Practice Manual

INTEGRATED
PROFESSIONAL
COMPETENCE COURSE

ACCOUNTING

Vol. II

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

PAPER 1

ACCOUNTING

VOLUME – II

BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This study material has been prepared by the faculty of the Board of Studies. The objective of the study material is to provide teaching material to the students to enable them to obtain knowledge and skills in the subject. Students should also supplement their study by reference to the recommended text books. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the study material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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FOREWORD

The Institute of Chartered Accountants of India, the second largest professional accountancy body in the world, occupies a pivotal position in the Indian economy. As compared to other leading professional accountancy bodies in the world, the Institute enjoys a unique position since it is endowed with the authority not only to conduct examinations and grant license to qualified members but it also imparts theoretical education through diverse methods such as provision of study material, conducting revisionary classes, etc. In fact, the Institute is a pioneer in imparting the education to students through distance education mode since its inception in 1949. Keeping in view the fact that the students of chartered accountancy course are dispersed geographically in the entire world, it is imminent that the Institute must make all efforts to retain its primacy in this particular area.

While all out efforts are being made to leverage the technology for the benefit of students through e-learning, Shiksha Portal, etc. by the Institute, it must continue to serve students through comprehensive study material with the aim to inculcate the self-learning experience. In this direction, I am happy to note that the study material has been thoroughly revised and made user friendly by improving presentation, emphasis on significant issues, illustrations explaining the concept step by step, etc. The inclusion of practical case studies intends to make it more application-oriented and aims to enhance the knowledge of students in the practical environment. A separate Practice Manual shall also enable the students to practice the subject on their own. It is hoped that the revised study material would prove to be very useful for students and their reliance on other external sources shall go down considerably. I am confident that the provision of such education literature shall enable our potential chartered accountants to compete with the best in the world.

January, 2010 **CA. Uttam Prakash Agarwal**
Mumbai *President*

PREFACE

With the fast changing business dynamics, fierce competition, globalization, complicated laws and transactions, there is tremendous pressure on the Chartered Accountancy students to acquire knowledge not only to clear examinations but also to build strong foundation for future endeavours. To strengthen knowledge of students and further build confidence for examination, the Board of Studies has developed the new study material. The new study material is comprehensive enough so that the students dispersed not only within the country but in other parts of the world as well can learn, understand and assimilate the subject through self-learning process. With this avid objective, the study material has been divided in two volumes namely Volume I dealing with the conceptual theoretical framework in detail and Volume II comprising of practice manual.

Volume I of the study material provides the basic concepts, theories and techniques relating to Accounting and aims to develop the students' ability in understanding the different concepts and their application in the real life situations.

The entire study material has been written in a simple language. A number of self-examination questions are given at the end of each chapter for practice by students. There are also a number of illustrations in each chapter to help students to have a better grasp of the subject. Certain special features have been added in the study material like charts, diagrams, and learning objectives to help the students in understanding the concepts in a simple manner. The significant changes that have taken place in the area of finance have also been incorporated.

Volume II of the study material comprises the Practice Manual. It aims to provide guidance to the students in writing an answer in the examination. Basic concepts in the form of definitions, equations and formulae have been given before each chapter for a quick review. Students are expected to attempt the questions and then compare it with the actual answers. Exercises have also been given at the end of each topic for independent practice. It also contains a matrix showing the analysis of the past examinations. This matrix will help the students in getting an idea about the trend of questions being asked and relative weightage of each topic in the past examinations. The revised study material also contains tips for students to prepare for the examinations.

We acknowledge the contributions made by CA. Parveen Kumar of M/s ASA & Associates, Delhi and his team including CA. Prateet Mittal, CA. Akriti Gomber and CA. Babita Rana towards the improvement of the study material.

The concerned faculty members of Board of Studies Ms. Seema Gupta and Ms. Shilpa Agrawal have put in their best efforts in making this study material lucid and student-friendly.

29th January, 2010
New Delhi

CA. Jaydeep Narendra Shah
Chairman, Board of Studies

A WORD ABOUT STUDY MATERIAL

The study material has been divided into two parts, namely, Volume I dealing with conceptual theoretical framework; and Volume II comprising of practice manual. The Study Material has been designed having regard to the needs of home study and distance learning students in mind. The students are expected to cover the entire syllabus and also do practice on their own while going through the practice manual.

Volume I of the study material deals with the conceptual theoretical framework in detail. The main features of Volume I are as under:

- The entire syllabus has been divided into fifteen chapters.
- In each chapter, learning objectives have been stated. The learning objectives would enable you to understand the sequence of various aspects dealt within the chapter before going into the details so that you know the direction of your studies.
- In each chapter, the topic has been covered in a step by step approach. The text has been explained, where appropriate, through illustrations and practical problems. You should go through the chapter carefully ensuring that you understand the topic and then can tackle the exercises.
- A question bank has been included after each chapter in Volume I as well as many questions for practice in Volume II.

Volume II of the Study Material comprises the Practice Manual. It aims to provide guidance as to the manner of writing an answer in the examination. Main features of Volume II are as under:

- Important Definition, equation and formulae have been given before each topic for quick recapitulation. Students are expected to attempt the questions and then compare it with the actual answers.
- Compilation of questions appearing during last twenty examinations.
- Exercises have been given at the end of each topic for independent practice.

STUDY TIPS AND EXAMINATION TECHNIQUE

The aim of this section is to provide general guidance as to how to study for your exams. The guidance given herein is supplementary to the manner of study followed by you and is intended to improve your existing technique, but aims to give ideas on how to improve your existing study techniques, as it is essential that you adopt methods and techniques with which you feel comfortable.

Passing exams is partly a matter of intellectual ability, but however accomplished you are in that respect you can improve your chances significantly by the use of appropriate study and revision techniques. In this section we briefly outline some tips for effective study during the earlier stages.

Know your Syllabus

- Go through the syllabus carefully.
- Volume I has been divided in fifteen chapters/topics based on syllabus.
- Main topics are as under:

Ch. No.		Topics
1		Accounting Standards
2		Financial Statements of Companies
	Unit 1	Preparation of Financial statements
	Unit 2	Cash Flow Statements
3		Profits or Losses Prior to Incorporation
4		Accounting for Bonus Issue
5		Internal Reconstruction
6		Amalgamation
7	Unit 1	Average Due Date
	Unit 2	Account Current
8		Self Balancing Ledgers
9		Financial Statements of Not for Profit Organisations

10	Accounts from Incomplete Records
11	Hire Purchase and Instalment Sale Transactions
12	Investment Accounts
13	Insurance Claims for Loss of Stock and Loss of Profit
14	Issues in Partnership Accounts
15	Accounting in Computerized Environment

- Understand the linkages between chapters at macro-level.

Plan your Study

- Make a study plan covering the entire syllabus and then decide how much time you can allocate to the subject on daily/weekly basis.
- Allocation of time must be done keeping in view your office commitments as well as social needs and personal hobbies.
- Maintain the time balance amongst various subjects such as purely descriptive type and numerical-based papers. Allocate time in such a manner that your interest is well sustained and you are able to score well in the final examination as well.
- Always assess your preparation periodically, say, on monthly basis. If necessary, revise your plan and allocate more time for the subject in which you feel deficient.

Preparing Study Strategy

- Read, understand and assimilate each chapter.
- First of all, have an overview of the chapter to understand the broad contents and sequence of various sub-topics.
- Do the introspection while going through the chapter and ask various questions to yourself.
- Read each chapter slowly to ensure that you understand and assimilate the main concept. If need be, read once again with concentration and then try to attempt exercise at the end of the chapter or given in the Practice Manual.
- Recapitulate the main concept after going through each chapter by way of brief notes.
- Prepare notes in the manner you feel comfortable covering all key points. Use mnemonic form e.g. C V P denoting cost, valuation and price.
- One may use highlighter/underlining the significant points or writing down in the margin.

- The fact that how well you have understood the topic is your ability to attempt the questions given in the exercises as well as in the practice manual. Make a serious attempt at producing your own answers but at this stage do not be much concern about attempting the questions in examination based conditions. In particular, at initial stages, it is more important to understand and absorb the material thoroughly rather than to observe the time limits that would apply in the actual examination conditions.
- Always try to attempt the past year examination question paper under examination conditions.
- Revision of material should never be selective in any case. Because broad coverage of the syllabus is more important than preparing 2-3 chapters exhaustively.
- Read through the text along with notes carefully. Try to remember the definition and important formulae.

Examination Technique

- Reach examination hall well in time.
- Plan your time so that equal time is awarded for each mark. Keep sometime for revision as well.
- Always attempt to do all questions. Remember that six average answers fetch more marks than five best answers. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required by the paper-setter.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- In case a question is not clear, you may state your assumptions and then answer the question.
- While writing answers in respect of essay-type questions, try to make sub-readings so that it catches the examiner's eye. In case of case-study, be very precise and write your conclusion in a clear manner.
- Reference to standards, guidance notes, section of various legislation, etc be done in a clear-cut manner.
- Revise your answers carefully underline important points before leaving the examination hall.

Best of Reading and Luck !

Group I Paper 1 : Accounting

Matrix: Chapter-wise Categorization of Past 20 Examination Questions

Ch. No.	Topics	Month of Examination																			
		May 1999	Nov. 1999	May 2000	Nov. 2000	May, 2001	Nov. 2001	May 2002	Nov. 2002	May 2003	Nov. 2003	May 2004	Nov. 2004	May 2005	Nov. 2005	May 2006	Nov. 2006	May 2007	Nov. 2007	May 2008	Nov. 2008
1	Accounting Standards	2 (12)	1 (5)							3 (8)	4(8)	45 (16)				6 (12)		7 (8)	8 (12)	9 (2)' 10 (8)	11(8)' 12 (8)
2	Financial Statements of Companies																				
Unit 1	Preparation of Financial statements																				1 (8)-PCC
Unit 2	Cash Flow Statements			3 (16)		1 (5), 4 (16-Final)	2 (8), 5 (8-Final)		6 (16)	7(20)	8(16)	9 (16)	10 (20)	11 (20)		12 (12)	13 (16)				
3	Profits or Losses Prior to Incorporation																				
4	Accounting for Bonus Issue																				
5	Internal Reconstruction				1 (10)													2 (16)			
6	Amalgamation		3(16)	4(8)		1(4), 5(16)	6 (8)	2 (4)	7 (16)								1 (4), 8(20)		9(6)		10 (8)
7 Unit 1	Average Due Date	1(2), 2(2), 3(2)			1(6)				2(7), 3(3)		3(2)		4(6)								
Unit 2	Account Current																				
8	Self Balancing Ledgers	1(15)		2(15)	2(2)		3(9)	1(2)	1(2), 3(2), 4(8)		5(8)	1(2)	6(6)								
9	Financial Statements of	1(5)	1(2), 1(20)	2(5)			2(20)	3(20)	1(5), 4(15)	5(20)	1(5)		6(20)						7(2)		

Ch. No.	Topics	Month of Examination																			
	Not for Profit Organisations																				
10	Accounts from Incomplete Records	1(12)		2(12)		3(16)	4(8)		5(20)		7(20)		6(16)		8(16)	9(20)	10(16)		11(20)	12(20)	13(16)
11	Hire Purchase and Instalment Sale Transactions			1(10)			2(16)			3(8)		4(14)		5(16)					6(16)		7(8)
12	Investment Accounts						2(8)		3(7)		1(10), 4(9)										
13	Insurance Claims for Loss of Stock and Loss of Profit	1(16)					1(5), 2(8)			1(5)											
14	Issues in Partnership Accounts				1(13)	2(20)	3(16)	4(16)							5(16)				6(16)		
15	Accounting in Computerized Environment																	1(4)-PCC	2(4)-PCC	3(4)-PCC	4(4)-PCC

CONTENTS

CHAPTER 1

ACCOUNTING STANDARDS

BASIC CONCEPTS

CHAPTER 1 : ACCOUNTING STANDARDS

Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. Accounting Standards 1, 2, 3, 6, 7, 9, 10, 13 and 14 are covered in this paper.

Question 1

What are the main features of the Cash Flow Statement? Explain with special reference to AS 3?

Answer

According to AS 3 (Revised) on "Cash Flow Statements", cash flow statement deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise during the given period from operating, investing and financing activities. Cash flows from operating activities can be reported using either

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of non–cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

As per para 42 of AS 3 (Revised), an enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.

A cash flow statement when used in conjunction with the other financial statements, provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure (including its liquidity and solvency), and its ability to affect the amount and timing of cash flows in order to adapt to changing circumstances and opportunities. This statement also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.

AS 3 (revised) is recommendatory at present but for companies listed on stock exchanges, its compliance is mandatory due to the listing agreement which provides for the listed companies to furnish cash flow statement in their Annual Reports.

Question 2

Media Advertisers obtained advertisement rights for One Day World Cup Cricket Tournament to be held in May/June, 1999 for Rs. 250 lakhs.

By 31st March, 1999 they have paid Rs. 150 lakhs to secure these advertisement rights. The balance Rs. 100 lakhs was paid in April, 1999.

By 31st March, 1999 they procured advertisement for 70% of the available time for Rs. 350 lakhs. The advertisers paid 60% of the amount by that date. The balance 40% was received in April, 1999.

Advertisements for the balance 30% time were procured in April, 1999 for Rs. 150 lakhs. The advertisers paid the full amount while booking the advertisement.

25% of the advertisement time is expected to be available in May, 1999 and the balance 75% in June, 1999.

You are asked to :

(i) Pass journal entries in relation to the above.

(ii) Show in columnar form as to how the items will appear in the monthly financial statements for March, April, May and June 1999.

Give reasons for your treatment.

Answer

In the books of Media Advertisers

Journal Entries

			Dr. Rs. in lakhs	Cr. Rs. in lakhs
1999				
March	Advance for advertisement rights (purchase) A/c	Dr.	150.00	
	To Bank A/c			150.00
	(Being advance paid for obtaining advertisement rights)			
	Bank A/c	Dr.	210.00	
	To Advance for advertisement time (sale) A/c			210.00
	(Being advance received from advertisers amounting to 60% of Rs. 350 lakhs for booking 70% advertisement time)			
April	Advance for advertisement rights (purchase) A/c	Dr.	100.00	
	To Bank A/c			100.00
	(Being balance advance i.e., Rs. 250 lakhs less Rs. 150 lakhs paid)			
	Bank A/c	Dr.	140.00	
	To Advance for advertisement time (sale) A/c			140.00
	(Being balance advance i.e., Rs. 350 lakhs less Rs. 210 lakhs received from advertisers)			

	Bank A/c	Dr.	150.00	
	To Advance for advertisement time (sale) A/c			150.00
	(Being advance received from advertisers in respect of booking of balance 30% time)			
May	Advertisement rights (purchase) A/c	Dr.	62.50	
	To Advance for advertisement rights (purchase) A/c			62.50
	(Being cost of advertisement rights used in May i.e., 25% of Rs. 250 lakhs, adjusted against advance paid)			
	Advance for advertisement time (sale) A/c	Dr.	125.00	
	To Advertisement time (sale) A/c			125.00
	(Being sale price of advertisement time in May i.e., 25% of Rs. 500 lakhs adjusted, against advance received from advertisers)			
	Profit and Loss A/c	Dr.	62.50	
	To Advertisement rights (purchase) A/c			62.50
	(Being cost of advertisement rights debited to Profit and Loss Account in May)			
	Advertisement time (sale) A/c	Dr.	125.00	
	To Profit and Loss A/c			125.00
	(Being revenue recognised in Profit and Loss Account in May)			
June	Advertisement rights (purchase) A/c	Dr.	187.50	
	To Advance for advertisement rights (purchase) A/c			187.50
	(Being cost of advertisement rights used in June, i.e., 75% of Rs. 250 lakhs, adjusted against advance paid)			
	Advance for advertisement time (sale) A/c	Dr.	375.00	
	To Advertisement time (sale) A/c			375.00

	(Being sale price of advertisement time availed in June i.e., 75% of Rs. 500 lakhs, adjusted against advance received from advertisers)			
June	Profit and Loss A/c	Dr.	187.50	
	To Advertisement rights (purchase) A/c			187.50
	(Being cost of advertisement rights used in June, debited to Profit and Loss Account in June)			
	Advertisement time (sale) A/c	Dr.	375.00	
	To Profit and Loss Account			375.00
	(Being revenue recognised in June)			

(ii) Monthly financial statements

(1) Revenue statement (Rs. in lakhs)

	March *Rs.*	*April* *Rs.*	*May* *Rs.*	*June* *Rs.*
Sale of advertisement time	–	–	125.00	375.00
Less: Purchase of advertisement rights	–	–	62.50	187.50
Netprofit	–	–	62.50	187.50

(2) Balance sheet as at	*31.3.99*	*30.4.99*	*31.5.99*	*30.6.99*
Sources of funds:				
Net profit	–	–	62.50	250.00
Application of funds:				
Current assets, loans and advances:				
Advance for advertisement rights	150.00	250.00	187.50	–
Bank Balance	60.00	250.00	250.00	250.00
	210.00	500.00	437.50	250.00
Less: Current liabilities				
Advance for advertisement time				
(received from advertisers)	210.00	500.00	375.00	–
Net current assets	–	–	62.50	250.00

As per para 7.1 of AS 9 on Revenue Recognition, under proportionate completion method, revenue from service transactions is recognised proportionately by reference to the performance of each act where performance consists of the execution of more than one act. Therefore, income from advertisement is recognised in May, 1999 (25%) and June, 1999 (75%) in the proportion of availability of the advertisement time.

Question 3

(a) *X Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2003 it changed to WDV basis. The impact of the change when computed from the date of the asset coming to use amounts to Rs. 20 lakhs being additional charge.*

Decide how it must be disclosed in Profit and loss account. Also, discuss, when such changes in method of depreciation can be adopted by an enterprise as per AS–6.

(b) *Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS–14.*

Answer

(a) The company should disclose the change in method of depreciation adopted for the accounting year. The impact on depreciation charge due to change in method must be quantified and reported by the enterprise.

Following aspects may be noted in this regard as per AS 6 on Depreciation Accounting.

(a) The depreciation method selected should be applied consistently from period to period.

(b) A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.

(c) When such a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed.

(d) In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss.

(e) In case the change in the method results in surplus, the surplus should be credited to the statement of profit and loss. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

(b) The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation.

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:

(a) names and general nature of business of the amalgamating companies;

(b) the effective date of amalgamation for accounting purpose;

(c) the method of accounting used to reflect the amalgamation; and

(d) particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:

(a) description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and

(b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

(a) consideration for the amalgamation and a description of the consideration paid or contingently payable; and

(b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

Question 4

(a) A Limited company charged depreciation on its assets on the basis of W.D.V. method from the date of assets coming to use till date amounts to Rs. 32.23 lakhs. Now the company decides to switch over to Straight Line method of providing for depreciation. The amount of depreciation computed on the basis of S.L.M. from the date of assets coming to use till the date of change of method amounts to Rs. 20 lakhs.

Discuss as per AS-6, when such changes in method of can be adopted by the company and what would be the accounting treatment and disclosure requirement.

(b) X Limited has recognized Rs. 10 lakhs on accrual basis income from dividend on units of mutual funds of the face value of Rs. 50 lakhs held by it as at the end of the financial year 31st March, 2003. The dividends on mutual funds were declared at the rate of 20% on 15th June, 2003. The dividend was proposed on 10th April, 2003 by the declaring company.

Whether the treatment is as per the relevant Accounting Standard? You are asked to answer with reference to provisions of Accounting Standard.

Answer

(a) Paragraph 21 of Accounting Standard 6 on Depreciation Accounting says, "The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise."

The paragraph also mentions the procedure to be followed when such a change in the method of depreciation is made by an enterprise. As per the said paragraph, depreciation should be recalculated in accordance with the new method from the date of the asset coming to use. The difference in the amount, being deficiency or surplus from retrospective recomputation should be adjusted in the profit and loss account in the year such change is effected. Since such a change amounts to a change in the accounting policy, it should be properly quantified and disclosed. In the question given, the surplus arising out of retrospective recomputation of depreciation as per the straight line method is Rs. 12.23 lakhs (Rs. 32.23 lakhs – Rs. 20 lakhs). This should be written back to Profit and Loss Account and should be disclosed accordingly.

(b) Paragraph 8.4 and 13 of Accounting Standard 9 on Revenue Recognition states that dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established.

In the given case, the dividend is proposed on 10th April, 2003, while it is declared on 15th June, 2003. Hence, the right to receive payment is established on 15th June, 2003. As per the above mentioned paragraphs, income from dividend on units of mutual funds should be recognised by X Ltd. in the financial year ended 31st March, 2004.

The recognition of Rs. 10 lakhs on accrual basis in the financial year 2002-2003 is not as per AS 9 'Revenue Recognition'.

(i) Acting as a banker in respect of funds of local bodies, Zilla Parishads, Panchayat Institutions etc. who keep their funds with the treasuries.

(ii) Custody of opium and other valuables because of the strong room facility provided at the treasury.

(iii) Custody of cash balances of the State Government and conducting cash business of Government at non-banking treasuries.

Question 5

(a) *The company deals in three products, A, B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2002-03. The Historical Cost and Net Realizable Value of the items of closing stock are determined as follows:*

Items	*Historical Cost (Rs. in lakhs)*	*Net Realisable Value (Rs. in lakhs)*
A	*40*	*28*
B	*32*	*32*
C	*16*	*24*

What will be the value of Closing Stock?

(b) *During the current year 2002–2003, X Limited made the following expenditure relating to its plant building:*

	Rs. in lakhs
Routine Repairs	*4*
Repairing	*1*
Partial replacement of roof tiles	*0.5*
Substantial improvements to the electrical wiring system which will increase efficiency	*10*

What amount should be capitalized?

(c) *A plant was depreciated under two different methods as under:*

Year	*SLM (Rs. in lakhs)*	*W.D.V. (Rs. in lakhs)*
1	*7.80*	*21.38*
2	*7.80*	*15.80*
3	*7.80*	*11.68*
4	*7.80*	*8.64*
	31.20	*57.50*
5	*7.80*	*6.38*

What should be the amount of resultant surplus/deficiency, if the company decides to switch over from W.D.V. method to SLM method for first four years? Also state, how will you treat the same in Accounts.

(d) Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

Answer

(a) As per para 5 of AS 2 on Valuation of Inventories, inventories should be valued at the lower of cost and net realizable value. Inventories should be written down to net realizable value on an item-by-item basis in the given case.

Items	*Historical Cost (Rs. in lakhs)*	*Net Realisable Value (Rs. in lakhs)*	*Valuation of closing stock (Rs. in lakhs)*
A	40	28	28
B	32	32	32
C	16	24	16
	88	84	76

Hence, closing stock will be valued at Rs. 76 lakhs.

(b) As per para 12.1 of AS 10 on Accounting for Fixed Assets, expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity. Hence, in the given case, Repairs amounting Rs. 5 lakhs and Partial replacement of roof tiles should be charged to profit and loss statement. Rs. 10 lakhs incurred for substantial improvement to the electrical writing system which will increase efficiency should be capitalized.

(c) As per para 21 of AS 6 on Depreciation Accounting, when a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed. In the given case, there is a surplus of Rs. 26.30 lakhs on account of change in method of depreciation, which will be credited to Profit and Loss Account. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

(d) As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

(i) The Pooling of Interest Method

Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

(ii) The Purchase Method

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company.

Question 6

(a) X Co. Limited purchased goods at the cost of Rs.40 lakhs in October, 2005. Till March, 2006, 75% of the stocks were sold. The company wants to disclose closing stock at Rs.10 lakhs. The expected sale value is Rs.11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct closing stock to be disclosed as at 31.3.2006.

(b) Explain the 'Accounting of Revaluation of Assets' with reference to AS 10.

(c) Arjun Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is, payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2006, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at Rs.9 lakhs. Decide whether the income by way of interest from dealers is eligible for recognition as per AS 9.

Answer

(a) As per Para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost and net realizable value.

In this case, the cost of inventory is Rs.10 lakhs. The net realizable value is 11,00,000 $\times$ 90% = Rs.9,90,000. So, the stock should be valued at Rs.9,90,000.

(b) As per Para 30 of AS 10 "Accounting for Fixed Assets", an increase in net book value arising on revaluation of fixed assets should be credited to owner's interests under the head of 'revaluation reserve, except that, to the extent that such increase is related to and not greater than a decrease arising on revaluation previously recorded as a charge to the profit and loss statement, it may be credited to the profit and loss statement. A decrease in net book value arising on revaluation of fixed assets is charged directly to profit and loss statement except that to the extent such a decrease is related to an increase which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilized , it may be charged directly to that account.

(c) As per AS 9 "Revenue Recognition", where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty inverted. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made.

In this case, the company never realized interest for the delayed payments make by the dealers. Hence, it has to recognize the interest only if the ultimate collection is certain. The interest income hence is not to be recognized.

Question 7

(a) What are the disclosure requirements of AS-7 (Revised)?

(b) What are the information that are to be disclosed in the financial statements as per AS-10?

Answer

(a) According to paragraphs 38, 39 and 41 of AS 7, an enterprise should disclose:

(a) the amount of contract revenue recognized as revenue in the period;

(b) the methods used to determine the contract revenue recognized in the period; and

(c) the methods used to determine the stage of completion of contracts in progress.

In case of contract still in progress the following disclosures are required at the reporting date:

(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;

(b) the amount of advances received; and

(c) the amount of retentions.

An enterprise should also present:

(a) the gross amount due from customers for contract work as an asset; and

(b) the gross amount due to customers for contract work as a liability.

(b) As per AS 10, the following information should be disclosed in the financial statements :

(i) gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements ;

(ii) expenditure incurred on account of fixed assets in the course of construction or acquisition ; and

(iii) revalued amount substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

Question 8

(a) The Company X Ltd., has to pay for delay in cotton clearing charges. The company up to 31.3.2006 has included such charges in the valuation of closing stock. This being in the nature of interest, X Ltd. decided to exclude such charges from closing stock for the year 2006-07. This would result in decrease in profit by Rs.5 lakhs. Comment.

(b) The Board of Directors of X Ltd. decided on 31.3.2007 to increase sale price of certain items of goods sold retrospectively from 1st January, 2007. As a result of this decision the company has to receive Rs.5 lakhs from its customers in respect of sales made from 1.1.2007 to 31.3.2007. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.

(c) Briefly explain disclosure requirements for Investments as per AS-13.

Answer

(a) As per para 12 of AS 2 (revised), interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are therefore, usually not included in the cost of inventories. However, X Ltd. was in practice to charge the cost for delay in cotton clearing in the closing stock. As X Ltd. decided to change this valuation procedure of closing stock, this treatment will be considered as a change in accounting policy and such fact to be disclosed as per AS 1. Therefore, any change in amount mentioned in financial statement, which will affect the financial position of the company should be disclosed properly as per AS 1, AS 2 and AS 5.

Also a note should be given in the annual accounts that, had the company followed earlier system of valuation of closing stock, the profit before tax would have been higher by Rs. 5 lakhs.

(b) As per para 10 of AS 9 'Revenue Recognition', the additional revenue on account of increase in sales price with retrospective effect, as decided by Board of Directors of X Ltd., of Rs.5

lakhs to be recognised as income for financial year 2006-07, only if the company is able to assess the ultimate collection with reasonable certainty. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

(c) The disclosure requirements as per para 35 of AS 13 are as follows:

(i) Accounting policies followed for valuation of investments.

(ii) Classification of investment into current and long term in addition to classification as per Schedule VI of Companies Act in case of company.

(iii) The amount included in profit and loss statements for

(a) Interest, dividends and rentals for long term and current investments, disclosing therein gross income and tax deducted at source thereon;

(b) Profits and losses on disposal of current investment and changes in carrying amount of such investments;

(c) Profits and losses and disposal of long term investments and changes in carrying amount of investments.

(iv) Aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;

(v) Any significant restrictions on investments like minimum holding period for sale/disposal, utilisation of sale proceeds or non-remittance of sale proceeds of investment held outside India.

(vi) Other disclosures required by the relevant statute governing the enterprises.

Question 9

X Ltd. purchased debentures of Rs.10 lacs of Y Ltd., which are traded in stock exchange. How will you show this item as per AS 3 while preparing cash flow statement for the year ended on 31st March, 2008?

Answer

As per AS 3 on 'Cash flow Statement', cash and cash equivalents consists of cash in hand, balance with banks and short-term, highly liquid investments[1]. If investment, of Rs.10 lacs, made in debentures is for short-term period then it is an item of 'cash equivalents'.

However, if investment of Rs.10 lacs made in debentures is for long-term period then as per AS 3, it should be shown as cash flow from investing activities.

[1] As per para 6 of AS 3, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say three months or less from the date of acquisition.

Question 10

(i) *A manufacturing company purchased shares of another company from stock exchange on 1st May, 2007 at a cost of Rs.5,00,000. It also purchased Gold of Rs.2,00,000 and Silver of Rs.1,50,000 on 1st April, 2005. How will you treat these investments as per the applicable AS in the books of the company for the year ended on 31st March, 2008, if the values of these investments are as follows:*

	Rs.
Shares	*2,00,000*
Gold	*4,00,000*
Silver	*2,50,000*

(ii) *In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is Rs.1,000. The entire quantity of waste is on stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case?*

Answer

(i) As per para 32 of AS 13 on 'Accounting for Investments', any investment of long term period is shown at cost. Hence, the investment in Gold and Silver (purchased on 1st April 2005) shall continue to be shown at cost i.e., Rs.2,00,000 and Rs.1,50,000 respectively as their value have increased.

Also as per AS 13, for investment in shares - if the investment is for short-term period then the loss of Rs.3,00,000 is to be charged to profit & loss account for the year ended 31st March, 2008. If investment is of long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

(ii) As per para 13 of AS 2 (Revised), abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

In this case, normal waste is 250 MT and abnormal waste is 50 MT.

The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end. The cost of abnormal waste amounting to Rs.50,000 (50 MT × Rs.1,000) will be charged to the profit and loss statement.

Question 11

Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2008:

Cash Flow Abstract

Inflows	***Rs.***	***Outflows***	***Rs.***
Opening balance:		*Payment to creditors*	*90,000*
Cash	*10,000*	*Salaries and wages*	*25,000*
Bank	*70,000*	*Payment of overheads*	*15,000*
Share capital – shares issued	*5,00,000*	*Fixed assets acquired*	*4,00,000*
Collection from Debtors	*3,50,000*	*Debentures redeemed*	*50,000*
Sale of fixed assets	*70,000*	*Bank loan repaid*	*2,50,000*
		Taxation	*55,000*
		Dividends	*1,00,000*
		Closing balance:	
		Cash	*5,000*
		bank	*10,000*
	10,00,000		*10,00,000*

Prepare Cash Flow Statement for the year ended 31st March, 2008 in accordance with Accounting standard – 3.

Answer

Cash Flow Statement

for the year ended 31.3.2008

	Rs.	Rs.
Cash flow from operating activities		
Cash received from customers	3,50,000	
Cash paid to suppliers	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	

Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	
Income tax paid	(55,000)	
Net cash from operating activities		1,65,000
Cash flow from investing activities		
Payment for purchase of fixed assets	(4,00,000)	
Proceeds from sale of fixed assets	70,000	
Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Dividends paid	(1,00,000)	
Net cash from financing activities		1,00,000
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		80,000
Cash and cash equivalents at the end of the year		15,000

Question 12

(a) *B Ltd. undertook a construction contract for Rs. 50 crores in April, 2007. the cost of construction was initially estimated at Rs. 35 crores. The contract is to be completed in 3 years. While executing the contract, the company estimated the cost of completion of the contract at Rs. 53 crores.*

Can the company provide for the expected loss in the book of account for the year ended 31st March, 2008?

(b) *List the conditions to be fulfilled as per Accounting Standard 14 (AS 14) for an amalgamation to be in the nature of merger, in the case of companies.*

Answer

(a) As per para 35 of AS 7 "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Therefore, The foreseeable loss of Rs.3 crores (Rs. 53 crores less Rs. 50 crores) should be recognised as an expense immediately in the year ended 31st march, 2008. The amount of loss is determined irrespective of

(i) Whether or not work has commenced on the contract;

(ii) Stage of completion of contract activity; or

(iii) The amount of profits expected to arise on other contracts which are not treated as a single construction contract in accordance with para 8 of AS 7.

(b) An amalgamation should be considered to be an amalgamation in the nature of merger if the following conditions are satisfied:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

EXERCISES

Question1

Explain Provisions contained in the Accounting Standard in respect of Revaluation of fixed assets.

Question 2

When can revenue be recognised in the case of transaction of sale of goods?

Question 3

Write short note on valuation of fixed assets in special cases.

Question 4

Jagannath Ltd. had made a rights issue of shares in 1996. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31st March, 1998. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided on the following :

(i) *Value year-end inventory at works cost (Rs. 50 crores) instead of the hitherto method of valuation of inventory at prime cost (Rs. 30 crores).*

(ii) *Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at Rs. 27 crores is lower than the amount of Rs. 45 crores which would have been provided had the old method been followed, by Rs. 18 cores.*

(iii) *Not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to Rs. 600 crores.*

(iv) *Provide for permanent fall in the value of investments - which fall had taken place over the past five years - the provision being Rs. 10 crores.*

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 1997-1998

CHAPTER 2

PREPARATION OF FINANCIAL STATEMENTS OF COMPANIES

UNIT 1: PREPARATION OF FINANCIAL STATEMENTS OF COMPANIES

BASIC CONCEPTS

While preparing the final accounts of a company the following should be kept in mind:

- Requirements of Schedule VI;
- Other statutory requirements;
- Accounting Standards issued by the Institute of Chartered Accountants of India on different accounting matters (AS-1 to AS-32);
- Statements and Guidance Notes issued by the Institute of Chartered Accountants of India;

which are necessary for understanding the accounting treatment / valuation / disclosure suggested by the ICAI]

Question 1

The Articles of Association of S Ltd. provide the following:

(i) That 20% of the net profit of each year shall be transferred to reserve fund.

(ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied:

(a in paying 14% on cumulative preference shares.

(b) in paying 20% dividend on equity shares.

(c) one-third of the balance available as additional dividend on preference shares and 2/3 as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 12% on preference shares after making provisions (i), (ii) and (iii) mentioned above. The company has issued 13,000, 14% cumulative participating preference shares of Rs. 100 each fully paid and 70,000 equity shares of Rs. 10 each fully paid up.

The profit for the year 2008 was Rs. 10,00,000 and balance brought from previous year Rs. 80,000. Provide Rs. 31,200 for depreciation and Rs. 80,000 for taxation before making other appropriations. Prepare Profit and Loss Account –below the line.

Answer

Profit and Loss Account –(below the line)

for the year ended 2008

		Rs.			*Rs.*
To	Depreciation	31,200	By	Profit	10,00,000
To	Provision for income tax	80,000			
To	Net profit c/d	8,88,800			
		10,00,000			10,00,000
To	Reserve fund	1,77,760	By	Balance b/f	80,000
To	Proposed preference dividend (1,82,000 + 93,450)	2,75,450	By	Net profit b/d	8,88,800
To	Proposed equity dividend (1,40,000 + 1,86,900)	3,26,900			
To	Bonus to employees (14,000 + 18,690)	32,690			
To	Balance c/d	1,56,000			
		9,68,800			9,68,800

Working Note:

Balance of amount available for Preference and Equity shareholders and Bonus for Employees	*Rs.*
Credit Side	9,68,800
Less: Dr. side [1,77,760 + 1,82,000+1,40,000+14,000 + 1,56,000]	6,69,760
	2,99,040

Suppose remaining balance will be = x

Suppose preference shareholders will get share from remaining balance = $x \times \frac{1}{3} = \frac{1}{3}x$

Equity shareholders will get share from remaining balance = $x \times \frac{2}{3} = \frac{2}{3}x$

Bonus to Employees = $\frac{2}{3}x \times \frac{10}{100} = \frac{2}{30}x$

Now, $\frac{2}{3}x + \frac{1}{3}x + \frac{2}{30}x = 2{,}99{,}040$

$32x = 89{,}71{,}200$

$x = 89{,}71{,}200/32 = \text{Rs.}2{,}80{,}350$

Share of preference shareholders - Rs. 2,80,350 $\times \frac{1}{3}$ = Rs.93,450

Share of equity shareholders - Rs.2,80,350 $\times \frac{2}{3}$ = Rs.1,86,900

Bonus to employees - Rs.2,80,350 $\times \frac{2}{30}$ = Rs.18,690

UNIT 2 : CASH FLOW STATEMENT

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- Dealt with under AS 3
- Based on cash concept of profit
- Benefits include providing information relating to changes in cash and cash equivalents of an enterprise.
- Useful tool of planning
- Cash funds include :
  - (a) Cash in hand
  - (b) Demand deposits with banks
  - (c) Cash equivalents
- Cash flow activities may be classified as inflow and outflow but as per AS-3 they are classified as Operating Activities, Investing activities, Financing activities
- Operating activities are principal revenue generating activities
- Investing Activities relate to acquisition and disposal of long-term assets and other investments
- Financing Activities include the ones which result in changes in the size and composition of the owner's capital (including preference share capital) and borrowings of the enterprise.
- Methods to calculate cash flow from operating activities include:
  - (a) Direct Method
  - (b) Indirect Method also known as reconciliation method
- In order to calculate cash flow from investing activities inflows and outflows related to acquisition and disposal of assets, other than those related to operating activities, are shown under this category
- In order to calculate cash flow from financing activities inflows and outflows related to the amount of capital and borrowings of the enterprise are shown under this head

(A) Write short notes on:

Question 1

Classification of activities (with two examples) as suggested in AS 3, to be used for preparing a cash flow statements.

Answer

AS 3 (Revised) on Cash Flow Statements requires that the cash flow statement should report cash flows by operating, investing and financing activities.

(i) **Operating activities** are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities. Cash receipts from sale of goods and cash payments to suppliers of goods are two examples of operating activities.

(ii) **Investing activities** are acquisition and disposal of long-term assets and other investments not included in cash equivalents. Payment made to acquire machinery and cash received for sale of furniture are examples of investing activities.

(ii) **Financial activities** are those activities that result in changes in the size and composition of the owner's capital (including preference share capital in the case of a company) and borrowings of the enterprise. Cash proceeds from issue of shares and cash paid to redeem debentures are two examples of financing activities.

Question 2

Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3, (AS 3) revised.

Answer

As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either :

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss in adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either :

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statment of profit and loss for :

(i) changes during the period in inventories and operating receivables and payables;

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activies is determined by adjusting net profit or loss for the effects of :

(a) changes during the period in inventories and operating receivables and payables;

(b non-cash items such as depreciation, provisions, deferred taxes and unrealised foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

(B) Practical Questions:

Question 1

Examine the following schedule prepared by K Ltd.

Schedule of funds provided by operations for the year ended 31st July, 1999

		(Rs.'000)	*(Rs.'000)*
Sales		*32,760*	
Add : Decrease in bills receivable.		*1,000*	
Less : Increase in accounts receivable		*(626)*	
Inflow from operating revenues			*33,134*
Cost of goods sold	*18,588*		
Less : *Decrease in inventories*	*(212)*		
Add : Decrease in trades payable	*81*	*18,457*	
Wages and Salaries	*5,284*		

Less : Increase in wages payable	*(12)*	*5,272*	
Administrative Expenses	*3,066*		
Add : Increase in prepaid expenses	*11*	*3,077*	
Property taxes		*428*	
Interest expenses	*532*		
Add : Amortisation of premium on bonds payable	*20*	*552*	
Outflow from operating expenses			*27,786*
From operations			*5,348*
Rent Income	*207*		
Add : Increase in unearned rent	*3*		*210*
			5,558
Income tax	*1,330*		
Less : Increase in deferred tax	*50*		*1,280*
Funds from operations			*4,278*

Required :

(i) What is the definition of funds shown in the schedule?

(ii) What amount was reported as gross margin in the income statement?

(iii) How much cash was collected from the customers?

(iv) How much cash was paid for the purchases made?

(v) As a result of change in inventories, did the working capital increase or decrease and by what amount?

(vi) How much rent was actually earned during the year?

(vii) What was the amount of tax expenses reported on the income statement?

(viii) Can you reconcile the profit after tax-with the funds provided by the operations?

Answer

(i) 'Funds' shown in the schedule refer to the cash and cash equivalents [as defined in AS 3 (Revised) on Cash Flow Statements].

(ii) Gross margin in the income statement:

	Rs. ('000)
Sales	32,760

	Cost of goods sold	18,588
		14,172
(iii)	Cash collected from the customers	33,134
(iv)	Cash paid for purchases made	18,457
(v)	Change in inventories would reduce the working capital by	212
(vi)	Rental income earned during the year	207
(vii)	Tax expenses reported in the income statement	1330
(Viii)	**Reconciliation Statement**	*Rs.('000)*
	Profit after tax (See W.N.)	3,719
	Decrease in bills receivable	1,000
	Increase in accounts receivable	(626)
	Decrease in inventories	212
	Decrease in trades payable	(81)
	Increase in wages payable	12
	Increase in prepaid expenses	(11)
	Increase in unearned rent	3
	Increase in deferred tax	50
	Funds from operations as shown in the schedule	4,278
	(i.e. cash and cash equivalents)	

Working Note :

Calculation of Profit after Tax		*Rs. ('000)*
Sales		32,760
Less : Cost of goods sold		18,588
Gross margin		14,172
Add : Rental income		207
		14,379
Less : Wages and salaries	5,284	
Administrative expenses	3,066	
Property taxes	428	

Interest expenses	532	
Amortisation of premium on bonds payable	20	
		9,330
Profit before tax		5,049
Less : Income tax		1,330
Profit after tax		3,719

Question 2

Ms. Joyti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year 2000 :

	(Rs. in Lakhs)
Net Profit	*25,000*
Dividend (including dividend tax) paid	*8,535*
Provision for Income tax	*5,000*
Income tax paid during the year	*4,248*
Loss on sale of assets (net)	*40*
Book value of the assets sold	*185*
Depreciation charged to Profit & Loss Account	*20,000*
Amortisation of Capital grant	*6*
Profit on sale of Investments	*100*
Carrying amount of Investment sold	*27,765*
Interest income on investments	*2,506*
Increase expenses	*10,000*
Interest paid during the year	*10,520*
Increase in Working Capital (excluding Cash & Bank Balance)	*56,075*
Purchase of fixed assets	*14,560*
Investment in joint venture	*3,850*
Expenditure on construction work in progress	*34,740*
Proceeds from calls in arrear	*2*
Receipt of grant for capital projects	*12*
Proceeds from long-term borrowings	*25,980*
Proceeds from short-term borrowings	*20,575*

Opening cash and Bank balance	*5,003*
Closing cash and Bank balance	*6,988*

Required :

Prepare the Cash Flow Statement for the year 2000 in accordance with AS 3, Cash Flow Statements issued by the Institute of Chartered Accountants of India. (make necessary assumptions).

Answer

Star Oils Limited

Cash Flow Statement

for the year ended 31st December, 2000

		(Rs. in lakhs)
Cash flows from operating activities		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Amortisation of capital grant	(6)	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,428	
Changes in working capital (Excluding cash and bank balance)	(56,075)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		(2,895)
Cash flows from investing activities		
Sale of assets	145	
Sale of investments (27,765 + 100)	(27,865)	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	

Expenditure on construction work-in progress	(34,740)	
Net cash used in investing activities		(22,634)
Cash flows from financing activities		
Proceeds from calls in arrear	2	
Receipts of grant for capital projects	12	
Proceeds from long-term borrowings	25,980	
Proceed from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	(8,535)	
		27,514
Net increase in cash and cash equivalents		1,985
Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

Working note :

Book value of the assets sold	185
Less : Loss on sale of assets	40
Proceeds on sale	145

Assumption :

Interest income on investments Rs. 2,506 has been received during the year.

