Furniture A/c	8000
To Sen	100	BY Machinery	2750
To Capital	13050	By Suspense	2500
	13250		13250

QUESTION 11. The book of account of Jawahar for the year ended 31st March 2017 were closed with different in the trial balances carried forward . Subsequently the following errors were detected :
1) Rs 1500 being the total of discount column on the credit side cash book was not posted in general ledger .
2) Closing stock was overstated by Rs 9000 being casting error in the schedule of inventory.
3) Return outward book was under cast by Rs 150.
4) A credit sales of Rs 870 was under wrongly as 780 to the customer's account.
5) Rs 6000 being the cost of purchase of office furniture was entered in the purchases book.
Pass rectified entries and prepare suspense account and find out the effect of rectification of errors on profit as on 31st March 2017.

QUESTION 12. Before preparing the final accounts, an accountant prepared a trial balances which did not agree. He transferred the different to a suspense account. Before preparing the final account he was able to locate the followed errors :
1) Rs 20000 paid by way salaries were not posted from the cash book to the ledger.
2) Rs 100 paid for conveyances was debited to car maintenance accounted
3) Purchase account includes purchase of machine costing Rs 25000.
4) The cash column in the cash book on the receipt side was under cast by Rs 300.
Pass journal entries to rectify the above mentioned errors.

Question 13. During the course of an accounting year accountant prepared a trial balances which did not tally. He put the differences in a suspense accounted. Subsequently, he located the following errors in his book of account :
1) The total of the returns outward book Rs 21500 has not been posted.
2) A sales of Rs 4300 to Ramesh has been credited to him as RS 3400.

3) A sales of Rs 2960 to Shyam has recorded in sales book as Rs 2690.
4) Old furniture sold for cash worth Rs 5400 has been entered in sales account as Rs 4500. There was no profit or loss on sales.
Pass journal entries to rectify the above mentioned errors.

Answer :-

1	Suspense A/c To Returns Outward A/c (being rectification of the error in which total of returns outward book was not posted)	21500	21500
2	Ramesh To Suspense A/c (Sales of Rs 4300 to Ramesh wrongly credited to him as Rs 3400 error now rectified)	7700	7700
3	Shyam To sales (Being wrong amount of sales to Shyam entered in sales book now rectified)	270	270
4	Sales A/c Suspense A/c To furniture A/c (being wrong recording of sales of furniture to sales account error now rectified)	4500 900	5400

QUESTION 14. At the end of an accounting year trial balances of a concern agree but the followed errors were discovered after preparing the final accounts.
1) No adjustment entry was preparing for an amount of Rs 2000 of outstanding rent.
2) Purchases book was over cast by Rs 1000.
3) Depreciation of Rs 4000 on machinery had omitted to be recorded in the books
4) Rs 600 paid for purchases of stationery had been debited to purchases account.
5) Sales book was over cast by Rs1000.
6) Rs 5000 received in respect of book debts had credited to sales accounts.
Show the effect of each one of the above-mentioned errors on the net profit of the year to which these errors pertain. If the net profit as profit and loss account is 322000 what is the correct profit arrived at after the rectification of above errors?
Answer :-

Statement showing effect on profit & loss A/c

Particulars	**Overstated**	**Understated**
No entry for outstanding rent	2000	----
Purchase overcastted	---	1000
Depreciation omitted to be recorded	4000	---
No entry		
Sales overcastted	1000	---
Sales overcastted	5000	---

Profit overstated = 12000-1000 = 11000
Correct profit = 322000-11000
= 311000

QUESTION 15. The book of Ramesh did not agree. The differences of Rs 27000 in trial balances were places to the debit account. Subsequently the following errors were located. Pass journal entries to rectified the errors and prepare suspense account .

1) The total of the purchases returns book Rs 2100 has not been posted
2) A sales of Rs 4300 to Ram has been credited to his account as Rs 3400
3) A purchase from Suresh for Rs 4000 has been entered in the sales book. However Suresh has been correctly credited with Rs 4000.
4) Old furniture sold on credit for Rs 5400 has been recorded in the sales book as Rs 4500.
5) Goods taken away by Ramesh the proprietor for the personal use worth Rs 750 have not been recorded in the book of account at all.

CHAPTER 6. PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORSHIP

FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES:-

Introduction:-

Non-Manufacturing entities are trading entities which are engaged in the purchase and sale of goods at profit without changing form of goods.

These entities do not process the goods.

- Profit is obtained by preparing Income statement (i.e trading A/c and profit and loss).
- Financial position of enterprises can be known by preparing Position statement (Balance Sheet).

(a) INCOME STATEMENT:-This statement is prepared at the close of year. Income statement is divided into two parts for non-manufacturing concerns.

Trading Account:- At the end of the year every business must ascertain it profit or loss. This is done in two-stage (I) finding out the gross profit (or gross loss) and then finding out net profit (or net loss).

Gross profit is the excess of the net sales (i.e. sales - sales return) over the cost of goods sold.

Cost of goods sold equal to opening stock + purchases during the year + freight inward - Closing Stock of goods.

The usual way to ascertain gross profit is by means of an account called the Trading Account.

In a Trading Firm where business consist of purchases and sales only, the Trading Account is debited with the;

Value of the opening stock, purchases made during the year; and

any other expenses which have been incurred to bring the purchased goods to the firm's factory or otherwise to make the goods ready for sale. The examples of such expenses are freight, customs duty and octroi duty on goods purchase.

In a manufacturing business, all expenditures which are incurred up to the time the goods are ready for sale is debited to trading account. Examples are purchase of raw material, wages paid to workmen, fuel and power used to run the machinery, carriage on purchase etc.

In respect of Sales, the following point should be taken in to consideration: -

If goods have been sold but not yet dispatched then the goods sold should not be included in the closing stock. Such goods should be kept apart.

If property in the goods has not yet passed to the buyer, then it should not be treated as a sale. In such case the entry for sale should be reversed.

No sales out of the goods received on behalf of others should be treated as sale. Such sales have to be credited to the account of the consignor. If the sales have already credited to Sales Account, the following entry should be passed:

Sales Account		- Dr	****
To consignor's account			****

Sale of Fixed Assets or of investment should be excluded from sales. Thus if old assets is sold, it must not be credited to sales Account. If it has been credited, the following entry should be passed:

Sales Account	— Dr.	****	
To assets Account			****

Goods Sent on Approval:-- Goods sent on 'approval' or 'on sale or return' basis, means the delivery of the goods to the customers with the option to retain or return them within a specified period. When such transactions are few, these transactions are accounted for as an ordinary sale. If at the year end goods are still lying w*ith* customers and the specified period has not yet expired, the original entry made for sale is cancelled. Like an ordinary closing stock, such goods are considered as stock lying with customers on behalf of sellers and are valued at cost.

Format of TRADING ACCOUNT For the year ended 31st March, 20…

Particulars		Amount	Particulars		Amount
To Opening Stock		******	By Sales	*****	
To Purchase (Cash + Credit)	*****		**Less:** Sales Return	*****	******
Less: Purchase Return	*****				
Goods withdrawn for personal use	*****		By Abnormal Loss (if any)		
			Loss by fire	*****	
Goods distributed by way of free sample	*****		Loss by theft etc.	*****	******
Goods given as charity	*****	******	By Closing Stock		******
To Customs Duty		******			
To Octroi Duty		******	By Gross Loss trad. to P & L A/c		******
To Excise Duty		******			
To Freight inward		******			
To Carriage inward		******			
To Wages and Salaries		******			

To Rent & Taxes (Factory building.)	******		
To Factory Lighting (electricity)	******		
To Power & Fuel	******		
To **Gross Profit carried**			
to profit & Loss A/c	******		
TOTAL	******	**TOTAL**	******

The Profit and Loss Account starts with the credit from the Trading Account in respect of Gross Profit or Debit if there is Gross Loss. Thereafter, all those expenses, which have not been debited to trading account, arc debited to profit and loss account. If there are any incomes or gains, for e.g. rent received on premises sublet. interest on investments, discount received from suppliers, these will be credited to Profit and Loss Account

Format of Profit and Loss Account (For the year ending on----)

Particulars		Amount	Particulars	Amount
To Gross Loss b/d		******	By Gross Profit b/d	******
To Salaries & Wages		******	By Profit on Sale of fixed assets	******
To Salaries to Proprietor/ Partners'/ Directors'		******	By Profit on Sale of investment	******
To Bonus		******	By Interest	******
To Rent, Rates & Taxes		******	By Dividend	******
To Freight & cartage outward		******	By Commission	******
To Electricity Exp.		******	By Discount	******
To Repair & Maintenance		******	By Rent	******
To Insurance Premium		******	By Sale of Scraps	******
To Staff Welfare exp.		******	.By Miscellaneous Income	******
To Pension & Gratuity		******		
To Compensation to workmen		******		
To Audit Fees		******		
To Printing & Stationery		******		
To Postage, Telegram & Telephone		******		
To Commission, Brokerage & Discount		******		
To Travelling Exp.		******		
To Conveyance Exp.		******		
To Entertainment Exp.		******		
To Sales promotion Exp.		******		
To Advertising & Publicity		******		
(including free sample distribution)		******		
To discount allowed		******		
To Bad Debts		******		
To Interest		******		
To Bank Charges		******		
To Legal Charges		******		
To General Exp.		******		
To Packing Expenses		******		
To Motor Car Expenses.		******		
To Depreciation:		******		
On Building	*****			
On Plant & machinery	*****			
On Furniture & Fixture etc.	*****			
To Loss on sale of fixed assets		******		
To Loss on sale of investment		******		
To Abnormal loss:				
Loss by theft		******		
Loss by fire		******		
Loss by Embezzlement		******		
To Provision for Doubtful Debts		******		
To Provision for Taxation		******		
To Net Profit trd. to Capital A/c		******	**By Net Loss trd. To Capital A/c**	******
Total		******	Total	******

(B) Position Statement:-

- Position statement mainly consist Balance sheet which shows assets, and liabilities and capital of business.
- For better understanding of financial position additional statement like cash flow statement, statement showing earning per share, value added statement etc. are prepared.

-- The statement showing the financial state of affairs is called Balance Sheet.

BALANCE SHEET:-- The Balance Sheet may be defined as "a statement which sets out the assets and liabilities of a firm or an institution as at a certain date. All the assets account which have not been closed by transfer to either the Trading Account or the Profit & Loss account must appear in the balance Sheet otherwise the two side of the balance sheet will not agree and it will not reflect the correct financial position of the business.

The Balance Sheet similarly is required to give true and fair view of the financial position at the end of the year
The study of the Balance Sheet enables the person to judge whether the firm or institution is financially sound or not.

The Balance Sheet records on one side what the firm or institution possesses, called assets. Assets may be convertible in to cash or they may be enable the firm to carry on it work (for example patents which permit goods of a certain type to be produced) or the firm may enjoy some benefits without further payment (like insurance premium relating to the next year.).
On the other side it records the source from which the necessary funds have been derived - contribution by the proprietors (capital) and loan raised and credit received from outsiders.
The Profit and Loss Account and Balance Sheet are inter-linked. The Balance Sheet described the financial position while the Profit and Loss Account supplies much of the explanation of the causes leading to the change in the financial position.

Items to be shown on the Assets side of a Balance Sheet:

- **Fixed Assets:-** Fixed assets are those assets that are not meant to be sold but are meant to be utilised in the firm's business. Examples are machinery, patents, buildings and goodwill. Fixed assets can be further classified in to tangible, intangible, wasting and fictitious assets.

Tangible Assets	• Those fixed assets which can be seen and touched.
Intangible Fixed Assets	• Those fixed assets which can nether seen nor been touched e.g.. Goodwill, Patents. Trade Mark.
Wasting assets	• Those fixed assets, which are consumed during the course of time A mine, for example, will be useless when it has been fully exploited. Such assets are often called wasting assets.
Fictitious assets	• Those assets, which has no value. An example is preliminary expenses.

- **Investment:**— an expenditure incurred on assets to earn interest, dividend, income, rent or other benefit
- **Current Assets:**— Those assets which are held:—
  - ❖ In the form of cash
  - ❖ For their conversion into cash e.g. stock of finished goods, debtors, Bills Receivable, Accrued income.
  - ❖ For their consumption in the production of goods or rendering of services e.g. stock of raw materials, WIP.

Item to be shown on the Liabilities side of a Balance Sheet:

The credit balances of those ledger accounts which have not been closed till the preparation of the Trading and Profit and Loss account, are shown on the 'Liabilities side of the Balance Sheet.

(a) Liabilities: - It is the claim of outsiders on the assets of business. Usually the following items are included in liabilities:--

i) **Long-term liability:**-- Those that will be paid after one year.
ii) **Current Liability:** —— Those that must be settled within one year.

(b) Capital: - Capital is the excess of assets over liabilities. **It is the claim of owner in total assets of the business.** It refers to the amount invested in an enterprise by the proprietor or partners, which is increased by the amount of profit earned and is decreased by the losses incurred and the amount withdrawn whether in the form of cash or kind.

ARRANGEMENT / MARSHALLING OF ASSETS AND LIABILITIES :-- The term **'Marshalling'** refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be **shown either in the order of liquidity or in the order of permanency.**

Assets: - Assets can be put down in a Balance Sheet, in two ways - either in the order of liquidity or in the order of permanence.

i) **Liquidity:** - It means the ease with which the assets may be converted into cash; those assets which are most difficult to convert them in cash are written last.

ii) **Permanence:** Assets that are to be used permanently in the business and are not meant to be sold are written first. Assets that are most liquid such as cash in hand are written last.

The various assets is grouped in the two order will appear as follows:-

In order of Liquidity	**In order of Permanence**
Cash in hand	Goodwill
Cash at Hand	Patents
Investments	Furniture
Sundry debtors	Machinery
Stock of finished goods	Land & building
Stock of raw material	Prepaid exp,
Stock of WIP	Stock of finished goods
Prepaid Exp.	Stock of raw material
Land & Buildings	Sundry debtors
Machinery	Investment
Furniture	Cash in hand
Patents	Cash at bank

Some assets cannot be easily classified. For example, investment can be easily sold but desire may be to keep them. Investment may, therefore, be both liquid and semi-permanent according to the intention of the firm.

Liabilities

Liabilities can also be grouped in two ways — either in order to **urgency of permanent or in reverse** order. One way is to first show the capital, then long term liabilities and last of all short term liabilities like amounts due to supplier of goods or bills payable. The other way is to start with short term liabilities and then show long term liabilities and last of all capital.

Floating Assets:—Floating assets are those assets which are meant to be converted in cash at earliest opportunity. Examples are cash, sundry debtors, stock of goods etc. The term floating is derived from the fact that **such assets constantly change in value through transactions that are entered into**. The figure total debtors for instance changes from day to day. **Those assets are also known as circulating assets**.

MANUFACTURING ACCOUNT:

In a case where the cost of manufacturing goods is to be ascertained, the Manufacturing Account is prepared. The main feature of a Manufacturing Account are the following :—

- It is debited with all expenses that are incurred in manufacturing of goods. In this account, besides such expenses as freight on purchases of raw materials, customs duty, wages, rent and lighting of factory building, we must also debit the manufacturing account with repairs to plant and machinery. depreciation on machinery, loose tools, etc.
- In this account, we have to show the value of materials consumed instead of showing figures of opening stock, purchases and closing stock separately.
  - **Raw Material consumed:**

Opening Stock of Raw material	*****
Add: Purchases of Raw Material	*****
Less: Closing Stock of Raw Material	*****
	*****

Note:- Opening and Closing Stocks of finished goods are not entered in Manufacturing Account,

- The opening stock of work-in- progress is debited and closing stock of work-in-progress is credited. The usual basis of valuation of work in progress is the actual materials used and labour spend on these unfinished goods plus a proper proportion of manufacturing expenses, generally on the basis of labour.
- In the course of manufacturing some waste material always emerges. when they are sold, the amount realized credited to "Scrap Account". This Account is transferred to the credit side of the Manufacturing Account.
- The Balance in Manufacturing Account (i.e. the difference between the debit and credit sides) is the cost of the goods produced during the period. This is transferred to the debit side of the Trading Account.

Manufacturing Account of ----for the year ending----

Particulars		Amount	Particulars	Amount
To Opening WIP		*****	By Sale of Scrap	******
To Raw Material Consumed			By Closing WIP	******
Opening Stock	****		By Trading Account	******
Add: Purchases	****		(Cost of Goods produced	
Add: Cartage in ward	****		transfrd.)	
Add: Freight in ward	****			
Less Closing Stock	****			
To Wages		******		
To Salary to Works Manager		******		
To Power. Electricity and Water		******		
To Fuel		******		
To Depreciation on:		******		
Plant and Machinery				
Factory Land & Building	****			
To Repair to:	****	****		
Plant & Machinery				
Factory Building	****			
To Insurance:	****	****		
Plant & Machinery				
Factory Building	****			
To Factory Rent & Taxes	****	****		
To Royalty based on production		****		
		****		
Total		*****	Total	******

CONCEPT BASED QUESTIONS

Question: 1. Following are the extract from the Trial Balance of a Company as at 31st March 2017.

Particulars.	Dr. (Rs.)	Cr. (Rs.)
Sundry Debtors	2,05,000	
Bad Debts	3,000	

Additional Information:
After preparing the Trial Balance, it is learnt that Mr. X, a debtors has become insolvent and nothing could be recovered from him and, therefore, the entire amount of Rs.5,000 due from him was irrecoverable. Create 10 % provision for doubtful debts.
Pass the necessary journal entries and show the relevant accounts.

Question: 2. Following are the extracts from the Trial Balance of a Company as at 1st March 2017.

Particulars	**Dr. (Rs.)**	**Cr. (Rs.)**
Sundry Debtors	2,05,000	----
Provision for Doubtful Debts	-----	8,000
Bad Debts	3,000	----

Additional Information:
(a)Additional Bad debts Rs.5,000
(b) Maintain the provision for doubtful debts @ 10 % on debtors.
Pass the necessary journal entries and show the relevant accounts.

Provision for Discount on Debtors:-- The procedure is the same as for provision for bad debts. **First, the profit and loss account is debited and the provision for discount account credited.** This account is carried forward to the next year. Next year, the actual discounts allowed will be debited to the profit and loss account. The profit and loss account will be debited to make up the required balance each year. If after providing the required balance a surplus is left in the provision for discount account, it should be transferred to the credit of profit and loss account. But the provision for discounts should be calculated on total debtors minus the provision for bad debts.

Question: 3. Following are the extracts from the Trial Balance of a Company as at 31st March 2017.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Sundry Debtors	2,05,000	
Bad Debts	3,000	
Discount	1,800	

Additional Information:

(i)Create a Provision for doubtful debts @ 10% on debtors.
(ii)Create a provision for discount on debtors @ 2% on debtors.
(iii)Additional Discount given to the debtors Rs. 5,000
Pass the necessary entries and show the relevant accounts (including final accounts)

Question: 4. Following are the extract from the Trial Balance of S. Ltd. on 31st March 2017.

Particulars	Dr. (Rs)	Cr. (Rs)
Sundry Debtors	2,05,000	----
Provision for Doubtful Debts	----	8,000
Provision for Discount on Debtors	-----	2,000
Bad Debts	3,000	----
Discount	1,000	------

Additional Information:

(i)Additional bad Debts Rs. 4,000
(ii)Additional Discount allowed to Debtors Rs. 1,000
(iii)Maintain a provision for bad debts @ 10% on debtors.
(iv)Maintain a provision for discount @ 2% on debtors.
Pass the necessary journal entries and show the relevant accounts (including final accounts).

Question: 5.(mind blowing question) Trial balance as on 31, March 17

	Dr.	Cr.
S. Debtors	2,00,000	--
Bad Debts	10,000	--
Creditor		1,00,000

(i) Mr. A, a debtor of Rs. 20,000, suffering from financial difficulties, it is expected that he could pay only 60% of the amount.
(ii) Mr. B, a debtor of Rs. 10,000 also a creditor of Rs. 10,000 .
(iii) Mr. C a debtor of Rs. 5,000 became insolvent and official receiver declared a first and final dividend of 65% of the amount.
(iv) Create provision for doubtful debt @ 5% on debtors.
(v) Create provision for discount @ 2 % on debtors

Question: 6. Trial balance as on 31, March 2017

	Dr.	**Cr.**
Debtors	2,00,000	
Sales		5,00,000
Purchases	1,00,000	
Manufacturing exp.	40,000	

(i) goods costing Rs. 60,000 were sent on approval basis for Rs. 80,000. Approval has not yet been received till the end of 31 March 2017.
(ii) Closing stock was valued at Rs. 20,000.
(iii) Create provision for doubtful debt @ 10%.

Question: 7. Assume in previous question, out of goods sent on approval basis, company has not received approval for 20% of goods.

Question: 8. **Trial balance as on 31st March ,2017**

	Dr.	Cr.
Machine	2,00,000	
Addition to machine (1 Oct.,16)	50,000	
Rent	40,000	
Salary	30,000	
Commission received	--	10,000
Fees received		20,000

Adj: (i) Charge depreciation @ 10% p.a. on machine.
(ii) Rent due but not paid Rs. 5,000.
(iii) Commission due but not received Rs. 2,000.
(iv) Fees received in advance Rs. 3,000.
(v) salary includes Rs 12,000 paid for next year.

Question: 9. **Trial balance as on 31st march,2017**

	Dr.	Cr.
Machine	1,80,000	
Rent	45,000	
O/S Rent		5000
Salary	26,000	
Prepaid Salary	4,000	
Commission Received		12,000
Accrued commission	2,000	
Fees earned		17,000
Unearned fees		3,000
Depreciation	20,000	

Question: 10. **Trial balance as on 31st march ,2017**

	Dr.	Cr.
Capital		3,00,000
Drawings	1,00,000	

Adj: (i) Allow interest on capital @ 10% p.a.
(ii) Charge interest on drawings @ 5%.

Question: 11.

	Dr.	Cr.
Gross Profit		3,00,000
Rent	10,000	
Salary	20,000	

Adj: manager is entitled to a commission of 5% on net profit before commission.

Question: 12. **Assume in previous question, manager is entitled to a commission of 5% after charging such commission.**

Question: 13.

	Dr.	Cr.
Op. Stock	10,000	
Purchases	2,00,000	
Sales		5,00,000
Manf. Exp.	20,000	

Adj: (i) Closing stock was valued at Rs. 25,000.
(ii) During the year, goods costing Rs. 40,000 were lost due to fire and nothing could be recovered from insurance company.

Question: 14. Assume in previous question, Insurance company admitted the claim for Rs. 27,000 in full settlement.

Question: 15. **Trial Balance as on 31 march,2017**

	Dr.	Cr.
Opening stock	10,000	
Purchases	1,00,000	

(i) Closing stock were valued at Rs.20,000

Question: 16.

	Dr.	Cr.
Purchases (Adjusted)	90,000	
Stock	20,000	

Question: 17.

	Dr.	Cr.
Purchases	90,000	

Adj: (i) Goods Costing Rs. 10,000 were lost due to leakage, considered as normal loss.
(ii) Goods costing Rs. 12,000 were lost due to theft.
(iii) Closing stock was valued at Rs. 20,000.

Question: 18. **Trial Balance as on 31 march 2017**

	Dr.	Cr.
Insurance	1,200	
Salary	11,000	
Building	3,00,000	
Wages	20,000	

Adj: (i) Insurance includes a premium of Rs. 170 on a policy, expiring on 30st September 2017.
(ii) Salary for the month of march 2017 is outstanding.
(iii) Wages includes Rs. 5,000 paid on erection of a cycle shed.
(iv) Charge depreciation @ 10% p.a. on building.

Question: 19. **Trial Balance as on 31 March,2017**

	Dr.	Cr.
Gross profit		2,50,000
Stock	10,000	
Capital		6,00,000
Indirect expenses	40,000	
Reserve	---	50,000

Adj: (i) owner to get a salary of Rs. 12,000 P.a.
(ii) 10% of net profit is to be credited to Reserve.
(iii) It was discovered in April 16, that stock sheets as on 31 March, 16 were overcast by Rs. 1,000. However no entry was passed in April, 16.

Question: 20. **Trial Balance as on 31 March,2017**

	Dr.	Cr.
Loan from Vinod @ 10% (as on 1 Oct. 2016)		3,00,000
Interest paid	8,000	
Loan to Ram @ 15% (as on 1 July 2016)	2,00,000	
Interest received		14,000

Question: 21.

	Dr.	Cr.
Purchases	60,000	
Capital		3,00,000

Adj: (i) Goods costing Rs. 10,000 were used for distribution to customer as free sample.
(ii) Goods costing Rs. 5,000 (selling price Rs. 8,000) were used by proprietor for his personal purpose.

Question: 22. (HAI HUM MEIN DUM) Trail Balance as on 31 March,2017

	Dr.	Cr
Opening stock	80,000	
Purchases	7,00,000	
Apprentice Premium		40,000
Machinery	4,00,000	
Loose tools	60,000	
Equipment	3,00,000	
Wages	20,000	
Debtors	80,000	
Sales		4,50,000
Creditors		30,000
Land and building	2,00,000	
Investments	50,000	
Capital		10,00,000

Adjustments

(I) It was discovered in April, 2016,,that stock sheets as on 31st March 2016 were overcast by Rs. 1000. However, no entry was passed in April 2016.
(II) Apprentice premium was unexpired to the extent of Rs 8,500.
(III) A new machine was installed on 31st Dec. 2016, costing Rs 14,000 but it was not recorded in the books and no

payment was made for it. Wages Rs 1,000 paid for its erection has been debited to wages account.

(IV) Loose tools were valued at Rs. 56,000 on 31st March 2017.

(V) Equipments were valued at Rs 3,20,000.

(VI) Value of stock as on 31-03-2017 was Rs. 39,000. This includes goods return by customers on 31-03-2017 to the value of Rs. 1,500 for which no entry has been passed in the books,

(VII) Sundry debtors include Rs. 2,000 due from Robert and Sundry creditor includes Rs. 1,000 due to him.

(VIII) Building worth Rs.35,000 purchased on 1-4-2015 was wrongly written off against Profit & Loss account. This asset is to be brought into account on 1-4-2016 taking depreciation at 10% per annum on straight line basis up to 31-3-2016.

(IX) Investments were sold at 10% profit, but the entire sales proceeds have been taken as sales.

(X) Commission is payable at 2% on sales.

(XI) Received Rs 6,000 Worth of goods on 27th March 2017 but the invoice of purchase was not recorded in Purchase book.

PRACTICE QUESTIONS

Question: 23. Mr. X carries on retail business and his trial balance on March 31, 2013 was as follows :

	Dr.	Cr.
Purchases	565625	
Sales		7,06,650
Return inward	4,250	------
Return outward	----	3,120
Provision for doubtful debts	-----	5,200
Sundry debtors	38,200	----
Sundry Creditors	-----	25,526
Bills Payable (Promissory note to be paid)	-----	8,950
Stock (01-04-12)	56,725	-----
Wages	20,137	-----
Salaries	18,575	-----
Furniture	15,075	-----
Alternation to shop	4,500	-----
Postage, Ins. Etc.	13,226	-----
Heating & Lighting	2,350	-----
Trade Exp.	10,314	-----
Rent, Rates & Taxes	13,517	-----
Bad Debts	525	-----
Loan at 15% to Mr. Vinod (1st Dec. 2012)	3,000	-----
Investment (at cost)	11,500	-----
Dividend from investment	----	1,825
Prepaid insurance	524	-----
Cash in hand and at bank	15,752	-----
Bills Receivable (Amt. due on Promissory Notes)	19,070	-----
Capital Account	----	77,000
Drawings	16,000	-----
Outstanding Wages	----	2,019
Rent. Accrued but not paid	---	750
Dep. On Furniture	1,675	----
Additions to Furniture	500	---
Total	8,31,040	8,31,040

Prepare Trading & Profit and Loss Account as on 31-03-2013 and Balance-sheet as on that date having regard to the following information:-

1. Sundry Debtors include an item of Rs. 250 for Goods Supplied to the proprietor and an item of Rs.600 due from a Customer who has become insolvent.
2. Provision for Doubtful Debt is to be maintained at 5% of sundry debtors.
3. 1/5th of the alteration to the shop is to be written off.
4. Goods to the value of Rs. 1000 have been destroyed by fire and the insurance company has admitted the claim for Rs 700.
5. Bills Receivable includes a dishonoured promissory note for Rs.2,650
6. Stock at end of the year was Rs. 60,520.
7. Intimation from the bank that a customer's cheque for Rs. 1,000 had been dishonoured is still to be entered in the books.

Question: 24. From the following Trial Balance, Extracted from the books of Mr. Shyam, Prepare a Trading and Profit and Loss Account for the year ended 31st March 2003 and a Balance Sheet as on that date.

	Dr.	**Cr.**
Shyam's Capital A/c	----	1,80,000
Shyam's Drawing A/C	32,960	----
Land and Building	50,000	---
Plant & Machinery	28,540	-----
Furniture & fixture	12,500	----
Carriage Inward	8,740	---
Wages (Manf.)	42,940	-----
Salaries	39,340	-----
Bad Debts Provision	-----	3,940
Sale	----	2,82,460
Sales Return	3,520	-----
Bank Charges	280	----
Coal, Gas & Water	4,440	---
Rates & Taxes	1,680	-----
Discount account (Balance)	----	240
Purchase (adjusted)	61,460	-----
Bills Receivable	12,540	----
Trade Expenses	3,980	---
Sundry Debtors	75,600	-----
Sundry Creditors	----	24,340
Stock (31-3-03)	88,780	----
Apprentice Premium	----	6,000
Fire Insurance	980	-----
Cash at bank	26,000	----
Cash in Hand	2,280	---
Bad debts	420	-----
Total	**4,96,980**	**4,96,980**

Charge depreciation on land & building @ 2.5% on plant & machinery @10% and on furniture & fixture @ 10% Make a provision of 5% on the sundry debtors for Bad debts. The Bank has intimated that a cheque for Rs. 800 received from customer has been dishonoured. The customer is in difficulties and it is expected that he would be able to pay 60 % of the claims on him. Carry forward the following unexpired amounts:—

i.) Fire Insurance Rs. 250
ii.) Rates & Taxes Rs. 480
iii.) Apprentice Premium Rs. 3,800

Trade expenses amounting to Rs. 430 have not yet been paid. Wages include Rs.500 spent on the installation of new machinery on 1st April 2002. Allow 10 % interest on capital but not charged on drawing.

Answer:

Trading and Profit And Loss A/c

PARTICULAR	**AMOUNT**	**PARTICULAR**	**AMOUNT**
To Purchase (Adjusted)	61460	By sales 282460	
To Wages 42940		(-) return 3520	278940
(-) Installment 500	42440		
To Carriage Inward	8740		
To Coal and Gas	4440		
To gross profit	161860		
	278940		**278940**
To Depreciation On building	1250	By gross profit	161860
To Depreciation On Plant	2904	By Discount Received	240
To Depreciation On Furniture	1250	By Apprentice Premium 6000	
To salary	39340	(-) Advance 3800	2200
To Provision For Bad Debts4100			
(-) Old Provision 3940	160		
To Bank Charge	280		
To Rent & Rates 1680			
(-) Prepaid 480	1200		
To Trade Expense 3980			

(+) Outstanding 430	4410		
To Fire Insurance 980			
(-) Advance 250	730		
To Bad Debts	420		
To Interest on capital	18000		
To Net Profit	94356		
	166500		166500

Balance Sheet as on 31-3-2003

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital 180000		Land and building	48750
(-) Drawing 32960		Plant	26136
(+) Interest.on capital 18000		Furniture	11250
(+) Net profit 94356	259396	Debtors	72300
Outstanding Trade Expense	430	Bank	25200
Sundry creditors	24340	Prepaid Rates	480
Advance Apprentice Premium	3800	Bill Receivable	12540
		Stock	88780
		Advance Insurance	250
		Cash	2280
	287966		287966

Question: 25. From the following figure extracted from the books of Mr. P. you are required to prepare a Trading and Profit and Loss Account for the year ended 31- 03-2017 and a Balance Sheet as on that date after making necessary adjustment.

Mr. P's Capital	2,58,000	Bills Payable	5,000
Mr. P's Drawing	42,000	Stock (01-04-16)	49,175
Purchase	1,96,000	Wages	62,000
Freehold Properties	60,000	Sundry Creditors	40,000
Plant & Machinery	1,00,000	Postage & Telegram	1,400
Return Outward	7,000	Insurance Charges	3,200
Salaries	42,000	Gas & Fuel	2,700
Office Expenses	12,500	Bad Debts	600
Office Furniture & Fixture	25,000	Office Rent	12,600
Discount A/c (Dr.)	1,200	Freight & duty	9,000
Sundry debtors	26,600	Loose tools	7,000
Loan to Mr. D @ 15% p.a.		Factory Lighting	1,600
Balance on 01-04-16	40,000	Prov. For doubtful Debts.	800
Cash at Bank	26,600	Interest on loan to Mr. D	3,000
		Cash in Hand	3,625

ADJUSTMENTS:

1. Stock on 31-3-17 was valued at Rs. 66,000
2. Wages Rs. 4,600 and Salaries Rs. 3,600 were outstanding.
3. Insurance Prepaid was Rs. 800.
4. A new machine was installed on 31st Dec. 2016, costing Rs 14,000 but it was not recorded in the books and no payment was made for it. Wages Rs 1,000 paid for its erection has been debited to wages account.
5. Loose tools were valued at Rs. 5,600 on 31st March 17.
6. Depreciate Plant and Machinery by 10 % p.a. Furniture & fixture by 7.5 % p.a and Freehold Property by 2%p.a.
7. Of the Sundry Debtors Rs 600 are bad and should be written off. Maintain Provision of 5 % on Sundry Debtors for doubtful debts, and 2 % for discount on Debtors and a reserve of 2 % for discount on Sundry creditors.
8. The Manager is entitled to a commission of 5 % of net profit before charging such commission.

Hint :Note:-- Where a regular trial balance is not given, it is advisable to first make out trial balance to be sure that there is no difference in books or to ascertain a figure that may be missing. **(CMA INTER 16 MARKS)**

Question: 26. From the following Trial Balance of Bannerji, Prepare the Final Accounts for the year ended 31st March 2017 and the Balance Sheet as at that date.

	Dr.		Cr.
Land & Building	50,000	Sales	3,85,000
Purchases(adjusted)	2,10,000	Capital account	1,15,000
Stock as on 31-3-17	45,000	Chatterji Loan A/c	
Sales Return	1,500	(taken on 1.10.16 @ 18% p.a)	25,000
Wages	45,300	Commission	1,500
Salaries	39,000	Sundry Creditors	25,000
Office Expenses	15,400	Bills Payable	12,350
Carriage Inward	1,200	Expenses Payable	3,300

Carriage outward	2,000	Purchase Return	2,500
Discounts	750	Discount	1,200
Bad Debts	1,200		
Insurance	1,500		
Plant & Machinery	50,000		
Furniture & Fixture	20,000		
Bills Receivable	20,000		
Sundry Debtors	40,000		
Cash in Hand	1,500		
Cash at Bank	14,500		
Office Equipment	12,000		
Total	**5,70,850**	**Total**	**5,70,850**

It was the practice of Bannerji to value stock at 10 % below cost. The opening stock on 01.04.16 was Rs. 49500. Bannerji desires that the final statement be drawn up according to the cost of the stock.

The following adjustments are also required:-

(I) Depreciate Land & Building @ 6%, Plant & Machinery @10%, Office Equipment @ 20% and Furniture & Fixture @15%.

(II) Raise a bad & doubtful debt provision of 1.25% on sundry debtors.

(III) Insurance Premium includes Rs. 250 paid in advance.

(IV) Provide interest on capital @ 10 % p.a. and salary to Bannerji @ Rs. 15000 p.a.

(V) 10 % of the final profit is to be kept in general reserve.

Question: 27. The following is the Trial Balance of Shri Arihant as on 31st December 1999:

	Dr. (Rs.)	**Cr. (Rs.)**
Capital		14,00,000
Drawings	75,000	--------
Opening stock	80,000	---------
Purchases	16,20,000	---------
Freight on purchase	15,000	----------
Wages	1,10,000	----------
Sales	----	25,00,000
Salaries	1,00,000	----------
Traveling expenses	23,000	---------
Miscellaneous expenses	35,000	-------
Printing and stationary	27,000	--------
Advertisement expenses	25,000	----------
Postage and telegrams	13,000	----------
Discounts	7,600	14,500
Bad debts written off (after adjusting recovery		----------
of bad debts of Rs. 6,000 written off in 1997)		----------
Building.	14,000	------
Machinery	10,00,000	-------
Furniture	75,000	--------
Debtors	40,000	-------
Provision for doubtful debts	1,50,000	-------
Creditors		19,000
Investments (12% purchased on 1-10-99)		1,60,000
Bank balance	6,00,000	-------
	83,900	------
Total	**40,93,500**	**40,93,500**

Adjustments:

(I) Closing stock Rs. 2,25,000.

(II) Goods worth Rs. 5,000 were taken for personal use, but no entry was made in the books.

(III) Machinery worth Rs. 35,000 purchased on 1-1-97 was wrongly written off against Profit & Loss account. This asset is to be brought into account on 1-1-99 taking depreciation at 10% per annum on straight line basis upto 31-12-98.

(IV) Depreciate building at 2-1/2% P.a., Machinery at 10% p.a. and Furniture at 10% p.a

(V) Provision for doubtful debts should be 6% on Debtors.

(VI) The manager is entitled to a commission of 5% of Net Profit after charging his commission.

Prepare trading and profit and loss account for the year ending 31st December 1999 and a balance sheet as at the date.

Question: 28. **The following is the Trail Balance of K on 31st March, 2000.**

	Dr. (Rs)	Cr. (Rs)
Capital	-----	8,00,000
Drawings	60,000	---
Opening stock	75,000	------
Purchase	15,95,000	-----
Freight on purchase	25,000	------
Wages (11 months upto 29-2-2000)	66,000	-------
Sales	----	23,10,000
Salaries	1,40,000	------
Postage, Telegrams, Telephones	12,000	----
Printing & Stationary	18,000	-------
Miscellaneous Expenses	30,000	-------
Creditors	----	3,00,000
Investments	1,00,000	------
Discount received	----	15,000
Debtors	2,50,000	-----
Bad debts	15,000	-----
Provision for debts	------	8,000
Building	3,00,000	-----
Machinery	5,00,000	------
Furniture	40,000	-----
Commission on Sales	45,000	------
Interest on Investments	----	12,000
Insurance(yearly upto 31-7-2000)	24,000	----
Bank Balance	1,50,000	------
	34,45,000	**34,45,000**

Adjustments:

1. Closing stock Rs 2,25000
2. Machinery worth Rs. 45,000 purchased on 1-10-99 was shown as purchases. Freight paid on the Machinery was Rs. 5,000, which is included in Freight on Purchase.
3. Commission is payable at 2.5% on sales.
4. Investments were sold at 10% profit, but the entire sales proceeds have been taken as sales.
5. Write off Bad Debts Rs 10,000 and create a provision for Doubtful debts at 5% of Debtors.
6. Depreciate Building by 2.5% p.a. and machinery and furniture at 10% p.a.

Prepare Trading and Profit & Loss A/c for year ending 31st March, 2000 and a Balance Sheet as on that date.

Answer:

Trading and Profit and Loss account of K For the year ended 31st March, 2000

Particular		Rs.	Particular		Rs
Opening Stock		75,000	By Sales	23,10,000	
To Purchase	15,95,000		Less: Sale of		
Less: Transfer to			Investments	1,10,000	22,00,000
Machinery A/c	45,000	15,50,000			
To Freight on Purchase	25,000				
Less: Transfer to					
Machinery A/C	5,000	20,000			
To Wages	66,000				
Add: Outstanding	6,000	72,000	By Closing stock		2,25,000
To Gross Profit c/d		**7,08,000**			
		24,25,000			**24,25,000**
To Salaries		1,40,000	**By Gross profit b/d**		**7,08,000**
To Postage Telegrams, Telephone		12,000	By interest of investment		12,000
To Printing & Stationary		18,000	By Profit on sale of investment		10,000
To Miscellaneous expenses		30,000	By Discount received		15,000
To Commission on Sales	45,000				
Add: Outstanding	10,000	55,000			
To Insurance	24,000				
Less: Prepaid	8,000	16,000			
To Provision for bad &Doubtful debts::					
Bad debts	15,000				
Add: Written off	10,000				

Add: Provision for doubtful Debts (5% of Rs 240000)	12,000			
	37,000			
less: Old provision	8,000	29,000		
To Depreciation:				
Building	7,500			
Machinery (50000+2500)	52,500			
Furniture	4,000	64,000		
To Net Profit		3,81,000		
Total		**7,45,000**	**Total**	**7,45,000**

Balance Sheet of K as at 31st March 2000

Liabilities		**Rs**	**Assets**		**Rs**
Capital	8,00,000		Building	3,00,000	
Add: Profit	3,81,000		**Less:** Depreciation	7,500	2,92,500
Less: Drawing	60,000	11,21,000	Machinery	5,00,000	
Creditors		3,00,000	Additions	+ 50,000	
Outstanding Exp.				5,50,000	
Wages	6,000		Less: Depreciation	52,500	4,97,500
Commission	10,000	16,000	Furniture	40,000	
			Less: depreciation	4,000	36,000
			Debtors	2,50,000	
			Less: Bad debts	10,000	
			less: Provision for doubtful debts	12,000	2,28,000
			Prepaid insurance		8,000
			Stock		2,25,000
			Bank balance		1,50,000
		14,37,000			**14,37,000**

Question: 29. From the following trial balance and information, prepare Trading and Profit & Loss account of Mr. Rishabh for the year ended 31st March, 1999 and a Balance Sheet as on the date:

	Dr. (Rs)	**Cr. (Rs)**
Capital	----	1,00,000
Drawings	12,000	---
Land and Building	90,000	---
Plant and building	20,000	----
Furniture	5,000	---
Sales	---	1,40,000
Return Outward	---	4,000
Debtors	18,400	---
Loan from Gajanand on 1-7-98 @ 6% P.	----	30,000
Purchases	80,000	---
Return inward	5,000	---
Carriage	10,000	----
Sundry expenses	600	----
Printing & Stationary	500	---
Insurance expanses	1,000	----
Provision for doubtful & Bad debts	---	1,000
Provision for discount on debtors	---	380
Bad debts	400	----
Profit of textile deptt.	---	10,000
Stock of general goods on 1-4-98	21,300	---
Salaries and Wages	18,500	---
Creditors	---	12,000
Trade expanses	800	---
Stock of Textile Goods on 31-3-99	8,000	----
Cash at Bank	4,600	----
Cash in Hand	1,280	---
Total	**2,97,380**	**2,97,380**

Information:

Stock of General goods on 31-3-99 valued at Rs. 27,300.

Fire occurred on 23rd March, 1999 and Rs. 10,000 worth of general goods were destroyed. The insurance company accepted claim for Rs. 6,000 only and paid the claim money on 10th April 1999.

Bad debts amounting to Rs 400 are to be written off. Provision for bad and doubtful debts is to be made at 5% and for discount at 2% on Debtors. Make a provision of 2% on Creditors for discount.

Reserved Rs 6,000 Worth of goods on 27th March 1999 but the invoice of purchase was not recorded in Purchase book.

Rishabh took away goods worth Rs. 2,000 for personal use but no record was made thereof.

Charge depreciation at 2% on land and building 20% on Plant and Machinery, and 5% on Furniture.

Insurance prepaid amounts to Rs. 200. **(CMA INTER 16 MARKS)**

Answer: Trading and Profit & Loss account of Mr. Rishabh For the year ended 31st March, 1999

Particulars		Rs	Particulars		Rs
To Opening stock		21,300	By sales	1,40,000	
To purchases	84,000		Less: Return inward	5,000	1,35,000
Less: Returns outward	4,000	80,000	By Loss by fire		10,000
To Carriage		10,000	By Closing stock		27,000
To Gross profit		61,000			
		1,72,300			**1,72,300**
To Sundry expanses		600	By Gross Profit		61,000
To Printing & Stationary		500	By Provision for discount		
To Insurance Expenses	1,000		On debtors		
Less: Prepaid	200	800	(excess provision=380-342)		38
To Salaries & Wages		18,500	By provision for discount on creditors		360
To trade expanses		800	By Profit of Textile Department		10,000
To loss by fire		4,000			
To interest on loan		1,350			
To Provision for bad & doubtful debts:					
Bad debts	400				
Add: Additional					
Bad debts	400				
Add: Provision for					
Bad & doubtful debts	900				
	1700				
less: Old provision	1,000				
To Depreciation:		700			
Land & Building	1,800				
Plant & Machinery	4,000				
Furniture	250	6,050			
To Net Profit		**38,098**			
		71,398			**71,398**

Balance sheet as on 31st March, 1999

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Capital account	1,00,000		Land &Building	90,000	
Add: Net Profit	38,098		Less Depreciation	1,800	88,200
	1,38,098		Plant Machinery	20,000	
Less Drawings	14,000	1,24,098	Less: Depreciation	4,000	16,000
Loan from Gajanand		30,000	Furniture	5,000	
Interest accrued		1,350	Less: depreciation	250	4,750
			Stock:		
Creditors	18,000		General goods	27,300	
Less: Provision for discount	360	17,640	Textile goods	8,000	35,300
			Debtors		
			(less bad debts)	18,000	
			Less: Provision .		
			For Bad debts	900	
				17,100	16,758
			Less: Prov. For Discount	342	6,000
			Insurance claim receivable		200
			Prepaid insurance		4,600
			Cash in Bank		1,280
			Cash in Hand		
		1,73,088			**1,73,088**

Question: 30. Mahindra Traders operates in an industry that has a high rate of bad debts. On 31st March 2012, the Accounts Receivables showed a balance of Rs. 7,50,000 before any year end adjustment and the balance in the Reserve of doubtful debts was Rs. 37,500. The year-end balance in the Reserve for Doubtful Debts A/c will be based on the following ageing schedule.

Days outstanding	Amount (Rs.)	Probability of collection
Less than 16	4,50,000	0.99
16 – 30	1,50,000	0.94
31 – 45	75,000	0.80
46 – 60	45,000	0.65
61 – 75	15,000	0.50
Over 75	15,000	0.00

Find out the appropriate balance in the Reserve for Doubtful Debts Account as on 31st March 2012. Show how Debtors balance be shown in the Balance Sheet. Calculate the effect of year end adjustment on Account of Reserve for Doubtful Debts.

Question: 31. A property dealer owned many properties which it had acquired by taking bank loans. There were separate loan agreements for different properties. In some cases, interest was paid in advance and in other cases it was payable in arrears. These properties were let out to different tenants on various agreements. Some agreements provided for rentals in advance while the others provided for rent payable in arrears. The dealer has given the following balances:

	31-03-2011	31-03-2012
Interest payable	12,000	14,500
Interest prepaid	8,000	6,400
Rentals due from tenants	15,000	19,000
Rentals received in advance	3,000	2,500

During the year 2011-12, the amount of interest transferred to P & L A/c was Rs. 56,000 and cash collected from tenants for rentals was Rs. 1,16,000.
You are required to prepare Interest A/c and Rental Income A/c for the year ended 2011-12

Question: 32.(THIS QUESTON SHOULD BE SOLVED AFTER FINISHING WHOLE BOOK)

Mr. Gavaskar is the proprietor of a large business. The following Trial Balance was prepared from his books as on 30thJune, 2012:

	Rs.		Rs.
Land & Buildings	80,000	12% Bank Loan (U.B.I.)	1,00,000
Cash at Bank	50,000	(No movement during the year)	
Motor Car	40,000	Capital Accounts	1,50,000
Furniture	20,000	Bills Payable	10,000
Sundry Debtors	1,20,000	Sundry Creditors	1,30,000
Cash in hand	10,000	Returns Outward	8,000
Stock (1.7.11)	1,10,000	Discount Received	2,000
Return Inward	10,000	Sales	9,00,000
Printing & Stationery	4,000		
Drawings	16,000		
Bills Receivable	10,000		
Travelling Expenses	12,000		
Discount Allowed	4,000		
Miscellaneous Expenses	38,000		
Postage	2,000		
Joint Venture Suspense A/c	2,000		
Investments (Market value			
Rs. 28,000)	30,000		
Interest on Bank Loan	8,000		
Salaries (including advance			

For Rs. 4,000)	54,000		
Entertainment Expenses	4,000		
Purchases	6,50,000		
Carriage Inwards	8,000		
Advertisements	18,000		
	13,00,000		**13,00,000**

Additional Information:

1). On 2nd January, 2012, Mr. Gavaskar entered into a Joint Venture with Mr. Shastri with an agreement to share the profits and losses equally. Shastri supplied goods totalling Rs. 60,000 which wrongly passed through the Purchase Day Book. The goods were sold for cash at profit of 25% on sales and stood credited to Sales Account. Shastri had earlier incurred an amount of Rs. 4,000 on account of Freight ad Insurance. Joint Venture Suspense Account represents expenses incurred by Gavaskar on Joint Venture.

2). Bills Receivable for Rs. 8,000 endorsed on 21stMarch, 2012 in favour of creditors were subsequently dishonoured but no entry for the dishonour has been passed.

3). Three cheques of Rs. 3,000, Rs. 4,000 and Rs. 6,000 issued to parties on 29thJune, 2012, were lying unpresented on 30thJune, 2012.

4). Sales included a sum of Rs. 60,000 received from sale of goods on behalf of Mr. Kapil, the cost of these goods to Mr. Kapil was Rs. 50,000. Mr. Gavaskar is entitled to a commission of 5% on sales, for which effect should be given and reimbursement of selling expenses of Rs. 2,000 were debited to Miscellaneous Expenses Account.

5). 1/3rdof the advertisement expenses are to be carried forward.

6). Of the Debtors a sum of Rs. 2,000 is to be written off as bad debt. Create provision for doubtful debts @ 2%.

7). Depreciate fixed assets by 10% except Motor Car which is to be depreciated at 20%.

8). Value of Stock at the end is Rs. 90,000.

9). During the year some goods (Invoiced at Rs. 1,00,000) were sent to sundry customers on sales on approval. On 30thJune, 2012 of these goods Rs. 20,000 remained with customers as the period of approval did not expire as yet. Proper adjustment should be made in respect of the above. Mr.Gavaskar makes his invoices at cost plus 25%.

You are required to prepare Trading and Profit & Loss Account for the year ended 30thJune, 2012 and a Balance Sheet as at 30thJune, 2012.

Answer : Trading A/c for the year ended 30th June, 2012

Particulars	**Rs.**	**Rs.**	**Particulars**	**Rs.**	**Rs.**
To, Opening Stock		1,10,000	By, Sales	9,00,000	
To, Purchase A/c	6,50,000		Less : Return Inward	10,000	
Less : Return Outward	8,000			8,90,000	
	6,42,000		Less : Joint Venture sales	80,000	
Less : Supplies by			Less : Sales on	8,10,000	
Mr. Sastri	60,000	5,82,000	Consignment	60,000	7,50,000
To, Carriage Inward		8,000			
			By, Closing Stock	90,000	
To, Profit & Loss A/c		1,56,000	Add : Goods sold on		
- G. P. transferred			Approval	16,000	1,06,000
			[Rs. 20,000 ×(100/125)]		
		8,56,000			8,56,000

Profit & Loss A/c

Particulars	**Rs.**	**Rs.**	**Particulars**	**Rs.**	**Rs.**
To, Printing & Stationery		4,000	By, Trading A/c		1,56,000
To, Travelling Expenses		12,000	- G. P. transferred		
To, Discount Allowed		4,000	By, Discount Received		2,000
To, Miscellaneous			By, Profit on Joint Venture		7,000
Expenses	38,000		(W.N. 1)		
Less : Consignment			By, Commission Received		3,000
Expenses	2,000	36,000	(Rs.60,000 × 5%)		
To, Postage		2,000			
To, Interest on Bank Loan		8,000			
To, Salaries	54,000				

Less : Advance Salary	4,000	50,000			
To, Entertainment Expenses		4,000			
To, Advertisement (W.N. 3)		18,000			
To, Bad Debts		2,000			
To, Provision for Doubtful Debts		2,520			
To, Depreciation:					
Land & Building	8,000				
Motor Car	8,000				
Furniture	2,000	18,000			
To, Capital A/c - N. P. transferred		7,480			
		1,68,000			1,68,000

Balance Sheet as at 30th June, 2012

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital	1,50,000		Land & Building	80,000	
Less: Drawings	16,000		Less: Depreciation @ 10%	8,000	72,000
Add: Net Profit	1,34,000				
	7,480	1,41,480	Machinery	40,000	
12% Bank Loan (U.B.I.)		1,00,000	Less: Depreciation @ 20%	8,000	32,000
Creditors	1,30,000			20,000	
Add: Bill endorsed Dishonoured	8,000		Furniture Less: Depreciation @ 10%	2,000	18,000
	1,38,000		Investment		30,000
			Stock		1,06,000
Less : Supplies by Mr. Sastri	60,000	78,000	Debtors	1,20,000	
Consignment Creditors		55,000	Add: Bill endorsed dishonoured	8,000	
Amount due to Mr. Sastri		71,000		1,28,000	
Bills Payable		10,000	Less: Return Inward not Recorded	2,000	
				1,26,000	
			Less: Provision for Bad Debts	2,520	1,23,480
			Bills Receivable		10,000
			Cash at Bank		50,000
			Cash in hand		10,000
			Advance Salary		4,000
		4,55,480			4,55,480

Working Note In the books of Mr. Gavaskar Joint Venture Account

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To, Mr. Sastri A/c		60,000	By, Cash A/c		80,000
To, Mr. Sastri A/c		4,000	(Sales Proceeds)		
- Freight & Insurance			[Rs.60,000 × (100/75)]		
To, Bank A/c		2,000			
- Expenses					
To, Profit on Venture :					
Mr. Sastri A/c	7,000				
Profit & Loss A/c	7,000	14,000			
		80,000			80,000

Mr. Sastri Account **Cr.**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
			By, Joint Venture A/c		60,000
			By, Joint Venture A/c		4,000
To, Balance c/d		71,000	- Freight & Insurance		
			By, Joint Venture A/c		7,000
		71,000	- Share of Profit		71,000

3. After the date on which AS 26 became mandatory, the expenditure incurred on intangible items would have to be expensed off when they are incurred . So, the Advertisement Expense is not carried forward to the next year and the full amount is shown in the Profit & Loss A/c.

Question: 33. R retired from a company and started a business in Chennai. On retirement he got Rs. 1,00,000 from his employer which he invested in his business on 1.1.12. He got from Life Insurance Corporation Rs. 20,000 on the maturity of his policy which he also invested in his business. He draws Rs. 1,000 for his personal expenses every month from 30th April, 2012. The following figures are extracted from his books on 31st December, 2012 :

	Rs.		Rs.
Purchases	3,10,000	Bad Debts	2,000
Cartage	5,000	Sundry Debtors	45,000
Salaries & Wages	24,000	Bills Receivable	30,000
Electricity Charges	4,500	Cash in hand	8,997
Travelling	8,900	Sales	3,00,000
Telephone	4,300	Income from Personal Investments	20,000
Advertisement	10,000	Creditors	85,000
Repairs & Renewal	3,303	Bank Overdraft	80,000
Plant & Machinery	1,50,000	Buildings(Cr.)	10,000

You are requested to prepare a Trading and Profit & Loss Account of the business for the period ended 31st December, 2012 and also the Balance Sheet as on that date after taking into consideration the following further information :

(1) Purchases include Rs. 10,000 representing the value of Furniture purchased.
(2) Rs. 4,000 representing erection wages on Plant & Machinery are debited to Salaries & Wages.
(3) Electricity charges include Rs. 2,500 paid as deposits to Electric Supply Company. There are bills outstanding to the extent of Rs. 500.
(4) Advertisement includes Rs. 4,000 representing the cost of a Neon Sign.
(5) A dishonoured bill of Rs. 5,000 stands debited to the debtor. 50% thereof considered doubtful and has to be provided accordingly.
(6) A debtor of Rs. 1,000 was declared insolvent on 30.12.12 and it is expected that nothing would be recovered from his estate.

(7) Provide 5% discount on net realisable debtors.
(8) R received Rs. 25,000 in respect of a business with B. The sum received stood credited to Sundry Creditors. It is noted that a sum of Rs. 5,000 was due to R as his share of profit from that business.
(9) During the period there was a fire damaging stock costing Rs. 50,000. The damaged goods were sold for Rs. 20,000. This sum of Rs. 20,000 is included in Sales. The Insurance Company paid Rs. 25,000towards the loss of stock. The godown containing the stock was also damaged to the extent of Rs. 15,000, which has also been paid by the Insurance Company. The total amount received from the Insurance Company was credited to Building Account.
(10) Bank overdraft represents 80% of the drawing power.
(11) The bank overdraft was given on the hypothecation of stock-in-trade. You are informed that the bank had a margin of 331/3 %.
(12) The manager of the business is entitled to a commission of 5% on the gross profit.
(13) Provide 10% depreciation on Plant & Machinery and on Furniture & Fittings and 5% on Building. Depreciation to be provided on closing balance for full year

CHAPTER 7 Final Account of Non-Profit Organisation

Question: 1 From the following information relating to Indian Cricket club, prepare Income and Expenditure Account for the ending 31st March 2016 and Balance Sheet as at that date. Abstract of Hon. Secretary's Cash Book for the year is as follows:

	Rs.		Rs.
To Member's Subscription	80,000	By Upkeep of Field and Pavilion	20,000
To Member's Admission Fee	3,000	By Expenses regarding Tournament	37,000
To Sale of Old Balls, Bats, etc.	500	By Rates and Insurance	2,000
To Hire of Ground	3,000	By Telephone	3,500
To Subscription for Tournament	40,000	By Printing and Stationary	1,000
To Bank Drawn	40,000	By General Charges	2,200
To Donation	1,00,000	By Secretary's Honorarium	5,000
		By Grass Seeds	1,300
		By bats, Balls, etc.	27,000
		By Bank Lodged	1,67,500
	2,66,500		**2,66,500**

Assets on 1st April, 2015		Rs.
Cash at Bank	30,000	
Stock of Bats, Balls, etc.	15,000	
Printing and Stationary	2,000	
Subscriptions due	5,000	
Liabilities on 1st April, 2015		Nil

Donation and Surplus on account of tournament should be kept in reserve for a Permanent Pavilion subscriptions due at 31st march, 2016 Rs. 7,500. write off 50% on Bats, Balls Account and 25% of Printing and Stationary Account. **Answer: surplus- 32,250, Opening B/S = 52,000 Closing B/S= 1,87,250**

Question 2. You are required to calculate the income from subscriptions for the year ending December 31,2016 and show them in the Income and Expenditure Account and the Balance Sheet of a Club:

Receipts & payment account for the year ended 21st December 2016

Receipts		Amount	Payments		Amount
To Subscriptions:					
For 2015	12,500				
2016	75,000				
2017	15,00	1,02,500			

Additional Information:

(a) Subscription outstanding on December31,2015 15,000
(b) Subscription outstanding on December31,2016 12,500
(c) Subscription Received in Advance on December 31,2015 15,000

[Answer. Rs. 1,00,000]

Question 3. Calculatethe amount of subscriptions to be shown in 1999 in Income & expenditure A/c.

Subscription received in 1999 as:	Rs.	
1998	5,000	
1999	45,000	
2000	4,000	Rs. 54,000
Subscriptions outstanding in 1998		Rs. 7,500
Subscriptions outstanding in 1999		Rs. 7,500
Subscriptions Received in Advance in 1998:		
For 1999		Rs. 6,500
For 2000		Rs 2,000
Life membership subscriptions received in 1999	Rs. 5,000	

[Answer. Rs. 56,500]

Question 4. Calculate the amount of Stationery Consumed during the year 2017 from the following data:

Stock of stationery on January 1,2017	2,400
Creditors for stationery on January 1,2017	1,600
Advance paid for stationery carried forward from 2016	160
Amount paid for stationery during the year 2017	8,640
Stock of stationary on December 31,2017	400
Creditors for stationery on December 31,2017	1,040
Advance paid for stationery on December 31,2017	240

[Answer. Rs. 10,000]

Question 5. Gavaskar Cricket Club given you the following receipts and Payments Account for the year ended 31st March 2017;

Receipts	**Rs**	**Payments**	**Rs.**
To Balance of Cash on		By Salaries and Wages	12,000
1st April 2016:		By Sports Equipment	46,785
At Office 150		By Stationery and Printing	1,220
At Bank 14,200	14,350	By Maintenance of Ground	6,000
To Subscriptions	61,100 350	By Prizes	1,060
To Admission Fees		By Balance of Cash on	
To Interest on Investments @ 9%	9,000	3 1st March, 2017:	
per annum for full year		At Office 380	
		At Bank 17,355	17,735
	84,800		**84,800**

The Following additional information is provided to you:

	On 1st April 2016	**On 31st March 2017**
Subscriptions Due	480	560
Subscriptions Received in Advance	80	40
Sports Equipment	21,800	29,700
Land & Buildings (cost less depreciation)	80,000	76,000

Prepare Income and expenditure A/c for the year ended 31st March, 2017 and Balance Sheet as at that date:

[Answer:surplus- 7405, opening B/S = 2,16,630, Closing B/s = 2,23,995]

Question 6. Shanti Library Society showed the following position on 31st December 2015.

Balance Sheet as at 31st Dec., 2015

Liabilities	**Rs.**	**Assets**	Rs
Capital Fund	79,300	Electrical Fittings	15,000
Expenses Due	700	Furniture	5,000
		Books	40,000
		Investments in Securities	15,000
		Cash in Bank	2,500
		Cash on Hand	2,500
	80,000		**80,000**

The Receipt and Payments A/c for the Year ending on 31st December 2016 is given below:

Receipts		**Rs.**	**Payments**	**Rs.**
To Balance b/d			By Electric charges	720
Cash at Bank	2,500		By Postage & Stationery	500
Cash on hand	2,500	5,000	By Telephone charges	500
To Entrance fees		3,000	By Books Purchased	
To membership subscription		20,000	(on 1-1-16)	6,000
To sale proceeds of old papers		150	By Outstanding expenses paid	700
To hire of lecture Hall		2,000	By Rent A/c	8,800
To Interest on securities		800	By Investment in securities	4,000
			By Salaries A/c	6,600
			By Balance c/d	
			Cash at Bank	2,000
			Cash on Hand	1,130
		30,950		**30,950**

You are required to prepare an Income & Expenditure Account for the year ending 31-12-16 and Balance Sheet as on that date after making the following adjustments:

1. Membership subscription included Rs. 1,000 received in advance.
2. Provide for outstanding Rent Rs. 400 and Salaries Rs. 300.
3. Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.
4. 75% of the entrance fees are to be capitalised.
5. Interest on securities is to be calculated @ 5% p.a. including purchases of investments made on 1-7-2016 for Rs. 4000.**[ANS: Deficit = 1,670, closing B/S = 81,580]**

Question 7. From the Following particulars relating to Charitable Hospital, prepare (1) receipts and Payment for the year ended 31st March, 2016 and (2) Balance Sheet as on 31st March 2016.

Expenditure	**Rs**	**Income**		**Rs**
To Medicines Used	2,99,800	By subscriptions		5,60,000
To Honorarium to Visiting Doctors	1,20,000	By Donations		95,000
To salaries	2,75,000	By interest on Investment @ 11% p.a		1,10,000
To Printing & Stationery	11,000	By Income from Film Show:		
To Electricity & Water	4,750	Proceeds	1,14,500	
To Rent	60,000	Less: Expenses	7,800	1,06,700
To Depreciation on furniture & Fixtures	21,000			
To depreciation on Equipment	32,500			
To Surplus i.e. excess of income over expenditure	47,650			
	8,71,700			8,71,700

Additional Information's

	On 31.3.2015 (Rs.)	**On 03.03.2016 (Rs.)**
Subscription due	1,200	1,600
Subscriptions received in advance	640	1,000
Electricity and Water Bills Unpaid	920	1,150
Stock of Medicines	78,200	97,500
Estimated value of equipment	1,16,000	1,39,000
Furniture and Fixture (cost less depreciation)	2,10,000	1,89,000
Land	----	1,00,000
Interest Accrued on Investments in 11%Debentures costing Rs. 10,25,000 (face value Rs. 10,00,000)	27,500	27,500
Cash in Hand	3,400	1,600
Cash at Bank	90,000	?

Answer: capital fund(opening) Rs 15,49,740, Subscriptions received Rs 5,59,960, Medicines Purchased Rs 3,19,100, Equipment Purchased: 55,500

Question: 8 The Lok Kalyan Dispensary had the following Income and Expenditure Accounts the Year ended for 31st March, 2016

Expenditure	Rs.	Income	Rs.
To Salaries	2,35,000	By Subscriptions	2,50,000
To Surgery and Dispensary	30,000	By Interest	90,000
To Rent and Taxes	5,000	By Donation	40,000
To Insurance	2,000	By Miscellaneous Receipts	3,000
To Office Expenses	8,000		
To Depreciation on:			
Building 37,500			
Furniture 1,200			
Instruments 1,000	39,700		
To surplus i.e. excess of income over expenditure	63,300		
	3,83,000		3,83,000

Other information is as follows:

	On 31-3-2015(Rs)	On 3 1-3-2016 (Rs)
Cash in hand and at bank	?	1,87,000
Government securities (face value Rs. 10,00,000)	8,00,000	8,00,000
Subscription in arrear	70,000	1,00,000
Subscriptions received in advance	2,000	6,000
Salaries unpaid	10,000	15,000
Furniture	20,000	19,800
Land & Building	20,00,000	19,62,500
Instruments	35,000	39,000
Surgery expenses due	2,000	3,000
Stock of Medicines	3,000	1,000

You are required to prepare the Receipts and Payments Account for the year ended 31st March, 2016 and also the Balance Sheet as on 31st March, 2016.

Working Notes:(a) Balance Sheet as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Subscriptions Received in Advance	2,000	Cash in Hand and at Bank	1,08,000
Salaries Unpaid	10,000	Government Securities	8,00,000
Surgery Expenses Due	2,000	Subscriptions Outstanding	70,000
Capital Fund	30,22,000	Furniture	20,000
Balancing Figure)		Land and Building	20,00,000
		Instruments	35,000
		Stock of Medicines	3,000
	30,36,000		30,36,000

(b) **Receipts on account of Subscriptions**:

		Rs
income on account of subscriptions		2,50,000
add: subscriptions Outstanding on 31-3-15		70,000
subscriptions Received in Advance on 31-3-16		6,000
		3,26,000
Less: Subscriptions Outstanding on 31-3-2016		1,00,000
Subscriptions received in Advance on 31-3-15		1,02,000
		2,24,000

(d) **Calculation of Payment on Account of surgery and Dispensary**:

Expenses on surgery and Dispensary for the year		30,000
Add: surgery Expenses Due on 31-3-15		2,000
Stock of medicine on 31-3-2016		1,000
		33,000
Less: surgery Expenses Due on 31-3-2016	3,000	6,000
Stock of medicine on 31-3-153,000		27,000

(e) **Furniture purchased during the year:**

Value of Furniture on 31-3-2016	19,800
Add: Depreciation for the year	1,200
	21,000
Less: Value of Furniture on 31-3-15	20,000
	1,000

(f) **Calculation of Instruments Purchased:**

value of Instruments on 31-3-2016	39,000
add: Depreciation for the year	1,000
	40,000
Less: Value of Instruments on 31-3-2015	35,000
	5,000

Question: 9 The Following Income and Expenditure account of H.P Club is given for the year ended on 31.3.2017.

	Rs.		Rs.
To Opening Stock of Provisions(goods)	10,000	By Subscriptions	86,000
To Purchases of Provisions	80,000	By Donations	30,000
To Salaries	60,000	By Entrance Fees	8,000
To Printing and Stationery	5,000	By Sale of Provision	68,000
To general Expenses	3,000	By Closing Stock of Provisions	
Depreciation on Equipments	1,000		5,000
To Excess of Income			
Over Expenditure	38,000		
	1,97,000		**1,97,000**

The Following further informations are given:

Balance Sheet of the Club as on 31st March, 2016

	Rs.		Rs.
Creditors for Provision	8,000	Equipment (at written down value)	10,000
General Fund	37,000	Stock of provisions	10,000
		Cash in hand and at Bank	20,000
		Subscriptions Receivable	5,000
	45,000		45,000

Balance Sheet of the Club as on 31st March, 2017

	Rs.		Rs.
Creditors for Provision	10,000	Equipment (at written down value)	15,000
General Fund	75,000	Stock of provisions	5,000
		Cash in hand and at Bank	45,000
		Subscriptions Receivable	20,000
	85,000		85,000

Prepare a Receipt and Payment Account of the club for the year ended on 31st March, 2017, from the above information.

Answer: **Receipt and Payments A/c of the H.P. Club For the ended 31st March, 2017**

		Rs.			Rs.
To Balance b/d			By Salaries		60,000
Cash in Hand & at bank		20,000	By Printing & Stationery		5,000
To Subscriptions	86,000		By General Expenses		3,000
Less: Outstanding on 31.3.17	20,000		By Creditors for provision		28,000
66,000			By Equipment:		
Add: Outstanding on 31-3-16	5,000	71,000	As on 31-3-2017	15,000	
To donations		30,000	Add: depreciation for the year	1,000	
To Entrance Fees		8,000	16,000		
To Sale of Provision		68,000	Less: Equipment		
			As on 31-3-16	10,000	6,000
			By Balance c/d		
			Cash in hand and a bank		45,000
		1,97,000			1,97,000

Question: 10. From the following Receipts and Payments Account of Excellent Recreation Club for the year ended 31.3.16 and additional information given, prepare an Income and Expenditure Account for the year ended 31.3.16 and Balance Sheet.

