AVINASH LALA CLASSES

CMA INTER

FINANCIAL ACCOUTNING

Super 60 Questions

BY: CA. AVINASH LALA

List of Important Links for CMA Inter Students

1. CMA Inter Dec-24 FA Solution

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2. CMA Inter June-24 FA Solution

   https://youtu.be/DD35Rzb3YR4?si=96LQFQLHbQ6_2saP

3. CMA Inter Dec-23 FA Solution

   https://youtu.be/UTRib65IW_4?si=ijWQXnqmK5n1rWmM

4. FA Detailed Chapter wise Detailed Revision

   https://www.youtube.com/playlist?list=PLCfhRcWosrzbwhGJUgctNOq3tn7kWxN43

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Question-1

Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March,2021. The cash book of Satyam Traders shows a debit balance of ₹ 4,12,200 at bank as on 31st March,2021, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. **On 12th March, 2021 the payment side of the Cash Book was under cast by ₹ 12,000.**
2. **A cheque of ₹ 85,000 issued on 20th March, 2021 was not taken in the bank column.**
3. **On 22nd March, 2021 the debit balance of ₹ 18,500 as on the previous day, was brought forwards as credit balance.**
4. **Out of the total cheques amounting to ₹ 42,000 issued in, the last week of March, 2021, cheques aggregating ₹ 28,500 were encashed in March, 2021.**
5. **Dividends of ₹ 35,000 collected by the Bank and Fire insurance premium of ₹ 20,000 paid by it were not recorded in the cash book.**
6. **One cheque issued to a Creditor of ₹ 1,29,000 was recorded twice in the Cash book.**
7. **A debtor Mr. A has deposited the Cheque for ₹ 32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.**
8. **A cheque from customer for ₹ 5,000 was deposited in bank on 28th March,2021 but was dishonored and advice received from bank on 3rd April, 2021.**
9. **Bank paid credit card bill of ₹ 2,500 which is not recorded in cash book.**
10. **Bank wrongly credited cheque of ₹ 25,000 of other customer in our account.**
11. **Bank credited cheque of ₹ 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.**
12. **₹ 500 discount received wrongly entered in bank column in cash book.**
13. **Bank debited charges ₹ 200 on 25th March for which no intimation received till 31st March.**
14. **Bank paid house tax of ₹ 1,000 on our behalf, but no intimation received form bank in this connection.**

Solution

Satyam Traders

Bank Reconciliation Statement

as on 31st March, 2021

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		4,12,200
Add:		
Mistake in bringing forward ₹18,500/-debit Balance as credit balance on 22nd March	37,000	
Cheques issued but not presented for payment (42,000 - 28,500)	13,500	

Dividend directly collected but not entered in cash book	35,000	
Cheques recorded twice in the cash book	1,29,000	
Wrongly credited cheque by bank	25,000	
Discount amount wrongly entered in bank column	500	2,40,000
		6,52,200
Less:		
Wrong casting in cash book on12th March, 2021	12,000	
Cheque issued and not entered in the Bank Column	85,000	
Fire Insurance premium paid directly by bank	20,000	
Cheque dishonored not recorded in books	5,000	
Credit card payment not recorded in cash book	2,500	
Cheque wrongly deposited by bank in savings account	2,000	
Bank charges debited not recorded in cash book	200	
House tax paid by bank	1,000	
		(1,27,700)
Balance as per the Passbook		5,24,500

No effects of cheque deposit directly and dishonored in the same Month. Alternatively figure of ₹ 32,000/- can be added as well as deducted from balance as per cash book.

Question-2

On 30th December, 2019 the bank column of A. Philip's cash book showed a debit balance of ₹ 4,610. On examination of the cash book and bank statement you find that:

i. **Cheques amounting to ₹ 6,30,000 which were issued to trade payables and entered in the cash book before 30th December, 2019 were not presented for payment until that date.**
ii. **Cheques amounting to ₹ 2,50,000 had been recorded in the cash book as having been paid into the bank on 30th December, 2019, but were entered in the bank statement on1st January, 2020.**
iii. **A cheque for ₹ 73,000 had been dishonoured prior to 30th December, 2019, but no record of this fact appeared in the cash book.**
iv. **A dividend of ₹ 3,80,000, paid direct to the bank had not been recorded in the cash book.**
v. **Bank interest and charges amounting to ₹ 4,200 had been charged in the bank statement but not entered in the cash book.**
vi. **No entry had been made in the cash book for a trade subscription of ₹ 10,000 paid vide banker's order in November, 2019.**

vii. A cheque for ₹ 27,000 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December, 2019.

You are required:

1. **to make appropriate adjustments in the cash book bringing down the correct balance, and**
2. **to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement.**

Solution

A. Philip

Cash Book (Bank column)

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2019			2019		
Dec. 30	To Balance b/d	4,610	Dec. 30	By Trade receivables- Cheque dishonoured	73,000
	To Dividend received	3,80,000		By Bank interest and charges	4,200
				By Trade Subscription	10,000
			Dec. 31	By Balance c/d	2,97,410
		3,84,610			3,84,610

Bank Reconciliation Statement

as at 30th December, 2019

Particulars	Amount (₹)
Balance per cash book	2,97,410
Add: Cheques issued but not yet presented	6,30,000
	9,27,410
Less: Cheque deposited but not yet recorded by bank	(2,50,000)
Less: Cheque wrongly charged	(27,000)
Balance as per the bank statement	6,50,410

Question-3

JP sold goods for ₹ 2,10,000 to PK on 1st July, 2022 and on the same day JP draws two bills on PK for the amount of ₹1,30,000 and ₹ 80,000 respectively for 3 months each. PK accepts these and returns these to JP. On 4th July, 2022, JP discounts these bills with bank at a discount of 15% per annum. PK met the first bill on due date, by paying to the bank, but he showed his inability to pay full amount of second bill on the due date and paid ₹ 35,000 in

cash. He requested JP to write a fresh bill including interest @ 15% per annum for two months which was accepted by JP. Before the fresh bill became due, PK retires the bill with a rebate of ₹625.

Pass journal entries in books of JP.

(2016 Syllabus June-23, 7 Marks)

Solution

In the books of JP

Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2022					
July 1	PK's	Dr.		2,10,000	
	To Sales				2,10,000
	(Being goods sold to PK)				
July 1	Bills Receivable 1 A/c	Dr.		1,30,000	
	Bills Receivable 2 A/c	Dr.		80,000	
	To PK's				2,10,000
	(Being Bill Receivable accepted by PK)				
July 4	Bank A/c	Dr.		2,02,125	
	Discounting Charges A/c [2,10,000 x 15% x 3/12]	Dr.		7,875	
	To Bills Receivable 1 A/c				1,30,000
	To Bills Receivable 2 A/c				80,000
	(Being discounting of the bill @ 15% p.a. & discounting charges for 3 months)				
Oct 4	PK's A/c	Dr.		80,000	
	To Bank A/c				80,000
	(Being Bill receivable 2 dishonoured)				
Oct 4	Cash A/c	Dr.		35,000	
	To PK's A/c				35,000
	(Being Cash received from PK)				
Oct 4	PK's A/c	Dr.		1,125	
	To Interest A/c [80,000 – 35,000] x 15% x 2/12				1,125
	(Being interest due from PK)				

Oct 4	Bills Receivable A/c	Dr.		46,125	
	To PK's A/c				46,125
	(Being new acceptance by Sunil for ₹ 80,100 & interest of ₹ 3,000)				
	Bank A/c	Dr.		45,500	
	Rebate A/c	Dr.		625	
	To Bills Receivable A/c				46,125
	(Being the amount received on retirement of the bill)				

Question-4

Babai sold goods to Kachari for ₹90,000 on 1st April, 2014 for which the later accepted three bills of ₹30,000 each due respectively in 1,2 and 3 months. The first bill is retained by Babai and is duly met. The second bill was discounted (discount being ₹600) and is met in due course. The third bill is also discounted (discount being ₹900) and is dishonoured, the Noting charges being ₹150.

New arrangements were duly made whereby Kachari pays Cash ₹10,150 and accepted a new bill due in 2 months for the balance of the amount with interest at 15% p.a. The bill is retained, on due date the same is dishonoured, noting charges being ₹180. Kachari declared insolvent on 15th Sept. 2014 and 35 paise in a rupee were received from his estate.

Required: Pass Journal entries in the Books of Babai.

(June-15, 8 Marks)

Solution

In the Books of Babai

Journal Entries

Date	Particulars		Debit (₹)	Credit (₹)
2014				
April 1	Kachari's A/c	Dr.	90,000	
	To Sales			90,000
	(Being Goods sold to Kachari)			
April 1	Bills Receivable (No.1) A/c	Dr.	30,000	
	Bills Receivable (No.2) A/c	Dr.	30,000	
	Bills Receivable (No.3) A/c	Dr.	30,000	
	To Kachari's A/c			90,000

	(Three bills for ₹3,000, ₹2,000 and ₹1,000 drawn on B and duly accepted by him received)			
April 1	Bank A/c	Dr.	29,400	
	Discounting Charges A/c		600	
	To Bills Receivable (No.2) A/c			30,000
	(Being 2nd Bill is discounted with bank)			
April 1	Bank A/c	Dr.	29,100	
	Discounting Charges A/c	Dr.	900	
	To Bills Receivable (No.2) A/c			30,000
	(Being 3rd Bill is discounted with bank)			
May 4	Bank A/c	Dr.	30,000	
	To Bills Receivable (No.1) A/c			30,000
	(Being the 1st bill met on due date)			
July 4	Kachari's A/c	Dr.	30,150	
	To Bank			30,150
	(Third bill dishonoured and noting charges paid by Bank)			
	Cash A/c	Dr.	10,150	
	To Kachari's A/c			10,150
	(Cash received from Kachari under new arrangement)			
	Kachari A/c	Dr.	500	
	To Interest A/C [20,000 X 15% X 2/12]			500
	(Interest charged on renewal of bill)			
	Bills receivable A/c	Dr.	20,500	
	To Kachari A/C			20,500
	(Being new bill received)			
	Kachari A/c	Dr.	20,680	
	To Bills receivable A/c			20,500
	To Cash A/c (noting charges)			180
	(Bill dishonoured by Kachari and noting charges paid)			
	Cash A/c (20,680 x 0.35)	Dr.	7,238	

	Bad debts A/c	Dr.	13,442	
	To Kachari A/C			20,680
	(35 paise in a rupee received on the insolvency of Kachari)			

Question-5

On 20th July, 2020, Sohan drew a bill for ₹50,000 on Mohan for the period of four months and Mohan accepted it. It was for mutual accommodation of both to the extent of 2/3rd and 1/3rd. On 23rd July, 2020, Sohan discounted the bill with the Bank @ 12% per annum and remitted one-third of proceeds to Mohan. On 18th November, 2012 Mohan drew another bill for ₹71,000 on Sohan to provide funds to meet the first bill, for the period of three months, which was accepted by Sohan. On 21st November, 2020, Mohan discounted it with Bank @ 12% per annum. With this amount, the first bill was met out and ₹12,580 was remitted to Sohan. On 1st February, 2021, Sohan became insolvent and Mohan received a dividend of 60 paise in a rupee in full settlement on 15th February, 2021.

Give journal entries to record the above transactions in the books of Sohan and prepare Sohan's account in the ledger of Mohan.

(Dec-13, 10 Marks)

Solution

In the books of Sohan

Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Bills receivable A/c	Dr.		50,000	
	To Mohan's A/c				50,000
	(Being bill of exchange drawn on Mohan)				
	Bank A/c	Dr.		48,000	
	Discounting charges A/c	Dr.		2,000	
	To Bills receivable A/c				50,000
	(Being the bills receivable discounted with the bank)				
	Mohan's A/c (50,000 x 1/3)	Dr.		16,667	
	To Bank A/c				16,000
	To Discounting charges A/c				667
	(Being the 1/3rd amount remitted to Mohan along with his share of the bank charges)				
	Mohan's A/c	Dr.		71,000	

	To Bills payable A/c				71,000
	(Being the bills drawn on Sohan by Mohan)				
	Bank A/c	Dr.		12,580	
	Discounting Charges	Dr.		1,420	
	To Mohan's A/c				14,000
	(Amount received from Mohan & 2/3 discount charged by him)				
	Bills payable A/c	Dr.		71,000	
	To Mohan's A/c				71,000
	(Being Bill Payable Dishonoured)				
	Mohan A/c	Dr.		47,333	
	To Cash A/c				28,400
	To Deficiency A/c				18,933
	(Payment of 60 paise in a rupee made to Mohan for the amount due)				

Ledger of Mohan

Sohan's A/c

Date	Particulars	₹	Date	Particulars	₹
20.07.12	To B/P A/c	50,000	23.7.12	By Cash A/c	16,000
24.11.12	To Cash A/c	12,580	23.7.12	By Discount A/c	667
24.11.12	To Discount A/c	1,420	18.11.12	By B/R A/c	71,000
01.02.13	To B/R A/c	71,000	15.2.13	By Cash A/c	28,400
				By Bad Debts	18,933
		1,35,000			1,35,000

Calculation of distribution of discount

In case of accommodation bills, the proceeds of discounting are shared by parties as agreed. The discounting charges are also shared in agreed proportion. Here, the ratio between Sohan and Mohan is given as two third and one third.

	1st Bill		2nd Bill	
	Proceeds (₹)	Discount (₹)	Proceeds (₹)	Discount (₹)
Sohan (2/3)	32,000	1,333	45,913	1,420
Mohan (1/3)	16,000	667	22,957	710
Total	48,000	2,000	68,870	2,130

Question-6

On 1st July, 2013 B. Dutta of Kolkata consigned 250 Computers costing ₹ 28,000 each to T. Ramasami, Chennai. Expenses of ₹ 17,000 were met by the consignor. T. Ramasami spent ₹ 14,500 for clearance on 31st July, 2013 and selling expenses were ₹ 1,500 per computer as and when the sale made by consignee. T. Ramasami sold on 4th September, 2013, 150 computers at ₹ 40,000 per computer and again on 21st September, 75 computers at ₹ 42,500.

Mr. Ramasami was entitled to a commission of ₹1,500 per computer sold plus one-fourth of the amount by which the gross sale proceeds less total commission there on exceeded a sum calculated at the rate of ₹ 35,000 per computer sold. T. Ramasami sent the account sale and the amount due to B. Dutta on 30th September, 2013 by bank demand draft.

You are required to show the consignment account and T. Ramasami's account in the books of B. Dutta.

(June-14, 8 Marks)

Solution

Books of B. Dutta of Kolkata

Consignment to Chennai Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.07.13	To Goods Sent on Consignment A/c	70,00,000	04.09.12	By T. Ramasami (Sales)	60,00,000
01.07.13	To Bank A/c (Exp.)	17,000	21.09.13	By T. Ramasami (Sales)	31,87,500
31.07.13	To T. Ramasami (Clearance Exp.)	14,500	30.09.13	By Stock on Consignment A/c	7,03,150
04.09.13	To T. Ramasami (Selling Exp.)	2,25,000			
21.09.13	To T. Ramasami (Selling Exp.)	1,12,500			
30.09.13	To T. Ramasami (Commission)	5,32,500			
30.09.13	To Profit & Loss A/c	19,89,150			
		98,90,650			98,90,650

T. Ramasami Account (Chennai)

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)

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

1. **<u>Calculation of total commission</u>**

Let the total commission = X

X= 225 x 1,500 + 1/4 [(60,00,000 + 31,87,500)- X- (35,000 x 225)]

X= 3,37,000 + 1/4 [91,87,500- X- 78,75,000]

X= 3,37,500 + 1/4 [13,12,500- X]

X= 3,37,500 + 3,28,125- .25X

X + .25 X= 3,37,500+ 3,28,125

1.25 X= 6,65,625

X = ₹ 5,32,500

2. **<u>Calculation of inventories</u>**

Particulars	Amount (₹)
25 Computers @ ₹ 28,000 each	7,00,000
Add: Proportionate expenses paid by Consigner (17,000 x 25/250)	1,700
Add: Proportionate expenses of Consignee (14,500 x 25/250)	1,450
	7,03,125

<u>Question-7</u>

Lubrizols Ltd. of Mumbai consigned 1,000 barrels of lubricant oil costing ₹800 per barrel to Central Oil Co. of Kolkata on 1.1.2021. Lubrizols Ltd. paid ₹ 50,000 as freight and insurance. 25 barrels were destroyed on 7.1.2021 in transit. The insurance claim was settled at ₹15,000 and was paid directly to the consignor.

Central Oil took delivery of the consignment on 19.1.2021 and accepted a bill drawn upon them by Lubrizols Ltd., for ₹5,00,000 for 3 months. On 31.3.2021 Central Oil reported as follows:

i. **750 barrels were sold as ₹1,200 per barrel.**
ii. **The other expenses were:**

Particulars	Amount (₹)
Clearing charges	**11,250**
Godown Rent	**10,000**
Wages	**30,000**
Printing, Stationery, Advertisement	**20,000**

25 barrels of oil were lost due to leakage which is considered to be normal loss.

Central Oil Co. is entitled to a commission of 5% on all the sales affected by them. Central Oil Company paid the amount due in respect of the consignment on 31st March itself.

Show the Consignment Account, the Account of Central Oil Co., and the Lost –in-Transit Account as they will appear in the books of Lubrizols Ltd.

Solution

In the books of Lubrizols Ltd.

Dr. Consignment to Kolkata Account Cr.

Date	Particulars	Amount (₹)		Date	Particulars	Amount (₹)
2013				2013		
Jan. 1	To Goods sent on Consignment A/c (1,000 x ₹ 800)		8,00,000	Jan. 7	By Abnormal Loss A/c	21,250
				Mar.31	By, Central Oil Co. A/c - Sale proceeds (750 x ₹ 1,200)	9,00,000
Mar.31	To Bank A/c – Expenses		50,000			
	To Central Oil Co. A/c					
	- Clearing Charges	11,250			By Stock on Consignment A/c	1,76,842
	- Godown Rent	10,000				
	- Wages	30,000				
	- Printing etc.	20,000	71,250			
	To, Central Oil Co. A/c					
	Commissions @5%		45,000			
	To, Profit on Consignment A/c		1,31,842			
	(Transferred to Profit & Loss A/c)					

		10,98,092			10,98,092

Dr. **Central Oil Co. Ltd. Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013			2013		
Mar.31	To, Consignment to Kolkata -Sale Proceeds A/c	9,00,000	Jan.7 Mar.31	By, Bills Receivable A/c	5,00,000
				By, Consignment to Kolkata A/c	
				- Expenses	71,250
				- Commission	45,000
				By, Bank (amount due)	2,83,750
		9,00,000			9,00,000

Dr. **Abnormal Loss Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013			2013		
Jan. 7	To, Consignment to Kolkata A/c	21,250	Jan.7	By Bank-Insurance Claim A/c	15,000
			Mar.31	By, Profit and Loss A/c (bal. fig.)	6,250
		21,250			21,250

Working notes:

Calculate of Abnormal loss and Closing Stock

Particulars	Unit	Amount (₹)
Goods sent	1000	8,00,000
Add: Consigner's expenses – Freight and Insurance	-	50,000
	1000	8,50,000
Less: Abnormal loss (8,50,000/1,000) x 25	(25)	(21,250)
Cost of goods received by consignee	975	8,28,750
Add: Non recurring expenses of consignee -Clearing Charges	-	11,250
	975	8,40,000
Less: Normal Loss	(25)	-

	950	8,40,000
Closing stock (8,40,000/950) x 200	1,76,842	

Question-8

A and B jointly undertake to construct a building for Big & Rich Ltd. for contract price of ₹ 50,00,000 payable as to 80% in cash by four equal instalments and the balance by in fully paid shares of ₹ 10 each at a premium of 100%. They opened a bank account in their joint name and deposited ₹ 24,00,000 in the ratio of 2:1. They agreed to distribute first ₹5,00,000 of profits equally and the balance in the ratio of 2:1.

Their transactions were as follows:

a. **Materials supplied by A ₹ 60,000.**
b. **Wages paid ₹ 6,00,000, material bought ₹ 9,00,000, Mixer ₹ 1,00,000, Plant ₹ 3,00,000.**
c. **Expenses (including insurance premium) paid by B ₹40,000.**
d. **On completion of construction, the contract price was realized.**
e. **A took over unused materials at ₹ 40,000 and B took over mixer at ₹ 60,000**
f. **Plant was sold at ₹ 1,85,000**
g. **Materials costing ₹ 20,000 stolen against which claim of ₹ 15,000 was received.**
h. **A took-up 60% of the shares and B took-up the balance at an agreed value of ₹ 15 per share.**
i. **Accounts were settled.**

Prepare Joint Venture Account, Joint Bank Account and Co-Venturers' Account.

