PRACTICE MANUAL

Intermediate (IPC) Course

PAPER : 1

ACCOUNTING

VOLUME – II

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This practice manual has been prepared by the faculty of the Board of Studies. The objective of the practice manual 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 practice manual 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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A WORD ABOUT PRACTICE MANUAL

The Board of Studies has been instrumental in imparting theoretical education to the students of Chartered Accountancy Course. The distinctive characteristics of the course i.e. distance education has emphasized the need for bridging the gap between the students and the Institute and for this purpose, the Board of Studies has been providing a variety of educational inputs for the students. Bringing out a series of subject wise Practice Manuals is one of the quality services provided by the Institute. These Practice Manuals are highly useful to the students preparing for the examination, since they get answers for all important questions relating to a subject at one place and that too grouped chapter-wise.

The Practice Manual in the subject of 'Accounting' is divided into fifteen chapters in line with Volume I of the study material. This will help the students to correlate the Practice Manual with the Study Material and facilitate in complete revision of each chapter. The students are expected to cover the entire syllabus and also do practice on their own while going through the practice manual. Exercises have been given at the end of each topic for independent practice. Practice Manual includes questions from past examinations at PE-II, PCC and IPCC levels which would facilitate in thorough understanding of the chapters explained in the study material volume I. Few questions have been added in some of the chapters to increase the practice base of the students.

New theoretical/case study based questions added in this edition of the practice manual have been highlighted in bold and italics while practical questions are indicated in grey background for easy identification. This Practice Manual 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. It will serve as a useful and handy reference guide while preparing for the examination. It will guide the students to improve their performance in the examination and also help them to work upon their grey areas and plan a strategy to tackle practical problems.

Feedback form is given at the end of this Practice Manual wherein students are encouraged to give their feedback/suggestions. The concerned faculty members of Board of Studies have put in their best efforts in making this practice manual lucid and student-friendly. In case you need any clarification/guidance, you may send your queries at seema@icai.in; shilpa@icai.in and asha.verma@icai.in.

Happy Reading and Best Wishes!

IPCC

Paper 1 Accounting

Statement showing topic-wise distribution of Examination Questions along with Marks

Topics		Term of Examination														Total Marks	Avg. Marks
		Nov. 2009		May 2010		Nov. 2010		May 2011		Nov. 2011		May 2012		Nov.2012			
		Q	M	Q	M	Q	M	Q	M	Q	M	Q	M	Q	M		
1	Accounting Standards	1(vii) 1(viii) 6(ii) 6(iv)	2 2 4 4 12	1(v) 1(vi) 1(viii) 6(b) 6(d)	2 2 2 4 4 14	1(b) 1(d) 7(a) 7(c)	5 5 4 4 18	1 (a) 7 (b)	5 4 9	1(c) 7 (a) 7 (b) 7(c) 7 (d) 7(e)	5 4 4 4 4 4 25	1 7(c)	20 4 24	7(c) 7(d)	4 4 8	110	15.7
2	Financial Statements of Companies																
Unit 1	Preparation of Financial statements	1(ii) 1(v) 1(vi) 1(x) 6 (v)	2 2 2 2 4 12							1(a)	5	7(d)	4			21	3

Unit 2	Cash Flow Statements			5 (b)	8	3	16	4	16	4(a)	10					50	7.1
3	Profits or Losses Prior to Incorporation	5(b)	6			6(a)	10			4(b)	6					22	3.1
4	Accounting for Bonus Issue					5(a)	12			6 (a)	8			3(b)	8	28	4
5	Internal Reconstruction									2	16	2	16			32	4.6
6	Amalgamation	2	16	3	16	1 (c)	5	3	16					2	16	69	9.9
7 Unit 1	Average Due Date	4 (b)	8	1(iv)	2	7(e)	4	7(a)	4	6 (b)	8	7(a)	4	7(a)	4	34	4.9
Unit 2	Account Current																
8	Self Balancing Ledgers					5 (b)	4	7(e)	4					1(a)	5	13	1.9
9	Financial Statements of Not for Profit Organisations	1(i) 1(ix) 5 (a)	2 2 10 14	5 (a)	8	2	16	5	16	3	16	4	16	1(d)	5	91	13
10	Accounts from Incomplete Records			2	16			6	16			3(a)	8	4	16	56	8
11	Hire Purchase and Instalment Sale Transactions			1(ii) 1(x) 4(a)	2 2 10 14	6 (b)	6					5(a)	8	1(c) 3(a)	5 8 13	41	5.9
12	Investment Accounts	1 (iii)	2	1(iii) 4(b)	2 6 8			1 (d)	5			5(b)	8	5(a)	8	31	4.4

13	Insurance Claims for Loss of Stock and Loss of Profit	4 (a)	8	1 (ix)	2	7 (d)	4	1(b)	5	5(a)	10	6	16	5(b) 7(b)	8 4 12	57	8.1
14	Issues in Partnership Accounts	1(iv) 3 6 (vi)	2 16 4 22	1 (i) 1 (vii)	2 2 4	1 (a) 4	5 16 21	1(c) 2 7 (c)	5 16 4 25	1 (d)	5	3(b) 7(b)	8 4 12	1(b) 6	5 16 21	110	15.7
15	Accounting in Computerized Environment	6(i) 6 (iii)	4 4 8	6(c)	4	7(b)	4	7(d)	4	5(b)	6	7(e)	4	7(e)	4	34	4.9

Note: 'Q' represents question numbers as they appeared in the question paper of respective examination. 'M' represents the marks which each question carries in that respective examination.

The question papers of all the past attempts of IPCC can be accessed from the BOS Knowledge Portal at the Students' Page on the Institute's website www.icai.org.

CONTENTS

1
Accounting Standards

BASIC CONCEPTS

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.

Applicability of Accounting Standards

Question 1

List the criteria to be applied for rating a non-corporate entity as Level-I entity for the purpose of compliance of Accounting Standards in India.

Answer

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Question 2

List the criteria to be applied for rating a non-corporate entity as Level-II entity for the purpose of compliance of Accounting Standards in India.

Answer

Non-corporate entities which are not level I entities but fall in any one or more of the following categories are classified as level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.*

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

AS 1 "Disclosure of Accounting Policies"

Question 3

Mention few areas in which different accounting policies are followed by companies.

Answer

Following are the examples of the areas in which different accounting policies may be adopted by different enterprises:

(i) Methods of depreciation, depletion and amortisation.

(ii) Valuation of inventories.

(iii) Methods of valuing goodwill.

(iv) Valuation of investments.

AS 2 "Valuation of Inventories"

Question 4

"In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.

Answer

As per AS 2 'Valuation of Inventories', certain costs are excluded from the cost of the inventories and are recognised as expenses in the period in which incurred. Examples of such costs are:

(a) abnormal amount of wasted materials, labour, or other production costs;

** This change is made as per the announcement 'Revision in the criteria for classifying Level II non-corporate entities' issued by the ASB on 7.3.2013. This revision is applicable with effect from the accounting year commencing on or after April 01, 2012.*

(b) storage costs, unless those costs are necessary in the production process prior to a further production stage;

(c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and

(d) selling and distribution costs.

Question 5

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 2010-11, the Historical Cost and Net Realizable Value of the items of closing stock are determined as follows:

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

What will be the value of closing stock?

Answer

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 (₹ in lakhs)*	*Net Realisable Value (₹ in lakhs)*	*Valuation of closing stock (₹ in lakhs)*
A	40	28	28
B	32	32	32
C	16	24	16
	88	84	76

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

Question 6

X Co. Limited purchased goods at the cost of ₹ 40 lakhs in October, 2010. Till March, 2011, 75% of the stocks were sold. The company wants to disclose closing stock at ₹ 10 lakhs. The expected sale value is ₹ 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 31.3.2011.

Answer

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 ₹ 10 lakhs. The net realizable value is 11,00,000 × 90% = ₹ 9,90,000. So, the stock should be valued at ₹ 9,90,000.

Question 7

The company X Ltd., has to pay for delay in cotton clearing charges. The company up to 31.3.2010 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 2010-11. This would result in decrease in profit by ₹ 5 lakhs. Comment.

Answer

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 ₹ 5 lakhs.

Question 8

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 ₹ 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

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 ₹ 50,000 (50 MT × ₹ 1,000) will be charged to the profit and loss statement.

Question 9

You are required to value the inventory per kg of finished goods consisting of:

	₹ per kg.
Material cost	*200*
Direct labour	*40*
Direct variable overhead	*20*

Fixed production charges for the year on normal working capacity of 2 lakh kgs is ₹20 lakhs. 4,000 kgs of finished goods are in stock at the year end.

Answer

In accordance with paras 8 & 9 of AS 2, the cost of conversion include a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods. The allocation of fixed overheads for the purpose of their inclusion in the cost of conversion is based on normal capacity of the production facilities.

Cost per kg. of finished goods:

		₹
Material Cost		200
Direct Labour	40	
Direct Variable Production Overhead	20	
Fixed Production Overhead $\left(\frac{20,00,000}{2,00,000}\right)$	<u>10</u>	<u>70</u>
		<u>270</u>

Hence the value of 4,000 kgs. of finished goods = 4,000 kgs x ₹ 270 = ₹ 10,80,000

<u>AS 3 "Cash Flow Statements"</u>

Question 10

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 Statement", 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 11

X Ltd. purchased debentures of ₹ 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, 2011?

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*. If investment, of ₹ 10 lacs, made in debentures is for short-term period then it is an item of 'cash equivalents'.

However, if investment of ₹ 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.

Question 12

Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2011:

Cash Flow (Abstract)

Inflows	*₹*	*Outflows*	*₹*
Opening balance:		*Payment to creditors*	*90,000*
Cash	*10,000*	*Salaries and wages*	*25,000*

* *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.*

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, 2011 in accordance with Accounting standard 3.

Answer

Cash Flow Statement

for the year ended 31.3.2011

	₹	₹
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 generated 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 used in 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

AS 6 "Depreciation Accounting"

Question 13

X Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2011 it changed to WDV basis. The impact of the change when computed from the date of the asset coming to use amounts to ₹ 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.

Answer

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.

Question 14

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 ₹ 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 ₹ 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.

Answer

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 re-computation should be adjusted in the profit and loss account in the year such change is affected. 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 re-computation of depreciation as per the straight line method is ₹ 12.23 lakhs (₹ 32.23 lakhs – ₹ 20 lakhs). This should be written back to Profit and Loss Account and should be disclosed accordingly.

Question 15

A plant was depreciated under two different methods as under:

Year	*SLM (₹ in lakhs)*	*W.D.V. (₹ 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 you will treat the same in Accounts.

Answer

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 re-computation 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 ₹ 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.

Question 16

A machinery costing ₹ 20 lakhs has useful life for 5 years. At the end of 5 years its scrap value would be ₹ 2 lakhs. How much depreciation is to be charged in the books of the company as per Accounting Standard 6?

Answer

Calculation of depreciation as per Straight Line Method

	₹
Cost of machinery	20,00,000
Less: Scrap value at the end of its useful life (i.e. after 5 years)	(2,00,000)
Amount to be written off during the useful life of the machinery	18,00,000
Useful life of the machinery	5 years
Depreciation to be provided each year (₹ 18,00,000 / 5 years)	₹ 3,60,000

Question 17

MIs Progressive Company Limited has not charged depreciation for the year ended on 31st March, 2012, in respect of a spare bus purchased during the financial year 2011-12 and kept ready by the company for use as a stand-by, on the ground that, it was not actually used during the year. State your views with reference to Accounting Standard 6 "Depreciation Accounting".

Answer

According to AS 6, 'Depreciation Accounting', depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable assets arising from use, effluxion of time or obsolescence through technology and market changes. Accordingly, depreciation may arise even the asset is not used in the current year but was ready for use in that year.

The need for using the stand by bus may not have arisen during the year but that does not imply that the useful life of the bus has not been affected. Therefore, non-provision of depreciation on the ground that the bus was not used during the year is not tenable.

Question 18

A computer costing ₹ 60,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year *was reassessed at 5 years. Calculate depreciation as per the provisions of Accounting Standard 6 "Depreciation Accounting".*

Answer

Depreciation per year = ₹ 60,000 / 10 = ₹ 6,000

Depreciation on SLM charged for three years = ₹ 6,000 x 3 years = ₹ 18,000

Book value of the computer at the end of third year = ₹ 60,000 – ₹ 18,000 = ₹ 42,000.

Remaining useful life as per previous estimate = 7 years

Remaining useful life as per revised estimate = 5 years

Depreciation from the fourth year onwards = ₹ 42,000 / 5 = ₹ 8,400 per annum

Question 19

In the Trial Balance of M/s. Sun Ltd. as on 31-3-2012, balance of machinery appears ₹ 5,60,000. The company follows rate of depreciation on machinery @ 10% p.a. on Written Down Value Method. On scrutiny it was found that a machine appearing in the books on 1-4-2011 at ₹ 1,60,000 was disposed of on 30-9-2011 at ₹ 1,35,000 in part exchange of a new machine costing ₹ 1,50,000.

You are required to calculate:

(i) Total depreciation to be charged in the Profit and Loss Account.

(ii) Loss on exchange of machine.

(iii) Book value of machinery in the Balance Sheet as on 31.3.2012.

Answer

(i) Total Depreciation to be charged in the Profit and Loss Account

	₹
Depreciation on old machinery in use [10% of (5,60,000-1,60,000)]	40,000
Add: Depreciation on new machine @ 10% for six months $\left(1{,}50{,}000 \times 10\% \times \frac{6}{12}\right)$	7,500
Total depreciation on machinery in use	47,500
Add: Depreciation on machine disposed of (10% for 6 months) $\left(1{,}60{,}000 \times 10\% \times \frac{6}{12}\right)$	8,000
So, total depreciation to be charged in Profit and Loss A/c	55,500

(ii) Loss on Exchange of Machine

	₹
Book value of machine as on 1.4.2011	1,60,000
Less: Depreciation for 6 months @ 10%	(8,000)
Written Down Value as on 30.9.2011	1,52,000
Less: Exchange value	(1,35,000)
Loss on exchange of machine	17,000

(iii) Book Value of Machinery in the Balance Sheet as on 31.03.2012

	₹
Balance as per trial balance	5,60,000
Less: Book value of machine sold	(1,60,000)
	4,00,000
Add: Purchase of new machine	1,50,000
	5,50,000
Less: Depreciation on machinery in use	(47,500)
	5,02,500

AS7 "Construction Contracts"

Question 20

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

Answer

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.

Question 21

B Ltd. undertook a construction contract for ₹ 50 crores in April, 2010. The cost of construction was initially estimated at ₹ 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 ₹ 53 crores.

Can the company provide for the expected loss in the book of account for the year ended 31st March, 2011?

Answer

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 ₹ 3 crores (₹ 53 crores less ₹ 50 crores) should be recognised as an expense immediately in the year ended 31st March, 2011. 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.

Question 22

M/s Excellent Construction Company Limited undertook a contract to construct a building for ₹ 3 crore on 1st September, 2011. On 31st March, 2012 the company found that it had already spent ₹ 1 crore 80 lakhs on the construction. Prudent estimate of additional cost for completion was ₹ 1 crore 40 lakhs. What amount should be charged, to revenue in the final accounts for the year ended on 31st March, 2012, as per the provisions of Accounting Standard 7 "Construction Contracts (Revised)"?

Answer

	₹ in crores
Cost of construction incurred till date	1.80
Add: Estimated future cost	1.40
Total estimated cost of construction	3.20

Percentage of completion till date to total estimated cost of construction

$$= (1.80/3.20)\times 100 = 56.25\%$$

Proportion of total contract value recognised as revenue as per AS 7 (Revised)

= Contract price x percentage of completion
= ₹ 3 crores x 56.25% = ₹ 1.6875 crores

Amount of foreseeable loss	*(₹ in crores)*
Total cost of construction	3.20
Less: Total contract price	(3.00)
Total foreseeable loss to be recognized as expense	0.20

According to of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

AS9 "Revenue Recognition"

Question 23

Media Advertisers obtained advertisement rights for One Day World Cup Cricket Tournament to be held in May/June, 2011 for ₹ 250 lakhs.

By 31st March, 2011, they have paid ₹ 150 lakhs to secure these advertisement rights. The balance ₹ 100 lakhs was paid in April, 2011.

By 31st March, 2011, they procured advertisement for 70% of the available time for ₹ 350 lakhs. The advertisers paid 60% of the amount by that date. The balance 40% was received in April, 2011.

Advertisements for the balance 30% time were procured in April, 2011 for ₹ 150 lakhs. The advertisers paid the full amount while booking the advertisement.

25% of the advertisement time is expected to be available in May, 2011 and the balance 75% in June, 2011.

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 2011.

Give reasons for your treatment.

Answer

(i) In the books of Media Advertisers

Journal Entries

		Dr.	*Cr.*
		₹ in lakhs	*₹ in lakhs*
2011			
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 ₹ 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., ₹ 250 lakhs less ₹ 150 lakhs paid)			
	Bank A/c	Dr.	140.00	
	To Advance for advertisement time (sale) A/c			140.00
	(Being balance advance i.e., ₹ 350 lakhs less ₹ 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 ₹ 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 ₹ 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 ₹ 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 ₹ 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 (₹ in lakhs)

	March ₹	*April* ₹	*May* ₹	*June* ₹
Sale of advertisement time	–	–	125.00	375.00
Less: Purchase of advertisement rights	–	–	(62.50)	(187.50)
Net profit	–	–	62.50	187.50

(2) Balance sheet as at

	31.3.2011	*30.4.2011*	*31.5.2011*	*30.6.2011*
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, 2011 (25%) and June, 2011 (75%) in the proportion of availability of the advertisement time.

Question 24

X Limited has recognized ₹ 10 lakhs on accrual basis income from dividend on units of mutual funds of the face value of ₹ 50 lakhs held by it as at the end of the financial year 31st March, 2011. The dividends on mutual funds were declared at the rate of 20% on 15th June, 2011. The dividend was proposed on 10th April, 2011 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

Paragraph 8.4 and 13 of Accounting Standard 9 '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, 2011, while it is declared on 15th June, 2011. Hence, the right to receive payment is established on 15th June, 2011. 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, 2012.

The recognition of ₹ 10 lakhs on accrual basis in the financial year 2010-2011 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 25

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 31.3.2011, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at ₹ 9 lakhs. Decide, whether the income by way of interest from dealers is eligible for recognition as per AS 9?

Answer

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 26

The Board of Directors of X Ltd. decided on 31.3.2011 to increase sale price of certain items of goods sold retrospectively from 1st January, 2011. As a result of this decision the company has to receive ₹ 5 lakhs from its customers in respect of sales made from 1.1.2011 to 31.3.2011. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.

Answer

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 ₹ 5 lakhs to be recognised as income for financial year 2010-11, 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.

AS 10 "Accounting for Fixed Assets"

Question 27

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

(b) *Explain the disclosure requirement for fixed assets as per AS 10.*

Answer

(a) 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.

(b) As per para 39 of AS 10 "Accounting for Fixed Assets", following information should be disclosed in the financial statements:

1. Gross and net book values of fixed assets at the beginning and at the end of an accounting period showing additions, disposals, acquisitions and other movements.

2. Expenditure incurred on account of fixed assets in the course of construction or acquisition; and
3. Revalued amounts 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 28

During the current year 2010-11, X Limited made the following expenditure relating to its plant building:

	₹ 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?

Answer

As per para 12.1 of AS 10 '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 ₹ 5 lakhs and Partial replacement of roof tiles should be charged to profit and loss statement. ₹ 10 lakhs incurred for substantial improvement to the electrical writing system which will increase efficiency should be capitalized.

Question 29

During the year 2010-11, P Limited incurred the following expenses on machinery:

₹ 2.50 lacs as routine repairs and ₹ 75,000 on partial replacement of a part. ₹ 7 lacs on replacement of part of a machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

Answer

As per para 12.1 of AS 10 "Accounting for Fixed Assets", only those expenditures that increase the future benefits from the existing assets, is to be included in the gross book value. Example: Increase in capacity.

Hence, in the given case, amount of ₹ 3.25 lacs spent on repairs and partial replacement of a part of the machinery should be charged to Profit and Loss Account as they will help in maintaining the capacity but will not improve the efficiency of the machine. However, ₹ 7 lacs incurred on replacement of a part of the machinery, which will increase the efficiency, should be capitalized by inclusion in the gross book value of assets.

Question 30

During the year MIs Progressive Company Limited made additions to its factory by using its own workforce, at a cost of ` 4,50,000 as wages and materials. The lowest estimate from an outside contractor to carry out the same work was ` 6,00,000. The directors contend that, since they are fully entitled to employ an outside contractor, it is reasonable to debit the Factory Building Account with ` 6,00,000. Comment whether the directors' contention is right in view of the provisions of Accounting Standard 10 "Accounting for Fixed Assets"?

Answer

AS 10, 'Accounting for Fixed Assets', clearly states that the gross book value of the self constructed fixed asset includes the cost of construction that relate directly to the specific asset and the costs that are attributable to the construction activity in general can be allocated to the specific asset. If any internal profit is there it should be eliminated. Thus, only ₹ 4,50,000 should be debited to the factory building account and not ₹ 6,00,000. Hence, the contention of the directors of the company to capitalize ₹ 6,00,000 as cost of factory building, on the ground that the company is fully entitled to employ an outside contractor is not justifiable.

Question 31

M/s. Tiger Ltd. allotted 7,500 equity shares of ₹ 100 each fully paid up to Lion Ltd. in consideration for supply of a special machinery. The shares exchanged for machinery are quoted at National Stock Exchange (NSE) at ₹ 95 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, show how the value of the machinery would be recorded in the books of Tiger Ltd.?

Answer

As per para 11 of AS 10 "Accounting for Fixed Assets", fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident. Since, in the given situation, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at ₹ 7,12,500 (i.e., 7,500 shares x ₹ 95 per share) being the market price of the shares issued in exchange.

Question 32

PQR Ltd. constructed a fixed asset and incurred the following expenses on its construction:

	₹
Materials	*16,00,000*
Direct Expenses	*3,00,000*
Total Direct Labour	*6,00,000*

(1/15th of the total labour time was chargeable to the construction)	
Total Office & Administrative Expenses	*9,00,000*
(4% is chargeable to the construction)	
Depreciation on assets used for the construction of this asset	*15,000*

Calculate the cost of the fixed asset.

Answer

Calculation of cost of fixed asset

	₹
Materials	16,00,000
Direct expenses	3,00,000
Direct labour (1/15th of ₹ 6,00,000)	40,000
Office and administrative expenses (4% ₹ 9,00,000)	36,000
Depreciation on assets	15,000
Cost of fixed asset	19,91,000

Note: It is assumed that 4% of office and administrative expenses are specifically attributable to construction of a fixed asset. Alternatively, it may be assumed that 4% of office and administrative expenses are only allocated to construction project and is not specifically attributable to it. In such a case, the cost of fixed assets will be ₹ 19,55,000.

AS 13 "Accounting for Investments"

Question 33

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

Answer

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 34

M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2011 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March, 2009. Market value as on 31st March, 2012 of above investments are as follows:

	₹
Shares	*2,25,000*
Gold	*6,00,000*
Silver	*3,50,000*

How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2012 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

Answer

As per AS 13 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period then it will be shown at the realizable value of ₹ 2,25,000 as on 31st March, 2012.

If equity shares are acquired with an intention to hold for 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, if other than temporary, in the value of the investments.

As per the standard, investment acquired for long term period shall be shown at cost. Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2009) shall continue to be shown at cost as on 31st March, 2012 i.e., ₹ 4,00,000 and ₹ 2,00,000 respectively, though their realizable values have been increased.

Question 35

ABC Ltd. wants to re-classify its investments in accordance with AS 13. Decide and state on the amount of transfer, based on the following information:

(1) A portion of current investments purchased for ₹ 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.

(2) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.

(3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.

Answer

As per AS 13, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

(1) In the first case, the market value of the investment is ₹ 25 lakhs, which is higher than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. ₹ 20 lakhs.

(2) In the second case, the market value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. ₹ 6.5 lakhs. The loss of ₹ 8.5 lakhs should be charged to profit and loss account.

As per AS 13, where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

(3) In the third case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 12 lakhs.

AS 14 "Accounting for Amalgamations"

Question 36

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

Or

What disclosures should be made in the first financial statements following the amalgamation?

Answer

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 37

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

Answer

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 38

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

Answer

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.

Question 39

Briefly explain the types of Amalgamations?

Answer

As per AS 14, 'Accounting for Amalgamations' there are two types of amalgamation. In first type of amalgamation there is a genuine pooling not merely of assets and liabilities of the amalgamating companies but also of the shareholders' interests and of the businesses of the companies. Such amalgamations are amalgamations which are in the nature of 'merger' and the accounting treatment of such amalgamations should ensure that the resultant figures of assets, liabilities, capital and reserves more or less represent the sum of the relevant figures of the amalgamating companies.

In the second category are those amalgamations which are in effect a mode by which one company acquires another company and, as a consequence, the shareholders of the company which is acquired normally do not continue to have a proportionate share *in the equity of the combined company, or the business of the company which is acquired is not intended to be continued. Such amalgamations are amalgamations in the nature of 'purchase'.*

EXERCISES

1. *Explain provisions contained in the Accounting Standard in respect of Revaluation of fixed assets.*
2. *When can revenue be recognised in the case of transaction of sale of goods?*
3. *Write short note on valuation of fixed assets in special cases.*
4. *Jagannath Ltd. had made a rights issue of shares in 2009. In the offer document to its members, it had projected a surplus of ₹ 40 crores during the accounting year to end on 31st March, 2011. 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 ₹ 10 crores. The board in consultation with the managing director, decided on the following:*

   (i) Value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹ 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. Consequently, the charge for depreciation at ₹ 27 crores is lower than the amount of ₹ 45 crores which would have been provided had the old method been followed, by ₹ 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 ₹ 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 ₹ 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 2010-2011.
5. *On 25th September, 2011, Planet Advertising Limited obtained advertisement rights for World Cup Hockey Tournament to be held in Nov./Dec., 2011 for ₹ 520 lakhs.*

   They furnish the following information:

   (1) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th September, 11.

   (2) For the balance time they got bookings in October, 11 for ₹ 240 lakhs.

   (3) All the advertisers paid the full amount at the time of booking the advertisements.

   (4) 40% of the advertisements appeared before the public in Nov. 11 and balance 60% appeared in the month of December, 11.

   You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2011 as per Accounting Standard 9.

   (Hints: Company should recognise ₹ 168 lakhs (i.e. ₹ 420 lakhs x 40%) in November, 2011 and rest ₹ 252 lakhs (i.e. ₹ 420 lakhs x 60%) in December, 2011.)

2

Financial Statements of Companies

UNIT 1: PREPARATION OF FINANCIAL STATEMENTS

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 notified by the Central Government

Question 1

Dividend on partly paid shares.

Answer

In the case of partly paid-up shares, the dividend is payable either on the nominal, called-up or the paid-up amount of shares, depending on the provisions in this regard that there may be in the articles of the company. In the absence of any such provisions, Table A should be applicable. In such a case the amount of dividend payable will be calculated on the amount paid-up on the shares, and while doing so, the dates on which the amounts were paid must be taken into account. Calls paid in advance do not rank for payment of dividend. A company may if so authorised by its articles, pay a dividend in proportion to the amount paid on each share, where a larger amount is paid on some shares than on others (Section 93 of the Companies Act, 1956). But where the articles are silent and Table A has been excluded, the amount of dividend payable will have to be calculated on the nominal amount of shares. It should, however, be noted that according to Clause 88 of Table A dividends are to be declared and paid according to the amounts paid or credited as paid on the shares in respect whereof the dividend is paid, but if and so long as nothing is paid upon any of the shares of the company, dividends may be declared and paid according to the nominal amount of the shares.

Question 2

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 two-third 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 ₹ 100 each fully paid and 70,000 equity shares of ₹ 10 each fully paid up.

The profit for the year 2012 was ₹ 10,00,000 and balance brought from previous year ₹ 80,000. Provide ₹ 31,200 for depreciation and ₹ 80,000 for taxation before making other appropriations.

Show net balance of profit and loss account after making above adjustments.

Answer

Statement of Profit and Loss* for the year ended 2012

	Particulars	₹
a	Profit	10,00,000
b	Expenses:	
	Depreciation and amortization expense	(31,200)
	Total expenses	(31,200)
c	Profit before tax (a-b)	9,68,800
d	Provision for tax	(80,000)
e	Profit (Loss) for the period	8,88,800
	Balance of Profit and Loss account brought forward	80,000
f	Total	9,68,800
g	Appropriations (made in Notes to Accounts)	
	Transfers to Reserves	(1,77,760)
	Proposed preference dividend (1,82,000 + 93,450)	(2,75,450)
	Proposed equity dividend (1,40,000 + 1,86,900)	(3,26,900)

* As per revised Schedule VI, Statement of Profit and Loss is to be prepared upto profit for the current year only. Any appropriation to current year's profit alongwith the brought forward profit is to be shown in the 'Notes to Financial Statements for Reserves and Surplus'.

	Bonus to employees (14,000 + 18,690)	(32,690)
	Total	(8,12,800)
h	Balance carried to Balance sheet (f-g)	1,56,000

Working Note:

Balance of amount available for Preference and Equity shareholders and Bonus for Employees	₹
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, $\frac{2}{3}x + \frac{1}{3}x + \frac{2}{30}x = 2{,}99{,}040$	
32 x = 89,71,200	
x = 89,71,200/32 = ₹ 2,80,350	
Share of preference shareholders - ₹ 2,80,350 $\times \frac{1}{3}$ = ₹ 93,450	
Share of equity shareholders - ₹ 2,80,350 $\times \frac{2}{3}$ = ₹ 1,86,900	
Bonus to employees - ₹ 2,80,350 $\times \frac{2}{30}$ = ₹ 18,690	

Question 3

The balance sheet of XYZ Ltd. as at 31st December, 2011 inter alia includes the following:

		₹
50,000	*8% Preference shares of ₹100 each ₹70 paid up*	*35,00,000*
1,00,000	*Equity shares of ₹100 each fully paid up*	*1,00,00,000*
	Securities premium	*5,00,000*
	Capital redemption reserve	*20,00,000*
	General reserve	*50,00,000*

Under the terms of their issue, the preference shares are redeemable on March 31, 2012 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 50,000 equity shares of ₹ 100 each at ₹ 20 being payable on application, ₹ 35 (including premium) on allotment and the balance on January 1, 2012. The issue was fully subscribed and allotment made on March 1, 2012. The monies due on allotment were received by March 30, 2012.

The preference shares were redeemed after fulfilling the necessary conditions of Section 80 of the Companies Act, 1956. The company decided to make the minimum utilisation of general reserve.

You are asked to pass the necessary journal entries and show the relevant extracts from the Balance Sheet as on March 31, 2012 with the corresponding figures as on 31st December, 2011.

Answer

XYZ Ltd.

Journal Entries

		Dr.	*Cr.*
		₹ '000	₹ '000
8% Preference Share Final Call Account	Dr.	15,00	
To 8% Preference Share Capital Account			15,00
(Being the final call made on 50,000 preference shares @ ₹ 30 each to make them fully paid up)			
Bank Account	Dr.	15,00	
To 8% Preference Share Final Call Account			15,00
(Being the final call amount received on 50,000 preference shares @ ₹ 30 each)			
Bank Account	Dr.	10,00	
To Equity Share Application Account			10,00
(Being the application money received on 50,000 equity shares @ ₹ 20 per share)			
Equity Share Application Account	Dr.	10,00	
To Equity Share Capital Account			10,00
(Being the application money on 50,000 equity shares transferred to equity share capital account vide Board's resolution dated...)			
Equity Share Allotment Account	Dr.	17,50	
To Equity Share Capital Account			12,50
To Securities Premium Account			5,00
(Being the amount due on 50,000 equity shares @ ₹ 35			

per share including premium ₹ 10 vide Board's resolution dated...)			
Bank Account	Dr.	17,50	
To Equity Share Allotment Account			17,50
(Being the allotment money received on 50,000 equity shares @ ₹ 35 per share)			
8% Preference Share Capital Account	Dr.	50,00	
Premium on Redemption of Preference Shares Account	Dr.	2,50	
To Preference Shareholders Account			52,50
(Being the amount payable to preference share holders on redemption)			
Preference Shareholders Account	Dr.	52,50	
To Bank Account			52,50
(Being the payment made to preference shareholders)			
Securities Premium Account	Dr.	2,50	
To Premium on Redemption of Preference Shares Account			2,50
(Being the premium payable on redemption of preference shares charged to share premium account)			
General Reserve	Dr.	27,50	
To Capital Redemption Reserve			27,50
(Being the amount transferred to capital redemption reserve on redemption of preference shares for the balance not covered by proceeds of fresh issue of shares)			

Balance Sheet of XYZ Limited

As at 31st March, 2012 (after redemption of preference shares)

(Relevant extracts)

		Particulars	Notes	₹ ('000)	₹ ('000)
		Equity and Liabilities		as on 31.03.12	as on 31.12.11
1		Shareholders' funds			
	a	Share capital	1	12,250	13,500
	b	Reserves and Surplus	2	7,750	7,500

The cash and bank balance will be decreased by ₹ 10,00,000 on 31.3.2012 as compared to the balance on 31.12.2011.

Notes to accounts

			₹ ('000)
		as on 31.03.12	as on 31.12.11
1. Share Capital			
Equity share capital			
Issued, subscribed and paid-up			
1,00,000 equity shares of ₹ 100 each, fully paid up		10,000	10,000
50,000 equity shares of ₹ 100 each, ₹ 45 called up and paid up		2,250	-
Preference share capital			
50,000, 8% Redeemable preference shares of ₹ 100 each, ₹ 70 called-up and paid-up (redeemed on 31st March, 2012)		-	3,500
Total		12,250	13,500
2. Reserves and Surplus			
Capital redemption reserve			
Balance as on 31.12.2011	20,00		2,000
Add : Transfer from general reserve	27,50		
Balance as on 31.3.2012		4,750	
Securities premium account			
Balance as on 31.12.2011	5,00		500
Add : Amount received @ ₹ 10 per share on fresh issue of 50,000 equity shares	5,00		
	10,00		
Less : Premium on redemption of preference shares	(2,50)		
Balance as on 31.3.2012		750	
General reserve			
Balance as on 31.12.2011	50,00		

Less : Transfer to capital redemption reserve	(27,50)		5,000
Balance as on 31.3.2012		2,250	
Total		7,750	7,500

Working Notes :

		₹ '000
(i)	Transfer to capital redemption reserve	
	Nominal value of preference shares redeemed (₹ 100 × 50,000)	50,00
	Less : Proceeds of fresh equity issue [(₹ 20 + 25) × 50,000)]	(22,50)
	Transfer to capital redemption reserve	27,50
(ii)	Change in cash and bank balance	
	Receipts : (31.12.2011 - 31.3.2012)	
	Application money on 50,000 equity shares @ ₹ 20 per share	10,00
	Allotment money on 50,000 equity shares @ ₹ 35 per share	17,50
	Final call on 50,000, 8% Preference shares @ ₹ 30 per share	15,00
		42,50
	Payments:	
	Amount paid to preference shareholders on redemption	52,50
	Reduction in cash and bank balance	10,00

Question 4

Provisional Balance Sheet of P Ltd. as at 31st March, 2012 was as under:

Liabilities	*₹*	*₹*	*Assets*	*₹*
Share Capital			*Fixed Assets (at cost less depreciation)*	*7,00,000*
50,000 equity shares of ₹ 10 each, ₹ 7 per share called up	*3,50,000*		*Cash & Bank balances*	*2,00,000*
Less : Calls in arrear on 10,000 shares @ ₹ 2 per share	*(20,000)*		*Other Current assets*	*6,00,000*
	3,30,000			

Add : Calls in advance on 40,000 shares @ ₹ 3 per share	*1,20,000*	*4,50,000*	
20,000, 10% Redeemable preference shares of ₹ 10 each, fully paid up		*2,00,000*	
Reserves & Surplus :			
General Reserve		*3,00,000*	
Profit & Loss Account		*2,70,000*	
Current Liabilities		*2,80,000*	
		15,00,000	*15,00,000*

Calls in arrear are outstanding for 6 months. Calls in advance were also received 6 months back. Interest @ 10% p.a. on calls in advance and 12% p.a. on calls in arrear are allowed/charged.

The Board of Directors have recommended that:

(i) Dividend for the year 2011-12 be allowed @ 20% on equity shares.

(ii) Money on calls in advance be refunded and partly paid equity shares be converted as fully paid up by declaring bonus dividend to shareholders.

(iii) The preference shares, which are redeemable at a premium of 10% any time after 31st March, 2012 may be redeemed by issue of 10% Debentures of ₹ 100 in cash.

Show Journal Entries to give effect to the above proposals including payment and receipt of cash and redraft the Statement of Profit and Loss and Balance Sheet of P Ltd.

Answer

Journal Entries

P Ltd.