Receipts	**Rs.**	**Payments**	**Rs.**
Opening Balance :		Secretary's Salary	12,000
Cash in hand & at Bank	3,180	Salaries to staff	25,000
Subscription	18,000	Charities	1,000
Sale of old Newspapers	2,500	Printing & Stationery	600
Legacies	4,000	Postage Expenses	120
Interest on Investments	2,000	Rates and Taxes	1,500
Endowment Fund Receipts	20,000	Upkeep of the Land	2,000
Proceeds of Sport & Concerts	4,020	Purchase of Sports Materials	10,000
Advertisement in the year book	5,000	Telephone expenses	3,480
		Balance of cash and bank	3,000

Assets and Liabilities as on 31.3.15 and 31.3.16 were as follows:

	31.3.15 (Rs.)	31.3.16 (Rs.)
Subscription in arrears	2,000	1,000
Subscription received in advance	500	400
Furniture	2,000	1,800
Land	10,000	10,000

Depreciation shall be charged at 10% p.a. under the diminishing value method. Legacies received shall be capitalised. Investments were made in Securities, the rate of interest being 12% p.a. the date of investments was 1.6.14 and the amount of investments was Rs. 20,000. Due date of interest 31stMarch, every year. Stock of sports materials on 31.3.16 were useless and value NIL. **[CA-May-96]**
[Answer: Deficit i.e. Excess of Expenditure over Income: 24,880 and Balance Sheet : 36,200]

Question: 11 From the following receipts and Payments A/c of Mumbai Club, Prepare Income and Expenditure A/c for the year ended 31.12.1996 and its balance Sheet as on that date:

Receipts	**Rs.**	**Payments**	**Rs.**
Cash In Hand	4,000	Salary	2,000
Cash at Bank	10,000	Repair Expenses	500
Donations	5,000	Purchase of Furniture	6,000
Subscriptions	12,000	Misc. Expenses	500
Entrance fees	1,000	Purchase of Investments	6,000
Interest on Investments	100	Insurance Premium	200
Interest Received from Bank	400	Billiard Table	8,000
Sale of Old Newspaper	150	Paper, Ink. Etc.	150
Sale of Drama tickets	1,050	Drama Expenses	500
		Cash in Hand (Closing)	2,650
		Cash at Bank (Closing)	7,200
	33,700		**33,700**

Information:

1. Subscriptions in arrear for 1996, Rs. 900 and subscriptions in advance for 1997, Rs. 350.
2. Insurance premium Outstanding Rs. 40.
3. Misc. Expenses Prepaid Rs. 90.
4. 50% of donation is to be capitalised.
5. Entrance fees are to be treated as revenue income.
6. 8% interest has accrued on investment for five months.
7. Billiard Table costing Rs.30,000 was purchased during the last year and Rs. 22,000 were paid for it.

[Nov-97 foundation-20 marks] [Answer: Surplus 14,150, Balance Sheet: 53,040]

Question: 12 The following information were obtained from the books of Delhi Club as on 31.3.1998, at the end of the first year of the Club. You are required to prepare Receipts and Payments Account, Income and Expenditure Account for the year ended 31.3.1998 and a Balance Sheet as at 31.3.1998 on mercantile basis:

Donations received for Building and Library Room **Rs. 2,00,000**

Other revenue income and actual receipts:	**Revenue (Income Rs.)**	**Actual Receipts (Rs.)**
Entrance Fees	17,000	17,000
Subscription	20,000	19,000
Locker Rent	600	600
Sundry Income	1,600	1,060
Refreshment Account	---	16,000

3. Other Revenue Expenditure and actual Payments:

	Revenue Expenditure	**Actual Payments**
Land (Cost Rs. 10,000)	-----	10,000
Furniture (cost Rs. 1,46,000)	-----	1,30,000
Salaries	5,000	4,800
Maintenance of Playgrounds	2,000	1,000
Rent	8,000	8,000
Refreshment Account	-----	8,000

Donations to the extent of Rs. 25,000 were utilized for the purchase of Library Books. Balance was still unutilized. In order to keep it safe, 9% govt. Bonds of Rs. 1,60,000 were purchased on 31-3-1998. Remaining amount was put in the Bank on 31-3-98 under the term deposit. Depreciation at 10% p.a. was to be provided for the whole year on Furniture and Library Books.

[CA INTER -Nov. 98]20 marks [Answer:Overdraft; 1,08,140; Surplus 15,100, Balance Sheet 3,40,440]

Question: 13 Mahaveer Sport Club given the following Receipts and Payments account for the year ended March 31, 2017

Receipts	**Rs**	**Payments**	**Rs**
To Opening Cash & Bank Balance	5,200	By Salaries	15,000
To Subscriptions	34,800	By Rent & Taxes	5,400
To donations	10,000	By Electricity Charges	600
To Interest on Investments	1,200	By Sports Goods	2,000
To sundry Receipts	300	By Library Books	10,000
		By Newspaper & Periodicals	1,080
		By Miscellaneous Expenses.	5,400
		By Closing Cash and Bank Balance	12,020
	51,500		**51,500**

	As on 31. 3.16 .	**As on 31. 3.17.**
Outstanding Expenses:		
Salaries	1,000	2,000
Newspaper and Periodicals	400	500
Rent and Taxes	600	1,000
Electricity Charges	800	---
Library Books	10,000	---
Sports Goods	8,000	-----
Furniture and Fixtures	10,000	-----
Subscriptions Receivable	5,000	12,000
Investment- Government Securities	50,000	---
Accrued Interest	600	600

Provide Depreciation on:

Furniture and Fixtures	@ 10% p.a
Sports Goods	@ 20% p.a.
Library Books	@ 10%p.a.

You are required to prepare Club's Opening Balance Sheet as on 1.4.16, Income and Expenditure Account forthe year ended on 31.3.17 and Balance Sheet as on that date**.** **[CA-Nov-99]20 marks**

Question: 14 prepare the Income and Expenditure Account and the Balance Sheet from the following information.

Receipts and Payment Account of Zee club, Delhi

For the year ending on 31st December 2012

Receipts		**Rs.**	**Payments**	**Rs.**
To Balance b/d (cash)		1,025	By Upkeep of fields	220
To Subscriptions:			By Salaries	600
2011	40		By Drama Expenses	450
2012	2,050		By Newspapers	150
2013	60	2,150	By Books	100
To Admission Fees		40	By Municipal Taxes	40
To Life Membership Subscription		100	By Charity	350
To Donations (on 1.8.2012)		500	By 12% General Investments	500
To Subscription for Tournament		1,500	(on 1.8.2012)	
(on 1.8.2012)			By 12% Tournament Fund	
To sales of old newspapers		45	Investments (on 1.8.2012)	1,500
To sale of old bats etc.		50	By Tournament Expenses	1,200
To Proceeds of drama tickets		950	By Bats, Balls etc.	700
To Sale of old furniture		60	By Printing and Stationery	100
(costing Rs. 100)			By Furniture	250
To Interest on 12% general Invest.		12.50	By Balance c/d (cash)	3,760
To Interest on 12% Tournament				
Fund Investments		37.50		
To Subs.for Governor's Party		3,450		
		9,920		**9,920**

Additional Information

a. There are 500 members each paying an annual subscription of Rs.5. Rs.50 are still in arrear for the year 2011.
b. Municipal taxes amounting to Rs.40 per year have been paid upto 31 March 2013 and Rs.50 are outstanding for salaries.
c. On 1.1.2012 the club owned building valued at Rs.5,000, Stock of Bats and Balls Rs. 1,500, Printing and Stationery Rs.200, Cash at Bank Rs.3,000, Books Rs.500 and Furniture Rs,600.
d. Write 50% off Bats and Balls (without considering sale), 25% off printing and stationery.
e. Special subscription for governor's party outstanding Rs.550.
f. Admission fees to be treated as of revenue nature but Life Membership is to be treated as of Capital nature.

[Ans. Surplus Rs. 1,035; Closing Balance Sheet Total Rs. 17,545]

Question: 15 Prepare Income and Expenditure Account and Balance Sheet of Ramdas College Sports Club, Delhi from the following information: ('000)

Receipts	**Rs.**	**Payments**		**Rs.**
To Balance b/d Cash	150	By Balance b/d (Bank Overdraft)		3,000
Stamps	50	By Insurance (paid up to 30.6.2012)		300
To subscriptions	7,000	By Miscellaneous Expenses		3,875
To Entrance fees	200	By Postage Expenses		200
To Life Membership Subscription	500	By refreshment Room Expenditure		2,100
To General Donations	2,000	By Furniture (Purchased on [1.10.11])		600
To Cricket Fees	250	By Honorarium to Cricket coach		600
To Refreshment Room Receipts.	3,100	By Sports Equipment (on 1.10.11)		2,200
To Sale of Old periodicals	72	By 10% RBI Tax Free Bonds		10,000
To Interest on Govt. Securities	144	(on 1.1.12) (Pavilion)		
(T.D.S. @ 20%)		By Balance c/d:		
To Donation for club Pavilion	10,000	Cash in Hand	52	
(on 1.1.2012)		Cash at Bank	514	
		Stamps	25	591
	23,466			23,466

Particulars	**1.4.2011**	**31.3.2012**
	Rs.'000	**Rs. '000**
Club Pavilion Fund	5,000	?
Sports Equipment	4,500	?
Furniture	3,200	?
Stock of Foodstuff	120	80
6% Government Security (Face Value Rs.30,00,000)	2,580	?
Subscription Outstanding	600	250
Subscription in Advance	-	300
Outstanding Miscellaneous Expenses	200	250

Accounting policies followed by Ramdas Sports Club, Delhi are as under:
The sports equipment and furniture are to be depreciated @25% and 10% p.a. respectively.
One-half of the entrance fees and life membership fee are to be treated as income.

(CMA INTER 16 MARKS) [Answer. Surplus Rs.2,872; Closing Balance Sheet Total Rs.22,022]

Question: 16 Prepare Income and Expenditure Account and Balance Sheet of Bhagat Singh College Sports Club. Delhi

Receipts and Payments Account of Bhagat Singh College Sports Club, Delhi for the year ended on 31st March 2003.

Receipts		Rs.	Payments	Rs.
To Balance b/d	Cash	500	By Rent	9,750
	Bank	4,000	By miscellaneous Expenses	28,800
	Stamps	300	By Postage Expenses	1,200
To Subscription			By Furniture	8,000
4,650			By Creditors for Sports Material	12,200
67,200			By cost of prizes (to be awarded)	4,150
2,600		74,450	By Cash Purchase of Sports	
To Entrance Fees		8,000	Materials	2,000
To general donations		4,050	By Match Expenses	7,030
To Donations for Prize Fund		2,800	By Balance c/d	
To Sale of old Sports Materials		5,200	Cash	545
To Interest on Prize Fund Investments		300	Bank	26,000
To Miscellaneous Receipts		225	Stamps	150
		99,825		99,825

Information

Particulars	1.4.2002 Rs.	31.3.2003 Rs.
Sports Materials	4,000	5000
Furniture	40,000	?
5% Prize Fund Investment (Face Value Rs. 12,000)	11,700	?
Creditors for Sports Materials	1,400	2,950
Subscription in arrears	4,750	?
Subscription in advance	1,400	?
Prize Fund	12,000	?
Rent paid in advance	--	750
Outstanding rent	750	?
Outstanding Miscellaneous Expenses	2,280	4,020
Miscellaneous Expenses paid in advance	750	850

Book Value of Sports Materials sold was Rs.4,000. Depreciation on furniture is to be provided @10%. Half of entrance fees to be capitalised. There are 720 members, each paying an annual subscription of Rs. 100
[Answer, Surplus Rs.19,005 Closing Balance Sheet Total. Rs.91,995] (CMA INTER 16 MARKS)

Question: 17 The following is the Receipts and Payments Account of Apollo Club in respect of the year to 31 March 2003.

Receipts		Rs.	Payments	Rs.
To Balance b/d			By Salaries	3,000
Cash in hand		2,000	By Stationery	1,000
To Subscriptions:			By Rates and Taxes	300
2001-2002	3,000		By Telephone Charges	1,500
2002-2003	4,000		By 8% Securities at par	5,000
2003-2004	1,000	8,000	By Sundry Expenses	200
To Profit on sports		3,000	By Balance c/d	
To Interest on 8% Securities		1,000	Cash in hand	3,000

The following additional facts are ascertained:

a. There are 500 members, each paying an annual subscription of Rs.10; Rs.3,500 being in arrears for 2001-2002 at the beginning of 2002-2003. During 2001-2002, subscriptions were paid in advance by 30 members for 2002-2003.
b. Stock of stationery at 31 March 2002 was Rs.400 and at 31 March 2003, Rs.500.
c. At 31 March 2003, the rates and taxes were prepaid to the following 31st January. The yearly charge being Rs.300.
d. A quarter's charge for telephone is outstanding, the amount accrued being Rs.300. The charge for each quarter is same for both 2001 -2002 and 2002-2003.
e. Sundry Expenses accruing at 31 March 2002 were Rs.50 and at 31 March 2003 Rs.60.
f. At 31 March 2002 Building stood in the books at Rs.30,000 and it is required to write off depreciation at 10% p.a.
g. Face Value of 8% Securities at 31 March 2002 was Rs. 15,000 which was purchased at that date for Rs. 10,000. Additional Securities worth Rs.5,000 are purchased at par on 31 March 2003.

You are required to prepare:

i.) An Income and Expenditure Account for the year ended 31 March 2003, and
ii.) A Balance Sheet at that date.

[Ans. Surplus Rs.590; Closing Balance Sheet TotalRs. 52,150] (CMA INTER 16 MARKS)

Question: 18 The following is the Receipts and Payments Account of Modern Club for the year ending on 31st March 2013.

Receipts		**Rs.**	**Payments**	**Rs.**
Cash in hand	150		Honorarium of Secretary &Treasurer	4,800
Bal. as per Bank Pass Book	8,230	8,380	Rates and Taxes	1,260
Subscriptions		10,710	Printing and Stationery	470
Receipts from fees		2,400	Other Miscellaneous Expenses	1,530
Net proceeds of variety Entertainment		4,270	Ground man's wage	840
Bank interest		230	Expenditure on fetes	2,390
Bar takings		7,450	Payments for bar Purchases	5,770
Cash Overspent		20	Repairs	320
			New Car (less sale proceeds of old car Rs. 3,000)	12,600
			Balance as per pass Book	3,480
		33,460		**33,460**

You are given the following additional information:	**1.4.2012**	**31.3.2013**
Subscription due	1,200	980
Unpresented cheques being payment on printing	90	30
Club premises at cost	29,000	---
Depreciation on club premises	18,800	---
Car at cost	12,190	---
Depreciation on car	10,290	----
Value of bar stock	710	870
Amount due for bar purchases	590	430

Cash overspent represents amount of honorarium to the treasurer not drawn due to shortage of fund. But the total salary payable to him for the year was already included in 4,800. Depreciation is to be provided @ 5% p.a. on the w. d. v of the premises and @ 15% p.a. on car for the whole year.

You are required to adjust bank balance according to cash book and prepare:

An Income and Expenditure Account of the Club for the year ended 31 March 2013.

A Balance Sheet as on 31 March 2013 **(ICWA—INTER) (CA- PE2 NOV 2004(20 MARKS) [Answer. Surplus Rs.6,090.**

Question: 19 Following is the summary of bank transactions of club for the year ending 31st March 2013

Receipts	**Rs.**	**Payments**	**Rs.**
To Petty cash in hand	150	By Rent	600
To Balance as per Pass Book	2,000	By Entertainment	800
To Subscriptions	2,500	By Advertisement (for 2011-2012	200
To Entertainment	1,900	Rs.50)	
To Legacy (to be capitalized)	800	By Capital Expenditure	2,000
To Donation for Books	500	By Upkeep of Grounds	300
To General Donation	500	By Bank Charges	30
		By Salary	1,500
		By Petty Expenses	80
		By Balance as per Pass Book	2,770
		By Petty Cash in Hand	70
	8,350		**8,350**

Information:

	1.4.2012 Rs.	31.3.2013 Rs.
Unpresented cheque being payment for rent	100	50
Interest on fixed deposit of Rs. 10,000 not entered in the pass book.	-----	600
Entry in respect of bank charges was not passed through the cash book.	---	30
A member deposited subscription for 2013-2014		
Direct into bank, not passed through the cash book	----	20
Cheques deposited for subscription but not yet cleared		
By the bank	800	600

Prepare Income and expenditure Account for the year ending 31st March 2013 and Balance Sheet as on that date.

[Ans: Surplus. Rs. 1870; Closing Balance Sheet Total Rs. 15,990]

Question: 20 The Lok Kalyan Dispensary had the following:

Income and Expenditure Account for the year ending on 31st March 2012

Expenditure		**Rs.**	**Income**	**Rs.**
Salaries		23,500	Subscriptions	25,000
Surgery and Dispensary		3,000	Interest	9,000
Rent and Taxes		500	Donations	4,000
Insurance		200	Miscellaneous Receipts	300
Office Expenses		800		
Depreciation:				
Building	3,750			
Furniture	120			
Instruments	100	3,970		
Surplus		6,330		

Information	31.03.2011 Rs.	31.3.2012 Rs.
Cash in hand and at bank	?	18,700
4.5% Tax free Government Securities (Face Value Rs.2,00,000)	1,80,000	1,80,000
Subscription outstanding	7,000	10,000
Subscription received in advance	200	600
Salaries unpaid	1,000	1,500
Furniture	2,000	1,980
Land and Buildings	1,00,000	96,250
Instruments	3,500	3,900
Surgery Expenses due	200	300
Stock of medicines	300	100

Prepare Receipts and Payments Accounts of the year ending on 31st March 2012
(Ans; Opening cash and bank balance Rs 10,800)

Question: 21 From the following Receipts and Payments Account of a Modern (India) Club and from the supplied information, prepare income and Expenditure Account for the year ended 31st March 2013 and Sheet as on that date:

Receipts	Rs.	Payments	Rs.
To Balance b/d	7,000	By Tournament Expenses	1,100
To Donation for Building	8,000	By Furniture	2,000
To General Donations	200	By Curtains	800
To Legacies	6,000	By Crockery	400
To Sale of old furniture (costing Rs.80)	75	By Sports Materials	1,200
		By Salaries	1,300
To Endowment Fund Receipts (to be capitalized)	10,000	By Honorarium	2,600
		By Charities	8,000
To Sale of Newspapers	400	By Advertisements	250
To sale of Sports Materials	80	By Rent and Taxes	1,400
To Rent Received from use of hall	1,500	By Advance against Construction of Building	5,000
To advertisement in the year book	400	By Cost of Entertainment	1,450
To proceeds of Concerts	1,200	By Payment to Creditors of last year	400
To Subscriptions:		By Electric Installation Expenses	3,000
2011-2012 600		By Library Books	800
2012-2013 14,000		By Newspapers	1,300
2013-2014 800	15,400	By Postage	700
To Tournament Fund	1,500	By Bar Expenses including Purchase	1,600
		By 7% investments Purchased on 1.10.12	10,000
		By Balance c/d	8,455
	51,755		**51,755**

Information :
Balance on 31st March 2013; Sports Material Rs. 100, Bar Stock Rs. 120, Postage Rs. 20.
Subscription outstanding on 31st March 2013 was Rs. 70.
Salary outstanding on 31st March 2013 Rs. 50
Salary paid included Rs. 80 paid for 2011-2012 and Rs. 10 for 2013-2014.
Investments included investments out of Building Donations Rs. 8,000.
[Ans: Deficit Rs. 975; Opening Capital fund Rs. 7200, Total of Closing Bal. Sheet Rs. 31,755

Question: 22 From the following Trial Balance of the Gayatri Education Society as on 31st March 2017, prepare an Income and Expenditure Account and a Balance Sheet.

	Dr. (Rs.)	Cr. (Rs.)
Furniture and Fittings	12,500	
Additions to Furniture during the year	3,200	
Library Books	17,500	
Additions to Library during the year	4,300	
Buildings	2,75,000	
General Investments	1,50,000	
Reserve Fund		15,000
Sundry Debtors and Creditors	5,000	14,500
Entrance Fees		15,200
Examination Fees		2,400
Subscriptions Received		20,000
Certificate Fees		500
Hire of Society's Hall		6,500
Interest realized on Investment		5,500
Sundry Receipts		600

Staff salaries	10,200	
Printing and Stationery and Advertising	1,000	
Taxes and Insurance	800	
Examination Expenses	600	
Subscription of Periodicals	1,200	
Prize Trust Fund		16,000
Prizes Trust Investment	15,800	
Prize Trust Income		650
Prize Awarded	450	
Prize Fund Bank Balance	275	
Donations received (to be capitalized)		18,000
General Expenses	375	
Capital Fund		3,89,150
Cash at Bank	5,500	
Cash at office	300	
	5,04,000	**5,04,000**

The following further information is supplied to enable you to make the necessary adjustments:

	Rs.
Subscriptions to be received	4,500
Subscriptions received in advance	500
Interest on General Investment accrued	450
Staff Salaries outstanding	1,800
Taxes and Insurance paid in advance	500

Provide depreciation at the following rates (including the additions):
On Library Books @ 15%
On Furniture and Fittings @ 5%
On Building @ 1% p.a.

The market value of General Investments on 31st March 2017 was Rs. 1,30,000, but you are not requiredto bring down the book value to this level. Ignore Income Tax.

[Ans. Surplus-Rs.32,870; Total of Closing Bal. Sheet Rs.4,88,020.] (CMA INTER 16 MARKS)

Question: 23 A political association prepared its accounts on 31st of December every year. Following information is available for the year 2017:

They started the year with Rs. 20,000 cash and bank balance and ended with a cash and bank balance of Rs. 9,650.

They received subscription amounting to Rs. 8,350 of which Rs. 250 represented arrears of 2016, Rs. 7,600 for current year and Rs. 500 received in advance for the year 2018.

They received Rs. 5,200 donation to Capital Fund and Rs. 8,500 to Election Fund. Balance of Election Fund on 1-1-2017 amounted to Rs. 150 and election expenses paid during the year were Rs. 7,200.

They held Rs. 10,000 investments on 1-1-2017 and interest received on investment during 2017 amounted to Rs. 1,400.

Office space was purchased during the year at a cost of Rs. 30,000 out of which Rs. 20,000 was to be treated as loan and the balance was paid in cash.

Office furniture was valued at Rs. 1,500 on 1-1-2017 and Rs. 1,700 was paid for additions during the year.

At the end of the year, furniture was valued at Rs. 2,500. Cost of literature published and distributed amounted to Rs. 750 and Rs. 1,200 was collected on distribution of literature.

Other payments during the year 2017 were as follows :

Salaries: Rs. 10,500 (out of which Rs. 500 related to the year 2018)

Rent: Rs. 1,700 (Out of which Rs. 500 related to the year 2016)

Meeting and Propaganda Rs. 1,650 (Rs. 300 paid for arrangement of meetings to be held in the year 2018)

Stationery Rs. 1500

Prepare:1.Receipt and Payment Account for the year ended 31-12-2017;

2. Income and Expenditure Account for the year ended 31-12-2017;
3. Balance Sheet as at 1-1-2017; and
4. Balance Sheet as at 31 -12-2017.

Answer:

Dr. Receipt and Payment Account for the year ending December 31, 2017 Cr.

Receipt	Amount	Payment	Amount
To Balance b/d	20,000	By Building (payment for	
To Subscription Received	8,350	Purchase of office space)	10,000
To Interest Received	1,400	By Furniture Purchased	1,700
To Sale of Literature	1,200	By Salaries Paid	10,500
To Donation to Capital Fund	5,200	By Rent Paid	1,700
To Donation to Election		By Meeting and	
Fund	8,500	Propaganda Expenses Paid	1,650

		By Stationery Purchased	1,500
		By Cost of Literature Paid	750
		By Election Expenses	7,200
		By Balance c/d	9650
	44,650		44,650

Income and Expenditure Account for the year ending December 31, 2017 Cr.

Expenditure		*Amount*	*Income*		Amount
To Salaries		10,000	By Subscription		7,600
To Rent		1,200	By Interest on Investments		1,400
To Stationery Consumed		1,500	By Sale of Literature	1,200	
To Meeting & Propaganda		1,350	*Less* Cost of Literature	750	450
			By Excess of Expenditure Over		
To Depreciation on Office			Income		5,300
Furniture:					
Balance on 1-1-2017	1,500				
Add Purchased	1,700				
	3,200				
Less Closing Balance	2,500	700			
		14,750			14,750

Balance Sheet as at January 1, 2017

Liabilities	Amount	Assets	Amount
Rent Outstanding Election Fund	500	Cash	20,000
Capital Fund *(Bal. figure)*	150	Subscription Outstanding	250
	31,100	Investments	10,000
		Furniture	1,500
	31,750		31,731

Balance Sheet as at December 31, 2017

Liabilities		Amount	Assets		Amount
Subscription Received in			Cash		9,650
Advance		500	Advance Salary		500
Loan for Building		20,000	Advance for Meetings		300
Election Fund on 1-1-2017	150		Investments		10,000
Add Donation	8,500		Furniture on 1-1-2017	1,500	
	8,650		Add: Purchased	1,700	
Less Expenses	7,200	1,450		3,200 700	
Capital Fund on 1-1-2017	31,100 5,200		Less Depreciation Building.		2,500
Add Donation					30,000
	36,300				
Less Deficit	5,300	31,000			
		52,950			52,950

Question: 24 Following is the receipts and payment Account of Roshnara club for the year ending December 31, 2001:

Balance b/d		By salaries	15,000
Cash	20,000	By electricity Bills	20,000
Bank	50,000	By foodstuffs for restaurant	40,000
To subscription 2000	10,000	By telephone bills	25,000
2001	80,000	By 18% investments	78,000
2002	8,000	(31-3-2001)	
To donation to sports fund	20,000	By sport expenses	40,000
To sale of furniture (book value Rs.5,000)	8,000	By subscription for periodicals	10,000
To sale of old periodicals, newspapers etc.	2,000	By balance c/d	
To sale of foodstuffs	80,000	Cash	17,000
To rent of ground for Marriages	10,000	Bank	43,000
	2,88,000		2,88,000

Additional Information:

(a) During 2001, the club had 90 members, each paying an annual subscription of Rs.1,000. Out of twelve members, who had not paid annual subscription during 2000, ten members cleared their arrears in 2001 and the arrears of subscription of remaining two members who left the club on 1-1-2001 were treated as irrecoverable.

(b) During 2001 Rs.2500 was deposited with Mahanagar Telephone Nigam Limited for adjustment of telephone bills. On 31-12-2001 following statement was received from MTNL office:

Amount deposited	25,000	
Interest on deposit	2,000	
		27,000
Less Telephone rent and bills for 2001		15,000
Balance of deposit on 31-12-2001		12,000

(c) Advance payment of subscription for periodicals magazines, newspapers etc., amounted to Rs.2000 and Rs.4000 at the end of 2000 and 2001 respectively.

(d) Stock of foodstuffs for restaurant run by the club amounted to Rs.12,000 and Ras.15,000 at the end of 2000 and 2001 respectively.

(e) On 1-1-201 other balances were as follow:

Furniture	80,000
Building	5,00,000
Sports fund	10,000

(f) Depreciate furniture and building @20%

Prepare Income and Expenditure Account and Balance sheet as 31-12-2001

Answer:

Balance sheet as at December 31, 2000

Liabilities	Amount	Assets	Amount
Sports fund	10,000	Cash	20,000
Capital fund		Bank	50,000
(balancing figure)	6,66,000	Advance subscription for periodicals	2,000
		Subscription outstanding	12,000
		Stock of foodstuffs	12,000
		Furniture	80,000
		Building	5,00,000
	6,76,000		6,76,000

Income and Expenditure Account for the year ending December 31, 2001

To Salaries		15,000	By Subscription for 2001	80,000	
To Electricity Expenses		20,000	*Add* Outstanding for 2001	10,000	90,000
To Foodstuff Purchased	40,000		By Sale of Old Periodicals		2,000
Add Opening Stock	12,000		By Interest on Deposit with MTNL		2,000
	52,000		By Profit on Sale of furniture		3,000
Less Closing Stock	15,000	37,000	(Rs.8,000 - Rs.5,000)		
To Telephone Expenses		15,000	By Sale of Foodstuff		80,000
To Sports Expenses	40,000		By Rent of Ground for Marriages		10,000
Less Sports Fund on 1-1-2001	10,000		By Excess of Expenditure Over Income		35,000
	30,000				
Less Donation	20,000	10,000			
To Subscription for Periodicals	10,000				
Add Advance on 1-1-2001	2,000				
	12,000				
Less Advance on 31-12-2001	4,000	8,000			
To Depreciation on Furniture		15,000			
To Depreciation on Building		1,00,000			
To Subscription for 2000 Written off		2,000			
		2,22,000			2,22,000

Balance Sheet as at December 31, 2001

Liabilities		Amount	Assets		Amount
Subscription Received in Advance		8,000	Cash		17,000
Sports Fund on 1-1-2001	10,000		Bank		43,000
Add Donation	20,000		Advance Subscription for Periodicals		4,000
	30,000		Subscription Outstanding		10,000
Less Sports Expenses	40,000		Stock of Foodstuffs		15,000
	10,000		Investments		78,000
Transferred to Income			Deposit with MTNL		12,000
& Expenditure A/c	10,000	—	Furniture	80,000	
			Less Sold	5,000	
Capital Fund on 6,66,000					
Less Deficit 35,000				75,000	
		6,31,000	*Less* Depreciation	15,000	60,000
			Building	5,00,000	
			Less Depreciation	1,00,000	4,00,000
		6,39,000			6,39,000

Question:25 The following is the Income and Expenditure Account of Delhi Youth Club for the year ended 31st March, 2001 :

Dr. Income and Expenditure Account for the year ended 31st March, 2001 Cr.

To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Misc. Expenses	14,500		
To Loss on Sale of furniture	2,500		
To Depreciation :			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of Income over expenditure	17,050		
	73,000		73,000

Additional Information:

	31-3-2000	31-3-2001
	Rs.	Rs.
Subscription in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fees	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture *less* depreciation	30,000	27,900
Prepaid Insurance	—	150

Book value of furniture sold is Rs. 7,000. Entrance fees capitalised Rs. 4,000. On 1st April, 2000, there was no cash in hand but Bank Overdraft for Rs. 15,000. On 31st March, 2001, Cash in hand amounted to Rs. 850 and the rest was Bank balance. Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2001.

[ICWA—Adapted]

Answer: **Receipts and Payments Account for the year ended 31-3-2001**

To Subscription A/c	67,050	By Balance b/d: Bank		15,000
To Donation A/c	5,000	By Salary	19,500	
		Add Outstanding last year	1,200	
		Less Outstanding this year	350	20,350
To Entrance Fees A/c	4,000	By Rent	4,500	
		Add Outstanding last year	500	
		Less Outstanding this year By	800	4,200
		Printing		750
To Furniture A/c (Sale of furniture) (7,000-4,500)	4,500	By Insurance	500	
		Add Prepaid this year	150	650
		By Audit Fees	750	
		Add Outstanding last year	500	
		Less Outstanding this year By	750	500
		Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment (Purchased)		5,000
		By Furniture (Purchased)		8,000
		By Balance c/d		
		Cash		850
		Bank *(balancing figure)*		7,250
	80,550			80,550

Question 26: From the following information, prepare Balance Sheet as at December 31, 2001 :

Dr.Income and Expenditure Account for the year ending December 31, 2001 **Cr.**

To Salaries		15,000	By Subscriptions	40,000
To Audit Fees		2,000	By Sale of Foodstuff	20,000
To Purchase of Foodstuffs	15,000		By Rent	5,000
Less Closing Stock of Foodstuffs	3,000	12,000		
To Insurance Premium		1,000		
To Depreciation on Fixed Assets		3,000		
To Excess of Income over Expenditure		32,000		
		65,000		65,000

Dr. **Receipts and Payment Account for the year ending December 31, 2001** **Cr.**

To Balance b/d		5,000	By Salaries	10,000
To Subscription	2001	35,000	By Audit Fees for 2000	1,000
	2002	6000	By Purchase of Foodstuffs	15,000
To Rent Received		4,000	By Insurance Premium	2,000
To Sale of Foodstuffs		20,000	By Fixed Assets	20,000
			By 12% Fixed Deposit (31-12-2001)	10,000
			By Balance c/d	12,000
		70,000		70,000

On 31-12-2000, following balances appeared in the books of Delhi Club : Building—Rs.50,000 ; Furniture—Rs. 10,000.

Question:27. Following is the Income and Expenditure Account of Victoria Club for the year ending 31st March ,2006:

Expenditure	**Amount**	**Income**		**Amount**
To dep. On equipment	1200			
To Salaries & Wages	19,000	By Subscription		30,000
To Misc. Expenses		By Entrance fees received		1,000
(including Insurance)	2,000	By Annual Sports Income		
To Audit fees	1,000	Receipts	6,000	
To Chief Executive '		Less: Expenses	3,000	3,000
Honorarium	4,000			
To Printing and Stationary	1,800			
To Annual day Celebration Exp.	6,000			

Less – Donation	4,000	2,000
To Interest on Bank Loan		600
To Excess of Income over Expenditure		2,400
		34,000

Additional Information :

	31.3.05 (Rs.)	31.03.06 (Rs)
(i) Subscription outstanding	2,400	3,000
(ii) Subscription received in advance	1,800	1,080
(iii) Salaries outstanding	1,600	1,800
(iv) Sports equipment (after deducting depreciation)	10,400	10,800
(v) Prepaid Insurance	-	240
(vi) Cash in Hand	?	6,400

The Club owned a Sports' ground of Rs. 40,000
The Club took a loan of Rs. 8,000 from a bank during the year 2004 – 05,which was not paid in 2005 – 06.
Audit fee of 2005 – 06 was outstanding, but an Audit fee of Rs. 800 for 2004 – 05 was paid in 2005 – 06.
Prepare Receipts and payments Account for the year ending 31st March,2006 and a Balance Sheet on that date.
Answer: Opening balance of cash Rs. 5560. (CA-Inter2006 – May)

Question.28. Following is the Receipts and Payments Account of M/s Tiptop Club for the year ended 31st March. 2006:

Receipts	**Rs.**	**Payment**	**Rs.**
To Cash in hand on 1st April ,2005	9,000	By Payment for cosmetics	15,000
		By Honorarium to Beautician	8,000
To Subscription	45,000	By Salaries	18,000
To Donation	4,500	By Sunday expenses	1,000
To Interest on Investments At 6% for the year	3,000	BY Rent for building	12,000
To Fashion show Proceeds	50,500	By Equipments purchased	13, 000
		By Fashion show expenses	34,000
		By Cash in hand on 31stMarch , 2006	11,000
Total	1,12,000	Total	1,12,000

Additional information:

	On 1stApril , 2005	On31st March, 2006
(i) Subscription due	500	2,000
(ii) Subscription received in advance	1,500	1,000
(iii) Stock of cosmetics	10,000	7,000
(iv) Amount due to cosmetics suppliers	8,000	11,000
(v) Rent paid in advance	1,000	1,500
(vi) Salary outstanding	1,500	2,000
(vii) Value of Equipments	21,500	29,000
(viii) Value of Furniture and Fixtures	40,000	36,000

You are required to prepare Income and Expenditure Account for the year ended 31stMarch ,2006 and Balance Sheet as on date of M/s Tip top Club. Show all working. **(CA-PCC 2006 – Nov [16 Marks)**

Hints : Calculation of subscription :

Subscription received	45,000
Less : Due (Last year)	(500)
Less : Due (Current year)	2,000
Add : Received in advance(Last year)	1,500
Less : Received in advance (Current year)	(1,000)
Subscription of the year	47,000

Calculation of Purchase of Cosmetics :

Cosmetic A/c

Particulars	Rs.	Particulars	Rs.
To Cash	15,000	By Bal . b/d	8,000
To Balance C/d	11,000	By Purchase	(18,000)
	26,000		26,000

Calculation of Consumption of Cosmetics :

Opening Stock	10,000
Add: Purchase	18000
Less:Closing stock	(7,000)
	21,000

4. Calculation of Salaries:

Salary Paid	18,000
Less: Outstanding Salary (Last year)	(1,500)
Add: Outstanding Salary (Current year)	2,000
	18,500

Calculation of Operating Capital : Balance Sheet (as on 31.3. 06)

Particulars	Rs.	Particulars	Rs.
Capital	1,21,000	Subscription due	500
Subscription received in advance	1,500	Stock of Cosmetic	10,000
Due to Cosmetic Supplier	8,000	Rent paid in advance	1,000
Salary Outstanding	1 ,500	Investment	50,000
		Equipment	2,500
		Furniture and fixture	40,000
		Cash	9,000
	1,32,000		1,32,000

Question 29: Following is the Receipts and Payments Account of Nanoo Club for the year ended 31st March, 2009:

Receipts	Rs.	Payments	Rs.
Opening Balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationery	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephone and fax	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of fixed assets	8,000	Glass and table lined	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at coffee room	10,70,000	Garden upkeep	8,000
Wines and spirits	5,10,000	Membership fees	4,000
Swimming pool	80,000	Insurance	5,000
Tennis court	1,02,000	Electricity	28,000
		Closing balance:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

Following additional information is provided to you:

1. Assets and liabilities as on 1.4.2008 were as follows:

Fixed assets (Net)	5,00,000
Stock	3,80,000
Investment in 12% government securities	5,00,000
Outstanding subscription	12,000
Gratuity fund	1,50,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000

2.Subscription received in advance as on 31.3.09 was Rs. 18,000.
3.Outstanding subscription as on 31.3.09 was Rs. 7,000.
4.Outstanding expenses as on 31.3.09 are:
Salaries : Rs. 8,000
Electricity: Rs. 15,000
5. 50% of the entrance donation was to be capitalised. There was no pending membership as on 31.3.09.
6.The cost of assets sold as on 1.4.08 was Rs. 10,000. Depreciation was provided @ 10% p.a. on fixed assets on written down value basis,
7. A sum of Rs. 20,000 received in October, 2008 as entrance donation from an applicant was to be refunded, as he has not fulfilled the requisite membership qualification. The refund was made on 3.6.09.
8.Purchases made during the year 2008-09 amounted to Rs. 1500,000.
9.The value of closing stock as on 31.3.09 was Rs. 2,10,000.
10.The Club as a matter of policy charges off to Income and Expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare:

(i) Income and Expenditure account for the year ended 31st March, 2009.

(ii) Balance Sheet as on 31st March, 2009. **(CA-PCC- MAY 2009)20 MARKS**

Answer:

Income and Expenditure Account of Nanoo club For the year ended 31st March, 2009

Expenditure	Amount	Income	Amount
To Salaries (W.N.8)	1,28,000	By Subscriptions (W.N.2)	1,94,750
To Printing and stationery.	70,000	By Entrance donation (W.N.3)	90,000
To Postage	40,000	By Interest (W.N.4)	60,000
To Telephone & Fax	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations (W.N.6)	92.000
To Glass and table linen	12,000	By Excess of expenditure over income	
To Crockery and cutlery	14,000	transferred to capital fund (deficit)	30,250
To Garden upkeep	8,000		
To Membership fees	4,000		
To Insurance (W.N.5)	6,000		
To Electricity charges (W.N.8)	43,000		
To Loss on sale of assets (10,000-8,000)	2,000		
To Depreciation (W.N.9)	49,000		
	4,76,000		4,76,000

Balance sheet of Nanoo Club As on 31st March, 2009

Liabilities	Amount	Assets	Amount
Capital fund (W.N. 10).	10,89,600	Fixed assets (W.N.9)	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors (W.N.7)	92,000	Investments in 12% Government securities	5,00.000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued (W.N.4)	2,000
Outstanding salary	8,000	Bank	2,24,600
Outstanding electricity charges	15,000	Cash	8.000
	13,92,600		13,92,600

Working Notes:

(1) Opening Balance Sheet as on 1" April, 2008

Liabilities	Amount	Assets	Amount
Capital funds (Bal. Fig.)	10,29,850	Fixed assets	5,00,000
Sundry creditors	1,12,000	Stock	3,80,000
Subscription received in advance	15,000	Investment in 12% Government securities	5,00,000
Entrance donation received in advance (pending		Subscription outstanding	12,000
membership)	1,00,000	Prepaid insurance	1,000
Gratuity fund	1,50,000	Cash	10,000
		Bank	3,850
	14,06,850		14,06,850

Subscription

Particulars	Amount
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2009	7.000
Add: Received in advance as on 1.4.2008	15,000
	2,24,750
Less: Outstanding subscription as on 1.4.2008	(12,000)
Less: Received in advance as on 31.3.2009	(18,000)
	1,94,750

Entrance donation

Particulars	Amount
Entrance Donation received during the year	1,00,000
Add: Received in Advance as on 1.4.2008	1,00,000
	2,00,000
Less: Refundable to Ineligible Member	20,000
	1,80,000
Less: 50% Capitalized	90,000
	90,000

Interest Received

Particulars	Amount
Interest on Rs. 5,00,000 @ 12% p.a.	60,000

Less: Interest received during the year	58,000
Interest accrued as on 31.3.2009	2,000
Interest credited to Income and Expenditure A/c	60,000

Insurance

Particulars	Amount
Insurance paid during the year	5,000
Add: Prepaid insurance as on 1.4.2006	1,000
	6,000

Profit from Operations

Particulars	Amount
Cost of Goods sold:	
Opening Stock as on 1.4.2008	3,80,000
Add: Purchases	15,00,000
	18,80,000
Less: Closing Stock	2,10,000
Cost of Goods Sold (A)	16,70,000
Receipts from operations	
Receipts from Coffee Room	10,70,000
Receipts from Wines & Sprits	5,10,000
Receipts from Swimming Pool	80,000
Receipts from Tennis Court	1,02,000
Total of Receipts (B)	17,62,000
Profit from operations (B-A)	92,000

Sundry Creditors

Particulars	Amount
Opening Balance as on 1.4.2008	1,12,000
Add: Purchases made during the year	15,00,000
	16,12,000
Less: Payment made during the year	15,20,000
Closing Balance as on 31.3.2009	92,000

(8) (a) Salary

Salary paid as on 31.3.2009 1,20,000
Add: Outstanding Salary as on 31.3.2009 8,000 1,28,000
(b) Electricity charges paid 28,000
Add: Outstanding Electricity charges as on 31.3.2009 15,000 43,000

(9) Fixed Assets

Fixed Assets as per Trial Balance 5,00,000
Less: W.D.V. of Assets sold 10,000
4, 90,000
Less: Depreciation @ 10% on Rs. 4,90,000 49,000
Fixed Assets as on 31.3.2009 4,41,000

(10) Capital fund

Capital fund as on 31.3.2008 10, 29,850
Add: Entrance donation capitalized 90,000
11, 19,850
Less: Deficit 30,250
10,89,600

Question 30:

On the basis of the following information's, prepare Income and Expenditure Account for the year ended 31st March, 2010:
Receipts and Payments Account for the year ended 31st March, 2010

Receipts	**Rs.**	**Payments**	**Rs.**
To Cash in hand (opening)	1,300	By Salaries	2,58,000
To Cash at Bank (opening)	3,850	By Rent	71,500
To Subscriptions	4,94,700	By Printing & Stationery	3,870
To Interest on 8% Govt. Bonds	4,000	By Conveyance	10,600
To Bank Interest	160	By Scooter purchased	50,000
By 8% Govt. Bonds	1, 00,000		
		By Cash in hand (closing)	840
		By Cash at Bank (closing)	9,200
	5,04,010		5,04.010

1. Salaries paid include Rs. 6,000 paid in advance for April, 2010. Monthly salaries paid were Rs. 21,000.
2. Outstanding rent on 31st March, 2009 and 31st March, 2010 amounted to Rs.5,500 and Rs. 6,000 respectively,
3. Stock of printing and stationery material on 31st March, 2009 was Rs. 340; it was Rs.365 on 31st March, 2010.
4. Scooter was purchased on 1st October, 2009. Depreciation @ 20% per annum is to be provided on it.
5. Investments were made on 1st April, 2009.
6. Subscriptions due but not received on 31st March, 2009 and 31" March, 2010 totalled Rs. 14,000 and Rs. 12,800 respectively. On 31 March, 2010 subscriptions amounting to Rs. 700 had been received in advance for April, 2010.

(CA-IPCC- MAY 2010)8 MARKS

Answer :Income and expenditure Account for the year ended 31st march, 2010

Expenditure	Amount	Income	Amount
To Salaries (W.N. 1)	2,52,000	Subscription (W.N.6)	4,92,800
To Rent(W.N.2)	72,000	Interest on 8% Government bonds	
To Printing and stationery (W.N.3)	3,845	(W.N.5)	8,000
To Conveyance	10,600	Bank interest	160
To Depreciation on Scooter (W.N.4)	5,000		
To Surplus i.e. excess of income over expenditure	1,57,515		
	5,00,960		5,00,960

Working Notes:

1. Salaries paid		2,58,000
Less .Salary paid in advance for April, 2010		6,000
Salaries for the year		2,52,000
2. Rent paid		71,500
Add: Outstanding rent as on 31.3.2010		6,000
		77,500
Less: Outstanding rent as on 31.3.2009		5,500
Rent for the year 2009-2010		72,000
3. Printing and stationery		3,870
Add: Stock as on 31.3.2009		340
		4,210
Less : Stock as on 31.3.2010		365
Printing and stationery consumed during the year 2009-2010		3,845
4. Depreciation on scooter $= Rs.50{,}000 \times \frac{20}{100} \times \frac{6}{12} = Rs.5{,}000$		5,000
5. Interest on Government bonds received		4,000
Add: Interest due but not received as on 31.3.2010		4,000
Interest income for the year 2009-2010		8,000
6. Subscription received		4,94,700
Add: Accrued subscription as on 31.3.2010		12,800
		5,07,500
Less .Accrued subscription as on 31.3.2009	14,000	
Unearned subscription for April, 2010	700	(14,700)
Income for the year 2009-2010		4,92,800

Question: 31 The Young Trust runs a Charitable Hospital and a Dispensary. The following information is available for the year ended 31st March, 2009 from the books of accounts:

	Dr. Rs.	Cr. Rs.
Capital Fund		9,00,000
Donations received during the year		6,00,000
Recovery of the Rent		2,75,000
Fees received from patients		3,00,000
Recovery of Food Supplies		1,40,000
Surgical Equipments	4,55,000	
Building & Operation Theatres	3,20,000	
Consumption in the Hospital of:		
Medicines	1,20,000	

Food Stuff	90,000	
Chemicals	30,000	
Closing Stock of Hospital		
Medicines	20,000	
Food Stuff	4,000	
Chemicals	1,000	
Sales of Medicines (Dispensary)		3,10,000
Opening Stock of Medicines (Dispensary)	55,000	
Purchase of Medicines (Dispensary)	3,00,000	
Salaries:		
Administrative Staff	30,000	
Doctors/Nurses	1,50,000	
Assistant at the Dispensary	15,000	
Electricity & Power Charges:		
Hospital	1,05,000	
Dispensary	2,000	
Furniture &Equipments	80,000	
Ambulance	30,000	
Postage & Telephone Expenses less recovery	26,000	
Subscription to Medical Journals	21,000	
Ambulance Maintenance Charges less recovery	800	
Consumption of Bed Sheets	90,000	
Fixed Deposits made on 01-04-2008 for three years at interest @11%p.a.	5,00,000	
Cash & Bank Balances	41,300	
Sundry Debtors (Dispensary)	60,500	
Sundry Creditors (Dispensary)		41,000
Remuneration to Trustees, Trust Office Expenses etc.	21,000	

Additional Information:

The dispensary supplied medicines to the hospital worth Rs. 60,000, for which no adjustment was made in the books.

The closing stock of the medicines was Rs. 40,000 at the dispensary.

The stock of medicines on 31st March, 2009 at the hospital included Rs. 4,000 worth of medicines belonging to the patients, which has not been considered while arriving at the figure of consumption of medicines.

The donations were received towards Corpus of the Trust.

On 15th August, 2008, surgical equipments were donated having market value of Rs. 40,000.

The hospital is to receive the grant of 25% of the amount spent on treatment of the poor patients from the Red Cross Society. Such expenditure was Rs. 50,000.

Out of the fees recovered from the patients, 10% is to be given to the Specialist retained by the Hospital.

Depreciation on the assets on the closing balances :

Surgical Equipments @ 20%

Building @ 5%

Furniture &Equipments @ 10%

Ambulance @ 30%

You are required to prepare:

Income and Expenditure Account of the Hospital, Dispensary and Trust,

Statement of Affairs of the Trust for the year ended 31st March, 2009.

(CA-IPCC- NOV 2010)16 MARKS

Answer: Income and expenditure Account of Dispensary for the year ended 31st march, 2009)

Particulars	Amount	Particulars	Amount
To Opening stock of medicines	55,000	By Sales of medicine	3,10,000
To Purchase of medicines	3,00,000	By Supply of medicines to hospital	60,000
To Salaries to assistants	15,000	By Closing stock of medicines	40,000
To Electricity & power charges	2,000		
To Surplus transferred to trust income & expenditure account (Bal.Fig.)	38,000		
	4,10,000		4,10,000

Income & Expenditure Account of Hospital For the year ended 31st March, 2009)

Particulars		Amount	Particulars	Amount
To Consumption of:			By Fees received from patients	3,00,000
Medicines (W.N.1)	1,84,000		By Recovery for rent	1,40,000
Food stuff	90,000		By Recovery of food supplies	2,75,000
Chemicals	30,000	3,04,000	By Ambulance maintenance charges less recovery	800
To Salaries:				
Admn. staff	30,000		By Grant receivable from Red Cross Society	
Doctors & nurses	1.50,000	1,80,000	(25% of 50.000)	12,500
To Electricity & power charges		1,05,000	By Deficit transferred to trust income &	

To Consumption of bed sheets		90,000	expenditure account		1,33,700
To Subscription to medical journals		21,000			
To Retainership of specialists outstanding (W.N.2)					
To Depreciation on:		30,000			
Surgical equipments	99,000				
Building	16,000				
Furniture & fixtures	8,000				
Ambulance	9,000				
		1,32,000			
		8,62,000			8,62,000

Income & Expenditure Account of the Young Trust For the year ended 31st March, 2009)

Particulars	Amount	Particulars	Amount
To Deficit from hospital	1,33,700	By Surplus from dispensary	38,000
To Postage & telephone expenses less recovery	26,000	By Interest accrued on fixed deposits	55,000
To Remuneration to trustees, trust office expenses etc.	21,000	By Deficit (Excess of expenditure over income)	87,700
	1,80,700		1,80,000

Statement of Affairs of Young Trust As on 31st March, 2009)

Liabilities		Rs.	Assets		Rs.
Capital fund:			Building	3,20,000	
Opening balance	9,00,000		Less: Depreciation	16,000	3,04,000
Add: Donations:			Surgical equipment	4,55,000	
Cash	6,00,000		Add: Donation	40,000	
Surgical equipment	40,000			4,95,000	
	15,40,000		Less: Depreciation	99,000	3,96,000
Less: Deficit	87,700	14,52,300	Furniture	80,000	
Sundry creditors(dispensary)		41,000	Less: Depreciation	8,000	72,000
Outstanding retainership to			Ambulance	30,000	
specialist (W.N.2)		30,000	Less: Depreciation	9,000	21,000
			Stock:		
			Medicines:		
			Dispensary .	40,000	
			Hospital	16,000	
			Food stuff Hospital (20,000 - 4,000)		
			Chemicals	4,000	
			Sundry debtors (Dispensary)	1,000	61,000
			Grant receivable from Red Cross		60,500
			Society		
			fixed deposits		12,500
			Interest accrued		5,00,000
			Cash & bank balance		55,000
					41,300
		15,23,300			15,23,300

Working Notes :

1. Consumption of medicines in hospital:

Medicines	1,20,000
Supplies received from dispensary	60,000
Medicines in stock belonging to patients	4,000
Total	1,84,000

2. Calculation of fee given to specialist:
   10% of Rs. 3, 00,000 = Rs. 30,000

Note: It is assumed that surgical equipment donated on 15th August 2008 was not included in the closing balance of surgical equipments as on 31st March, 2009

Question: 32:The following is the Receipt and Payment Account of Park View Club in respect of the year ended 31st March 2011.

Receipts		**Amount**	**Payment**	**Amount**
To Balance b/d		1,02,500	By Salaries	2,08,000
To subscriptions:			By Stationery	40,000
2008-09	4,500		By Rent	60,000
2009-10	2,11,000		By Telephone Exp.	10,000
2010-11	7,500	2,23,000	By Investment	1,25,000
To profit on sports meet		1,55,000	By Sundry Expenses	92,500
To Income from investments		1,00,000	By Balance c/d	45,000
		5,80,500		5,80,500

Additional information:

1. There are 450 members each paying an annual subscription of ? 500. On 1SI April, 2010, outstanding subscription was Rs. 5,000.
2. There was an outstanding telephone bill for Rs. 3,500 on 31st March, 2011.
3. Outstanding sundry expenses as on 31s1 March, 2010 totalled Rs. 7,000.
4. Stock of stationery:
   On 31st March, 2010 Rs. 5,000
   On 31st March, 2011 Rs. 9,000
5. On 31st March, 2010 building stood in the books at Rs. 10, 00,000 and it was subject to depreciation @ 5% per annum.
6. Investment on 31st March, 2010 stood at Rs. 20, 00,000.
7. On 31st March, 2011, income accrued on the investments purchased during the year amounted to Rs. 3,750.

Prepare an Income and Expenditure Account for the year ended 31st March, 2011 and the Balance Sheet as at that date.

(CA-IPCC- MAY 2011)16 MARKS

Answer:

Income and Expenditure A/c

Expenditure	Amount	Income	Amount
To Salaries	2,08,000	By Subscriptions (W.N.2)	2,25,000
To Stationery consumed (W.N.3)	36,000	By Profit on sports meet	1,55,000
To Rent	60,000	By Income on investments 1,00,000	
To Telephone expenses 10,000		Add: Income accrued 3,750	1,03,750
Add: Outstanding on 31.311 3,500	13,500		
To Sundry expenses 92,500			
Less: Outstanding on 31.3.10 (7,000)	85,500		
To Depreciation of building	50,000		
To Surplus (excess of income overexpenditure)	30,750		
	4,83,750		4,83,750

Balance Sheet as at 31st March 2011

Liabilities	Amount	Assets	Amount
Capital fund (W.N. 1) 31,05,500		Outstanding subscriptions	14,500
Add: Surplus 30,750	31,36,250	Investment	
Subscriptions received in advance	7,500	(20,00,000 + 1,25,000) 21,25,000	
Outstanding telephone bills	3,500	Add: Interest accrued on	
		investments 3,750	21,28,750
		Building 10,00,000	
		Less: Depreciation (50,000)	9,50,000
		Stock of stationery	9,000
		Cash balance	45,000
	31,47,250		31,47,250

Working Notes:

Balance Sheet as at 31st March 2010

Liabilities	Amount	Assets	Amount
Outstanding sundry expenses	7,000	Building	10,00,000
Capital fund (Bal.fig)	31,05,500	Investments	20,00,000
		Stock of stationery	5,000
		Cash balance	1,02,500
		Outstanding subscriptions	5,000
	31,12,500		31,12,500

Calculation of subscriptions accrued during the year subscription A/c

Particulars	Amount	Particulars	Amount
To Outstanding Subscriptions		By Cash A/c	2,23,000
(as on 1.4.10)	5,000	By Outstanding subscriptions (as on 31.3.11) (Bal.	
To Income & Expenditure A/c	2,25,000	fig)	14,500
To Subscriptions received in advance for 2011-12	7,500		
	2,37,500		2,37,500

Question 33:Bear Bar Club was registered in a city and the accountant prepared the following Receipts and Payments Account for the year ended March 31, 2011 and showed a deficit of Rs. 14,520.

Receipts	Amount	Payments	Amount
Subscriptions	62,130	Premises	30,000
Fair receipts	7,200	Honorarium to Secretary	12,000
Variety show receipts (net)	12,810	Rent	2,400
Interest	690	Rate & Taxes	3,780
Bar Collection	22,350	Printing & Stationary	1,410
Excess Cash spent	1,000	Sundry Expenses	5,350
Deficit	14,520	Wages	2,520
		Fair Expenses	7,170
		Bar purchases payments	17,310
		Repair	960
		New car (less proceeds of old car Rs. 9,000)	37,800
	1,20,700		1,20,700

The following additional information are:

	01.04.2010	31.03.2011
Cash in hand	450	.....
Bank balances as per pass book	24,690	10,440
Cheque issued not presented for sundry expenses	270	90
Subscriptions due	3,600	2,940
Premises at cost	87,000	1,17,000
Accumulated depreciation on premises	56,400	.....
Car at cost	36,570	46,800
Accumulated depreciation on car	30,870	.....
Bar stock	2,130	2,610
Creditors for the bar purchases	1,770	1,290

Cash excess spent represent honorarium to secretary not withdrawn due to cash deficit.
His annual honorarium is Rs. 12,000.
Depreciation on premises and car is to be provided at 5% and 20% on written down value method.
You are required to prepare the correct Receipts and Payments Account, Income and Expenditure Account and Balance Sheet on March 31, 2011.

(CA-IPCC- Nov 2011)16 MARKS

CHAPTER 8. SINGLE ENTRY SYSTEM

Question:1 The closing capital of Mr A on 31.3.2007 was Rs 1,50,000. On 1.4.2006 his capital was Rs 60,000. during the year he had drawn Rs 40,000 for domestic expense. He introduced Rs 25,000 as additional capital in February 2007. find out his profit for the year. **(CA-2007(NOV)- 2 MARKS)**

Question:2 A retail trader does not keep double entry system. His Balance Sheet as at 1st January 2017 was as follows :

Balance Sheet

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors	4,000	Cash in Hand	500
Capital	12,000	Cash at Bank	6,000
		Stock	5,000
		Debtors	3,300
		Furniture	1,200
	16,000		**16,000**

His position as at the end of the year 2017 was: Cash in Hand Rs. 4,000; Cash at Bank Rs. 2,000 Stock Rs. 5,500, Debtors Rs. 4,600, Furniture Rs. 1,500 and Creditors Rs. 6,000. He withdrew during the year Rs. 9,000 out of which he spent Rs. 6,000 on the cost of purchasing a motor car for the business. Prepare necessary Statement to determine profit earned during the year and a balance Sheet as at 31st December 2017 after making the following adjustments:-

a). Depreciation: Furniture and Motor Car @ 10%
b). Write off bad debts Rs. 200.
c). Provide 5% for doubtful debts. **[Ans.:- Net Profit: Rs. 7,430; Total of Statement of Affairs = Rs. 22,430]**

Question:3 Mr. A does not maintain complete double entry books of accounts. From the following details determine the profits for the year and statement of affairs at the end of the year:

	1-1-2017	31-12-2017
Stock	40,000	60,000
Debtors	30,000	40,000
Cash	2,000	1,000
Bank	10,000	5,000 (O.D)
Creditors	15,000	25,000
Outstanding expenses	5,000	8,000
Furniture (cost)	3,000	2,000

Rs. 1,000 (cost) furniture was sold for Rs. 5,000 on 1-1-2017; 10% depreciation is to be charged on furniture. Mr. A has drawn Rs.1,000 per month. Rs. 2,000 was invested by Mr. A into the business in 2017.

Bank balance on 1-1-2017 is as per cash book, but the bank overdraft on 31-12-2017 is as per bank statement. Cheques of Rs 2000 drawn in December, 2017 have not been encashed within the year. **(Profit Rs 7800)**

Question:4 Rashika had Rs. 3,00,000 in bank on 1st January, 2016 when she started her business. She closed her accounts on 31st March, 2017. Her single entry books (in which he did not maintainany account for the bank) showed her position as follows :

	31.3.16	31.3.17		31.3.16	31.3.17
	Rs.	Rs.	Rs.	Rs.	Rs.
Cash in hand	2,000	3,000	Debtors	1,000	2,000
Stock in trade	19,000	29,000	Creditors	5,000	3,000

On 1st February,2016 She began drawing 700 per month for his personal expenses from the cash box of business.

Her account in the bank had the following entries :

	Deposits Rs.	Withdrawals Rs.
1.1.2016	3,00,000	----
1.1.16 to 31.3.16	----	2,23,000
1.4.16 to 31.3.17	2,30,000	2,70,000

The above withdrawals included payments by cheques of Rs. 2,00,000 and Rs. 60,000 respectively during the periods from 1st January, 2016 to 31st March, 2016 and from 1st April 2016 to 31st March, 2017 for the purchase of machinery for the business; and the deposits after 1st January, 2016 consisted wholly of sale price received from customers by cheques. Draw up Rashika's statement of affairs as at 31st March, 2016 and 31st March, 2017 respectively and work out her profit or loss for the year ended 31st March, 2017. Give your comment on accuracy of profit calculated.
(Institute of Company Secretaries)(ICAI study material)

Question:5 A and B are in partnership, sharing profits and losses in the ratio of two-thirds and one-third respectively, The books are kept on a single entry system and their statement of affairs as at 31st December 2016 showed the position as follows :

STATEMENT OF AFFAIRS 31st December, 2016

	Rs.		Rs.
Capital:		Freehold buildings	6,000
A	10,000	Plant and machinery	2,000
B	4,000	Office furniture	500
Loan	1,000	Stock	4,000
Creditors	5,000	Cash	500
Bills payable	500	Bills receivable	1,500
		Debtors	6,000
	20,500		20,500

On 31st December 2017 , the books disclosed the following position : Debtors Rs. 8,000, Creditors on open account Rs. 8,500 creditors on loan account Rs. 1,600 and Cash Rs. 800. The stock was valued at Rs. 4,200 and the bills receivable amounted to Rs. 1,400.

An examination of the cash book showed that during the year A had drawn on account of profits Rs. 1,500 and B Rs. 600. A had in addition withdrawn Rs. 2,000 on account of capital on 30th June, 2017. The partners agree to reduce the previous valuation of the Plant and Machinery by 5 per cent and the office furniture by 10 per cent by way of depreciation and to charge 5 per cent by way of interest on capital. Prepare—

(1) A statement of profit, dividing the profits between 'A' and 'B'.
(2) A statement of affairs showing the position, as at December 2017. **(C.A. Inter Modified)**

Question:6 Pyare and Lal started business on 1st January 2016 with Rs. 50,000 as capital contributed equally but the profit-sharing ratio was 3:2. Their drawings were Rs. 300 and Rs. 200 per month respectively. They had kept no accounts except the following information:

	31-12-16	31-12-17
Machinery at cost	Rs. 20,000	Rs. 25,000
Stock-in-trade	30,000	30,000
Debtors	50,000	60,000
Cash	2,000	500
Creditors	30,000	20,000
Outstanding expenses	4,000	3,000
Bank balance (as per Pass Book)	6,000	8,000

Provision is to be made for depreciation at 10% on the cost of machinery as at the end of each year. Debtors on 31-12-16 include Rs. 5,000 for goods sent out on consignment at 25% above cost, and the goods were not sold until 2017. A cheque for Rs. 1,000 had been deposited on 31-12-16 but was credited on 2-1-2017.

A cheque for Rs. 2,000 issued on 26-12-17 was presented on 3-1-2018. A cheque for Rs. 1,000 was directly deposited by a customer on 27-12-17 and a cheque for Rs. 500 deposited in December 2017 was dishonoured. No adjustment for these was made. Determine the profits for 2016 and 2017 and draw up a Balance Sheet as on 31.12.2017. **(CA Inter)**

Question:7 Suraj does not maintain his books of account under the double entry system but keeps slips of paper from which he makes up his annual accounts. He has borrowed moneys from a bank to whom he has to render figures of profits every year. He has given the bank the following profit figures:

Year ending 31st December	Profits Rs
2013	20,000
2014	38000
2015	45.000
2016	58,000
2017	65,000

The bank appoints you to audit the statements and verify whether the figures of profits reported are correct or not. For this purpose, the following figures are made available to you:

(a) Position as on 31st December, 2012: Sundry debtors Rs. 20,000; Stock-in-trade (at 95% of the cost)Rs. 47,500; Cash in hand and at bank Rs. 12,600; Trade creditors Rs. 6,000. Expenses due Rs. 1,600.
(b) He had borrowed Rs. 5,000 from his wife on 30th September, 2012 on which he had agreed to pay simple interest at 12% p. a. The loan was repaid along with interest on 31st December, 2014.
(c) In December,2013, he had advanced Rs. 8,000 to A for purchase of a vacant land. The property was registered in March, 2015 after payment of balance consideration of Rs. 32,000. Costs of registration incurred for this were Rs. 7,500.
(d) Suraj purchased jewellery for Rs. 15,000 for his daughter in October 2015. Marriage expenses incurred in January,2016 were Rs 24,000
(e) A new DVD was purchased by him in March 2017 for Rs. 18,000 and presented it to his friend in November 2017.
(f) His annual household expenses amounted to a minimum of Rs. 24,000 .
(g) The position of assets and liabilities as on 31st December 2017 was found to be: Overdraft with bank (secured against property)Rs. 12,000, Trade creditors Rs. 10,000 , Expenses payable Rs. 600; Sundry debtors (including Rs. 600 due from a peon declared insolvent by court) Rs. 28,800; Stock-in-trade (at 125% of cost to reflect market value) Rs. 60,000 and Cash on hand Rs. 250.

It is found that the rate of profit has been uniform throughout the period and the proportion of sales during the years to total sales for the period was in the ratio of 3 : 4 : 4 : 6 : 8. Ascertain the annual profits and indicate differences, if any, with those reported by Suraj to the bank earlier.**(C.A. Inter, May, 1992)**

CONVERSION METHOD

Question:8 From the following, prepare total debtors account and total creditors account and find out credit sales and credit purchases:

	Rs.		Rs.
Debtors as on 1st January	5,000	Bad debts written off	1,200
Creditors as on 1st January	4,000	Bad debts recovered	300
Debtors as on 31st December	4,000	Bills receivable endorsed to creditors	4,000
Creditors as on 31st December	6,000		
Bills receivable received during the year	10,000	Bills receivable dishonoured by customers	1,000
Bills payable issued during the year	8,000	Endorsed bills receivable dishonoured	500
Cash received from customers	30,000	Bills receivable discounted	2,000
Cash returned to customers	500	Discounted bills receivable	
Cash paid to suppliers	20,700	Dishonoured	700
Discount allowed by suppliers	270	Sales returns	600
Discount allowed to customers	150	Purchases returns	200

(Adapted from B. Com.., Bangalore)

Question:9 Murga Ram carries on business as retail merchant. He does not maintain regular books. From cash sales effected by him he effects business and other payments, always retains cash of Rs. 1,000 in hand and deposits the balance in the bank account. The stock inventories for the year ended 31st December, 2017 are lost. However, he informs you that he has sold goods invariably at a price which yields him a profit of 33 1/3% on cost.

From the following additional information supplied to you, prepare necessary final accounts for the year ended 31st December, 2017:

Assets and liabilities	**1st Jan. 2017**	**31st Dec. 2017**
Cash in hand	1,000	1,000
Sundry creditors	4,000	9,000
Cash at bank	N.A(?).	8,000
Sundry debtors	10,000	35,000
Stock of goods	28,000	N.A(?)

Analysis of the bank pass book reveals the following information:

Payment to creditors	70,000
Payment for business expenses	12,000
Receipts from debtors	75,000
Loan from Ajit taken on 1st January, 2017 @ 10% p.a.	10,000
Cash deposited in the bank	10,000

In addition, he paid to the creditors for goods Rs. 2,000 in cash and salaries Rs. 4,000 in cash. He also withdrew Rs. 8,000 cash for his personal expenses. **(Gross profit—31,000 and net profit—Rs 14,000, Balance sheet 56,000)**

Question:10 JhunjhunLal submits to you the following figures relating to his business in respect of the year ending 31st December, 2017. You are required to prepare a Trading and Profit and Loss Account for the year ended, and a Balance Sheet as at 31st December 2017. Any difference in the cash balance is assumed to be drawings:

	Rs.
Cash paid into bank	1,50,000
Private dividends paid into bank	2,000
Private payments out of Bank	26,000
Payment for goods out of Bank	1,22,000
Cash received from debtors	2,50,000
Payments for goods by cash and cheques	1,60,000
Wages	40,000
Delivery Expenses	7,000
Rents & Rates	2,000
Lighting & Heating	1,000
General Expenses	4,600

The Assets & Liabilities are as follows :

Assets and Liabilities	1st January 2017	31st December 2017
Stock	20,000	15,000
Bank Balance	8,000	12,000
Cash in hand	300	400
Trade Debtors	14,000	20,000
Trade Creditors	27,300	30,000
Investments	50,000	50,000

(C.A. Inter)

Question:11 Mungerilal is a small trader, and is financially incapable of engaging the services of an accountant. He keeps no books but only an account with a bank in which all takings are lodged after meeting business expenses and his personal drawings and through which all payments for business purchases are passed.

You are required to ascertain his trading result for the year ended 31st March, 2017 and the financial position of his business as on that date from the following information supplied by him

(a) The Bank statement shows deposits during the year of Rs. 12,020 and withdrawals of Rs. 11,850.
(b) Rs. 1,000 had been placed in fixed deposit account on 31st December, 2015 at 10% per annum and withdrawn with

interest on 30th June, 2016.

(c) The assets and liabilities on 31st March, 2017 were: Stock Rs. 1,100; Book Debts Rs. 1,150; Bank Balance Rs. 320: Furniture Rs. 2,000 and Trade creditors Rs. 400.

(d) In the absence of reliable information, estimates are supplied on the following matters :

(i) The Stock and Book Debts have each increased by Rs. 100 during the year.

(ii) The Trade creditors were Rs. 200 on 1st April, 2016.

(iii)During the year personal expenses amounted to Rs. 800 and business expenses Rs. 700. Ignore fractions.