Question 3

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2001 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2001

	Rs. '000		*Rs. '000*
Balance on 1.4.2000	*50*	*Payment to Suppliers*	*2,000*
Issue of Equity Shares	*300*	*Purchase of Fixed Assets*	*200*
Receipts from Customers	*2,800*	*Overhead expense*	*200*
Sale of Fixed Assets	*100*	*Wages and Salaries*	*100*

		Taxation	*250*
		Dividend	*50*
		Repayment of Bank Loan	*300*
		Balance on 31.3.2001	*150*
	3,250		*3,250*

Answer

X Ltd.

Cash Flow Statement for the year ended 31st March, 2001

(Using the direct method)

	Rs. '000	*Rs.'000*
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash from operating activities		250
Cash flows from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)

Net increase in cash	100
Cash at beginning of the period	50
Cash at end of the period	150

Question 4

From the following details relating to the Accounts of Grow More Ltd. prepare Cash Flow Statement:

Liabilities	*31.03.2002 (Rs.)*	*31.03.2001 (Rs.)*
Share Capital	*10,00,000*	*8,00,000*
Reserve	*2,00,000*	*1,50,000*
Profit and Loss Account	*1,00,000*	*60,000*
Debentures	*2,00,000*	–
Provision for taxation	*1,00,000*	*70,000*
Proposed dividend	*2,00,000*	*1,00,000*
Sundry Creditors	*7,00,000*	*8,20,000*
	25,00,000	*20,00,000*
Assets		
Plant and Machinery	*7,00,000*	*5,00,000*
Land and Building	*6,00,000*	*4,00,000*
Investments	*1,00,000*	–
Sundry Debtors	*5,00,000*	*7,00,000*
Stock	*4,00,000*	*2,00,000*
Cash on hand/Bank	*2,00,000*	*2,00,000*
	25,00,000	*20,00,000*

(i) *Depreciation @ 25% was charged on the opening value of Plant and Machinery.*

(ii) *During the year one old machine costing 50,000 (WDV 20,000) was sold for Rs. 35,000.*

(iii) *Rs. 50,000 was paid towards Income tax during the year.*

(iv) *Building under construction was not subject to any depreciation.*

Prepare Cash flow Statement.

Answer

Grow More Ltd
Cash Flow Statement
for the year ended 31st March, 2002

Cash Flow from Operating Activities		
Net Profit	40,000	
Proposed Dividend	2,00,000	
Provision for taxation	80,000	
Transfer to General Reserve	50,000	
Depreciation	1,25,000	
Profit on sale of Plant and Machinery	(15,000)	
Operating Profit before Working Capital changes	4,80,000	
Increase in Stock	(2,00,000)	
Decrease in debtors	2,00,000	
Decrease in creditors	(1,20,000)	
Cash generated from operations	3,60,000	
Income tax paid	(50,000)	
Net Cash from operating activities		3,10,000
Cash Flow from Inventing Activities		
Purchase of fixed assets	(3,45,000)	
Expenses on building	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used ininvesting activities		(6,10,000)

Cash Flow from financing activities:

Proceeds from issue of shares	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash used in financing activities		3,00,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,00,000
Cash and Cash equivalents at the end of the year		2,00,000

Working Notes:

Provision for taxation account

		Rs.			Rs.
To	Cash (Paid)	50,000	By	Balance b/d	70,000
To	Balance c/d	1,00,000	By	Profit and Loss A/c (Balancing figure)	80,000
		1,50,000			1,50,000

Plant and Machinery account

		Rs.			Rs.
To	Balance b/d	5,00,000	By	Depreciation	1,25,000
To	Cash (Balancing figure)	3,45,000	By	Cash (sale of machine)	20,000
			By	Balance c/d	7,00,000
		8,45,000			8,45,000

Question 5

From the following Balance Sheet and information, prepare Cash Flow Statement of Ryan Ltd. for the year ended 31st March, 2003:

Balance Sheet

	31st March, 2003	*31st March, 2002*
	Rs.	*Rs.*
Liabilities		
Equity Share Capital	*6,00,000*	*5,00,000*

10% Redeemable Preference Capital	–	2,00,000
Capital Redemption Reserve	1,00,000	–
Capital Reserve	1,00,000	–
General Reserve	1,00,000	2,50,000
Profit and Loss Account	70,000	50,000
9% Debentures	2,00,000	–
Sundry Creditors	95,000	80,000
Bills Payable	20,000	30,000
Liabilities for Expenses	30,000	20,000
Provision for Taxation	95,000	60,000
Proposed Dividend	90,000	60,000
	15,00,000	12,50,000
	31st March, 2003	*31st March, 2002*
	Rs.	*Rs.*
Assets		
Land and Building	1,50,000	2,00,000
Plant and Machinery	7,65,000	5,00,000
Investments	50,000	80,000
Inventory	95,000	90,000
Bills Receivable	65,000	70,000
Sundry Debtors	1,75,000	1,30,000
Cash and Bank	65,000	90,000
Preliminary Expenses	10,000	25,000
Voluntary Separation Payments	1,25,000	65,000
	15,00,000	12,50,000

Additional Information:

(i) *A piece of land has been sold out for Rs. 1,50,000 (Cost – Rs. 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on sale and profit on revaluation.*

(ii) *On 1st April, 2002 a plant was sold for Rs. 90,000 (Original Cost – Rs. 70,000 and W.D.V. – Rs. 50,000) and Debentures worth Rs. 1 lakh was issued at par as part consideration for plant of Rs. 4.5 lakhs acquired.*

(iii) *Part of the investments (Cost – Rs. 50,000) was sold for Rs. 70,000.*

(iv) *Pre-acquisition dividend received Rs. 5,000 was adjusted against cost of investment.*

(v) *Directors have proposed 15% dividend for the current year.*

(vi) *Voluntary separation cost of Rs. 50,000 was adjusted against General Reserve.*

(vii) *Income-tax liability for the current year was estimated at Rs. 1,35,000.*

(viii) *Depreciation @ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.*

Answer

Cash Flow Statement of Ryan Limited

For the year ended 31st March, 2003

Cash flow from operating activities	*Rs.*	*Rs.*
Net Profit before taxation	2,45,000	
Adjustment for		
Depreciation	1,35,000	
Preliminary expenses	15,000	
Profit on sale of plant	(40,000)	
Profit on sale of investments	(20,000)	
Interest on debentures	18,000	
Operating profit before working capital changes	3,53,000	
Increase in inventory	(5,000)	
Decrease in bills receivable	5,000	
Increase in debtors	(45,000)	
Increase in creditors	15,000	
Decrease in bills payable	(10,000)	
Increase in accrued liabilities	10,000	
Cash generated from operations	3,23,000	
Income taxes paid	(1,00,000)	
	2,23,000	
Voluntary separation payments	(1,10,000)	

Net cash from operating activities		1,13,000
Cash flow from investing activities		
Proceeds from sale of land	1,50,000	
Proceeds from sale of plant	90,000	
Proceeds from sale of investments	70,000	
Purchase of plant	(3,50,000)	
Purchase of investments	(25,000)	
Pre-acquisition dividend received	5,000	
Net cash used in investing activities		(60,000)
Cash flow from financing activities		
Proceeds from issue of equity shares	1,00,000	
Proceeds from issue of debentures	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(60,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(78,000)
Net decrease in cash and cash equivalents		(25,000)
Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year		65,000

Working Notes:

1.

	Rs.
Net profit before taxation	
Retained profit	70,000
Less: Balance as on 31.3.2002	(50,000)
	20,000
Provision for taxation	1,35,000
Proposed dividend	90,000
	2,45,000

2. **Land and Building Account**

		Rs.			Rs.
To	Balance b/d	2,00,000	By	Cash (Sale)	1,50,000
To	Capital reserve (Profit on sale)	30,000	By	Balance c/d	1,50,000
To	Capital reserve (Revaluation profit)	70,000			
		3,00,000			3,00,000

3. **Plant and Machinery Account**

		Rs.			Rs.
To	Balance b/d	5,00,000	By	Cash (Sale)	90,000
To	Profit and loss account	40,000	By	Depreciation	1,35,000
To	Debentures	1,00,000	By	Balance c/d	7,65,000
To	Bank	3,50,000			
		9,90,000			9,90,000

4. **Investments Account**

		Rs.			Rs.
To	Balance b/d	80,000	By	Cash (Sale)	70,000
To	Profit and loss account	20,000	By	Dividend (Pre-acquisition)	5,000
To	Bank (Balancing figure)	25,000			
			By	Balance c/d	50,000
		1,25,000			1,25,000

5. **Capital Reserve Account**

		Rs.			Rs.
To	Balance c/d	1,00,000	By	Profit on sale of land	30,000
			By	Profit on revaluation of land	70,000
		1,00,000			1,00,000

6. **General Reserve Account**

		Rs.			Rs.
To	Voluntary separation cost	50,000	By	Balance b/d	2,50,000
To	Capital redemption reserve	1,00,000			
To	Balance c/d	1,00,000			
		2,50,000			2,50,000

7. **Proposed Dividend Account**

		Rs.			Rs.
To	Bank (Balancing figure)	60,000	By	Balance b/d	60,000
To	Balance c/d	90,000	By	Profit and loss account	90,000
		1,50,000			1,50,000

8. **Provision for Taxation Account**

		Rs.			Rs.
To	Bank (Balancing figure)	1,00,000	By	Balance b/d	60,000
To	Balance c/d	95,000	By	Profit and loss account	1,35,000
		1,95,000			1,95,000

9. **Voluntary Separation Payments Account**

		Rs.			Rs.
To	Balance b/d	65,000	By	General reserve	50,000
To	Bank (Balancing figure)	1,10,000	By	Balance c/d	1,25,000
		1,75,000			1,75,000

Note: Cash Flow statement has been prepared using ‘indirect method’.

Question 6

The Balance Sheet of New Light Ltd. for the years ended 31st March, 2001 and 2002 are as follows:

Liabilities	31st March 2001 (Rs.)	31st March 2002 (Rs.)	Assets	31st March 2001 (Rs.)	31st March 2002 (Rs.)
Equity share capital	12,00,000	16,00,000	Fixed Assets	32,00,000	38,00,000
10% Preference			Less: Depreciation	9,20,000	11,60,000
share capital	4,00,000	2,80,000		22,80,000	26,40,000
Capital Reserve	–	40,000	Investment	4,00,000	3,20,000
General Reserve	6,80,000	8,00,000	Cash	10,000	10,000
Profit and Loss A/c	2,40,000	3,00,000	Other current assets	11,10,000	13,10,000
9% Debentures	4,00,000	2,80,000	Preliminary expenses	80,000	40,000
Current liabilities	4,80,000	5,20,000			
Proposed dividend	1,20,000	1,44,000			
Provision for Tax	3,60,000	3,40,000			
Unpaid dividend	–	16,000			
	38,80,000	43,20,000		38,80,000	43,20,000

Additional information:

(i) *The company sold one fixed asset for Rs. 1,00,000, the cost of which was Rs. 2,00,000 and the depreciation provided on it was Rs. 80,000.*

(ii) *The company also decided to write off another fixed asset costing Rs. 56,000 on which depreciation amounting to Rs. 40,000 has been provided.*

(iii) *Depreciation on fixed assets provided Rs. 3,60,000.*

(iv) *Company sold some investment at a profit of Rs. 40,000, which was credited to capital reserve.*

(v) *Debentures and preference share capital redeemed at 5% premium.*

(vi) *Company decided to value stock at cost, whereas previously the practice was to value stock at cost less 10%. The stock according to books on 31.3.2001 was Rs. 2,16,000. The stock on 31.3.2002 was correctly valued at Rs. 3,00,000.*

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

Answer

New Light Ltd.

Cash Flow Statement for the year ended 31st March, 2002

A.	**Cash Flow from operating activities**	*Rs.*	*Rs.*
	Profit after appropriation		
	Increase in profit and loss A/c after inventory adjustment [Rs.3,00,000 – (Rs.2,40,000 + Rs.24,000)]	36,000	
	Transfer to general reserve	1,20,000	
	Proposed dividend	1,44,000	
	Provision for tax	3,40,000	
	Net profit before taxation and extraordinary item	6,40,000	
	Adjustments for:		
	Preliminary expenses written off	40,000	
	Depreciation	3,60,000	
	Loss on sale of fixed assets	20,000	
	Decrease in value of fixed assets	16,000	
	Premium on redemption of preference share capital	6,000	
	Premium on redemption of debentures	6,000	
	Operating profit before working capital changes	10,88,000	
	Increase in current liabilities (Rs.5,20,000 –Rs.4,80,000)	40,000	
	Increase in other current assets [Rs.13,10,000 – (Rs.11,10,000 + Rs.24,000)]	(1,76,000)	
	Cash generated from operations	9,52,000	

	Income taxes paid	(3,60,000)	
	Net Cash from operating activities		5,92,000
B.	**Cash Flow from investing activities**		
	Purchase of fixed assets	(8,56,000)	
	Proceeds from sale of fixed assets	1,00,000	
	Proceeds from sale of investments	1,20,000	
	Net Cash from investing activities		(6,36,000)
C.	**Cash Flow from financing activities**		
	Proceeds from issuance of share capital	4,00,000	
	Redemption of preference share capital (Rs.1,20,000 + Rs.6,000)	(1,26,000)	
	Redemption of debentures (Rs. 1,20,000 + Rs. 6,000)	(1,26,000)	
	Dividend paid	(1,04,000)	
	Net Cash from financing activities		44,000
	Net increase/decrease in cash and cash equivalent during the year		Nil
	Cash and cash equivalent at the beginning of the year		10,000
	Cash and cash equivalent at the end of the year		10,000

Working Notes:

1. Revaluation of stock will increase opening stock by Rs. 24,000.

$$\frac{2,16,000}{90} \times 10 = \text{Rs. } 24,000$$

Therefore, opening balance of other current assets would be as follows:

Rs. 11,10,000 + Rs. 24,000 = Rs. 11,34,000

Due to under valuation of stock, the opening balance of profit and loss account be increased by Rs. 24,000.

The opening balance of profit and loss account after revaluation of stock will be

Rs. 2,40,000 + Rs. 24,000 = Rs. 2,64,000

2. Investment Account

		Rs.			Rs.
To	Balance b/d	4,00,000	By	Bank A/c	1,20,000
To	Capital reserve A/c			(balancing figure being investment sold)	
	(Profit on sale of investment)	40,000	By	Balance c/d	3,20,000
		4,40,000			4,40,000

3. Fixed Assets Account

		Rs.			Rs.	Rs.
To	Balance b/d	32,00,000	By	Bank A/c (sale of assets)	1,00,000	
To	Bank A/c (balancing figure being assets purchased)	8,56,000	By	Accumulated depreciation A/c	80,000	
			By	Profit and loss A/c(loss on sale of assets)	20,000	2,00,000
			By	Accumulated depreciation A/c	40,000	
			By	Profit and loss A/c (assets written off)	16,000	56,000
			By	Balance c/d		38,00,000
		40,56,000				40,56,000

4. Accumulated Depreciation Account

		Rs.			Rs.
To	Fixed assets A/c	80,000	By	Balance b/d	9,20,000
To	Fixed assets A/c	40,000	By	Profit and loss A/c	
To	Balance c/d	11,60,000		(depreciation for the period)	3,60,000
		12,80,000			12,80,000

5. Unpaid dividend is taken as non-current item and dividend paid is shown at Rs. 1,04,000 (Rs.1,20,000 – Rs.16,000).

Note: Alternatively, unpaid dividend can be assumed as current liability and hence, dividend paid can be shown at Rs. 1,20,000. Due to this assumption cash flow from operating activities would be affected. The cash flow from operating activities will increase by Rs. 16,000 to Rs. 6,08,000 and cash flow from financing activities will get reduced by Rs. 16,000 to Rs. 28,000.

Question 7

ABC Ltd. gives you the following informations. You are required to prepare Cash Flow Statement by using indirect methods as per AS 3 for the year ended 31.03.2004:

Balance Sheet as on

Liabilities	*31st March 2003*	*31st March 2004*	*Assets*	*31st March 2003*	*31st March 2004*
	Rs.	*Rs.*		*Rs.*	*Rs.*
Capital	*50,00,000*	*50,00,000*	*Plant & Machinery*	*27,30,000*	*40,70,000*
Retained Earnings	*26,50,000*	*36,90,000*	*Less: Depreciation*	*6,10,000*	*7,90,000*
Debentures	–	*9,00,000*		*21,20,000*	*32,80,000*
Current Liabilities			*Current Assets*		
Creditors	*8,80,000*	*8,20,000*	*Debtors*	*23,90,000*	*28,30,000*
Bank Loan	*1,50,000*	*3,00,000*	*Less: Provision*	*1,50,000*	*1,90,000*
Liability for expenses	*3,30,000*	*2,70,000*		*22,40,000*	*26,40,000*
Dividend payable	*1,50,000*	*3,00,000*	*Cash*	*15,20,000*	*18,20,000*
			Marketable securities	*11,80,000*	*15,00,000*
			Inventories	*20,10,000*	*19,20,000*
			Prepaid Expenses	*90,000*	*1,20,000*
	91,60,000	*1,12,80,000*		*91,60,000*	*1,12,80,000*

Additional Information:

(i) *Net profit for the year ended 31st March, 2004, after charging depreciation Rs. 1,80,000 is Rs. 22,40,000.*

(ii) *Debtors of Rs. 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.*

(ii) *ABC Ltd. declared dividend of Rs. 12,00,000 for the year 2003-2004.*

Answer

Cash flow Statement of ABC Ltd. for the year ended 31.3.2004

Cash flows from Operating activities		*Rs.*	*Rs.*
Net Profit		22,40,000	
Add: Adjustment for Depreciation (Rs.7,90,000 – Rs.6,10,000)		1,80,000	
Operating profit before working capital changes		24,20,000	
Add: Decrease in Inventories (Rs.20,10,000 – Rs.19,20,000)		90,000	
Increase in provision for doubtful debts (Rs. 4,20,000 – Rs.1,50,000)		2,70,000	
		27,80,000	
Less: Increase in Current Assets:			
Debtors (Rs. 30,60,000 – Rs.23,90,000)	6,70,000		
Prepaid expenses (Rs. 1,20,000 – Rs.90,000)	30,000		
Decrease in current liabilities:			
Creditors (Rs. 8,80,000 – Rs. 8,20,000)	60,000		
Expenses outstanding (Rs. 3,30,000 – Rs.2,70,000)	60,000	8,20,000	
Net cash from operating activities			19,60,000
Cash flows from Investing activities			
Purchase of Plant & Equipment (Rs. 40,70,000 – Rs.27,30,000)		13,40,000	
Net cash used in investing activities			(13,40,000)

Cash flows from Financing Activities		
Bank loan raised (Rs. 3,00,000 – Rs. 1,50,000)	1,50,000	
Issue of debentures	9,00,000	
Payment of Dividend (Rs. 12,00,000 – Rs. 1,50,000)	(10,50,000)	
Net cash used in financing activities		**NIL**
Net increase in cash during the year		6,20,000
***Add:* Cash and cash equivalents as on 1.4.2003**		
(Rs. 15,20,000 + Rs.11,80,000)		27,00,000
Cash and cash equivalents as on 31.3.2004		
(Rs. 18,20,000 + Rs.15,00,000)		33,20,000

Note: Bad debts amounting Rs. 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and debtors as on 31.3.2004. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of debtors and provision for doubtful debts as appearing in the balance sheet on 31.3.2004.

Question 8

From the following balance sheets of Sneha Ltd. as on 31.3.2003 and 31.3.2004 prepare a statement of sources and applications of fund and a schedule of changes in working capital for the year ending 31.3.2004:

Balance Sheets

Liabilities	*31.3.2003*	*31.3.2004*	*Assets*	*31.3.2003*	*31.3.2004*
	Rs.	*Rs.*		*Rs.*	*Rs.*
Equity share capital	*13,00,000*	*16,90,000*	*Goodwill*	*65,000*	*42,500*
Profit and loss account	*4,90,100*	*8,77,500*	*Building*	*11,70,000*	*11,37,500*
10% Debentures	*16,25,000*	*13,00,000*	*Machinery*	*16,18,500*	*21,38,500*
Creditors	*9,00,000*	*10,00,000*	*Non-trade investments*	*5,07,000*	*3,93,250*
Bills payable	*42,500*	*1,70,000*	*Debtors*	*4,16,000*	*11,70,000*
Provision for tax	*2,60,000*	*9,75,000*	*Stock*	*5,07,000*	*7,99,500*
Dividend payable	–	*42,250*	*Cash*	*2,60,000*	*2,92,500*
			Prepaid expenses	*42,250*	*52,000*
			Debenture discount	*31,850*	*29,000*
	46,17,600	*60,54,750*		*46,17,600*	*60,54,750*

(i) The following additional information is given:

	Building	*Machinery*
	Rs.	*Rs.*
Accumulated depreciation 31.3.2003	*4,87,500*	*15,92,500*
Accumulated depreciation 31.3.2004	*5,20,000*	*15,66,500*
Depreciation for 2003-2004	*32,500*	*1,36,500*

(ii) Profit and loss account for 2003-2004 is as follows:

	Rs.
Balance as on 31.3.2003	*4,90,100*
Add: Profit for 2003-2004	*4,71,900*
	9,62,000
Less: Dividend	*84,500*
	8,77,500

(iii) During 2003-2004 machinery costing Rs. 2,92,500 was sold for Rs. 97,500.

(iv) Investments which were sold for Rs. 1,17,000 had cost Rs. 97,500.

(v) Provision for Taxation and Dividend are to be taken as Non-current liabilities.

Answer

(a)

Sneha Ltd.

Fund Flow Statement

for the year ended 31st March, 2004

	Amount (Rs.)
Sources of funds	
Share capital (Rs. 16,90,000 – Rs. 13,00,000)	3,90,000
Sale of machinery	97,500
Sale of investments	1,17,000
Funds from operation (W.N. 1)	16,70,500
	22,75,000

Applications of funds	
Debentures redeemed (Rs. 16,25,000 – Rs. 13,00,000)	3,25,000
Machinery purchased (W.N. 4)	7,86,500
Tax paid*	2,60,000
Dividend (Rs. 84,500 – Rs. 42,250)	42,250
Increase in working capital	8,61,250
	22,75,000

Schedule of Changes in Working Capital

for the year ended 31st March, 2004

		Balance as on		Changes in working capital	
		1.4.2003	31.3.2004	Increase	Decrease
		Rs.	Rs.	Rs.	Rs.
	Current Assets:				
	Debtors	4,16,000	11,70,000	7,54,000	–
	Stock	5,07,000	7,99,500	2,92,500	–
	Cash	2,60,000	2,92,500	32,500	–
	Prepaid expenses	42,250	52,000	9,750	–
A		12,25,250	23,14,000		
	Current Liabilities:				
	Creditors	9,00,000	10,00,000		1,00,000
	Bills payable	42,500	1,70,000		1,27,500
B		9,42,500	11,70,000	10,88,750	2,27,500
	Working capital (A – B)	2,82,750	11,44,000		
	Increase in working capital			—	8,61,250
				10,88,750	10,88,750

* The provision for taxation has been treated as a non-current liability as per the requirement of the question. Last year's provision for taxation amounting Rs. 2,60,000 has been assumed to be paid in the current year ended 31st March, 2004.

Working Notes:

1. Statement showing funds generated from operations

				(Rs.)
Increase in profit and loss account during the year (Rs. 8,77,500 – Rs. 4,90,100)				3,87,400
Add: Non-cash expenditures				
(1) Loss on sale of machinery (W.N. 4)			32,500	
(2) Investments written off (W.N. 2)			16,250	
(3) Provision for tax			9,75,000	
(4) Depreciation				
on building (Rs. 11,70,000 – Rs. 11,37,500)		32,500		
on machinery (W.N. 3)		1,36,500	1,69,000	
(5) Goodwill written off (Rs. 65,000 – Rs. 42,500)			22,500	
(6) Debenture discount written off (Rs. 31,850 – Rs. 29,000)			2,850	
(7) Dividend			84,500	13,02,600
				16,90,000
Less: Non-cash incomes				
(1) Profit on sale of investments (Rs. 1,17,000 – Rs. 97,500)				19,500
Funds from operations				16,70,500

2. Non Trade Investment Account

Dr.					*Cr.*
		Rs.			*Rs.*
To	Balance b/d	5,07,000	By	Bank -Sale	1,17,000
To	Profit on sale (Rs. 1,17,000 – Rs. 97,500)	19,500	By	Profit and loss account – written off (balancing figure)	16,250
			By	Balance c/d	3,93,250
		5,26,500			5,26,500

3. Provision for Depreciation on Machinery Account

Dr.					*Cr.*
		Rs.			*Rs.*
To	Machinery -sale (balancing figure)	1,62,500	By	Balance b/d	15,92,500
			By	Depreciation	1,36,500
To	Balance c/d	15,66,500			
		17,29,000			17,29,000

4. Machinery Account

Dr.							*Cr.*
			Rs.				*Rs.*
To	Balance b/d	16,18,500		By	Bank (sale)		97,500
	Add: Provision for depreciation	15,92,500	32,11,000	By	Depreciation		1,62,500
				By	Loss on sale		32,500
To	Bank -purchase (balancing figure)		7,86,500	By	Balance c/d W.D.V.	21,38,500	
					Add: Provision for depreciation	15,66,500	37,05,000
			39,97,500				39,97,500

Question 9

The following figures have been extracted from the Books of X Limited for the year ended on 31.3.2004. You are required to prepare a cash flow statement.

(i) *Net profit before taking into account income tax and income from law suits but after taking into account the following items was Rs. 20 lakhs:*

(a) *Depreciation on Fixed Assets Rs. 5 lakhs.*

(b) *Discount on issue of Debentures written off Rs. 30,000.*

(c) *Interest on Debentures paid Rs. 3,50,000.*

(d) *Book value of investments Rs. 3 lakhs (Sale of Investments for Rs. 3,20,000).*

(e) *Interest received on investments Rs. 60,000.*

(f) *Compensation received Rs. 90,000 by the company in a suit filed.*

(ii) *Income tax paid during the year Rs. 10,50,000.*

(iii) *15,000, 10% preference shares of Rs. 100 each were redeemed on 31.3.2004 at a premium of 5%. Further the company issued 50,000 equity shares of Rs. 10 each at a premium of 20% on 2.4.2003. Dividend on preference shares were paid at the time of redemption.*

(iv) *Dividends paid for the year 2002-2003 Rs. 5 lakhs and interim dividend paid Rs. 3 lakhs for the year 2003-2004.*

(v) *Land was purchased on 2.4.2003 for Rs. 2,40,000 for which the company issued 20,000 equity shares of Rs. 10 each at a premium of 20% to the land owner as consideration.*

(vi) *Current assets and current liabilities in the beginning and at the end of the years were as detailed below:*

	As on 31.3.2003	*As on 31.3.2004*
	Rs.	*Rs.*
Stock	*12,00,000*	*13,18,000*
Sundry Debtors	*2,08,000*	*2,13,100*
Cash in hand	*1,96,300*	*35,300*
Bills receivable	*50,000*	*40,000*
Bills payable	*45,000*	*40,000*
Sundry Creditors	*1,66,000*	*1,71,300*
Outstanding expenses	*75,000*	*81,800*

Answer

X Ltd.

Cash Flow Statement

for the year ended 31st March, 2004

	Rs.	*Rs.*
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on fixed assets	5,00,000	

Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in stock	(1,18,000)	
Increase in sundry debtors	(5,100)	
Decrease in bills receivable	10,000	
Decrease in bills payable	(5,000)	
Increase in sundry creditors	5,300	
Increase in outstanding expenses	6,800	(1,06,000)
Cash generated from operations		26,94,000
Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	(8,00,000)	
Net cash used in financing activities		(22,75,000)

Net decrease in cash and cash equivalents during the year	(1,61,000)
Add: Cash and cash equivalents as on 31.3.2003	1,96,300
Cash and cash equivalents as on 31.3.2004	35,300

Note: Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

Question 10

Raj Ltd. gives you the following information for the year ended 31st March, 2006:

(i) Sales for the year Rs.48,00,000. The Company sold goods for cash only.

(ii) Cost of goods sold was 75% of sales.

(iii) Closing inventory was higher than opening inventory by Rs.50,000.

(i) Trade creditors on 31.3.2006 exceed the outstanding on 31.3.2005 by Rs.1,00,000.

(ii) Tax paid during the year amounts to Rs.1,50,000.

(iii) Amounts paid to Trade creditors during the year Rs.35,50,000.

(iv) Administrative and Selling expenses paid Rs.3,60,000.

(v) One new machinery was acquired in December, 2005 for Rs.6,00,000.

(vi) Dividend paid during the year Rs.1,20,000.

(vii) Cash in hand and at Bank on 31.3.2006 Rs.70,000.

(viii) Cash in hand and at Bank on 1.4.2005 Rs.50,000.

Prepare Cash Flow Statement for the year ended 31.3.2006 as per the prescribed Accounting standard.

Answer

Cash flow statement of Raj Limited
for the year ended 31.3.2006

Direct Method

Cash flow from operating activities:	*Rs.*	*Rs.*
Cash receipt from customers (sales)	48,00,000	
Cash paid to suppliers and expenses (Rs.35,50,000 + Rs.3,60,000)	39,10,000	
Cash flow from operation	8,90,000	

Less: Tax paid	1,50,000	
Net cash from operating activities		7,40,000
Cash flow from investing activities:		
Purchase of fixed assets	(6,00,000)	
Net cash used in investing activities		(6,00,000)
Cash flow from financing activities:		
Dividend Paid	(1,20,000)	
Net cash from financing activities		(1,20,000)
		20,000
Add: Opening balance of Cash in Hand and at Bank		50,000
Cash in Hand and at Bank on 31.3.2006		70,000

Question 11

The following are the summarized Balance Sheets of 'X' Ltd. as on March 31, 2005 and 2006:

Liabilities	*As on 31.3.2005 (Rs.)*	*As on 31.3.2006 (Rs,.)*
Equity share capital	*10,00,000*	*12,50,000*
Capital Reserve	*---*	*10,000*
General Reserve	*2,50,000*	*3,00,000*
Profit and Loss A/c	*1,50,000*	*1,80,000*
Long-term loan from the Bank	*5,00,000*	*4,00,000*
Sundry Creditors	*5,00,000*	*4,00,000*
Provision for Taxation	*50,000*	*60,000*
Proposed Dividends	*1,00,000*	*1,25,000*
	25,50,000	*27,25,000*

Assets	*Year 2005 (Rs.)*	*Year 2006 (Rs.)*
Land and Building	*5,00,000*	*4,80,000*
Machinery	*7,50,000*	*9,20,000*
Investment	*1,00,000*	*50,000*

Stock	*3,00,000*	*2,80,000*
Sundry Debtors	*4,00,000*	*4,20,000*
Cash in Hand	*2,00,000*	*1,65,000*
Cash at Bank	*3,00,000*	*4,10,000*
	25,50,000	*27,25,000*

Additional Information:

(i) Dividend of Rs.1,00,000 was paid during the year ended March 31, 2006.

(ii) Machinery during the year purchased for Rs.1,25,000.

(iii) Machinery of another company was purchased for a consideration of Rs.1,00,000 payable in equity shares.

(iv) Income-tax provided during the year Rs.55,000.

(v) Company sold some investment at a profit of Rs.10,000, which was credited to Capital reserve.

(vi) There was no sale of machinery during the year.

(vii) Depreciation written off on Land and Building Rs.20,000.

From the above particulars, prepare a cash flow statement for the year ended March, 2006 as per AS 3 (Indirect method).

Answer

Cash Flow Statement for the year ending on March 31, 2006

		Rs.	*Rs.*
I.	**Cash flows from Operating Activities**		
	Net profit made during the year (W.N.1)	2,60,000	
	Adjustment for depreciation on Machinery (W.N.2)	55,000	
	Adjustment for depreciation on Land & Building	20,000	
	Operating profit before change in Working Capital	3,35,000	
	Decrease in Stock	20,000	
	Increase in Sundry Debtors	(20,000)	
	Decrease in Sundry Creditors	(1,00,000)	
	Income-tax paid	(45,000)	
	Net cash from operating activities		1,90,000

II.	**Cash flows from Investing Activities**		
	Purchase on Machinery	(1,25,000)	
	Sale of Investments	60,000	(65,000)
III.	**Cash flows from Financing Activities**		
	Issue of equity shares (2,50,000-1,00,000)	1,50,000	
	Repayment of Long term loan	(1,00,000)	
	Dividend paid	(1,00,000)	(50,000)
Net increase in cash and cash equivalent			75,000
Cash and cash equivalents at the beginning of the period			5,00,000
Cash and cash equivalents at the end of the period			5,75,000

Working Notes:

(i) **Net Profit made during the year ended 31.3.2006**

Increase in P & L (Cr.) Balance		30,000
Add:	Transfer to general reserve	50,000
Add:	Provision for taxation made during the year	55,000
Add:	Provided for proposed dividend during the year	1,25,000
		2,60,000

(ii) **Machinery Account**

		Rs.			Rs.
To	Balance b/d	7,50,000	By	Depreciation (Bal. Fig.)	55,000
To	Bank	1,25,000	By	Balance c/d	9,20,000
To	Equity share capital	1,00,000			
		9,75,000			9,75,000

(iii) **Provision for Taxation Account**

		Rs.			*Rs.*
To	Cash (Bal. Fig.)	45,000	By	Balance b/d	50,000
To	Balance c/d	60,000	By	P & L A/c	55,000
		1,05,000			1,05,000

(iv) **Proposed Dividend Account**

		Rs.			Rs.
To	Bank	1,00,000	By	Balance b/d	1,00,000
To	Balance c/d	1,25,000	By	P & L A/c (Bal. Fig.)	1,25,000
		2,25,000			2,25,000

(v) **Investment Account**

		Rs.			*Rs.*
To	Balance b/d	1,00,000	By	Bank A/c	60,000
To	Capital Reserve A/c (Profit on sale of investment)	10,000		(Balancing figure for investment sold)	
			By	Balance c/d	50,000
		1,10,000			1,10,000

EXERCISES

Question 1

Given below are the condensed Balance Sheets of Lambakadi Ltd. for two years and the statement of Profit and Loss for one year :

		(Figures Rs. in lakhs)
As at 31st March	*1998*	*1997*
Share Capital		
In equity shares of Rs. 100 each	150	110
10% redeemable preference shares of Rs. 100 each	10	40
Capital redemption reserve	10	—
General reserve	15	10
Profit and loss account balance	30	20
8% debentures with convertible option	20	40
Other term loans	15	30
	250	250
Fixed assets less depreciation	130	100
Long term investments	40	50
Working capital	80	100
	250	250

Statement of Profit and Loss for the year ended 31st March, 1998

		(Figures Rs. in lakhs)
Sales		600
Less : Cost of sales		400
		200
Establishment charges	30	
Selling and distribution expenses	60	
Interest expenses	5	
Loss on sale of equipment (Book value Rs. 40 lakhs)	15	110
		90
Interest income	4	

Dividend income	*2*	
Foreign exchange gain	*10*	
Damages received for loss of reputation	*14*	*30*
		120
Depreciation		*50*
		70
Taxes		*30*
		40
Dividends		*15*
Net profit carried to Balance Sheet		*25*

Your are informed by the accountant that ledgers relating to debtors, creditors and stock for both the years were seized by the income-tax authorities and it would take atleast two months to obtain copies of the same. However, he is able to furnish the following data :

(Figures Rs. in lakhs)

	1998	*1997*
Dividend receivable	*2*	*4*
Interest receivable	*3*	*2*
Cash on hand and with bank	*7*	*10*
Investments maturing within two months	*3*	*2*
	15	*18*
Interest payable	*4*	*5*
Taxes payable	*6*	*3*
	10	*8*
Current ratio	*1.5*	*1.4*
Acid test ratio	*1.1*	*0.8*

It is also gathered that debentureholders owning 50% of the debentures outstanding as on 31.3.97 exercised the option for conversion into equity shares during the financial year and the same was put through.

You are required to prepare a direct method cash flow statement for the financial year, 1998 in accordance with para 18(a) of Accounting Standard (AS) 3 revised.

(Answer: Net cash from operating activities 112; Net cash used in investing activities (78); and Net cash used in financing activities (46))

Question 2

The following are the changes in the account balances taken from the Balance Sheets of PQ Ltd. as at the beginning and end of the year. :

	Changes in Rupees in debt or [credit]
Equity share capital 30,000 shares of Rs. 10 each issued and fully paid	0
Capital reserve	[49,200]
8% debentures	[50,000]
Debenture discount	1,000
Freehold property at cost/revaluation	43,000
Plant and machinery at cost	60,000
Depreciation on plant and machinery	[14,400]
Debtors	50,000
Stock and work-in-progress	38,500
Creditors	[11,800]
Net profit for the year	[76,500]
Dividend paid in respect of earlier year	30,000
Provision for doubtful debts	[3,300]
Trade investments at cost	47,000
Bank	[64,300]
	0

You are informed that.

(a) *Capital reserve as at the end of the year represented realised profits on sale of one freehold property together with surplus arising on the revaluation of balance of freehold properties.*

(b) *During the year plant costing Rs. 18,000 against which depreciation provision of Rs. 13,500 was lying, was sold for Rs. 7,000.*

(c) *During the middle of the year Rs. 50,000 debentures were issued for cash at a discount of Rs. 1,000.*

(d) *The net profit for the year was after crediting the profit on sale of plant and charging debenture interest.*

You are required to prepare a statement which will explain, why bank borrowing has increased by Rs. 64,300 during the year end. Ignore taxation.

(Answer: Net cash flow from operating activities Rs.30,500; Net cash used in investing activities Rs.(1,11,800); and Net cash from financing activities Rs. 17,000)

CHAPTER 3

PROFIT OR LOSS PRIOR TO INCORPORATION

BASIC CONCEPTS

- Profit or loss of a business for the period prior to the date the company came into existence is referred to as Pre-Incorporation Profits or Losses.
- Generally there are two methods of computing Profit & Loss prior to Incorporation
  - One is to close of old books and open new books with the assets and liabilities as they existed at the date of incorporation. In this way, automatically the result to that date will be adjusted.
  - Other is to split up the profit of the year of the transfer of the business to the company between 'pre' and 'post' incorporation periods. This is done either on the time basis or on the turnover basis or by a method which combines the two.
- A company taking over a running business may also agree to collect its debts as an agent for the vendor and may further undertake to pay the creditor on behalf of the vendors. In such a case, the debtors and creditors of the vendors will be included in the accounts for the company by debit or credit to separate total accounts in the General Ledger to distinguish them from the debtors and creditors of the business and contra entries will be made in corresponding Suspense Accounts. Also details of debtors and creditors balance will be kept in separate ledger.
- The vendor is treated as a creditor for the cash received by the purchasing company in respect of the debts due to the vendor, just as if he has himself collected cash from his debtors and remitted the proceeds to the purchasing company.
- The vendor is considered a debtor in respect of cash paid to his creditors by the purchasing company. The balance of the cash collected, less paid, will represent the amount due to or by the vendor, arising from debtors and creditors balances which have been taken over, subject to any collection expenses.
- The balance in the suspense accounts will be always equal to the amount of debtors and creditors taken over remaining unadjusted at any time.

EXERCISES

Question 1

Pre–incorporation expenses.

Answer

Pre–incorporation expenses denote expenses incurred by the promoters for the purposes of the company before its incorporation.

Broadly, these include expenses in connection with:

(a) preliminary analysis of the conceived idea,

(b) detailed investigation in terms of technical feasibility and commercial viability to establish the soundness of the proposition,

(c) preparation of 'project report' or 'feasibility report' and its verification through independent appraisal authority (before giving final approval to the proposition) and

(d) organisation of funds, property and managerial ability and assembling of other business elements.

These expenses should be properly capitalised and shown in the balance sheet under the heading "Miscellaneous Expenditure". There is no legal requirement to write–off these expenses to profit and loss account within any specified period of time nor is there any rigid accounting convention in regard to this matter. However, good corporate practice recognises the need to write off these expenses to profit and loss account whtin a period of 3 to 5 years.

CHAPTER 4

ACCOUNTING FOR BONUS ISSUE

BASIC CONCEPTS

- Bonus Issue means an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increase the dividend payout.
- Bonus Issue is also known as a "scrip issue" or "capitalization issue".
- Bonus issue has following major effects :
  - Share capital gets increased according to the bonus issue ratio
  - Liquidity in the stock increases.
  - Effective Earnings per share, Book Value and other per share values stand reduced.
  - Markets take the action usually as a favourable act.
  - Market price gets adjusted on issue of bonus shares.
  - Accumulated profits get reduced.
- Bonus shares can be issued from following :
  - General reserves
  - Capital Reserve realized in cash
  - Securities Premium realized in cash

EXERCISES

Question 1

The following is the Balance Sheet of Trinity Ltd. as at 31.3.1995:

Trinity Ltd.

Balance Sheet as at 31st March, 1995

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
Authorised		Gross Block	3,00,000
10,000 10% Redeemable Preference Shares of Rs. 10 each	1,00,000	Less : Depreciation	1,00,000
			2,00,000
90,000 Equity Shares of Rs.10 each	9,00,000	Investments	1,00,000
	10,00,000	Current Assets and Loans and	
Issued, Subscribed and Paid-up Capital		Advances	
10,000 10% Redeemable Preference		Inventory	25,000
Shares of Rs. 10 each	1,00,000	Debtors	25,000
10,000 Equity Shares of Rs.10 each	1,00,000	Cash and Bank Balances	50,000
(A)	2,00,000	Misc. Expenditure to the extent	
Reserves and Surplus		not written of	20,000
General Reserve	1,20,000		
Securities Premium	70,000		
Profit and Loss A/c	18,500		
(B)	2,08,500		
Current Liabilities and Provisions (C)	11,500		
Total (A + B + C)	4,20,000	Total	4,20,000

For the year ended 31.3.1996, the company made a net profit of Rs. 15,000 after providing Rs. 20,000 depreciation and writing off the miscellaneous expenditure of Rs. 20,000.

The following additional information is available with regard to company's operation :

1. *The preference dividend for the year ended 31.3.1996 was paid before 31.3.1996.*

2. *Except cash and bank balances other current assets and current liabilities as on 31.3.1996, was the same as on 31.3.1995.*
3. *The company redeemed the preference shares at a premium of 10%.*
4. *The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.1996.*
5. *To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of Rs. 30,000 after such redemption.*
6. *Investments were sold at 90% of cost on 31.3.1996.*

   You are required to

   (a) *Prepare necessary journal entries to record redemption and issue of bonus shares.*

   (b) *Prepare the cash and bank account.*

   (c) *Prepare the Balance Sheet as at 31st March, 1996 incorporating the above transactions.*

(Answer: Total of Cash and Bank A/c Rs. 1,50,000; Total of Balance Sheet Rs. 3,10,000.)