		Dr.	Cr.
		₹	₹
Interest on Calls in Arrear A/c	Dr.	1,200	
To Profit & Loss A/c			1,200
(Being interest @ 12 % p.a. on ₹ 20,000 for 6 months credited to Profit and Loss Account)			
Bank A/c	Dr.	21,200	
To Calls in Arrear A/c			20,000

To Interest on Calls in Arrear A/c			1,200
(Being interest on calls in arrear received)			
Profit & Loss A/c	Dr.	6,000	
To Interest on Calls in Advance A/c			6,000
(Being interest @ 10% on ₹ 1,20,000 for 6 months allowed on calls in advance)			
Profit & Loss A/c	Dr.	90,000	
To Preference Dividend			20,000
To Equity Dividend			70,000
(Being dividend @ 10% on Preference share capital & 20% on Equity share capital proposed)			
Profit & Loss A/c	Dr.	1,50,000	
To Bonus to Equity Shareholders A/c			1,50,000
(Being bonus dividend declared)			
Share Final Call A/c	Dr.	1,50,000	
To Equity Share Capital A/c			1,50,000
(Being final call made @ ₹ 3 on 50,000 shares)			
Bonus to Equity shareholders A/c	Dr.	1,50,000	
To Share Final Call A/c			1,50,000
(Being adjustment of bonus dividend against final call)			
Calls in Advance A/c	Dr.	1,20,000	
Interest on Calls in Advance A/c	Dr.	6,000	
To Bank A/c			1,26,000
(Being amount of calls in advance along with interest refunded)			
Bank A/c	Dr.	2,20,000	
To 10% Debentures A/c			2,20,000
(Being 2,200 Debentures of ₹ 100 each issued in cash)			
Profit & Loss A/c	Dr.	20,000	
To Premium on Redemption of Preference shares A/c			20,000
(Being premium payable on redemption)			
Profit & Loss A/c	Dr.	5,200	
General Reserve A/c	Dr.	1,94,800	

To Capital Redemption Reserve A/c			2,00,000
(Transfer to capital redemption reserve)			
Preference Share Capital A/c	Dr.	2,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	20,000	
To Preference Shareholders A/c			2,20,000
(Amount due on redemption of preference shares)			
Preference Shareholders A/c	Dr.	2,20,000	
To Bank A/c			2,20,000
(Amount paid to preference shareholders)			

Statement of Profit & Loss of P Ltd.
for the year ended 31st March, 2012

	Particulars	Notes no.	₹
a	Profit		2,70,000
	Other Income	5	1,200
b	Expenses		
	Other Expenses	6	(6,000)
c	Profit before tax		2,65,200
	Less: Provision for tax		-
	Profit after tax		2,65,200

Balance Sheet of P Ltd.
as on 31st March 2012

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	5,00,000
	b	Reserves and Surplus	2	3,05,200
2		Non-current liabilities		
	a	Long-term borrowings	3	2,20,000
3		Current liabilities		
	a	Trade Payables		2,80,000
	b	Other current liabilities	4	90,000
		Total		13,95,200

		Assets		
1		Non-current assets		
	a	Fixed assets		7,00,000
2		Current assets		
	a	Cash and cash equivalents		95,200
	b	Other current assets		6,00,000
		Total		13,95,200

Notes to accounts

				₹
1.	Share Capital			
	Equity share capital			
	Issued, subscribed and paid-up			
	50,000 equity shares of ₹ 10 each fully paid up (of the above equity shares ₹ 3 per share has not been received in cash but has been capitalised by issuing bonus dividend)			5,00,000
	Total			5,00,000
2.	Reserves and Surplus			
	Capital redemption reserve			2,00,000
	General reserve		3,00,000	
	Less: Utilised for redemption of preference share		(1,94,800)	105,200
	Profit after tax		2,65,200	
	Less: Adjustments/Appropriations			
	Premium on redemption	(20,000)		
	Preference Dividend	(20,000)		
	Equity Dividend	(70,000)		
	Bonus Dividend	(1,50,000)		
	Capital Redemption Reserve	(5,200)		
	Total		(2,65,200)	-
	Total			3,05,200
3.	Long-term borrowings			
	Secured			
	10% Debentures			2,20,000
	Total			2,20,000

4.	Other current liabilities		
	Proposed dividend		90,000
	Total		90,000
5.	Other Income		
	Interest on calls in arrear		1,200
6.	Other Expenses		
	Interest on calls in advance		6,000

Working Note :

Cash and Bank balance as on 31st March, 2012

		₹
Cash and bank balance (given)		2,00,000
Add:	Recovery of calls in arrear and interest thereon	21,200
	Proceeds from issue of 10% Debentures	2,20,000
		4,41,200
Less:	Payment of calls in advance and interest thereon	(1,26,000)
	Redemption of preference shares	(2,20,000)
		95,200

Note : In the absence of information, it has been assumed that the amount of calls in arrear has been received in the given solution. It has been assumed that 20% dividend on equity shares has been proposed before the equity shares are made fully paid by way of bonus dividend.

Question 5

What are the maximum limits of managerial remuneration for companies having adequate profits?

Answer

For companies having adequate profits, maximum limits of managerial remuneration in different circumstances are as under:

(i) Overall (excluding fee for attending meetings) 11% of net profit

(ii) If there is one managerial person 5% of net profit

(iii) If there are more than one managerial person 10% of net profit

(iv) Remuneration of part-time directors:

  (a) If there is no managing or whole-time director 3% of net profit

  (b) If there is a managing or whole-time director 1% of net profit

Question 6

Calculate the maximum remuneration payable to the Managing Director based on effective capital of a non-investment company for the year, from the information given below:

		(₹ in '000)
(i)	*Profit for the year (calculated as per Section 349, 350 & 351 of the Companies Act, 1956)*	*3,000*
(ii)	*Paid up capital*	*18,000*
(iii)	*Reserves & surplus*	*7,200*
(iv)	*Securities premium*	*1,200*
(v)	*Long term loans*	*6,000*
(vi)	*Investment*	*3,600*
(vii)	*Preliminary expenses not written off*	*3,000*
(viii)	*Remuneration paid to the Managing Director during the year*	*600*

Answer

Calculation of Effective Capital** of the Company

		₹ in '000
Paid-up capital		18,000
Add: Reserves and surplus		7,200
Securities premium		1,200
Long term loans		6,000
		32,400
Less: Investments	3,600	
Preliminary expenses	3,000	(6,600)
Effective capital for the purpose of managerial remuneration		25,800

As effective capital is less than ₹ 5 crores but more than ₹ 1 crore, therefore maximum remuneration payable to the Managing Director should be @ ₹ 1,00,000 per month.

So, maximum remuneration payable to the Managing Director for the year (₹ 1,00,000 x 12) = ₹ 12,00,000

**It is assumed that the company is having inadequate net profit and remuneration to a managerial person by way of salary, dearness allowance, perquisites and any other allowances is not exceeding the ceiling limit of ₹ 24,00,000 p.a.

Question 7

The following items were extracted from the Balance Sheet of Xansa Ltd. as on 1st April, 2011:

	₹
13½% Preference Share capital	*4,00,000*
Equity Share Capital fully paid up	*5,00,000*
Equity Share Capital 60% partly paid up	*3,00,000*
Securities Premium	*7,00,000*
15% Debentures	*10,00,000*

Profit before interest on debentures and before payment of tax @ 30% is ₹ 1,50,000 for the year ended 31st March, 2012.

The Board of Directors of the Company proposed a dividend of 15% on equity capital and capitalisation of profits for making partly paid-up shares into fully paid up. Corporate dividend tax is payable @ 16.2225%.

Pass the necessary Journal entries to incorporate the Board's recommendations and show how the items concerned would be shown on the liabilities side of the Balance Sheet of Xansa Ltd. as on 31st March, 2012.

Solution

Journal Entries

		₹	₹
Profit and Loss A/c	Dr.	1,50,000	
To Debenture Interest A/c			1,50,000
(Being transfer of debenture interest to profit and loss account)			
Profit and Loss A/c	Dr.	3,00,000	
To Provision for Taxation A/c			3,00,000
(Being provision for tax made @ 30% on ₹ 10,00,000 i.e. ₹ 11,50,000 – ₹ 1,50,000)			
Profit and Loss A/c	Dr.	35,000	
To General Reserve A/c			35,000
(Being creation of general reserve @ 5% of net profit (i.e. ₹ 7,00,000), as rate of dividend is 15% as per the Sec. 205 (2A) of the Companies Act read with the Companies (Transfer of Profits to Reserves) Rules, 1975)			

Profit and Loss A/c	Dr.	54,000	
To Proposed preference share dividend A/c			54,000
(Being preference share dividend payable @ 13½% on ₹ 4,00,000)			
Profit and Loss A/c	Dr.	1,20,000	
To Proposed equity share dividend A/c			1,20,000
(Being equity share dividend payable @ 15% on ₹ 8,00,000)			
Profit and Loss A/c	Dr.	28,227	
To Provision for corporate dividend tax A/c			28,227
(Being provision made for corporate dividend tax @ 16.2225% on total dividend of ₹ 1,74,000)			
Profit and Loss A/c	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being partly paid equity shares converted to fully paid up, by capitalization of profit)			

Balance Sheet (Extracts) as on 31st March, 2012

		₹
Share capital:		
13½% Preference share capital		4,00,000
Equity share capital fully paid up		10,00,000
Reserves and Surplus:		
Securities Premium		7,00,000
General Reserve		35,000
Profit and Loss Account		2,62,773
Secured Loan:		
15% Debentures		10,00,000
Provisions:		
Corporate Income-tax		3,00,000
Proposed Dividend:		
Preference	54,000	
Equity	1,20,000	1,74,000
Corporate Dividend Tax		28,227

Note: It is assumed that debenture interest has been paid.

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 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

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 statement 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.

Question 3

From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3,2010:

Balance Sheets of Mr. Zen

Liabilities	*As on 1.4.2009* ₹	*As on 1.4.2010* ₹
Zen's Capital A/c	*10,00,000*	*12,24,000*
Sundry creditors	*3,20,000*	*3,52,000*
Mrs. Zen's loan	*2,00,000*	--
Loan from Bank	*3,20,000*	*4,00,000*
	18,40,000	*19,76,000*
Assets	*As on 1.4.2009* ₹	*As on 1.4.2010* ₹
Land	*6,00,000*	*8,80,000*
Plant and Machinery	*6,40,000*	*4,40,000*
Stock	*2,80,000*	*2,00,000*
Debtors	*2,40,000*	*4,00,000*
Cash	*80,000*	*56,000*
	18,40,000	*19,76,000*

Additional information:

A machine costing ₹ 80,000 (accumulated depreciation there on ₹ 24,000) was old for ₹ 40,000. The provision for depreciation on 1.4.2009 was ₹ 2,00,000 and 31.3.2010 was ₹ 3,20,000. The net profit for the year ended on 31.3.2010 was ₹ 3,60,000.

Answer

Cash Flow Statement of Mr. Zen as per AS 3
for the year ended 31.3.2010

		₹
(i) Cash flow from operating activities		
Net Profit (given)		3,60,000
Adjustments for		
Depreciation on Plant & Machinery	1,44,000	
Loss on Sale of Machinery	16,000	1,60,000
Operating Profit before working capital changes		5,20,000
Decrease in Stock	80,000	
Increase in Debtors	(1,60,000)	
Increase in Creditors	32,000	(48,000)
Net cash generated from operating activities		4,72,000
(ii) Cash *flow from* investing activities		
Sale of Machinery	40,000	
Purchase of Land	(2,80,000)	
Net cash used in investing activities		(2,40,000)
(iii) Cash *flow from* financing activities		
Repayment of Mrs. Zen's Loan	(2,00,000)	
Drawings	(1,36,000)	
Loan from Bank	80,000	
Net cash used in financing activities		(2,56,000)
Net decrease in cash		(24,000)
Opening balance as on 1.4.2009		80,000
Cash balance as on 31.3.2010		56,000

Working Notes:

1. Plant & Machinery A/c

	₹		₹
To Balance b/d (6,40,000 + 2,00,000)	8,40,000	By Cash – Sales	40,000
		By Provision for Depreciation A/c	24,000
		By Profit & Loss A/c – Loss on Sale (80,000 – 64,000)	16,000
		By Balance c/d (4,40,000+3,20,000)	7,60,000
	8,40,000		8,40,000

2. Provision for depreciation on Plant and Machinery A/c

	₹		₹
To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	3,20,000	By Profit & Loss A/c (Bal. fig.)	1,44,000
	3,44,000		3,44,000

3. To find out Mr. Zen's drawings:

	₹
Opening Capital	10,00,000
Add: Net Profit	3,60,000
	13,60,000
Less: Closing Capital	(12,24,000)
Drawings	1,36,000

Question 4

Ms. Joyti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year 2011 :

	(₹ 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 2011 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, 2011

(₹ 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 ₹ 2,506 has been received during the year.

Question 5

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2011 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 31.3.2011

	₹ '000		*₹ '000*
Balance on 1.4.2010	*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 31.3.2011	*150*
	3,250		*3,250*

Answer

X Ltd.

Cash Flow Statement for the year ended 31st March, 2011

(Using the direct method)

	₹ '000	₹ '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 generated 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 6

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

Liabilities	*31.03.2011 (₹)*	*31.03.2010 (₹)*
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 ₹ 35,000.

(iii) ₹ 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, 2011

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 Investing 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 in investing 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

		₹			₹
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

		₹			₹
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 7

From the following Balance Sheet and information, prepare Cash Flow Statement of Ryan Ltd. for the year ended 31st March, 2011:

Balance Sheet

	31st March, 2011 ₹	31st March, 2010 ₹
Liabilities		
Equity Share Capital	6,00,000	5,00,000
10% Redeemable Preference Share 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, 2011 ₹	31st March, 2010 ₹
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	75,000	95,000
Sundry Debtors	1,75,000	1,30,000
Cash and Bank	65,000	90,000
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 ₹ 1,50,000 (Cost – ₹ 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on sale and profit on revaluation.*

(ii) *On 1st April, 2010 a plant was sold for ₹ 90,000 (Original Cost – ₹ 70,000 and W.D.V. – ₹ 50,000) and Debentures worth ₹ 1 lakh was issued at par as part consideration for plant of ₹ 4.5 lakhs acquired.*

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

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

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

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

(vii) *Income-tax liability for the current year was estimated at ₹ 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, 2011

Cash flow from operating activities	₹	₹
Net Profit before taxation	2,45,000	
Adjustment for		
Depreciation	1,35,000	
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	3,38,000	
Increase in inventory	(5,000)	
Decrease in bills receivable	20,000	
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 generated 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.

	₹
Net profit before taxation	
Retained profit	70,000
Less: Balance as on 31.3.2010	(50,000)
	20,000
Provision for taxation	1,35,000
Proposed dividend	90,000
	2,45,000

2. Land and Building Account

		₹			₹
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

		₹			₹
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

		₹			₹
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

		₹			₹
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

		₹			₹
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**

	₹		₹
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**

	₹		₹
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**

	₹		₹
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 8

The Balance Sheet of New Light Ltd. for the years ended 31st March, 2010 and 2011 are as follows:

Liabilities	*31st March 2010 (₹)*	*31st March 2011 (₹)*	*Assets*	*31st March 2010 (₹)*	*31st March 2011 (₹)*
Equity share capital	*12,00,000*	*16,00,000*	*Fixed Assets*	*32,00,000*	*38,00,000*
10% Preference share capital	*4,00,000*	*2,80,000*	*Less: Depreciation*	*9,20,000*	*11,60,000*
				22,80,000	*26,40,000*
Capital Reserve	*–*	*40,000*	*Investment*	*4,00,000*	*3,20,000*
General Reserve	*6,00,000*	*7,60,000*	*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*			
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*			
	38,00,000	*42,80,000*		*38,00,000*	*42,80,000*

Additional information:

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

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

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

(iv) Company sold some investment at a profit of ₹ 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 31.3.2010 was ₹ 2,16,000. The stock on 31.3.2011 was correctly valued at ₹ 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, 2011

A.	Cash Flow from operating activities	₹	₹
	Profit after appropriation		
	Increase in profit and loss A/c after inventory adjustment [₹ 3,00,000 – (₹ 2,40,000 + ₹ 24,000)]	36,000	
	Transfer to general reserve	1,60,000	
	Proposed dividend	1,44,000	
	Provision for tax	3,40,000	
	Net profit before taxation and extraordinary item	6,80,000	
	Adjustments for:		
	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 (₹ 5,20,000 –₹ 4,80,000)	40,000	
	Increase in other current assets [₹ 13,10,000 – (₹ 11,10,000 + ₹ 24,000)]	(1,76,000)	
	Cash generated from operations	9,52,000	
	Income taxes paid	(3,60,000)	
	Net Cash generated 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 (₹ 1,20,000 + ₹ 6,000)	(1,26,000)	
	Redemption of debentures (₹ 1,20,000 + ₹ 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 ₹ 24,000.

   $\frac{2,16,000}{90} \times 10 = ₹\ 24,000$

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

   ₹ 11,10,000 + ₹ 24,000 = ₹ 11,34,000

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

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

   ₹ 2,40,000 + ₹ 24,000 = ₹ 2,64,000

2. **Investment Account**

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

3. **Fixed Assets Account**

		₹			₹	₹
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**

		₹			₹
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 (depreciation for the period)	3,60,000
To	Balance c/d	11,60,000			
		12,80,000			12,80,000

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

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

Question 9

ABC Ltd. gives you the following information. You are required to prepare Cash Flow Statement by using indirect methods as per AS 3 for the year ended 31.03.2011:

Balance Sheet as on

Liabilities	*31st March 2010*	*31st March 2011*	*Assets*	*31st March 2010*	*31st March 2011*
	₹	₹		₹	₹
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, 2011, after charging depreciation ₹ 1,80,000 is ₹ 22,40,000.

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

(iii) ABC Ltd. declared dividend of ₹ 12,00,000 for the year 2010-2011.

Answer

Cash Flow Statement of ABC Ltd. for the year ended 31.3.2011

Cash flows from Operating Activities	₹	₹
Net Profit	22,40,000	
Add: Adjustment for Depreciation (₹ 7,90,000 – ₹ 6,10,000)	1,80,000	
Operating profit before working capital changes	24,20,000	
Add: Decrease in Inventories (₹ 20,10,000 – ₹ 19,20,000)	90,000	
Increase in provision for doubtful debts (₹ 4,20,000 – ₹ 1,50,000)	2,70,000	

		27,80,000	
Less: Increase in Current Assets:			
Debtors (₹ 30,60,000 – ₹ 23,90,000)	6,70,000		
Prepaid expenses (₹ 1,20,000 – ₹ 90,000)	30,000		
Decrease in current liabilities:			
Creditors (₹ 8,80,000 – ₹ 8,20,000)	60,000		
Expenses outstanding (₹ 3,30,000 – ₹ 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 (₹ 40,70,000 – ₹ 27,30,000)		13,40,000	
Net cash used in investing activities			(13,40,000)
Cash flows from Financing Activities			
Bank loan raised (₹ 3,00,000 – ₹ 1,50,000)		1,50,000	
Issue of debentures		9,00,000	
Payment of Dividend (₹ 12,00,000 – ₹ 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 1.4.2010 (₹ 15,20,000 + ₹ 11,80,000)			27,00,000
Cash and cash equivalents as on 31.3.2011 (₹ 18,20,000 + ₹ 15,00,000)			33,20,000

Note: Bad debts amounting ₹ 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 31.3.2011. 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 31.3.2011.

Question 10

The following figures have been extracted from the books of X Limited for the year ended on 31.3.2011. 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 ₹ 20 lakhs:

(a) Depreciation on Fixed Assets ₹ 5 lakhs.

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

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

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

(e) Interest received on investments ₹ 60,000.

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

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

(iii) 15,000, 10% preference shares of ₹ 100 each were redeemed on 31.3.2011 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2010. Dividend on preference shares were paid at the time of redemption.

(iv) Dividend paid for the year 2009-2010 ₹ 5 lakhs and interim dividend paid ₹ 3 lakhs for the year 2010-2011.

(v) Land was purchased on 2.4.2010 for ₹ 2,40,000 for which the company issued 20,000 equity shares of ₹ 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 31.3.2010	*As on 31.3.2011*
	₹	*₹*
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, 2011

	₹	₹
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 31.3.2010		1,96,300
Cash and cash equivalents as on 31.3.2011		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 11

Raj Ltd. gives you the following information for the year ended 31st March, 2011:

(i) Sales for the year ₹ 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 ₹ 50,000.

- *(i) Trade creditors on 31.3.2011 exceed the outstanding on 31.3.2010 by ₹ 1,00,000.*
- *(ii) Tax paid during the year amounts to ₹ 1,50,000.*
- *(iii) Amounts paid to Trade creditors during the year ₹ 35,50,000.*
- *(iv) Administrative and Selling expenses paid ₹ 3,60,000.*
- *(v) One new machinery was acquired in December, 2010 for ₹ 6,00,000.*
- *(vi) Dividend paid during the year ₹ 1,20,000.*
- *(vii) Cash in hand and at Bank on 31.3.2011 ₹ 70,000.*
- *(viii) Cash in hand and at Bank on 1.4.2010 ₹ 50,000.*

Prepare Cash Flow Statement for the year ended 31.3.2011 as per the prescribed Accounting standard.

Answer

Cash flow statement of Raj Limited
for the year ended 31.3.2011

Direct Method

Cash flow from operating activities:	₹	₹
Cash receipt from customers (sales)	48,00,000	
Cash paid to suppliers and expenses (₹ 35,50,000 + ₹ 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 31.3.2011		70,000

Question 12

The following are the summarized Balance Sheets of 'X' Ltd. as on March 31, 2010 and 2011:

Liabilities	*As on 31.3.2010 (₹)*	*As on 31.3.2011 (₹)*
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 2010 (₹)*	*Year 2011 (₹)*
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 ₹ 1,00,000 was paid during the year ended March 31, 2011.

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

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

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

(v) Company sold some investment at a profit of ₹ 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 ₹ 20,000.

From the above particulars, prepare a cash flow statement for the year ended March, 2011 as per AS 3 (Indirect method).

Answer

Cash Flow Statement for the year ending on March 31, 2011

	₹	₹
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 31.3.2011

	₹
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

	₹		₹
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

	₹		₹
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

	₹		₹
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

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

Question 13

From the following information, prepare cash flow statement of A (P) Ltd. as at 31st March, 2010 by using indirect method:

Balance Sheet

	2009 ₹	2010 ₹
Liabilities:		
Share capital	12,00,000	12,00,000
Profit and loss account	8,50,000	10,00,000
Long term loans	10,00,000	10,60,000
Creditors	3,50,000	4,00,000
	34,00,000	36,60,000
Assets:		
Fixed assets	17,00,000	20,00,000
Investment in shares	2,00,000	2,00,000
Stock	6,80,000	7,00,000
Debtors	7,20,000	6,60,000
Cash	60,000	70,000
Bills receivable	40,000	30,000
	34,00,000	36,60,000

Income Statement for the year ended 31st March, 2010

		₹
Sales		40,80,000
Less: Cost of sales		(27,20,000)
Gross profit		13,60,000
Less: Operating expenses:		
Administrative expenses	4,60,000	
Depreciation	2,20,000	(6,80,000)
Operating profit		6,80,000
Add: Non-operating incomes (dividend received)		50,000
		7,30,000
Less: Interest paid		(1,40,000)

Profit before tax	*5,90,000*
Less: Income-tax	*(2,60,000)*
Profit after tax	*3,30,000*

Statement of Retained Earnings

	₹
Opening balance	*8,50,000*
Add: Profit	*3,30,000*
	11,80,000
Less: Dividend paid	*(1,80,000)*
Closing balance	*10,00,000*

Answer

Cash Flow Statement of A (P) Ltd.

for the year ended 31st March 2010

		₹	₹
(i)	Cash flows from operating activities		
	Profit before tax	5,90,000	
	Adjustments for		
	Depreciation	2,20,000	
	Interest	1,40,000	
	Dividend	(50,000)	
	Operating profit before working capital changes	9,00,000	
	Add: Decrease in bills receivable	10,000	
	Decrease in debtors	60,000	
	Increase in creditors	50,000	
		10,20,000	
	Less: Increase in stock	(20,000)	
	Cash generated from operations	10,00,000	
	Less: Tax paid	(2,60,000)	
	Cash flow from operating activities		7,40,000
(ii)	Cash flows from investing activities		
	Purchase of fixed assets [20,00,000+2,20,000-17,00,000]	(5,20,000)	

	Dividend on investments	50,000	
	Cash used in investing activities		(4,70,000)
(iii)	Cash flows from financing activities		
	Long term loan taken	60,000	
	Interest paid	(1,40,000)	
	Dividend paid	(1,80,000)	
	Cash used in financing activities		(2,60,000)
Net increase in cash during the year			10,000
Add: Opening cash balance			60,000
Closing cash balance			70,000

Question 14

The Balance Sheets of X Ltd. as on 31st March, 2010 and 31st March, 2011 are as follows:

Liabilities	*2010 Amount (₹)*	*2011 Amount (₹)*	*Assets*	*2010 Amount (₹)*	*2011 Amount (₹)*
Share Capital	*5,00,000*	*7,00,000*	*Land and Buildings*	*80,000*	*1,20,000*
General Reserve	*50,000*	*70,000*	*Plant and Machinery*	*5,00,000*	*8,00,000*
Profit and Loss A/c	*1,00,000*	*1,60,000*	*Stock*	*1,00,000*	*75,000*
Sundry Creditors	*1,53,000*	*1,90,000*	*Sundry Debtors*	*1,50,000*	*1,60,000*
Bills Payable	*40,000*	*50,000*	*Cash*	*20,000*	*20,000*
Outstanding Expenses	*7,000*	*5,000*			
	8,50,000	*11,75,000*		*8,50,000*	*11,75,000*

Additional Information :

(a) ₹ 50,000 depreciation has been charged to Plant and Machinery during the year 2011.

(b) A piece of Machinery costing ₹ 12,000 (Depreciation provided there on ₹ 7,000) was sold at 60% profit on book value.

You are required to prepare Cash flow statement for the year ended 31st March 2011 as per AS 3 (revised), using indirect method.

Answer

Cash Flow Statement for the year ended 31st March, 2011

			Amount ₹	Amount ₹
I	Cash Flows from Operating Activities			
	Closing Balance as per Profit & Loss A/c			1,60,000
	Less:	Opening Balance as per Profit & Loss A/c		(1,00,000)
				60,000
	Add:	Transfer to General Reserve		20,000
	Net Profit before taxation and extra-ordinary items			80,000
	Add:	Depreciation on Plant and Machinery		50,000
	Less:	Profit on sale of machinery (Refer W.N.)		(3,000)
	Operating Profit			1,27,000
	Add:	Decrease in Stock	25,000	
		Increase in Creditors	37,000	
		Increase in Bills Payable	10,000	72,000
				1,99,000
	Less:	Increase in Debtors	(10,000)	
		Decrease in Outstanding expenses	(2,000)	(12,000)
	Net Cash from Operating Activities			1,87,000
II.	Cash Flows from Investing Activities			
	Purchase of Land & Building		(40,000)	
	Proceeds from Sale of Machinery (Refer W.N.)		8,000	
	Purchases of Plant & Machinery (Refer W.N.)		(3,55,000)	
	Net Cash Used in Investing Activities			(3,87,000)
III.	Cash Flows from Financing Activities			
	Proceeds from Issuance of Share Capital		2,00,000	
	Net Cash from Financing Activities			2,00,000
Net Increase/Decrease in Cash & Cash Equivalents				0
Add:	Cash in hand at the beginning of the year			20,000
Cash in hand at the end of the year				20,000

Working Note:

Plant and Machinery Account

	₹		₹
To Balance b/d	5,00,000	By Bank	8,000*
To Profit and Loss A/c (Profit on sale)	3,000	By Depreciation	50,000
To Purchases (Bal. fig.)	3,55,000	By Balance c/d	8,00,000
	8,58,000		8,58,000

Question 15

The following are the summarized Balance Sheet of Star Ltd. as on 31st March, 2010 and 2011:

		(₹ '000)
	2010	*2011*
Equity share capital of ₹10 each	*3,400*	*3,800*
Profit and Loss A/c	*400*	*540*
Securities Premium	*40*	*80*
14% Debentures	*800*	*900*
Long term borrowings	*180*	*240*
Sundry Creditors	*360*	*440*
Provision for Taxation	*20*	*40*
Proposed Dividend	*300*	*480*
	5,500	*6,520*
Sundry Fixed Assets:		
Gross Block	*3,200*	*4,000*
Less: Depreciation	*(640)*	*(1,440)*
Net Block	*2,560*	*2,560*
Investment	*1,200*	*1,400*
Inventories	*1,000*	*1,400*
Sundry Debtors	*640*	*900*
Cash and Bank Balance	*100*	*260*
	5,500	*6,520*

* 160% of (12,000-7,000) = ₹8,000.

The Profit and Loss account for the year ended 31st March, 2011 disclosed:

	(₹'000)
Profit before tax	*780*
Less: Taxation	*(160)*
Profit after tax	*620*
Less: Proposed dividend	*(480)*
Retained Profit	*140*

The following information are also available:

(1) 40,000 equity shares issued at a premium of Re.1 per share.

(2) The Company paid taxes of ₹1,40,000 for the year 2010-11.

(3) During the period, it discarded fixed assets costing ₹4 lacs, (accumulated depreciation ₹80,000) at ₹40,000 only.

You are required to prepare a cash flow statement as per AS 3 (Revised), using indirect method.

Answer

Cash Flow Statement for the year ended 31st March, 2011

			₹('000)
(A)	Cash flow from operating activities		
	Net profit before tax	780	
	Add: Adjustment for depreciation	880	
	Loss on sale of fixed assets	280	
	Interest on debentures*	126	
	Operating profit before changes in working capital	2,066	
	Less: Increase in Sundry Debtors	(260)	
	Less: Increase in Inventories	(400)	
	Add: Increase in Sundry Creditors	80	
	Cash generated from operations	1,486	
	Less: Income tax paid (W.N.1)	(140)	
	Net cash from operating activities		1,346
(B)	Cash flow from investing activities		
	Purchase of fixed assets	(1,200)	
	Sale of fixed assets	40	
	Purchase of investments	(200)	
	Net cash used in investing activities		(1,360)

* It is assumed that debentures of ₹ 1,00,000 were issued at the beginning of the year.

(C)	Cash flow from financing activities		
	Proceeds from issue of shares including premium (400 + 40)	440	
	Proceeds from issue of 14% debentures (900 – 800)	100	
	Proceeds from long term borrowings	60	
	Interest on debentures	(126)	
,	Payment of dividend	(300)	
	Net cash from financing activities		174
	Net increase in cash and cash equivalents (A+B+C)		160
	Cash and cash equivalents at the beginning of the year		100
	Cash and cash equivalents at the end of the year		260

Working Notes:

1.	Calculation of Income tax paid during the year	*₹ ('000)*
	Income tax expense for the year	160
	Add: Income tax liability at the beginning of the year	20
		180
	Less: Income tax liability at the end of the year	(40)
	Income tax paid during the year	140
2.	Calculation of Fixed assets purchased during the year	
	Closing balance of gross block of fixed assets	4,000
	Add: Cost of assets discarded during the year	400
		4,400
	Less: Opening balance of gross block of fixed assets	(3,200)
	Fixed assets purchased during the year	1,200
3.	Calculation of Depreciation charged during the year	
	Closing balance of accumulated depreciation	1,440
	Add: Depreciation charged on assets discarded during the year	80
		1,520
	Less: Opening balance of accumulated depreciation	(640)
	Depreciation charged during the year	880

EXERCISES

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 ₹ in lakhs)
As at 31st March	*2011*	*2010*
Share Capital		
In equity shares of ₹ 100 each	150	110
10% redeemable preference shares of ₹ 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, 2011

		(Figures ₹ 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 ₹ 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 ₹ in lakhs)		
	2011	*2010*
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 debenture holders owning 50% of the debentures outstanding as on 31.3.2010 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, 2011 in accordance with para 18(a) of Accounting Standard (AS) 3 revised.

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

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 ₹ 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 ₹ 18,000 against which depreciation provision of ₹ 13,500 was lying, was sold for ₹ 7,000.

(c) During the middle of the year ₹ 50,000 debentures were issued for cash at a discount of ₹ 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 ₹ 64,300 during the year end. Ignore taxation.

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

3. The following are the summarized Balance Sheets of Lotus Ltd. as on 31st March 2011 and 2012:

Liabilities	*31-3-2011* ₹	*31-3-2012* ₹
Equity share capital (₹ 10 each)	*10,00,000*	*12,50,000*
Capital reserve		*10,000*
Profit and loss A/c	*4,00,000*	*4,80,000*
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*
	24,50,000	*26,00,000*
Assets	₹	₹
Land and building	*4,00,000*	*3,80,000*
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*	*1,40,000*
Cash at bank	*3,00,000*	*4,10,000*
	24,50,000	*26,00,000*

Additional information:

(1) Depreciation written off on land and building ₹ 20,000.

(2) The company sold some investment at a profit of ₹ 10,000, which was credited to Capital Reserve.

(3) Income-tax provided during the year ₹ 55,000.

(4) During the year, the company purchased a machinery for ₹ 2,25,000. They paid ₹ 1,25,000 in cash and issued 10,000 equity shares of ₹ 10 each at par.

You are required to prepare a cash flow statement for the year ended 31st March 2012 as per AS 3 by using indirect method.

[Hint: Net cash flow from operating activities ₹ 65,000; Net cash used in investing activities (₹ 65,000); and and Net cash from financing activities ₹ 50,000]

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.

Item	*Basis of Apportionment between pre and Post incorporation period*
Gross Profit or Gross Loss	On the basis of turnover in the respective periods. Or On the basis of cost of goods sold in the respective periods in the absence of any information regarding turnover. Or On the basis of time in the respective periods in the absence of any information regarding turnover and cost of goods sold.
Variable expenses linked with Turnover [e.g. Carriage/Cartage outward, Selling and distribution expenses, Commission to selling agents/travelling agents, advertisement expenses, Bad debts (if actual bad debts for the two periods are not given), Brokerage, Sales Promotion.]	On the basis of Turnover in the pre and post incorporation.
Fixed Common charges [e.g. Salaries, Office and Administration Expenses, Rent, Rates and Taxes, Printing and Stationery,	On the basis of Time in the pre and post incorporation periods.

Telephone, Telegram and Postage, Depreciation, Miscellaneous Expenses]	
Expenses exclusively relating to pre-Incorporation period [e.g. Interest on Vendor's Capital]	Charge to pre-incorporation period but if the purchase consideration is not paid on taking over of business, interest for the subsequent period is charged to post incorporation period.
Expenses exclusively relating to post-incorporation period [e.g. Formation expenses, interest on debentures, director's fees, Directors' remuneration, Preliminary Expenses, Share issue Expenses, Underwriting commission, Discount on issue of securities.	Charge to Post-incorporation period
Audit Fees (i) For Company's Audit under the Companies Act, 1956. (ii) For Tax Audit under section 44AB of the Income tax Act, 1961	 Charge to Post-incorporation period On the basis of turnover in the respective periods.
Interest on purchase consideration to vendor: (i) For the period from the date of acquisition of business to date of incorporation. (ii) For the period from the date	 Charge to Pre-incorporation period Charge to Post-incorporation period

- 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.

Question 1

Define Pre–incorporation expenses in brief.

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.

Question 2

ABC Ltd. took over a running business with effect from 1st April, 2009. The company was incorporated on 1st August, 2009. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2010:

	₹		₹
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Miscellaneous trade expenses	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fee	11,200		
To Bad debts	3,200		
To Commission to selling agents	16,000		
To Tax Audit fee	6,000		
To Debenture interest	3,000		
To Interest paid to vendor	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	87,600		
	3,20,000		3,20,000

Additional information:

(a) Total sales for the year, which amounted to ₹ 19,20,000 arose evenly upto the date of 30.9.2009. Thereafter they spurted to record an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ ₹ 2,000 per month upto September, 2009 and thereafter it was increased by ₹ 400 per month.

(c) Travelling expenses include ₹ 4,800 towards sales promotion.

(d) Depreciation include ₹ 600 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2009 by issuing equity shares of ₹ 10 each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

Answer

Statement showing calculation of profits for pre and post incorporation periods

for the year ended 31.3.2010

Particulars	*Pre-incorporation period* ₹	*Post- incorporation period* ₹
Gross profit (1:3)	80,000	2,40,000
Less: Salaries (1:2)	16,000	32,000
Stationery (1:2)	1,600	3,200
Advertisement (1:3)	4,000	12,000
Travelling expenses (W.N.3)	4,000	8,000
Sales promotion expenses (W.N.3)	1,200	3,600
Misc. trade expenses (1:2)	12,600	25,200
Rent (office building) (W.N.2)	8,000	18,400
Electricity charges (1:2)	1,400	2,800
Director's fee	-	11,200
Bad debts (1:3)	800	2,400
Selling agents commission (1:3)	4,000	12,000
Audit fee (1:3)	1,500	4,500
Debenture interest	-	3,000
Interest paid to vendor (2:1) (W.N.4)	2,800	1,400
Selling expenses (1:3)	6,300	18,900
Depreciation on fixed assets (W.N.5)	3,000	6,600
Capital reserve (Bal.Fig.)	12,800	-
Net profit (Bal.Fig.)	-	74,800

Working Notes:

Pre incorporation period = 1st April, 2009 to 31st July, 2009

i.e. 4 months

1. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.2009 to 30.09.09) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.09 to 31.3.2010) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3}x \times 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = ₹ 19,20,000/16 = ₹ 1,20,000

Total sales for pre-incorporation period = ₹ 1,20,000 x 4 = ₹ 4,80,000

Total sales for post incorporation period = ₹ 19,20,000 – ₹ 4,80,000 = ₹ 14,40,000

Sales Ratio = 4,80,000 : 14,40,000 = 1 : 3

2. Rent

		₹
Rent for pre-incorporation period (₹ 2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,2009 & September, 2009 (₹ 2,000 x 2)	4,000	
October,2009 to March,2010 (₹ 2,400 x 6)	14,400	18,400 (post)

3. Travelling expenses and sales promotion expenses

	Pre ₹	*Post* ₹
Traveling expenses ₹ 12,000 (i.e. ₹ 16,800- ₹ 4,800) distributed in 1:2 ratio	4,000	8,000
Sales promotion expenses ₹ 4,800 distributed in 1:3 ratio	1,200	3,600

4. Interest paid to vendor till 30th September, 2009

	Pre ₹	*Post* ₹
Interest for pre-incorporation period $\left(\frac{₹\ 4,200}{6} \times 4\right)$	2,800	

Interest for post incorporation period i.e. for August, 2009 & September, 2009 = $\left(\frac{₹\ 4,200}{6} \times 2\right)$		1,400

5. Depreciation

		Pre ₹	*Post* ₹
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	600		600
	9,000		
Depreciation for pre-incorporation period $\left[9,000 \times \frac{4}{12}\right]$		3,000	
Depreciation for post incorporation period $\left[9,000 \times \frac{8}{12}\right]$			6,000
		3,000	6,600

Question 4

Rama Udyog Limited was incorporated on August 1, 2011. It had acquired a running business of Rama & Co. with effect from April 1, 2011. During the year 2011-12, the total sales were ₹ 36,00,000. The sales per month in the first half year were half of what they were in the later half year. The net profit of the company, ₹ 2,00,000 was worked out after charging the following expenses:

(i) Depreciation ₹ 1,23,000, (ii) Directors' fees ₹ 50,000, (iii) Preliminary expenses ₹ 12,000, (iv) Office expenses ₹ 78,000, (v) Selling expenses ₹ 72,000 and (vi) Interest to vendors upto August 31, 2011 ₹ 5,000.

Please ascertain pre-incorporation and post-incorporation profit for the year ended 31st March, 2012.