(Gross profit Rs 620, net loss Rs 55, Balance Sheet total Rs 4570) [ICMA (Inter), Dec. 97]

Question:12 A trader commenced business in a retail shop on 1st July, 2017 in premises for which he paid a rent of Rs. 160 per month. The only records he kept, apart from his bank statements, were files of paid invoices and unpaid invoices for goods purchased, together with a notebook in which he recorded a few sales on credit to special customers who paid him by cheques. Cash received from cash sale was paid into the till out of which he paid certain amounts, of which he kept a rough record, and he made weekly banking out of the balance in the till. He paid all suppliers for goods purchased by cheque.

An analysis of the bank statements for the six months ended 31st December, 2017 was as follows:

	Rs.		Rs.
Deposits into bank:		**Withdrawals from bank:**	
Capital paid into open account	3,200	Shop fixtures and fittings	1,600
Loan from father-in-law		Household furniture	1,440
(Interest free)	1,600	Suppliers (for purchases)	7,872
Cheques from suppliers (for		Rent	800
goods returned)	224	Rates	240
Special customers	240	Insurance on stocks	160
Total of weekly cash banking	9,544	Electricity	144
		Balance on 31st December, 2017	2,552
	14,808		14,808

The trader estimates that the total amounts paid out of the till before making the weekly banking for the six months were :

Drawings Rs. 1,600, Wages Rs. 1,120 and Sundry shop expenses Rs. 640. You ascertain that as on 31st December,2017: Stocks, correctly taken at cost, were Rs. 1,376. The balance in the till was Rs. 208, including a post-dated cheque for Rs. 120, cashed for a customer. Cheques for Rs. 136 from special credit customers paid into the bank had not been cleared. One for Rs. 56 was cleared on 3rd January, 2018 and the other for Rs. 80 was returned dishonoured and the customer could not be traced. This sum is considered as bad. Other special customers owed Rs. 192.

The following cheques had been issued but had not been presented: Rent for December Rs. 160 and Lighting charges Rs. 120. The cash paid into the bank included Rs. 240 from a sale of surplus shop fittings. There was no profit or loss on this transaction.

The insurance premium covered the year to 30th June, 2018 and the rates covered the period of 9 months to 31st March, 2018. Suppliers' unpaid invoices amounted to Rs. 1,792 and there was Rs. 32 owing for electricity.

You are required to prepare the balance sheet as at 31st December, 2017 and the trading and profit and loss account for the half year ended on that date. **[ICWA (Stage I)**

Question:13 The following is the balance sheet of the retail business of Mr. Padamsi as at 31st December, 2016 :

Liabilities	Rs.	Assets	Rs.
Mr. Padamsi's capital	1,25,000	Furniture and fittings	25,000
Creditors for goods	30,000	Stocks	75,000
Outstanding expenses (rent)	1,000	Sundry debtors	20,000
		Cash at bank	35,000
		Cash in hand	1,000
	1,56,000		1,56,000

You are furnished with the following information:

(1) Mr. Padamsi always sells his goods at a profit of 25% on sales.
(2) Goods are sold for cash and credit. Credit customers pay by cheque only.
(3) Payments for purchases are always made by cheque.
(4) It is the practice of Mr. Padamsi to send to the bank every week-end the takings of the week after paying every week salaries of Rs. 250 to the clerk, sundry expenses of Rs. 50 and personal expenses Rs. 100.
Analysis of the bank pass book for the period ending 31st March, 2017 disclosed the following:

Payments to creditors	Rs. 75,000
Payment of rent	Rs. 4,000
Amount remitted to the bank	Rs.1,35,000 (including cheques for Rs. 10,000 received from customers to whom the goods were sold on credit).

The following are the balances on 31st March, 2017 :

Stocks	32,500
Creditors for goods	32,500
Sundry debtors	30,000

On the evening of 31st March, 2017, the cashier absconded with the available cash in the cash box. You are required to prepare a statement showing the amount of cash defalcated by the cashier and also a profit and loss account for the period ended 31st March, 2017 and a balance sheet as on that date. **[ICWA Inter]**

Question:14 Mr. Reddy does not maintain complete records of his business but gives you the following information:

	31st March 1999	***31st March 1998***
	Rs.	*Rs.*
Machineries	2,00,000	1,50,000
Sundry Creditors	86,000	?
Sundry Debtors	?	93,000
Stock-in-trade	70,000	50,000
Cash in hand	2,600	1,500
Furniture	27,000	30,000
Cash at Bank	15,600	18,700

His cash transactions for the year ended 31st March. 1999 included the following (besides certain other items)

Payments to creditors	4,10,000
Cash sales (25% of total Sales)	1,70,000
Business expenses	82,000
Cash purchases	1,30,000
Collection from debtors	5,27,000
Withdrawn for household expenses	30,000

He maintains a uniform rate of gross profit of 25% on turnover. Outstanding business expenses on 31st March. 1999 amounted to Rs. 5,000. Addition of new machinery was made on October 1, 1998. Some old furniture (book value Rs. 6,000) was sold during the year and the proceeds stands credited to Furniture Account. Provide depreciation on Machineries @ 15% p.a. and on Furniture @ 10% p.a. (excluding sold item).Mr Reddy requests you to prepare Trading and Profit and Loss Account for the year ended 31st March, 1999 and a Balance Sheet as on that date. **(ICWA (Inter)**

Question:15 On 31st December 1994, John's books and records were destroyed by fire. The following information was available :

(a) The Balance Sheet of John as on 31st December 1993 was as follows :

Capital and Liabilities		Rs.	Property and Assets	Rs
Capital		4,20,000	Fixtures	1,00,000
Creditors for:			Stock	1,50,000
Goods	94,000		Debtors	1,20,000
Electricity charges	2,000		Rates in advance	4,500
Accounting charges	5,000	1,01,000	Cash in hand	15,000
			Cash at bank	1,31,500
		5,21,000		5,21,000

(b) The Insurance company agreed to pay Rs. 95,000 for fixtures and Rs. 1,05,000 for stock without production of

accounts; the stock, however, was Rs. 1,15,000.

(c) From Bank statements and the cheque books which were in his house, the following information on payments was available :

	Rs.		Rs.
Personal Expenses	80,000	Rates	13,500
Sundry Expenses	6,500	Rent	51,700
Accountancy Charges	8,000	Goods for Resale	21,58,000
Electricity	7,500	Fixtures	20,000

(d) Total banking for the year amounted to Rs. 24,50,200.

(e)All cash takings were banked with the exception of the following payments during the year:

(i) An assistant's salary of Rs. 18,000 per annum.

(ii)Goods for resale averaging Rs. 10,500 per month.

(iii) Drawings varied between Rs. 20,000 and Rs. 30,000 per month.

(f) Rs. 2,500 per month for 9 months was received in cash for subletting a portion of the shop and this was not banked.

(g) During the year sale proceeds for waste paper amounting to Rs. 30,500 were paid into the bank.

(h) On 31-12-1994 (a) Debtors were Rs. 2,05,000. (b) Creditors for goods were Rs. 90,000, for electricity Rs. 800, for accounting charges Rs. 750 and for rent Rs. 4,700. (c) Rates in advance Rs. 6,500, (d) Cash in hand Rs. 17,000, (e) During the year a bad debt of Rs. 6,000 was incurred. (f)The rate of gross profit as a percentage of sale was 20%. You are required to compile a Trading and Profit and Loss Account for the year ended 31st December 1994 and Balance Sheet as on that date. **[ICWA (Final), Dec, 1995]**

Question:16 Shri Kapoor has a trading for which the following procedure is followed :

(1) All collections are deposited with the bank each day.

(2) All payments except petty expenses are made by cheque.

(3) To meet petty expenses a cheque for Rs. 1,500 is withdrawn from the bank on the 1st day of each month.

The following figures are available from Shri Kapoor's records :

	1-1991	31-12-1991
Cash in hand	150	300
Balance in Bank	30,000	21,000
Debtors	1,00,000	1,25,000
Creditors	90,000	1,00,000
Stock	15,000	25,000

Payment made to creditor during the year Rs 120000.

Personal drawings out of bank Rs. 6,000.

Shri Kapoor sells goods at a profit of 25% on sales.

Prepare Profit and Loss Account for the year ended 31st December 1991 and Balance Sheet as on that date from the above information. **(CA Inter)**

Question:17 A is an importer of fancy goods, operating from rented premises, which is on lease of Rs. 1,000 per month. He prepares his accounts as on 31st December each year. On the night of December 31, 1997 all his books and records were destroyed in a fire.

The following was his summarized financial position as on 31st December, 1996 :

	Rs.	Rs.
Fixed Assets :		
Motor Car	20,000	
Furniture	10,000	30,000
Current Assets :		
Stock-in-trade (at cost)	2,00,500	
Debtors	24.000	
Balance at Bank	27,060	
Cash in hand	590	
Prepaid Rates	500	2,52,650

Current Liabilities :		
Creditors for purchases	1,10,200	
Accrued Rent	2,000	
Due for Hire purchase Installments	2,790	1,14,990

The following further information is also available :

(a) *A* buys goods for resale only from one manufacturer in Japan, who allowed a rebate of 3% of the goods purchased by him in excess of Rs. 5,00,000 in a calendar year. The rebate due for the year ended 31st December, 1997 was Rs. 12,480.

(b) All goods are sold at a standard gross profit margin of 40% on selling price. Any rebate due is to be ignored for the purpose.

(c) Stock at cost on 31st December, 1997 amounted to Rs. 90,200.

(d) Weekly cash expenses out of cash sales (before depositing the same into the bank) have been :

Drawings	Rs. 300
Carriage Outward	500
Petrol	100
General Expenses	50

Cash in hand on 31st December, 1997 amounted to Rs. 1,670

(e) His bank statements for the year reveal the following information:

Collection from debtors	12,00,000
Paid for purchase of goods	10,10,500
Car expenses	6,680
Rent	13,000
Rates for the year ended 31st March, 1998	3200
Hire-purchase installments (Final Payments)	2790
Salaries	1,12,460
Travelling Expenses	36,800
Printing & Stationery	6,400
Advertisement	12,280
Insurance (for business)	3,000
Lorry Hire Charges	48,700
General Expenses	36,230
Drawings	37,000
Balance as on 31st December, 1997	2,31,800

(f) Depreciation on motor car and furniture is to be provided @ 30% and 15% respectively. Prepare Trading and Profit and Loss Account for the year ended on 31st December, 1997 and the Balance-sheet as on that date.
(CA Inter)

Question:18 On 1st Jan 2006, Mr X Started a business with capital of Rs 15,00,000. On the same date he purchased a building for Rs. 4,00,000 and furniture of Rs. 2,00,000. He also purchased goods costing Rs. 1,50,000 on cash basis and goods costing Rs. 1,00,000 on credit basis. He sold all goods for Rs. 7,50,000 (out of which Rs. 4,50,000 was on cash basis). He paid Rs. 70,000 to his creditors and received a discount of Rs. 10,000.
He received Rs 80,000 from debtors and allowed them discount of Rs. 6,000. Rs.10,000 due from debtors could not be recovered. During the year Mr. X had paid salary of Rs. 20,000 . Rent of Rs. 30,000 and commission of Rs. 5000.

On 1st Oct 2006, Mr. X had also taken a loan of Rs. 3,00,000 from his bank @ 10% p.a. Interest had not yet been paid. On 1st Dec 2006, he further introduced Rs 1,00,000 as his capital. At the end of 2006, salary due but not paid was Rs. 12,000 and Rent still outstanding was Rs. 8,000. Depreciate fixed assets @ 10% p.a. Calculate profit from various methods. **(CA Final - 16 marks)**

Question:19 Mr. Dinesh, a trader, does not keep his books on a double entry basis. The following information is available from his books and other records for the year ended 31st March 1994. On the basis of the information, compile a trading A/c, profit and loss A/c for the year ended 31st March 1994 and a Balance Sheet as on that date:

(1)	31.3.1993 (Rs.)	31.3.1994 (Rs.)
Liabilities and Assets		
Bank Balance	20,000	9,400
Prepaid Expenses	3,000	2,000
Cash in hand	5,000	7,000
Stock	70,000	60,000
Debtors for Sales	2,30,000	---
Bills Receivable	Nill	?
Furniture at written down value	70,000	82,000
Creditors for purchases	2,20,000	2,60,000
Outstanding Liabilities for expenses	30,000	15,000

(2) *Receipts and payments during 1993-94 :*

	Rs.
Collection from Debtors (after allowing 2 1/2 % discount)	5,85,000
Proprietor's Drawings	50,000
Capital introduced by Proprietor	95,150
Purchase of furniture in the middle of the year	20,000
14% Government Securities purchased at 96% on 1.4.1993	96,000
Expenses	1,97,000
Sale of Scrap	5,000
Payment to Creditors (after receiving 2% discount)	3,92,000
Proceeds of Bills Receivable discounted at 2%	61,250

(3) Sales are made so as to realize a profit of 33 1/3% on sale proceeds.

(4) Goods worth Rs. 5,000 were taken by the proprietor.

(5) During the year bills receivable worth Rs. 1,50,000 were drawn on debtors. Of these, bills amounting to Rs. 30,000 were endorsed in favour of the creditors. Of this later amount, a bill for Rs. 5,000 was dishonoured by the debtor.

(6) Sales and purchases are made only on credit. **[I.C.W.A. (Final), June 1995]**

Question:20 .Mr. Mukherjee commenced business on 1st January, 1996, with a capital of Rs.50,000. He immediately purchased furniture of Rs. 24,000. During the year he received from his uncle a gift of Rs. 3,000 and he borrowed from his father a sum of Rs. 5,000. He had withdrawn Rs. 600 per month for his household expenses. He had no Bank account and all dealings were in cash. He did not maintain any books but following information is given

	Rs.
Sales (including cash sales Rs. 30,000)	1,00,000
Purchases (including cash purchases Rs. 10,000)	75,000
Carriage Inwards	700
Wages	300

Discount allowed to Debtors	800
Salaries	6,200
Bad debts written on	1,500
Trade Expenses	1,200
Advertisements	2,200

He used goods worth Rs. 1,300 for personal purposes and paid Rs. 500 to his son for examination and college fees. On 31st December, 1996, his Debtors were worth Rs. 21,000 and creditors Rs. 15,000. Stock-in-trade was valued at Rs. 10,000. Furniture to be depreciated by 10% p.a.

Prepare Trading and Profit and Loss Account for the year ended on 31st December, 1996 and Balance Sheet as at 31st December. 1996. **(ICWA Inter)**

Question:21 The following is the Balance Sheet of Sanjay, a small trader, as on 31.3.96 : *(Figures in Rs. '000)*

Liabilities		Assets	Rs.
Capital	200	Fixed Assets	145
Creditors	50	Stock	40
		Debtors	50
		Cash in Hand	5
	.	Cash at Bank	10
	250		*250*

A fire destroyed the accounting records as well as the closing cash of the trader on 31.3.97. However, the following Information was available:

(a) Debtors and creditors on 31.3.97 showed an increase of 20% as compared to 31.3.96.
(b) Credit Period :
Debtors — 1 month; Creditors — 2 months

(c) Stock was maintained at the same level throughout the year.
(d) Cash sales constituted 20% of total sales.
(e) All purchases were for credit only.
(f) Current ratio as on 31.3.97 was exactly 2.
(g) Total expenses excluding depreciation for the year amounted to Rs. 2,50,000.
(h) Depreciation was provided at 10% on the closing value of fixed assets.
(i) Bank and cash transactions :
(1)Payments to creditors included Rs. 50,000 by cash.
(2)Receipts from debtors included Rs. 5,90,000 by way of cheques.
(3)Cash deposited into the bank Rs. 1,20,000.
(4)Personal drawings from bank Rs. 50,000.
(5)Fixed assets purchased and paid by cheques Rs. 2,25,000.
You are required to prepare :
(a) The Trading and Profit & Loss Account of Sanjay for the year ended 31.3.97; and
(b) A Balance Sheet on that date.
Assume cash destroyed by fire is written off in Profit and Loss Account.**[C.A. (Inter) May 1997, CMA INTER]**

Question:22 K Azad, who is in business as a wholesaler in sunflower oil, is a client of would/accounting firm. You are required to draw up his final accounts for the year ended 31.3.1996:
From the files, you pick up his Balance Sheet as at 31.3.1995 reading as below:

BALANCE SHEET *as at 31.3.1995*

Liabilities	**Rs.**	***Rs.***
K. Azad's Capital		1,50,000
Creditors for Oil Purchases		2,00,000
12% Security Deposit from Customers		50,000

Creditors for Expenses :		
Rent		6,000
Salaries		4,000
Commission		20,000
Assets		
Cash and Bank Balances		75,000
Debtors		1,60,000
Stock of Oil (125 tins)		1,25,000
Furniture	30,000	
Less : Depreciation	3,000	27,000
Rent Advance(security for 2 months)		12,000
Electricity Deposit		1,000
3-Wheeler Tempo Van	40,000	
Less : Depreciation	10,000	30,000

A Summary of the rough Cash Bank of K. Azad for the year ended 31.3.1996 is as below:

CASH AND BANK SUMMARY

Receipts:	**Rs.**
Cash Sales	5,26,500
Collections from Debtors	26,73,500
Payments:	
To Landlord	79,000
Salaries	48,000
Miscellaneous Office Expenses	12,000
Commission	20,000
Personal Income-tax	50,000
Transfer on 1.10.95 to 12% Fixed Deposit	6,00,000
To Creditors for Oil Supplies	24,00,000

A scrutiny of the other records gives you the following information :

(i) During the year oil was purchased at 250 tins per month basis at a unit cost of Rs. 1,000. 5 tins were damaged in transit in respect of which insurance claim has been preferred. The surveyors have since approved the claim at 80%. The damaged ones were sold for Rs.1,500 which is included in the cash sales. One tin has been used up for personal consumption. Total number of tins sold during the year was 3,000 at a unit price of Rs. 1,750.(ii) Rent until 30.9.95 was Rs. 6,000 per month and was increased thereafter by Rs. 1,000 per month. Additional advance rent of Rs. 2,000 was paid and this is included in the figure of payments to landlord.

(iii) Provide depreciation at 10% and 25% of WDV on furniture and tempo van respectively.

(iv)It is further noticed that a customer has paid Rs. 10,000 on 31.3.96 as security deposit by cash. One of the staff has defalcated. The claim against the Insurance Company is pending. You are requested to prepare final accounts for the year ended 31.3.96. **[CA. (Inter), May 1996]**

TRADING AND PROFIT AND LOSS ACCOUNT

To Opening Stock		1,25,000	By Sales	52,50,000
To Purchases	30,00,000		By Damaged Stock A/c	5,000
Less: Transferred to			By Closing Stock	1,19,000
Drawings A/c	1,000	29,99,000		
To Gross Profit c/d		22,50,000		
		53,74,000		53,74,000

To Salaries				
To Miscellaneous Office Expenses		44,000		22,50,000
To Loss of Deposit		78,000	By Gross Profit b/d	36,000
To Interest on Security Deposits		12,000	By interest on Fixed Deposit	500
To rent		10,000	By Profit on Damaged Stock	
To Depreciation :		6,000		
Furniture	2,700			
Tempo Van	7,500			
To Capital A/c		10,200		
(Net Profit Transferred)				
		21,26,300		
		22,86,500		22,86,500

BALANCE SHEET as on 31st March, 1996

Liabilities		Amount	Assets		Amount
	RS.	Rs.		Rs.	Rs.
K. Azad's Capital			Furniture	27,000	
Balance	1,50,000		Less: Depreciation	2,700	24,300
Add: Net Profit	21,26,300		3-WheelerTempo Van	30,000	
	22,76,300				
Less: Drawings	51,000	22,25,300	Less: Depreciation	7,500	22,500
12% Security Deposit from Customers		60,000	Closing Stock		1,19,000
Interest Payable on Security Deposit		6,000	Debtors		22,11,500
Creditors for Oil Purchases		8,00,000	Cash and Bank Balances		66,000
Outstanding Rent		7,000	Fixed Deposit		6,00,000
			Interest Accrued on Fixed Deposit		36,000
			Rent Advance(security deposit)		14,000
			Electricity Deposit		1,000
			Insurance Claim Receivable		4,000
		30,98,300			30,98,300

Question:23 The following is the Balance Sheet of Sri Agni Dev as on 31st March, 2001:

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital Account	2,52,500	Machinery	1,20,000
Sundry Creditors for purchases	45,000	Furniture	20,000
		Stock	33,000
		Debtors	1,00,000
		Cash in hand	8,000
		Cash at Bank	16,500
	2,97,500		2,97,500

Riots occurred and fire broke out on the evening of 31st March, 2002, destroying the books of accounts and Furniture. The cashier was grievously hurt and the cash available in the cash box was stolen. The trader gives you the following information:

(i) Sales are affected as 25% for cash and the balance on credit. His total sales for the year ended 1st March, 2002 were 20% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).

(ii) Terms of credit

Debtors 2 Months
Creditors 1 Month

(iii) Stock level was maintained at Rs. 33,000 all throughout the year

(iv) A steady Gross Profit rate of 25% on the turnover was maintained throughout. Creditors are paid by cheque only, except for cash purchase of Rs. 50,000.

(v) His private records and the Bank Pass-book disclosed the following transactions for the year.

(a) Miscellaneous business expenses Rs. 1,57,500 (including Rs. 5,000

paid by cheque and Rs.7,500 was outstanding as on 31st March, 2002)

(b) Repairs Rs. 3,500 (paid by Cash)

(c) Addition to Machinery Rs. 60,000 (paid by cheque)

(d) Private drawings Rs.30,000 (paid by cash)

(e) Travelling expenses Rs. 18,000 (paid by cash)

(f) Introduction of additional capital by depositing into the Bank Rs. 5,000

(vi) Collection from debtors were all through cheques.

(vii) Depreciation on Machinery is to be provided @ 15% on the Closing Book Value.

(viii) The cash stolen is to be charged to the Profit and Loss Account.

(ix) Loss of furniture is to be adjusted from the Capital Account.

Prepare Trading and Profit and Loss Account for the year ended 31st March. 2002 and a Balance Sheet as on that date. Make appropriate assumptions whenever necessary. All workings should form part of your answer.

[CA PE-II, Nov. 2002]

Answer: TRADING AND PROFIT AND LOSS ACCOUNT OF SRI AGNI DEV

To Opening Stock	33,000	By Sales	9,60,000
To Purchases	7,20,000	By Closing Stock	33,000
To Gross Profit c/d	2,40,000		
	9,93,000		9,93,000
To Business Expenses	1,57,500	By Gross Profit b/d	2,40,000
To Repairs	3,500		
To Depreciation	27,000		
To Travelling Expenses	18,000		
To Loss by theft	1,500		
To Net Profit	32,500		
	2,40,000		2,40,000

BALANCE SHEET OF SRI AGNI DEV *as at 31st March, 2002*

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital	2,52,500		Machinery	1,80,000	
Add. Additional Capital	5,000		*Less:* Depreciation	27,000	1,53,000
Net Profit	32,500				
	2,90,000		Stock in Trade		33,000
Less: Loss of Furniture	20,000		Sundry Debtors		1,20,000
Drawings	30,000	2,40,000			
Bank Overdraft		2,667			
Sundry Creditors		55,833			
Outstanding Expenses		7,500			.
		3,06,000			3,06,000

Working Notes:

1. Sales during 2001-02

Debtors as on 31st March, 2001	1,00,000
(Being equal to 2 months' sales)	
Total credit sales in 2000-01, 1,00,000x 6	6,00,000
Cash Sales, being equal to1/3rd of credit sales or ¼ of the total	2,00,000
Sales in 200-01	8,00,000
Increase, 20% as stated in the problem	1,60,000
Total sales during 2001-02	9,60,000
Cash sales : ¼th	2,40,000
Credit sales: 1/3th	7,20,000

2. Debtors equal to two months' credit sales 1,20,000

3. Purchases

Sales in 2001-02	9,60,000
Gross Profit @ 25%	2,40,000
Cost of goods sold being purchases	7,20,000
(Since there is no change in stock level.)	

4. Sundry Creditors for goods

Rs. 7,20,000 – Rs. 50,000/12 = Rs. 6,70,000/12	55,833

5. Collections from Debtors

Opening Balance	1,00,000
Add. Credit Sales	7,20,000
	8,20,000
Less: Closing Balance	1,20,000

	7,00,000
6. Payment to Creditors	
Opening Balance	45,000
Add: Credit Purchases (Rs. 7,20,000 –Rs. 50,000)	6,70,000
	7,15,000
Less: Closing Balance	55,833
Payment by cheque	6,59,167

Question:24 Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare his final accounts for the year 2003:

	1.1.2003	***31.12.2003***
Debtors	1,02,500	—
Creditors	—	46,000
Stock	50,000	62,500
Bank Balance	—	50,000
Fixed Assets	7,500	9,000
Details of his bank transactions were as follows:		Rs.
Received from debtors		3,40,000
Additional capital brought in		5,000
Sale of fixed assets (book value Rs. 2,500)		1,750
Paid to creditors		2,80,000
Expenses paid		49,250
Personal drawings		25,000
Purchase of fixed assets		5,000

No cash transactions took place during the year. Goods are soldat cost plus 25%. Cost of goods sold was Rs. 2,60,000.
(CA PE-II. Nov., 2004)

Question:25 Complete the following annual financial statements on the basis of ratios given below:

PROFIT AND LOSS ACCOUNT

	Rs.		**Rs.**
To Cost of goods sold	6,00,000	By Sales	20,00,000
To Operating expenses	--		
To Debentures Interest	10,000	By Earnings before Interest and Tax	—
To Income-tax	---		

BALANCE SHEET *as at 30th June, 1990*

Net worth			Fixed assets		—
Share capital		—	**Current assets:**		
Reserve and surplus		—	Cash		—
10% Debentures		—	Stock		—
Sundry creditors		60,000	Debtors	35,000	

(i) Net profit to sales 5%
(ii) Current ratio 1.5
(iii) Return on net worth 20%
(iv) Inventory turnover 15 times
(based on cost of goods sold)
(v) Share capital to reserves 4 : 1
(vi) Rate of Income-tax 50% ***[CA Inter, Nov., 1990)***

Question:26 . The books of account of RukRuk Maan of Mumbai showed the following figures:

	31.3.2008	**31.3.2009**
Furniture & Fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & Bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills Payable	70,000	80,000
Outstanding Salaries	19,000	20,000

An analysis of the cash book revealed the following :

Cash sales	16,20,000
Collection from debtors	10,58,000
Discount allowed to debtors	20,000
Cash purchases	6,15,000
Payment to Creditors	9,73,000
Discount received from creditors	32,000
Payment for bills payable	4,30,000
Drawings for domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @ 10% p.a. on diminishing balance method. RukRuk Maan maintains a steady gross profit rate of 25% on sales. You are required to prepare trading and profit and loss account for the year ended 31st March, 2009 and Balance Sheet as on that date.**(CA- MAY 2010) 16 MARKS**

Answer: **Trading & Profit & Loss Account**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening stock	2,45,000	By Sales:	
To Purchases :		Cash	16,20,000
Cash	6,15,000	Credit (W.N. 3)	11,00,000
Credit (W.N.1)	15,00,000	By Closing stock	3,20,000
To Gross profit c/d	6,80,000		
	30,40,000		30,40,000
To Salaries (W.N.vi)	2,37,000	By Gross profit b/d	6,80,000
To Rent	1,32,000	By Discount received	32,000
To Sundry trade expenses	81,000		
To Discount allowed	20,000		
To Depreciation on furniture & fixtures	26,000		
To Net profit	2,16,000		
	7,12,000		**7,12,000**

Balance Sheet as at 31st March, 2009

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital			Fixed assets	
Opening balance (W.N.7)	5,16,000		Furniture & fixtures	2,34,000
Add: Net profit	2,16,000		Current assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	1,20,000	6,12,000	Debtors (W.N.4)	1,47,000
Current liabilities & provisions:			Cash & bank (W.N.6)	2,01,000
Creditors		1,90,000		
Bills payable		80,000		
Outstanding salaries		20,000		
		9,02,000		9,02,000

Working note:

1. Bills payable account

Particulars	Rs.	Particulars	Rs.
To Cash/Bank	4,30,000	By Balance b/d	70,000
To Balance c/d	80,000	By Trade creditors (Bal. fig.)	4,40,000
	5,10,000		5,10,000

2. Creditors Account

Particulars	Rs.	Particulars	Rs.
To Cash/Bank	9,73,000	By Balance b/d	1,35,000
To Bills payable A/c (W.N.1)	4,40,000	By Credit purchases (Bal- fig.)	15,00,000
To Discount received	32,000		
To Balance c/d	1,90,000		
	16,35,000		16,35,000

3. Calculation of credit sales

		Rs.
Opening stock		2,45,000
Add: Purchases		
Cash purchases	6,15,000	
Credit purchases	15,00,000	21,15,000
		23,60,000
Less: Closing Stock		3,20,000
Cost of goods sold		20,40,000
Gross profit ratio on sales		25%
Total sales (20,40,000 x 100/75)		27,20,000
Less: Cash sales		16,20,000
Credit sales		11,00,000

4. Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,25,000	By Cash/Bank	10,58,000
To Credit sales (W.N.3)	11,00,000	By Discount allowed	20,000
		By Balance c/d (Bal. fig)	1,47,000
	12,25,000		12,25,000

5. Salaries

Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.03.2009	20,000
	2,56,000
Less: Outstanding salaries as on 31.03.2008	19,000
	2,37,000

6. Cash/Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,10,000	By Cash purchases	6,15,000
To Cash sales	16,20,000	By Creditors	9,73,000
To Debtors	10,58,000	By Bills payable	4,30,000
		By Drawings	1,20,000
		By Salaries	2,36,000
		By Rent	1,32,000
		By Sundry trade expenses	81,000
		By Balance c/d	2,01,000
	27,88,000		27,88,000

7. Balance Sheetas on 31st March, 2008

Liabilities	Rs.	Assets	Rs.
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding salaries	19,000	Debtors	1,25,000
Capital (Bal. fig.)	5,16,000	Cash & bank	1,10,000
	7,40,000		7,40,000

Question 27: Mr. A. runs a business of readymade garments. He closes the books of accounts on 31st March, 2010. The Balance Sheet as on 31s* March, 2010 was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4, 86,000		**4, 86,000**

You are furnished with the following information:

1. His sales, for the year ended 31st March, 2011 were 20% higher than the sales of previous year, out of which 20% sales was cash sales. Total sales during the year 2009-10 were Rs. 5,00,000.
2. Payments for all the purchases made by cheques only.
3 Goods were sold for cash and credit both. Credit customers pay by cheques only.
4. Depreciation on furniture is to be charged 10% p.a.

5. Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of Rs. 2,000 to the clerk, office expenses Rs. 1,200 and personal expenses Rs. 500.

Analysis of bank pass book for the year ending 31st March, 2011 disclosed the following:

Payment to creditors	3,00,000
Payment of rent up to 31st March, 2011	16,000
Cash deposited into the bank during the year	80,000
The following are the balances on 31st March, 2011	
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March, 2011 the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the ended 31sl March,2011 and Balance Sheet as on that date. All the workings should form part of the **(CA- MAY 2011) 16 MARKS**

Answer: Trading and Profit and Loss Account for the year ending 31st March 2011

Particulars	**Rs.**	**Particulars**		**Rs.**
To Opening stock	2,80,000	By Sales (W.N.3)		
To Purchases (W.N.1)	3,64,000	Credit	4,80,000	
To Gross Profit	1,16,000	Cash	1,20,000	6,00,000
		By Closing stock		1,60,000
	7,60,000			7,60,000
To Salary	24,000	By Gross Profit		1,16,000
To Rent	16,000			
To Office expenses	14,400			
To Loss of Cash (W.N.6)	23,600			
To Depreciation of furniture	4,000			
To Net Profit	34,000			
	1,16,000			**1,16,000**

Balance Sheet as on 31st March, 2011

Liabilities		**Rs.**	**Assets**		**Rs.**
A's Capital	4,04,000		Furniture	40,000	
Add: Net Profit	34,000		Less: Depreciation	(4,000)	36,000
Less: Drawings	(6,000)	4,32,000	Stock		1,60,000
Creditors		1,46,000	Debtors		1,20,000
			Cash at bank		2,62,000
		5,78,000			**5,78,000**

Working Notes(1) Calculation Of Purchases

Creditors Account

Particulars	Rs.	Particulars	Rs.
To bank account	3,00,000	By balance b/d	82,000
To balance c/d	1,46,000	By purchases (bal. fig)	3,64,000
	4,46,000		4,46,000

(2)Calculation of total sales

	Rs.
Sales for the year 2009-10	5, 00,000
Add: 20% increase	1, 00,000
Total sales for the year 2010-11	6, 00,000

(3)Calculation of credit sales

Total sales	6,00,000
Less: Cash sales' (20% of total sales)	(1,20,000)
	4,80,000

(4) Calculation of cash collected from debtors

Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,00,000	By Bank A/c (Bal. fig)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		5,80,000

5. Calculation of closing balance of cash at bank

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To cash A/c	80,000	By Balance c/d	2,62,000
	5,78,000		5,78,000

(6)Calculation of the amount of cash defalcated by the cashier

Cash balance as on 1st April 2010'		28,000
Add: Cash sales during the year		1, 20,000
		1, 48,000
Less: Salary (Rs. 2,000x12)	24,000	
Office expenses (Rs. 1,200 x 12)	14,400	
Drawings of A (Rs. 500 x 12)	6,000	
Cash deposited into bank during the year	80,000	1, 24,400
Cash balance as on 31st March 2011 (defalcated by the cashier)		23,600

CHAPTER 9. INSURANCE CLAIMS

QUESTION:1 On 31st August, 2016 a fire occurred in the premises of a firm which carried on the business of general merchandise. From the various books, which were saved from fire, it was ascertained that

Sales from 1st January to 31st Aug., 2016	12,80,000
Purchases from 1st Jan. to 31st Aug., 2016	8,40,000
Stock on hand on 31st Dec., 2015	2,36,000

Gross profit for the past five years had averaged at 35% on sales. The value of the salvaged stock was agreed at Rs. 30,000. Draft a statement showing amount of the claim. There was no average clause.

QUESTION:2 Pacific Traders have taken out a fire policy of Rs. 80,000 covering its stock-in trade. A fire occurred on 31st March. 2016 and stock was destroyed with the exception of the value of Rs. 20,680. Following particulars are available from the books of account of the firm:

Stock as on 31st Dec, 2015	30,000
Purchases to the date of fire	1,30,000
Sale to the date of fire	90,000
Commission paid to the Purchase Manager on purchases	2%
Carriage paid on purchases	800
Average gross profit on cost	50%

The policy was subject to average clause. You are required to arrive at the
(i) Total loss of stock, and
(ii) Amount of claim to be made against the insurance company.

QUESTION:3 On 31st August, 2016 the premises and stock of a firm were totally destroyed by fire, the books of accounts, however, were saved. In order to make a claim on their fire policy, they ask you to advise on the basis of the following information. The stock in hand has always been valued at 5% below cost:

	2013-14	**2014-15**	**2015-16**	**2016-17**
	Rs.	***Rs.***	***Rs.***	**Rs.**
Opening stock as valued	22,800	----	……	……
Purchases less returns	91,000	1,10,000	1,20,000	41,000
Sales less returns	1,40,000	1,70,000	1,86,000	75,000
Wages	28,400	31,200	34,200	12,000
Closing stock	30,400	36,100	39,900	?

Prepare a statement for submission to the insurance company in support of your claim for loss of stock. The company closes its books of account every year on 31st March. **[C.S. (Inter) Dec. 1995 modified)**

QUESTION:4 A fire occurred in the premises of Agni on 25th August, 2017 when a large part of the stock was destroyed. Salvage was Rs. 15,000. Agni gives you the following information for the period January 1, 2017 to August 25, 2017:

(a) Purchases Rs. 85,000
(b) Sales Rs. 90,000
(c) Goods costing Rs. 5,000 were taken by Agni for personal use.
(d) Cost price of stock on January 1, 2017 was Rs. 40,000.

Over the past few years, Agni has been selling goods at a constant gross profit margin of $33^{1/3}$%. The insurance policy was for Rs. 50,000. It included an average clause. Agni asks you to prepare a statement of claim to be made on the insurance company. **[C.A. (Inter) November 1997]**

QUESTION:5 A fire occurred on 15th December 1996 in the premises of Risky Co. Ltd. From the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock

Stock at cost on 1st April, 1995	20,000
Stock at cost on 31st March, 1996	30,000
Purchases during the year ended 31st March. 1996	40,000

Purchases from 1st April, 1996 to 15th Dec, 1996	88,000
Sales during the year ended 31st March. 1996	60,000
Sales from 1st April. 1996 to 15th December, 1996	1,05,000

During the current year cost of purchases have risen by 10% above last year's levels. Selling prices have gone up by 5%. Salvage value of stock after fire was Rs. 2,000. **[C.S. (Inter Dec. 1997] [C.A. Inter]**

QUESTION:6 The premises of RASHIKA Enterprise, a proprietary concern, were damaged by fire on 12th February, 2017. As a result, some trading stock was totally destroyed, and in addition, stock costing Rs. 96,000 was partly damaged. The insurance company agreed to reduce the value of the damaged stock to Rs. 52,800. On 31st December,2016, the stock-in-trade of the concern was valued at Rs. 4,12,000. Subsequently the following purchases were made:

8th January, 2017	1,09,920
21st January, 2017	72,000
27th January, 2017	5,360
14th February,2017	42,400
20th February, 2017	2,24,000
8th March, 2017	1,37,600

Additional information for the three months ended on 31st March, 2017 are given below;

(a) 50 per cent of the damaged goods were sold before 31st March, 2017 at a profit of 15%.
(b) With the exception of the damaged goods the firm has earned a gross profit of 30% of the cost of goods sold.
(c) The sales during the three months ended 31st March, 2017, were Rs. 6,54,360.
(d) The undamaged stock at 31st March. 2017, was valued at Rs. 2,03,280.
(e) The firm has an insurance cover for loss and damage to stock by fire.
Prepare a statement of insurance claim. **[I.CW.A. (final) June 1998](sirf main, bus main, yes sirf main)**

QUESTION:7 Nixon prepares accounts on 30th June each year but on 30th September, 2013, fire destroyed the greater part of his stock. Following information was collected from his books:

Stock on 30th June, 2013	29,250
Purchases from 1st July, 2013 to 30th September, 2013	60,000
Wages from 1st July, 2013 to 30th September, 2013	22,750
Sales from 1st July, 2013 to 30th September, 2013	1,00,000

Average percentage of gross profit to cost is 33.33%. Stock of the value of Rs. 7,000 was salvaged. Policy was for Rs. 25,000. Claim was subject to average clause. Following additional information is available:

(a) Stock in the beginning was calculated at 10% less than cost.
(b) Purchases include purchase of plant of Rs. 5,000.
(c) Plant was installed in August and firm's own men had spent time amounting to Rs. 250 which was included in wages.
You are required to calculate the claim for the loss of stock.

Hints:- Actual cost of opening stock= 29,250 x 100/90
Purchases = 60,000- 5,000 = 55,000
Wages = 22,750- 250 = 22,500
Gross Profit = 1/3 on cost or ¼ on sale
Stock on the date of fire = 35,000

QUESTION:8 On 1st April, 2017 the godown of Stone Ltd was destroyed by fire. The records of the company revealed the following particulars:

Stock on 1st January, 2016	75,000
Stock on 31st December, 2016	80,000
Purchases during 2016	3,10,000
Sales during 2016	4,00,000
Purchases from 1st January, 2017 to the date of fire	75,000
Sales from 1st January, 2017 to the date of fire	1,00,000

In valuing closing stock of 2016, Rs. 5,000 was written off whose cost was Rs. 4,800. A part of this stock was sold in 2017 at a loss of Rs. 400 on the original cost of Rs. 2,400. The remainder of the stock is now estimated at original cost. Stock salvaged was Rs. 5,000. The godown and the stock therein were fully insured. Indicate from above, amount of the claim to be made against the insurance company. **(I.C.W.A., Final)**

QUESTION:9 A fire broke out in the warehouse of Raghwan Traders Ltd, on 30th Sept., 2015. The Company wishes to file a claim with the insurance company for loss of stock and gives you the following information to enable you to prepare a statement of the amount to be claimed:

(i) The last accounts of the Company were prepared on December 31st 2014; (ii) Sundry Debtors on 31st December, 2014 Rs. 20,000; (iii) Cash received from debtors Rs. 72,000; (iv) Sundry debtors on 30th September, 2015 Rs. 15,000; (v) Stock on 31st December, 2014 Rs. 7,500; (vi) Purchases from 1st January 2015 to 30th September, 2015 Rs. 62,500, (vii) Cash Sales from 1st January, 2015 to 30th September, 2015, Rs. 13,000 (viii) G.P. Rate on credit sales is 20% and on Cash sales 15%. Prepare the necessary statement, showing all your workings to arrive at the amount of the claim.

Answer*:* Note: Sundry Debtors Account will be prepared to find out Sales during Jan 1st to Sept. 30th 2015

Sundry Debtors A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/f.	20,000	By Cash	72,000
To Sales (credit) (Balancing Figure)	67,000	By Balance c/d.	15,000
	87,000		**87,000**

Calculation of claim for the Loss of Stock — Trading Account for the year ended 30th September, 2015

Particulars	Rs.	Particulars	Rs.
To Opening Stock	7,500	By Sale: Credit	67,000
To Purchases	62,500	Cash	13,000
To Gross Profit	15,350	By Stock on the date of fire (Balancing figure)	5,350
	85,350		85,350

Amount of Claim — Rs. 5,350.

Working Note:

Gross profit on credit sales	67,000 x 20 / 100 =	Rs. 13,400
Gross profit on cash sales	13,000 x 15 =	Rs. 1,950
Total gross profit	=	Rs. 15,350

QUESTION:10 (IMP QUESTION) The storehouse of Top Manufacturer caught fire on 31st March, 2016 and due to fire a great part of stock was burnt to ashes. The stock was covered by an insurance policy of Rs. 1,00,000 and claim was subject to an average clause. From the following information prepare statement showing the claim of Top Manufacturer:

(i) They used to —

(a) Sell goods to wholesalers on one month credit at wholesale price which is a catalogue price less 15%. Further cash discount of 5% on wholesale price is allowed to those wholesalers who make immediate payment.

(b) Sell goods to retailers at retailer's price which is a catalogue price less 10%. Terms cash payment only.

(c) Send goods to branches at catalogue price which is cost plus 100%.

*(*ii*)* Figures for the goods sold or dispatched were:

(a) Credit sale upto 31st March, 2016, to wholesalers at wholesale price Rs. 3,40,000 worth.
(b) Net cash sales (after deducting cash discount) up to 31st March 2016 to wholesalers Rs. 3,23,000 worth.
(c) Cash sales to retailers up to 31st March, 2016Rs. 90,000 worth.
(d) Goods sent to branches up to 31st March. 2016Rs. 3,00,000 worth.
(i) Stock on 1st Jan. 2016 was Rs. 2,50,000 at catalogue price. Purchases at catalogue price from 1st Jan, 2016 to 31st March, 2016 were Rs. 12,50,000.

(iv) Stock salvaged Rs. 45,000 at cost price.

Answer:- loss of stock by fire Rs 1,05,000, claim under average clause= 70,000

QUESTION:11 (IMP QUESTION) Fire occurred in the premises of M/s. Low Luck Traders twice during the accounting year 2012-13, that is on 31st July 2012 and again on 30th November 2012. From the following particulars, calculate the claim to be lodged in respect of the goods lost by fire on the aforementioned dates :

(1) The stock as at 31st March 2012 was valued at Rs. 9,90,000.
(2) The purchases from 1st April 2012 to 31st July 2012 amounted to Rs. 35,60,000 and included furniture purchased of Rs. 10,000.
(3) Sales for the period from 1st April 2012 to 31st July 2012 amounted to Rs. 50,00,000.
(4) The purchases from 1st August 2012 to 30th November 2012 amounted to Rs. 49,50,000 of which goods costing Rs. 1,05,000 were received on 10th December 2012.
(5) The sales for the period from 1st August 2012 to 30th November 2012 amounted to Rs. 60,60,000 out of which sales on 'sales or return basis amounted to Rs. 1,00,000. No intimation was received from the customers in respect of 60% of the goods sold on approval basis.

(6) Information regarding sales and gross profit of the last three years was as follows:

Year	Sales	Gross Profit
2009-10	1,00,00,000	12,00,000
2010-11	1,20,00,000	9,60,000
2011-12	1,35,00,000	13,40,000

(7) In the beginning of year 2012-13, the selling price was raised by 20%.
(8) The closing stock of 2011-12 was undervalued by Rs. 10,000.
(9) The value of the goods salvaged on 31st July 2012 was Rs. 3,00,000.
(10) The value of the goods salvaged on 30th November 2012 was also Rs. 3,00,000.
(11) The expenses of the salvage operations were Rs. 20,000 on 31st July 2012 andRs. 10,000 on 30th November 2012.
(12) The firm had taken out a fire insurance policy of Rs. 6,00,000 on 1st April 2012. At the time of receiving the insurance claim on 31st July 2012, no additional premium was paid for restoration of the insurance policy to its original amount. The policy was subject to the average clause.**(CMA Final June 1993).**

B—LOSS OF PROFITS POLICY

Scope and Coverage:- Fire insurance provides cover only for material damage occurring to buildings, plant and machinery and fixtures, etc. But this result in partial or total stoppage of business, leading to trading losses and the policy does not provide cover for such losses. In order to give complete protection to the insured, a new type of insurance, known as **'loss of profits insurance' or 'consequential loss insurance'** has come into vogue.

Important Definitions

1. Indemnity period. Indemnity period is any period not exceeding 12months from the date of damage during which the results of the business shall be affected due to fire.

2. **Standard sales**. Standard turnover refers to the sales affected in the proceeding period corresponding to the indemnity period. Standard sales of the precedingperiod must be adjusted in the light of future prospects.

3. **Actual turnover**:- turnover during indemnity period.
4. Short sales. It is the difference between standard turnover and actual turnover or sales. It refers to loss of sales due to fire which has resulted in dislocation of the business.

5. **Annual turnover**. It is the turnover during the 12months immediately before the date of damage.

3. PROCEDURE STEPS FOR CALCULATING CLAIM

Step 1.**Calculation of short sales** by comparing the sales made during the abnormal period with the standard sales.

Question 12. Fire occurred on 1st March,2015. Normalcy was achieved on 1st May 2015. Sales from 1st March to 1st May, 2015, Rs. 20,000; sales from1st March to 1st May,2014 (preceding year), Rs. 1,00,000. Company has shown an increase of 10% during 2015 over the sales of 2014.Calculate short sales.

Step 2. Calculate of gross profit. Calculate gross profit of the financial year preceding the year of fire.
Gross profit calculated for the Claim purpose is different from that calculated in a normal way.

Step 3.Calculation of rate of gross profit. Calculate *rate of gross profit* on sale with the help of gross profit calculated. Sales for this purpose will be the sales of the preceding financial year.

Question13.(When there is a net profit) From the following trading and profit and loss account you are required to calculate gross profit for the purpose of insurance claim :

TRADING AND PROFIT AND LOSS ACCOUNT *for the year ending 31st December 2014*

	Rs.		Rs.
To Stock	4,00,000	By Sales	10,00,000
To Purchases	4,00,000	By Stock at the end	80,000
To Direct expenses	2,80,000		
To Gross profit	3,00,000		
	10,80,000		10,80,000
To Variable, expenses	10,000	By Gross profit	3,00,000
To Standing charges	1,80,000		
To Net profit	1,10,000		
	3,00,000		3,00,000

Standing charges insured only to the extent of Rs. 90,000.

QUESTION:14 (When there is loss) From the following profit and loss account you are required to calculate the gross profit for the purpose of insurance claim:

PROFIT AND LOSS ACCOUNT

for the year ending 31st December 2015

		Rs.		Rs.	Rs.
To Variable expenses		15,000	By Gross profit		60,000
To Standing charges		90,000	By Net loss		45,000
		1,05,000			1,05,000

Standing charges are insured only to the extent of Rs 60,000. Sales during previous year Rs 10,00,000

Step 4. Calculate loss of profit on short sales.

Question 15. Standard sales = 5,00,000
Actual sales during indemnity period = 1,00,000
Growth rate= 20%
G.P rate for purpose of claim = 25%
Calculate loss of profit

Step 5.**Calculate allowed increased working expenses –** it will be lower of following three:

Actual increase in expense.

$$\frac{\text{Coverage required}}{\text{Coverage required + uninsured standing charges}} \times \text{Increased working expenses}$$

(III) G.P rate X sales generated due to increase in working expense.

Question 16. Increase in working expense Rs 60,000
Annual turnover Rs 8,00,000
Growth factor 10%
G.P. rate = 20%(for purpose of claim)
Total sales during indemnity period = 2,00,000(out of this sales of Rs 1,20,000 could be maintained due to increase in working expense.
Total standing charge Rs 1,00,000(out of this Rs 70,000 are insured)
Calculate allowed increase in working expense.

Step 6.calculate Saving in expenses.

Total claim Will be = step 4 + step 5 – step 6

Question 17: calculate claim for loss of profit.

Actual sales during indemnity period= 60,000
Standard sales = 2,00,000
Net profit during preceding year = 80,00
Standing charges (insured 80%) = 50,000
Sales during preceding year = 12,00,000
Allowed increase working expense = 3000
Saving in expense = 7,000

4. EFFECT OF AVERAGE CLAUSE:-- The whole of the claim, calculated above will be reduced on average clause basis. Following is the procedure :

Step 1. Calculate sales of preceding twelve months from the date of fire(Annual turnover).

Step 2. Calculate gross profit on annual turnover

Step 3. Calculate claim on average basis. Reduce the final claim on the basis or following formula :

$$\frac{\text{Policy}}{\text{Gross profit on annual turnover}} \times \text{Total claim}$$

Question 18.From the following particulars prepare a claim for loss of profit under the consequential Loss Policy.

Date of fire ……. 30th June, 2015
Period of indemnity six months

Sum insured	40,000
Turnover for the year ended 30th June, 2015	2,00,000
Net profit for the accounting year ending 31st March, 2015	12,500
Standing charges for the accounting year ending 31st March, 2015	28,500
Turnover for the year ending 31st March, 2015	1,98,000
Turnover for the indemnity period from 1-7-15 to 31-12-15	56,000
Turnover for the period from 1-7-14 to 31-12-14	1,10,000

The turnover of the year 2015-16 had shown a tendency of increase of 10% over the turnover of the preceding year.

Question 19 On 31st December 2015, a fire damaged the premises of Rohan Bros, and the business of the company was disorganised until 31st March, 2016. The company is insured under a loss of profits policy for Rs.2,60,000 with six months' period of indemnity.

The company's accounts for the financial year ended 31st October 2015 showed a turnover of Rs. 7,00,000 with net profit of Rs. 80,000; the standing charges covered under insurance and debited in the accounts amounted to Rs. 2,00,000. The turnover for the twelve months ended 31st December 2015 was Rs. 7,80,000. During the period of dislocation it was Rs. 80,000, whereas during the corresponding period in the preceding year it was Rs. 1,70,000. A sum of Rs. 22,400 was spent to reduce the effect of the loss, but there was no saving of standing charges as the result of fire. Prepare the claim to be submitted to the insurance company. **Hints:- Short sales = 90,000, Rate of gross profit= 40%**

Question 20 From the following details, determine the amount of claim under a loss of profit policy.

Indemnity period	4 months	
Date of fire	1-4-2015	
Dislocation continued up to	1-8-2015	
Sum insured	Rs. 60,000	
Sales for the last accounting year	2,40,000	
Net profit for the last accounting year	34,000	
Standing charges for the last accounting year all insured		26,000
Sales for the dislocation period i.e. 1-4-15 to 1-8-15		30,000
Sales for the year 1-4-14 to 31-3-15		3,20,000
Sales for the corresponding period in the preceding year i.e. 1-4-14 to 1-8-14		1,00,000

The policy contains 'special circumstances clause' which stipulates for increase of turnover (standard and annual) by 10% as there is an upward trend in the business.

Answer: COMPUTATION OF AMOUNT OF CLAIM

Standard turnover for the corresponding period in preceding year i.e. 1-4-14 to 1-8-14	1,00,000
Add increase of 10% for upward Trend	10,000
Adjusted standard turnover	1,10,000
Less actual turnover in dislocation period	30,000
Loss of turnover in the dislocation period	80,000

(iii) Gross profit ratio based on trading results of the last accounting year, i.e. 14:

$$\text{Gross profit ratio} = \frac{net\ profit + insured\ standing\ charges}{Turnover\ or\ sales} \times 100$$

$$= \frac{60,000}{2,40,000} \times 100 = 25\%.$$

(iv) Gross profit lost during the dislocation period;

Loss of gross profit = loss of turnover X Gross profit ratio

$$= Rs.80,000 \times \frac{25}{100}$$

= Rs. 20,000.

(v) Application of Average clause:

Annual turnover preceding the date of fire	3,20,000
Add agreed increase of 10% for upward trend	32,000

Adjusted annual turnover Rs. 3,52,000

Insurable amount of the loss of profit

= Adjusted turnover or sales X Gross profit ratio

$= Rs.3{,}52{,}000 \times \frac{25}{100}$

= Rs. 80,000

Applying average Clause :-

$$Amount\ of\ Net\ claim = Loss\ suffered \times \frac{Sum\ insured}{Actual\ insurable\ value}$$

$= Rs.20{,}000 \times \frac{60{,}000}{88{,}000}$ = Rs. 13,636.

Question 21 There was a serious fire in the premises of M/s. Fortunate on 1st September, 2000. Their business activities were interrupted until 31st December, 2000, when normal trading conditions were re-established. M/s. Fortunate are insured under the loss of profit policy for Rs. 42,000 the period of indemnity being six months.

You are able to ascertain the following information:

(1) The net profit for the year ended 31st December. 1999 was Rs. 20,000.
(2) The annual insurable standing charges amounted to Rs. 30,000 of which Rs. 2,000 were not included in the definition of insured standing charges under the policy.
(3) The additional cost of working in order to mitigate the damage caused by the fire amounted to Rs. 600, and, but for this expenditure, the business would have had to shut down.
(4) The saving in insured charges in consequence of the fire amounted to Rs. 1,500.
(5) The turnover for the period of four months ended April 30, August 31, and December 31 in each of the years 1999 and 2000 was as under:

	Rs.	Rs:	Rs,
1999	65,000	80,000	95, 000
2000	70,000	80,000	15,000

You are required to compute the relevant claim under the terms of the loss of profits policy. **[CA. (Final)]**

(Ans:- total claim for loss of profit Rs 15076, claim under average clause Rs 12,922)

Question 22 From the following information, you are required to work out the claim under the loss of profits insurance policy.

(1) Cover — Gross profit Rs. 1,00,000.
(2) Indemnity period —6 months.
(3) Damage—due to a fire accident on 28th December — accounting year ends on 31st December.

(4) Net profit plus all standing charges in the prior accounting year Rs. 1,50,000.
(5) Standing charges uninsured —Rs. 25,000.
(6) Turnover of the last accounting year was Rs. 5,00,000.
(7) The annual turnover, namely, the turnover for 12 months immediately preceding the fire —Rs. 5,20,000.
(8) As a consequence of fire, there was a reduction in certain insured standing charges at the rate of Rs. 25,000.
(9) The standard turnover was Rs. 2,60,000.
(10) Increased costs of working during the period of indemnity were Rs. 20,000.
(11) Turnover during the period of indemnity was Rs. 1,00,000 and out of this turnover Rs. 80,000 was maintained due to increased cost of working. **[C.A. Inter (New)]**

Question 23. The premises of XY Limited were partially destroyed by fire on' 1st March 1992 and as a result, the business was partially disorganized upto 31st August 1992. The Company is insured under a Loss of Profit Policy for Rs. 1,65,000 having an indemnity period of 6 months. From the following information, prepare a claim under the policy:

(1)	Actual turnover during the period of dislocation (1-3-1992 to 31-8-1992)	80,000	
(2)	Turnover for the corresponding period in previous year (1-3-1991 to 31-8-1991)		2,40,000
(3)	Turnover for the 12 months immediately preceding the fire (1-3-91 to 28-2-92)	6,00,000	
(4)	Net profit for the last financial year	90,000	
(5)	Insured standing charges for the last financial year	60,000	
(6)	Uninsured standing charges	5,000	

(7) Turnover for the last financial year5,00,000 Due to substantial increase in trade, before and up to the time of the fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to Rs. 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only Rs. 55,000. There was also a saving during the indemnity period, of Rs. 2,700 in insured standing charge as a result of the fire. ***(C. A. Inter, Nov 1992)***

Answer: **Computation of loss of profit insurance claim**

(1) *Rate of gross profit:*

Net profit for the last financial year	90,000
Add: Insured standing charges	60,000
	1,50,000
Turnover for the last financial year	5,00,000

Rate of gross profit $\left[\frac{\text{Rs. } 1,50,000}{\text{Rs. } 5,00,000} \times 100\right] = 30\%$

(2) *Short sales:*

Standard Turnover	2,40,000
Add: 10% increasing trend	24,000
Less: Turnover during the dislocation period (which is at par with the	2,64,000
indemnity period of 6 months)	80,000
	1,84,000

(3) *Annual (Adjusted) Turnover:*

Annual Turnover (1-3-91 to 28-2-92)	6,00,000
Add: 10% increasing trend	60,000
	6,60,000

(4) *Additional Expenses:*

(a) Actual Expenses	9,300
(b) Gross profit on sales generated by additional expense $\frac{30}{100} \times (\text{Rs. } 80,000 - \text{Rs. } 55,000)$	7,500

(c) $\frac{\text{Coverage requered} \times \text{Additional Expenses}}{\text{Coverage requered} + \text{Uninsured standing charges}}$

(Coverage required is GP on annual (adjusted) turnover)

$\frac{30\% \text{ on Rs. } 6,60,000}{30\% \text{ on Rs. } 6,60,000 + \text{Rs. } 5000} \times \text{Rs. } 9,300$

$\frac{\text{Rs. } 1,98,000}{\text{Rs. } 2,03,000} \times \text{Rs. } 9,300$ i.e. 9,071

Least of the above three figures, i.e. Rs. 7,500 is allowable.

(5) *Claim:*

Loss of Profit on short sales (30% on Rs. 1,84,000)	55.200
Add: Allowable additional expenses	7,500
	62,700

Less: Savings in insured standing charges	2,700
	60,000

Application of average clause

$$\text{Loss of Profit} \times \frac{\text{Amount of Policy}}{\text{Coverage Required}}$$

$$\left[\frac{\text{Rs. 60,000} \times \text{Rs. 1,65,000}}{\text{Rs. 1,98,000}}\right] = \text{Net claim} = 50{,}000$$

Question 24. Raghwan Ltd. gives you the following. Trading and Profit and Loss Account for the year ending December 31, 1994.

Particulars	*Rs.*	*Particulars*	*Rs.*
To Opening Stock	25,000	By Sales	4,00,000
To Purchases	1,50,000	By Closing Stock	35,000
To Wages (Rs. 10,000 for skilled labour)	80,000		
To Manufacturing Exp.	60,000		
To Gross profit	1,20,000		
	4,35,000		4,35,000
To Office Expenses	30,000		1,20,000
To Advertising(fixed)	8,000	By Gross Profit	2,000
To Selling Exp. (fixed)	20,000	By Interest on Securities	
To Commission on sales	26,000		
To Carriage outward	8,000		
To Net Profit	30,000		
	1,22,000		1,22,000

The Company had taken out a consequential loss policy for Rs. 1,00,000. Fire occurred on 1st May, 1995, as a result of which sales were seriously affected for a period of 4 months. You are given following further information:

(a) Sales figures were as follows : From 1st January, 1994 to 30th April 1994 Rs. 1,50,000; From 1st May, 1994 to 31st Aug., 1994 Rs. 1,80,000; From 1st May 1995 to 31st Aug., 1995 Rs. 30,000; From 1st January, 1995 to 30th April, 1995 Rs. 1,20,000; (b) Due to rise in material prices, net profit during 1995 was expected to decline by 2% on sales, (c) Standing charges to the extent of Rs. 4,000 were not insured. Ascertain the claim for loss of profits. ***(C.A. Inter)***

answer:

(1) $$G.P.\ Ratio = \frac{\text{Net Profit + Insured Standing Charges}}{\text{Sales}} \times 100$$

$$= \frac{(30{,}000 + 20{,}000 + 8{,}000 + 30{,}000 + 10{,}000 - 4{,}000 - 2{,}000)}{4{,}00{,}000} \times 100$$

$$= \frac{92{,}000 \times 100}{4{,}00{,}000} = 23\%$$

Less: Expected decline in 1995 = 2%

G.P. Ratio of 1995 = 21%

(2) *Short Sales:* Standard sales (from 1.5.1994 to 31.8.1994)	1,80,000
Less: Decline in the trend of sales @ 20%*	36,000
Adjusted Standard Sales	1,44,000
Less: Sales during indemnity period	30,000
Short Sales	1,14,000

* *Note:* Decline in the trend of sales has been calculated as follows:

Sales from l. 1.1994 to 30.4.1994	1,50,000
Sales from 1.1.1995 to 30.4.1995	1,20,000
Decline in sales during first four months in 1995	30,000

Percentage decline in sales in 1995 as compared with sales in 1994 for corresponding period.---------- = $\frac{30\,000}{1,50,000}$ = 20%

(3) *Loss of profits* = Short sales x G.P. Ratio = 1,14,000 x 21/100 = Rs. 23,940.

Coverage Required:-- (Adjusted) Turnover for 12 months immediately before the date of fire x G.P. Ratio. Turnover for 12 months ending on the date of fire

(4,00,000 — 1,50,000 + 1,20,000)	Rs. 3,70,000
Less: Decline in the trend of sales @ 20%	74,000
Adjusted Annual Turnover	2,96,000

Coverage required = 2,96,000 X 21/100 = Rs. 62,160

Since Amt. of policy is more than the amount of coverage required average clause shall not be applicable. Hence amount of claim = Rs. 23,940.

SPECIAL QUESTION ONLY FOR MY STUDENTS(BECAUSE YOU ARE SPECIAL)

Question 25.A fire occurred in the premises of a businessman on 31st January, 2010, which destroyed stocks. However, stock worth Rs. 5,940 was salvaged. The company's insurance policy covers the following:

Stocks	6,00,000
Loss of Profit (including standing charges)	3,75,000
Period of indemnity	Six Months.

The summarised Profit and Loss Account for the year ended 31st December, 2009 is as follows:

Turnover		30,00,000
Closing Stock		7,87,500
		37,87,500
Opening Stock Purchases	6,18,750	
Standing Charges	27,18,750	
Variable Charges	2,51,250	
	1,20,000	37,08,750
	Net Profit	78,750

The transactions for the month of January 2010 were as under:

Turnover	1,50,000
Payments to Creditors	1,60,020
Trade Creditors:	
1-1-10	2,26,000
31-1-10	2,30,980

The company's business was disrupted until 30-4-10, during which period the reduction in the turnover amounted to Rs. 2,70,000 as compared with the turnover of same period corresponding in the previous year.

You are required to submit the claim for insurance for loss of stock, and loss of profits.

Question:26. In January, 2010 a firm took an insurance policy for Rs. 60 lakhs to insure goods in its godown against fire subject to average clause. On 7th March, 2010 a fire broke out destroying goods costing Rs. 44 lakhs. Stock in the godown was estimated at Rs. 80 lakhs. Compute the amount of insurance claim. **(CA-IPCC- MAY 2010)2 MARKS**

Answer: $Amount\ of\ Insurance\ claim = Amount\ of\ loss\ due\ to\ fire\ \times \frac{Amount\ of\ insurance\ policy}{Total\ stock\ in\ the\ godown}$

$$= Rs.44\ Lakhs\ \times \frac{Rs.60\ Lakhs}{Rs.80\ Lakhs} = Rs.33\ lakhs$$

Question: 27 A trader intends to take a loss of profit policy with indemnity period of 6 months; however, he could not decide the policy amount. From the following details, suggest the policy amount:

Turnover in last financial year 4,50,000
Standing charges in last financial year 90,000
Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.
Increase in turnover expected 25%
To achieve additional sales, trader has to incur additional expenditure of Rs. 31,250. (**CA-IPCC- nov 2010)4 MARKS**
Answer:

(a) Computation of Gross profit

$$Gross\ Profit = \frac{Net\ profit + standing\ Charges}{Turnover} \times 100$$
$$= \frac{45{,}000 + 90{,}000}{4{,}50{,}000} \times 100 = 30$$

(b) Computation of policy amount to cover loss of profit

Particulars	Rs.
Turnover in the last financial year	4,50,000
Add: 25% increase in turnover	1,12,500 5,62,5001,68 ,750 31,250
Policy Amount	2,00,000

Therefore, the trader should go in for a loss of profit policy of Rs. 2,00,000.

Question 28: On 30th March, 2011 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of Rs. 60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March, 2011.

1. Stock as per Balance Sheet at 31st December, 2010, Rs. 95,600
2. Purchases (including purchase of machinery costing Rs. 30,000) Rs. 1, 70,000.
3. Wages (including wages Rs. 3,000 for installation of machinery) Rs. 50,000.
4. Sales including goods sold on approval basis amounting to Rs. 49,500.) Rs. 2,75,000. No approval has been received in respect of 2/3rd of the goods sold on approval.
5. The average rate of gross profit is 20% of sales.
6. The value of the salvaged goods was Rs. 12,300.

You are required to compute the amount of the claim to be lodged to the insurance company. **(CA-IPCC- MAY 2011)5 MARKS**

Answer: Computation of Claim for loss of stock

Stock on the date of fire i.e. on 30th march, 2011 (W. N. 3)	62,600
Less: Value of salvaged stock	(12,300)
Loss of stock	50,300

$$Amount\ of\ Claim = \frac{insured\ Value}{Total\ Cost\ of\ stock\ on\ the\ date\ of\ fire} = loss\ of\ stock$$
$$= \left(\frac{60{,}000}{62{,}600} \times 50{,}300\right)$$ 48,211 (approx)

A claim of Rs. 48,211 (approx.) should be lodged by M/s Suraj Brothers to the insurance company.

Working notes: (1) Calculation of closing stock as on 30th March, 2011

Memorandum Trading Account From 1st January, 2011 to 30th March, 2011)

Particulars	***Amount***	***Particulars***	***Amount***
To Opening stock	95,600	By Sales (W.N.3)	2,42,000
To Purchases (1,70,000 -30,000)	1,40,000	By Goods with customers (for approval)	
	47,000	(W.N.2)	
To Wages (50,000 - 3,000)	48,400		26,400
	3,31,000		3,31,000

2. Calculation of goods with customers: Since no approval for sale has been received for the goods of Rs. 33,000 (i.e. 2/3 of Rs. 49,500) hence, these should be valued at cost i.e. Rs. 33,000 - 20% of Rs. 33,000 = Rs. 26,400.

3.Calculation of actual sales: Total Sales - Sale of goods on approval = Rs. 2, 75,000 – 33,000 = Rs. 2, 42,000.

Question: 29. A fire occurred in the premises of M/s. Fireproof Co. on 31st August, 2010. From the following particulars relating to the period from 1st April, 2010 to 31st August, 2010 you are requested ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for Rs. 60,000 which is subject to average clause.

(i) Stock as per Balance Sheet at 31-03-2010	99,000
(ii) Purchases	1,70,000
(iii) Wages (including wages for the installation of a machine Rs. 3000)	50,000
(iv) Sales	2,42,000
(v) Sale value of goods drawn by partners	15,000
(vi) Cost of goods sent to consignees on 16th August, 2010, lying unsold with them	16,500
(vii) Cost of goods distributed as free samples	1,500

While valuing the stock at 31st March, 2010, Rs. 1,000 was written off in respect of a slow moving item. The cost of which was Rs. 5,000. A portion of these goods were sold at a loss of Rs. 500 on the original cost of Rs. 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at Rs. 20,000. The average rate of gross profit was 20% throughout. **(IPCC- nov 2011)10 MARKS**

CHAPTER 10. PARTNERSHIP(admission, retirement and death)

Concept of profit and loss appropriation account

Question:1 **DELETED. NOT IN SYLLABUS**
Question:2 **DELETED. NOT IN SYLLABUS**

Question:3 **DELETED. NOT IN SYLLABUS**
Question:4 **DELETED. NOT IN SYLLABUS**
Question:5 **DELETED. NOT IN SYLLABUS**
Question:6 **DELETED. NOT IN SYLLABUS**
Question:7 **DELETED. NOT IN SYLLABUS**
Question:8 **DELETED. NOT IN SYLLABUS**
Question:9 **DELETED. NOT IN SYLLABUS**
Question:10 **DELETED. NOT IN SYLLABUS**
Question:11 **DELETED. NOT IN SYLLABUS**

Adjustment for wrong computation of past profit

Question:12 Weak, Able and Lazy are in partnership sharing profits and losses in the ratio of 2:1:1. It is agreed that interest on capital will be allowed @ 10% P.a. and interest on drawing will be charged @ 8% p.a. (No interest will be charged/allowed on current Accounts.)

The following are the particulars of Capital and Drawings Accounts of the partner:

	Weak	Able	Lazy
Capital (01.01.2001)	75,000	40,000	30,000
Current Account (01.01.2001)	10,000	5,000	(Dr.) 5,000
Drawings	15,000	10,000	10,000

The draft accounts for 2001 showed a net profit of Rs. 60000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

a. Life insurance premium of Weak amounting to Rs. 750 paid by the firm on 30th June, 2001 has been charged to Miscellaneous Expenditure Account.
b. Repair of machinery amounting of Rs. 10,000 has been debited to Plant Account and depreciation thereon charged @ 20%.
c. Traveling Expenses of Rs. 3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June 2001 has been debited to traveling Expenses Account.