Question 2

The Balance Sheet of A Ltd. as at 31.3.1995 is as follows:

Balance Sheet as at 31.3.1995

Liabilities	*Rs.*	*Assets*	*Rs.*
Authorised Share Capital		*Sundry Assets*	*17,00,000*
1,50,000 Equity Shares of Rs. 10 each	*15,00,000*		
Issued, Subscribed and Paid-up			
80,000 Equity Shares of			
Rs. 7.50 each called-up and paid-up	*6,00,000*		
Reserves and surplus			
Capital Redemption Reserve	*1,50,000*		
Plant Revaluation Reserve	*20,000*		
Securities Premium Account	*1,50,000*		
Development Rebate Reserve	*2,30,000*		
Investment Allowance Reserve	*2,50,000*		
General Reserve	*3,00,000*		
	17,00,000		*17,00,000*

The company wanted to issue bonus shares to its share holders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with:

(a) *You are required to give effect to the proposal by passing journal entries in the books of A Ltd.*

(b) *Show the amended Balance Sheet.*

(Answer: Total of Balance Sheet Rs.19,00,000)

Question 3

The following is the Trial Balance of Subhash Limited as on 31.3.97 :

(Figures in Rs. '000)

Debit	Rs.	Credit	Rs.
Land at cost	110	Equity Capital (Shares of Rs. 10 each)	150
Plant & Machinery at cost	385	10% Debentures	100
Debtors	48	General Reserve	65
Stock (31.3.97)	43	Profit & Loss A/c	36
Bank	10	Securities Premium	20
Adjusted Purchases	160	Sales	350
Factory Expenses	30	Creditors	26
Administration Expenses	15	Provision for Depreciation	86
Selling Expenses	15	Suspense Account	2
Debenture Interest	10		
Interim Dividend Paid	9		
	835		835

Additional Information :

(a) *On 31.3.97, the company issued bonus shares to the shareholders on 1 : 3 basis. No entry relating to this has yet been made.*

(b) *The authorised share capital of the company is 25,000 shares of Rs. 10 each.*

(c) *The company on the advice of independent valuer wish to revalue the land at Rs. 1,80,000.*

(d) *Proposed final dividend 10%.*

(e) *Suspense account of Rs. 2,000 represents cash received for the sale of some of the machinery on 1.4.96. The cost of the machinery was Rs. 5,000 and the accumulated depreciation thereon being Rs. 4,000.*

(f) *Depreciation is to be provided on plant and machinery at 10% on cost.*

You are required to prepare Subhash Limited's Profit & Loss account for the year ended 31.3.97 and a balance sheet on that date in vertical form as per the provisions of Schedule VI of the Companies Act, 1956.

Your answer to include detailed schedules only for the following :

(1) Share Capital

(2) Reserves & Surplus

(3) Fixed Assets

Ignore previous years' figures & taxation.

(Answer: Total of Balance Sheet Rs. 500; Net profit before dividend Rs. 83)

CHAPTER 5

INTERNAL RECONSTRUCTION

BASIC CONCEPTS

- Reconstruction is a process by which affairs of a company are reorganized by revaluation of assets, reassessment of liabilities and by writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.
- Reconstruction account is a new account opened to transfer the sacrifice made by the shareholders for that part of capital which is not represented by lost assets.
- Reconstruction account is utilized for writing-off fictitious and intangible assets, writing down over-valued fixed assets, recording new liability etc.
- If some credit balance remains in the reconstruction account, the same should be transferred to the capital reserve account.
- Methods of Internal reconstruction :
  - Alteration of share capital :
    - Sub-divide or consolidate shares into smaller or higher Denomination
    - Conversion of share into stock or vice-versa
  - Variation of shareholders' rights :
    - Only the specific rights are changed. There is no change in the amount of capital.
  - Reduction of share capital
  - Compromise, arrangements etc.
  - Surrender of Shares.

Question 1

Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the Company on 31.3.2000 before reconstruction :

Balance Sheet of Green Limited as at 31.3.2000

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
Authorised:		Goodwill	20,00,000
1,50,000 Equity Shares of Rs. 50 each	75,00,000	Building	10,00,000
Subscribed and Paid up Capital:		Plant	10,00,000
50,000 Equity Shares of Rs. 50 each	25,00,000	Computers	25,00,000
1,00,000 Equity Shares of Rs. 50 each,		Investments	Nil
Rs. 40 per share paid up	40,00,000	Current Assets	Nil
Secured Loans:		Profit and Loss A/c—Loss	20,00,000
12% First Debentures	5,00,000		
12% Second Debentures	10,00,000		
Current Liabilities:			
Sundry Creditors	5,00,000		
	85,00,000		85,00,000

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X	Mr. Y
	Rs.	Rs.
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Sundry Creditors	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up Rs. 50 shares	3,00,000	2,00,000
Parly paid up shares (Rs. 40 paid up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

(a) Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of Rs. 20 each.

(b) *Mr. X is to cancel Rs. 7,00,000 of his total debt (other than share amount) and to pay Rs. 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.*

(c) *Mr. Y is to cancel Rs. 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.*

(d) *The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.*

You are required to draw the Journal Entires to record the same and also show the Balance Sheet of the reconstructed company.

Answer

Green Limited

Journal Entries

		Dr. Rs.	Cr. Rs.
Bank Account	Dr.	10,00,000	
To Equity Share Capital Account			10,00,000
(Balance of Rs. 10 per share on 1,00,000 equity shares called up as per reconstruction scheme)			
Equity Share Capital Account (Rs. 50)	Dr.	75,00,000	
To Equity Share Capital Account (Rs. 20)			30,00,000
To Capital Reduction Account			45,00,000
(Reduction of equity shares of Rs. 50 each to shares of Rs. 20 each as per reconstruction scheme)			
12% First Debentures Account	Dr.	3,00,000	
12% Second Debentures Account	Dr.	7,00,000	
Sundry Creditors Account	Dr.	2,00,000	
To X			12,00,000
(The total amount due to X, transferred to his account)			
Bank Account	Dr.	2,00,000	
To X			2,00,000
(The amount paid by X under the reconstruction scheme)			
12% First Debentures Account	Dr.	2,00,000	
12% Second Debentures Account	Dr.	3,00,000	

Sundry Creditors Account	Dr.	1,00,000	
To Y			6,00,000
(The total amount due to Y, transferred to his account)			
X	Dr.	14,00,000	
To 14% First Debentures Account			7,00,000
To Capital Reduction Account			7,00,000
(The cancellation of Rs. 7,00,000 out of total debt of Mr. X and issue of 14% first debentures for the balance amount as per reconstruction scheme)			
Capital Reduction Account	Dr.	55,00,000	
To Goodwill Account			20,00,000
To Profit and Loss Account			20,00,000
To Computers Account			15,00,000
(The balance amount of capital reduction account utilised in writing off goodwill, profit and loss accout, and computers—Working Note)			

Balance Sheet of Green Limited (and reduced)

as on 31st March, 2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Fixed Assets:	
Subscribed and Paid up Capital		Building	10,00,000
1,50,000 Equity shares of		Plant	10,00,000
Rs. 20 each	30,00,000	Computers	10,00,000
Secured Loans:		Current Assets:	
14% First Debentures	10,00,000	Cash and Bank Balance	12,00,000
Current Liabilities:			
Sundry Creditors	2,00,000		
	42,00,000		42,00,000

Working Note:

Capital Reduction Account

	Rs.		Rs.
To Goodwill A/c	20,00,000	By Equity Share Capital A/c	45,00,000
To P & L A/c	20,00,000	By X	7,00,000
To Computers (Bal. Fig.)	15,00,000	By Y	3,00,000
	55,00,000		55,00,000

Question 2

The following is the Balance sheet of Weak Ltd. as on 31.3.2006:

Liabilities	*Rs.*	*Assets*	*Rs.*
Equity shares of Rs.100 each	*1,00,00,000*	*Fixed assets*	*1,25,00,000*
12% cumulative preference shares of Rs.100 each	*50,00,000*	*Investments (Market value Rs.9,50,000)*	*10,00,000*
10% debentures of Rs.100 each	*40,00,000*	*Current assets*	*1,00,00,000*
Sundry creditors	*50,00,000*	*P & L A/c*	*4,00,000*
Provision for taxation	*1,00,000*	*Preliminary expenses*	*2,00,000*
	2,41,00,000		*2,41,00,000*

The following scheme of reorganization is sanctioned:

(i) *All the existing equity shares are reduced to Rs.40 each.*

(ii) *All preference shares are reduced to Rs.60 each.*

(iii) *The rate of interest on debentures is increased to 12%. The debentureholders surrender their existing debentures of Rs.100 each and exchange the same for fresh debentures of Rs.70 each for every debenture held by them.*

(iv) *One of the creditors of the company to whom the company owes Rs.20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of Rs.40 each in full satisfaction of his claim.*

(v) *Fixed assets are to be written down by 30%.*

(vi) *Current assets are to be revalued at Rs.45,00,000.*

(vii) *The taxation liability of the company is settled at Rs.1,50,000.*

(viii) Investments to be brought to their market value.

(ix) It is decided to write off the fictitious assets.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above.

Answer

Journal Entries in the books of Weak Ltd.

			Rs.	*Rs.*
(i)	Equity share capital (Rs.100) A/c	Dr.	1,00,00,000	
	To Equity Share Capital (Rs.40) A/c			40,00,000
	To Capital Reduction A/c			60,00,000
	(Being conversion of equity share capital of Rs.100 each into Rs.40 each as per reconstruction scheme)			
(ii)	12% Cumulative Preference Share capital (Rs.100) A/c	Dr.	50,00,000	
	To 12% Cumulative Preference Share Capital (Rs.60) A/c			30,00,000
	To Capital Reduction A/c			20,00,000
	(Being conversion of 12% cumulative preference share capital of Rs.100 each into Rs.60 each as per reconstruction scheme)			
(iii)	10% Debentures A/c	Dr.	40,00,000	
	To 12% Debentures A/c			28,00,000
	To Capital Reduction A/c			12,00,000
	(Being 12% debentures issued to 10% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)			
(iv)	Sundry Creditors A/c	Dr.	20,00,000	
	To Equity Share Capital A/c			12,00,000
	To Capital Reduction A/c			8,00,000
	(Being a creditor of Rs.20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of Rs.40 each in full settlement of his dues as per reconstruction scheme)			

(v)	Provision for Taxation A/c	Dr.	1,00,000	
	Capital Reduction A/c	Dr.	50,000	
	To Liability for Taxation A/c			1,50,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
(vi)	Capital Reduction A/c	Dr.	99,50,000	
	To P & L A/c			4,00,000
	To Preliminary Expenses A/c			2,00,000
	To Fixed Assets A/c			37,50,000
	To Current Assets A/c			55,00,000
	To Investments A/c			50,000
	To Capital Reserve A/c			50,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Preliminary Expenses, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)			
(vii)	Liability for Taxation A/c	Dr.	1,50,000	
	To Current Assets (Bank A/c)			1,50,000
	(Being the payment of tax liability)			

Balance Sheet of Weak Ltd. (and reduced) as on 31.3.2006

Liabilities	*Rs.*	*Assets*	*Rs.*
Issued, subscribed and paid up capital: 1,30,000 equity shares of Rs.40 each	52,00,000	Fixed Assets (1,25,00,000 – 37,50,000)	87,50,000
12% Cumulative Preference Shares of Rs. 60 each	30,00,000	Investments (10,00,000 – 50,000)	9,50,000
Reserves & Surplus: Capital Reserve	50,000	Current Assets (45,00,000 – 1,50,000)	43,50,000
Secured Loan: 12% Debentures	28,00,000		
Current Liabilities and			

Provisions:			
Sundry Creditors: (50,00,000 – 20,00,000)	30,00,000		
	1,40,50,000		1,40,50,000

Working Note:

Capital Reduction Account

	Rs.		Rs.
To Liability for taxation A/c	50,000	By Equity share capital	60,00,000
To P & L A/c	4,00,000	By 12% Cumulative preference share capital	20,00,000
To Preliminary expenses	2,00,000	By 10% Debentures	12,00,000
To Fixed assets	37,50,000	By Sundry creditors	8,00,000
To Current assets	55,00,000		
To Investment	50,000		
To Capital Reserve (balancing figure)	50,000		
	1,00,00,000		1,00,00,000

EXERCISES

Question

The paid-up capital of Toy Ltd. amounted to Rs. 2,50,000 consisting of 25,000 equity shares of Rs. 10 each.

Due to losses incurred by the company continuously, the directors of the company prepared a scheme for reconstruction which was duly approved by the court. The terms of reconstruction were as under:

- *(i) In lieu of their present holdings, the shareholders are to receive:*
  - *(a) Fully paid equity shares equal to 2/5th of their holding.*
  - *(b) 5% preference shares fully paid-up to the extent of 20% of the above new equity shares.*
  - *(c) 3,000 6% second debentures of Rs. 10 each.*
- *(ii) An issue of 2,500 5% first debentures of Rs. 10 each was made and fully subscribed in cash.*
- *(iii) The assets were reduced as follows:*
  - *(a) Goodwill from Rs. 1,50,000 to Rs. 75,000.*
  - *(b) Machinery from Rs. 50,000 to Rs. 37,500.*
  - *(c) Leasehold premises from Rs. 75,000 to Rs. 62,500.*

Show the journal entries to give effect to the above scheme of recontrsuction.

CHAPTER 6

AMALGAMATION

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- Amalgamation means joining of two or more existing companies into one company, the joined companies lose their identity and form themselves into a new company.
- In absorption, an existing company takes over the business of another existing company. Thus there is only one liquidation and that is of the merged company.
- A company which is merged into another company is called a transferor company or a vendor company.
- A company into which the vendor company is merged is called transferee company or vendee company or purchasing company.
- In amalgamation in the nature of merger there is genuine pooling of:
  - Assets and liabilities of the amalgamating companies,
  - Shareholders' interest, Also the business of the transferor company is intended to be carried on by the transferee company.
- In amalgamation in the nature of purchase, one company acquires the business of another company.
- Purchase Consideration can be defined as the aggregate of the shares and securities issued and the payment made in form of cash or other assets by the transferee company to the share holders of the transferor company.
- There are two main methods of accounting for amalgamation:
  - The pooling of interests method, and
  - The purchase method.
- Under pooling of interests method, the assets, liabilities and reserves of the transferor company will be taken over by transferee company at existing carrying amounts.
- Under purchase method, the assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.

(A) Write short notes on:

Question 1

What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?

Answer

According to AS 14 on Accounting for Amalgamations; the following conditions must be satisfied for an *amalgamation in the nature of merger:*

(i) All the assets and liabilties of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

(vi) All reserves & surplus of the transferor company shall be preserved by the transferee company.

If any one of the condition is not satisfied in a process of amalgamation, it cannot be treated as amalgamation in the nature of merger.

Question 2

Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation.

Answer

The following are the points of distinction between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation:

(i) The pooling of interests method is applied in case of an amalgamation in the nature of merger whereas purchase method is applied in the case of an amalgamation in the nature of purchase.

(ii) In the pooling of interests method all the reserves of the transferor company are also recorded by the transferee company in its books of account while in the purchase method the transferee company records in its books of account only the assets and liabilities taken over, the reserves, except the statutory reserves, of the transferor company are not aggregated with those of the transferee company.

(iii) Under the pooling of interests method, the difference between the consideration paid and the share capital of the transferor company is adjusted in the general reserve or other reserves of the transferee company. Under the purchase method, the difference between the consideration and net assets taken over is treated by the transferee company as goodwill or capital reserve.

(iv) Under the pooling of interests method, the statutory reserves are recorded by the transferee company like all other reserves without opening amalgamation adjustment account. In the purchase method, while incorporating statutory reserves the transferee company has to open amalgamation adjustment account debiting it with the amount of the statutory reserves being incorporated.

(B) Practical Questions:

Question 1

The following are the Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 1999 :

	Yes Ltd.	*No Ltd.*
	Rs.	*Rs.*
	(in crores)	*(in crores)*
Sources of funds:		
Share capital:		
Authorised	*25*	*5*
Issued and Subscribed :		
Equity Shares of Rs. 10 each fully paid	*12*	*5*

Reserves and surplus		*88*		*10*
Shareholders funds		*100*		*15*
Unsecured loan from Yes Ltd.		*—*		*10*
		100		*25*
Funds employed in :				
Fixed assets: Cost		*70*		*30*
Less: Depreciation		*50*		*24*
		20		*6*
Written down value				
Investments at cost:				
30 lakhs equity shares of Rs. 10 each of No Ltd.		*3*		
Long-term loan to No. Ltd.		*10*		
Current assets	*100*		*34*	
Less : Current liabilities	*33*	*67*	*15*	*19*
		100		*25*

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of Rs. 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entires in the books of the two companies to give effect to the above.

Answer

Journal entries in the books of No Ltd.

(Rupees in crores)

		Dr.	Cr.
		Rs.	Rs.
Realisation Account	Dr.	64.00	
To Fixed Assets Account			30.00
To Current Assets Account			34.00
(Being the assets taken over by Yes Ltd. transferred to Realisation Account)			

Provision for depreciation Account	Dr.	24.00	
Current Liabilities Account	Dr.	15.00	
Unsecured Loan from Yes Ltd. Account	Dr.	10.00	
To Realisation Account			49.00
(Being the transfer of liabilities and provision to Realisation Account)			
Yes Ltd.	Dr.	1.2	
To Realisation Account			1.2
(Being the amount of consideration due from Yes Ltd. credited to Realisation Account)			
Equity Shareholders Account	Dr.	13.80	
To Realisation Account			13.80
(Being the the loss on realisation transferred to equity shareholders account)			
Equity Share Capital Account	Dr.	5.00	
Reserves and Surplus Account	Dr.	10.00	
To Equity Shareholders Account			15.00
(Being the amount of share capital, reserves and surplus credited to equity shareholders account)			
Equity Shareholders (Yes Ltd.) Account	Dr.	0.72	
To Yes Ltd.			0.72
(Being the 3/5th of the consideration due from Yes Ltd. adjusted against the amount due to Yes Ltd. for shares held by it)			
Equity shares of Yes Ltd.	Dr.	0.48	
To Yes Ltd.			0.48
(Being the receipt of 4 lakhs equity shares of Rs. 10 each at Rs. 12 per share for allotment to outside shareholders			

Equity Shareholders Account	Dr.	0.48	
To Equity Shares of Yes Ltd.			0.48
(Being the distribution of equity shares received from Yes Ltd. to shareholders)			

Journal Entries in the Books of Yes Ltd.

(Rupees in crores)

		Dr. *Rs.*	*Cr.* *Rs.*
Business Purchase Account	Dr.	1.2	
To Liquidator of No Ltd. Account			1.2
(Being the amount of purchase consideration agreed under approved scheme of amalgamation- W.N. 1)			
Fixed Assets	Dr.	6.00	
Current Assets	Dr.	34.00	
To Current Liabilities			15.00
To Unsecured Loan (from Yes Ltd.)			10.00
To Business Purchase Account			1.20
To Capital Reserve			13.80
(Being the assets and liabilities taken over and the surplus transferred to capital reserve)			
Liquidator of No Ltd.	Dr.	0.72	
Capital Reserve	Dr.	2.28	
To Investments in Equity Shares of No Ltd.			3.00
(Being the investments in the equity shares of No Ltd. cancelled and the resultant loss recorded)			
Liquidator of No Ltd.	Dr.	0.48	
To Equity Share Capital Account			0.40
To Securities Premium Account			0.08
(Being the allotment to outside shareholders of No Ltd. 4 lakhs equity shares of Rs. 10 each at a premium of Rs. 2 per share)			

Unsecured Loan (from Yes Ltd.)	Dr.	10.00	
To Loan to No. Ltd.			10.00
(Being the cancellation of unsecured loan given to No Ltd.)			

Working Note:

Purchase Consideration	*Rs. in crores*
$\frac{50 \text{ lakhs}}{5} \times$ Rs. 12	
i.e., 10 lakhs equity shares at Rs. 12 per share	1.20
Less: Belonging to Yes Ltd. $\left[\frac{3}{5} \times 1.20\right]$	0.72
Payable to other equity shareholders	0.48

Number of equity shars of Rs. 10 each to be issued $\left[\frac{48 \text{ lakhs}}{12}\right]$ = 4 lakhs

Question 2

Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super Fast Express Ltd. The balance sheets of both the companies were as under :

Super Express Ltd.

Balance Sheet as at 31st December, 1999

	Rs.		*Rs.*
20,000 Equity shares of		*Buildings*	*10,00,000*
Rs. 100 each	*20,00,000*	*Machinery*	*4,00,000*
Provident fund	*1,00,000*	*Stock*	*3,00,000*
Sundry creditors	*60,000*	*Sundry debtors*	*2,40,000*
Insurance reserve	*1,00,000*	*Cash at bank*	*2,20,000*
		Cash in hand	*1,00,000*
	22,60,000		*22,60,000*

Fast Express Ltd.

Balance Sheet as at 31st December, 1999

	Rs.		Rs.
10,000 Equity shares of		*Goodwill*	*1,00,000*
Rs. 100 each	*10,00,000*	*Buildings*	*6,00,000*
Employees profit sharing		*Machinery*	*5,00,000*
account	*60,000*	*Stock*	*40,000*
Sundry creditors	*40,000*	*Sundry debtors*	*40,000*
Reserve account	*1,00,000*	*Cash at bank*	*10,000*
Surplus	*1,00,000*	*Cash in hand*	*10,000*
	13,00,000		*13,00,000*

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of Rs. 100 each in lieu of purchase consideration.

Prepare opening balance sheet of Super Fast Express Ltd. (8 marks) (Intermediate–May 2000)

Answer

Balance Sheet of Super Fast Express Ltd

as at 1st Jan., 2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Goodwill	1,00,000
30,000 Equity shares of Rs. 100 each	30,00,000	Buildings	16,00,000
Reserve account	1,00,000	Machinery	9,00,000
Surplus	1,00,000	Stock	3,40,000
Insurance reserve	1,00,000	Sundry debtors	2,80,000
Employees profit sharing account	60,000	Cash at bank	2,30,000
Provident fund	1,00,000	Cash in hand	1,10,000
Sundry creditors	1,00,000		
	35,60,000		35,60,000

The above solution is based on pooling of interests method.

Alternative solution under the purchase method is given below :

Balance Sheet of Super Fast Express Ltd.

as at 1st Jan., 2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Buildings	16,00,000
32,000 Equity shares of		Machinery	9,00,000
Rs. 100 each	32,00,000	Stock	3,40,000
Provident fund	1,00,000	Sundry debtors	2,80,000
Employees profit sharing account	60,000	Cash at bank	2,30,000
Sundry creditors	1,00,000	Cash in hand	1,10,000
	34,60,000		34,60,000

Working Notes :

Calculation of Purchase Consideration

	Super Express Ltd.	*Fast Express Ltd.*
Total assets on 31.12.99 (excluding goodwill)	22,60,000	12,00,000
Less: Provident fund	1,00,000	–
Employees profit sharing account	–	60,000
Sundry creditors	60,000	40,000
Net assets taken over	21,00,000	11,00,000

Question 3

The following were the Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2001 :

Liabilities	*P Ltd.*	*V Ltd.*
	(Rs. in lakhs)	*(Rs. in lakhs)*
Equity Share Capital (Fully paid shares of Rs. 10 each)	*15,000*	*6,000*
Securities Premium	*3,000*	–
Foreign Project Reserve	–	*310*
General Reserve	*9,500*	*3,200*
Profit and Loss Account	*2,870*	*825*
12% Debentures	–	*1,000*

Bills Payable	*120*	
Sundry Creditors	*1,080*	*463*
Sundry Provisions	*1,830*	*702*
	33,400	*12,500*

Assets	*P Ltd.*	*V Ltd.*
	(Rs. in lakhs)	*(Rs. in lakhs)*
Land and Buildings	*6,000*	*–*
Plant and Machinery	*14,000*	*5,000*
Furniture, Fixtures and Fittings	*2,304*	*1,700*
Stock	*7,862*	*4,041*
Debtors	*2,120*	*1,020*
Cash at Bank	*1,114*	*609*
Bills Receivable	*—*	*80*
Cost of Issue of Debentures	*—*	*50*
	33,400	*12,500*

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 2001, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Expenses of amalgamation amounting to Rs. 1 lakh were borne by P Ltd.

You are required to :

(i) Pass journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger.

Answer

Books of P Ltd.

Journal Entries

		Dr. (Rs. in Lacs)	Cr. (Rs. in Lacs)
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Stock	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 - 50)			775
To 12% Debentures			1,000
To Sundry Creditors			463
To Sundry Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			

General Reserve A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd.)			
12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c			1,000
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80
(Cancellation of mutual owing on account of bills)			

Balance Sheet of P Ltd. as at 1st April, 2001 (after merger)

Liabilities	*Rs. (in lakhs)*	*Assets*	*Rs. (in lakhs)*
Share Capital		**Fixed Assets**	
Authorised, issued and subscribed :		Land and buildings	6,000
24 crore equity shares of Rs. 10		Plant and Machinery	19,000
each, fully called and paid-up	24,000	Furniture, fixtures and fittings	4,004
(Of the above shares, 9 crore shares		**Current Assets, Loans and Advances**	
have been issued for consideration		(a) Current Assets	
other than cash)		Stock	11,903
Reserves and Surplus		Debtors	3,140
Securities Premium	3,000	Cash at Bank	1,722
Foreign Project Reserve	310	(b) Loan and advances	Nil
General Reserve	9,699		
Profit and Loss Account	3,645		
Secured Loan			
13% Debentures	1,000		
Current Liabilities and provisions			
(a) Current Liabilities			

	Bills Payable	40	
	Sundry Creditors	1,543	
(b)	Provisions		
	Sundry Provisions	2,532	
		45,769	45,769

Working Notes :

1. Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = Rs. 6,000 lacs × $\frac{3}{2}$ = Rs. 9,000 lacs.

Note : The question is silent regarding the treatment of fictitious assets and therefore they are not transferred to the amalgamated company. Thus the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

Question 4

The following are the summarised Balance Sheets of X Ltd. and Y Ltd :

	X Ltd.	*Y Ltd.*
	Rs.	*Rs.*
Liabilities :		
Share Capital	*1,00,000*	*50,000*
Profit & Loss A/c	*10,000*	–
Creditors	*25,000*	*5,000*
Loan X Ltd.	—	*15,000*
	1,35,000	*70,000*
Assets :		
Sundry Assets	*1,20,000*	*60,000*
Loan Y Ltd.	*15,000*	–
Profit & Loss A/c	—	*10,000*
	1,35,000	*70,000*

A new company XY Ltd. is formed to acquire the sundry assets and creditors of X Ltd. and Y Ltd. and for this purpose, the sundry assets of X Ltd. are revalued at Rs. 1,00,000. The debt due to X Ltd. is also to be discharged in shares of XY Ltd.

Show the Ledger Accounts to close the books of X Ltd.

Answer

Books of X Ltd.
Realisation Account

	Rs.		Rs.
To Sundry Assets	1,20,000	By Creditors	25,000
		By XY Ltd. (Purchase consideration)	75,000
		By Shareholders (Loss on realisation)	20,000
	1,20,000		1,20,000

Shareholders Account

	Rs.		Rs.
To Realisation Account (Loss)	20,000	By Share Capital	1,00,000
To Shares in XY Ltd.	90,000	By Profit and Loss Account	10,000
	1,10,000		1,10,000

Loan Y Ltd.

	Rs.		Rs.
To Balance b/d	15,000	By Shares in XY Ltd.	15,000

Shares in XY Ltd.

	Rs.		Rs.
To XY Ltd.	75,000	By Shareholders	90,000
To Loan Y Ltd.	15,000		
	90,000		90,000

XY Ltd.

	Rs.		Rs.
To Realisation Account	75,000	By Shares in XY Ltd.	75,000

Question 5

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2002 was as under:

Assets	Hari Ltd. (Rs.)	Vayu Ltd. (Rs.)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Stock	2,50,000	1,75,000
Debtors	2,00,000	1,00,000
Cash at Bank	50,000	20,000
Preliminary Expenses	30,000	10,000
	13,80,000	5,80,000

Liabilities

Share Capital:	Hari Ltd. (Rs.)	Vayu Ltd. (Rs.)
Equity Shares of Rs. 10 each	10,00,000	3,00,000
9% Preference Shares of Rs. 100 each	1,00,000	–
10% Preference Shares of Rs. 100 each	–	1,00,000
General Reserve	1,00,000	80,000
Retirement Gratuity fund	50,000	20,000
Sundry Creditors	1,30,000	80,000
	13,80,000	5,80,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at Rs. 50,000, Buildings are valued at Rs. 1,50,000 and the Machinery at Rs. 1,60,000.

(c) Stock to be taken over at 10% less value and Reserve for Bad and Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2002.

Answer

In the Books of Vayu Ltd.
Realisation Account

		Rs.			Rs.
To	Sundry Assets (5,80,000 – 10,000)	5,70,000	By	Gratuity Fund	20,000
To	Preference Shareholders		By	Sundry Creditors	80,000
	(Premium on Redemption)	10,000	By	Hari Ltd.	
To	Equity Shareholders			(Purchase Consideration)	5,30,000
	(Profit on Realisation)	50,000			
		6,30,000			6,30,000

Equity Shareholders Account

		Rs.			Rs.
To	Preliminary Expenses	10,000	By	Share Capital	3,00,000
To	Equity Shares of Hari Ltd.	4,20,000	By	General Reserve	80,000
			By	Realisation Account	
				(Profit on Realisation)	50,000
		4,30,000			4,30,000

Preference Shareholders Account

		Rs.			Rs.
To	9% Preference Shares of Hari Ltd.	1,10,000	By	Preference Share Capital	1,00,000
			By	Realisation Account (Premium on Redemption of Preference Shares)	10,000
		1,10,000			1,10,000

Hari Ltd. Account

		Rs.			Rs.
To	Realisation Account	5,30,000	By	9% Preference Shares	1,10,000
			By	Equity Shares	4,20,000
		5,30,000			5,30,000

In the Books of Hari Ltd.
Journal Entries

		Dr. Rs.	Cr. Rs.
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Stock Account	Dr.	1,57,500	
Debtors Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Gratuity Fund Account			20,000
To Sundry Creditors Account			80,000
To Provision for Doubtful Debts Account			7,500
To Liquidators of Vayu Ltd. Account			5,30,000
(Being Assets and Liabilities takenover as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Hari Ltd. (after absorption)
as at 31st March, 2002

Liabilities	Rs.	Assets		Rs.
Share Capital :		*Fixed Assets*:		
2,100 9% Preference Shares of Rs.100 each	2,10,000	Goodwill		1,00,000
1,40,000 Equity Shares of Rs. 10 each fully paid		Building		4,50,000
	14,00,000	Machinery		6,60,000
(1,100 Preference Shares and 40,000 Equity Shares were issued in consideration other than for cash)		*Current Assets*:		
		Stock		4,07,500
Reserve and Surplus:		Debtors	3,00,000	
Securities Premium	20,000	Less: Provision for bad debts	7,500	2,92,500
General Reserve	1,00,000	Cash and Bank		70,000
Current Liabilities:		*Miscellaneous Expenses to the extent not written off*		
Gratuity Fund	70,000			
Sundry Creditors	2,10,000	Preliminary expenses		30,000
	20,10,000			20,10,000

Working Notes:

Purchase Consideration:	
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Stock	1,57,500
Debtors	92,500
Cash at Bank	20,000
	6,30,000

Less: Liabilities		
Gratuity	20,000	
Sundry Creditors	80,000	
Net Assets	5,30,000	
To be satisfied as under:		
10% Preference Shareholders of Vayu Ltd.	1,00,000	
Add: 10% Premium	10,000	
1,100 9% Preference Shares of Hari Ltd.	1,10,000	
Equity Shareholders of Vayu Ltd.		
to be satisfied by issue of 40,000		
Equity Shares of Hari Ltd. at 5% Premium	4,20,000	
Total	5,30,000	

Question 6

The following is the Balance Sheet of A Ltd. as at 31st March, 2006:

Liabilities	*Rs.*	*Assets*	*Rs.*
8,000 equity shares of Rs.100 each	*8,00,000*	*Building*	*3,40,000*
10% debentures	*4,00,000*	*Machinery*	*6,40,000*
Loan from A	*1,60,000*	*Stock*	*2,20,000*
Creditors	*3,20,000*	*Debtors*	*2,60,000*
General Reserve	*80,000*	*Bank*	*1,36,000*
		Goodwill	*1,30,000*
		Misc. Expenses	*34,000*
	17,60,000		*17,60,000*

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

(1) B Ltd. would take over all Assets, except bank balance at their book values less 10%. Goodwill is to be valued at 4 year's purchase of superprofits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over creditors at book value.

(3) *The purchase consideration is to be paid in cash to the extent of Rs.6,00,000 and the balance in fully paid equity shares of Rs.100 each at Rs.125 per share.*

The average profit is Rs.1,24,400. The liquidation expenses amounted to Rs.16,000. B Ltd. sold prior to 31st March, 2006 goods costing Rs.1,20,000 to A Ltd. for Rs.1,60,000. Rs.1,00,000 worth of goods are still in stock of A Ltd. on 31st March, 2006. Creditors of A Ltd. include Rs.40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2006 after the takeover.

Answer

Books of A Limited

Realisation Account

		Rs.			Rs.
To	Building	3,40,000	By	Creditors	3,20,000
To	Machinery	6,40,000	By	B Ltd.	12,10,000
To	Stock	2,20,000	By	Equity Shareholders (Loss)	76,000
To	Debtors	2,60,000			
To	Goodwill	1,30,000			
To	Bank (Exp.)	16,000			
		16,06,000			16,06,000

Bank Account

To	Balance b/d	1,36,000	By	Realisation (Exp.)	16,000
To	B Ltd.	6,00,000	By	10% debentures	4,00,000
			By	Loan from A	1,60,000
			By	Equity shareholders	1,60,000
		7,36,000			7,36,000

10% Debentures Account

To	Bank	4,00,000	By	Balance b/d	4,00,000
		4,00,000			4,00,000

Loan from A Account

To	Bank	1,60,000	By	Balance b/d	1,60,000
		1,60,000			1,60,000

Misc. Expenses Account

To	Balance b/d	34,000	By	Equity shareholders	34,000
		34,000			34,000

General Reserve Account

To	Equity shareholders	80,000	By	Balance b/d	80,000
		80,000			80,000

B Ltd. Account

To	Realisation A/c	12,10,000	By	Bank	6,00,000
			By	Equity share in B Ltd.(4,880 shares at Rs.125 each)	6,10,000
		12,10,000			12,10,000

Equity Shares in B Ltd. Account

To	B Ltd.	6,10,000	By	Equity shareholders	6,10,000
		6,10,000			6,10,000

Equity Share Holders Account

To	Realisation	76,000	By	Equity share capital	8,00,000
To	Misc. Expenses	34,000	By	General reserve	80,000
To	Equity shares in B Ltd.	6,10,000			
To	Bank	1,60,000			
		8,80,000			8,80,000

B Ltd
Balance Sheet as on 1st April, 2006 (An extract)*

Liabilities	*Rs.*	*Assets*		*Rs.*
4880 Equity shares of Rs.100 each	4,88,000	Goodwill		2,16,000
(Shares have been issued for consideration other than cash)		Building		3,06,000
Securities Premium	1,22,000	Machine		5,76,000
Profit and Loss A/c				
Less: unrealized profit 15,000	.....			
Creditors (3,20,000 - 40,000)	2,80,000	Stock (1,98,000 -15,000)		1,83,000
Bank Overdraft	6,00,000	Debtors (2,60,000 – 40,000)	2,20,000	
		Less: Provision for bad debts	26,000	1,94,000

Working Notes:

1. Valuation of Goodwill	*Rs.*
Average profit	1,24,400
Less: 8% of Rs.8,80,000	70,400
Super profit	54,000
Value of Goodwill = 54000 x 4	2,16,000

2. Net Assets for purchase consideration

Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000

* In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

Stock		1,98,000
Debtors		2,60,000
Total Assets		15,56,000
Less: Creditors	3,20,000	
Provision for bad debts	26,000	3,46,000
Net Assets		12,10,000

Out of this Rs.6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) Rs. 6,10,000 in shares of Rs.125/-. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. Unrealised Profit on Stock	Rs.
The stock of A Ltd. includes goods worth Rs.1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this stock will be $\frac{40{,}000}{1{,}60{,}000} \times 1{,}00{,}000$	25,000
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the stock i.e., 10% of Rs.1,00,000.	(-10,000)
Amount of unrealized profit	15,000

Question 7

The following is the Balance Sheet of 'A' Ltd. as on 31.3.2007:

Liabilities	*Rs.*	*Assets*	*Rs.*
14,000 Equity shares of Rs.100 each fully paid	*14,00,000*	*Sundry assets*	*18,00,000*
General reserve	*10,000*	*Discount on issue of debentures*	*10,000*
10% Debentures	*2,00,000*	*Preliminary expenses*	*30,000*
Sundry creditors	*2,00,000*	*P & L A/c*	*60,000*
Bank overdraft	*50,000*		
Bills payable	*40,000*		
	19,00,000		*19,00,000*

'R' Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis of the following:

The market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of Rs.25,000.

Answer

Calculation of Purchase Consideration under Net Assets Method

			Rs.
Sundry assets			
	$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	15,12,000	
	$18,00,000 \times \frac{25}{100} \times \frac{92}{100} =$	4,14,000	19,26,000
Less:	*Liabilities:*		
	10% Debentures	2,00,000	
	Sundry creditors	2,00,000	
	Bank overdraft	50,000	
	Bills payable	40,000	
	Unrecorded liability	25,000	5,15,000
Purchase consideration			14,11,000

Question 8

Following is the Balance Sheet of X Co. Ltd. as at 31st March, 2008:

Balance Sheet as at 31st March, 2008

Liabilities	*Rs.*	*Assets*	*Rs.*
Equity share capital (Rs. 100 each)	*15,00,000*	*Land and building*	*10,00,000*
11% Pref. share capital	*5,00,000*	*Plant and machinery*	*7,00,000*
General reserve	*3,00,000*	*Furniture and fittings*	*2,00,000*

Sundry creditors	*2,00,000*	*Stock in trade*	*3,00,000*
		Sundry debtors	*2,00,000*
		Cash in hand and at bank	*1,00,000*
	25,00,000		*25,00,000*

Y Co. Ltd. agreed to take over X Co. Ltd. on the following terms:

(i) Each equity share in X Co. Ltd. for the purpose of absorption is to be valued at Rs. 80.

(ii) Equity shares will be issued by Y Co. Ltd. by valuing its each equity share of Rs. 100 each at Rs. 120 per share.

(iii) 11% Preference shareholders of X Co. Ltd. will be given 11% redeemable debentures of Y Co. Ltd. at equivalent value.

(iv) All the Assets and Liabilities of X Co. Ltd. will be recorded at the same value in the books of Y Co. Ltd.

(a) Calculate Purchase consideration.

(b) Pass Journal entries in the books of Y Co. Ltd. for absorbing X Co. Ltd.

Answer

Computation of Purchase Consideration

	Rs.
Value of 15,000 equity shares @ Rs.80 per share = Rs.12,00,000	
Shares to be issued by Y Co. Ltd. (Rs,12,00,000/120 per share = 10,000 shares @ Rs.120 each)	12,00,000
11% Preference shareholders to be issued equivalent 11% Redeemable Debentures by Y Co. Ltd.	5,00,000
Total Purchase consideration	17,00,000

Journal Entries in the books of Y Co. Ltd.

		Rs.	Rs.
Business Purchase A/c	Dr.	17,00,000	
To Liquidator of X Co. Ltd.			17,00,000
(Being the amount payable to X Co. Ltd's liquidator)			
Land & Building A/c	Dr.	10,00,000	
Plant & Machinery A/c	Dr.	7,00,000	
Furniture & Fittings A/c	Dr.	2,00,000	
Stock in Trade A/c	Dr.	3,00,000	
Sundry Debtors A/c	Dr.	2,00,000	
Cash & Bank A/c	Dr.	1,00,000	
To Sundry Creditors			2,00,000
To Capital Reserve (Balancing figure)			6,00,000
To Business Purchase			17,00,000
(Being the value of assets and liabilities taken over from X Co. Ltd.)			
Liquidators of X Co. Ltd. Account	Dr.	17,00,000	
To Equity Share Capital			10,00,000
To Securities Premium Account			2,00,000
To 11% Debentures			5,00,000
(Being purchase consideration discharged)			

CHAPTER 7

AVERAGE DUE DATE AND ACCOUNT CURRENT

Unit-1 : AVERAGE DUE DATE

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- Average Due Date is one on which the net amount payable can be settled without causing loss of interest either to the borrower or the lender.
- When the amount is lent in various instalments then average due date can be calculated as:

$$\text{Average due date} = \text{Base date} \pm \frac{\textit{Total} \text{ of [Amount} \times \text{No. of days from base date to due date]}}{\text{Total amounts}}$$

- When interest is chargeable on drawings, and drawings are on different dates, interest may be calculated on the basis of Average Due Date of drawings.
- Average due date in a case where the amount is lent in one instalment and repayment is done in various instalments will be:

$$\text{Average due date} = \text{Date of Loan} + \frac{\text{Sum of days/months/Years from the date of lending to the date of repayment of each instalment}}{\text{Number of instalments}}$$

A. State with reasons, whether the following statements are true or false:

1. *If payment is made on the average due date, it results in loss of interest to creditors.*

False- Average due date is 'no loss no gain' date to either party. i.e. neither the debtor nor the creditor stands to lose or gain anything by way of interest.

2. *Average due date is the median average of several due dates for payments.*

False- Average due date is equated date for several due dates of payments.

3. *In the calculation of average due date, only the due date of first transaction must be taken as the base date.*

False- While calculating the average due date, any transaction date may be taken as the base date.

B. Practical Questions:

Question 1

E owes to F the following amounts:

Rs. 5,000 due on 10th March, 1999

Rs. 18,000 due on 2nd April, 1999

Rs. 60,000 due on 30th April, 1999

Rs. 2,000 due on 10th June, 1999

He desires to make the full payment on 30th June, 1999 with interest at 10% per annum from the average due date. Find out the average due date and the amount of interest.

Answer

Calculation of Average Due Date

Taking 10th March, 1999 as the base date.

Due date	*Amount*	*No. of days from the base date i.e. 10th March, 1999*	*Product*
1999	Rs.		Rs.
10th March	5,000	0	0
2nd April	18,000	23	4,14,000
30th April	60,000	51	30,60,000
10th June	2,000	92	1,84,000
	85,000		36,58,000

$$\text{Average due date=Base date+ Days equal to } \frac{\text{Total of products}}{\text{Total amount}}$$

$$= 10^{th} \text{ March } + \frac{\text{Rs. } 36{,}58{,}000}{\text{Rs. } 85{,}000}$$

i.e. 43 days (approx.) =22^{nd} April, 1999

Interest amount: Interest can be calculated on Rs. 85,000 from 22^{nd} April, 1999 to 30^{th} June, 1999 at 10% p.a. i.e. interest on Rs. 85,000 for 70 days at 10%.

=Rs. 85,000 x 10/100 x 70/365

=Rs. 1,630 (approx.)

Question 2

Calculate average due date from the following informations:

Date of bill	*Term*	*Amount (Rs.)*
1^{st} March, 2002	*2 months*	*4,000*
10^{th} March, 2002	*3 months*	*3,000*
5^{th} April, 2002	*2 months*	*2,000*
20^{th} April, 2002	*1 months*	*3,750*
10^{th} May, 2002	*2 months*	*5,000*

Answer

Calculation of Average Due Date

(Taking 4^{th} May, 2002 as the base date)

Date of bill	*Term*	*Due date*	*Amount Rs.*	*No. of days from the base date i.e. May 4, 2002*	*Product Rs.*
2002		2002			
1^{st} March	2 months	4^{th} May	4,000	0	0
10^{th} March	3 months	13^{th} June	3,000	40	1,20,000
5^{th} April	2 months	8^{th} June	2,000	35	70,000
20^{th} April	1 month	23^{rd} May	3,750	19	71,250
10^{th} May	2 months	13^{th} July	5,000	70	3,50,000
			17,750		6,11,250

Average due date=Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

$= 4^{th}$ May, 2002 + $\frac{\text{Rs. }6{,}11{,}250}{17{,}750}$

i.e. 34 days (approx.)

$=7^{th}$ June, 2002

Question 3

'A' lent Rs. 25,000 to 'B' on 1st January, 2000. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2001. Calculate the average due date and interest @ 10% per annum.

Answer

Calculation of sum of periods from the date of each transaction:

1st payment is made after 12 months from the date of loan.