Answer

Statement showing pre and post incorporation profit for the year ended 31st March, 2012

Particulars	*Total Amount* ₹	*Basis of Allocation*	*Pre-incorporation Rs,*	*Post-Incorporation* ₹
Gross Profit	5,40,000	2:7	1,20,000	4,20,000
Less: Depreciation	1,23,000	1:2	41,000	82,000
Director's Fees	50,000	Post	-	50,000

Preliminary Expenses	12,000	Post	-	12,000
Office Expenses	78,000	1:2	26,000	52,000
Selling Expenses	72,000	2:7	16,000	56,000
Interest to vendors	5,000	Actual	4,000	1,000
Net Profit (₹ 33,000 being pre-incorporation profit is transferred to capital reserve Account)	2,00,000		33,000	1,67,000

Working Notes:

1. Sales ratio

   The sales per month in the first half year were half of what they were in the later half year. If in the later half year, sales per month is Re.1 then it should be 50 paise per month in the first half year. So sales for the first four months (i.e. from 1st April, 2011 to 31st July, 2011) will be 4 × .50 = ₹ 2 and for the last eight months (i.e. from 1st August, 2011 to 31st March, 2012) will be (2 × .50 + 6 × 1) = ₹ 7. Thus sales ratio is 2:7.

2. Time ratio

   1st April, 2011 to 31st July, 2011 : 1st August, 2011 to 31st March, 2012

   = 4 months : 8 months = 1:2

   Thus, time ratio is 1:2.

3. Gross profit

   Gross profit = Net profit + All expenses

   = ₹ 2,00,000 + ₹ (1,08,000+15,000+50,000+12,000+78,000+72,000+5,000)

   = ₹ 2,00,000 +₹ 3,40,000 = ₹ 5,40,000.

Question 5

A firm M/s. Alag, which was carrying on business from 1st July, 2011 gets itself incorporated as a company on 1st November, 2011. The first accounts are drawn upto 31st March 2012. The gross profit for the period is ₹ 56,000. The general expenses are ₹ 14,220; Director's fee ₹ 12,000 p.a.; Incorporation expenses ₹ 1,500. Rent upto 31st December was ₹ 1,200 p.a. after which it is increased to ₹ 3,000 p.a. Salary of the manager, who upon incorporation of the company was made a director, is ₹ 6,000 p.a. His remuneration thereafter is included in the above figure of fee to the directors.

Give Statement showing pre and post incorporation profit. The net sales are ₹ 8,20,000, the monthly average of which for the first four months is one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored.

Answer

Statement showing pre and post-incorporation profits

Particulars	*Basis*	*Pre – incorporation period*	*Post-incorporation period*	*Total*
		₹	₹	₹
Gross Profit	Sales ratio	16,000	40,000	56,000
Less: General expenses	Time ratio	6,320	7,900	14,220
Directors' fee	Actual	-	5,000	5,000
Formation expenses	Actual	-	1,500	1,500
Rent (600 + 750)	W.N. 2	400	950	1,350
Manager's salary	Actual	2,000	-	2,000
Net Profit transferred to:				
Capital Reserve		7,280	-	-
P & L A/c	-	-	24,650	31,930

Working Notes:

1. Calculation of sales ratio

   Let the average monthly sales of first four months = 100

   and next five months = 200

   Total sales of first four months = 100 x 4 = 400 and

   Total sales of next five months = 200 x 5 = 1,000

   The ratio of sales = 400 : 1,000 =2 : 5

2. Rent

   Till 31st December, 2011, rent was ₹ 1,200 p.a. i.e. ₹ 100 p.m.

   So, Pre-incorporation rent = ₹ 100 x 4 months = ₹ 400

   Post-incorporation rent = (₹ 100 x 2 months) + (₹ 250 x 3 months) = ₹ 950

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.
  - Market price gets adjusted on issue of bonus shares.
  - Accumulated profits get reduced.
- Bonus shares can be issued from following :
  - General Reserves
  - Balance in Profit and Loss Account
  - Capital Reserve realized in cash
  - Securities Premium realized in cash
  - Capital Redemption Resserve
- The SEBI (Disclosure and Investor Protection) Guidelines, 2000 which came into force w.e.f. 27th day of January, 2000 require that the company while issuing bonus shares shall ensure the following :

  (i) No issuer shall make a bonus issue of equity shares unless it has made reservation of equity shares of the same class in favour of the holders of outstanding [compulsorily] convertible debt instruments [,if any,] in proportion to the convertible part thereof.

  (ii)The equity shares [so] reserved for the holders of fully or partly [compulsorily] convertible debt instruments shall be issued at the time of conversion of such convertible debt instruments on the same terms or same proportion [at] which the bonus shares were issued.

Question 1

The following is the summarised Balance Sheet of Bumbum Limited as at 31st March, 2012:

	₹
Sources of funds	
Authorized capital	
50,000 Equity shares of ₹ 10 each	*5,00,000*
10,000 Preference shares of ₹ 100 each	*10,00,000*
	15,00,000
Issued, subscribed and paid up	
30,000 Equity shares of ₹ 10 each	*3,00,000*
5,000, 8%Redeemable Preference shares of ₹ 100 each	*5,00,000*
Reserves & Surplus	
Securities Premium	*6,00,000*
General Reserve	*6,50,000*
Profit & Loss A/c	*40,000*
2,500, 9% Debentures of ₹ 100 each	*2,50,000*
Sundry Creditors	*1,70,000*
	25,10,000
Application of funds	
Fixed Assets (net)	*7,80,000*
Investments (market value ₹ 5,80,000)	*4,90,000*
Deferred Tax Assets	*3,40,000*
Sundry Debtors	*6,20,000*
Cash & Bank balance	*2,80,000*
	25,10,000

In Annual General Meeting held on 20th June, 2012 the company passed the following resolutions:

(i) To split equity share of ₹ 10 each into 5 equity shares of ₹ 2 each from 1st July, 12.

(ii) To redeem 8% preference shares at a premium of 5%.

(iii) To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at ₹ 10 per share or accept cash on redemption.

(iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2012 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

40% of Debentureholders exercised their option to accept cash and their claims were settled on 1st August, 2012.

The company fixed 5th September, 2012 as record date and bonus issue was concluded by 12th September, 2012.

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2012. All working notes should form part of your answer.

Answer

Bumbum Limited
Journal Entries

2012		*Dr. (₹)*	*Cr. (₹)*
July 1	Equity Share Capital A/c (₹ 10 each) Dr.	3,00,000	
	To Equity share capital A/c (₹ 2 each)		3,00,000
	(Being equity share of ₹ 10 each splitted into 5 equity shares of ₹ 2 each)		
July 10	Cash & Bank balance A/c Dr.	5,55,000	
	To Investment A/c		4,90,000
	To Profit & Loss A/c		65,000
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)		
July 10	8% Redeemable preference share capital A/c Dr.	5,00,000	
	Premium on redemption of preference share A/c Dr.	25,000	
	To Preference shareholders A/c		5,25,000
	(Being amount payable to preference share holders on redemption)		
July 10	Preference shareholders A/c Dr.	5,25,000	
	To Cash & bank A/c		5,25,000
	(Being amount paid to preference shareholders)		
July 10	General reserve A/c Dr.	5,00,000	
	To Capital redemption reserve A/c		5,00,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)		

Aug 1	9% Debentures A/c Dr.	2,50,000	
	Interest on debentures A/c Dr.	7,500	
	To Debentureholders A/c		2,57,500
	(Being amount payable to debentureholders along with interest payable)		
Aug. 1	Debentureholders A/c Dr.	2,57,500	
	To Cash & bank A/c (1,00,000 + 7,500)		1,07,500
	To Equity share capital A/c		30,000
	To Securities premium A/c		1,20,000
	(Being claims of debenture holders satisfied)		
Sept. 5	Capital Redemption Reserve A/c Dr.	1,10,000	
	To Bonus to shareholders A/c		1,10,000
	(Being balance in capital redemption reserve capitalized to issue bonus shares)		
Sept. 12	Bonus to shareholders A/c Dr.	1,10,000	
	To Equity share capital A/c		1,10,000
	(Being 55,000 fully paid equity shares of ₹ 2 each issued as bonus in ratio of 1 share for every 3 shares held)		
Sept. 30	Securities Premium A/c Dr.	25,000	
	To Premium on redemption of preference shares A/c		25,000
	(Being premium on preference shares adjusted from securities premium account)		
Sept. 30	Profit & Loss A/c Dr.	7,500	
	To Interest on debentures A/c		7,500
	(Being interest on debentures transferred to Profit and Loss Account)		

Balance Sheet as at 30th September, 2012

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	4,40,000
	b	Reserves and Surplus	2	13,32,500
2		Current liabilities		
	a	Trade Payables		1,70,000
		Total		19,42,500

		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets		7,80,000
	b	Deferred tax asset		3,40,000
2		Current assets		
		Trade receivables		6,20,000
		Cash and cash equivalents		2,02,500
		Total		19,42,500

Notes to accounts

1	Share Capital	₹	₹
	Authorized share capital		
	2,50,000 Equity shares of ₹ 2 each	5,00,000	
	10,000 Preference shares of ₹100 each	10,00,000	15,00,000
	Issued, subscribed and paid up		
	2,20,000 Equity shares of ₹ 2 each		4,40,000
2	Reserves and Surplus		
	Securities Premium A/c		
	Balance as per balance sheet	6,00,000	
	Add: Premium on equity shares issued on conversion of debentures (15,000 x 8)	1,20,000	
		7,20,000	
	Less: Adjustment for premium on preference shares	(25,000)	
	Balance		6,95,000
	Capital Redemption Reserve(5,00,000-1,10,000)		3,90,000
	General Reserve (6,50,000 – 5,00,000)		1,50,000
	Profit & Loss A/c	40,000	
	Add: Profit on sale of investment	65,000	
	Less: Interest on debentures	(7,500)	97,500
	Total		13,32,500
3.	Other current asset		
	Preliminary expenses	1,40,000	
	Deferred tax assets (assumed to be current asset)	3,40,000	
	Total		4,80,000

Working Notes:

	₹
1. Redemption of preference share:	
5,000 Preference shares of ₹ 100 each	5,00,000
Premium on redemption @ 5%	25,000
Amount Payable	5,25,000
2. Redemption of Debentures	
2,500 Debentures of ₹ 100 each	2,50,000
Less: Cash option exercised by 40% holders	(1,00,000)
Conversion option exercised by remaining 60%	1,50,000
Equity shares issued on conversion = $\frac{1,50,000}{10}$ = 15,000 shares	
3. Issue of Bonus Shares	
Existing equity shares after split (30,000 x 5)	1,50,000 shares
Equity shares issued on conversion	15,000 shares
Equity shares entitled for bonus	1,65,000 shares
Bonus shares (1 share for every 3 shares held) to be issued	55,000 shares
4. Cash and Bank Balance	
Balance as per balance sheet	2,80,000
Add: Realization on sale of investment	5,55,000
	8,35,000
Less: Paid to preference share holders	(5,25,000)
Paid to Debentureholders (7,500 + 1,00,000)	(1,07,500)
Balance	2,02,500

5. Interest of ₹ 7,500 paid to debenture holders have been debited to Profit & Loss Account.

Question 2

Following is the extract from the Balance Sheet of M/s. Yahoo Ltd. as at 31st March, 2012:

	(₹)
Authorised capital:	
50,000, 10% Preference shares of ₹ 10 each	*5,00,000*
2,00,000 Equity shares of ₹ 10 each	*20,00,000*
Issued and subscribed capital:	
40,000, 10% Preference shares of ₹ 10 each fully paid	*4,00,000*
1,80,000, Equity shares of ₹ 10 each, of which ₹ 7.50 paid up	*13,50,000*
Reserves and Surplus:	

General reserve	*2,40,000*
Capital reserve	*1,50,000*
Securities premium	*50,000*
Profit and loss account	*3,00,000*

On 1st April, 2012, the company has made a final call @ ₹ 2.50 each on 1,80,000 equity shares. The call money was received by 30th April, 2012. There after the company decided to capitalize its reserves by issuing bonus shares at the rate of one share for every three shares held. Securities premium of ₹ 50,000 includes a premium of ₹ 20,000 for shares issued to vendor for purchase of a special machinery. Capital reserve includes ₹ 60,000 being profit on exchange of plant and machinery.

Show necessary Journal Entries in the books of the company and prepare the extract of the Balance Sheet after bonus issue. Necessary assumption, if any, should form part of your answer.

Answer

In the books of M/s. Yahoo Ltd.

Journal Entries

Date	*Particulars*		*₹*	*₹*
1.4.2012	Equity share final call A/c	Dr.	4,50,000	
	To Equity share capital A/c			4,50,000
	(Being the final call of ₹ 2.50 per share on 1,80,000 equity shares made)			
30.4.2012	Bank A/c	Dr.	4,50,000	
	To Equity share final call A/c			4,50,000
	(Being final call money on 1,80,000 shares received)			
30.4.2012	Securities premium A/c (50,000 – 20,000)	Dr.	30,000	
	Capital reserve A/c (1,50,000 – 60,000)	Dr.	90,000	
	General reserve A/c	Dr.	2,40,000	
	Profit and loss A/c	Dr.	2,40,000	
	To Bonus to shareholders A/c			6,00,000
	(Being utilisation of reserves for bonus issue of one share for every three shares held)			
30.4.2012	Bonus to equity shareholders A/c	Dr.	6,00,000	
	To Equity share capital A/c			6,00,000
	(Being bonus shares issued)			

Extract of Balance Sheet (After bonus issue)

Particulars	Notes No.	₹
Equity & Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	28,00,000
(b) Reserves & Surplus	2	1,40,000

Notes to Accounts

			₹
1.	Share Capital		
	Authorised share capital:		
	50,000, 10% Preference shares of ₹ 10 each		5,00,000
	2,40,000, Equity shares of ₹ 10 each (refer W.N.)		24,00,000
	Issued and subscribed capital:		
	40,000, 10% Preference shares of ₹ 10 each fully paid		4,00,000
	2,40,000, Equity shares of ₹ 10 each fully paid		24,00,000
	(Out of the above, 60,000 equity shares of ₹ 10 each have been issued by way of bonus)		
			28,00,000
2.	Reserves and Surplus:		
	General reserve	2,40,000	
	Less: Utilisation for issue of bonus shares	(2,40,000)	-
	Capital reserve	1,50,000	
	Less: Utilisation for issue of bonus shares	(90,000)	60,000
	Securities premium	50,000	
	Less: Utilisation for issue of bonus shares	(30,000)	20,000
	Profit and loss A/c	3,00,000	
	Less: Utilisation for issue of bonus shares	(2,40,000)	60,000
			1,40,000

Assumption:

1. As per SEBI Guidelines, Capital Reserve and Securities Premium collected in cash only can be utilized for the purpose of issue of bonus shares. It is assumed that balance of capital reserve and securities premium is collected in cash only.
2. It is also assumed that necessary resolutions have been passed and requisite legal requirements related to the issue of bonus shares have been complied with before issue of bonus shares.

Working Note:

On the basis of the above assumptions, the Authorised Capital should be increased as under:

Required for bonus issue	₹ 6,00,000
Less: Balance of authorised equity share capital (available)	(₹ 2,00,000)
Authorised capital to be increased	₹ 4,00,000

Total authorised capital after bonus issue (₹ 20,00,000 + ₹ 4,00,000) = ₹ 24,00,000.

Question 3

The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3.2011:

Trinity Ltd.

Balance Sheet as at 31st March, 2011

Liabilities	₹	*Assets*	₹
Share Capital		*Fixed Assets*	
Authorised		*Gross Block*	*3,00,000*
10,000 10% Redeemable Preference		*Less : Depreciation*	*1,00,000*
Shares of ₹10 each	*1,00,000*		*2,00,000*
90,000 Equity Shares of ₹10 each	*9,00,000*	*Investments*	*1,00,000*
	10,00,000	*Current Assets and Loans*	
Issued, Subscribed and Paid-up Capital		*and Advances*	
10,000 10% Redeemable Preference		*Inventory*	*25,000*
Shares of ₹ 10 each	*1,00,000*	*Debtors*	*25,000*
10,000 Equity Shares of ₹ 10 each	*1,00,000*	*Cash and Bank Balances*	*50,000*
(A)	*2,00,000*	*Misc. Expenditure to the extent not written of*	*20,000*
Reserves and Surplus			
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 31.3.2012, the company made a net profit of ₹ 15,000 after providing ₹20,000 depreciation and writing off the miscellaneous expenditure of ₹20,000.

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

1. *The preference dividend for the year ended 31.3.2012 was paid before 31.3.2012.*

2. *Except cash and bank balances other current assets and current liabilities as on 31.3.2012, was the same as on 31.3.2011.*
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 31.3.2012.*
5. *To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of ₹30,000 after such redemption.*
6. *Investments were sold at 90% of cost on 31.3.2012.*

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, 2012 incorporating the above transactions.*

Answer

(a) Journal Entries in the Books of Trinity Ltd.

		Dr.	*Cr.*
		₹	₹
Securities Premium A/c	Dr.	10,000	
To Premium on Redemption of Preference shares			10,000
(Being amount of premium payable on redemption of preference shares)			
10% Redeemable Preference Capital	Dr.	1,00,000	
Premium on redemption of Preference Shares	Dr.	10,000	
To Preference Shareholders			1,10,000
(Being the amount payable to preference shareholders on redemption)			
General Reserve A/c	Dr.	1,00,000	
To Capital Redemption Reserve			1,00,000
(Being transfer to the latter account on redemption of shares)			
Bank A/c	Dr.	45,000	
Profit and Loss A/c	Dr.	5,000	
To Investments			50,000
(Being amount realised on sale of Investments and loss thereon adjusted)			
Preference shareholders A/c	Dr.	1,10,000	

To Bank			1,10,000
(Being payment made to preference shareholders)			
Capital Redemption Reserve A/c	Dr.	1,00,000	
To Bonus to Shareholders			1,00,000
(Amount adjusted for issuing bonus share in the ratio of 1 : 1)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital			1,00,000
(Balance on former account transferred to latter)			

(b) Cash and Bank Account

			₹		₹
To	Balance b/d		50,000	By Preference Dividend	10,000
To	Cash from operations:			By Preference shareholders	1,10,000
	Profit	15,000		By Balance c/d	30,000
	Add : Depreciation	20,000			
	Add : Miscellaneous Expenditure written off	20,000	55,000		
To	Investments		45,000		
			1,50,000		1,50,000

(c) Balance Sheet of Trinity Limited

as at 31st March, 2012 (after redemption)

Particulars	Note No	Amount
		₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,00,000
(b) Reserves and Surplus	2	98,500
(2) Current Liabilities		
(a) Trade payables		11,500
Total		3,10,000
II. Assets		

(1) Non-current assets		
(a) Fixed assets	3	
(i) Tangible assets		1,80,000
(b) Non-current investments (Market Value ₹ 45,000)		50,000
(2) Current assets		
(a) Current investments		-
(b) Inventories		25,000
(c) Trade receivables		25,000
(d) Cash and cash equivalents		30,000
Total		3,10,000

Notes to Accounts

				₹
1	Share Capital			
	(i) Authorised Capital		10,00,000	
	(ii) Issued, Subscribed and Paid-up Capital 20,000 Equity Shares of ₹ 10 each fully paid (10,000 shares have been allotted as Bonus Shares by capitalising capital Redemption Reserve)		2,00,000	2,00,000
2	Reserves and Surplus			
	General Reserve	1,20,000		
	Less: Transfer to CRR	(1,00,000)	20,000	
	Securities Premium	70,000		
	Less: Premium on redemption of preference shares	(10,000)	60,000	
	Capital redemption reserve	1,00,000		
	Less: Utilised for Bonus shares	(1,00,000)	-	
	Profit and Loss A/c			
	Operating profit of the year(W.N.(i))	10,000		
	Add: profit brought forward from last year	18,500		
		28,500		
	Less: Preference dividend	(10,000)	18,500	98,500
3	Tangible assets			
	Gross Block		3,00,000	
	Less : Depreciation up to 31.3.2011		(1,00,000)	

	For the year	(20,000)	1,80,000

Working Notes:

		₹
(i)	**Profit and Loss for the year ending 31st March, 2012**	
	Profit for the year	15,000
	Less : Loss on sale of investments	(5,000)
	Balance as on 31.3.2012	10,000
(ii)	**Sale of Investments**	
	Cost of Investments	50,000
	Less : Cash Received	(45,000)
	Loss on Sale of Investments	5,000
	Total Investments:	1,00,000
	Less : Cost of Investments sold	(50,000)
	Cost of Investments on hand	50,000
	Market value (90% of ₹ 50,000)	45,000

Question 4

The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 2012:

Notes		*₹ in Lakhs*
(1)	*Share Capital*	
	Authorised :	
	20 crore shares of ₹ 10 each	*20,000*
	Issued and Subscribed :	
	10 crore Equity Shares of ₹ 10 each	*10,000*
	2 crore 11% Cumulative Preference Shares of ₹ 10 each	*2,000*
	Total	*12,000*
	Called and paid up:	
	10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid	*8,000*
	2 crore 11% Cumulative Preference Shares of ₹ 10 each,	
	fully called and paid up	*2,000*
		10,000
(2)	*Reserves and Surplus :*	
	Capital Reserve	*485*
	Capital Redemption Reserve	*1,000*

Securities Premium	*2,000*
General Reserve	*1,040*
Surplus i.e. credit balance of Profit & Loss (Appropriation) Account	*273*
Total	*4,798*

On 2nd April 2012, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2012.

On 1st June 2012, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it decided to utilize the capital reserves to the maximum possible extent.

Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

Answer

Journal Entries in the books of Brite Ltd.

			Dr.	*Cr.*
2012			*₹ in lakhs*	*₹ in lakhs*
April 2	Equity Share Final Call A/c	Dr.	2,000	
	To Equity Share Capital A/c			2,000
	(Final call of ₹ 2 per share on 10 crore equity shares made due)			
	Bank A/c	Dr.	2,000	
	To Equity Share Final Call A/c			2,000
	(Final call money on 10 crore equity shares received)			
June 1	Capital Reserve A/c	Dr.	485	
	Capital Redemption Reserve A/c	Dr.	1,000	
	Securities Premium A/c	Dr.	2,000	
	General Reserve A/c	Dr.	515	
	To Bonus to Shareholders A/c			4,000
	(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated…….)			
	Bonus to Shareholders A/c	Dr.	4,000	
	To Equity Share Capital A/c			4,000
	(Capitalisation of profit)			

Notes to Accounts

			₹ *in lakhs*
1.	Share Capital		
	Authorised share capital		
	20 crore shares of ₹ 10 each		20,000
	Issued, subscribed and fully paid up share capital		
	14 crore Equity shares of ₹ 10 each, fully paid up		14,000
	(Out of the above, 4 crore equity shares @ ₹ 10 each were issued by way of bonus)		
	2 crore, 11% Cumulative Preference share capital of ₹ 10 each, fully paid up		2,000
			16,000
2.	Reserves and Surplus		
	Capital Reserves	485	
	Less: Utilized for bonus issue	(485)	-
	Capital Redemption reserve	1,000	
	Less: Utilized for bonus issue	(1,000)	-
	Securities Premium	2,000	
	Less: Utilized for bonus issue	(2,000)	-
	General Reserve	1,040	
	Less: Utilized for bonus issue	(515)	525
	Surplus (Profit and Loss Account)		273
	Total		798

Notes: As per SEBI Guidelines, Capital reserve and Securities premium have been assumed as realized in cash and hence can be used for issue of fully paid bonus shares.

EXERCISES

1. *The summarised Balance Sheet of A Ltd. as at 31.3.2012 is as follows:*

Liabilities	*Rs.*	*Assets*	*Rs.*
Authorised Share Capital		*Sundry Assets*	*17,00,000*
1,50,000 Equity Shares of ₹ 10 each	*15,00,000*		
Issued, Subscribed and Paid-up			
80,000 Equity Shares of			
₹ 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.

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

2. *The following is the Trial Balance of Subhash Limited as on 31.3.2012 :*

(Figures in ₹ '000)

Debit	*Rs.*	*Credit*	*Rs.*
Land at cost	*110*	*Equity Capital (Shares of ₹ 10 each)*	*150*
Plant & Machinery at cost	*385*	*10% Debentures*	*100*
Debtors	*48*	*General Reserve*	*65*
Stock (31.3.2012)	*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 31.3.2012, 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 ₹ 10 each.

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

(d) Proposed final dividend 10%.

(e) Suspense account of ₹ 2,000 represents cash received for the sale of some of the machinery on 1.4.2011. The cost of the machinery was ₹ 5,000 and the accumulated depreciation thereon being ₹ 4,000.

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

You are required to prepare Subhash Limited's Statement of Profit & Loss for the year ended 31.3.2012 and a balance sheet on that date as per the provisions of Revised Schedule VI of the Companies Act, 1956.

Your answer to include detailed notes only for the following:

(1) Share Capital

(2) Reserves & Surplus

(3) Fixed Assets

Ignore previous years' figures & taxation.

(Hints: Total of Balance Sheet ₹ 541; Net profit before dividend ₹ 83)

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 summarized Balance Sheet of the Company on 31.3.2012 before reconstruction :

Summarised Balance Sheet of Green Limited as at 31.3.2012

Liabilities	*₹*	*Assets*	*₹*
Share Capital:		*Fixed Assets:*	
Authorised:		*Goodwill*	*20,00,000*
1,50,000 Equity Shares of ₹ 50 each	*75,00,000*	*Building*	*10,00,000*
Subscribed and Paid up Capital:		*Plant*	*10,00,000*
50,000 Equity Shares of ₹ 50 each	*25,00,000*	*Computers*	*25,00,000*
1,00,000 Equity Shares of ₹ 50		*Investments*	*Nil*
each, ₹ 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* *₹*
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 ₹ 50 shares	*3,00,000*	*2,00,000*
Parly paid up shares (₹ 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 ₹ 20 each.

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

(c) Mr. Y is to cancel ₹ 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 Entries to record the same and also show the Balance Sheet of the reconstructed company.

Answer

Green Limited

Journal Entries

		Dr. ₹	*Cr.* ₹
Bank Account	Dr.	10,00,000	
To Equity Share Capital Account			10,00,000
(Balance of ₹ 10 per share on 1,00,000 equity shares called up as per reconstruction scheme)			
Equity Share Capital Account (₹ 50)	Dr.	75,00,000	
To Equity Share Capital Account (₹ 20)			30,00,000
To Capital Reduction Account			45,00,000
(Reduction of equity shares of ₹ 50 each to shares of ₹ 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 ₹ 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 account, and computers—Working Note)				

Balance Sheet of Green Limited (and reduced)
as on 31st March, 2012

Particulars			Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	30,00,000
2		Non-current liabilities		
	a	Long-term borrowings	2	10,00,000
3		Current liabilities		
	a	Trade Payables		2,00,000
		Total		42,00,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	3	30,00,000

2 Current assets		
Cash and cash equivalents		12,00,000
Total		42,00,000

Notes to accounts

		₹
1. Share Capital		
Equity share capital		
Issued, subscribed and paid up		
1,50,000 equity shares of ₹ 20 each		30,00,000
Total		30,00,000
2. Long-term borrowings		
Secured		
14% First Debentures		10,00,000
Total		10,00,000
3. Tangible assets		
Building		10,00,000
Plant		10,00,000
Computers		10,00,000
Total		30,00,000

Working Note:

Capital Reduction Account

	₹		₹
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 summarised Balance Sheet of Weak Ltd. as on 31.3.2012:

Liabilities	₹	*Assets*	₹
Equity shares of ₹ 100 each	*1,00,00,000*	*Fixed assets*	*1,25,00,000*
12% cumulative preference	*50,00,000*	*Investments (Market value*	*10,00,000*

shares of ₹ 100 each		*₹ 9,50,000)*	
10% debentures of ₹ 100 each	*40,00,000*	*Current assets*	*1,00,00,000*
Sundry creditors	*50,00,000*	*P & L A/c*	*6,00,000*
Provision for taxation	*1,00,000*		
	2,41,00,000		*2,41,00,000*

The following scheme of reorganization is sanctioned:

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

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

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

(iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 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 ₹ 45,00,000.

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

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

(ix) It is decided to write off the debit balance of Profit and Loss account.

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.

		₹	₹
(i)	Equity share capital (₹ 100) A/c Dr.	1,00,00,000	
	To Equity Share Capital (₹ 40) A/c		40,00,000
	To Capital Reduction A/c		60,00,000
	(Being conversion of equity share capital of ₹ 100 each into ₹ 40 each as per reconstruction scheme)		
(ii)	12% Cumulative Preference Share capital (₹ 100) A/c Dr.	50,00,000	
	To 12% Cumulative Preference Share Capital (₹ 60) A/c		30,00,000

	To Capital Reduction A/c		20,00,000
	(Being conversion of 12% cumulative preference share capital of ₹ 100 each into ₹ 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 ₹ 20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of ₹ 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		6,00,000
	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, 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 31.3.2012

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	82,00,000
	b	Reserves and Surplus	2	50,000
2		Non-current liabilities		
	a	Long-term borrowings	3	28,00,000
3		Current liabilities		
	a	Trade Payables		30,00,000
		Total		1,40,50,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	87,50,000
	b	Investments	5	9,50,000
2		Current assets	6	43,50,000
		Total		1,40,50,000

Notes to accounts

		₹
1. Share Capital		
Equity share capital		
Issued, subscribed and paid up		
1,50,000 equity shares of ₹ 20 each		52,00,000
Preference share capital		
Issued, subscribed and paid up		
12% Cumulative Preference shares of ₹ 60 each		30,00,000
Total		82,00,000
2. Reserves and Surplus		
Capital Reserve		50,000

3.	**Long-term borrowings**		
	Secured		
	12% Debentures		28,00,000
4.	**Tangible assets**		
	Fixed Assets	1,25,00,000	
	Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
5.	**Investments**	10,00,000	
	Adjustment under scheme of reconstruction	(50,000)	9,50,000
6.	**Current assets**	45,00,000	
	Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

Working Note:

Capital Reduction Account

	₹		₹
To Liability for taxation A/c	50,000	By Equity share capital	60,00,000
To P & L A/c	6,00,000	By 12% Cumulative preference share capital	20,00,000
To Fixed assets	37,50,000	By 10% Debentures	12,00,000
To Current assets	55,00,000	By Sundry creditors	8,00,000
To Investment	50,000		
To Capital Reserve (bal. fig.)	50,000		
	1,00,00,000		1,00,00,000

Question 3

The following is the summarized Balance Sheet of X Ltd. as on 31st March, 2012:

Liabilities	₹	*Assets*	₹
12,000, 10% Preference shares of ₹100 each	*12,00,000*	*Goodwill*	*90,000*
24,000, Equity shares of ₹100 each	*24,00,000*	*Land & building*	*12,00,000*
10% Debentures	*6,00,000*	*Plant & machinery*	*18,00,000*
Bank overdraft	*6,00,000*	*Stock*	*2,60,000*
Sundry Creditors	*3,00,000*	*Debtors*	*2,80,000*
		Cash	*30,000*
		Profit & Loss Account	*14,40,000*
	51,00,000		*51,00,000*

On the above date, the company adopted the following scheme of reconstruction:

(i) The equity shares are to be reduced to shares of ₹ 40 each fully paid and the preference shares to be reduced to fully paid shares of ₹ 75 each.

(ii) The debenture holders took over stock and debtors in full satisfaction of their claims.

(iii) The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.

(iv) The debit balance of profit and loss account and intangible assets are to be eliminated.

(v) Expenses of reconstruction amounted to ₹ 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet.

Answer

In the books of X Ltd.

Journal Entries

31st March, 2012			₹	₹
(i)	Equity Share Capital A/c (₹ 100)	Dr.	24,00,000	
	To Equity Share Capital A/c (₹ 40)			9,60,000
	To Capital Reduction A/c			14,40,000
	(Being 24,000 equity shares of ₹ 100 each reduced to ₹ 40 each fully paid up)			
(ii)	10% Preference Share Capital A/c (₹ 100)	Dr.	12,00,000	
	To 10% Preference Share Capital A/c (₹ 75)			9,00,000
	To Capital Reduction A/c			3,00,000
	(Being 12,000 Preference shares of ₹ 100 each reduced to ₹ 75 each fully paid up)			
(iii)	10% Debentures A/c	Dr.	6,00,000	
	To Stock A/c			2,60,000
	To Debtors A/c			2,80,000
	To Capital Reduction A/c			60,000
	(Being debenture holders given stock and debtors in full settlement of their claims)			
(iv)	Land & Building A/c	Dr.	3,60,000	
	To Capital Reduction A/c			3,60,000
	(Being Land & Building appreciated by 30%)			

(v)	Reconstruction expenses A/c	Dr.	5,000	
	To Cash A/c			5,000
	(Being expenses of reconstruction paid)			
(vi)	Capital Reduction A/c	Dr.	21,60,000	
	To Goodwill A/c			90,000
	To Profit and Loss A/c			14,40,000
	To Plant & Machinery A/c			5,40,000
	To Reconstruction expenses A/c			5,000
	To Capital Reserve A/c (Bal. Fig.)			85,000
	(Being various losses written off, assets written down and balance in Capital Reduction A/c transferred to Capital Reserve A/c)			

Balance Sheet (And Reduced) of X Ltd.
as at 31st March, 2012

		Particulars	Notes No.	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	18,60,000
	b	Reserves and Surplus	2	85,000
2		Current liabilities		
	a	Trade Payables		3,00,000
	b	Short term borrowings		6,00,000
		Total		28,45,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	3	28,20,000
2		Current assets		
		Cash and cash equivalents (30,000 -5,000)		25,000
		Total		28,45,000

Notes to accounts

			₹
1.	Share Capital		
	Equity share capital		
	24,000 equity shares of ₹ 40 each fully paid up		9,60,000
	Preference share capital		
	12,000, 10% Preference shares of ₹ 75 each fully paid up		9,00,000
	Total		18,60,000
2.	Reserves and Surplus		
	Capital Reserve		85,000
3.	Tangible assets		
	Land and Building	15,60,000	
	Plant and Machinery	12,60,000	
	Total		28,20,000

Question 4

The following scheme of reconstruction has been approved for Win Limited:

(i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of ₹ 10 each, the following:

(a) New fully paid ₹ 10 Equity shares equal to 3/5th of their holding.

(b) 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.

(c) ₹ 40,000, 8% Debentures.

(ii) An issue of ₹ 1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.

(iii) Goodwill which stood at ₹ 1,40,000 was completely written off.

(iv) Plant and machinery which stood at ₹ 2,00,000 was written down to ₹ 1,50,000.

(v) Freehold property which stood at ₹ 1,50,000 was written down by ₹ 50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

Answer

Journal Entries

		₹	₹
Equity Share Capital (old) A/c	Dr.	10,00,000	
To Equity Share Capital (₹ 10) A/c			6,00,000
To 10% Preference Share Capital A/c			1,20,000
To 8% Debentures A/c			40,000
To Reconstruction A/c			2,40,000
(Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Bank A/c	Dr.	1,00,000	
To 10% First Debentures Application & Allotment A/c			1,00,000
(Being amount received on issue of 10% First Debentures for application and allotment Account)			
10% First Debentures Application and allotment A/c	Dr.	1,00,000	
To 10% First Debentures Account			1,00,000
(Being allotment of 10% first Debentures)			
Reconstruction A/c	Dr.	2,40,000	
To Goodwill Account			1,40,000
To Plant and Machinery Account			50,000
To Freehold Property Account			50,000
(Being Reconstruction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)			

Question 5

M/s Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the company as on 31st March, 2012 before reconstruction:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Share Capital			
50,000 shares of ₹ 50		*Goodwill*	*22,00,000*
each fully paid up	*25,00,000*	*Land & Building*	*42,70,000*

1,00,000 shares of ₹50		*Machinery*	*8,50,000*
each ₹40 paid up	*40,00,000*	*Computers*	*5,20,000*
Capital Reserve	*5,00,000*	*Stock*	*3,20,000*
8% Debentures of ₹100 each	*4,00,000*	*Trade Debtors*	*10,90,000*
12% Debentures of ₹100 each	*6,00,000*	*Cash at Bank*	*2,68,000*
Trade Creditors	*12,40,000*	*Profit & Loss Account*	*7,82,000*
Outstanding Expenses	*10,60,000*		
Total	*1,03,00,000*	*Total*	*1,03,00,000*

Following is the interest of Mr. Shiv and Mr. Ganesh in M/s Platinum Limited:

	Mr. Shiv	*Mr. Ganesh*
8% Debentures	*3,00,000*	*1,00,000*
12% Debentures	*4,00,000*	*2,00,000*
Total	*7,00,000*	*3,00,000*

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) *Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹40 each.*

(2) *The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹12,50,000.*

(3) *Trade Creditors are given option of either to accept fully paid equity shares of ` 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.*

(4) *Mr. Shiv agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹1,00,000.*

(5) *Mr. Ganesh agrees to cancel debentures amounting to ₹50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.*

(6) *Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹4,00,000, Stock at ₹3,50,000 and Trade Debtors at 10% less to as they are appearing in Balance Sheet as above.*

(7) *Outstanding Expenses are fully paid in cash.*

(8) *Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.*

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

Answer

Journal Entries

		₹	₹
1.	Equity share final call A/c Dr.	10,00,000	
	To Equity share capital A/c		10,00,000
	(Being final call made for ₹ 10 each on 1,00,000 shares)		
2.	Bank A/c Dr.	10,00,000	
	To Equity share final call A/c		10,00,000
	(Being money on final call received)		
3.	Equity share capital (₹ 50) A/c Dr.	75,00,000	
	To Equity share capital (₹ 40) A/c		60,00,000
	To Capital Reduction A/c		15,00,000
	(Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme)		
4.	Bank A/c Dr.	12,50,000	
	To Equity Share Capital A/c		12,50,000
	(Being new shares allotted at ₹ 40 each)		
5.	Trade Creditors A/c Dr.	12,40,000	
	To Equity share capital A/c		7,50,000
	To Bank A/c		3,43,000
	To Capital Reduction A/c		1,47,000
	(Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)		
6.	8% Debentures A/c Dr.	3,00,000	
	12% Debentures A/c Dr.	4,00,000	
	To 15% Debentures A/c		5,00,000
	To Capital Reduction A/c		2,00,000
	(Being cancellation of 8% and 12% debentures of Shiv, & issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)		

7.	Bank A/c Dr.	1,00,000	
	To 15% Debentures A/c		1,00,000
	(Being new debentures subscribed by Shiv)		
8.	8% Debentures A/c Dr.	1,00,000	
	12% Debentures A/c Dr.	2,00,000	
	To 15% Debentures A/c		2,50,000
	To Capital Reduction A/c		50,000
	(Being cancellation of 8% and 12% debentures of Ganesh & issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)		
9.	Land and Buildings (51,84,000-42,70,000) Dr.	9,14,000	
	Stock Dr.	30,000	
	To Capital Reduction A/c		9,44,000
	(Being value of assets appreciated)		
10.	Outstanding expenses A/c Dr.	10,60,000	
	To Bank A/c		10,60,000
	(Being outstanding expenses paid in cash)		
11.	Capital Reduction A/c Dr.	33,41,000	
	To Machinery A/c		1,30,000
	To Computers A/c		1,20,000
	To Trade Debtors A/c		1,09,000
	To Goodwill A/c		22,00,000
	To Profit and Loss A/c		7,82,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)		
12.	Capital Reserve A/c Dr.	5,00,000	
	To Capital Reduction A/c		5,00,000
	(Being debit balance of capital reduction account adjusted against capital reserve)		

Balance Sheet (as reduced) as on 31.3.2012

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	80,00,000
2		Non-current liabilities		
	a	Long-term borrowings	2	8,50,000
		Total		88,50,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	3	63,04,000
2		Current assets		
	a	Inventories		3,50,000
	b	Trade receivables		9,81,000
	c	Cash and cash equivalents		12,15,000
		Total		88,50,000

Notes to accounts

			₹.
1.	Share Capital		
	2,00,000 Equity shares of ₹ 40		80,00,000
2.	Long-term borrowings		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	Tangible assets		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. Cash at Bank Account

	Particulars	₹		Particulars	₹
To	Balance b/d	2,68,000	By	Trade Creditors A/c	3,43,000
To	Equity Share final call A/c	10,00,000	By	Outstanding expenses A/c	10,60,000

To	Equity Share Capital A/c	12,50,000	By	Balance c/d (bal. fig.)	12,15,000
To	15% Debentures A/c	1,00,000			
		26,18,000			26,18,000

2. Capital Reduction Account

	Particulars	₹		Particulars	₹
To	Machinery A/c	1,30,000	By	Equity Share Capital A/c	15,00,000
To	Computers A/c	1,20,000	By	Trade Creditors A/c	1,47,000
To	Trade Debtors A/c	1,09,000	By	8% and 12% Debentures A/c	2,00,000
To	Goodwill A/c	22,00,000	By	8% and 12% Debentures A/c	50,000
To	Profit and Loss A/c	7,82,000	By	Land & Building	9,14,000
			By	Stock	30,000
			By	Capital Reserve A/c	5,00,000
		33,41,000			33,41,000

Question 6

The summarised Balance Sheet of M/s. Ice Ltd. as on 31-03-2012 is given below:

Liabilities		*₹*	*Assets*	*₹*
1,00,000 Equity shares of ₹10 each fully paid up		*10,00,000*	*Freehold property*	*5,50,000*
			Plant and machinery	*2,00,000*
4,000, 8% Preference shares of ₹100 each fully paid		*4,00,000*	*Trade investment (at cost)*	*2,00,000*
			Sundry debtors	*4,50,000*
6% Debentures	*4,00,000*		*Stock-in trade*	*3,00,000*
(secured by freehold property)			*Profit and loss account*	*5,25,000*
Arrear interest	*24,000*	*4,24,000*		
Sundry creditors		*1,01,000*		
Director's loan		*3,00,000*		
		22,25,000		*22,25,000*

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

(i) *Preference shares are to be written down to ₹80 each and equity shares to ₹2 each.*

(ii) *Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹2 each to be allotted.*

(iii) *Debentureholders agreed to take one freehold property at its book value of ₹3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.*

(iv) Arrear debenture interest to be paid in cash.