You are required to prepare the Profit and loss Appropriation Account for the year ended 31st Dec. 2001 and partners current Account for the year.**(CA-inter-16 marks)**

[And: Adjusted Net Profit – 55,750, Distributable Profit as per P & L App. A/c – 42,800, Balance of Current Account: Weak – 22,520, Able – 6,180, Lazy – (Dr.) 1,700]

Question:13 X and *Y* formed partnership sharing profits as 2:1. The term was to distribute mercantile profit. But cash profit has been calculated all through. Now it is desired to convert cash account into mercantile accounts. The details are:

	Cash profit	Closing Outstanding Income	Closing Outstanding Expenses
	Rs.	Rs.	Rs.
1st Year	10,000	1,000	500
2nd Year	12,000	3,000	1,000
3rd Year	18,000	2,000	800

Pass conversion entry. **[ICWA (Stage 1) June 1998]**

Question:14 Anand and Bharat are in partnership sharing profits and losses in the ratio of 3 :2. With effect from 1st January 1998 they decided to share the profits, earned in any year on the following basis:

Up to Rs. 25,000 Equally
Excess over Rs. 25,000 Anand 2/3rd
Bharat 1/3rd

They also decided to ascertain the income on mercantilist basis with effect from the accounting year 1997. Although profits were shared on the basis of the new agreement, these were ascertained on cash basis only. It was agreed to make the necessary

	1997	1998	1999	2000
	Rs.	Rs.	Rs.	Rs.
Profits already shared	—	21,000	23,000	31,000
As on 31st December				
Accrued Income	2,000	3,500	5,000	2,500
Outstanding Expenses	500	1,000	1,300	300

adjustments at the end of 2000. The relevant information is given below

You are required to give the necessary entries to correct the partners' accounts showing your workings assuming that books of accounts were duly closed at the end of each year. **[I.C.W.A. Final modified]**

Computation of new, sacrificing and gaining ratio

In case of admission

Question:15 P,Q, and R are partners in a firm sharing profit and losses in the ratio of 3:2:1. They admit S as a partner with 1/4th share of profits. Calculate new profit sharing ratio
[Answer: 3:2:1:2]

Question:16 A,B, and C are partners in a firm sharing profit and losses in the ratio of 3:2:1. New partner D is admitted for 1/4th share. Only A and B contributes toward the share of D. calculate the new profit sharing ratio.

Question:17 P and Q are partners in a firm sharing profits and losses in the ratio of 3:2 R is admitted as partner with 1/8th share in profits. It is decided that P and Q will share profits and losses in future in the ratio of 4:3. Calculate the new profit sharing ratio and the sacrificing ratio.
[Answer: 4:3:1 and 4:1]

Question:18 A and B are partners sharing profit and losses in the ratio of 3:2. C is admitted as a new partner. A gives 1/3 of his share and B gives 1/10 of his share in favour of C. Calculate new and sacrificing ratio.

In case of retirement or death of a partner

Question:19 X,Y,Z are partners sharing profit in the ratio of 3:2:1. Y retires and his share was purchased by X and Z in the ratio of 4:1. calculate new and gaining ratio.

Valuation of goodwill

Question:20 Profits earned during last three years by X Ltd are as follows:
2004 --- 5,00,000

2005 --- 6,00,000

2006 --- 4,00,000

Calculate goodwill on the basis of three year's purchase price by

(a) average profit method
(b) weighted average profit method(if weights are not given)
(c) weighted average profit method if weights given are 1,3,6 respectively.

Question:21 (Calculation of Future Maintainable Profits)

TATA Ltd. desirous of selling its business to IOCM Ltd. has earned the following profits (after tax) in the past three years: Rs. 4,00,000, Rs. 5,50,000 and Rs. 6,40,000. Following facts need to be taken into consideration:

(i) Directors' fees Rs. 50,000 per year will not be payable by IOCM Ltd. whose existing board can easily manage the additional work.
(ii) Rent of Rs. 10,000 per month paid by TATA Ltd. will not be a charge against the profits of IOCM Ltd. as the latter company has its own premises.
(iii) TATA Ltd. has not transferred its trade investments to IOCM Ltd. Hence, interest of Rs. 9,000 would not be earned by the purchasing company.
TATA Ltd. had outsourced some of its business work for an annual contract of Rs. 1,24,000. However IOCM Ltd. has enough surplus staff to manage the same. Hence savings of this cost. Calculate the Future Maintainable Profits.

Question:22 Average profit = 2,50,000
Capital employed = 20,00,000

Normal rate of return = 10%

Calculate goodwill on the basis of three year's purchase of super profit .

Question:23 Capital employed = 6,00,000
Average profit = 1,00,000

Normal expected return= 10%

Calculate goodwill by

(a) capitalization method
(b) super profit capitalization method

Treatment of goodwill

Question:24 A,B and C are partners sharing profit in 3:2:1. from 1 Jan 2008, they decided to share future profit equally. On that date goodwill of the firm was valued at Rs 3,00,000. make adjustment entry(table entry)

Question:25 X and Y are partners sharing profit and losses in the ratio of 3:2. Z is admitted as a new partner for ¼ share in profit. He has to bring Rs 1,00,000 as his capital and Rs 20,000 for his share of goodwill. Make journal entries if
Case 1. he brings his share of goodwill in cash. Partners withdrew half of goodwill in cash.
Case 2. he does not bring his share of goodwill in cash.

Question:26 A,B,C and D are partners sharing profit in the ratio of 4:3:2:1. C retires and his share was purchased by remaining partners in the ratio of 1:1:1. Goodwill of the firm was valued at Rs. 2,40,000. Make table entry.

Question:27 A,B and C are partners sharing profits in ratio of 2:2:1. B retires and D is admitted as a new partner. Goodwill of the firm valued at Rs. 1,80,000. New ratio among A,C and D will be 1:2:2. Make table entry.

Question:28 A,B,C are partners sharing profit in ratio of 2:2:1. D is admitted as a new partner for 1/5th share. Goodwill of the firm was valued at Rs. 2,00,000 . D brings following assets on behalf of his Capital and his share of goodwill.

Machine = 2,00,000
Furniture = 1,00,000
Cash = 1,60,000
Stock = 40,000
Goodwill = 25,000
Make journal entries.

Question:29 Sen and Chatterjee were partners sharing profit and losses as 3 : 2. They admitted Roy as third partner with effect from 1 -1 -1998, the new profit-sharing ratio being 5:3:2. They again took Ghose as their fourth partner as on 1-1-1999, the new profit-sharing ratio coming to 9 : 5 : 4 : 2 . On 1-1 -2000, Bose was taken in as their fifth partner, the profit-sharing ratio now being agreed as 7 : 4 : 3 : 3 : 3. Chatterjee died on 1-1-2001 and you are requested to estimate the values of his share of goodwill, which had never been raised in the books of account, nor was any premium received from any entrant. On enquiry you find that the respective values of the goodwill of the firm were as follows:

Date:	***1-1-1998***	***1-1-1999***	***1-1-2000***	***1-1-2001***
Value	Rs. 4,000	Rs. 6,000	Rs. 8,000	Rs. 12,000

Estimate the amount payable to the legal representatives of Chatterjee and state how such amount would be contributed by the continuing partners, provided they do not raise any goodwill account in the books and-agree to share profit from 1-1-2001 on the following basis : Sen 40%,Roy 25%, Ghose 20% and Bose 15% **(Adapted from M.Com., Calcutta University)**

Concept of joint life policy

In case of admission / retirement of a partner

Question:30 X,Y,Z are partners sharing profit equally. They had taken a joint Life policy for Rs. 2,40,000 on which premium paid is treated as an expense. Y retires. On that date surrender value of policy was Rs 60,000
Show treatment (without raising JLP Account.)

Question:31 A,B,C are partners sharing profits in 2:1:2: They had taken J.L.P. for Rs. 1,20,000. C retires. On that date surrender value of policy was Rs. 40,000. Make jounal entry if partners decided to show J.L.P. in book of firm.

Question:32 A and B are partners sharing profit in the ration of 3:2. They had taken a J.L.P. for Rs. 5,00,00. C is admitted as a new partner for ¼ share. On that date surrender value of policy was Rs. 2,40,000. Make adjustment entry.

In Case of death of a partner

Question:33 Raja , Ram and Ranjan were partner sharing profit equally. Ram died they had taken a J.L.P. for Rs. 6,00,000. Claim was admitted with insurance company. On the date Surrender value of policy was Rs. 2,40,000 . Make journal entries if
(a) J.L.P. was treated as an expense.
(b) J.L.P. was treated as an asset.
(c) J.L.P. was treated as an asset and reserve account is maintained.

ADMISSION AND RETIREMENT OF A PARTNER

Question:34 *A* and *B* are partners sharing profits in the ratio of 3 : 2. Following is the balance sheet of the firm as on 31st March, 2008:

BALANCE SHEET as *on 31st March, 2008*

Liabilities		**Rs.**	***Assets***		**Rs.**
Creditors		38,000	Cash in hand at bank		10,000
Salary outstanding		12,000	Debtors	40,000	
Capitals:			*Less:* Provision for doubtful		
A	40,000		Debts	4,000	36,000
B	38,000	78,000	Bills receivable		15,000
			Stock		18,000
			Investments		14,000
		1,28,000	Furniture		1,28,000

C is admitted as a new partner for ¼ share. He brings Rs20,000 as his capital and Rs6,000 for his share of goodwill. Partners decided to withdrew 40% of their share of goodwill from the firm. At this date it is found that estimated value of provision for doubtful debts is Rs.6,500, and furniture Rs.4,500, building Rs.45,000; whilst an investment not recorded in the books is worth Rs. 4,300 and a contingent liability of Rs. 1,200 has become a certain liability.

You are required to prepare revaluation account and balance sheet after giving effect to the above.

Question:35 Taking the previous question, if it has been agreed among the partners that assets and liabilities are to be shown at old values, you are required to prepare revaluation account and anew balance sheet after the admission of C.

Question:36 Akash and Patal were carrying on business in partnership since 1994. Their balance sheet as on 31st March 1996 was as follows:

Liabilities		**Rs.**	***Assets***	**Rs.**
Capital—			Goodwill	4,000
Akash	39,700		Motor cars	16,500
Patal	21,300	61,000	Furniture and fixtures	6,200
Profit and loss account		9,000	Stock	29,400
Creditors		26,700	Debtors	39,600
Bills payable		1,500	Cash at bank	2,300
			Cash in hand	200
				98,200
		98,200		

On 1st April, 1996 they decided to admit Bhuban as a partner on the following conditions:

(a) Bhuban will receive 1 /5th of the future profits (after charging interest @5% on capitals), subject to a minimum of Rs. 6,000 per annum. Any deficiency in his share of profits is to be met from Akash's share.

(b)The goodwill of the firm is valued at Rs. 8,000.

(c) An independent valuation revealed that motor cars are worth Rs. 19,000, while the value of furniture is only Rs. 5,700, Rs. 1,500, of the debtors are likely to become bad.

(d) Bhuban was to bring in capital equal to l/5th of the capitals of Akash and Patal arrived at after giving effect to the foregoing considerations.

During the year ended-31st March. 1997 the firm earned a profit of Rs. 30,000 (before-charging interest on capitals).

You are required to—

(i) Show journal entries in respect of transactions taking place at the time of Bhuban's admission.

(ii)Show the balance sheet immediately after Bhuban's admission.

(iii) Show the profit and loss appropriation account for the year ended 31st March, 1997, assuming that adjustments in respect of guaranteed profits are to be made through the profit and loss appropriation account. **[I.C.W.A., (Final)]**

Question:37 The following is the balance sheet of A, *B* and C sharing-profits and losses in the proportion of 6/14, 5/14 and 3/14 respectively:

	Rs.		Rs.
Creditors	18,900	Cash	1,890
Bills payable	6,300	Debtors	26,460
General reserve	10,500	Stock	29,400
A's capital	35,400	Furniture	7,350
B's capital	29,850	Land and Buildings	45,150
C's capital	14,550	Goodwill	5,250
	1,15,500		1,15,500

They agreed to take *D* into partnership and give him 1/8th share on the following terms:

(i) That furniture is depreciated by Rs. 920. (ii) That stock is depreciated by 10%. (iii) That a provision of Rs. 1,320 be made for outstanding repair bills, (iv) That the value of land and buildings having appreciated be brought up to Rs. 59,850. (v) That the value of goodwill be brought up to Rs. 14,070. (vi) That D should then bring in Rs. 14,700 as his capital. (vii) That after making the above adjustments the capital accounts of the old partners be adjusted on the basis of the proportion of D's capital to his share in the business, i.e., actual cash to be paid off or brought in by the old partners as the case may be.

Pass the necessary journal entries and prepare the balance sheet of the new firm.

Question:38 A and *B* are partners in a firm sharing profits in the ratio of 2: 1. The balance sheet of the firm on 31st December, 1996 was as follows:

		Rs.			Rs.
Creditors		1,400	Bank		1,004
Investment provision		400	Bills receivable		2,500
Workmen compensation fund		1,200	Debtors	4,000	
General reserve		2,100	*Less*: Provision	500	3,500
Capital: A	6,000		Stock		3,000
B	4,900	10,900	Investments		5,000
			Goodwill		996
		16,000			16,000

On the above date C is admitted for 2/5th share in the profits of the firm. Following revaluations were made at the time of admission:

(1) Accrued incomes not appearing in the books Rs. 100. (2) Market value of investments is Rs. 4,500. (3) Claim on account of compensation is estimated at Rs. 150. (4) Provision for doubtful debts is required at Rs. 600. (5) X, an old customer, whose account was written off as bad, has promised to pay Rs. 350 in settlement of his full claim. (6) A and B had purchased a machinery on hire purchase system for Rs. 3,000 of which only Rs. 100 are to be paid. Both machinery and unpaid liability did not appear in the balance sheet. (7) There was a joint life policy on the lives of A and B for Rs. 15,000. Surrender value of the policy on the date of admission amounted Rs. 2.400. It was decided to record this as an asset of the new firm.

(8) C is required to bring necessary amount for his capital and his share of goodwill Rs. 2,400. Capital of other partners should also be in their profit sharing ratio. You are required to make journal entries and prepare new balance sheet after the admission of C.**(Ans:- Profit on revaluation= 6,600)**

Question:39 Arun and Anand were partners sharing their profits in the ratio of 3: 2. Their position as on 31st March, 1991 was as under:

Liabilities	**Rs.**	***Assets***	**Rs.**
Arun's capital	12,000	Land and Building	8,000
Anand's capital	10,000	Plant and Machinery	10,000

General Reserve	12,000	Sundry Debtors	11,000
Workmen's Compensation Fund	4,000	Stock	12,000
Sundry Creditors	12,000	Cash at Bank	9,000
	50,000		50,000

They decided to admit Ashok for a 20% profit on the following terms:

(a) The liability on Workmen's Compensation Fund is to be determined at Rs. 2,000.
(b) Ashok to bring in Rs. 3000 as premium out of his share of Rs. 3,600.
(c) Ashok was to bring in further cash of Rs. 20,000 towards his capital.
(d) General Reserve is to be maintained at its original value.
(e)Rs. 2,000 creditors were paid at 5% discount.

Pass necessary journal entries to give effect to the above arrangement to show the capital accounts and prepare the Balance Sheet of the new firm.

Question:40 Quick and Slow are partners in a firm sharing profits and losses in the ratio of 3 : 2. The Balance Sheet of the firm as on 31st March, 1993 was as under.

Liabilities	**Rs.**	**Rs.**	***Assets***	**Rs.**
Capital Accounts				
Quick	1,20,000		Furniture & Fixtures	60,000
Slow	77,000	1,97,000	Office Equipments	30,000
General Reserve		30,000	Motor Car	75,000
Sundry Creditors		96,000	Stock	50,000
			Sundry Debtors	90,000
			Cash at Bank	18,000
		3,23,000		3,23,000

Smooth was admitted as a new partner with effect from 1st April, 1993 and it was agreed that he would bring some private furniture worth Rs. 10,000 and private stock costing Rs. 8,000 and in addition contribute Rs. 50,000 cash towards capital.

He would also bring proportionate share of goodwill which is to be valued at two year's purchase of the average profits of the last three years. The profits of the last three years were:

	Rs.
1992-93	52,000
1991-92	32,000
1990-91	28,000

However, on a checking of the past records, it was noticed that on 1.4.91 a new furniture costing Rs. 8,000 was purchased but wrongly debited to revenue and in 1992-93 a purchase invoice for Rs. 4,000 dated 25.3.93 has been omitted in the books. The firm charges depreciation on furniture @ 10% p.a. Your calculation of goodwill is to be made on the basis of correct profits.

On revaluation value of stock is to be reduced by 5% and Motor car is worth Rs. 85,000. Smooth duly paid the required amount for goodwill and cash towards capital. It was decided that the future profits of the firm would be shared as Quick-50%, Slow-30% and Smooth-20%. Assuming the above mentioned arrangements were duly carried out, show the Capital Accounts of the partners and the Balance Sheet of the firm after Smooth's admission. **[I.C.W.A.(Inter) Dec. 1993]**

Question:41 M/s NEPTUNE & CO's Balance hseet as at 31st March, 2001:

Liabilities		**Rs.**	**Assets**		**Rs.**
Bank overdraft (State Bank)		54,000	Cash at Bank of India		800
Sundry Creditors		1,56,000	Sundry Debtors		2,80,000
Capital Accounts:			Stock		1,00,000
Mr.A			Motor Cars Cost as per		
Balance as per last B/S	4,02,000		last B/S	1,60,000	
Add: Profit for the year	95,400	4,57,400	Less: Depreciation till date	54,000	1,06,000
	4,97,400		Machinery		
Less: Drawing	40,000		Cost as per last B/S	3,00,000	
Mr. B			Less: Depreciation	.	
Balance as per last B/S	2,00,000		Till date	1,40,000	1,60,000
Add: Profit for the year	95,400		Land and Building		2,40,000
	2,95,400				
Less: Drawings	76,000	2,19,400			.
		8,86,800			8,86,800

You have examined the foregoing Draft of the Balance Sheet and have ascertained that the allowing adjustments are required to be carried out:

a) Land and Buildings are shown at cost less Rs. 60,000 being the proceeds of the sale during the year of premises costing Rs. 70,000.
b) Machinery having a net book value of Rs. 4,300 had been scrapped during the year. The original cost was Rs. 12,300.
c) Rs. 2,000 paid for the license fees for the year ending 30th September, 2001 had been written off.
d) Debts amounting to Rs. 10,420 were considered to be bad and further debts amounting to Rs. 5,400 were considered doubtful and required 100% provision. Provision for doubtful debts had previously been made for Rs. 10,000.
e) An item in the Inventory was valued at Rs. 37,400 , but had a realizable value of Rs. 26,000 only. Scrap materials having a value of Rs. 6,600 had been omitted from the stock valuation.
f) The cashier had misappropriated Rs. 700.
g) The cash-book for the year ending 31stMarch,2001 included payments amounting to Rs. 6,924, the cheques having been made out, but not dispatched to suppliers until April, 2001.
h) Interest is to be allowed on the Partners' Opening Capital Account balances less drawings during the year at 9%.

You are required to prepare:

(a) Profit & Loss Adjustment Account for the year
(b) Capital Accounts of the partners. **(CA Inter Nov., 2001)**

Question:42 On 31st, March, 1996 the Balance Sheet of M/s Arun, Varun and Taran sharing profit and losses in the ratio of 6:5:3, stood as follows.

Liabilities	Amount	Assets	Amount
Sundry Creditors	37,800	Cash	3,780
Bills Payable	12,600	Sundry Debtors	52,920
General Reserve	21,000	Stock	58,800
Capital Accounts:		Furniture	14,700
Arun :	70,800	Land & Buildings	90,300
Varun :	59,700	Goodwill	10,500
Tarun :	29,100		
Total	2,31,000	Total	2,31,000

They agree to admit Nitin as a partner giving him l/8th share, on 1.4.1996 on the following terms :--

(i.) Furniture to be depreciated by Rs. 1,840.
(ii.) Stock shall be valued 10% less than the balance sheet value
(iii.) A provision of Rs.2,640 be made for outstanding repair bill.
(iv.) The value of land and buildings having appreciated be brought upto Rs. 1,19,700
(v.) Value of goodwill be brought upto Rs.28,140.
(vi.) Nitin should bring in cash Rs 29,400 as his Capital.

After making the above adjustments the capital accounts of the old partners be adjusted on the basis of proportion of Nitin's Capital to his share in the business by bringing in or taking out cash.

You are required to prepare revaluation Account, Capital account of Partners, Cash Account and Balance Sheet as on 1.4.1996 after Nitin's admission.

[Answer. Profit on Revaluation-19,040; Partner's Capital: Arun-88,200, Varun-73,500, Tarun-44,100, Nitin-29,400, Balance sheet- 2, 88,240, New Ratio - 6:5:3:2, Sacrificing Ratio 6:5:3.)

Question:43 X and Y are partners in a business started in 1997, sharing profit and losses in the ratio of 5:4. After the accounts for the calendar year 2000 were made up and their proportionate shares taken note of in their individual accounts, they decide to share profit and losses equally retrospectively for and from the year 2000. It was also discovered that in ascertaining the results in prior years, certain adjustments, details of which are given below, had not been noticed.

Particulars	1997	1998	1999	2000
Profit as per accounts	72,000	78,000	90,000	1,08,000
Incomes not taken into account	5,400	4,500	3,600	6,300
Expenses not provided for	9,000	6,000	10,800	7,200

On 31st Dec., Reserves stood at Rs. 54,000, Capitals of X and Y Rs. 1,2600 and Rs. 96,000 respectively on 31st Dec., 2000.

On 1st Jan. 20001, Z was decided to be admitted as a partner and was allotted 1/5th share. Goodwill was decided to be ascertained by capitalizing at 20% the average profit of the immediately tow proceeding years before admission. Z would bring in proportionate capital. Capitals of X and Y are to be equal, the difference to be adjusted in their current accounts.

Profits for 2001, were Rs. 1,26,000. Drawings of X, Y and Z for the year were Rs. 54,000, Rs. 48,000 and Rs. 18,000

Respectively. Incomes not taken into account are received in subsequent year. Expenses not provided for are paid in subsequent year. Prepare capital and current accounts of the partners for the Year 2001.

Question:44 Laurel and Hardy are partners of the firm LH &*Co.,* from 1.4.2003. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2007 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2003.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	***2004***	***2005***	***2006***	***.2007***
	Rs.	***Rs.***	***Rs.***	***Rs.***
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account(31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2007. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy. Following is the Balance sheet of the firm as on 31.3.2007 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy. **Balance Sheet of LH & Co. as at 31.3.2007**

Liabilities	***Rs.***	***Assets***	***Rs.***
Capital Accounts:		Plant and Machinery	60,000
Laurel	2,11,500	Cash on Hand	10,000
Hardy	1,51,500	Cash at Bank	5,000
Sundry Creditors	2,27,000	Stock in Trade	3,10,000
		Sundry Debtors	2,05,000
	5,90,000		5,90,000

You are required to prepare:
(i) Profit and Loss Adjustment account;
(ii) Capital accounts of the partners; and
(iii) Balance Sheet of the firm after the admission of Chaplin. **(CA-PE2- MAY 2007)20 MARKS**

Question:45 A and B are equal partners. They admit C and D as partners with 1/5 and 1/6 share respectively. What is the profit sharing ratio of all the partners? **(CA-PE2- MAY 2007) 2 MARKS**

RETIREMENT OR DEATH OF A PARTNER

Question:46 P, *Q,* and *R* were partners sharing profit and losses in the ratio of P 5/10, Q 3/10, R 2/10. They had taken out a joint life policy of the face value of Rs. 20,000. On 31st December, 1997 its surrender value was Rs. 4,000. On this date the balance sheet of the firm stood as under:

Liabilities		**Rs.**	***Assets***	**Rs.**
Sundry creditors		5,300	Fixed assets	25,000
Expenses outstanding		700	Stock	11,000
Reserve		3,000	Book debts	9,000
Capitals:			Cash at bank	2,000
P	20,000			
Q	10,000			
R	8,000	38,000		
		47,000		47,000

On this date Q decided to retire and for the purpose : (i) Goodwill was valued at Rs. 15,000; (ii) Fixed assets were valued at Rs. 30,000; and (iii)Stock was considered as worth Rs. 10,000.

Q was to be paid through cash brought in by P and R in such a way as to make their capitals proportionate to their new profit-sharing ratio which was to be P 3/5 and R2/5. They also decided to maintain minimum cash of Rs 1,000 in their bank Account. Goodwill was to be passed through books without raising a goodwill account; the joint life policy was also not to appear in the balance sheet. Record these matters in the journal of the firm and prepare the resultant balance sheet. **(C.A. INTER)**

Question:47 The following is the Balance Sheet of A, *B* and C who were equal partners on 31st December 1995:—

BALANCE SHEET

Liabilities	***Rs.***	***Assets***	***Rs.***
A's Capital	33,600	Plant and Machinery (at cost)	49,000
B's Capital	25,200	Furniture	4,800
C's Capital	12,000	Stock-in-trade	22,800
10% Mortgage Loan	12,000	Sundry Debtors	21,600
Sundry Creditors	16,600	Cash in Hand	1,200
	99,400		99,400

On 1st January 1996, C retired from business and claimed his share in the Secret Reserve/ Profit arising out of the following-

a. During the year 1995, purchase of Machinery at a cost of Rs. 5,000 was charged to Purchases Account, the Installation charges of Rs. 300 to erect the machinery, being charged to machinery repairs account.
b. Rs. 1,200 received from a debtor towards rent of property sub-let, was credited to his personal account, instead of rent account, so as to reduce his debit balance from Rs. 1,600 to Rs. 400 debit.
c. Interest on Mortgage Loan was paid in advance up to 31st December 1996, and the whole amount was charged to interest Account in 1995.

After rectifying the above errors, it was mutually decided as under:—

a) The Goodwill of the firm is valued at three times the average profit of the last three years. Such profits should be the correct profits and not the book profits. The book profits for the last three year were: 1993 Rs. 13,830; 1994 Rs. 32,000 ; 1995 Rs. 12,010.Machinery is depreciated by 10% and the provisions for bad and doubtful debts are made at 5% on Debtors.
b) (deleted point due to AS 26).
c) C should be paid half of his dues in cash which shall be brought in by A and *B* in their profit-sharing proportion and the other half shall be left in the business as C's Loan fetching 15% interest.

Prepare C's Capital Account, Profit and Loss Adjustment Account and the Balance Sheet of *A* and B after C's retirement. **[C.A. Inter May]**

Question:48 The balance sheet of X, Y and Z, who were sharing profits in the ratio of 4 : 3 : 2 respectively stood as follows on 31st December, 1998:

Liabilities		**Rs.**	***Assets***		**Rs.**
		4,140	Cash at bank		3,300
Capital account's:			Sundry debtors	3,045	
X	12,000		*Less:* Provision	105	2,940
Y	9,000		Stock		4,800
Z	6,000		Plant and machinery		5,100
		27,000	Land and building		15,000
		31,140			**31,140**

Y having given notice to retire from the firm, the following adjustments in the books of the firm were agreed upon:

(a) That land and building be appreciated by 10 per cent, (b) The provision for bad debts is no longer necessary, (c) That the stock be appreciated by 20 per cent, (d) That adjustment be made in the accounts to rectify a mistake previously made whereby Y was credited in excess by Rs. 810 while X and Z were debited in excess by Rs. 420 and Rs. 390 respectively.(e) That the goodwill of the firm be fixed at Rs. 5,400 and Y share of the same be adjusted to that of X and Z who are going to share in future profits in the ratio of 2 : 1. (f)That the entire capital of the firm, as newly constituted, will be re-adjusted by bringing in or paying of cash so that the future capital of X and Z be in the ratio of 2 : Pass journal entries and prepare the balance sheet of the new firm showing Y balance as loan.**(I.C.W.A. Inter)**

Question:49 Manish, Jatin and Paresh were partners sharing Profits/Losses in the ratio of Manish 40 per cent, Jatin 35 per cent, and Paresh 25 per cent. The draft Balance Sheet of the partnership as on 31st December, 2001 was as follows:

Balance sheet as on 31 december 2001

		Rs.			Rs.
Sundry Creditors		30,000	Cash on hand and at Bank		67,000
Bills payable		8,000	Stock		42,000
Loan from Jatin		30,000	Sundry Debtors	34,000	
Current Accounts:			Less: Provision for		
Manish	12,000		Doubtful Debts	6,000	28,000
Jatin	8,000		Plant and Machinery		
Paresh	6,000	26,000	(at cost)	80,000	
Capital Accounts:			Less: Depreciation	28,000	52,000
Manish	90,000		Premises (at cost)		75,000
Jatin	50,000				
Paresh	30,000	1,70,000			
		2,64,000			2,64,000

Jatin retired on 31st December, 2001. Manish and Paresh continued in partnership sharing profits/losses in the ratio of Manish 60 per cent and Paresh 40 per cent. 50 per cent of Jatin's Loan was repaid on 1.1.2002 and it was agreed that of the amount then remaining due to him a sum of Rs.-80,000 should remain as loan to partnership and the balance to be carried forward as ordinary trading liability. The following adjustments were agreed to be made to the above mentioned Balance Sheet:

(i) Rs. 10,000 should be written off from the premises.
(ii) Plant and Machinery was revalued at Rs. 58.000.
(iii) Provision for doubtful debts to be increased by Rs. 1,200.
(iv) Rs. 5,000 due to creditors for expenses had been omitted from the books of account,
(v) Rs. 4,000 to be written off on stocks.
(vi) Provide Rs. 1,200 for professional charges in connection with revaluation.

As per the deed of partnership, in the event of the retirement of a partner, goodwill was to be valued at an amount equal to one year's purchase of the average profits of the preceding three years on the date of retirement. Before determining the said average profits a notional amount of Rs. 80,000 should be charged for remuneration of partners. The necessary profits before charging such remuneration were:

Year ending 30.12.1999 Rs. 1,44,000

Year ending 31.12.2000 Rs. 1,68,000

Year ending 31.12.2001 Rs. 1,88,200 (as per draft accounts)

It was agreed that, for the purpose of valuing goodwill, the amount of profit for the year 2001 be recomputed after charging the loss on revaluation in respect of premises and stock, the unprovided expenses (except professional expenses) and increase in the provision for doubtful debts. The continuing partners decided to eliminate goodwill account from their books. You are required to prepare:

(i) Revaluation Account;
(ii) Capital Accounts (merging current accounts therein);
(iii) Jatin's Account showing balance due to him; and
(iv) Balance Sheet of Manish and Paresh as at 1st January. 2002. **[CA Inter May, 2002]**

Question:50 Following two problems are regarding issues in Partnership Accounts, kindly solve both :

(i) Anil and Mukesh are partners sharing profit and losses in the ratio of 3 : 2. Govind is admitted for 1/4 share of firm. Thereafter Madan enters for 20 paisa in a rupee. Compute new profit sharing ratios under both the admission of partners.

(ii) The following Goodwill Account was opened by the partners of R and S, on the admission of H as a new partner into firm Om and Sons. Calculate the share of profit agreed to be given to "H".

Goodwill A/c.

Dr.			Cr.
Rs.	Rs.		
1-4-2010 To R's Capital A/c	24,800	1-4-2010 By R's Capital A/c	12,400
1-4-2010 To S's Capital A/c	18,600	1-4-2010 By S's Capital A/c	12,400
		1 -4-2010 By H's Capital A/c	18,600
	43,400		**43,400**

(CA- MAY 2010) 5 MARKS

Answer:

(i) 1. At the time of admission of Govind :

Let the total share of profit at the time of admission of Govind is 1 Share of New Partner 'Govind' = ¼ Remaining share of profit = 1 – ¼ = ¾

∴new share of Anil

$$= \frac{3}{4} \times \frac{3}{5} = \frac{9}{20}$$

New share of Mukesh

$$= \frac{3}{4} \times \frac{2}{5} = \frac{6}{20}$$

New profit sharing of Anil, Mukesh&Govind is

$$\frac{9}{20} : \frac{6}{20} : \frac{1}{4} \; i.e \; 9:6:5$$

2. At the time of admission of Madan:

Let total share at the time of admission of Madan is 1 Share of new partner 'Madan = 1/5 Remaining share =1-1/5 = 4/5

Now,

New share of Anil

$$= \frac{4}{5} \times \frac{9}{20} = \frac{9}{25}$$

New share of Mukesh= 4/5 x 6/20 = 6/25

New share of Govind= 4/5 x 5/20 =5/25

New profit sharing ratio of Anil, Mukesh, Govind and Madan is

$$\frac{9}{25} : \frac{6}{25} : \frac{5}{25} : \frac{1}{5} \; i.e. \; 9:6:5:5$$

(ii) **Share of H in profit sharing ratio**;

H's Share $= \frac{Share\ of\ H\ in\ Goodwill}{Total\ Goodwill} = \frac{3}{7}$

Question:51 Amit and Sumit are partners sharing profits and losses in the ratio of 3: 2. Their Balance Sheet as on 31st March 2011 is given below:

Liabilities		**Amount**	**Assets**		**Amount**
Capital Accounts :			Land & Building		3,20,000
Amit	1,76,000		Investment(Market value Rs. 55,000)		50,000
Sumit	2,54,000	4,30,000	Debtors	3,00,000	
Loan from Puneet		3,00,000	Less: Provision for doubtful debts	10,000	2,90,000
General Reserve		30,000	Stock		1,10,000
Employer's Provident Fund		10,000	Cash at Bank		50,000
Creditors		50,000			
Total		**8,20,000**	Total		**8,20,000**

They decided to admit Puneet as a new partner from 1st April, 2011 on the following terms:

1. Amit will give 1/3rd of his share and Sumit will give 1/4th of his share to Puneet.
2. Puneet's loan account will be converted into his capital.
3. The Goodwill of the firm is valued at Rs. 3,00,000. Puneet will bring his share of Goodwill in cash and the same was immediately withdrawn by the partners.
4. Land and building was found undervalued by Rs. 1, 00,000.
5. Stock was found overvalued by Rs. 60,000.
6. Provision for doubtful debts will be made equal to 5% of debtors.
7. Investments are to be valued at their market price.

It was decided that the total capital of the firm after admission of new partner would be Rs. 10,00,000. Capital accounts of partners will be readjusted on the basis of their profit sharing ratio and excess or deficiency will be adjusted in cash. You are required to prepare:

(a) Revaluation A/c.
(b) Partner's Capital A/c.
(c) Balance Sheet of the firm after admission of new partner.

(CA- MAY 2011) 16 MARKS

Answer : **Revaluation A/c**

Particulars	**Amount**	**Particulars**	**Amount**
To Stock	60,000	By Land & building	1,00,000
To Provision for doubtful debts	5,000	By Investments	5,000
To Profit transferred to			
Amit's capital A/c	24,000		
Sumit's capital A/c	16,000		
	1,05,000		1,05,000

Partner's Capital Account

Particulars	Amit	Sumit	Puneet	Particulars	Amit	Sumit	Puneet
To Amit's capital A/c	—	—	60,000	By Balance b/d	1,76,000	2,54,000	
To Puneet's capital A/c	—	—	30,000	By Puneets' Loan A/c	—	—	3,00,000
To Bank A/c	60,000	30,000	—	By Puneet's capital A/c	60,000	30,000	—
To Balance c/d	4,00,000	3,00,000	3,00,000	By Bank A/c (W.N.2)	—	—	90,000
				By Revaluation A/c	24,000	16,000	—
				By General reserve	18,000	12,000	—
				By Bank	1,82,000	18,000	---
	4,60,000	3,30,000	3,90,000		4,60,000	3,30,000	3,90,000

Balance Sheet

(After admission of a new partner - puneet)

(As on 1st April 2011)

Liabilities	Amount	Assets	Amount
Capital accounts		Land and building (3,20,000+1,00,000)	4,20,000
Amit 400,000		Investments	55,000
Sumit 300,000		Debtors 3,00,000	
Puneet300,000	10,00,000	Less: Provision for doubtful debts	2,85,000
Creditors	50,000	(15,000)	50,000
Employers' Provident Fund	10,000	Stock (1,10,000-60,000)	2,50,000
		Cash at bank (W.N.3)	
	10,60,000		10,60,000

Working Notes:

(1) Calculation of incoming partner's share, new profit sharing ratio and sacrificing ratio.

	Amit	Sumit
Old profit sharing ratio	3/5	2/5
Surrendered by old partners	3/5x1/3=1/5	2/5x1/4=1/10
Remaining share	3/5 -1/5 =2/5	2/5-1/10=3/10

Employer's Provident Fund is current liability as it is assumed to be representing employer's contribution to provident fund which is yet to be deposited. Puneet's total share in profits = 1/5 + 1/10 =3/10
New profit sharing ratio of Amit: Sumit: Puneet = 2/5 : 3/10 : 3/10 = 4:3:3 Sacrificing ratio of Amit: Sumit is 1/5 :1/10 : or 2:1

(2) Calculation of Share of goodwill be old partners

Goodwill of the firm was Rs. 3, 00,000
Share of Puneet in goodwill

$$= Rs.3{,}00{,}000 \times \frac{3}{10} = Rs.90{,}000$$

Goodwill will be distributed among the old partners in their sacrificing ratio of 2:1 i.e. Rs. 60,000 by Amit and Rs. 30,000 by Sumit.

(3) Calculation of Closing Balance of Bank Account after admission.

Bank A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Amit's capital A/c	60,000
To Puneet's capital A/c	90,000	By Sumit's capital A/c	30,000
To Sumit's capital A/c	18,000	By Balance c/d	2,50,000
To Amit's capital A/c	1,82,000		
	3,40,000		3,40,000

Question:52 A, B and C are carrying on partnership business as equal partners. On 31st December, 2007 C dies and the capitals of the partners after necessary adjustments stood at Rs. 20,000, Rs. 30,000 and Rs. 50,000 respectively. A and B could settle the account of the executors of C only on 31st March, 2008, by which time the partnership made a profit of Rs. 9,000. As there was no contract regarding the share to be given in the subsequent profits made by the firm, the executors wanted to exercise option available under Section 37 of the Partnership Act. Determine the amount payable to the executors.

Question:53 **(2 questions have been printed under question 53. So read carefully)**A, B and C were partners of a firm sharing profits and losses in the ratio of 3 : 4 : 3. The Balance Sheet of the firm, as at 31st March, 1998 was as under :

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital Accounts :			Fixed Assets		1,00,000
A	48,000		Current Assets :		
B	64,000		Stock	30,000	
C	48,000	1,60,000	Debtors	60,000	
Reserve		20,000	Cash and Bank	30,000	1,20,000
Creditors		40,000			
		2,20,000			2,20,000

Partner C died on 30th September, 1998. It was agreed between the surviving partners and the legal representatives of C that :

(i) Goodwill of the firm will be taken at Rs. 60,000.
(ii) Fixed Assets will be written down by Rs. 20,000.
(iii) In lieu of profits, C should be paid at the rate of 25% per annum on his capital as on 31st March, 1998.

The profits for the year ended 31st March, 1999, after charging depreciation of Rs. 10,000 (depreciation upto 30th September was agreed to be Rs. 6,000) were Rs. 48,000.
Partners' Drawings Accounts showed balances as under :
A Rs. 18,000 (drawn evenly over the year)
B Rs. 24,000 (drawn evenly over the year)
C (up-to-date of death) Rs. 20,000
On the basis of the above figures, please indicate the entitlement of the legal heirs of C, assuming that they had not been paid anything.**(13 marks) (Intermediate–Nov. 2000)**

Question 53 (2 questions have been printed under question 53. So read carefully)) Ram, Rahim and Robert are partners, sharing Profits and Losses in the ratio of 5 : 3 : 2. It was decided that Robert would retire on 31.3.2005 and in his place Richard would be admitted as a partner with new profit sharing ratio between Ram, Rahim and Richard at 3 : 2 : 1.

Balance Sheet of Ram, Rahim and Robert as at 31.3.2005:

Liabilities	Rs.	**Assets**	Rs.
Capital Accounts:		Cash in hand	20,000
Ram	1,00,000	Cash in Bank	1,00,000
Rahim	1,50,000	Sundry Debtors	5,00,000
Robert	2,00,000	Stock in Trade	2,00,000
General Reserve	2,00,000	Plant & Machinery	3,00,000
Sundry Creditors	8,00,000	Land & Building	5,30,000
Loan from Richard	2,00,000		
	16,50,000		**16,50,000**

Retirement of Robert and admission of Richard is on the following terms:
(a) Plant & Machinery to be depreciated by Rs. 30,000.
(b) Land and Building to be valued at Rs. 6,00,000.
(c) Stock to be valued at 95% of book value.
(d) Provision for doubtful debts @ 10% to be provided on debtors.
(e) General Reserve to be apportioned amongst Ram, Rahim and Robert.

(f) The firm's goodwill to be valued at 2 years purchase of the average profits of the last 3 years. The relevant figures are:
Year ended 31.3.2002 – Profit Rs. 50,000
Year ended 31.3.2003 – Profit Rs. 60,000
Year ended 31.3.2004 – Profit Rs. 55,000
(g) Out of the amount due to Robert Rs. 2,00,000 would be retained as loan by the firm and the balance will be settled immediately.
(h) Richard's capital should be equal to 50% of the combined capital of Ram and Rahim.
Prepare:
(i) Capital accounts of the partners; and
(ii) Balance Sheet of the reconstituted firm. **(16 Marks) (PE-II – Nov. 2005)**

ADMISSION CUM RETIREMENT/DEATH OF A PARTNER

Question:54 Avinash, Basuda Ltd. and Chinmoy Ltd. were in partnership sharing profit and losses in the ratio of 9 : 4 : 2. Basuda Ltd. retired from *the* partnership on 31.3.1998, when the firm's balance sheet was as under :

(Rs. in thousand)

Liabilities		**Rs.**	***Assets***	**Rs.**
Sundry creditors		600	Cash and bank	284
Capital accounts:			Sundry debtors	400
Avinash	2,700		Stock	800
Basuda Ltd.	1,200		Furniture	266
Chinmoy Ltd.	600	4,500	Plant	850
			Land and building	2,500
		5,100		**5,100**

Basuda Ltd.'s share in goodwill and capital was acquired by Avinash and Chinmoy Ltd. in the ratio of 1: 3,the continuing partners bringing in the necessary finance to pay off Basuda Ltd. The partnership deed provides that on retirement or admission of a partner, the goodwill of the firm is to be valued at three times the average annual profits of the firm for the four years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March, 1998 in thousands of rupees were:

1994-95	450
1995-96	250
1996-97	600
1997-98	700

The deed further provided that goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 1st April, 1998, Ghanashyam, son of Avinash is to be admitted as a partner with 25% of share profits. Avinash gifts to Ghanashyam, by transfer from his capital account, an amount sufficient to cover up 12J3% of capital and goodwill requirement. The balance 12.5% of capital and goodwill requirement is purchased by Ghanashyam from Avinash and Chinmoy Ltd. in the ratio of 2 : 1.
The firm asks to you :
(i) Prepare a statement showing the continuing partner's shares;
(ii) Pass journal entries including for bank transactions; and
(iii)Prepare the balance sheet of the firm after Ghanashyam's admission.
[C.A. (Inter), May 1998]

Question 55.Shiv and Mohan are partners in a firm sharing profits and losses equally. On 31st March, 2011, the balances of their capital accounts were Rs. 3, 00,000 and Rs. 2, 00,000 respectively. The average profits of the firm are Rs. 1, 36,000 and the rate of normal profit is 20%. On 1st April, 2011 they agreed to admit Hari as a partner for one fourth share Hari will bring Rs. 1,00,000 as capital.

You are required to compute the value of the Goodwill of the firm on admission of Hari, if goodwill is to be calculated on the basis of:

1. 5 years purchase of super profit
2. Capitalization method
3. 3 years purchase of average profit.

(CA- MAY 2011) 5 MARKS

Question 56:

Ramu, Shamu and Raju were partners sharing profits and losses in the ratio of 3 :2 :2. Their Balance Sheet as on 01-01-2009 was as follows:

Liabilities	Rs.		**Assets**	Rs.
Capital Accounts			Fixed Assets	80,000
Ramu	30,000		Stock	15,000
Shamu	20,000		Debtors	12,000
Raju 20,000	70,000		Cash & Bank	1,951
Reserves		14,000		
Creditors		24,951		
		1, 08,951		1, 08,951

On 1st October, 2009 Ramu died. His heirs agreed that:

(i) Goodwill of the firm is valued at 2 years' purchase of average profit of past three years. Profits for the year 2006, 2007 and 2008 were Rs. 30,000, Rs. 40,000 and Rs. 47,600 respectively,

(ii) Fixed Assets be revalued at Rs. 1, 01,000.

(iii) Profit to be shared, earned in subsequent period after death of Ramu till settlement of his executors' claim. Ramu's heirs account was settled on 31-12-2009 by bringing in required cash by remaining partners in equal proportion leaving cash balance of Rs. 1,234. Each partner had drawn @ Rs. 1,000 per month for personal use.

Profit for the current year after charging depreciation of Rs. 9,000 (Rs. 6,000 for first three quarters and Rs. 3,000 for last quarter) was Rs. 46,600 earned evenly through-out the year.

You are requested to prepare Profit & Loss Appropriation A/c, Cash & Bank A/c, Ramu's Executor's A/c and Partners' Capital Accounts for the year ended on 31-12-2009 assuming remaining partners' decided not to retain goodwill in the books.

(CA- NOV 2010) 16 MARKS

Question57;A and B are partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals are Rs. 60,000 and Rs. 40,000 respectively. They admit C as a new partner who will get 1/6th share in the profit of the firm. C brings in Rs. 25,000 as his capital. Find out the amount of goodwill on the basis of the above information. **(CA- MAY 2010) 2 MARKS**

Answer: Computation of Goodwill

C brings capital for 1/6th share in profit =	Rs. 25,000
Total capital of the firm = Rs. 25,000 x 6 =	Rs. 1,50,000
Capital of old partners should be = Rs. 1, 50,000 – Rs. 25,000	= Rs. 1,25,000
Actual combined capital of old partners	
= Rs. 60,000 + Rs. 40,000	= Rs. 1,00,000
So, the goodwill of the firm = Rs. 1,25,000 – Rs. 1,00,000	= Rs. 25,000

Question 58 :X, Y and Z are partners sharing profits and losses in the ratio of 4 : 3 : 2 respectively. On 31st March, 2011 Y retires and X and Z decide to share profits and losses in the ratio of 5:3. Then immediately, W is admitted for 3/10th shares in profits, 2/3rd of which was given by X and rest was taken by W from Z. Goodwill of the firm is valued at Rs. 2,16,000. W brings required amount of goodwill.

Give necessary Journal Entries to adjust goodwill on retirement of Y and admission of W if they do not want to raise goodwill in the books of accounts.**(CA- MAY 2011) 4 MARKS**

Answer:

Date	Particulars	Dr. Rs.	Cr. Rs.
31.3.11	X's capital A/c Dr. Z's capital A/c Dr. To Y's capital A/c (3/9 x Rs. 2,16,000) (Being Y's share of goodwill adjusted in the capital accounts of gaining partners in their gaining ratio 13:11 - Refer Working Note.)	39,000 33,000	 72,000
1.3.11	Cash A/c Dr. To W's capital A/c (3/10 x ? 2,16,000) (Being the amount of goodwill brought in by W)	64,800	 64,800
31.2.11	W's capital A/c Dr. To X's capital A/c To Z's capital A/c (Being the goodwill credited to sacrificing partners in their sacrificing ratio 2:1)	64,800	 43,200 21,600

Working note:

Calculation of gaining ratio of X and Z

Gaining ratio = new ratio-old ratio

For X = 5/8-4/9

= 13/72

Z = 3/8 – 2/9

= 11/72

Gaining ratio = 13:11

CHAPTER 11. DISSOLUTION OF PARTNERSHIP FIRM

IN CASE OF SOLVENCY OF A PARTNER

Question:1 Strong and Weak are partners in a firm sharing profits and losses in the ratio of 4:1. They decided to dissolve the partnership on 31-3-2016 on which date their Balance Sheet Stood as follows;

Liabilities		Rs.	Assets	Rs.	Rs.
Capital Accounts:			Plant		60,000
Strong	80,000		Furniture		2,000
Weak	30,000	1,10,000	Debtors	45,000	
Bank Loan		10,000	Less: Provision for Bad Debts	2,000	43,000
Creditors		40,000	Trade Marks		6,000
			Stock		30,000
			Cash		14,000
			Advertisement Suspense		5,000
		1,60,000			1,60,000

The realization showed the following result:

(a) Debtors realized 90% of the book value.
(b) Trade Marks Rs. 4,000.
(c) The Goodwill was sold for Rs. 5,000.
(d) Plant and Stock were taken over by Strong for Rs. 72,000 and Rs. 18,000 respectively.
(e) An unrecorded assets estimated at Rs. 3,000 was sold for Rs. 1,000.
(f) Discounts amounting to Rs. 400 were allowed by creditors while paying their claims.
(g) The expenses of realization amounted to Rs. 2,000.

You are required to prepare the Realization Account, Cash Book and Partners Capital accounts, assuming that settlement was made on 1st April, 2016. **(ICWA Inter)**

Question: 2 A, B and C are partners sharing profit and losses in the ratio 2:2:1. They agreed to dissolve the firm on 31st March 2017 on which date their date their Balance Sheet was as under.

Balance Sheet as on 31 March. 2017

Liabilities		Rs.	Assets		Rs.
Capital Account			Machine		4,00,000
A	3,00,000		Furniture		3,00,000
B	2,00,000		Building		8,00,000
C	1,00,000	6,00,000	Goodwill		2,00,000
General Reserve		80,000	Debtors	1,50,000	
Profit and Loss A/c		20,000	-Provision for doubtful		
Investment Fluctuation Fund		50,000	debt	10,000	1,40,000
Provision for taxation		1,00,000	Investment		2,20,000
Provident Fund		1,20,000	Stock		1,30,000
Bank Loan		7,00,000	Cash		20,000
Creditors		2,10,000	Bank		30,000
Bills Payable		2,50,000	Preliminary expenses		40,000
Outstanding salary		1,50,000			
		22,80,000			22,80,000

During the dissolution, the following were cash and non-cash transaction

(a) Machine was sold for Rs. 2,80,000
(b) Furniture was sold at a loss of 10%
(c) Building was sold for Rs. 9,00,00

(d) Debtors were realised in full
(e) Investment was taken over by A at an agreed value of Rs. 1,40,000
(f) Creditors were paid at a discount of 10%
(g) Bank loan was paid along with accrued interest of Rs. 60,000
(h) B agreed to pay outstanding salary of Firm
(i) Expenses on dissolution was Rs. 30,000

Prepare necessary account to close the books of firm.

Question: 3 X, Y and Z were partners sharing profit and losses in the ratio of 2:2:1. On 31st March 2017, they decided to dissolve their partnership firm on that date their balance sheet stood as follow:

Balance Sheet as on 31 Dec. 2017

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital Account			Machine	6,00,000
X	2,00,000		Building	8,00,000
Y	2,00,000		Goodwill	3,00,000
Z	1,00,000	5,00,000	Debtor	2,50,000
Current A/C			Stock	1,50,000
X	60,000		Cash	2,00,000
Y	1,40,000	2,00,000	Investment	5,00,000
General reserve		3,00,000	Joint Life Policy	80,000
Bank Loan		8,00,000	Advertising Suspense	40,000
Mortgage loan(secured by building)		6,00,000	Profit & Loss A/C	60,000
Creditors		4,00,000	Z's current A/C	20,000
Bills Payable		1,00,000		
Outstanding expense		1,00,000		
		30,00,000		**30,00,000**

The following information are given regarding Dissolution of firm

(a) Assets realised as follow:
Machine 4, 60,000
Building 9,40,000
Investment 4,00,000
(b) Stock was taken over by X at its market value of Rs. 1,80,000
(c) JLP was surrendered
(d) Debtors were assigned to creditors in full settlement of their claim
(e) Bank loan was paid at a prepayment premium of 5%
(f) There was an unrecorded typewriter worth Rs. 40,000 which was sold for Rs. 25,000
(g) An equipment worth Rs. 60,000 not recorded in the book was taken over by Z at 50,000
(h) Expenses on dissolution were Rs. 40,000 which was paid by Y.
Close the books of firm

Question: 4. Satya, Shiva and Sunder have been in partnership for a number of years, sharing profit and losses in the ratio of 4:3:3 on 31 Dec. 2017, they decided to dissolve their partnership firm on that date their Balance Sheet stood as follow:

Balance Sheet

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital Account			Trade marks	40,000
Satya	3,00,000		Machine	2,00,000
Shiva	4,00,000	7,00,000	Furniture	3,00,000
General Reserve		2,10,000	Equipment	1,50,000
Provision for bad debts		10,000	Building	8,00,000
Workmen compensation fund		1,40,000	Debtors	1,40,000
Provident fund		60,000	Bank	2,00,000
Provision for depreciation on building		1,20,000	Stock	1,60,000
Mrs. Satya's Loan		80,000	Investment	40,000
Shiva's Loan		1,40,000	Sunder's Capital A/c	1,20,000
12% bank loan		2,00,000		
Creditors	1,30,000			
-Provision for discount	15,000	1,15,000		
Bills payable		50,000		
Loan from NBFC		3,00,000		
Outstanding Rent		25,000		
		21,50,000		**21,50,000**

It has been agreed to dissolve the firm according to following understanding.

i Satya agreed to take over machine for Rs. 1,60,000 and also agreed to discharge his wife's loan.
ii An unrecorded asset estimated at Rs. 20,000 was sold for Rs. 12,000.
iii An unrecorded tools worth Rs. 32,000 was taken over by an unrecorded liability for Rs. 40,000 in full settlement of their claim.
iv One customer, whose account was written off as bad, now paid Rs. 2000 to the firm.
v There was an unrecorded asset worth Rs. 80,000. Half of which was handed over to settle half of an unrecorded liability of Rs. 60,000 and balance of unrecorded liability was paid in cash. The remaining unrecorded asset was sold in the market at a loss of 10%.
vi Sunder took the responsibility of dissolution of firm for which he was allowed Rs. 70,000. Actual expenses on dissolution Rs. 20,000 which was paid by Sunder from Firm Account.
vii Satya agreed to discharge a hire purchase debt relating to Machine at Rs. 25,000.
viii Shiva agreed to pay o/s rent by giving his personal motor car.
ix Equipment was auctioned for Rs. 1,20,000. The auctioneer is entitled to a commission of 10%.
x Debtors worth Rs. 30,000 were untraceable and remaining realized at a discount of 20%.
xi Bills payable were due for payment one month after the date of dissolution but they were paid immediately at a discount of 12% p.a.
xii There was a contingent liability for Rs. 16,000 which become certain liability on date of dissolution.
xiii Other assets were realized as follow: Furniture at 120%, Building at 90% of its book value. Investment at 110%
xiv All other liabilities were paid at its book value. Close the books of Firm**.(HUM MEIN HAI DUM)**

Question 5: Satya, Shiva and Sundar have been in partnership for a number of years, sharing profits and losses in the ratio of 4:3:3. On 30th June 1996 they decided to dissolve the firm on which date the balance sheet stood as below:

BALANCE SHEET As on 30th June 1996

Liabilities	Rs.	Assets	Rs.
Partner's capital accounts		Fixed Assets	6,00,000
Satya	4,00,000	Sundry debtors	4,00,000
Shiva	3,00,000	Stock	1,00,000
Sundar	3,00,000	Cash	1,00,000
Trade Creditors	2,00,000		
	12,00,000		12,00,000

During the dissolution the following were the cash and non-cash transactions:

(a) Satya agreed to settle a hire purchase debt relating to a motor car. The amount of Rs.60,000 is to be adjusted to his capital account.
(b) Debtors were assigned to satya for an agreed sum of Rs.3,60,000.
(c) Sundar agreed to settle one creditor for Rs.20,000 by giving him his personal motor car.
(d) The fixed assets include motor car at a book value of Rs.1,00,000. Motor car was taken by Shiva at an agreed value of Rs.90,000. The other fixed assets were sold in an auction for Rs.6,00,000. The auctioneer is entitled to a commission of 5%.
(e) Realisation expenses amounted to Rs.10,000.
(f) The remaining creditors were paid at a discount of 5%.
(g) Stock was sold at a loss of 10%. Close the books of the firm.**(CMA INTER 12 MARKS)**

Question6. Cloud, Storm and Rain were partners in a firm sharing profits and losses in the ratio of 5:3:2. Due to difference in opinion they decided to dissolve the partnership with effect from 1st April, 1999 on which late the firm's position was as under: **Balance Sheet as at 1st April, 1999**

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant & Machinery	80,000
Cloud	60,000	Furniture & Fixtures	45,000
Storm	40,000	Motor Car	25,000
Rain	30,000	Stock in Trade	30,000
Current A/c:		Sundry Debtors	71,000
Cloud	8,000	Cash at Bank	14,000
Storm	10,000	Current A/c:	
Sundry Creditors	1,20,000	Rain	3,000
	2,68,000		2,68,000

The following information is given:

(i) Plant costing Rs. 40,000 was taken over by Cloud at an agreed valuation of Rs. 45,000 and the remaining machineries realized Rs. 50,000
(ii) Furniture & Fixtures realized Rs. 40,000.
(iii) Motor car was taken over by storm for Rs. 40,000.
(iv) Sunday debtors included a bad debt for Rs. 1,200 and the rest portion was realized
(v) Stock worth Rs. 5,000 was taken over by Rain for Rs. 5,200 and the rest realized at 20 % above their book value.
(vi) A creditor for Rs. 2,000 was untraceable and other creditors accepted payments allowing 15% discount.
(vii) Realization expenses amounted to Rs. 5,000.

You are required to show the Realization Accounts and the Capital Accounts of the partners on dissolution showing final payments to them. **[CA (Inter)]**

Question:7 Ram, Rahim and Auntony were in partnership sharing profits and losses in the ration of ½, 1/3 and 1/6 respectively. They decided to dissolve the partnership firm on 31.3.1998, when the Balance Sheet of the firm appeared as under:

Balance Sheet of the Firm As on 31.3.1998

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	5,67,000	Goodwill A/c	4,56,300
Bank Overdraft	6,06,450	Plant and Machinery	6,07,500
Joint Life Policy Reserve	2,65,500	Furniture	64,650
Loan from Mrs. Ram	1,50,000	Stock	2,36,700
Capital Accounts:		Sundry Debtors	5,34,000
Ram 4,20,000		Joint Life Policy	2,65,500
Rahim 2,25,000		Commission Receivable	1,40,550
Auntony 1,20,000	7,65,000	Cash on Hand	48,750
	23,53,950		**23,53,950**

The following details are relevant for dissolution:

(i) The joint life policy was surrendered for Rs. 2,32,500.
(ii) Ram took over goodwill and plant and machinery for Rs. 9,00,000.
(iii) Ram also agreed to discharge bank overdraft and loan from Mrs. Ram.
(iv) Furniture and stocks were divided equally between Ram and Rahim at an agreed valuation of Rs. 3,60,000
(v) Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.
(vi) Commission receivable was received in total in time.
(vii) A bill discounted was subsequently returned dishonored and proved valueless Rs. 30,750 (including Rs. 500 noting charges).
(viii) Ram paid the expenses of dissolution amounting to Rs. 18,000.
(ix) Auntony agreed to receive Rs. 1,50,000 in full satisfaction of his rights, title and interest in the firm.

You are required to show the account relating to closing of books on dissolution of the firm. **[C.A (Inter).1998]**

QUESTION 8. X,Y,Z were partners sharing profit and losses in the ratio 3:2:1**.** Due to persistent losses and the continued illness of X, the firm decided to get dissolved on 31st March, 1994. Its accounts were closed for the last time on 31st December 1993 on which date its Balance Sheet was as under:

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Plant and machinery	60,000
X	48,000		Furniture and fittings	10,000
Y	33,000	81,000	Motors cars	40,000
Loan of X		22,000	Stock	55,000
Trade Creditors		80,000	Sundry debtors	40,000
Bank overdraft		30,000	Capital accounts Z	8,000
		2,13,000		2,13,000

Between 31st December, 1993 and 31st march, 1994 goods of the value of Rs. 30,000 were purchased and sales amounted to Rs. 45,000. In addition to payment to trade creditors payments made were for salaries and wages Rs. 12,000 and for general and office expenses Rs. 6,000. Drawings of each partner were Rs. 800 p.m. On 31st march 1994, debtors and stock in trade and creditors were Rs. 60,000, Rs. 70,000 and Rs. 45,000 respectively.

In dissolution proceedings the partners agreed to transfer the entire business (with all assets and liabilities including partner's loan) as a going concern to D for a consideration of Rs. 90,000. Costs of dissolution amounted to Rs. 2,800 which was met by X. Show the necessary accounts for the dissolution of firm and also the capital accounts of the partners, assuming that all of them are solvent. **(CA Inter)**

QUESTION 9. A, B and C were partners sharing profits and losses in the ration of 2:3:1. The position of the firm as on 1st January 1994 was:

Liabilities	Rs.	Rs.	Assets	Rs.
Capital Accounts:			Fixed assets	30,000
A	20,000		Debtors	40,000
B	40,000		Stock	20,000
C	10,000	70,000	Loans and advances	32,000
General reserve		30,000		
Capital reserve		12,000		
Bank overdraft		10,000		
		1,22,000		1,22,000

On this date the partners decided to change their profit and loss sharing ratio to 2:4:1. Goodwill valued at Rs.30,000. No entries were however passed to give effect to this change. On 31st December, 1994 the balance sheet of the firm was:

Liabilities	Rs.	Rs.	Assets	Rs.
A's Capital	20,000		Fixed assets	28,000
Less: Drawings	2,000	18,000	Debtors	37,000
B's Capital	40,000		Stock	65,000
Less: Drawings	4,000	36,000	Loans and advances	22,000
C's Capital	10,000			
Less: Drawings	1,000	9,000		
General reserve		72,000		
Capital reserve		12,000		
Bank overdraft		5,000		
		1,52,000		1,52,000

On this date the firm was sold as a going concern to C for a total value of Rs. 1,70,000. C brought in sufficient cash to pay out A and B. Pass journal entries in the books of the firm as on 31st December 1994 assuming that the same books are not continued after take-over. **C.A (Inter)**

QUESTION 10. A,B and C are partners of a firm, sharing profits and losses equally, whose balance sheet as at 30th September, 2017 was as under:

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	
A	20,000	Less depreciation	23,760
B	25,000	Furniture and fittings	4,240
C	12,500	Sundry debtors	14,165
Current accounts:		Joint life policy	12,105
A	18,600	Bills receivable	8,610
C	7,200	Stock-in-trade	29,940
Sundry creditors	17,720	B's current account	12,400
Bills payable	8,400	Cash at bank and on hand	4,200
	1,09,420		1,09,420

The value of the joint life policy shown in the balance sheet represents the surrender value of the policy taken by the firm for Rs. 30,000 to enable the settlement of accounts with a partner's estate in case of death of a partner during the continuance of the firm. A died on 1st October, 2017. The remaining partners could not arrive at any understanding with the legal representative of A with the result that it was decided that the firm would be dissolved, subject to the following adjustments:

(a) The sum assured was realized from the insurance company;
(b) Plant and machinery realized only 70% of the book value;
(c) Furniture and fittings were taken over by partner C, at a market value of Rs. 2,500.
(d) Bills receivable and sundry debtors had to be discounted by 4%
(e) Stock-in-trade comprised:
  (i) easily marketable items 70% of the inventory which realized its full value;
  (ii) obsolete items-10% of the total inventory which had to be discarded; and
  (iii) The rest of the items which realized 50% of their book value.

(f) A liability for Rs. 1,500 which had not been recorded in the firm's books had to be settled by the firm before its dissolution. Draw up accounts showing inter se settlement among the partner**(CA INTER 16 MARKS)**

IN CASE OF INSOLVENCY OF ONE OR MORE PARTNER/PARTNERS

Question: 11 (Fixed Capital) A, B and C were partners sharing profit and losses in the ration of 2:1:1. Firm was dissolved on 31 December, 2017 due to insolvency of C. On that date their Balance Sheet was as Follow.

Balance Sheet as on 31 Dec. 2017

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital Account			Fixed assets	18,00,000
A	2,00,000		Bank	2,00,000
B	3,00,000		Other current assets	6,00,000
C	1,00,000	6,00,000	Profit & Loss A/c (Dr.)	4,00,000
Current A/c			C's current A/c	1,00,000
A	3,00,000			
B	2,00,000	5,00,000		
General Reserve		4,00,000		
Liabilities		16,00,000		
		31,00,000		**31,00,000**

I. Fixed assets realized at Rs. 11,00,000.
II. Other current assets were sold at Rs. 2,00,000.
III. C could pay only Rs. 60,000 to the firm.

Close the books of firm.

Question: 12. A, B, C and D were partners sharing profit and loss in the ratio 2:1:1:1. Firm was dissolved due to insolvency of D. On that date Balance Sheet was as follow.

Balance Sheet

Liabilities	**Rs.**	**Assets**	**Rs.**
A's Capital Account	15,00,000	Bank	3,00,000
B's Capital Account	10,00,000	Other assets	27,00,000
General reserve	2,00,000	Profit and loss A/c	5,00,000
Liabilities	13,00,000	C's Capital A/c	3,00,000
		D's Capital A/c	2,00,000
	40,00,000		40,00,000

I. Assets realized Rs. 16,00,000.
II. Liabilities were paid in full.
III. D's private estate realized at Rs. 6,00,000 and his private liabilities were Rs. 4,20,000.

Close the books of firm.

Question: 13 (Fluctuating capital) A, B, C and D were partners sharing profit and losses in the ratio of 4:3:2:1. The firm was dissolved due to insolvency of D. On that date their Balance Sheet was as follow.

Balance Sheet

Liabilities		Rs.	Assets	Rs.
Capital A/c			Bank	2,00,000
A	4,90,000		Other assets	28,00,000
B	3,00,000			
C	1,00,000			
D	10,000	9,00,000		
General Reserve		3,00,000		
Liability		18,00,000		
		30,00,000		30,00,000

I. Assets were sold for Rs. 16,00,000
II. D' private estate worth Rs. 3,00,000 and private liabilities were Rs. 2,00,000. His private estate realized at Rs. 2,40,000.Close the books of firm.

Question 14. A, *B* and C are partners sharing profits in the ratio of 2: 2: 1. Their balance sheet on 31st December, 2000, the date of dissolution was as follows:

Liabilities	**Rs**	**Assets**	**Rs.**
Capitals: A	7,000	Assets – Fixed	21,000
B	3,000	Current	2,000
C	1,000	Current account- C	3,000
Current accounts: A	2,000		
B	1,000		
Reserve account	2,000		
Creditors	10,000		
	26,000		**26,000**

All assets, leaving Rs. 500 out of current assets which constituted bank balance, realizedRs. 8,000. C is unable to bring his share of loss and is declared insolvent. On the date of dissolution it was found that a contingent liability in respect of a bill discounted Rs. 800 has matured and the firm recovered only Rs. 200 from the acceptor of the bill. This amount is not included in Rs. 8,000 above. Realization expenses amounted to Rs. 100. Prepare ledger accounts.

Question15. The firm of Kapil and Dev has four partners and as of 31st March, 1995, its Balance Sheet stood as follows:

Liabilities	**Rs.**	***Assets***	**Rs.**
Capital A/cs :			
F. Kapil	2,00,000	Land	50,000
S. Kapil	2,00,000	Building	2,50,000
R. Dev	1,00,000	Office equipment	1,25,000
Current A/cs		Computers	70,000
F.Kapil	50,000	Debtors	4,00,000
S. Kapil	1,50,000	Stocks	3,00,000
R. Dev	1,10,000	Cash at Bank	75,000
Loan from NBFC	5,00,000	Other Current Assets	22,600
Current Liabilities	70,000	Current A/c :	
		B.Dev	87,400
	13,80,000		**13,80,000**

The partners have been sharing profits and losses in the ratio of 4 : 4 : 1 : 1. It has been agreed to dissolve the firm on 1.4.1995 on the basis of the following understanding:

(a) The following assets are to be adjusted to the extent indicated with respect to the book values:

Land	200%
Building	120%
Computers	70%
Debtors	95%
Stocks	90%

(b) In the case of the loan, the lenders are to be paid at their insistence a prepayment premium of 1%.

(c) B. Dev is insolvent and no amount is recoverable from him. His father, R. Dev, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.

(d) That the realisation of the assets and discharge of liabilities is carried out immediately, show the Cash A/c, Realisation Account and the Partners' Accounts. **[C.A. (Inter) May 1995]**

Question 16. A, B and C are partners sharing profits and losses in the ratio of 4 : 3 : 2. The balance sheet as on 31-12-1997 stood as follows:

Liabilities	**Rs.**	**,4ssefs**		**Rs.**
S. Creditors	20,000	Cash		2,000
Bank Overdraft	15,000	Debtors	18,000	
(secured against Stock)		Less Reserve		
Loan	25,000	for Doubtful Debts	1,000	17,000
(against the		Stock		25,000
mortgage of		Machinery		40,000
machinery)		Profit and Loss		
Capitals: A	20,000	A/c (Dr. Balance)		9,000
B	10,000			
C	3,000			
	93,000			**93,000**

The firm was dissolved on that date. Stock was taken over by the banker and it realized Rs. 20,000. Bank paid back Rs. 4,000 after recovering its overdraft and interest due there on. Machinery was disposed of for Rs. 24,000 and debtors realized Rs. 14,000 only. Loan was fully paid off along with interest due Rs. 1,000. Sundry creditors were discharged at 10% discount. Expenses amounted to Rs. 300 which was paid by A. C became insolvent and only Rs. 950 could be recovered from his private assets.