2nd payment is made after 18 months from the date of loan.

3rd payment is made after 24 months from the date of loan.

4th payment is made after 30 months from the date of loan.

5th payment is made after 36 months from the date of loan.

120

Average due date =

Date of loan+ $\frac{\text{Sum of months from 1st January, 2000 to the date of each installment}}{\text{Number of installments}}$

$=1^{st}$ January, 2000 + $\frac{120 \text{ months}}{5}$

$=1^{st}$ January, 2000+ 24 months

$=1^{st}$ January, 2002

Interest =Rs. 25,000 x 10/100 x 2 years

=Rs. 5,000

Question 4

Calculate average due date from the following informations:

Sum of months from 1st January, 2000 to the date of each installment*Date of bill*	*Term*	*Amount (Rs.)*
16th August, 2003	*3 months*	*3,000*
20th October, 2003	*60 days*	*2,500*
14th December, 2003	*2 months*	*2,000*
24th January, 2004	*60 days*	*1,000*
06th March, 2004	*2 months*	*1,500*

Answer

Calculation of Average Due Date

(Taking November 19, 2003 as the base date)

Date of bill	*Term*	*Due date (including 3 grace days)*	*Amount Rs.*	*No. of days from the base date*	*Product (no. of days x amount)*
16th August, 2003	3 months	Nov. 19, 2003	3,000	0	0
20th October, 2003	60 days	Dec. 22, 2003	2,500	33	82,500
14th December, 2003	2 months	Feb. 17, 2004	2,000	90	1,80,000
24th January, 2004	60 days	March 27, 2004	1,000	129	1,29,000
06th March, 2004	2 months	May 09, 2004	1,500	172	2,58,000
			10,000		6,49,500

Average due date=Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

$$=\text{November 19, 2003} + \frac{6{,}49{,}500}{10{,}000}$$

=November 19, 2003 + 65 days (approx.)

=January 23, 2004

EXERCISES

Question 1

Calculate Average Due date from the following information:

Date of the bill	*Term*	*Amount Rs.*
August 10, 1994	*3 months*	*6,000*
October 23, 1994	*60 days*	*5,000*
December 4, 1994	*2 months*	*4,000*
January 14, 1995	*60 days*	*2,000*
March 08, 1995	*2 months*	*3,000*

(Answer : Average due date = January 19, 1995.)

Question 2

Hari owes Ram Rs. 2,000 on 1st April, 1996. From 1st April, 1996 to 30th June, 1996 the following further transactions took place between Hari and Ram:

April 10	*Hari buys goods from Ram for Rs. 5,000*
May 16	*Hari receives cash loan of Rs. 10,000 from Ram*
June 9	*Hari buys goods from Ram for Rs. 3,000*

Hari pays the whole amount, together with interest @ 15% per annum, to Ram on 30th June, 1996. Calculate the interest payable on 30th June, 1996 by the average due-date method.

(Answer: Average due date =6th May, 1996; Interest= Rs. 459 (approx.))

Question 3

Mr. Green and Mr. Red had the following mutual dealings and desire to settle their account on the average due date:

Purchases by Green from Red:	*Rs.*
6th January, 1998	*6,000*
2nd February, 1998	*2,800*
31st March, 1998	*2,000*

Sales by Green to Red:

6th January, 1998	*6,600*
9th March, 1998	*2,400*
20th March, 1998	*500*

You are asked to ascertain the average due date.

(Answer: On 20th February, 1998, Green has to pay Red Rs. 1,300 to settle the account.)

Unit-2 : ACCOUNT CURRENT

BASIC CONCEPTS

- When interest calculation becomes an integral part of the account. The account maintained is called "Account Current".
  - Some examples where it is maintained are:
  - Frequent transactions between two parties.
  - Goods sent on consignment
  - Frequent transactions between a banker and his customers
- There are three ways of preparing an Account Current :
  - With the help of interest tables
  - By means of products
  - By means of products of balances

EXERCISES

Question 1

From the following particulars prepare an Account Current to be rendered by A to B at 31st December, reckoning interest @ 10% p.a.

2009		Rs.	2009		Rs.
July 1	Balance owing from B	600	Sept. 01	B accepted A's Bill at 3 months date	250
July 17	Goods sold to B	50	Oct.22	Goods bought from B	30
Aug. 1	Cash received from B	650	Nov. 12	Goods sold to B	20
Aug. 19	Goods sold to B	700	Dec. 14	Cash received from B	80
Aug. 30	Goods sold to B	40			
Sept. 1	Cash received from B	350			

(Answer: Interest (67,090 $\times$ 0.1 /365) = Rs.18.38 and Balance c/d Rs. 68.38)

Question 2

Following transactions took place between X and Y during the month of April, 2009:

Date	Particulars	Rs.
1.4.2009	Amount payable by X to Y	10,000
7.4.2009	Received acceptance of X to Y for 2 months	5,000
10.4.2009	Bills receivable (accepted by Y) on 7.2.2009 is honoured on this due date	10,000
10.4.2009	X sold goods to Y (due date 10.5.2009)	15,000
12.4.2009	X received cheque from Y (due date 15.5.2009)	7,500
15.4.2009	Y sold goods to X (due date 15.5.2009)	6,000
20.4.2009	X returned goods sold by Y on 15.4.2009	1,000
20.4.2009	Bill accepted by Y is dishonoured on this due date	5,000

Prepare Y's account in the books of X for the month of April, 2009.

(Answer: Interest Rs.4,17,500 $\times$ 18/100 $\times$ 1/365 = Rs. 205.90 and Balance c/d Rs. 2,294.10)

CHAPTER 8

SELF-BALANCING LEDGERS

BASIC CONCEPTS

- Self Balancing Ledger System implies a system of ledger keeping which classifies ledgers as per nature of transactions.
- In this system, generally three ledgers, namely debtor ledger, creditor ledger and main ledger (containing remaining accounts) are prepared.
- In such a case "General Ledger Adjustment Account" is prepared in each of the subsidiary ledgers. The General ledger would have Bought Ledger Adjustment Account (in reality, Total Creditors Account) and Sales Ledger Adjustment Account (in reality, Total Debtors Account). These accounts are known as Control Accounts

A. Write short notes on:

1. *Self balancing ledgers.*

Answer

A self balancing ledger system implies a system of ledger keeping which classifies ledgers as per nature of transactions namely Sales Ledger, Bought Ledger, General Ledger etc. and also make them to balance independently. In order to make each ledger self-balancing, an extra account called General Ledger Adjustment Account is opened in each of the sales ledger and bought ledger. Normally, the accounts of individual debtors are maintained recording credit sales, cash collections, discount, bad debts etc, in Debtors Ledger or Sales Ledger. The General Ledger Adjustment account in the Sales Ledger gives a summary of all these transactions in a reverse manner. Similarly in Bought ledger, General Ledger Adjustment account gives a summary of all transactions of the Bought Ledger in a reverse manner. Against these ledger adjustment accounts, two other adjustment accounts are maintained in the General Ledger to complete the double entry.

These adjustment accounts are known as Control Accounts. The correctness of individual balances in each ledger would be verified by extracting its balances and agreeing them with the balance of the Control Account. The object of the system is to identify errors and to facilitate their quick detection with the minimum effort.

B. Distinguish between:

1. *Self and Sectional Balancing System.*

Answer

A self balancing ledger system implies a system of ledger keeping which classifies ledgers as per nature of transactions namely, Sales Ledger, Bought Ledger, General Ledger etc. and also make them to balance independently.

In order to make each ledger self-balancing, an extra account called General Ledger Adjustment Account is opened in each of the sales ledger and bought ledger. Normally, the accounts of individual debtors are maintained recording credit sales, cash collections, discount, bad debts etc. in Debtors Ledger or Sales Ledger. The General Ledger Adjustment account in the Sales Ledger gives a summary of all these transactions in reverse manner. Similarly in Bought ledger, general ledger adjustment account gives a summary of all transactions of the Bought Ledger in a reverse manner. Against these ledger adjustment accounts, two other adjustment accounts are maintained in the General Ledger to complete the double entry.

(a) Bought Ledger Adjustment Account.

(b) Sales Ledger Adjustment Account.

These adjustment accounts are known as Control Accounts. The correctness of individual balances in each ledger would be verified by extracting its balances and agreeing them with the balance of the Control Account. The object of the system is to identify errors and to facilitate their quick detection with the minimum effort.

Under sectional balancing system, only two additional accounts (i) Total Debtors Account; and (ii) Total Creditors Account are kept in the General Ledger. Thus, only the totals account for each of the subsidiary ledgers is opened in the General Ledger and no Control Account/Adjustment Account is opened in the subsidiary ledger. It would mean that whereas accounts of individual customers would be maintained in the Sales Ledger; in the General Ledger, the Total Debtors Account would be posted by the (monthly) totals of various transactions with credit customers. The balance in the Total Debtors Account should be equal to the total of balances shown by the accounts of individual customers. A difference would show that there are some errors somewhere. In the same way, the accuracy of individual supplier's account may be checked by comparing the total of their balances with the balance of the Total Creditors Account. A trial balance can be prepared on the basis of General Ledger only, without using Debtors' Ledger and Creditors' Ledger since the double entry is completed in the General Ledger itself.

C. State with reasons, whether the following statements are true or false:

1. *Under the self balancing system the general ledger adjustment account is always opened in the general ledger.*

False- Under the self balancing system, general ledger adjustment account is opened in each of the sales ledger and purchases ledger. In general ledger, two adjustment accounts namely sales ledger adjustment account and purchases ledger adjustment accounts are maintained.

2. *Purchase Ledger Adjustment Account under sectional balancing system is also known as Creditors Ledger Control Account.*

True- Purchase ledger adjustment account is in reality, total creditors account, hence also known as creditors ledger control account under sectional balancing system.

3. *In self balancing system, whenever a balance is transferred from an account in one ledger to that in another, only one entry is recorded through the respective ledger.*

False- Whenever a balance is transferred from one account in one ledger to that in another, the entry is recorded through the journal. Also an additional entry is made in the control accounts for recording the corresponding effect.

D. Practical Questions:

Question 1

Prepare the General Ledger Adjustment Account as will appear in the Debtors' and Creditors' Ledger from the information given below:

Balances on 1.4.98

	Dr.	*Cr.*
	Rs.	*Rs.*
Debtors' Ledger	*47,200*	*240*
Creditors' Ledger	*280*	*26,300*

Transactions for the year ended 31.3.99:

Total sales	*1,20,000*
Cash sales	*8,100*
Total purchases	*89,500*
Credit purchases	*67,000*
Creditors paid off (in full settlement of Rs. 40,000)	*39,500*
Received from debtors (in full settlement of Rs. 59,000)	*58,200*
Returns from debtors	*2,600*
Returns to creditors	*1,800*
Bills accepted for creditors	*5,500*
Bills payable matured	*8,000*
Bills accepted by customers	*20,100*
Bills receivables dishonoured	*1,500*
Bills receivable discounted	*5,000*
Bills receivable endorsed to creditors	*4,000*
Endorsed bills dishonoured	*1,000*
Bad debts written off (after deducting bad debts recovered Rs. 300)	*2,200*
Provision for doubtful debts	*550*
Transfer from debtors' ledger to creditors' ledger	*1,100*
Transfer from creditors' ledger to debtors' ledger	*1,900*
Balances on 31.3.99	
Debtors' ledger (Cr.)	*380*
Creditors' ledger (Dr.)	*420*

Answer

In Debtors' Ledger

General Ledger Adjustment Account

Dr.							*Cr.*
			Rs.				*Rs.*
1.4.98	To Balance b/d		240	1.4.98	By Balance b/d		47,200
	To Debtor's ledger adjustment account:				By Debtors ledger adjustment account:		
	Bank	58,200			Sales (on credit)		
	Discount	800				1,12,000	

	Returns	2,600			Bills receivable dishonoured	1,500	
	Bills receivable	20,100			Endorsed bills receivable dishonoured	1,000	1,14,500
	Bad debts Written off	2,500	84,200	31.3.99	By Balance c/d		380
	To Debtors ledger adjustment account:						
	Transfer from debtors ledger to creditor's ledger	1,100					
	Transfer from creditor's ledger to debtor's ledger	1,900	3,000				
31.3.99	To Balance c/d (balancing figure)		74,640				
			1,62,080				1,62,080

Creditor's Ledger

General Ledger Adjustment Account

Dr.							*Cr.*
			Rs.				*Rs.*
1.4.98	To Balance b/d		26,300	1.4.98	By Balance b/d		280
	To Creditors' ledger adjustment A/c:				By Creditors' ledger adjustment A/c:		
	Purchases	67,000			Bank	39,500	
	Endorsed bills receivable dishonoured	1,000	68,000		Discount received	500	
					Returns	1,800	
31.3.99	To Balance b/d		420		Bills payable	5,500	
					Bills receivable endorsed	4,000	51,300
					By Creditors' ledger adjustment A/c:		

		Transfer from debtors' ledger to creditors' ledger	1,100	
		Transfer from creditors' ledger to debtors' ledger	1,900	3,000
	31.3.99	By Balance c/d (balancing figure)		40,140
94,720				94,720

Notes: No entries will be made for the following transactions as they do not affect general ledger adjustment accounts:

(i) Cash sales

(ii) Bills payable matured

(iii) Bills receivable discounted

(iv) Bad debts recovered and

(v) Provision for doubtful debts.

Question 2

From the following information available from the books of a trader from 1.1.2000 to 31.3.2000, you are required to draw up the Debtors Ledger Adjustment Account in the General Ledger:

(a) Total sales amounted to Rs. 1,80,000 including the sale of old zerox machine for Rs. 4,800 (book value Rs. 8,000). The total cash sales were 80% less than the total credit sales.

(b) Cash collections from debtors amounted to 70% of the aggregate of the opening debtors and credit sales for the period. Debtors were allowed a cash discount of Rs. 20,000.

(c) Bills receivable drawn during the three months totalled Rs. 30,000 of which bills amounting to Rs. 10,000 were endorsed in favour of suppliers. Out of the endorsed bills, one bill for Rs. 6,000 was dishonoured for non-payment as the party became insolvent, his estate realized nothing.

(d) Cheque received from customers Rs. 8,000 were dishonoured, a sum of Rs. 2,000 was irrecoverable; Bad debts written off in the earlier years realised Rs. 11,000.

(e) Sundry debtors as on 1.1.2000 stood at Rs. 50,000.

Answer

In General Ledger

Debtors Ledger Adjustment Account

Dr.					*Cr.*
2000		*Rs.*			*Rs.*
Jan. 1	To Balance b/d	50,000	Mar.31	By General ledger adjustment account:	
Mar. 31	To General ledger adjustment account:				
	Sales [(100/120) x (1,80,000-4,800)]	1,46,000		Collection-cash and bank(70 % of the Rs. 1,96,000)	1,37,200
	Creditors-bill receivable dishonoured	6,000		Discount	20,000
	Bank-cheques dishonoured	8,000		Bills receivable	30,000
				Bad debts (6,000+2,000)	8,000
				By Balance c/d	14,800
		2,10,000			2,10,000

Question 3

The following information is extracted from the books of Shri Hari for the year ended 31st March, 2001.

	Rs.
Sales	*3,80,800*
Purchases	*3,26,000*
Return outwards	*14,000*
Cash received from debtors	*1,78,200*
Bills payable accepted	*1,22,000*
Returns inward	*17,600*
Cash paid to creditors	*1,86,000*
Bills receivable received	*1,36,000*
Discount received	*4,000*
Bad debit written off	*24,000*

Reserve for discount to debtors.	*2,000*
Discount allowed	*1,800*
Transfers from purchases ledger	*26,600*

The total of the sales ledger balance on 1st April, 2000 was Rs. 90,600 and that of the purchases ledger balance on the same date was Rs. 78,600.

Prepare sales ledger and purchases ledger adjustment accounts from the above information.

Answer

Sales Ledger Adjustment Account

Dr.					*Cr.*
		Rs.			*Rs.*
1.4.2000	To Balance b/d	90,600	1.4.2000	By General ledger	
1.4.2000	To General ledger		to	adjustment account:	
to	adjustment A/c:		31.3.2001	Cash	1,78,200
31.3.2000	Sales	3,80,800		Return inwards	17,600
				Bills receivable	1,36,000
				Bad debts written off	24,000
				Discount allowed	1,800
				Transfer from purchases ledger	26,600
			31.3.2001	By Balance c/d	87,200
		4,71,400			4,71,400

Purchases Ledger Adjustment Account

Dr.					*Cr.*
		Rs.			*Rs.*
1.4.2000	To General ledger		1.4.2000	By Balance b/d	78,600
to	adjustment account:		1.4.2000 to	By General ledger adjustment account:	
32.3.2001	Cash	1,86,000	31.3.2001	Purchases	3,26,000
	Return outwards	14,000			

	Bills payable	1,22,000		
	Discount received	4,000		
	Transfer to sales ledger	26,600		
31.3.2001	To Balance c/d	52,000		
		4,04,600		4,04,600

Question 4

Prepare the Sales Ledger Control Account in General Ledger from the following particulars:

	Rs.
Debit balance as on 1.10.2001	*3,75,000*
Credit balance as on 1.10.2001	*500*
Credit sales	*10,00,000*
Cheques received	*11,25,000*
Bills receivable received	*1,25,000*
Discounts allowed	*12,500*
Sales returns	*25,000*
Transfer from purchases to sales ledger	*25,000*
Bad debts	*5,000*
Bad debts previously written off now recovered	*10,000*
Reserve for discounts	*25,200*
Bills receivable dishonoured	*12,500*
Debit balance as on 31.3.2002	*75,000*
Credit balance as on 31.3.2002	*?*

Answer

General Ledger

Sales Ledger

Dr.					Cr.
		Rs.			Rs.
1-10-2001	To Balance b/d	3,75,000	1-10-2001	By Balance b/d	500
1-10-2001 to	To General ledger control A/c:		1-10-2001 To	By General ledger control A/c:	

31-3-2002	Sales	10,00,000	31-3-2002	Bank	11,25,000
	Bills receivable (dishonoured)	12,500		Bills receivable	1,25,000
				Discount	12,500
31-3-2002	To Balance c/d (balancing figure)	5,500		Sales return	25,000
				Bad debts	5,000
				Transfer	25,000
			31.3.2002	Balance c/d (given)	75,000
		13,93,000			13,93,000

Note: *Reserve for discounts and bad debts previously written off now recovered do not appear in debtors account and hence this will not figure in the sales ledger control account.*

Question 5

From the following information, prepare Sales Ledger Adjustment A/c in the General Ledger:

		Rs.
On 1.4.2002: Balance in sales ledger	*(Dr.)*	*1,41,880*
	(Cr.)	*2,240*
On 31.3.2003:		
Total sales		*7,68,000*
Cash sales		*40,000*
Sales return		*10,000*
Cash received from customers		*6,24,000*
Discount allowed		*11,200*
Cash paid to supplier		*4,80,000*
Transfer from sales to bought ledger		*20,800*
Discount received		*7,200*
B/R received		*40,000*
Reserve for doubtful debts		*9,160*
Cash paid to customer		*1,840*
Bills received dishonoured		*6,000*
Sales ledger balance (Dr.)		*1,83,200*
Sales ledger balance (Cr.)		*13,720*

Answer

In General Ledger

Sales Ledger Adjustment Account

Dr.								Cr.
			Rs.					Rs.
01.04.2002	To Balance b/d		1,41,880	1.4.2002	By Balance b/d			2,240
31.3.2003	To General ledger adjustment A/c in sales ledger:			31.3.2003	By General ledger adjustment A/c in sales ledger:			
	Credit sales	7,28,000			Cash	6,24,000		
	Cash paid	1,840						
	Bills receivable dishonoured	6,000	7,35,840		Discount allowed		11,200	
					Transfers		20,800	
	To Balance c/d		13,720		Bills receivable received		40,000	
					Sales return		10,000	7,06,000
					By Balance c/d			1,83,200
			8,91,440					8,91,440

Question 6

From the following information prepare the necessary adjustment accounts as they would appear in the general ledger of Vatika Ltd.

	Rs.
Closing debtors balance (as per general ledger adjustment account)	*60,000(Cr.)*
Credit sales	*40,000*
Credit purchases	*15,000*
Paid to creditors	*7,500*
Discount allowed	*1,500*
Bills payable accepted	*5,000*
Discount received	*500*
Received from debtors	*20,000*

Bad debts	*5,000*
Closing creditors balance (as per general ledger adjustment account)	*30,000(Dr.)*
Bills accepted by customers	*3,000*

Discount allowed to debtors Rs. 500 was recorded as discount received from creditors.

Answer

In General Ledger

Debtors' Ledger Adjustment Account

Dr.			Cr.
	Rs.		Rs.
To Balance b/d (balancing figure)	49,500	By General ledger adjustment account:	
To General ledger adjustment account:		Cash from debtors	20,000
Credit sale	40,000	Bills receivable	3,000
		Bad debts	5,000
		Discount allowed (1,500+500)	2,000
		By Balance c/d (60,000-500)	59,500
	89,500		89,500

Creditors' Ledger Adjustment Account

Dr.			Cr.
	Rs.		Rs.
To General ledger		By Balance b/d (balancing figure)	28,000
adjustment A/c:		By General ledger adjustment A/c:	
Cash paid to creditors	7,500	Credit purchases	15,000
Bills payable	5,000		
To Balance c/d (30,000+500)	30,500		
	43,000		43,000

EXERCISES

Question 1

Prepare the Sales ledger control account and Purchases ledger control account from the following particulars:-

	Sales Ledger	Purchases Ledger
Debit balance as on 1.1.93	1,50,000	1,000
Credit balance as on 1.1.93	200	1,25,000
Credit sales and purchases	4,00,000	3,80,000
Cheque received and paid	4,50,000	3,50,000
Advance paid to creditors	-	2,000
B/R received and B/P accepted	50,000	50,000
Discounts allowed and received	5,000	3,000
Returns	10,000	5,000
Transfer from purchases to sales ledger	10,000	10,000
Bad debts	2,000	-
Reserve for discounts	10,000	5,000
B/R and B/P dishonoured	5,000	5,000
Debit Balances as on 30.6.93	30,000	-
Credit Balances as on 31.6.93	?	72,000

(Answer: Total of Sales Ledger Control Account = Rs. 5,57,200; and Purchases Ledger Control Account = Rs. 5,11,000)

Question 2

From the following information prepare Sales Ledger Adjustment Account and Bought Ledger Adjustment Account in the General Ledger:

On 1.4.1999 balance in bought ledger (Dr.) Rs. 10,000, (Cr.) Rs. 96,000, balance in sales ledger (Dr.) Rs. 1,41,880 (Cr.) Rs. 2,240:

31.3.1995	Rs.	31.3.1995	Rs.
Purchases	5,40,000	Discount received	7,200
Purchases return	20,000	Bills receivable received	40,000
Total sales	7,68,000	Bills payable issued	22,400
Cash sales	40,000	Reserve for doubtful debts	9,160

Sales return	*10,000*	*Cash paid to customers*	*1,840*
Cash received from customers	*6,24,000*	*Bills receivable dishonoured*	*6,000*
Discount allowed	*11,200*	*Bought ledger balance*	*10,400*
Cash paid to suppliers	*4,80,000*	*Sales ledger balanced*	*1,83,200*
Transfer from sales to bought ledger	*20,800*		

(Answer: Total of Sales Ledger Adjustment Account = Rs. 8,91,440; and Bought Ledger Adjustment Account = Rs.6,46,400)

Question 3

The following information is extracted from a set of books for the half-year ended 30th June, 1996

	Rs.
Sales	*5,63,000*
Purchases	*3,22,000*
Returns outward	*7,600*
Cash received from debtors	*1,84,200*
Bills payable accepted	*1,20,000*
Returns inward	*16,800*
Cash paid to creditors	*1,80,200*
Bills receivable received	*1,60,000*
Discounts received	*4,200*
Bad debts written off	*12,000*
Discount allowed	*10,800*
Transfers from purchases ledger	*6,800*

The total of the sales ledger balances on 1st Jan, 1996 was Rs. 3,20,800 and that of the purchases ledger balances on the same date was Rs. 1,86,400.

Prepare Sales Ledger and Purchases Ledger Adjustment Accounts from the foregoing information.

(Answer: Total of Sales Ledger Adjustment Account = Rs. 8,83,800; and Purchases Ledger Adjustment Account = Rs. 5,08,400)

Question 4

From the following particulars prepare customers control account in general ledger:

	Rs.
Opening balance in customers ledger (Dr.)	*2,35,000*
Opening balance in customers ledger (Cr.)	*3,500*
Goods sold during the year	*7,65,000*
Returns inwards	*15,000*
Cash/cheques received	*5,90,000*
Bills received	*1,10,000*
Discount allowed	*9,000*
Cheque received dishonoured	*5,000*
Bills received dishonoured	*7,000*
Bad debts	*9,000*

A debit of Rs. 1,500 is to be transferred from customers ledger to suppliers ledger. Similarly a credit entry Rs. 1,600 is to be transferred from suppliers ledger to customers ledger. Closing credit balance in customers ledger is Rs. 3,000.

(Answer: Total of Customers Control Account = Rs. 10,15,000)

Question 5

The following transactions have been extracted from the books of Mr. X. You are required to prepare the Sales Ledger Adjustment Account as on 31.3.1998:

	Rs.
Debtors balance on 1.3.1998	*50,000*
Transactions during the period were:	
Sales (including cash sales of Rs. 20,000)	*1,28,000*
Cash received from debtors	*90,000*
Discount allowed to debtors	*500*
Acceptances received from debtors	*8,000*
Returns from debtors	*6,000*
Bills receivable dishonoured	*1,500*
Bad debts written off (after deducting bad debts recovered Rs.1,000)	*4,000*
Sundry charges debited to customers	*600*
Transfers to bought ledger	*300*

(Answer: Total of Sales Ledger Adjustment Account = Rs. 1,60,100)

CHAPTER 9

FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANISATIONS

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- A non profit organization is a legal and accounting entity that is operated for the benefit of the society as a whole, rather than for the benefit of a sole proprietor or a group of partners or shareholders. Financial Statements of such organizations consists of:
  - Receipts and Payments Account
  - Income and Expenditure Account
  - Balance Sheet
- The income and expenditure account is equivalent to the Profit and Loss Account of a business enterprise. It is an account which is widely adopted by non-profit making concerns and is prepared by following accrual principle. Only items of revenue nature pertaining to the period of account are included therein.
- Educational institutions are different from non-trading organizations both in terms of their sources of income as well as the freedom to choose their accounting years.

Write short notes on:

1. *Receipts and Expenditure Account.*

Answer

In the case of professionals, Receipts and Payments Account, Income and Expenditure Account and Balance Sheet are generally prepared to show the results of their activities and their financial position. However, some professionals also prepare Receipts and Expenditure Account to show final result of their professional activities.

Such an account includes all expenses on the basis of mercantile system, i.e. accrual basis but for recording income, cash system is followed. In other words, to find out the profit, all outstanding expenses are taken into account but the fees and charges that are outstanding or the work-in progress are not considered. The reason for this treatment is that professionals consider it imprudent and risky to recognize the outstanding fees. Therefore, the difference between the profit as shown by Income and Expenditure Account and Receipts and Expenditure Account arises on account of non-recognition of outstanding fees and charges and work-in-progress in Receipts and Expenditure Account.

2. *Receipts and Payments Account.*

Answer

Receipts and Payments Account is an elementary form of account commonly adopted by non-profit making concerns such as hospitals, clubs, societies etc. for recording cash and bank transactions. It starts with the opening cash or bank balance (or an overdraft) and is debited with all sums received and credited with amounts paid out whether or not such receipts and payments relate to that period. All the receipts and payments whether of a revenue or capital nature are included in the account. The balance of this account at the end of year represents the difference between the amount received and paid out i.e. the balance of cash in hand and at the bank or bank overdraft.

Distinguish Between:

1. *Receipt and Payment and Income and Expenditure account.*

Answer

Non-profit making organizations such as public hospitals, public educational institutions, clubs etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period. The distinguishing features of both the accounts can be summarized as:

Receipt and Payment Account is an elementary form of account consisting of a classified summary of cash receipts and payments over a certain period together with cash balances at the beginning and close of the period. The receipts are entered on the left hand side and payments on the right hand side i.e. same sides as those on which they appear in cash book. All the receipts and payments whether of a revenue or capital nature are included in this account. The balance of the account at the end of a period represents the difference between the amount of cash received and paid up. It is always in debit since it is made up of cash in hand and at bank.

Income and Expenditure Account resembles a Profit and Loss Account and serves the same function in respect of a non-profit making concern as the last mentioned account does for a firm, carrying on business or trade. Income and Expenditure Account is drawn up in the same form as the Profit and Loss Account. Expenditure of revenue nature only is shown on the debit side, and income and gains of revenue nature are shown on the credit side. Income and Expenditure Account contains all the items of income and expenditure relevant to the period of account, whether received or paid out as well as that which have fallen due for recovery or payment. Capital receipts, prepayments of income and capital expenditures, prepaid expenses are excluded. It does not start with any opening balance. The closing balance represents the amount by which the income exceeds the expenditure only or vice-versa.

State with reasons, whether the following statement is true or false:

Receipts and Payments Account highlights total income and expenditure.

False- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

Practical Questions:

Question 1

Mahaveer Sports club gives the following receipts and payments account for the year ended March 31,1998:

Receipts and Payment Account

Dr.			*Cr.*
Receipts	*Rs.*	*Payments*	*Rs.*
To Opening cash and bank balances	*5,200*	*By Salaries*	*15,000*
To Subscription	*34,800*	*By Rent and taxes*	*5,400*
To Donations	*10,000*	*By Electricity charges*	*600*
To Interest on investments	*1,200*	*By Sports goods*	*2,000*

To Sundry receipts	*300*	*By Library books*	*10,000*
		By Newspapers and periodicals	*1,080*
		By Miscellaneous expenses	*5,400*
		By Closing cash and bank balances	*12,020*
	51,500		*51,500*

Liabilities	*As on 31.3.97*	*As on 31.3.98*
	Rs.	*Rs.*
Outstanding expenses:		
Salaries	*1,000*	*2,000*
Newspapers and periodicals	*400*	*500*
Rent and taxes	*600*	*600*
Electricity charges	*800*	*1,000*
Library books	*10,000*	*-*
Sports goods	*8,000*	*-*
Furniture and fixtures	*10,000*	*-*
Subscription receivable	*5,000*	*12,000*
Investment-government securities	*50,000*	*-*
Accrued interest	*600*	*600*

Provide depreciation on:

Furniture and fixtures @ 10% p.a.

Sports goods @ 20% p.a.

Library books @ 10% p.a

You are required to prepare Club's opening balance sheet as on 1.4.97, income and expenditure account for the year ended on 31.3.98 and balance sheet as on that date.

Answer

Balance Sheet of Mahaveer Sports Club

as on 1st April, 1997

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*
Capital fund (balancing figure)		86,000	Library books	10,000
Outstanding expenses:			Sports goods	8,000
Salaries	1,000		Furniture and fixtures	10,000
Newspapers and periodicals	400		Subscriptions receivable	5,000
Electricity charges	800		Investment-Govt. securities	50,000
Rent and taxes	600		Accrued interest	600
		2,800	Cash and bank balances	5,200
		88,800		88,800

Income and Expenditure Account

for the year ended on 31st March, 1998

Dr.			*Cr.*
Expenditure	*Rs.*	*Income*	*Rs.*
To Salaries	16,000	By Subscription (W.N.1)	41,800
To Electricity charges	800	By Interest on investments (W.N.2)	1,200
To Rent and taxes	5,400	By Sundry receipts	300
To Newspapers and periodicals	1,180		
To Misc expenses	5,400		
To Depreciation on fixed assets (W N 4)	5,000		
To Excess of income over expenditure (transferred to capital fund)	9,520		
	43,300		43,300

Balance Sheet of Mahaveer Sports Club

as on 31st March, 1998

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital fund			Fixed assets (W.N. 4)		
Opening balance	86,000		Furniture and fixtures	9,000	
Add: Surplus	9,520		Sports goods	8,000	
Add: Donations	10,000	1,05,520	Library books	18,000	35,000
Outstanding expenses: (W.N.3)			Investment-Govt. securities		50,000
			Accrued interest		600
Salaries	2,000		Subscriptions receivable		12,000
Newspapers and periodicals	500		Cash and bank balances		12,020
Electricity charges	1,000				
Rent and taxes	600	4,100			
		1,09,620			1,09,620

Working Notes:

Subscriptions for the year ended 31st March, 1998:

	Rs.
Subscription received during the year	34,800
Add: Subscriptions receivable on 31.3.98	12,000
	46,800
Less: subscriptions receivable on 31,3,97	5,000
	41,800

(2) Interest on investments for the year ended 31st March, 1998:

	Rs.
Interest received during the year	1,200
Add: Accrued interest on 31.3.98	600

	1,800
Less: Accrued interest on 31.3.97	600
	1,200

(3) Expenses for the year ended 31st March, 1998:

Expenses	Salaries	Electricity charges	Rent and taxes	Newspapers and periodicals
	Rs.	Rs.	Rs.	Rs.
Paid during the year	15,000	600	5,400	1,080
Add: Outstanding (as on 31.3.98)	2,000	1,000	600	500
	17,000	1,600	6,000	1,580
Less: Outstanding (as on 31.3.97)	1,000	800	600	400
	16,000	800	5400	1,180

(4) Depreciation on Fixed assets

Assets	*Book value (31.3.97)*	*Additions during the year*	*Total*	*Rate of depreciation*	*Depreciation*	*W.D.V as on 31.3.98*
Furniture and fixtures	10,000	-	10,000	10%	1,000	9,000
Sports goods	8,000	2,000	10,000	20%	2,000	8,000
Library books	10,000	10,000	20,000	10%	2,000	18,000
Total					5,000	35,000

Note: In the given solution, donations have been capitalized. Alternatively, donations may be credited to the income and expenditure account assuming that the donations have been raised for meeting some revenue expenditure.

Question 2

Summary of receipts and payments of Bombay Medical Aid society for the year ended 31.12.2000 are as follows:

Opening cash balance in hand Rs. 8,000, subscription Rs. 50,000, donation Rs. 15,000, interest on investments @ 9% p.a. Rs. 9000, payments for medicine supply Rs. 30,000 Honorarium to doctor Rs. 10,000, salaries Rs, 28,000, sundry expenses Rs. 1,000, equipment purchase Rs. 15,000, charity show expenses Rs, 1,500, charity show collections Rs. 12,500.

Additional informations:

	1.1.2000	31.12.2000
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare receipts and payments account and income and expenditure account for the year ended 31.12.2000 and balance sheet as on 31.12.2000.

Answer

Receipts and Payments Account of Bombay Medical Aid Society

for the year ended 31st December, 2000

Dr. *Cr.*

Receipts	Rs.	Payments	Rs.
To Cash in hand (opening)	8,000	By Medicine supply	30,000
To Subscription	50,000	By Honorarium to doctors	10,000
To Donation	15,000	By Salaries	28,000
To Interest on investment	9,000	By Sundry expenses	1,000
To Charity show collections	12,500	By Purchase of equipment	15,000
		By Charity show expenses	1,500
		By Cash in hand (closing)	9,000
	94,500		94,500

Income and Expenditure Account of Bombay Medical Aid Society

for the year ended 31st December, 2000

Dr.					*Cr.*
Expenditure		*Rs.*	*Income*		*Rs.*
To Medicine consumed		29,000	By Subscription		51,200
To Honorarium to doctors		10,000	By Donation		15,000
To Salaries		28,000	By Interest on investments		9,000
To Sundry expenses		1,000	By Profit on charity show:		
To Depreciation on			Show collections	12,500	
Equipment	6,000		*Less:* Show expenses	1,500	11,000
Building	2,000	8,000			
Surplus-excess of income over expenditure		10,200			
		86,200			86,200

Balance Sheet of Bombay Medical Aid Society

as on 31st December, 2000

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital fund:			Building	50,000	
Opening balance	1,80,300		*Less:* Depreciation	2,000	48,000
Add: Surplus	10,200	1,90,500	Equipment	21,000	
Subscription received in advance		700	*Add:* Purchase	15,000	
Amount due for medicine supply		13,000		36,000	
			Less: Depreciation	6,000	30,000
			Stock of medicine		15,000
			Investments		1,00,000
			Subscription receivable		2,200
			Cash in hand		9,000
		2,04,200			2,04,200

Working Notes:

Subscription for the year ended 31st December, 2000:

		Rs.
Subscription received during the year		50,000
Less: Subscription receivable on 1.1.2000	1,500	
Less: Subscription received in advance on 31.12.2000	700	2,200
		47,800
Add: Subscription receivable on 31.12.2000	2,200	
Add: Subscription received in advance on 1.1.2000	1,200	3,400
		51,200

Purchase of medicine:

Payment for medicine supply	30,000
Less: Amounts due for medicine supply on 1.1.2000	9,000
	21,000
Add: Amounts due for medicine supply on 31.12.2000	13,000
	34,000

Medicine consumed:

Stock of medicine on 1.1.2000	10,000
Add: Purchase of medicine during the year	34,000
	44,000
Less: Stock of medicine on 31.12.2000	15,000
	29,000

Depreciation on equipment:

Value of equipment on 1.1.2000	21,000
Add: Purchase of equipment during the year	15,000
	36,000
Less: Value of equipment on 31.12.2000	30,000
Depreciation on equipment for the year	6,000

Balance Sheet of Medical Aid Society

as on 1st January, 2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital fund (balancing figure)	1,80,000	Building	50,000
Subscription received in advance	1,200	Equipment	21,000
Amount due for medicine supply	9,000	Stock of medicine	10,000
		Investments (Rs. 9,000 x 100/9)	1,00,000
		Subscription receivable	1,500
		Cash in hand	8,000
	1,90,500		1,90,500

Note: Donation has been credited directly to the income and expenditure account assuming that this has been raised for meeting revenue expenditure. Alternatively, donation may be taken to have been raised for meeting some capital expenditure and thus, be credited to capital fund.

Question 3

Smith Library Society showed the following position on 31st March, 2001:

Balance Sheet as on 31st March, 2001

Liabilities	*Rs.*	*Assets*	*Rs*
Capital fund	*7,93,000*	*Electrical fittings*	*1,50,000*
Expenses payable	*7,000*	*Furniture*	*50,000*
		Books	*4,00,000*
		Investment in securities	*1,50,000*
		Cash at bank	*25,000*
		Cash in hand	*25,000*
	8,00,000		*8,00,000*

The receipts and payment account for the year ended on 31st March, 2002 is given below:

		Rs.		*Rs.*
To Balance b/d			*By Electric charges*	*7,200*
Cash at bank	*25,000*		*By Postage and stationary*	*5,000*
Cash in hand	*25,000*	*50,000*	*By Telephone charges*	*5,000*
To Entrance fees		*30,000*	*By Books purchased*	*60,000*

To Membership subscription	*2,00,000*	*Bu Outstanding expenses paid*	*7,000*
Sale proceeds of old papers	*1,500*	*By Rent*	*88,000*
To Hire of lecture hall	*20,000*	*By Investment in securities*	*40,000*
To Interest on securities.	*8,000*	*By Salaries*	*66,000*
		By Balance c/d	
		Cash at bank	*20,000*
		Cash in hand	*11,300*
	3,09,500		*3,09,500*

You are required to prepare income and expenditure account for the year ended 31st March, 2002 and a balance sheet as at 31s, March, 2002 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ Rs. 5% p.a. including purchases made on 1.10.2001 for Rs. 40,000.

Answer

Smith Library Society

Income and Expenditure Account

for the year ended 31st March, 2002

Dr.					*Cr.*
Expenditure	*Rs.*	*Rs.*	*Income*		*Rs.*
To Electric charges		7,200	Entrance fees (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	Membership subscription	2,00,000	
To Rent	88,000		Less: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000	Sale proceeds of old papers		1,500
To Salaries	66,000		Hire of lecture hall		20,000
Add: Outstanding	3,000	69,000	Interest on securities	8,000	
To Depreciation (W.N.1)			(W.N.2)		

Electrical fittings	15,000		Add: Receivable	500	8,500
Furniture	5,000		Deficit- excess of expenditure over income		16,700
Books	46,000	66,000			
		2,44,200			2,44,200

Balance Sheet of Smith Library Society

as on 31st March, 2002

Liabilities	*Rs.*	*Rs.*	*Asset*	*Rs.*	*Rs.*
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		Less: Depreciation	15,000	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure over income	16,700	7,98,800	Less: Depreciation	5,000	45,000
			Books	4,60,000	
Outstanding expenses:			Less Depreciation	46,000	4,14,000
Rent	4,000		Investment:		
Salaries	3,000	7,000	Securities	1,90,000	
Membership subscription in advance		10,000	Accrued interest	500	1,90,500
			Cash at bank		20,000
			Cash in hand		11,300
		8,15,800			8,15,800

Working Notes:

1. Depreciation

		Rs.
Electrical fittings	10% of Rs. 1,50,000	15,000
Furniture	10% of Rs. 50,000	5,000
Books	10% of Rs. 4,60,000	46,000

2. Interest on Securities

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		8,000
Receivable		500

Question 4

A doctor, after retiring from govt. service, started private practice on 1st April, 2001 with Rs. 20,000 of his own and Rs. 30,000 borrowed at an interest of 15% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

	Rs.		Rs.
Own capital	*20,000*	*Medicines purchased*	*24,500*
Loan	*30,000*	*Surgical equipments*	*25,000*
Prescription fees	*52,500*	*Motor car*	*32,000*
Gifts from patients	*13,500*	*Motor car expenses*	*12,000*
Visiting fees	*25,000*	*Wages and salaries*	*10,500*
Fees from lectures	*2,400*	*Rent of clinic*	*6,000*
Pension received	*30,000*	*General charges*	*4,900*
		Household expenses	*18,000*
		Household Furniture	*2,500*
		Expenses on daughter's marriage	*21,500*
		Interest on loan	*4,500*
		Balance at bank	*11,000*
		Cash in hand	*1,000*
	1,73,400		*1,73,400*

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2002 and balance sheet as on that date. One-third of the motorcar expense may be treated as applicable to the private use of car and Rs. 3,000 of the wages and salaries are in respect of domestic servants.

The stock of machines in hand on 31st March, 2002 was valued at Rs. 9,500

Answer

Capital Account

for the year ended 31st March, 2002

Dr.	*Rs.*		*Cr.* *Rs.*
To Drawings:		By Cash/bank	20,000
Motor car expenses	4,000	By Cash bank (pension)	30,000
(one-third of Rs. 12,000)		Net income from practice	47,500
Household expenses	18,000	(derived form income and	
Daughter's marriage exp.	21,500	expenditure a/c)	
Wages of domestic servants	3,000		
Household furniture	2,500		
To Balance c/d	48,500		
	97,500		97,500

Income and Expenditure Account

for the year ended 31st March, 2002

		Rs.		*Rs.*
To Medicines consumed			By Prescription fees	52,500
Purchases	24,500		By Gift from patients	13,500
Less: Stock on 31,3,02	9,500	15,000	By Visiting fees	25,000
To Motor car expense		8,000	By Fees from lectures	2,400
To Wages and salaries(Rs.10,500-Rs. 3000)		7,500		
To Rent for clinic		6,000		
To General charges		4,900		
To Interest on loan		4,500		
To Net Income		47,500		
		93,400		93,400

Balance Sheet

as on 31st March, 2002

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital	48,500	Motor car	32,000
Loan	30,000	Surgical equipment	25,000
		Stock of medicines	9,500
		Cash at bank	11,000
		Cash in hand	1,000
	78,500		78,500

Question 5

The Receipts and Payments account of Trustwell Club prepared on 31st March, 2003 is as follows.