Solution

Joint Venture Account

Particulars		Amount (₹)	Particulars	Amount (₹)
To Joint Bank A/c:			By Joint Bank A/c	40,00,000
Wages	6,00,000		By Equity Shares A/c	10,00,000
Material	9,00,000		By A (Material)	40,000
Mixer	1,00,000		By B (Mixer)	60,000
Plant	3,00,000	19,00,000	By Joint Bank A/c (Plant)	1,85,000
To A (Material)		60,000	By Joint Bank A/c (Claim)	15,000
To B (Expenses)		40,000		
To Equity Shares [50,000 x ₹5]		2,50,000		
To Profit Transferred to:				
A	19,50,000			

B	11,00,000	30,50,000		
		53,00,000		53,00,000

Joint Bank Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To A	16,00,000	By Joint Venture A/c	19,00,000
To B	8,00,000	By A	31,20,000
To Joint Venture A/c	40,00,000	By B	15,80,000
To Joint Venture A/c (Plant)	1,85,000		
To Joint Venture A/c (Claim)	15,000		
	66,00,000		66,00,000

Co-venturers' Accounts

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Joint Venture A/c	40,000	60,000	By Joint Bank A/c	16,00,000	8,00,000
To Equity Shares A/c	4,50,000	3,00,000	By Joint Venture A/c	60,000	40,000
To Joint Bank A/c	31,20,000	15,80,000	By Joint Venture A/c	19,50,000	11,00,000
	36,10,000	19,40,000		36,10,000	19,40,000

Working Note: Calculation of Share of Profit

	A (₹)	B (₹)
First ₹ 5,00,000 (in 1:1 Ratio)	2,50,000	2,50,000
Balance ₹ 25,50,000 (in 2:1 ratio)	17,50,000	8,50,000
	19,50,000	11,00,000

Question-9

JIBAN and MITRIK decided to work in joint venture with the following scheme, agreeing to share profits in the ratio of 2/3 and 1/3:

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

Co-ventures introduced cash as follows:

	Particulars	Amount (₹)
JIBAN:	**Stamp charges, etc.**	**1,65,000**
	Advertising charges	**1,35,000**

	Car expenses	**1,54,000**
	Printing charges	**1,88,000**
MITRIK:	**Rent**	**1,30,000**
	Solicitor's charges	**80,000**

Application fell short of the 50 lakhs shares by 1,20,000 shares and MITRIK introduced ₹ 12,00,000 for the purchase of those shares.

The guarantee having been fulfilled, Rainbow Ltd. handed over to the ventures 3,00,000 shares and also paid the Commission in cash. All their holdings were subsequently sold by the venture MITRIK receiving ₹ 12,50,000 and JIBAN ₹ 25,00,000.

You are required to prepare the:

1. **Memorandum Joint Venture Account and**
2. **Joint Venture Account with MITRIK – in the Books of JIBAN.**
3. **Joint Venture Account with JIBAN – In the Books of MITRIK**

(2012 Syllabus Dec-15, 8 Marks)

Solution

Memorandum Joint Venture Account

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

In the books of Jiban

Joint Venture Account with Mitrik

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

In the books of Mitrik

Joint Venture Account with Jiban

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cost of Shares	12,00,000	By Bank (Commission)	10,00,000
To Expenses	2,10,000	By Bank (Sale Proceeds of Shares)	12,50,000
To Share of Profit	13,99,333	By Bank (Remittance)	5,59,333
	28,09,333		28,09,333

Question-10

The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st April,2020. The Books of Accounts of the Factory are closed on 31st March every year and Depreciation is written off @ 10% per annum under the Diminishing Balance Method. On 1st September,2020 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September,2020 a machine which had cost ₹ 21,87,000 on 1st April,2018 was sold for ₹ 3,75,000. Another machine which had cost ₹ 21,85,000 on 1st April,2019 was scrapped on 1st September,2020 and it realized nothing.

Prepare Machinery Account for the year ended 31st March,2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes.

Solution

Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2020			2020		
Apr. 1	To Bal b/d	95,00,000	Sep 1	By Bank (Sales) A/c	3,75,000

Sept. 1	To Bank A/c (14,00,000+ 44,600)	14,44,600	Sep 1	By Depreciation on sold machine	73,811
				By Loss on sale	13,22,659
				By Loss on Scrapping the machine	18,84,562
				By Depreciation on scrapped Machine	81,938
			2021		
			Mar. 31	By Depreciation A/c	6,60,471
				By Balance c/d	65,46,159
		1,09,44,600			**1,09,44,600**

Working Note:

			Amount (₹)
(i)	**Calculation of loss on sale of machine on 01-09-2020**		
	Cost on 01-04-2018		21,87,000
	Less: Depreciation @ 10% on 21,87,000		(2,18,700)
	W.D.V. on 31-03-2019		19,68,300
	Less: Depreciation @ 10% on 19,68,300		(1,96,830)
	W.D.V. on 31-03-2020		17,71,470
	Less: Depreciation @ 10% on 17,71,470 for 5 months		(73,811)
			16,97,659
	Less: Sale proceeds on 01-09-2020		(3,75,000)
	Loss on sale		**13,22,659**
(ii)	**Calculation of loss on scrapped machine**		
	Cost on 01-04-2019		21,85,000
	Less: Depreciation @ 10% on 21,85,000		(2,18,500)
	W.D.V. on 31-03-2020		19,66,500
	Less: Depreciation @ 10% on 19,66,500 for 5 months		(81,938)
	Loss on Machine Scrapped		**18,84,562**
(iii)	**Depreciation**		
	Balance of machinery account on 01-04-2020		95,00,000
	Less: W.D.V of machinery sold	17,71,470	

	W.D.V. of machinery scrapped	19,66,500	(37,37,970)
	W.D.V. of other machinery on 01-04-2020		57,62,030
	Depreciation @ 10% on 57,62,030 for 12 months		5,76,203
	Depreciation @ 10% on 14,44,600 for 7 months		84,268
			6,60,471

Question-11

M/s. Hot and Cold commenced business on 01.07.2017. When they purchased a new machinery at a cost of ₹ 8,00,000. On 01.01.2019 they purchased another machinery for ₹ 6,00,000 and again on 01.10.2021 machinery costing ₹ 15,00,000 was purchased. They adopted a method of charging depreciation @ 20% p.a. on diminishing balance basis.

On 01.07.2021, they changed the method of providing depreciation and adopted the method of writing off the Machinery Account at 15% p.a. under straight line method with retrospective effect from 01.07.2017, the adjustment being made in the accounts for the year ended 30.06.2021.

The depreciation has been charged on time basis. You are required to calculate the difference in depreciation to be adjusted in the Machinery on 01.07.2021, and show the Machinery Account for the year ended 30.06.2022.

Solution

In the books of M/s Hot and Cold

Dr. Machinery Account Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
01.07.21	To Balance b/d	6,73,280	30.06.22	By Depreciation A/c	3,78,750
	To Profit and Loss A/c	21,720		By Balance c/d	18,16,250
	(Depreciation Overcharged)				
01.10.21	To Bank A/c (Purchase)	15,00,000			
		21,95,000			21,95,000

Working Notes:

Statement of Depreciation:

Date	Particulars	Machine – I (₹)	Machine – II (₹)	Total Depreciation (₹)
01.07.2017	Book Value	8,00,000		
30.06.2018	Depreciation @ 20%	1,60,000		1,60,000
01.07.2018	W.D.V.	6,40,000		
01.01.2019	Bank (Purchase)		6,00,000	

30.06.2019	Depreciation @ 20%	1,28,000	60,000	1,88,000
01.07.2019	W.D.V.	5,12,000	5,40,000	
30.06.2020	Depreciation @ 20%	1,02,400	1,08,000	2,10,400
01.07.2020	W.D.V.	4,09,600	4,32,000	
30.06.2021	Depreciation @ 20%	81,920	86,400	1,68,320
01.07.2021	W.D.V.	3,27,680	3,45,600	
		6,73,280		7,26,720

Depreciation Overcharged:

Now depreciation under Straight Line Method

Particulars	Amount (₹)
On ₹ 8,00,000 @ 15% = ₹ 1,20,000 × 4 years (from 01.07.2017 to 30.06.2021)	4,80,000
On ₹ 6,00,000 @ 15% = ₹ 90,000 × 2.5 years (from 01.01.2019 to 30.06.2021)	2,25,000
	7,05,000

Depreciation overcharged = Reducing Balance Basis – Straight Line Basis

= ₹ (7,26,720 – 7,05,000) = ₹ 21,720

Depreciation for the year:

Particulars	Amount (₹)
On ₹ 14,00,000 @ 15% for the year	2,10,000
On ₹ 15,00,000 @ 15% for the 9 months	1,68,750
	3,78,750

Question-12

On 31st December, 2022, Sundry Debtors and Provision for doubtful debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2023, ₹ 3,000 are bad and written off on 30-09-2023. An amount of ₹ 400 was received on account of a Debt which was written off as bad debt last year on 31-12-2023. The Debtors left was verified and it was found that Sundry Debtors on 31st December 2023 stood in the books were ₹ 40,000 out of which customer Mr. X who owed ₹ 800 was to be written off as Bad.

Prepare Bad Debt A/c., Provision for Doubtful debt A/c, assuming that the same % should be maintained for provision for doubtful as it was on 31-12-2023 and Balance Sheet (abstract) as on that date.

(June-24, 7 Marks)

Solution

Bad Debt Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.23	To balance b/d	3,000	31.12.23	By Provision for Bad Debts A/c	3,800
31.12.23	To Sundry Debtors	800			
		3,800			**3,800**

Provision for bad debts Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.23	To Bad Debts A/c	3,800	01.01.23	By balance b/d	5,000
31.12.23	To balance c/d [10% on (40,000 - 800)]	3,920	31.12.23	By Profit and Loss, A/c (bal. fig.)	2,720
		7,720			**7,720**

Profit and Loss Account (Abstract)

For the year ended 31-12-2023

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for Bad Debts A/c	2,720	By Bad Debt Recovered	400

Balance Sheet

as on 31-03-2023

Liabilities	Amount (₹)	Asses	Amount (₹)	
		Sundry Debtors	40,000	
		Less: Bad Debts	(800)	
		: Provision for bad debts	(3,920)	
				35,280

WN-1 Calculation of % of Provision for Doubtful Debts

$= \frac{Opening\ baloance\ of\ Provision\ for\ doubtful\ debts}{Opening\ baloance\ of\ Debtors}$ x 100

$= \frac{5{,}000}{50{,}000}$ x 100

= 10%.

Question-13

Following information is obtained from the trial balance of Shekhar Enterprise for the year ending 31st March,2023

	Debit (₹)	Credit (₹)
Provision for bad Debt	**-**	**38,700**
Provision for discount on Debtors	**-**	**3,666**
Bad Debts	**15,400**	**-**
Discount on Debtors	**3,750**	**-**
Bad Debt Recovered	**-**	**5,200**
Sundry Debtors	**3,50,000**	**-**

Adjustments

a. Write off further Bad debt ₹ 2,100

b. Make a Provision for bad debt @ 5% and Provision for discount on Debtors @ 2%

Prepare Bad Debts Account, Provision for bad debts Account and Provision for discount on Debtors Account.

(2016 Syllabus June-23, 8 Marks)

Solution

Bad Debt Account

Date	Particulars	(₹)	Date	Particulars	(₹)
31.03.23	To balance b/d	15,400	31.03.23	By Provision for Bad Debts A/c	17,500
31.03.23	To Sundry Debtors	2,100			
		17,500			**17,500**

Provision for bad debts Account

Date	Particulars	(₹)	Date	Particulars	(₹)
31.03.23	To Bad Debts A/c	17,500	01.04.22	By balance b/d	38,700

31.03.23	To balance c/d [5% on (3,50,000 - 2,100)]	17,395			
31.03.23	To Profit and Loss, A/c (bal. fig.)	3,805			
		38,700			**38,700**

Provision for discount on Debtors Account

Date	Particulars	(₹)	Date	Particulars	(₹)
31.03.23	To Discount Allowed	3,750	01.04.22	By balance b/d	3,666
	To balance c/d [2% (3,50,000 – 2,100 – 17,395)]	6,610	31.03.23	By Profit and Loss, A/c (bal. fig.)	6,694
		10,360			**10,360**

Profit and Loss Account

For the year ended 31-03-2023

Particulars	(₹)	Particulars	(₹)
To Provision for Discount Allowed A/c	6,694	By Provision for Bad Debts A/c	3,805
		By Bad Debt Recovered	5,200

Balance Sheet

as on 31-03-2023

Liabilities	(₹)	Asses		(₹)
		Sundry Debtors	3,50,000	
		Less: Bad Debts	(2,100)	
		: Provision for bad debts	(17,395)	
		: Provision for discount allowed	(6,610)	
				3,23,895

Question-14

Pass necessary journal entries to rectify the following errors:

- **i. An amount of ₹200 withdrawn by owner for personal use was debited to trade expenses.**
- **ii. Purchase of goods of ₹300 from Nathan was wrongly entered in sales book.**
- **iii. A credit sale of ₹100 to Santhanam was wrongly passed through purchase book.**
- **iv. ₹150 received from Malhotra was credited to Mehrotra.**
- **v. ₹375 paid as salary to cashier Dhawan was debited to his personal A/c.**
- **vi. A bill of ₹2,750 for extension of building was debited to building repairs A/c**
- **vii. Goods of ₹500 returned by Akashdeep were taken into stock, but returns were not posted.**
- **viii. Old furniture sold for ₹200 to Sethi was recorded in sales book.**
- **ix. The period end total of sales book was under cast by ₹100.**
- **x. Amount of ₹ 80 received as interest was credited to commission.**

Solution

In the books of …….

Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
(a)	Drawings A/c	Dr.		200	
	To Trade Expenses A/c				200
	(Being amount drawn for personal use debited to Trade expenses, now rectified)				
(b)	Purchases A/c	Dr.		300	
	Sales A/c	Dr.		300	
	To Nathan's A/c				600
	(Being goods Purchased from Nathan was wrongly entered in sales book, now rectified)				
(c)	Sanathanam's A/c	Dr.		200	
	To Sales A/c				100
	To Purchases A/c				100
	(Being credit sale Santhanam was wrongly passed through purchase book, now rectified)				
(d)	Mehrotra's A/c	Dr.		150	

	To Malhotra's A/c				150
	(Being amount received from Malhotra was credited to Mehrotra, now rectified)				
(e)	Salary A/c	Dr.		375	
	To Dhawan's A/c				375
	(Being salary paid to cashier Dhawan was debited to his personal A/c, now rectified)				
(f)	Buildings A/c	Dr.		2,750	
	To building Repairs A/c				2,750
	(Being bill of extension of building was debited to building repairs A/c, now rectified)				
(g)	Sales Returns A/c	Dr.		500	
	To Akashdeep A/c				500
	(Being Goods returned by Akashdeep were not posted, now rectified)				
(h)	Sales A/c	Dr.		200	
	To Furniture A/c				200
	(Being furniture sold was recorded in sales book, now rectified)				
(i)	Suspense A/c	Dr.		100	
	To Sales A/c				100
	(Being sales book was under cast, now rectified)				
(j)	Commission A/c	Dr.		80	
	To Interest A/c				80
	(Being Amount of ₹ 80 received as interest was credited to commission, now rectified)				

Question-15

Rectify the following errors:

i. **A Credit Sale of goods to X ₹3,000 posted as ₹30,000.**
ii. **A Cash Sale of goods to Y ₹3,000 posted as ₹30,000.**
iii. **A Credit Sale of Furniture to Z ₹3,000 posted as ₹30,000.**
iv. **A Credit Sale of goods of ₹3,000 to Krishan entered in the purchases book, as ₹30,000 and posted therefrom to the credit of Kishan as ₹3,000.**

v. A Cash Sale of goods of ₹3,000 to Krishan posted to the credited of Kishan as ₹30,000.

vi. A Credit Purchase of old machinery from Sohan for ₹17,000 was entered in the Purchases Book as purchase from Mohan for ₹71,000. ₹3,000 paid as Repair Charges of this Machinery debited to General Expenses Account.

vii. A Bill drawn on Meenu for ₹30,000 was passed through bills payable book with ₹3,000 and posted therefrom to the credit of Meena as ₹300.

viii. Sales included a sale of furniture having a book of value of ₹900 for ₹850 on 31st March, 2018.

(June-19,8 Marks)

Solution

In the books of

Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
(a)	Suspense A/c	Dr.		27,000	
	To X A/c				27,000
	(Being wrong posting now rectified)				
Or					
	Sales A/c	Dr.		27,000	
	To X A/c				27,000
	(Being credit sale of ₹3,000 wrongly posted as ₹30,000 now rectified)				
(b)	Sales A/c	Dr.		27,000	
	To Suspense A/c				27,000
	(Being wrong posting now rectified)				
Or					
	Sales A/c	Dr.		27,000	
	To Cash A/c				27,000
	(Being cash sale of ₹3,000 wrongly posted as ₹30,000 now rectified)				
(c)	Furniture A/c	Dr.		27,000	
	To Z A/c				27,000
	(Being wrong posting now rectified)				
(d)	Krishan's A/c	Dr.		3,000	

	Kishan A/c	Dr.		3,000	
	Suspense A/c	Dr.		27,000	
	To sales A/c				3,000
	To Purchases A/c				30,000
	(Being sale recorded as purchase with wrong amount and wrong posting therefrom now rectified)				
(e)	Kishan A/c	Dr.		30,000	
	To Sale A/c				3,000
	To Suspense A/c				27,000
	(Being wrong posting now rectified)				
(f)	Mohan A/c	Dr.		71,000	
	Machinery A/c	Dr.		20,000	
	To Sohan A/c				17,000
	To Purchases A/c				71,000
	To General Expenses A/c				3,000
	(Being purchase of old machinery recorded the purchases Book and repairing charges debited to General Expense A/c now rectified)				
(g)	Bills Receivable A/c	Dr.		30,000	
	Bills Payable A/c	Dr.		3,000	
	Meena's A/c	Dr.		300	
	To Meenu's A/c				30,000
	To Suspense A/c				3,300
	(Being B/R drawn recorded in B/P Book now rectified)				
(h)	Sales A/c	Dr.		850	
	Loss on sale of Furniture A/c	Dr.		50	
	To Furniture A/c				900
	(Being the sale of Furniture recorded as sales now rectified)				

Question-16

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

i. **No adjustment entry was passed for an amount of ₹2,000 relating to outstanding rent.**
ii. **Purchase book was overcast by ₹1,000.**
iii. **₹4,000 depreciation of Machinery has been omitted to be recorded in the book.**
iv. **₹600 paid for purchase of stationary has been debited to Purchase A/c.**
v. **Sales books was overcast by ₹1,000.**
vi. **₹5,000 received in respect of Book Debt had been credited to Sales A/c.**

Show the effect of the above errors in Profit and Loss Account & Balance Sheet.

(June-17 and Dec-17,6 Marks)

Solution

Effects of the errors in Profit and Loss A/c and Balance Sheet

	Profit & Loss A/c		Balance Sheet
(i)	Profit was overstated by ₹ 2,000.	**(i)**	Capital was also overstated by ₹ 2,000 & outstanding Liability was understated by 2,000.
(ii)	Gross profit was under stated by ₹ 1,000 & also the Net Profit.	**(ii)**	Capital was understated by ₹ 1,000
(iii)	Net Profit was overstated by ₹ 4,000.	**(iii)**	Machinery was overstated by ₹ 4,000 & so the Capital A/c was also overstated by ₹ 4,000.
(iv)	Gross Profit was under stated but no effect on Net Profit. (Assuming stationery has been consumed in business)	**(iv)**	No effect in Balance Sheet.
(v)	Gross Profit and Net Profit were overstated by ₹ 1,000.	**(v)**	Capital Was overstated by ₹ 1,000.
(vi)	Gross Profit & Net Profit were overstated by, ₹ 5,000.	**(vi)**	Capital & Sundry Debtors were overstated by ₹ 5,000.

Question-17

The books of M/s Shakti trading for the year ended 31st March 2021 were closed with a difference that was posted to Suspense A/c. The following errors were found subsequently:

i. **Goods of ₹12,500 returned to Thick & Fast Corporation were recorded in Return Inward book as ₹21,500 and from there it was posted to the debit of Thick & Fast Corporation.**
ii. **A credit sale of ₹7,600 was wrongly posted as ₹6,700 to customer's A/c in sales ledger.**
iii. **Closing stock was overstated by ₹5,000 being totaling error in the schedule of inventory.**
iv. **₹8,900 paid to Bala was posted to the debit of Sethu as ₹9,800.**
v. **Goods purchased from Evan Traders for ₹3,250 was entered in sales book as ₹3,520.**
vi. **₹1,500, being the total of discount column on the payment side of the cash book was not posted.**

Rectify the errors and pass necessary entries giving effects to Suspense A/c and P & L Adjustment A/c.