Prepare necessary ledger accounts to close the books of the firm assuming that the required cash was brought in by the partners to make the final payments. **[Delhi Univ. B.Com.(Hons.)]**

QUESTION 17. A, B and C are partners in A & Company sharing profits and losses in the ratio of 2:2:1 respectively. The Balance Sheet of A& Company as at 31st March, 1993 is as follow

BALANCE SHEET

Liabilities	**Rs.**	***Assets***	**Rs.**
Capitals :		Fixed Assets	2,00,000
A	1,46,000	Current Assets :	
B	54,000	Stocks	1,25,000
C	50,000	Debtors	1,25,000
Cs Loan Account	25,000	Cash	5,000
Loan from Mrs. *A*	50,000	B's Current Account	20,000
Sundry Creditors	1,25,000		
Provisions for Bad Debts			
	4,75,000		**4,75,000**

The firm was dissolved on the date of Balance Sheet due to continued losses. After preparing the above balance sheet as on 31.3.1993, it was discovered that purchases amounting to Rs. 20,000 in March, 1993 were not recorded in books, though the goods were received during March, 1993.

Fixed Assets realized Rs. 1,00,000, Stocks Rs. 1,05,000 and Debtors Rs. 1,02,500. Creditors were paid after deduction of discount @ 2%. The expenses on realisation came to Rs. 5,400. *A* agreed to take over the loan of Mrs *A*. B is insolvent and his estate is unable to contribute anything. Prepare the relevant accounts to close the books of A & Company applying the decision of Garner us. Murray. **(C.A. (Inter) Nov. 1993 (Loss on realization Rs 1,20,000)**

QUESTION 18. (CA-2003-Nov) Neptune, Jupiter, Venus and Pluto had been carrying on business in partnership sharing profits and losses in the ratio of 3:2:1:1. They decide to dissolve the partnership on the basis of the following Balance Sheet as on 30th, April, 2003.

Liabilities:	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital A/c			Premises		1,20,000
Neptune	1,00,000		Furniture		40,000
Jupiter	60,000	1,60,000	Stock		1,00,000
General Reserve		56,000	Debtors		40,000
Capital Reserve		14,000	Cash		8,000
Sundry Creditors		20,000	Capital Overdrawn:		
Mortgage Loan		80,000	Venus	10,000	
			Pluto	12,000	22,000
		3,30,000			**3,30,000**

(i) The assets were realized as under:

Debtors	24,000
Stock	60,000
Furniture	16,000
Premises	90,000

(ii) Expenses of dissolution amounted to Rs. 4,000.

(iii) Further Creditors of Rs.12,000 had to be met.

(iv) General Reserve unlike Capital Reserve was built up by appropriation of profits.

You are required to draw up the Realization Account, Partners, Capital Accounts and the Cash Account assuming that Venus became insolvent and nothing was realized from his private estate. Apply the principles laid down in Garner vs Murray. **(CA INTER 16 MARKS)**.

QUESTION 19. (2008-May) write short notes on Garner Vs Murray case.

Solution. A Partner may owe some money to partnership firm. This money should be paid by him to the firm. However, in case he becomes insolvent he may not be in a position to pay the amount owed by him to the firm in full. The amount not so paid is a loss to the firm. This loss has to borne by the solvent partners on the basis of the following rule based on the decision given in the case of realization.

The solvent partners should bring in cash as per their share of loss on realization.

The loss on account of insolvency of the partner should then be borne by the solvent partners in the ratio of their capitals after bringing in cash, such loss on realization.

In order to calculate the above ratio of capital for this purpose, it has to be seen whether capitals of partners are fixed or fluctuating. In case of fixed capital no adjustment will be made and the ratio of fixed capital will be taken. If capital is fluctuating, ratio should be calculated on the basis of correct capital immediately before dissolution.

Question20. Tilak, Sham and Farid were in partnership sharing profits and losses in the ratio of 2:2:1. On 30thSeptember, 2000 their Balance Sheet was as follows:

Liabilities		**Amount**	**Assets**	**Amount**
Capital Account:			Premises	50,000
Tilak	80,000		Fixtures	1,25,000
Sham	50,000		Plant	32,500
Farid	20,000	1,50,000	Stock	43,200
Current Accounts:			Debtors	54,780
Tilak	29,700			
Sham	11,300			
Farid (Dr.)	14,500	26,500		
Sundry Creditors		84,650		
Bank Overdraft		44.330		
		3,05,480		**3,05,480**

Tilak decides to retire on 30thSeptember, 2000 and as Farid appears to be short of private assets, Sham decides that he does not wish to take over Tilak's share of partnership, so all three partners decide to dissolve the partnership with effect from 30thSeptember, 2000. It then transpires that Farid has no private assets whatsoever.

The premises are sold for Rs. 60,000 and the plant for Rs. 1,07,500. The fixtures realize Rs. 20,000 and the stock is acquired by another firm at book value less 5%. Debtors realize Rs. 45,900. Realisation expenses amount to Rs. 4,500. The bank overdraft is discharged and the creditors are also paid in full. You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray: **(CA Study Material)**

(i) Realisation Account;
(ii) Partners' Current Account;
(iii) Partners' Capital Accounts showing the closing of the firm's books.

Solution: **Realisation Account**

Sept. 30			Sept. 30		
To Premises	50,000		By Sundry Creditors		84,650
To Plant	1,25,000		By Bank:		
To Fixtures	32,500		Premises	60,000	
To Stock	43,200		Plant	1,07,500	
To Debtors	54,780		Fixtures	20,000	
To Bank (Creditors)	84,650		Stock	41,040	
To Bank (Expenses)	4,500		Debtors	45,900	2,74,440
			Loss on Realisation transferred to.		
			Partner's Current A/c		
			Tilak	14,216	
			Shyam	14,216	
			Farid	7,108	35,540
	3,94,630				**3,94,630**

Partner's Capital Accounts

	Tilak	**Shyam**	**Farid**		**Tilak**	**Shyam**	**Farid**
	Rs.	**Rs.**	**Rs.**		**Rs.**	**Rs.**	**Rs.**
To current A/c	-	-	21,608	By Bal. b/d	80,000	50,000	20,000
To Farid A/c	990	618	-	By Current A/c	29,700	11,300	-
To Cash A/c	1,08,710	60,682	-	By Tilak	-	-	990
				By Shyam	-	-	618
	1,09,700	**61,300**	**21,608**		**1,09,700**	**61,300**	**21,608**
To bal. b/d	-	-	14,508	By bal. b/d	29,700	11,300	-
To Realisation loss	14,216	14,216	7,108	By Cash A/c	14,216	14,216	-
To Cap. A/c	29,700	11,300	-	By Cap. A/c	-	-	21,608
	43,916	**25,516**	**21608**		**43,916**	**25,516**	**21608**

Working Notes: **Bank Account**

To Realisation A/c	2,74,440	By Balance b/d	44,330
		By Realisation A/c (Creditors)	84,650
		By Realisation A/c (Expenses)	4,500
		By Thin's Capita! A/c	94,494
		By Short's Capital A c	46,466
	2,74,440		**2,74,440**

(i) Fat's deficiency has been borne by Thin & Short in the ratio of their fixed capitals i.e., 8:5 following the rule in Garner vs. Murray.

Question 21. Ajay, Vijay, Ram and Shyam are partners in a firm sharing profits and losses in the ratio of 4:1:2.3. The following is their Balance Sheet as at 31stMarch, 1996:

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	3,00,000	Sundry Debtors	3,50,000
Capital A/c's		Less: Doubtful Debts	50,000
Ajay 7,00,000			3,00,000
Shyam3,00,000	10,00,000	Cash in hand	1,40,000
		Stocks	2,00,000
		Other Assets	3,10,000
		Capital A/c's:	
		Vijay	2,00,000
		Ram	1,50,000
	13,00,000		**13,00,000**

On 31st March, 1996, the firm is dissolved and the following points are agreed upon:

1. Ajay is to take over sundry debtors at 80% of book value.
2. Shyam is to take over the stocks at 95% of the value and
3. Ram is to discharge sundry creditors.

Other assets realize Rs. 3,00,000 and the expenses of realization come to Rs. 30,000.Vijay is found insolvent and Rs. 21,900 is realized from his estate. Prepare Realization Account and Capital Accounts of the partners. Show also the Cash A/c. The loss arising out of capital deficiency may be distributed following the decision in Garner vs. Murray.

(1996 -November) (16 Marks)

Solution: **Realisation A/c**

	Rs.		Rs.
To sundry Debtors	3,50,000	By Sundry Creditors	3,00,000
To Stock2,00,000		By Provision for Doubtful	
To Other assets	3,10,000	Debts	50,000
To Ram's Capital A/c		By Ajay's Capital A/c	
(Creditors)	3,00,000	(Debtors)	2,80,000
To Cash		By Shyam's Capital A/c	
(Expenses on realization)	30,000	(Stock)	1,90,000
		By Cash (Other assets)	3,00,000
		By Ajay's Capital A/c	28,000
		By Vijay's Capital A/c	7,000
		By Ram's Capital A/c	14,000
		By Shyam's Capital A/c	21,000
		(Loss on realisation)	
	11,90,000		**11,90,000**

Question 22.P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2011:

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Land & building	2,46,000
P 1,68,000		Furniture & fixtures	65.000
Q 1,08,000	2,76,000	Stock	1.00,000
General reserve	95,000	Debtors	72,500
Capital reserve	25,000	Cash in hand	15.500
Sundry creditors	36,000	Capital overdrawn:	
Mortgage loan	1,10,000	R 25,000	
		S 18,000	43,000
	5,42,000		**5,42,000**

(i) The assets were realized as under:

Land & building	2,30,000
Furniture & fixtures	42,000
Stock	72,000
Debtors	65,000

(ii) Expresses of dissolution amounted to Rs. 7,800.
(iii) Further creditors of Rs. 18,000 had to be met.
(iv) R became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners' Capital Accounts and Cash Account. **(Nov 2011) (16 Marks)**

IN CASE OF INSOLVENCY OF ALL PARTNERS

Question 23. A, B and C are equal partners whose Balance Sheet on December 31, 1991 *W*as follows

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		5,000	Cash in hand	50
A's Loan		1,000	Stock	800
Capital A/c's.			Debtors	1,000
A	800		Plant & Machinery	2,000
B	500	1,300	Furniture & Fittings	800
			Land & Buildings	2,000 650
			C'sCapital (overdrawn)	
		7,300		7.300

Due to lack of liquidity and weak financial position of the partners the firm is dissolved. A and C are not able to contribute anything and sum of Rs. 200 received from B. All of them are declared insolvent. The assets realized: Stock Rs. 500; Plant and Machinery Rs. 1,000; Furniture and Fittings Rs. 200; Land and Building Rs. 800 and Debtors Rs. 550 only. Realisation expenses amounted to Rs. 50. You are required to close the firm's books.

Question 24. The Balance Sheet of A, *B* and C, who are sharing profits and losses in the ratio of 2 : 2 : 1, was as follows on 31st March, 1995, the date of dissolution :

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	1,20,000	Cash	1,000
Bank Loan (with a charge on Stock)	50,000	Stock	60,000
		Other Assets	1,09,000
Capital:		Goodwill	30,000
A	30,000	Capital:	
B	20,000	C	20,000
	2,20,000		2,20,000

Stock realized Rs. 52,000 and other assets were sold for Rs. 90,000. Expenses on realisation amounted to Rs. 3,000.Assuming that all the partners are insolvent. Prepare the necessary ledger accounts to close the books of the firm. **(Delhi B.Com. Hons.)**

Question: 25. A, B, and C were partners sharing profit in the ratio of 3:1:1. Partnership firm was dissolved due to insolvency of all partners. On that date their Balance Sheet was as follow:

Balance Sheet

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital A/c			Machinery	4,00,000
A	2,00,000		Building	6,00,000
B	1,00,000		Goodwill	2,00,000
C	50,000	3,50,000	Equipment	3,00,000
Bank loan (secured by building)		5,00,000	Stock	2,00,000
Mortgage loan (floating charge)		6,50,000	Debtors	5,00,000
Creditors		4,00,000	Profit and loss A/c	3,00,000
Bills payable		2,00,000		
C's Loan		4,00,000		
		25,00,000		**25,00,000**

I. Assets were realized as follows:

Machinery	2, 00,000
Building	5, 50,000
Equipment	1, 00,000
Stock	1, 50,000
Debtors	3, 00,000

II. Private assets and liabilities of each partners were as follow:

Particulars	**Private estate**	**Private liabilities**
A	2,00,000	2,40,000
B	3,00,000	2,60,000
C	1,00,000	1,50,000

Close the Books of Firm.

Question 26. A,B and C were in partnership sharing profits and losses in the ratio of 2:3:5. They prepared the following balance sheet on 31-12-96, when they decided to dissolve.

BALANCE SHEET *as on 31-12-96*

Liabilities		Rs.	Assets	Rs.
Loan from Bank			Plant and Machinery	5,00,000
(against the security			Debtors	50,000
of Plant and Machinery)		3,00,000	Stock	50,000
Loan from C		40,000	Advance to A	40,000
Trade Creditors		2,50,000	Cash	10,000
Bills Payable		10,000	Profit & Loss A/c	
Capitals :			(Dr. Balance)	1,50,000
A	60,000			
B	80,000			
C	60,000	2,00,000		
		8,00,000		8,00,000

Plant and Machinery realized Rs. 3,50,000; Debtors, Rs. 30,000 and Stock Rs. 40,000. A has a private estate, valued at Rs. 1,00,000 and his liabilities amounted to Rs. 40,000. The private estate realized only Rs. 60,000, *B* is insolvent. C can pay only 50 paise in the rupee of what is payable on his own account to the firm. Prepare the necessary ledger accounts, assuming that the loss on realisation is to be determined after considering the amount ultimately paid to the creditors. **[CA Inter]**

Question 27. Rahim, Zaidi and Tahir shared profits and losses in the ratio of 5 : 3 : 2 respectively. On 31st December, 1995, their balance sheet was as follows:

Liabilities	Rs.	*Assets*	Rs.
Trade Creditors	30,000	Furniture	11,000
Bank Loan	10,000	Stock	48,000
Rahim's Capital		Cash	1,000
	30,000	Profit and Loss Account	40,000
Zaidi's Capital Account	20,000		
Tahir's Capital Account	10,000		
	1,00,000		1,00,000

The Bank had a charge on all the assets. Furniture realized Rs. 3,000 while the entire stock was sold for Rs. 25,000, Zaidi's private estate realized Rs. 6,000; his private creditors were Rs. 5,000. Tahir was unable to contribute anything. Rahim paid one-third of what was finally due from him (taking the payment also into account) except on account of other partners. Prepare Realisation Account, Cash Book and Partners' Capital Accounts, passing all matters relating to realization of assets and payment of liabilities through the Realization Account. Clearly show your calculation regarding cash brought in by Rahim. **[CA Inter)**

PIECEMEAL DISTRIBUTION

Question 28. A Partnership firm was dissolved on 30th June, 1999. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	Rs.	Rs.	Assets	Rs.
Capitals:			Cash	5,400
Ram	38,000		Sundry Assets	94,600
Shyam	24,000			
Mohan	18,000	80,000		
Loan A/c –Shyam		5,000		
S. Creditors		15,000		
		1,00,000		1,00,000

The Assets were realized in installments and the payments were made on the proportionate capital basis. Creditors were paid 14,500 in full settlement of their account. Expenses of realization were estimated to be Rs. 2,700 but actual amount spent on this account was Rs. 2,000. This amount was paid on 15th September. Draw up a Memorandum of distribution of Cash, which was realized as follows:

On 5th July 1999 Rs. 12,600
On 30th August, 1999 Rs. 30,000
On 15thSpetember, 1999 Rs, 40,000

The partners shared profits and losses in the ration of 2:2:1. Give working notes.

Question 29. East, South and North are in partnership sharing profits and losses in the ratio 3:2:1 respectively. They decide to dissolve the business on 31st December, 1998, on which date their balance sheet was as follows:

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Land and building	30,810
East	38,700		Motor car	5,160
South	10,680		Investment	1,080
North	11,100	60,480	Stock	19,530
Loan account: North		3,000	Debtors	11,280
Creditors		10,320	Cash	5,940
		73,800		73,800

The assets were realized piecemeal as follows and it was agreed that cash should be distributed as and when realized-

15th January	1999	Rs. 10,380
20th February	1999	27,900
23rd March	1999	3,600
15th April	1999 North took over investment at value of	1,260
27th April	1999	19,200

Dissolution expenses were originally provided for an estimated amount of R. 2,700, but actual amount spent on 29th March, 1999 was Rs.1,920. The creditors were settled for Rs. 10,080. You are required to prepare a statement showing distribution of cash amongst the partners. **[ICWA (Inter) June 96] [C.A Inter]**

Question 30. The firm of LMS was dissolved on 31.3.95, at which date its Balance Sheet stood as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital			
L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		47,00,000

Partners share profit equally. A firm of Chartered Accountants is retained to realize the assets and distribute the cash after discharge of liabilities. Their fees which are to include all expenses is fixed at Rs. 1,00,000. No loss is expected on realization since fixed assets include valuable land and building. Realizations are:

S. No	**Amount in Rs.**
1	5,00,000
2	15,00,000
3	15,00,000
4	30,00,000
5	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method. You are required to prepare a statement showing distribution of cash with necessary working.**[C.A.(Inter) 1995]**

Question 31. Anagha , Anita and Alka were in partnership sharing profits and losses as 3:2:1 respectively. The partnership was dissolved on 30th June 1991 when the position was as follows:

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**
Captials:			Cash in hand	28,000
Anagha	1,40,000		Sundry debtors	2,94,000
Anita	70,000			
Alka	14,000	2,24,000	Stock-in-trade	1,12,000
Creditors		2,10,000		
		4,34,000		4,34,000

There was a bill for 10,000 due on 30th November 1991, under discount. It was agreed that the net realizations should be distributed in their due order (at the end month) but as safely as possible. The realizations and expenses were:

	Stock and debtors	Expenses
31st July 1991	Rs, 84,000	Rs. 7,000
31st August 1991	1,26,000	5,400
30th September 1991	70,000	4,900
31st October 1991	77,000	3,500
30th November 1991	35,500	3,5,00

The stock was completely disposed of and amounts due from debtors were realized, the balance being irrecoverable. The acceptor of the bill under discount met the bill on the due date. Prepare a statement for piecemeal distribution of cash

Question 32. A,B and C were partners sharing profits and losses in the ration of 5:3:2 respectively. Their Balance Sheet on 31.12.13:

Liabilities		Rs.	Assets		Rs.
Capital:			Land and building		25,000
A	10,000		Stock		38,000
B	42,000		Debtors		35,000
C	60,000	1,12,000	Bills receivable		15,000
Bank overdraft secured by			Cash		5,000
Land and building		38,000	P & L accounts		20,000
Mrs. A's loan		2,000			
Wages payable		3,000	Current A/cs:-		
Sundry creditors		20,000	A	25,000	
			B	6,000	
			C	6,000	37,000
		1,75,000			1,75,000

On 10th April, 2014 Mr. A was declared insolvent and only Rs. 8,000 could be recovered from his private assets. Prepare cash distribution statement.

Note: A bill of Rs. 2,000 was discounted with the Bank. The Partnership firm was dissolved at the above date and assets were realized piecemeal as under:-

Date of Realizations		Amount Realized
10th Feb. 2014	----	30,000
12th March 2014	----	53,000
10th April 2014	----	12,000

Additional Information: (1) Land & Building was realized on 10th Feb. 2014.

(2) Discounted bill was duly honoured on 11th March 2014. **(B.Com M.S. University)**

Tutorial Notes:		**A**	**B**	**C**
Capital balances as per balance sheet		10,000	42,000	60,000
Less: Debit balance on current				
Account	25,000		6,000	6,000
Balance		(15,000)	36,000	54,000
Less: profit and loss a/c debit balance		10,000	6,000	4,000
Net balances payable as shown in the statement		(25,000)	30,000	50,000

Question 33.(Maximum Possible Loss Method) A B and C are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their capital were Rs. 9,600, Rs. 6,000 and Rs. 8,400 respectively. After paying creditors, the liabilities and assets of the firm were:

	Rs.		**Rs.**
Liability for interest		Investments	1,000
on loans from :		Furniture	2,000
Spouses of partners	2000	Machinery	1,200
Partners	1,000	Stock	4,000

The assets realised in full in the order in which they are listed above. B is insolvent. You are required to prepare a statement showing the distribution of cash as and when available applying maximum possible loss procedure

Answer: **Statement of Distribution of cash**

Particulars	Realisation	Interest on loans from partner's spouses	Interest on loans from Partners	Partners' Capital			
				A	B	C	Total
	Rs	Rs	Rs		Rs	RS	RS
Balance Due		2,000	1000	9,600	6,000	8,400	24,000
(i)Sale of investment	1000	(1,000)					
		1,000	1,000				
		(1,000)	(1,000)				
(ii)Sale of furniture	2,000						
		--	--				
(iii)Sale of Machinery	1,200						
Maximum Possible loss Rs 22,800 (total of capitals Rs 24,000 less cash available Rs.1200) allocated to partners in the profit sharing ratio i.e. 5:3:2 Amount a credit				(11,400)	(6,840)	(4,560)	(22,800)

Deficiency of A and B written off against C		(1,800)	(840)	3,840	1,200
Amount paid		1,800	840	(2,640)	--
Balances in capital accounts		--	--	1,200	1,200
(iv)Sale of stock	4,000	9,600	6,000	7,200	22,800
Maximum possible loss of Rs. 18,800 (Rs 22,800-Rs 4000) allocated to partners in the ratio 5:3:2					
		(9,400)	(5,640)	(3,760)	18,800
Amount at credit and cash paid		200	360	3,440	4,000
Balances in capital accounts left unpaid-Loss		9,400	5,640	3,760	18,800

Question 34. The partners Amit, Bhatia and Charan have called upon you to assist them in winding up the affairs of their partnership on 30th June, 2000. Their Balance Sheet as on that date is given below:

Liabilities	**Amount**	**Assets**	**Amount**
Sundry Creditors	17,000	Cash at Bank	6,000
Capital Accounts:		Sundry Debtors	22,000
Amit	67,000	Stock in trade	14,000
Bhatia	45,000	Plant and Equipment	99,000
Charan	31,500	Loan - Amit	12,000
		Loan – Bhatia	7,500
	1,60,500		**1,60,500**

1) The partners share profit and losses in the ratio of 5:3:2
2) Cash is distributed to the partners at the end of each month
3) A summary of liquidation transactions are as follows:

July 2000

Rs. 16,500 - collected from Debtors; balance is un-collectable.
Rs. 10,000 - received from sale of entire stock.
Rs. 1,000 - liquidation expenses paid.
Rs. 8,000 - cash retained in the business at the end of the month.

August 2000

Rs. 1,500 - liquidation expenses paid. As part payment of his Capital, Charan accepted a piece of equipment for Rs. 10,000 (book value Rs. 4,000).
Rs. 2,500 - cash retained in the business at the end of the month.

September 2000

Rs. 75,000 - received on sale of remaining plant and equipment.
Rs. 1,000 - liquidation expenses paid. No cash retained in the business.
Required: Prepare a schedule of cash payments as of September 30, showing how the cash was distributed. Apply HCRM. **(Study Material)**

Solution **Statement Showing Distribution of Cash**

		creditors	Capital		
	Rs.		**A (Rs.)**	**B (Rs.)**	**C (Rs.)**
Balance Due		17,000	55,000	37,500	31,500
July					
Balance available	6,000				
Realisation less expenses and cash retained	17,500				
Amount available and paid	23,500	17,000			6,500
Balance Due		_	55,000	37,500	25,000
August					
Opening Balance	8,000				
Expenses paid and					
balance carried forward	4,000				
Available for distribution	4,000				
Cash paid to 'B' and Equipment given to C		_		4,000	10,000
(Excess paid to 'C Rs. 7,333)			55,000	33,500	15,000
September					
Opening Balance	2,500				
Amount realised less expenses	74,000				
Amount paid to partners	76,500		41,500	25,400	9,600
			13,500	8,100	5,400

EXAMINATION QUESTIONS

Question 35:-What is Piecemeal payments method under Partnership Dissolution? Briefly explain the two methods followed for determining the order in which the payments are made?

Answer: Assets sold in case of dissolution of partnership are realized only in small installments over a period of time. In such situation the choice is either to distribute whatever is collected or to wait till whole amount is collected. Generally, the first course is adopted. In order to ensure that the distributed cash amongst the partners is in proportion to their interest in the partnership concern either of the two methods described below may be followed for determining the order in which the payment should be made,

(i) Maximum Loss Method: Each installment realized is considered to be the final payment i.e. outstanding assets and claims are considered worthless and partners' accounts are adjusted on that basis each time when a deposit is made following either Garner Vs. Murray rule or the profit sharing ratio rule.

(ii) Highest Relative Capital Method: Under this method, the partner who has the higher relative capital, that is, whose capital is greater in proportion to his profit sharing ratio is first paid off. This method is also called as proportionate capital method

Question: 36 A, B, C and D are sharing profits and losses in the ratio 5:5:4:2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March 2010 when their Balance Sheet was as under:

Liabilities	**Amount**	**Assets**	**Amount**
Capital		Building	1,20,000
A	90,000	Stock	85,500
B	90,000	Investments	29,000
C	-	Debtors	42,000
D	35,000	Cash	14,500
General reserve	24,000	C	15,000
Trade creditors	47,000		
Bills payable	20,000		
	3,06,000		**3,06,000**

Following information is given to you :

(i) A cheque for Rs. 4,300 received from debtor was not recorded in the books and was misappropriated by C.

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

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

(iv) The other assets realized as follows :

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

(v) The bills payable were settled at a discount of Rs. 400.
(vi) The expenses of dissolution amounted to Rs. 4,900.
(vii) It was found out that realization from C's private assets would only be Rs. 4,000.

Prepare the necessary Ledger Accounts.**(IPCC NOV 2010 16 MARKS)**

Answer: **Realization Account**

Particulars		Amount In RS.	Particulars		Amount In RS.
To Building		1,20,000	By Trade creditors		47,000
To Stock		85,500	By Bills payable		20,000
To Investment		29,000	By Cash		
To Debtors		42,000	Building	1,26,000	
To cash-creditors paid (W.N.1)		37,828	Stock	78,000	
			Investments (W.N.2)	23,000	
To cash-expenses		4,900	Debtors (W.N. 3)	33,176	2,60,176
To cash-bills payable (20,000-400)		19,600	By Debtors-unrecorded		4,300
			By Investments-unrecorded		7,900
To partners'	Capital A/cs				
A	171				
B	171				
C	137				
D	69	548			
		3,39,376			**3,39,376**

Cash Account

Particulars		Amount	Particulars		Amount
To Balance b/d		14,500	By Realisation-creditors paid		37,828
To Realisation			By Realisation-bills payable		19,600
Building	1,26,000		By Realisation-expenses		4,900
Stock	78,000		By Capital account		
Investments	23,000		A	90,528	
Debtors	33,176		B	90,528	
To C's capital A/c		2,60,176	D	35,292	2,16,348
		4,000			
		2,78,676			**2,78,676**

Question:37 P, Q and R are partners sharing profits and losses in the ratio of 2:2:1. Their Balance sheet as on 31st March, 2009 is as follows :

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital Accounts:			Plant & Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	debtors	48,000
Reserve fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		**3,00,000**

They decided to dissolve the firm. The following are the amounts realised from the assets:

Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realisation expenses amounted to Rs. 1,500. A bill for Rs. 4,200 due for sales tax was received during the course of realisation and this was also paid.

You are required to prepare :
(a) Realisation account
(b) Partners capital account
(c) Cash account.

Answer: **Realisation Account**

Particulars	**Amount**	**Particulars**		**Amount**
To Debtors A/c	48,000	By Creditors A/c		48,000
To Stock A/c	60,000	By Cash A/c (assets realized):		
To Fixtures A/c	24,000	Plant & Machinery	1,02,000	
To Plant and Machinery A/c	1,08,000	Fixtures	18,000	
To Cash A/c (Creditors)	45,600	Stock	84,000	
To Cash A/c (Sales Tax)	4,200	Debtors	44.400	2,48,400
To Cash A/c (realisation expenses)				
To Profit on realisation	1,500			
P 2,040				
Q 2,040				
R 1,020	5,100			
	2,96,400			2,96,400

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
To Cash A/c (Bal. fig.)	1,46,040	74,040	37,020	By Balance b/d By	1,20,000	48,000	24,000
				Reserve fund By	24,000	24,000	12,000
				Realisation A/c (Profit)	2,040	2,040	1,020
	1,46,040	74,040	37,020		1,46,040	74,040	37,020

Cash Account

Particulars	**Amount**	**Particulars**	**Amount**
To Balance b/d	60,000	By Realisation A/c (Creditors)	45,600
To Realisation A/c (assets realised)	2,48,400	By Realisation A/c (Expenses)	1,500
		By Raslisation A/c (Sales tax)	4,200
		By Partners' Capital Accounts	
		P	1,46,040
		Q	74,040
		R	37,020
	3,08,400		3,08,400

AMALGAMATION, CONVERSION AND SALE OF PARTNERSHIP FIRM

Question 38.X and y are partners of X& Co. sharing profits and losses in the ratio of 3:1 and *Y* and *Z* are partners of *Y* & Co. sharing profit and losses of 2 :1. On 31st March, 1993, they decide to amalgamate and form a new firm M/s XYZ& Co. wherein X, *Y* and *Z* would be partners sharing profits and losses in the ratio of 3 : 2 : 1. The balance sheets of two firms on the above date were as under :

Liabilities	X & Co. Rs.	Y & Co. Rs.	Assets	X & Co. Rs.	Y & Co. Rs.
Capital			Fixed Assets :		
X	4,80,000	—	Building	1,00,000	—
Y	3,20,000	4,00,000	Machinery	3,00,000	3,20,000
Z	—	2,00,000	Furniture	40,000	12,000
Reserves	1,00,000	3,00,000			
Creditors	2,40,000	2,32,000	Stock	2,40,000	2,80,000
Due to X & Co.	—	2,00,000	Debtors	3,20,000	4,00,000
Bank Loan	1,60,000	—	Cash at Bank	60,000	1,80,000
			Cash in hand	40,000	20,000
			Due from *Y* and Co.	2,00,000	—
			Advances	—	1,20,000
	13,00,000	13,32,000		13,00,000	13,32,000

The amalgamated firm took over the business on the following term:

(a) Building of X & Co. was valued at Rs. 2,00,000.
(b) Machinery of X & Co. was valued at Rs. 4,50,000 and that of *Y*& Co. at Rs. 4,00,000
(c) Goodwill of X& Co. Rs. 1,00,000 and *Y*&Co. 82,000 but the same will not appear in the book of *XYZ* & 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 entries in the books of M/s *XYZ* & Co. and prepare the Balance Sheet as on 31-3-93.**(C.A.Inter,May93)**

Question 39. Ram, Rahim and Robert are partners of the firm 'RR Traders' for the past 5 years. The partners decided to dissolve the firm consequent to insolvency of partner Robert in October, 2002. The Balance Sheet of the firm as on 31.10.2002 is furnished below. They share profits and losses equally:

Liabilities	***Rs.***	***Assets***	***Rs.***
Capital Accounts:		Land and Building	5,00,000
Ram	4,50,000	Plant and Machinery	2,00,000
Rahim	4,50,000	Furniture and Fittings	50,000
Robert	2,00,000	Stock in Trade	3,00,000
General Reserve	2,10,000	Debtors	5,00,000
Creditors	2,90,000	Cash at Hand/Bank	50,000
	16,00,000		**16,00,000**

The partners Ram and Rahim decided to form a new firm 'RR Enterprises' and takeover all the assets and liabilities of the firm at values given below:

Land and Building Rs 3,50,000
Plant and Machinery Rs. 1,50,000

Furniture and Fittings Rs. 20,000
Stock in Trade Rs. 2,00,000
Debtors include Rs. 3,00,000 due from SK & Co. owned by Robert. (Nothing is recoverable from the said concern.)
Other debtors can be recovered fully. Prepare:
(i) Realisation account Partners' capital accounts in the books of RR Traders; and
(ii) The Balance Sheet of RR Enterprises (immediately after commencement).**CA PE-II, May, 2003}**

Question 40. Avinash ,Rohit and Madwesh were carrying on business in partnership sharing Profits and Losses in the ratio of 5:4:3 respectively. The Trial Balance of the firm as on 31st March, 2002 was the following:

Particulars	**Dr. Rs.**	**Cr. Rs.**
Plant and machinery@ cost	1,05,000	-
Stock	60,000	--
Sundry debtors	85,000	--
Sundry Creditors	--	1,05,000
Capital A/c:		
Avinash	--	70,000
Rohit	--	50,000
Madwesh	--	30,000
Drawings A/cs:		
Avinash	30,000	--
Rohit	25,000	--
Madwesh	20,000	--
Depreciation on Plant and Machinery	--	35,000
Trading Profit for the year	--	1,29,800
Cash at Bank	94,800	--
	4,20,000	4,20,000

Additional Information:

(a) Interest on Capital Accounts at 10% on the amount standing to the credit of partners' capital accounts at the beginning of the year was not provided before preparing the above Trial Balance.
(b) On 31st March, 2002 they formed a Private Ltd. Company Anagha (P) Ltd. to take over the partnership business.
(c) You are further informed as under:
(i) Plant and Machinery is to be transferred at Rs. 80,000.

(ii) Equity Shares of Rs. 10 each of the company are to be issued to the partners at par in such numbers to ensure that by reason of their shareholdings alone, they will have the same rights of sharing Profits and Losses as they had in the partnership. Balance if any in their Capital Accounts will be settled by giving $7^1/_2$% Preference Shares at par.

(iii) Before transferring the business, the partners withdrew by cash from partnership the following amounts over and above the drawings as shown in the Trial Balance:
(a) Avinash Rs. 20,000
(b) Rohit Rs. 10,600
(c) Madwesh Rs. 14,200
(iv) All Assets and Liabilities except Plant and Machinery and the Bank Balance are to be transferred at their value in the books of the partnership as at 31stMarch, 2002. (v) You are required to prepare:
(a) Profit and Loss Adjustment Account for the year ending 31 st March, 2002.
(b) Capital Accounts showing all the adjustments required to dissolve the partnership.

(c) A statement showing the number of shares of each class to be issued by the company to each of the partners to settle their accounts.

(d) Prepare Balance Sheet of the company Anagha (P) Ltd. as on 31.3.2002 after takeover of the business.

CA PE 2- 2002-Nov 16 MARKS

Answer : Profit and Loss Adjustment Account for the year ending 31st March, 2002

Particulars		*Rs.*	*Rs.*	*Particulars*	*Rs.*
To Interest on Capital	Avinash	7,000		By Balance b/d	1,29,800
	Rohit	5,000			
	Madwesh	3,000	15,000	By Plant and Machinery	10,000
To Capital Accounts	Avinash	52,000			
	Rohit	41,600			
	Madwesh	31,200	1,24,800		
			1,39,800		**1,39,800**

(b) **Partners' Capital Accounts**

Particulars	*Avinash*	*Rohit*	*Madwesh*	*Particulars*	*Avinash*	*Rohit*	*Madwesh*
To Drawing as per Trial Balance	30,000	25,000	20,000	By Balance b/d	70,000	50,000	30,000
To Additional Drawings	20,000	10,600	14,200	By Profit and Loss Adjustment A/c	52,000	41,600	31,200
To Balance c/d	79,000	61,000	30,000	By Interest on Capital	7,000	5,000	3,000
	1,29,000	96,600	64,200		1,29,000	96,600	64,200
To Equity Shares	50,000	40,000	30,000	By Balance b/d	79,000	61,000	30,000
	29,000	21,000					
	79,000	**61,000**	**30,000**		**79,000**	**61,000**	**30,000**

(C)**Statement showing the number and classes of shares issued to the partners**

Particulars	*Avinash*	*Rohit*	*Madwesh*
Closing Capital Balance (After Adjustments)	79,000	61,000	30,000
Taking Madwesh's Capital as base for ensuring	50,000	40,000	30,000
same rights of share holding-Equity Shares of Rs.	29,000	21,000	—

(d) Balance Sheet of Anagha (P) Ltd. As on 31st March, 2002 (after takeover of the business)

Liabilities	*Rs.*	*Assets*	*Rs.*
Shares capital:		*Fixed Assets:*	
12,000 Equity shares of 10 each at par)		Plant and Machinery	80,000
.Issued for consideration other than	1,20,000	Current Assets:	

cash)		Stock	60,200
7'/2% references Shares (Issued for	50,000	Debtors	85,000
consideration other than cash)		Cash at Bank	50,000
Current Liabilities and Provisions:	1,05,200		
Sundry Creditors			
	2,75,200		**2,75,200**

Plant and Machinery	80,000
Stock:	60,200
Debtors	85,000
Cash at Bank (94,800-44,800)	50,000
	2,75,200
Less: sundry creditors	1,05,200
Purchase consideration	1,70,000

QUESTION 41. Riu, Inu and Sinu were running partnership business sharing Profits and Losses in 2:2:1 ratio. Their Balance Sheet as on 31st March, 2003 stood as follows:

Balance Sheet as on 31st March, 2003 ***(Figures in Rs. '000)***

Liabilities		**Amount**	**Assets**		**Amount**
Fixed Capital:			Fixed Assets		400.00
Riu	300.00		Investments		50.00
Inu	200.00		Current Assets:		
Sinu	100.00	600.00	Stock	100.00	
Current Accounts:			Debtors	275.00	
Riu	60.00		Cash & Bank	125.00	500.00
Sinu	40.00	100.00			
Unsecured Loans		100.00			
Current Liabilities		150.00			
		950.00			**950.00**

On 01.04.2003, they agreed to form a New Company RIS (P) Ltd. with Inu and Sinu each taking up 200 shares of Rs. 10 each, which shall take over the firm as a going concern including Goodwill, but excluding Cash & Bank Balances. The following are also agreed upon :

(a) Goodwill will be valued at 3 year's purchase of Super profits.
(b) The Actual Profit for the purpose of Goodwill valuation will be Rs. 2,00,000.
(c) The Normal Rate of Return will be 18% per annum 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 Rs. 10 each and party in cash. Payment in Cash being to meet the requirement to Discharge Riu, who has agreed to retire.
(f) Inu and Sinu are to acquire Interest in the new company at the ratio 3 :2.
(g) Realization expenses amounted to Rs. 51,000.

You are required to prepare Realization Account, Cash and Bank Account, RIS (P) Limited Account and Capital Account of Partners.**CA**- **2004-May (16 MARKS)**

QUESTION 42.(CA-PE 2 2006- may) Firm X & Co. consists of partners sharing Profits and Losses in the ratio of 3 : 2. The firm Y & Co. consists of partners B and C sharing Profits and Losses in the ratio of 5 : 3.On 31st March, 2006 it was decided to amalgamate both the firms and forma new firm XY & Co., wherein A, B and C would be partners sharing Profits and Losses in the ratio of 4 : 5 : 1.

Balance Sheet as at 31.3.2006

Liabilities	X&Co	Y& Co.	Assets	X & Co.	Y & Co.
Capitals:			Cash in Hand/Bank	40,000	30,000
A	1,50,000	—	Debtors	60,000	80,000
B	1,00,000	75,000	Stock	50,000	20,000
C	—	50,000	Vehicles	—	90,000
Reserve	50,000	40,000	Machinery	1,20,000	
Creditors	1,20,000	55,000	Building	1,50,000	
	4,20,000	**2,20,000**		**4,20,000**	**2,20,000**

The following were the terms of amalgamation:

(i) Goodwill of X & Co. was valued at Rs. 75,000. Goodwill of Y & Co.was valued at Rs. 40,000. Goodwill a/c not to be opened in the books of the new firm but adjusted through the Capital Accounts of the partners.
(ii) Building,Machinery and Vehicles are to be taken over at 2,00,000. 1,00,000 and 74,000 respectively,
(iii)Provision for doubtful debts at 5,000 in respect of X & Co. and 4,000 in respect Y & Co. are to be Provided.
You are required to:(i) Show, how the Goodwill Value is adjusted amongst the partners.
(ii) Prepare the Balance Sheet of XY & Co. as at 31.3.2006 by keeping partners' Capital in their profit sharing ratio by taking capital of 'B' as the basis. The excess or deficiency to be kept in the respective Partners' Current Account.

Answer : Adjustment for raising and writing off of goodwill

	Raised in old profit sharing ratio		***Total***	***Written off in new ratio***	***Difference***
	X & Co 3:2 Rs	***Y & Co. 5:3 Rs***	***Rs***		***Rs***
A.	45,000	---------	45,000 Cr.	46,000 Dr.	1,000 Dr.
B.	30,000	25,000	55,000 Cr.	57,500 Dr.	2,500 Dr.
C.	--------	15,000	15,000 Cr.	11,500 Dr.	3,500 Cr.
	75,000	4,00,00	1,15,000	1,15.000	Nil

(ii) Balance Sheet of X Y & Co. (New firm as on 31.3.2006

Liabilities	**Rs**	**Assets**	**Rs**
Capital Accounts:	1,72,000	Vehicle	74,000
A	2,15,000	Machinery	1,00,000 2,00,000
B	43,000	Building	70,000
C Current Accounts	22,000	Stock	1,31,000
A	18,000	Debtors	70,000
C Creditors:	1,75,000	Cash & Bank	
	6,45,000		**6,45,000**

Working notes:

1. Balance of Capital Accounts at the time of amalgamation of firms

X & Co. Profit and loss sharing ratio 3:2	A's Capital	B's Capital
Balance as per Balance Sheet	1,50,000	1,00,000
Add: Reserves	30,000	20,000
Revaluation profit (Building)	30,000	20,000

Less: Revaluation loss (Machinery) Provision for doubtful debt.	(12,000) (3,000)	(8,000) (2,000)
	1,95,000	1,30,000
Y & Co. Profit and loss sharing ratio 5:3	B's Capital	C's Capital
Balance as per Balance sheet	75.000	50,000
Add: Reserves Less: Revaluation (Vehicle) Provision for doubtful debts	25,000 (10,000) (2,500) 87,500	15,000 (6,000) (1,500) 57,500

2. Balance of Capital Accounts in the balance sheet of the new firm as on 31.3.2006

Particulars	A Rs	B Rs	C Rs
Balance b/d: X & Co. Y&Co.	1,95,000 ----------	1,30,000 87,500	-------- 57,500
	1,95,000	2,17,500	57,500
Adjustment for goodwill	(1,000)	(2,500)	3,500
	1,94,000	2,15,000	61,000
Total capital Rs. 4.30,000 (B's capital i.e. Rs. 2,15,000x2) to be contributed in 4:5:1 ratio.	1,72,000	2,15,000	43,000
Transfer to Current Account	22,000	—	18,000

QUESTION 43.(CA2006-may) 'X' and 'Y' carrying on business in partnership sharing Profits and Losses equally, wished to dissolve the firm and sell the business to 'X' Limited Company on 31-3-2006, when the firm's position was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
X's Capital	1,50,000	Land and Building	1,00,000
Y's Capital	1.00,000	Furniture	40,000
Sundry Creditors	60,000	Stock	1,00,000
		Debtors	66,000
		Cash	4,000
	3,10,000		**3,10.000**

The arrangement with X Limited Company was as follows :

(i) Land and Building was purchased at 20% more than the book value,
(ii) Furniture and Stock were purchased at book values less 15%.
(iii) The goodwill of the firm was valued at Rs. 40,000.
(iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors,
(v) The purchase price was to be discharged by the company in fully paid equity shares of Rs. 10 each at a premium of Rs. 2 per share. The company collected all the amounts from debtors. The creditors were paid off less by Rs. 1,000 allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the realization account, the Capital Accounts of the partners and the cash account in the books of partnership firm**.(CMA INTER 16 MARKS)(MAST QUESTION)**

Question:- 44. S and T were equal partners. Their Balance Sheet on 31st March, 2008 stood as follows:

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital Accounts:			Stock	2,70,000
S	6,40,000		Debtors	3,65,000
T	6,60,000	13,00,000	Furniture	75,000
Creditors		3,27,500	Joint Life policy	47,500
Bank Overdraft		1,50,000	Plant	1,72,500
Bills payable		62,500	Building	9,10,000
		18,40,000		**18,40,000**

The operations of the business was carried on till 30th September, 2008. S and T both withdrew in equal amounts half the amount of profits made during the current period of 6 months after 10% per annum had been written off on Building and Plant and 5% per annum written off on Furniture. During the current period of 6 months, creditors were reduced by 50,000, Bills payable by Rs. 11,500 and Bank overdraft by 75,000.

The Joint Life policy was surrendered for Rs. 47,500 on 30th September, 2008. Stock was valued at Rs. 3,17,000 and debtors at 3,25,000 on 30th September, 2008. The other items remained the same as on 31st March, 2008.

On 30thSeptember, 2008 the firm sold its business to ST Ltd. The value of goodwill was estimated at Rs. 5,40,000 and the remaining assets were valued on the basis of the. Balance Sheet as on 31st September, 2008. The ST Ltd. paid the purchase Consideration in Equity shares of Rs. 10 each. You are required to prepare a Realization A/c and Capital accounts of the partners.

Answer:- **Realization Account**

Particulars		**Rs.**	**Particulars**	**Rs.**
To Sundry assets:			By Creditors	2,77,500
Stock		3,17,000	By Bills Payables	51,000
Debtors		3,25,000	By Bank overdraft	75,000
Plant		1,63,875	By Shares in ST Ltd. (W.N.3)	18,80,000
Building		8,64,500		
Furniture		73,125		
To Profit				
S	2,70,000			
T	2.70,000	5,40,000		
		22,83,500		**22,83,500**

Partners' Capital Accounts

Date 2008	Particulars	S	T	Date 2008	Particulars	S	T
April 1	To Cash-Drawings	20,000	20,000	April 1	By Balance b/d	6,40,000	6,60,000
Sept.	(W.N.2)			Sept. 30	By Profit (W.N.2)	40,000	40,000
30	To Shares in ST Ltd.	9,30,000	9,50,000		By Realization A/c (Profit)	2,70,000	2,70,000
		9,50,000	9,70,000			9,50,000	9,70,000

Working Notes: **1.Ascertainment of capital as on 30.9. 2008(Balance Sheet as at 30th September, 2008)**

Liabilities	**Rs.**	**Assets**		**Rs.**
Sundry creditors	2,77,500	Building	9,10,000	
Bills payable	51,000	Less: Depreciation	45,500	8,64,500
Bank overdraft	75,000	Plant	1,72,500	
Total capital (bal. fig)	13,40,000	Less: Depreciation	8,625	1,63,875
		Furniture	75,000	
		Less: Depreciation	1,875	73,125
		Stock		3,17,000
		Debtors		3,25,000
	17,43,500			**17,43,500**

1. Profit earned during six months ended 30 September,2008

Total capital (of S and T) on 30th September, 2008 (W.N.I)		13,40,000
Capital on 1st April, 2008		
S	6,40,000	
T	6,60,000	13,00,000
Net increase (after drawings)		**40.000**

Drawings are half of profits so, actual profit earned is Rs. 40,000 x2 = Rs. 80,000 (shared equally by partners S and T). Half of the profits, has been withdrawn by both the partners equally i.e. drawings Rs. 40,000 (Rs. 80,000 x1/2) withdrawn by S and T in 1 :1 (i.e. (Rs. 20,000 each).

2. Purchase consideration

Total assets (W.N.1)	17,43,500
Add .-Goodwill	5.40.000
	22,83,500
Less: Liabilities (2,77,500 + 51,000 + 75,000)	4,03,500
Purchase consideration	18,80,000

Assumption: This solution is determined on the basis that reduction in bank overdraft is after surrender of Joint Life Policy. Otherwise, the reduction in bank overdraft may be taken as before surrender of Joint Policy. Accordingly, the solution will change.

QUESTION 45. Mr. Malik and Mr. Dinesh were carrying on business as equal partners. The firm's Balance Sheet as on 31st December, 1999 was as follows:

Liabilities	Amount	Assets	Amount
Sundry Creditors	65,500	Stock	54,000
Bank Overdraft	30,000	Plant and Machinery	1,82,000
Bills Payable	12,500	Office Furniture	15,000
Capital Accounts:		Book Debts	73,000
Malik	1,50,000	Joint Life Policy	9,500
Dinesh	1,48,000	Leasehold Premises	34,500
		Profit and Loss A/c (debit balance)	26,000
		Drawings Account:	
		Malik	9,000
		Dinesh	3,000
	4,06,000		**4,06,000**

The business was carried on till 30th June 2000. The partners withdrew in equal amounts half the amount of profits made during the period of six months (From January - June 2000) after 10% p.a. had been written off Leasehold premises, 10% p.a. off plant and machinery and 5% p.a. off office furniture. Meanwhile sundry creditors were reduced by Rs. 10,000. On 30th June, 2000 stock was valued at Rs. 63,400. Bill Payable was reduced by Rs. 2,300 and Bank Overdraft by Rs. 15,000. Book Debts were valued at Rs. 65,000. The Joint Life Policy was realized for Rs. 9,500 and the amount was utilized to reduce the Bank Overdraft and other items remained the same as on 31st December, 1999.

On 30th June, 2000 the firm sold the business to a Limited Company. The value of the goodwill was estimated at Rs. 1,08,000 and the rest of the assets were valued on the basis of the Balance Sheet as on 30th June, 2000. The Company paid the purchase consideration in fully paid equity shares of Rs. 10 each, at par. Prepare a Realisation Account and Capital Account of the partners as on 30th June, 2000. **(CA Study Material)**

Solution: **Realisation Account**

	Rs.		Rs.
To Leasehold Premises	32,775	By Sundry Creditors	55,000
To Plant and Machinery	1,72,900	By Bank Overdraft	5,500
To Office Furniture	14,625	By Bills Payable	10,200
To Stock	63,400	By Ltd. Co. (PC)	3,85,500
To Book Debts	65,000		
To Net Profit on Realisation			
M 54,000			
D 54,000	1,08,000		
	4,56,700		**4,56,700**

* It has been assumed that bank overdraft of Rs. 15,000 is before crediting proceeds of joint life policy.

Partner's Capital Accounts

	M	D		M	D
To Profit & Loss A/c Debit Balance	13,000	13,000	By Balance b/d	1,50,000	1,48,000
To Drawing	9,000	3,000	By Profit and Loss A/c	17,500	17,500
To Drawings	8,750	8,750	By Realisation A/c Profit	54,000	54,000
To Shares in Ltd. Co.	1,90,750	1,94,750			
	2,21,500	2,19,500		2,21,500	2,19,500

Working Notes:

Fixed Assets:		
Leasehold premises Less:	34,500	
Depreciation @ 10% p.a.	1,725	32,775
Plant and Machinery Less:	1,82,000	
Depreciation @ 10% p.a.	9,100	1,72,000
Furniture	15,000	
Less: Depreciation @ 5% p.a.	375	14,625
Current Assets:		
Stock	63,000	
Book Debts		65,000
	3,48,700	
Less: Current Liabilities:		
Sundry Creditors		
Overdraft (15,000-9,500)	55,500	
Bills Payable	5,500	
Net Assets as on June 30,	10,200	71,200
		2,77,500

Statement of Profit earned during the period Jan. 1, to June 30

		Rs.	**Rs.**
Net Assets as on June 30			
Net Assets as on Jan. 1			
M		1,50,000	
D		1,48,000	
		2,98,000	
Less: Profit & Loss A/c Debit Balance		26,000	
		2,72,000	
Less Drawings		12,000	
Increase in net assets after drawings			2,60,000
			17,500
Add: Profit withdrawn by partners			17,500
Net Profit earned during the period			35,000

2. Purchase Consideration

Leasehold Premises			32,775
Plant and Machinery			1,72,900
Furniture			14,625
Stock			63,400
Book Debts			65,000
Goodwill			1,08,000
			4,56,700
Less: Liabilities:			
Creditors		55,500	
Overdraft	15,000		
Less: Joint Life Policy	9,500	5,500	
Bills Payable		10,200	71,200
Net Assets to be paid for			3,85,500

QUESTION 46. Anand and Bhupesh were carrying on business as equal partners. The firm's Balance Sheet as on 31st December, 1999 was as follows:

Liabilities	**Amount**	**Assets**	**Amount**
Capital Account:		*Fixed Assets:*	
Anand	1,38,000	Leasehold Building	80,000
Bhupesh	1,52,000	Plant and Machinery	
Bank Loan	40,000	Furniture	1,80,000
Current Liabilities:		Current Assets:	20,000
Sundry Creditors	70,000	Stock	60,000
Bills Payable	10,000	Book Debts	68,000
		Cash at Bank	2,000
	4,10,000		**4,10,000**

The business was carried on till 30thJune, 2000. The partners withdrew in equal amounts half the amount of profits made during the period of six months (from January 2000) after charging depreciation on:

Leasehold Building - 10% per annum

Plant and Machinery - 10% per annum

Furniture - 10% per annum

Meanwhile sundry creditors were reduced by Rs. 15,000, Bills payable by Rs. 2,500 and Bank Loan by Rs. 20,000.

On 30thJune Stock was valued at Rs. 70,000, Book Debts were Rs. 75,000 and Cash at Bank was 2,500.

On 30thJune 2000, the firm sold the business to a Limited Company for Rs. 4,00,000 payable in Equity Shares of Rs. 10 each. The partners decided to take shares in the profit sharing ratio, any difference to be settled in cash.

You are required to prepare:

I. Balance Sheet as on 30th June, 2000.
II. Statement of profit earned during the period six months ended on 30-06-2000.
III. Realisation Account.
IV. Capital Accounts of the partners. **(CA – Inter 16 Marks)**

Solution: Statement of Net Assets as on 30th June, 1988:

	Rs.	**Rs.**
Fixed		
Leasehold Building	80,000	
Less: Depreciation	4,000	76,000
Plant & Machinery	1,80,000	
Less: Depreciation	9,000	1,71,000
Furniture	20,000	
Less: Depreciation	1,000	19,000
Current Assets		
Stock		70,000
Book Debts		75,000
Cash at Bank		2,500
		4,13,500
Less: Bank Loan	20,000	
Sundry Creditors	55,000	
Bills payable	7,500	82,500
Net assets as on 30thJune, 1988		3,31,000

Statement of Profit earned during the period 1st January, 1988

Rs.

Net Assets as on 30th June, 1988			3,31,000
Net Assets as on 1st January, 1988			
Capital — A		1,38,000	
Capital — B		1,52,000	2,90,000
Increase in Net Assets after drawings			41,000
Add: Profit withdrawn by partners			41,000
Net Profit earned during the period			82,000

Realisation Account

Particulars	**Amount**	**Particulars**	**Amount**
To Plant & Machinery	1,71,000	By Bank Loan	20,000
To Leasehold Building	76.000	By Sundry Creditors	55,000
To Furniture	19.000	By Bills payable	7,500
To Stock	70,000	By Ltd. Company	4,00,000
To Sundry Debtors	75,000		
To Profit on Realisation:			
A's Capital A/c	35,750		
B's Capital A/c	35,750		
	4,82,500		4,82,500

Partner's Capital Accounts

1988	**A**	**B**		**A**	**B**
	Rs.	**Rs.**		**Rs.**	**Rs.**
To Drawings	20,500	20,500	By Balance b/d	1,38,000	1,52,000
To Equity Shares in ... Ltd. Co.	2,00,000	2,00,000	By Net Profit for the period	41,000	41,000
To Cash		8,250	By Realisation A/c (Profit)	35,750	35,750
			By Cash	5,750	
	2,20,500	**2,28,500**		**2,20,500**	**2,28,500**

QUESTION 47. Following is the balance sheet of Ram & Shyam.

Balance Sheet

Liabilities		**Amount**	**Assets**	**Amount**
Ram's Capital	40,000		Fixed assets	1,00,000
Shyam's Capital	60,000	1,00,000	Current assets	80,000
Sundry Creditors		40,000		
Profit & Loss		40,000		
		1,80,000		**1,80,000**

A limited company took over the business of partnership firm

1. Fixed assets were valued at Rs. 1,20,000 only. 50% of creditors were taken over.
2. Rest of the creditors were taken over by Ram and Shyam equally.
3. Purchase consideration was settled by issue of equity shares.

Required:

1. Close books of old firm.
2. Open books of new company.
3. Prepare B/S of new company. Assuming same set of books is followed.

Solution: **Realisation Account**

		By Shares	
To Fixed Assets	1,00,000	Sundry Creditors	40,000
To Current Assets	80,000	By Ltd Co.-PC	1,80,000
To Ram	10,000		
To Shyam	10,000		
To Profit	20,000		
	2,20,000		**2,20,000**

Partners' Capital Account

	Ram	**Shyam**		**Ram**	**Shyam**
ToEs of Ltd. Co.	80,000	1,00,000	By Balance b/d	40,000	60,000
			By Profit & Loss	20,000	20,000
			By R/Profit	10,000	10,000
			By realisation	10,000	10,000
	80,000	1,00,000		80,000	1,00,000
To Real	New Company				
	1,80,000		By Es of Ltd. Co	1,80,000	
	1,80,000			1,80,000	

Opening of Books

Business Purchase		Dr.	1,80,000	
To liquidator of old co.				
Fixed Assets		Dr.	1,20,000	
Current Assets		Dr.	80,000	
To Current Liability creditor				20,000
To Business purchase				1,80,000
Liquidators of old entity		Dr.	1,80,000	
To ESC				1,80,000

Balance Sheet of New Company

ESC	1,80,000	FA	1,20,000
Creditors	20,000	Current Assets	80,000
	2,00,000		**2,00,000**

QUESTION 48.(Sale to a Company) A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2009 was:

Liabilities		**Rs.**	**Assets**		**Rs.**
Sundry Creditors		60,000	Stock		60,000
Bank overdraft		35,000	Machinery		1,50,000
Capital A/cs:			Debtors		70,000
A	1,40,000		Joint Life Policy		9,000
B	1,30,000	2,70,000	Leasehold Premises		34,000
			Profit & Loss A/c		26,000
			Drawings Accounts:		
			A	10,000	
			B	6,000	
					16,000
		3,65,000			**3,65,000**

The business was carried on till 30.6.2010. The partners withdrew in equal amounts half the amount of profits 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 Rs. 10,000 and bank overdraft by Rs. 15,000. On 30.6.2010, stock was valued at Rs. 75,000 and Debtors at Rs. 60,000; the Joint Life Policy had been surrendered for Rs. 9,000 before 30.6.2010 and other items remained the same as at 31.12.2009.

On 30.6.2010, the firm sold the business to a Limited Company. The value of goodwill was fixed at Rs. 1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.2010. The company paid the purchase consideration in Equity Shares of Rs. 10 each. You are required to prepare:

a) Balance Sheet of the firm as at 30.6.2010;
b) The Realisation Account;
c) Partners' Capital Accounts showing the final settlement between them. **(RTP Nov-11)**

Answer:

(a) Balance Sheet as on 30.6.2010

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital Accounts:			Machinery	1,50,000	
A's balance as on 1.1.2010	1,17,000		Less: Depreciation @ 10% p.a.	(7,500)	1,42,500
Add: Profit for 6 months	11,800		Leasehold premises	34,000	
	1,28,800	1,22,900	Less: Written-off @ 5%	(1,700)	32,300
Less: Drawings for 6 months	(5,900)		Stock		75,000
B's balance as on 1.1.2010			Sundry Debtors		60,000
Add: Profit for 6 months	1,11,000				
	11,800				
Less: Drawings for 6 months	1,22,800	1,16,900			
Sundry Creditors		50,000			
Bank overdraft	(5,900)	20,000			
		3,09,800			**3,09,800**

(b) Realisation Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Machinery A/c	1,42,500	By Sundry Creditors A/c	50,000
To Leasehold Premises A/c	32,300	By Bank Overdraft A/c	20,000
To Stock A/c	75,000	By Limited Company A/c (W.N.2)	3,39,800
To Sundry Debtors A/c	60,000		
To A's Capital A/c	50,000		
To B's Capital A/c	50,000		
	4,09,800		**4,09,800**

(c) Partners' Capital Accounts

Date	Particulars	A Rs.	B Rs.	Date	Particulars	A Rs.	B Rs.
1.1.10	To Profit &			1.1.10	By Balance b/d	1,40,000	1,30,000
	Loss A/c	13,000	13,000				
	To Drawings A/c	10,000	6,000				
29.6.10	To Balance c/d	1,17,000	1,11,000				
		1,40,000	1,30,000			1,40,000	1,30,000
30.6.10	To Drawings A/c	5,900	5,900	30.6.10	By Balance b/d	1,17,000	1,11,000
	To Shares in Limited			30.6.10	By Profit & Loss		
	Company A/c	1,72,900	1,66,900		Appropriation A/c	11,800	11,800
					By Realisation A/c	50,000	50,000
		1,78,800	**1,72,800**			**1,78,800**	**1,72,800**

Working Notes:1. Ascertainment of profit for the 6 months ended 30th June, 2010

Closing Assets:	**Rs.**	**Rs.**
Stock		75,000
Sundry Debtors		60,000
Machinery less depreciation		1,42,500
Leasehold premises less written off		32,300
		3,09,800
Less: Closing liabilities:		
Sundry Creditors	50,000	
Bank overdraft	20,000	(70,000)
Closing Net Assets		2,39,800
Less: Opening combined capital:		
A – Rs. (1,40,000- 13,000- 10,000)	1,17,000	
B – Rs. (l,30,000-13,000-6,000)	1,11,000	(2,28,000
Profit before adjustment of drawings		11,800
Add: Combined drawings during the 6 months (equal to profit)		
		11,800
Profit for 6 months		23,600

2. **Ascertainment of purchase consideration:**

Closing net assets (as above) Rs. 2,39,800 + Goodwill Rs. 1,00,000 = Rs. 3,39,800.

Question 49. X, Y and Z share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct 'of Y and their balance sheet on that date was as under:

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital Accounts:			Land and Building	2,00,000
X	3,00,000		Plants	2,00,000
Y	2,00,000		Sundry Debtors	50,000
Z	1,00,000	6,00,000	Stock	1,50,000
Current Accounts:			Bills receivable:	50,000
X	50,000		Cash	1,00,000
Y	30,000	80,000	Current Account:	
Sundry Creditors		40,000	Z	50,000
Bills payable		80,000		
		8,00,000		**8,00,000**

The whole business of the firm was sold to Omega Limited, on that day on the following terms:

(i) Omega Limited will issue the following securities in consideration for transfer of business: 10,000 equity shares @ Rs. 15 each, 15,000 preference shares @ Rs 15 each; and20,000 debentures @ Rs. 14.725.

(ii) The agreed value of assets and liabilities of partnership firm are as follows:
Land & Building – 3,00,000, Plants – 1,50,000, Sundry Debtors – Rs. 47,500, Stock- 1,40,000, Bills Receivable –50,000, Sundry Creditors –38,000 and Bills Payable – 80,000.
It is mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end.
Prepare the necessary accounts, to close the books of the firm. **(CA- RTP May 12)**

Answer:

To Land & Building			2,00,000	By Sundry Creditors	40,000
To Plant			2,00,000	By Bills Payable	80,000
To Sundry Debtors			50,000	By Omega Limited (W.N.1)	6,69,500
To Stock			1,50,000		
To Bill Receivable			50,000		
To Cash			1,00,000		
To Profit transferred to Capital A/c:					
X		19,750			
Y		11,850			
Z		7,900	39,500		
			7,89,500		**7,89,500**

Omega Limited

To Realisation A/c	6,69,500	By Equity Shares in Omega Ltd. A/c	1,50,000
		By Preference Shares in Omega Ltd. A/c	2,25,000
		By Debenture in Omega Ltd.	2,94,500
	6,69,500		**6,69,500**

Equity Shares in Omega Ltd. A/c

To Omega Limited	1,50,000	By X's Capital in Omega Ltd. A/c	87,000
		By Y's Capital A/c	63,000
	1,50,000		**1,50,000**

Preference Shares in Omega Ltd. A/c

To Omega Limited	2,25,000	By X's Capital A/c	1,12,500
		By Y's Capital A/c	67,500
		By Z's Capital A/c	45,000
	2,25,000		**2,25,000**

Debenture in Omega Ltd. A/c

To Omega Limited	2,94,500	By X's Capital A/c	1,47,250
		By Y's Capital A/c	88,350
		By Z's Capital A/c	58,900
	2,94,500		**2,94,500**

Cash A/c

To Z's Capital A/c	46,000	By X's Capital A/c	23,000

				By Y's Capital A/c			23,000
	46,000						**46,000**

Partners' Current Accounts

	X	**Y**	**Z**		**X**	**Y**	**Z**
To Balance b/d			50,000	By Balance b/d	50,000	30,000	
To X's Capital A/c	69,750			By Realisation A/c	19,750	11,850	7,900
To Y's Capital A/c		41,850		By Z's Capital A/c			42,100
	69,750	41,850	50,000		69,750	41,850	50,000

Partners' Capital Accounts

	X	**Y**	**Z**		**X**	**Y**	**Z**
To Z's Current A/c	-	-	42,100	By Balance b/d	3,00,000	2,00,000	1,00,000
To Preference Shares in Omega Ltd. A/c	1,12,500	67,500	45,000	By X's Current A/c	69,750		
To Debentures A/c	1,47,250	88,350	58,900	By Y's Current A/c		41,850	
To Cash A/c	23,000	23,000	-	By Cash A/c (bal.fig.)			46,000
To Equity Shares A/c	87,000	63,000	-				
	3,69,750	**2,41,580**	**1,46,000**		**3,69,750**	**2,41,580**	**1,46,000**

Working Notes: 1.Calculation of Purchase consideration Net Payment Method

		Rs.
Equity Shares	= 10,000 @Rs. 15	1,50,000
Preference Shares	= 15,000 @Rs. 15	2,25,000
Debentures	= 20,000 @ Rs. 14.725	2,94,500
		6,69,500

1. As whole business of the firm was sold to Omega Limited, cash balance of the firm Rs. 1,00,000 is also transferred to realisation account. Cash brought in by Z equal to Dr. balance appearing in his account, after distribution of preference shares and debentures in profit sharing ratio would be shared by X and Y equally. The balance amount payable to X and Y would be settled by transfer of equity shares in Omega Company.
2. X, Y and Z were in partnership sharing profits and losses in the ratio 3:2:1, No interest was to be allowed on current or capital accounts of the partners but their loan accounts were to carry interest of 10% p.a.

CHAPTER 12. BRANCH ACCOUNTING

DEPENDENT BRANCH (DEBTORS SYSTEM)

Question 1. Prepare branch Account under debtor system with following information.

Balance as on 1Jan 2015

Building	=	2,00,000
Cash	=	40,000
Debtors	=	30,000
Stock	=	35,000
Furniture	=	1,00,000

Goods sent to Branch during the year	=	3,80,000
Expenses paid by Branch	=	28,000
Expenses paid by H.O	=	22,000
Bad debts	=	10,000
Cash sales	=	2,20,000
Credit sales	=	8,00,000
Collection from debtors	=	6,30,000

Balances as on 31st December,2015

Stock	=	25,000

Charge depreciation @ 10% on furniture.

Question:2

Opening balance of Cash	=	Nil
Cash sales	=	40,000
Collection from debtors	=	2,00,000
Expenses paid by Branch	=	12,000
Expenses paid by H.O	=	20,000

Question:3

Opening balance of cash	=	15,000
Cash sales	=	80,000
Collection from debtors	=	2,50,000
Expenses Paid by Branch	=	22,000
Expenses paid by H.O.	=	8,000

Question:4

Opening balance of Cash	=	10,000
Cash sales	=	1,20,000
Collection from debtors	=	2,40,000
Expenses paid by Branch	=	18,000
Remittance by Branch to H.O	=	2,30,000

Question:5

Opening balance of Cash	=	20,000
Cash Sales	=	1,40,000
Collection from debtors	=	2,30,000
Cash sent by H.O to Branch	=	15,000
Expenses incurred by Branch	=	22,000

Question:6

Opening balance of Cash	=	30,000
Cash sales	=	4,00,000
Collection from debtors	=	3,00,000
Expenses incurred by Branch	=	45,000
Cash sent by H.O to Branch	=	12,000
Remittances by Branch	=	6,70,000

Question:7 Prepare branch account under debtor system.

Debtors(opening)	=	40,000
Stock(opening)	=	25,000
Goods sent to Branch	=	7,00,000
Cash sales	=	2,20,000
Credit sales	=	5,80,000
Goods returned to HO	=	35,000
Discount allowed	=	80,000
Bad debts	=	2,000
Collection from debtors	=	Rs. 3,30,000
Stock lost by fire	=	Rs. 8,000
Normal loss of stock due to spoilage	=	4,000
Expenses paid by HO	=	10,000

Goods are sold at a profit of 40% on sales.

Question:8 The COC Pvt. Ltd. invoices goods to their various branches at cost and the branches sell on credit as well as for cash. From the following details relating to the Bombay branch, prepare the necessary accounts in the Head Office books.

Debtors, 1st January, 2011	26,200
Debtors, 31st December, 2011	31,100
Cash Balance, 1st January, 2011	300
Stock, 1st January, 2011	15,000
Stock, 31st December, 2011	13,900
Goods received from Head Office	50,800
Cash received from Head Office	1,500
Goods returned to Head Office	700
Cash sales	33,500
Credit Sales	60,000
Allowances to Customers	320
Returns from Customers	580
Discount allowed to Customers	2,400
Bad Debts	600
Remittance to Head Office	74,900
Rent and Rates	1,800
Wages and Salaries	6,000
General Trade Charges	1,300
Normal loss of goods due to wastage	1,200
Abnormal loss of goods due to pilferage	3,000

Ans.: Profit 29,300 **(ICWA-INTER 16 MARKS)**

Question:9 **Opening Balances at Branch as on 1 Jan 2015**

Cash	=	30,000
Debtors	=	50,000
Stock	=	20,000
Machine	=	1,00,000
Creditors	=	15,000
O/s rent	=	5,000
Prepaid salary	=	10,000

During the year:

Goods sent to Branch	=	Rs. 6,50,000
Cash sales	=	Rs. 2,00,000
Credit sales	=	Rs.9,00,000
Collection from debtors	=	Rs. 7,80,000
Credit purchase of goods	=	Rs. 60,000

Expenses Paid by H.O
Rent paid @ 5,000 p.m = 65,000
Salary (including Rs. 8,000 for next year) =70,000
Office expenses =12,000
Insurance paid for the year ending on 31st March 16Rs. 12,000
Payment to creditors by H.O = 58,000
Petty expenses paid by Branch = Rs. 16,000
Closing balance of Stock = Rs. 75,000
Charge depreciation @ 10 % on Machine

Prepare Branch Account.