Receipts and Payments Account

Dr.				*Cr.*
Receipts		*Amount Rs.*	*Payments*	*Amount Rs.*
To Balance b/d		*450*	*Expenses (including payment for sports material Rs. 2,700)*	
To Annual income from subscription	*4,590*			
Add: Outstanding of last year received this year	*180*			
	4,770			
Less: Prepaid of last year	*90*	*4,680*		*6,300*
To Other fees		*1,800*		
			Loss on sale of furniture (cost price Rs. 450)	*180*
			By Balance c/d	*90,450*
To Donation for building		*90,000*		
		96,930		*96,930*

Additional information:

Trustwell club had balances as on 1.4.2002:-

Furniture Rs. 1,800; investment at 5% Rs. 27,000;

Sports material Rs. 6,660;

Balance as on 31.3.2003; subscription receivable Rs. 270;

Subscription received in advance Rs. 90;

Stock of sports material Rs. 1,800.

Do you agree with above receipts and payments account? If not, prepare correct receipts and payments account and income and expenditure account for the year ended 31st March, 2003 and balance sheet as on that date.

Answer

Corrected Receipts and Payments Account of Trustwell Club

for the year ended 31st March, 2003

Dr.				*Cr.*
Receipts		Amount Rs.	*Payments*	Amount Rs.
To Balance b/d		450	Expenses (Rs. 6,300-Rs. 2,700)	3,600
To Subscription	Rs.		By Sports material	2,700
Annual income	4,590		By Balance c/d (cash in hand and at bank)	90,720
Less: receivable as on 31.3.2003	270			
: Advance received for the year 2003-2004	90			
Add: Receivable as on 31.3.2002	180			
s: Advance received as on 31.3.2002	90	4,500		
To Other fees		1,800		
To Donation for building		90,000		
To Sale of furniture		270		
		97,020		97,020

Income and Expenditure Account of Trustwell club

for the year ended 31st March, 2003

Dr.				*Cr.*
Expenditure		*Amount*	*Income*	*Amount*
To Sundry expenses		3,600	By Subscription	4,590
To Sports material			By Other fees	1,800
Balance as on 1.4.2002	6,600		By Interest on investment	1,350
Add: Purchases	2,700		(5% on Rs. 27,000)	
Less: Balance as on 31.3.2003	1,800	7,560	Deficit: Excess of expenditure over income	3,600
To Loss on sale of furniture		180		
		11,340		11,340

Balance sheet of Trustwell club

as on 31st March, 2003

Liabilities		*Amount (Rs.)*	*Assets*		*Amount (Rs.)*
Capital fund	36,000		Furniture	1,800	
Excess of expenditure over income	3,600	32,400	Less: Sold	450	1,350
			5% Investment		27,000
			Interest accrued on investment		1,350
Building fund		90,000	Sports material		1,800
Subscription received in advance		90	Subscription receivable		270
			Cash in hand and at bank		90,720
		1,22,490			1,22,490

Balance Sheet of Trustwell Club

as on 1st April, 2002

Liabilities	*Amount*	*Assets*	*Amount*
	Rs.		*Rs.*
Subscription received in advance	90	Furniture	1,800
Capital Fund (balancing figure)	36,000	Investment	27,000
		Sports material	6,660
		Subscription receivable	180
		Cash in hand and at bank	450
	36,090		36,090

Question 6

The Accountant of Diana Club furnishes you the following receipts and payments account for the year ending 30th September, 2003:

Receipts	*Amount*	*Payments*	*Amount*
	Rs.		*Rs.*
Opening balance:		*Honoraria to secretary*	*9,600*
Cash and bank	*16,760*	*Misc. expenses*	*3,060*
Subscription	*21,420*	*Rates and taxes*	*2,520*
Sale of old newspapers	*4,800*	*Groundman's wages*	*1,680*
Entertainment fees	*8,540*	*Printing and stationary*	*940*
Bank interest	*460*	*Telephone expenses*	*4,780*
Bar receipts	*14,900*	*Payment for bar purchases*	*11,540*
		Repairs	*640*
		New car (Less sale proceeds of old car)	*25,200*
		Closing balance:	
		Cash and bank	*6,920*
	66,880		*66,880*

Additional informations:

	1.10.2002	*30.9.2003*
	Rs.	*Rs.*
Subscription due (not received)	*2,400*	*1,960*
Cheques issued, but not presented for payment of printing	*180*	*60*
Club premises at cost	*58,000*	*-*
Depreciation on club premises provided so far	*37,600*	*-*
Car at cost	*24,380*	*-*
Depredation on car	*20,580*	*-*
Value of Bar stock	*1,420*	*1,740*
Amount unpaid for bar purchases	*1,180*	*860*

Depreciation is to be provided @ 5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an income and expenditure account of Diana Club for the year ending 30th September, 2003 and balance sheet as on that date.

Answer

Income and Expenditure Account of Diana Club
for the year ended 30th September, 2003

Dr.				*Cr.*
Expenditure		*Amount*	*Income*	*Amount*
		Rs.		*Rs.*
To Honoraria to secretary		9,600	By Subscriptions (W.N.3)	20,980
To Misc. expenses		3,060	By Sale of old newspapers	4,800
To Rates and taxes		2,520	By Entertainment fees	8,540
To Groundman's wages		1,680	By Bank interest	460
To Printing and stationary		940	By Bar receipts	14,900
To Telephone expenses		4,780	By Profit on sale of car (W.N.5)	2,200
To Bar expenses				
Opening bar stock	1,420			
Add. Purchases (W.N.2)	11,220			

	12,640			
Less: Closing bar stock	1,740	10,900		
To Repairs		640		
To Depreciation				
Club premises (W.N. 4)	1,020			
Car (W.N. 6)	4,680	5,700		
Excess of income over expenditure transferred to capital fund		12,060		
		51,880		51,880

Balance Sheet of Diana Club

as on 30th September, 2003

Liabilities		Amount Rs.	assets	Amount Rs.
Capital fund (W.N. 1)	43,600		Club Premises	19,380
: Excess of income over expenditure	12,060	55,660	Car	26,520
			Bar stock	1,740
Outstanding liabilities for bar purchases		860	Outstanding subscription	1.960
			Cash and bank	6,920
		56,520		56,520

Working Notes:

1. **Balance Sheet of Diana Club**

as on 1st October, 2002

Liabilities	*Amount Rs.*	*Assets*		*Amount Rs.*
Amount due for bar purchases	1,180	Club premises	58,000	
		Less: Depreciation	37,600	20,400
Capital fund on 1.10.2002 (balancing figure)	43,600	Car	24,380	
		Less: Depreciation	20,580	3,800

	Bar stock		1,420
	Outstanding subscription		2,400
	Cash at bank		16,760
44,780			44,780

2. Calculation of bar purchases for the year:

	Rs.
Bar payments as per receipts and payments account	11,540
Add: Amount due on 30.9.2003	860
	12,400
Less: Amount due on 1.10.2002	1,180
	11,220

3. Calculation of subscriptions accrued during the year:

	Rs.
Subscriptions received as per receipts and payments account	21,420
Add: Outstanding on 30.9.2003	1,960
	23,380
Less: Outstanding on 1.10.2002	2,400
	20,980

4. Depreciation on club premises and written down value on 30th September, 2003:

	Rs.
Written down value on 1.10.2002 (58,000-37,600)	20,400
Less: Depreciation for the year 2002-2003 @ 5% p.a.	1,020
	19,380

5. Calculation of profit on sale of car:

	Rs.
Sale proceeds of old car	6,000
Less: Written down value of old car:	

Cost of car on 1.10.2002	24,380	
Less: Depreciation upto 1.10.2002	20,580	3,800
		2,200

6. Depreciation on car and written down values on 30th September, 2003:

	Rs.
Cost of new car purchased (25,200 + 6,000)	31,200
Less: Depreciation for the year @ 15% p.a.	4,680
Written down value on 30.9.2003	26,520

Note: The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing.

Question 7

A company lodged a claim to insurance company for Rs. 5,00,000 in September, 2006. The claim was settled in February, 2007 for Rs. 3,50,000. How will you record the short fall in claim settlement in the books of the company?

Answer

Journal Entry

		Rs.	*Rs.*
Profit and Loss A/c	Dr.	1,50,000	
To Insurance Company A/c			1,50,000
[Being the shortfall in insurance claim is the loss, transferred to Profit and Loss A/c]			

EXERCISES

Question 1

The following is the Receipts and Payments Account of Sydney Club for the year ended 31st March, 1992.

Receipts	Rs.	Payments	Rs.
Opening balance		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Wines and spirits	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The assets and liabilities as on 1.4.1991 were as follows:

	Rs.
Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000

Subscription received in advance	*15,000*
Entrance donation received pending membership	*1,00,000*
Gratuity fund	*1,50,000*

The following adjustments are to be made while drawing up the accounts:

(i) *Subscription received in advance as on 31st March, 1992 was Rs. 18,000.*

(ii) *Outstanding subscription as on 31st March, 1992 was Rs. 7,000.*

(iii) *Outstanding expenses are salaries Rs. 8,000 and electricity Rs. 15,000.*

(iv) *50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 1992.*

(v) *The cost of assets sold net as on 1.4.91 was Rs. 10,000.*

(vi) *Depreciation is to be provided at the rate of 10% on assets.*

(vii) *A sum of Rs. 20,000 received in October 1991 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.1992.*

(viii) *Purchases made during the year amounted Rs. 15,00,000.*

(ix) *The value of closing stock was Rs. 2,10,000.*

(x) *The club as a matter of policy charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.*

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 1992 and the Balance Sheet as on 31st March, 1992 along with necessary workings.

(Answer: Deficit Rs. 30,250; Total of Balance Sheet Rs. 13,92,600)

Question 2

The accountant of City Club gave the following information about the receipts and payments of the club for the year ended 31st March, 1994:

Receipts:	*Rs.*
Subscriptions	*62,130*
Fair receipts	*7,200*
Variety show receipts (net)	*12,810*

Interest	*690*
Bar collections	*22,350*
Payments:	
Premises	*30,000*
Rent	*2,400*
Rates and taxes	*3,780*
Printing and stationary	*1,410*
Sundry expenses	*5,350*
Wages	*2,520*
Fair expenses	*7,170*
Honorarium to secretary	*11,000*
Bar purchases (payments)	*17,310*
Repairs	*960*
New car (less proceeds of old car Rs. 9,000)	*37,800*

The following additional information could be obtained:-

	1.4.1993	*31.3.1994*
Cash in hand	*450*	*Nil*
Bank balance as per cash-book	*24,420*	*10,350*
Cheque issued for sundry expenses not presented to the bank (entry has been duly made in the cash book)	*270*	*90*
Subscriptions due	*3,600*	*2,940*
Premises (at cost)	*87,000*	*1,17,000*
Provision for depreciation on premises	*56,400*	*-*
Car (at cost)	*36,570*	*46,800*
Accumulated depreciation on car	*30,870*	*-*
Bar stock	*2,130*	*2,610*
Creditors for bar purchases	*1,770*	*1,290*

Annual honorarium to secretary is Rs. 12,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended 31.3.1994.

(Answer: Total of Receipts and Payments Account =Rs. 1,39,050; and Surplus = Rs. 43,490)

Question 3

From the following Receipts and Payments Account of Excellent Recreation Club for the year ended 31.3.1996 and additional information given, prepare an Income and Expenditure Account for the year ended 31.3.1996 and Balance sheet as on 31.3.1996:

Receipts	Rs.	Payments	Rs.
Opening Balance:		Secretary's salary	12,000
Cash in Hand and at Bank	3,180	Salaries to staff	25,000
Subscription	18,000	Charities	1,000
Sale of old newspapers	2,500	Printing and stationary	600
Legacies	4,000	Postage expenses	120
Interest on investments	2,000	Rates and taxes	1,500
Endowment fund receipts	20,000	Upkeep of the land	2,000
Proceeds of sport and concerts	4,020	Purchase of sports materials	10,000
Advertisement in the year book	5,000	Telephone expenses	3,480
		Closing balance:	
		Cash in hand and at bank	3,000
	58,700		58,700

Assets and liabilities as on 31.3.1995 and 31.3.1996 were as follows:-

	31.3.1995 Rs.	31.3.1996 Rs.
Subscription in arrears	2,000	1,000
Subscription received in advance	500	400
Furniture	2,000	1,800
Land	10,000	10,000

Depreciation shall be charged at 10% p.a. under the diminishing value method. Legacies received shall be capitalized. Investments were made in securities, the rate of interest being 12% p.a., the date of investment was 1.6.1994 and the amount of investments was Rs. 20,000. Due date of interest is 31st March of every year. Stock of sports materials on 31.3.1996 were useless and valued at NIL price.

(Answer: Deficit = Rs.24,880; and Total of Balance Sheet = Rs. 36,200)

Question 4

A and B are in partnership practicing as Chartered Accountants under the name and style AB & Co. sharing profits and losses in the matter stated below. They close their accounts on 31st March every year. The following was their Balance Sheet as at 31st March, 1995:

Balance Sheet as at 31st March, 1995

		Rs.			Rs.
Partners' capitals:			Furniture		20,000
A	65,000		Office machinery		15,000
B	40,000	1,05,000	Library books		8,000
Audit fees collected in advance (A's client)		10,000	Car		60,000
			Outstanding audit fees:		
Liability for salary		5,000	A's client	30,000	
Provision against outstanding audit fees		50,000	B's client	20,000	50,000
			Cash at bank		15,000
			Cash in hand		2,000
		1,70,000			1,70,000

The following is the summary of their cash/bank transactions for the year ended 31st March. 1996.

Receipts	Rs.	Payments	Rs.
Opening:		Salary charges	2,60,000
Bank balance	15,000	Car expenses	35,000
Cash balance	2,000	Tavelling expenses	21,000

Audit fees:			*Printing and stationary*		*18,000*
A's client	*2,80,000*		*Postage expenses*		*3,000*
B's client	*1,80,000*	*4,60,000*	*Telephones*		*15,000*
Fees for other services:			*Subscription for journals*		*7,000*
A's client	*50,000*		*Library books*		*12,000*
B's client	*40,000*	*90,000*	*Fax machine*		*16,000*
Miscellaneous income		*4,000*	*Membership fees*		*2,000*
			Drawings:		
			A	*72,000*	
			B	*60,000*	*1,32,000*
			Cash at bank		*48,000*
			Cash in hand		*2,000*
		5,71,000			*5,71,000*

The following further information is available:

1. Audit fees receivable

A's client *Rs. 30,000*

B's client *Rs. 50,000*

2. Audit fees collected in advance

B's client *Rs. 20,000*

3. Outstanding liability for salary on 31st March, 1996 Rs. 20,000

4. Depreciation to be provided on:

Furniture	*10%*
Office machinery	*20%*
Library books	*10%*
Car	*20%*

5. It has been agreed that 80% of the audit fees and 40% of fees for other services should be transferred to income and expenditure account in respect of each partner's account, the balance being credited directly to the capital accounts. Profits/losses to be divided between A and B in the ratio of 2:1 respectively.

You are required to prepare Income and Expenditure account for the year ended 31st March, 1996 and a Balance Sheet as at 31st March, 1996.

(Answer : Surplus of A Rs. 1,200 and of B Rs.600; Total of Balance Sheet = Rs.2,38,800)

Question 5

From the following receipts and payments account of Mumbai Club, prepare income and expenditure account for the year ended 31.12.1996 and its balance sheet as on that date:

Receipts	Rs.	Payments	Rs.
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest on investments	100	Insurance premium	200
Interest received from bank	400	Billiard table	8,000
Sale of old newspaper	150	Paper, ink etc.	150
Sale of drama tickets	1,050	Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

Information:

1. *Subscriptions in arrear for 1996 Rs. 900 and subscriptions in advance for 1997 Rs. 350.*
2. *Insurance premium outstanding Rs. 40.*
3. *Misc. expenses prepaid Rs. 90.*
4. *50% of donation is to be capitalized.*
5. *Entrance fees are to be treated as revenue income.*

6. *8% interest has accrued on investment for five months.*
7. *Billiard table costing Rs. 30,000 was purchased during the last year and Rs. 22,000 were paid for it.*

(Answer: Surplus Rs. 14,150; and Total of Balance Sheet = Rs. 53,040)

Question 6

The following informations were obtained from the the books of Delhi Club as on 31.3.1998, at the end of the first year of the club. You are required to prepare receipts and payments account, income and expenditure account for the year ended 31.3.1998 and a balance sheet as at 31.3.1998 on mercantile basis.

(i) Donations received for building and library room Rs. 2,00,000

(ii) Other revenue income and actual receipts:

	Revenue income	Actual income
	Rs.	Rs.
Entrance fees	17,000	17,000
Subscription	20,000	19,000
Locker rents	600	600
Sundry income	1,600	1,060
Refreshment account	-	16,000

(iii) Other revenue expenditure and actual payments

	Revenue expenditure	Actual payments
	Rs.	Rs.
Land (cost Rs. 10,000)	-	10,000
Furniture (cost Rs. 1,46,000)	-	1,30,000
Salaries	5,000	4,8000
Maintenance of playgrounds	2,000	1,000
Rent	8,000	8,000
Refreshment account	-	8,000

Donations to the extent of Rs. 25,000 were utilized for the purchase of library books, balance was still unutilized. In order to keep it safe, 9% Govt. bonds of Rs. 1,60,000 were purchased on 31.3.1998. Remaining amount was put in the bank on 31.3.1998 under the term deposit. Depreciation at 10% p.a. was to be provided for the whole year on furniture and library books.

(Answer: Total of Receipt and Payment Account = Rs. 3,61,800; Surplus Rs. 15,100; and total of Balance Sheet Rs. 3,40,440)

CHAPTER 10

ACCOUNTS FROM INCOMPLETE RECORDS

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- Single entry system is generally found in sole trading concerns or even in partnership firms to some extent but never in case of limited liability companies on account of legal requirements.
- There are three types of single entry systems:
  - Pure Single Entry
  - Simple Single Entry
  - Quasi Single Entry
- Single entry system ignores the concept of duality and therefore, transactions are not recorded in their two-fold aspects.
- Closing Capital = Opening Capital + Additional Capital – Drawings + Profits

Question 1

The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 1998:

Liabilities	Rs.	Assets	Rs.
Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash at bank	14,500
		Cash in hand	2,000
	1,21,500		1,21,500

You are furnished with the following information:

(1) Sri Srinivas sells his goods at a profit of 20% on sales.

(2) Goods are sold for cash and credit. Credit customers pay by cheques only.

(3) Payments for purchases are always made by cheques.

(4) It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of Rs. 300 to the clerk, Sundry expenses of Rs. 50 and personal expenses Rs. 100.

Analysis of the Bank Pass–Book for the 13 weeks period ending 31st March, 1999 disclosed the following:

	Rs.
Payments to creditors	75,000
Payments of rent upto 31.3.99	4,000
Amounts deposited into the bank	1,25,000
(include Rs. 30,000 received from debtors by cheques)	
The following are the balances on 31st March, 1999 :	Rs.
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31st March, 1999 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 1999 and a Balance Sheet as on that date.

Answer

Statement showing the amount of cash defalcated by the Cashier

	Rs.	Rs.
Cash balance as on 1.1.99	2,000	
Add : Cash sales	1,16,250	1,18,250
Less : Salary to clerk (Rs. 300 × 13)	3,900	
Sundry expenses (Rs. 50 × 13)	650	
Drawings of Sri Srinivas (Rs. 100 × 13)	1,300	
Deposit into bank (Rs. 1,25,000 – Rs. 30,000)	95,000	1,00,850
Cash balance as on 31.3.99 (defalcated by cashier)		17,400

Trading and Profit and Loss Account of Sri Srinivas

for the 13 week period ended 31st March, 1999

	Rs.		*Rs.*	*Rs.*
To Opening stock	70,000	By Sales :		
To Purchases	91,000	Cash	1,16,250	
To Gross Profit c/d	30,250	Credit	35,000	1,51,250
		By Closing stock		40,000
	191,250			1,91,250
To Salaries	3,900	By Gross profit b/d		30,250
To Rent (Rs. 4,000 – Rs. 1,000)	3,000			
To Sundry Expenses	650			
To Loss of cash by theft	17,400			
To Net Profit	5,300			
	30,250			30,250

Balance Sheet of Sri Srinivas

as on 31st March, 1999

Liabilities		*Rs.*	*Assets*	*Rs.*
Capital as on 1.1.99	1,00,000		Furniture	10,000
Add : Profit	5,300		Stock	40,000
	1,05,300		Debtors	30,000
Less : Drawings	1,300	1,04,000	Cash at bank	60,500
Liabilities for goods		36,500		
		1,40,500		1,40,500

Working Notes :

(1) *Purchases*

Creditors Account

	Rs.		*Rs.*
To Bank A/c	75,000	By Balance b/d	20,500
To Balance c/d	36,500	By Purchases A/c (Bal. fig.)	91,000
	1,11,500		1,11,500

(2) *Total sales*

	Rs.
Opening stock	70,000
Add : Purchases	91,000
	1,61,000
Less : Closing stock	40,000
Cost of goods sold	1,21,000
Add : Gross profit (@25% on cost)	30,250
Total Sales	1,51,250

(3) *Credit Sales*

Debtors Account

	Rs.		Rs.
To Balance b/d	25,000	By Bank A/c	30,000
To Sales A/c (Bal. fig.)	35,000	By Balance c/d	30,000
	60,000		60,000

(4) *Cash Sales*

	Rs.
Total sales	1,51,250
Less : Credit Sales	35,000
Cash sales	1,16,250

(5) *Bank balance as on 31.3.99*

	Rs.		Rs.
To Balance b/d	14,500	By Creditors A/c	75,000
To Debtors A/c	30,000	By Rent A/c	4,000
To Cash A/c	95,000	By Balance c/d	60,500
	1,39,500		1,39,500

Notes :

1. All purchases are taken on credit basis.
2. In the absence of information about the rate of depreciation, no depreciation has been charged on furniture. Alternatively, students may assume any appropriate rate of depreciation and account for the charge.
3. The amount defalcated by the cashier may be treated as recoverable from him. In that case, Rs. 17,400 may be shown as sundry advances on assets side in the Balance Sheet and net profit for the 13 week period ending 31st March, 1999 would amount Rs. 22,700.

Question 2

Shri Kisan, a farmer, maintains a cash book, through which he records all receipts and payments and a diary in which he records other relevant information. On 31st March, 1999 he had cash in hand Rs. 1,000 and balance of Rs. 500 with local Grameen Bank. He also owed Rs. 600 to Beej Bhandar for seeds purchased by that date.

During the year ended 31st March, 2000, he realised :

	Rs.
Sale proceeds of crops	*59,100*
Sale proceeds of cattle and cattle products	*12,500*
Sale proceeds of wood and grass	*3,000*
Sale of cowdung	*5,000*
Receipt on account from Babu (a credit customer)	*12,000*
Grant from Zila Parishad for installing tubewell–cheque	*10,000*
During the year ended 31st March, 2000 he paid :	
Wages	*65,000*
Beej Bhandar	*600*
Seeds, feeds and fertiliser	*3,000*
Power	*5,000*
Land revenue	*2,000*
Tools purchased	*2,500*
Household expenses	*10,000*

During the year ended 31st March, 2000 his other transactions were :

	Rs.
(i) Sale of crop to Babu on credit	*20,000*
(ii) Purchased on 25th March, 2000 from Beej Bhandar on credit of one month seeds of	*2,000*
(iii) Efforts put in by self and family members on the farm were conser–vatively valued at	*60,000*
(iv) Value of crop used for comsumption by :	
Self and family	*30,000*
Agricultural labourers	*40,000*

On 31st March, 2000, his cash in hand was only Rs. 2,500

The rest was banked. He did not have any stock of seeds.

The tubewell for which the grant cheque was realised in the last week of March, 2000 is to be installed in April, 2000.

Shri Kisan asks you to prepare his cash and income summaries for the year ended 31st March, 2000 and his statement of financial position as on that date.

Answer

In the Books of Shri Kisan

Cash summary for the year ended on 31st March, 2000

		Rs.	Rs.
Opening balances (on 1st April, 1999) :			
	Cash in hand	1,000	
	Grameen Bank balance	500	1,500
Receipts :			
Sale proceeds –	Crops	59,100	
	Cattle and cattle products	12,500	
	Wood and grass	3,000	
	Cowdung	5,000	
Collection from babu		12,000	
Grant from Zila Parishad		10,000	1,01,600
			1,03,100
Payments :			
Farm expenses –	Wages	65,000	
	Seeds, feeds and fertilizers	3,000	
	Power	5,000	
	Land revenue	2,000	
Payment of Beej Bhandar		600	
Tools purchased		2,500	
Household expenses		10,000	88,100
Closing balances (on 31st March, 2000) :			
	Cash in hand	2,500	
	Grameen Bank balance (Balancing figure)	12,500	15,000
			1,03,100

Income summary for the year ended on 31st March, 2000

		Rs.	Rs.
Revenues:			
Sales –	Crops (Cash sales : 59,100 + Credit sales : 20,000)	79,100	
	Cattle and cattle products	12,500	
	Wood and grass	3,000	
	Cowdung	5,000	
Crop used for consumption –			
	Self and family	30,000	
	Agricultural labourers	40,000	1,69,600
Less :	Expenses :		
	Wages	65,000	
	Consumption of crop by labourers	40,000	
	Seeds, feeds and fertiliser (Cash purchases : 3,000 + Credit purchases : 2,000)	5,000	
	Power	5,000	
	Land revenue	2,000	
	Efforts of self and family members	60,000	1,77,000
Loss			7,400

Statement of financial position as on 31st March, 2000

Liabilities			*Rs.*	*Assets*	*Rs.*
Farm household capital :				Tools	2,500
Balance on 1.4.99		900		Debtors (Babu)	8,000
Add : Notional wages of self				Cash in hand	2,500
and family members		60,000		Grameen bank balance	12,500
		60,900			
Less : Drawings :					
Cash	10,000				
Crop	30,000				
Loss as per					

Income					
summary	7,400	47,400	13,500		
Grant (for tubewell)			10,000		
Creditors (Beej Bhandar)			2,000		
			25,500		25,500

Working note :

Computation of Farm household capital on 1.4.99

Statement of financial position on 31.3.99

	Rs.		Rs.
Liability to Beej Bhandar	600	Cash in hand	1,000
Farm household capital		Grameen bank balance	500
(Balancing figure)	900		
	1,500		1,500

Question 3

A trader keeps his books of account under single entry system. On 31st March, 2000 his statement of affairs stood as follows :

Liabilities	*Rs.*	*Assets*	*Rs.*
Trade Creditors	*5,80,000*	*Furniture, Fixtures and Fittings*	*1,00,000*
Bills Payable	*1,25,000*	*Stock*	*6,10,000*
Outstanding Expenses	*45,000*	*Trade Debtors*	*1,48,000*
Capital Account	*2,50,000*	*Bills Receivable*	*60,000*
		Unexpired Insurance	*2,000*
		Cash in Hand and at Bank	*80,000*
	10,00,000		*10,00,000*

The following was the summary of Cash–book for the year ended 31st March, 2001 :

Receipts	*Rs.*	*Payments*	*Rs.*
Cash in Hand and at Bank on		*Payments to Trade Creditors*	*75,07,000*
1st April, 2001	*80,000*	*Payments for Bills payable*	*8,15,000*

Cash Sales	*73,80,000*	*Sundry Expenses paid*	*6,20,700*
Receipts from Trade Debtors	*15,10,000*	*Drawings*	*2,40,000*
Receipts for Bills Receivable	*3,40,000*	*Cash in Hand and at Bank*	
		on 31st March, 2001	*1,27,300*
	93,10,000		*93,10,000*

Discount allowed to trade debtors and received from trade creditors amounted to Rs. 36,000 and Rs. 28,000 respectively. Bills endorsed amounted to Rs. 15,000. Annual Fire Insurance premium of Rs. 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balances method.

You are also informed about the following balances as on 31st March, 2001 :

	Rs.
Stock	*6,50,000*
Trade Debtors	*1,52,000*
Bills Receivable	*75,000*
Bills Payable	*1,40,000*
Outstanding Expenses	*5,000*

The trader maintains a steady gross profit ratio of 10% on sales.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2001 and Balance Sheet as at that date.

Answer

Trading and Profit and Loss Account

for the year ended 31st March, 2001

		Rs.			*Rs.*
To	Opening Stock	6,10,000	By Sales		
To	Purchases (W.N. 3)	84,10,000	Cash	73,80,000	
To	Gross profit c/d	9,30,000	Credit (W.N. 2)	19,20,000	93,00,000
	(10% of 93,00,000)		By Closing stock		6,50,000
		99,50,000			99,50,000
To	Sundry expenses (W.N. 6)	5,80,700	By Gross profit b/d		9,30,000

To Discount allowed	36,000	By Discount received	28,000
To Depreciation	15,000		
(15% Rs. 1,00,000)			
To Net Profit	3,26,300		
	9,58,000		9,58,000

Balance Sheet as at 31st March, 2001

Liabilities		*Amount* Rs.	*Assets*		*Amount* Rs.
Capital			Furniture & Fittings	1,00,000	
Opening balance	2,50,000		*Less :* Depreciation	15,000	85,000
Less : Drawing	2,40,000		Stock		6,50,000
	10,000		Trade Debtors		1,52,000
Add : Net profit for the years	3,26,300	3,36,300	Bills receivable		75,000
Bills payable		1,40,000	Unexpired insurance		2,000
Trade creditors		6,10,000	Cash in hand & at bank		1,27,300
Outstanding expenses		5,000			
		10,91,300			10,91,300

Working Notes :

1. **Bills Receivable Account**

	Rs.		*Rs.*
To Balance b/d	60,000	By Cash	3,40,000
To Trade debtors	3,70,000	By Trade creditors	15,000
		(Bills endorsed)	
		By Balance c/d	75,000
	4,30,000		4,30,000

2. **Trade Debtors Account**

	Rs.		*Rs.*
To Balance b/d	1,48,000	By Cash/Bank	15,10,000
To Credit sales	19,20,000	By Discount allowed	36,000

(Balancing figure)		By Bills receivable	3,70,000
		By Balance c/d	1,52,000
	20,68,000		20,68,000

3. **Memorandum Trading Account**

	Rs.		*Rs.*
To Opening stock	6,10,000	By Sales	93,00,000
To Purchases (Balancing figure)	84,10,000	By Closing stock	6,50,000
To Gross Profit (10% on sales)	9,30,000		
	99,50,000		99,50,000

4. **Bills Payable Account**

	Rs.		*Rs.*
To Cash/Bank	8,15,000	By Balance b/d	1,25,000
To Balance c/d	1,40,000	By Creditors (balancing figure)	8,30,000
	9,55,000		9,55,000

5. **Trade Creditors Account**

	Rs.		*Rs.*
To Cash/Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases (as calculated	84,10,000
To Bills receivable	15,000	in W.N. 3)	
To Bills payable	8,30,000		
To Balance c/d (balancing figure)	6,10,000		
	89,90,000		89,90,000

6. **Computation of sundry expenses to be charged to Profit & Loss A/c**

	Rs.
Sundry expenses paid (as per cash book)	6,20,700
Add : Prepaid expenses as on 31–3–2000	2,000
	6,22,700

Less : Outstanding expenses as on 31–3–2000	45,000
	5,77,700
Add : Outstanding expenses as on 31–3–2001	5,000
	5,82,700
Less : Prepaid expenses as on 31–3–2001 (Insurance paid till July, 2001)	2,000
	5,80,700

Question 4

The following is the Balance Sheet of a concern on 31st March, 2000 :

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

The management estimates the purchases and sales for the year ended 31st March, 2001 as under :

	upto 28.2.2001	*March 2001*
	Rs.	*Rs.*
Purchases	*14,10,000*	*1,10,000*
Sales	*19,20,000*	*2,00,000*

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

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

Draft a Balance Sheet as at 31st March, 2001 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances.

Answer

Projected Balance Sheet of ......

as on 31st March, 2001

Liabilities		*Rs.*	*Assets*		*Rs.*
Capital		10,00,000	Fixed Assets	4,00,000	
Profit & Loss Account as on			Additions	1,00,000	
1st April, 2000	60,000			5,00,000	
Add : Profit for the year	3,74,000	4,34,000	*Less :* Depreciation	50,000	4,50,000
Creditors (Trade)		1,10,000	Stock in trade		3,36,000
			Sundry Debtors		2,00,000
			Cash & Bank Balances		5,58,000
		15,44,000			15,44,000

Working Notes:

1. **Projected Trading and Profit and Loss Account**

for the year ended 31st March, 2001

	Rs.		Rs.
To Opening Stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock (balancing figure)	3,36,000
To Gross Profit c/d (30% on sales)	6,36,000		
	24,56,000		24,56,000
To Sundry Expenses (10% on sales)	2,12,000	By Gross Profit b/d	6,36,000
To Depreciation	50,000		
To Net Profit	3,74,000		
	6,36,000		6,36,000

2. **Cash and Bank Account for the period**

1st April, 2000 to 31st March, 2001

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

Note : The entire sales and purchases are taken on credit basis.

Question 5

The following is the Balance Sheet of Sri Agni Dev as on 31st March, 2001:

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Account	*2,52,500*	*Machinery*	*1,20,000*
Sundry Creditors for purchases	*45,000*	*Furniture*	*20,000*
		Stock	*33,000*
		Debtors	*1,00,000*
		Cash in hand	*8,000*
		Cash at Bank	*16,500*
	2,97,500		*2,97,500*

Riots occurred and fire broke out on the evening of 31st March, 2002, destroying the books of account and Furniture. The cashier was grievously hurt and the cash available in the cash box was stolen.

The trader gives you the following information:

(i) *Sales are effected as 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2002 were 20% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).*

(ii) *Terms of credit*

Debtors	*2 Months*
Creditors	*1 Month*

(iii) *Stock level was maintained at Rs. 33,000 all throughout the year.*

(iv) *A steady Gross Profit rate of 25% on the turnover was maintained throughout. Creditors are paid by cheque only, except for cash purchase of Rs. 50,000.*

(v) *His private records and the Bank Pass-book disclosed the following transactions for the year.*

(i)	*Miscellaneous Business expenses*	*Rs. 1,57,500 (including Rs. 5,000 paid by cheque and Rs. 7,500 was outstanding as on 31st March, 2002)*
(ii)	*Repairs*	*Rs. 3,500 (paid by cash)*
(iii)	*Addition to Machinery*	*Rs. 60,000 (paid by cheque)*
(iv)	*Private drawings*	*Rs. 30,000 (paid by cash)*
(v)	*Travelling expenses*	*Rs. 18,000 (paid by cash)*
(vi)	*Introduction of additional capital by depositing in to the Bank*	*Rs. 5,000*

(vi) *Collection from debtors were all through cheques.*

(vii) *Depreciation on Machinery is to be provided @ 15% on the Closing Book Value.*

(viii) *The Cash stolen is to be charged to the Profit and Loss Account.*

(ix) *Loss of furniture is to be adjusted from the Capital Account.*

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2002 and a Balance Sheet as on that date. Make appropriate assumptions whenever necessary. All workings should form part of your answer.

Answer

Trading and Profit and Loss Account of Sri. Agni Dev

for the year ended 31st March, 2002

		Rs.			*Rs.*
To	Opening Stock	33,000	By	Sales	9,60,000
To	Purchases	7,20,000	By	Closing Stock	33,000
To	Gross Profit c/d	2,40,000			

		9,93,000			9,93,000
To	Business Expenses	1,57,500	By	Gross Profit b/d	2,40,000
To	Repairs	3,500			
To	Depreciation	27,000			
To	Travelling Expenses	18,000			
To	Loss by theft	1,500			
To	Net Profit	32,500			
		2,40,000			2,40,000

Balance Sheet of Sri Agni Dev as at 31st March, 2002

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital	2,52,500		Machinery	1,80,000	
Add: Additional Capital	5,000		*Less*: Depreciation	27,000	1,53,000
Net Profit	32,500				
	2,90,000		Stock in Trade		33,000
Less: Loss of Furniture	20,000		Sundry Debtors		1,20,000
Drawings	30,000	2,40,000			
Bank Overdraft		2,667			
Sundry Creditors		55,833			
Outstanding Expenses		7,500			
		3,06,000			3,06,000

Working Notes:

		Rs.
1.	Sales during 2001-2002	
	Debtors as on 31st March, 2001	1,00,000
	(Being equal to 2 months' sales)	
	Total credit sales in 2000- 2001, Rs. 1,00,000 × 6	6,00,000
	Cash Sales, being equal to 1/3rd of credit sales or 1/4th of the total	2,00,000
	Sales in 2000- 2001	8,00,000

	Increase, 20% as stated in the problem	1,60,000
	Total sales during 2001-2002	9,60,000
	Cash sales : 1/4th	2,40,000
	Credit sales : 3/4th	7,20,000
2.	Debtors equal to two months credit sales	1,20,000
3.	Purchases	
	Sales in 2001-2002	9,60,000
	Gross Profit @ 25%	2,40,000
	Cost of goods sold being purchases	7,20,000
	(Since there is no change in stock level)	
4.	Sundry Creditors for goods	
	(Rs. 7,20,000 – Rs. 50,000) /12 = Rs. 6,70,000/12	55,833
5.	Collections from Debtors	
	Opening Balance	1,00,000
	Add: Credit Sales	7,20,000
		8,20,000
	Less: Closing Balance	1,20,000
		7,00,000
6.	Payment to Creditors	
	Opening Balance	45,000
	Add: Credit Purchases (Rs. 7,20,000 – Rs. 50,000)	6,70,000
		7,15,000
	Less: Closing Balance	55,833
	Payment by cheque	6,59,167

7. **Cash and Bank Account**

	Particulars	**Cash**	**Bank**		*Particulars*	**Cash**	**Bank**
To	Balance b/d	8,000	16,500	By	Payment to Creditors	50,000	6,59,167
To	Collection from Debtors	–	7,00,000	By	Misc. Expenses	1,45,000	5,000
To	Sales	2,40,000	–	By	Repairs	3,500	–
To	Additional Capital	–	5,000	By	Addition to Machinery	–	60,000
To	Balance c/d	–	2,667	By	Travelling Expenses	18,000	–
	(Bank overdraft)			By	Private Drawings	30,000	–
				By	Balance c/d (lost by theft)	1,500	
		2,48,000	7,24,167			2,48,000	7,24,167

Question 6

Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare his final accounts for the year 2003:

	1.1.2003	*31.12.2003*
	Rs.	*Rs.*
Debtors	*1,02,500*	*–*
Creditors	*–*	*46,000*
Stock	*50,000*	*62,500*
Bank Balance	*–*	*50,000*
Fixed Assets	*7,500*	*9,000*

Details of his bank transactions were as follows:

	Rs.
Received from debtors	*3,40,000*
Additional capital brought in	*5,000*

Sale of fixed assets (book value Rs. 2,500)	*1,750*
Paid to creditors	*2,80,000*
Expenses paid	*49,250*
Personal drawings	*25,000*
Purchase of fixed assets	*5,000*

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

Answer

Trading and Profit and Loss Account

for the year ended 31st December, 2003

		Amount Rs.			*Amount Rs.*
To	Opening stock	50,000	By	Sales (Rs. 2,60,000 × 125/100)	3,25,000
To	Purchases (balancing figure)	2,72,500	By	Closing stock	62,500
To	Gross profit c/d (Rs. 2,60,000 × 25/100)	65,000			
		3,87,500			3,87,500
To	Expenses	49,250	By	Gross profit b/d	65,000
To	Loss on sale of fixed assets	750			
To	Depreciation on fixed assets (W.N.1)	1,000			
To	Net profit	14,000			
		65,000			65,000

Balance Sheet as on 31st December, 2003

Liabilities		*Amount Rs.*	*Assets*	*Amount Rs.*
Capital (W.N. 5)	1,69,000		Fixed assets	9,000

Add: Additional capital	5,000		Debtors (W.N. 3)	87,500
Net profit	14,000		Stock	62,500
	1,88,000		Bank balance	50,000
Less: Drawings	25,000	1,63,000		
Creditors		46,000		
		2,09,000		2,09,000

Working Notes:

1. Fixed assets account

Dr.					*Cr.*
		Rs.			*Rs.*
To	Balance b/d	7,500	By	Bank (sale)	1,750
To	Bank	5,000	By	Loss on sale of fixed asset	750
			By	Depreciation (balancing figure)	1,000
			By	Balance c/d	9,000
		12,500			12,500

2. Bank account

Dr.					*Cr.*
		Rs.			*Rs.*
To	Balance b/d (balancing figure)	62,500	By	Creditors	2,80,000
To	Debtors	3,40,000	By	Expenses	49,250
To	Capital	5,000	By	Drawings	25,000
To	Sale of fixed assets	1,750	By	Fixed assets	5,000
			By	Balance c/d	50,000
		4,09,250			4,09,250

3. Debtors account

Dr.					*Cr.*
		Rs.			*Rs.*
To	Balance b/d	1,02,500	By	Bank	3,40,000
To	Sales	3,25,000	By	Balance c/d (balancing figure)	87,500

$(Rs.\ 2,60,000 \times \frac{125}{100})$			
	4,27,500		4,27,500

4. Creditors account

Dr.				*Cr.*
	Rs.			*Rs.*
To Bank	2,80,000	By	Balance b/d (balancing figure)	53,500
To Balance c/d	46,000	By	Purchases (from trading account)	2,72,500
	3,26,000			3,26,000

5. Balance Sheet as on 1st January, 2003

Liabilities	*Rs.*	*Assets*	*Rs.*
Creditors (W.N. 4)	53,500	Fixed assets	7,500
Capital (balancing figure)	1,69,000	Debtors	1,02,500
		Stock	50,000
		Bank balance (W.N. 2)	62,500
	2,22,500		2,22,500

Question 7

The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2003 and a Balance Sheet as on that date

(a)	*Balance as on 31st March, 2002 Rs.*	*Balance as on 31st March, 2003 Rs.*
Building	*3,20,000*	*3,60,000*
Furniture	*60,000*	*68,000*
Motorcar	*80,000*	*80,000*
Stocks	*–*	*40,000*
Bills payable	*28,000*	*16,000*
Cash and Bank balances	*1,80,000*	*1,04,000*

Sundry Debtors	*1,60,000*	–
Bills receivable	*32,000*	*28,000*
Sundry Creditors	*1,20,000*	–

(*b*) *Cash transactions during the year included the following besides certain other items:*

	Rs.		*Rs.*
Sale of old papers and miscellaneous income	*20,000*	*Cash purchases*	*48,000*
		Payment to creditors	*1,84,000*
Miscellaneous Trade expenses (including salaries etc.)	*80,000*	*Cash Sales*	*80,000*
Collection from debtors	*2,00,000*		

(c) Other information:

(i) Bills receivable drawn during the year amount to Rs. 20,000 and Bills payable accepted Rs. 16,000.

(ii) Some items of old furniture, whose written down value on 31st March, 2002 was Rs. 20,000 was sold on 30th September, 2002 for Rs. 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.

(iii) Of the Debtors, a sum of Rs. 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.

(iv) Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.

(v) Outstanding salary on 31st March, 2002 was Rs. 8,000 and on 31st March, 2003 was Rs. 10,000 on 31st March, 2002. Profit and Loss Account had a credit balance of Rs. 40,000.

(vi) 20% of total sales and total purchases are to be treated as for cash.

(vii) Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts.