(v) Remaining freehold property to be valued at ₹ 4,00,000.

(vi) Investment sold out for ₹ 2,50,000.

(vii) 75% of Director's loan to be waived and for the balance, equity shares of ₹ 2 each to be allotted.

(viii) 40% of sundry debtors, 80% of stock and 100% of debit balance of profit and loss accoount to be written off.

(ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme.

Answer

In the books of Ice Ltd.

Journal Entries

	Particulars		*Debit* ₹	*Credit* ₹
i	8% Preference share capital A/c (₹ 100 each)	Dr.	4,00,000	
	To 8% Preference share capital A/c (₹ 80 each)			3,20,000
	To Capital reduction A/c			80,000
	(Being the preference shares of ₹ 100 each reduced to ₹ 80 each as per the approved scheme)			
ii	Equity share capital A/c (₹ 10 each)	Dr.	10,00,000	
	To Equity share capital A/c (₹ 2 each)			2,00,000
	To Capital reduction A/c			8,00,000
	(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			
iii	Capital reduction A/c	Dr.	32,000	
	To Equity share capital A/c (₹ 2 each)			32,000
	(Being arrears of preference share dividend of one year to be satisfied by issue of 16,000 equity shares of ₹ 2 each)			
iv	6% Debentures A/c	Dr.	3,00,000	
	To Freehold property A/c			3,00,000
	(Being claim settled in part by transfer of freehold property)			
v	Accrued debenture interest A/c	Dr.	24,000	
	To Bank A/c			24,000
	(Being accrued debenture interest paid)			

vi	Freehold property A/c	Dr.	1,50,000	
	To Capital reduction A/c			1,50,000
	(Being appreciation in the value of freehold property)			
vii	Bank A/c	Dr.	2,50,000	
	To Trade investment A/c			2,00,000
	To Capital reduction A/c			50,000
	(Being trade investment sold on profit)			
viii	Director's loan A/c	Dr.	3,00,000	
	To Equity share capital A/c (₹ 2 each)			75,000
	To Capital reduction A/c			2,25,000
	(Being director's loan waived by 75% and balance being discharged by issue of 37,500 equity shares of ₹ 2 each)			
ix	Capital Reduction A/c	Dr.	12,73,000	
	To Profit and loss A/c			5,25,000
	To Sundry debtors A/c			1,80,000
	To Stock-in-trade A/c			2,40,000
	To Bank A/c			30,000
	To Capital reserve A/c			2,98,000
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off, and balance transferred to capital reserve account as per the scheme)			

Balance Sheet of Ice Ltd. (As reduced)

		Particulars	Notes No.	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	6,27,000
	b	Reserves and Surplus	2	2,98,000
2		**Non-current liabilities**		
		Long-term borrowings	3	1,00,000
3		**Current liabilities**		
	a	Trade Payables		1,01,000
		Total		11,26,000

		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	6,00,000
2		**Current assets**		
	a	Inventories		60,000
	b	Trade receivables		2,70,000
	c	Cash and cash equivalents	5	1,96,000
		Total		11,26,000

Note to Accounts ₹

1.	**Share Capital**	
	1,53,500 Equity shares of ₹ 2 each	3,07,000
	(out of which 53,500 shares have been issued for consideration other than cash)	
	4,000, 8% Preference shares of ₹ 80 each fully paid up	3,20,000
	Total	6,27,000
2.	**Reserves and Surplus**	
	Capital Reserve	2,98,000
3.	**Long-term borrowings**	
	Secured	
	6% Debentures	1,00,000
4.	**Tangible assets**	
	Freehold property	4,00,000
	Plant and machinery	2,00,000
	Total	6,00,000
5.	**Cash and cash equivalents**	
	Cash at bank (2,50,000 – 24,000 –30,000)	1,96,000

EXERCISES

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

   (ii) An issue of 2,500 5% first debentures of ₹ 10 each was made and fully subscribed in cash.

   (iii) The assets were reduced as follows:

   (a) Goodwill from ₹ 1,50,000 to ₹ 75,000.

   (b) Machinery from ₹ 50,000 to ₹ 37,500.

   (c) Leasehold premises from ₹ 75,000 to ₹ 62,500.

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

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.

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 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 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.

Question 3

The following are the summarised Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 2011:

	Yes Ltd.	No Ltd.
	₹	₹
	(in crores)	(in crores)
Sources of funds:		
Share capital:		
Authorised	25	5
Issued and Subscribed :		
Equity Shares of ₹ 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)
Written down value	20	6

Investments at cost:				
30 lakhs equity shares of ₹ 10 each		*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 ₹ 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 entries 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.*
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 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 shares of Yes Ltd.	Dr.	1.20	
To Yes Ltd.			1.20
(Being the receipt of 10 lakhs equity shares of ₹ 10 each at ₹ 12 per share for allotment to shareholders)			
Equity shareholders Account	Dr.	1.20	
To Equity shares of Yes Ltd.			1.20
(Being the distribution of equity shares received from Yes Ltd. to shareholders)			

Journal Entries in the books of Yes Ltd.

(Rupees in crores)

		Dr.	*Cr.*
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.	1.20	
To Equity Share Capital Account			1.00
To Securities Premium Account			0.20
(Being the allotment to shareholders of No Ltd. 10 lakhs equity shares of ₹ 10 each at a premium of ₹ 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 *₹ in crores*

$\frac{50\text{lakhs}}{5}$ × ₹ 12 i.e., 10 lakhs equity shares at ₹ 12 per share 1.20

Number of equity shares of ₹ 10 each to be issued $\left[\frac{1.20\text{crores}}{12}\right]$ = 10 lakhs.

Question 4

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

Super Express Ltd.

Balance Sheet as at 31st December, 2012

	₹		₹
20,000 Equity shares of		*Buildings*	*10,00,000*
₹ 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, 2012

	₹		₹
10,000 Equity shares of ₹ 100 each	*10,00,000*	*Goodwill*	*1,00,000*
		Buildings	*6,00,000*
Employees profit sharing account	*60,000*	*Machinery*	*5,00,000*
		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 ₹ 100 each in lieu of purchase consideration.

Prepare opening balance sheet of Super Fast Express Ltd.

Answer

Balance Sheet of Super Fast Express Ltd
as at 1st Jan., 2013

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	3,60,000
2		Non-current liabilities		
	a	Long-term provisions	3	1,00,000
3		Current liabilities		
	a	Trade Payables		1,00,000
		Total		35,60,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	25,00,000
		Intangible assets	5	1,00,000

2	**Current assets**		
	Inventories		3,40,000
	Trade receivables		2,80,000
	Cash and cash equivalents	6	3,40,000
	Total		**35,60,000**

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital	
	Issued, subscribed and paid up	
	30,000 Equity shares of ₹ 100 each	30,00,000
	Total	**30,00,000**
2	**Reserves and Surplus**	
	Reserve account	1,00,000
	Surplus	1,00,000
	Insurance reserve	1,00,000
	Employees profit sharing account	60,000
	Total	**3,60,000**
3	**Long-term provisions**	
	Provident fund	1,00,000
	Total	**1,00,000**
4	**Tangible assets**	
	Buildings	16,00,000
	Machinery	9,00,000
	Total	**25,00,000**
5	**Intangible assets**	
	Goodwill	1,00,000
	Total	**1,00,000**

6	Cash and cash equivalents	
	Balances with banks	2,30,000
	Cash on hand	1,10,000
	Total	3,40,000

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., 2013

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	32,00,000
	b	Reserves and Surplus	2	60,000
2		Non-current liabilities		
	a	Long-term provisions	3	1,00,000
3		Current liabilities		
	a	Trade Payables		1,00,000
		Total		34,60,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	25,00,000
		Intangible assets	5	0
2		Current assets		
		Inventories		3,40,000
		Trade receivables		2,80,000
		Cash and cash equivalents	6	3,40,000
		Total		34,60,000

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
Issued, subscribed and paid up		
32,000 Equity shares of ₹ 100 each		32,00,000
Total		32,00,000
2 Reserves and Surplus		
Employees profit sharing account		60,000
Total		60,000
3 Long-term provisions		
Provident fund		1,00,000
Total		1,00,000
4 Tangible assets		
Buildings		16,00,000
Machinery		9,00,000
Total		25,00,000
5 Intangible assets		
Goodwill	1,00,000	
Less: Adjustment under scheme of amalgamation	(1,00,000)	0
Total		0
6 Cash and cash equivalents		
Balances with banks		2,30,000
Cash on hand		1,10,000
Total		3,40,000

Working Notes :

Calculation of Purchase Consideration

	Super Express Ltd.	*Fast Express Ltd.*
Total assets on 31.12.2012 (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 5

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2012:

Liabilities	*P Ltd. (₹ in lakhs)*	*V Ltd. (₹ in lakhs)*
Equity Share Capital (Fully paid shares of ₹ 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. (₹ in lakhs)*	*V Ltd. (₹ 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 2012, 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 ₹ 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 ₹ 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. (*₹ in Lacs*)	*Cr.* (*₹ 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, 2012 (after merger)

		Particulars	Notes	₹ (in lakhs)
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	24,000
	b	Reserves and Surplus	2	16,654
2		Non-current liabilities		
	a	Long-term borrowings	3	1,000
3		Current liabilities		
	a	Trade Payables (1,543 + 40)		1,583
	b	Short-term provisions		2,532
		Total		45,769
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	29,004

2		Current assets		
	a	Inventories		11,903
	b	Trade receivables		3,140
	c	Cash and cash equivalents		1,722
		Total		45,769

Notes to accounts

		₹
1.	Share Capital	
	Equity share capital	
	Authorised, issued, subscribed and paid up	
	24 crores equity shares of ₹ 10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
	Total	24,000
2.	Reserves and Surplus	
	General Reserve	9,699
	Securities Premium	3,000
	Foreign Project Reserve	310
	Surplus (Profit and Loss Account)	3,645
	Total	16,654
3.	Long-term borrowings	
	Secured	
	13% Debentures	1,000
4.	Tangible assets	
	Land & Buildings	6,000
	Plant & Machinery	19,000
	Furniture & Fittings	4,004
	Total	29,004

Working Note :

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 = ₹ 6,000 lacs × $\frac{3}{2}$ = ₹ 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 6

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

	X Ltd. ₹	*Y Ltd.* ₹
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 ₹ 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

	₹		₹
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

	₹		₹
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.

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

Shares in XY Ltd.

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

XY Ltd.

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

Question 7

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2012 was as under:

Assets	*Hari Ltd. (₹)*	*Vayu Ltd. (₹)*
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*
	13,50,000	*5,70,000*

Liabilities

Share Capital:	*Hari Ltd. (₹)*	*Vayu Ltd. (₹)*
Equity Shares of ₹ 10 each	*10,00,000*	*3,00,000*
9% Preference Shares of ₹ 100 each	*1,00,000*	*–*
10% Preference Shares of ₹ 100 each	*–*	*1,00,000*
General Reserve	*70,000*	*70,000*
Retirement Gratuity fund	*50,000*	*20,000*
Sundry Creditors	*1,30,000*	*80,000*
	13,50,000	*5,70,000*

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 ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.

(c) Stock to be taken over at 10% less value and Provision for 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, 2012.

Answer

In the Books of Vayu Ltd.
Realisation Account

		₹			₹
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. (Purchase	

To	Equity Shareholders (Profit on Realisation)	50,000		Consideration)	5,30,000
		6,30,000			6,30,000

Equity Shareholders Account

		₹			₹
To	Equity Shares of Hari Ltd.	4,20,000	By	Share Capital	3,00,000
			By	General Reserve	70,000
			By	Realisation Account (Profit on Realisation)	50,000
		4,20,000			4,20,000

Preference Shareholders Account

		₹			₹
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

		₹			₹
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.	*Cr.*
		₹	₹
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 taken over 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, 2012

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	16,10,000
	b	Reserves and Surplus	2	90,000
2		Non-current liabilities		
	a	Long-term provisions	3	70,000
3		Current liabilities		
	a	Trade Payables		2,10,000
		Total		19,80,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	11,10,000
		Intangible assets	5	1,00,000

2		Current assets		
	a	Inventories		4,07,500
	b	Trade receivables	6	2,92,500
	c	Cash and cash equivalents		70,000
		Total		19,80,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	1,40,000 Equity Shares of ₹ 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)		14,00,000
	Preference share capital		
	2,100 9% Preference Shares of ₹ 100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)		2,10,000
	Total		16,10,000
2	Reserves and Surplus		
	Securities Premium		20,000
	General Reserve		70,000
	Total		90,000
3	Long-term provisions		
	Gratuity fund		70,000
	Total		70,000
4	Tangible assets		
	Buildings		4,50,000
	Machinery		6,60,000
	Total		11,10,000
5	Intangible assets		
	Goodwill		1,00,000
	Total		1,00,000
6	Trade receivables		
	Trade receivables	3,00,000	
	Less: Provision for Doubtful Debts	(7,500)	2,92,500

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 8

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2012:

Liabilities	₹	*Assets*	₹
8,000 equity shares of ₹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*
		Share issue 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 super profits, 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 ₹ 6,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 1,24,400. The liquidation expenses amounted to ₹ 16,000. B Ltd. sold prior to 31st March, 2012 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in stock of A Ltd. on 31st March, 2012. Creditors of A Ltd. include ₹ 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, 2012 after the takeover.

Answer

Books of A Limited

Realisation Account

		₹			₹
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 ₹ 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, 2012 (An extract)*

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	4,88,000
b	Reserves and Surplus	2	1,07,000

*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.

2		**Current liabilities**		
	a	Trade Payables	3	2,80,000
	b	Bank overdraft		6,00,000
		Total		14,75,000
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	8,82,000
		Intangible assets	5	2,16,000
2		**Current assets**		
	a	Inventories	6	1,83,000
	b	Trade receivables	7	1,94,000
				14,75,000

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	4,880 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		4,88,000
2	**Reserves and Surplus (an extract)**		
	Securities Premium		1,22,000
	Profit and loss account	…..	
	Less: Unrealised profit	(15,000)	(15,000)
	Total		1,07,000
3	**Trade payables**		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	**Tangible assets**		
	Buildings		3,06,000
	Machinery		5,76,000

	Total		8,82,000
5	**Intangible assets**		
	Goodwill		2,16,000
6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000
7	**Trade receivables**		
	Opening balance	2,60,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	
	Less: Provision for doubtful debts	(26,000)	1,94,000

Working Notes:

1. Valuation of Goodwill

		₹
Average profit		1,24,400
Less: 8% of ₹ 8,80,000		(70,400)
Super profit		54,000
Value of Goodwill = 54,000 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
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 ₹ 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹ 6,10,000 in shares of ₹ 125. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. Unrealised Profit on Stock ₹

The stock of A Ltd. includes goods worth ₹ 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 ₹ 1,00,000.	(10,000)
Amount of unrealized profit	15,000

Question 9

The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2012:

Liabilities	*₹*	*Assets*	*₹*
14,000 Equity shares of ₹ 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*	*P & L A/c*	*90,000*
Sundry creditors	*2,00,000*		
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 ₹25,000.

Answer

Calculation of Purchase Consideration under Net Assets Method

		₹
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 10

Following is the summarized Balance Sheet of X Co. Ltd. as at 31st March, 2012:

Balance Sheet as at 31st March, 2012

Liabilities	*₹*	*Assets*	*₹*
Equity share capital (₹ 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 ₹ 80.*

(ii) *Equity shares will be issued by Y Co. Ltd. by valuing its each equity shares of ₹ 100 each at ₹ 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

	₹
Value of 15,000 equity shares @ ₹ 80 per share = ₹ 12,00,000	
Shares to be issued by Y Co. Ltd. (₹ 12,00,000/120 per share) = 10,000 shares @ ₹ 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.

		₹	₹
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)			

Question 11

Summarised Balance Sheets as on 31st March, 2012

Liabilities	Gee Ltd. ₹	Pee Ltd ₹	Assets	Gee Ltd. ₹	Pee Ltd. ₹
Equity share capital	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
(₹ 10 per share)			Plant and machinery	16,25,000	8,50,000
14% Preference share capital	11,00,000	8,50,000	Furniture and fixtures	2,87,500	1,75,000
(₹ 100 each)	-	-	Investments	3,50,000	2,50,000
General reserve	2,50,000	2,50,000	Stock	6,25,000	4,75,000
Export profit reserve	1,50,000	1,00,000	Debtors	4,00,000	4,60,000
Investment allowance reserve	-	50,000	Bills receivables	50,000	55,000
Profit and loss account	3,75,000	1,25,000	Cash at bank	3,62,500	2,60,000
15% Debentures (₹ 100 each)	2,50,000	1,75,000			
Trade creditors	1,50,000	75,000			
Bills payables	75,000	1,00,000			
Other current liabilities	1,00,000	75,000			
	49,50,000	33,00,000		49,50,000	33,00,000

All the bills receivables of Pee Ltd. were having Gee Ltd.'s acceptances.

Gee Ltd. takes over Pee Ltd. on 1st April, 2012. The purchase consideration is discharged as follows:

(i) Issued 1,65,000 equity shares of ₹10 each at par to the equity shareholders of Pee Ltd.

(ii) Issued 15% preference shares of ₹100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.

(iii) The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.

(iv) The statutory reserves of Pee Ltd. are to be maintained for two more years.

(v) Expenses of amalgamation amounting to ₹10,000 will be borne by Gee Ltd.

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2012 after amalgamation, on the assumption that the amalgamation is in the nature of the merger.

Answer

In the books of Gee Ltd.
Journal Entries

Particulars		*Debit* ₹	*Credit* ₹
Business purchase A/c (W.N.1)	Dr.	25,85,000	
To Liquidator of Pee Ltd.			25,85,000
(Being business of Pee Ltd. taken over)			
Building A/c	Dr.	7,75,000	
Plant and machinery A/c	Dr.	8,50,000	
Furniture and fixtures A/c	Dr.	1,75,000	
Investments A/c	Dr.	2,50,000	
Stock A/c	Dr.	4,75,000	
Debtors A/c	Dr.	4,60,000	
Bills receivables A/c	Dr.	55,000	
Cash at bank A/c	Dr.	2,60,000	
To General reserve A/c (W.N.2) (2,50,000-2,35,000)			15,000
To Export profit reserve A/c			1,00,000
To Investment allowance reserve A/c			50,000
To Profit and loss A/c			1,25,000
To 15% Debentures A/c (₹ 100 each)			1,75,000
To Trade creditors A/c			75,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c			25,85,000
(Being assets and liabilities taken over)			
Liquidator of Pee Ltd.	Dr.	25,85,000	
To Equity share capital A/c			16,50,000
To 15% Preference share capital A/c			9,35,000
(Being purchase consideration discharged)			
General Reserve A/c	Dr.	10,000	
To Cash at bank			10,000
(Being expenses of amalgamation paid)			

15% Debentures in Pee Ltd. A/c	Dr.	1,75,000	
To 15% Debentures A/c			1,75,000
(Being debentures in Pee Ltd. discharged by issuing own 15% debentures)			
Bills payables A/c	Dr.	55,000	
To Bill receivables A/c			55,000
(Cancellation of mutual owing on account of bills of exchange)			

Opening Balance Sheet of Gee Ltd. (after absorption)
as on 1st April, 2012

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	61,85,000
b	Reserves and Surplus	2	10,55,000
2	Non-current liabilities		
a	Long-term borrowings	3	4,25,000
3	Current liabilities		
a	Trade Payables	4	3,45,000
b	Other current liabilities	5	1,75,000
	Total		81,85,000
	Assets		
1	Non-current assets		
a	Fixed assets		
	Tangible assets	6	49,62,500
b	Investments	7	6,00,000
2	Current assets		
a	Inventories	8	11,00,000
b	Trade receivables	9	9,10,000
c	Cash and cash equivalents	10	6,12,500
	Total		81,85,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		

	4,15,000 Equity shares of ₹ 10 each (Out of above, 1,65,000 shares were issued for consideration other than cash)		41,50,000
	Preference share capital		
	9,350 15% Preference shares of ₹ 100 each (Out of above, 9,350 shares were issued for consideration other than cash)		9,35,000
	11,000 14% Preference Shares of ₹ 100 each		11,00,000
	Total		61,85,000
2	Reserves and Surplus		
	General Reserve		
	Opening balance	2,50,000	
	Add: Adjustment under scheme of amalgamation	15,000	
	Less: Amalgamation expense paid	(10,000)	2,55,000
	Export profit reserve		
	Opening balance	1,50,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	2,50,000
	Investment allowance reserve		50,000
	Profit and loss account		
	Opening balance	3,75,000	
	Add: Adjustment under scheme of amalgamation	1,25,000	5,00,000
	Total		10,55,000
3	Long-term borrowings		
	Secured		
	15% Debentures	2,50,000	
	Add: Adjustment under scheme of amalgamation	1,75,000	4,25,000
	Total		4,25,000
4	Trade payables		
	Creditors: Opening balance	1,50,000	
	Add: Adjustment under scheme of amalgamation	75,000	2,25,000
	Bills Payables: Opening balance	75,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	
	Less: Cancellation of mutual owning upon amalgamation	(55,000)	1,20,000
			3,45,000

5	Other current liabilities		
	Opening balance	1,00,000	
	Add: Adjustment under scheme of amalgamation	75,000	1,75,000
6	Tangible assets		
	Buildings- Opening balance	12,50,000	
	Add: Adjustment under scheme of amalgamation	7,75,000	20,25,000
	Plant and machinery- Opening balance	16,25,000	
	Add: Adjustment under scheme of amalgamation	8,50,000	24,75,000
	Furniture and fixtures- Opening balance	2,87,500	
	Add: Adjustment under scheme of amalgamation	1,75,000	4,62,500
	Total		49,62,500
7	Investments		
	Opening balance	3,50,000	
	Add: Adjustment under scheme of amalgamation	2,50,000	6,00,000
8	Inventories		
	Opening balance	6,25,000	
	Add: Adjustment under scheme of amalgamation	4,75,000	11,00,000
9	Trade receivables		
	Debtors: Opening balance	4,00,000	
	Add: Adjustment under scheme of amalgamation	4,60,000	8,60,000
	Bills Payables: Opening balance	50,000	
	Add: Adjustment under scheme of amalgamation	55,000	
	Less: Cancellation of mutual owning upon amalgamation	(55,000)	50,000
	Total		9,10,000
10	Cash and cash equivalents		
	Opening balance	3,62,500	
	Add: Adjustment under scheme of amalgamation	2,60,000	
	Less: Amalgamation expense paid	(10,000)	6,12,500

Working Notes:

1. Calculation of purchase consideration

	₹
Equity shareholders of Pee Ltd. (1,65,000 x ₹ 10)	16,50,000

Preference shareholders of Pee Ltd. (8,50,000 x 110%)	9,35,000
Purchase consideration would be	25,85,000

2. **Amount to be adjusted from general reserve**

   The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

   Thus, General reserve will be adjusted as follows:

	₹
Purchase consideration	25,85,000
Less: Share capital issued (₹ 15,00,000 + ₹ 8,50,000)	(23,50,000)
Amount to be adjusted from general reserve	2,35,000

Question 12

Ram Limited and Shyam Limited carry on business of a similar nature and it is agreed that they should amalgamate. A new company, Ram and Shyam Limited, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. On 31st March 2011, the Balance Sheets of the two companies were as under:

Ram Limited

Balance Sheet as at 31st March, 2011

Liabilities	*₹*	*Assets*	*₹*
Issued and Subscribed		*Freehold Property, at cost*	*2,10,000*
Share Capital:		*Plant and Machinery, at cost*	
30,000 Equity Shares of ₹10		*less Depreciation*	*50,000*
each, fully paid	*3,00,000*	*Motor Vehicles, at cost Less*	
General Reserve	*1,60,000*	*Depreciation*	*20,000*
Profit and Loss Account	*40,000*	*Stock*	*1,20,000*
Sundry Creditors	*1,50,000*	*Debtors*	*1,64,000*
		Cash at Bank	*86,000*
	6,50,000		*6,50,000*

Shyam Limited

Balance Sheet as at 31st March, 2011

Liabilities	*₹*	*Assets*	*₹*
Issued and Subscribed		*Freehold Property, at cost*	*1,20,000*
Share Capital:		*Plant and Machinery, at cost*	
16,000 Equity Shares of ₹10		*less Depreciation*	*30,000*

each, fully paid	*1,60,000*	*Stock*	*1,56,000*
Profit and Loss Account	*40,000*	*Debtors*	*42,000*
6% Debentures	*1,20,000*	*Cash at Bank*	*36,000*
Sundry Creditors	*64,000*		
	3,84,000		*3,84,000*

Assets and Liabilities are to be taken at book-value, with the following exceptions:

(a) Goodwill of Ram Limited and of Shyam Limited is to be valued at ₹ 1,60,000 and ₹ 60,000 respectively.

(b) Motor Vehicles of Ram Limited are to be valued at ₹ 60,000.

(c) The debentures of Shyam Limited are to be discharged by the issue of 6% Debentures of Ram and Shyam Limited at a premium of 5%.

(d) The Debtors of Shyam Ltd. realized fully and Bank Balance of Shyam Limited are to be retained by the liquidator and the Sundry Creditors of Shyam Ltd. are to be paid out of the proceeds thereof.

You are required to:

(i) Compute the basis on which shares in Ram and Shyam Limited will be issued to the Shareholders of the existing companies assuming that the nominal value of each share in Ram and Shyam Limited is ₹ 10.

(ii) Draw up a Balance Sheet of Ram and Shyam Limited as of 1st April, 2011, the date of completion of amalgamation.

(iii) Write up Journal entries, including Bank entries, for closing the books of Shyam Limited.

Answer

Calculation of Purchase consideration

	Ram Ltd.	Shyam Ltd.
Purchase Consideration:	₹	₹
Goodwill	1,60,000	60,000
Freehold property	2,10,000	1,20,000
Plant and Machinery	50,000	30,000
Motor vehicles	60,000	-
Stock	1,20,000	1,56,000
Debtors	1,64,000	-
Cash at Bank	86,000	-

	8,50,000	3,66,000
Less: Liabilities:		
6% Debentures (1,20,000 x 105%)	-	(1,26,000)
Sundry Creditors	(1,50,000)	-
Net Assets taken over	7,00,000	2,40,000
To be satisfied by issue of shares of Ram and Shyam Ltd. @ ₹ 10 each	70,000	24,000

Balance Sheet of Ram and Shyam Ltd. as at 1st April, 2011

				₹
		Equity and Liabilities		₹
1		Shareholders' funds		
	a	Share capital	1	9,40,000
	b	Reserves and Surplus	2	6,000
2		Non-current liabilities		
	a	Long-term borrowings	3	1,20,000
3		Current liabilities		
	a	Trade Payables		1,50,000
		Total		12,16,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
	i	Tangible assets	4	4,70,000
	ii	Intangible assets	5	2,20,000
2		Current assets		
	a	Inventories (1,20,000 + 1,56,000)		2,76,000
	b	Trade receivables		1,64,000
	c	Cash and cash equivalents		86,000
		Total		12,16,000

Notes to accounts

1. Share Capital	
Equity share capital	
94,000 shares of ₹ 10 each	9,40,000

2.	**Reserves and Surplus**	
	Securities Premium (W.N.1)	6,000
3.	**Long-term borrowings**	
	Secured	
	6% Debentures (assumed to be secured)	1,20,000
4.	**Tangible assets**	
	Free hold property (2,10,000 + 1,20,000)	3,30,000
	Plant & Machinery (50,000+30,000)	80,000
	Motor vehicles	60,000
	Total	4,70,000
5.	**Intangible assets**	
	Goodwill (1,60,000 + 60,000)	2,20,000

In the books of Shyam Ltd.
Journal Entries

			₹	₹
1.	Realisation A/c	Dr.	3,48,000	
	To Freehold Property			1,20,000
	To Plant and Machinery			30,000
	To Stock			1,56,000
	To Debtors			42,000
	(Being all assets except cash transferred to Realisation Account)			
2.	6% Debentures A/c	Dr.	1,20,000	
	Sundry Creditors A/c	Dr.	64,000	
	To Realisation A/c			1,84,000
	(Being all liabilities transferred to Realisation Account)			
3.	Equity Share Capital A/c	Dr.	1,60,000	
	Profit and Loss A/c	Dr.	40,000	
	To Realisation A/c			2,00,000
	(Being equity transferred to equity shareholders account)			
4.	Ram and Shyam Ltd.	Dr.	2,40,000	

	To Realisation A/c (Being purchase consideration due)		2,40,000
5.	Bank A/c Dr. To Realisation A/c (Being cash realized from debtors in full)	42,000	42,000
6.	Realisation A/c Dr. To Bank A/c (Being payment made to creditors)	64,000	64,000
7.	Shares in Ram and Shyam Ltd. Dr. To Ram and Shyam Ltd. (Being purchase consideration received in the form of shares of Ram and Shyam Ltd.)	2,40,000	2,40,000
8.	Realisation A/c Dr. To Equity shareholders A/c (Being profit on Realisation account transferred to shareholders account)	54,000	54,000
9.	Equity shareholders A/c Dr. To Shares in Ram and Shyam Ltd. To Bank A/c (Being final payment made to shareholders)	2,54,000	2,40,000 14,000

Working Note:

Calculation of Securities Premium balance

Debentures issued by Ram and Shyam Ltd. to Shyam Ltd. at 5% premium

Therefore, securities premium account will be credited with (₹ 1,20,000 x 5%) ₹ 6,000.

Question 13

The summarised Balance Sheet of Mars Limited as on 31st March, 2012 was as follow:

Liabilities	*₹*	*Assets*		*₹*
Share Capital:		*Fixed Assets:*		
1,00,000 Equity shares of ₹ 10 each fully paid up	*10,00,000*	*Land and building*		*7,64,000*
		Current Assets:		
Reserve and surplus:		*Stock*		*7,75,000*
Capital reserve	*42,000*	*Sundry debtors*	*1,60,000*	
Contingency reserve	*2,70,000*	*Less : Provision for*		
Profit and loss A/c	*2,52,000*	*doubtful debts*	*(8,000)*	*1,52,000*

Current Liabilities & Provisions:		*Bill receivable*	*30,000*
Bills payable	*40,000*	*Cash at bank*	*3,29,000*
Sundry creditors	*2,26,000*		
Provision for income tax	*2,20,000*		
	20,50,000		*20,50,000*

On 1st April, 2012, Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

(1) Jupiter Limited will take over the assets at the following values:

	₹
Land and building	*10,80,000*
Stock	*7,70,000*
Bills receivable	*30,000*

(2) Purchase consideration will be settled by Jupiter Ltd. as under:

4,100 fully paid 10% preference shares of ₹ 100 will be issued and the balance will be settled by issuing equity shares of ₹ 10 each at ₹ 8 paid up.

(3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹ 5,000.

(4) Sundry debtors realized ₹ 1,50,000. Bills payable were settled for ₹ 38,000. Income tax authorities fixed the taxation liability at ₹ 2,22,000 and the same was paid.

(5) Creditors were finally settled with cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration

(ii) Prepare the Realisation account, Bank account, Equity shareholders account and Jupiter Limited's account in the books of Mars Ltd.

Answer

(i) Calculation of number of shares to be allotted

Particulars	*Amount (₹)*
Land and building	10,80,000
Stock	7,70,000
Bills receivable	30,000
Total	18,80,000
Amount discharged by issue of preference shares	4,10,000

Number of preference shares to be issued (4,10,000/100)	4,100 shares
Amount discharged by issue of equity shares (₹ 18,80,000 – ₹ 4,10,000)	14,70,000
Number of equity shares to be issued (₹ 14,70,000 / 8)	1,83,750 Shares

(ii) Ledger Accounts in the books of Mars Limited

Realization Account

Particulars	₹	*Particulars*	₹
To Land and building	7,64,000	By Provision for doubtful debts	8,000
To Stock	7,75,000	By Bills payable	40,000
To Sundry debtors	1,60,000	By Sundry creditors	2,26,000
To Bills receivable	30,000	By Provision for taxation	2,20,000
To Bank A/c –liquidation expenses	3,000	By Jupiter Ltd. (purchase consideration)	18,80,000
To Bank A/c- bills payable	38,000	By Bank A/c- sundry debtors	1,50,000
To Bank A/c –income tax	2,22,000		
To Bank A/c –sundry creditors	2,16,000		
To Profit transferred to equity shareholders A/c	3,16,000		
	25,24,000		25,24,000

Bank Account

Particulars	₹	*Particulars*	₹
To Balance b/d	3,29,000	By Realisation A/c (liquidation expenses)	3,000
To Realisation A/c (payment received from debtors)	1,50,000	By Jupiter Ltd.	5,000
To Jupiter Ltd. (liquidation expenses)	5,000	By Bills payable	38,000
		By Income tax	2,22,000
		By Sundry creditors (Bal.fig.)	2,16,000
	4,84,000		4,84,000

Equity Shareholders Account

Particulars	₹	*Particulars*	₹
To 10% Preference shares in Jupiter Limited	4,10,000	By Equity share capital A/c	10,00,000
To Equity shares in Jupiter Limited	14,70,000	By Capital reserve	42,000
		By Contingency reserve	2,70,000
		By Profit and loss A/c	2,52,000
		By Realisation A/c (profit)	3,16,000
	18,80,000		18,80,000

Jupiter Limited Account

Particulars	₹	Particulars	₹
To Realisation A/c	18,80,000	To 10% Preference shares in Jupiter Limited	4,10,000
		To Equity shares in Jupiter Limited	14,70,000
	18,80,000		18,80,000

Question 14

The following was the Balance Sheet of V Ltd. as on 31st March, 2012:

Particulars	*Note No.*	*Amount (₹ in lakhs)*
Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	*1*	*1,150*
(b) Reserves and Surplus	*2*	*(87)*
(2) Non-current Liabilities		
(a) Long-term Borrowings	*3*	*630*
(3) Current Liabilities		
Trade Parables		*170*
Total		*1,863*
Assets		
(1) Non-current Assets		
Tangible Assets	*4*	*1,152*
(2) Current Assets		
Inventories		*380*
Trade Receivables		*256*
Cash and Cash equivalents	*5*	*75*
Total		*1,863*

Notes:

(1) Share Capital	
Authorised :	*?*
Issued, Subscribed and Paid up :	
80 lakhs Equity Shares of ₹10 each, fully paid up	*800*
35 lakhs 12% Cumulative Preference Shares of ₹10 each, fully paid up	*350*
Total	*1,150*

(2) Reserves and Surplus	
Profit & Loss Account	*(87)*
Total	*(87)*
(3) Long-term Borrowings	
10% Secured Cumulative Debentures of ₹100 each, fully paid up	*600*
Outstanding Debenture Interest	*30*
Total	*630*
(4) Tangible Assets	
Land and Buildings	*445*
Plant and Machinery	*593*
Furniture, Fixtures and Fittings	*114*
Total	*1,152*
(5) Cash and Cash Equivalents	
Balance at Bank	*69*
Cash in hand	*6*
Total	*75*

On 1st April, 2012, P Ltd. took over the entire business of V Ltd. on the following terms:

V Ltd.'s equity shareholders would receive 4 fully paid equity shares of P Ltd. of ₹10 each issued at a premium of ₹2.50 each for every five shares held by them in V Ltd.