Solution

In the books of M/s Shakti

Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
(a)	Suspense A/c	Dr.		43,000	
	To Thick and Fast Crop				9,000
	To P and L Adjustment A/c				34,000
(b)	Sundry Debtors A/c	Dr.		900	
	To Suspense A/c				900
(c)	P and L Adjustment A/c	Dr.		5,000	
	To Suspense				5,000
(d)	Bala A/c	Dr.		8,900	
	Suspense A/c	Dr.		900	
	To Sethu A/c				9,800
(e)	P and L Adjustment A/c	Dr.		6,770	
	To Evan Traders				6,770
(f)	Suspense A/c	Dr.		1,500	
	To P and L Adjustment A/c				1,500

Question-18

Following is the Trial Balance as on 31st March, 2021 of Bajrang Traders:

Particulars	Dr. (₹)	Cr. (₹)
Stock on 01.04.2020	1,35,000	
Purchases and Sales	28,50,000	46,25,000
Returns	35,000	22,500
Carriage Inwards	24,000	
Carriage Outwards	33,000	
Wages	1,25,000	
Salaries	3,52,000	
Printing and Stationery	6,500	
Insurance Premium	15,000	
Repairs	11,000	
Discounts Allowed	30,500	
Discounts Received		15,500
Bad Debts	28,000	
Provision for Bad Debts		35,000
Advertisement	38,000	
Interest on Investment		42,000
Drawings	2,10,000	
Investment	8,00,000	
Furniture and Fixtures	3,50,000	
Office Equipments	2,45,000	
Land and Building	15,00,000	
Sundry Debtors and Creditors	6,90,000	4,55,000
Establishment Expenses	35,000	
Capital		31,05,000
Cash at Bank	7,24,000	
Cash in Hand	63,000	
Total	83,00,000	83,00,000

Additional Information:

i. **Closing Stock of goods amounted to ₹1,85,000 and of stationery amounted to ₹1,500.**

ii. Depreciation to be charged on Land and Building @ 10%; On Office Equipments @ 5%; and On Furniture and Fixtures @ 10%.

iii. Insurance Premium paid on 1st July, 2020 for one year.

iv. Write off further as bad debts ₹5,000 and maintain a provision for bad debts of 5% on debtors. Provision made for discount on debtors @ 2%.

v. Goods costing ₹12,500 used for given free samples to customers.

vi. Goods costing ₹25,000 were sent on approval basis to a customer for ₹40,000 on 26th March, 2019. This was recorded as actual sales but approval did not receive till 31st March, 2019.

vii. Outstanding salaries were for one month.

viii. Investment made at 7.50% per annum on 1st May, 2020.

You are required to prepare Trading Account and Profit & Loss Account for the year ended 31st March, 2021 and a Balance Sheet as on that date.

(June 19, 15 Marks)

Solution

Books of Bajrang Traders

Trading and Profit and Loss Account

For the year ending 31st March, 2021

Dr. **Cr.**

Particulars	Amount (₹)		Particulars	Amount (₹)	
To Opening Stock		1,35,000	By Sales	46,25,000	
To Purchases	28,50,000		Less: Returns	(35,000)	
Less: Returns	(22,500)		Less: Sent on Approval	(40,000)	45,50,000
Less: Free Samples	(12,500)	28,15,000			
			By Closing Stock		1,85,000
To Wages		1,25,000	By Goods Sent on Approval		25,000
To Carriage Inwards		24,000			
To Gross Profit c/d		16,61,000			
		47,60,000			**47,60,000**
To Carriage Outwards		33,000	By Gross Profit b/d		16,61,000
To Salaries	3,52,000		By Discount Received		15,500
Add: Outstanding	32,000	3,84,000			
To Printing & Stationery	6,500		By Interest	42,000	

Less: Closing Stock	(1,500)	5,000	Add: Accrued	13,000	55,000
To Insurance Premium	15,000				
Less: Prepaid	(3,750)	11,250			
To Repairs		11,000			
To Discount Allowed		30,500			
To Prov. for Discount on Debtors		12,255			
To Bad Debts	28,000				
Add: Further Bad Debt	5,000				
Add: New Provision	32,250				
Less: Old Provision	(35,000)	30,250			
To Advertisement		38,000			
To Establishment Exp.		35,000			
To Free Samples		12,500			
To Depreciation on					
Land & Building	1,50,000				
Office Equipments	36,750				
Furniture & Fixtures	35,000	2,21,750			
To Net Profit		9,06,995			
		17,31,500			17,31,500

Balance Sheet

As on 31st March, 2021

Liabilities	Amount (₹)		Assets	Amount (₹)	
Capital on 01.04.20:	31,05,000		Land & Building	15,00,000	
Add: Net Profit	9,06,995		Less: Depreciation	(1,50,000)	13,50,000
Less: Drawings	(2,10,000)		Furniture & Fixtures	3,50,000	
Capital on 31.03.21		38,01,995	Less: Depreciation	(35,000)	3,15,000
Sundry Creditors		4,55,000	Office Equipments	2,45,000	
Outstanding Salaries		32,000	Less: Depreciation	(36,750)	2,08,250
			Investment		8,00,000
			Stock:		
			- Goods	2,10,000	

			(1,85,000+25,000)		
			- Stationery	1,500	2,11,500
			Sundry Debtors	6,90,000	
			Less: Goods on Approval	(40,000)	
			Sundry Debtors	6,50,000	
			Less: Further B. D.	(5,000)	
			Net Sundry Debtors	6,45,000	
			Less: Prov. for B.D.@ 5%	(32,250)	
				6,12,750	
			Less: Prov. for Disc.@ 2%.	(12,255)	6,00,495
			Accrued Interest		13,000
			Prepaid Insurance Prem.		3,750
			Cash at Bank		7,24,000
			Cash in Hand		63,000
		42,88,995			**42,88,995**

Working Notes:

a. Prepaid Insurance Premium from 1.4.19 to 30.6.19 = ₹ 15,000 x 3/12 = ₹ 3,750.

b. Outstanding Interest on Investment:
   - Total Interest (1.5.18 to 31.3.19) = ₹ 8,00,000 x 7.50% x 11/12 = ₹ 55,000
   - Outstanding = ₹ 55,000 – ₹ 42,000 = ₹13,000.

Question-19

Sohan is a small trader and does not maintain his books on double entry system. The details of his business are available as follows:

Particulars	01.04.2022 (₹)	31.03.2023 (₹)
Cash in Hand	**--**	**1,000**
Bank Balance	**74,000 (cr)**	**40,000(Dr)**
Sundry debtors	**5,30,000**	**8,80,000**
Sundry Creditors	**1,50,000**	**1,95,000**
Stock	**1,70,000**	**1,90,000**
Investments	**1,20,000**	**1,35,000**
Plant	**2,00,000**	**2,00,000**
Furniture	**14,000**	**14,000**

Sohan had withdrawn ₹ 3 lakh during the year, and he introduced fresh capital of ₹ 65,000 on 1st October, 2022. A provision to 5% on Sundry debtors is necessary. Write off depreciation on plant at the rate of 15% per annum and on furniture at the rate of 10% per annum. Interest on opening capital to be allowed at the rate of 10% per annum. The manager is entitled for a commission at the rate of 10% on the net profit after charging such commission.

You are required to ascertain Sohan's profit and loss for the year ended 31st March 2023.

(June-24, 14 Marks)

Solution

Statement of Affairs

As at 1st April 2022 and 31st March 2023

Liabilities	01.04.22	31.03.23	Assets	01.04.22	31.03.23
Bank Overdraft	74,000	-	Cash in hand	-	1,000
Sundry Creditors	1,50,000	1,95,000	Bank balance		40,000
Capital (Balancing Figure)	8,10,000	12,65,000	Sundry Debtors	5,30,000	8,80,000
			Stock	1,70,000	1,90,000
			Investment	1,20,000	1,35,000
			Plant	2,00,000	2,00,000
			Furniture	14,000	14,000
	10,34,000	14,60,000		10,34,000	14,60,000

Statement of Profit or Loss

For the year ended 31st March 2023

Particulars		Amount (₹)
Capital on 31st March 2023	12,65,000	
Add: Drawings during the year	3,00,000	
		15,65,000
Less: Capital on 1st April 2022	8,10,000	
: Additional Capital	65,000	(8,75,000)
Gross Profit made during the year		6,90,000
Less: Provision for doubtful debts (8,80,000 x 5%)	44,000	
: Depreciation on Plant (2,00,000 x 15%)	30,000	
: Depreciation on Furniture (14,000 x 10%)	1,400	
: Interest on Opening Capital (8,10,000 x 10%)	81,000	(1,56,400)

Net Profit before manager's commission		5,33,600
: Commission Manager (5,33,600 x 10/110)	-	(48,509)
		4,85,091

Question-20

Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare Trading and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as at that date:

Particulars	31st March, 2017 (₹)	31st March, 2018 (₹)
Furniture	1,00,000	1,20,000
Stock of Goods-in-Trade	60,000	20,000
Sundry Debtors	1,20,000	1,40,000
Prepaid Expenses	-	4,000
Sundry Creditors	40,000	?
Unpaid Expenses	12,000	20,000
Cash	22,000	6,000

Receipts and payment during the year were as follows:

Particulars	Amount (₹)
Receipts from Debtors	4,20,000
Paid to Creditors	2,00,000
Transportation	40,000
Drawings	1,20,000
Sundry Expenses	1,40,000
Furniture Purchased	20,000

Other Information: There was considerable amount of Cash Sales. Credit Purchases during the year amounted ₹ 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors.

(Dec-18, 8 Marks and June 23, 2022 Syllabus - 15 Marks)

Solution

Ram Prakash

Trading and Profit and Loss Account

For the year ended 31st march, 2018

Particulars	Amount (₹)		Particulars	Amount (₹)	
To Opening Stock		60,000	By Sales:		
To Purchases		2,30,000	Credit (WN 1)	4,40,000	
To Transportation		40,000	Cash (WN 3)	84,000	5,24,000
To Gross Profit c/d		2,14,000	By Closing Stock		20,000
		5,44,000			**5,44,000**
To Sundry Exp.	1,40,000				
Less: Unpaid exp. For 2017	(12,000)		By Gross Profit b/d		2,14,000
	1,28,000				
Less: Prepaid Exp. (2018)	(4,000)				
	1,24,000				
Add: Unpaid Exp. For 2018	20,000	1,44,000			
To Provision for Doubtful debts.		14,000			
To Net Profit transferred to Capital A/c		56,000			
		2,14,000			**2,14,000**

Balance Sheet

As at 31st March, 2018

Liabilities	Amount (₹)		Assets	Amount (₹)	
Creditors (WN 2)		70,000	Cash balance		6,000
Unpaid Expenses		20,000	Debtors	1,40,000	
Capital (WN 4)	2,50,000		Less: Provision for Doubtful Debts	14,000	1,26,000
Add: Net Profit	56,000		Closing Stock		20,000
	3,06,000		Prepaid Expenses		4,000
Less: Drawing	(1,20,000)	1,86,000	Furniture	1,00,000	
			Add: Additions	20,000	1,20,000

		2,76,000			2,76,000

Working Notes:

1. Calculation of Credit Sales:

Total Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	1,20,000	By Cash/Bank A/c	4,20,000
To Sales A/c – credit (b/f)	4,40,000	By Balance c/d	1,40,000
	5,60,000		5,60,000

2. Calculation of Closing balance of Creditors:

Total Creditors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash/Bank A/c	2,00,000	By Balance c/d	40,000
To Balance c/d (b/f)	70,000	By Purchase A/c (Credit Purchases)	2,30,000
	2,70,000		2,70,000

3. Calculation of Cash Sales:

Cash Book

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	22,000	By Total creditors A/c	2,00,000
To Total Debtors A/c	4,20,000	By Drawings A/c	1,20,000
To Sales A/c (b/f)	84,000	By Sundry Exp. A/c	1,40,000
		By Transportation A/c	40,000
		By Furniture A/c	20,000
		By balance c/d	6,000
	5,26,000		5,26,000

4. Calculation of Capital in the Beginning:

Statement of Affairs

As at 31st march, 2017

Particulars	Amount (₹)	Particulars	Amount (₹)
Creditors	40,000	Furniture A/c	1,00,000

Unpaid Expenses	12,000	Stock	60,000
Capital (B/F)	2,50,000	Debtors	1,20,000
		Cash in hand	22,000
	3,02,000		3,02,000

Note: Transportation refers to freight/carriage inward here.

Question-21

The following is the Balance Sheet of Chirag as on 31st March, 2021:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Account	**48,000**	**Building**	**32,500**
Loan	**15,000**	**Furniture**	**5,000**
Creditor	**31,000**	**Motor Car**	**9,000**
		Stock	**20,000**
		Debtors	**17,000**
		Cash in hand	**2,000**
		Cash at Bank	**8,500**
	94,000		**94,000**

An accident occurred on the night of 31st March, 2022 in which all books and records were lost. The cashier had absconded with the available cash. You are given the following information:

a) **His sales for the year ended 31st March, 2022 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2022 were for cash. There were no cash purchases.**

b) **On 1st April, 2021 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.**

c) **Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2022 and ₹ 6,000 was paid by cheques.**

d) **Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500 and Cash withdrawn from Bank ₹ 12,000.**

e) **Gross Profit as per last year's audited accounts was ₹ 30,000.**

f) **Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.**

g) **The amount defalcated by the cashier may be treated as recoverable from him.**

You are required to analyse the above information and determine the net profit for the year ended 31st March, 2022. Also Prepare a balance sheet as on that date.

(2016 Syllabus Dec-17, 15 Marks)

Solution

Trading and Profit and Loss Account
For the year ending on 31.03.2022

Particulars	Amount (₹)		Particulars	Amount (₹)
To Opening Stock		20,000	By Sales	1,80,000
To Purchase (bal. fig.)		1,54,000	By Closing stock	30,000
To Gross Profit c/d (@ 20% on sales)		36,000		
		2,10,000		**2,10,000**
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000
To Depreciation on				
- Building	1,625			
- Furniture	250			
- Motor	1,800	3,675		
To Net Profit transferred to Capital A/c		12,325		
		36,000		36,000

Balance Sheet
as at 31.03.2022

Liability	Amount (₹)		Assets	Amount (₹)	
Capital Account:			Building	32,500	
Opening Balance	48,000		Less: Depreciation	(1,625)	30,875
Add: Net Profit	12,325		Furniture	5,000	
	60,325		Less: Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	Less: Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in Trade		30,000
Outstanding expenses		5,000	Sundry Debtors		21,000
			Cash at bank		22,000
			Sundry Advances (Amount recoverable from cashier)		4,500

		1,20,325			1,20,325

Working Notes:

Total Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	17,000	By Bank (1,40,000 - 35,000)	1,05,000
To Sales (80% of ₹ 1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	21,000
	1,61,000		1,61,000

Total Creditors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		1,85,000

Cash Book

Particulars	Cash (₹)	Bank (₹)	Particulars	Cash (₹)	Bank (₹)
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	---	By Drawings	---	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	---	1,37,500
To Cash (Contra)	---	71,500	By Bank (Contra)	71,500	---
To Bank (Contra)	12,000	---	By Cash (Contra)	---	12,000
			By Defalcation (Bal. Fig.)	4,500	---
			By Balance c/d (Bal. Fig.)	---	22,000
	85,000	1,85,000		85,000	1,85,000

Last year's Total Sales = Gross Profit x 100/20 = ₹ 30,000 x 100/20 = ₹ 1,50,000

Current year's Total Sales = ₹ 1,50,000+ 20% of ₹ 1,50,000= ₹ 1,80,000

Current year's Credit Sales = ₹ 1,80,000 x 80%= ₹ 1,44,000

Cost of Goods Sold = Sales - G.P. = ₹ 1,80,000 – ₹36,000 = ₹ 1,44,000

Purchases = Cost of Goods Sold + Closing Stock – Opening Stock

= ₹ 1,44,000 + ₹ 30,000 – ₹ 20,000

= ₹ 1,54,000.

Question-22

The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and profit & loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date:

a. **Assets and Liabilities as on:**

	01.04.2016 (₹)	31.03.2017 (₹)
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

b. **Cash transaction during the year:**

   i. **Collection from Debtors, after allowing discount of ₹15,000 amounted to ₹ 5,85,000.**

   ii. **Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.**

   iii. **Creditors of ₹4,00,000 were paid ₹3,92,000 in full settlement of their dues.**

   iv. **Payment of Freight inward of ₹ 30,000.**

   v. **Amount withdrawn for personal use ₹ 70,000.**

   vi. **Payment for office furniture ₹ 10,000.**

   vii. **Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October, 2016 and payment made thereof.**

   viii. **Expenses including salaries paid ₹ 95,000.**

   ix. **Miscellaneous receipts of ₹ 5,000.**

c. **Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.**

d. **Goods costing ₹ 9,000 were used as advertising material.**

e. **Goods are invariably sold to show a gross profit of 20% on sales.**

f. **Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.**

g. **Provide at 2% for doubtful debts on closing debtor.**

(2016 Syllabus June-18, 15 Marks)

Solution

ABC Enterprise

Trading and Profit and Loss Account

For the year ended 31st March, 2017

Particulars	Amount (₹)		Particulars	Amount (₹)
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight Inwards		30,000		
To Gross Profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross Profit b/d	1,21,750
To Advertisement		9,000	By Interest on Investment	600
To Discount Allowed -			(20,000 × 6/100 × ½)	
- Debtors	15,000		By Discount received	8,000
- Bills Receivable	1,250	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net Profit		10,145		
		1,35,350		**1,35,350**

Balance Sheet

As on 31st March, 2017

Liability	Amount (₹)		Assets	Amount (₹)	
Capital as on 01.04.2016	1,88,000		Furniture (WDV)	60,000	
Less: Drawings	(91,000)		Additions during the year	10,000	
	97,000		Less: Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing Inventory		70,000
			Sundry debtors	72,750	
			Less: Provision for doubtful	(1,455)	71,295

			debts		
			Bills receivable		17,500
			Cash in hand and at Bank		26,250
			Prepaid expenses		7,000
		2,75,145			**2,75,145**

Working Notes:

Capital on 1st April, 2016

Balance Sheet

As on 1st April, 2016

Liability	Amount (₹)	Assets	Amount (₹)
Capital (Bal. Fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at Bank	12,000
		Prepaid expenses	6,000
	3,18,000		**3,18,000**

Purchases made during the year

Sundry Creditors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash & bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount Received A/c	8,000	By Sundry Debtors	4,000
To Bills Receivable A/c	20,000	By Purchases A/c (Bal. fig.)	4,56,000
To Balance C/d	1,50,000		
	5,70,000		**5,70,000**

Sales made during the year

Particulars		Amount (₹)
Opening Inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight Inwards		30,000
		5,57,000

Less: Closing Inventory		(70,000)
Cost of Goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

Debtors on 31st March, 2017

Sundry Debtors Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,60,000	By Cash and Bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c	4,000	By Bills receivable A/c	1,00,000
(Bill Dishonoured)		By Balance c/d (Bal. Fig.)	72,750
	7,72,750		**7,72,750**

Additional drawings by proprietors of ABC Enterprises

Dr. **Cash and Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance A/c	12,000	By Freight Inwards A/c	30,000
To Sundry Debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous Income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings [₹ 70,000+₹ 21,000] [Additional Drawings]	91,000
		By Balance c/d	26,250
	6,63,250		**6,63,250**

Amount of expenses debited to Profit and Loss Account

Dr. **Sundry Expenses Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Prepaid Expenses A/c (on 01.04.16)	6,000	By Outstanding Expenses, A/c (on 01.04.16)	20,000
To Bank A/c	95,000	By Profit and Loss, A/c (Bal. Figure)	92,000

To Outstanding Expenses/c (on 31.03.17)	18,000	By Prepaid Expenses A/c (On 31.03.17)	7,000
	1,19,000		**1,19,000**

<u>Bills Receivable on 31st March, 2017</u>

Dr. Bills Receivable Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on Bills Receivable A/c	1,250
		By Balance c/d (Balancing Figure)	17,500
	1,00,000		**1,00,000**

Note: All sales and purchases are assumed to be on credit basis.