Answer

Trading and Profit and Loss Account of Mr. Shiv Kumar

for the year ended 31st March, 2003

		Rs.			Rs.
To	Opening stock (balancing figure)	80,000	By	Sales	4,00,000
			By	Closing stock	40,000
To	Purchases	2,40,000			
To	Gross profit c/d @ 30% on sales	1,20,000			
		4,40,000			4,40,000
To	Miscellaneous expenses (Rs.80,000 – Rs.8,000 + Rs.10,000)	82,000	By	Gross profit b/d	1,20,000
			By	Miscellaneous receipts	20,000
			By	Net loss transferred to Capital A/c	25,840
To	Depreciation: Building Rs. 36,000; Furniture Rs. 7,800 (Rs.6,800 + Rs.1,000); Motor Car Rs. 16,000	59,800			
To	Loss on sale of furniture	11,000			
To	Bad debts	8,000			
To	Provision for doubtful debts	5,040			
		1,65,840			1,65,840

Balance Sheet of Mr. Shivkumar

as on 31st March, 2003

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital as on 1st April, 2002		7,16,000	Building	3,20,000	
			Add: Addition during the year	40,000	
Profit and Loss A/c				3,60,000	
Opening balance	40,000		*Less*: Provision for		

Less: Loss for the year	25,840	14,160	depreciation	36,000	3,24,000
			Furniture	60,000	
Sundry creditors		1,12,000	*Less:* Sold during the year	20,000	
Bills payable		16,000		40,000	
Outstanding salary		10,000	*Add:* Addition during the year	28,000	
				68,000	
			Less: Depreciation	6,800	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	16,000	64,000
			Stock in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	5,040	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		1,04,000
		8,68,160			8,68,160

Working Notes:

Sundry Debtors Account

		Rs.			*Rs.*
To	Balance b/d	1,60,000	By	Cash/Bank A/c	2,00,000
To	Sales A/c	3,20,000	By	Bills receivable A/c	20,000
			By	Bad debts A/c	8,000
			By	Balance c/d (balancing fig.)	2,52,000
		4,80,000			4,80,000

Sundry Creditors Account

		Rs.			*Rs.*
To	Cash/Bank A/c	1,84,000	By	Balance b/d	1,20,000
To	Bills payable A/c	16,000	By	Purchases A/c	1,92,000
To	Balance c/d (balancing figure)	1,12,000			
		3,12,000			3,12,000

Bills Receivable Account

		Rs.			Rs.
To	Balance b/d	32,000	By	Cash/ Bank A/c	24,000
To	Sundry debtors A/c	20,000		(balancing figure)	
			By	Balance c/d	28,000
		52,000			52,000

Bills Payable Account

		Rs.			Rs.
To	Cash/Bank A/c	28,000	By	Balance b/d	28,000
	(balancing figure)		By	Sundry creditors A/c	16,000
To	Balance c/d	16,000			
		44,000			44,000

Furniture Account

		Rs.			Rs.
To	Balance b/d	60,000	By	Bank/Cash A/c	8,000
To	Bank A/c	28,000	By	Depreciation A/c	1,000
			By	Profit and loss A/c (loss on sale)	11,000
			By	Depreciation A/c	6,800
			By	Balance c/d	61,200
		88,000			88,000

Cash/Bank Account

		Rs.			Rs.
To	Balance b/d	1,80,000	By	Misc. trade expenses A/c	80,000
To	Miscellaneous receipts A/c	20,000	By	Purchases A/c	48,000
To	Sundry debtors A/c	2,00,000	By	Furniture A/c (balancing figure)	28,000
To	Sales A/c	80,000	By	Sundry creditors A/c	1,84,000

To	Furniture A/c (sale)	8,000	By	Bills payable A/c	28,000
To	Bills receivable A/c	24,000	By	Building A/c	40,000
			By	Balance c/d	1,04,000
		5,12,000			5,12,000

Opening Balance Sheet of Mr. Shivkumar

as on 31st March, 2002

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry creditors	1,20,000	Motor car	80,000
Bills payable	28,000	Stock in trade	80,000
Outstanding salary	8,000	Sundry debtors	1,60,000
		Bills receivable	32,000
		Cash in hand and at bank	1,80,000
	9,12,000		9,12,000

Question 8

From the following furnished by Shri Ramji, prepare Trading and Profit and Loss account for the year ended 31.3.2005. Also draft his Balance Sheet as at 31.3.2005:

	1.4.2004	*31.3.2005*
	Rs.	*Rs.*
Creditors	*3,15,400*	*2,48,000*
Expenses outstanding	*12,000*	*6,600*
Fixed assets (includes machinery)	*2,32,200*	*2,40,800*
Stock in hand	*1,60,800*	*2,22,400*
Cash in hand	*59,200*	*24,000*
Cash at bank	*80,000*	*1,37,600*
Sundry debtors	*3,30,600*	*?*
Details of the year's transactions are as follows:		
Cash and discount credited to debtors		*12,80,000*
Returns from debtors		*29,000*

Bad debts	*8,400*
Sales (Both cash and credit)	*14,36,200*
Discount allowed by creditors	*14,000*
Returns to creditors	*8,000*
Capital introduced by cheque	*1,70,000*
Collection from debtors (Deposited into bank after receiving cash)	*12,50,000*
Cash purchases	*20,600*
Expenses paid by cash	*1,91,400*
Drawings by cheque	*8,600*
Machinery acquired by cheque	*63,600*
Cash deposited into bank	*1,00,000*
Cash withdrawn from bank	*1,84,800*
Cash sales	*92,000*
Payment to creditors by cheque	*12,05,400*

Note: *Ramji has not sold any Fixed Asset during the year.*

Answer

In the books of Shri Ramji

Trading and Profit and Loss Account

for the year ended 31st March, 2005

Dr.							*Cr.*
		Rs.	*Rs.*			*Rs.*	*Rs.*
To	Opening stock		1,60,800	By	Sales:		
To	Purchases:				Cash	92,000	
	Cash	20,600			Credit	13,44,200	
	Credit (W.N. 3)	11,60,000				14,36,200	
		11,80,600			*Less:* Returns	29,000	14,07,200
	Less: Returns	8,000	11,72,600				
To	Gross Profit c/d		2,96,200	By	Closing stock		2,22,400
			16,29,600				16,29,600
To	Discount		30,000	By	Gross profit		2,96,200

	allowed			b/d	
To	Bad debts	8,400	By	Discount	14,000
To	General expenses (W.N. 5)	1,86,000			
To	Depreciation (W.N. 4)	55,000			
To	Net profit	30,800			
		3,10,200			3,10,200

Balance Sheet as at 31st March, 2005

Liabilities		*Rs.*	*Assets*		*Rs.*
Capital (W.N. 1)	5,35,400		Sundry Assets	2,32,200	
Add: Additional capital	1,70,000		*Add:* New machinery		
				63,600	
Net profit	30,800			2,95,800	
	7,36,200		*Less:* Depreciation		2,40,800
				55,000	
Less: Drawings	8,600	7,27,600	Stock in trade		2,22,400
Sundry creditors		2,48,000	Sundry debtors (W.N. 2)		3,57,400
Expenses outstanding		6,600	Cash in hand		24,000
			Cash in Bank		1,37,600
		9,82,200			9,82,200

Working Notes:

(1) Statement of Affairs as at 31st March, 2004

Liabilities	*Rs.*	*Assets*	*Rs.*
Sundry creditors	3,15,400	Sundry Assets	2,32,200
Outstanding expenses	12,000	Stock	1,60,800
Ramji's Capital		Debtors	3,30,600
(Balancing figure)	5,35,400	Cash in hand	59,200
		Cash at Bank	80,000
	8,62,800		8,62,800

(2) Sundry Debtors Account

		Rs.			Rs.
To	Balance b/d	3,30,600	By	Cash	12,50,000
To	Sales (14,36,200 – 92,000)	13,44,200	By	Discount	30,000
			By	Returns (sales)	29,000
			By	Bad debts	8,400
			By	Balance c/d (Balancing figure)	3,57,400
		16,74,800			16,74,800

(3) Sundry Creditors Account

		Rs.			Rs.
To	Bank – Payments	12,05,400	By	Balance b/d	3,15,400
To	Discount	14,000	By	Purchases credit	11,60,000
To	Returns	8,000		(Balancing figure)	
To	Balance c/d (closing balance)	2,48,000			
		14,75,400			14,75,400

(4) *Depreciation on Fixed Assets:*

	Rs.
Opening balance	2,32,200
Add: Additions	63,600
	2,95,800
Less: Closing balance	2,40,800
Depreciation	55,000

(5) *Expenses to be shown in profit and loss account*

Expenses (in cash)	1,91,400	
Add: Outstanding of 2005	6,600	
	1,97,800	
Less: Outstanding of 2004	12,000	
		1,86,000

(6) Cash and Bank Account

		Cash	Bank			Cash	Bank
		Rs.	Rs.			Rs.	Rs.
To	Balance b/d	59,200	80,000	By	Purchases	20,600	–
To	Capital		1,70,000	By	Expenses	1,91,400	
To	Debtors		12,50,000	By	Plant and Machinery		63,600
To	Bank	1,84,800		By	Drawings		8,600
To	Cash		1,00,000	By	Creditors		12,05,400
To	Sales	92,000		By	Cash		1,84,800
				By	Bank	1,00,000	
				By	Balance c/d	24,000	1,37,600
		3,36,000	16,00,000			3,36,000	16,00,000

Question 9

Mr. X runs a retail business. Suddenly he finds on 31.3.2006 that his Cash and Bank balances have reduced considerably. He provides you the following information:

		31.3.2005	31.3.2006
(i)	*Balances*		
		Rs.	*Rs.*
	Sundry Debtors	*35,400*	*58,800*
	Sundry Creditors	*84,400*	*22,400*
	Cash at Bank	*1,08,400*	*2,500*
	Cash in Hand	*10,400*	*500*
	Rent (Outstanding for one month)	*2,400*	*3,000*
	Stock	*11,400*	*20,000*
	Electricity and Telephone bills-outstanding	*--*	*6,400*

(ii)	*Bank Pass-book reveals the following*	*Rs.*
	Total Deposits	*10,34,000*
	Withdrawals:	

Creditors	*8,90,000*
Professional charges	*34,000*
Furnitures and Fixtures (acquired on 1.10.05)	*54,000*
Proprietor's drawings	*1,61,900*

(iii) Rent has been increased from January, 2006.

(iv) Mr. X deposited all cash sales and collections from debtors after meeting wages, shop expenses, rent, electricity and telephone charges.

(v) Mr. X made all purchases on credit.

(vi) His credit sales during the year amounts to Rs.9,00,000.

(vii) He incurred Rs.6,500 per month towards wages.

(viii) He incurred following expenses:

(a) Electricity and telephone charges Rs.24,000 (paid)

(b) Shop expenses Rs.18,000 (paid).

(ix) Charge depreciation on furniture and fixtures @10% p.a.

Finalise the accounts of Mr. X and compute his profit for the year ended 31.3.2006. Prepare his statement of affairs and reconcile the profit and capital balance.

Answer

Trading and profit and Loss Account of Mr. X

For the year ended 31st March, 2006

	Rs.			*Rs.*	*Rs.*
To Opening Stock	11,400	By Sales:			
To Purchases	8,28,000		Cash	2,97,500	
To Gross Profit	3,78,100		Credit	9,00,000	11,97,500
		By Closing Stock			20,000
	12,17,500				12,17,500
To Wages	78,000	By Gross Profit			3,78,100
To Rent*	30,600				
To Electricity & Telephone**	30,400				
To Professional charges	34,000				
To Shop Expenses	18,000				

To Depreciation $(\text{Rs.}54{,}000\times\frac{10}{100}\times\frac{1}{2})$	2,700		
To Net Profit	1,84,400		———
	3,78,100		3,78,100

	Rs.
*Rent Paid	30,000
Less: Outstanding on 1.4.2005	(2,400)
	27,600
Add: Outstanding on 31.3.2006	3,000
	30,600

	Rs.
**Electricity & Telephone charges paid	24,000
Add: Outstanding on 31.3.2006	6,400
	30,400

Statement of Affairs of Mr. X as on 31-03-2005 & 31-03-2006

Liabilities	*31-3-2005* *Rs.*	*31-3-2006* *Rs.*	*Assets*	*31-3-2005* *Rs.*	*31-3-2006* *Rs.*
Capital Account			Furniture	-	51,300
(Balancing Figure)	78,800	1,01,300			
Sundry Creditors	84,400	22,400	Stock	11,400	20,000
Outstanding Expenses:			Sundry Debtors	35,400	58,800
Rent	2,400	3,000	Bank	1,08,400	2,500
Electricity & Telephone	———	6,400	Cash	10,400	500
	1,65,600	1,33,100		1,65,600	1,33,100

Reconciliation of Profit

	Rs.
Capital on 31.03.2006	1,01,300
Add: Drawings	1,61,900

	2,63,200
Less: Opening Capital on 1.4.2005	(78,800)
Profit for the year	1,84,400

Working Notes

1. Total Debtors Account

	Rs.		Rs.
To Balance b/d	35,400	By Cash (Balancing Figure)	8,76,600
To Credit Sales	9,00,000	By Balance c/d	58,800
	9,35,400		9,35,400

2. Total Creditors Account

	Rs.		Rs.
To Bank	8,90,000	By Balance b/d	84,400
To Balance c/d	22,400	By Credit Purchases	8,28,000
	9,12,400		9,12,400

3. Cash Account

	Cash (Rs.)	Bank (Rs.)		Cash (Rs.)	Bank (Rs.)
To Balance b/d	10,400	1,08,400	By Bank	10,34,000	-
To Sundry Debtors	8,76,600	-	By Wages	78,000	-
To Cash Sales (Balancing figure)	2,97,500	-	By Rent	30,000	-
To Cash A/c (Contra)	-	10,34,000	By Electricity & Telephone	24,000	-
			By Shop Expenses	18,000	-
			By Professional charges	-	34,000
			By Sundry Creditors A/c	-	8,90,000
			By Furniture	-	54,000
			By Drawings A/c	-	1,61,900
			By Balance c/d	500	2,500
	11,84,500	11,42,400		11,84,500	11,42,400

Question 10

Mr. Ashok keeps his books in Single Entry system. From the following information, prepare Trading and Profit & Loss Account for the year ended 31st March, 2006 and the Balance Sheet as on that date:

Assets and Liabilities	31.3.2005	31.3.2006
	(Rs.)	(Rs.)
Sundry Creditors	30,000	25,000
Outstanding expenses	1,000	500
Fixed Assets	23,000	22,000
Stock	16,000	22,500
Cash in Hand and at Bank	14,000	16,000
Sundry Debtors	?	36,000

Following further details are available for the Current year:

	Rs.		Rs.
Total receipts from debtors*	1,30,000	Cash purchases	2,000
Returns inward	3,000	Fixed Assets purchased and paid by cheque	1,000
Bad Debts	1,000	Drawings by cheques	6,500
Total Sales	1,50,000	Deposited into the bank	10,000
Discount received	1,500	Withdrawn from bank	18,500
Return outwards	1,000	Cash in hand at the end	2,500
Capital introduced (paid into Bank)	15,000	Paid to creditors by cheques	1,20,000
		Expenses paid	20,000
Cheques received from Debtors	1,25,000		

*The words given as "Cash receivable from debtors" in the question paper have been replaced by Total receipts from debtors" to draw the final accounts.

Answer

Trading and Profit and Loss Account

for the year ended on 31st March, 2006

	Particulars		*Amount Rs.*		*Particulars*		*Amount Rs.*
To	Opening Stock		16,000	By	Sales:		
To	Purchases:				Cash (W.N.1)	6,500	
	Cash	2,000			Credit	1,43,500	
	Credit (W.N.3)	1,17,500				1,50,000	
		1,19,500			*Less*:Returns	3,000	1,47,000
	Less: Returns	1,000	1,18,500	By	Stock		22,500
To	Gross Profit c/d		35,000				
			1,69,500				1,69,500
To	Expenses	20,000					
	Add: O/s at the end	500		By	Gross profit b/d		35,000
		20,500		By	Discount received		1,500
	Less: O/s at the beginning	1,000	19,500				
To	Bad debts		1,000				
To	Depreciation		2,000				
To	Net Profit		14,000				
			36,500				36,500

Balance Sheet

as on 31st March, 2006

Liabilities		*Amount Rs.*	*Assets*		*Amount Rs.*
Capital (W.N.5)	48,500		Fixed Assets	23,000	
Add: Additional Capital	15,000		*Add:* Purchased during the year	1,000	

Add: Net Profit	14,000		*Less:* Depreciation	2,000	22,000
Less: Drawings	6,500	71,000	Stock		22,500
Creditors		25,000	Cash		2,500
Outstanding Exp.		500	Bank		13,500
			Debtors		36,000
		96,500			96,500

Working Notes:

1. Cash Account

	Particulars	*Amount Rs.*		*Particulars*	*Amount Rs.*
To	Balance b/d	4,500	By	Purchases	2,000
To	Sales (Bal. Fig.)	6,500	By	Bank (contra)	10,000
To	Debtors	5,000	By	Expenses	20,000
To	Bank (contra)	18,500	By	Balance c/d	2,500
		34,500			34,500

2. Bank Account

	Particulars	*Amount Rs.*		*Particulars*	*Amount Rs.*
To	Balance b/d (Bal. Fig.)	9,500	By	Fixed Assets	1,000
To	Capital	15,000	By	Drawings	6,500
To	Cash (contra)	10,000	By	Cash (contra)	18,500
To	Debtors	1,25,000	By	Creditors	1,20,000
			By	Balance c/d	13,500
		1,59,500			1,59,500

3. Creditors Account

	Particulars	*Amount Rs.*		*Particulars*	*Amount Rs.*
To	Bank	1,20,000	By	Balance b/d	30,000
To	Returns	1,000	By	Purchase (Bal. Fig.)	1,17,500
To	Discount received	1,500			
To	Balance c/d	25,000			
		1,47,500			1,47,500

4. Debtors Account

	Particulars	Amount Rs.		Particulars	Amount Rs.
To	Balance b/d (Bal. Fig.)	26,500	By	Cash	5,000
To	Sales	1,43,500	By	Bank	1,25,000
			By	Bad Debts	1,000
			By	Returns	3,000
			By	Balance c/d	36,000
		1,70,000			1,70,000

5. Opening Balance Sheet as on 31.3.2005

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Creditors	30,000	Fixed Assets	23,000
O/s Expenses	1,000	Stock	16,000
Capital (Bal. Fig.)	48,500	Cash	4,500
		Bank (W.N.2)	9,500
		Debtors (W.N.4)	26,500
	79,500		79,500

Question 11

'A' and 'B' are in partnership sharing profits and losses equally. They keep their books by single entry system. The following balances are available from their books as on 31.3.2006 and 31.3.2007

	31.3.2006 Rs.	*31.3.2007 Rs.*
Building	*1,50,000*	*1,50,000*
Equipments	*2,40,000*	*2,72,000*
Furniture	*25,000*	*25,000*
Debtors	*?*	*1,00,000*
Creditors	*65,000*	*?*
Stock	*?*	*70,000*
Bank loan	*45,000*	*35,000*
Cash	*60,000*	*?*

The transactions during the year ended 31.3.2007 were the following:

	Rs.
Collection from debtors	*3,80,000*
Payment to creditors	*2,50,000*
Cash purchases	*65,000*
Expenses paid	*40,000*
Drawings by 'A'	*30,000*

On 1.4.2006 an equipment of book value Rs.20,000 was sold for Rs.15,000. On 1.10.2006, some equipments were purchased.

Cash sales amounted to 10% of sales.

Credit sales amounted to Rs.4,50,000.

Credit purchases were 80% of total purchases.

The firm sells goods at cost plus 25%.

Discount allowed Rs.5,500 during the year.

Discount earned Rs.4,800 during the year.

Outstanding expenses Rs.3,000 as on 31.3.2007.

Capital of 'A' as on 31.3.2006 was Rs.15,000 more than the capital of 'B', equipments and furniture to be depreciated at 10% p.a. and building @ 2% p.a.

You are required to prepare:

(I) Trading and Profit and Loss account for the year ended 31.3.2007 and

(ii) The Balance Sheet as on that date.

Answer

Trading and Profit and Loss A/c for the year ended 31.3.2007

			Rs.				Rs.
To	Opening stock (W.N.3)		1,45,000	By	Sales- Cash (W.N.1)	50,000	
To	Purchases-Cash	65,000			Credit	4,50,000	5,00,000
	Credit (W.N.2)	2,60,000	3,25,000	By	Closing stock		70,000
To	Gross profit c/d		1,00,000				
			5,70,000				5,70,000

To	Loss on sale of equipment (20,000-15,000)		5,000	By	Gross profit b/d	1,00,000
To	Depreciation			By	Discount received	4,800
	Building	3,000				
	Furniture	2,500				
	Equipment (W.N.4)	24,600	30,100			
To	Expenses paid	40,000				
	Add : Outstanding expenses	3,000	43,000			
To	Discount allowed		5,500			
To	Net profit transferred to:					
	A's capital A/c	10,600				
	B's capital A/c	10,600	21,200			
			1,04,800			1,04,800

Balance Sheet as on 31-3-2007

Liabilities		*Rs.*	*Assets*		*Rs.*
A's capital (W.N.7)	2,80,250		Building	1,50,000	
Less: Drawings	30,000		*Less:* Depreciation	3,000	1,47,000
	2,50,250		Equipments	2,72,000	
Add: Net profit	10,600	2,60,850	*Less:* Depreciation	24,600	2,47,400
B's capital (W.N.7)	2,65,250		Furniture	25,000	
Add: Net profit	10,600	2,75,850	*Less:* Depreciation	2,500	22,500
Sundry creditors (W.N.5)		70,200	Debtors		1,00,000
Bank loan		35,000	Stock		70,000
Outstanding expenses		3,000	Cash balance (W.N.8)		58,000
		6,44,900			6,44,900

Working Notes:

1. Calculation of total sales and cost of goods sold

Cash sales = 10% of total sales

Credit sales = 90% of total sales = Rs.4,50,000

Total sales = $\frac{4,50,000}{90} \times 100 = 5,00,000$

Cash sales = 10% of 5,00,000 = Rs.50,000

2. Calculation of total purchases and credit purchases

Cash purchases = Rs.65,000

Credit purchases = 80% of total purchases

Cash purchases = 20% of total purchases

Total purchases = $\frac{65,000}{20} \times 100 = Rs.3,25,000$

Credit purchases = 3,25,000 – 65,000 = Rs.2,60,000

3. Calculation of opening stock

Stock Account

	Rs.		Rs.
To Balance b/d (Bal. Fig.)	1,45,000	By Cost of goods sold $\frac{5,00,000}{125} \times 100$	4,00,000
To Total purchases (W.N.2)	3,25,000	By Balance c/d	70,000
	4,70,000		4,70,000

4. Purchase of equipment & depreciation on equipments

Equipment Account

		Rs.			Rs.
To	Balance b/d	2,40,000	By	Cash -equipment sold	15,000
To	Cash-purchase (Bal. Fig.)	52,000	By	Profit and Loss Accounts (Loss on sale)	5,000
			By	Balance c/d	2,72,000
		2,92,000			2,92,000

Depreciation on equipment:

@ 10% p.a. on Rs.2,20,000 (i.e Rs.2,40,000 – Rs.20,000)	=	22,000
@ 10% p.a. on Rs.52,000 for 6 months (i.e. during the year)	=	2,600
		24,600

5. Calculation of closing balance of creditors

Creditors Account

		Rs.			Rs.
To	Cash	2,50,000	By	Balance b/d	65,000
To	Discount received	4,800	By	Credit purchases (W.N.2)	2,60,000
To	Balance c/d (Bal. Fig.)	70,200			
		3,25,000			3,25,000

6. Calculation of opening balance of debtors

Debtors Account

		Rs.			Rs.
To	Balance b/d (Bal. Fig.)	35,500	By	Cash	3,80,000
To	Sales (Credit)	4,50,000	By	Discount allowed	5,500
			By	Balance c/d	1,00,000
		4,85,500			4,85,500

7. Calculation of capital accounts of A & B as on 31.3.2006

Balance Sheet as on 31.3.2006

Liabilities	*Rs.*	*Assets*	*Rs.*
Combined Capital Accounts of A & B (Bal. Fig.)	5,45,500	Building	1,50,000
Creditors	65,000	Equipments	2,40,000
Bank Loan	45,000	Furniture	25,000
		Debtors (W.N.6)	35,500
		Stock (W.N.3)	1,45,000
		Cash balance	60,000
	6,55,500		6,55,500

	Rs.
Combined Capitals of A & B	5,45,500
Less: Difference in capitals of A and B	15,000
	5,30,500

A's Capital as on 31.3.2006 = $\frac{5,30,500}{2} = 2,65,250 + 15,000 = \text{Rs.}2,80,250$

B's Capital as on 31.3.2006 = $\frac{5,30,500}{2} = \text{ Rs.}2,65,250$

8. Cash Account

		Rs.			Rs.
To	Balance b/d	60,000	By	Creditors	2,50,000
To	Debtors	3,80,000	By	Purchases	65,000
To	Equipment (sales)	15,000	By	Expenses	40,000
To	Cash sales (W.N.1)	50,000	By	A's drawings	30,000
			By	Bank loan paid (45,000-35,000)	10,000
			By	Equipment purchased (W.N.4)	52,000
			By	Balance c/d (Bal. Fig.)	58,000
		5,05,000			5,05,000

Question 12

Following incomplete information of X Ltd. are given below:

Trading and Profit & Loss Account for the year ended 31st March, 2008

		Rs.'000			Rs.'000
To	*Opening stock*	*700*	*By*	*Sales*	*?*
To	*Purchases*	*?*	*By*	*Closing stock*	*?*
To	*Direct expenses*	*175*			
To	*Gross profit c/d*	*?*			

		?			?
To	Establishment expenses	740	By	Gross profit b/d	?
To	Interest on loan	60	By	Commission	100
To	Provision for taxation	?			
To	Net profit c/d	?			
		?			?
To	Proposed dividends	?	By	Balance b/f	140
To	Transfer to general reserve	?	By	Net profit b/d	?
To	Balance transferred to Balance sheet	?			
		?			?

Balance Sheet as at 31st March, 2008

Liabilities	*Amount (Rs.'000)*	*Assets*	*Amount (Rs.'000)*
Paid-up capital	*1,000*	*Fixed assets:*	
General reserve:		*Plant & machinery*	*1,400*
Balance at the beginning of the year	*?*	*Other fixed assets*	*?*
Proposed addition	*?*	*Current assets:*	
Profit and loss account	*?*	*Stock*	*?*
10% Loan account	*?*	*Sundry debtors*	*?*
Current liabilities	*?*	*Cash at bank*	*125*
	?		*?*

Other information:

(i) *Current ratio is 2:1.*

(ii) *Closing stock is 25% of sales.*

(iii) *Proposed dividends to paid-up capital ratio is 2:3.*

(iv) *Gross profit ratio is 60% of turnover.*

(v) *Loan is half of current liabilities.*

(vi) *Transfer to general reserves to proposed dividends ratio is 1:1.*

(vii) *Profit carried forward is 10% of proposed dividends.*

(viii) *Provision for taxation is equal to the amount of net profit of the year.*

(ix) *Balance to credit of general reserve at the beginning of the year is twice the amount transferred to that account from the current year's profits.*

All working notes should be part of your answer. You are required to complete:

(i) *Trading and Profit and Loss account for the year ended 31st March, 2008 and*

(ii) *The Balance Sheet as on that date.*

Answer

Trading and Profit & Loss A/c

for the year ended 31st March, 2008

		(Rs. in '000s)			*(Rs. in '000s)*
To	Opening stock	700.00	By	Sales (W.N.10)	5366.66
To	Purchases (Bal. Fig.)	2613.33	By	Closing stock (W.N.11)	1341.67
To	Direct expenses	175.00			
To	Gross profit c/d (W.N.9)	3,220.00			
		6,708.33			6,708.33
To	Establishment expenses	740.00	By	Gross profit b/d (Bal. Fig.)	3,220.00
To	Interest on loan	60.00	By	Commission	100.00
To	Provision for tax (W.N.8)	1,260.00			
To	Net profit c/d	1,260.00			
		3,320.00			3,320.00
To	Proposed dividends (W.N.1)	666.67	By	Balance b/f	140.00
To	Transfer to general reserve (W.N.2)	666.67	By	Net profit b/d (Bal. Fig.)	1,260.00
To	Balance transferred to Balance sheet (W.N.3)	66.66			
		1,400.00			1,400.00

Balance Sheet as at 31st March, 2008

Liabilities	*(Rs. in '000s)*	*Assets*	*(Rs. in '000s)*
Paid-up capital	1,000.00	*Fixed assets:*	
General reserve:		Plant & machinery	1,400.00
Balance at the beginning (W.N.14)	1333.34	Other fixed assets (Bal. Fig.)	1066.67
Proposed addition (W.N.2)	666.67	*Current Assets:*	
Profit and loss A/c	66.66	Stock (W.N.11)	1341.67
10% Loan A/c (W.N.4)	600.00	Sundry debtors (W.N.13)	933.33
Current liabilities (W.N.5)	1,200.00	Cash at bank	125.00
	4,866.67		4,866.67

Working Notes:

1. Proposed dividend to paid up capital is 2:3.

   i.e. Proposed dividend = $\frac{2}{3}$ of paid up capital

   = Rs.1,000.00 thousand × $\frac{2}{3}$ = Rs. 666.67 thousand

2. Transfer to General Reserve is equal to proposed dividend i.e., 1:1.

   Proposed dividend is Rs.666.67 thousand,
   therefore general reserve is also Rs. 666.67 thousand.

3. Profit carried forward to Balance Sheet = 10% of Proposed Dividend

   i.e., Rs. 666.67 thousand × 10% = Rs.66.66 thousand

4. 10% Loan implies interest on loan being 10%

   i.e. Rs.60.00 thousand × $100/10$ = Rs.600.00 thousand

5. Loan is half of current liabilities which means current liabilities are twice of loan
   i.e., Rs.600.00 thousand × 2 = Rs.1,200.00 thousand

6. Current Ratio i.e., $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ = 2:1 or $\frac{2}{1}$

   i.e. Current Assets = 2 x Current Liabilities
   or 2 x Rs.1,200.00 thousand = Rs.2,400.00 thousand

7.	Current Net Profit	*(Rs. in '000s)*
	Proposed dividend	666.67
	Transfer to general reserve	666.67
	Profit and loss balance transferred to balance sheet	66.66
		1,400.00
	Less: Balance b/f	140.00
	Net profit for the year	1,260.00

8. Provision for taxation is equal to current net profit i.e., = Rs.1,260.00 thousand
9. Gross profit being balancing figure of Profit and Loss A/c = Rs.3,220.00 thousand
10. Gross profit = 60% of sales i.e.

    Rs.3,220.00 thousand = 60% of sales

    Or, sales = $Rs.3{,}220\ \text{thousand} \times \frac{100}{60}$ = Rs. 5,366.67 thousand
11. Closing stock is 25% of sales i.e., 25% of Rs. 5,366.67 thousand = Rs.1,341.67 thousand
12. Purchases being balancing figure of Trading A/c = Rs.2,613.33 thousand
13. Debtors = Current Assets – Closing Stock – Cash at Bank

    = Rs.2,400.00 thousand – Rs.1,341.67 thousand – Rs.125.00 thousand

    = Rs.933.33 thousand
14. Balance of general reserve at the beginning of the year is twice of the amount transferred to general reserve during the year i.e. 2 x Rs.666.67 thousand = Rs.1,333.34 thousand
15. Other fixed assets = Total of balance sheet (liabilities side)- Current assets – Plant and machinery

    i.e., Rs.4,866.67 thousand - Rs.2,400.00 thousand – Rs.1,400.00 thousand

    = Rs.1,066.67 thousand

Question 13

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	*As on 1.4.2007*	*As on 31.3.2008*
Cash in Hand	*10,000*	*10,000*
Sundry Creditors	*40,000*	*90,000*

Cash at Bank	*50,000 (Cr.)*	*80,000 (Dr.)*
Sundry Debtors	*1,00,000*	*3,50,000*
Stock in Trade	*2,80,000*	*?*

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors Rs. 7,00,000

(b) Payment for business expenses Rs. 1,20,000

(c) Receipts from debtors Rs. 7,50,000

(d) Loan from Laxman Rs. 1,00,000 taken on 1.10.2007 at 10% per annum

(e) Cash deposited in the bank Rs. 1,00,000

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

Prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.2008.

(ii) Balance Sheet as at 31st March, 2008.

Answer

Trading and Profit and Loss Account
for the year ended 31st March, 2008

		Rs.				Rs.
To	Opening stock	2,80,000	By	Sales		
To	Purchases	7,70,000		Cash		
				2,40,000		
To	Gross Profit @ 25%	3,10,000		Credit	10,00,000	12,40,000
			By	Closing Stock		1,20,000
		13,60,000				13,60,000
To	Salaries	40,000	By	Gross Profit		3,10,000
To	Business expenses	1,20,000				
To	Interest on loan	5,000				
To	Net Profit	1,45,000				
		3,10,000				3,10,000

Balance Sheet as at 31st March, 2008

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	80,000	3,65,000		
Loan from Laxman				
(including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		5,60,000

Working Notes:

1. Sundry Debtors Account

		Rs.			Rs.
To	Balance b/d	1,00,000	By	Bank A/c	7,50,000
To	Credit sales (Bal. fig)	10,00,000	By	Balance c/d	3,50,000
		11,00,000			11,00,000

2. Sundry Creditors Account

		Rs.			Rs.
To	Bank A/c	7,00,000	By	Balance b/d	40,000
To	Cash A/c	20,000	By	Purchases (Bal. fig.)	7,70,000
To	Balance c/d	90,000			
		8,10,000			8,10,000

3. Cash and Bank Account

		Cash	*Bank*			*Cash*	*Bank*
		Rs.	*Rs.*			*Rs.*	*Rs.*
To	Balance b/d	10,000		By	Balance b/d		50,000

To	Sales (bal. fig)	2,40,000		By	Bank A/c (C)	1,00,000	
To	Cash (C)		1,00,000	By	Salaries	40,000	
To	Debtors		7,50,000	By	Creditors	20,000	7,00,000
To	Laxman's loan		1,00,000	By	Drawings	80,000	
				By	Business expenses		1,20,000
				By	Balance c/d	10,000	80,000
		2,50,000	9,50,000			2,50,000	9,50,000

4. Calculation of Ram's Capital on 1st April, 2007

Balance Sheet as at 01.04.2007

Liabilities	*Rs.*	*Assets*	*Rs.*
Ram's Capital (bal. fig)	3,00,000	Cash in hand	10,000
Bank Overdraft	50,000	Sundry Debtors	1,00,000
Sundry Creditors	40,000	Stock in trade	2,80,000
	3,90,000		3,90,000

EXERCISES

Question 1

K. Azad, who is in business as a wholesaler in sunflower oil, is a client of your accounting firm. You are required to draw up his final accounts for the year ended 31.3.1996.

From the files, you pick up his Balance Sheet as at 31.3.1995 reading as below:

Balance Sheet as at 31.3.1995

Liabilities	*Rs.*	*Rs.*
K. Azad's Capital		*1,50,000*
Creditors for Oil Purchases		*2,00,000*
12% Security Deposit from Customers		*50,000*
Creditors for Expenses :		
Rent		*6,000*
Salaries		*4,000*
Commission		*20,000*
		4,30,000
Assets		
Cash and Bank Balances		*75,000*
Debtors		*1,60,000*
Stock of Oil (125 tins)		*1,25,000*
Furniture	*30,000*	
Less : Depreciation	*3,000*	*27,000*
Rent Advance		*12,000*
Electiricity Deposit		*1,000*
3–Wheeler Tempo Van	*40,000*	
Less : Depreciation	*10,000*	*30,000*
		4,30,000

A Summary of the rough Cash Book of K. Azad for the year ended 31.3.1996 is as below :

Cash and Bank Summary

Receipts		*Rs.*
	Cash Sales	*5,26,500*
	Collections from Debtors	*26,73,500*
Payments		
	To Landlord	*79,000*
	Salaries	*48,000*
	Miscellaneous Office Expenses	*12,000*
	Commission	*20,000*
	Personal Income–tax	*50,000*
	Transfer on 1.10.95 to 12% Fixed Deposit	*6,00,000*
	To Creditors for Oil Supplies	*24,00,000*

A scrutiny of the other records gives you the following information :

(i) *During the year oil was purchased at 250 tins per month basis at a unit cost of Rs. 1,000. 5 tins were damaged in transit in respect of which insurance claim has been preferred. The surveyors have since approved the claim at 80%. The damaged ones were sold for Rs. 1,500 which is included in the cash sales. One tin has been used up for personal consumption. Total number of tins sold during the year was 3,000 at a unit price of Rs. 1,750.*

(ii) *Rent until 30.9.95 was Rs. 6,000 per month and was increased thereafter by Rs. 1,000 per month. Additional advance rent of Rs. 2,000 was paid and this is included in the figure of payments to landlord.*

(iii) *Provide depreciation at 10% and 25% of WDV on furniture and tempo van respectively.*

(iv) *It is further noticed that a customer has paid Rs. 10,000 on 31.3.96 as security deposit by cash. One of the staff has defalcated. The claim against the Insurance Company is pending.*

You are requested to prepare final accounts for the year ended 31.3.96

(Answer: Gross Profit Rs.22.50.000; net Profit Rs. 21,26,300; Total of Balance Sheet Rs. 30,98,300)

Question 2

The following is the Balance Sheet of Sanjay, a small trader as on 31.3.96 :

(Figures in Rs. '000)

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital	*200*	*Fixed Assets*	*145*
Creditors	*50*	*Stock*	*40*
		Debtors	*50*
		Cash in Hand	*5*
		Cash at Bank	*10*
	250		*250*

A fire destroyed the accounting records as well as the closing cash of the trader on 31.3.97. However, the following information was available :

(a) Debtors and creditors on 31.3.97 showed an increase of 20% as compared to 31.3.96.

(b) Credit Period :

Debtors – 1 month Creditors – 2 months

(c) Stock was maintained at the same level throughout the year.

(d) Cash sales constituted 20% of total sales.

(e) All purchases were for credit only.

(f) Current ratio as on 31.3.97 was exactly 2.

(g) Total expenses excluding depreciation for the year amounted to Rs. 2,50,000.

(h) Depreciation was provided at 10% on the closing value of fixed assets.

(i) Bank and cash transactions :

(1) Payments to creditors included Rs. 50,000 by cash.

(2) Receipts from debtors included Rs. 5,90,000 by way of cheques.

(3) Cash deposited into the bank Rs. 1,20,000.

(4) Personal drawings from bank Rs. 50,000.

(5) Fixed assets purchased and paid by cheques Rs. 2,25,000.

You are required to prepare :

(a) The Trading and Profit & Loss Account of Sanjay for the year ended 31.3.97 and

(b) A Balance Sheet on that date.

For your exercise, assume cash destroyed by fire is written off in the Profit and Loss Account

(Answer: Gross 540; Net Profit 243; and Total Balance Sheet 453 – Rs. in '000s))

Question 3

Shri Rashid furnishes you with the following information relating to his business :

	1.1.1997	31.12.1997
(a) Assets and liabilities as on	*Rs.*	*Rs.*
Furniture (w.d.v)	*6,000*	*6,350*
Stock at cost	*8,000*	*7,000*
Sundry Debtors	*16,000*	*?*
Sundry Creditors	*11,000*	*15,000*
Prepaid expenses	*600*	*700*
Unpaid expenses	*2,000*	*1,800*
Cash in hand and at bank	*1,200*	*625*

(b) Receipts and payments during 1997 :

Collections from debtors, after allowing discount of Rs. 1,500 amounted to Rs. 58,500.

Collections on discounting of bills of exchange, after deduction of discount of Rs. 125 by the bank, totalled to Rs. 6,125.

Creditors of Rs. 40,000 were paid Rs. 39,200 in full settlement of their dues.

Payment for freight inwards Rs. 3,000.

Amounts withdrawn for personal use Rs. 7,000.

Payment for office furniture Rs. 1,000.

Investment carrying annual interest of 4% were purchased at Rs. 96 on 1st July, 1997 and payment made therefor.

Expenses including salaries paid Rs. 14,500.

Miscellaneous receipts Rs. 500.

(c) *Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 10,000. Of these, bills of exchange of Rs. 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 400 was dishonoured.*

(d) *Goods costing Rs. 900 were used as advertising materials.*

(e) *Goods are invariably sold to show a gross profit of $33^{1}/_{3}$% on sales.*

(f) *Difference in cash book, if any, is to be treated as further drawing or introduc-tion by Shri Rashid.*

(g) *Provide at 2.5% for doubtful debts on closing debtors.*

Rashid asks you to prepare trading and profit and loss a/c for the year ended 31st December, 1997 and the balance sheet as on that date.

(Answer: Gross Profit Rs.24,350; Net Profit Rs. 7,791; Total of Balance Sheet = Rs.35,487)

CHAPTER 11

HIRE PURCHASE AND INSTALLMENT PAYMENT SYSTEM

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

Under Hire Purchase System, hire purchaser will pay cost of purchased asset in installments. The ownership of the goods will be transferred by the Hire Vendor only after payment of outstanding balance.

- Under installment system, ownership of the goods is transferred by owner on the date of delivery of goods.
- Accounting Method when goods have substantial sales under Hire Purchase System
  - Cash price Method
  - Interest suspense method
- Accounting Method when goods have small sales under Hire Purchase System
  - Debtor method
  - Stock & Debtor Method

Question 1

Omega Corporation sells computers on hire purchase basis at cost plus 25%. Terms of sales are Rs. 10,000 as down payment and 8 monthly instalments of Rs. 5,000 for each computer. From the following particulars prepare Hire Purchase Trading Account for the year 1999.

As on 1st January, 1999 last instalment on 30 computers was outstanding as these were not due up to the end of the previous year.

During 1999 the firm sold 240 computers. As on 31st December, 1999 the position of instalments outstanding were as under :

Instalments due but not collected :

2 instalments on 2 computers and last instalment on 6 computers.

Instalments not yet due :

8 instalments on 50 computers, 6 instalments on 30 and last instalment on 20 computers.

Two computers on which 6 instalments were due and one instalment not yet due on 31.12.99 had to be repossessed. Repossessed stock is valued at 50% of cost. All other instalments have been received.