Preference shareholders of V Ltd. would get 35 lakhs 13% Cumulative Preference Shares of ₹10 each fully paid up in P Ltd., in lieu of their present holding.

All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹100 each, fully paid up after the take over by P Ltd., which would also pay outstanding debenture interest in cash.

Expenses of amalgamation would be borne by P Ltd. Expenses came to be ₹2 lakhs. P Ltd. discovered that its creditors included ₹7 lakhs due to V Ltd. for goods purchased.

Also P Ltd.'s stock included goods of the invoice price of ₹5 lakhs earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price.

You are required to :

(i) Prepare Realisation A/c in the books of V Ltd.

(ii) Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger.

Answer

(i) In the books of V Ltd.

Realisation Account

		₹ in lakhs			₹ in lakhs
To	Land and Buildings A/c	445	By	10% Secured Cumulative Debentures A/c	600
To	Plant and Machinery A/c	593	By	Outstanding Debenture interest A/c	30
To	Furniture, Fixtures & Fittings A/c	114	By	Trade payables A/c	170
To	Inventories A/c	380	By	P Ltd. A/c (purchase consideration - Refer working note)	1,150
To	Trade Receivables A/c	256			
To	Bank A/c	69			
To	Cash in Hand A/c	6			
To	Equity Shareholders' A/c (Profit on Realisation)	87			
		1,950			1,950

(ii) In the books of P Ltd.

Journal Entries

			Dr. ₹ in lakhs	Cr. ₹ in lakhs
1.	Business Purchase A/c	Dr.	1,150	
	To Liquidator of V Ltd. A/c			1,150
	(Being purchase consideration due)			
2.	Land and Buildings A/c	Dr.	445	
	Plant and Machinery A/c	Dr.	593	
	Furniture, Fixtures & Fittings A/c	Dr.	114	
	Inventories A/c	Dr.	380	
	Trade Receivables A/c	Dr.	256	
	Bank A/c	Dr.	69	
	Cash in Hand A/c	Dr.	6	
	Profit and Loss A/c	Dr.	87	
	To 10% Debentures A/c			600
	To Outstanding Debenture interest A/c			30
	To Trade payables A/c			170
	To Business Purchase A/c			1,150
	(Being assets and liabilities taken over from V Ltd. under the scheme of amalgamation in the nature of merger)			

3.	Liquidators of V Ltd. A/c	Dr.	1,150	
	To Equity Share Capital A/c			640
	To 13% Cumulative Preference Shares A/c			350
	To Securities Premium A/c			160
	(Being discharge of consideration, by allotment of 64 lakhs equity shares of ₹ 10 each at a premium of ₹ 2.50 per share and 35 lakhs 13% cumulative preference shares of ₹ 10 each at par)			
4.	10% Secured Cumulative Debentures A/c	Dr.	600	
	To 10.5% Secured Cumulative Debentures A/c			600
	(Being 10% Secured Cumulative Debentures of V Ltd. converted into 10.5% Secured Cumulative Debentures of P Ltd.)			
5.	Outstanding Debenture interest A/c	Dr.	30	
	To Bank A/c			30
	(Being outstanding debenture interest paid in cash by P Ltd.)			
6.	Goodwill A/c*	Dr.	2	
	To Bank A/c			2
	(Being amalgamation expenses met by P Ltd.)			
7.	Trade Payables A/c	Dr.	7	
	To Trade Receivables A/c			7
	(Being settlement of mutual liability)			
8.	Profit and Loss A/c	Dr.	1	
	To Inventories A/c (5 x 20%)			1
	(Being unrealized profit on stock eliminated from the inventories of P Ltd.)			

Working Note:

Calculation of Purchase Consideration payable by P Ltd.

	₹ in lakhs
Payment to preference shareholders:	
13% Cumulative Preference Shares of ₹ 10 each (35 lakhs shares × ₹ 10)	350
Payment to equity shareholders:	
(80 lakhs shares x 4/5)= 64 lakhs equity shares @ ₹ 10	640
Securities Premium (64 lakhs equity shares @ ₹ 2.5)	160
Total purchase consideration	1,150

* However, amalgamation expenses should be recognized as expenses when they are incurred because no asset is acquired from the expenditure incurred.

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

Question 1

On 1st January, 2011 Suri's account in Puri's ledger showed a debit balance of ₹ 2,500. The following transactions took place between Puri and Suri during the quarter ended 31st March, 2011:

2011		*₹*
Jan 11	*Puri sold goods to Suri*	*3,000*
Jan 24	*Puri received a promissory note from Suri at 3 months date*	*2,500*
Feb 01	*Suri sold goods to Puri*	*5,000*
Feb 04	*Puri sold goods to Suri*	*4,100*
Feb 07	*Suri returned goods to Puri*	*500*
March 01	*Suri sold goods to Puri*	*2,800*
Mar 18	*Puri sold goods to Suri*	*4,600*
Mar 23	*Suri sold goods to Puri*	*2,000*

Accounts were settled on 31st March, 2011 by means of a cheque. Prepare an Account Current to be submitted by Puri to Suri as on 31st March, 2011, taking interest into account @ 10% per annum. Calculate interest to the nearest rupee.

In the books of Puri

Suri in Account Current with Puri

Date	*Particulars*	*Due Date*	*Amount*	*Days*	*Products*	*Date*	*Particulars*	*Due Date*	*Amount*	*Days*	*Products*
2011			₹			*2011*			₹		
Jan.1	To Balance b/d	Jan. 1	2,500	90	2,25,000	Jan.24	By B/R	April 27	2,500	(27)	(67,500)
Jan. 11	To Sales	Jan 11	3,000	79	2,37,000	Feb. 1	By Purchases	Feb. 1	5,000	58	2,90,000
Feb. 4	To Sales	Feb. 4	4,100	55	2,25,500	Feb. 7	By Sales Returns	Feb. 7	500	52	26,000
Mar. 18	To Sales	Mar. 18	4,600	13	59,800	Mar. 1	By Purchases	Mar.1	2,800	30	84,000
Mar. 31	To Interest		109			Mar. 23	By Purchases	Mar. 23	2,000	8	16,000
						Mar. 31	By Balance of Products				3,98,800
						Mar. 31	By Bank		1,509		
	Total		14,309		7,47,300				14,309		7,47,300

Calculation of interest:

$$\text{Interest} = \frac{3,98,800}{365} \times \frac{10}{100} = ₹\ 109$$

Question 2

The following are the transactions that took place between G and H during the period from 1st October, 2010 to 31st March, 2011:

2010		*₹*
Oct.1	*Balance due to G by H*	*3,000*
Oct 18	*Goods sold by G to H*	*2,500*
Nov. 16	*Goods sold by H to G (invoice dated November, 26)*	*4,000*
Dec.7	*Goods sold by H to G (invoice dated December, 17)*	*3,500*

2011		*₹*
Jan. 3	*Promissory note given by G to H, at three months*	*5,000*
Feb. 4	*Cash paid by G to H*	*1,000*
Mar. 21	*Goods sold by G to H*	*4,300*
Mar.28	*Goods sold by H to G (invoice dated April, 8)*	*2,700*

Draw up an Account Current up to March 31st, 2011 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

Answer

In the books of G

H in Account Current with G

Date	Due date	Particulars	No., of days till 31.3.11	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.11	Amt.	Product
2010	2010			₹	₹	2010	2010			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2011	2011					2011	2011				
Jan 2	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = ₹ 50 (approx.)

EXERCISES

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

2011		₹	*2011*		₹
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*			

(Hints: Interest (67,090 × 0.1 /365) = ₹ 18.38 and Balance c/d ₹ 68.38)

2. *Following transactions took place between X and Y during the month of April, 2011:*

Date	*Particulars*	₹
1.4.2011	*Amount payable by X to Y*	*10,000*
7.4.2011	*Received acceptance of X to Y for 2 months*	*5,000*
10.4.2011	*Bills receivable (accepted by Y) on 7.2.2011 is honoured on this due date*	*10,000*
10.4.2011	*X sold goods to Y (due date 10.5.2011)*	*15,000*
12.4.2011	*X received cheque from Y (due date 15.5.2011)*	*7,500*
15.4.2011	*Y sold goods to X (due date 15.5.2011)*	*6,000*
20.4.2011	*X returned goods sold by Y on 15.4.2011*	*1,000*
20.4.2011	*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, 2011.

(Hints: Interest ₹ 4,17,500 × 18/100 × 1/365 = ₹ 205.90 and Balance c/d ₹ 2,294.10)

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.

Question 1

Write short note on 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.

Question 2

Distinguish between 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.

Question 3

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

(a) Under the self balancing system the general ledger adjustment account is always opened in the general ledger.

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

(c) *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.*

Answer

(a) 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.

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

(c) 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.

Question 4

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

	Dr. ₹	*Cr.* ₹
Balances on 1.4.2010		
Debtors' Ledger	*47,200*	*240*
Creditors' Ledger	*280*	*26,300*
Transactions for the year ended 31.3.2011:		
Total sales	*1,20,000*	
Cash sales	*8,000*	
Total purchases	*89,500*	
Credit purchases	*67,000*	
Creditors paid off (in full settlement of ₹ 40,000)	*39,500*	
Received from debtors (in full settlement of ₹ 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 ₹ 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 31.3.2011		
Debtors' ledger (Cr.)	*380*	
Creditors' ledger (Dr.)	*420*	

Answer

In Debtors' Ledger

General Ledger Adjustment Account

			₹				₹
1.4.2010	To Balance b/d		240	1.4.2010	By Balance b/d		47,200
	To Debtor's ledger adjustment account:				By Debtors ledger adjustment account:		
	Bank	58,200			Sales (on credit)	1,12,000	
	Discount	800					
	Returns	2,600			Bills receivable dishonoured	1,500	
	Bills receivable	20,100			Endorsed bills		
	Bad debts written off	2,500	84,200		receivable dishonoured	1,000	1,14,500
	To Debtors ledger adjustment account:			31.3.2011	By Balance c/d		380
	Transfer from debtors ledger to creditor's ledger	1,100					
	Transfer from creditor's ledger to debtor's ledger	1,900	3,000				
31.3.2011	To Balance c/d (bal. fig.)		74,640				
			1,62,080				1,62,080

Creditor's Ledger
General Ledger Adjustment Account

			₹				₹
1.4.2010	To Balance b/d		26,300	1.4.2010	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	
31.3.2011	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
				31.3.2011	By Balance c/d (bal. fig.)		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 5

From the following information available from the books of a trader from 1.1.2011 to 31.3.2011, you are required to draw up the Debtors Ledger Adjustment Account in the General Ledger:

(a) Total sales amounted to ₹1,80,000 including the sale of old zerox machine for ₹4,800 (book value ₹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 ₹20,000.

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

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

(e) Sundry debtors as on 1.1.2011 stood at ₹50,000.

Answer

In General Ledger

Debtors Ledger Adjustment Account

Dr. 2011		₹	2011		*Cr.* ₹
Jan. 1	To Balance b/d	50,000	Mar.31	By General ledger	
Mar. 31	To General ledger adjustment account:			adjustment account:	
	Sales [(100/120) x (1,80,000-4,800)]	1,46,000		Collection-cash and bank(70 % of the ₹ 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 6

The following information is extracted from the books of Shri Hari for the year ended 31st March, 2011.

	₹
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, 2010 was ₹ 90,600 and that of the purchases ledger balance on the same date was ₹ 78,600.

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

Answer

Sales Ledger Adjustment Account

		₹			₹
1.4.2010	To Balance b/d	90,600	1.4.2010 to 31.3.2011	By General ledger adjustment account:	
1.4.2010 to 31.3.2011	To General ledger adjustment A/c:			Cash	1,78,200
	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
			31.3.2011	By Balance c/d	87,200
		4,71,400			4,71,400

Purchases Ledger Adjustment Account

		₹			₹
1.4.2010	To General ledger		1.4.2010	By Balance b/d	78,600
to	adjustment account:		1.4.2010 to	By General ledger adjustment account:	
32.3.2011	Cash	1,86,000	31.3.2011	Purchases	3,26,000
	Return outwards	14,000			
	Bills payable	1,22,000			
	Discount received	4,000			
	Transfer to sales ledger	26,600			
31.3.2011	To Balance c/d	52,000			
		4,04,600			4,04,600

Question 7

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

	₹
Debit balance as on 1.10.2010	*3,75,000*
Credit balance as on 1.10.2010	*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 31.3.2011	*75,000*
Credit balance as on 31.3.2011	*?*

Answer

General Ledger

Sales Ledger

		₹			₹
1-10-2010	To Balance b/d	3,75,000	1-10-2010	By Balance b/d	500
1-10-2010	To General ledger		1-10-2010	By General ledger	
to	control A/c:		to	control A/c:	
31-3-2011	Sales	10,00,000	31-3-2011	Bank	11,25,000
	Bills receivable			Bills receivable	1,25,000
	(dishonoured)	12,500		Discount	12,500
31-3-2011	To Balance c/d (balancing figure)	5,500		Sales return	25,000
				Bad debts	5,000
				Transfer	25,000
			31.3.2011	By 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 8

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

		₹
On 1.4.2010: Balance in sales ledger	*(Dr.)*	*1,41,880*
	(Cr.)	*2,240*
On 31.3.2011:		
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

			₹				₹
01.04.2010	To Balance b/d		1,41,880	1.4.2010	By Balance b/d		2,240
31.3.2011	To General ledger adjustment A/c in sales ledger:			31.3.2011	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 9

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

	₹
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 ₹500 was recorded as discount received from creditors.

Answer

In General Ledger

Debtors' Ledger Adjustment Account

	₹		₹
To Balance b/d (bal.fig.)	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

	₹		₹
To General ledger		By Balance b/d (bal. fig.)	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

Question 10

Gupta Traders keep their ledgers on the self balancing system. They provide you the following information for the year ended 31st March, 2010:

	₹
Debtors balance on 1st April, 2009	*1,37,250*
Credit sales	*68,100*
Returns inward	*1,200*
Returns outward	*1,800*
Cash received from customers	*76,800*
Discount received	*2,010*
Acceptances received	*25,500*
Bills receivable dishonoured	*3,600*
Bad debts written off	*7,500*

You are required to prepare General Ledger Adjustment A/c in Sales Ledger of Gupta Traders.

Answer

In the books of Gupta Traders

General Ledger Adjustment A/c in the Sales Ledger

Date	*Particulars*	*Amount* ₹	*Date*	*Particulars*	*Amount* ₹
1 April, 2009 to 31st March, 2010	To Sales Ledger Adjustment A/c (in General Ledger):		1 April, 09	By Balance b/d	1,37,250
	Returns inward	1,200	1 April, 2009 to 31st March, 2010	By Sales Ledger Adjustment Account (in General Ledger):	
	Cash (received from customers)	76,800		Sales	68,100
	Bills receivables	25,500		B/R dishonoured	3,600
	Bad debts	7,500			
31st March 2010	To Balance c/d	97,950			
		2,08,950			2,08,950

Note : Returns outward and discount received would be shown in the General Ledger Adjustment Account of Purchases Ledger.

Question 11

On 1st October, 2011, the debit balances of debtors account is ₹ 77,500 in the books of M/s Zee Ltd. Transactions during the 6 months ended on 31st March 2012 were as follows:

	₹
Total sales (including cash sales ₹14,000)	*84,000*
Payment received from debtors in cash	*38,000*
Bills receivable received	*26,000*
Discount allowed to customers for prompt payment	*1,000*
Goods rejected and returned back by the customer	*2,550*
Bad debts recovered (written off in 2010)	*900*
Interest debited for delay in payment	*1,250*

You are required to prepare a Debtors Account for the period ending 31st March in the General of M/s Zee Ltd.

Answer

Total Debtors Account in the General Ledger of M/s Zee Ltd.

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
		₹			₹
1.10.11	To Balance c/d	77,500	1.10.11 to 31.3.12	By General Ledger Adjustment A/c:	
1.10.11 to 31.3.12	To General Ledger Adjustment A/c:			Cash collected	38,000
				Bills Receivable A/c	26,000
	Sales (84,000-14,000)	70,000		Discount allowed	1,000
	Bills receivable			Sales return	2,550
	(Bill dishonored)	8,500		By Balance c/d	89,950
	Bank (Noting charges)	250	31.3.12		
	Interest	1,250			
		1,57,500			1,57,500

Working Note:

1. Bad debts of the year 2009-10 recovered in 2011-12 will not appear in the 'Total Debtors account'. It will be credited to profit & loss account.

2. Bills receivables of ₹ 5,000 endorsed to the supplier will not be shown in the 'Total Debtors account because at the time of endorsement Supplier's account will be debited and Bills receivable account will be credited.

Question 12

A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2012:

	(₹)
Debit balances in Debtors Ledger on 01-04-2012	*3,58,200*
Credit balances in Debtors Ledger on 01-04-2012	*9,400*
Transactions during the month of April, 2012 are:	
Total Sales (including Cash Sales, ₹ 1,00,000)	*20,95,400*
Sales Returns	*33,100*
Cash received from credit customers	*17,25,700*
Bills Receivable received from customers	*95,000*
Bills Receivable dishonoured	*7,500*
Cash paid to customers for returns	*6,000*
Transfers to Creditors Ledger	*16,000*
Credit balances in Debtors Ledger on 30-04-2012	*9,800*

Answer

General Ledger Adjustment Account in Debtors Ledger

Date	*Particulars*	₹	*Date*	*Particulars*	₹
01.04.2012	To Balance b/d	9,400	1.4.2012	By Balance b/d	3,58,200
01.04.2012 to 30.4.2012	To Debtors ledger adjustment A/c :		01.04.2012 to 30.4.2012	By Debtors ledger adjustment A/c :	
	Cash received	17,25,700		Credit sales	19,95,400
	Sales Returns	33,100		Cash paid for returns	6,000
	Bills receivable received	95,000		Bills receivable dishonoured	7,500
	Transfer to creditors ledger	16,000	30.04.2012	By Balance c/d	9,800
30.04.2012	To Balance c/d (bal.fig)	4,97,700			
		23,76,900			23,76,900

EXERCISES

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

	Sales Ledger	Purchases Ledger
Debit balance as on 1.1.2011	1,50,000	1,000
Credit balance as on 1.1.2011	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 30.6.2011	30,000	-
Credit Balances as on 31.6.2011	?	72,000

(Hints: Total of Sales Ledger Control Account = ₹ 5,57,200; and Purchases Ledger Control Account = ₹ 5,11,000)

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

On 1.4.2010 balance in bought ledger (Dr.) ₹ 10,000, (Cr.) ₹ 96,000, balance in sales ledger (Dr.) ₹ 1,41,880 (Cr.) ₹ 2,240:

31.3.2011	₹	31.3.2011	₹
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		

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

3. *The following information is extracted from a set of books for the half-year ended 30th June, 2011*

	₹
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, 2011 was ₹ 3,20,800 and that of the purchases ledger balances on the same date was ₹ 1,86,400.

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

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

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

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

(Hints: Total of Customers Control Account = ₹ 10,15,000)

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 31.3.2011:

	₹
Debtors balance on 1.3.2011	*50,000*
Transactions during the period were:	
Sales (including cash sales of ₹ 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 ₹ 1,000)	*4,000*
Sundry charges debited to customers	*600*
Transfers to bought ledger	*300*

(Hints: Total of Sales Ledger Adjustment Account = ₹ 1,60,100)

9

Financial Statements of Not-for-Profit Organisations

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- A not-for-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 not-for-profit 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 other not-for-profit organizations both in terms of their sources of income as well as the freedom to choose their accounting years.

  Note: Non-profit organizations registered under section 25 of the Companies Act, 1956 are required to prepare their Income and Expenditure account and Balance Sheet as per the revised Schedule VI to the Companies Act, 1956. All the questions in this chapter have been solved on the basis that Non-profit organization referred to in the questions are not registered under section 25 of the Companies Act, 1956

Question 1 Write short notes on:

(a) *Receipts and Expenditure Account.*

(b) *Receipts and Payments Account.*

Answer

(a) 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.

(b) 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 revenue or capital nature, are included in this 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.

Question 2

Differentiate Receipt and Payment with 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 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.

Question 3

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

Receipts and Payments Account highlights total income and expenditure.

Answer

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.

Question 4

During the year ended 31st March, 2012, Sachin Cricket Club received subscriptions as follows:

	₹
For year ending 31st March, 2011	*12,000*
For year ending 31st March, 2012	*6,15,000*
For year ending 31st March, 2013	*18,000*
Total	*6,45,000*

There are 500 members and annual subscription is ₹ 1,500 per member.

On 31st March, 2012, a sum of ₹ 15,000 was still in arrears for subscriptions for the year ended 31st March, 2011.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2012. Also show how the items would appear in the Balance Sheet as on 31st March, 2011 and the Balance Sheet as on 31st March, 2012.

Answer

Amount of subscription for the year 2011-12

Income & Expenditure Account (An extract) of Sachin Cricket Club
For the year ended 31st March, 2012

	₹		₹
		By Subscription (500 members × ₹ 1,500 per member)	7,50,000

Balance Sheet of Sachin Cricket Club as on 31st March 2011 (An extract)

Liabilities	₹	Assets	₹
		Subscription Receivable (15,000 + 12,000)	27,000

Balance Sheet of Sachin Cricket Club as on 31st March 2012 (An extract)

Liabilities	₹	Assets	₹	₹
Unearned Subscription	18,000	Outstanding Subscription		
		of 2010-11	15,000	
		of 2011-12 ₹ (7,50,000 – 6,15,000)	1,35,000	1,50,000

Question 5

Mahaveer Sports club gives the following receipts and payments account for the year ended March 31, 2011:

Receipts and Payment Account

Receipts	₹	*Payments*	₹
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 31.3.2010* ₹	*As on 31.3.2011* ₹
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 1.4.2010, income and expenditure account for the year ended on 31.3.2011 and balance sheet as on that date.

Answer

Balance Sheet of Mahaveer Sports Club

as on 1st April, 2010

Liabilities	₹	₹	*Assets*	₹
Capital fund (bal.fig.)		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, 2011

Expenditure	₹	*Income*	₹
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, 2011

Liabilities	₹	₹	*Assets*	₹	₹
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
Salaries	2,000		Accrued interest		600
Newspapers and periodicals	500		Subscriptions receivable		12,000
			Cash and bank balances		
Electricity charges	1,000				12,020
Rent and taxes	600	4,100			
		1,09,620			1,09,620

Working Notes:

(1) Subscriptions for the year ended 31st March, 2011:

	₹
Subscription received during the year	34,800
Add: Subscriptions receivable on 31.3.2011	12,000
	46,800
Less: Subscriptions receivable on 31.3.2010	(5,000)
	41,800

(2) Interest on investments for the year ended 31st March, 2011:

	₹
Interest received during the year	1,200
Add: Accrued interest on 31.3.2011	600
	1,800
Less: Accrued interest on 31.3.2010	(600)
	1,200

(3) Expenses for the year ended 31st March, 2011:

Expenses	Salaries	Electricity charges	Rent and taxes	Newspapers and periodicals
	₹	₹	₹	₹
Paid during the year	15,000	600	5,400	1,080
Add: Outstanding (as on 31.3.2011)	2,000	1,000	600	500
	17,000	1,600	6,000	1,580
Less: Outstanding (as on 31.3.2010)	(1,000)	(800)	(600)	(400)
	16,000	800	5400	1,180

(4) Depreciation on Fixed assets

Assets	*Book value (31.3.2010)*	*Additions during the year*	*Total*	*Rate of depreciation*	*Depreciation*	*W.D.V as on 31.3.2011*
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 6

Summary of receipts and payments of Bombay Medical Aid society for the year ended 31.12.2011 are as follows:

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

Additional information:

	1.1.2011	*31.12.2011*
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 31.12.2011 and balance sheet as on 31.12.2011.

Answer

Receipts and Payments Account of Bombay Medical Aid Society

for the year ended 31st December, 2011

Receipts	₹	*Payments*	₹
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, 2011

Expenditure		₹	*Income*		₹
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			
To Surplus-excess of income over expenditure		10,200			
		86,200			86,200

Balance Sheet of Bombay Medical Aid Society
as on 31st December, 2011

Liabilities	₹	₹	*Assets*	₹	₹
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, 2011:		₹
Subscription received during the year		50,000
Less: Subscription receivable on 1.1.2011	1,500	
Less: Subscription received in advance on 31.12.2011	700	(2,200)
		47,800
Add: Subscription receivable on 31.12.2011	2,200	
Add: Subscription received in advance on 1.1.2011	1,200	3,400
		51,200
Purchase of medicine:		
Payment for medicine supply		30,000
Less: Amounts due for medicine supply on 1.1.2011		(9,000)
		21,000
Add: Amounts due for medicine supply on 31.12.2011		13,000
		34,000

Medicine consumed:		
Stock of medicine on 1.1.2011		10,000
Add: Purchase of medicine during the year		34,000
		44,000
Less: Stock of medicine on 31.12.2011		(15,000)
		29,000
Depreciation on equipment:		
Value of equipment on 1.1.2011		21,000
Add: Purchase of equipment during the year		15,000
		36,000
Less: Value of equipment on 31.12.2011		(30,000)
Depreciation on equipment for the year		6,000

Balance Sheet of Medical Aid Society
as on 1st January, 2011

Liabilities	₹	*Assets*	₹
Capital fund (balancing figure)	1,80,300	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 (₹ 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 7

Smith Library Society showed the following position on 31st March, 2010:

Balance Sheet as on 31st March, 2010

Liabilities	₹	*Assets*	₹
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, 2011 is given below:

	₹		₹
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 fee	*30,000*	*By Books purchased*	*60,000*
To Membership subscription	*2,00,000*	*Bu Outstanding expenses paid*	*7,000*
To 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, 2011 and a balance sheet as at 31s, March, 2011 after making the following adjustments:

Membership subscription included ₹10,000 received in advance.

Provide for outstanding rent ₹4,000 and salaries ₹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 @ 5% p.a. including purchases made on 1.10.2010 for ₹40,000.

Answer

Smith Library Society
Income and Expenditure Account
for the year ended 31st March, 2011

Dr.					Cr.
Expenditure	₹	₹	*Income*		₹
To Electric charges		7,200	Entrance fee (25% of ₹ 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	By Sale proceeds of old papers		1,500
To Salaries	66,000		By Hire of lecture hall		20,000
Add: Outstanding	3,000	69,000	Interest on securities (W.N.2)	8,000	
To Depreciation (W.N.1)					
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, 2011

Liabilities	₹	₹	*Asset*	₹	₹
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	₹	
	Electrical fittings 10% of ₹ 1,50,000	15,000	
	Furniture 10% of ₹ 50,000	5,000	
	Books 10% of ₹ 4,60,000	46,000	
2.	Interest on Securities		
	Interest @ 5% p.a. on ₹ 1,50,000 for full year	7,500	
	Interest @ 5% p.a. on ₹ 40,000 for half year	1,000	8,500
	Less: Received		(8,000)
	Receivable		500

Question 8

A doctor, after retiring from govt. service, started private practice on 1st April, 2010 with ₹ 20,000 of his own and ₹ 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:

	₹		₹
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, 2011 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 ₹ 3,000 of the wages and salaries are in respect of domestic servants.*

The stock of machines in hand on 31st March, 2011 was valued at ₹ 9,500.

Answer

Capital Account

for the year ended 31st March, 2011

	₹		₹
To Drawings:		By Cash/bank	20,000
Motor car expenses	4,000	By Cash bank (pension)	30,000
(one-third of ₹ 12,000)		Net income from practice (derived from income and expenditure a/c)	47,500
Household expenses	18,000		
Daughter's marriage exp.	21,500		
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, 2011

		₹		₹
To Medicines consumed			By Prescription fees	52,500
Purchases	24,500		By Gift from patients	13,500
Less: Stock on 31.3.11	(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(₹ 10,500 - ₹ 3,000)		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, 2011

Liabilities	₹	*Assets*	₹
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 9

The Receipts and Payments account of Trustwell Club prepared on 31st March, 2011 is as follows.

Receipts and Payments Account

Dr.				*Cr.*
Receipts		*Amount*	*Payments*	*Amount*
		₹		₹
To Balance b/d		*450*	*By Expenses (including payment for sports material ₹ 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*	*By Loss on sale of furniture (cost price ₹ 450)*	*180*
To Donation for building		*90,000*	*By Balance c/d*	*90,450*
		96,930		*96,930*

Additional information:

Trustwell club had balances as on 1.4.2010:

Furniture ₹ 1,800; investment at 5% ₹ 27,000;

Sports material ₹ 6,660;

Balance as on 31.3.2011; subscription receivable ₹ 270;

Subscription received in advance ₹ 90;

Stock of sports material ₹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, 2011 and balance sheet as on that date.

Answer

Corrected Receipts and Payments Account of Trustwell Club
for the year ended 31st March, 2011

Receipts		Amount	*Payments*	Amount
	₹	₹		₹
To Balance b/d		450	By Expenses (₹ 6,300- ₹ 2,700)	3,600
To Subscription Annual income	4,590			
Less: receivable as on 31.3.2011	(270)		By Sports material	2,700
Add: Advance received for the year 2011-2012	90		By Balance c/d (cash in hand and at bank)	90,720
Add: Receivable as on 31.3.2010	180			
Less: Advance received as on 31.3.2010	(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, 2011

Expenditure		*Amount*	*Income*	*Amount*
To Sundry expenses		3,600	By Subscription	4,590
To Sports material			By Other fees	1,800
Balance as on 1.4.2010	6,660		By Interest on investment	1,350
Add: Purchases	2,700		(5% on ₹ 27,000)	
Less: Balance as on 31.3.2011	(1,800)	7,560	By 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, 2011

Liabilities		*Amount (₹)*	*Assets*		*Amount (₹)*
Capital fund	36,000		Furniture	1,800	
Less: 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, 2010

Liabilities	*Amount*	*Assets*	*Amount*
	₹		₹
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 10

The Accountant of Diana Club furnishes you the following receipts and payments account for the year ending 30th September, 2011:

Receipts	*Amount*	*Payments*	*Amount*
	₹		₹
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*	*Ground man'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 ₹ 6,000)	*25,200*
		Closing balance:	
		Cash and bank	*6,920*
	66,880		*66,880*

Additional information:

		1.10.2010	30.9.2011
		₹	₹
	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, 2011 and balance sheet as on that date.

Answer

Income and Expenditure Account of Diana Club

for the year ended 30th September, 2011

Expenditure		*Amount*	*Income*	*Amount*
		₹		₹
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		
To Excess of income over expenditure transferred to capital fund		12,060		
		51,880		51,880

Balance Sheet of Diana Club
as on 30th September, 2011

Liabilities		Amount	Assets	Amount
		₹		₹
Capital fund (W.N. 1)	43,600		Club Premises	19,380
Add: 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, 2010

Liabilities	*Amount*	*Assets*		*Amount*
	₹			₹
Amount due for bar purchases	1,180	Club premises	58,000	
		Less: Depreciation	(37,600)	20,400
Capital fund on 1.10.2010	43,600	Car	24,380	

(balancing figure)		*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:

	₹
Bar payments as per receipts and payments account	11,540
Add: Amount due on 30.9.2011	860
	12,400
Less: Amount due on 1.10.2010	(1,180)
	11,220

3. Calculation of subscriptions accrued during the year:

	₹
Subscriptions received as per receipts and payments account	21,420
Add: Outstanding on 30.9.2011	1,960
	23,380
Less: Outstanding on 1.10.2010	(2,400)
	20,980

4. Depreciation on club premises and written down value on 30th September, 2011:

	₹
Written down value on 1.10.2010 (58,000-37,600)	20,400
Less: Depreciation for the year 2010-2011 @ 5% p.a.	(1,020)
	19,380

5. Calculation of profit on sale of car:

		₹
Sale proceeds of old car		6,000
Less: Written down value of old car:		
Cost of car on 1.10.2010	24,380	
Less: Depreciation upto 1.10.2010	(20,580)	(3,800)
		2,200

6. Depreciation on car and written down values on 30th September, 2011:

	₹
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 30.9.2011	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 11

Income and Expenditure Account for the year ended 31st March, 2012 of South Asia Club is given below:

Expenditure	₹	*Income*	₹
To Salaries & wages	*47,500*	*By Subscription*	*75,000*
To Miscellaneous expenses	*5,000*	*By Entrance fee*	*2,500*
To Audit fee	*2,500*	*By Contribution for annual day (After deducting expenses ₹ 7,500)*	*7,500*
To Executive's honorarium	*10,000*		
To Sports day expenses	*5,000*		
To Printing & stationary	*4,500*		
To Interest on bank loan	*1,500*		
To Depreciation on sports equipment	*3,000*		
To Excess of income over expenditure	*6,000*		
	85,000		*85,000*

Following additional information are also available:

		31.3.2011 ₹	*31.3.2012* ₹
(1)	*Subscription received in advance*	*4,500*	*2,700*
(2)	*Subscription outstanding*	*6,000*	*7,500*
(3)	*Salaries outstanding*	*4,000*	*4,500*
(4)	*Sports equipment (After deducting depreciation)*	*26,000*	*27,000*

(5) *Cash in hand on 31-3-12 was ₹ 16,000.*

(6) *The club took a 5% loan of ₹ 30,000 from a bank during 2010-11 for which interest was not paid in the financial year 2011-12.*

Prepare Receipts and Payments account of South Asia Club for the year ending 31st March 2012.