Question-23

The statement of Affairs of Mr. M on Saturday, the 31st December 2015 was as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital	**50,000**	**Fixed Assets**	**30,000**
Sundry Creditors	**10,000**	**Stock**	**10,000**
Liability for Expenses	**1,000**	**Debtors**	**15,000**
		Bank	**5,000**
		Cash	**1,000**
	61,000		**61,000**

Mr. M did not maintain his books on the Double Entry System. But he carefully follows the following system:

i. **Every week he draws ₹ 200.**
ii. **After meeting his weekly sundry expenses (₹ 100 on average) and his drawings, the balance of weekly collections is banked at the commencement of the next week.**
iii. **No cash purchase is made and creditors are paid by cheques.**
iv. **Sales are at fixed price which include 20% profit on sales.**
v. **Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.**
vi. **Expenses other than sundries and other special drawings are made in cheques.**
vii. **All unpaid bills are kept in a file carefully.**

The following are his bank transactions for 13 weeks:

Particulars	Amount (₹)	Particulars	Amount (₹)
Balance on Jan. 1	**5,000**	**Creditors paid**	**40,000**
Cheques deposited	**2,000**	**Rent paid**	**600**
Cash deposited	**42,000**	**Expenses (other than Sundry Expenses)**	**3,000**
		Balance on April 1	**5,400**
	49,000		**49,000**

After 13 weeks on 1st April (Monday) the entire cash was missing when it was to be deposited in the bank. The following further facts are ascertained:

i. **Stock on that day was valued at ₹ 4,000;**
ii. **Sundry Debtors amounted to ₹ 20,000 as per diary;**
iii. **Sundry Creditors were ₹ 8,000 as per unpaid bills file.**

Find out the amount of cash missing.

(2016 Syllabus June-17, 15 Marks)

Solution

Sundry Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	15,000	By Bank	2,000
To Credit Sales (balancing figure)	7,000	By Balance c/d	20,000
	22,000		**22,000**

Sundry Creditors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank	40,000	By Balance b/d	10,000
To Balance c/f	8,000	By Credit Purchases [balancing figure]	38,000
	48,000		**48,000**

Cash Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/f	1,000	By Drawings: (13 × 200)	2,600
To Cash Sales	48,000	By Sundry Expenses: (13 × 100)	1,300
		By Bank	42,000
		By Balance (being cash missing)	3,100

	49,000		**49,000**

Note: Calculation of Cash Sales

Particulars	Amount (₹)
Opening Stock	10,000
Add: Purchases	38,000
	48,000
Less: Closing Stock	4,000
Cost of goods sold	44,000
Add: Gross Profit @ 20% on Sales i.e., 25% on cost	11,000
Total Sales	55,000
Less: Credit Sales	7,000
Cash Sales	48,000

Question-24

The following is the Receipts & Payments Account of Citizen Sports Club for the year ended December 31,2018:

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance (1.1.2018)	**2,40,000**	**By Upkeep of ground**	**2,10,000**
To Subscriptions	**8,70,000**	**By Secretary's Salary**	**3,60,000**
To Entrance Fees	**50,000**	**By Wages of groundsmen**	**2,40,000**
To Proceeds of Concerts	**1,50,000**	**By Ground rent**	**15,000**
To Interest on Investments	**50,000**	**By Printing & Stationery**	**20,000**
		By Sundry Expenses	**17,500**
		By Balance (31.12.2018)	**4,97,500**
	13,60,000		**13,60,000**

Additional Information:

a. **Subscriptions include arrear subscription brought over from previous year ₹ 50,000.**

b. **Interest on Investments includes ₹ 10,000 in respect of interest accrued in the preceding period.**

c. **Upkeep of ground and Wages of groundsmen include ₹ 30,000 and ₹ 15,000 respectively applicable to the preceding year.**

d. **Other ledger balances at the commencement of the financial period were: Capital Fund ₹ 40,10,000; Surplus brought forward ₹ 8,90,000; Club Premises and Grounds (as per valuation) ₹ 30,00,000; Investments ₹ 10,00,000; Sports materials ₹ 2,45,000; Furniture**

₹ 4,00,000.

e. **Entrance fees are to be capitalised.**

f. **Outstanding liabilities on 31.12.2018: Wages of groundsmen ₹ 20,000; Printing ₹ 10,000.**

g. **Interest accrued and outstanding on investments was ₹ 12,000.**

h. **Depreciation to be provided on Club Premises by 2%, Furniture by 5% and Sports Equipments by 33.33%**

Prepare the Income & Expenditure Account for the year ended December 31, 2018 and Balance Sheet as on that date.

Solution

Citizen Sports Club

Income & Expenditure Account

Dr. For the year ended Dec. 31, 2018 Cr.

Expenditure	Amount (₹)		Income	Amount (₹)	
To Upkeep of ground	2,10,000		By Subscriptions	8,70,000	
Less: Outstanding on 31.12.2017	(30,000)	1,80,000	Less: Arrear on 31.12.17	(50,000)	8,20,000
To Secretary's Salary		3,60,000	By Proceeds of Concerts		1,50,000
To Wages of groundsmen	2,40,000		By Interest on Investments	50,000	
Less: Outstanding on 31.12.2017	(15,000)		Less: Accrued on 31.12.17	(10,000)	
Add: Outstanding on 31.12.2018	20,000	2,45,000		40,000	
To Ground rent		15,000	Add: Accrued on 31.12.2018	12,000	52,000
To Printing & Stationery	20,000				
Add: Outstanding on 31.12.2018	10,000	30,000			
To Sundry Expenses		17,500			
To Depreciation:					
Club Premises	60,000				
Furniture	20,000				
Sports Equipments	81,667	1,61,667			
To Surplus		12,833			

		10,22,000			10,22,000

Balance Sheet

As at Dec. 31, 2018

Expenditure	Amount (₹)		Income	Amount (₹)	
Capital Fund as on 31.12.2017	40,10,000		Club Premises and Grounds	30,00,000	
Add: Entrance fees capitalised	50,000		Less: Depreciation	60,000	29,40,000
Add: Surplus of 2017	8,90,000		Furniture	4,00,000	
Add: Surplus of 2018	12,833	49,62,833	Less: Depreciation	20,000	3,80,000
Outstanding Liabilities:			Sports materials	2,45,000	
Wages of groundsmen	20,000		Less: Depreciation	81,667	1,63,333
Printing	10,000	30,000	Investments		10,00,000
			Accrued interest on investments		12,000
			Cash & Bank		4,97,500
		49,92,833			49,92,833

Question-25

The Income and Expenditure Account of the Mumbai Club for the year ended 31st March, 2015 is as follows:

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries	**1,20,000**	**By Subscriptions**	**1,70,000**
To Printing and Stationery	**6,000**	**By Entrance Fee**	**4,000**
To Postage	**500**	**By Contribution for Dinner**	**36,000**
To Telephone	**1,500**		
To General Expenses	**12,000**		
To Interest and Bank Changes	**5,500**		
To Audit Fees	**2,500**		
To Annual Dinner Expenses	**25,000**		
To Depreciation	**7,000**		
To Surplus	**30,000**		
	2,10,000		**2,10,000**

The account has been prepared after the following adjustments:

	Amount (₹)
Subscriptions outstanding on 31.03.2014	16,000
Subscriptions outstanding on 31.03.2015	18,000
Subscriptions received in advance on 31.03.2014	13,000
Subscriptions received in advance on 31.03.2015	8,400
Salaries outstanding on 31.03.2014	6,000
Salaries outstanding on 31.03.2015	8,000
Audit fees for 2013-14 paid during the year	2,000
Audit fees for 2014-15 not paid	2,500
The club owned a building since 31.03.2014	1,90,000
The club had Sports Equipments on 31.03.2014 valued at	52,000
Sport Equipments valued at the end of the year after depreciation of ₹ 7,000	63,000
In the year 2013-14 the club had raised a bank loan which is still not paid	30,000
Cash in hand on 31.03.2015	28,500
Cash in hand on 31.03.2014	13,600
Capital Fund as on 31.03.2014	2,20,600

Required:

1. **Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2015.**
2. **Prepare the Balance Sheet as on 31st March, 2015.**

(2012 Syllabus Dec-15, 12 Marks)

Solution

Mumbai Club

Receipts & Payments Account

Dr. For the year ending 31st March, 2015 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	13,600	By Salaries A/c	1,18,000
To Subscriptions A/c	1,63,400	By Printing & Stationery A/c	6,000
To Entrance Fees A/c	4,000	By Postage A/c	500
To Contribution for Annual Dinner A/c	36,000	By Telephone A/c	1,500
		By General Expenses A/c	12,000

		By Audit Fees A/c	2,000
		By Annual Dinner Expenditures A/c	25,000
		By Interest & Bank Charges A/c	5,500
		By Sports Equipment A/c	18,000
		By Balance c/d	28,500
	2,17,000		2,17,000

Balance Sheet

as on 31st March, 2015

Liabilities	Amount (₹)		Assets	Amount (₹)	
Capital Fund			Fixed Assets:		
Opening Balance	2,20,600		Building		1,90,000
Add: Excess of Income Over Expenditure	30,000		Sports Equipment:		
		2,50,600	Opening Balance	52,000	
Bank Loan		30,000	Addition	18,000	
Current Liabilities:				70,000	
Creditors for Expenses:			Less: Dep.	(7,000)	63,000
- Salaries	8,000		Current Assets:		
- Audit Fee	2,500	10,500	Cash in hand		28,500
Subscription received in Advance		8,400	Subscription outstanding		18,000
		2,99,500			2,99,500

Working Notes:

Dr. **Subscriptions Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Subscription Outstanding on 31.03.14	16,000	By Subscription received in advance on 31.03.14	13,000
To Income & Expenditure A/c	1,70,000	By Bank (Balancing figure)	1,63,400
To Subscription received in Advance on 31.03.15	8,400	By Subscriptions outstanding on 31.03.15	18,000
	1,94,400		1,94,400

Dr. **Salaries Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank (Bal. fig.)	1,18,000	By Salaries O/s on 31.03.14	6,000
To Salaries Outstanding on 31.03.15	8,000	By Income & Exp. A/c	1,20,000
	1,26,000		1,26,000

Dr. **Sports Equipments Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	52,000	By Depreciation	7,000
To Bank (Bal. fig)	18,000	By Balance c/d	63,000
	70,000		70,000

Question-26

Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017:

Particulars	Amount (₹)
Opening Cash Balance	**56,000**
Donation Received (including ₹ 50,000 for Building Fund.)	**1,55,000**
Payment to creditors for Medicines Supply	**2,10,000**
Salaries	**70,000**
Purchase of Medical Equipments	**1,05,000**
Medical Camp Collections	**87,500**
Subscription Received	**3,50,000**
Interest on Investments @ 9% p.a.	**63,000**
Honorarium to Doctors	**1,90,000**
Telephone Expenses	**6,000**
Medical Camp Expenses	**10,500**
Miscellaneous Expenses	**7,000**

Additional Information:

Sl. No		01.04.2016 (₹)	31.03.2017 (₹)
1.	**Subscription Due**	**10,500**	**15,400**
2.	**Subscription Received in Advance**	**8,400**	**4,900**
3.	**Stock of Medicine**	**70,000**	**1,05,000**
4.	**Medical Equipments**	**1,47,000**	**2,14,200**

5.	**Building**	**3,50,000**	**3,15,000**
6.	**Creditor for Medicine Supply**	**63,000**	**91,000**
7.	**Investments**	**7,00,000**	**7,00,000**

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017.

(June-18, 15 Marks)

Solution

Radix Clinic

Receipts and Payments Account

Dr. For the year ended 31.03.2017 Cr.

Receipts	Amount (₹)	Payments	Amount (₹)
To Cash in Hand (Opening)	56,000	By Medical Supply	2,10,000
To Subscription	3,50,000	By Honorarium to doctors	1,90,000
To Donation	1,55,000	By Salaries	70,000
To Interest on Investment	63,000	By Misc. expenses	7,000
To Medical Camp collections	87,500	By Purchase of equipment	1,05,000
		By Telephone expenses	6,000
		By Medical camp expenses	10,500
		By Cash in Hand (Closing)	1,13,000
	7,11,500		7,11,500

Income and Expenditure Account

Dr. For the year ended 31.03.2017 Cr.

Expenditure		Amount (₹)	Income		Amount (₹)
To Medicine consumed		2,03,000	By Subscription		3,58,400
To Honorarium to doctors		1,90,000	By Donation		1,05,000
To Salaries		70,000	By Interest on investments		63,000
To Telephone expenses		6,000	By Profit on Medical camp:		
To Misc. expenses		7,000	Collections	87,500	
To Depreciation on:			Less: Expenses	(10,500)	77,000
Medical equipment	37,800				
Building (3,50,000 – 3,15,000)	35,000	72,800			

To Surplus-excess of Income over expenditure	54,600		
	6,03,400		6,03,400

Balance Sheet

as on 31st March, 2017

Liability	Amount (₹)		Assets	Amount (₹)	
Capital Fund:			Building	3,50,000	
Opening Balance	12,62,100		Less: Depreciation	(35,000)	3,15,000
Add: Surplus	54,600	13,16,700	Medical Equipment	1,47,000	
Building Fund		50,000	Add: Purchase	1,05,000	
Subscription received in advance		4,900		2,52,000	
Creditors for medicine supply		91,000	Less: Depreciation	(37,800)	2,14,200
			Stock of Medicine		1,05,000
			Investments		7,00,000
			Subscription receivable		15,400
			Cash in hand		1,13,000
		14,62,600			14,62,600

Working Notes:

		Amount (₹)	Amount (₹)
1.	**Subscription for the year ended 31.03.2017**		
	Subscription received during the year		3,50,000
	Less: Subscription receivable on 01.04.2016	10,500	
	Less: Subscription received in advance on 31.03.2017	4,900	(15,400)
			3,34,600
	Add: Subscription receivable on 31.03.2017	15,400	
	Add: Subscription received in advance on 01.04.2016	8,400	23,800
			3,58,400
2.	**Purchase of medicine**		
	Payment of medicine supply		2,10,000

	Less: Amount due for medicine supply 01.04.2016		(63,000)
			1,47,000
	Add: Amounts due for medicine supply on 31.03.2017		91,000
			2,38,000
3.	**Medicine Consumed**		
	Stock of medicine on 01.04.2016		70,000
	Add: Purchase of medicine during the year		2,38,000
			3,08,000
	Less: Stock of medicine on 31.03.2017		(1,05,000)
			2,03,000
4.	**Depreciation on equipment**		
	Value of equipment on 01.04.2016		1,47,000
	Add: Purchase of equipment during the year		1,05,000
			2,52,000
	Less: Value of equipment on 31.03.2017		(2,14,200)
	Depreciation on equipment for the year		37,800

Balance Sheet

as on 31st March, 2016

Liability	Amount (₹)	Assets	Amount (₹)
Capital Fund: (balancing Figure)	12,62,100	Building	3,50,000
Subscription received in advance	8,400	Medical Equipment	1,47,000
Creditors for medicine supply	63,000	Stock of Medicine	70,000
		Investments	7,00,000
		Subscription receivable	10,500
		Cash in hand	56,000
	13,33,500		13,33,500

Question-27

On 02.06.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the record saved:

Particulars	Amount (₹)
Stock at cost on 01.04.2018	**1,35,000**
Stock at 90% of cost on 31.03.2019	**1,62,000**

Purchases for the year ended 31.03.2019	**6,45,000**
Sales for the year ended 31.03.2019	**9,00,000**
Purchases from 01.04.2019 to 02.06.2019	**2,25,000**
Sales from 01.04.2019 to 02.06.2019	**4,80,000**

Sales up to 02.06.2019 includes ₹ 75,000 (invoice price) being the goods not dispatched to the customers.

Purchases up to 02.06.2019 includes a machinery acquired for ₹ 15,000.

Purchases up to 02.06.2019 does not include goods worth ₹ 30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ₹ 1,20,000 and it is subject to average clause.

Ascertain the amount of claim for loss of stock.

(Dec-19, 7 Marks)

Solution

In the books of Mr. Black

Trading Account

For the year ended 31st March 2019

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock	1,80,000
		(1,62,000 ×100/90)	
To Gross Profit	3,00,000		
	10,80,000		10,80,000

Rate of Gross Profit on Sales = (3,00,000/9,00,000) × 100 = 33.33%

Memorandum Trading Account

For the period from 01-04-2029 to 02-06-2019

Particulars	Amount (₹)		Particulars	Amount (₹)	
To Opening Stock		1,80,000	By Sales	4,80,000	
To Purchases	2,25,000		Less: Goods not dispatched	(75,000)	4,05,000
Add: Goods received without Invoice	30,000				
Less: Machinery	(15,000)	2,40,000			
To Gross Profit		1,35,000	By Closing Stock (bal.fig)		1,50,000

(4,05,000 x 33.33%)					
		5,55,000			5,55,000

Calculation of Loss of Stock

Particulars	Amount (₹)
Stock in godown on the date of fire	1,50,000
Less: Salvage	-
	1,50,000

Amount of Claim

As there is no Salvage it is a case of full loss. Hence amount of Claim will be lower of Loss and Policy Amount i.e., 1,20,000.

Question-28

On 1st April 2023 the stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Particulars	Amount (₹)
Stock at cost on 1st Jan 2022	**1,47,000**
Stock at cost on 31st Dec, 2022	**1,59,200**
Purchases for the year ended 31st Dec, 2022	**7,96,000**
Sales for the year ended 31st Dec, 2022	**9,74,000**
Purchases from 01-01-2023 to 31-03-2023	**3,24,000**
Sales from 01-01-2023 to 31-03-2023	**4,62,400**

In valuing the stock for the balance sheet at 31st December 2022 ₹4,600 had been written off for certain stock which was a poor selling line, having cost of ₹13,800. A portion of these goods were sold in March, 2023 at a loss of ₹550 on the original cost of ₹6,900. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout the year.

The value of stock salvaged was ₹11,600. The Policy was for 1,00,000 and was subject to average clause.

Work out the amount of claim of loss by fire.

(2022 Syllabus Dec-23, 7 Marks)

Solution

In the books of Hariprasad

Trading Account

For the Year ended 31-12-2022

Particulars		Amount (₹)	Particulars	(₹)	Amount (₹)
To Opening Stock		1,47,000	By Sales		9,74,000
To Purchases	7,96,000				
Less: PSL	(13,800)		By Closing Stock	1,59,200	
		7,82,200	Less: PSL (13,800 – 4,600)	(9,200)	
					1,50,000
To Gross Profit		1,94,800			
		11,24,000			11,24,000

Gross Profit Ratio = 1,94,800/9,74,000 = 20%

Memorandum Trading Account

For the period from 01-01-2023 to 31-03-2023

Particulars	Amount (₹)	Particulars		Amount (₹)
To Opening Stock	1,50,000	By Sales	4,62,400	
		Less: PSL (6,900 – 500)	6,400	
				4,56,000
To Purchases	3,24,000			
		By Closing Stock (bal.fig.)		1,09,200
To Gross Profit	91,200			
(4,56,000 x 20%)				
	5,65,200			5,65,200

Calculation of Loss of Stock

Particulars	Amount (₹)
Goods destroyed by fire	
Normal	1,09,200
Poor Selling Line (13,800 – 6,900) x 100%	6,900
	1,16,100
Less: Salvaged	(11,600)
	1,04,500

Amount of Claim

Claim = Amount of Policy x Actual Loss/Value of stock on the date of fire

= 1,00,000 x 1,04,500/1,16,100

= ₹ 90,009 (Approx)

Question-29

The premises of XY Limited were partially destroyed by fire on 1st March, 2021 and as a result, the business was practically disorganized upto 31st August, 2021. The company is insured under a loss of profits policy for ₹1,65,000 having an indemnity period of 6 months. From the following information, prepare a claim under the policy:

Particulars	Amount (₹)
Actual turnover during the period of dislocation (01-03-2021 to 31-8-2021)	80,000
Turnover for the corresponding period (dislocation) (01-03-2020 to 31-8-2020)	2,40,000
Turnover for the 12 months immediately preceding the fire (01-03-2020 to 28-02-2021)	6,00,000
Net profit for the last financial year	90,000
Insured standing charges for the last financial year	60,000
Uninsured standing charges	5,000
Turnover for the last financial year	5,00,000

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 ₹9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹55,000. There was also a saving during the indemnity period of ₹2,700 in insured standing charges as a result of the fire.