Answer

In the books of Omega Corporation

Hire Purchase Trading Account

for the year ended on 31st Dec., 1999

Dr.				*Cr*
	Rs.	*Rs.*		*Rs.*
To Hire Purchase Stock			By Hire Purchase	
(30×Rs. 5,000)		1,50,000	Sales (W.N. 2)	91,40,000
To Goods Sold on			By Stock Reserve	
Hire Purchase			(Rs. 1,50,000×20%)	30,000
(240×Rs. 50,000)		1,20,00,000		
To Bad Debts		12,000	By Goods sold on	
			Hire Purchase	
To Loss on Re-			(Rs. 1,20,00,000× 20%)	24,00,000
possession	16,000		By Hire Purchase Stock	
Less : Instalments			[(8×50+6×30+1×20)×	30,00,000
not yet due	8,000	8,000	Rs. 5,000]	

To Stock Reserve (30,00,000 ×20%)	6,00,000		
To Profit & Loss A/c (Transfer of Profit)	18,00,000		
	1,45,70,000		1,45,70,000

Alternatively, hire purchase trading account can be prepared in the following manner:

Hire Purchase Trading Account

for the year ended on 31st Dec., 1999

	Rs.		Rs.
To Hire Purchase Stock (30×Rs. 5,000)	1,50,000	By Cash (W.N.1)	90,30,000
To Goods Sold on Hire Purchase (240×Rs. 50,000)	1,20,00,000	By Stock Reserve (Rs. 1,50,000×20%)	30,000
To Stock Reserve (Rs. 30,00,000 × 20%)	6,00,000	By Goods Sold on Hire Purchase (Rs. 1,20,00,000×20%)	24,00,000
To Profit & Loss A/c (Transfer of Profit)	18,00,000	By Goods Repossessed (2×Rs. 40,000×50%)	40,000
		By Instalments Due [(2×2+1×6)×Rs. 5,000]	50,000
		By Hire Purchase Stock [8×50+6×30+1×20)×Rs. 5,000]	30,00,000
	1,45,50,000		1,45,50,000

Working Notes :

	Rs.
(1) Cash collected:	
Cash down payment (240 × Rs. 10,000)	24,00,000
Add : Instalments collected :	
Last instalments on 30 computers outstanding on 1.4.99	1,50,000
Instalments due and collected on 240 computers sold	

during the year :			
Total instalments on 240 computers			
(8 × 240 × Rs. 5,000)		96,00,000	
Less : Instalments due but not collected			
[(2 × 2 + 1 × 6 + 6 × 2) × Rs. 5,000]	1,10,000		
Instalments not due on 31.12.99			
[(8 × 50 + 6 × 30 + 1 × 20 +			
1 × 2) × Rs. 5,000]	30,10,000	31,20,000	64,80,000
			90,30,000

(2) *Hire purchase sales:*

Cash collected	90,30,000
Add : Instalments due but not collected	
[(2 × 2 + 1 × 6 + 6 × 2) × Rs. 5,000]	1,10,000
	91,40,000

(3) *Loss on repossessed computers:*

Cost of instalments due but not collected	
(6 × 2 × Rs. 4,000)	48,000
Cost of Instalments not yet due	
(1 × 2 × Rs. 4,000)	8,000
	56,000
Less : Estimated value of repossessed computers	
(2 × Rs. 40,000 × 50%)	40,000
Loss	16,000

(4) *Bad debts (in respect of repossessed computers):*

Instalments due but not collected	
(6 × 2 × Rs. 5,000)	60,000
Cost of installments not due on 31.12.99	
(1 × 2 × Rs. 5,000 × 80%)	8,000
	68,000
Less : Cost of instalments due but not collected	

(6 × 2 × Rs. 4,000)	48,000	
Cost of instalments not yet due		
(1 × 2 × Rs. 4,000)	8,000	56,000
Bad debts		12,000

Question 2

Welwash (Pvt.) Ltd. sells washing machines for outright cash as well as on hire-purchase basis. The cost of a washing machine to the company is Rs. 10,500. The company has fixed cash price of the machine at Rs. 12,300 and hire-purchase price, at Rs. 13,500 payable as to Rs. 1,500 down and the balance in 24 equal monthly instalments of Rs. 500 each.

On Ist April, 2000 the company had 26 washing machines lying in its showroom. On that date 3 instalments had fallen due, but not yet received and 675 instalments were yet ot fall due in respect of machines lying with the hire purchase customers.

During the year ended 31st March, 2001 the company sold 130 machines on cash basis and 80 machines on hire-purchase basis. After paying five monthly instalments, one customer failed to pay subsequent instalments and the company had to repossess the washing machine. After spending Rs. 1,000 on it, the company resold it for Rs. 11,500.

On 31st March, 2001 there were 21 washing machines in stock, 810 instalments were yet to fall due and 5 instalments had fallen due, but not yet received in respect of washing machines lying with the hire-purchase customers. Total selling expenses and office expenses including depreciation on fixed assets totalled Rs. 1,60,000 for the year.

You are required to prepare for the Accounting Year ended 31st March, 2001:

(i) Hire purchase Trading Account, and

(ii) Trading and Profit and Loss Account showing net profit earned by the company after making provision for income-tax @ 35%.

Answer

In the books of Welwash (Pvt.) Ltd.

Hire Purchase Trading Account

for the year ended on 31st March, 2001

Dr.			*Cr*
	Rs.		*Rs.*
To Hire Purchase Stock		By Cash (W.N. 1)	10,02,000
(Rs. 500 × 675)	3,37,500		

To Instalments due		By Stock Reserve	75,000
Rs. (500 × 3)	1,500	$\left(Rs.3{,}37{,}500 \times \frac{3{,}000}{13{,}500}\right)$	
To Goods sold on Hire Purchase		By Goods Repossessed	
(Rs. 13,500×80)	10,80,000	(Rs. 13,500–Rs. 1,500–Rs. 2,500)	9,500
To Stock Reserve		By Goods sold on Hire Purchase	
$\left(Rs.4{,}05{,}000 \times \frac{3{,}000}{13{,}500}\right)$	90,000	$\left(Rs.10{,}80{,}000 \times \frac{3{,}000}{13{,}500}\right)$	2,40,000
To Profit and Loss A/c		By Hire Purchase Stock	
(Transfer of profit)	2,25,000	(Rs. 500 × 810)	4,05,000
		By Instalments due	
		(Rs. 500 × 5)	2,500
	17,34,000		17,34,000

Trading and Profit and Loss Account

for the year ended on 31st March, 2001

	Rs.		*Rs.*
To Opening Stock	2,73,000	By Sales (Rs. 12,300×130)	15,99,000
(Rs.10,500×26)			
To Purchases		By Goods sold on Hire Purchase	
Rs. 10,500×(130+80+21–26)	21,52,500	(Rs. 10,80,000–Rs. 2,40,000)	8,40,000
To Gross Profit	2,34,000	By Closing Stock (Rs. 10,500×21)	2,20,500
	26,59,500		26,59,500
To Sundry Expenses	1,60,000	By Gross Profit	2,34,000
To Provision for Income Tax		By Hire Purchase Trading A/c	2,25,000
(35% of Rs. 3,00,000)	1,05,000	By Goods Repossessed	
To Net Profit for the year	1,95,000	(Rs. 11,500–Rs.1,000–Rs. 9,500)	1,000
	4,60,000		4,60,000

Working Notes :

	Rs.
(1) Cash collected during the year	
Hire purchase stock on 1.4.2000	3,37,500

Instalments due on 1.4.2000		1,500
Hire purchase price of goods sold during the year		10,80,000
		14,19,000
	Rs.	
Less : Repossessed goods	9,500	
Hire purchase stock on 31.3.2001	4,05,000	
Instalments due on 31.3.2001	2,500	4,17,000
Cash collected during the year		10,02,000

(2) *Washing machines purchased during the year*

	No.	*No.*
Closing balance	21	
Add : Cash Sales	130	
Sales on hire purchase basis	80	231
Less : Opening stock		26
Purchase during the year		205

Purchases 205 × Rs. 10,500 = Rs. 21,52,500

Question 3

A acquired on 1st January, 2003 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of Rs. 6,000 each, the first instalment being due on 1st July, 2003. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer.

Answer

Statement showing cash value of the machine acquired on hire-purchase basis

	Instalment Amount	*Interest @ 5% half yearly (10% p.a.) = 5/105 = 1/21) (in each instalment)*	*Principal Amount (in each instalment)*
	Rs.	*Rs.*	*Rs.*
5th Instalment	6,000	286	5,714

Less: Interest	– 286		
	5,714		
Add: 4th Instalment	6,000		
	11,714	558	5,442
Less: Interest	558		(11,156–5,714)
	11,156		
Add: 3rd instalment	6,000		
	17,156	817	5,183
Less: Interest	817		(16,339–11,156)
	16,339		
Add: 2nd instalment	6,000		
	22,339	1,063	4,937
Less: Interest	1,063		(21,276–16,339)
	21,276		
Add: 1st instalment	6,000		
	27,276	1,299	4,701
Less: Interest	1,299		(25,977–21,276)
	25,977	4,023	25,977

The cash purchase price of machinery is Rs. 25,977.

Question 4

Sameera Corporation sells Computers on Hire-purchase basis at cost plus 25%. Terms of sales are 5,000/- as Down payment and 10 monthly instalments of Rs. 2,500/- for each Computer. From the following particulars, prepare Hire-purchase Trading A/c for the year 2002-2003:

As on 1st April, 2002, last instalment on 20 Computers were outstanding as these were not due upto the end of the previous year. During 2002—03, the firm sold 120 Computers. As on 31st March, 2003 the position of instalments outstanding were as under:

Instalments due but not collected	*4 Instalments on 4 Computers and Last instalment on 9 Computers*
Instalments not yet due	*6 Instalments on 50 Computers, 4 Instalments on 20 and Last Instalment on 40 Computers*

Two Computers on which 8 Instalments were due and one Instalment not yet due on 31.03.2003, *had to be repossessed. Repossessed stock is valued at 50% of cost. All other Instalments have been received.*

Answer

In the books of Sameera Corporation

Hire Purchase Trading Account

for the year ended 31st March, 2003

Dr. *Cr.*

			Amount Rs.			*Amount* Rs.
To	Hire Purchase Stock (20 × Rs. 2,500)		50,000	By	Hire Purchase Sales (W.N. 2)	25,95,000
To	Goods sold on Hire Purchase (120×Rs.30,000)		36,00,000	By	Stock Reserve (Rs. 50,000 × 20%)	10,000
To	Bad Debts (W.N. 4)		8,000	By	Goods sold on Hire Purchase (Rs. 36,00,000 × 20%)	7,20,000
To	Loss on Repossession	12,000				
	Less: Instalments not yet due	4,000	8,000	By	Hire Purchase Stock [(6×50+4×20+ 1×40) × Rs. 2,500]	10,50,000
To	Stock Reserve (Rs.10,50,000 × 20%)		2,10,000			
To	Profit and Loss Account (Transfer of Profit)		4,99,000			
			43,75,000			43,75,000

Alternatively the Hire Purchase Trading A/c can be prepared in the following manner:

Hire Purchase Trading Account

for the year ended 31st March, 2003

		Amount *Rs.*			*Amount* *Rs.*
To	Hire Purchase Stock (20 × Rs. 2,500)	50,000	By	Cash Account (W.N. 1)	24,92,500

To	Goods sold on Hire Purchase (120×Rs.30,000)	36,00,000	By	Stock Reserve (Rs. 50,000 × 20%)	10,000
To	Stock Reserve (Rs.10,50,000 × 20%)	2,10,000	By	Goods sold on Hire Purchase (Rs. 36,00,000 × 20%)	7,20,000
To	Profit and Loss Account (Transfer of Profit)	4,99,000	By	Goods Repossessed (2 × Rs. 24,000 × 50%)	24,000
			By	Instalments due [(4 × 4 + 1 × 9) × Rs. 2,500]	62,500
			By	Hire Purchase Stock [(6 × 50 + 4 × 20 + 1 × 40) × Rs. 2,500]	10,50,000
		43,59,000			43,59,000

Question 5

ABC Ltd. sells goods on Hire-purchase by adding 50% above cost. From the following particulars, prepare Hire-purchase Trading account to reveal the profit for the year ended 31.3.2005:

		Rs.
1.4.2004	*Instalments due but not collected*	*10,000*
1.4.2004	*Stock at shop (at cost)*	*36,000*
1.4.2004	*Instalment not yet due*	*18,000*
31.3.2005	*Stock at shop*	*40,000*
31.3.2005	*Instalments due but not collected*	*18,000*
Other details:		
Total instalments became due		*1,32,000*
Goods purchased		*1,20,000*
Cash received from customers		*1,21,000*

Goods on which due instalments could not be collected were repossessed and valued at 30% below original cost. The vendor spent Rs. 500 on getting goods overhauled and then sold for Rs. 2,800.

Answer

In the Books of ABC Ltd.

Hire Purchase Trading Account

for the year ended 31st March, 2005

Dr.			*Rs.*				*Cr.* *Rs.*
1.1.2004	To	Hire purchase stock	18,000	1.1.2004	By	Stock reserve (1/3 of Rs. 18,000)	6,000
1.1.2004 to 31.3.2005	To	Goods sold on hire Purchase	1,74,000	1.1.2004 to 31.3.2005	By	Hire purchase sales	1,32,000
	To	Loss on repossession of goods (W.N. 5)	1,600		By	Goods sold on hire purchase (1/3 of Rs. 1,74,000)	58,000
31.3.2005	To	Stock reserve	20,000		By	Profit on sale of repossessed goods (W.N. 4)	900
	To	Profit and loss account (Transfer of profit)	43,300	31.3.2005	By	Hire purchase stock (W.N. 3)	60,000
			2,56,900				2,56,900

Alternatively, Hire Purchase Trading Account can be prepared in the following manner:

Hire Purchase Trading Account

for the year ended 31st March, 2005

Dr.			*Rs.*				*Cr.* *Rs.*
1.1.2004	To	Hire purchase stock	18,000	1.1.2004	By	Stock reserve (1/3 of Rs. 18,000)	6,000
1.1.2004	To	Hire purchase debtors	10,000				
to 31.3.2005	To	Goods sold on hire purchase	1,74,000	1.1.2004 to 31.3.2005	By	Cash (Rs. 1,21,000 + Rs. 2,800)	1,23,800
	To	Cash (Overhauling charges)	500	31.3.2005	By	Goods sold on hire purchase (1/3 of Rs. 1,74,000)	58,000
31.3.2005	To	Stock reserve	20,000				
	To	Profit and loss account		31.3.2005	By	Hire purchase stock	60,000

			By	Hire purchase debtors	18,000
	(Transfer of profit)	43,300			
		2,65,800			2,65,800

Working Notes:

1. Memorandum Instalment due but not collected (hire purchase debtors) account

Dr.					*Cr.*
		Rs.			*Rs.*
To	Balance b/d	10,000	By	Cash	1,21,000
To	Hire purchase sales	1,32,000	By	Repossessed stock (Balancing figure)	3,000
			By	Balance c/d	18,000
		1,42,000			1,42,000

2. Memorandum shop stock account

Dr.					*Cr.*
		Rs.			*Rs.*
To	Balance b/d	36,000	By	Goods sold on hire purchase (Balancing figure)	1,16,000
To	Purchases	1,20,000			
			By	Balance c/d	40,000
		1,56,000			1,56,000

3. Memorandum Instalment not yet due (hire purchase stock) account

Dr.					*Cr.*
		Rs.			*Rs.*
To	Balance b/d	18,000	By	Hire purchase Sales	1,32,000
To	Goods sold on hire purchase [1,16,000 + (1,16,000 $\times$ 50%)]	1,74,000	By	Balance c/d (Balancing figure)	60,000
		1,92,000			1,92,000

4. Goods Repossessed account

Dr.					Cr.
		Rs.			Rs.
To	Hire purchase debtors	3,000	By	Hire purchase trading account (W.N. 5)	1,600
			By	Balance c/d (W.N. 5)	1,400
		3,000			3,000
To	Balance b/d	1,400	By	Cash account	2,800
To	Cash account (expenses)	500			
To	Profit on sale	900			
		2,800			2,800

5.

	Rs.
Original cost of goods repossessed $\left(\text{Rs.}\,3{,}000 \times \frac{100}{150}\right)$	2,000
Instalments due but not received	3,000
Valuation of repossessed goods (70% of Rs. 2,000)	1,400
Loss on repossession	1,600

Question 6

Computer point sells computers on Hire-purchase basis at cost plus 25%. Terms of sale are Rs.5,000 down payment and eight monthly instalments of Rs.2,500 for each computer.

The following transactions took place during the financial year 2006-07:

Number of instalments not yet due as on 1.4.2006 = 25

Number of instalments due but not collected as on 1.4.2006 = 5

During the financial year 240 computers were sold. Out of the above sold computers during the year the outstanding position were as follows as on 31.3.2007:

Instalments not yet due:

(i) Eight instalments on 50 computers.

(ii) *Six instalments on 30 computers.*

(iii) *Two instalments on 10 computers.*

Instalments due but not collected:

Two instalments on 5 computers during the year. Two computers on which five instalments were due and two instalments not yet due were repossessed out of sales effected during current year. Repossessed stock is valued at 50% of cost. All instalments have been received. You are asked to prepare Hire-Purchase Trading Account for the year ending on 31.3.2007.

Answer

Dr. **Hire Purchase Trading Account for the year ended 31.3.2007** *Cr.*

		Rs.			Rs.
To	Hire purchase stock (25 x Rs. 2,500)	62,500	By	Stock reserve ($62,500 \times \frac{25}{125}$)	12,500
To	Hire purchase debtors (5 x Rs. 2,500)	12,500	By	Goods sold on hire purchase A/c – Loading ($60,00,000 \times \frac{25}{125}$)	12,00,000
To	Goods sold on hire purchase (240 computers x Rs.25,000*)	60,00,000	By	Cash A/c (W.N.1)	45,15,000
To	Stock reserve ($Rs.15,00,000 \times \frac{25}{125}$)	3,00,000	By	Repossessed goods (W.N.2)	20,000
To	Profit transferred to P & L A/c	8,97,500	By	Hire purchase debtors (2 x 5 x Rs.2,500)	25,000
			By	Hire purchase stock [(8x50)+(6x30)+(2x10) x Rs.2,500]	15,00,000
		72,72,500			72,72,500

Working Notes:

1. Calculation of cash collected during the year

		Rs.
Down payment received on 240 computers sold during the year (240 x Rs.5,000)		12,00,000
Number of Instalments due and collected:	No. of instalments	

* Hire purchase price of a computer = Rs. 5,000 + (Rs. 2,500 x 8) = Rs. 25,000.

Total Instalments (8 instalments x 240 computers)	1,920	
Add: Opening hire purchase debtors	25	
Add: Opening hire purchase stock	5	
	1950	
Less: Closing hire purchase debtors (2 x 5)	10	
	1,940	
Less: Closing hire purchase stock		
8 x 50 = 400		
6 x 30 = 180		
2 x 10 = 20	600	
	1,340	
Less: Repossessed computer (5 x 2 + 2 x 2)	14	
Total number of instalments received during the year	1,326	
Total amount of instalments received (1,326 instalments x Rs.2,500)		33,15,000
Instalments collected during the year		45,15,000

2. Value of repossessed computers

Hire purchase price of two repossessed computers = [Rs.5,000 + (8 x Rs. 2,500)] x 2 computers

= Rs.50,000

Cost price of the repossessed computers $= \frac{\text{Rs.}50{,}000}{125} \times 100 = \text{Rs. } 40{,}000$

Value of repossessed computers = Rs.40,000 x 50% = Rs.20,000

Alternatively Hire Purchase Trading Account can also be prepared in the following manner:

Dr. *Hire Purchase Trading Account for the year ended 31.3.2007* **Cr.**

		Rs.			*Rs.*
To	Hire purchase stock (25 x Rs. 2,500)	62,500	By	Stock reserve ($62{,}500 \times \frac{25}{125}$)	12,500
To	Hire purchase debtors (5 x Rs. 2,500)	12,500	By	Hire purchase sales A/c (W.N.1)	45,65,000
To	Goods sold on hire purchase	60,00,000	By	Goods sold on hire purchase A/c –	

	(240 computers x Rs.25,000)			Loading ($60,00,000 \times \frac{25}{125}$)	12,00,000
To	Bad debts (W.N.3)	5,000	By	Hire purchase stock [(8x50)+(6x30)+(2x10) x Rs.2,500]	15,00,000
To	Loss on goods repossessed (W.N.2) 8,000 *Less :* Cost of instalments not due 8,000	Nil			
To	Stock reserve $15,00,000 \times \frac{25}{125}$	3,00,000			
To	Profit transferred to P & L A/c	8,97,500			
		72,77,500			72,77,500

Working Notes:

1. Calculation of hire purchase sales

	Rs.
Cash collected (As per the working note 1 of the Alternate solution given above)	45,15,000
Add: Instalments due but not collected (including repossessed computers) (2 x Rs.2,500 x 5) + (5 x Rs.2,500 x 2)	5,00,000
	45,65,000

2. Calculation of loss on repossessed computers

Cost of instalments due but not collected $\frac{(2 \times 2{,}500 \times 5)}{125} \times 100$	20,000
Add: Cost of instalments not yet due $\frac{(2 \times 2{,}500 \times 2)}{125} \times 100$	8,000
	28,000
Less : Value of repossessed computers $\left[\frac{(2 \times 25{,}000)}{125} \times 100\right] \times 50\%$	20,000
Loss on repossessed computers	8,000

3. Bad debts (in respect of repossessed computers)

Instalments due but not collected (5 x Rs.2,500 x 2)		25,000
Add: Cost of installments not due $\frac{(2 \times \text{Rs. } 2{,}500 \times 2)}{125} \times 100$		8,000
		33,000
Less : Cost of instalments due but not collected		
$\frac{(5 \times \text{Rs.}2{,}500 \times 2)}{125} \times 100$	20,000	
Cost of instalments not yet due		
$\frac{(2 \times \text{Rs. } 2{,}500 \times 2)}{125} \times 100$	8,000	28,000
Bad debts on repossessed computers		5,000

Question 7

Easy buy Corporation sells goods on hire-purchase basis. The hire-purchase price is cost plus 60%.

It furnishes you the following information:

	Rs.
Hire Purchase stock on 1.4.2007	*2,40,000*
Installments due on 1.4.2007	*45,000*
Goods sold on hire purchase from 1.4.2007 to 31.3.2008	*9,60,000*
Cash collected from HP debtors during 1.4.2007 to 31.3.2008	*3,00,000*
Stock with customers at hire-purchase price on 31.3.2008	*6,40,000*

You are required to prepare Hire Purchase Trading Account for the year ended 31st March, 2008.

Answer

Hire Purchase Trading Account

For the year ended 31.3.2008

		Rs.			*Rs.*
To	Hire purchase stock (Opening)	2,40,000	By	Hire purchase stock reserve (Opening)	90,000
To	Instalments due (Opening)	45,000	By	Bank (Collections)	3,00,000

To	Goods sold on hire purchase	9,60,000	By	Goods sold on hire purchase (Loading)	3,60,000
To	Hire purchase stock reserve (Closing)	2,40,000	By	Hire purchase stock (Closing)	6,40,000
To	Profit and loss A/c	2,10,000	By	Instalments due (Closing)	3,05,000
		16,95,000			16,95,000

Working Notes:

Memorandum Hire Purchase Stock A/c

	Rs.		Rs.
To Balance b/d	2,40,000	By Hire Purchase debtors A/c (Balancing Figure)	5,60,000
To Goods sold on hire purchase	9,60,000	By balance c/d	6,40,000
	12,00,000		12,00,000

Memorandum Hire Purchase Debtors A/c

	Rs.		Rs.
To Balance b/d	45,000	By Cash/Bank A/c	3,00,000
To Hire purchase stock A/c	5,60,000	By balance c/d (Balancing Figure)	3,05,000
	6,05,000		6,05,000

EXERCISES

Question 1

Krishna Agencies started business on 1st April, 1994. During the year ended 31st March, 1995, they sold under-mentioned durables under two schemes — Cash Price Scheme (CPS) and Hire-Purchase Scheme (HPS).

Under the CPS they priced the goods at cost plus 25% and collected it on delivery.

Under the HPS the buyers were required to sign a Hire-purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 instalments, the value being calculated at Cash Price plus 50%.

The following are the details available at the end of 31st March, 1995 with regard to the products :

Product	Nos. purchased	Nos. sold under CPS	Nos. sold under HPS	Cost per unit Rs.	No. of instalments due during the year	No. of instalments received during the year
TV sets	90	20	60	16,000	1,080	1,000
Washing Machines	70	20	40	12,000	840	800

The following were the expenses during the year :

	Rs.
Rent	1,20,000
Salaries	1,44,000
Commission to Salesmen	12,000
Office Expenses	1,20,000

From the above information, you are required to prepare :

(a) Hire-purchase Trading Account, and

(b) Trading and Profit & Loss Account.

(Answer: total of Hire Purchase Trading Account = Rs. 39,60,000; **Gross Profit Rs.1,40,000; and Net Profit Rs.5,42,000)**

Question 2

ABC Associates entered into a financial lease agreement on 1.4.1995 with Flexible Leasing Ltd. for lease of a car. The price of the car was Rs. 2,00,000 and the quarterly lease rentals were agreed at Rs. 90 per thousand payable at the beginning of every quarter. ABC Associates kept up their payments but by 25.3.1996 they approached and obtained the consent of the leasing company for treating the arrangement as one of Hire-purchase from the beginning on the following terms :

Period: 3 years

Quarterly hire : Rs. 30,000 payable at the beginning of the quarter.

It was agreed that the lease rentals paid will be treated as hire monies and that the balance due upto 31.3.1996 will be settled by ABC Associates on that date with interest at 18% p.a. on various instalments due during the year. The rate of depreciation on the car is 25%.

Show the following accounts in the books of ABC Associates for the year 1995-96:

Flexible Leasing Ltd.'s A/c and Interest Suspense A/c.

Calculations are to be rounded off to the nearest rupee

(Answer: Total of Flexible Leasing Limited Account Rs. 3,65,400; and Total of Interest Suspense Account Rs. 1,60,000)

CHAPTER 12

INVESTMENT ACCOUNTS

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- Investment Accounting is done as per Accounting Standard-13.
- Two type of Investments :
  - Long Term Investments
  - Current Investments
- Valuation of Current investment – Lower of Cost or Fair Value/net Realizable Value
- Valuation of Long Term investment – At cost
- Reclassification :
  - From Current to Permanent $\rightarrow$ Valuation at Cost or Fair value, whichever is lower
  - From Permanent to Current $\rightarrow$ Valuation at Cost or Carrying Amount, whichever is lower
- Disposal of Investment:
  - Difference between carrying amount and disposal proceeds is transferred to Profit & Loss A/c.
  - In case of partial sale, weighted average method to be used.

Question 1

On 1.4.2002, Mr. Krishna Murty purchased 1,000 equity shares of Rs. 100 each in TELCO Ltd. @ Rs. 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per Rs. 100 as cost of shares transfer stamps. On 31.1.2003 Bonus was declared in the ratio of 1 : 2. Before and after the record date of bonus shares, the shares were quoted at Rs. 175 per share and Rs. 90 per share respectively. On 31.3.2003 Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Krishna Murty, who held the shares as Current assets and closing value of investments shall be made at Cost or Market value whichever is lower.

Answer

In the books of Mr. Krishna Investment Account

for the year ended 31st March, 2003

(Scrip: Equity Shares of TELCO Ltd.)

Dr. *Cr.*

Date		*Particulars*	*Nominal Value (Rs.)*	*Cost (Rs.)*	*Date*		**Particulars**	*Nominal Value (Rs.)*	*Cost (Rs.)*
1.4.2002	To	Bank A/c	1,00,000	1,23,000	31.3.2003	By	Bank A/c	50,000	44,100
31.1.2003	To	Bonus shares	50,000	–	31.3.2003	By	Balance c/d	1,00,000	82,000
31.3.2003	To	Profit & loss A/c	–	3,100					
			1,50,000	1,26,100				1,50,000	1,26,100

Working Notes:

(i) Cost of equity shares purchased on 1.4.2002 = 1,000 × Rs. 120 + 2% of Rs. 1,20,000 + ½% of Rs. 1,20,000 = Rs. 1,23,000

(ii) Sale proceeds of equity shares sold on 31st March, 2003 = 500 × Rs. 90 – 2% of Rs. 45,000 = Rs. 44,100.

(iii) Profit on sale of bonus shares on 31st March, 2003

= Sales proceeds – Average cost

Sales proceeds = Rs. 44,100

Average cost = Rs. (1,23,000 × 50,000)/1,50,000

= Rs. 41,000

Profit = Rs. 44,100 – Rs. 41,000 = Rs. 3,100.

(iv) Valuation of equity shares on 31st March, 2003

Cost = (Rs. 1,23,000 × 1,00,000)/1,50,000 = Rs. 82,000)

Market Value = 1,000 shares × Rs. 90 = Rs. 90,000

Closing balance has been valued at Rs. 82,000 being lower than the market value.

EXERCISES

Question

On 1.4.96, Sundar had 25,000 equity shares of 'X' Ltd.at a book value of Rs. 15 per share (Face value Rs.10). On 20.6.96, he purchased another 5,000 shares of the company at Rs. 16 per share. The directors of 'X'Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The tems of the issue are as follows:

Bonus basis 1:6 (Date 16.8.96).

Rights basis 3:7 (Date 31.8.96) Price Rs. 15 per share.

Due date for payment 30.9.96.

Shareholders can transfer their rights in full or in part. Accordingly Sundar sold 33.33% of his entitlement to Sekhar for a consideration of Rs. 2 per share.

Dividends: Dividends for the year ended 31.3.96 at the rate of 20% were declared by X Ltd. and received by Sundar on 31.10.96. Dividends for shares acquired by him on 20.6.96 are to be adjusted against the cost of purchase.

On 15.11.96, Sundar sold 25,000 equity shares at a premium of Rs. 5 per share.

You are required to prepare in the books of Sundar.

(1) Investment Account

(2) Profit & Loss Account.

For your exercise, assume that the books are closed on 31.12.96 and shares are valued at average cost.

(Answer: Profit on sale of investment Rs.50,000)

CHAPTER 13

INSURANCE CLAIMS FOR LOSS OF STOCK AND LOSS OF PROFIT

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

A. 1. Claim for Loss of Stock

Claim for loss of stock can be studied under two heads:

a. Total Loss:

Amount of claim = Actual loss (If goods are fully insured but the amount of claim is restricted to the policy amount).

b. Partial Loss:

I) Without Average clause:-

Claim =Lower of actual Loss or Sum Insured

II) With Average Clause:-

Claim = Loss of stock x sum insured / Insurable amount (Total Cost)

B. 2. Claim for Loss of Profit

The Loss of Profit Policy normally covers the following items:

(1) Loss of net profit

(2) Standing charges.

(3) Any increased cost of working

***Gross Profit**:*

Net profit +Insured Standing charges *OR*

Insured Standing charges – Net Trading Loss (If any) X Insured Standing charges/All standing charges of business

Net Profit: The net trading profit (exclusive of all capital) receipts and accretion and all outlay properly (chargeable to capital) resulting from the business of the Insured at the premises after due provision has been made for all standing and other charges including depreciation.

Insured Standing Charges: Interest on Debentures, Mortgage Loans and Bank Overdrafts, Rent, Rates and Taxes (other than taxes which form part of net profit) Salaries of Permanent Staff and Wages to Skilled Employees, Boarding and Lodging of resident Directors and/or

Manager, Directors' Fees, Unspecified Standing Charges [not exceeding 5% (five per cent) of the amount recoverable in respect of Specified Standing Charges].

Rate of Gross Profit*:* The rate of Gross Profit earned on turnover during the financial year immediately before the date of damage.

Annual Turnover*:* The turnover during the twelve months immediately before the damage.

Standard Turnover*:* The turnover during that period in the twelve months immediately before the date of damage which corresponds with the Indemnity Period.

Indemnity Period: The period beginning with the occurrence of the damage and ending not later than twelve months.

The insurance for Loss of Profit is limited to loss of gross profit due to

(*i*) reduction in turnover, and

(*ii*) increase in the cost of working.

A. Write short notes on:

1. *Significance of 'Average Clause' in a fire insurance policy.*

Answer

In order to discourage under-insurance, fire insurance policies often include an average clause. The effect of these clause is that if the insured value of the subject matter concerned is less than the total cost then the average clause will apply, that is, the loss will be limited to that proportion of the loss as the insured value bears to the total cost.

The actual claim amount would therefore be determined by the following formula:

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

For example, if stock worth Rs. 4 lakhs is insured for Rs. 3 lakhs only and the loss incurred due to fire amounts to Rs. 1,80,000, the claim admitted by the insurer will be Rs. 1,80,000 x 3,00,000/4,00,000 =Rs. 1,35,000.

The average clause applies only when the insured value is less than the total value of the insured subject matter.

B. Practical Questions:

Question 1

X Ltd. has insured itself under a loss of profit policy for Rs. 3,63,000. The indemnity period under the policy is six months. On 1st September, 1998 a fire occurred in the factory of X Ltd. and the normal business was affected upto 1st March, 1999.

The following information is compiled for the year ended on 31st March, 1998:

	Rs.
Sales	*20,00,000*
Insured standing charges	*2,40,000*
Uninsured standing charges	*20,000*
Net profit	*1,20,000*

Following further details of turnover are furnished.

(a) *Turnover during the period of 12 months ending on the date of fire was 22,00,000.*

(b) *Turnover during the period of interruption was Rs. 2,25,000.*

(c) *Actual turnover during the period from 1.9.1997 to 1.3.1998 during the preceding year corresponding to the indemnity period was Rs. 7,50,000.*

X Ltd. spent an amount of Rs. 40,000 as additional cost of working during the indemnity period. On account of this additional expenditure:

(a) *There was a saving of Rs. 15,000 in insured standing charges during the period of indemnity.*

(b) *Reduced turnover avoided was Rs. 1,00,000. i.e. but for his expenditure, the turnover after the date of fire would have been only Rs. 1,25,000.*

A special clause in the policy stipulates that owing to the reasons acceptable to the insurer under the special circumstances the following increases are to be made:

(a) *Increase of turnover standard and actual by 10%.*

(b) *Increase in rate of gross profit by 2% from previous year's level.*

X Ltd. asks you to compute the claim for loss of profit. All calculations should be to the nearest rupee.

Answer

Computation of loss of profit for insurance claim

(1) Rate of gross profit:

$$\frac{\text{Net profit for the last financial year} + \text{Insured standing charges}}{\text{Turnover for the last financial year}} \times 100$$

$$= \frac{\text{Rs.}1,20,000 + \text{Rs.}\,2,40,000}{\text{Rs},\,20,00,000} \times 100 \qquad 18\%$$

Add: Adjustment for increase in gross profit rate= 2%

20%

(2) Calculation of short sales:

	Rs.
Turnover from 1.9.97 to 1.3.98	7,50,000
Add: Adjustment for increase in turnover	75,000
Adjusted turnover	8,25,000
Less: Actual turnover from 1.9.98 to 1.3.99	2,25,000
Short sales	6,00,000

(3) Additional expenses:

		Rs.
(i)	Actual expenses	40,000
(ii)	Gross profit on sale generated by additional expenses [(20/100)x Rs. 1,00,000]	20,000

(iii) $$\text{Additional expenses} \times \frac{\text{Gross profit on annual adjusted turnover}}{\text{Gross profit on annual adjusted turnover} + \text{Uninsured standing charges}}$$

$$= \text{Rs.}40{,}000 \times \frac{20\% \text{ on Rs. } 24{,}20{,}000^{*}}{(20\% \text{ on Rs. } 24{,}20{,}000) + \text{Rs. } 20{,}000}$$

$$= \text{Rs. } 40{,}000 \text{ x } \frac{\text{Rs.}4{,}84{,}000}{\text{Rs.}5{,}04{,}000}$$

= Rs. 38,413

Least of the above three figures i.e. Rs. 20,000 is allowable.

* Rs. 22,00,000 x (110/100)

(4) Amount of claim before application of average clause

	Rs.
Gross profit on short sales (20% on Rs. 6,00,000)	1,20,000
Add: Allowable additional expenses	20,000
	1,40,000
Less: Saving in insured standing charges	15,000
	1,25,000

(5) Application of average clause

	Rs.
Annual turnover i.e. turnover from 1.9.97 to 31.8 98	22,00,000
Add: Adjustment for increase in turnover (10% of Rs. 22,00,000)	2,20,000
	24,20,000
Gross profit on annual adjusted turnover (20% on Rs. 24,20,000)	4,84,000
Loss of profit policy value	3,63,000

Since the policy-value is less than gross profit on adjusted annual turnover, the average clause is applicable.

Hence the amount of claim =Rs. 1,25,000x (Rs. 3,63,000/Rs. 4,84,000)

=Rs. 93,750

Question 2

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 Rs. 3 lakh. All other fixed expenses will remain same. The following further details are also available from the previous year's account.

	Rs.
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.

Answer

Insurance Policy

	Rs.
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:

1. Profit and Loss Account for the previous year

	Rs.		Rs.
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

2. Gross profit of the previous year

	Rs.
Sales	32,50,000
Less: Variable expenses	24,00,000
	8,50,000

Question 3

Mr. A prepares accounts on 30th September each year, but on 31st December, 2001 fire destroyed the greater part of his stock. Following information was collected from his book:

	Rs.
Stock as on 1.10.2001	*29,700*
Purchases from 1.10.2001 to 31.12.2001	*75,000*
Wages from 1.10.2001 to 31.12.2001	*33,000*
Sales from 1.10.2001 to 31.12.200	*1,40,000*

The rate of gross profit is 33.33% on cost. Stock to the value of Rs. 3,000 was salvaged. Insurance policy was for Rs. 25,000 and claim was subject to average clause.

Additional informations:

(i) Stock in the beginning was calculated at 10% less than cost.

(ii) A plant was installed by firm's own worker. He was paid Rs. 500, which was included in wages.

(iii) Purchases include the purchase of the plant for Rs. 5,000

You are required to calculate the claim for the loss of stock.

Answer

Computation of claim for loss of stock:

		Rs.
Stock on the date of fire i.e. 31.12.2001	(Refer working note)	30,500
Less: Salvaged stock		3,000
Loss of stock		27,500

Amount of claim

$$= \frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times \text{loss of stock}$$

$$= \frac{\text{Rs. } 25{,}000}{\text{Rs. } 30{,}500} \times \text{Rs. } 27{,}500 = 22{,}541$$

Working Note:

Memorandum trading account can be prepared for the period from 1.10.2001 to 31.12.2001 to compute the value of stock on 31.12.2001.

Memorandum Trading Account

for period from 1.10.2001 to 31.12.2001

	Rs.	Rs.		Rs.
To Opening stock		33,000	By Sales	1,40,000
(Rs. 29,700x100/90)			By Closing stock	30,500
To Purchases	75,000		(balancing figure)	
Less: Cost of plant	5,000	70,000		
To Wages	33,000			
Less: Wages paid for plant	500	32,500		
To Gross profit		35,000		
(33.33% on cost or 25% on sales)				
		1,70,500		1,70,500

Question 4

On account of a fire on 15th June, 2002 in the business house of a company, the working remained disturbed upto 15th December 2002 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for Rs. 1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increased of 25% was marked in the current year's sales as compared to the last year. The company incurred an additional expenditure of Rs. 12,000 to make sales possible and made a saving of Rs. 2,000 in the insured standing charges.

	Rs.
Actual sales from 15th June, 2002 to 15th Dec, 2002	*70,000*
Sales from 15th June 2001 to 15th Dec 2001	*2,40,000*
Net profit for last financial year	*80,000*
Insured standing charges for the last financial year	*70,000*
Total standing charges for the last financial year	*1,20,000*
Turnover for the last financial year	*6,00,000*
Turnover for one year : 16 June 2001 to 15 June 2002	*5,60,000*

Answer

(1) Calculation of short sales:

	Rs.
Sales for the period 15.6.2001 to 15.12.2001	2,40,000
Add: 25% increase in sales	60,000
Estimated sales in current year	3,00,000
Less: Actual sales from 15.6.2002 to 15.12.2002	70,000
Short sales	2,30,000

(2) Calculation of gross profit:

$$\text{Gross profit} = \frac{\text{Net profit} + \text{Insured standing charges}}{\text{Turnover}} \times 100$$

$$= \frac{\text{Rs. } 80{,}000 + \text{Rs. } 70{,}000}{\text{Rs. } 6{,}00{,}000} \times 100$$

$$= \frac{Rs.1,50,000}{Rs.6,00,000} \times 100$$

= 25%

(3) Calculation of loss of profit:

Rs. 2,30,000 x 25% =Rs. 57,500

(4) Calculation of claim for increased cost of working :

Least of the following:-

(i) Actual expense =Rs. 12,000

(ii) Expenditure x (Net profit+ Insured standing charges)/(Net profit + Total standing charges)

$$=Rs.\ 12,000 \times \frac{Rs.\ 80,000 + Rs.\ 70,000}{Rs.\ 80,000 + Rs.\ 1,20,000} = Rs.\ 9,000$$

(iii) Gross profit on sales generated due to additional expenses

=Rs. 70,000x 25% = Rs. 17,500

Rs. 9,000 being the least, shall be the increased cost of working.

(5) Calculation of total loss of profit:

	Rs.
Loss of profit	57,500
Add: Increased cost of working	9,000
	66,500
Less: Saving in standing charges	2,000
	64,500

(6) Calculation of insurable amount = Adjusted sales x G. P. rate:

	Rs.
Turnover from 16.6.2001 to 15.6.2002	5,60,000
Add: 25% increase	1,40,000
Adjusted sales	7,00,000
Insurable amount= Rs. 7,00,000 x 25% =	Rs. 1,75,000

(7) Total claim for consequential loss of profit:

$$\text{Total claim} = \frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$$

$$\text{Total claim} = \frac{\text{Rs. } 1{,}40{,}000}{\text{Rs. } 1{,}75{,}000} \text{ x Rs. } 64{,}500 = \text{Rs. } 51{,}600$$

Alternatively claim for increased cost of working can also be calculated applying the following method (first three calculations will be the same as in the earlier alternative).

(8) Calculation of claim for increased cost of working:

Least of the following :-

(i) Actual expense= Rs. 12,000

(ii) Expenditure x $\dfrac{\text{Gross profit on adjusted turnover}}{\text{Gross profit as above} + \text{Uninsured standing charges}}$

$$\text{Rs. } 12{,}000 \text{ x } \frac{(25/100) \text{ x Rs. } 7{,}00{,}000}{[(25/100) \text{ x Rs. } 7{,}00{,}000] + \text{Rs. } 50{,}000} = \text{Rs. } 9{,}333 \text{ approx.}$$

Where,

Adjusted turnover	Rs.
Turnover from 16.06.2001 to 15.06.2002	5,60,000
Add: 25% increase	1,40,000
	7,00,000

(iii) Gross profit on sales generated due to additional expenditure =25% x Rs. 70,000 =Rs. 17,500.

Rs. 9,333 being the least, shall be the increased cost of working.

(9) Calculation of total loss of profit

	Rs.
Loss of profit	57,500
Add: Increased cost of working	9,333
	66,833
Less: Saving in insured standing charges	2,000
	64,833

(10) Calculation of insurable amount:

Adjusted turnover x G.P. rate.

= Rs. 7,00,000 x 25% =Rs. 1,75,000

(11) Total claim for consequential loss of profit:

$$= \frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$$

$$= \frac{\text{Rs. }1,40,000}{\text{Rs. }1,75,000} \times \text{Rs. }64,833$$

= Rs. 51,866.40

EXERCISES

Question 1

Sony Ltd.'s. trading and profit and loss account for the year ended 31st December, 1993 were as follows:

Trading and Profit and Loss Account for the year ended 31.12.1993

	Rs.		Rs.
Opening stock	20,000	Sales	10,00,000
Purchases	6,50,000	Closing stock	90,000
Manufacturing expenses	1,70,000		
Gross profit	2,50,000		
	10,90,000		10,90,000
Administrative expenses	80,000	Gross profit	2,50,000
Selling expenses	20,000		
Finance charges	1,00,000		
Net profit	50,000		
	2,50,000		2,50,000

The company had taken out a fire policy for Rs. 3,00,000 and a loss of profits policy for Rs. 1,00,000 having an indemnity period of 6 months. A fire occurred on 1.4.1994 at the premises and the entire stock were gutted with nil salvage value. The net quarter sales i.e. 1.4.94 to 30.6.94 was severely affected. The following are the other information:

Sales during the period	1.1.94 to 31.3.94	2,50,000
Purchases during the period	1.1.94 to 31.3.94	3,00,000
Manufacturing expenses	1.1.94 to 31.3.94	70,000
Sales during the period	1.4.94 to 30.6.94	87,500
Standing charges insured		50,000
Actual expense incurred after fire		60,000

The general trend of the industry shows an increase of sales by 15% and decrease in GP by 5% due to increased cost.

Ascertain the claim for stock and loss of profit.

(Answer: Stock destroyed by fire Rs. 2,60,000; and loss of profit rs.15,000)

Question 2

On 30th June, 1996, accidental fire destroyed a major part of the stocks in the godown of Jay associates. Stocks costing Rs. 30,000 could be salvaged but not their stores ledgers. A fire insurance policy was in force under which the sum insured was Rs. 3,50,000. From available records, the following information was retrieved:

(1) Total of sales invoices during the period April-June amounted to Rs. 30,20,000. An analysis showed that goods of the value of Rs. 3,00,000 had been returned by the customers before the date of fire.