Answer

In the books of South Asia Club

Receipt and Payment Account

for the year ended 31st March, 2012

Receipt	*Amount* ₹	*Payment*	*Amount* ₹
To Balance b/d (Bal.fig.)	12,300	By Salaries & Wages (W.N.2)	47,000
To Subscription (W.N.1)	71,700	By Miscellaneous Expenses	5,000
To Entrance fee	2,500	By Audit fee	2,500
To Contribution for annual day	15,000	By Executive's honorarium	10,000
(₹ 7,500 + ₹ 7,500)		By Sports Day Expenses	5,000
		By Printing & Stationary	4,500
		By Expenses of Annual Day	7,500
		By Sports Equipment (W.N.3)	4,000
		By Balance c/d	16,000
	1,01,500		1,01,500

Working Notes:

(1) Subscription received during the year

		₹
Subscription credited to Income and Expenditure A/c		75,000
Add: Outstanding subscription at the beginning of the year		6,000
Advance subscription received at the end of the year		2,700
		83,700
Less: Outstanding subscription at the end of the year	(7,500)	
Advance subscription received at the beginning of the year	(4,500)	(12,000)
Subscription received during the year		71,700

(2) Salaries & wages paid during the year

	₹
Salaries debited to Income and Expenditure Account	47,500
Add: Outstanding salaries at the beginning of the year	4,000
Less: Outstanding salaries at the end of the year	(4,500)
Salaries paid during the year	47,000

(3) Sports equipment purchased during the year

Sports Equipment A/c

Particulars	*Amount* ₹	*Particulars*	*Amount* ₹
To Balance b/d	26,000	By Depreciation A/c	3,000
To Cash (Bal.fig.)	4,000	By Balance c/d	27,000
	30,000		30,000

Question 12

From the following Income & Expenditure A/c of Premium Sports Club for the year ended 31st March, 2012, you are required to prepare Receipts & Payment A/c for the year ended 31st March, 2012 and Balance Sheet as on that date:

Expenditure	*(₹)*	*Income*	*(₹)*
To Salaries	*1,18,800*	*By Subscriptions*	*4,20,000*
To Rent	*2,16,000*	*By Entrance Fee*	*1,20,000*
To Printing & Stationery *To Postage & Telephone*	*28,000* *41,600*	*By Profit on sale of Sports Material*	*5,500*
To Postage & Telephone			
To Membership Fee	*3,200*	*By Interest on 8%*	
To Electricity Charges	*38,500*	*Government Bonds*	*12,000*
To Garden Upkeep	*19,300*	*By Sale of Old Newspaper*	*11,600*
To Sports Material Utilized	*62,800*		
To Repairs & Maintenance	*18,700*		
To Depreciation	*13,000*		
To Miscellaneous Expenses	*5,700*		
To Surplus carried to Capital Fund	*3,500*		
Total	*5,69,100*	*Total*	*5,69,100*

The following additional information is provided to you:

(a)	*Balances as on 01.04.2011*	*Balances as on 31.03.2012*
Fixed Assets	*2,40,000*	*?*
Bank Balance	*8,300*	*?*
Stock of Sports Material	*43,450*	*35,670*
Outstanding Subscription	*10,200*	*5,700*
Subscription received in advance	*2,400*	*4,900*
8% Government Bonds	*1,50,000*	*1,50,000*
Outstanding Salaries	*16,000*	*14,300*
Outstanding Rent	*21,000*	*15,000*
Advance for Stationery	*1,350*	*1,550*
Outstanding Repairs & Maintenance	*1,200*	*Nil*
Creditors for purchase of Sports Material	*3,400*	*4,200*

(b) *Some of Fixed Assets were purchased on 01.10.2011 and depreciation is to be charged @ 5% p.a.*

(c) *Sports Material worth ₹ 72,000 was purchased on credit during the year.*

(d) *The Club became member of State Table Tennis Association on 01.01.2012 when it paid fee up to 31.12.2012.*

(e) *50% of Entrance Fee is to be capitalized.*

(f) *Interest on 8% Government Bonds was received for two quarters only.*

(g) *A Fixed Deposit of ₹ 80,000 was made on 31st March, 2012.*

Answer

Receipts and Payments Account of Premium Sports Club
for the year ended 31st March, 2012

Receipts	₹	*Payments*	₹
To Cash at bank (opening)	8,300	By Salaries (W.N.6)	1,20,500
To Subscription (W.N.1)	4,27,000	By Rent (W.N.7)	2,22,000
To Entrance fee (W.N.2)	2,40,000	By Printing and stationary (W.N.8)	28,200
To Interest on 8% Government Bond (W.N.3)	6,000	By Postage and telephone	41,600

To Sale of old Newspaper	11,600	By Membership fee (W.N.9)	12,800
To Sale of Sports Material (W.N.4)	22,480	By Electricity charges	38,500
		By Garden upkeep	19,300
		By Payment to creditors for sports material (W.N.5)	71,200
		By Purchase of Fixed assets (W.N.10)	40,000
		By Repairs and Maintenance (W.N.11)	19,900
		By Misc. expenses	5,700
		By Fixed Deposit made	80,000
		By Cash at bank (closing) (bal.fig.)	15,680
	7,15,380		7,15,380

Balance Sheet of Premium Sports Club
as on 31st March, 2012

Liabilities	₹	₹	Assets	₹	₹
Capital fund:			Fixed Assets	2,40,000	
Opening balance (W.N.12)	4,09,300		Add: Additions (W.N.10)	40,000	
Add: Surplus	3,500	4,12,800		2,80,000	
Entrance fee		1,20,000	*Less:* Depreciation	(13,000)	2,67,000
Subscription received in advance		4,900	Fixed Deposit		80,000
Outstanding expenses:			Investments in 8% Government Bonds		1,50,000
Salary	14,300		Stock of sports material		35,670
Rent	15,000	29,300	Subscription receivable		5,700
Creditors for purchase of sports material		4,200	Membership fee paid in advance		9,600
			Prepaid printing and		1,550

			stationary charges		
			Outstanding interest on 8% Govt. Bond		6,000
		____	Cash at bank		15,680
		5,71,200			5,71,200

Working Notes:

1. Subscription received during the year

		₹
Subscription for the year ended 31st March, 2012		4,20,000
Less: Subscription receivable on 31.3.2012	5,700	
Less: Subscription received in advance on 1.4.2011	2,400	(8,100)
		4,11,900
Add: Subscription receivable on 1.4.2011	10,200	
Add: Subscription received in advance on 31.3.2012	4,900	15,100
		4,27,000

2. Entrance Fee received during the year

Entrance fee as per Income and Expenditure Account	₹ 1,20,000
Add: Capitalised entrance fee (50%)	₹ 1,20,000
	₹ 2,40,000

3. Interest on 8% Government Bond

	₹
Interest as per Income and Expenditure Account	12,000
Less: Outstanding interest for 2 quarters [12,000x (6/12)]	(6,000)
	6,000

4. Sales price of Sports Material sold

	₹
Stock of Sports Material on 1.4.2011	43,450
Add: Purchase of Sports Material during the year	72,000
	1,15,450
Less: Stock of Sports Material on 31.3.2012	(35,670)

Cost of Sports Material consumed in the club and for sale	79,780
Less: Sports material consumed in the club	(62,800)
Cost of Sports material sold	16,980

Sales Price of sports material sold = ₹ 16,980 + ₹ 5,500 = ₹ 22,480

5. Payment to creditors for Sports Material

	₹
Purchase of Sports Material	72,000
Less: Closing creditors for purchase of Sports Material on 31.3.2012	(4,200)
	67,800
Add: Opening creditors for purchase of Sports Material on 1.4.2011	3,400
	71,200

6. Salaries paid during the year

	₹
Salary as per Income and Expenditure Account	1,18,800
Less: Outstanding balance as on 31.3.2012	(14,300)
	1,04,500
Add: Outstanding balance as on 1.4.2011	16,000
	1,20,500

7. Rent paid during the year

	₹
Rent as per Income and Expenditure Account	2,16,000
Less: Outstanding balance as on 31.3.2012	(15,000)
	2,01,000
Add: Outstanding balance as on 1.4.2011	21,000
	2,22,000

8. Printing and Stationary paid during the year

	₹
Printing and stationary as per Income and Expenditure Account	28,000
Less: Prepaid balance as on 1.4.2011	(1,350)
	26,650
Add: Prepaid balance as on 31.3.2012	1,550
	28,200

9. Membership fee paid during the year

	₹
Membership fee as per Income and Expenditure Account	3,200
Add: Prepaid balance as on 31.3.2012 [(3,200/3) x 9]	9,600
	12,800

10. Fixed Asset purchased during the year

	₹
Depreciation during the year	13,000
Less: Depreciation on Opening balance of fixed asset	(12,000)
Depreciation on new purchase of fixed asset during the year	1,000
Cost of asset purchased during the year (1,000 x $\frac{12}{6}$ x $\frac{100}{5}$)	40,000

11. Repairs and Maintenance paid during the year

	₹
Repairs and Maintenance as per Income and Expenditure Account	18,700
Add: Outstanding balance as on 1.4.2011	1,200
	19,900

12. Balance Sheet of Premium Sports Club

as on 1st April, 2011

Liabilities	₹	*Assets*	₹
Capital fund (Bal.fig.)	4,09,300	Fixed Assets	2,40,000
Subscription received in advance	2,400	Investments in 8% Government Bonds	1,50,000
Outstanding expenses:		Stock of sports material	43,450
Salary	16,000	Subscription receivable	10,200
Rent	21,000	Prepaid printing and stationary charges	1,350
Repairs and maintenance	1,200	Bank	8,300
Creditors for purchase of sports material	3,400		
	4,53,300		4,53,300

Note: It is assumed that Premium Sports Club has purchased all the sports equipment on credit basis only.

Question 13

The following is the Receipt and Payment Account of Park View Club in respect of the year ended 31st March, 2012.

Receipt		Amount (₹)	Payments	Amount (₹)
To Balance b/d		1,02,500	By Salaries	2,08,000
To Subscriptions			By Stationery	40,000
2009-10	4,500		By Rent	60,000
2010-11	2,11,000		By Telephone expenses	10,000
2011-12	7,500	2,23,000	By Investment	1,25,000
To Profit on sports meet		1,55,000	By Sundry expenses	92,500
To Income from investments		1,00,000	By Balance c/d	45,000
		5,80,500		5,80,500

Additional information:

(1) There are 450 members each paying an annual subscription of ₹ 500. On 1st April, 2011 outstanding subscription was ₹ 5,000.

(2) There was an outstanding telephone bill for ₹ 3,500 on 31st March, 2012.

(3) Outstanding sundry expenses as on 31st March, 2011 totalled ₹ 7,000.

(4) Stock of stationery:

On 31st March, 2011 ₹ 5,000

On 31st March, 2012 ₹ 9,000

(5) On 31st March, 2011 building stood in the books at ₹ 10,00,000 and it was subject to depreciation @ 5% per annum.

(6) Investment on 31st March, 2011 stood at ₹ 20,00,000.

(7) On 31st March, 2012, income accrued on the investments purchased during the year amounted to ₹ 3,750.

Prepare an Income and Expenditure Account for the year ended 31st March, 2012 and the Balance Sheet as at that date.

Answer

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

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries	2,08,000	By Subscriptions (W.N. 2)	2,25,000
To Stationery consumed (W.N.3)	36,000	By Profit on sports meet	1,55,000

To Rent	60,000	By Income on investments 1,00,000	
To Telephone expenses 10,000		*Add*: Income accrued 3,750	1,03,750
Add: Outstanding on 31.3.12 3,500	13,500		
To Sundry expenses 92,500			
Less: Outstanding on 31.3.11 (7,000)	85,500		
To Depreciation of building	50,000		
To Surplus (excess of income over expenditure)	30,750		
	4,83,750		4,83,750

Balance Sheet as at 31st March 2012

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital fund (W.N.1) 31,05,500		Outstanding subscriptions	14,500
Add: Surplus 30,750	31,36,250	Investment	
Subscriptions received in advance	7,500	(20,00,000+1,25,000) 21,25,000	
Outstanding telephone bills	3,500	*Add:* Interest accrued on investments 3,750	21,28,750
		Building 10,00,000	
		Less: Depreciation (50,000)	9,50,000
		Stock of stationery	9,000
		Cash balance	45,000
	31,47,250		31,47,250

Working Notes:

(1) Balance Sheet as at 31st March 2011

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Outstanding sundry expenses	7,000	Building	10,00,000
Capital fund (Bal.fig.)	31,05,500	Investments	20,00,000
		Stock of stationery	5,000
		Cash balance	1,02,500
		Outstanding subscriptions	5,000
	31,12,500		31,12,500

(2) Calculation of subscriptions accrued during the year

Subscription A/c

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Outstanding Subscriptions (as on 1.4.11)	5,000	By Cash A/c	2,23,000
		By Outstanding subscriptions	

		(as on 31.3.12) (Bal.fig.)	14,500
To Income & Expenditure A/c	2,25,000		
To Subscriptions received in advance for 2012-13	7,500		
	2,37,500		2,37,500

(3) Calculation of stationery consumed during the year

	₹
Stock of stationery as on 31 March, 2011	5,000
Add: Purchased during the year 2011-12	40,000
	45,000
Less: Stock of stationery as on 31st March, 2012	(9,000)
Stationery consumed	36,000

Question 14

Bear Bar club was registered in a city and the accountant prepared the following Receipts and Payments Account for the year ended 31st March, 2012 and showed a deficit of ₹ 14,520.

Receipts	*Amount ₹*	*Payments*	*Amount ₹*
Subscriptions	*62,130*	*Premises*	*30,000*
Fair receipts	*7,200*	*Honorarium to Secretary*	*12,000*
Variety show receipt (net)	*12,810*	*Rent*	*2,400*
Interest	*690*	*Rates & taxes*	*3,780*
Bar collection	*22,350*	*Printing & stationary*	*1,410*
Excess cash spent	*1,000*	*Sundry expenses*	*5,350*
Deficit	*14,520*	*Wages*	*2,520*
		Fair expenses	*7,170*
		Bar purchases payments	*17,310*
		Repair	*960*
		New car (less proceeds of old car ₹ 9,000)	*37,800*
	1,20,700		*1,20,700*

The following additional information are:

	01-04-2011	*31-03-2012*
Cash in hand	*450*	*-*
Bank balances as per pass book	*24,690*	*10,440*

Cheque issued but not presented - for sundry expenses	*270*	*90*
Subscriptions due	*3,600*	*2,940*
Premises at cost	*87,000*	*1,17,000*
Accumulated depreciation on premises	*56,400*	*-*
Car at cost	*36,570*	*46,800*
Accumulated depreciation on car	*30,870*	*-*
Bar stock	*2,130*	*2,610*
Creditors for the bar purchases	*1,770*	*1,290*

Cash excess spent represent honorarium to secretary not withdrawn due to cash deficit. His annual honorarium is ₹ 12,000.

Depreciation on premises and car is to be provided at 5% and 20% on written down value method.

You are required to prepare the correct Receipts and Payments Account, Income and Expenditure Account and Balance Sheet as on 31st March, 2012.

Answer

In the books of Bear Bar Club

Receipts & Payments Account for the year ended 31.03.2012

Receipts		*Amount*	*Payments*	*Amount*
		₹		₹
To Balance b/d			By Honorarium to Secretary (12,000 – 1,000)	11,000
Cash in hand	450			
Bank (W.N.6)	24,420	24,870	By Rent	2,400
To Subscriptions		62,130	By Rates & taxes	3,780
To Fair receipts		7,200	By Printing & stationery	1,410
To Variety show receipts		12,810	By Sundry expenses	5,350
To Interest		690	By Wages	2,520
To Bar collection		22,350	By Fair expenses	7,170
To Car sold (old)		9,000	By Bar purchases	17,310
			By Repairs	960
			By Premises	30,000
			By Car (37,800 + 9,000)	46,800
			By Balance c/d	
			Bank (W.N.6)	10,350
		1,39,050		1,39,050

Income & Expenditure Account
for the year ended 31.03.2012

Expenditure	*Amount* ₹	*Income*		*Amount* ₹
To Honorarium to secretary	12,000	By Subscription	62,130	
To Rent	2,400	*Less*: Outstanding as on 1.4.10	(3,600)	
To Rates & taxes	3,780	*Add:* Outstanding as on 1.3.11	2,940	61,470
To Printing & stationery	1,410	By Fair receipts	7,200	
To Sundry expenses	5,350	*Less:* Fair expenses	(7,170)	30
To Wages	2,520	By Variety show		12,810
To Repairs	960	By Interest		690
To Depreciation on:		By Profit from bar (W.N.3)		6,000
Premises (1,530+1,500)	3,030	By Profit on sale of car (W.N.5)		3,300
Car	9,360			
To Surplus (excess of income over expenditure)	43,490			
	84,300			84,300

Balance Sheet as on 31.03.2012

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Capital fund			Premises	87,000	
Opening balance (W.N.1)	65,130		*Add*: Addition in the year	30,000	
Add: Surplus	43,490	1,08,620		1,17,000	
Sundry creditors		1,290	*Less*: Accumulated depreciation (W.N.4)	(59,430)	57,570
Outstanding Honorarium		1,000			
			Car	36,570	
			Add: Addition in the year	46,800	
				83,370	
			Less: Book value of the car sold	(36,570)	
			Less: Depreciation of new car	(9,360)	37,440
			Bar stock		2,610
			Subscription due		2,940
			Cash at bank (W.N.6)		10,350
		1,10,910			1,10,910

Working Notes:

1. Balance Sheet as on 31.03.2011

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Capital fund (bal. fig.)		65,130	Premises	87,000
Sundry creditors for bar		1,770	Car	36,570
Accumulated depreciation on			Bar stock	2,130
Premises	56,400		Subscription due	3,600
Car	30,870	87,270	Cash at bank (W.N.6)	24,420
			Cash in hand	450
		1,54,170		1,54,170

2. Creditors for Bar Purchases

		₹		₹
To Bank		17,310	By Balance b/d	1,770
To Balance c/d		1,290	By Purchases (Bal. fig.)	16,830
		18,600		18,600

3. Trading Account (of Bar)

		₹		₹
To Opening stock		2,130	By Bar collections (Cash)	22,350
To Purchases (W.N.2)		16,830		
To Profit (Bal. fig.)		6,000	By Closing stock	2,610
		24,960		24,960

4. Accumulated Depreciation on Premises

	₹
Opening Balance	56,400
Add: Depreciation on old premises [(87,000 – 56,400) × 5%]	1,530
Depreciation on new premises (30,000 × 5%)	1,500
	59,430

5. Profit on sale of car

	₹	₹
Sales price of a car		9,000
Less: Book value of old car sold	36,570	
Less: Accumulated depreciation	(30,870)	(5,700)
Profit on sale		3,300

6 Bank balance as per cash book

	1.4.2011	31.3.2012
	₹	₹
Bank balance as per Pass book	24,690	10,440
Less: Cheque issued but not presented for payment	(270)	(90)
Bank balance as per cash book	24,420	10,350

EXERCISES

1. *The accountant of City Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2011:*

Receipts:	₹
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 ₹ 9,000)	*37,800*

The following additional information could be obtained:-

	1.4.2010	31.3.2011
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 ₹ 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 31.3.2011.

(Hints: Total of Receipts and Payments Account =₹ 1,39,050; and Surplus = ₹ 43,490)

2. *From the following Receipts and Payments Account of Excellent Recreation Club for the year ended 31.3.2011 and additional information given, prepare an Income and Expenditure Account for the year ended 31.3.2011 and Balance sheet as on 31.3.2011:*

Receipts	*₹*	*Payments*	*₹*
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 31.3.2010 and 31.3.2011 were as follows:-

	31.3.2010 ₹	*31.3.2011* ₹
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 1.6.2009 and the amount of investments was ₹ 20,000. Due date of interest is 31st March of every year. Stock of sports materials on 31.3.2011 were useless and valued at NIL price.

(Hints: Deficit = ₹ 24,880; and Total of Balance Sheet = ₹ 36,200)

3. *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, 2011:*

Balance Sheet as at 31st March, 2011

		₹			₹
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. 2012.

Receipts		₹	Payments		₹
Opening:			Salary charges		2,60,000
Bank balance		15,000	Car expenses		35,000
Cash balance		2,000	Travelling 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 ₹ 30,000

B's client ₹ 50,000

2. *Audit fees collected in advance*

   B's client ₹ 20,000

3. *Outstanding liability for salary on 31st March, 2012 ₹ 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, 2012 and a Balance Sheet as at 31st March, 2012.

(Hints: Surplus of A ₹ 1,200 and of B ₹ 600; Total of Balance Sheet = ₹ 2,38,800)

4. *From the following receipts and payments account of Mumbai Club, prepare income and expenditure account for the year ended 31.12.2010 and its balance sheet as on that date:*

Receipts	*₹*	*Payments*	*₹*
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 2010 ₹ 900 and subscriptions in advance for 2011 ₹ 350.*
2. *Insurance premium outstanding ₹ 40.*
3. *Misc. expenses prepaid ₹ 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 ₹ 30,000 was purchased during the last year and ₹ 22,000 were paid for it.*

(Hints: Surplus ₹ 14,150; and Total of Balance Sheet = ₹ 53,040)

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, 2010:

Liabilities	*₹*	*Assets*	*₹*
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 ₹ 300 to the clerk, Sundry expenses of ₹ 50 and personal expenses ₹ 100.

Analysis of the Bank Pass–Book for the 13 weeks period ending 31st March, 2011 disclosed the following:

	₹
Payments to creditors	*75,000*
Payments of rent upto 31.3.2011	*4,000*
Amounts deposited into the bank	*1,25,000*
(include ₹ 30,000 received from debtors by cheques)	
The following are the balances on 31st March, 2011:	₹
Stock	*40,000*
Debtors	*30,000*
Creditors for goods	*36,500*

On the evening of 31st March, 2011 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, 2011 and a Balance Sheet as on that date.

Answer

Statement showing the amount of cash defalcated by the Cashier

	₹	₹
Cash balance as on 1.1.2011	2,000	
Add : Cash sales	1,16,250	1,18,250
Less : Salary to clerk (₹ 300 × 13)	3,900	
Sundry expenses (₹ 50 × 13)	650	
Drawings of Sri Srinivas (₹ 100 × 13)	1,300	
Deposit into bank (₹ 1,25,000 – ₹ 30,000)	95,000	1,00,850
Cash balance as on 31.3.2011 (defalcated by cashier)		17,400

Trading and Profit and Loss Account of Sri Srinivas

for the 13 week period ended 31st March, 2011

	₹		₹	₹
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 (₹ 4,000 – ₹ 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, 2011

Liabilities		₹	*Assets*	₹
Capital as on 1.1.2011	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

		₹	₹
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*

	₹
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

	₹		₹
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*

	₹
Total sales	1,51,250
Less : Credit Sales	(35,000)
Cash sales	1,16,250

(5) *Bank balance as on 31.3.2011*

	₹		₹
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, ₹ 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, 2011 would amount ₹ 22,700.

Question 2

Mr A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2011 was as follows:

Liabilities	₹	Assets	₹
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		4,86,000

You are furnished with the following information:

(1) *His sales, for the year ended 31st March, 2012 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.*

Total sales during the year 2010-11 were ₹ 5,00,000.

(2) *Payments for all the purchases were made by cheques only.*

(3) *Goods were sold for cash and credit both. Credit customers pay be cheques only.*

(4) *Deprecition on furniture is to be charged 10% p.a.*

(5) *Mr A sent to the bank the collection of the month at the last date of the each month after paying salary of ₹ 2,000 to the clerk, office expenses ₹ 1,200 and personal expenses ₹ 500.*

Analysis of bank pass book for the year ending 31st March 2012 disclosed the following:

	₹
Payment to creditors	*3,00,000*
Payment of rent up to 31st March, 2012	*16,000*
Cash deposited into the bank during the year	*80,000*

The following are the balances on 31st March, 2012:

	₹
Stock	*1,60,000*
Debtors	*1,20,000*
Creditors for goods	*1,46,000*

On the evening of 31st March 2012, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2012 and Balance Sheet as on that date. All the workings should form part of the answer.

Answer

Trading and Profit and Loss Account for the year ending 31st March 2011

Particulars	₹	*Particulars*		₹
To Opening stock	2,80,000	By Sales (W.N. 3)		
To Purchases (W.N. 1)	3,64,000	Credit	4,80,000	
To Gross profit	1,16,000	Cash	1,20,000	6,00,000
		By Closing stock		1,60,000
	7,60,000			7,60,000
To Salary	24,000	By Gross profit		1,16,000
To Rent	16,000			
To Office expenses	14,400			
To Loss of cash (W.N. 6)	23,600			
To Depreciation on furniture	4,000			
To Net Profit	34,000			
	1,16,000			1,16,000

Balance Sheet as on 31st March, 2011

Liabilities		₹	*Assets*		₹
A's Capital	4,04,000		Furniture	40,000	
Add: Net Profit	34,000		*Less*: Depreciation	(4,000)	36,000
Less: Drawings	(6,000)	4,32,000	Stock		1,60,000
Creditors		1,46,000	Debtors		1,20,000
			Cash at bank		2,62,000
		5,78,000			5,78,000

Working Notes:

(1) Calculation of purchases

Creditors Account

Particulars	₹	*Particulars*	₹
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases (Bal.fig.)	3,64,000
	4,46,000		4,46,000

(2) Calculation of total sales

	₹
Sales for the year 2010-11	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 2011-12	6,00,000

(3) Calculation of credit sales

	₹
Total sales	6,00,000
Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

(4) Calculation of cash collected from debtors

Debtors Account

Particulars	₹	*Particulars*	₹
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		5,80,000

(5) Calculation of closing balance of cash at bank

Bank Account

Particulars	₹	*Particulars*	₹
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To Cash A/c	80,000	By Balance c/d	2,62,000
	5,78,000		5,78,000

(6) Calculation of the amount of cash defalcated by the cashier

		₹
Cash balance as on 1st April 2011		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (₹ 2,000x12)	24,000	
Office expenses (₹ 1,200 x 12)	14,400	
Drawings of A (₹ 500x12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 2012 (defalcated by the cashier)		23,600

Question 3

A trader keeps his books of account under single entry system. On 31st March, 2010 his statement of affairs stood as follows :

Liabilities	*₹*	*Assets*	*₹*
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, 2011:

Receipts	*₹*	*Payments*	*₹*
Cash in Hand and at Bank on		*Payments to Trade Creditors*	*75,07,000*
1st April, 2011	*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, 2011	*1,27,300*
	93,10,000		*93,10,000*

Discount allowed to trade debtors and received from trade creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire Insurance premium of ₹ 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, 2011 :

	₹
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, 2011 and Balance Sheet as at that date.

Answer

Trading and Profit and Loss Account

for the year ended 31st March, 2011

		₹			₹
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% ₹ 1,00,000)				
To	Net Profit	3,26,300			
		9,58,000			9,58,000

Balance Sheet as at 31st March, 2011

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
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

	₹		₹
To Balance b/d	60,000	By Cash	3,40,000
To Trade debtors	3,70,000	By Trade creditors (Bills endorsed)	15,000
		By Balance c/d	75,000
	4,30,000		4,30,000

2. Trade Debtors Account

	₹		₹
To Balance b/d	1,48,000	By Cash/Bank	15,10,000
To Credit sales (Bal. fig.)	19,20,000	By Discount allowed	36,000
		By Bills receivable	3,70,000
		By Balance c/d	1,52,000
	20,68,000		20,68,000

3. Memorandum Trading Account

	₹		₹
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

	₹		₹
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

	₹		₹
To Cash/Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases (as calculated in W.N. 3)	84,10,000
To Bills receivable	15,000		
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

	₹
Sundry expenses paid (as per cash book)	6,20,700
Add : Prepaid expenses as on 31–3–2010	2,000
	6,22,700
Less : Outstanding expenses as on 31–3–2010	(45,000)
	5,77,700
Add : Outstanding expenses as on 31–3–2011	5,000
	5,82,700
Less : Prepaid expenses as on 31–3–2011 (Insurance paid till July, 2011)	(2,000)
	5,80,700

Question 4

The following is the Balance Sheet of a concern on 31st March, 2010 :

	₹		₹
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, 2011 as under :

	upto 28.2.2011 ₹	*March 2011* ₹
Purchases	*14,10,000*	*1,10,000*
Sales	*19,20,000*	*2,00,000*

It was decided to invest ₹ 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, 2011 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, 2011

Liabilities		₹	*Assets*		₹
Capital		10,00,000	Fixed Assets	4,00,000	
Profit & Loss Account as on			Additions	1,00,000	
1st April, 2010	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, 2011

	₹		₹
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

1st April, 2010 to 31st March, 2011

		₹		₹
To	Balance b/d	3,50,000	By Sundry Creditors	15,50,000
To	Sundry Debtors	20,70,000	(₹ 1,40,000 + ₹ 14,10,000)	
	(₹ 1,50,000 + ₹ 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, 2010:

Liabilities	*₹*	*Assets*	*₹*
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, 2011, 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, 2011 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 ₹ 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 ₹ 50,000.*

(v) His private records and the Bank Pass-book disclosed the following transactions for the year.

(i)	*Miscellaneous Business expenses*	*₹ 1,57,500 (including ₹ 5,000 paid by cheque and ₹ 7,500 was outstanding as on 31st March, 2011)*
(ii)	*Repairs*	*₹ 3,500 (paid by cash)*
(iii)	*Addition to Machinery*	*₹ 60,000 (paid by cheque)*
(iv)	*Private drawings*	*₹ 30,000 (paid by cash)*
(v)	*Travelling expenses*	*₹ 18,000 (paid by cash)*
(vi)	*Introduction of additional capital by depositing in to the Bank*	*₹ 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, 2011 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, 2011

		₹			₹
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, 2011

Liabilities	₹	₹	*Assets*	₹	₹
Capital	2,52,500		Machinery	1,80,000	
Add: Additional Capital	5,000		*Less*: Depreciation	(27,000)	1,53,000
Net Profit	32,500				
	2,90,000		Stock in Trade		33,000
Less: Loss of Furniture	(20,000)		Sundry Debtors		1,20,000
Drawings	(30,000)	2,40,000			
Bank Overdraft		2,667			
Sundry Creditors		55,833			
Outstanding Expenses		7,500			
		3,06,000			3,06,000

Working Notes:

1.	Sales during 2010-2011	₹
	Debtors as on 31st March, 2010	1,00,000
	(Being equal to 2 months' sales)	
	Total credit sales in 2009- 2010, ₹ 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 2009- 2010	8,00,000
	Increase, 20% as stated in the problem	1,60,000
	Total sales during 2010-2011	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 2010-2011	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	
	(₹ 7,20,000 – ₹ 50,000) /12 = ₹ 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 (₹ 7,20,000 – ₹ 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 2011:

	1.1.2011	*31.12.2011*
	₹	*₹*
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:

	₹
Received from debtors	*3,40,000*
Additional capital brought in	*5,000*
Sale of fixed assets (book value ₹ 2,500)	*1,750*
Paid to creditors	*2,80,000*
Expenses paid	*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 ₹ 2,60,000.

Answer

Trading and Profit and Loss Account

for the year ended 31st December, 2011

		Amount			*Amount*
		₹			*₹*
To	Opening stock	50,000	By	Sales (₹ 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 (₹ 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, 2011

		Amount		*Amount*
Liabilities		₹	*Assets*	₹
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

	₹		₹
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

	₹		₹
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

	₹		₹
To Balance b/d	1,02,500	By Bank	3,40,000
To Sales	3,25,000	By Balance c/d	87,500
(₹ 2,60,000 $\times \frac{125}{100}$)		(balancing figure)	
	4,27,500		4,27,500

4. Creditors account

	₹		₹
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, 2011

Liabilities	₹	*Assets*	₹
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, 2011 and a Balance Sheet as on that date

(a)

	Balance as on 31st March, 2010 ₹	*Balance as on 31st March, 2011* ₹
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:*

	₹		₹
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 ₹ 20,000 and Bills payable accepted ₹ 16,000.

(ii) Some items of old furniture, whose written down value on 31st March, 2010 was ₹ 20,000 was sold on 30th September, 2010 for ₹ 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 is to be provided for 6 months and for additions to Building for whole year.

(iii) Of the Debtors, a sum of ₹ 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, 2010 was ₹ 8,000 and on 31st March, 2011 was ₹ 10,000 on 31st March, 2010. Profit and Loss Account had a credit balance of ₹ 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, 2011

	₹		₹
To Opening stock		By Sales	4,00,000

		₹			₹
	(balancing figure)	80,000	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 (₹ 80,000 – ₹ 8,000 + ₹ 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 ₹ 36,000; Furniture ₹ 7,800 (₹ 6,800+₹ 1,000); Motor Car ₹ 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, 2011

Liabilities	₹	₹	*Assets*	₹	₹
Capital as on 1st April, 2010		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 depreciation	(36,000)	3,24,000
Less: Loss for the year	(25,840)	14,160	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

	₹		₹
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

	₹		₹
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

	₹		₹
To Balance b/d	32,000	By Cash/ Bank A/c (balancing figure)	24,000
To Sundry debtors A/c	20,000	By Balance c/d	28,000
	52,000		52,000

Bills Payable Account

	₹		₹
To Cash/Bank A/c (balancing figure)	28,000	By Balance b/d	28,000
		By Sundry creditors A/c	16,000
To Balance c/d	16,000		
	44,000		44,000

Furniture Account

	₹		₹
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

	₹		₹
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, 2010

Liabilities	₹	*Assets*	₹
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 31.3.2011. Also draft his Balance Sheet as at 31.3.2011:

	1.4.2010	*31.3.2011*
	₹	₹
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, 2011

		₹	₹			₹	₹
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 allowed		30,000	By	Gross profit b/d		2,96,200
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, 2011

Liabilities		₹	*Assets*		₹
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	(55,000)	2,40,800
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, 2010

Liabilities	₹	*Assets*	₹
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

	₹		₹
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 (Bal. fig.)	3,57,400
	16,74,800		16,74,800

(3) Sundry Creditors Account

	₹		₹
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:	₹
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 2011	6,600
	1,98,000
Less: Outstanding of 2010	12,000
	1,86,000

(6) Cash and Bank Account

		Cash	*Bank*			*Cash*	*Bank*
		₹	₹			₹	₹
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 31.3.2011 that his Cash and Bank balances have reduced considerably. He provides you the following information:

(i) Balances	*31.3.2010*	*31.3.2011*
	₹	₹
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	*₹*
Total Deposits	*10,34,000*
Withdrawals:	
Creditors	*8,90,000*
Professional charges	*34,000*
Furniture and Fixtures (acquired on 1.10.10)	*54,000*
Proprietor's drawings	*1,61,900*

(iii) Rent has been increased from January, 2011.

(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 ₹ 9,00,000.

(vii) He incurred ₹ 6,500 per month towards wages.

(viii) He incurred following expenses:

(a) Electricity and telephone charges ₹ 24,000 (paid)

(b) Shop expenses ₹ 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 31.3.2011. 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, 2011

	₹		₹	₹
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	2,700			
(₹ 54,000$\times \frac{10}{100} \times \frac{1}{2}$)				
To Net Profit	1,84,400			———
	3,78,100			3,78,100

	Rs
*Rent Paid	30,000
Less: Outstanding on 1.4.2010	(2,400)
	27,600
Add: Outstanding on 31.3.2011	3,000
	30,600
	₹
**Electricity & Telephone charges paid	24,000
Add: Outstanding on 31.3.2011	6,400
	30,400

Statement of Affairs of Mr. X as on 31-03-2010 & 31-03-2011

Liabilities	*31-3-2010* ₹	*31-3-2011* ₹	*Assets*	*31-3-2010* ₹	*31-3-2011* ₹
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

	₹
Capital on 31.03.2011	1,01,300
Add: Drawings	1,61,900
	2,63,200
Less: Opening Capital on 1.4.2010	(78,800)
Profit for the year	1,84,400

Working Notes

1. Total Debtors Account

	₹		₹
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

	₹		₹
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 (₹)	*Bank (₹)*		*Cash (₹)*	*Bank (₹)*
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, 2011 and the Balance Sheet as on that date:

Assets and Liabilities	*31.3.2010 (₹)*	*31.3.2011 (₹)*
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:

	₹		*₹*
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 to creditors by cheques*	*1,20,000*
(paid into Bank)	*15,000*	*Expenses paid*	*20,000*
Cheques received from Debtors	*1,25,000*		

Answer

Trading and Profit and Loss Account

for the year ended on 31st March, 2011

Particulars		Amount ₹	Particulars		Amount ₹
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, 2011

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
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* ₹		*Particulars*	*Amount* ₹
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* ₹		*Particulars*	*Amount* ₹
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* ₹		*Particulars*	*Amount* ₹
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* ₹		*Particulars*	*Amount* ₹
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 31.3.2010

Liabilities	*Amount* ₹	*Assets*	*Amount* ₹
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 31.3.2010 and 31.3.2011

	31.3.2010 ₹	*31.3.2011* ₹
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 31.3.2011 were the following:

	₹
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 1.4.2010 an equipment of book value ₹ 20,000 was sold for ₹ 15,000. On 1.10.2010, some equipments were purchased.

Cash sales amounted to 10% of sales.

Credit sales amounted to ₹ 4,50,000.

Credit purchases were 80% of total purchases.

The firm sells goods at cost plus 25%.

Discount allowed ₹ 5,500 during the year.

Discount earned ₹ 4,800 during the year.

Outstanding expenses ₹ 3,000 as on 31.3.2011.

Capital of 'A' as on 31.3.2010 was ₹ 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 31.3.2011 and

(ii) The Balance Sheet as on that date.

Answer

Trading and Profit and Loss A/c for the year ended 31.3.2011

			₹				₹
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 31-3-2011

Liabilities		₹	*Assets*		₹
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 = ₹ 4,50,000

   Total sales = $\frac{4,50,000}{90} \times 100 = 5,00,000$

   Cash sales = 10% of 5,00,000 = ₹ 50,000

2. **Calculation of total purchases and credit purchases**

   Cash purchases = ₹ 65,000

   Credit purchases = 80% of total purchases

   Cash purchases = 20% of total purchases

Total purchases = $\frac{65,000}{20} \times 100 = ₹\ 3,25,000$

Credit purchases = 3,25,000 – 65,000 = ₹ 2,60,000

3. Calculation of opening stock

Stock Account

	₹		₹
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

	₹		₹
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 ₹ 2,20,000 (i.e. ₹ 2,40,000 – ₹ 20,000)	=	22,000
@ 10% p.a. on ₹ 52,000 for 6 months (i.e. during the year)	=	2,600
		24,600

5. Calculation of closing balance of creditors

Creditors Account

	₹		₹
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

	₹		₹
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 31.3.2010

Balance Sheet as on 31.3.2010

Liabilities	₹	*Assets*	₹
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

	₹
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 31.3.2010 = $\frac{5,30,500}{2} = 2,65,250 + 15,000 = ₹\ 2,80,250$

B's Capital as on 31.3.2010 = $\frac{5,30,500}{2} = ₹\ 2,65,250$

8. Cash Account

		₹			₹
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 are given below:

Trading and Profit & Loss Account for the year ended 31st March, 2011

		₹'000			*₹'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, 2011

Liabilities	*Amount*	*Assets*	*Amount*
	(₹ '000)		*(₹ '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, 2011 and

(ii) The Balance Sheet as on that date.

Answer

Trading and Profit & Loss A/c

for the year ended 31st March, 2011

		(₹ in '000s)			(₹ 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, 2011

Liabilities	(₹ in '000s)	*Assets*	(₹ 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

   = ₹ 1,000.00 thousand × $\frac{2}{3}$ = ₹ 666.67 thousand

2. Transfer to General Reserve is equal to proposed dividend i.e., 1:1.

   Proposed dividend is ₹ 666.67 thousand,
   therefore general reserve is also ₹ 666.67 thousand.

3. Profit carried forward to Balance Sheet = 10% of Proposed Dividend

   i.e., ₹ 666.67 thousand × 10% = ₹ 66.66 thousand

4. 10% Loan implies interest on loan being 10%

   i.e. ₹ 60.00 thousand × $^{100}/_{10}$ = ₹ 600.00 thousand

5. Loan is half of current liabilities which means current liabilities are twice of loan
   i.e., ₹ 600.00 thousand × 2 = ₹ 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 ₹ 1,200.00 thousand = ₹ 2,400.00 thousand

7. Current Net Profit

	(₹ 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., = ₹ 1,260.00 thousand

9. Gross profit being balancing figure of Profit and Loss A/c = ₹ 3,220.00 thousand

10. Gross profit = 60% of sales i.e.

    ₹ 3,220.00 thousand = 60% of sales

    Or, sales = ₹ 3,220 thousand $\times \frac{100}{60}$ = ₹ 5,366.67 thousand

11. Closing stock is 25% of sales i.e., 25% of ₹ 5,366.67 thousand = ₹ 1,341.67 thousand

12. Purchases being balancing figure of Trading A/c = ₹ 2,613.33 thousand

13. Debtors = Current Assets – Closing Stock – Cash at Bank

    = ₹ 2,400.00 thousand – ₹ 1,341.67 thousand – ₹ 125.00 thousand
    = ₹ 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 ₹ 666.67 thousand = ₹ 1,333.34 thousand

15. Other fixed assets = Total of balance sheet (liabilities side)- Current assets – Plant and machinery
    i.e., ₹ 4,866.67 thousand - ₹ 2,400.00 thousand – ₹ 1,400.00 thousand
    = ₹ 1,066.67 thousand

Question 13

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 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 1.4.2010*	*As on 31.3.2011*
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 ₹ 7,00,000*
(b) *Payment for business expenses ₹ 1,20,000*
(c) *Receipts from debtors ₹ 7,50,000*
(d) *Loan from Laxman ₹ 1,00,000 taken on 1.10.2010 at 10% per annum*
(e) *Cash deposited in the bank ₹ 1,00,000*

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 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 31.3.2011.

(ii) Balance Sheet as at 31st March, 2011.

Answer

Trading and Profit and Loss Account
for the year ended 31st March, 2011

	₹			₹
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, 2011

Liabilities	₹	₹	*Assets*	₹
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

	₹		₹
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

		₹			₹
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*
		₹	₹			₹	₹
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, 2010

Balance Sheet as at 01.04.2010

Liabilities	₹	*Assets*	₹
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

Question 14

The closing capital of Mr. B as on 31.3.2010 was ₹ 4,00,000. On 1.4.2009 his capital was ₹ 3,50,000. His net profit for the year ended 31.3.2010 was ₹ 1,00,000. He introduced ₹ 30,000 as additional capital in February, 2010. Find out the amount drawn by Mr. B for his domestic expenses.