Solution

1.	Calculation of Short Sales	Amount (₹)
	Standard Turnover	2,40,000
	Add: Upward Trend	24,000
		2,64,000
	Less: Actual Sales	80,000
		1,84,000
2.	**Calculation of Gross Profit Ratio**	
	Net Profit for last year	90,000

	Add: Insured Standing Charges (ISC)		60,000
	Gross Profit		1,50,000
	Turnover for last financial year		5,00,000
	Gross Profit Ratio (1,50,000 /5,00,000) x 100		30%
3.	**Calculation of Loss of Profit**		
	Gross Profit on short sales (1,84,000 x 30%)		55,200
	Add: Additional Expenses – Lower of following		
	a. Actual Expense	9,300	
	b. Actual expenses x (G.P. on AAT /G.P. AAT + UISC) 9,300 x [1,98,000 / (1,98,000 + 5,000)]	9,071	
	c. Gross Profit on sales generated by additional expenses (80,000 – 55,000) x 30%	7,500	
			7,500
			62,700
	Less: Saving in Insured Standing Charges		(2,700)
			60,000
4.	**Amount of Claim**		
	(Amount of Policy/ G.P on AAT) x Loss of Profit		
	(1,65,000 / 1,98,000) x 60,000		50,000

1.	**Annual Adjusted Turnover (AAT)**	
	Annual Turnover	6,00,000
	Add: Upward Trend	60,000
		6,60,000
2.	**Gross Profit on AAT** (6,60,000 x 30%)	1,98,000

Question-30

From the following information, calculate a consequential loss claim:

- **i. Financial year ends on 31st March.**
- **ii. Fire occurs on December 1.**
- **iii. Period of disruption: December 1 to March 31.**
- **iv. Period of indemnity: 6 months.**
- **v. Net profit for previous financial year ₹ 15,00,000**

vi. Insured standing charges ₹ 25,00,000

vii. Uninsured standing charges ₹ 4,00,000

viii. Increase in the cost of working ₹ 3,20,000

ix. Saving in insured standing charges ₹ 1,00,000

x. Reduced turnover avoided through increased cost of workings: ₹8,00,000

xi. 'Special circumstances clause' stipulated:

Increase in turnover (standard and annual) :20%

Increase in rate of gross profit :5%

Turnover for the four months ending	31st July	30th Nov	31st March
Year (I)	**40,00,000**	**90,00,000**	**70,00,000**
Year (II)	**60,00,000**	**1,10,00,000**	**20,00,000**

xii. Sum insured: ₹50,00,000.

(June-14, 8 Marks)

Solution

1.	**Calculation of Short Sales**		**Amount (₹)**
	Standard Turnover		70,00,000
	Add: Upward Trend [70,00,000 x 20%]		14,00,000
			84,00,000
	Less: Actual Sales		20,00,000
			64,00,000
2.	**Calculation of Gross Profit Ratio**		
	Net Profit for last year		15,00,000
	Add: Insured Standing Charges (ISC)		25,00,000
	Gross Profit		40,00,000
	Turnover for last financial year (40,00,000 + 90,00,000 + 70,00,000)		2,00,00,000
	Gross Profit Ratio (40,00,000 /2,00,00,000) x 100		20%
	Add: Upward Trend		5%
			25%
3.	**Calculation of Loss of Profit**		
	Gross Profit on short sales (64,00,000 x 25%)		16,00,000
	Add: Additional Expenses – Lower of following		
	a. Actual Expense	3,20,000	

	b. Actual expenses x (Net Profit + ISC /Net Profit + All standing Charges) [(15,00,000 + 25,00,000) / (15,00,000 + 29,00,000)] x 3,20,000	2,90,909	
	c. Gross Profit on sales generated by additional expenses 8,00,000 x 25%	2,00,000	
			2,00,000
			18,00,000
	Less: Saving in Insured Standing Charges		(1,00,000)
			17,00,000
4.	**Amount of Claim**		
	(Amount of Policy/ G.P on AAT) x Loss of Profit		
	(50,00,000 / 72,00,000) x 17,00,000		11,80,556

1.	**Annual Adjusted Turnover (AAT)**	
	Annual Turnover (70,00,000 + 60,00,000 + 1,10,00,000)	2,40,00,000
	Add: Upward Trend (2,40,00,000 x 20%)	48,00,000
		2,88,00,000
2.	**Gross Profit on AAT** (2,88,00,000 x 25%)	72,00,000
3.	**Uninsured standing charges (UISC)**	4,00,000

Question-31

CCL wants to take up a loss of profit policy. Turnover during the current year is expected to increase by 20%. The company will avail overdraft facilities from its bank @ 15% interest to boost up the sales. The average daily overdraft balance will be around ₹3 Lakh. All other fixed expenses will remain same. The following further details are also available from the previous year's account:

Particulars	Amount (₹)
Total variable expenses	**24,00,000**
Fixed expenses:	
Salaries	**3,30,000**
Rent, Rates and Taxes	**30,000**
Travelling expenses	**50,000**
Postage, Telegram, Telephone	**60,000**

Director's fees	**10,000**
Audit fees	**20,000**
Miscellaneous income	**70,000**
Net Profit	**4,20,000**

Determine the amount of policy to be taken for the current year.

(Dec-18, 7 Marks)

Solution

Particulars	Amount (₹)
Gross profit on the basis of last year's sales	8,50,000
Add: 20% for increase of turnover	1,70,000
	10,20,000
Add: Increased standing charges (interest on overdraft)	45,000
Policy to be taken for current year	10,65,000

Working notes

Profit and Loss Account for the previous year

Particulars	Amount (₹)	Particulars	Amount (₹)
To variable expenses	24,00,000	By Sales	32,50,000
To Fixed expenses	5,00,000	By Misc. income	70,000
To Net profit	4,20,000		
	33,20,000		33,20,000

Gross profit of the previous year

Particulars	Amount (₹)
Sales	32,50,000
Less: Variable	24,00,000
	8,50,000

Question-32

On 1st April, 2022, X Ltd. sells a Truck on hire purchase basis to X Transporters & Co. for a total purchase price of ₹ 18,00,000 payable as to ₹ 4,80,000 as down payment and the balance in three equal annual installments of ₹ 4,40,000 each payable on 31st March, 2023, 2024 and 2025. The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for X Transporters & Co.

Calculations may be made to the nearest rupee.

(Dec-17, 8 marks)

Solution

Ratio of interest and amount due = Rate of interest/ 100 + Rate of interest = 10/ 110

No of instalments	Instalment amount (₹)	Amount due at the time of instalment (₹)	Interest (₹)	Principal due at the beginning (₹)
(1)		(2)	(3)	(4)
3rd	4,40,000	4,40,000	4,40,000 x (11/110) = 40,000	4,00,000
2nd	4,40,000	8,40,000	8,40,000 x (10/110) = 76,364	7,63,636
1st	4,40,000	12,03,636	12,03,636 x (10/110) = 1,09,421	10,94,215

Total Cash Price = 10,94,215 + 4,80,000 = ₹ 15,74,215

Question-33

On 01-01-2019, B & Brothers bought 5 computers from Chirag Computers on hire-purchase. The cash price of each computer was ₹ 20,000. It was agreed ₹ 30,000 each at the end of each year. The Vendor charges interest @ 10% p.a. The buyer depreciates computers at 20% p.a. on the diminishing balance method.

B & Brothers paid cash down of ₹ 5,000 each and two instalments but failed to pay the last instalment. Consequently, the Computer Traders repossessed three sets, leaving two sets with the buyer and adjusting the value of 3 sets against the amount due. The sets repossessed were valued on the basis of 30% depreciation p.a. on the written down value.

The sets repossessed were sold by the Chirag Computers for ₹ 30,000 after necessary repairs amounting to ₹ 5,000 on 30th June 2022.

Required: Open the necessary ledger account in the books of both the parties.

Solution

In the Books of B & Brothers

Computers Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01-01-19	To Chirag Computers A/c	1,00,000	31-12-19	By Depreciation A/c	20,000
				By Balance c/d	80,000
		1,00,000			**1,00,000**
01-01-20	To Balance b/d	80,000	31-12-20	By Depreciation A/c	16,000
				By Balance c/d	64,000

		80,000			**80,000**
01.01.21	To Balance b/d	64,000	31.12.21	By Depreciation A/c	12,800
				By Chirag Computers (Computers surrendered)	20,580
				By P & L A/c - Loss on surrender	10,140
				By Balance c/d	20,480
		64,000			**64,000**

Chirag Computers Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01-01-19	To Cash A/c	25,000	01-01-19	By Computers A/c	1,00,000
31.12.19	To Cash A/c	30,000	31-12-19	By Interest A/c	7,500
	To Balance c/d	52,500		(1,00,000 – 25,000) × 10%	
		1,07,500			**1,07,500**
31-12-21	To Cash	30,000	01-01-20	By Balance b/d	52,500
	To Balance c/d	27,750	31-12-21	By Interest A/c [52,500 × 10%]	5,250
		57,750			**57,750**
31.12.21	To Computers A/c (surrendered)	20,580	01-01-21	By Balance b/d	27,750
	To Balance c/d	9,420	31-12-21	By Interest A/c	2,250
		30,000			**30,000**

Working Notes:

Particulars	Amount (₹)
Agreed Value of 3 Computers Repossessed on the basis of depreciation @ 30% p.a.	
Cost (Cash Price) of 3 Computers	60,000
Less: Depreciation @ 30% p.a. for 3 years [₹ 18,000 + ₹ 12,600 + ₹ 8,820]	39,420
	20,580

Book Value of 3 Computers Repossessed on the basis of depreciation @ 20% p.a.	
Cost (Cash Price) of 3 Computers	60,000
Less: Depreciation @ 20% WDV for 3 years [₹ 12,000 + ₹ 9,600 + ₹ 7,680]	29,280
	30,720
Loss on Surrender = Book value – Agreed Value = ₹ 30,720 – ₹ 20,580 =	10,140

In the Books of Chirag Computers

B & Brothers Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01-01-19	To H.P. Sales A/c	1,00,000	01-01-19	By Cash A/c	25,000
31-12-19	To Interest A/c	7,500	31-12-19	By Cash A/c	30,000
			31.12.19	By Balance c/d	52,500
		1,00,000			**1,00,000**
01-01-20	To Balance b/d	52,500	31-12-20	By Cash A/c	30,000
31-12-20	To Interest A/c	5,250	31.12.20	By Balance c/d	27,750
		57,750			**57,750**
01-01-21	To Balance b/d	27,750	31-12-21	By Goods Repo.	20,580
31-12-21	To Interest A/c	2,250		By Balance c/d	9,420
		30,000			**30,000**

Goods Repossessed Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.21	To B & Brothers A/c	20,580	31.12.22	By Cash A/c	30,000
30.06.22	To Cash A/c (Repairs)	5,000		(sales)	
30.06.22	To Profit & Loss A/c (Profit)	4,420			
		30,000			30,000

Question-34

A Delhi head office passes one 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 March 2017, make the entries in the books of Delhi Head office.

1. **Kolkata Branch:**
   a. **Received goods from Patna branch ₹ 18,000 and Ahmedabad branch ₹ 12,000.**

   b. **Sent goods to Ahmedabad branch ₹ 30,000 and Patna branch ₹ 24,000.**
   c. **Sent acceptances to Patna branch ₹ 12,000 and Ahmedabad branch ₹ 6,000.**
2. **Kanpur branch [apart from (a) above] :**
   a. **Sent goods to Ahmedabad branch ₹ 18,000.**
   b. **Recived B/R from Ahmedabad branch ₹ 18,000.**
   c. **Recived cash from Ahmedabad branch ₹ 10,000.**

Solution

Particulars	Kolkata		Kanpur		Patna		Ahmedabad	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Goods Received	30,000	-	-	-	-	18,000	-	12,000
Goods Sent	-	54,000	-	-	24,000	-	30,000	-
Acceptance	-	18,000	-	-	12,000	-	6,000	-
Goods Sent	-	-	-	18,000	-	-	18,000	-
B/R Received	-	-	18,000	-	-	-	-	18,000
Cash	-	-	10,000	-	-	-	-	10,000
	30,000	72,000	28,000	18,000	36,000	18,000	54,000	40,000
Balance	42,000	-	-	10,000	-	18,000	-	14,000
	72,000	72,000	28,000	28,000	36,000	36,000	54,000	54,000

Kanpur Branch A/c…….Dr	10,000	
Patna Branch A/c…….Dr	18,000	
Ahmedabad Branch A/c…….Dr	14,000	
To Kolkata Branch A/c		42,000

Question-35

Rukmani Stores, Delhi invoiced goods to its Jaipur Branch @ 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 and allow discount on prompt payment. The following details related to branch are provided by Rukmani Stores for the year ended 31st March, 2019:

Particulars	Amount (₹)
Invoiced Stock: On 01.04.2018	**4,50,000**
On 31.03.2019	**5,10,000**
Branch Debtors: On 01.04.2018	**3,60,000**
Branch Furniture: On 01.04.2018	**1,20,000**

Cash Sales	**13,60,000**
Credit Sales	**21,50,000**
Goods Invoiced to Branch	**32,10,000**
Goods returned by Branch (Invoice Price)	**84,000**
Expenses Paid by H.O.: Rent	**1,25,000**
Salaries	**1,80,000**
Petty Expenses paid by Branch	**11,000**
Cash received from Branch Debtors	**18,65,000**
Remittances by Branch to H.O.	**32,00,000**
Discount allowed to Branch Debtors	**1,85,000**
Branch Bad debts	**15,800**
Goods Returned by Branch Debtors	**12,600**

It was decided to make provision for discount of ₹ 42,500 on closing debtors for prompt payment. Depreciate the furniture @ 10% per annum.

You are required to prepare Jaipur Branch Account and Goods Sent to Branch Account in the books of Rukmani Stores.

(June-19, 8 Marks)

Solution

Books of Rukmani Stores (H.O.)

Jaipur Branch Stock Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.18	To Balance b/d		01.04.18	By Opening Stock Reserve	75,000
	- Branch Stock A/c	4,50,000			
	- Branch Debtors A/c	3,60,000			
	- Branch Furniture A/c	1,20,000			
01.04.18	To Goods sent to Branch A/c	32,10,000	01.04.18	By Good sent to Branch A/c (Loading on Goods sent)	5,35,000
31.03.19	To Good sent to Branch A/c (Loading on Goods Returned)	14,000			

			31.03.19	By Goods sent to Branch A/c (Goods Returned)	84,000
31.03.19	To Bank A/c				
	-Rent	1,25,000	31.03.19	By Bank A/c (Remittance from Branch)	32,00,000
	-Salary	1,80,000			
			31.03.19	By Balance c/d	
31.03.19	To Closing Stock Reserve	85,000		- Branch Stock	5,10,000
	Provision for Discount	42,500		- Branch Debtors	4,31,600
31.03.19	To P and L A/c (balancing figure)	3,71,100		- Branch Furniture	1,08,000
				- Branch Cash	14,000
		49,57,600			49,57,600

Notes on Jaipur Branch A/c:

1. Since in Question, invoice price is given therefore jaipur Branch Stock A/c should be prepare at invoice price.
2. In this case Debtor method of Branch Accounting is used therefore petty expenses of ₹11,000 incurred by Branch itself would not be shown at the debit of Jaipur Branch A/c. These petty expenses are already adjusted in closing balance of Branch cash of ₹14,000.
3. On similar logic we have correctly not shown Bad Debts and Discount relating to Jaipur Branch A/c to the debit of Jaipur Branch A/c since these Bad debts and Discount are already adjusted in closing balance of branch debtors

Good Sent to Branch Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.18	To Jaipur Branch (Loading on Goods sent)	5,35,000	1.4.18	By Jaipur Branch A/c (Goods sent)	32,10,000
31.3.19	To Jaipur Branch A/c (Goods Returned)	84,000	31.3.19	By Jaipur Branch A/c (Loading on Goods Returned)	14,000
31.3.19	To Trading A/c	26,05,000			

		32,24,000			32,24,000

Note on Goods Sent Branch A/c: Since in Question, invoice price is given therefore Good Sent to Branch A/c should be prepared at Invoice Price.

Notes:

1. Furniture at 31.03.2019 = ₹1,20,000 X 90% = ₹1,08,000.
2. Cash Balance at Branch on 31.03.2019

   = ₹13,60,000 (Cash Sales) + ₹18,65,000 (Collection from Debtors) - ₹32,00,000 (Remittances from Branch) - ₹11,000 (Petty Expenses Paid by Branch) = ₹14,000

(iii) Closing Branch Debtors:

Memorandum Branch Debtors Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.18	To Balance b/d	3,60,000	31.3.19	By Returns to Branch A/c	12,600
	To Sales (credit)	21,50,000	31.3.19	By Bank A/c (Collection)	18,65,000
			31.3.19	By Discount Allowed A/c	1,85,000
			31.3.19	By Bad debts A/c	15,800
			31.3.19	By Balance c/d	4,31,600
		25,10,000			25,10,000

Question-36

Eicher Ltd. has its head office in Mumbai and a branch at Delhi. Branch keeps a debtors' ledger and banks all cash received to the credit of Head Office Bank Account. Goods are invoiced to the Branch at cost plus 33-1/3% On 1st April, 2014, the commencement of the financial year the following balances appeared in the Head Office Ledger:

	₹
Branch Debtors Account	**1,50,000**
Branch Stock Account (at selling price)	**60,000**
Branch Adjustment Account (Cr.)	**15,000**

The following were the transactions of the Branch during the year ended 31st March, 2015.

Cash Sales ₹ 75,000; Credit Sales ₹ 15,00,000; Goods from Head Office at selling price ₹ 18,00,000; Cash received from Branch Debtors ₹ 14,40,000; Discount allowed to Branch Debtors ₹ 36,900; Branch Expenses paid by Head Office ₹ 3,75,000.

The Stock at the Branch on 31st March, 2015 was ₹ 2,40,000 at selling price. Required:

Prepare the following Ledger Accounts relating to Branch transactions, in the books ofthe Head Office according to Stock and Debtors' System for the year ended March 31, 2015.

1. **Branch Stock Account**
2. **Branch Debtors Account**
3. **Branch Expenses Account**
4. **Branch Adjustment Account**
5. **Branch Profit and Loss Account**

(Dec-15, 12 Marks)

Solution

In the books of Eicher Ltd.

Dr. Branch Stock Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	60,000	By Cash (Sales)	75,000
To Goods sent to Branch A/c	18,00,000	By Branch Debtors A/c	15,00,000
		By Branch Adjustment A/c (Loading of shortage)	11,250
		By Branch Profit & Loss A/c (Cost of shortage)	33,750
		By Balance c/d	2,40,000
	18,60,000		18,60,000

Dr. Branch Debtors Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,50,000	By Cash A/c	14,40,000
To Branch Stock A/c	15,00,000	By Branch Expenses A/c (discount)	36,900
		By Balance c/d	1,73,100
	16,50,000		16,50,000

Dr. Branch Expenses Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch Debtors A/c	36,900	By Branch Profit & Loss A/c	4,11,900
To Cash A/c	3,75,000		
	4,11,900		4,11,900

Dr. **Branch Adjustment Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock Reserve A/c (Closing Stock)	60,000	By Stock Reserve A/c (Opening Stock)	15,000
To Branch Stock A/c (Loading of shortage)	11,250	By Goods sent to Branch A/c	4,50,000
To Branch P&L A/c (Gross profit)	3,93,750		
	4,65,000		4,65,000

Dr. **Branch Profit and Loss Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch Expenses A/c	4,11,900	By Branch Adjustment A/c	3,93,750
To Branch stock A/c (cost of shortage)	33,750	By Net Loss transferred to General P& L A/c	51,900
	4,45,650		4,45,650

Question-37

A firm has two departments, Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2021:

	Sawmill	Furniture
	(₹)	(₹)
Opening Stock on 1st January, 2021	1,50,000	25,000
Sales	12,00,000	2,00,000
Purchases	10,00,000	7,500
Supply to Furniture Department	1,50,000	--
Selling expenses	10,000	3,000
Wages	30,000	10,000
Stock on 31st December, 2021	1,00,000	30,000

The value of stocks in the furniture department consists of 75 % wood and 25 % other expenses. The Sawmill Department earned Gross Profit at 15 % in 2020. General expenses of the business as a whole came to ₹ 55,000.

Solution

Department Trading and Profit and Loss Account

Particulars	Sawmill (₹)	Furniture (₹)	Particulars	Sawmill (₹)	Furniture (₹)
To Opening stock	1,50,000	25,000	By Sales	12,00,000	2,00,000
To Purchase	10,00,000	7,500	By Transfer to furniture dept.	1,50,000	-
To Wages	30,000	10,000	By Closing stock	1,00,000	30,000
To Transfer from saw mill	-	1,50,000			
To Gross profit	2,70,000	37,500			
	14,50,000	**2,30,000**		**14,50,000**	**2,30,000**
To Selling expenses	10,000	3,000	By Gross Profit	2,70,000	37,500
To Net Profit	2,60,000	34,500			
	2,70,000	**37,500**		**2,70,000**	**37,500**

General Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To General Expenses	55,000	By Net Profit from	
To Stock reserve (WN2)	4,500	- Saw Mill	2,60,000
To Net Profit	2,37,813	- Furniture	34,500
		By Stock reserve (opening WN-1)	2,813
	2,97,313		2,97,313

Working Notes:

Calculation of Stock Reserve (opening), assuming FIFO

₹ 25,000 x 75% wood x 15% = ₹ 2,813

Calculation of closing stock reserve

Gross Profit Rate of Saw Mill of 2021:

₹ 2,70,000 / (12,00,000 + 1,50,000) x 100 = 20%

₹ 30,000x 75% x 20% = ₹ 4,500.

Question-38

Axe Limited has four departments, A, B, C and D. Department A sells goods to other departments at a profit of 25% on cost. Department B sells goods to other department at a profit of 30% on sales. Department C sells goods to other departments at a profit of 10% on cost, Department D sells goods to other departments at a profit of 15% on sales.