Question:10. IOCM with its Head Office at Delhi has a branch at Bombay. The Branch receives all goods from Head Office who also remits cash for all expenses. Sales are made by the Branch on credit as well as for cash. Total Sales by the Branch for the year ended 31st March, 2012 amounted to Rs.5,60,000 out of which 20% is cash sales. The following further information is also relevant.

	1-4-2011	**31-3-2012**
Stock-in-Trade	25,000	36,000
Debtors	60,000	48,000
Furniture	8,000	?
Petty Cash	120	180

Expenses actually incurred by the Branch during the year were:
Salaries Rs. 36,000
Rent Rs. 9,000 (up to 31stDecember 2011)
Petty expenses Rs. 5,600
Sale of furniture on 1st October 2011 (Book value of furniture on the date of sale Rs.950) amounted to Rs.900. All sales are made by the Branch at cost plus 25% Depreciation on furniture is 10% p.a.
Prepare Mumbai Branch Account in the books of IOCM(Head Office) for the year ending on 31sl March 2012.
[Ans. Cash received from Debtors = Rs.4,60,000; Goods sent to Branch = Rs. 4,59,000; Profit = Rs.57,600]
(ICWA-INTER, CA-INTER-16 MARKS) (BAS DIL KHUSH HO GAYA)

When goods are sent at Invoice Price

Question:11 Hindustan Industries, Bombay has a branch in Cochin to which goods are invoiced at cost plus 25%. The Branch sells both for cash and on credit. Branch expenses are paid direct from Head Office and the Branch has to remit all cash received into the Head office Bank Account at Cochin.

From the following details relating to the calendar year 2012, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to Head Office:

Goods received from Head Office at invoice price 6,00,000
Returns to Head Office at invoice price 12,000
Stock at Cochin as on 1st Jan. 2012 60,000
Sales in the year - Cash 2,00,000
-Credit 3,60,000
Sundry Debtors at Cochin as on 1stJan., 2012 72,000
Cash received from Debtors 3,20,000
Discount allowed to Debtors 6,000
Bad Debts in the year 4,000
Sales returns at Cochin Branch 8,000
Rent, Rates, Taxes at Branch 18,000
Salaries, Wages, Bonus at Branch 60,000
Office Expenses 17,600
Stock at Branch on 31st December 2012 at invoice Price 1,20,000

[Ans. Branch P/L surplus-24,000; Balance of Branch Debtors A/c 94,000. (Study material of ICAI)

Question:12. Gola Cloth Emporium has a head office in Bombay and many retail branches which are supplied goods from head office at 25% profit on cost price. Accounts are kept at head office from where all expenses (except petty expenses) are paid. Such petty expenses are paid by the branches which are allowed to maintain petty cash balance of Rs. 1500 on imprest system. From the following balances as shown by the books, prepare branch account:

Balances as on 1 January 2011:

Petty cash at Branch	1,500
Stock in hand at Branch at sale price	32,000
Sundry Debtors at Branch	8,700
Sundry Creditors at Branch	2,500
Furniture and fixtures at Branch	7,500
Prepaid Rent	600

Transactions for the year ended 31 December 2011 were as follows:

Goods sent to Branch (less returns)	1,15,000
Cash sales at Branch	95,000
Credit Sales at Branch	65,000
Allowances to Debtors	1,200
Cash received from customers	55,000
Bad Debts to be written off	350
Cash purchases by the Branch (on permission from head office)	15,000
Cash paid to creditors	10,000
Creditors at the end	3,500

Payments made by Head Office :

Rent for one year (paid on July 1, 2011)	2,400
Salaries (paid in advance Rs.500)	2,500
Insurance paid for the year ending 31 March 2012	1,800

Payments made by the Branch:

Petty expenses	1,200
Balances on December 31, 2011	
Stock at cost	40,000

Provide Depreciation on furniture at 20% p.a.

[Ans.: Profit = Rs.47,000] (CA- INTER 16 MARKS) (BAS MAJA AA GAYA)

Question:13. X Limited invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding Rs. 10,000 necessary for meeting immediate requirements of cash. On 31st March, 2011 the assets at the branch were as follows:

	Rs. (,000)
Cash in Hand	10
Trade Debtors	384
Stock (at invoice price)	1,080
Furniture and fittings	500

During the accounting year ended 31st March, 2012 the invoice price of goods dispatched by the head office to the branch amounted to Rs.1crore 32 lakh. Out of the goods received by it, the branch sent back to head office goods invoiced at Rs.72,000. Other transactions at the branch during the year were as follows:

	Rs. ('000)
Cash Sales	9,700
Credit Sales	3,140
Cash collected by Branch from Debtors	2,842
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842

On 1st January, 2012, the branch purchased new furniture for Rs.1 lakh for which payment was made by head office through a cheque. On 31st March, 2012 branch expenses amounting to Rs. 6,000 were outstanding and cash in hand was again Rs. 10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balances method. Prepare Branch Account in the books of Head office for the year ended 31st March, 2012. **[CA-MAY 2001—16 MARKS], ICWA-INTER 2004-16 MARKS)**

Question:14 . Poonam Ltd., Mumbai has a branch in Delhi to which goods were sent at selling price, which is fixed at 25% above cost. The branch makes both credit and cash sales. Branch expenses are met from branch cash, balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O.

Opening Balances (as on 1-4-2011)	**Rs.**
Stock at Branch at its cost	75,000
Petty cash Balance	1,200
Office Furniture	12,000
Branch Debtors	32,000
Outstanding Salary	1,280

Following further details are given for the year ended 31st March, 2012:

Cost of Goods sent to Branch		1,80,000
Cheques sent by H.O. to Branch:		
Salaries (including Rs. 600 o/s paid)	10,280	
Other Office Expenses	4,600	
For petty Cash	3,500	18,380
Sales made by the Branch (including credit sales Rs. 1,40,000)		2,51,800
Theft of Stock (at invoice price)		1,700
Other Abnormal loss of Stock (at IP)		3,500
Loss in weight at IP (Normal Loss)		1,000
Cash collected from Debtors		1,23,700
Discount allowed		1,250
Bad Debts written off		4,000
Petty Expenses paid		3,850
Office furniture purchased by branch Manager		4,500

Provide Depreciation @ 10% p.a. on furniture. You are required to prepare (a) Memorandum Debtors A/c. (b) Memorandum Stock A/c. and (c) Branch A/c. **[Ans.: Closing Debtors = Rs.43,050; Closing Stock = Rs.42,000**

Question:15 (Goods in Transit and Closing Stock with Sales at Different G.P. Margins)A Head Office in Calcutta has a branch in Delhi to which goods are invoiced by the Head Office at cost. All cash received by the branch is daily remitted to Head Office. From the following particulars, Show how the Branch Account will appear in the H.O. books.

Stock with the Branch (1-1 -2000)		60,000
Debtors (1-1-2000)		16,500
Petty Cash (1-1 -2000)		2,000
Office Furniture (1-1-2000)		10,800
Goods sent by H.O. to Branch		1,30,000
Goods received by Branch up to 31 -12-2000		1,15,000
Cheque sent to Branch:		
Salaries	5,000	
Rent	2,000	
Other Expenses	1,500	
for Petty Cash	1,000	9,500
Sales (including Rs.72,000 on cash basis)		1,77,000
Cash received from Debtors		95,000
Discount allowed		1,500

Petty Expenses paid by Branch Manager 1,800
Depreciate furniture by 10% p.a.
Closing Stock could not be ascertained, but it is known that the branch usually sells at cost plus 20 percent on cash basis and at cost plus 25% to credit customers. Prepare Branch Account to ascertain the profit in the books of Head office. **(ICWA INTER 16 MARKS)**
[Ans.: Profit = Rs. 20120, Closing Debtors = Rs. 25,000, Petty Cash = Rs. 1,200]

Question:- 16. XYZ Company is having its Branch at Kolkata. 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.

Stock on 1st April 2010 (Invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1st April, 2010	18,000	**Expenses paid by head office** :	
Cash in hand as on 1st April, 2010	800	Rent	1,800
		Salary	3,200
Office furniture on 1st April, 2010	3,000	Stationery & Printing	800
Goods invoiced from the		Petty exp. Paid by the branch	600
head office (invoice price)	1,60,000	Depreciation to be	
Goods return to Head office	2,000	provided on branch	
Goods return by debtors	960	furniture at 10% p.a.	
Cash received from debtors	60,000		
Cash Sales	1,00,000	Stock on 31st March,	
Credit sales	60,000	2011 (at invoice price)	28,000

(CA-IPCC- May 2011)

Answer: **Kolkata Branch Account**

Particulars	**Amt. (Rs.)**	**Particulars**	**Amt. (Rs.)**
To Balance b/d		By Stock reserve (opening)	6,000
Stock	30,000	By Remittances:	
Debtors	18,000	Cash Sales 1,00,000	
Cash in hand	800	Cash from Debtors 60,000	1,60,000
Furniture	3,000	By Goods sent to branch (loading)	32,000
To Goods sent to branch	1,60,000	By Goods returned by	
To Goods returned by	400	Branch (Return to H.O.)	2,000
branch (loading)		By Balance c/d	
		Stock	28,000
To Bank (expenses		Debtors	16,880
Paid by H.O.)		Cash (800 - 600)	200
Rent 1,800		Furniture (3,000 - 300)	2,700
Salary 3,200			
Stationary &			
Printing 800	5,800		
To Stock reserve (closing)	5,600		
To Profit transferred to			
General Profit & Loss A/c	24,180		
	247780		247780

Working Note **Debtors Account**

To Balance b/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16,880
	78,000		**78,000**

Stock and debtor System

Question 17. H.O. sends goods to its branch at cost + 25%. From the following information prepare necessary accounts under stock and debtor system.

Opening balance at Branch

Furniture	50,000
Stock at invoice price	40,000
Debtors	60,000
Goods sent to Branch at invoice price	2,00,000
Cash sales	60,000
Credit sales	1,20,000
Cash collected from debtors	1,35,000
Discount allowed	8,000
Bad debts	2,000
Expenses paid by Branch	4,000
Expenses paid by HO	3,000
Charge deprecation @ 10% on furniture	

Question:18 (Concepts of abnormal loss) Prepare Branch stock Account, Branch adjustment account and Branch profit & loss account from following information H.O sends goods to its Branch at 25% profit on cost

Opening stock at Branch (I.P)	2,00,000
Sales (Cash basis)	4,80,000
Goods Lost by fire(I.P)	12,000
Branch expenses	6,500
Goods sent to branch	5,00,000

Question:19 (Normal Loss) Assume in previous Question goods were lost due to spoilage (normal Loss). Prepare necessary accounts.

Question:20 Delhi head office supplied goods to its branch at Kanpur at invoice price which is cost plus 50%. Branch strictly sells at invoice price only. All cash received by the branch is remitted to Delhi and all branch expenses are paid by the head office. From the following particulars relating to Kanpur branch for the year 2016, prepare, Branch Stock Account, Branch Debtors account, Branch Expenses Account and Branch Adjustment Account in the books of the head office so as to find out the gross profit and net profit made by the branch:

Stock with Branch on 1.1.2016 (at invoice price)		60,000
Branch Debtors on 1.1.2016		12,000
Petty cash balance 1.1.2016		100
Goods received from Head Office (at invoice price)		1,86,000
Goods returned to Head Office		13,000
Credit Sales less Returns		86,000
Cash received from Debtors		90,000
Discount allowed to Debtors		2,400
Expenses (cash paid by Head Office)		
Rent	2,400	
Salaries	24,000	
Petty Cash	1,000	27,400
Cash Sales		1,04,000
Stock with Branch on 31.12.2016 (at invoice price)		54,000
Petty cash balance on 31.12.2016		320

[Ans. Surplus -Rs. 11,000; Gross Profit = Rs.63.334; Net Profit = 41,087].

Question:21(Local Purchases by Branch) Aakash established a retail business in Delhi several years ago and has since opened branch shops at Mumbai, Calcutta and chennai. All the purchasing and administration is done at the Head Office. Branches are also allowed to purchase locally in special circumstances. Branches sell both for cash and credit terms, but all invoices for credit sales are sent from Delhi and payments from credit customers received there. The branches are expected to achieve a profit of 50% on cost price. The following information relates to the Mumbai branch for the first six months of 2016:

	Rs.
Opening stock of goods at branch (Cost to H.O.)	28,000
Opening Debtors	9,000
Goods received by Branch at selling price	1,80,000
Credit Sales	60,000
Cash sales	1,18,000
Transfer from other branches to Mumbai Branch at selling price	12,000
Transfer to other Branches from Mumbai at selling price	21,000
Goods returned to H.O. at selling price	6,000
Cash from Debtors received at H.O.	53,000
. Bad debts written off	2,000
Goods returned by credit customers to Branch	2,400
Goods returned by credit customers to H.O.	1,200
Goods purchased by Bombay Branch from local suppliers (cost)	15,000
Expenses at the Branch	7,500
Closing stock at Branch:	
From H.O. at selling price	45,000
From local purchases	3,000

Additional Information:

(i) Goods amounting to Rs.6,000 at cost to H.O. were in transit.

(ii) Branch had on 1 January,2016 furniture and other equipment at a book value of Rs. 7,500. Depreciation at 10% p.a. is to be provided on this item.

(iii) Goods purchased locally were sold at 25% profit on sales price.

Prepare : (i) Branch Stock Account; (ii) Branch Debtors Account and; (iii) Mumbai Branch Account.(iv) branch adjustment account **[Ans. Profit = Rs. 45,325].**

Question:22 (Return by Customers Direct to H.O. at List Price) Kali Baba of Karol Bagh, Delhi invoices goods to its Mumbai Branch at 20% less than the list price which is cost plus 100 percent with instructions that cash sales were to be made at invoice price and credit sales at list price. From the following particulars available from Mumbai Branch, prepare Branch Stock A/c, Branch Debtors A/c. and Branch Account to reveal the profit for the year ending on 31st December 2011.

Stock on 1st January 2011 at invoice Price	18,000
Debtors on (1-1-2011)	10,000
Personal Computer at Branch	50,000
Goods received from H.O. at Invoice Price	1,80,000
Cash Sales	82,000
Credit Sales	1,20,000
Goods in transit on 31st Dec 2011	10,000
Cash sent to Branch for expenses	32,000
Actual expenses at Branch	30,000
Stock at the end at Invoice Price	16,000
Bad Debts written off	400
Goods returned by customers direct to Head Office at list price	1,500
Debtors at the end	8,100

Depreciate Computers by 20% p.a.

[Ans.: Shortage = Rs. 4,000; Cash Received from Debtors = Rs. 1,20,000;Profit at the Branch = Rs.47,100].

Question:23(Where Branch Sells at Price Higher Than Invoice Price) Smart Trading Ltd. with its head office at Mumbai, invoiced goods to its branch at Noida city at 20% less than the List Price which is cost plus 100% with general instructions that cash sales were to be made at invoice price and credit sales at list price. From the following particulars, prepare Ledger Accounts under stock and Debtor system:

Opening Stock (at invoice price)		12,000	Allowances to customer		1,800
Opening Debtors		10,000	Exp. Paid by H.O.		
Goods received from H.O.		1,60,000	Salaries	21,000	
Sales:			Misc.	17,000	38,000
Cash	44,800		Closing Debtors		?
Credit	1,21,375	1,66,175	Closing Stock (at IP)		28,700
Cash received from customers		91,700	Remittances to H.O.		1,36,500
Bad Debts reported		9,000			

[Ans.: Gross Profit = Rs. 77,487; N. Profit = Rs. 27,812].

Question:24(Abnormal Loss of Stock) Bombay Traders Ltd. sends goods to its Madras Branch at cost plus 25%. The following particulars are available in respect of the Branch for the year ended 31st March 2016:

Opening Stock at Branch (at cost to Branch)	80,000
Goods sent to Branch at invoice price	12,00,000
Loss-in-transit at invoice price	15,000
Pilferage at invoice price	6,000
Sales	12,19,000
Expenses	60,000
Closing stock at Branch (at cost to Branch)	40,000
Recovered from insurance Co. against Loss-in-transit	10,000

Show ledger accounts in the head office books for

a) Branch Stock Account
b) Goods Sent to Branch Account
c) Branch Adjustment Account
d) Branch Profit & Loss Account.

[CA Nov. 1988,ICWA-INTER 2010]

Final Account Methods

Question:25 (Goods Sent by Head Office at Cost) Sonika Electronics Limited with its Head Office in Kanpur operates a retail branch at Delhi. All purchases are made by the head office. Goods are supplied to branch at cost only. All the branch expenses are paid by the Head Office directly with the exception of petty expenses which are paid by branch manager out of petty cash maintained for the purpose. You are given the following particulars relating to Delhi branch for the year ended 31st March 2001:

Balances as on 1st April'2000		Goods returned by Branch	3,500
Stock at Branch	15,900	**Cash sent to Branch for expenses:**	
Branch Debtors	16,900	Salary	11,900
Petty Cash	110	Petty Cash	2,600
Total Sales at Branch (including Rs. 20,200 for Cash Sales)	73,800	Rent	3,900
		Petty Cash (as on 31.3.2001)	85
		Stock (as on 31.3.2001)	18,900
Cash received from Debtors	52,700		
Goods Sent to Branch during the year	45,200		

Prepare a Branch Trading and Profit and Loss Account and Delhi Branch Account in the books of Head Office.
[Ans.: Gross Profit = 35,100; Net Profit = Rs. 16,675].

Question:26(Normal/Abnormal Loss & Trade Discount). A Delhi merchant has a branch at Mumbai to which he charges the goods at cost plus 25%. From the following particulars, determine profit under final Account system:-

Opening Stock (at IP)	75,000	Cartage and freight	18,000
Goods Sent to B.O.	2,30,000 (IP)	Rent & Taxes	8,000
Goods returned by B.O.	11,250 (IP)	Insurance	1,200
Cash Sales	98,500	Salaries Paid	19,000
Credit Sales	1,95,000	Salaries owing	300
[Trade Discount allowed Rs.3,000]		Bad Debts	2,000
Normal Loss of Stock	1,000 (at IP)	Depreciation	3,500
Shortage (Abnormal)	5,000 (at IP)	Advertisement	8,250
Closing Stock at IP	35,625		

[Ans.: Gross Profit = Rs. 73,000; Net Profit = 26,750].

Question:27(Miscellaneous Income Retained by Branch) A Delhi merchant has a branch at Madras to which he charges the goods at cost plus 25%. The Madras Branch keeps its own sales ledger and transmits all cash received from the head office every day. All expenses are paid from the Head Office. The transactions for the branch were as follows:

Stock 1.1.2006	20,000
Debtors 1.1.2006	200
Petty cash	200
Cash sales	5,200
Goods sent to branch	35,000
Collections from ledger accounts	38,000
Goods returned to head office	500
Bad debts	400
Allowances to customers	350
Returns inwards	750
Cheques sent to branch:	
Rent	1,000
Wages and salaries	2,000
Stock (31.12.2006)	25,000
Debtors	3,500
Petty cash (including Miscellaneous income Rs.50 not remitted on 31.12.2006)	150

Prepare the Branch Trading and Profit and Loss Account for the year ending December 31, 2006 and Branch Account in the books of Head Office. Also verify the answer under Stock &Debtor System.

[Ans.: Gross Profit = Rs. 21,650; N. Profit = 19.850; Branch A/c. Balance =Rs.23,650].

Question:28(Provision for Discount for Prompt Payment) M/s. Bright & Co., with its head office in Madras, invoiced goods to its branch at Bombay, at 20% less than the catalogue price which is cost plus 50%, with instructions that cash sales were to be made at invoice price and credit sales at catalogue price. Discount on credit sale at 15% on prompt payment will be allowed. From the following particulars available from the branch,Prepare the branch trading and profit and loss account for the year ended 31st March, 2006 in the head office books, so as to show the actual profit or loss of the branch for the year 2005-06:

Stock 1-4-2005	12,000
Goods received from head office (invoice price)	1,32,000
Debtors on 1-4-2005	10,000
Sales (cash)	46,000
Sales (credit)	1,00,000
Cash realized from debtors	85,635
Discount allowed to debtors	13,365

Expenses at the branch		6,000
Remittance to head office		1,20,000
Debtors on 31 -3-2006	11,000	
Cash in hand on 31-3-2006	5,635	
Stock on 31-3-2006 (invoice price)	15,000	

It was reported that a part of stock at the branch was lost by fire during the year whose value is to be ascertained; and provision should be made for discount to be allowed to debtors as on 31st March,2006,on the basis of the year's trend of prompt payment. **[C.A. (Inter) Nov. 1992 MODIFIED]**

[Ans.: Cost of stock lost by fire Rs. - 2,500; Provision for discount on debtors Rs. = 1485: Gross Profit Rs. 41,000; Net Profit Rs.17,650].

Question:29. X Ltd. Bombay, started on 1st January, 2011 has two branches in Kanpur and Lucknow. All goods sold at the Branches are received from the head office invoiced at cost plus 25 percent. All expenses relating to Branches are paid by the Head Office. Each Branch has its own Sales Ledger and sends weekly statements. All cash collections are remitted daily to Head Office by the Branches. The following particulars relating to the year ended 31st December 2011 have been extracted from the weekly statements sent by the branches:

	Kanpur	**Lucknow**
Credit Sales	1,25,200	1,10,000
Cash Sales	78,600	85,200
Sales Returns	2,300	1,200
Sundry Debtors	34,500	23,600
Rent and Rates	3,200	4,500
Bad Debts	6,000	--
Salaries	16,000	18,000
General Expenses	2,600	1,500
Goods received from H.O.	1,50,000	1,25,000
Advertisement	7,500	5,200
Stock on 31st December, 2011	45,000	35,000

You are required to prepare the Branch Accounts as they would appear in the books of the Head Office, showing the Profit and Loss for the period and the Trading and Profit and Loss Account separately for each Branch. **(ICWA-INTER 12 MARKS)**

WHOLE SALE BRANCH

Question:30. A head Office send goods to its branch at 20% less than the list price. Goods are sold to customers at cost plus 100%. From the following particulars ascertain the profit made at the Head office and the branch on wholesale basis:

	Head Office (Rs.)	**Branch (Rs.)**
Purchases	20,00,000	
Goods sent to Branch (invoice price)	8,00,000	
Sales	17,00,000	8,00,000

Question:31. A Head Office sends goods to its branch at 20% less than list price i.e. catalogue price. Goods are sold to customers at cost plus 100%. From the following particulars, ascertain the profit made at the head office and the branch on the wholesale basis for the year ended 31st December, 2002:

	HEAD OFFICE (Rs.)	**BRANCH (Rs.)**
Opening Stock at its cost	1,69,500	40,000
Purchases	5,10,000	
Goods sent to Branch (at Invoice Price)	4,80,000	

Sales (at list price)	3,40,800	5,97,500
Expenses	21,000	4,500

Assume that the head office sells goods to customers at list price.

[Ans. G. P. = Rs. 3,50,400 (H.O.), Rs.I,19,500 (B.O.) Net Profit = Rs. 3,28,650 (H.O.), Rs. I,15,000 (B.O.)].

Question:32 IOCM Ltd with their Head office at Calcutta, invoiced goods to their Mumbai Branch at invoice price. The invoice price is 20% less than the 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:

	Calcutta H.O.	**Mumbai Branch**
Opening Stock	40,000	32,000
Purchases	2,00,000	
Goods sent to Branch (cost to H.O.)	62,500	
Goods received from H.O. (invoice price)	-	96,000
Sales (List price)	1,70,000	80,000
Trade Expenses	14,000	8,000

Stock at Head office are valued at cost price but those of Branch are valued at invoice price.

[Ans.:Net Profit = H.O. = Rs.95,000 and Branch = Rs.8,000].

Question:33 Bata Limited with its head office at Delhi has a branch at Punjab. The company supplied goods to its branch at selling price less 20%. The company as well as branch sells goods to customers at a profit of 100% on cost. The company also sells goods to their approved stockiest at the same price at which they are selling to their branch at Punjab. From the following particulars, prepare Trading Account of the head office and of the branch for the second year of their business and show the provisions for unrealized profits on stock at the branch supplied by the head office.

	Head Office	**Branch**
Opening Stock	82,000	4,000
Purchases during the year	3,10,000	-
Goods Sent to the Branch 48,000		
Goods received from the H.O.	-	48,000
Goods Sold to approved stockiest	35,000	-
Goods Sold to Customers.	4,20,000	42,000

[Ans.: H.O. - G.P. Rs.2,41,125; N. P. Rs. 2,35,725; Branch G. P. Rs. 8,400].

Question:34. New Textiles Limited operates a number of retail shops to which goods are invoiced at wholesale price which is cost plus 20%. Shops sell the goods at the list price which is wholesale price plus 10%. From the following particulars ascertain the profit or loss for 2002 at Shop No. 143:(**Study Material)**

Stock at shop on January 1, 2002	15,000
Goods invoiced to shop during 2002	1,40,000
Sale at the shop during the year	1,54,770
Goods destroyed by accident (retail value)	660
Expenses at the shop	7,200

Solution:

Cost Price = 100 Invoice Price = 120 Sales Price = 132

Shop Trading Account

Particulars	**Amount**	**Particulars**	**Amount**
To Opening stock	15,000	By Sales	1,54,770
To Goods received from H.O.	1,40,000	By Loss	600
To Gross profit	14,070	By Closing Stock	13,700
	1,69,070		**1,69,070**

Shop P&L Account

Particulars	Amount	Particulars	Amount
To Expenses	7,200	By Gross Profit	14,070
To Loss by fire	600		
To Net profit	6,270		
	14,070		**14,070**

Question:35. Ganga Ltd. having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.Following details are furnished for the year ended 31st March, 2009:

	Head Office	Branch
Opening stock (as on 1.4.2008)	2,25,000	—
Purchases	25,50,000	—
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	—
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2009.

Solution:

Trading and Profit and Loss A/c

	Head office Rs.	Branch Rs.		Head office Rs.	Branch Rs.
To Opening stock	2,25,000	—	By Sales	27,81,000	9,50,000
To Purchases	25,50,000	—	By Goods sent to		—
To Goods received			branch	9,54,000	
from head office	—	9,54,000	By Closing stock		
To Gross profit c/d	16,60,000	95,000	(W.N.I & 2)	7,00,000	99,000
	44,35,000	10,49,000		44,35,000	10,49,000
To Office expenses	90,000	8,500	By Gross profit b/d	16,60,000	95,000
To Selling expenses	72,000	6,300			
To Staff salaries	65,000	12,000			
To Branch Stock Reserve (W.N.3)	44,000	-			
To Net Profit	13,89,000	68,200			
	16,60,000	**95,000**		**16,60,000**	**95,000**

Working Notes:

Calculation of closing stock of head office:	Rs.	
Opening Stock of head office	2,25,000	
Goods purchased by head office	25,50,000	
	27,75,000	
Less: Cost of goods sold [37,35,000* x 100/180]	20,75,000	7,00,000
Calculation of closing stock of branch:		Rs.
Goods received from head office [At invoice value]		9,54,000
Less: Invoice value of goods sold [9,50,000 x 180/200]		8,55,000
		99,000
Calculation of unrealized profit in branch stock:		
Branch stock	Rs. 99,000	
Profit included	80% of Cost	

Hence, unrealized profit would be = Rs. 99,000 x 80/180 = Rs. 44,000

MISC.QUESTIONS

Question:36. Sellwell Lid. has two branches in Cochin and Bangalore. During the year ended 31 March, 1984, goods have been invoiced to Cochin Branch at 20% above cost and to the Bangalore Branch at 25% above cost. The branches do not maintain complete books of accounts but the following figures available for the year ended 31 March, 1984:

	Cochin	**Bangalore**
Opening Stock at Invoice Price	10,000	10,000
Goods sent to Branch at Cost	50,000	40,000
Amount remitted by Branch	80,000	80,000
Amount remitted from H.O.	15,000	15,000
Goods returned by Branch at Invoice Price	3,000	_
Cash as on 1.4.1983	2,000	1,000
Cash as on 31.3.1984	1,000	500
Goods retuned by Customers at Branch at Selling Price	5,000	4,000
Expenses at Branch in cash	9,000	3,000

All sales at the branches are for cash. During the year, Cochin Branch purchased fixed assets worth Rs. 4,000 and this amount is included in the figure of branch expenses. Cochin Branch transferred to the Bangalore Branch stock costing Rs.5,000 during the year. The Bangalore Branch remitted Rs.2,000 to the Cochin Branch also during the year. There was a closing stock of Rs.24,000 at invoice price at the Cochin Branch. There was no closing stock at the Bangalore Branch. Prepare Branch Stock Accounts, Branch Stock Adjustment Accounts, Goods sent to Branch Accounts, Branch Cash Accounts and Branch Profit and Loss Accounts in the Head Office books ignoring depreciation.

[Ans.: G. Profit = Rs. 11834 (Cochin) Rs. 13,900 (Bangalore) Net Profit = Rs.35,167 (Cochin), Rs. 13,500 (Bangalore)]

Question:37(Closing Stock to be Ascertained) From the following particulars, prepare Branch A/c showing the profit or loss of the Branch:

Opening Stock at Branch	82,000
Opening furniture at Branch	13,000
Goods sent to Branch	1,50,000
Sales (Cash)	2,37,500
Expenses:	
Rent	5,480
Salaries	9,500
Other Misc. Expenses	3,500

Closing Stock could not be ascertained, but it is known that the branch usually sells at cost plus 25%. The Branch manager is entitled to a commission of 5 percent on the profit of the Branch after charging such commission. Depreciate furniture @ 10% p.a. Ascertain closing stock at branch, commission due to manager and profit earned by the branch. **[Ans. Closing Stock = Rs.42,000; Manager's Commission — 1,320; N. P. (after Commission) -26,400].**

Question:38(Determination of G. P. Margin) A business has three branches at Coimbatore, Trivandrum and Bangalore. The Head Office at Madras purchases goods and sends them to branches, to be sold at a uniform percentage of profit on cost. The following particulars are made available to you to enable you to prepare a combined Trading Account for the year ended 31stMarch, 1992.

	Madras	Coimbatore	Trivandrum	Bangalore
Stock on 1st April, 1991	54,000	16,000	12,500	10,000
Purchases in the year	2,74,000	-		
Sales	-	1,80,000	1,20,000	1,00,000
Stock on 31st March, 1992	28,000	6,000	5,000	2,500
Branch Accounts on 1st April, 1991:				
Coimbatore 15,000				
Trivandrum 32,000				
Bangalore 4,000				
Remittances from branches	3,20,000	1,50,000	1,00,000	70,000

Madras Office invoices goods to the branches at fixed sales prices but maintains branch accounts in its ledgers at cost price. Show Branch Accounts in Madras Head Office Books. **[C. A. (Inter) May 1992]**

Question:39 IOCM who carried on a retail business opened a branch X on January 1st 2007 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost. The following were the transactions:

	Jan. 07	Feb. 07	Mar. 07
Goods sent to Branch (Purchase Price)	40,000	50,000	60,000
Sales as shown by the branch (Monthly report)	38,000	42,000	55,000
Cash received from Debtors and remitted to H.O.	20,000	51,000	35,000
Returns to H.O. (Invoice price at Branch)	1,200	600	2,400

The Stock of goods held by the branch on March 31, 2007 amounted to Rs.53,400 at invoice price to the Branch. Record these transactions in the Head Office books, showing balances as on 31st March 2007 and the branch gross profit for the three months ended on that day. All working should form part of your answers**.**

[C.A.(Inter) May 1987] [Ans. Profit to General P/LA/c. = Rs.37,363]

Question:40 Rahul Limited operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at retail price which is wholesale price plus 20%. Following is the information regarding one of the outlets for the year ended 31.3.97:

Stock at the outlet (1-4-1996)	30,000
Goods invoiced to the outlet during the year	3,24,000
Gross Profit made by the branch	60,000
Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet (31 -3-1997)	36,000

You are required to prepare the following account in the books of Rahul Limited for the year ended 31.3.97:

(a) Outlet Stock Account
(b) Outlet Profit & Loss Account
(c) Stock Reserve Account**[C.A. (Inter) May 1997(10 marks)**

Answer. **Outlet Stock Account**

To Balance b/d	30,000	By Sales	3,60,000
To Good sent to outlet	3,24,000	By Goods Lost by fire	18,000
To Gross Profit c/d	60,000	By Balance c/d	36,000
	4,14,000		4,14,000

Outlet Profit & Loss Account

To Expenses	20,000	By Gross Profit c/d	60,000
To Good lost by fire	18,000		
To Profit Transferred	22,000		
	60,000		60,000

Stock Reserve Account

Particulars	Rs.	Particulars	Rs.
To H.O.P&L A/c Transfer	6,000	By Balance b/d	6,000
To Balance c/d	7,200	By H.O. P&L A/c (Stock Rs. Required)	7,200
	13,200		13,200

Working Notes: **Rs.**

1. Whole sale Price: 100+25=125
   Retail Price 125+20%=150
   Gross Profit at the outlet wholesale Price – Retail Price (150 + 125) =25
   Retail Sales Value = 60,000 X 150/25 = Rs. 3,60,000

2. Goods lost by fire:

Opening Stock + Goods Sent + Gross Price – Sales – Closing Stock
30,000 + 3,24,000 + 60,000 – 3,60,000 – 36,000 = Rs. 18,000

3. Stock Reserve:

Opening Stock = 30,000 X 25/125 = Rs. 6,000
Closing Stock = 36,000 X 25/125 = Rs. 7,200

Question:41 (Where Accounts are Given)From the following information, prepare a Memorandum trading and profit & loss account of branches and also show the branches account as it would appear in the head office books at the end of the year **Branches Cash A/c**

Jan. 1	To Balance b/d	7,500	Dec. 31	By Petty Cash	3,000
Dec.31	To Receipts from Debtors	37,500		By Bank	62,000
	To Cash Sales	25,000		By Balance	5,000
		70,000			**70,000**

Branches' Debtors Account

Jan. 1 To Balance b/d	3,000	Dec.31 By Cash	37,500
Dec. To Sales	45,000	By Discount Allowed	1,000
		By Bad Debt	8,000
		By Balance c/d	1500
	48,000		**48,000**

Branch Account

Jan. 1 To Balance b/d			**Jan. 1 By Balance b/d**		
Cash	7,500		outstanding expenses	1000	
Debtors	3,000				
Furniture	7,500		Dec. 31By Bank	62,000	
Stock	10,000	28,000	By Balance c/d	20,500	
During	To Goods Transferred	45,000			
2000	To Furniture Purchased	2,500			
	To Sundry Expenses	8,000			
		83,500			**83,500**

Closing Stock at branches was Rs. 4,000 and expenses outstanding were Rs.900. Depreciation at 10% of the book value has to be provided on furniture**.** **(C.A. (Inter), ICWA-INTER)**

[Ans.: Gross Profit = Rs. 19,000; Net loss = ?].

Question:42 (Memorandum Column Method) A company with its Head Office at Calcutta has a Branch at New Delhi. Goods are invoiced to the branch at cost plus 33 1/3 % which is the selling price. The following information is given in respect of the branch for the year ended 31st March, 1998:

Goods sent to branch (invoice value)	4,80,000
Stock at Branch (1-4-1997) at selling price)	24,000
Cash Sales	1,80,000
Returns from Customers	6,000
Branch expenses paid for cash	53,500
Branch Debtor's balance (1-4-97)	30,000
Discounts allowed	1,000
Bad debts	1,500
Stock at Branch (31.3.1998) at selling price	48,000
Branch Debtor's balance (31 -3-1998)	36,500
Collections from debtors	2,70,000
Branch Debtor's cheques returned dishonoured	5,000

You are required to prepare the Branch Stock Account by Memorandum Column method to ascertain shortage/surplus and also ascertain the Net Profit made by the Branch. **[Ans.: Gross Profit = Rs.1,13,500; Net Profit = Rs. 56,000]**

Answer: **BRANCH STOCK A/C**

	Selling Price)	Cost Price		Memo (selling Price)	Cost Price
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	24,000	18,000	By Branch Bank	1,80,000	1,80,000
To Goods sent to branches	4,80,000	3,60,000	By Branch Debtors	2.80,000	2,80,000
To Branch Debtors (return)	6,000	6,000	By stock discrepancy - shortage		
To Branch Profit & Loss A/c		1,13,500		2,000	1,500
			By Balance c/d	48,000	36,000
	5,10,000	4,97,500		5,10,000	4,97,500

Branch Debtors A/c

To Balance b/d	30,000	By Return from Customers	6,000
To Bank-Cheques Dishonoured	5,000	By Discounts	1,000
To Credit Sales	2,80,000	By Bad debts	1,500
		By Cash Received	2.70,000
		By Balance c/d	36,500
	3,15,000		**3,15,000**

Branch Profit & Loss A/c

To Branch debtors A/c			By Branch stock A/c	1,13,500
- Discount	1,000		-Gross Profit	
- Bad debtors	1,500	2,500		
To Branch Bank-expenses		53,500		
To Branch Stock –Shortage		1,500		
To Net Profit transferred to General Profit & Loss A/c		56,000		
		1,13,500		1,13,500

Question 43. Following is the information of the Jammu branch of Best Ltd., New Delhi for the year ending 31st March, 2010 from the following:

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

Stock as on 01.04.2009	2,20,000
Goods sent during the year	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000

Ascertain

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

Answer : Calculation of profit earned by the branch

Trading Account

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

(ii) Stock reserve in respect of unrealized profit
= Rs. 3,60,000 x (20/120) = Rs. 60,000

Working Note:

Cost Price	100
Invoice Price	120
Sale Price	150

Calculation of closing stock at invoice price

Opening stock at invoice price	2,20,000
Goods received during the year at invoice price	11,00,000
	13,20,000

Less : Cost of goods sold at invoice price	(9,60,000)	[12,00,000 x (120/150)]
Closing stock	3,60,000	

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

INDEPENDENT BRANCH

Question: 1 The head office of a business and its branch keep their own books and each prepares its own profit and loss Account. The following are the balances appearing in the two sets of book as on 31st December.1994 after ascertainment of profit and after making all adjustments except those referred to below:

	Head office		Branch	
	Dr	Cr	Dr	Cr
Capital		1,00,000		
Fixed assets	36,000		16,000	
Stock	34,200		10,740	
Debtors and creditors	7,820	3,960	4,840	1,920
Cash	10,740		1,420	
Profit and loss account		14,660		3,060
Branch office account	29,860			
Head office account				28,020
	1,18,620	1,18,620	33,000	33,000

Set out the balance sheet of the business as on 31st December,1994 and the journal entries necessary [in both sets of books] to record the adjustments dealing with the following:

on 31st December,1994 the branch had sent a cheque of for Rs.1,000 to the head office ,not received by head-office nor credited to Branch Account till 3rd January,1995.

(b) Goods valued at Rs.840 had been forwarded by the head office to the branch and invoiced on 30th December 1994 ,but were not received by the branch nor dealt with in branch's books till 11th January ,1995.

Question: 2 Sunil Enterprise operates a branch as well as a head office .the following Trial balance has been extracted from the books of the concern as on 31st march, 2012;

	HEAD	**OFFICE**	**BRACH**	**OFFICE**
	Dr	**Cr**	**Dr**	**Cr**
Capital account	__	4,71,000	__	__
Drawings	84,000	__	__	__
Plant at cost	2,40,000	__	1,20,000	__
Accumulated depreciation on plant	__	1,20,000	__	60,000
Goods to branch/from head office	__	7,92,000	7,20,000	__
Head office current account	__	__	__	1,56,000
Branch current account	2,58,000	__	__	__
Branch stock provision(1-4-2011)	__	6,000	__	__
Operating expenses	30,000	__	15,000	__
Purchases	22,92,000	__	__	__
Rent and rates	45,000	__	18,000	__
Sales	__	21,00,000	__	9,00,000
Stocks (1-4-2011)	1,80,000	__	36,000	__
Debtors	90,000	__	75,000	__
Creditor	__	1,35,000	__	__
Salaries and wages	3,60,000	__	1,20,000	__
Cash and bank	45,000	__	12,000	__
	36,24,000	36,24,000	11,16,000	11,16,000

Additional information:

(a) All goods are purchased by the head office. The goods required by the branch are invoiced by head office to the branch at cost plus 20%.On 31st march, 2012,the head office held stocks which had cost it Rs.2,40,000 On the same date the branch held stocks which had been invoiced to it at Rs.54,000.

(b) Fixed assets are to be depreciated at the rate 50% per annum based on the reducing balance method .There had been no purchase or sale of fixed assets during the year.
(c) Goods of Rs.72,000 invoiced by the head office to the branch were in transit on 31st march,2012.
(d) At 31st march,2012,cash Rs.30,000 was in transit from the branch to the head office .
(e) The following expenses were outstanding on 31st march,2012;

	Head office	**branch office**
Salaries	2,000	1,000
Rent	1,000	2,000

You are required to prepare. In columnar form, for (1) the head office , (2) the branch ,and (3) the business as a whole, the Trading and Profit & Loss Accounts for the year ended 31st march , 2012.Also, prepare a combined Balance Sheet as on that date. **(ICWA-INTER-20 MARKS)**

Question:3 The following trial balance is extracted from the books of Nagpur branch of *XYZ Ltd* as on 31.3. 1995:

	Debits	**Credits**
Stock—opening at invoice price	25,000	
Branch debtors and creditors	10,000	3,000
Cash in hand	500	
Goods received from H.O.	80,000	
Branch expenses	9,000	
Branch sales		1,80,000
Current account with head office	58,500	
	1,83,000	1,83,000

As on that date, closing stocks with branch at invoice price were valued at Rs. 30,000. There was an amount of Rs. 18,500 remitted by the branch on 31st March which had not been received by the head office on that date. The head office had sent goods, costing Rs. 20,000, to the branch on 29thMarch. These had not been received by the branch till the closing date.

The head office enters in its books all goods sent to the branch at cost. The branch enters these, in its books, at invoice price but sells them at an even higher one. At the end of each year, the difference is adjusted by debiting the branch and crediting the profit and loss account in the books of head office. The proportionate difference between cost and invoice price was the same at all relevant times.
The credit balance as on 31stMarch 1995, of the branch account in the head office books, was Rs. 60,000 before making any of the above adjustments (though the above-mentioned dispatch of goods of Rs. 20,000, on 29th March had, of course, been duly debited to the branch account).
Prepare branch profit and loss account and head office profit and loss account (relevant portions only) for the year ended 31st March, 1995. **[C.A. (Inter)**

Answer: **NAGPUR BRANCH ACCOUNT**

	Rs.		**Rs.**
To Profit and loss account (balancing figure)	40,000	By Balance b/d	60,000
		By Cash in transit	18,500
To Balance c/d (as per branch books)	58,500	By Goods in transit	20,000*
	98,500		**98,000**

The balancing figure in the above account represents the loading on goods invoiced to branch during the year. This is because while the H.O. makes entry for goods sent to the branch at cost, the branch makes the entry at invoice price and. therefore, the balancing difference in the branch account represents loading:

MEMORANDUM BRANCH PROFIT AND LOSS ACCOUNT

	Rs.		**Rs.**
To Opening stock	25,000	By Branch sales	1,80,000
To Goods received from		To Closing stock	30,000
H.O.	80,000		
To Branch expenses	9,000		
To Net profit	96,000		
	2,10,000		**2,10,000**

Head Office PROFIT AND LOSS ACCOUNT(Relevant portion only)

	Rs.		**Rs.**
To Stock reserve @ 50%		By Branch account—profit	96,000
—closing stock	15,000*	By Loading goods sent to	
To Net profit c/d	1,33,500	branch account By Stock reserve @ 50%	40.000
		—opening stock	12,500*
	1,48,500		**1,48,500**

The loading on invoice price is 50% and is calculated as follows:
Invoice price of goods sent to branch 80,000
Loading thereon—(see branch account) 40,000
Loading as a % of invoice price 40,000/80,000 x 100 = 50%

Question:4 Anil and Sunil are partners of a business having head office in Delhi and branch at Calcutta. Anil looks after the Delhi office and Sunil looks after the Calcutta branch. Anil is entitled to 40% of the profits made at Delhi while Sunil is entitled to 30% of the profits at Calcutta. The balance profits/losses are shared equally. The following trial balances as on 31st December, 2000 are furnished to you.

	Delhi		*Calcutta*	
	Dr.	*Cr.*	*Dr.*	*Cr.*
Opening stock at cost	30,000	—	40,000	—
Purchases and returns	1,80,000	10,000	2,75,000	15,000
Goods sent to:				
Calcutta	—	50,000	—	—
Delhi	—	—	—	70,000
Goods received from:				
Calcutta	65,000	—	—	—
Delhi	—	—	48,000	—
Sales and returns	15,000	3,15,000	20,000	3,70,000
Expenses	28,000	—	39,000	—
Customer accounts	64,000	4,000	71,000	3,000
Suppliers accounts	2,000	32,000	1,000	51,000
Bank account	70,000	—	—	6,000
Fixed assets opening written down value	50,000	—	80,000	—
Calcutta branch account	—	5,000	—	—
Delhi head office account	—	—	17,000	—
Capital and drawing accounts:				
Anil	30,000	83,000	4,000	35,000
Sunil	5,000	40,000	25,000	70,000
	5,39,000	5,39,000	6,20,000	6,20,000

You are informed that:

(a) On 30th December, 2000 Delhi head office remitted Rs. 5.000 by bank draft to Calcutta branch. The envelope was received by the branch on 2nd January, 2001.
(b) Stock at cost on 31st December, 2000 was worth:
(i) Rs, 46,000 at Delhi and (ii) Rs. 54,000 at Calcutta.``
(c) Depreciation is to be provided at 10%.

(d)10% of the cash expenses relating to the head office are to be treated as overheads incurred on behalf of the branch. **You are asked by the partners to prepare:**

(1) Trading and Profit and Loss Account for the year ended 31st December, 2000 for Delhi office and Calcutta branch in columnar form,
(2) Consolidated Balance Sheet of the firm as on 31st December, 2000, and
(3) Branch and Head office Accounts in respective books. **[C.A. Inter]**

Answer: **TRADING, PROFIT AND LOSS ACCOUNT** ***Cr,***

	Delhi H,O,	***Calcutta Branch***	***Total***		***Delhi H,O,***	***Calcutta Branch***	***Total***
To Opening stock, at	**Rs,**	**Rs,**	**Rs,**		**Rs,**	**Rs,**	**Rs,**
Cost	30,000	40,000	70,000	By Sales less returns	3,00,000	3,50,000	6,50,000
To Purchases less returns	1,70,000	2,60,000	4,30,000	By Goods sent to			
To Goods received from				Calcutta	48,000	—	—
Calcutta	65,000	—	—	By Goods sent to			
To Goods received from				Delhi	—	65,000	—
Delhi	—	48,000	—	By Closing stock, at			
To Gross profit c/d	1,31,000	1,26,000	2,57,000	Cost	46,000	54,000	1,00,000
				By Goods in transit	2,000	5,000	7,000
	3,96,000	4,74,000	7,57,000				7,57,000
To Expenses	28,000	39,000	67,000	By Gross profit b/d	1,31,000	1,26,000	2,57,000
To Delhi H,O, (share				By Calcutta branch			
of expenses)	—	2,800	—	(expenses recover-			
To Depreciation of				able 10% of 28,000)	2,800	—	—
fixed assets	5,000	8,000	13,000				
To Net profit c/d	1,00,800	76,200	1,77,000				
		1,26,000					
					1,33,800	1,26,000	2,57,000
To Share of 'Branch'				By Net Profit b/d	1,00,800	76,200	1,77,000
profit to partners:							
Anil—40%							
of 1,00,800	40,320	—	40,320				
Sunil—30%							
of 76,200	—	22,860	22,860				
To Balance of profit-							
shared equally	30,240	26,670	56,910				
Anil	30,2	26,670	56,910				
Sunil	97,230				1,00,800	76,200	1,77,000

Question:5 Give Journal Entries to rectify or adjust the following in the books of both the Head Office and the Branch:

(i) Goods costing Rs. 8,000 purchased by Branch, but payment made by Head office. The Head Office had debited the amount to its own purchases account.
(ii) Branch paid Rs. 15,000 as salary to a visiting Head Office official. The Branch had debited the amount to Salaries account.
(iii) Depreciation Rs.25,000 in respect of Branch assets whose accounts are kept in Head Office books
(iv) Expenses Rs. 35,000 to be charged to the Branch for work done on its behalf by the Head Office.
(v) Goods sent by the Head Office to its Branch Rs.20,000, not yet received by the Branch.

Question:6 A Delhi firm has two branches - one at Bombay and another at Calcutta. The branches keep complete set of books. On 31st March, 1999 Bombay and Calcutta Branches Accounts in Delhi books showed a debit balance of Rs.95,000 and Rs.40,000 respectively before taking the following information into account:

(1) Goods valued at Rs.8,000 were transferred from Bombay to Calcutta under instruction from Head Office.
(2) Bombay Branch collected Rs. 3500 from a local customer at the Head office.
(3) Calcutta Branch paid Rs.5000 for certain goods purchased by Head office in Calcutta.
(4) Rs. 12,500 remitted by Bombay Branch to Delhi on 29th March 1999, received in Delhi on 3rd April 1999.
(5) Calcutta Branch received on behalf of the Head office Rs. 3200 as dividend from a company located at Calcutta.
(6) For the year 1998-99 Bombay Branch showed a net loss of Rs.9000 and Calcutta branch showed a net profit of Rs. 15,850.

Pass journal entries to record the above transactions in the books of the Head Office**(CA-IPCC 10 MARKS)**

Question:7 Following are the Trial Balances of Ravindra Ltd. and its Delhi Branch as on December 31, 1989: -

	HO	**Branch**		**HO**	**Branch**
Stock on 1 January, 1988	45,000	16,400	Creditors	20,300	5,400
Purchases	1,10,000	25,600	Goods sent to Branch	14,400	—
Wages	80,800	13,100	Sales	3,30,200	69,900
Manufacturing Expenses	35,400	6,800	Head Office Account	—	28,000
Machinery:			Capital in Shares of		
			Rs. 10 each	2,00,000	—
H.O.	1,00,000	—	Discount earned	1,100	300
Branch	50,000	—	Purchase Returns	2,500	600
Furniture:					
H.O.	5,000	—			
Branch	2,000	—			
Rent	6,000	3,400			
Salaries	32,000	11,000			
Debtors	38,000	8,000			

General Expenses	18,000	4,000		
Goods Received from H.O	—	14,400		
Cash in Hand & Bank	10,300	1,500		
Branch Account	36,000	—		
	5,68,500	1,04,200	5,68,500	1,04,200

Closing stock at head office was Rs.38,700 and at Delhi, Rs. 28,700. Depreciation is to be allowed at 10% on machinery and at 15% on furniture. Rent still payable in respect of 1989 is Rs. 300 (for Branch). Rs 8000 sent by branch but not received by H.O. till the end of year. Prepare the Trading and Profit and Loss Account in columnar form, and the consolidated Balance Sheet. Also show the Branch Account.

Question:8 Sri Sundaram commenced business on 1st1 April, 1992 with head office at Madras and a branch at Nagpur. Purchases were made exclusively by the head office where the goods were processed before sale. There was no loss or wastage in processing. Only the processed goods received from head office were handled by the branch and these were charged thereto at processed cost plus 10%. All sales, whether by head office or by the branch, were at a uniform gross profit of 25% on cost. Following is the Trial Balance of Sri Sundaram as on 31st March, 1993:

Head Office

	Dr.	Cr.
Capital		62,000
Drawings	11,000	
Purchases	3,93,900	
Cost of Processing	10,100	
Sales		2,56,000
Goods sent to Branch		1,84,800
Administrative Expenses	27,800	
Selling Expenses	10,000	
Debtors	61,920	
Creditors		1,20,280
Branch Current Account	77,960	
Bank Balance	30,400	_____
	6,23,080	6,23,080

Branch

	Dr.	Cr.
Sales		1,64,000
Goods received from Head Office	1,76,000	
Administrative Expenses	3,000	
Selling Expenses	1,240	
Debtors	22,720	
Creditors		2,160
H.O. Current Account		52,300
Bank Balance	15,500	
	2,18,460	2,18,460

The following further information are also available:

(i) Goods sent by H.O to the branch in March, 93 at Rs.8,800 were not received by the branch until April,93.

(ii) A remittance of Rs. 16,860 from the branch to head office was not received until April, 1993.
(iii) Stock taking at the branch disclosed a shortage of goods of Rs. 4,000 (at selling value).
(iv) Cost of unprocessed goods at head office on 31st March, 1993 was Rs. 20,000.

Prepare trading and Profit & Loss Account in Columnar form and Balance sheet of the business as a whole as on 31st March, 1993. **[CA. (Inter) Nov. 1993, ICWA-INTER- 8 TIMES]**

Hint: Stock of Head Office = 11,200**,** Stock of Branch = 28,160
Stock Reserve on closing stock = 28,160 X 10/ 110 = 2,560
Goods in transit = 8,800 X 10/100 = 800 = 33600
[Ans. G. Profit = Rs. 68,000 (H.O.), Rs. 19,680 (B.O.), Net Profit = Rs.26,840 (H.O) Rs. 11,920 (B.O), Total of Balance Sheet = Rs. 2,12,200]

Question:9 Head Office passes adjustment 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 January, 2002, make the entry in the books of Head Office:

(a) Mumbai Branch

(1) Received Goods: Rs. 6,000 from Calcutta Branch, Rs. 4,000 from Patna Branch.
(2) Sent Goods to: Rs. 10,000 to Patna Rs.8,000 to Calcutta.
(3) Received B/R: Rs. 6,000 from Patna.
(4) Sent Acceptance: Rs. 4,000 to Calcutta, Rs. 2,000 toPatna.

(b) Chennai Branch (Apart from the above)

(5) Received Goods; Rs. 10,600 from Calcutta, Rs. 4,000 fromMumbai.
(6) Cash Sent: Rs. 2,000 to Calcutta, Rs. 6,000 to Mumbai.

(c) Calcutta Branch (Apart from the above)

(7) Sent Goods to Patna: Rs. 6,000
(8) Issued B/P: Rs. 4,000 to Patna, Rs. 4,000 cash to Patna. ***(15 marks) (1996-May)***

Question:10 Show adjustment journal entry in the books of Head Office at the end of April, 2003 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch accounts in its books.

A) Delhi Branch

1. Received goods from Mumbai - Rs. 35,000 and Rs. 15,000 from Kolkata.
2. Sent goods to Chennai - Rs. 25,000, Kolkata - Rs. 20,000.
3. Bill Receivable received - Rs. 20,000 from Chennai.
4. Acceptances sent to - Mumbai - Rs. 25,000, Kolkata - Rs. 10,000.

B) Mumbai Branch (apart from the above):

5. Received goods from Kolkata - Rs. 15,000, Delhi – Rs. 20,000.
6. Cash sent to Delhi - Rs. 15,000, Kolkata - Rs. 7,000.

C) Chennai Branch (apart from the above):

7. Received goods from Kolkata — Rs. 30,000.
8. Acceptances and Cash sent to Kolkata - Rs. 20,000 and Rs. 10,000, respectively.

D) Kolkata Branch (apart from the above):

9. Sent goods to Chennai - Rs. 35,000.
10. Paid cash to Chennai - Rs. 15,000.

Acceptances sent to Chennai - Rs. 15,000.

All working should form part of the answer. **(May 2003) 8 mark**

Answer: Journal Entry In the books of H. O.

30th April, 2003	Mumbai Branch Account	Dr.	3,000	
	Chennai Branch Account	Dr.	70,000	
	To Delhi Branch Account			15,000
	To Kolkata Branch Account			58,000
	(Being adjustment entry passed by H. O. in respect of inter branch transaction for the month of April, 2003)			

Question:11 On 31st March, 2000 Kanpur Branch submits the following Trial Balance to its Head Office at Lucknow:

Debit Balances	**Rs. in lacs**
Furniture and Equipment	18
Depreciation on Furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 1999	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

Additional Information: Stock on 31st March, 2000 was valued at Rs. 62 lacs on 29th March, 2000 the Head Office dispatched goods costing Rs. 10 lacs to its branch. Branch did not receive these goods before 1 st April, 2000. Hence the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch Rs. 1 lac for centralized services for which the branch has not passed the entry. You are required to:

(i) Pass Journal Entries in the books of the Branch to make the necessary adjustments.
(ii) Prepare Final Accounts of the Branch including Balance Sheet, and
(iii) Pass Journal Entries in the books of the Head Office to incorporate the whole of the Branch **(CA-16 marks)**

Answer (i) **Journal Entries in the Books of KANPUR BRANCH** ***(Rs. in lacs.)***

Particulars		***Dr.***	***Cr.***
Goods in transit A/c	Dr.	10	
To Head office A/c			10
(Goods dispatched by head office but not received by branch before 1st April 2000)			
Expenses A/c	Dr.	1	
To Head office A/c			1
(Amount charged by head office for centralised services)			

(ii) Trading and Profit & Loss Account of the Branch for the year ended 31st March, 2000

Particulars		***Rs. in lacs***	***Particulars***	***Rs. in lacs***
To Opening Stock		60	By Sales	360
To Goods received from			By Closing stock	62
Head office	288			
Less: Returns	5	283		
To Carriage Inwards		7		
To Gross profit c/d		72		
		422		422
To Salaries		25	By Gross Profit b/d	72
To Depreciation on furniture		2		
To Rent		10		
To Advertising		6		
To Telephone, Postage & Stationery		3		
To Sundry office expenses		1		
To Head office expenses		1		
To Net profit Transferred to H.O. A/c		24		
		72		**72**

Balance Sheet as on 31st March, 2000

Liabilities		***Rs. In Lacs***	***Assets***		***Rs. In Lacs***
Head office	80		Furniture & equipment	20	
Add: Goods in transit	10		*Less:* Dep.2		18
Head office expenses	1		Stock in Hand		62
Net Profit	24	115	Goods in transit		10
Outstanding expenses		3	Debtors		20
			Cash at Bank and in Hand		8
		118			**118**

Question: 12 Give Journal Entries in the books of Branch A to rectify or adjust the following.:

(i) Head Office expenses Rs. 3,500 allocated to the Branch, but not recorded in the Branch Books,
(ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided for Rs. 1,500.
(iii) Branch paid Rs. 2,000 as salary to a H.O. Inspector, but the amount paid has been debated by the Branch to Salaries account.
(iv) H.O. collected Rs. 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.
(v) A remittance of Rs. 15,000 sent by the Branch has not yet been received by theHead Office,
(vi) Branch A incurred advertisement expenses of Rs. 3,000 on behalf of Branch B.

Answer: In the Books of Branch A

Date	Particulars		Dr. (Rs.)	CR. (Rs.)
	Expenses account	Dr.	3,500	
	To Head office account			3,500
	(Being the allocated expenditure by the head office recorded in branch books)			
	Depreciation account		1,500	
	To Head office account			1,500
	(Being the depreciation provided)			
	Head office account		2,000	
	To Salaries account			2,000
	(Being the rectification of salary paid on behalf of H.O.)			
	Head office account		10,000	
	To Debtors account			10,000
	(Being the adjustment of collection from branch debtors)			
	No entry is passed for the said transaction in the books of Brach		____	____
	Head Office account		3,000	
	To Cash account			3,000
	(Being the expenditure on account of Branch B, recorded in books)			

Question: 13. Alpha& Co., having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.2011, it was found that the goods dispatched by head office for ` 2,00,000 was received by the branch only to the extent of ` 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books? **(CA-May, 2007)**

Answer: Nagpur branch must include the inventory in its books as goods in transit.

The following journal entry must be made by the branch:

Goods in transit A/c	Dr.	50,000	
To Head office A/c			50,000

[Being Goods sent by Head office is still in transit on the closing date]

Question 14.M/s Shah & Co. commenced business on 1.4.2004 with Head Office at Mumbai and a Branch at Chennai. Purchases were made exclusively by the Head Office, where the goods were processed before sale. There was no loss or wastage in processing. Only the processed goods received from Head Office were handled by the Branch. The goods were sent to branch at processed cost plus 10%.**.** All sales, whether by Head Office or by the Branch, were at uniform gross profit of 25% on their respective cost. Following is the Trial Balance as on 31.3.2005.

	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
Capital		3,10,000		
Drawings	55,000			
Purchases	19,69,500			
Cost of processing	50,500			
Sales		12,80,000		8,20,000
Goods sent to Branch		9,24,000		
Administrative expenses	1,39,000		15,000	
Selling expenses	50,000		6,200	
Debtors	3,09,600		1,13,600	
Branch Current account	3,89,800			
Creditors		6,01,400		10,800
Bank Balance	1,52,000		77,500	
Head Office Current account				2,61,500
Goods received from H.O.			8,80,000	
	31,15,400	31,15,400	10,92,300	10,92,300

Following further information is provided:

(i) Goods sent by Head Office to the Branch in March, 2005 of Rs. 44,000 were not received by the Branch till 2.4.2005.
(ii) A remittance of Rs. 84,300 sent by the Branch to Head Office was also similarly not received upto 31.3.2005.
(iii) Stock taking at the Branch disclosed a shortage of Rs. 20,000 (at selling price to the branch).
(iv) Cost of unprocessed goods at Head Office on 31.3.2005 was Rs. 1,00,000.

Prepare Trading and Profit and Loss account in columnar form and Balance Sheet of the business as a whole as at 31.3.2005

Answer: Trading and Profit and Loss Account

Particulars	H.O.	Branch	Total	Particulars	H.O.	Branch	Total
To Purchases	19,69,500	-	19,69,500	By Sales	12,80,000	8,20,000	21,00,000
To Cost of processing	50,500	-	50,500	By Goods sent to Branch	9,24,000	-	-
					-	16,000	14,545
To Goods received from H.O.	-	8,80,000	-	By Stock shortage			44,000
				By Goods in transit			
To Gross profit c/d	3,40,000	1,64,000	5,02,545	By Closing stock:			
					56,000	2,08,000	2,64,000
				Processed goods	1,00,000		
				Unprocessed goods			
	23,60,000	10,44,000	25,22,545		23,60,000	10,44,000	25,22,545
	1,39,000	15,000	1,54,000		3,40,000	1,64,000	5,02,545
To Admn. Expenses	50,000	6,200	56,200	By Gross profit b/d			
To Selling Expenses	-	16,000	14,545				
To Stock shortage	22,909	-	22,909				
To Stock reserve							

To Net profit	1,28,091	1,26,800	2,54,891			
	3,40,000	1,64,000	5,02,545	3,40,000	1,64,000	5,02,545

Balance Sheet as at 31st March, 2005

Liabilities		**Amount**	**Assets**		**Amount**
Capital	3,10,000		Debtors		
Add: Net profit	2,54,891		H.O.		3,09,600
	5,64,891		Branch		1,13,600
Less: Drawings	55,000	5,09,891	Closing stock:		
Creditors:			Processed goods		
H.O.	6,01,400		H.O.	56,000	
Branch	10,800	6,12,200	Branch	2,08,000	
				2,64,000	
			Less: Stock reserve	18,909	2,45,091
			Unprocessed		1,00,000
			goods Bank Balance		
			H.O.		1,52,000
			Branch		77,500
			Goods in transit	44,000	40,000
			Less: Stock reserve	4,000	
			Cash in transit		84,300
		11,22,091			**11,22,091**

Working Notes: 1. Calculation of closing stock: Stock at Head Office:

Cost of goods processed ` (19,69,500 + 50,500 – 1,00,000)			19,20,000
Less: Cost of goods sent to Branch			
9,24,000 ×100/110		8,40,000	
Cost of goods sold 12,80,000 ×100/125		10,24,000	18,64,000
Stock of processed goods with H.O.			56,000
Stock at Branch:			
Goods received from H.O. (at invoice price)			8,80,000
Less: Invoice value of goods sold			
8,20,000 ×100/125		6,56,000	
Invoice value of stock shortage	20,000x100/125	16,000	6,72,000
Stock at Branch at invoice price			2,08,000
Less: Stock Reserve 2,08,000 x10/110			18,909
Stock of processed goods with Branch (at cost)			1,89,091

2. Stock Reserve:

Unrealized profit on Branch stock (2,08,000x10/110)	18,909
Unrealized profit on goods in transit (44,000x10/110	4,000
	22,909

Question:-15. Global Limited has a branch which closes its books of account every year on 31st March. This is an independent branch which maintains comprehensive books of account for recording their transactions. You are required to show journal entries in the books of branch on 31stMarch, 2011 to rectify or adjust the following:

(i) Head Office allocates Rs. 1,35,000 to the branch as head office expenses, which have not yet been recorded by branch.

(ii) Depreciation of branch fixed assets, whose accounts are kept by head office in its books, not yet recorded in the branch books, Rs. 1,15,000.

(iii) Branch paid Rs. 1,40,000 as salary to an official from head office on visit to branch and debited the amount to its Salaries Account,

(iv) Head Office collected Rs. 1,30,000 directly from a branch customer on behalf of the branch, but no intimation was received earlier by the branch. Now the branch learns about it.

(v) It is learnt that a remittance of Rs. 1,50,000 sent by the branch has not been Received by head office till date.

Question:16. The following is the Trial Balance of Malabar Hills Branch as at 30th June, 2002:

H.O. Account	32,400	
Stock on July 1,2001	60,000	
Purchases	1,78,000	
Goods received from H.O.	90,000	
Sales		3,80,000
Goods supplied to H.O.		60,000
Salaries	15,000	
Debtors	37,000	
Creditors		18,500
Rent	9,600	
Office Expenses	4,700	
Cash in hand and at Bank	17,800	
Furniture	14,000	
	4,58,500	**4,58,500**

Additional Information

a) Stock on hand was valued at Rs. 27,000

b) The Branch account in the Head Office Books on 30th June, 2002 stood at Rs. 4,600 (Debit Balance).

c) On 28th June, 2002, the Head Office forwarded goods to the value of Rs. 25,000 to the branch where they were received on 3rd July, 2002.

d) A cash remittance of Rs. 12,000 by branch on 24th June was received by H.O. on July 1. **Required**

1. Journal entries necessary to incorporate the above trial balance.
2. The result of trading at Branch.
3. Malabar Hills Branch Account in the H.O. Books. **(ICAI Study Material)**

Solution: Step 1: Reconcile Books of Branch

(i)	Goods in Transit A/c	Dr.	25,000	
	To Head Office a/c			25,000
	(Being goods in transit recorded)			

Books of Head Office

(ii)	Cash in - Transit A/c	Dr.	12,000	
	To Branch			12,000
	(Being Cash in Transit Recognised)			

Step 2: Book of Branch

Trading & Profit & Loss A/C

To Opening Stock	60,000	By Sales	3,80,000
To Purchase	1,78,000	By goods Supplied to HO	60,000
To Goods recd HO	90,000	By Closing Stock	27,000
To Gross Profit	1,39,000		
	4,67,000		**4,67,000**
To Salaries	15,000	By Gross Profit	1,39,000
To Rent	9,600		
To office Expenses	4,700		
To Net Profit	1,09,700		
	1,39,000		**1,39,000**

Branch Balance Sheet

To Creditors	18,500	By Debtors	37,000
		By Cash	17,800
To Profit & Loss A/c	1,09,700	By Furniture	14,000
		By Stock	27,000
		By Goods in Transit	25,000
		H.O A/c	7,400
	1,28,200		**1,28,200**

Step 3: Book of HO - Incorporation Journal

Debtors	Dr.	37,000	
Cash	Dr.	17,800	
Furniture	Dr.	14,000	
Stock	Dr.	27,000	
Goods in Transit	Dr.	25,000	
To Branch A/c			1,20,800
(Being Sundry Asset incorporated)			
Branch A/c	Dr.	18,500	
To Creditor			18,500
(Being Liability incorporated)			
Branch	Dr.	109700	
To profit and loss account			1,09,700
(Being profit incorporated)			

Question:17.KP Ltd. manufactures a range of goods which it sells to wholesale customers only from its head office. In addition, the H.O. transfers goods to a newly opened branch at factory cost plus 15%. The branch then sells these goods to the general public on only cash basis. The selling price to wholesale customers is designed to give a factory profit which amounts to 30% of the sales value. The selling price to the general public is designed to give a gross margin (i.e., selling price less cost of goods from H.O.) of 30%of the sales value. The company operates from rented premises and leases all other types of fixed assets. The rent and hire charges for these are included in the overhead costs shown in the trial balances. From the information given below, you are required to prepare for the year ended 31stDec, 2002 in columnar form a Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business and a Balance Sheet as on 31st Dec, 2002 for the entire business.

	H.O.		Branch	
Raw materials purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1-1-2002				
Raw materials	1,800			
Finished goods	13,000		9,200	
Debtors	37,000			
Cash	22,000		1,000	
Administrative Salaries	13,900		4,000	
Salesmen's Salaries	22,500		6,200	
Other administrative &				
Selling overheads	12,500		2,300	
Inter-unit accounts	5,000			2,000
Capital		50,000		
Sundry Creditors		13,000		
Provision for Unrealized				
Profit in stock		1,200		
Sales		2,00,000		65,200
Goods sent to Branch		46,000		
Goods Received from H.O.			44,500	
	3,10,200	**3,10,200**	**67,200**	**67,200**

Notes:

(1) On 28th Dec, 2002 the branch remitted Rs. 1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also on the same date, the H.O. dispatched goods to the branch invoiced at Rs. 1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.