Answer

Computation of drawings during the year

	₹
Opening capital as on 01.04.2009	3,50,000
Add: Net profit	1,00,000
	4,50,000
Add: Additional capital introduced in February, 2010	30,000
	4,80,000
Less: Closing capital as on 31.3.2010	(4,00,000)
Drawings by Mr. 'B' during the year 2009 – 2010	80,000

Question 15

Lokesh, who keeps books by single entry, had submitted his Income-tax returns to Income-tax authorities showing his incomes to be as follows:

		₹
Year ending March 31, 2005	=	*33,075*
Year ending March 31, 2006	=	*33,300*
Year ending March 31, 2007	=	*35,415*
Year ending March 31, 2008	=	*61,875*
Year ending March 31, 2009	=	*54,630*
Year ending March 31, 2010	=	*41,670*

The Income-tax officer is not satisfied as to the accuracy of the incomes returned. You are appointed as a consultant to assist in establishing correctness of the incomes returned and for that purpose you are given the following information:

(a) *Business liabilities and assets at March 31, 2004 were:*

Creditors: ₹ 32,940, Furniture & Fittings: ₹ 22,500, Stock : ₹ 24,390 (at selling price which is 25% above cost), Debtors: ₹ 11,025, Cash at Bank and in hand ₹ 15,615.

(b) *Lokesh owned his brother ₹ 18,000 on March 31, 2004. On February 15, 2007 he repaid this amount and on April 1, 2009, he lent his brother ₹ 13,500.*

(c) *Lokesh owns a house which he purchased in 1999 for ₹ 90,000 and a car which he purchased in October, 2005 for ₹ 33,750. In January, 2009, he bought debentures in X Ltd. having face value of ₹ 40,000 for ₹ 33,750.*

(d) *In May, 2009 a sum of ₹ 13,500 was stolen from his house.*

(e) *Lokesh estimates that his living expenses have been 2004-05 – ₹ 13,500; 2005-06 – ₹ 18,000; 2006-07 – ₹ 27,000; 2007-08, 2008-09 and 2009-10 – ₹ 31,500 p.a. exclusive of the amount stolen.*

(f) *On March 31, 2010 business liabilities and assets were: Creditors ₹ 37,800, Furniture, Fixtures and Fittings ₹ 40,500, Stock ₹ 54,330 (at selling price with a gross profit of 25%), Debtors ₹ 26,640, Cash-in-Hand and at Bank ₹ 29,025.*

From the information submitted, prepare statements showing whether or not the incomes declared by Lokesh are correct.

Answer

Statement of Affairs of 'Lokesh'
as on March 31, 2004

Liabilities	₹	*Assets*	₹
Creditors	32,940	Furniture, Fixtures & Fittings	22,500
Loan from brother	18,000	Stock (24,390 x 100/125)	19,512
Capital (Bal. fig.)	1,07,712	Debtors	11,025
		Cash-in-Hand and at Bank	15,615
		Building (House)	90,000
	1,58,652		1,58,652

Statement of Affairs of 'Lokesh' as on March 31, 2010

Liabilities	₹	*Assets*	₹
Creditors	37,800	Furniture, Fixtures & Fittings	40,500
Capital (Bal. fig.)	2,70,112	Stock (54,330 x 75%)	40,747
		Debtors	26,640
		Cash-in-Hand and at Bank	29,025
		Loan to Brother	13,500
		Building (House)	90,000
		Car	33,750
		Debentures in 'X Ltd.'	33,750
	3,07,912		3,07,912

Statement of Profit:

Particulars			₹
Capital as on March 31, 2010			2,70,112
Add: Drawings			
2004-05	13,500		
2005-06	18,000		
2006-07	27,000		
2007-08	31,500		
2008-09	31,500		
2009-10	31,500		1,53,000
			4,23,112
Add: Amount stolen in May, 2009			13,500
			4,36,612
Less: Opening Capital as on March 31, 2004			(1,07,712)
			3,28,900
Less: Profit as shown by I.T.O.			
For the year ending March 31, 2005		33,075	
For the year ending March 31, 2006		33,300	
For the year ending March 31, 2007		35,415	
For the year ending march 31, 2008		61,875	
For the year ending March 31, 2009		54,630	
For the year ending March 31, 2010		41,670	(2,59,965)
Understatement of Income			68,935

Note: *In the absence of the information regarding depreciation in the question, no depreciation has been provided on Building (house) and Car. The candidates may assume any appropriate rate of depreciation and can provide depreciation.*

Question 16

M/s Ice Limited gives you the following information to find out Total Sales and Total Purchases:

Particulars	*Amount (₹)*
Debtors as on 01.04.2011	*70,000*
Creditors as on 01.04.2011	*81,000*
Bills Receivables received during the year	*47,000*
Bills Payable issued during the year	*53,000*

Cash received from customers	*1,56,000*
Cash paid to suppliers	*1,72,000*
Bad Debts recovered	*16,000*
Bills Receivables endorsed to creditors	*27,000*
Bills Receivables dishonoured by customers	*5,000*
Discount allowed by suppliers	*7,000*
Discount allowed to customers	*9,000*
Endorsed Bills Receivables dishonoured	*3,000*
Sales Return	*11,000*
Bills Receivable discounted	*8,000*
Discounted Bills Receivable dishonoured	*2,000*
Cash Sales	*1,68,500*
Cash Purchases	*1,97,800*
Debtors as on 31.03.2012	*82,000*
Creditors as on 31.03.2012	*95,000*

Answer

1. Total Sales = Cash sales + Credit sales

= ₹ 1,68,500 + ₹ 2,25,000 (W.N.1)

= ₹ 3,93,500

2. Total Purchases = Cash Purchases + Credit Purchases

= ₹ 1,97,800 + ₹ 2,70,000 (W.N.2)

= ₹ 4,67,800

Working Notes:

1. Debtors Account

	Particulars	₹		Particulars	₹
To	Balance b/d	70,000	By	Bills receivable	47,000
To	Bills receivable dishonoured	5,000	By	Cash	1,56,000
To	Bills receivable dishonoured (endorsed)	3,000	By	Discount allowed	9,000
To	Bills receivable dishonoured (discounted)	2,000	By	Sales return	11,000
To	Credit sales (bal.fig.)	2,25,000	By	Balance c/d	82,000
		3,05,000			3,05,000

2. Creditors Account

	Particulars	₹		Particulars	₹
To	Bills payable	53,000	By	Balance b/d	81,000
To	Cash	1,72,000	By	Bills receivable dishonoured (endorsed)	3,000
To	Discount received	7,000	By	Credit purchases (bal.fig.)	2,70,000
To	Bills receivable endorsed	27,000			
To	Balance c/d	95,000			
		3,54,000			3,54,000

Note: It is assumed that sales return is out of credit sales only.

EXERCISES

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 31.3.2011.*

From the files, you pick up his Balance Sheet as at 31.3.2010 reading as below:

Balance Sheet as at 31.3.2010

	₹	₹
Liabilities		
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*
Electricity 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 31.3.2011 is as below :

Cash and Bank Summary

	₹
Receipts	
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 1.10.2010 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 ₹ 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 ₹ 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 ₹ 1,750.*

(ii) *Rent until 30.9.2010 was ₹ 6,000 per month and was increased thereafter by ₹ 1,000 per month. Additional advance rent of ₹ 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 ₹ 10,000 on 31.3.2011 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 31.3.2011

(Hints: Gross Profit ₹ 22.50.000; net Profit ₹ 21,26,300; Total of Balance Sheet ₹ 30,98,300)

2. *The following is the Balance Sheet of Sanjay, a small trader as on 31.3.2010 :*

(Figures in ₹ '000)

Liabilities	*₹*	*Assets*	*₹*
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 31.3.2011. However, the following information was available :

(a) *Debtors and creditors on 31.3.2011 showed an increase of 20% as compared to 31.3.2011.*

(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 31.3.2011 was exactly 2.*

(g) *Total expenses excluding depreciation for the year amounted to ₹ 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 ₹ 50,000 by cash.*

(2) *Receipts from debtors included ₹ 5,90,000 by way of cheques.*

(3) *Cash deposited into the bank ₹ 1,20,000.*

(4) *Personal drawings from bank ₹ 50,000.*

(5) *Fixed assets purchased and paid by cheques ₹ 2,25,000.*

You are required to prepare :

(a) *The Trading and Profit & Loss Account of Sanjay for the year ended 31.3.2011 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

(Hints: Gross 540; Net Profit 243; and Total Balance Sheet 453 – ₹ in '000s))

11

Hire Purchase and Installment Sale Transactions

BASIC CONCEPTS

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 and Debtors Method

Question 1

Omega Corporation sells computers on hire purchase basis at cost plus 25%. Terms of sales are ₹ 10,000 as down payment and 8 monthly instalments of ₹ 5,000 for each computer. From the following particulars prepare Hire Purchase Trading Account for the year 2011.

As on 1st January, 2011 last instalment on 30 computers was outstanding as these were not due up to the end of the previous year.

During 2011 the firm sold 240 computers. As on 31st December, 2011 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 31.12.2011 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., 2011

Dr.	₹	₹		*Cr* ₹
To Hire Purchase Stock (30×₹ 5,000)		1,50,000	By Hire Purchase Sales (W.N. 2)	91,40,000
To Goods Sold on Hire Purchase (240×₹ 50,000)		1,20,00,000	By Stock Reserve (₹ 1,50,000×20%)	30,000
To Bad Debts		12,000	By Goods sold on Hire Purchase (₹ 1,20,00,000× 20%)	24,00,000
To Loss on Re-possession	16,000		By Hire Purchase Stock [(8×50)+(6×30)+(1×20)] × ₹ 5,000	30,00,000
Less : Instalments not yet due	(8,000)	8,000		
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., 2011

	₹		₹
To Hire Purchase Stock (30×₹ 5,000)	1,50,000	By Cash (W.N.1)	90,30,000
To Goods Sold on Hire Purchase (240×₹ 50,000)	1,20,00,000	By Stock Reserve (₹ 1,50,000×20%)	30,000
To Stock Reserve (₹ 30,00,000 × 20%)	6,00,000	By Goods Sold on Hire Purchase (₹ 1,20,00,000×20%)	24,00,000
To Profit & Loss A/c (Transfer of Profit)	18,00,000	By Goods Repossessed (2×₹ 40,000×50%)	40,000
		By Instalments Due	

		[(2×2)+(1×6)]×₹ 5,000	50,000
		By Hire Purchase Stock	
		[(8×50)+(6×30+(1×20)]×₹ 5,000	30,00,000
	1,45,50,000		1,45,50,000

Working Notes :

				₹
(1)	*Cash collected:*			
	Cash down payment (240 × ₹ 10,000)			24,00,000
	Add : Instalments collected :			
	Last instalments on 30 computers outstanding on 1.4.2011			1,50,000
	Instalments due and collected on 240 computers sold during the year :			
	Total instalments on 240 computers (8 × 240 × ₹ 5,000)		96,00,000	
	Less : Instalments due but not collected [(2 × 2) + (1 × 6) + (6 × 2)] × ₹ 5,000	1,10,000		
	Instalments not due on 31.12.2011 [(8 × 50) + (6 × 30) + (1 × 20) + (1 × 2)] × ₹ 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)] × ₹ 5,000			1,10,000
				91,40,000
(3)	*Loss on repossessed computers:*			
	Cost of instalments due but not collected (6 × 2 × ₹ 4,000)			48,000
	Cost of Instalments not yet due (1 × 2 × ₹ 4,000)			8,000
				56,000
	Less : Estimated value of repossessed computers (2 × ₹ 40,000 × 50%)			(40,000)
	Loss			16,000
(4)	*Bad debts (in respect of repossessed computers):*			
	Instalments due but not collected (6 × 2 × ₹ 5,000)			60,000
	Cost of installments not due on 31.12.2011 (1 × 2 × ₹ 5,000 × 80%)			8,000
				68,000

Less : Cost of instalments due but not collected		
(6 × 2 × ₹ 4,000)	48,000	
Cost of instalments not yet due		
(1 × 2 × ₹ 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 ₹ 10,500. The company has fixed cash price of the machine at ₹ 12,300 and hire-purchase price, at ₹ 13,500 payable as to ₹ 1,500 down and the balance in 24 equal monthly instalments of ₹ 500 each.

On 1st April, 2010 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 to fall due in respect of machines lying with the hire purchase customers.

During the year ended 31st March, 2011 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 ₹ 1,000 on it, the company resold it for ₹ 11,500.

On 31st March, 2011 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 ₹ 1,60,000 for the year.

You are required to prepare for the Accounting Year ended 31st March, 2011:

(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, 2011

Dr.	₹		*Cr* ₹
To Hire Purchase Stock (₹ 500 × 675)	3,37,500	By Cash (W.N. 1)	10,02,000
To Instalments due ₹ (500 × 3)	1,500	By Stock Reserve $\left(₹\ 3,37,500 \times \frac{3,000}{13,500}\right)$	75,000

To Goods sold on Hire Purchase		By Goods Repossessed	
(₹ 13,500×80)	10,80,000	(₹ 13,500–₹ 1,500–₹ 2,500)	9,500
To Stock Reserve		By Goods sold on Hire Purchase	2,40,000
$\left(₹\ 4{,}05{,}000 \times \frac{3{,}000}{13{,}500}\right)$	90,000	$\left(₹\ 10{,}80{,}000 \times \frac{3{,}000}{13{,}500}\right)$	
To Profit and Loss A/c		By Hire Purchase Stock	
(Transfer of profit)	2,25,000	(₹ 500 × 810)	4,05,000
		By Instalments due	
		(₹ 500 × 5)	2,500
	17,34,000		17,34,000

Trading and Profit and Loss Account
for the year ended on 31st March, 2011

	₹		₹
To Opening Stock (₹ 10,500×26)	2,73,000	By Sales (₹ 12,300×130)	15,99,000
To Purchases		By Goods sold on Hire Purchase	
₹ 10,500×(130+80+21–26)	21,52,500	(₹ 10,80,000–₹ 2,40,000)	8,40,000
To Gross Profit	2,34,000	By Closing Stock (₹ 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 ₹ 3,00,000)	1,05,000	By Goods Repossessed	
To Net Profit for the year	1,95,000	(₹ 11,500–₹ 1,000–₹ 9,500)	1,000
	4,60,000		4,60,000

Working Notes :

		₹
(1) Cash collected during the year		
Hire purchase stock on 1.4.2010		3,37,500
Instalments due on 1.4.2010		1,500
Hire purchase price of goods sold during the year		10,80,000
		14,19,000
Less : Repossessed goods	9,500	
Hire purchase stock on 31.3.2011	4,05,000	
Instalments due on 31.3.2011	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 × ₹ 10,500 = ₹ 21,52,500

Question 3

A acquired on 1st January, 2011 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of ₹ 6,000 each, the first instalment being due on 1st July, 2011. 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)*
	₹	₹	₹
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 ₹ 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 ₹ 2,500 for each Computer. From the following particulars, prepare Hire-purchase Trading A/c for the year 2010-2011:

On 1st April, 2010, last instalment on 20 Computers were outstanding as these were not due upto the end of the previous year. During 2010-2011, the firm sold 120 Computers. On 31st March, 2011 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 31.03.2011, 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, 2011

		Amount		*Amount*
		₹		₹
To Hire Purchase Stock (20 × ₹ 2,500)		50,000	By Hire Purchase Sales (W.N. 2)	25,95,000
To Goods sold on Hire Purchase (120×₹ 30,000)		36,00,000	By Stock Reserve (₹ 50,000 × 20%)	10,000

To Bad Debts (W.N. 4)		8,000	By Goods sold on Hire Purchase (₹ 36,00,000 × 20%)	7,20,000
To Loss on Repossession	12,000		By Hire Purchase Stock [(6×50)+(4×20)+ (1×40)] × ₹ 2,500	10,50,000
Less: Instalments not yet due	(4,000)	8,000		
To Stock Reserve (₹ 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, 2011

	Amount		Amount
	₹		₹
To Hire Purchase Stock (20 × ₹ 2,500)	50,000	By Cash Account (W.N. 1)	24,92,500
To Goods sold on Hire Purchase (120×₹ 30,000)	36,00,000	By Stock Reserve (₹ 50,000 × 20%)	10,000
To Stock Reserve (₹ 10,50,000 × 20%)	2,10,000	By Goods sold on Hire Purchase (₹ 36,00,000 × 20%)	7,20,000
To Profit and Loss Account (Transfer of Profit)	4,99,000	By Goods Repossessed (2 × ₹ 24,000 × 50%)	24,000
		By Instalments due [(4 × 4) + (1 × 9)] × ₹ 2,500	62,500
		By Hire Purchase Stock [(6 × 50 + 4 × 20 + 1 × 40) × ₹ 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 31.3.2011:

		₹
1.4.2010	*Instalments due but not collected*	*10,000*
1.4.2010	*Stock at shop (at cost)*	*36,000*

1.4.2010	*Instalment not yet due*	*18,000*
31.3.2011	*Stock at shop*	*40,000*
31.3.2011	*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 ₹ 500 on getting goods overhauled and then sold for ₹ 2,800.

Answer

In the Books of ABC Ltd.
Hire Purchase Trading Account
for the year ended 31st March, 2011

			₹				₹
1.1.2010	To	Hire purchase stock	18,000	1.1.2010	By	Stock reserve	
1.1.2010	To	Goods sold on hire				(1/3 of ₹ 18,000)	6,000
to		Purchase	1,74,000	1.1.2010	By	Hire purchase sales	1,32,000
31.3.2011	To	Loss on repossession of goods (W.N. 5)	1,600	to 31.3.2011	By	Goods sold on hire purchase (1/3 of ₹ 1,74,000)	58,000
31.3.2011	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, 2011

			₹				₹
1.1.2010	To	Hire purchase stock	18,000	1.1.2010	By	Stock reserve (1/3 of ₹ 18,000)	6,000
1.1.2010	To	Hire purchase debtors	10,000				
to 31.3.2011	To	Goods sold on hire purchase	1,74,000	1.1.2010	By	Cash (₹ 1,21,000 + ₹ 2,800)	1,23,800
	To	Cash (Overhauling charges)	500	to 31.3.2011	By	Goods sold on hire purchase	58,000

31.3.2011	To	Stock reserve	20,000			(1/3 of ₹ 1,74,000)	
	To	Profit and loss account		31.3.2011	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

		₹			₹
To	Balance b/d	10,000	By	Cash	1,21,000
To	Hire purchase sales	1,32,000	By	Repossessed stock (Bal.fig.)	3,000
			By	Balance c/d	18,000
		1,42,000			1,42,000

2. Memorandum shop stock account

		₹			₹
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 hire purchase stock (Instalment not yet due) account

		₹			₹
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 × 50%)]	1,74,000	By	Balance c/d (Balancing figure)	60,000
		1,92,000			1,92,000

4. Goods Repossessed account

		₹			₹
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.

	₹
Original cost of goods repossessed $\left(₹\ 3{,}000 \times \frac{100}{150}\right)$	2,000
Instalments due but not received	3,000
Valuation of repossessed goods (70% of ₹ 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 ₹5,000 down payment and eight monthly instalments of ₹2,500 for each computer.

The following transactions took place during the financial year 2010-11:

Number of instalments not yet due as on 1.4.2010 = 25

Number of instalments due but not collected as on 1.4.2010 = 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 31.3.2011:

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 31.3.2011.

Answer

Hire Purchase Trading Account for the year ended 31.3.2011

		₹			₹
To	Hire purchase stock (25 x ₹ 2,500)	62,500	By	Stock reserve ($62{,}500 \times \frac{25}{125}$)	12,500
To	Hire purchase debtors (5 x ₹ 2,500)	12,500	By	Goods sold on hire purchase A/c –	12,00,000

				Loading ($60,00,000 \times \frac{25}{125}$)	
To	Goods sold on hire purchase (240 computers x ₹ 25,000*)	60,00,000	By	Cash A/c (W.N.1)	45,15,000
To	Stock reserve ($₹ 15,00,000 \times \frac{25}{125}$)	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 ₹ 2,500)	25,000
			By	Hire purchase stock [(8x50)+(6x30)+(2x10)] x ₹ 2,500	15,00,000
		72,72,500			72,72,500

Working Notes:

1. **Calculation of cash collected during the year**

		₹
Down payment received on 240 computers sold during the year (240 x ₹ 5,000)		12,00,000
Number of Instalments due and collected:	No. of instalments	
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 ₹ 2,500)		33,15,000
Instalments collected during the year		45,15,000

* Hire purchase price of a computer = ₹ 5,000 + (₹ 2,500 x 8) = ₹ 25,000.

2. Value of repossessed computers

Hire purchase price of two repossessed computers	= [₹ 5,000 + (8 x ₹ 2,500)] x 2 computers
	= ₹ 50,000
Cost price of the repossessed computers	= $\frac{₹\ 50,000}{125} \times 100$ = ₹ 40,000
Value of repossessed computers	= ₹ 40,000 x 50% = ₹ 20,000

Alternatively Hire Purchase Trading Account can also be prepared in the following manner:

Hire Purchase Trading Account for the year ended 31.3.2011

	₹		₹
To Hire purchase stock (25 x ₹ 2,500)	62,500	By Stock reserve ($62,500 \times \frac{25}{125}$)	12,500
To Hire purchase debtors (5 x ₹ 2,500)	12,500	By Hire purchase sales A/c (W.N.1)	45,65,000
To Goods sold on hire purchase (240 computers x ₹ 25,000)	60,00,000	By Goods sold on hire purchase A/c – 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 ₹ 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 ₹

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 ₹ 2,500 x 5) + (5 x ₹ 2,500 x 2)	50,000
	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 ₹ 2,500 x 2)		25,000
Add: Cost of installments not due $\frac{(2 \times ₹\ 2{,}500 \times 2)}{125} \times 100$		8,000
		33,000
Less : Cost of instalments due but not collected $\frac{(5 \times ₹\ 2{,}500 \times 2)}{125} \times 100$	20,000	
Cost of instalments not yet due $\frac{(2 \times ₹\ 2{,}500 \times 2)}{125} \times 100$	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:

	₹
Hire Purchase stock on 1.4.2010	*2,40,000*
Installments due on 1.4.2010	*45,000*

Goods sold on hire purchase from 1.4.2010 to 31.3.2011	*9,60,000*
Cash collected from HP debtors during 1.4.2010 to 31.3.2011	*3,00,000*
Stock with customers at hire-purchase price on 31.3.2011	*6,40,000*

You are required to prepare Hire Purchase Trading Account for the year ended 31st March, 2011.

Answer

Hire Purchase Trading Account

For the year ended 31.3.2011

		₹			₹
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

	₹		₹
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

	₹		₹
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 (Bal.Fig.)	3,05,000
	6,05,000		6,05,000

Question 8

From the following information of M/s Chennai Traders, you are required to prepare Hire Purchase Trading Account to ascertain the profit made during the financial year 2009-10.

Chennai Traders sell goods on hire purchase basis at cost plus 25%. The following details are available:

		₹
(1)	*Instalment not due on 31st March, 2009*	*4,50,000*
(2)	*Instalment due and collected during the financial year 2009-10*	*12,00,000*
(3)	*Instalment due but not collected during the financial year 2009-10 which includes ₹ 15,000 for which goods were repossessed*	*75,000*
(4)	*Instalment not due on 31st March, 2010 including ₹ 30,000 for which goods were repossessed*	*5,55,000*
(5)	*Instalment collected on repossessed stock*	*22,500*

(6) M/s Chennai Traders valued repossessed stock at 60% of original cost.

Answer

In the books of M/s Chennai Traders

Hire Purchase Trading A/c (at invoice value)

Particulars	₹	Particulars	₹
To Goods with customer (31st March, 2009)	4,50,000	By Stock reserve (Opening)	90,000
To Goods sold on Hire Purchase (W.N.3)	13,50,000	By Hire purchase sales (W.N.1)	12,75,000
To Bad debts (W.N.4)	3,000	By Goods sold on hire purchase (loading) (W.N.3)	2,70,000
To Loss on repossession (W.N.2)	3,600	By Goods with customer (31st March, 2010)	5,25,000
To Stock reserve (Closing)	1,05,000		
To Profit & Loss A/c (Transfer of H.P. profit)	2,48,400		
	21,60,000		21,60,000

Working Notes:

1. Hire purchase sales

	₹
Installments due and collected	12,00,000
Add: Installments due but not collected	75,000
	12,75,000

2. Loss on repossessed goods

	₹
Hire purchase price of repossessed goods	
Installments collected	22,500
Installments due	15,000
Installments not due	30,000
	67,500
Cost of repossessed goods (₹67,500 x 100/125)	54,000
Valuation of repossessed goods (₹54,000 x 60/100)	32,400
Less: Cost of installments due + Installments not yet due	
(₹ 15,000 + ₹ 30,000) x 100/125	(36,000)
Loss on repossession	3,600

3. Goods taken from shop stock :

	₹
Hire purchase sales (12,00,000+75,000)	12,75,000
Add: Stock with customer as on 31st March 2010	
(5,55,000 – 30,000)	5,25,000
Less: Stock with Customer as on 31st March, 2009	(4,50,000)
	13,50,000

Loading on goods taken from shop stock= ₹ 13,50,000 x (25/125)= ₹ 2,70,000

4. Bad Debt

	₹
Installment due but not collected	15,000
Add: Installment not yet due at cost	24,000
	39,000
Less: Cost of installments due and not yet due	(36,000)
	3,000

In other words ₹15,000 x (25/125) = ₹ 3,000

Note: It is presumed that all the figures given in the question is at invoice price.

Question 9

On 1st April, 2012, Fastrack Motors Co. sells a truck on hire purchase basis to Teja Transport Co. for a total hire purchase price of ₹ 9,00,000 payable as to ₹ 2,40,000 as down payment and the balance in three equal annual instalments of ₹ 2,20,000 each payable on 31st March 2013, 2014 and 2015.

The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for Teja Transport Co. Calculations may be made to the nearest rupee.

Answer

Ratio of interest and amount due = $\dfrac{\text{Rate of interest}}{100+\text{Rate of interest}} = \dfrac{10}{110} = 1/11$

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

Calculation of Interest and Cash Price

No. of instalments	*Amount due at the time of instalment*	*Interest*	*Cumulative Cash price*
[1]	*[2]*	*[3]*	*(2-3) = [4]*
3rd	2,20,000	1/11 of ₹ 2,20,000 =₹ 20,000	2,00,000
2nd	4,20,000 [W.N.1]	1/11 of ₹ 4,20,000= ₹ 38,182	3,81,818
1st	6,01,818 [W.N.2]	1/11of ₹ 6,01,818= ₹ 54,711	5,47,107

Total cash price = ₹ 5,47,107+ 2,40,000 (down payment) =₹ 7,87,107.

Working Notes:

1. ₹ 2,00,000+ 2nd instalment of ₹ 2,20,000= ₹ 4,20,000.
2. ₹ 3,81,818+ 1st instalment of ₹ 2,20,000= ₹ 6,01,818.

Question 10

A Trader sold out goods on hire purchase at a profit of 25% on cost price.

Prepare (i) Hire Purchase Stock A/c (ii) Shop Stock A/c (iii) Hire Purchase Debtors' A/c and (iv) Hire Purchase Adjustment A/c in the books of the trader from the following details :

	(₹)
Stock in Godown on 01-04-2011	*6,00,000*
on 31-03-2012	*5,00,000*
Overdue Instalments :	

on 01-04-2011	*40,000*
on 31-03-2012	*60,000*
Goods with Customer on Hire Purchase on 01-04-2011	*7,20,000*
Purchases	*12,92,000*
Instalments received	*12,00,000*

Answer

(i) Hire Purchase Stock Account

		₹			₹
1.4. 11	To Balance b/d	7,20,000	1.4.11 to 31.3.12	By H.P. Debtors A/c	12,20,000
1.4.11 to 31.3.12	To Shop stock A/c To H.P Adjustment A/c $\left(17,40,000 \times \frac{25}{125}\right)$	13,92,000 3,48,000	31.3.12	By Balance c/d (bal.fig.)	12,40,000
		24,60,000			24,60,000

(ii) Shop Stock Account

		₹			₹
1.4.11	To Balance b/d	6,00,000	1.4.11 to 31.3.12	By Hire Purchase Stock Account (Cost of Goods sold) (bal.fig.)	13,92,000
1.4.11 to 31.3.12	To Purchases	12,92,000	31.3.12	By Balance c/d	5,00,000
		18,92,000			18,92,000

(iii) Hire Purchase Debtors Account

		₹			₹
1.4.11	To Balance b/d	40,000	1.4.11 to 31.3.12	By Bank A/c	12,00,000
1.4.11 to 31.3.12	To Hire Purchase Stock Account (bal.fig.)	12,20,000	31.3.12	By Balance c/d	60,000
		12,60,000			12,60,000

(iv) Hire Purchase Adjustment Account

		₹			₹
31.3.12	To Stock reserve on closing H.P.Stock A/c $\left(12,40,000 \times \frac{25}{125}\right)$	2,48,000	1.4.11	By Stock reserve on opening H.P. Stock A/c $\left(7,20,000 \times \frac{25}{125}\right)$	1,44,000
31.3.12	To Profit and Loss Account (bal.fig.)	2,44,000	1.4.11 to 31.3.12	By H.P. Stock	3,48,000
		4,92,000			4,92,000

EXERCISES

1. *Krishna Agencies started business on 1st April, 2010. During the year ended 31st March, 2011, 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, 2011 with regard to the products :

Product	*Nos. purchased*	*Nos. sold under CPS*	*Nos. sold under HPS*	*Cost per unit* ₹	*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 :

	₹
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.

(Hints: Total of Hire Purchase Trading Account = ₹ 39,60,000; Gross Profit ₹ 1,40,000; and Net Profit ₹ 5,42,000)

12

Investment Accounts

BASIC CONCEPTS

- 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 → Valuation at Cost or Fair value, whichever is lower
  - From Permanent to Current → 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, FIFO or weighted average method to be used.

Question 1

On 1.4.2010, Mr. Krishna Murty purchased 1,000 equity shares of ₹ 100 each in TELCO Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.2011 Bonus was declared in the ratio of 1 : 2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 31.3.2011 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, 2011
(Scrip: Equity Shares of TELCO Ltd.)

Date		*Particulars*	*Nominal Value (₹)*	*Cost (₹)*	*Date*		Particulars	*Nominal Value (₹)*	*Cost (₹)*
1.4.2010	To	Bank A/c	1,00,000	1,23,000	31.3.2011	By	Bank A/c	50,000	44,100
31.1.2011	To	Bonus shares	50,000	–	31.3.2011	By	Balance c/d	1,00,000	82,000
31.3.2011	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 1.4.2010 = 1,000 × ₹ 120 + 2% of ₹ 1,20,000 + ½% of ₹ 1,20,000 = ₹ 1,23,000

(ii) Sale proceeds of equity shares sold on 31st March, 2011 = 500 × ₹ 90 – 2% of ₹ 45,000 = ₹ 44,100.

(iii) Profit on sale of bonus shares on 31st March, 2011

= Sales proceeds – Average cost

Sales proceeds = ₹ 44,100

Average cost = ₹ (1,23,000 × 50,000)/1,50,000

= ₹ 41,000

Profit = ₹ 44,100 – ₹ 41,000 = ₹ 3,100.

(iv) Valuation of equity shares on 31st March, 2011

Cost = (₹ 1,23,000 × 1,00,000)/1,50,000 = ₹ 82,000)

Market Value = 1,000 shares × ₹ 90 = ₹ 90,000

Closing balance has been valued at ₹ 82,000 being lower than the market value.

Question 2

On 1st April, 2009, XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of ₹ 15 per share (face value ₹ 10 per share). On 1st June, 2009, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for ₹ 1,00,000 on cum right basis. ABC Ltd. announced a bonus and right issue.

(1) Bonus was declared, at the rate of one equity share for every five shares held, on 1st July 2009.

(2) Right shares are to be issued to the existing shareholders on 1st September 2009. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.

(3) Dividend for the year ended 31.3.2009 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st October 2009.

XY Ltd.

(i) Took up half the right issue.

(ii) Sold the remaining rights for ₹ 8 per share.

(iii) Sold half of its share holdings on 1st January 2010 at ₹ 16.50 per share. Brokerage being 1%.

You are required to prepare Investment account of XY Ltd. for the year ended 31st March 2010 assuming the shares are being valued at average cost.

Answer

In the books of XY Ltd.

Investment in equity shares of ABC Ltd.

for the year ended 31st March, 2010

Date	*Particulars*	*No.*	*Income* ₹	*Amount* ₹	*Date*	*Particulars*	*No.*	*Income* ₹	*Amount* ₹
2009 April 1	To Balance b/d	15,000	-	2,25,000	2009 Sept. 1	By Bank A/c (W.N 3)	-	-	16,000
June 1	To Bank A/c	5,000	--	1,00,000	2009 Oct. 31	By Bank A/c (W.N. 5)	-	30,000	10,000
July 1	To Bonus Issue (W.N. 1)	4,000	-	-	2010 Jan. 1	By Bank A/c (W.N.4)	13,000	-	2,12,355
Sept.1	To Bank A/c (W.N. 2)	2,000	-	24,000	March 31	By Balance c/d (W.N. 6)	13,000	-	1,61,500
2010 March 31	To P & L A/c (W.N. 4)	-	-	50,855					
"	To P & L A/c	-	30,000	-					
		26,000	30,000	3,99,855			26,000	30,000	3,99,855

Working Notes:

1. Calculation of no. of bonus shares issued

$$\text{Bonus Shares} = \frac{15{,}000 \text{ shares} + 5{,}000 \text{ shares}}{5} \times 1 = 4{,}000 \text{ shares}$$

2. **Calculation of right shares subscribed**

Right Shares = $\frac{15{,}000 \text{ shares} + 5{,}000 \text{ shares} + 4{,}000 \text{ shares}}{6}$ = 4,000 shares

Shares subscribed by XY Ltd. = $\frac{4{,}000}{2}$ = 2,000 shares

Value of right shares subscribed = 2,000 shares @ ₹ 12 per share = ₹ 24,000

3. **Calculation of sale of right entitlement**

2,000 shares x ₹ 8 per share = ₹ 16,000

(Since shares are purchased cum right basis, therefore, amount received from sale of rights will be credited to investment a/c)

4. **Calculation of profit on sale of shares**

Total holding	=	15,000 shares	original
		5,000 shares	purchased
		4,000 shares	bonus
		2,000 shares	right shares
		26,000 shares	

50% of the holdings were sold

i.e. 13,000 shares (26,000 x1/2) were sold.

Cost of total holdings of 26,000 shares (on average basis)

= ₹ 2,25,000 + ₹ 1,00,000 + ₹ 24,000 –₹ 16,000 – ₹ 10,000

= ₹ 3,23,000

Average cost of 13,000 shares would be

$$= \frac{3{,}23{,}000}{26{,}000} \times 13{,}000 = ₹\ 1{,}61{,}500$$

	₹
Sale proceeds of 13,000 shares (13,000 x ₹16.50)	2,14,500
Less: 1% Brokerage	(2,145)
	2,12,355
Less: Cost of 13,000 shares	(1,61,500)
Profit on sale	50,855

5. **Dividend received on investment held as on 1st April, 2009**

   = 15,000 shares x ₹ 10 x 20%

   = ₹ 30,000 will be transferred to Profit and Loss A/c

   Dividend received on shares purchased on 1st June, 2009

   = 5,000 shares x ₹ 10 x 20% = ₹10,000 will be adjusted to Investment A/c

   Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 1st July, 2009 and dividend pertains to the year ended 31.3.2009.

6. **Calculation of closing value of shares (on average basis) as on 31st March, 2010**

   $$13{,}000 \times \frac{3{,}23{,}000}{26{,}000} = ₹\ 1{,}61{,}500.$$

   Closing value of shares would be ₹ 1,61,500.

Question 3

The following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds.

Opening balance (face value) ₹ 1,20,000, Cost ₹ 1,18,000 (Face value of each unit is ₹ 100).

1.3.2008	*Purchased 200 units, ex-interest at ₹ 98.*
1.7.2008	*Sold 500 units, ex-interest out of original holding at ₹ 100.*
1.10.2008	*Purchased 150 units at ₹ 98, cum interest.*
1.11.2008	*Sold 300 units, ex-interest at ₹ 99 out of original holdings.*

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books.

Answer

9% Central Government Bonds (Investment) Account

Particulars		*Face Value*	*Interest*	*Principal*	*Particulars*		*Face Value*	*Interest*	*Principal*
2008		*₹*	*₹*	*₹*	*2008*		*₹*	*₹*	*₹*
Jan.1	To Balance b/d	1,20,000	2,700	1,18,000	March 31	By Bank A/c	-	6,300	-
March 1	To Bank A/c	20,000	750	19,600	July 1	By Bank A/c	50,000	1,125	50,000

July 1	To P&L A/c	-	-	833	Sept. 30	By Bank A/c	-	4,050	-
Oct. 1	To Bank A/c	15,000	-	14,700	Nov. 1	By Bank A/c	30,000	225	29,700
Nov. 1	To P&L A/c	-	-	200	Dec. 31	By Balance c/d	75,000	1,688	73,633
Dec. 31	To P&L A/c (Transfer)		9,938						
		1,55,000	13,388	1,53,333			1,55,000	13,388	1,53,333

Working Note:

Calculation of closing balance:	*Units*		₹
Bonds in hand remained in hand at 31st December 2008			
From original holding (1,20,000 – 50,000 – 30,000)=	40,000	$\frac{1,18,000}{1,20,000} \times 40,000 =$	39,333
Purchased on 1st March	20,000		19,600
Purchased on 1st October	15,000		14,700
	75,000		73,633

Question 4

Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (₹ 100 each) of P Ltd., held as Current assets:

1.4.2009 Opening balance – Face value ₹ 1,20,000, Cost ₹ 1,18,000

1.7.2009 100 Debentures purchased ex-interest at ₹ 98

1.10.2009 Sold 200 Debentures ex-interest at ₹ 100

1.1.2010 Purchased 50 Debentures at ₹ 98 cum-interest

1.2.2010 Sold 200 Debentures ex-interest at ₹ 99

Due dates of interest are 30th September and 31st March.

Mr. Purohit closes his books on 31.3.2010. Brokerage at 1% is to be paid for each transaction. Show Investment account as it would appear in his books. Assume FIFO method. Market value of 8% Debentures of P Limited on 31.3.2010 is ₹ 99.