Stock lying at different departments at the year-end was as follows:

	Department A	Department B	Department C	Department D
Transfer from Department A	-	45,000	50,000	60,000
Transfer from Department B	50,000	-	-	75,000
Transfer from Department C	33,000	22,000	-	-
Transfer from Department D	40,000	10,000	65,000	-

Departmental managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated.

Departmental profits after charging manager's commission, but before adjustment of unrealized profit are as under:

Particulars	Amount (₹)
Department A	2,25,000
Department B	3,37,500
Department C	1,80,000
Department D	4,50,000

Calculate the correct departmental profits after charging Manager's commission.

Solution

Calculation of correct departmental Profits

Particulars	Dept. A (₹)	Dept. B (₹)	Dept. C (₹)	Dept. D (₹)
Profit after charging managers' commission	2,25,000	3,37,500	1,80,000	4,50,000
Add back: Managers' commission (1/9)	25,000	37,500	20,000	50,000
	2,50,000	3,75,000	2,00,000	5,00,000
Less: Unrealized profit on stock (Working Note)	31,000	37,500	5,000	17,250
Profit before Manager's commission	2,19,000	3,37,500	1,95,000	4,82,750
Less: Commission for Department Manager @ 10%	21,900	33,750	19,500	48,275

Correct Departmental Profits after manager's commission	**1,97,100**	**3,03,750**	**1,75,500**	**4,34,475**

Working Note:

Calculation of unrealized profit of each department

	Dept. A (₹)	Dept. B (₹)	Dept. C (₹)	Dept. D (₹)	Total
Unrealized Profit of:					
Department A	-	45,000 x 25/125 = 9,000	50,000 x 25/125 = 10,000	60,000 x 25/125 =12,000	31,000
Department B	50,000 x 30% = 15,000	-	-	75,000 x 30% = 22,500	37,500
Department C	33,000 x 10/110 = 3,000	22,000 x 10/110 =2,000		-	5,000
Department D	40,000 x .15 =6,000	10,000 x .15 = 1,500	65,000 x .15 = 9,750	-	17,250

Question-39

The following information provided by the Shobha Departmental Store for the year ended 31st March, 2018:

Department	Purchase(units)	Sales	Closing Stock(units)
X	**2,500**	**2,550 units @ ₹ 160 per unit**	**250**
Y	**5,000**	**4,800 units @ ₹ 180 per unit**	**400**
Z	**6,000**	**6,240 units @ ₹ 200 per unit**	**140**

The total value of purchases is ₹ 15 Lakh. It is observed that the rate of gross profit is the same in each department.

You are required to prepare the Departmental Trading Account for the year ended 31st March, 2018.

(Dec-18, 9 Marks)

Solution

Departmental Trading Account for the year ended on 31st March, 2018

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Opening Stock (W.N.4)	28,800	21,600	45,600	By Sales	4,08,000	8,64,000	12,48,000

To Purchases (W.N.2)	2,40,000	5,40,000	7,20,000	X - 2,550 x 160			
				Y - 4,800 x 180			
				Z - 6,240 x 200			
				By Closing Stock (W.N.4)	24,000	43,200	16,800
To Gross Profit (b.f.)	1,63,200	3,45,600	4,99,200				
	4,32,000	9,07,200	12,64,800		4,32,000	9,07,200	12,64,800

Working Notes:

1. **Profit Margin Ratio**

Particulars	Amount (₹)
Selling price of unit purchased:	
Department A = 2,500 x 160	4,00,000
Department B = 5,000 x 180	9,00,000
Department C = 6,000 x 200	12,00,000
Total Selling Price	25,00,000
Less: Purchase (Cost) Value	(15,00,000)
Gross Profit	10,00,000
Profit Margin Ratio = (10,00,000/ 25,00,000) x 100	40%

2. **Statement showing department-wise per unit Cost and Purchase Cost**

Particulars	A (₹)	B (₹)	C (₹)
Selling Price (Per unit) (₹)	160	180	200
Less: Profit Margin @ 40% (₹) (Since, Profit Margin is uniform for all depts at 40%)	(64)	(72)	(80)
Purchase price per unit (₹)	96	108	120
Number of units purchased	2,500	5,000	6,000
(Purchase cost per unit x Units purchased)	2,40,000	5,40,000	7,20,000

3. **Statement showing calculation of department-wise Opening Stock (in Units)**

Particulars	A (₹)	B (₹)	C (₹)
Sales (Units)	2,550	4,800	6,240
Add: Closing Stock (Units)	250	400	140

	2,800	5,200	6,380
Less: Purchases (units)	(2,500)	(5,000)	(6,000)
Opening Stock (Units)	300	200	380

4. **Statement showing department-wise cost of Opening Stock and Closing Stock**

Particulars	A (₹)	B (₹)	C (₹)
Cost of Opening Stock (₹)	300 x 96 = 28,800	200 x 108 = 21,600	380 x 120 = 45,600
Cost of Closing Stock	250 x 96 = 24,000	400 x 108 = 43,200	140 x 120 = 16,800

Question-40

A and B were partners in a firm and their capitals were ₹ 5,00,000 and ₹ 3,00,000 respectively on 1st April 2022. Profit for the year ending 31st March, 2023 amounted to ₹ 2,10,000. Drawings of Partners were ₹ 1,00,000 and ₹ 60,000 respectively. It was observed that following errors committed while distributing the profit:

i. **Manager's Commission @ 10% on the profits before charging such commission was omitted.**
ii. **Closing Inventory was valued at ₹ 70,000 whereas its net realisable value (market value)**
was ₹ 50,000.
iii. **Outstanding salary of employees ₹ 40,000 were not recorded.**
iv. **A had given a loan of ₹ 1,50,000 to the firm on 1st December, 2022, interest was omittedto be recorded on this loan.**
v. **Loan was given to B on 1st July, 2022 amounting to ₹ 1,00,000 bearing interest @8%**
p.a. Interest was omitted to be charged on this loan.
vi. **Interest on capital @6% p.a. was not allowed and interest on drawings was not charged@10% p.a.**

On the basis of above information, answer the following questions:

1. **How much interest should be allowed on A's Loan to the firm? Is it a charge against orappropriation of profit?**
2. **What is the amount of net profit?**
3. **What is the amount of divisible profit?**
4. **What is each share partner's share of profit?**

(Syllabus 2022 Dec-23, 7 Marks)

Solution

I. **Interest on loan**

= 1,50,000 x 6% x 4/12

= ₹ 3,000

It is charge against profit and is debited to Profit and Loss Account.

II. **Calculation of Net Profit**

Particulars		Amount (₹)
Net Profit Given		2,10,000
Add: Interest on Loan given by Firm to B (1,00,000 x 8% x 9/12)		6,000
		2,16,000
Less: Overvaluation of closing inventory [70,000 – 50,000]	20,000	
: Outstanding Salary	40,000	
: Interest on loan taken from A	3,000	(63,000)
Net Profit before Manager's Commission		1,53,000
Less: Manager's Commission [1,53,000 x 10%]		(15,300)
Net Profit		**1,37,700**

III. & IV **Calculation of Net Profit and Share of Profit of Partners**

Particulars		Amount (₹)
Net Profit		1,37,700
Add: Interest on Drawings		
- A [1,00,000 x 10% x 6/12]	5,000	
- B [60,000 x 10% x 6/12]	3,000	8,000
		1,45,700
Less: Interest on Capital		
- A [5,00,000 x 6%]	30,000	
- B [3,00,000 x 6%]	18,000	(48,000)
Divisible Profit		**97,700**
Share of Partners		
A [97,700 x 1/2]		48,850
B [97,700 x 1/2]		48,850

Question-41

The Balance Sheet of X and Y who shares profits and losses in the ratio of 3:2, at 31st March, 2019 was as follows:

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	**36,000**	**Cash at Bank**		**20,000**
Workmen's Compensation Fund	**24,000**	**Debtors**	**1,30,000**	
Employees' Provident Fund	**20,000**	**Less: Provision**	**10,000**	**1,20,000**

General Reserve	**40,000**	**Stock**		**60,000**
X's Capital	**1,68,000**	**Investments**		**1,00,000**
Y's Capital	**1,12,000**	**Patents**		**20,000**
		Goodwill		**80,000**
	4,00,000			**4,00,000**

They decided to admit Z on that date for 1/4th share on the following terms:

1. **New Profit-sharing ratio will be 6:9:5. Z is to bring in capital equal to 1/4th of the total capital of the new firm.**
2. **Goodwill of the firm is to be valued at 4 years' purchase of the average super profits of the last three years. Average profits of the last three years are ₹ 70,000, while the normal profits that can be earned with the capital employed are ₹ 30,000. No Goodwill is to appear in the books. Z brings in ₹ 24,000 cash out of his share of Goodwill.**
3. **Patents to be written down to ₹ 3,000 and Stock is undervalued by ₹ 2,000. 20% of General Reserve to be transferred to Provision for Doubtful Debts. ₹ 9,000 included in Sundry Creditors be written back as no longer payable.**
4. **Out of the amount of insurance which was debited entirely to P&L A/c, ₹ 10,000 be carried forward as an Unexpired Insurance. Unaccounted Accrued Income of ₹ 2,000 to be provided for. A debtor whose dues of ₹ 10,000 were written off as Bad Debts paid 80% in full settlement. A claim of ₹ 6,000 on account of workmen's compensation to be provided for.**
5. **The market value of investments was ₹ 90,000. Half of the investments were to be taken over by old partners in their old profit-sharing ratio.**

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

(Dec-19, 15 Marks)

Solution

Revaluation Account

Particulars		Amount (₹)	Particulars	Amount (₹)
To Patents		17,000	By Sundry Creditors	9,000
To Investments		10,000	By Prepaid Insurance	10,000
To Profit on Revaluation t/f to:			By Bad Debts Recovered	8,000
X's Capital A/c	2,400		By Stock	2,000
Y's Capital A/c	1,600	4,000	By Accrued Income	2,000
		31,000		31,000

Partners' Capital Accounts

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Goodwill A/c	48,000	32,000	—	By Balance b/d	1,68,000	1,12,000	—
To Investments A/c	27,000	18,000	—	By General Reserve A/c	19,200	12,800	—
To X's Capital A/c	—	8,000	40,000	By Revaluation A/c	2,400	1,600	—
				By Workmen's Com.	10,800	7,200	
				By Bank A/c (Premium for Goodwill)	----	---	24,000
				By Z's Current A/c			16,000
				By Y's Capital A/c	8,000	—	—
				By Z's Capital A/c	40,000		
To Balance c/d	1,73,400	75,600	83,000	By Bank A/c	—	—	83,000
	2,48,400	1,33,600	1,23,000		2,48,400	1,33,600	1,23,000

Balance Sheet of New Firm
as at 31st March, 2019

Liabilities	Amounts (₹)	Assets		Amounts (₹)
Creditors	27,000	Cash at Bank		1,35,000
Employees' Provident Fund	20,000	Debtors	1,30,000	
Workmen's Compensation Claim	6,000	Less: Provision (18,000)		1,12,000
X's Capital A/c	1,73,400	Stock		62,000
Y's Capital A/c	75,600	Investments		45,000
Z's Capital A/c	83,000	Patents		3,000
		Prepaid Insurance		10,000
		Accrued Income		2,000
		Z's Current A/c		16,000
	3,85,000			3,85,000

Cash at Bank Account

Particulars	Amounts (₹)	Particulars	Amounts (₹)
To Balance b/d	20,000	By Balance c/d	1,35,000
To Z's Capital A/c	83,000		
To Bad Debts Recovered	8,000		
To Premium for Goodwill	24,000		
	1,35,000		1,35,000

Working Notes:

Sacrificing and Gaining Ratio

Particulars	Old Shares	New Shares	Share sacrificed	Share gained
X	3/5	6/20	6/20	-
Y	2/5	9/20	-	1/20
Z	-	5/20	-	5/20

X = 1,60,000 x 6/20 = 48,000 (Cr.)

Y = 1,60,000 x 1/20 = 8,000 (Dr.)

Z = 1,60,000 x 5/20 = 40,000 (Dr.)

Capital to be introduce by Z

X’s and Y’s Capital = 1,73,400 + 75,600 = 2,49,000

Total capital of Firm = 2,49,000 x 4/3 = 3,32,000

Z’s Capital = 3,32,000 x 1/4 = 83,000.

Question-42

Red and White are partners in a firm sharing profits and losses is the ratio of 3:2. On 1st July 2021 the positions of the firm as follows:

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)
Capital Accounts:			**Building**	**50,000**
Red	**1,50,000**		**Machinery**	**2,50,000**
White	**98,000**		**Furniture**	**40,000**
		2,48,000	**Stock**	**60,000**
General Reserve		**84,000**	**Debtors**	**90,000**
Sundry Creditors		**1,70,000**	**Cash**	**12,000**
		5,02,000		**5,02,000**

Blue joined the firm as a partner from this date and the following terms and conditions were agreed upon:

a. **Red, White and Blue will share the future profits of the firm in the ratio 5:3:2, respectively.**
b. **Blue would first pay ₹ 10,000 as his share of Goodwill and this sum is to be retained in the business.**
c. **The value of Machinery is to be increased by ₹ 20,000 and stock is to be written down by 10%.**
d. **Blue would introduce such an amount of Capital in Cash which should be proportionate to the combined Capital accounts of Red and White after making all adjustments.**
e. **It was decided that the Capital Accounts of Red and White would be adjusted on the basis of Blue's Capital by opening Current Accounts.**

Show the Capital Accounts of the partners and the Balance Sheet of the firm after Blue's admission.

Solution

Partners' Capital Account

Particulars	Red (₹)	White (₹)	Blue (₹)	Particulars	Red (₹)	White (₹)	Blue (₹)
To Current A/c	—	8,700	—	By Balance b/d	1,50,000	98,000	-
				By General Reserve	50,400	33,600	-
				By Goodwill	5,000	5,000	-
				By Revaluation	8,400	5,600	-
					2,13,800	**1,42,200**	**-**
				By Bank	-	-	89,000
To Balance c/d	2,22,500	1,33,500	89,000	By Current A/c	8,700	-	-
	2,22,500	1,42,200	89,000		2,22,500	1,42,200	89,000

Balance Sheet
as at 1st July, 2021

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)
Capital Accounts:			Building	50,000
Red	2,22,500		Machinery	2,70,000
White	1,33,500		Furniture	40,000
Blue	89,000			
		4,45,000	Stock	54,000
			Debtors	90,000

Current Account (Red)		8,700	Cash (12,000+10,000+89,000)	1,11,000
Sundry Creditors		1,70,000	Current A/c (White)	8,700
		6,23,700		6,23,700

Profit on Revaluations = ₹ 20,000 Increased Value of Machinery – ₹ 6,000 (Stock decreased) = ₹ 14,000 in 3:2.

Workings:

Capital introduced by Blue

1/4 th of the combined adjusted capital of Red & White i.e.,

₹ 3,56,000 (₹ 2,13,800 + ₹ 1,42,200) × 1/4 = ₹ 89,000.

Now, capital account of Red & While will be in proportion of Blue

Red = 3,56,000 × 5/8 = ₹ 2,22,500 – ₹ 2,13,800 = ₹ 8,700

White = 3,56,000 × 3/8 = ₹ 1,33,500 – ₹ 1,42,200 = (-) ₹ 8,700

— to be transferred to Current Accounts.

Question-43

A and B were partners of a firm sharing profits and losses in the ratio 2:1. The Balance Sheet of the firm as at 31st March, 2017 was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		**Plant and Machinery**	**5,00,000**
A	**8,00,000**	**Building**	**9,00,000**
B	**4,00,000**	**Sundry Debtors**	**2,50,000**
Reserves	**5,25,000**	**Stock**	**3,00,000**
Sundry Creditors	**2,75,000**	**Cash**	**1,50,000**
Bills Payable	**1,00,000**		
	21,00,000		**21,00,000**

They agreed to admit P and Q into the partnership on the following terms:

1. **The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits of the last 3 years. The relevant figures are:**

   Year ended 31.03.2014 - Profit ₹ 37,000

   Year ended 31.03.2015 - Profit ₹ 40,000

   Year ended 31.03.2016 - Profit ₹ 45,000
2. **The value of the Stock and Plant & Machinery were to be reduced by 10%.**
3. **Building was to be valued at ₹ 10,11,000.**
4. **There was an unrecorded liability of ₹ 10,000.**

5. **A, B, P & Q agreed to share profits and losses in the ratio 3:2:1:1.**
6. **The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.**
7. **P and Q were to bring capitals equal to their shares of Profit considering B's capital as base after all adjustments.**

You are required to prepare:

a. **Memorandum Revaluation Account,**

b. **Partner's Capital Accounts and**

c. **The Balance Sheet of the newly constructed firm.**

(June-18, 15 marks)

Solution

Memorandum Revaluation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock	30,000	By Building	1,11,000
To Plant & machinery	50,000		
To Unrecorded liability	10,000		
To Profit transferred to Partners' Capital A/cs (in old ratio) A = 14,000 B = 7,000	21,000		
	1,11,000		**1,11,000**
To Building	1,11,000	By Stock	30,000
		By Plant & Machinery	50,000
		By Unrecorded liability	10,000
		By Loss transferred to Partners' Capital A/cs (in new ratio) A = 9,000 B = 6,000 P = 3,000 Q =3,000	21,000
	1,11,000		**1,11,000**

Partner's Capital Accounts

Particulars	A	B	P	Q	Particulars	A	B	P	Q
To Memorandum Revaluation A/c	9,000	6,000	3,000	3,000	By Balance b/d	8,00,000	4,00,000	-	-
To Reserves A/c	2,25,000	1,50,000	75,000	75,000	By Memorandum Revaluation A/c	14,000	7,000	-	-
To A&B (W.N.2)	---	---	12,000	12,000	By Reserves A/c	3,50,000	1,75,000	-	-
To Balance c/d (Refer W.N.3)	9,50,000	4,30,000	2,15,000	2,15,000	By P&Q (W.N.2)	20,000	4,000	-	-
					By Cash (Bal. Fig.)	---	---	3,05,000	3,05,000
	11,84,000	5,86,000	3,05,000	3,05,000		11,84,000	5,86,000	3,05,000	3,05,000

Balance Sheet of as on 31.03.2017

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital Accounts:			Plant and Machinery	5,00,000
A	9,50,000		Building	9,00,000
B	4,30,000		Sundry Debtors	2,50,000
P	2,15,000		Stock	3,00,000
Q	2,15,000	18,10,000	Cash (1,50,000+3,05,000+3,05,000)	7,60,000
Reserves		5,25,000		
Sundry Creditors		2,75,000		
Bills Payable		1,00,000		
		27,10,000		27,10,000

<u>**Working Notes:**</u>

Calculation of Goodwill Weighted Average Profit:

Year	Profit (₹)	Weight	Weighted Profit (₹)
2014	37,000	1	37,000

2015	40,000	2	80,000
2016	45,000	3	1,35,000
		6	2,52,000

Weighted Average Profit = ₹ 2,52,000/6 = ₹ 42,000

Goodwill is valued at 2 year's purchase

Value of Goodwill: ₹ 42,000 × 2 = ₹ 84,000

(a) Profit sacrificing Ratio

Particulars	Old Shares	New Shares	Share sacrificed	Share gained
A	2/3	3/7	5/21	-
B	1/3	2/7	1/21	-
P	-	1/7	-	1/7
Q	-	1/7	-	1/7

(b) Adjustment for goodwill

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect	
A	56,000	36,000	+ 20,000	-
B	28,000	24,000	+ 4,000	-
P	-	12,000	-	12,000
Q	-	12,000	-	12,000
	84,000	84,000	24,000	24,000

Journal Entry

Particulars	Amount (₹)	Amount (₹)
P's Capital A/c Dr.	12,000	
Q's Capital A/c Dr.	12,000	
To A's Capital A/c		20,000
To B's Capital A/c		4,000

Calculation of closing capitals of P and Q

B's capital is taken as base. Closing capital of B after all adjustments is 4,30,000. Total capital of firm will be = 4,30,000 × 7/2 = 15,05,000

Hence, P's and Q's closing capital should be ₹ 2,15,000 (15,05,000 x 1/7) each i.e., at par with B (as per new profit and loss sharing ratio)

Question-44

The Balance Sheet of Baichung, Tausif and Vijayan who shared profits and losses in the ratio 3:3:2 respectively was as follows on 31st December, 2021:

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)
Capitals:			Machinery	31,600
Baichung	24,000		Furniture	6,400
Tausif	10,000		Stock	8,500
Vijayan	8,000	42,000	Debtors	4,300
Reserve		4,800	Cash at Bank	4,700
Creditors		8,700		
		55,500		55,500

Baichung retired from the business on 1st January, 2022.