(2) Opening stock on 1.4.96 was Rs. 2,20,000 including stocks of value of Rs. 20,000 being lower of cost and net value subsequently realised.

(3) Purchases between 1.4.96 and 30.6.96 were Rs. 21,00,000

(4) Normal gross profit rate was 33-1/3% on sales.

(5) A sum of Rs. 30,000 was incurred by way of fire fighting expenses on the day of the fire.

Prepare a statement showing the insurance claim recoverable.

(Answer: Claim Rs. = Rs. 3,29,000)

Question 3

A fire occurred in the premises of Agni on 25th August, 1997 when a large part of the stock was destroyed. Salvage was Rs. 15,000. Agni gives you the following information for the period of January 1, 1997 to August 25th, 1997:

(a) Purchases Rs. 85,000.

(b) Sales Rs. 90,000

(c) Goods costing Rs. 5,000 were taken by Agni for personal use.

(d) Cost price of stock on January 1, 1997 was Rs. 40,000

Over the past few years, Agni has been selling goods at a consistent gross profit margin of 33-1/3%.

The insurance policy was for Rs. 50,000. It included an average clause.

Agni asks you to prepare a statement of claim to be made on the insurance company.

(Answer: Admissible claim Rs. 37,500)

CHAPTER 14

ISSUES IN PARTNERSHIP ACCOUNTS

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- Partnership is defined as the relationship between persons who have agreed to share the profit or loss of a business carried on by all or any of them acting for all.
- Two methods of accounting
  - Fixed capital method
  - Fluctuating capital method.
- Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits.
- Necessity for valuation of goodwill in a firm arises in the following cases:
  - When the profit sharing ratio amongst the partners is changed;
  - When a new partner is admitted;
  - When a partner retires or dies, and
  - When the business is dissolved or sold.
- Methods for valuation of goodwill:-

(1) Average profit basis :

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{Number of years}}$$

Goodwill = Average Profit x No. of Years' purchased

The profits taken into consideration are adjusted with abnormal losses, abnormal gains, errors, return on non-trade investments and errors.

(2) Super profit basis :

Calculate Capital Employed

Assets ....

Less: Liability ....

Capital Employed.......

- Find the normal Rate of Return(NRR)
- Find Normal Profit=Capital Employed X Normal rate of Return
- Find Average Actual Profit
- Find Super Profit=Average Actual Profit-Normal Profit
- Find Goodwill=Super Profit X **Number** of Years Purchased

(3) Annuity basis :

Goodwill=Super Profit X Annuity Number

(4) Capitalization basis :

$$\textbf{Goodwill} = \frac{\text{Super Profit}}{\text{Normal Rate of Return}}$$

Question 1

A, B and C were partners of a firm sharing profits and losses in the ratio of 3 : 4 : 3. The Balance Sheet of the firm, as at 31st March, 1998 was as under :

Liabilities		*Rs.*	*Assets*		*Rs.*
Capital Accounts :			Fixed Assets		1,00,000
A	48,000		Current Assets :		
B	64,000		Stock	30,000	
C	48,000	1,60,000	Debtors	60,000	
Reserve		20,000	Cash and Bank	30,000	1,20,000
Creditors		40,000			
		2,20,000			2,20,000

The firm had taken a Joint Life Policy for Rs. 1,00,000; the premium periodically paid was charged to Profit and Loss Account. Partner C died on 30th September, 1998. It was agreed between the surviving partners and the legal representatives of C that :

(i) *Goodwill of the firm will be taken at Rs. 60,000.*

(ii) *Fixed Assets will be written down by Rs. 20,000.*

(iii) *In lieu of profits, C should be paid at the rate of 25% per annum on his capital as on 31st March, 1998.*

Policy money was received and the legal heirs were paid off. The profits for the year ended 31st March, 1999, after charging depreciation of Rs. 10,000 (depreciation upto 30th September was agreed to be Rs. 6,000) were Rs. 48,000.

Partners' Drawings Accounts showed balances as under :

A *Rs. 18,000 (drawn evenly over the year)*

B *Rs. 24,000 (drawn evenly over the year)*

C *(up-to-date of death) Rs. 20,000*

On the basis of the above figures, please indicate the entitlement of the legal heirs of C, assuming that they had not been paid anything other then the share in the Joint Life Policy.

Answer

Computation of entitlement of legal heirs of C

(1) Profits for the half year ended 31st March, 1999

	Rs.
Profits for the year ended 31st March, 1999 (after depreciation)	48,000
Add : Depreciation	10,000
Profits before depreciation	58,000
Profits for the first half (assumed : evenly spread)	29,000
Less : Depreciation for the first half	6,000
Profits for the first half year (after depreciation)	23,000
Profits for the second half (i.e., 1st October, 1998 to 31st March, 1999)	29,000
Less : Depreciation for the second half	4,000
Profits for the second half year (after depreciation)	25,000

(2) Capital Accounts of Partners as on 30th September, 1998

Dr. Cr.

	A Rs.	B Rs.	C Rs.		A Rs.	B Rs.	C Rs.
To Fixed Assets (loss on revaluation)	6,000	8,000	6,000	By Balance b/d	48,000	64,000	48,000
To Drawings	9,000	12,000	20,000	By Reserve	6,000	8,000	6,000
To C Executor's A/c			52,000	By Goodwill	18,000	24,000	18,000
To Balance c/d	57,000	76,000	–	By P & L Appropriation A/c (Interest on Rs. 48,000 @ 25% for 6 months)	—	—	6,000
	72,000	96,000	78,000		72,000	96,000	78,000

(3) Application of Section 37 of the Partnership Act

Legal heirs of C have not been paid anything other than the share in joint life policy. The amount due to the deceased partner carries interest at the mutually agreed upon rate. In the absence of any agreement, the representatives of the deceased partner can receive at their option interest at the rate of 6% per annum or the share of profit earned for the amount due to the deceased partner.

Thus, the representatives of C can opt for

Either,

(i) Interest on Rs. 52,000 for 6 months @ 6% p.a. = Rs. 1,560

Or

(ii) Profit earned out of unsettled capital (in the second half year ended 31st March, 1999)

$$\text{Rs. } 25{,}000 \times \frac{52{,}000}{57{,}000 + 76{,}000 + 52{,}000} = \text{Rs. } 7{,}027 \text{ (approx.)}$$

In the above case, it would be rational to assume that the legal heirs would opt for Rs. 7,027.

(4) Amount due to legal heirs of C	*Rs.*
Balance in C's Executor's account	52,000
Amount of profit earned out of unsettled capital [calculated in (3)]	7,027
Amount due	59,027

Question 2

A, B and C were partners, sharing Profits and Losses in the ratio of 5 : 3 : 2 respectively. On 31st March, 2000 their Balance Sheet stood as follows :

Liabilities	*Rs.*	*Assets*	*Rs.*
A's capital	*7,79,000*	*Plant and Machinery*	*13,62,000*
B's capital	*7,07,800*	*Furniture and Fittings*	*2,36,000*
C's capital	*6,86,200*	*Stock*	*7,02,000*
Creditors	*4,91,000*	*Debtors*	*1,91,000*
		Cash at Bank	*1,73,000*
	26,64,000		*26,64,000*

On 31st July, 2000 A died. According to partnership deed, on the death of a partner, the capital account of the deceased partner was to be credited with :

(i) his share of profit for the relevant part of the year of death calculated on the basis of profit earned during the immediately preceding accounting year, and

(ii) his share of goodwill

Goodwill was to be valued at two years' purchase of the average profits of immediately preceding three accounting years. The profits, as per books of account were as follows:

	Rs.
For accounting year ended 31st March, 1998	3,29,000
For accounting year ended 31st March, 1999	3,46,000
For accounting year ended 31st March, 2000	3,78,000

However, while going through the books of account on A's death, it came to light that Rs. 30,000 worth of wages were spent on installation of a new machinery, but the same was not capitalized; the machinery was put into operation on 1st October, 1999. Depreciation was provided on the machinery @ 20% per annum.

On 1st October, 2000 A's son D was admitted into partnership with immediate effect on the following terms :

(a) D would get one-fourth share in the profit of the firm, while the relative profit sharing ratio between B and C would remain unchanged.

(b) The final balance of A's capital account would be credited to D's capital account

(c) An adjustment would be made in the Capital Accounts for D's share of goodwill. The basis of valuation of firm's goodwill would be the same as was adopted at the time of the death of his father.

On 31st March, 2001 the Profit and Loss Account of the firm showed that the firm had earned a profit of Rs. 4,16,000 for the year. The respective drawings accounts showed that while B and C had withdrawn Rs. 60,000 each during the year, D's drawings totalled Rs. 30,000. The Drawings Accounts are closed at the end of the year by transfer to respective capital accounts.

You are required to :

(i) Prepare a statement showing distribution of profits for the accounting year ended 31st March, 2001; and

(ii) Pass journal entries for all the transactions relating to death of the partner. D's admission into partnership, and at the end of the year relating to transfer of Drawings Accounts and distribution of profit for the year.

Answer

(i) Statement Showing distribution of profits for the accounting year ended 31st March, 2001

			Rs.	Rs.
Net profit for the year ended 31.03.2001				4,16,000
	A's share			
	(Profit distributed to deceased partner A & his executor)			
	(a)	Profit for 4 months (1.4.2000 – 31.7.2000) (W.N.1)	67,500	
	(b)	Application of Sec. 37 (1.8.2000 – 30.9.2000) (W. N. 5)	28,021	95,521
		B's share		
	(a)	Profit for 4 months (1.4.2000 – 31.7.2000) (W. N. 3)	42,700	
	(b)	Profit for 2 months (1.8.2000 – 30.9.2000) (W. N. 6)	24,787	
	(c)	Profit for 6 months (1.10.2000 – 31.3.2001) (W. N. 10)	93,600	1,61,087
		C's share		
	(a)	Profit for 4 months (1.4.2000 – 31.7.2000) (W. N. 3)	28,467	
	(b)	Profit for 2 months (1.8.2000 – 30.9.2000) (W. N. 6)	16,525	
	(c)	Profit for 6 months (1.10.2000 – 31.3.2001) (W. N. 10)	62,400	1,07,392
		D's share		
	(a)	Profit for 6 months (1.10.2000 – 31.3.2001) (W. N. 10)	52,000	52,000
				4,16,000

(ii) Journal Entries

Year 2000			*Dr.* *Rs.*	*Cr.* *Rs.*
July 31	Machinery A/c	Dr	27,000	
	To A's Capital A/c			13,500
	To B's Capital A/c			8,100
	To C's Capital A/c			5,400
	(Wages spent on installation of new machinery capitalised and credited to partners' capital accounts after providing depreciation for six months ended 31st March, 2000)			

	Profit and Loss Suspense A/c	Dr.	67,500	
	To A's Capital A/c			67,500
	(A's share of profit for four months as calculated in W. N. 1 credited to his capital account)			
	Goodwill A/c	Dr.	7,20,000	
	To A's Capital A/c			3,60,000
	To B's Capital A/c			2,16,000
	To C's Capital A/c			1,44,000
	(Goodwill raised in the books and credited to partners in the old profit sharing ratio 5 : 3 : 2)			
	A's Capital A/c	Dr.	12,20,000	
	To A's Executor's A/c			12,20,000
	(Balance due to A transferred to his executor's account)			
	Profit & Loss Suspense A/c	Dr.	28,021	
	To A's Executor's A/c			28,021
	(Profit earned out of the unsettled capital credited to A's executor's account as per W. N. 5)			
Oct. 1	A's Executor's A/c	Dr.	12,48,021	
	To D's Capital A/c			12,48,021
	(Final balance of A's executor's account transferred to D's capital account)			
	B's Capital A/c	Dr.	3,24,000	
	C's Capital A/c	Dr.	2,16,000	
	D's Capital A/c	Dr.	1,80,000	
	To Goodwill			7,20,000
	(Goodwill written off and debited to partners in the new profit sharing ratio 9 : 6 : 5)			
March 31	B's Capital A/c	Dr.	60,000	
	C's Capital A/c	Dr.	60,000	
	D's Capital A/c	Dr.	30,000	
	To B's Drawings A/c			60,000
	To C's Drawings A/c			60,000

	To D's Drawings A/c			30,000
	(Drawings debited to partners' capital accounts)			
March 31	Profit and Loss Appropriation A/c	Dr.	4,16,000	
	To Profit and loss suspense A/c			
	(Rs. 67,500 + 28,021)			95,521
	To B's Capital A/c			1,61,087
	To C's Capital A/c			1,07,392
	To D's Capital A/c			52,000
	(Division of profits as shown in statement of distribution of profits and balance of profit & loss suspense account transferred to profit and loss appropriation account)			

Working Notes:

(1) Computation of A's share in profit for the period 1.4.2000 – 31.7.2000

A's share in profit for the period of 1st April, 2000 to 31st July, 2000 is to be calculated on the basis of profit earned during the immediately previous accounting year i.e. year ended on 31st March, 2000

	Rs.
Profit for the year ended 31st March, 2000	3,78,000
Add : Capital expenditure of wages spent on installation of new machinery, treated as revenue expenditure	30,000
	4,08,000
Less : Depreciation on Rs. 30,000 (being the value of machinery @ 20% p.a. for 6 months)	3,000
Correct profit for the year ended 31st March, 2000	4,05,000

Profit for 4 months on the basis of last year's profit = Rs. $4{,}05{,}000 \times \frac{4}{12} = 1{,}35{,}000$

A's share in profit = $1{,}35{,}000 \times \frac{5}{10} = 67{,}500$

(2) Valuation of Goodwill

	Rs.
Profit for the year ended 31st March, 1998	3,29,000
Profit for the year ended 31st March, 1999	3,46,000
Profit for the year ended 31st March, 2000	4,05,000
Total Profit	10,80,000

Average Profit $= \text{Rs.} \frac{10,80,000}{3} = \text{Rs.} 3,60,000$

Goodwill (two years' purchase) = Rs. 3,60,000 × 2 = Rs. 7,20,000

(3) Distribution of profit for 4 months ended 31st July, 2000

	Rs.
Net Profit (Rs. 4,16,000 × $\frac{4}{12}$)	1,38,667
A's share (W. N. 1)	67,500
B's share (Rs. 71,167 × $\frac{3}{5}$)	42,700
C's share (Rs. 71,167 × $\frac{2}{5}$)	28,467

(4) Partners' Capital Accounts as on 31st July, 2000

	A	B	C		A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Drawings		20,000	20,000	By Balance b/d	7,79,000	7,07,800	6,86,200
To A's Executor's A/c	12,20,000	9,54,600	8,44,067	By Plant & Machinery	13,500	8,100	5,400
To Balance c/d		–	–	By Goodwill	3,60,000	2,16,000	1,44,000
				By Share in Profit (W. N. 3)	67,500	42,700	28,467
	12,20,000	9,74,600	8,64,067		12,20,000	9,74,600	8,64,067

(5) Application of section 37 of the Partnership Act

Either

(i) Interest of Rs. 12,20,000 × $\frac{6}{100} \times \frac{2}{12}$ = Rs. 12,200

Or

(ii) Profit earned out of unsettled capital

$$\text{Rs. } 4{,}16{,}000 \times \frac{2}{12} \times \frac{\text{Rs. } 12{,}20{,}000}{\text{Rs. } (12{,}20{,}000 + 9{,}54{,}600 + 8{,}44{,}067)} = \text{Rs. } 28{,}021 \text{ (approx.)}$$

In the absence of specific agreement amongst partners on the above subject matter, the representatives of the deceased partner can receive at their option, interest at the rate of 6% p.a. or share of profit earned for the amount due to the deceased partner.

In the above case, it would be rational to assume that A's representatives would opt for Rs. 28,021.

(6) Distribution of profit for 2 months ended 31st Oct, 2000

		Rs.
Net profit	(Rs. 4,16,000 × $\frac{2}{12}$)	69,333
A's executor's share (W. N. 5)		28,021
B's share	(Rs. 41,312 × $\frac{3}{5}$)	24,787
C's share	(Rs. 41,312 × $\frac{2}{5}$)	16,525

(7) A's Executor's Account

	Rs.		*Rs.*
To D's Capital A/c	12,48,021	By A's capital A/c	12,20,000
		By Share in profit (W. N. 6)	28,021
	12,48,021		12,48,021

(8) Partner's Capital Accounts (1st August, 2000 to 30th Sept., 2000)

Dr.	*B*	*C*		*B*	*C*
	Rs.	*Rs.*		*Rs.*	*Rs.*
To Drawings	10,000	10,000	By Balancd b/d	9,54,600	8,44,067
To Balance c/d	9,69,387	8,50,592	By P & L A/c	24,787	16,525
	9,79,387	8,60,592		9,79,387	8,60,592

(9)Computation of new profit sharing ratio between B, C & D

D is admitted for ¼ share

B's new ratio = 3/4 × 3/5 = 9/20

C's new ratio = 3/4 × 2/5 = 6/20

D's new ratio = 5/20

New profit sharing ratio = 9 : 6 : 5

(10) Distribution of profit for 6 months ended 31st March, 2001

	Rs.
Net profit (Rs. 4,16,000 × $\frac{6}{12}$)	2,08,000
B's share (Rs. 2,08,000 × $\frac{9}{20}$)	93,600
C's share (Rs. 2,08,000 × $\frac{6}{20}$)	62,400
D's share (Rs. 2,08,000 × $\frac{5}{20}$)	52,000

(11) Partner's Capital Accounts as on 31st March, 2001

	B	C	D		B	C	D
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Goodwill	3,24,000	2,16,000	1,80,000	By Balance b/d	9,69,387	8,50,592	
To Drawings	30,000	30,000	30,000	By A's Executor's A/c			12,48,021
To Balance c/d	7,08,987	6,66,992	10,90,021	By Share of profit			
				(W. N. 10)	93,600	62,400	52,000
	10,62,987	9,12,992	13,00,021		10,62,987	9,12,992	13,00,021

Notes:

1. It is assumed that profit was earned uniformly throughout the year. Although notional profit was calculated for the first four months, it is to be transferred from the current year's profit (as calculated in working note 3). The question requires that A's share of profit for this period is to be calculated on the basis of profit earned during year ended 31st March. 2000. The balance amount after calculating his share has been credited to B and C in ratio 3 : 2.

2. It is assumed that drawings were made evenly throughout the year. However, single entry has been given at year end in the main solution relating to transfer of drawings and distribution of profit but the Partners' capital accounts shown in the working notes include the entries of drawings and distribution of profit of respective dates within the year.

Question 3

M/s Neptune & Co.'s Balance Sheet as at 31st March, 2001:

Liabilities		Rs.	Assets		Rs.
Bank overdraft (State Bank)		54,000	Cash at Bank of India		800
Sundry Creditors		1,56,000	Sundry Debtors		2,80,000
Capital Accounts :			Stock		1,00,000
Mr. A			Motor Cars cost as per last B/S	1,60,000	
Balance as per last B/S	4,02,000		Less : Depreciation till date	54,000	1,06,000
Add : Profits for the year	95,400		Machinery :		
	4,97,400		Cost as per last B/S	3,00,000	
Less : Drawings	40,000	4,57,400	Less : Depreciation till date	1,40,000	1,60,000
Mr. B			Land and Building		2,40,000
Balance as per last B/s	2,00,000				
Add : Profit for the year	95,400				
	2,95,400				
Less : Drawings	76,000	2,19,400			
		8,86,800			8,86,800

You have examined the foregoing Draft of the Balance Sheet and have ascertained that the following adjustments are required to be carried out :

(i) Land and Buildings are shown at cost less Rs. 60,000 being the proceeds of the sale during the year of premises costing Rs. 70,000.

(ii) Machinery having a net book value of Rs. 4,300 had been scrapped during the year. The original cost was Rs. 12,300.

(iii) Rs. 2,000 paid for the Licence fees for the year ending 30th September, 2001 had been written off.

(iv) Debts amounting to Rs. 10,420 were considered to be bad and further debts amounting to Rs. 5,400 were considered doubtful and required 100% provision. Provision for doubtful debts had previously been made for Rs. 10,000.

(v) An item in the Inventory was valued at Rs. 37,400, but had a realisable value of Rs. 26,000 only. Scrap Material having a value of Rs. 6,600 had been omitted from the stock valuation.

(vi) The cashier had misappropriated Rs. 700.

(vii) *The cash-book for the year ending 31st March, 2001 included payments amounting to Rs. 6,924, the cheques having been made out, but not despatched to suppliers until April 2001.*

(viii) *Interest is to be allowed on the Partners' opening Capital Account balances less drawings during the year at 9%.*

You are required to prepare :

(a) Profit & Loss Adjustment Account for the year.

(b) Capital Accounts of the Partners.

Answer

(a) M/s Neptune & Co.

Profit and Loss Adjustment Account

for the year ended 31st March, 2001

		Rs.			Rs.
To Land & Building (Loss on sale		10,000	By Partner's Capital Accounts :		
To Machinery (Loss on scrapping)		4,300	Mr. A	95,400	
To Provision for Doubtful Debts (Working note)		5,820	Mr. B	95,400	1,90,800
To Stock Adjustment (Fall in the Market value)		11,400	By Prepaid expenses (Licence fee)		1,000
To Cas (Misappropriated)		700	By Stock Adjustment (items omitted)		6,600
To Interest on Capital					
Mr. A	32,580				
Mr. B	11,160	43,740			
To Profit transferred to Capital Accounts:					
Mr. A	61,220				
Mr. B	61,220	1,22,440			
		1,98,400			1,98,400

(b) Partners' Capital Accounts

As on 31st March, 2001

	Mr. A	Mr. B		Mr. A	Mr. B
31.3.2001	Rs.	Rs.	31.3.2000	Rs.	Rs.

To Drawings	40,000	76,000	By Balance b/d	4,02,000	2,00,000
To Profit & Loss			31.3.2001		
Adjustment Account	95,400	95,400	By Profit & Loss A/c	95,400	95,400
To Balance c/d	4,55,800	1,96,380	By Profit & Loss		
			Adjustment A/c:		
			Interest on capital	32,580	11,160
			Profit for the year	61,220	61,220
	5,91,200	3,67,780		5,91,200	3,67,780

Working Notes :

(1) Provision for doubtful debts charged to profit and loss adjustment account

Provision for Doubtful Debts Accounts

	Rs.		Rs.
To Bad Debts	10,420	By Balance b/d	10,000
To Balance c/d (required)	5,400	By Profit & Loss Adjustment A/c	
		(balancing figure)	5,820
	15,820		15,820

(2) Interest on Capitals

Mr. A Rs. 3,62,000 × 9% p.a. = Rs. 32,580

Mr. B Rs. 1,24,000 × 9% p.a. = Rs. 11,160

Note : Misappropriation by cashier may be debited to cashier also. In that case, Rs. 700 will not be debited to Profit and Loss Adjustment Account and profit transferred to partners will be Rs. 1,23,140.

Question 4

Manish, Jatin and Paresh were partners sharing Profits/ Losses in the ratio of Manish 40 percent, Jatin 35 percent, and Paresh 25 percent. The draft Balance Sheet of the partnership as on 31st December, 2001 was as follows :

	Rs.			Rs.
Sundry Creditors	*30,000*	*Cash on hand and at Bank*		*67,000*
Bills payable	*8,000*	*Stock*		*42,000*
Loan from Jatin	*30,000*	*Sundry Debtors*	*34,000*	
Current Accounts :		*Less : Provision for*		

Manish	12,000		Doubtful Debts	6,000	28,000
Jatin	8,000		Plant and Machinery		
Paresh	6,000	26,000	(at cost)	80,000	
Capital Accounts :			Less : Depreciation	28,000	52,000
Manish	90,000		Premises (at cost)		75,000
Jatin	50,000				
Paresh	30,000	1,70,000			
		2,64,000			2,64,000

Jatin retired on 31st December, 2001. Manish and Paresh continued in partnership sharing Profits/ Losses in the ratio of Manish 60 percent and Paresh 40 percent. 50 percent of Jatin's Loan was repaid on 1.1.2002 and it was agreed that of the amount then remaining due to him a sum of Rs. 80,000 should remain as loan to partnership and the balance to be carried forward as ordinary trading liability. The following adjustments were agreed to be made to the above mentioned Balance Sheet:

(i) Rs. 10,000 should be written off from the premises.

(ii) Plant and Machinery was revalued at Rs. 58,000.

(iii) Provision for doubtful debts to be increased by Rs. 1,200

(iv) Rs. 5,000 due to creditors for expenses had been omitted from the books of account.

(v) Rs. 4,000 to be written off on stocks.

(vi) Provide Rs. 1,200 for professional charges in connection with revaluation.

As per the deed of partnership, in the event of the retirement of a partner, goodwill was to be valued at an amount equal to one year's purchase of the average profits of the preceding three years on the date of retirement. Before determining the said average profits a notional amount of Rs. 80,000 should be charged for remuneration to partners. The necessary profits before charging such remuneration were:

Year ending 30.12.1999	Rs. 1,44,000
Year ending 31.12.2000	Rs. 1,68,000
Year ending 31.12.2001	Rs. 1,88,200 (As per draft accounts)

It was agreed that, for the purpose of valuing goodwill, the amount of profit for the year 2001 be recomputed after charging the loss on revaluation in respect of premises and stock, the unprovided expenses (except professional expenses) and increase in the provision for doubtful debts. The continuing partners decided to eliminate goodwill account from their books.

You are required to prepare:

(i) Revaluation Account:

(ii) Capital Accounts (merging current accounts therein):

(iii) Jatin's Accounts showing balance due to him; and

(iv) Balance Sheet of Manish and Paresh as at 1st January, 2002.

Answer

(i) Revaluation Account

	Rs				*Rs.*
To Premises	10,000	By Plant and Machinery			6,000
To Provision for Doubtful Debts	1,200	By Loss on revaluation transferred			
To Outstanding Expenses	5,000	to Capital Accounts:			
To Stocks	4,000	Manish (40%)		6,160	
To Provision for Professional Charges	1,200	Jatin (35%)		5,390	
		Paresh (25%)		3,850	15,400
	21,400				21,400

(ii) Capital Accounts of Partners

	Manish	Jatin	Paresh		Manish	Jatin	Paresh
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Revalutation A/c (loss)	6,160	5,390	3,850	By Balance b/d	90,000	50,000	30,000
To Goodwill (written off in new Profit sharing ratio)	48,000	–	32,000	By Current A/c	12,000	8,000	6,000
To Personal A/c (Balance transferred)		80,610	–	By Goodwill (old profit sharing)	32,000	28,000	20,000
To Balance c/d	79,840		20,150				
	1,34,000	86,000	56,000		1,34,000	86,000	56,000

(iii) Jatin's Personal Account

	Rs.		*Rs.*
To Bank Account (50% of old loan)	15,000	By Capital Accounts (Balance transferred)	80,610
ToLoan Account (transferred)	80,000	By Loan Account (old loan)	30,000
To Balance c/d	15,610		
	1,10,610		1,10,610

(iv) **Balance Sheet of Manish and Paresh as on 1st January, 2002**

Liabilities		*Rs.*	*Assets*		*Rs.*
Capital Accounts			Fixed Assets		
Manish	79,840		Plant and Machinery	86,000	
Paresh	20,150	99,990	Less: Depreciation	28,000	58,000
Jatin's Loan A/c		80,000	Premises	75,000	
Current Liabilities			Less: Written off	10,000	65,000
and Provisions			Current Assets		
Bills Payable	8,000		Cash in hand & at Bank		
Sundry Creditors	35,000		(67,000–15,000)		52,000
(30,000+5,000)			Sundry Debtors	34,000	
Jatin's dues	15,610		Less: Provision for		
Provision for			doubtful debts	7,200	26,800
Professional charges	1,200	59,810	Stock in trade		38,000
		2,39,800			2,39,800

Working Notes :

(1) Profit for the Year ending 31st December, 2001

		Rs.
As per draft accounts		1,88,200
Less: Premises written off	10,000	
Provision for Doubtful debts	1,200	
Outstanding Expenses	5,000	
Stock	4,000	20,200
		1,68,000

(2) Valuation of Goodwill

Profit for the year ending 31st Dec.2001 (adjusted)	1,68,000
Profit for the year ending 31st Dec. 2000	1,68,000
Profit for the year ending 31st Dec. 1999	1,44,000
	4,80,000
Average Profits before partners' salaries	1,60,000
Less: Partners's Salaries (notional)	80,000
Super Profit and Goodwill (one year's purchase)	80,000

Question 5

Ram, Rahim and Robert are partners, sharing Profits and Losses in the ratio of 5 : 3 : 2. It was decided that Robert would retire on 31.3.2005 and in his place Richard would be admitted as a partner with new profit sharing ratio between Ram, Rahim and Richard at 3 : 2 : 1.

Balance Sheet of Ram, Rahim and Robert as at 31.3.2005:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Cash in hand	20,000
Ram	1,00,000	Cash in Bank	1,00,000
Rahim	1,50,000	Sundry Debtors	5,00,000
Robert	2,00,000	Stock in Trade	2,00,000
General Reserve	2,00,000	Plant & Machinery	3,00,000
Sundry Creditors	8,00,000	Land & Building	5,30,000
Loan from Richard	2,00,000		
	16,50,000		16,50,000

Retirement of Robert and admission of Richard is on the following terms:

(a) *Plant & Machinery to be depreciated by Rs. 30,000.*

(b) *Land and Building to be valued at Rs. 6,00,000.*

(c) *Stock to be valued at 95% of book value.*

(d) *Provision for doubtful debts @ 10% to be provided on debtors.*

(e) *General Reserve to be apportioned amongst Ram, Rahim and Robert.*

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

Year ended 31.3.2002	–	Profit Rs. 50,000
Year ended 31.3.2003	–	Profit Rs. 60,000
Year ended 31.3.2004	–	Profit Rs. 55,000

(g) *Out of the amount due to Robert Rs. 2,00,000 would be retained as loan by the firm and the balance will be settled immediately.*

(h) *Richard's capital should be equal to 50% of the combined capital of Ram and Rahim.*

Prepare:

(i) *Capital accounts of the partners; and*

(ii) *Balance Sheet of the reconstituted firm.*

Answer

Partners' Capital Accounts

Dr.												Cr.
		Ram	*Rahim*	*Robert*	*Richard*			*Ram*	*Rahim*	*Robert*	*Richard*
		Rs.	*Rs.*	*Rs.*	*Rs.*			*Rs.*	*Rs.*	*Rs.*	*Rs.*
To	Revaluation A/c (W.N.1)	10,000	6,000	4,000	–	By	Balance b/d	1,00,000	1,50,000	2,00,000	–
To	Loan from Robert A/c			2,00,000		By	General reserve	1,00,000	60,000	40,000	–
To	Bank			58,000		By	Goodwill (W.N. 2)	55,000	33,000	22,000	–
To	Balance c/d	2,45,000	2,37,000		–						
		2,55,000	2,43,000	2,62,000	–			2,55,000	2,43,000	2,62,000	–
To	Goodwill*	55,000	36,667	–	18,333	By	Balance b/d	2,45,000	2,37,000	–	–
						By	Loan A/c – transfer	–	–	–	2,00,000
To	Balance c/d	1,90,000	2,00,333	–	1,95,167	By	Bank		–	–	13,500
		2,45,000	2,37,000	–	2,13,500			2,45,000	2,37,000	–	2,13,500

Balance Sheet as at 31.3.2005

after the admission of Richard

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Accounts:		Land and Building	6,00,000
Ram	1,90,000	Plant and Machinery	2,70,000
Rahim	2,00,333	Stock	1,90,000
Richard	1,95,167	Debtors	4,50,000
Sundry Creditors	8,00,000	Cash at Bank (W.N. 3)	55,500
Loan from Robert	2,00,000	Cash in hand	20,000
	15,85,500		15,85,500

* As per para 36 of AS 10, 'Accounting for Fixed Assets', goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, the goodwill raised at the time of retirement of Robert is to be written off in new ratio among remaining partners including new partner – Richard.

Working Notes:

(1) **Revaluation Account**

		Rs.				Rs.
To	Plant and Machinery	30,000	By	Land and Building		70,000
To	Stock	10,000	By	Partners Capital A/cs:		
To	Debtors	50,000		Ram	10,000	
				Rahim	6,000	
				Robert	4,000	20,000
		90,000				90,000

(2) **Calculation of Goodwill:**

Profit for the year ended 31.3.2002	50,000
Profit for the year ended 31.3.2003	60,000
Profit for the year ended 31.3.2004	55,000
	1,65,000

$$\text{Average profit} = \frac{1,65,000}{3} = \text{Rs. } 55,000$$

Goodwill = Rs. 55,000 $\times$ 2 years = Rs. 1,10,000.

(3) **Bank Account**

		Rs.			Rs.
To	Balance b/d	1,00,000	By	Robert's Capital A/c	58,000
To	Richard's Capital A/c	13,500	By	Balance c/d	55,500
		1,13,500			1,13,500

Question 6

The following was the Balance Sheet of 'A' and 'B', who were sharing profits and losses in the ratio of 2:1 on 31.12.2006:

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Accounts		*Plant and machinery*	*12,00,000*
A	*10,00,000*	*Building*	*9,00,000*

B	*5,00,000*	*Sundry debtors*	*3,00,000*
Reserve fund	*9,00,000*	*Stock*	*4,00,000*
Sundry creditors	*4,00,000*	*Cash*	*1,00,000*
Bills payable	*1,00,000*		
	29,00,000		*29,00,000*

They agreed to admit 'C' into the partnership on the following terms:

(i) *The goodwill of the firm was fixed at Rs.1,05,000.*

(ii) *That the value of stock and plant and machinery were to be reduced by 10%.*

(iii) *That a provision of 5% was to be created for doubtful debts.*

(iv) *That the building account was to be appreciated by 20%.*

(v) *There was an unrecorded liability of Rs.10,000.*

(vi) *Investments worth Rs.20,000 (Not mentioned in the Balance Sheet) were taken into account.*

(vii) *That the value of reserve fund, the values of liabilities and the values of assets other than cash are not to be altered.*

(viii) *'C' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.*

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm.

Answer

Memorandum Revaluation Account

		Rs.			*Rs.*
To	Stock	40,000	By	Building	1,80,000
To	Plant & machinery	1,20,000	By	Investments	20,000
To	Provision for doubtful debts	15,000			
To	Unrecorded liability	10,000			
To	Profit transferred to Partners' Capital A/cs (in old ratio)				
	A = 10,000				

	B = 5,000	15,000			
		2,00,000			2,00,000
To	Building	1,80,000	By	Stock	40,000
To	Investments	20,000	By	Plant & machinery	1,20,000
			By	Provision for doubtful debts	15,000
			By	Unrecorded liability	10,000
			By	Loss transferred to Partners' Capital A/cs (in new ratio) A = 7,500 B = 3,750 C = 3,750	15,000
		2,00,000			2,00,000

Partners' Capital Accounts

		A	B	C			A	B	C
To	Loss on Revaluation	7,500	3,750	3,750	By	Balance b/d	10,00,000	5,00,000	-
To	Reserve Fund	4,50,000	2,25,000	2,25,000	By	Reserve Fund	6,00,000	3,00,000	-
To	A (W.N.3)	-	-	17,500	By	C (W.N.3)	17,500	8,750	-
To	B (W.N.3)	-	-	8,750	By	Profit on Revaluation	10,000	5,000	
To	Balance c/d (Refer W.N.2)	11,70,000	5,85,000	5,85,000	By	Cash (Bal. Fig.)			8,40,000
		16,27,500	8,13,750	8,40,000			16,27,500	8,13,750	8,40,000

Balance Sheet of newly reconstituted firm as on 31.12.2006

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Accounts		Plant & Machinery	12,00,000
A	11,70,000	Building	9,00,000
B	5,85,000	Sundry Debtors	3,00,000

C	5,85,000	Stock	4,00,000
Reserve Fund	9,00,000	Cash (1,00,000 + 8,40,000)	9,40,000
Sundry Creditors	4,00,000		
Bills Payable	1,00,000		
	37,40,000		37,40,000

Working Notes:

1. **Calculation of new profit and loss sharing ratio**

   C will get 1/4 th share in the new profit sharing ratio.

   Therefore, remaining share will be 1-1/4 =3/4

   Share of A will be 3/4 x 2/3 = 2/4 i.e. 1/2

   Share of B will be 3/4 x 1/3 = 1/4

   New ratio will be

   A : B : C

   1/2 : 1/4 : 1/4

   2 : 1: 1

2. **Calculation of closing capital of C**

   Closing capitals of A & B after all adjustments are:

   A = Rs.11,70,000

   B = Rs. 5,85,000

   Since B's capital is less than A's capital, therefore B's capital is taken as base.

   Hence, C's closing capital should be Rs.5,85,000 i.e. at par with B (as per new profit and loss sharing ratio)

3. Adjustment entry for goodwill*

Partners	*Goodwill as per old ratio*	*Goodwill as per new ratio*	*Effect*	
A	70,000	52,500	+ 17,500	-
B	35,000	26,250	+ 8,750	-
C	-	26,250	-	-26,250
	1,05,000	1,05,000	26,250	26,250

Adjustment entry will be:

C's Capital A/c	Dr.	26,250	
To A's Capital A/c			17,500
To B's Capital A/c			8,750

* As per para 36 of AS 10, 'Accounting for fixed Assets,' goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, the goodwill raised at the time of admission of C is to be written off in new ratio among all partners including new partner, C.

EXERCISES

Question 1

X, Y Ltd. and Z Ltd. are partners of X & Co. The partnership deed provided that :

(a) The working partner Mr. X is to be remunerated at 15% of the net profits after charging his remuneration, but before charging interest on capital and provision for taxation;

(b) Interest is to be provided on capital at 15% per annum;

(c) Balance profits after making provision for taxation, is to be shared in the ratio of 1 : 2 : 2 by the three partners.

During the year ended 31st March, 1997 :

(i) the net profit before tax and before making any payment to partners amounted to Rs. 6,90,000;

(ii) interest on capitals at 15% per annum amounted to :

Rs. 60,000 for X; Rs. 1,50,000 for Y Ltd. and Rs. 1,80,000 for Z Ltd. The capitals have remained unchanged during the year;

(iii) provision for tax is to be at 40% of "total income" of the firm. The toal income has been computed at Rs. 1,95,000.

You are asked by :

(a) the firm to pass closing entries in relation to the above;

(b) Y Ltd. to pass journal entries in its books pertaining to its income from the firm and show the investment in partnership account as it would appear in its ledger;

(c) Z Ltd. to show, how the above information will appear in its financial statements for the year;

(d) Shri X to show the working, if any, in relation to the above.

(Answer: Investment in partnership with Shri X and Z Ltd. Rs. 12,02,800)

Question 2

Avinash, Basuda Ltd. and Chinmoy Ltd. were in partnership sharing profits and losses in the ratio of 9 : 4 : 2. Basuda Ltd. retired from the partnership on 31st March, 1998, when the firm's balance sheet was as under :

Rs. in thousand

		Rs.		Rs.
Sundry creditors		600	Cash and bank	284
Capital accounts :			Sundry debtors	400
Avinash	2,700		Stock	800
Basuda Ltd.	1,200		Furniture	266
Chinmoy Ltd.	600	4,500	Plant	850
			Land and building	2,500
		5,100		5,100

Basuda Ltd.'s share in goodwill and capital was acquired by Avinash and Chinmoy Ltd. in the ratio of 1 : 3, the continuing partners bringing in the necessary finance to pay off Basuda Ltd. The partnership deed provides that on retirement or admission of a partner, the goodwill of the firm is to be valued at three times the average annual profits of the firm for the four years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March, 1998 in thousands of rupees were:

	Rs.
1994-95	450
1995-96	250
1996-97	600
1997-98	700

The deed further provided that goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 1st April, 1998, Ghanashyam, son of Avinash is to be admitted as a partner with 25% share of profit.

Avinash gifts to Ghanashyam, by transfer from his capital account, an amount sufficient to cover up 12.5% of capital and goodwill requirement. The balance 12.5% of capital and goodwill requirement is purchased by Ghanashyam from Avinash and Chinmoy Ltd. in the ratio of 2 : 1.

The firm asks you to:

(i) Prepare a statement showing the continuing partners' shares;

(ii) Pass journal entries including for bank transactions; and

(iii) Prepare the balance sheet of the firm after Ghanashyam's admission

(Answer: New ratio 11:7:6; Total of Balance Sheet Rs.66,00,000)

CHAPTER 15

ACCOUNTING IN COMPUTERISED ENVIRONMENT

BASIC CONCEPTS

- **Role of Computer in accountancy**:-
  - Controlling operations
  - Deciding sequence of operations
  - Accounting operations
- **Consideration for Selection of Pre-Packaged Accounting Software**
  - Fulfilment of business requirements
  - Completeness of reports
  - Ease of use
  - Cost
  - Reputation of the vendor
  - Regular updates
- **Choice of an ERP**
  - Functional requirement of the organisation
  - Reports available in the ERP
  - Background of the vendors

Question 1

What are the advantages and disadvantages of ERP package?

Answer

Larger organisations often go for an ERP package where finance comes as a module. An ERP is an integrated software package that manages the business process across the entire enterprise.

Advantages of using an ERP

The advantages of using an ERP for maintaining accounts are as follows:

1. *Standardised processes and procedures* : An ERP is a generalised package which covers most of the common functionalities of any specific module.
2. *Standardised reporting* : Majority of the desired reports are available in an ERP package. These reports are standardised across industry and are generally acceptable to the users.
3. *Duplication of data entry* is avoided as it is an integrated package.
4. *Greater information* is available through the package.

Disadvantages of an ERP

The disadvantages of an ERP are the following:

1. *Lesser flexibility* : The user may have to modify their business procedure at times to be able to effectively use the ERP.
2. *Implementation hurdles* : Many of the consultants doing the implementation of the ERP may not be able to fully appreciate the business procedure to be able to do a good implementation of an ERP.
3. *Very expensive* : ERP are normally priced at an amount which is often beyond the reach of small and medium sized organisation. However, there are some ERP coming into the market which are moderately priced and may be useful to the small businesses.
4. *Complexity of the software* : Generally an ERP package has large number of options to choose from. Further the parameter settings and configuration makes it a little complex for the common users.

Question 2

What are the advantages of outsourcing the accounting functions?

Answer

Following are the advantages of outsourcing the accounting functions:

(i) The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.

(ii) The organisation is able to utilise the expertise of the third party in undertaking the accounting work.

(iii) Storage and maintenance of the data is in the hand of professional people.

(iv) The organisation is not bothered about people leaving the organisation in key accounting positions.

(v) The proposition is proving to be economically more sensible.

Question 3

Explain the factors to be considered before selecting the pre-packaged accounting software.

Answer

There are many accounting softwares available in the market. To choose the accounting software appropriate to the need of the organization is a difficult task, some of the criteria for selection could be the following:

1. **Fulfillment of business requirements**: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
2. **Completeness of reports:** Some packages might provide extra reports or the reports match the requirements more than the others.
3. **Ease of Use:** Some packages could be very detailed and cumbersome compare to the others.
4. **Cost:** The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
5. **Reputation of vendor:** Vendor support is essential for any software. A stable vendor with good reputation and track records will always be preferred.
6. **Regular updates**: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

Question 4

What are the advantages of customised accounting packages?

Answer

Following are the advantages of the customised accounting packages:

1. The functional areas that would otherwise have not been covered gets computerised.

2. The input screens can be tailor made to match the input documents for ease of data entry.
3. The reports can be as per the specification of the organisation. Many additional MIS reports can be included in the list of reports.
4. Bar-code scanners can be used as input devices suitable for the specific needs of an individual organisation.
5. The system can suitably match with the organisational structure of the company.