(2) The stock of raw materials held at the H.O. on 31st Dec, 2002 was valued at Rs. 2,300.

(3) You are advised that:
   a) There were no stock losses incurred at the H.O. or at the branch.
   b) It is the company's practice to value finished goods stock at the H.O. at factory cost.
   c) There was no opening or closing stock of work-in-progress.

(4) Branch employees are entitled to a bonus of Rs. 156 under a bilateral agreement.

(Study Material)

Solution: **Trading & Profit & Loss A/C**

	H.O.	Branch	Total		H.O.	Branch	Total
To Raw Materials		1,800	1,800	By Sales	65,200	2,00,000	2,65,200
To Opening Stock	9,200	13,000	22,200	By Closing Stock	8,060	15,000	23,060
To Goods reed form Head Office	44,500			By Goods send to purchaser	46,000		
To Raw Material Purchase		35,000	35,000	By Closing Stock-Raw material		23,000	23,000
To Direct Wages		1,08,500	1,08,500	By Gross Total			1,500
To Factory overhead		39,000	39,000				
To Gross profit	19,560	66,000	85,560				
	1,19,260	**2,38,000**	**3,57,260**		**1,19,260**	**2,38,000**	**3,57,260**

				By Gross Profit	19,560	66,000	85,560
				By provision unrealised profit		1,200	1,200
To Adm. Salaries	4,000	13,900	17,900				
To Sales man's Comm.	6,200	22,500	28,700				
To Adm. & Selling of HS	2,300	12,500	14,800				
To Bonus to employees	156		156				
To Net Profit	6,904	18,300	25,204				
	19,560	**67,200**	**86,760**		**19,560**	**67,200**	**86,760**

Consolidated Balance Sheet

Capital	50,000	Debtors		37,000	
Creditor	13,000	Cash	22,000		
Profit & Loss	1.8,300		(+) Branch	1,000	23,000
(+)Branch 6,904					
(-) Opening Profit	1,247	23,957	Cash-in-transit		1,500
Provision for unrealised Profit		12,347	Stock:		
Bonus payable		156	Finished Goods - HO Finished		15,000
			Goods - Branch		8,060
			Raw Material - HO		2,300
			Goods-in-transit		1,500
		88,360			**88,360**

W.NOTES

Cash-in-transit	Dr.	1,500
To Branch		1,500
(Being of Head Office)		
Goods-in-transit	Dr.	15,00
To Head Office		1,500
(Being branch)		

Branch Balance Sheet

To Head Office	2000		By Cash	1,000
(+)Goods-in-transit	1,500	3,500	By Goods-in-transit	1,500
To Profit & Loss		6,904	By Stock	8,060
To Bonus payable		156		
		10,560		**10,560**

Head Office Stock Account

To Balance- Raw Materials	1,800	By Sales(30% 2,00,000)	1,40,000
- Finished Goods	13,000	By Goods sent to Branch	40,000
To Raw material	35,000	By Closing Stock-Raw material	2,300
To Direct wages	1,08,500	- Finished Goods	15,000
To Factory overhead	39,000		
	1,97,300		**1,97,300**

Question:18.M/s Surplus commenced business on 1.04.2009 with the head office at Ahmedabad and branch at Surat. All goods were purchased by head office and normally packed immediately, but on 31.3.2010, goods costing Rs. 5,000 remained unpacked. Only the packed goods were sent to the branch which was charged at selling price less 10%. The following information is furnished to you as on 31st March 2010, from the Head Office and Branch Office books:

Particulars	**H.O. (Rs.)**	**Branch (Rs.)**
Capital Account	40,000	
Drawings by Proprietor	10,000	
Purchases	4,00,000	
Packing materials bought	6,000	
Sales	3,20,000	1,00,000
Dispatch of goods to Branch	1,13,400	
Selling expenses	16,000	800
Clerk's salary, wages, etc.	20,000	3,000
Sundry Debtors	28,000	4,200
Sundry Creditors	26,600	5,000
Head Office Current A/c		12,000
Branch Office Current A/c	19,000	
Bank Balances	2,000	
Goods received from Head Office		1,08,000

Information

a) Sales by head office were on uniform gross profit, after charging packing materials, of 20% at the fixed selling price.
b) Sales at Branch were at fixed selling price.
c) Goods invoiced and dispatched by head office to branch in March 2010 for Rs. 5,400 were received in the Branch only on 10th April.
d) Stock of packing materials at head office as on 31st March 2010 was valued at Rs. 1,000.
e) Remittance of Rs. 1,600 from the branch to the Head Office was in transit on 31.3.2010.
f) Rs. 2,000 worth of stock at selling price was damaged at the branch. For valuing stock, this was reduced by Rs. 1,090 below the invoice cost to the branch. It was decided that the Head office and branch would share equally the loss occasioned by this and also the deficit in stock, ascertained on actual stock taking at the Branch of goods at selling price of Rs. 500.

Prepare Trading and Profit and Loss Account of Surat and Ahmedabad Office and also a Balance Sheet as at 31.3.2010 of the business. **(RTP-Nov-10)**

Answer: Trading and Profit and Loss Account

Particulars	**H.O. (Rs.)**	**Branch (Rs.)**	**Particulars**	**H.O. (Rs.)**	**Branch (Rs.)**
To Purchases	4,00,000		By Sales	3,20,000	1,00,000
To Packing material consumed (6,000-1,000)	5,000		By Goods sent to Branch A/c (in transit Rs. 5,400)	1,13,400	
To Goods from H.O.		1,08,000	By Stock damaged and shortage		1,540
To Gross Profit c/d [Working Notes (i) & (ii)]	76,600	10,000	By Closing Stock (includes unpacked goods of Rs. 5,000) (Bal.fig.)	48,200	16,460
	4,81,600	1,18,000		4,81,600	1,18,000
To Salaries and Wages	20,000	3,000	By Gross Profit b/d	76,600	10,000
To Selling Expenses	16,000	800			

To Stock Reserve (Unrealised Profit)	2,350			
To Stock damaged and shortage	770	770		
To Net Profit t/f to Capital A/c	37,480	5,430		
	76,600	10,000	76,600	10,000

Balance Sheet as at 31st March, 2010

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital	40,000		Stock-in-trade:		
Add: Net Profit	42,910		H.O.: Packed	43,200	
	82,910		Unpacked	5,000	
Less: Drawings	10,000	72,910	Packing Material	1,000	49,200
Sundry Creditors:			Branch: In hand	16,460	
H.O.	26,600		In transit	5,400	
Branch	5,000	31,600		21,860	
			Less: Unrealised Profit	2,350	19,510
			Sundry Debtors: H.O.	28,000	32,200
			Branch	4,200	2,000
			Cash at Bank		1,600
			Cash-in-transit		
		1,04.510			**1,04.510**

Working Notes:

		Rs.
Gross Profit made by Head Office (20% of Sales of Rs. 3,20,000)		64,000
10/90 of Goods sent to Branch [(Rs. 1,08,000 + Rs. 5,400) x 1/9]		12,600
(Since Invoice Price is 90% of normal selling price)		76,600
The Gross Profit made by branch is 10% of sales (10% of Rs. 1,00,000)		10,000
The amount to be written off at invoice value at branch is:		
Amount written off on damaged goods	1,090	
Invoice price of deficit in stock (Rs. 500 x 90/100)	450	1,540
Value of damaged goods included in Closing Stock		
Selling Price of Goods Damaged		
Invoice Price of Goods Damaged (Rs. 2,000 x 90/100)		2,000
Amount already written off		1,800
Amount still included in Closing Stock (B - C)		1,090
Calculation of Stock Reserve Required		710
Stock (as per Trading Account)		
Less: Value of damaged goods included		16,460
Value of undamaged in hand (A-B)		710
Add: Goods-in-transit		15,750
Value to Total Goods (C + D)		5,400
Stock Reserve required (Rs. 21,150x 10/90)		21,150
		2,350

Question:19. Goods sent to a branch were charged by the head office at cost plus 10 percent. Head Office makes a uniform gross profit of 33-1/3% on selling price. The Branch sells goods at a uniform gross profit of 25% on selling price. The following transactions have taken place during the year ended on 31st March 2010.

a) Head Office purchases amounted to Rs. 15,02,350, purchases returns were Rs. 1,00,000 and discount allowed by suppliers amounted to Rs. 30,090.
b) Sales by Head Office amounted to Rs. 10,80,000. Goods sent to branch were Rs. 5,44,500 (at invoice price), discount allowed to customers amounted to Rs.9,180.
c) Goods sent to Branch for Rs. 66,000 in March, were not received at the Branch until April.
d) Branch purchased goods locally for Rs. 1,87,500, discount allowed by suppliers amounted toRs. 4,875.
e) Overhead expenses of Head Office were Rs. 2,80,260, and of Branch Rs. 80,475.
f) Sales by the Branch amounted to Rs. 7,20,000, discount allowed to customers amounted to Rs. 5,640 and cost of goods lost-in-transit was Rs. 8,010.
g) Branch Stock as on 31st March, included stock invoiced by Head Office at Rs. 1,15,500.Prepare columnar Trading and Profit and Loss Account of Head Office and the Branch for the year ending 31st March 2010.

(RTP May 11)

Answer:

Trading and Profit and Loss Account

Particulars	**H.O. (Rs.)**	**Branch (Rs.)**	**Total (Rs.)**	**Particulars**	**H.O. (Rs.)**	**Branch (Rs.)**	**Total (Rs.)**
To Purchases less returns	14,02,350	1,87,500	15,89,850	By Sales	10,80,000	7,20,000	18,00,000
To Goods from H.O, less in transit		4,78,500	-	By Goods sent to Branch	4,78,500	-	-
To Gross Profit c/d (W.N .4)	4,03,500	1,80,000	5,83,500	By Goods lost in transit	-	8,010	8,010
				By Closing Stock (W.N.1&2)	2,47,350	1,17,990	3,65,340
	18,05,850	8,46,000	21,73,350		18,05,850	8,46,000	21,73,350
To Expenses	2,80,260	80,475	3,60,735	By Gross profit b/d	4,03,500	1,80,000	5,83,500
To Discount Allowed	9,180	5,640	14,820	By Discount allowed	30,090	4,875	34,965
To Goods lost in transit	-	8,010	8,010				
To Stock Reserve (W.N.3)	10,500	-	10,500				
To Net Profit	1,33,650	90,750	2,24,400				
	4,33,590	1,84,875	6,18,465		4,33,590	1,84,875	6,18,465

Working Notes:

Closing stock at head office		
Purchases less returns		14,02,350
Less:(a) Cost of Sales.(Rs. 10,80,000 x 2/3)	7,20,000	
(b) Cost of goods sent to Branch (Rs. 4,78,500 x 100/110)	4,35,000	11,55,000
Closing Stock		2,47,350
Closing stock at Branch		
Branch local purchases		1,87,500
Add: Goods received from head office		4,75,500
		6,66,000
Less:(a) Cost of Branch Sales (Rs. 7,20,000 x 3/4)		

(V) Goods lost-in-transit	8,010	5,48,010
Closing Stock		1,17,990
Stock Reserve at Branch [Rs. 1,15,500x10/110]		10,500
Gross profit of Head Office (10,80,000 x 33.333%)		3,60,000
Add: Loading on goods sent to branch [4,78,500x10/110]		43,500
		4,03,500

CHAPTER 13. DEPARTMENTAL ACCOUNTING

Question:1 From the following figures prepare accounts to disclose total profit and the profit of the two departments. X and Y :

		Rs.			Rs.
Opening Stock :	X	15,200	Sales :	X	1,00,000
	Y	10,800		Y	80,000
Purchase :	X	75,100	Purchase Returns :	X	1,100
	Y	69,800		Y	800
Carriage inwards		2,860			
Salaries :	X	9,000	Discount Received		1,430
	Y	8,500			
General (Salaries)		11,600			
Rent and Rates		6,000			
Advertising		8,100			
Insurance		1,000			
General Expenses		5,400			
Discount Allowed		1,800			
Accountancy charges		500			

The following Further information is supplied:

(a) Goods transferred from department X to Y were Rs. 5,000. This has not been recorded.
(b) General salaries are to be allocated equally.
(c) Allocate carriage inward and discount received on suitable basis.
(d) The area occupied is in the ratio of 3: 2.
(e) Insurance premium is for a comprehensive policy, allocation being inconvenient.
(f) The closing Stocks of the two departments were: X, Rs. 17,800 and Y, Rs. 15,600.
(g) Allocate Advertising, General Expenses and Discount Allowed in the ratio of Sales.

(**BAHUT HI AASAN QUESTION)**

Question:2 Green & Co, has two departments P and Q. Department P Sells goods to Department Q at normal selling prices. From the following particulars prepare Departmental Trading and Profit & Loss Account for the year ended 31-3-1994 and also ascertain the Net Profit to be transferred to Balance Sheet.

Particulars	**Department P Rs,**	**Department Q Rs,**
Opening stock	1,00,000	Nil
Purchases	23,00,000	2,00,000
Goods from Department P	---------	7,00,000
Wages	1,00,000	1,60,000
Traveling expenses	10,000	1,40,000
Closing stock at cost to the Dept.	5,00,000	1,80,000
Sales	23,00,000	15,00,000
Printing and stationary	20,000	16,000

The following expenses incurred for both the departments were not apportioned between the departments:

(a) Salaries Rs. 2,70,000
(b) Advertisement expenses Rs. 90,000
(c) General expenses Rs. 8,00,000

(d) Depreciation @ 25% on the machinery value of Rs, 48,000. Advertisement expenses are to be apportioned in the turnover ratio, salaries in 2 : 1 ratio and depreciation in 1:3 ratio between the departments P and Q General expenses are to be apportioned in 3 : 1 ratio.

(**TYPICAL QUESTION BUT …….**) **(CA-1994 May, 20 Marks)**

Question:3 From the following balance extracted from the books of Lux cozi , Prepare Departmental Trading Account and General Profit & Loss Account for the year ended 31st October, 2001 and a Balance Sheet as on that date after adjusting the unrealized departmental profits if any:-

		Dr, (Rs,)	Cr, { Rs,)
Capital			3,00,000
Land & Building		1,25,000	
Furniture		25,000	
Opening stock	Dept, A	30,000	
	Dept, B	40,000	
Purchases	Dept, A	10,00,000	
	Dept, B	15,00,000	
Sales	Dept, A		20,00,000
	Dept, B		32,00,00
General Expenses		14,00,000	
Sundry Debtors		2,00,000	
Sundry Creditors			1,00,000
Drawings		2,80,000	
Cash & Bank		10,00,000	
Total		**56,00,000**	**56,00,000**

Additional information:

1. Closing stock of Dept A Rs. 1,30,000 including goods from dept B Rs. 40,000 at cost to Dept A and Dept B Rs. 2,60,000 including goods from Dept A Rs. 90,000 at cost to Dept B.
2. Sale of Dept A include transfer of goods to Dept B of the value of Rs. 2,00,000 and sales of Dept B include transfer of goods to Dept A of the value of Rs. 3,00,000 both at market price to transferor Depts.
3. Opening stock of Dept A and Dept B, includes goods of the value of Rs. 10,000 and Rs. 15,000 taken from Dept B and Dept A respectively at cost to transferee Dept.
4. Depreciate Land & building by 5% and furniture by 10% p.a.**(ICWA-INTER, CA- PE 2- 16 marks)**

Question:4 A Company manufacturing electronic components operates with Departments. Transfers are made between the departments of both purchased goods and manufactured finished goods. **Goods purchased are transferred at cost** and manufacturing goods are transferred only at selling price as is the case with open market. **Transactions for the year ended 30th June, 2017 are given below:**

Particulars	Dept. X Rs.	Dept. Y Rs.
Opening stock	20,000	15,000
Sales	1,90,000	1,35,000
Wages	12,500	7,500
Purchases	1,00,000	80,000
Closing stock:		
Purchased goods	2,000	5,000
Manufactured goods	7,000	8,000

The following were the transfers

From Dept. X to Dept. Y :- purchased goods Rs. 6,000 and Finished goods Rs. 20,000 and

from Dept. Y to Dept. X :- Purchased goods Rs. 5,000 and finished goods Rs. 35,000. Stocks were valued at cost to the Dept. concerned. Only in closing stock of manufactured goods in the Dept, transferred finished goods are 20%

Draw out Departmental Trading Account and the General P/L Account for the year ended 30th June. 2017.

Question:5 Calculate stock Reserve. A,B,C are three departments:

	Content Ratio	Profit Ratio	Closing stock
A	Nil	¼ of sales	15,000
B	2/10	1/5 of cost	22,000
C	5/15	not available	40,000

Assume A sales to B and B sales to C. **(Ans: Stock reserve 3878)**

Question:6 Calculate stock Reserve. A,B,C,D are four departments:

	Content Ratio	Profit Ratio	Closing stock
A	Nil	1/10 of cost	40,000
B	7/15	¼ of cost	50,000
C	8/20	1/6 on sales	70,000
D	6/24	1/10 of sales	80,000

Assume A sales to B, B sales to C and C Sales to D. **(KUCHH ACHCHHA SA FEEL HO RAHA HAI, PATA NAHI KYON ?)**

Question:7 FGH Ltd. has three departments I.J.K. The following information is provided for the year ended 31.3.2004:

	I	J	K
	Rs.	Rs.	Rs.
Opening stock	5,000	8,000	19,000
Opening reserve for unrealized profit	……	2,000	3,000
Material	16,000	20,000	……
Direct Labour	9,000	10,000	……
Closing stock	5,000	20,000	5,000
Sales	…….	…….	80,000
Area occupied (Sq.mtr.)	2,500	1,500	1000
No. of employees	30	20	10

Stock of each department are at cost to the department concerned. Stock of dept. I are transferred to Dept. J at cost plus 20% and stock of J are transferred to K at a gross profit of 20% on sales. Other common expenses are Salaries and Staff Welfare Rs.18,000 ,Rent Rs. 6,000. Prepare Departmental Trading, profit and Loss Account for the year ending 31.3.2004. (**CA-IPCC, CMA-INTER)**

Question:8 A firm had two departments, cloth and readymade clothes. The clothes were made by the firm it sells out of cloth supplied by the cloth department at its usual selling price. From the following figures prepare departmental Trading and Profit & Loss accounts for the year ended 31st March, 2017:-

	Cloth Department	Readymade clothes
	Rs.	Rs.
Opening stock on 1st April, 2016	3,00,000	50,000
Purchases	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to Readymade Clothes Department	3,00,000	
Expenses—Manufacturing		60,000
Selling	20,000	6,000
Stock on 31st march, 2017	2,00,000	60,000

The stocks in the readymade clothes department may be considered as consisting of 75% cloth and 25% other expenses. The cloth Department earned gross profit at the rate of 15% in 2015-16. General expenses of the business as a whole came to Rs. 1,10,000. **(CA- Inter- 12 marks)**

Question:9 Complex Ltd. has three departments A, B and C the following information is provided;-

Particulars	A	B	C
	Rs.	Rs.	Rs.
Opening stock	3,000	4,000	6,000
Consumption of Direct Materials	8,000	12,000	
Wages	5,000	10,000	
Closing Stock	4,000	14,000	8,000
Sales			34,000

Stocks of each department are valued at cost to the department concerned. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost. Other expenses were:

Salaries	Rs. 2,000,	Printing & Stationary	Rs. 1,000
Rent	Rs. 6,000	Interest paid	Rs. 4,000
Depreciation	Rs. 3,000		

Allocate expenses in the ratio of departmental gross profit. Opening figures of reserves for unrealized profit on departmental stocks were : Department B: Rs. 1,000, Department C: Rs. 2,000. Prepare Departmental Trading and Profit & Loss a/c. **(CMA- Inter 16 marks)**

Question:10 X Ltd. has two departments A and B. Form the following particulars prepare the consolidated Trading Account and Departmental Trading Account for the year ending 31st December, 2002

	A	B
	Rs.	**Rs.**
Opening Stock (at cost)	20,000	12,000
Purchases	92,000	68,000
Sales	1,40,000	1,12,000
Wages	12,000	8,000
Carriage	2,000	2,000
Closing Stock:		
(i) Purchased Goods	4,500	6,000
(ii) Finished Goods	24,000	14,000
Purchased goods transferred:		
By B to A	10,000	
By A to B		8,000
Finished goods transferred:		
By A to B	35,000	
By B to A		40,000

Return of finished goods:

By A to B	10,000	
By B to A		7,000

You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at a profit of 25% over dept. cost and that 20% of the finished stock (closing) at each department represented finished goods received from the other department. **(CA-INTER 16 MARKS)**

Question:11 Telerad & Co. has two departments A and B. From the following particulars, Prepare Departmental Trading Account and Consolidated Trading Account for the year ending on 31st March, 2002

	Department A (Rs.)	**Department B (Rs.)**
Opening stock (at cost)	1,00,000	60,000
Purchase	4,60,000	3,40,000
Carriage inward.	10,000	10,000
Wages	60,000	40,000
sales (excluding inter-transfer)	7,00,000	5,60,000
Purchased goods transferred;		
By B to A	50,000	
By A to B		40,000
Finished goods transferred:		
By B to A	1,75,000	
By A to B		2,00,000
Return of finished goods:		
By B to A	50,000	
By A to B		35,000
Closing Stock:		
Purchased goods	22,500	30,000
Finished goods	1,20,000	70,000

Purchased goods have been transferred at their respective departmental purchase cost and finished goods at departmental market price. 20% of finished stock (closing) at each department represented finished goods received from the other department. **(CA –Inter 1993-may)15 Marks**

Ans.: **Departmental trading account**

Particulars	**Deptt. A**	**Deptt. B**	**Particulars**	**Dept. A**	**Dept. B**
To opening stock	1,00,000	60,000	By Sales	7,00,000	5,60,000
To purchases	4,60,000	3,40,000	By inter-Deptt. Transfer		
To Inter-Deptt. Transfer:			Purchased goods	40,000	50,000
Purchases goods	50,000	40,000	Finished goods	2,00,000	1 75,000
Finished goods	1,75,000	2,00,000	Less: Stock Reserve	50,000	35,000
Less: Returns	35,000	50,000		1,50,000	1,40,000
	1,40,000	1,50,000	By Closing Stock		
			Purchased goods	22,500	30,000
To Carriage inward	10,000	10,000	Finished Goods	1,20,000	70,000

To Wages	60,000	40,000		
To Gross Profit	2,12,500	2,10,000		
	10,32,000	**8,50,000**	**10,32,000**	**8,50,000**

Question:12 In the month of January, 1990 the following purchases were made by a business house having three departments:

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

Stock on 1st January were:

Department A 120 units
Department B 80 units
Department C 152 units

The sales for the month were:

Department A 1,020 units at Rs. 20.00 each
Department B 1,920 units at Rs. 22.50 each
Department C 2,496 units at Rs. 25.00 each

The rate of Gross Profit is the same in each case. Prepare Departmental Trading Accounts.

Question:13 Becket & Co Purchased goods for its three departments as follows:

Department: X	4,000 Units	
Department: Y	9,000 Units	Total Cost Rs.
Department: Z	4,000 Units	1,10,000

Sales of three departments were as follows:

Department: X	3,600,Units	@ Rs. 7.50 per unit
Department: Y	9,800 Units	@ Rs. 9.00 per unit
Department: Z	3,650 Units	@ Rs. 13.50 per unit

Opening Stock as on 01-01-2002 was as follows:

Department: X	200 Units
Department: Y	1,400 Units
Department: Z	150 Units

Assuming that the gross profit ratio is uniform in all the three departments, prepare trading A/c for the year ended 31st December 2002**. (CMA- INTER , IPCC Group 2)**

Ans. Gross Profit -X 9000 ,Y 29,400, Z 16,425, GP Ratio 33.33% as Sale

Question 14. A Ltd. has a factory which has two manufacturing departments *X* and *Y.* Part of the output of X Department is transferred to Y Department for further processing and the balance is directly transferred to the Selling Department. Inter-departmental stock transfers are made as follows:

X Department to *Y* Department of 33 1/3 % over-departmental cost.
X Department to Selling Department of 50% over-departmental cost.
Y Department to Selling Department of 25% over-departmental cost.
The following information is given for the year ending 31st March, 1986:

Particulars	*Department X*		*Department Y*		*Selling Department*	
	MT	*Rs.*	*MT*	*Rs.*	*MT*	*Rs.*
Opening Stock	60	60,000	20	40,000	50	1,45,000
Raw Material Consumption	90	1,00,000	20	20,000	-	-
Labour Charges	-	50,000	-	80,000	-	
Sales		-	-	-	-	5,00,000
Closing Stocks	30	-	50	-	60	-

Out of the total production in X Department, 30 *MT* were transfer to the Selling Department. Apart from these stocks which were transferred during the year the balance output of X Department were for transfer to *Y* Department. The per tonne material and labour consumption in *X* Department on production to be transferred directly to the Selling Department is 300 per cent of the labour and material consumption on production meant for *Y* Department. (i) Prepare Departmental Profit and Loss Account, and (ii) General Profit and Loss Account ignoring material wastages. ***[CA Inter Nov., 1976 & Nov., 1981, adapted]***

RECTIFICATION OF ERROR

QUESTION 15. Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 10% profit on cost. Department Y sells goods 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 unrealized profit on Departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealized profit are as under:

Department X Rs. 36,000
Department Y Rs. 27,000
Department Z Rs. 18,000

Stock lying at different departments at the end of the year are as under:

	Dept. X Rs.	Dept. Y Rs.	Dept. Z Rs.
Transfer from department X	.....	15,000	11,000
Transfer from department Y	14,000	……..	12,000
Transfer from department Z	6,000	5,000	……..

Find out correct profits after charging managers' commission**. (PE2, Nov 2001- 8 marks, (CMA Inter, IPCC Group 2))**

QUESTION 16. Booming Limited has three departments. They are Alpha, Beta and Gamma. The profit of these departments are Rs. 30,000, Rs 40,000,and Rs. 17,400 respectively, (Before charging manager's commission and unrealized profit on stock transfers). Department Alpha transfers its goods @ 20% profit on cost to other departments while Beta transfers its goods @ 10% profit on cost. Department Gamma transfers its goods at cost to other departments. However, respective Deptt.'s original goods are only transferred. On scrutiny of records you find,

(i) Purchases made for Alpha Deptt. Rs. 10,000 has been debited in Beta Dept. Account.

(ii) Goods sent on 'sale or return basis' by Beta Deptt. @ 120% ,have been recorded as regular Sale at Rs. 8,400

(iii) General expenses amounting to Rs. 2,100 have been excessively charged in Gamma Dept. instead of Beta Deptt.

(iv) The following transfers were made:

Deptt. Alpha	To Beta	24,000	12,000 still in closing stock
	To Gamma	3,600	
Deptt. Beta	To Gamma	11,000	4,400 still in closing stock
Deptt. Gamma	To Alpha	7,700	3,000 still in closing stock

(v) Commission payable to the Manager @ 10% on correct overall Company profit after charging such commission. Find correct Net profit of the Company and the commission payable to the General Manager.

Solution:

	Alpha	**Beta**	**Gamma**
Profit	30,000	40,000	17,400
Rectification of Purchase	(10,000)	10,000	—
Sale on Return			
Sales	—	(8,400)	—
Stock	—	7,000	—
(8,400x100/120)			
Expenses	—	(2,100)	2,100
Profits	20,000	46,500	19,500
Calculation of Stock Reserve			
Stock of Ratio 12,000 x 1/6		= 2,000	
Stock of Gamma 4,400 x 1/11		= 4,00	
Stock of Alpha 3,000 x 0		0	
		2,400	
Calculation of Co. Profit			
Alpha	20,000		
Beta	46,500		
Gamma	19,500		
		86,000	
(-) Closing Stock Reserve		2,400	
Correct Profit		83,600	
Commission	(83,600 x 10/110)	7,600	
Profit after Commission		76,000	

Question:- 17 Department R sells goods to Department S at a profit of 25% on cost and Department T at 10% profit on cost. Department S sells goods to R and T at a profit of 15% and 20% on sales respectively. Department T charges 20% and 25% profit on cost to Department R and S 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	R	54,000
Department	S	40,500
Department	T	27,000

Stock lying at different departments at the end of the year are as under:

	Dept. R	Dept. S	Dept. T
	Rs.	Rs.	Rs.
Transfer from Department R	-----	22,500	16,500
Transfer from Department S	21,000	----	18,000
Transfer from Department T	9,000	7,500	-----

Find out the correct departmental profits after charging Manager's commission

Answer:-

	R	S	T
Profit	54,000	40,500	27,000
Add: Managerial commission (1/9)	6,000	4,500	3.000
	60,000	45,000	30,000
Less: Unrealised profit on stock (Refer W.N.)	6,000	6.750	3,000
	54,000	38,250	27,000
Less: Managers' commission @ 10%	5,400	3,825	2,700
	48,600	34,425	24,300

Working Notes:: Value of unrealized profit

Transfer by department R to
S department (22,500 x25/125) = 4,500
T department (16,500 x10/110) = 1,500
6,000

Transfer by department S to
R department (21,000 x 15/100) = 3,150
T department (18,000 x 20/100) = 3,600
6,750

Transfer by department T to

R department (9,000 x 20/120) = 1,500
S department (7,500 x 25/125) = 1,500
3,000

Question:- 18 Brahma Limited has three departments and submits the following information for the year ending on 31st March, 2011.

Particulars	**A**	**B**	**C**	**Total (Rs.)**
Purchases (units)	5,000	10,000	15,000	
Purchases (Amount)				8,40,000
Sales (units)	5,200	9,800	15,300	
Selling price (Rs. per unit)	40	45	50	
Closing Stock (Units)	400	600	700	

You are required to prepare departmental trading account of Brahma Limited assuming that the rate of profit on sales is uniform in each case. **(CA-IPCC Exam)**

Answer: Departmental Trading Account for the year ended 31st March.2011

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To Opening Stock (W.N. 4)	14,400	10,800	30,000	By Sales	2,08,000	4,41,000	7,65,000
				By Closing stock	9,600	16,200	21,000
To Purchases (W.N. 2)	1,20,000	2,70,000	4,50,000	(W.N.4)			
To Gross profit	83,200	1,76,400	3,06,000				
	2,17,600	4,57,200	7,86,000		2,17,600	4,57,200	7,86,000

Working Notes: 1. Profit Margin Ratio

Department A	(5,000 units x Rs. 40)	2,00,000
Department B	(10,000 units x Rs. 45)	4,50,000
Department C	(15,000 units x Rs. 50)	7,50.060
Total selling price of purchased units		14,00,000
Less: Purchases		(8,40,000)
Gross profit		5,60.000

Profit Margin ratio = Gross Profit/ Selling price X 100 = 5, 60,000/14, 00,000 x 100 = 40%

Statement showing department-wise per unit cost and purchase cost

Particulars	A	B	C
Selling price per unit (Rs.)	40	45	50
Less: Profit margin @ 40% (Rs.)	(16)	(18)	(20)
Purchase price per unit (Rs.)			
No. of units purchased	24	27	30
Purchases (purchase cost per unit x units purchased)	5,000 1,20,000	10,000 2,70,000	15,000 4,50,000

(1) Statement showing calculation of department-wise Opening Stock (in units)

Particulars	A	B	C
Sales (Units)	5200	9800	15300
Add: Closing Stock (Units)	400	600	700
	5,600	10,400	16,000
Less: Purchases (Units)	(5,000)	(10,000)	(15,000)
Opening Stock (Units)	600	400	1000

(2) Statement showing department-wise cost of Opening and Closing Stock

Particulars	A	B	C
Cost of Opening Stock (Rs.)	600X24 14,400	400 X 27 10,800	1,000x30 30,000
Cost of Closing Stock (Rs.)	400X24 9,600	600X27 16,200	700x30 21,000

QUESTION 19. You are given the following particulars of a business having three departments:

	Purchase	**Opening Stock**	**Closing Stock**
Deptt. A	1,500 units	200 units	100 units
Deptt. B	1,000 units	300 units	160 units
Deptt. C	2,000 units	150 units	200 units

Additional Information:

1) Purchases were made at a total cost of Rs. 1,84,000.

2) The percentage of gross profit on turnover is the same in each case.
3) Purchases and sales prices are constant for the last few years.
4) Selling price per unit Deptt. A Rs. 40
Deptt. B Rs. 50
Deptt. C Rs. 60

You are required to prepare Departmental Trading Accounts.

Hints:- Computation of Sale proceeds of each Deptt.:

Opening stock + Purchases - Closing stock) x Selling Price

A	200+1,500-100	or 1,600 units @Rs. 40	=	64,000
B	300+1,000-160	or 1,140 units @Rs. 50	=	57,000
C	150 + 2,000-200	or 1,950 units @Rs. 60	=	1,17,000
				2,38,000

CHAPTER 14. ROYALTY ACCOUNT

Question 1. The Consett Colliery took a lease of a mine from Big Company for a period of 30 years from 1st January, 1995 upon the terms of a royalty of 50 paise per tonne upon the output with a minimum rent of Rs. 10,000 in the first year and then increasing every year by Rs. 1,000, till it reaches Rs. 13,000 when it becomes fixed for all the coming years. The Consett Colliery Company was granted the right of recouping short working of any year in the subsequent 3 years and not afterwards. The following was the production of the first 5 years:

1995	3,000 tonnes
1996	18,000 tonnes
1997	24,000 tonnes
1998	30,000 tonnes
1999	32,000 tonnes

Show journal entries in the books of Consett Colliery Company when —there is no minimum rent account.

Question:2 Hindustan Steel Ltd. obtained a lease from Gondwana Coal Ltd. for a coal mine on 1st January 1994 on the following terms and conditions :

(1) Royalty at Re. 1 per tonne raised.
(2) Minimum rent Rs. 12,000 p.a.
(3) Recoupment of short working on each year during three years following subject to a maximum of Rs. 2,500 p.a.
(4) In the event of the strike, the minimum rent would be taken pro rata on the basis of actualworking days, but in the event of lock-out, the lessee would enjoy a concession in respect ofminimum rent for 50% of the period of lock-out.

Besides the above, Hindustan Steel Ltd. have been granted a cash subsidy equal to 25% of the unrecoupable short workings by the Central Government upto the first 5 years of the lease.

(5) Working up to first 6 years is as follows;

1994Actual Royalty Rs. 7,000
1995Actual Royalty Rs. 10,200
1996Actual Royalty Rs. 16,100
1997Actual Royalty Rs. 13,600
1998Actual Royalty Rs. 10,800 (Strike 73 days)
1999Actual Royalty Rs. 9,700 (Lock-out for 4 months)

Show the ledger accounts in the books of Hindustan Steel Ltd. **(Adapted from CA.)**

Question :3 Maniram Singh, who had patented a circular TV antenna, granted Sky Enterprise a licence for ten years to manufacture and sell the product on the following terms :

1. Sky Enterprise was to pay Maniram Singh a royalty of Rs. 10 for each antenna sold.
2. The minimum royalty for each of the first three years covered by the licence was to be Rs. 50,000. After these years royalties were to be payable on the actual numbers of antennas sold.
3. If royalties on antenna sold amounted to less than Rs. 50,000, Sky Enterprise was entitled to deduct the deficiencies from royalties in excess of the sum payable in respect of each of the first three years of the agreement.

The numbers of antennas sold in the first four years were as follows:

Year ended 31st March 1994	4,300
1995	4,900
1996	5,450
1997	5,250

You are required to prepare the following ledger accounts recording the above transactions in respect of royalties in the books of Sky Enterprise:

(a) Royalties account;
(b) Short-workings account; and
(c) The account of Maniram Singh. **[I.CW.A. Stage in, Dec. 1997]**

Answer:COMPUTATION OF ROYALTY PAYABLE MINIMUM RENT & SHORTWORKINGS

Year	*No. of Item*	*Royalty payable* Rs.	*Minimum Rent* Rs.	*Short-Working* Rs.	*Short-working* Rs.
31.3.1994	4,300	43,000	50,000	7,000	
31.3.1995	4,900	49,000	50,000	1,000	
31.3.1996	5,450	54,500	50,000		4,500
31.3.1997	5,250	52,500	50,000		
				8,000	**4,500**

Dr. (a) ROYALTIES ACCOUNT Cr

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.94	To M. Singh A/c	43,000	31.3.94	By Manf. A/c	43,00
31.3.95	To M. Singh A/c	49,000	31.3.95	By Manf. A/c	49,000
31.3.96	To M. Singh A/c	54,500	31.3.96	By Manf. A/c	54,000
31.3.97	To M. Singh A/c	52,500	31.3.97	By Manf. A/c	52,000

Dr. (b) SHORTWORKING ACCOUNT Cr.

Date	*Particulars*	Rs.	*Date*	*Particulars*	Rs.
31.3.94	To M. Singh A/c	7,000	31.3.94	By Balance c/d	7,000
1.4.94	To Balance b/d	7,000	31.3.95	By Balance c/d	8,000

31.3.95	To M. Singh A/c	1,000			
1.4.95	To Balance b/d	8,000	31.3.86	By M. Singh A/c	4,500
		.		By P&LA/c	3,500

Dr. (c) MANIRAM SINGH'S ACCOUNT Cr

Dare	***Particulars***	**Rs.**	***Date***	***Particulars***	**Rs.**
31.3.94	To bank A/c	50,000	31.3.94	By Royalties A/c	43,000
31.3.95		50,000		By Shortworking A/c	50,000
	To Bank A/c	50,000			49,000
31.3.96		50,0004,500	31.3.95	By Royalties A/c	50,000
		50,00054,500		By Shortworking A/c	54,000
	To Shortworking A/c	52,500			54,500 / 52,500

Question 4. The following information has been obtained from the books of a lessee relating to the years 1994-95 to 1997-98:

Payment to landlord (after deduction of tax © 20%)

1994-95	Rs. 12,000
1995-96	Rs. 12,000
1996-97	Rs. 12,000
1997-98	Rs. 19,200

Short workingsrecovered :

1995-96	Rs. 2,500
1996-97	Rs. 1,000

Short working written off

1998-99	Rs. 500

Short working balance brought forward on April 1,1994 Rs. 800 (which arose in 1992-93). According to the terms of agreement short working is recoverable within the next two years following the year in which short working arises.

You are required to prepare the royalty account and the landlord's account for the four year ended March 31,1998. **[I.C.W.A. (Inter), June 1993]**

Question5. A fire occurred in the office premises of lessee in the evening of March 31, 1999 destroying most of the books and records. The following information is, however, available from the documents saved:

Short workingsrecovered :

1996-97 : Rs. 2,000 (towards short working which arose in 1993-94)

1997-98 : Rs. 4,000 (including Rs. 1,000 for short working in 1994-95)

1998-99 : Rs. 1,000

Short workingslapsed :

1995-96 : Rs. 1,500

1996-97 : Rs. 1,800

1998-99 : Rs. 1.000

A sum of Rs. 25,000 was paid to the Landlord in 1995-96. The agreement of royalty contains clause of Minimum rent payable for a fixed amount and recoupment of short working within 3 year following the year in which short working arises.

Information as regards payments to Landlord subsequent to the year 1995-96 is not readily available.

You are required to prepare the royalty account and short working account for the four yearsended 31st March 1999. **[I.C.W.A (Inter)]**

CHAPTER 15. SELF BALANCING OF LEDGERS

In a big business organization the numbers of accounts are quite large. Therefore, instead of maintaining all the accounts in one ledger, these are maintained in different ledgers. ***These accounts are maintained by*** **Self-Balancing System**

SELF-BALANCING SYSTEM:- Self -Balancing Ledger System is a system of ledger- keeping which classifies ledger as per nature of transactions, i.e. sales ledger, bought ledger, general ledger etc., and also makes them to balance independently.

Since in the Sales Ledger or in the Bought Ledgers double entry is not complete, a separate trial balance cannot be prepared. If these ledgers are maintained in such a way as to offer separate trial balances, the system would be known as 'Self-balancing'.

- In such a case, a 'General Ledger Adjustment Account' is prepared in each of the subsidiary ledger i.e. in Sales ledger and in Bought Ledger.
- In the General Ledger, Bought Ledger Adjustment Account (i.e. Total Creditors Account) and Sales Ledger Adjustment Account (i.e. Total Debtors Account) are maintained which give summary of the sales ledger and bought ledger..

Under this system a group of transactions are recorded in one ledger. In a trading organisation following ledgers are maintained:

(A) Sales Ledger or Debtors Ledger:-- In this ledger personal account of trade-debtors are maintained. These accounts will contain entries regarding Credit Sale, Sales Return, Cash received, Bad Debts, Discount allowed etc. Debtor's accounts other than trade debtors are maintained in General Ledger.

B) Purchase Ledger or Creditors Ledger::-- In this ledger personal accounts of trade creditors are maintained. In a business organisation when goods are purchased on credit, personal accounts of suppliers of material or goods are required to be maintained. These accounts contain credit purchase, purchase return, cash paid, discount received. Such personal accounts are maintained in creditor's ledger. Personal accounts of creditors other than trade creditors such as creditors for loan, creditors for expenses *etc.* am maintain in the General ledger.

(c) **General Ledger:--** This ledger contains all accounts other than personal accounts of trade debtors and trade creditors which are maintained in debtors ledger and creditors ledger respectively. General Ledger contains real accounts, nominal accounts and non-trading personal accounts. Each time an entry is made in the Bought and Sales Ledger, Self-balancing the contra effect of the entries is in Bought Ledger or Sales Ledger Adjustment A/c set up in the general ledger.

Advantage of Self-Balancing System:

1) **Easy location of errors**:—If there is any error in any particulars ledger, account related to that ledger only will be checked therefore, it is easier to locate the error.
2) **Division of work**:—Under this method various accounts are maintained in three different ledgers, therefore, accounting work can be divided among various employees.
3) **Information of debtors and creditors balances**:—Debtors Ledger Adjustment Account and Creditors Ledger Adjustment Account in General Ledger contain details of transaction related to Debtors and Creditors respectively. Therefore, balances of these accounts are equal to the total of Debtors and Creditors. This is very useful information for the management.
4) **Internal Control**:—Under this method, with the help of Adjustment Accounts maintained in different Ledgers, internal accounting control can be maintained. Therefore, chances of mistakes and fraud are reduced.

5) **Fixation of responsibility**:—Under this system various ledgers are maintained by different employees. Therefore, in case of mistake of fraud responsibility can be easily fixed.
6) **Early Preparation of Final Accounts**:—From the trial balance drawn from General Ledger final accounts can be easily drawn.

SUB-DIVISION OF SALES LEDGER AND PURCHASE LEDGER

If number of Debtors and creditors is large, more than one Sales Ledger and Purchase Ledger may be maintained. This sub-division of Ledger can be made on the following basis.

(i)**On the Basis of Alphabets**:-- For example, account of customers whose names start with the alphabets A to K may be maintained in one Ledger, from L to R in the second Ledge and from S to Z in the third Ledger. If more that one Sales Ledger is maintained separate adjustment accounts will also be maintained in the General Ledger.

(ii) **On the Basis of Area**:— Considering the number of customers and creditors ledger can be divided on the basis of area, state, Big state, small State e.t.c.

PRACTICAL PROBLEMS

Question:1 Give Journal entries (under self balancing) of following information.

Debtors	Credit Sales	Cash Received	Discount allowed	B/R Drawn
P	30,000	14,000	1,000	6,000
Q	24,000	18,000	600	2,000
R	12,000	10,000	200	---
S	15,000	14,600	400	----
Total	**81,000**	**56,600**	**2,200**	**8,000**

Question:2 Give Journal Entries and ledger accounts under self-balancing system regarding following information.

Creditors	Credit Purchases	Cash Paid	Discount Recd.	B/P Accepted
Shekhar	16,000	12,000	600	2,000
Suman	15,000	14,000	300	1,100
Sonal	18,000	13,000	---	4,000
Sanjay	10,000	7,000	----	----
Total	59,000	46,000	900	7,100

Question:3 From the following details, write up the General Ledger Adjustment accounts and the Bought and Sold Ledger Adjustment accounts as on 31st January, 2017:-

Debtors (1st January, 2017)	Dr.	1,74,250
Do Do	Cr.	3,200
Creditors Do	Cr.	2,74,080
Do Do	Dr.	2,040
Credit Purchases		2,52,000
Credit Sales		2,82,090
Sales Returns		2,080
Purchase Returns		7,140
Cash paid to Creditors		1,27,000
Bills received from debtors		93,000
Bills dishonoured		32,000
Bills accepted for creditors		74,000
Discount allowed to debtors .		2,150
Discount allowed to debtors but later on disallowed		1,000
Cash received from debtors		87,000
Discount allowed by creditors		10,200
Cash paid to debtors		250
Transfers from Debtors Ledger to Creditors Ledger.		12,420
Cash Purchases		1,43,200
Cash Sales		2,74,000
Bad debts written off (after deducting bad debts recovered Rs. 2000)		2,150

Question:4 A firm keeps its sold and bought ledgers on self-balancing system. From the following particulars prepare the control accounts in the sold and bought ledgers:

Trade debtors on 1st April 2016	62,000
Trade creditors on 1st April 2016	25,000
Credit purchases	1,03,000
Credit sales	1,34,000
Cash Received from trade debtors	78,000
Returns inward	3,000
Acceptance given	40,000
Returns outward	2,500
Acceptances from trade debtors dishonoured	5,000
Discount allowed to trade debtors	1,000
Bad debts written off	2,000
Bad debts written off in the previous year now recovered	5,000
Trade creditors on 31st March 2017	10,500
Trade debtors on 31s March 2017	1,17,000

Answer: (In the Sales Ledger) General Ledger Adjustment Account

		Rs.			Rs.
Mar. 31	To Sold Ledger Adjust. Account in General Ledger as under:		Apr. 1 Mar.31	By Balance b/d By Sold Ledger Adjust. A/c:	62,000
	Cash received	78,000		Credit Sales	1,34,000
	Returns inward	3,000		Acceptance from debtorsdishonored	5,000
	Discount allowed to trade debtors	1,000			
	Bad debts	2,000			
Mar.31	To Balance c/d	1,17,000			
		2,01,000			2,01,000

(In Bought Ledger) General Ledger Adjustment Account

		Rs.			Rs.
Apr. 1 2000	Balance b/d	25,000	Mar.31	By Bought Ledger Adjustment	
Mar.31	To Bought Ledger Adjustment A/c in General Ledger as under:			A/c in General Ledger as under:	
				Acceptance	40,000
				Returns Outwards	2500
	Credit Purchases	1,03,000		Cash (Balancing figure)	75,000
				By Balance c/d	10,500
		1,28,000			1,28,000
Apr. 1	To Balance b/d	10,500			

Question:5 From the following information, prepare sales ledger adjustment account and purchases ledger adjustment account in the general ledger:

	Rs.
Debit balances in purchases ledger on 1.4.2013	10,000
Credit balances in purchases ledger on 1.4.2013	96,000
Debit balances in sales ledger on 1.4.2013	1,41,880
Credit balances in sales ledger on 1.4.2013	2,240

The following were the relevant transactions during the year ended 31st March, 2014.

Credit purchases	5,40,000
Purchases returns	15,000
Credit sales	7,48,000
Sales returns	10,000
Cash received from debtors	6,24,000
Discount allowed to debtors	11,200
Cash paid to suppliers	4,80,000
Bills accepted in favour of suppliers	30,000
Transfers from sales ledger to purchases ledger	20,800
Discount received	7,200
Bills receivable received	40,000
Cash paid to customers	1,840
Bills receivable dishonoured	6,000

On 31st March, 2014 debit balances in purchases ledger totaled Rs. 5,400

Answer: In General Ledger (Sales Ledger Adjustment Account)

2013			2013		
Apr. 1	To Balance b/fd	1,41,880	Apr. 1	By Balance b/fd	2,240
2014			2014		
Mar. 31	To General Ledger Adjustment Account in sales ledgers as under:		Mar. 31	By General Ledger Adjustment Account in sales ledger as under:	
	Credit Sales	7,48,000		Sales returns	10,000
	Cash paid	1,840		Cash received	6,24,000
	Bills receivable dishonoured	6,000		Discount allowed	11,200
			Mar.31	Transfers	20,800
				Bills receivable	40,000
				By Balance c/d	1,89,480
		8,97,720			8,97,720

Purchases Ledger Adjustment Account

2013 Apr. 1	To Balance b/fd	10,000	2013 Apr. 1	By Balance b/fd	96,000
2014 Mar.31	To General Ledger Adjustment Account in purchase ledger as under:		2014 Mar. 31-	By General Ledger Adjustment A/c in purchases ledgers asunder:	
	Purchase Returns	15,400	Mar-31		
	Cash paid	4,80,000		Credit purchases	5,40,000
	Bills Payable	30,000		By Balance c/d	5,400
	Transfers	20,800			
	Discount Received	7,200			
	To Balance c/d	78,000			
		6,41,400			6,41,400
2014 Apr-1	Balance b	5,400	2014 Apr. 1	By Balance b/d	78,000

Question:6 The under mentioned particulars have been extracted from the books of D.D. Boot House. You are required to prepare the Sales Ledger Adjustment Account as on 31st March, 2016:-

Debtors on 1st March, 2016	55,842
Transactions during the month were:	
Sales (including cash sales Rs. 10,000)	1,08,602
Cash received from debtors	88,753
Discount allowed to Debtors	480
Acceptance received from Debtors	7,120
Returns from Debtors	5,430
Bills Receivable dishonoured	1,120
Bad Debts written off	3,890
Sundry Charges debited to customers	378
Transfers to Bought Ledger	100
Provision for doubtful debts	2,500

Answer: Books of D.D. Boot House In General Ledger Sales Ledger Adjustment Account

Mar. 1	To Balance b/d	55,842	Mar- 31	To General Ledger Adjustment A/c in sales ledgers as under:	
Mar. 31	To General Ledger Adjustment Account in sales ledgers as under:-			Cash	88,753
				Discount	480
	Sales	98,602		Bills receivable	7,120
	Bills receivable dishonoured	1,120		Sales returns	5,430
	Sundry Charges	378		Bad Debts	3,890
				Transfers	100
				By Balance c/d	50,169
		1,55,942			**1,55,942**

Question:7 From the following particulars, prepare the General adjustment account for March 2004:-

(i) Purchased goods from X, Rs. 20,000.
(ii) Paid Rs. 16,000 after adjusting the initial advance in full given to X.

(iii) Paid Rs.10,000 to R towards purchases made in Feb. in full settlement of the amount due, Rs.10,500.
(iv) Paid advance to Y, Rs.30,000.
(v) Purchased from A, Rs. 40,000.
(vi) Goods returned to A, Rs.5,000; settled the balances at a discount of 2%.
(vii) Purchased from Y Rs.25,000; advance adjusted to the extent of 50% of the purchase,
(viii) Received back advance given to P on 20th February, 2004, Rs. 4,000 after adjustment of purchase, Rs. 16,000.
(ix) Goods returned to Q, Rs. 7,500; the purchase was made in February, 2004.
(x) Purchased goods from B, Rs.20, 000.

Question: 8 From the following transactions you are required to prepare Purchase Ledger Adjustment Account and Sales Ledger adjustment Account in the General Ledger.

April 1	Total Debtors	30,000
April 1	Total Creditors	33,000
April 30	Credit Sales	20,000
April 30	Credit Purchases	10,000
April 30	Paid to Creditors	17,740
April 30	Discount Received	460
April 30	Bills Accepted	4,000
April 30	Cash received from Debtors	19,750
April 30	Discount allowed to them	250
April 30	Bills Received	8,000
April 30	Purchase Returns	1,050
April 30	Sales Returns	1,290
April 30	Allowances given to Debtors	270
April 30	Allowance Received	170
April 30	Bad Debts	190
April 30	Bills Receivable dishonoured	530

Answer: Purchase Ledger Adjustment Account

April-30	To General Ledger Adj. A/c:		Apr -1	By Balance b/f	33,000
	Paid to Creditors	17,740	Apr-31	By General Ledger Adj. A/c	
	Discount Received	460		Credit Purchase	10,000
	Bills Payable	4,000			
	Purchase Returns	1,050			
	Allowances	170			
	To Balance c/d	19,580			
	Total	**43,000**		**Total**	**43,000**

Sales Ledger Adjustment Account

April-1	To Balance b/f	30,000	Apr-30	By General Ledger A/c:	
April 30	To General Ledger Adj. A/c:			Cash Received	19,750
	Credit Sales	20,000		Discount Allowed	250
	B/R dishonoured	530		Bills Receivable	8,000
				Sales Returns	1,290
				Allowances	270
				Bad debts	190
				By Balance c/d	20,780
	Total	**50,530**		**Total**	**50,530**

Question: 9 Prepare (1) the Creditors Ledger Adjustment Account (ii) the Debtors Ledger Adjustment Account as would appear in the General Ledger of M/s Antule Traders for the year ended 31st October, from the following information:

Opening Balances:		
Creditors Ledger	Dr.	2,610
" "	Cr.	35,820
Debtors Ledger	Cr.	720
" "	Dr.	43,860
Transactions during the year:		
Purchases		1,98,540
Purchases Returns		7,680
Sales		2,62,470
Sales Returns		3,510
Cash Received From Debtors		2,28,630
Discount allowed		8,460
Cash Paid to the Creditors		1,75,290
Discount received		4,980
Cash refunded to the debtors		520
Bills payable received		12,360
Bills payable issued		6,750
Bills Receivable dishonoured		750
Closing Balances		
Creditors ledger	Dr.	2,310
Debtors ledge	Cr.	1,360

Answer: In General Ledger-- Creditors Ledger Adjustment A/c

Nov. 1	To Balance b/d	2,610	Nov. 1	By Balance b/d	35.820
Oct. 31	To General Ledger Adj. A/c:		Oct. 31	By General Ledger Adj. A/c:	
	Purchase Returns	7,680		Purchases	1,98.540
	Cash paid	1,75,290		By Balance c/d	2,310
	Discount received	4,980			
	Bills payable	6,750			
	To Balance c/d	39,360			
		2,36,670			2,36,670
Nov. 1	To Balance b/d	2,310	Nov. 1	By Balance b/d	39,360

Debtor's Ledger Adjustment A/c

Nov. 1	To Balance b/d	43,860	Nov. 1	By Balance b/d	720
Oct. 31	To Balance b/d		Oct. 31	By General Ledger Adj. A/c:	
	To General Ledger Adj. A/c:			Sales Returns	3,510
	Sales	2,62,470		Cash received	2,28,630
	Cash refunded	520		Discount allowed	8,460
	Bills receivable dishonoured	750		Bills receivable	12,360
	To Balance b/d	1,360		By Balance b/d	55,280
		3,08,960			**3,08,960**
Nov. 1	To Balance b/d	55,280	**Nov. 1**	By Balance b/d	**1,360**

Question: 10 The following details were extracted from the books of K.D. & Co. for the period ended 3 1st March:

1st April (opening) Debtors balances:	
Debit	38,520
Credit	260
Creditors balance:	
Credit	24,300
Debit	160
Cash paid to creditors in full settlement of Rs. 15,760	15,200
Cash received from Debtors in settlement of claims of Rs.26,500	25,800
Purchases (including cash purchases Rs.4,000)	21,600
Bad debts written off	100
Sales returns	180
Purchase returns	360
Interest charged to debtors	30
Chequesdishonoured (received from debtors)	1,400
Bills payable accepted	1,600
Bills payable dishonoured	400
Interest on bills payable	20
Sales (including cash sales Rs. 16,000)	42,000
Transfers	800
Bills receivables	5,600
Bills receivable endorsed	1,400
Endorsed B/R dishonoured	200
Bills receivable discounted	400
Discounted B/R dishonoured	140
31 March (Closing):	
Debtors (Credit Balance)	540
Creditors (Debit Balance)	180

Your are required to prepare Sold Ledger adjustment account in the General Ledger and General Ledger Adjustment account in the sold Ledger and Bought Ledger.

Answer: In General Ledger --- Sold Ledger Adjustment Account

April 1	To Balance b/f	38,520	April 1	By Balance b/f	260
Mar. 31	To General Ledger Adj. A/c:		Mar. 31	By General Ledger Adj. A/c:	
	Credit Sales	26,000		Cash received	25,800
	Interest Charged	30		Discount allowed	700
	Cheques Dishonoured	1,400		Bad Debts	100
	B/R dishonoured	200		Sales returns	180
	Discounted B/R dishonoured	140		Transfers	800
				Bills Receivables	5,600
	To Balance c/d	540		By Balance c/d	33,390
	Total	66,830		Total	66,830

Bought Ledger Adjustment Account

April 1	To Balance b/f	160	April 1	By Balance b/f	24,300
Mar. 31	To General Ledger Adj. A/c:		Mar. 31	By General Ledger Adj. A/c:	
	Cash Paid	15,200		Credit Purchases	17,600
	Discount received	560		B/P Dishonoured	400
	Purchase returns	360		Int. Dishonoured	20
	Bills payable	1,600		Endorsed B/R Dishonoured	200
	Transfers	800		By Balance c/d	180
	B/R Endorsed	1,400			
	To Balance c/d	22,620			
	Total	42,700		Total	42,700

In sold ledger -- GENERAL LEDGER ADJUSTMENT ACCOUNT

	To balance b/d	260	April 1	By balance b/d	38,520
March 31	To sold ledger Adt. A/c:		March 31	By sold ledger adj. A/c:	
	Cash received	25,800		Credit sales	26,000
	Discount allowed	700		Interest charged	30
	Bad debts	100		Chequedishonoured	1400
	Sales return	180		Endorsed B/R dishonoured	200
	Transfers	800		DiscountedB/R dis.	140
	Bills receivable	5,600		By balance c/d	540
March 31	To balance c/d	33,390	March 31		
		66,830			66,830

IN BOUGHT LEDGER:-- GENERAL LEDGER ADJUSTMENT ACCOUNT

April 1	To balance b/d	24,300	April 1	By balance b/d	160
March 31	To bought ledger adjt. A/c:		March 31	By bought ledger adj. A/c:	
	Credit purchases	17,600		Cash paid	15,200
	B/P dishonoured	400		Discount received	560
	Interest charged on	20		Purchase return	360
	B/P	200		Bills payable	1,600
	Endorsed B/R	180		Transfers	800
	dishonoured			B/R endorsed	1,400
	To balance c/d			By balance c/d	22,620
		42,700			42,700

NOTE:

(1) B/R discounted will not be shown in Adjustment A/c as all the aspects of this transaction are related to General Ledger.
(2) Transfers and Endorsed B/R dishonoured will be shown in all the four adjustment accounts because these transactions affect both personal ledgers.

Rectification of errors under Self balancing system:

Question: 11 The following errors were discovered in the books of National Gas Co. who maintain its books on the self balancing system: -

A bill of exchange from M/sShah & Co. for Rs. 1,600 was debited to Allowances Account on dishonour.

Cash received, Rs. 350, from Shah & co., a customer, was posted to the debit of Shah & Shah as Rs.530 in the Creditors Ledger.

A return of goods, Rs.340, from Mohan & Co., was entered in the Returns Outwards Account. Give journal entries to rectify the above noted errors.

Answer: Journal of National Gas Co.

	Dr. (Rs.)	Cr. (Rs.)
(a) M/s Shah & Co. Dr. To Allowances Account (For the dishonoured bill debited to Allowances A/c instead of to Shah & Co.)	1,600	 1,600
Sales Ledger Adjustment Account (In General Ledger) Dr. To General Ledger Adjustment Account (In Sales Ledger) (Correction of the entry in total or control accounts relating to Shah & Co.)	1,600	 1,600
(b) Credit Shah *& Co.* (In Sold Ledger) Credit Shah & Shah (In Bought Ledger) (Cash received from Shah & Co., a customer wrongly posted to the debit of Shah & Shah, a creditor; error now corrected*.)		350 530
(c) Returns Inward Account Dr. Returns Outward Account Dr. To Mohan & Co. (In Sales Ledger) To Mohan & Co. (In Bought Ledger) (Correction of the entry by which returns from Mohan & Co. were wrongly treated as	340 340	 340 340

returns to them. Presumably from Returns Outwards Book Mohan & Co were debited in the Bought Ledger.)		
General Ledger Adjustment Account (In Bought Ledger) — Dr.	340	
To Bought Ledger Adjustment Account (In General Ledger)		340
(Correction resulting from the above relating to the Bought Ledger.) General Ledger Adjustment Account (In Sold Ledger)—— -Dr.	340	
To Sold Ledger Adjustment Account (In General Ledger)		340
(Correction resulting from the above relating to theSold Ledger.)		

*The Control Accounts must have been correctly posted

Question:12 Pass necessary journal entries to rectify the following errors Under self balancing system

(i) Goods purchased from Ramu for Rs. 20,000 entered in purchase book as Rs. 24,000
(ii) Goods purchased from Ajay for Rs. 5,400 entered correctly in purchase book but posted to Ajay's Account as Rs. 4,500
(iii) Goods purchased from Radha Mohan for Rs. 7,500 entered in sales book
(iv) A sales of Rs. 4,200 To Mr. Lalan entered correctly in sales book but posted to Jitender's account as Rs. 2,400
(v) Bad debts Rs. 6,400 were written off in sales ledger, but were not adjusted in general ledger.
(vi) The total of discount received column in the cash book for the month of August, amounting to Rs. 8,500 was not posted.
(vii) A cheque of Rs. 15,000 received from MR. Manoj posted to the account of Mr. Saroj
(viii) Total of sales book overcast by Rs. 2,000
(ix) Sales return of Rs.3,000 by Mr. Amit entered hi purchase book as Rs.30,000.
(x) Sales of Furniture (Fixed Assets) amounting to Rs. 20,000 to Mahendra entered in sales book.

Question: 13. Ujju Enterprise furnishes you the following information for the period October to December, 2009. You are requested to draw up Debtors Ledger Adjustment Account in the General Ledger:

(i) Total sales amounted to Rs.2, 20,000 including sale of old motor car for Rs. 10,000 (book value Rs. 5,000). Total credit sales were 80% higher than the cash sales,
(ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to Rs. 40,000 and credit sales for the period. Debtors were allowed discount of Rs. 10,000.
(iii) Bills receivables drawn during the period totaled Rs. 20,000 of which one bill of Rs. 5,000 was dishonoured for non-payment as the party became insolvent; his estate realized 50 paise in a rupee.
(iv) A sum of Rs. 3,000 was written off as bad debts, Rs. 7,000 was realized against bad debts written off in earlier years and provision of Rs. 6,000 was made for doubtful debts.

Answer **Debtors Ledger Adjustment Account in the General Ledger**

	Particulars	Amount		Particulars	Amount
2009			2009		
Oct.1	To Balance b/d	40,000	Oct.1 to Dec 31	By General Ledger Adj. A/c: Collection from debtors-bank [60% of (40,000 +1,35,000)]	1,05,000
Oct.1 to Dec31	To General Ledger Adj. A/c: Sales (Refer W.N.)	1,35,000		Discount allowed	10,000
	Bills Receivables dishonoured	5,000		Bills receivables	20,000
				Bad debts (Rs. 2,500+ Rs. 3,000)	5,500
				By Balance c/d	39,500
		1,80,000			1,80,000

Note: No entries are required:

(a) For Rs. 7,000 realized against bad debts written off in earlier years, and

(b) For provision of Rs. 6,000 made for doubtful debts.

Working Note:

Calculation of credit sales:

Total trade sales = 2,20,000 – 10,000	= 2,10,000
Less: Cash sales $2{,}10{,}000 \times \frac{100}{180+100} =$	(75,000)
Credit Sales	= 1,35,000

Question 14: On 1st October, 2010, the debit balances of debtors account is Rs. 77,500 in the books of M/s Zee Limited. Transactions during the 6 months ended on 31s t March, 2011 where as follow:

Total sales (including cash sales Rs. 14,000)	84,000
Payment received from debtors in cash	38,000
Bills receivable received	26,000
Discount allowed to customers for prompt payment	1,000
Goods rejected and returned back by the customer	2,550
Bad debts recovered (written off in 2009)	900
Interest debited for delay in payment	1,250

Out of the bills received, bills of Rs. 8,500 were dishonoured on due dates and noting charges paid Rs. 250. Bills ofRs. 5,000 were endorsed to the suppliers. You are required to prepare a Debtors Account for the period ending 31stMarch, 2011 in the General Ledger of M/s Zee Ltd.

Answer: Total Debtors account in the General Ledger of M/s Zee Ltd.

Date	*Particulars*	*Rs.*	*Date*	*Particulars*	*Rs.*
1.10.10	To Balance c/d	77,500	1.10.10	By General Ledger	
1.10.10	To General Ledger		to	Adjustment A/c	
to	Adjustment A/c		31.3.11	Cash collected	38,000
31.3.11	Sales (84,000-14,000)	70,000	31.3.11	Bills Receivable A/c	26,000
		1,57,500			1,57,500

Working note:

1. Bad debts of the year 2008-09 recovered in 2010-11 will not appear in the 'Total Debtors account, if will be credited to profit and loss account.
2. Bills receivables of Rs. 5,000 endorsed to the supplier will not be shown in the 'Total debtors account because at the time of endorsement supplier's account will be debited and bills receivable account will be credited.

CHAPTER 16. Hire-Purchase and Instalment Purchase Systems

Question.1 (When cash price, rate of interest and instruction of payment are given) Ram purchased a machine on hire purchase basis. The cash price was Rs. 2,40,000 payable Rs. 40000 as down and balance in 4 equal instalments together with interest @ 10% p.a. Calculate Installment.

Question.2(when rate of interest, total cash price and installments are given) Maheer purchases a car on hire-purchase system. The total cash price of the car is Rs, 15,980, payable Rs 4000 down and three installments of Rs. 6,000. Rs. 5,000 and Rs. 2000 payable at the end of first, second and third year respectively. Interest is charged at 5% p.a. You are required to calculate interest paid by the buyer to the seller each year.

Question.3 A Ltd. purchased machinery from B Ltd. on hire purchase basis on the following terms: Cash Price- Rs. 7,92,500 , Cash down payment- 20% ,Balance to be discharged in 4 annual instalment of Rs.2,00,000 each (inclusive of interest @ 10%) to be paid at the end of each year. Compute the payment of interest to be made each year.

Question.4 Cash price of assets purchased on hire-purchase system Rs - 37,500. Down payment Rs. 5,000, Annual instalment: 5 of Rs. 7,500 each. Rate of interest: 5% Calculation interest included in each instalment.

Question.5. (when total cash price and instalments are given but rate of interest is not given) A cycle, cash price of which is Rs. 180 is sold on hire-purchase system for Rs. 200 payable in four quarterly instalments of Rs. 50 each. The first payment is made at the end of the first quarter. Show how interest is calculated**.**

Question.6. Calculate interest:

Cash price	1,00,000
Rate of interest	?
Down payment	20,000
First installment	40,000
Second installment	30,000
Third installment	30,000

Answer: Interest 10,526; 6,316; 3,158.

Question.7 (when only installments are given but cash price and rate of interest are not given) Mr. A purchased a personal computer on Jan. 1. 1996 on hire-purchase paying Rs.15,000 cashdown and balance in four annual installments of Rs. 14,000. Rs.13, 000.Rs. 12.000 and Rs.11,000.Each installment comprising equal amount of cash price, at the end of each accounting period. You are required to calculate total cash price, and amount of interest in each installment.

Question.8 Company purchased a machinery on the following agreement basis. It was agreed to pay Rs 55,000 as first installment, Rs 50,000 as second installment, Rs 45,000 as third installment and Rs 40,000 as fourth installment along with a down payment of Rs 10,000. Find cash price, hire purchase price and total interest. Assuming cash price portion is equal in each installments.

Question.9.(when rate of interest and instalments are given but total cash price is not given).

Cash Price	?
Down payment	10,000
First installment	14,000
Second installment	23,000
Third installment	11,000
Rate of interest	10%

Ans: Cash Price Rs 50,000.

Question.10.(when rate of interest and instalments are given but total cash price is not given)

X purchased a radiogram on hire-purchase system. As per terms he is required to pay Rs. 800 down, Rs. 400 at the end of first year Rs. 300 at the end of second year, and Rs. 700 at end of third year. Interest is charged at 5% p.a. You are required to calculate total cash price of radiogram and interest paid with each instalment.

Question.11. A acquired on 1st January, 2003 a machine under a Hire-Purchase agreement which provides for 5 half yearly instalments of Rs. 6,000 each, the first instalment being due on 1st July, 2003. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer. **(May 2003) 8 marks**

Question 12.(ANNUITY METHOD) On 1stjan 2010, X purchase a plant from Y on hire purchase system. The hire purchase rate was settled at Rs 60,000, payable as to Rs 15,000 on 1.1.2010 and 15,000 at the end of 3 successive year. Interest @5% p.a. the asset was to be depreciated in the books of purchaser at 10% p.a. on reducing balance method. Given the present value of an annuity of Re 1 p.a. @ 5% interest is Rs 2.7232. Ascertain the cash price.

Question13. On 1st January. 2013, Globe Press purchased a printing machine on hire-purchase system from Modern Machinery Co. The payment was to be made as Rs. 30,000 down and the balance in three equal installments of Rs. 20,000 each payable on 31st December. The vendor company charged interest @ 8% p.a. Globe Press provided depreciation @ 10% p.a. on the diminishing balances and paid all the instalments. It closes its books on 31st December every year. The cash down value of machine was Rs. 81,543. Show the (a) Modern Machinery Co.'s Account and (b) Printing Machine Account in the books of Globe Press for 3 years. **(I.C.W.A. (Inter)**

Question14 (Full Repossession) A Machinery is sold on Hire Purchase. The terms of payment is four annual instalments of Rs. 6,000 at the end of each year commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of Rs. 6,000.