Revaluation of assets were made as: Machinery ₹ 34,000, Furniture ₹ 5,000, Stock ₹ 9,600, Debtors ₹ 4,000, and Goodwill ₹ 10,000.

Baichung was paid ₹ 4,225 immediately and the balance was transferred to a Loan Account for payment in 4 equal half-yearly installments together with interest @ 6% p.a.

Show the necessary accounts, the Balance Sheet of the firm immediately after Baichung's retirement and his Loan Account till finally paid off.

Solution

Revaluation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Furniture	1,400	By Machinery	2,400
To Provision for bad debt	300	By Stock	1,100
To Partners' Capital Account	1,800		
	3,500		3,500

Partners' Capital Account

Particulars	Baichung	Tausif	Vijayan	Particulars	Baichung	Tausif	Vijayan
To Bank	4,225			By Balance b/d	24,000	10,000	8,000
To 6% Loan	26,000			By Reserve	1,800	1,800	1,200
				By Revaluation	675	675	450
To Balance c/d	-	16,225	12,150	By Goodwill	3,750	3,750	2,500
	30,225	16,225	12,150		30,225	16,225	12,150

Balance Sheet

as at 01.01.2022

Liabilities	Amount (₹)		Assets	Amount (₹)	
Capitals :			Goodwill		10,000
Tausif	16,225		Machinery		34,000
Vijayan	12,150		Furniture		5,000
		28,375	Stock		9,600
Baichung's 6% Loan		26,000	Debtors	4,300	
Sundry Creditors		8,700	Less : Provision	300	4,000
			Cash at Bank [4,700 - 4,225]		475
		63,075			63,075

Baichung's Loan Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30-06-22	To Bank A/c [1/4 of 26,000 + 780]	7,280	01-01-22	By Baichung's Capital	26,000
31-12-22	To Bank A/c [1/4 of 26,000 + 585]	7,085	30-06-22	By Interest [26,000 x 6% x 6/12]	780
31-12-22	To Balance c/d	13,000	31-12-22	By Interest [(26,000 - 6,500) x 6% x 6/12]	585
		27,365			27,365
30-06-23	To Bank A/c [1/4 of 26,000 + 390]	6,890	01-01-23	By Balance b/d	13,000
31-12-23	To Bank A/c [1/4 of 26,000 + 195]	6,695	30-06-23	By Interest [13,000 x 6% x 6/12]	390
			31-12-23	By Interest [(13,000 - 6,500) x 6% x 6/12]	195
		13,585			13,585

Question-45

A, B and C are in partnership sharing Profits and Losses in the ratio 3:2:1 respectively. The Balance Sheet of the Partnership firm as on 31st March, 2016 is as under:

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital Accounts			Premises	1,80,000
A	1,70,000		Plant	74,000
B	1,30,000		Vehicles	30,000
C	70,000	3,70,000	Fixtures	4,000
Current Accounts			Current Accounts	
A	7,428		B	5,018
C	9,356	16,784	Stock	1,24,758
Loan-C		56,000		
Creditors		38,072	Debtors	69,960
Bank Overdraft		8,400	Cash in hand	1,520
		4,89,256		4,89,256

C decides to retire from the business as on the above date and D is admitted as a partner on that date. The following matters agreed:

1. **Assets revalued as: Premises- ₹ 2,40,000, Plant- ₹ 70,000 Stock - ₹ 1,08,358.**
2. **A provision of ₹ 6,000 is created against debtors.**
3. **Goodwill is to be recorded in the books on the day C retires at ₹ 84,000.**

   The partners in the new firm do not wish to maintain a Goodwill Account so that amount is to be written-off against the New Partners' Capital Accounts.
4. **A and B are to share profit in the same ratio as before, and D is to have the same share of profits as B.**
5. **C is to take a car at its book value of ₹ 7,800 in part payment, and the balance of all he is owed by the firm in cash except ₹ 40,000 which he is willing to leave as a Loan Account.**
6. **The partners in the new firm are to start on an equal footing so far as Capital and Current Accounts are concerned. D is to contribute cash to bring his Capital and Current Accounts to the same amount as the original partner from the old firm who has the lower investment in the business. The original partner in the old firm who has the higher investment will draw out cash so that his capital and current account balances equal those of his new partners.**
7. **Revaluation profit or loss is to be adjusted in the Partners' Current Account.**

You are required to prepare:

a. **Revaluation Account**

b. Partners' Capital Accounts

c. Partners' Current Accounts

d. C's Loan Account

e. Bank Account

f. Balance Sheet of the New Firm as at 01.04.2016.

(June-16, 3+2+2+1+2+5=15 marks)

Solution

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Plant A/c	4,000	By Premises A/c	60,000
To Stock [1,24,758 - 1,08,358]	16,400		
To Provision for Doubtful Debts	6,000		
To Partners Current A/c	33,600		
	60,000		60,000

Partners' Capital Account

Particulars	A (₹)	B (₹)	C (₹)	D (₹)	Particulars	A (₹)	B (₹)	C (₹)	D (₹)
To Goodwill A/c	36,000	24,000	-	24,000	By Balance b/d	1,70,000	1,30,000	70,000	-
To C. Loan A/c	-	-	84,000	-	By Goodwill A/c	42,000	28,000	14,000	-
To Bank A/c	42,000								
To Balanced c/d	1,34,000	1,34,000		1,34,000	By Bank A/c	-	-	-	1,58,000
	2,12,000	1,58,000	84,000	1,58,000		2,12,000	1,58,000	84,000	1,58,000

Partners' Current Account

Particulars	A (₹)	B (₹)	C (₹)	D (₹)	Particulars	A (₹)	B (₹)	C (₹)	D (₹)
To Balance b/d	-	5,018	-	-	By Balance b/d	7,428	-	9,356	-
To C. Loan A/c	-	-	14,956	-	By Revaluation A/c	16,800	11,200	5,600	-
To Bank A/c	18,046	-	-	-	By Bank A/c	-	-	-	6,182
To Balanced c/d	6,182	6,182	-	6,182					
	24,228	11,200	14,956	6,182		24,228	11,200	14,956	6,182

C's Loan Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.16	To Vehicles A/c	7,800	31.03.16	By Balance b/d	56,000
	To Bank A/c (balancing figure)	1,07,156		By C-Capital A/c	84,000
	To Balance c/d	40,000		By C-Current A/c	14,956
		1,54,956			1,54,956

Bank Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.16	To D Capital A/c	1,58,000	31.03.16	By Balance b/d	8,400
	To D Current A/c	6,182		By C-Loan A/c	1,07,156
				By A-Capital A/c	42,000
	To Balance c/d	11,420		By A-Current A/c	18,046
		1,75,602			1,75,602

Balance Sheet of the new firm

as on 01.04.2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital Accounts:			Premises	2,40,000
A	1,34,000		Plant	70,000
B	1,34,000		Vehicles	22,200
D	1,34,000	4,02,000	Fixtures	4,000
Current Accounts:			Stock	1,08,358
A	6,182		Debtors 69,960	
B	6,182		Less: Provision for bad debts (6,000)	63,960
D	6,182	18,546	Cash	1,520
C- Loan Account:		40,000		
Creditors		38,072		
Bank Overdraft		11,420		
		5,10,038		5,10,038

Question-46

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

(Amount in ₹)

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

C died on 30.09.2014. The Partnership deed provided that:

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

It was ascertained that:

   a. **Profits for three years, before charging partners' interest were: 2011-12– ₹ 3,36,000, 2012-13 – ₹ 3,78,000 and 2013-14 – ₹ 3,60,000 respectively.**

b. **The independent valuation at the date of death revealed: Land and Buildings – ₹ 3,00,000 and Furniture and Fixtures – ₹ 30,000.**

c. **A fair remuneration for each of the Partners would be ₹ 75,000 p.a. and that the Capital employed in business to be taken as ₹ 7,80,000 throughout.**

It was agreed among the Partners that:

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

You are required to prepare:

a. **Revaluation Account**
b. **Partners' Capital Accounts**
c. **Partners' Current Accounts**
d. **C's Heir Account**
e. **Balance Sheet as on 31.03.2015**

(Dec-15, 1+2+1+1+4+3=12 marks)

Solution

In the books of ABC firm

Dr. Revaluation Account Cr.

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

Dr. Partners' Capital Accounts Cr.

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

To Balance c/d	2,98,020	1,23,540	--	By A's Capital A/c – Goodwill	--	--	39,960
	3,18,000	1,63,500	2,53,440		3,18,000	1,63,500	2,53,440

Dr. Partners' Current Accounts Cr.

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

Dr. C' s Heir Account Cr.

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

Balance Sheet

as on 31st March 2015

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

Working Notes:

Adjustment in Regard to Goodwill

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

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

Dr. **Profit & Loss Appropriation Account** **Cr.**

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

Partners' Current A/cs - C	37,350	--			
	1,56,000	1,56,000		1,56,000	1,56,000

Question-47

P, Q, R and S are sharing profits and losses in the ratio 3:3:2:1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2019 when their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		**Building**	**1,90,000**
P	**1,50,000**	**Stock**	**1,30,000**
Q	**1,50,000**	**Investments**	**50,000**
S	**60,000**	**Debtors**	**70,000**
General reserve	**40,000**	**Cash**	**30,000**
Trade creditors	**80,000**	**R**	**40,000**
Bills payable	**30,000**		
	5,10,000		**5,10,000**

Following information is given to you:

i. A cheque for ₹ 7,000 received from debtor was not recorded in the books and was misappropriated by R.

ii. Investments costing ₹ 8,000 were sold by R at ₹ 11,000 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 ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.

iv. The other assets realized as follows:

- **Building - 110% of book value**
- **Stock - ₹ 1,20,000**
- **Investments- The rest of investments were sold at a profit of ₹ 7,000**
- **Debtors- The rest of the debtors were realized at a discount of 10%**

v. The bills payable was settled at a discount of ₹ 500.

vi. The expenses of dissolution amounted to ₹ 8,000

vii. It was found out that realization from R's private assets would only be ₹ 7,000.

Prepare Realization Account, Cash Account and Partner's Capital Accounts. All workings should part of your answer.

(Dec-22, 15 Marks)

Solution

Journal Entries

Particulars		L.F.	Debit (₹)	Credit (₹)
R's Capital A/c	Dr.		7,000	
To Debtors A/c				7,000
R's Capital A/c	Dr.		11,000	
To Investment A/c				8,000
To Profit on sale of Investment A/c				3,000

Realisation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Building	1,90,000	By Trade creditors	80,000
To Stock	1,30,000	By Bills payable	30,000
To Investments [50,000 – 8,000]	42,000		
To Debtors [70,000 – 7,000]	63,000	By Cash	
		- Building [1,90,000 x 110%]	2,09,000
To Cash		- Stock	1,20,000
- Creditors [80,000 – 13,000] x 95%	63,650	- Investment [42,000 – 9,000] + 7,000	40,000
- Bills Payable [30,000 - 500]	29,500	- Debtors [63,000 x 90%]	56,700
- Expenses	8,000		
To Partners' Capital	9,550		
	5,35,700		5,35,700

Partners' Capital Account

Particulars	P (₹)	Q (₹)	R (₹)	S (₹)	Particulars	P (₹)	Q (₹)	R (₹)	S (₹)
To balance b/d			40,000		By Balance b/d	1,50,000	1,50,000	-	60,000
To Sale of Investment			11,000		By General Reserve	13,333	13,333	8,889	4,445
To Debtors			7,000		By Profit on sale of Investment	1,000	1,000	667	333

To R's Capital	16,424	16,424	-	6,474	By Realisation profit	3,183	3,183	2,122	1,062
To Cash (bal.fig)	1,51,092	1,51,092		59,366	By Cash			7,000	
					By P's Capital			16,424	
					By Q's Capital			16,424	
					By S's Capital			6,474	
	1,67,516	1,67,516	58,000	65,840		1,67,516	1,67,516	58,000	65,840

Cash Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	30,000	By Realisation	93,950
To Realisation	4,25,700	By Partners' Capital	
To Partners' Capital		- P	1,51,092
- R	7,000	- Q	1,51,092
		- S	59,366
	4,26,700		4,26,700

Note: R's Deficiency shall be borne by P, Q and S in the ratio of Capital just before dissolution.

Capital Just before Dissolution

Particulars	P	Q	S
Opening Balance	1,50,000	1,50,000	60,000
Add: General Reserve	13,333	13,333	4,445
: Profit on sale of Investment	1,000	1,000	333
	1,64,333	1,64,333	64,778

Question-48

A, B and C were equal partners in a firm. Their Balance Sheet as on 31st March, 2015 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
A's Capital	**1,60,000**	**Building**	**4,00,000**
C's Capital	**1,00,000**	**Machinery**	**4,00,000**
A's Loan	**2,00,000**	**Furniture and Fixtures**	**1,60,000**
Creditors	**10,00,000**	**Stock**	**1,60,000**

		Book Debts	**2,00,000**
		Cash at Bank	**10,000**
		B's Capital (Overdrawn)	**1,30,000**
	14,60,000		**14,60,000**

The firm was dissolved as all the partners were declared insolvent. The assets were realized as under:

Book debts: 45% less; Building: ₹ 1,60,000; Stock: ₹ 1,00,000; Machinery: ₹ 2,00,000; and Furnitures and fixtures; ₹ 40,000. Realization expenses were ₹ 10,000.

Partner	Private Assets (₹)	Private Liabilities (₹)
A	2,50,000	2,50,000
B	2,00,000	1,80,000
C	2,30,000	2,50,000

You are required to prepare:

1. **Realisation Account,**
2. **Bank Account,**
3. **Creditors Account,**
4. **Partner's Capital Account, and**
5. **Deficiency Account.**

(June-15, 12 Marks)

Solution

ABC Partnership Firm

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)	
To Building A/c	4,00,000	By Bank A/c		
To Machinery A/c	4,00,000	- Book Debts [2,00,000 x 55%]	1,10,000	
To Furniture & Fixtures A/c	1,60,000	- Building	1,60,000	
To Stock A/c	1,60,000	- Stock	1,00,000	
To Book Debts A/c	2,00,000	- Machinery	2,00,000	
To Bank - Realisation Exp.	10,000	- Furniture	40,000	6,10,000
		By Realisation Loss		
		- A Capital A/c	2,40,000	
		- B Capital A/c	2,40,000	

		- C Capital A/c	2,40,000	7,20,000
	13,30,000			13,30,000

Dr. Bank Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	10,000	By Realisation A/c	10,000
To Realisation A/c (Assets Realised)	6,10,000	By Creditors (Available cash paid)	6,30,000
To B Capital A/c (2,00,000 – 1,80,000)	20,000		
	6,40,000		6,40,000

Dr. Creditors Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c (bal. fig.)	6,30,000	By Balance b/d	10,00,000
To Deficiency A/c	3,70,000		
	10,00,000		10,00,000

Dr. Partners' Capital Account Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Balance b/d		1,30,000		By Balance b/d	1,60,000	--	1,00,000
To Realisation (Loss)	2,40,000	2,40,000	2,40,000	By A's Loan A/c	2,00,000		
To Deficiency A/c	1,20,000			By Bank		20,000	
				By Deficiency A/c		3,50,000	1,40,000
	3,60,000	3,70,000	2,40,000		3,60,000	3,70,000	2,40,000

Dr. Deficiency Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To B's Capital A/c	3,50,000	By Creditors A/c (Bal. fig.)	3,70,000
To C's Capital A/c	1,40,000	By A's Capital A/c	1,20,000
	4,90,000		4,90,000

Question-49

Partners M, N and P have called upon you to assist them in winding up the affairs of their partnership on 30th June, 2023. Their Balance Sheet as on that date is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	17,000	Cash at Bank	6,500
Capital Accounts:		Sundry Debtors	22,000
M	67,000	Stock in trade	13,500
N	45,000	Plant and Equipment	99,000
P	31,500	Loan: M	12,000
		Loan: N	7,500
	1,60,500		1,60,500

The partners share profits and losses in the ratio of 5:3:2.

Cash is distributed to the partners at the end of each month. A summary of liquidation transaction are as follows:

i. **July:**
   - **₹ 16,000 — collected from Debtors; balance is irrecoverable.**
   - **₹ 10,000 — received from sale of entire stock.**
   - **₹ 1,000 — liquidation expenses paid.**
   - **₹ 8,000 — cash retained in the business at the end of the month.**

ii. **August:**
   - **₹ 1,500 — liquidation expenses paid; as part of the payment of his capital, P accepted an equipment for ₹ 10,000 (book value ₹ 4,000).**
   - **₹ 2,500 — cash retained in the business at the end of the month.**

iii. **September:**
   - **₹ 75,000 — received on sale of remaining plant and equipment.**
   - **₹ 1,000 — liquidation expenses paid. No cash is retained in the business.**

Required: Prepare a Schedule of cash payments as on 30th September, showing how the cash was distributed.

Solution

Statement Showing Distribution of Cash

Particulars	Amount (₹)	Creditors	Partners' Capital Account		
			M	N	P
Opening Balance	-	17,000	55,000	37,500	31,500
July-23					

Amount available for Distribution	23,500				
Less: Paid to Creditors	(17,000)	(17,000)			
Balance	6,500	-	55,000	37,500	31,500
Less: Paid to P	6,500		-	-	6,500
Balance	-		55,000	37,500	25,000
August-23					
Amount available for Distribution	4,000				
Equipment Given to P	-				(10,000)
Balance	4,000		55,000	37,500	15,000
Less: Paid to N	(4,000)		-	(4,000)	-
Balance	-		55,000	33,500	15,000
September- 23					
Amount available for Distribution	76,500				
Less: Paid to N	(500)			(500)	
Less: Paid to M and N	(28,000)		(17,500)	(10,500)	
Less: Paid to M,N and P	(48,000)		(24,000)	(14,400)	(9,600)
Realisation Loss			**13,500**	**8,100**	**5,400**

WN-1 Statement Showing Calculation of Surplus Capital

Particulars	M	N	P
Capital	67,000	45,000	31,500
Less: Loan Taken from Firm	(12,000)	(7,500)	-
Adjusted Capital [A]	**55,000**	**37,500**	**31,500**
Profit Sharing Ratio [B]	5	3	2
Capital for each share [C = A/B]	11,000	12,500	15,750
Standard Capital based on M's Capital [D = 11,000 x B]	55,000	33,000	22,000
Excess Capital [E= A-D]	**-**	**4,500**	**9,500**
Excess Capital for each share [F = E/B]	-	1,500	4,750
Standard Excess Capital based on N's Excess Capital [G= 1,500 x B]	-	4,500	3,000
Excess Capital [H= E-G]	**-**	**-**	**6,500**

Scheme of distribution of available cash: First instalment up to ₹ 6,500 will be paid to P. Next instalment up to ₹ 7,500 will be distributed between N and P in the ratio of 3:2. Balance Realisation will be distributed among M, N and P in the ratio of 5:3:2.

WN- 2 Statement Showing Calculation of Surplus Capital After Equipment Taken over by P

Particulars	M	N	P
Capital [A]	55,000	37,500	15,000
Profit Sharing Ratio [B]	5	3	2
Capital for each share [C = A/B]	11,000	12,500	7,500
Standard Capital based on P's Capital [D = 7,500 x B]	37,500	22,500	15,000
Excess Capital [E= A-D]	**17,500**	**15,000**	**-**
Excess Capital for each share [F = E/B]	3,500	5,000	-
Standard Excess Capital based on N's Excess Capital [G= 3,500 x B]	17,500	10,500	-
Excess Capital [H= E-G]	**-**	**4,500**	**-**

Scheme of distribution of available cash: First instalment up to ₹ 4,500 will be paid to Next distribution upto ₹ 28,000 will be distributed between M and N in the ratio of 5:3. Balance Realisation will be distributed among M, N and P in the ratio of 5:3:2.

WN-3 Statement showing the Calculation of Cash Available for Distribution

Particulars	July	August	September
Opening Balance	6,500	8,000	2,500
Add: Net amount realised (Gross amount - Expenses)	25,000	(1,500)	74,000
Less: Closing Balance	(8,000)	(2,500)	-
Amount available for distribution	23,500	4,000	76,500

Question-50

Following are the Balance Sheets of partners X and Y (sharing profits and losses in the ratio of their capital) and the sole proprietor Z as on 31.03.2023:

Liabilities	Partners X & Y	Sole Proprietor Z	Assets	Partners X & Y	Sole Proprietor Z
Capital			**Goodwill**	**-**	**2,000**
X	**15,000**	**-**	**Building**	**25,000**	**-**
Y	**5,000**	**-**	**Stock**	**10,000**	**15,000**
Z	**-**	**10,000**	**Bills receivable**	**5,000**	**5,000**

Creditors	**26,000**	**13,000**	**Debtors**	**4,000**	**6,000**
Loan	**-**	**5,000**	**Cash in Hand**	**2,000**	**-**
	46,000	**28,000**		**46,000**	**28,000**

The partners decided to admit Z as a partner and Z agreed to amalgamate his business with that of the partnership on the following terms:

1. **The new profit-sharing ratio among X, Y, and Z will be in the ratio of their capitals.**
2. **The building is to be appreciated by ₹ 15,000 and provision @ 5 % is to be created on debtors.**
3. **The goodwill of the partnership is valued at ₹ 10,000 and of the sole proprietor at ₹ 1,500; both are to be recorded in the books.**
4. **Stock is to be taken at ₹ 9,200 and ₹ 16,800, respectively of the firm and the sole proprietor.**

Prepare ledger accounts to close the books of Z, to make necessary Journal entries in the books of the firm and prepare the Balance Sheet of the re-constituted partnership.