Show Machinery Account and hire Vendor Account in the books of the purchase who defaulted in the payment of the third yearly payment where upon the vendor re-possessed the machinery. The purchaser provides depreciation on the machinery @ 10% p.a. All working should form part of your answer.

[ANSWER: Cash price - Rs. 15,533, loss on repossession = 324]

Question15. (Full Prepossession) AB Ltd. Purchased from CD Ltd. a machine costing Rs. 1,20,000 on hire purchase system. Payment was to be made

Rs.30,000 down and the remainder in three equal installments together with interest at 5%. AB Ltd. writes off depreciation @ 20% on the diminishing balance method. It paid the installments at the end of the first year but could not pay the next.

Give the necessary ledger accounts in the books parties for two years if the hire vendor took possession of the machine. The hire vendor spent Rs. 5,800 on getting the trucks thoroughly overhauled and sold them for Rs. 70,000. **[Answer.: Loss on default: Rs. 13,800; Profit on sale of goods repossessed Rs. 1,200.]**

Question.16(partial repossession) P purchased 4 cars at Rs. 14,000 each on hire-purchase system. The hire-purchase price for all the four cars was Rs. 60,000, to be paid Rs. 15,000 down and three instalments of Rs. 15,000 each at the end of each year. Interest is charged at 5% p.a. Buyer depreciates cars at 10% p.a. on straight line method.

After having paid down payment and first instalment, buyer could not pay second instalment and seller took possession of 3 cars at an agreed value to be calculated after depreciating cars at 20% p.a. on written down value method. One car was left with the buyer.

Seller, after spending Rs. 1,200 on repairs, sold away all the three cars to X for Rs. 35,000. Open ledger accounts in the books of both the parties.(**CA-IPCC, CMA INTER)**(**Really pyara question)**

Question 17. **(partial repossession)** X purchased seven trucks on hire-purchase on 1 -7-98. The cash price of each truck was Rs. 50,000. He was to pay 20% of the cash price at the time of delivery and the balance in five half-yearly instalments starting from 31-12-98 with interest @ 5% per annum.

On X's failure to pay the installment due on 30.6.99 it was agreed that X would return 3 trucks to the vendor and the remaining 4 would be retained by him. The vendor agreed to allow him a credit for the amount paid against these 3 trucks less 25%. Show the relevant account in the books of X assuming that his books are closed in June every year and depreciation @ 20% is charged on trucks.**CA (Inter 16 Marks)**

Question 18. (Partial repossession) Bombay Roadways Ltd. purchased three trucks costing Rs. 1,00,000 each from Hindustan Auto Ltd. on 1st January, 1998 on the hire-purchase system. The terms were:—

Payment on delivery Rs. 25,000 for each truck and balance of the principal amount by 3 equal installments plus interest at 15% per annum to be paid at the end of each year. Bombay Roadways Ltd. writes off 25% depreciation each year on the diminishing balance method.

Bombay Roadways Ltd. paid the instalments due on 31st December, 1998 and 31st December, 1999 but could not pay the final instilment. Hindustan Auto Ltd. re-possessed two trucks adjusting values against the amount due. The re-possession was done on 31st Dec. 2000 on the basis of 40% depreciation on the diminishing balance method. You are required to:—

(a) write up the ledger accounts in the books of Bombay Roadways Ltd. showing the above transactions up to 31-12-2000, and

(b) Show the disclosure of the balances arising from the above in the Balance Sheet of Bombay Roadways Ltd. as on 31st December, 2000. **(C.A. Inter 16 Marks)**

Question 19. (Partial Prepossession) X Transport Ltd. Purchased form-Delhi Motors three tempos costing Rs. 50,000 each on the hire purchase system on 1. 1. 1987. Payment was to be made Rs. 30,000 down and the remainder in three equal annual installments payable at the end of every year together with interest @ 9% X Transport Ltd. write off depreciations @ 20% on diminishing balance. It paid, the instalment due at the end of first year i.e., 31.12.1987 but could not pay the next on 31. 12. 1988. Delhi Motors agreed to leave one tempo with the purchaser on 1.1.1989 adjusting the value of the other two tempos against the amount due on 01. 01.1989. The tempos repossessed were valued on the basis of 30 % depreciation annually. Show the necessary accounts in the books of X Transport Ltd. for the years 1987, 1988 and 1989.**[Ans: Value of tempos taken away at the end of 2nd year Rs. 49,000. Loss on Repossession = Rs. 15,000]**

Question: 20(Partial Repossession) On 1July 2006, X Ltd. bought from Y Ltd. a plant whose cash price was Rs. 74,340; payment to be made by four bi-annual instalments of Rs. 20,000 each. The first one being due on 31 December, 2006. Interest had been taken into account at *6%* p.a. A clause in the agreement gave the vendors the right to seize the plant if the purchaser defaulted on any installment.

X Ltd. paid the first installment but failed to pay the next. It was agreed that X Ltd. Should retain the plant of which the original cash price was Rs. 32,000 and bear the loss on the remainder (which was sold on 13 July 2007 for Rs. 40,248), Y Ltd. waiving the interest accruing after 30 June 2007 included in the installments under the original agreement. Another agreement was entered into for the liquidation of the balance.

Show the plant account, vendor's account and plant surrendered account in the books of X Ltd. from 1 July2006 to 30 June 2007 taking depreciation at 5% p.a. half yearly on reducing balance assuming that X Ltd. makes up its accounts half yearly to 30 June and 31 December**. (YE QUESTION SIRF MAIN SOLVE KAR SAKTA HU. AUR KISI KI AUKAT NAHI)**

Question 20: On 1 October, 2006, five trucks were purchased by Kavita on the hire purchase system. The cash price of each truck was Rs. 5,50,000. The payment was to be made as follows:

(ii) 10% of cash price at the time of delivery.
(iii) 25% of cash price at the end of each one of the subsequent four half years.

The payment due on 30 September 2007 could not be made; hence trucks were seized by the hire vendor. However after negotiations, Kavita was allowed to retain three trucks on the condition that the value of the other two trucks would be adjusted against the amount due, the trucks being valued at cost minus 25 per cent depreciation and Kavita would pay the balance in five half years installments together with interest at 10% annum. Both the parities close their books on 31 March every year. Kavita charges 15% depreciation on trucks on the original cost. Unfortunately on 5 April, 2008, a fire destroyed all the three trucks in the possession of Kavita. The insurance company admitted the full claim on the basis of the balance in Trucks Account on 31 March, 2008. Kavita settled the account with the hire vendor on 30 April, 2008 on receiving the payment from the insurance company. The hire vendor waived the interest accrued after 31 March, 2008.

Prepare (i) Trucks Accounts and (ii) Kavita Account upto the final settlement date. **(EK AJEEB SI SHAKTI AA CHUKI HAI MERE ANDER. MAI BAHUT HI SHAKTISHALI FEEL KR RAHA HU)**

INTEREST SUSPENSE METHOD

Question.21. A ltd has hire purchase business and the installments are collected over three year period. It decides to allocate the interest as follows: 1st year 50%, 2nd year 30%: 3rd year 20%

The hire purchase sales for the first four years were as under:
1st year –Rs 10,000 of which Rs 2000 is interest
2nd year – Rs 20,000 of which Rs 4,000 is interest
3rd year – Rs 30,000 of which Rs 6,000 is for interest
4th year- Rs 60,000 of which Rs 10,000 is for interest
Show interest suspense account and profit and loss accounts for the relevant years

Question.22 A Company sells goods on hire-purchase on the basis of 25% down, the balance, with 20% interest thereon, being payable in 8 quarterly instalments on 31st March, 30th June. 30th September and 31st Dec. each year. The first instalment is payable at the end of each quarter in which the sale is made. The company transfers 50%,30% and 20% of the interest to the profit and loss account in the first, second and third year respectively.

Balance on 1st January, 1996:	Rs.
Hire-Purchase debtors	75,375
Hire-purchase interest suspense	9,900

Hire-purchase sales (exclusive of interest), which have evenly occurred over each of the calendar years, are:

1994	80,000
1995	1,00,000
1996	76,000

All dues were promptly paid in each year. Make out for the year 1996 H.P. Debtors account and H.P. Interest suspense account and prove the opening and closing balances of the latter account. **[C.A. (Final)]**

ADVANCE QUESTIONS ON COMPUTATION OF INSTALLMENTS

Question.23

Cash price	?
Rate of interest	12% p.a.
Interest is charged	Quarterly
Down payment on 1.01.07	50,000

Date and amount of Installments

1.7.07	=	30,000
31.12.07	=	50,000
31.12.08	=	40,000
30.6.09	=	60,000

Question.24

Cash price	?
Rate of interest	12% p.a. for 2007
	13% p.a. for 2008
	14% p.a. for 2009
	15% p.a. for 2010

Asset was purchased on 1 May 2007

Date	Amt. of Installment
31 Oct 07	40,000
31 Mar 08	30,000
31 Mar 09	45,000
30 June 10	30,000

Question.25 date of purchase = 1st Jan 2007
Cash price of asset = ?
Rate of interest
2007 = 12% p.a.
2008 = 14% p.a
2009 = 16% p.a.
Down payment = 60,000

Ist Installment after 10 months = Rs 75,000
IInd Installment at the end of 2nd quarter of 2008 = Rs 85,000
IIIrd Installment at the end of 3rd quarter of 2008 = Rs 68,000
IVth Installment at the end of 6 months of 2009 =Rs 74,000
Vth Installment at the end of 2009. = Rs 72,000

In 2007, interest is charged monthly.
In 2008, interest is charged quarterly.
In 2009, interest is charged half early.

Question.26. Calculate Cash Price where rate of interest is 12% p.a. charged quarterly and down payment is Rs 10,000

Date	Amount	Nature
1.01.2003	10,000	Down
1.04.2003	15,000	1st Instal
1.10.2003	20,000	2nd Instal
1.04.2004	20,000	3rd Instal
1.07.2005	30,000	4th Instal

Rate of interest is increasing by 2% every Year with effect from 1.1.2004.

CHAPTER 17. ACCOUNTING STANDARDS

DISCLOSURE OF ACCOUNTING POLICIES (AS-1)

MEANING.Accounting policies refer to specific accounting principles and the method of applying those principles adopted by the enterprise in preparation and presentation of the financial statements.

Examples Methods of Depreciation, Valuation of inventories, Valuation of Investment ,Treatment of Retirement Benefits ,Valuation of Fixed Assets ,Treatment of Contingent Liabilities etc

NEED FOR DISCLOSURE OF ACCOUNTING POLICIES

There are many areas, where more than one method can be followed for accounting. Which methods have been followed in preparation of Balance Sheet, profit and loss account is disclosed as accounting policies. Hence accounting policies contains the information about the method adopted for the preparation of financial statement. Statements of accounting policies are part of financial statement.

For proper and better understanding of financial statement, it is required that all significant accounting policies followed in preparation of financial statement should be disclosed. Because assets and liabilities in balance sheet and profit and loss account are significantly affected by accounting policies followed.

All significant accounting policies should be disclosed at one place because it would be helpful to the reader of financial statement.

SELECTION OF ACCOUNTING POLICIES

Major points which are considered for the purpose of selection and application of accounting policies

- **Prudence** - Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement. These uncertainties may be regarding collectability of receivables, number of Warranty claims that may occur. Prudence means making of estimates, which is required under conditions of uncertainty.
- **Substance over form** - It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form. Like in hire purchase if the assets are purchased on hire purchase by the hire purchaser the assets are shown in the books of hire purchaser in spite of the fact that the hire purchaser is not the legal owner of the assets purchased. Under the hire purchase the purchaser, becomes the owner only on the payment of last Installment. Therefore the legal form of the transaction is ignored and the transaction is accounted as per its substance.
- **Materiality**- Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/user of financial statement.

CHANGES IN ACCOUNTING POLICIES

A change in accounting policies should be made in the following conditions:

- Adoption of different accounting policies is required by statute or
- for compliance with an Accounting Standard ,or
- It is considered that change would result in more appropriate presentation of financial statement.

(I) Fundamental Accounting Assumptions : It is generally assumed that financial statements are prepared on the basis of fundamental accounting assumptions. Fundamental Accounting assumptions are:

- **Going Concern**- It means that enterprise had intention for continuing the operation in foreseeable future. Foreseeable means coming one or two years.
  In other words, neither there is intention of discontinuance of business, nor necessity of liquidation of organization or discontinuance of major operations of the business.
- **Consistency** - It means that same accounting policies are followed from one period to another.
- **Accrual**- It means that financial statement is prepared on mercantile system only.
  Other accounting assumption like business entity, money measurement, matching are not accounting assumptions as per this accounting standard.

Assumption regarding fundamental accounting assumptions : If nothing has been written about the fundamental accounting assumption in financial statements, it is assumed that fundamental accounting assumptions have been followed in preparation of financial statements.
If any fundamental accounting assumption has not been followed, then this fact must be disclosed in financial statements.

(II) **Notes to Accounts**

Notes to accounts are the explanation of the management about the items in the financial statements (Profit & Loss Account and Balance Sheet). The management gives explanation and information about the items of profit and loss account and balance sheet and any other items, by way of notes to accounts.

QUESTION:1 Describe briefly the term "Accounting policies".**[CA Final, May 1992 (2 Marks)**

QUESTION: 2 Write a short note on discloser of accounting policy.
[CA PE-II Level May 2003,' Nov 2002 (4 Marks)] [CA Inter Nov 1999, May 1999 (4 Marks)]

QUESTION: 3 Mention six areas in which different accounting policies are followed by Companies.
(**PCC, May - 2008; Marks 4)**
Answer: Major Areas in which different accounting policies may be adopted by different enterprises includes:
- Methods of depreciation, depletion and amortisation, e.g., WDV method, SLM method
- Treatment of expenditure during construction, e.g., capitalization, written off, deferment
- Conversion or translation of foreign currency items, e.g. average rate, TT buying rate
- Valuation of inventories, e.g. FIFO, weighted average method
- Treatment of goodwill, e.g., capitalization method, super profit method
- Valuation of investments, e.g. lower of cost and fair value
- Treatment of retirement benefits, e.g., Pay-as-you-go
- Recognition of profit on long-term contracts, e.g proportionate completion method
- Valuation of fixed assets, e.g., historical cost, revalued amount
- Treatment of contingent liabilities, e.g., provision, discloser, no treatment

AS-2: (REVISED) VALUATION OF INVENTORIES

AS 2 is mandatory in nature for all entities. According to AS-2 'inventories' are assets

(a) held for sale in the ordinary course of business
(b) In the process of production for such sale(WIP); or
(c) raw material consumed in the production process including loose tools and spare parts.

Exclusion from AS-2

a. **Under construction building**
b. **Stock of securities(shares, debentures, bonds)**
c. **Natural resources**
d. **Live stock**
e. **Service provider**
f. Machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular. Such machinery spares are accounted in accordance with accounting standard AS-10 Accounting for PROPERTY, PLANT AND EQUIPMENT.

VALUATION OF INVENTORIES OF FINISHED GOODS/WIP
According to AS-2 inventories should be valued at the lower of cost and net realisable value.

QUESTION:1 The company deals in three products, A, Band C, which are neither similar nor interchangeable. At the time of closing of its account for the -year 2002-03. The Historical Cost and net realisable value of the items of closing stock are determined as follows:

Items (Rs. in lakhs)	Historical Cost (Rs. in lakhs)	Net Realisable Value
A	40	28
B	32	32
C	16	24

What will be the value of Closing Stock**?** **[May 2004, 4 marks]**

Question 2. X ltd has stock of 100 kg of shampoo. Standard cost per kg Rs 40. Calculate cost of stock.

Question 3. Y ltd has stock of 500 pkd of shampoo. Retail price/pkdRs 90. G.P. Rate 20%. Calculate cost of stock.

Question 4. Rashika ltd produces PEPSI. In the month of April, it produces 1,00,000pkd of PEPSI . Following expenses were incurred during the month of April:
Direct material = 8,00,000
Direct labour = 2,00,000
Indirect material(e.g. bottle) = 1,00,000(variable factory overhead)
Fixed production overhead = 2,50,000
Transport cost to stores = 50,000
Assume normal production capacity = 1,20,000 pkd.
Calculate cost per unit.

Question:5 The cost structure per kilogram of finished product is given below:

Material cost	Rs. 100 per kg
Direct labour cost	Rs. 20 per kg
Direct variable production overhead	Rs. 10 per kg

Fixed production charges for the year on normal capacity of 1,00,000kgs is Rs. 10 per kg. 2,000 kgs of finished goods are in stock at the year end. How do you value the quantity in stock as per AS-2.

Question:6 In a production process normal waste is 5% of input. 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is Rs. 1,000. The entire quantity of waste is in stock at the year end. How will you value the inventory in accordance with the requirements of AS-2?
Answer: Abnormal amounts of waste materials, labour or other production costs are excluded from cost of inventories and as such costs are recognized in the period in which they are incurred. In this case normal wastage is 5% of 5,000 MT i.e. 250 MT. The balance of 50 MT is abnormal loss. The cost of normal loss will be included in the cost of finished goods. The cost of abnormal loss being 50 x 1,000 i.e. Rs. 50.000 will be charged to profit and loss account.

Question: 7
Receipts

3rd January	500 units @ Rs. 10 per unit	
6th January	300 units @ Rs. 10.50 per unit	
Issues		
8th January	600 units	
Valuation of issue price		
500 units @ Rs. 10 per unit		Rs. 5,000
100 units @ Rs. 10.50 per unit		1,050
Total value issues (FIFO)		Rs. 6,050
Value of inventory 200 units @ Rs 10.50		= Rs. 2,100

Question: 8 The Aroma Flour Mills Ltd. does not maintain a perpetual inventory of wheat which it buys and issues to the mills. The physical inventory taken on 28th February, 2000 shows the following quantity of wheat on hand.
10 tonnes @ Rs. 420 per tonne.
The purchases during March were as under:
10-3-2000 100 tonnes @ Rs. 425 per tonne.

20-3-2000 50 tonnes @ Rs. 450 per tonne.
30-3-2000 10 tonnes @ Rs. 460 per tonne.

A physical inventory taken on 31st March, 2000 shows a stock of 15 tonnes of wheat in hand. Compute the inventory value on 31st March, 2000 by FIFO method.

Question: 9 Below given the accounting data of Raghu running retail business in paints for ending 31st December,2012.

	At cost	At retail
Beginning inventory	20,000	30,000
Paints purchased	1,00,000	1,70,000
Paints available for sales	1,20,000	2,00,000
Net sales for the year		1,60,000
Ending inventory retail		40,000

You are required to estimate the cost of inventory as on 31st December, 2012 using retail method.

Question: 10. A Ltd. uses a single raw material and converts that into a finished product, During the current period the cost of production and sale prices are as shown below :
Raw material 3 units at Rs. 8 each = Rs. 24.00
Costs of conversion = Rs. 26.00
Manufacturing cost = Rs. 50.00
Selling price = Rs. 75.00
On the balance sheet date there is a steep fall in the price of the product to Rs. 45 because of competition and a steep fall in the material prices. Currently materials can be purchased at Rs. 4 per unit. On the balance sheet date there are 1,00,000 units of raw material in stock purchased at a cost of Rs. 8 per unit. You are required to value inventory as on the balance sheet date.

Question: 11. Raw material purchased at Rs. 100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10.000 kilograms of raw material is in stock at the year end. Replacement cost of the material is Rs. 80 per kilogram. How will you value the inventory having regard to AS-2?

Answer: Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of material and it is estimated that the cost of the finished products will exceed the net realisable value, the materials are written down to net realisable value (paragraph 24 of AS-2).

In the given case since prices are on the decline and also the finished product is likely to be sold at below cost, raw materials will have to be valued at net realisable value. Replacement cost is the best available measure of net realisable value. Hence 10,000 kilograms of material will be valued at Rs. 80 per kilogram.

QUESTION:12 Inventories of a car manufacturing company include the value of items, required for the manufacturing of a model-which was removed from the production line five years back, at cost price. As a company auditor how would you react on the above situations?**[CA Inter, Nov 2002 (4 Marks)]**

Answer: Inventory valuation: AS-2 on "Valuation of Inventories" provides that the cost of inventories may not be recoverable if those inventories are damaged, have become wholly or partially obsolete, or if their selling prices have declined. Accordingly, the auditor should examine whether appropriate allowance has been made for the defective, damaged, obsolete and slow-moving inventories in determining the net realizable value.
In this case, items required for the manufacture of a model, which has been withdrawn from the production line five years ago, are included in the stock at cost price resulting in overstatement of inventory and profit. As it appears from the facts given that the net realizable value of these items is likely to much lower than the cost necessary to write down the inventory to "net realizable value" if the items of inventories become wholly or partially obsolete. Under the circumstance, the auditor should qualify the report appropriately.

QUESTION:13. The auditor of a company has a difference of opinion with its chief accountant on the Following matters concerning inventories. What would be v our advice to the auditor?

(a) It has been policy of the company to value the inventories of finished goods (textiles) at selling price since the items have a ready market. However, the auditor objects to this valuation on the basis that it amount to recognizing unrealized profit.

(b) The company incurs Rs. 20,00,000 as fixed production overheads even-year. It normally produces 1,00,000 units in a year. In 2000-01, however, it produces only 40,000 units. Fixed production overheads per unit for the year 2000-01 have been determined by the chief accountant as Rs. 50 (Rs.20,00,000 / 40,000).

(c) What would be your answer in case (b) above if the actual production during the year were 1,25,000 units?

(d) The company deals in five products — A, B, C, D and E. At the time of closing of its accounts for the year, the historical cost and the net realizable value of the items of closing stock are determined as below:

Items	Historical (Rs. in million)	Net realizable value (Rs. in million)
A	20	14
B	16	16
C	8'	12
D	16	25
E	12	8
Total	**72**	**75**

The chief accountant values the closing stock in the draft financial statements at Rs. 72 million. The auditor, however, does not concur with this valuation.

Answer:

(a) The auditor's stand is correct. AS-2 on "Valuation of Inventories' issued by the 'Institute of Chartered Accountants of India', requires that inventories should be valued at the lower of cost and net realizable value. Valuation of Inventories at selling price is not in accordance with AS-2.

(b) AS-2 on 'Valuation of inventories' requires that fixed production overheads should generally be allocated on the basis of normal capacity of production facilities. Accordingly in the instant case, the allocation should be on the basis of 1,00,000 units; i.e. fixed production overheads allocated to each unit of production should be Rs. 20 and not Rs. 50.

(c) AS-2 on 'Valuation of inventories' requires that fixed production overheads should generally be allocated on the basis of normal capacity of production facilities. However in case the actual production during a period is abnormally high, the standard requires such allocation to be made on the basis of actual production. Accordingly in the instant case the allocation should be on the basis of 1,25,000 units, i.e. fixed production overheads allocated to each unit of production should be on the basis of 1,25,000 units, i.e. fixed production overheads allocated to each unit of production should be Rs. 16.

(d) As the 5 products are neither similar nor interchangeable, the valuation of inventory of each product should be on the basis of the lower of its costand net realisable value as follows:

Items	Balance Sheet valuation (Rs. in million)
X	14
Y	16
Z	8
Total	38

QUESTION: 14. An enterprise has in its stock 10000 bags of cement purchased at a cost of Rs. 180 per bag. The terms of trade are that the cement is delivered at the buyer's door and the cost of delivery of Rs. 10 per bag is paid by the seller. The selling price of cement is Rs. 187 per bag. Find out the value of closing stock ? **Answer:** Rs. 17,70,000

QUESTION:15. Normal Production 1,00,000 Units

Fixed Production overheads Rs. 5,00,000

Actual Production

Case I 1,00,000

Case II 80,000

Case lll 1,25,000

Discuss how the fixed production overheads will be allocated to inventor). **Answer***:*Rs. 5, Rs. 5, Rs. 4.

QUESTION : 16. A has purchased 10000 TV's at the cost of Rs. 8,000/- each. On Balance Sheet date there were 2000 TV's in stock. Of these 500 were earmarked against a sales contract at a price of Rs. 9,000/ each. The general price of this brand has dropped to Rs. 7,500/-. Sales contract is committed by both parties. You are required to value stock.
Answer .*Rs.* 152, 50,000/-

QUESTION:17 A Ltd. uses a single raw material that converts that info finish product.During the current period the cost of production and sales are as follows :

Raw material 3 units at Rs.8 each	Rs. 24.00
Cost of conversion	Rs. 26.00
Selling Price	Rs. 75.00

On the balance sheet date there is a steep fall in the price of product to Rs. 45/-because of competition and a steep fall in material price. Currently materials can be purchased at Rs. 4 per unit. On the balance sheet date there are 1,00,000 units of raw material in stock purchased on 31.3.2004 at cost of Rs. 5 per unit. You are required to value inventory as on the balance date.

QUESTION: 18 State with reference to accounting standard, how you will value the inventories in the following cases:

1. Raw material was purchased at Rs. 100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kgs.of raw material is on stock at the year end. Replacement cost is Rs. 80 per kg.

2. In a production process, normal waste is 5% of input, 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost MT of input is Rs. 1,000. The entire quantity of waste is on stock at the year end. Suggest accounting treatment of abnormal Loss

3. Per Kg. of finished goods consisted of:

Material Cost	Rs. 100 per kg.
Direct labour cost	Rs. 20 per kg.
Direct variable production overhead	Rs. 10 per Kg.

Fixed production charges for the year on normal capacity of one lakh kgs. isRs. 10 lakhs. 2,000 Kgs. of finished goods are on stock at the year end.***CA Final November, 2000 (12 Marks)***
Answer: *8, 00,000 (b) 52631(c) 2,80,000*

QUESTION: 19 C Ltd.,a Pharmaceutical Company, while valuing its finished stock at the year end wants to include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses.**[May 2005, Audit 5 marks]**
Answer*:* As per Accounting Standard 2 "Valuation of Inventories", cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. However, it makes clear that interest and other borrowing costs are usually not included in the cost of inventories because generally such costs are not related in bringing the inventories to their present location and condition. Therefore, the proposal of C Ltd. to include interest on bank overdraft as an element of cost is not acceptable because it does not form part of cost of production.

Question: 20 . Sonar Bhandar deals in old colour TVs. It has 4 TVs the particulars of which are given below :
You are asked to compute the value of stock to be included, in Balance Sheet for the year ended 31st March 2009:

TVs	Onida Rs.	Philips Rs.	EC Rs.	Sony Rs.	Total Rs.
Cost Price	10,000	20,000	35,000	50,000	1,15,000
(freight incurred to bring into godown)	3,000	2,000	5,000		10,000
Net Realisable Value	18,000	30,000	36,000	55,000	1,39,000

Question: 21. Value of opening stock =Rs. 70,000
Purchases = Rs. 3,40,000
Manufacturing expense = Rs. 20,000
Gross Profit Margin = 25% on cost.
Selling expense = Rs. 10,000
Sales (Net) = Rs. 5,00,000
Calculate (i) Closing stock
(ii) Cost of goods available for sale
(iii) Cost of goods sold.
(iv) Net profit.

Question: 22. Purchases = Rs. 3,00,000
Manufacturing expenses = Rs. 40,000
Sales = 33 1/3 % above cost
Opening Stock = Rs. 40,000
Sales (Net) = 4,50,000
Sales return = Rs. 20,000
Calculate Closing stock and gross sales.

Question 23. (DELETED) 1,03,200

Question: 24. Opening stock(1st April 2012) = 400 kg@ Rs 24
On 12 April – 500 kg purchased @ Rs22
On 16 April – 300 kg purchased @ Rs20
On 18 April – 450 kg purchased @ Rs25
On 28April company issued 1000 kg to the factory.
Calculate value of closing stock and cost of issue under periodic system by
FIFO Method
Weighted average method

Question: 25.
1, April, 2012
Opening stock = 100 Kg @ Rs. 20

Date	Purchases	Issue	Rate
4 April	200 Kg		Rs. 21
7 April	300 Kg		Rs. 18
10 April	---	150 Kg	---
12 April	100 Kg	---	Rs.22
15 April	---	250 Kg	---
18 April	400kg	---	Rs. 20
20 April	100Kg	---	Rs. 15
22 April	Goods returned to suppliers from the lot purchased on 20th April		
25 April	---	400 Kg	---
28 April	Shortage of 50 Kg		
30 April	150 Kg	---	17

CALCULATE
1,Value of Closing stock
2.Cost of goods available for sale
3.Cost of goods sold
4.Profit earned if total sales is Rs. 2,00,000

Under:

(a) FIFO

(b) Weighted Average method **Following perpetual system of recording .**

Question: 26. Physical verification of stock in a business was done on 23rd June. 2012. The value of the stock was Rs.4,80,000. The following transactions took place between 23rd June, 2012 to 30th June 2012:

1. Out of the goods sent on consignment, goods at cost worth Rs.24.000 were unsold.
2. Purchases of Rs.40,000 were made out of which goods worth Rs. 16,000 were delivered on 5th July, 2012.
3. Sales were Rs.l,36,000, which include goods worth Rs.32,000 sent on approval. Half of these goods were returned before 23rd June, 2012, but no information is available regarding the remaining goods.
4. Goods are sold at cost plus 25%. However goods costing Rs.24,000 had been sold for Rs. 12,000.

Determine the value of stock on 30th June, 2012

Solution: Statement of Valuation of stock on 30th June, 2012

		Rs.
Valuation of Stock as on 23rd June, 2012		4,80,000
Add : Unsold stock out of the goods Sent on consignment	24,000	
Purchases during the period from 23dr June, 2012 to 30th June, 2012 24,000		
Goods in transit on 30th June, 2000 16,000		
Cost of goods sent on approval basis (80% of Rs. 16,000.)	12,800	76,800
		5,56,800
Less : Cost of sales during the period from 23rd June, 2012 to 30th June, 2012:		
Sales (Rs. 1,36,000 - Rs. 16,000)	1,20,000	
Less: Gross Profit	9,600	1,10,400
Value of Stock as on 30th June, 2012		4,46,400

Working notes:

	Calculation of normal sales:		Rs.
	Actual sales		1,36,000
	Less: Abnormal sales	12,000	
	Return of goods sent on approval	16,000	28,000
			1,08,000
	Calculation of gross profit:		
	Gross profit on normal sales 20/100 x Rs. 1,80,000		21,600
	less: Loss on sale of particular (abnormal) goods (Rs 24,000-Rs. 12,000)		12,000
	Gross Profit		9,600

Question: 27. M/s P & Q purchase shirts @ Rs. 200 per piece. The average freight is Rs.10 and insurance in transit is 1%. Octroi duty is 5 %. On the average, the firm earns a rebate of 4% on its purchase. Godown and storekeeping charges amount to 10 % of the purchase price per annum. In 1999-2000, the firm purchased 10,000 shirts of which 1,500 remained in stock at the end of the year. Of the latter, 100 were such as were out of fashion and were expected to be sold @ Rs.150 per shirt. Ascertain the value of closing stock.

Question: 28. M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31.3.2012:

Goods received from suppliers (Subject to trade dis. & taxes) Trade discount 3% and sales tax 11 %	15,75.500
Packaging and transportation charges	87,500
Sales during the year	22.45,400
Sales price of closing inventories	2,35,000

Find out the historical cost of inventories using adjusted selling price method.

Inventory system:-There are two inventory systems, viz. Periodic Inventory System and Perpetual Inventory System.

(i) Periodic Inventory System:

Periodic Inventory System is a method of ascertaining inventory by taking an actual physical count (or measure or weight) of all the inventory items on hand at a particular date on which information about inventory is required. Under this system, all purchases and purchase returns of inventories arc recorded. But issues of materials are not recorded on regular basis. Therefore *the inventories used during the year* is calculated by adding opening stock to purchases and deducting closing stock of inventories.

Cost of goods Sold = Opening Inventory + Purchases – Closing Inventory

(i) Perpetual Inventory System:

Perpetual Inventory System is a method of recording inventory balances after each receipt and issue. Under this system all purchases of material, issue Jo production, return to suppliers, and balance of materials are recorded in store ledger. Under this system store ledger shows complete movement of materials.In order to ensure accuracy of perpetual inventory records, physical stocks should be checked and compared with recorded balances. The discrepancies, if any, should be investigated and adjusted in the accounts properly. The closing inventory is calculated as residual figure (which includes lost goods also.) as follows:-

Distinction between periodic Inventory System and Perpetual Inventory System (most imp)

Periodic Inventory System	**Perpetual Inventory System**
➢ Inventory is ascertained by taking anactual physical count. ➢ Inventory is directly calculated by applying the method of valuation.Cost of goods sold = Op. Inventory + Purchases- Closing Stock. ➢ Cost of goods sold includes cost of lostgoods (if any). ➢ It requires, closing down of work forstock-taking. ➢ It does not facilitate the continuous stock checking. ➢ It is a simple and Inexpensive. ➢ The method of valuation (e.g. FIFO / Weighted Average) is applied only once at the end of the accounting period to ascertain the cost of closing inventory.	➢ Inventor is ascertained on the basis ofrecords. ➢ Inventory is calculated as a residual figure asfollows: Op. Inventory + Purchases - Cost of goods sold. ➢ The cost of closing inventory includes costof lost goods (if any) ➢ It does not require closing down of work forstock- taking. ➢ It facilitates the continuous stock checking ➢ It is elaborate and expensive. ➢ The method of valuation (e.g. FIFO / Weighted Average) is applied on continuous basis during the accounting period to ascertain the cost of goods sold.

AS-7: CONSTRUCTION CONTRACTS

Question 1.Mr A obtained one contract for Rs 10,00,000 on 1.1.12. he incurred following expense
During 2012 cost incurred = Rs 3,00,000
Future cost to be incurred Rs 4,00,000

During 2013 cost incurred =Rs 5,00,000(cumulative)
Future cost to be incurred =Rs 2,50,000

During 2014 cost incurred Rs 8,00,000(cumulative)
Future cost = nill
Contract completed
Calculate profit for each year.

Question 2. Calculate profit earned during each year.

	Year 1	year 2	year 3
Contract cost incurred	5,00,000	8,00,000	12,00,000
Future cost to be incurred	4,00,000	3,00,000	nill
Initial contract revenue	12,00,000		
Variation		+1,00,000	
Claim		+ 20,000	
Escalation			30,000
Incentives			50,000

Question 3. Contract revenue = 100 lacs
Cost incurred = 92 lacs
Future estimated cost = 23 lacs
Expected loss = 15 lacs
Calculate amount transferred to profit and loss A/c and provision required.

Question 4. Raghu Constructions undertake to construct a bridge for the Government of Andhra Pradesh. The construction commenced during the financial year ending 31.3.2012 andlikely to be completed by the end of next financial year. The contact is for a fixed price of Rs. 12 crores with an escalation clause. The costs to complete the whole contract are estimated at Rs, 93 crores of rupees. You are given the following information for the year ended 31.3.2012.

Costs incurred up to 31.3.2012	Rs. 4 crores
Costs estimated to complete the contract	Rs. 6 crores

Escalation in costs by 5% and accordingly the contract price is increased by 5%. You are required to ascertain the state of completion and state the revenue and profit to be recognised for the year.

Answer:

Costs incurred to date	Rs. 4 crores
Estimated costs to complete the contract	Rs. 6 crores
Total costs to complete the contract	Rs. 10 crores
Rs.4 crores Percentage of completion $\frac{Rs.4crores}{Rs.10crores}$ x 100 = 40%	
Agreed contract price	Rs. 12 crores
Add: 5% escalation 12 x 0.5	Rs. 06 crores

Total revenue	Rs. 12.06 crores
Revenue recognised for the accounting period Rs. 12.06 crores x .4	= 4.824 crores
Costs incurred during the period	= 4.00 crores
Profit to be recognised	= 0.824 crores

Question:5 Define construction contract and its types as per Accounting Standard-7?

Answer*:* Meaning of construction contract: Construction contract is a contractspecifically negotiated for the construction of an asset, e.g., bridge, building, dam, pipeline, road, ship or tunnel or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use, e.g., construction of refineries and other complex pieces of plant or equipment. Construction contracts include:

- Contracts for the rendering of services which are directly related to the construction of the asset, e.g., contract for services of project managers and architects; and
- Contracts for destruction or restoration of assets, and restoration of the environment following the demolition of assets

Types of Construction Contract: Basically, AS-7 identifies two types ofcontracts:

Fixed price contract is a construction contract in which the contractor agreesto a fixed contract price, or a fixed rate per unit of output, which in some casesis subject to cost escalation clauses.

Cost-plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus percentage of thesecosts or a fixed fee.

Some construction contracts may contain characteristics of a fixed price contract and a cost plus contract both, e.g., cost plus contract with an agreed maximum price.

Question: 6 Define the term 'Contract Revenue' and 'Contract Costs, as contemplated in accounting standard-7?

Question: 7What are the discloser requirements contained in Accounting Standard-7?

Question: **8** A company took a construction contract for Rs.100 lakhs in January, 2006. It was found that 80% of the contract was completed at a cost of Rs.92 lakhs cm the closing date i.e. on 31.3.2007. The company estimates further expenditure of Rs.23 lakhs for completing the contract. The expected loss would be Rs.15 lakhs. Can the company reorganise the loss in the financial statements prepared for the year ended 31.3.2007?**(PCC May 2007; Marks 2)**

AS—9:REVENUE RECOGNITION

PRACTICAL PROBLEMS

Question:1 As a result of a recently announced price revision, granted by the Government of India with effect from 1st July 1992, the company stands to receive Rs. 5,20,000 from its customers in respect of sales made in 1992-93.**[CA Final, Nov. 1993 ;2 Marks)]**

Answer: The price revision was effected during the current accounting period, 1992-93. As a result the company stands to receive Rs. 5,20,000 from its customers in respect of sales made during 1992-93. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognised in 1992-93 vide AS-9.

Question:2 X Limited has recognized Rs. 10 lakhs on accrual basis income from dividend on units of mutual funds of the face value of Rs. 50 lakhs held by it as at the end of the financial year 31st March, 2003. The dividends on mutual

funds were declared at the rate of 20% on 15th June, 2003. The dividend was proposed on 10th April, 2003 by the declaring company. Whether the treatment is as per the relevant Accounting Standard? You are asked to answer with reference to provisions of Accounting Standard.**[Nov. 2003, 4 marks]**

Answer: Accounting Standard 9 on Revenue Recognition state that dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established. In the given case, the dividend is proposed on 10th April, 2003, while it is declared on 15th June, 2003. Hence, the right to receive payment is established on 15th June, 2003. As per the above mentioned paragraph, income from dividend on units of mutual funds should be recognized by X Ltd. in the financial year ended 31st March, 2004.The recognition of Rs.10 lakhs on accrual basis in the financial year 2002-2003 is not as per AS — 9 'Revenue Recognition'.

AS 10- PROPERTY, PLANT AND EQUIPMENT --- FOLLOW ONLY CLASS NOTES

Chapter 19. MEANING AND SCOPE OF ACCOUNTING

Every individual performs some economic activity. Such activities are performed through Transactions and Events.

Transactions: - Transaction means performance of an act or an agreement.

Events: - Event means happening due to any transactions. In other words result of any transaction.

Example:- Raising money through various sources are transaction and profit or loss at the end of year is an events.

Definition of Accounting: - It's an art of recording, classifying and summarizing transactions and events in monetary term. It is also called Language of Business. It also analysis and interprets the financial transaction and events.

Procedural Aspects of Accounting

On the basis of above definition, procedure of accounting is divided into two parts:

(1) Generating financial information.
(2) Using the financial information.

(I) Generating financial information

(a) **Recording:** - It is basic function of accounting. All transaction or events are evidenced by some documents like Purchase Bill, Bank Pass Book, Sale Bill, Salary Slip etc. **Recording is done in a book called Journal.**

(b) **Classifying: -** It is systematic analysis of recorded data. In this stage transaction or events of one nature are put at one place so as to make more useful or informatics for uses. **Book containing classified information is called Ledger.**

(c) **Summarizing: -** It is preparation and presentation of classified data to internal as well as external users of financial statement. This process leads to preparation of Trial Balance, Profit and loss Account, Balance sheet.

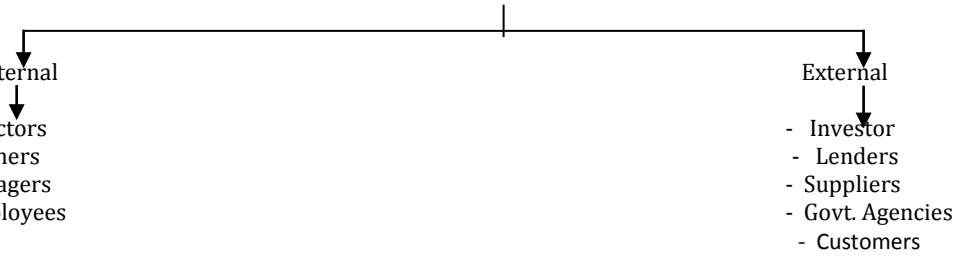
(d) **Analysis and interpretation**: financial data is analysed and interpreted so that the users of financial data can make a meaningful judgement of the financial performance(profit) and financial position of the business. Analysis helps in planning for future in better way. It is done through many tools like ratio analysis etc.

(e) **Communicating: -** It is transmission of summarized, analyzed and interpreted information to users so that they can take rational decision. It is done through accounting reports like P & L A/c, Balance Sheet etc.

2. Using the financial information

Users not only include proprietor or owner but also include investor, employees, lender, suppliers, government, customer and public at large. Accounting data is more useful if it stresses more on economic substance rather than technical form. Information is useless and meaningless unless it is relevant and material.

Users of financial statement



Objectives of Accounting are as follows:-

(i) Systematic recording of transaction: - i.e. Book-Keeping.
(ii) Ascertainment of results of above recorded transaction.
(iii) Profit and loss Accounts are prepared for ascertaining results.
(iv) Ascertainment of financial position of business: - Balance Sheet is prepared.
(v)Assisting the management for decision making, exercising control, budgeting and forecasting.
(vi) Providing information to the users for rational decision making:-
(vii) To know solvency positions

FUNCTION OF ACCOUNTING ARE AS FOLLOWS:-

1. **maintaining systematic accounting records**
2. **preparation of financial statements**
3. **meeting legal requirements.**
4. **Measurement**:- It measures past performance of business and shows current financial position.
5. **Forecasting:-** It helps in forecasting future performance and financial position using past data.
6. **Decision-making**:- It helps users to take rational decision.
7. **Comparison and Evaluation:-** It helps in comparing and evaluating financial results of different intervals.
8. **Control**:- Accounting identifies weakness of system and provides feedback for control.
9. **Meeting legal requirements**:-
   Accounting provides necessary information to government to exercise control and collecting tax. Accounting records are accepted as evidence by the court of law.

Book-keeping :- It is a process of recording transaction and events or financial data of business operation in a systematic manner. It is basic function of accounting. In it proper books of account are prepared.

Objective of book-keeping :-
Complete Recording of transaction:- It records all transaction in systematic manner
Ascertainment of financial effect on business:- It shows combined effect of transaction made during accounting year.

Distinction between Accounting and Book-keeping

Book-keeping	Accounting
1. It is process of recording transaction or events	1. It is process of summarizing recorded Transactions.
2. It is a base for accounting	2. It is considered as language of business
3. Financial statements do not form part of this process.	3. Financial statement are prepared on the basis of book-keeping records
4. Managerial decisions are not taken on the basis of these records	4. Management takes decision on the basis of these records.
5. There is no sub-filed of book-keeping	5. It has several sub-filed like financial Accounting, cost accounting, management accounting etc.
6. Financial position cannot be known through book-keeping	6. Financial position are ascertained on the basis of accounting records.

Sub-field of Accounting are as follows:

1. **Financial Accounting**:- financial accounting is that branch of accounting which records financial transactions and events, summarises and interprets them and communicates the results to the users. It ascertains results (profit or loss) during an accounting period and financial position at the end.
2. **Management Accounting**:- it is concerned with generating accounting information relating to funds, cost, profits etc. as it enables the management in decision making.
3. **Cost Accounting**:- It ascertain the cost of products manufactured or services rendered and helps the management in fixing prices of product and exercising control over cost.
4. **Human Resource Accounting**:- It identify and make report on investment made in human resources of an organization.

Users of Accounting Information:- There are two categories:-

(1) Internal Management and owner
(2) External uses or outsiders.

Following are various uses:-

(1) **Investors**: They provide capital to business. They need information to assess whether to buy, hold or sell their investment.
(2) **Employees**:- Growth of employee directly related to growth of organization. So they require much information.
(3) **Lenders**:- They are interested to know capability of business to repay principal and interest.
(4) **Supplier and creditors** :- They want to know ability of firm to pay their dues. It is generally done by credit policy of concern.
(5) **Customer**;- Customers are also interested to know stability and functioning of business.
(6) **Government and their agencies** :- They are also interested due to various reasons like for allocation of scarce resources among competing enterprises, tax rate, and collection.
(7) **Public**:- They are also interested in functioning of business since they contribute substantially too many ways.
(8) Management as a whole is also interested in the accounts for various managerial decisions

Relationship of Accounting with other discipline

(1) **Accounting and Economics:-** Economics tells how scarce resources are utilized effectively. For that it is required to analysis the data of resources. Accounting provides major data base for same purpose.
(2) Accounting and statistics :-
- In accounts all individual transactions or events are important but in statistics behavior(i.e. trend analysis, degree of variation over a period). So here statistics methods help accounting to collect data in systematic manner. Statistic techniques like time series, cross-sectional comparison etc. are used for better presentation of accounting data.

(3) Accounting and Mathematics:- Mathematics helps accounting in numbers of ways like calculation of interest, annuity to find out instalments etc.

(4) Accounting and law:- Business enterprises require complying so many laws and making its accounting to comply their requirement. Partnership firms require to comply partnership act 1932, A company require to comply requirement of company act 2013, and so many other laws like labour laws, MRTP Act, Contract Act, Negotiable Instrument Act, The sale of good Act. Thus transaction and events of accounting are guided by law.

(5) Accounting and Management.

-Accounting helps management in decision making process. Accounting data are used by management as basic source documents.
-Large portion of accounting informations are prepared for management decision making.

Limitation of Accounting

Generally it is assumed that account shows true and fair view of financial statement of an enterprise. But it has following limitation
1) Accounts cannot reflect loyalty and skill of personnel which are most valuable these days.
2) Accounts never tell future of an enterprise. It only records past events that has occurred. Example- Balance sheet is prepared at the last moment of last day of accounting year. It never estimates what will happen in future.
3) Accounting mostly ignores changes in money factor like inflation.
4) In some occasions accounting principles conflict with each other.
5) Some accounting estimates require personal judgment like provisions for doubtful debts, method of depreciation adopted, writing of intangible assets etc.
6) Financial statements consider only thing which are in monetary term. Those which are not in monetary term are not considered by financial statement like human resources.
7) Different Accounting policies for treatment of same item increase the probability of manipulation.

Role of accountant in the society

There are few professions in the world having high esteem in public eyes, Accounting profession is one of them.
- It helps business to see its financial position and plan for the future.
- It serves for welfare of society in numbers of ways by having education, training and experience
- Accountants help not only in the matter of taxation, costing, management accounting, financial layout but also for financial planning and policies, budgetary policies even economics principle.
- Activities of accounting are not limited.

Area of service of Accountant

Some of services are as follows:-

(1) Maintenance of books of accountants

- Record transactions in systematic manner.
- Help ascertaining profit and loss and financial position.
- Help in planning, decision-making, controlling function.

(2) Statutory Audit

- Every company requires to audit their accounts by an external auditor.
- Accountant helps auditor to audit the accounts.

(3) Internal Audit

- Internal auditor examines the accounting system and ensures management that accounts have been properly maintained.
- It improves operational efficiency of business.

(4) Taxation

- An accountant can handle taxation matter of business as well as of individual and can represent himself on their behalf to taxation authorities and settle tax liabilities.
- It can also reduce tax liability by proper planning.

(5) Management Accounting and consultancy services

- Management accountant is mainly responsible for internal reporting to management. It provides services for planning controlling current operation, decision-making and special matter and making long term plans.
- Accountant also provides consultancy service in area of management information system, expenditure control, new investment, working capital management, corporate planning etc.

(6) Financial advise

Financial advise in following area:-

- Investment, Insurance, Business expansion, Investigation etc,
  - To ascertain financial position
  - To make or buy decision
  - To ascertain reason of profit fallen
  - To increase efficiency
  - In case of fraud- Reasons, Nature, extent and suggestion for prevention
  - For valuation of business.
  - Pension scheme.

Other services

1) Secretarial work
2) Share Registration work
3) Company formation
4) liquidation of company.
5) Arbitrations
6) Cost Accounting.

ACCOUNTING CONCEPTS, PRINCIPLES AND CONVENTIONS

INTRODUCTION

Suppose we give to prepare our accounts from five different Accountants. After some time all accountants come with their accounts by showing different profit, since all of them followed different accounting policies. In that case it will not serve the purpose of accounting. So it is necessary that there should be some principle, so that all accounts prepared by any number of accountant will show same amount of profit. So to avoid confusion and to ensure uniformity, **GAAP (Generally Accepted Accounting Principles)** are framed. GAAP describes rule for preparation of

financial statement called concepts, conventions, principles etc. These principles are ground rules, which define parameters & constraints within which accounting reports are prepared.

ACCOUNTING CONCEPTS

- These are basic assumptions and conditions on the basis of which financial statements are prepared. Certain concepts are perceived, assumed and accepted in accounting to provide unifying structure and internal logic to accounting process. The concept means idea or notion, which has universal application. Financial statements are interpreted in the light of the concept, which govern accounting methods.concepts are those basic assumptions and conditions, which form the basis upon which the accountancy has been laid. Accounting concepts are only results of broad consensus. **These accounting concepts lay down the foundation on the basis of which the accounting principles are formulated.**

ACCOUNTING PRINCIPLES

These are body of doctrines commonly associated with the theory and procedures of accounting serving as an explanation of current practices . They act as guide for selection of accounting procedures or conventions where alternative exists. Accounting principle must satisfy following conditions:-

1.They should be based on Real Assumptions.
2.They must be Simple, Understandable and Explanatory.
3.They must be followed consistently.
4.They should Reflect Future Predictions.
5.They should be Informational for users.

ACCOUNTING CONVENTIONS

These emerge out of Accounting Practices, commonly known as accounting principles adopted by various organizations over a period of time. These conventions are derived by usages and practices. It improves Quality of Accounting Information.

Concepts, Principles and Convention- An overview

Following are widely accepted accounting concepts:-

(1) Separate Entity Concept or Entity Concept or business entity concept

Business Entity Concept considered business enterprises as a Separate Entity & having separate identity distinct from its owner. Therefore business transactions are recorded in the books of accounts from business point of view and not from the owner. Therefore amount invested by owner into the business is also treated as liability(internal) for business.

(2) Money Measurement Concept

According to this concept, only those transactions which can be expressed in money should be recorded in the books of accounts .

Transactions and events, that cannot be expressed in money are not recorded in books of accounts, even if they are very useful or affect the result of business.

(3) Periodicity Concept/Accounting period concept

According to this concept, the life of an enterprise is broken into smaller periods so that its performance can be measured at regular interval. Generally one year period is taken up for performance measurement and appraisal of financial position. So life of the enterprise is divided into smaller periods(usually one year) which is termed as 'accounting period.' At the end of accounting period, we prepare financial statements.

Periodicity Concept helps in numbers of ways

(1) Compare financial statements of different periods.
(2) Uniform and consistent accounting treatment for ascertaining profit or loss and assets of the business.
(3) Match periodic revenues with expenses for getting correct results of business.

(4) Accrual Concept

Accrual means recognition of revenue and expenses as they are earned or incurred and not when cash or money is received or paid.

Revenue means gross inflow of cash, receivables and other consideration arises in the ordinary course of business activities from sale of goods, rendering services and using other enterprises resources yielding interest, royalties and dividends.

Expenses are cost relating to revenue earned for a particular period.

(5) **Matching Concept:**

For ascertaining profit and loss for a particular period, expenses should be matched with revenue of that period. In financial statement, it is necessary to match revenue of the period with the expenses of that period to determine correct profit or loss.

(6) **Going Concern Concept :**

According to this concept, it is assumed that enterprise will continue its operation for indefinite period of time. It is assumed that an enterprise neither has intention nor the need to liquidate or wind up and curtail its scale of operation. It is because of this concept a distinction is made between assets and expense, fixed and current assets / liabilities.

(7) **Cost Concept/Historical cost concept:**

According to this concept, value of asset is determined on the basis of historical cost or acquisition cost or price paid for acquisition of asset.

It has following limitations:-

- In an inflationary situation when price of all commodities go up on an average, acquisition cost loses its relevance.
- Historical cost-based accounts may lose comparability.
- Many assets do not have acquisition cost like Human Resources.

8. Conservatism/ prudence concept :-

It states that accountant should not anticipate income but should provide for all possible losses.
Where there are many alternative value of asset an accountant should choose method which shows lesser value.
Conservatism essentially leads to understandability of income and wealth and should be the basis for the preparation of financial statements.

9 Consistency : -

-The accounting policies are followed consistently from one period to another to achieve comparability of financial statements from one period to another period.
-The concept of consistency is applied where different methods of accounting are equally acceptable.
For e.g.:- A company may adopt any depreciation method, straight line method, WDV method etc, similarly there are many methods for valuation of stocks in hand. But the company should follow the principal of consistency over years.

An enterprise should change its accounting policy in any of the following circumstances only.

(i) Bringing books of accounts in accordance with the issued accounting standards,
(ii) To compliance with provision of law.
(iii) When it is felt that new method will reflect more true and fair picture in the financial statement .

10 Materiality : -materiality principle refers to the relative importance of an item or event. According to American Accounting Association, " an item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of an informed investor. Thus whether an amount is material or not, will depend on its amount, nature, size of business and level of person taking decision.
- It is an exception of full disclosure principal. As per this principle the items effecting significantly on the business of enterprises should be only disclosed separately in the financial statements.

11. full disclosures principles:-- each and every item should be properly disclosed in preparation of financial statements.

Fundamental Accounting assumptions(FAA)

There are three fundamental accounting assumptions:

(i) Going Concern
(ii) Consistency
(iii) Accrual

When nothing is written about the fundamental accounting assumptions in the financial statements then it is assumed that these accounting assumptions have been followed in preparation of financial statements. It should be specifically disclosed if any of these assumption is not followed.

Financial statements

-The aim of accounting is to keep records systematically to ascertain financial performance and financial position of enterprises and communicate the relevant financial information to management and public at large.
- All enterprises prepare financial statements like balance sheet, profit and loss account, cash flow statement etc by following various concepts, principles and conventions etc, to know financial position

Qualitative Characteristics of financial statements :-

Are as follows:-

1. **Understandability:** The information in the financial statements must be easily understandable.
2. **Relevance:**
   -Information must be relevant for decision making need of users.
   -they must be able to evaluate past, present and future events.

(3) Reliability: -

-Information must be reliable to be useful for the need of users. it should be free from errors and bias . user can depend upon it and can take their decisions.

(4) **Comparability;-**

-User must be able to compare financial statement of different period to know financial position, performance and cash flows.

(5). Materiality

-Relevance of information is affected by its materiality.

6. Faithful Representation:-

- Information must be presented faithfully. The transaction and events to be reliable for user.

7. Substance over form :-

- the transactions and other events in financial statement should be accounted and presented in accordance with their substance and economic reality and not merely their legal form. For example, assets taken on lease are shown as an asset in balance sheet, even firm is not a legal owner.

8. Neutrality :-

-Information contained in financial statement must be that , it is free from bias.

9. Prudence:-

Prudence means degree of caution in exercise of judgments requires to estimate condition of uncertainty so that assets and income are not overstated and liabilities and expenses are not understated.

10. Full, Fair and adequate Disclosure :- The disclosure should be full and final to assess financial position of enterprises. Principle of full disclosure implies nothing should be omitted. Principle of fair disclosure implies all transaction recorded in financial statement present true and fair view result of business. Adequate disclosure implies that information influencing the decision of users should be disclosed in details and should make sense.

11. Completeness :-

- Information in financial statement must be complete.
- An omission may cause false or misleading and unreliable information.

Basis of accounting:-

1. Accrual basis of accounting
2. Cash basis of accounting

Accounting Standards, IFRS and IND-AS

Introduction

- Accounting as a language of business tells financial result or position of enterprises to shareholders or owner by means of financial statement.
-If accounting process or system is not proper, than there are chances that financial statement could be misleading and not showing fair view.
-So in order to make accounting or financial statement transparent, consistent, comparable, adequate and reliable, there is requirement to make accounting standardize to make accounting principle and policies.
-Accounting standard provide framework and standard accounting policies so that financial statement of different enterprises become comparable.

Meaning of accounting standard : The accounting standards are set of guidelines i.e. Generally Accepted Accounting Principles, that are followed for preparation and presentation of financial statements. They are accounting rules and procedures relating to measurement, recognition, treatment, presentation and disclosures of accounting transactions in the financial statements issued by the council of the institute of chartered Accountant of india.

OBJECTIVE

1. Main objective of accounting standards are harmonizing accounting policies and practice followed by different enterprises so that comparison of different enterprises can be done easily.
2. It reduce accounting alternative for preparing financial statement to maintain harmonization.
3. promote better understanding of financial statements.
4. enhances reliability of financial statements.
5. understand significant accounting policies adopted and applied.

Benefits

There are following benefits
-It reduces variation between different enterprises for accounting treatment used to prepare financial statement.
-Standards discloses all information even which are not required by law.
-It helps in comparison of financial statement of companies situated in different parts of countries or world.

Limitation

-When there are alternative of many accounting treatment, choice of best alternative generally become difficult.
-Standards are rigid not flexible for applying accounting treatment.
-Standards can not override statute. It has to follow requirement of statute.

Overview of Accounting Standard in India

-ICAI constitute Accounting Standard Board (ASB) on 21st April 1977.
-Main Function of ASB to formulate Accounting Standards.
-ASB issued so far 32 Accounting Standard but AS-8 (Accounting for Research and development) and AS-6(depreciation) have been withdrawn so there are 30 Accounting Standards.

INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS)

Globalisation integrates the national economies into the international economies through trade, foreign direct investments, capital flow etc. in this age of globalization and technology, enterprises are carrying on businesses worldwide. We also understand that accounting is the language of business. Thus business enterprises around the world should not speak different languages while sharing financial informations. Therefore there is need for single set of accounting standards that can unify the accounting practices worldwide. It is difficult to understand and compare worldwide financial informations without a common set of accounting and financial reporting standards. The use of single set of high quality accounting standards would facilitate investment and other economic decisions across borders, increase market efficiency and reduce cost of capital. Thus international accounting standards **(IAS)** were developed, which are being withdrawn and superseded by International Financial Reporting Standards**(IFRS)**

IFRS are a set of accounting standards developed by the international Accounting standards board(IASB)

ASSUMPTIONS IN IFRS:-

1. **Accrual Assumption**
2. **Going concern assumption**
3. **Measuring unit assumption:** measuring unit for valuation of capital is the current purchasing power. It means asset should be reflected at current(fair) price.
4. **Constant purchasing power assumption:-** it means value of capital be adjusted to inflation in the economy at the end of financial year.

APPLICATION OF IFRS IN INDIA:- India had two options, i.e. either to accept IFRS as they are or converge the Indian accounting standards in line with IFRS. It decided to converge its existing accounting standards with IFRS. The converged accounting standards titled **Ind-AS** have been issued and notified. It should be noted that the existing Indian accounting standards shall not cease to be applicable standards. They will continue to apply on entities that are not required to migrate to **IND-AS.**

ACCOUNTING POLICIES

Meaning

- Accounting Policies means specific accounting principles and method of applying those principles in the preparation and presentations of financial statement.
- The choice of specific accounting policy in different circumstances requires judgment by management.
- **ICAI trying to reduce number of accounting policies through Guidance Notes and Accounting standard in combined efforts with government and other regulatory agencies**. ICAI already achieved some progress in this respect.

Areas within different accounting polices are frequently encountered are as follows:

- Method of deprecation, depletion and Amortization
- Valuation of Inventories
- Treatment of goodwill
- Valuation of Investment
- Valuation of fixed assets etc.

Selection of Accounting Policies

- Choice of accounting policy is important decision which affects the performance of financial position of business.
- Selection of inappropriate accounting polices may lead to understatement or overstatement of performance and financial positions.
- There is no universal formula for selecting accounting policies.
- **Three major characteristics which should be considered for selection and application of accounting polices**
  - Prudence
  - Substance over form
  - Materiality
- Financial statement should be prepared on the basis of such accounting policies
- Accounting policies adopted in the preparation of financial statement should be disclosed at one place .

Change in Accounting policies:- Change in Accounting policies should be made in following conditions

a) When it is required by law.
b) Change result more appropriate presentation of financial statement.
c) Changes require to comply with accounting standard. So it is necessary to reflect change in financial statement.

Accounting as a Measurement Discipline:- Valuation Principle, Accounting Estimates

Meaning of Measurement

-Measurement is important aspect of accounting.
-Transaction and Events are measured in term of money.

There are three basic elements of measurement :-

1. Identification of Objects and Events to be measured.
2. Selection of Standard or scale to be used.
3. Evaluation of dimension of measurement standard or scale. in accounting we take money as a unit of measurement

VALUATION PRINCIPLES There are four measurement base or valuation principles

1. Historical Cost
2. Current Cost
3. Realizable Value
4. Present Value

Historical Cost :-

-It means acquisition price or purchase price. For example, Rs.7,00,000/- paid to purchase the machine, here historical cost of machine is Rs.7,00,000/-.Under this principle, assets are valued at an amount paid or fair market value at the time of acquisition.
Accordingly Liabilities are recorded at the amount of the proceeds received in exchange for the obligation.
liability is recorded at the amount of proceeds received in exchange for an obligation.

Current Cost :-

Assets are recorded at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset has been acquired currently.
Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to be settle the obligation currently

Realizable(settlement) value :-

Under this principle, Assets are recorded or valued at amount which can be obtained if assets are sold in open market.
Liabilities are carried at their settlement values; i.e. the discounted amounts of cash or cash equivalents expressed to be paid to satisfy the liabilities in the normal course of business.

Present Value :-

-Under this principle, Assets are recorded at present discounted value of future net cash inflows that is expected to generate in the normal course of business.
-Liabilities are recorded at present discounted value of future net cash outflows which are expected to be paid to settle liabilities in normal course of business.

Measurement and valuation

-Value relates to benefit to be derived from objects, abilities or idea. According to economist, value is the utility (i.e. satisfaction) of economic resources to the person using it. According to accountant, value of objects, abilities or ideas is always measured in term of money.

Accounting Estimates

-Transaction is measured at the amount which is paid for or by applying valuation principle. But there are some assets and liabilities which are not occurred or can not be measured by applying valuation principle like depreciation, provision for doubtful debts. But these assets or liabilities are necessary to record in books of accounts but for recording these items we need some value and for withdrawing such value we make reasonable estimates based on existing situation and past experience.
Thus management makes various estimates and assumption of assets, liabilities, income and expenses as on the date of preparation of financial statement like depreciation, amortization of expenses, provisions of employee benefits etc.
Process of estimation involves judgments based on information available.
-Estimate requires revision if changes occur regarding circumstances on which the estimate was based.
Change in estimates means difference arises between certain parameters estimated earlier and re-estimated during the current period or actual results achieved during current period.

CHAPTER 19. COMPUTERISED ACCOUNTING SYSTEM

SALIENT FEATURES OF COMPUTERISED ACCOUNTING SYSTEM

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

1. The processing of information will be by one *or* more computers.
2. The computers may be operated by the entity *or* by a third party.
3. The processing of financial information by the computer is done with the help of computer software.
4. Computer software includes any program that performs a desired function *or* set of functions and the documentation required to describe and maintain that program.
5. The computer software used for the accounting system may be acquired software *or* may be developed specifically for the business.
6. Acquired software may consist of a spread sheet package *or* may be prepackaged accounting software.

SIGNIFICANCE OF COMPUTERISED ACCOUNTING SYSTEM

1. The speed with which accounts can be maintained is several fold higher.
2. Automatic Correct Balancing of Ledger Accounts
3. Automatic Tallied Trial balances unless some mistake is made while recording the opening balance.
4. Automatic Income Statement
5. Automatic Balance Sheet

Threat to Computerized Accounting System

The only concerns that has increased today are concerns for controls, security and integrity of the computer system as more and more information is stored not in the hard print but as soft copies inside the computer. Issue like unauthorized access to the data either through the local area network *or* through the internet by hacking into the company server are becoming potential threat to the computer usage.

CLASSIFICATION AND CODIFICATION OF ACCOUNTS

Some computerized accounting softwares support a coded accounting system and some support even a non-coded accounting system. A coded accounting system is more convenient where there are numerous account heads and the complexity is high. It also to some extent reduces the possibility of the same account existing in several names due to spelling mistakes or abbreviations used.

A proper codification requires a systematic grouping of accounts. The major groups *or* heads could be Assets, Liabilities, Revenue Receipts, Capital Receipts, Revenue Expenditure, Capital Expenditure. The sub-groups *or* minor heads could be "Cash"*or* "Receivables"*or* "Payables" and so on. The grouping and codification is dependent upon the type of organization and the extent of sub-division required for reporting on the basis of profitcenters*or* product lines. There could a classification based on geographical location as well.

The main unit of classification in accounts should be the **major head** which should be divided into **minor heads,** each of which should have a number of subordinate heads, generally shown as **sub-heads.** The sub-heads are further divided into **detailed heads.** Sometimes major heads may be divided into 'sub-major heads' before their further division into minor heads.

The Major heads, Minor heads, Sub-heads and Detailed heads together may constitute a four tier arrangement of the classification structure of Accounts.

PRE-PACKAGED ACCOUNTING SOFTWARE

1. There are several prepackaged accounting software which are available in the market and are used extensively for small and medium sized organizations.
2. These softwares are easy to use, relatively inexpensive and readily available.
3. The installation of these softwares are very simple. An installation diskette *or* CD is provided with the software which can be used to install the software on a personal computer. A network version of this software is also generally available which needs to be installed on the server and work can be performed from the various workstations connected to the server.
4. Along with the software an user's manual is provided which guides the user on how to use the software.
5. After installation of the software, the user should check the version of the software to ensure that they have been provided with the latest.
6. The vendor normally provides regular updates to take care of the changes of law as well as add features to the existing software.
7. These softwares normally have 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 feeded into the system. The accounting period has to be set by inserting the first and the last day of the financial year.

The next step in the use of this software could be the creation of accounts. This is done by adding the accounts along with their codes into the master file files. Each account has to be classified into whether it is an asset *or* liability or an income *or* expenditure to the system. The opening balances are to be entered into the master file files. The company parameters need to be set at this point of time so that the accounts which are the cash, bank, sundry debtors, sundry creditors, etc. are known to the system. The customers' names, addresses and other basic details are also entered in the customer master file. Similarly, the creditors details are entered into the creditor master file files. Product details are entered through the product master file files. Here the unit of measurement and the opening stock quantities including the values are provided. The system of valuation of stock like the FIFO, LIFO, Weighted average, etc. are defined in the product master file files.

ADVANTAGES OF PRE-PACKAGED ACCOUNTING SOFTWARE

1. Easy to Install	The CD containing set up file is to be inserted and run to complete the installation according to instructions as per user's manuals.
2. Relatively Inexpensive	These packages are available at very cheap prices.
3. Easy to Use	These packages are mostly menu driven with the help options. Further the user manual provides most of the solutions to problems that the user may face while using the software.
4. Simple Backup Procedure	Housekeeping section provides a menu for backup. The backup can be taken on CD *or* hard disk.
5. Certain Flexibility of Report Formats Provided by some of the Software's	This allows the user to make the invoice, challan, GRNs look the way they want.
6. Very Effective for Small and Medium size Businesses	Most of their functional areas are covered by these standardized packages.

DISADVANTAGES OF PRE-PACKAGED ACCOUNTING SOFTWARE

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

CONSIDERATIONS FOR SELECTION OF PRE-PACKAGED ACCOUNTING SOFTWARE:- The following factors should be considered while selecting pre-packaged accounting software:

1. Fulfillment of Business Requirements	The purchaser should ensure whether the available software meets all the business requirements.
2. Completeness of Reports:	The purchaser should ensure whether the available software can provide all the reports required by business.
3. Ease of Use	The purchaser should ensure whether the available software is easy to operate.
4. Cost	The software should not involve very high installation and running cost.
5. Reputation of the vendor	It should be ensured whether the vendor has good reputation and good track records *or* not.
6. Regular updates	It should be ensured whether the vendor is prepared to give updates.

CUSTOMISED ACCOUNTING SOFTWARE

Meaning —A 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 a software is made. The life cycle of a customized accounting software begins with the organization providing the user requirements. Based on the user's requirement 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.

ADVANTAGES OF A CUSTOMISED ACCOUNTING PACKAGE

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

DISADVANTAGES OF A CUSTOMISED ACCOUNTING PACKAGE

1. Requirement specifications are incomplete *or* ambiguous resulting in a defective *or* incomplete system.

2. Bugs may remain in the software because of inadequate testing.
3. Documentation may not complete.
4. Frequent changes made to the system with inadequate change management procedure may result in in system compromise.
5. Vendor may not be unwilling to give support of the software due to other commitments.
6. Vendor may not be willing to part with the source code *or* enter into an escrow agreement.
7. Control measures may be inadequate.
8. There may be delay in completion of the software due to problems with the vendor *or* inadequate project management.

The choice of customized accounting packages is made on the basis of evaluation of vendor proposals. The proposals are evaluated as to the suitability, completeness, cost and vendor proposals. Generally preference is given to a vendor won has a very good track record of deliverables.

SELF EXAMINATION QUESTIONS:

1. **List the significances of computerized accounting system.**

2. **State the matters to be considered for selection of pre-packaged accounting software.**

3. **Discuss the disadvantages of customized accounting package.**