Solution

Working Note: Calculation of purchase consideration

	Amount (₹)	Amount (₹)
Assets taken over:		
Goodwill	1,500	
Stock	16,800	
Bills receivable	5,000	
Debtors	6,000	29,300
Less: Liabilities taken over:		
Creditors	13,000	
Loan	5,000	
Provision for bad debts	300	18,300
Purchase consideration		11,000

In the books of Z

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goodwill A/c	2,000	By Creditors A/c	13,000
To Stock A/c	15,000	By Loan A/c	5,000
To Bills receivable A/c	5,000	By Partners X & Y A/c	11,000

To Debtors A/c	6,000		
To Capital A/c - Profit	1,000		
	29,000		29,000

Dr. **Capital Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Partners X & Y A/c	11,000	By Balance b/d	10,000
		By Realisation A/c	1,000
	11,000		11,000

Dr. **X & Y Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Realisation A/c	11,000	By Capital A/c	11,000
	11,000		11,000

In the books of X & Y

Journal Entries

Date	Particulars		Amount (₹)	Amount (₹)
	Building A/c	Dr.	15,000	
	To Revaluation A/c			15,000
	(Increase in the Value of Building)			
	Revaluation A/c	Dr.	1,000	
	To Stock A/c			800
	To Provision for Bad Debt A/c			200
	(Decrease in the value of assets)			
	Revaluation A/c	Dr.	14,000	
	To X Capital A/c			10,500
	To Y Capital A/c			3,500
	(Profit on revaluation transferred)			
	Goodwill A/c	Dr.	10,000	
	To X Capital A/c			7,500
	To Y Capital A/c			2,500
	(Goodwill raised in the books)			

	Goodwill A/c	Dr.	1,500	
	Stock A/c	Dr.	16,800	
	Bills Receivable A/c	Dr.	5,000	
	Debtors A/c	Dr.	6,000	
	To Loan A/c			5,000
	To Creditors A/c			13,000
	To Provision for Bad Debt A/c			300
	To Z Capital A/c			11,000
	(Assets and liabilities taken over)			

Balance Sheet of X, Y & Z (after absorption)
as at 01.04.2023

Liabilities	Amount (₹)	Assets	Amount (₹)	
Capital Account		Goodwill		11,500
- X	33,000	Building		40,000
- Y	11,000	Stock		26,000
- Z	11,000	Bills Receivable		10,000
Loan	5,000	Debtors	10,000	
Creditors	39,000	Less: Provision	(500)	9,500
		Cash in hand		2,000
	99,000			99,000

Question-51

Ram, Manas and Param are equal partners of M/S. Zindal & Co. The Balance Sheet of the firm as on 31.12.2024 was as follows:

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account:			**Fixed Assets:**		
Ram	**50,000**		**Land**	**50,000**	
Manas	**1,00,000**		**Building**	**70,000**	
Param	**(30,000)**	**1,20,000**	**Plant & Machinery**	**2,00,000**	**3,20,000**
Loan from bank		**5,00,000**	**Current Assets:**		
Creditors		**1,00,000**	**Stock**	**3,00,000**	
			Debtors	**1,00,000**	**4,00,000**

		7,20,000			**7,20,000**

On the date, it is decided to convert the partnership into limited company called Handal limited on the following items:

i. **Land to be revalued at ₹ 1,50,000**
ii. **Plant and machinery is to be revalued at ₹ 2,50,000.**
iii. **Depreciation amounting ₹ 20,000 is to be written off on building.**
iv. **A provision of 10% books valued to be mate of obsolete stock.**
v. **Provision of doubtful debts made at 10% of debtors.**
vi. **A discount of 6% would be earned on creditors when paid out.**
vii. **The new company issue ₹ 12,000 equity shares 10 each credited as full paid up, such share capital being valued at ₹ 1,50,000 and the balance payable is to be discharge by issue of 10% debentures of ₹ 100 each.**

Show the necessary ledger Accounts to close the books of Zindal &co. All partners are solvent and have sufficient cash resource as may be necessary to settle the respective accounts, Shares and debentures are divided equal among the partner.

Solution

In the books of Zindal & Co

Dr. Realisation Account Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Land A/c	50,000	By loan from bank A/c,	5,00,000
To Building A/c	70,000	By creditors A/c,	1,00,000
To Plant and Machinery A/c	2,00,000	By New company A/c - Purchase Consideration	2,16,000
To Stock A/c	3,00,000		
To Debtors A/c	1,00,000		
To Partners' Capital A/c			
- Ram	32,000		
- Manas	32,000		
- Param	32,000		
	8,16,000		8,16,000

Dr. Partners' Capital Account Cr.

Particulars	Ram (₹)	Manas (₹)	Param (₹)	Particulars	Ram (₹)	Manas (₹)	Param (₹)
To Balance B/d	-	-	30,000	By Balance B/d	50,000	1,00,000	-

To Equity sh. In new company	50,000	50,000	50,000	By Realisation A/c (profit)	32,000	32,000	32,000
To 10% debenture in new co. [2,16,000 – 1,50,000]	22,000	22,000	22,000	By Bank A/c (Cash brought in)	-	-	70,000
To Bank A/c	10,000	60,000	-				
	82,000	1,32,000	1,02,000		82,000	1,32,000	1,02000

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Partners' Capital A/c	70,000	By Ram A/c	10,000
		By Manas A/c	60,000
	70,000		70,000

Calculation of Purchase Consideration

Particulars	Amount (₹)
Asset Taken over	
Land	1,50,000
Building [70,000 – 20,000]	50,000
Plant & Machinery	2,50,000
Stock	2,70,000
Debtors	1,00,000
	8,20,000
Less: Liabilities Taken over	
Loan from Bank	5,00,000
Creditors	94,000
Provision for bad debt	10,000
	2,16,000

Question-52

Star Limited purchased machinery for ₹ 6,80,000 (inclusive of GST of ₹ 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expense for installation.

Particulars	Amount (₹)
Cost of preparation of site for installation	**21,200**

Total Labour charges	**56,000**
(200 out of the total of 500 men hours worked, were spent on installation of the machinery)	
Spare parts and tools consumed in installation	**5,000**
Total salary of supervisor	**26,000**
(Time spent for installation was 25% of the total time worked)	
Total administrative expense	**34,000**
(1/10 relates to the plant installation)	
Test run and experimental production expenses	**18,000**
Consultancy charges to architect for plant set up	**11,000**
Depreciation on assets used for installation	**12,000**

The machine was ready for use on 15.01.2021 but was used from 01.02.2021. Due to this delay further expenses of ₹ 8,900 were incurred.

Calculate the value at which the plant should be capitalized in the books of Star Limited.

Solution

Calculation of Cost of Plant

Particulars		Amount (₹)
Purchase Price	Given	6,80,000
Add: Site Preparation Cost	Given	21,200
Labour charges	(56,000×200/500) Given	22,400
Spare parts		5,000
Supervisor's Salary	25% of ₹ 26,000	6,500
Administrative costs	1/10 of ₹ 34,000	3,400
Test run and experimental production charges	Given	18,000
Architect Fees for set up	Given	11,000
Depreciation on assets used for installation	Given	12,000
Total Cost of Asset		7,79,500
Less: GST credit receivable		(40,000)
Value to be capitalized		**7,39,500**

Note: Further Expenses of ₹ 8,900 from 15.01.2021 to 01.02.2021 to be charged to profit and loss A/c as plant was ready for production on 15.01.2021.

Question-53

A Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2020 for each asset as per AS 10 (Revised):

i. **Machinery purchased for ₹10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is ₹10 lakhs.**

ii. **Land for ₹50 lakhs.**

iii. **A Machinery is constructed for ₹5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31st March, 2020.**

iv. **Machinery purchased on 1st April.2017 for ₹50,000 with useful life of 5 years and residual value is NIL. On 1st April, 2019, management decided to use this asset for further 2 years only.**

Solution

Computation of amount of depreciation as per AS 10

	Particulars	Amount (₹
(i)	Machinery purchased on 1/4/15 for ₹10 lakhs (having residual value of ₹10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (₹5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having revised useful life Reason: The entity has charged depreciation using the straight-line method at ₹10,000 per annum i.e., (50,000/5 years). On 1st April,2019 the asset's net book value is [50,000 – (10,000 x 2)] i.e., ₹30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at ₹15,000 per annum i.e. (30,000 / 2 years).	15,000

Question-54

During the financial year 2021-22, Zeds Ltd., an e-commerce firm entered into a foreign currency transaction relating to fees for technical services paid to a Lucas Ltd., an Atlanta based organisation in the USA. The transaction was for $24,000, which was entered into on 07.12.2021. The payment for the same was made on 20.05.2022.

Given that the exchange rates are: on 07.12.2021: $1 = ₹ 68.80; on 01.01.2021: $1 = ₹ 68.95; on 31.03.2022: $1 = ₹ 70.45; on 20.05.2022: $1 = ₹ 71.50.

You are required to:

a. ascertain the amount at which the transaction would get recognised in the books; and

b. calculate amount of foreign exchange gain/ loss to be recorded in the financial statement for the years 2021-22 and 2022-23.

Solution

a. As per AS 11, a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

∴ Fees for technical services $24,000 would be recorded on 07.12.2021 applying the exchange rate existing

on that date = 24,000 × ₹ 68.80 = ₹ 16,51,200.

b. <u>For 2021-22:</u>

On 31.03.2022, Outstanding fess for technical services should be reflected in the balance sheet using the closing rate ($1 = ₹ 70.45) i.e. 24,000 × ₹ 70.45 = ₹ 16,90,800.

∴ Exchange loss to be charged to the Statement of Profit and Loss = ₹ (16,90,800 – 16,51,200) = ₹ 39,600.

<u>For 2022-23:</u>

On 20.05.2022, Outstanding fess for technical services paid should be recognised using the existing rate ($1 = ₹ 71.50) i.e., 24,000 × ₹ 71.50 = ₹ 17,16,000.

∴ Exchange loss on settlement to be charged to the Statement of Profit and Loss = ₹ (17,16,000 – 16,90,800) = ₹ 25,200.

Question-55

Suraj Limited provides you the following information:

i. It received a Government Grant @40% towards the acquisition of Machinery worth ₹ 25 Crores.

ii. It received a Capital Subsidy of ₹ 150 Lakhs from Government for setting up a Plant costing ₹ 300 Lakhs in a notified backward region.

iii. It received ₹ 50 Lakhs from Government for setting up a project for supply of arsenic free water in a notified area.

iv. It received ₹ 5 Lakhs from the Local Authority for providing Corona Vaccine free of charge to its employees and their families.

v. It also received a performance award of ₹ 500 Lakhs from Government with a condition of major renovation in the Power Plant within 3 years. Suraj Limited incurred 90% of amount towards Capital expenditure and balance for Revenue Expenditure.

State, how you will treat the above in the books of Suraj Limited.

Solution

i. As per AS 12 "Accounting for Govt. Grants", two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under the first alternative, the grant of ₹ 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful

   life of a depreciable asset by way of a reduced depreciation charge. Under second alternative method, grant amounting ₹ 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

ii. In the given case, the grant amounting ₹ 150 lakhs received from the Central Government for setting up a plant in notified backward area may be considered as in the nature of promoters' contribution. Thus, amount of ₹ 150 lakhs should be credited to capital reserve and the plant will be shown at ₹ 300 lakhs.

iii. ₹ 50 lakhs received from Govt. for setting up a project for supply of arsenic free water in notified area should be credited to capital reserve.

   Alternatively, if it is assumed that the project consists of capital asset only, then the amount of ₹ 50 lakhs received from Govt. for setting up a project for supply of arsenic free water should either be deducted from cost of asset of the project concerned in the balance sheet or treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

iv. ₹ 5 lakhs received from the local authority for providing corona vaccine to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss account, either separately or under a general heading 'Other Income'. Alternatively, ₹ 5 lakhs may be deducted in reporting the related expense i.e., employee benefit expenses.

v. ₹ 500 Lakhs will be reduced from the renovation cost of power plant or will be treated as deferred income irrespective of the expenditure done by the entity out of it as it was specifically received for the purpose major renovation of power plant. However, it may be, later on, decided by the Govt. whether the grant will have to be refunded or not due to non-compliance of conditions attached to the grant.

Question-56

On 1st April, 2016, Mac Ltd. received a Government Grant of ₹60 lakhs for acquisition of machinery costing ₹300 lakhs. The grant was credited to the cost of the asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @ 10% on WDV basis. The company had to refund the grant in June 2019 due to non- compliance of certain conditions.

How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for the year 2019-20.

Pass necessary Journal Entries for the year 2019-20.

Solution

Date	Particulars	(₹in lakhs)
1st April, 2016	Acquisition cost of machinery	300.00
	Less: Government Grant	60.00
		240
31st March, 2017	Less: Depreciation @ 10%	(24.00)
1st April, 2017	Book value	216.00
31st March, 2018	Less: Depreciation @ 10%	(21.60)
1st April, 2018	Book value	194.40
31st March, 2019	Less: Depreciation @ 10%	(19.44)
1st April, 2019	Book value	174.96
	Less: Depreciation @10% for 2 months	(2.916)
1st June, 2019	Book value	172.044
June 2019	Add: Refund of grant*	60.00
	Revised book value	232.044

Depreciation @10% on the revised book value amounting to ₹232.044 lakhs is to be provided prospectively over the residual useful life of the machinery.

*considered refund of grant at beginning of June month and depreciation for two months already charged. Alternative answer considering otherwise also possible.

Journal Entries

Machinery Account	Dr.	60	
To Bank Account			60
(Being government grant on asset partly refunded which increased the cost of fixed asset)			

Depreciation Account	Dr.	19.337	
To Machinery Account			19.337
(Being depreciation charged on revised value of fixed asset prospectively for 10 months)			
Profit & Loss Account	Dr.	22.253	
To Depreciation Account			22.253
(Being depreciation transferred to Profit and Loss Account amounting to ₹ (2.916 + 19.337= 22.253)			

Question-57

First Ltd. began construction of a new factory building on 1st April, 2017. It obtained ₹ 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2017 at an interest rate of 8% per annum. Further, expenditure on construction of the factory building was financed through other non-specific loans. Details of other outstanding non-specific loans were:

Amount (₹)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

The expenditures that were made on the factory building construction were as follows:

Date	Amount (₹)
1st April, 2017	3,00,000
31st May, 2017	2,40,000
1st August, 2017	4,00,000
31st December, 2017	3,60,000

The construction of factory building was completed by 31st March, 2018. As per the provisions of AS 16, you are required to:

a. Calculate the amount of interest to be capitalized.

b. Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building.

Solution

Computation of average accumulated expenses

	Amount (₹)
3,00,000 x 12 / 12	3,00,000

2,40,000 x 10 / 12	2,00,000
4,00,000 x 8 / 12	2,66,667
3,60,000 x 3 / 12	90,000
	8,56,667

Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	Rate of interest	Amount of interest (₹)
4,00,000	9%	36,000
5,00,000	12%	60,000
3,00,000	14%	42,000
		1,38,000
Weighted average rate of interest (1,38,000/12,00,000) x 100		**11.5%**

Amount of interest to be capitalized

	Amount (₹)
Interest on average accumulated expenses:	
Specific borrowings (₹2,00,000 x 8%)	16,000
Non-specific borrowings (₹6,56,667* x 11.5%)	75,517
Amount of interest to be capitalised	91,517

Total expenses to be capitalised for building

	Amount (₹)
Cost of building ₹ (3,00,000 + 2,40,000 + 4,00,000 + 3,60,000)	13,00,000
Add: Amount of interest to be capitalized	91,517
	13,91,517

Journal Entry

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.2018	Building A/c	Dr.	13,91,517	
	To Building WIP A/c			13,00,000
	To Borrowing costs A/c			91,517
	(Being amount of cost of building and borrowing cost thereon capitalised)			

Question-58

Advise the management on the amount of borrowing cost to be capitalized as per AS 16 based on the following information.

Particulars	Amount (₹)
Expenditure incurred till 31.03.2021	**5,00,000**
Interest cost capitalized for the financial year 2020-21@ 13%	**26,000**
Amount borrowed till 31.03.2021	**2,00,000**
Assets transferred to construction during 2021-22	**1,00,000**
Cash payment during 2021-22	**75,000**
Progress payment received	**3,50,000**
New borrowing during 2021-22 @ 13%	**2,00,000**

(Dec-22, 4 Marks)

Solution

Total borrowing cost – (2,00,000+2,00,000) × 13/100 = ₹ 52,000

Particulars	Amount (₹)
Expenditure incurred including previously capitalized borrowing cost (5,00,000 + 26,000)	5,26,000
Cash payment during 2021-22	75,000
Asset transferred during 2021-22	1,00,000
	7,01,000
Less: Progress payment received	3,50,000
	3,51,000

Money borrowed including previously capitalized interest cost

= (2,00,000+2,00,000+26,000) = 4,26,000

Borrowing cost to be capitalized = 3,51,000/4,26,000 *52,000 = ₹ 42,845

Question-59

Vishnu Ltd. leased a printing machine from GF Ltd. for a period of 3 years. The useful life of the printing machine is known to be of 5 years. It was agreed between the lessor and lessee that the amount will be paid in 3 instalments and at the termination of the lessee, GF Ltd. will take back the said machine.

The following details are available in respect of the machine lessee:

a. **Cost of the printing machine is ₹ 15,00,000;**
b. **Unguaranteed residual value at the end of the lease period is ₹ 2,00,000;**

c. Fair value of the machine is ₹ 15,00,000;

d. The internal rate of return of the investment is 10%.

You are required to:

1. Analyse whether the lease is a finance lease or an operating lease?

2. Ascertain the amount of unearned finance income.

Given: PVF10%, 3 = 0.7513; PVAF10%, 3 = 2.4868.

Solution

Present value of unguaranteed residual value = ₹ 2,00,000 × 0.7513 = ₹ 1,50,260

∴ Present value of lease payments = ₹ (15,00,000 – 1,50,260) = ₹ 13,49,740

Present value of lease payments as percentage of Fair value

= 13,49,740/15,00,000 = 90% (approx.)

As the 'Present value of lease payments' makes a substantial portion of the 'Fair value', the machine lease by VK Ltd. from GF Ltd. is a finance lease by nature.

Annual lease payments

= Present value of lease payments/ PVAF10%, 3

= 13,49,740/2.4868

= ₹ 5,42,762 (approx.)

Gross investment in lease

= ₹ [(₹ 5,42,762 × 3) + 2,00,000] = ₹ 18,28,286

Unearned finance income

= Excess of 'Gross investment in lease' over 'Cost of the printing machine'

= ₹ (18,28,286 – 15,00,000)

= ₹ 3,28,286

Question-60

A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Comment if –

a. Sale price of ₹ 50 lakhs is equal to fair value.

b. Fair value is ₹ 60 lakhs.

c. Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.

d. Fair value is ₹ 40 lakhs and sale price is ₹ 50 lakhs.

e. Fair value is ₹ 46 lakhs and sale price is ₹ 50 lakhs

f. Fair value is ₹ 35 lakhs and sale price is ₹ 39 lakhs.

Solution

Following will be the treatment in the given cases:

a. When sales price of ₹ 50 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹ 10 lakhs (i.e. 50 – 40) in its books.

b. When fair value is ₹ 60 lakhs then also profit of ₹ 10 lakhs should be immediately recognised by A Ltd.

c. When fair value of leased machinery is ₹ 45 lakhs & sales price is ₹ 38 lakhs, then loss of ₹ 2 lakhs (40 – 38) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment, otherwise defer and amortise the loss.

d. When fair value is ₹ 40 lakhs & sales price is ₹ 50 lakhs then, profit of ₹ 10 lakhs is to be deferred and amortised over the lease period.

e. When fair value is ₹ 46 lakhs & sales price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46 - 40) to be immediately recognised in its books and balance profit of ₹ 4 lakhs (50-46) is to be amortised/deferred over lease period.

When fair value is ₹ 35 lakhs & sales price is ₹ 39 lakhs, then the loss of ₹ 5 lakhs (40-35) to be immediately recognised by A Ltd. in its books and profit of ₹ 4 lakhs (39-35) should be amortised/deferred over lease period.