Investment A/c of Mr. Purohit

for the year ending on 31-3-2010

(Scrip: 8% Debentures of P Limited)

(Interest Payable on 30th September and 31st March)

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
			₹	₹				₹	₹
1.4.2009	To Balance b/d	1,20,000	-	1,18,000	30.9.2009	By Bank	-	5,200	-
1.7.2009	To Bank (ex-Interest)	10,000	200	9,898	1.10.2009	By Bank	20,000	-	19,800
1.10.2009	To Profit & Loss A/c			133	1.2.2010	By Bank (ex-Interest)	20,000	533	19,602
1.1.2010	To Bank (cum-Interest)	5,000	100	4,849	1.2.2010	By Profit & Loss A/c			64
31.3.2010	To Profit & Loss A/c	-	9,233		31.3.2010	By Bank	-	3,800	-
					31.3.2010	By Balance c/d	95,000	-	93,414
		1,35,000	9,533	1,32,880			1,35,000	9,533	1,32,880

Working Notes:

1. **Valuation of closing balance as on 31.3.2010:**

   Market value of 950 Debentures at ₹ 99 = ₹ 94,050

   Cost price of

   800 Debentures cost = $\left(\frac{1,18,000}{1,20,000} \text{x} 80,000\right)$ = 78,667

   100 Debentures cost = 9,898

   50 Debentures Cost- = 4,849

   93,414

   Value at the end = ₹ 93,414 i.e whichever is less

2. **Profit on sale of debentures as on 1.10.2009**

	₹
Sales price of debentures (200 x ₹ 100)	20,000
Less: Brokerage @ 1%	(200)
	19,800
Less: Cost price of Debentures $\left(\frac{1,18,000}{1,20,000} \text{x} 20,000\right) =$	(19,667)
Profit on sale	133

3. **Loss on sale of debentures as on 1.2.2010**

	₹
Sales price of debentures (200 x ₹ 99)	19,800
Less: Brokerage @ 1%	(198)
	19,602
Less: Cost price of Debentures $\left(\frac{1,18,000}{1,20,000} \text{x} 20,000\right) =$	(19,666)
Loss on sale	64

Question 5

Mr. Brown has made following transactions during the financial year 2011-12:

Date	*Particulars*
01.05.2011	*Purchased 24,000 12% Bonds of ₹100 each at ₹84 cum-interest. Interest is payable on 30th September and 31st March every year.*
15.06.2011	*Purchased 1,50,000 equity shares of ₹10 each in Alpha Limited for ₹25 each through a broker, who charged brokerage @ 2%.*
10.07.2011	*Purchased 60,000 equity shares of ₹10 each in Beeta Limited for ₹44 each through a broker, who charged brokerage @2%.*

14.10.2011	*Alpha Limited made a bonus issue of two shares for every three shares held.*
31.10.2011	*Sold 80,000 shares in Alpha Limited for ₹22 each.*
01.01.2012	*Received 15% interim dividend on equity shares of Alpha Limited.*
15.01.2012	*Beeta Limited made a right issue of one equity share for every four shares held at ₹5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at ₹2.25 per share.*
01.03.2012	*Sold 15,000 12% Bonds at ₹90 ex-interest.*
15.03.2012	*Received 18% interim dividend on equity shares of Beeta Limited.*

Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 2012.

Answer

In the books of Mr. Brown

12% Bonds for the year ended 31st March, 2012

Date	*Particulars*	*No.*	*Income* ₹	*Amount* ₹	*Date*	*Particulars*	*No.*	*Income* ₹	*Amount* ₹
2011 May, 1	To Bank A/c	24,000	24,000	19,92,000	2011 Sept. 30	By Bank-Interest	-	1,44,000	
2012 March 31	To P & L A/c (W.N.1)	-	-	1,05,000	2012 Mar. 1	By Bank A/c	15,000	75,000	13,50,000
	To P & L A/c		2,49,000		2012 Mar. 31	By Bank-Interest		54,000	
						By Balance c/d (W.N.2)	9,000	-	7,47,000
		24,000	2,73,000	20,97,000			24,000	2,73,000	20,97,000

Investment in Equity shares of Alpha Ltd. for the year ended 31st March, 2012

Date	*Particulars*	*No.*	*Income* ₹	*Amount* ₹	*Date*	*Particulars*	*No.*	*Income* ₹	*Amount* ₹
2011 June 15	To Bank A/c	1,50,000	--	38,25,000	2011 Oct. 31	By Bank A/c	80,000	-	17,60,000
Oct. 14	To Bonus Issue (1,50,000/3 x2)	1,00,000	-	-	2012 Jan. 1	By Bank A/c - dividend		2,55,000	
2012 Mar. 31	To P & L A/c (W.N.3)			5,36,000	March 31	By Balance c/d (W.N.4)	1,70,000	-	26,01,000
	To P & L A/c		2,55,000						
		2,50,000	2,55,000	43,61,000			2,50,000	2,55,000	43,61,000

Investment in Equity shares of Beeta Ltd. for the year ended 31st March, 2012

Date	*Particulars*	*No.*	*Income* ₹	*Amount* ₹	*Date*	*Particulars*	*No.*	*Income* ₹	*Amount* ₹
2011 July 10	To Bank A/c	60,000	--	26,92,800	2012 Jan. 15	By Bank A/c (W.N 6)	-	-	20,250
2012	To Bank A/c	6,000	-	30,000	Mar. 15	By Bank –	-	1,18,800	

Jan. 15	(W.N. 5)					dividend			
March 31	To P & L A/c	-	1,18,800	-	March 31	By Balance c/d (bal.fig.)	66,000	-	27,02,550
		66,000	1,18,800	27,22,800			66,000	1,18,800	27,22,800

Working Notes:

1. **Profit on sale of 12% Bond**

   Sales price ₹ 13,50,000

   Less: Cost of bond sold = $\frac{19,92,000}{24,000}$ x 15,000 (₹ 12,45,000)

   Profit on sale ₹ 1,05,000

2. **Closing balance as on 31.3.2012 of 12 % Bond**

   $\frac{19,92,000}{24,000}$ x 9,000 = ₹ 7,47,000

3. **Profit on sale of equity shares of Alpha Ltd.**

   Sales price ₹ 17,60,000

   Less: Cost of bond sold = $\frac{38,25,000}{2,50,000}$ x 80,000 (₹ 12,24,000)

   Profit on sale ₹ 5,36,000

4. **Closing balance as on 31.3.2012 of equity shares of Alpha Ltd.**

   $\frac{38,25,000}{2,50,000}$ x 1,70,000 = ₹ 26,01,000

5. **Calculation of right shares subscribed by Beeta Ltd.**

   Right Shares = $\frac{60,000 \text{ shares}}{4}$ x 1= 15,000 shares

   Shares subscribed by Mr. Brown = 15,000 x 40%= 6,000 shares

   Value of right shares subscribed = 6,000 shares @ ₹ 5 per share = ₹ 30,000

6. **Calculation of sale of right entitlement by Beeta Ltd.**

   No. of right shares sold = 15,000 - 6,000 = 9,000 shares

   Sale value of right = 9,000 shares x ₹ 2.25 per share = ₹ 20,250

   Note: Shares are assumed to be purchased on cum right basis; therefore, amount received from sale of rights is credited to Investment A/c.

Question 6

On 1st April, 2011, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:

(1) On 20th June, 2011 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.

(2) On 1st August, 2011, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

(3) On 31st October, 2011, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2011.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2012.

Answer

In the books of Rajat
Investment Account
(Equity shares in P Ltd.)

Date	*Particulars*	*No. of shares*	*Amount (₹)*	*Date*	*Particulars*	*No. of shares*	*Amount (₹)*
1.4.11	To Balance b/d	50,000	7,50,000	5.11.11	By Bank A/c (sale of rights) (W.N.3)	-	20,000
20.6.11	To Bank A/c	10,000	1,60,000	31.3.12	By Balance c/d (Bal. fig.)	90,000	11,90,000
1.8.11	To Bonus issue (W.N.1)	10,000	-				
5.11.11	To Bank A/c (right shares) (W.N.4)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

(1) Bonus shares $= \frac{50,000 + 10,000}{6} = 10,000$ shares

(2) Right shares $= \frac{50,000 + 10,000 + 10,000}{7} \times 3 = 30,000$ shares

(3) Sale of rights = $30,000 \text{ shares} \times \frac{1}{3} \times$ ₹ 2 = ₹ 20,000

(4) Rights subscribed = $30,000 \text{ shares} \times \frac{2}{3} \times$ ₹ 15 = ₹ 3,00,000

Question 7

On 01-04-2011, Mr. T. Shekharan purchased 5,000 equity shares of ₹ 100 each in V Ltd. @ ₹ 120 each from a broker, who charged 2% brokerage. He incurred 50 paisa per ₹ 100 as cost of shares transfer stamps. On 31-01-2012 bonus was declared in the ratio of 1 : 2. Before and after the record date of bonus shares, the shares were quoted at

₹ 175 per share and ₹ 90 per share respectively. On 31-03-2012, Mr. T. Shekharan sold bonus shares to a broker, who charged 2% brokerage.

Show the Investment Account in the books of T. Shekharan, 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 T. Shekharan
Investment Account
for the year ended 31st March, 2012
(Script: Equity Shares of V Ltd.)

Date	*Particulars*	*Nominal Value (₹)*	*Cost (₹)*	*Date*	Particulars	*Nominal Value (₹)*	*Cost (₹)*
1.4.2011	To Bank A/c (W.N.1)	5,00,000	6,15,000	31.3.2012	By Bank A/c (W.N.2)	2,50,000	2,20,500
31.1.2012	To Bonus shares	2,50,000	–	31.3.2012	By Balance c/d (W.N.4)	5,00,000	4,10,000
31.3.2012	To Profit and Loss A/c (W.N.3)		15,500				
		7,50,000	6,30,500			7,50,000	6,30,500

Working Notes:

1. Cost of equity shares purchased on 1st April, 2011
   = Cost + Brokerage + Cost of transfer stamps
   = 5,000 × ₹ 120 + 2% of ₹ 6,00,000 + ½% of ₹ 6,00,000
   = ₹ 6,15,000
2. Sale proceeds of equity shares sold on 31st March, 2012
   = Sale price – Brokerage
   = 2,500 × ₹ 90 – 2% of ₹ 2,25,000
   = ₹ 2,20,500.
3. Profit on sale of bonus shares on 31st March, 2012
   = Sales proceeds – Average cost
   Sales proceeds = ₹ 2,20,500
   Average cost = ₹ [6,15,000 × 2,50,000/7,50,000]
   = ₹ 2,05,000
   Profit = ₹ 2,20,500 – ₹ 2,05,000= ₹ 15,500.
4. Valuation of equity shares on 31st March, 2012
   Cost = ₹ [6,15,000 × 5,00,000/7,50,000]= ₹ 4,10,000 i.e ₹ 82 per share
   Market Value = 5,000 shares × ₹ 90 = ₹ 4,50,000
   Closing stock of equity shares has been valued at ₹ 4,10,000 i.e. cost being lower than the market value.

13

Insurance Claims for Loss of Stock and Loss of Profit

BASIC CONCEPTS

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)

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.

CLAIM FOR LOSS OF STOCK

Question 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 ₹ 4 lakhs is insured for ₹ 3 lakhs only and the loss incurred due to fire amounts to ₹ 1,80,000, the claim admitted by the insurer will be ₹ 1,80,000 x 3,00,000/4,00,000 =₹ 1,35,000.

The average clause applies only when the insured value is less than the total value of the insured subject matter.

Question 2

Mr. A prepares accounts on 30th September each year, but on 31st December, 2011 fire destroyed the greater part of his stock. Following information was collected from his book:

	₹
Stock as on 1.10.2011	*29,700*
Purchases from 1.10.2011 to 31.12.2011	*75,000*
Wages from 1.10.2011 to 31.12.2011	*33,000*
Sales from 1.10.2011 to 31.12.2011	*1,40,000*

The rate of gross profit is 33.33% on cost. Stock to the value of ₹ 3,000 was salvaged. Insurance policy was for ₹ 25,000 and claim was subject to average clause.

Additional informations:

(i) Stock at the beginning was calculated at 10% less than cost.

(ii) A plant was installed by firm's own worker. He was paid ₹ 500, which was included in wages.

(iii) Purchases include the purchase of the plant for ₹ 5,000

You are required to calculate the claim for the loss of stock.

Answer

Computation of claim for loss of stock:

	₹
Stock on the date of fire i.e. 31.12.2011 (Refer working note)	30,500
Less: Salvaged stock	(3,000)
Loss of stock	27,500
Amount of claim	

$$= \frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times \text{loss of stock}$$

$$= \frac{₹\ 25{,}000}{₹\ 30{,}500} \times ₹\ 27{,}500 = ₹\ 22{,}541$$

Working Note:

Memorandum trading account can be prepared for the period from 1.10.2011 to 31.12.2011 to compute the value of stock on 31.12.2011.

Memorandum Trading Account
for period from 1.10.2011 to 31.12.2011

	₹	₹		₹
To Opening stock		33,000	By Sales	1,40,000
(₹ 29,700 x 100/90)			By Closing stock	30,500
To Purchases	75,000		(bal. fig.)	
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 3

On 20th October, 2009, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available:

	₹
Stock of goods @ 10% lower than cost as on 31st March, 09	*2,16,000*
Purchases less returns (1.4.09 to 20.10.09)	*2,80,000*
Sales less returns (1.4.09 to 20.10.09)	*6,20,000*

Additional information:

(1) *Sales upto 20th October, 09 includes ₹ 80,000 for which goods had not been dispatched.*

(2) *Purchases upto 20th October, 09 did not include ₹ 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown.*

(3) *Past records show the gross profit rate of 25%.*

(4) *The value of goods salvaged from fire ₹ 31,000.*

(5) *Aman Ltd. has insured their stock for ₹ 1,00,000.*

Compute the amount of claim to be lodged to the insurance company.

Answer

Memorandum Trading A/c
(1.4.09 to 20.10.09)

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening stock (Refer W.N.)	2,40,000	By Sales (₹6,20,000 – ₹80,000)	5,40,000
To Purchases (₹ 2,80,000 + ₹ 40,000)	3,20,000	By Closing stock (bal. fig.)	1,55,000
To Gross profit (₹ 5,40,000 x 25%)	1,35,000		
	6,95,000		6,95,000

	₹
Stock on the date of fire (i.e. on 20.10.2009)	1,55,000
Less: Stock salvaged	(31,000)
Stock destroyed by fire	1,24,000

Insurance claim $= \dfrac{\text{Loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy}$

$= \dfrac{1,24,000}{1,55,000} \times 1,00,000$ = ₹ 80,000

Working Note:

Stock as on 1st April, 2009 was valued at 10% lower than cost.

Hence, original cost of the stock as on 1st April, 2009 would be

$= \dfrac{2,16,000}{90} \times 100$ = ₹ 2,40,000

Question 4

On 19th May, 2011, the premises of Shri Garib Das were destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained:

	₹
Stock at cost on 1.1.2010	*36,750*
Stock at cost on 31.12.2010	*39,800*
Purchases less returns during 2010	*1,99,000*
Sales less returned during 2010	*2,43,500*

Purchases less returns during 1.1.2011 to 19.5.2011	*81,000*
Sales less returns during 1.1.2011 to 19.5.2011	*1,15,600*

In valuing the stock for the balance Sheet as at 31st December, 2010, ₹ 1,150 had been written off on certain stock which was a poor selling line having the cost ₹ 3,450. A portion of these goods were sold in March, 2011 at a loss of ₹ 125 on original cost of ₹ 1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was ₹ 2,900.

Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from 1-1-2011 to 19-5-2011 for normal and abnormal items.

Answer

Shri Garib Das

Trading Account for the year ended on 31st December, 2010

		₹			₹	₹
To	Opening Stock	36,750	By	Sales A/c		2,43,500
To	Purchases	1,99,000	By	Closing Stock :		
To	Gross Profit	48,700		As valued	39,800	
				Add : Amount written off to restore stock to full cost	1,150	40,950
		2,84,450				2,84,450

The normal rate of gross profit to sales is = $\frac{48,700}{2,43,500} \times 100 = 20\%$

Memorandum Trading Account upto 19, May, 2011

	Normal items	*Abnormal items*	*Total*		*Normal*	*Abnormal items*	*Total items*
	₹	₹	₹		₹	₹	₹
To Opening Stock	37,500	3,450*	40,950	By Sales	1,14,000	1,600	1,15,600
To Purchases	81,000	—	81,000	By Loss	—	125	125
To Gross Profit (20% on ₹ 1,14,000)	22,800	—	22,800	By Closing Stock (bal. fig.)	27,300	1,725	29,025
	1,41,300	3,450	1,44,750		1,41,300	3,450	1,44,750

* at cost.

Calculation of Insurance Claim

	₹
Value of Stock on 19th May, 2011	29,025
Less : Salvage	(2,900)
Loss of stock	26,125

Therefore, insurance claim will be for ₹ 26,125 only.

Question 5

On 30th March, 2012 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of ₹ 60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March 2012.

(1) Stock as per Balance Sheet at 31st December, 2011, ₹ 95,600.

(2) Purchases (including purchase of machinery costing ₹ 30,000) ₹ 1,70,000

(3) Wages (including wages ₹ 3,000 for installation of machinery) ₹ 50,000.

(4) Sales (including goods sold on approval basis amounting to ₹ 49,500) ₹ 2,75,000. No approval has been received in respect of 2/3rd of the goods sold on approval.

(5) The average rate of gross profit is 20% of sales.

(6) The value of the salvaged goods was ₹ 12,300.

You are required to compute the amount of the claim to be lodged to the insurance company.

Answer

Computation of claim for loss of stock

	₹
Stock on the date of fire i.e. on 30th March, 2012 (W.N.1)	62,600
Less: Value of salvaged stock	(12,300)
Loss of stock	50,300
Amount of claim = $\dfrac{\text{Insured value}}{\text{Total cost of stock on the date of fire}}$ x Loss of stock $= \left(\dfrac{60,000}{62,600} \times 50,300\right)$	48,211 (approx.)

A claim of ₹ 48,211 (approx.) should be lodged by M/s Suraj Brothers to the insurance company.

Working Notes:

1. Calculation of closing stock as on 30th March, 2012

Memorandum Trading Account for
(from 1st January, 2012 to 30th March, 2012)

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Opening stock	95,600	By Sales (W.N.3)	2,42,000
To Purchases		By Goods with customers	
(1,70,000-30,000)	1,40,000	(for approval) (W.N.2)	26,400
To Wages (50,000 – 3,000)	47,000	By Closing stock (Bal. fig.)	62,600
To Gross profit			
(20% on sales)	48,400		
	3,31,000		3,31,000

2. **Calculation of goods with customers**

   Since no approval for sale has been received for the goods of ₹ 33,000 (i.e. 2/3 of ₹ 49,500) hence, these should be valued at cost i.e. ₹ 33,000 – 20% of ₹ 33,000 = ₹ 26,400.

3. **Calculation of actual sales**

   Total sales – Sale of goods on approval = ₹ 2,75,000 – ₹ 33,000 = ₹ 2,42,000.

Question 6

A fire occurred in the premises of M/s. Fireproof Co. on 31st August, 2011. From the following particulars relating to the period from 1st April, 2011 to 31st August, 2011, you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for ₹ 60,000 which is subject to an average clause.

		₹
(i)	*Stock as per Balance Sheet at 31-03-2011*	*99,000*
(ii)	*Purchases*	*1,70,000*
(iii)	*Wages (including wages for the installation of a machine ₹ 3,000)*	*50,000*
(iv)	*Sales*	*2,42,000*
(v)	*Sale value of goods drawn by partners*	*15,000*
(vi)	*Cost of goods sent to consignee on 16th August, 2011, lying unsold with them*	*16,500*
(vii)	*Cost of goods distributed as free samples*	*1,500*

While valuing the stock at 31st March, 2011, ₹ 1,000 were written off in respect of a slow moving item. The cost of which was ₹ 5,000. A portion of these goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at ₹ 20,000. The average rate of gross profit was 20% throughout.

Answer

Memorandum Trading Account for the period 1st April, 2011 to 31st August, 2011

	Normal Items ₹	*Abnormal Items* ₹	*Total* ₹		*Normal Items* ₹	*Abnormal Items* ₹	*Total* ₹
To Opening stock	95,000	5,000	1,00,000	By Sales	2,40,000	2,000	2,42,000
To Purchases (Refer W.N.)	1,56,500	-	1,56,500	By Goods sent to consignee	16,500	-	16,500
To Wages	47,000	-	47,000	By Loss	-	500	500

To Gross profit @ 20%	48,000	-	48,000	By Closing stock (Bal.fig.)	90,000	2,500	92,500
	3,46,500	5,000	3,51,500		3,46,500	5,000	3,51,500

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 31.08.2011	92,500
Less: Stock salvaged	(20,000)
Loss of stock	72,500

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

$$= ₹\ 72,500 \times \frac{60,000}{92,500}$$

$$= ₹\ 47,027$$

Working Note:

Calculation of Adjusted Purchases

	₹
Purchases	1,70,000
Less: Drawings	(12,000)
Free samples	(1,500)
Adjusted purchases	1,56,500

Question 7

On 29th August, 2012, the godown of a trader caught fire and a large part of the stock of goods was destroyed. However, goods costing ₹ 1,08,000 could be salvaged incurring fire fighting expenses amounting to ₹ 4,700.

The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2011	*7,10,500*
Cost of stock on 31st March, 2012	*7,90,100*
Purchases during the year ended 31st March, 2012	*56,79,600*
Purchases from 1st April, 2012 to the date of fire	*33,10,700*

Cost of goods distributed as samples for advertising from 1st April, 2012 to the date of fire	*41,000*
Cost of goods withdrawn by trader for personal use from 1st April, 2012 to the date of fire	*2,000*
Sales for the year ended 31st March, 2012	*80,00,000*
Sales from 1st April, 2012 to the date of fire	*45,36,000*

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹ 9,00,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company.

Answer

(b) Memorandum Trading Account for the period 1st April, 2012 to 29th August 2012

		₹		₹
To Opening Stock		7,90,100	By Sales	45,36,000
To Purchases	33,10,700		By Closing stock (Bal. fig.)	8,82,600
Less: Advertisement	(41,000)			
Drawings	(2,000)	32,67,700		
To Gross Profit [30% of Sales - Refer Working Note]		13,60,800		
		54,18,600		54,18,600

Statement of Insurance Claim

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

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 7,79,300 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2012

	₹		₹
To Opening Stock	7,10,500	By Sales	80,00,000

To Purchases	56,79,600	By Closing stock	7,90,100
To Gross Profit	24,00,000		
	87,90,100		87,90,100

Rate of Gross Profit in 2011-12

$$\frac{\text{Gross Profit}}{\text{Sales}}\times 100 = \frac{24,00,000}{80,00,000}\times 100 = 30\%$$

Question 8

From the following information, ascertain the value of stock as on 31st March, 2012:

	₹
Stock as on 01-04-2011	*28,500*
Purchases	*1,52,500*
Manufacturing Expenses	*30,000*
Selling Expenses	*12,100*
Administration Expenses	*6,000*
Financial Expenses	*4,300*
Sales	*2,49,000*

At the time of valuing stock as on 31st March, 2011, a sum of ₹ 3,500 was written off on a particular item, which was originally purchased for ₹ 10,000 and was sold during the year for ₹ 9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

Answer

Statement showing valuation of stock as on 31.3.2012

	₹	₹
Stock as on 01.04.2011	28,500	
Less: Book value of abnormal stock (₹ 10,000 – ₹ 3,500)	6,500	22,000
Add: Purchases		1,52,500
Manufacturing Expenses		30,000
		2,04,500
Less: Cost of Sales:		
Sales as per Books	2,49,000	

Less: Sales of Abnormal item	(9,000)	
	2,40,000	
Less: Gross Profit @ 20%	(48,000)	(1,92,000)
Value of Stock as on 31st March, 2012		12,500

CLAIM FOR LOSS OF PROFIT

Question 9

X Ltd. has insured itself under a loss of profit policy for ₹ 3,63,000. The indemnity period under the policy is six months. On 1st September, 2010 a fire occurred in the factory of X Ltd. and the normal business was affected upto 1st March, 2011.

The following information is compiled for the year ended on 31st March, 2010:

	₹
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 ₹ 2,25,000.

(c) Actual turnover during the period from 1.9.2009 to 1.3.2010 during the preceding year corresponding to the indemnity period was ₹ 7,50,000.

X Ltd. spent an amount of ₹ 40,000 as additional cost of working during the indemnity period. On account of this additional expenditure:

(a) There was a saving of ₹ 15,000 in insured standing charges during the period of indemnity.

(b) Reduced turnover avoided was ₹ 1,00,000. i.e. but for this expenditure, the turnover after the date of fire would have been only ₹ 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

$$\frac{\text{Net profit for the last financial year} + \text{Insured standing charges}}{\text{Turnover for the last financial year}} \times 100$$

$$= \frac{₹1,20,000 + ₹\ 2,40,000}{₹\ 20,00,000} \times 100 \qquad 18\%$$

Add: Adjustment for increase in gross profit rate= 2%

20%

(2) Calculation of short sales:

	₹
Turnover from 1.9.2009 to 1.3.2010	7,50,000
Add: Adjustment for increase in turnover	75,000
Adjusted turnover	8,25,000
Less: Actual turnover from 1.9.2010 to 1.3.2011	2,25,000
Short sales	6,00,000

(3) Additional expenses:

		₹
(i)	Actual expenses	40,000
(ii)	Gross profit on sale generated by additional expenses [(20/100)x ₹ 1,00,000]	20,000

(iii) $$\text{Additional expenses} \times \frac{\text{Gross profit on annual adjusted turnover}}{\text{Gross profit on annual adjusted turnover} + \text{Uninsured standing charges}}$$

$$= ₹40,000 \times \frac{20\% \text{ on } ₹\ 24,20,000^{*}}{(20\% \text{ on } ₹\ 24,20,000) + ₹\ 20,000}$$

$$= ₹\ 40,000 \times \frac{₹\ 4,84,000}{₹\ 5,04,000} = ₹\ 38,413$$

Least of the above three figures i.e. ₹ 20,000 is allowable.

* ₹ 22,00,000 x (110/100)

(4) Amount of claim before application of average clause

	₹
Gross profit on short sales (20% on ₹ 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

	₹
Annual turnover i.e. turnover from 1.9.2009 to 31.8 2010	22,00,000
Add: Adjustment for increase in turnover (10% of ₹ 22,00,000)	2,20,000
	24,20,000
Gross profit on annual adjusted turnover (20% on ₹ 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 = ₹ 1,25,000 x (₹ 3,63,000/₹ 4,84,000)

= ₹ 93,750

Question 10

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

	₹
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

	₹
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

	₹		₹
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

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

Question 11

On account of a fire on 15th June, 2011 in the business house of a company, the working remained disturbed upto 15th December 2011 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 ₹ 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 ₹ 12,000 to make sales possible and made a saving of ₹ 2,000 in the insured standing charges.

	₹
Actual sales from 15th June, 2011 to 15th Dec, 2011	*70,000*
Sales from 15th June 2010 to 15th Dec 2010	*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 : 16th June 2010 to 15th June 2011	*5,60,000*

Answer

(1) Calculation of short sales:

	₹
Sales for the period 15.6.2010 to 15.12.2010	2,40,000
Add: 25% increase in sales	60,000
Estimated sales in current year	3,00,000
Less: Actual sales from 15.6.2011 to 15.12.2011	(70,000)
Short sales	2,30,000

(2) Calculation of gross profit:

$$\text{Gross profit} = \frac{\text{Net profit} + \text{Insured standing charges}}{\text{Turnover}} \times 100$$

$$= \frac{₹\ 80{,}000 + ₹\ 70{,}000}{₹\ 6{,}00{,}000} \times 100$$

$$= \frac{₹\ 1{,}50{,}000}{₹\ 6{,}00{,}000} \times 100$$

= 25%

(3) Calculation of loss of profit:

₹ 2,30,000 x 25% =₹ 57,500

(4) Calculation of claim for increased cost of working:

Least of the following:

(i) Actual expense =₹ 12,000

(ii) Expenditure x (Net profit + Insured standing charges) / (Net profit + Total standing charges)

$$= ₹\ 12{,}000 \times \frac{₹\ 80{,}000 + ₹\ 70{,}000}{₹\ 80{,}000 + ₹\ 1{,}20{,}000} = ₹\ 9{,}000$$

(iii) Gross profit on sales generated due to additional expenses

= ₹ 70,000 x 25% = ₹ 17,500

₹ 9,000 being the least, shall be the increased cost of working.

(5) Calculation of total loss of profit:

	₹
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:

	₹
Turnover from 16.6.2010 to 15.6.2011	5,60,000
Add: 25% increase	1,40,000
Adjusted sales	7,00,000
Insurable amount= ₹ 7,00,000 x 25% =	₹ 1,75,000

(7) Total claim for consequential loss of profit:

$$\text{Total claim} = \frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$$

$$\text{Total claim} = \frac{₹\ 1{,}40{,}000}{₹\ 1{,}75{,}000} \times ₹\ 64{,}500 = ₹\ 51{,}600$$

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= ₹ 12,000

(ii) $$\text{Expenditure} \times \frac{\text{Gross profit on adjusted turnover}}{\text{Gross profit as above} + \text{Uninsured standing charges}}$$

$$₹\ 12{,}000 \times \frac{(25/100) \times ₹\ 7{,}00{,}000}{[(25/100) \times ₹\ 7{,}00{,}000] + ₹\ 50{,}000} = ₹\ 9{,}333 \text{ approx.}$$

Where,

Adjusted turnover	₹
Turnover from 16.06.2010 to 15.06.2011	5,60,000
Add: 25% increase	1,40,000
	7,00,000

(iii) Gross profit on sales generated due to additional expenditure = 25% x ₹ 70,000 = ₹ 17,500.

₹ 9,333 being the least, shall be the increased cost of working.

(9) Calculation of total loss of profit

	₹
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

= ₹ 7,00,000 x 25% = ₹ 1,75,000

(11) Total claim for consequential loss of profit:

$$= \frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$$

$$= \frac{₹\ 1{,}40{,}000}{₹\ 1{,}75{,}000} \times ₹\ 64{,}833 = ₹\ 51{,}866.40$$

Question 12

Ramda & Sons had taken out policies (without Average Clause) both against loss of stock and loss of profit, for ₹ 2,10,000 and ₹ 3,20,000 respectively. A fire occurred on 1st July, 2011 and as a result of which sales were seriously affected for a period of 3 months.

Trading and Profit & Loss A/c of Ramda & Sons for the year ended on 31st March, 2011 is given below:

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Opening Stock	96,000	By Sales	12,00,000

To Purchases	7,56,000	By Closing Stock	1,85,000
To Wages	1,58,000		
To Manufacturing Expenses	75,000		
To Gross Profit c/d	3,00,000		
	13,85,000		13,85,000
To Administrative Expenses	83,600	By Gross Profit b/d	3,00,000
To Selling Expenses (Fixed)	72,400		
To Commission on Sales	34,200		
To Carriage Outward	49,800		
To Net Profit	60,000		
	3,00,000		3,00,000

Further detail provided is as below:

(a) Sales, Purchases, Wages and Manufacturing Expenses for the period 1.04.2011 to 30.06.2011 were ₹3,36,000, ₹2,14,000, ₹51,000 and ₹12,000 respectively.

(b) Other Sales figure were as follows

	₹
From 01.04.2010 to 30.06.2010	*3,00,000*
From 01.07.2010 to 30.09.2010	*3,20,000*
From 01.07.2011 to 30.09.2011	*48,000*

(c) Due to decrease in the material cost, Gross Profit during 2011-12 was expected to increase by 5% on sales.

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

Compute the claim for stock, loss of profit and additional expenses

Answer

Claim for loss of stock

Memorandum Trading Account for the period 1st April to 1st July, 2011

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

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

Loss of Profit

(a)	Short Sales :	
	Sales from 1st July, 2010 to 30th Sept. 2010	3,20,000
	Add: 12% rise observed in 2011-12 over 2010-11	
	(April- June ` 3,36,000 instead of ` 3,00,000)	38,400
		3,58,400
	Less: Sales from 1st July, 2011 to 30th Sept. 2011	(48,000)
	Short-Sales	3,10,400
(b)	Gross profit ratio	
	$\frac{\text{Net Profit} + \text{Insured standing charges (2010-11)}}{\text{Sales (2010-11)}} \times 100$	
	$\frac{60,000 + 1,56,000}{12,00,000} \times 100 =$	18%
	Add: Expected rise due to decline in material cost	5%
		23%
(c)	Loss of Gross Profit	
	23% on short sales ` 3,10,400=	₹ 71,392
(d)	Annual turnover (12 months to 1st July, 2011):	
		Amount (₹)
	Sales for April 2010 - March, 2011	12,00,000
	Less: From 1-4-2010 to 30-6-2010	(3,00,000)
		9,00,000
	Add: 12% increasing trend	1,08,000
		10,08,000
	Add: From 1-4-2011 to 30-6-2011	3,36,000
		13,44,000
	Gross Profit on annual turnover @ 23%	3,09,120
(e)	Amount allowable in respect of additional expenses	
	Least of the following:	Amount (₹)
	(i) Actual expenses	1,98,000
	(ii) Gross Profit on sales during indemnity period	
	23% of ₹ 48,000	11,040
	(iii) $\frac{\text{Gross profit on annual (adjusted) turnover}}{\text{Gross profit as above} + \text{Uninsured charges}} \times \text{Additional Expenses}$	
	$\frac{3,09,120}{3,51,120} \times 1,98,000 =$	1,74,316
	Least i.e. `11,040 is admissible.	
	Claim	
	Loss of Gross Profit	₹ 71,392

Add: Additional expenses	₹ 11,040
	₹ 82,432

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

Working Note:

Rate of Gross Profit in 2010-11

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

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

In 2011-12, Gross Profit is expected to increase by 5% as a result of decline in material cost, hence the rate of Gross Profit for loss of stock is taken at 30%.

EXERCISES

1. *Sony Ltd.'s. trading and profit and loss account for the year ended 31st December, 2010 were as follows:*

Trading and Profit and Loss Account for the year ended 31.12.2010

	₹		₹
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 ₹ 3,00,000 and a loss of profits policy for ₹ 1,00,000 having an indemnity period of 6 months. A fire occurred on 1.4.2011 at the premises and the entire stock was gutted with nil salvage value. The net quarter sales i.e. 1.4.2011 to 30.6.2011 was severely affected. The following are the other information:

Sales during the period	*1.1.2011 to 31.3.2011*	*2,50,000*
Purchases during the period	*1.1.2011 to 31.3.2011*	*3,00,000*
Manufacturing expenses	*1.1.2011 to 31.3.2011*	*70,000*
Sales during the period	*1.4.2011 to 30.6.2011*	*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.

(Hints: Stock destroyed by fire ₹ 2,60,000; and loss of profit ₹ 15,000)

2. *On 30th June, 2011, accidental fire destroyed a major part of the stocks in the godown of Jay associates. Stock costing ₹ 30,000 could be salvaged but not their stores ledgers. A fire insurance policy was in force under which the sum insured was ₹ 3,50,000. From available records, the following information was retrieved:*

   (1) Total of sales invoices during the period April-June amounted to ₹ 30,20,000. An analysis showed that goods of the value of ₹ 3,00,000 had been returned by the customers before the date of fire.

   (2) Opening stock on 1.4.2011 was ₹ 2,20,000 including stocks of value of ₹ 20,000 being lower of cost and net value subsequently realised.

   (3) Purchases between 1.4.2011 and 30.6.2011 were ₹ 21,00,000

   (4) Normal gross profit rate was 33-1/3% on sales.

   (5) A sum of ₹ 30,000 was incurred by way of fire fighting expenses on the day of the fire.

   Prepare a statement showing the insurance claim recoverable.

   (Hints: Claim ₹ = ₹ 3,50,000)

3. *A fire occurred in the premises of Agni on 25th August, 2011 when a large part of the stock was destroyed. Salvage was ₹ 15,000. Agni gives you the following information for the period of January 1, 2011 to August 25th, 2011:*

   (a) Purchases ₹ 85,000.

   (b) Sales ₹ 90,000

   (c) Goods costing ₹ 5,000 were taken by Agni for personal use.

   (d) Cost price of stock on January 1, 2011 was ₹ 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 ₹ 50,000. It included an average clause.

   Agni asks you to prepare a statement of claim to be made on the insurance company.

   (Hints: Admissible claim ₹ 37,500)

14

Issues in Partnership Accounts

BASIC CONCEPTS

- 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 :

$$\text{Goodwill} = \frac{\text{Super Profit}}{\text{Normal Rate of Return}}$$

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, 2010 was as under:

Liabilities		₹	*Assets*		₹
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 ₹ 1,00,000; the premium periodically paid was charged to Profit and Loss Account. Partner C died on 30th September, 2010. It was agreed between the surviving partners and the legal representatives of C that:

(i) Goodwill of the firm will be taken at ₹ 60,000.

(ii) Fixed Assets will be written down by ₹ 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, 2010.

Policy money was received and the legal heirs were paid off. The profits for the year ended 31st March, 2011, after charging depreciation of ₹ 10,000 (depreciation upto 30th September was agreed to be ₹ 6,000) were ₹ 48,000.

Partners' Drawings Accounts showed balances as under :

A ₹ 18,000 (drawn evenly over the year)

B ₹ 24,000 (drawn evenly over the year)

C (up-to-date of death) ₹ 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, 2011

	₹
Profits for the year ended 31st March, 2011 (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, 2010 to 31st March, 2011)	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, 2010

	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹
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 ₹ 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 ₹ 52,000 for 6 months @ 6% p.a. = ₹ 1,560

Or

(ii) Profit earned out of unsettled capital (in the second half year ended 31st March, 2011)

$$₹\ 25,000 \times \frac{52,000}{57,000 + 76,000 + 52,000} = ₹\ 7,027 \text{ (approx.)}$$

In the above case, it would be rational to assume that the legal heirs would opt for ₹ 7,027.

(4) Amount due to legal heirs of C	₹
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, 2011 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, 2011 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:

	₹
For accounting year ended 31st March, 2009	*3,29,000*
For accounting year ended 31st March, 2010	*3,46,000*
For accounting year ended 31st March, 2011	*3,78,000*

However, while going through the books of account on A's death, it came to light that ₹ 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, 2010. Depreciation was provided on the machinery @ 20% per annum.

On 1st October, 2011, 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, 2012, the Profit and Loss Account of the firm showed that the firm had earned a profit of ₹ 4,16,000 for the year. The respective drawings accounts showed that while B and C had withdrawn ₹ 60,000 each during the year, D's drawings totalled ₹ 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, 2012; 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, 2012

	₹	₹
Net profit for the year ended 31.03.2012		4,16,000
A's share		
(Profit distributed to deceased partner A & his executor)		
(a) Profit for 4 months (1.4.2011 – 31.7.2011) (W.N.1)	67,500	
(b) Application of Sec. 37 (1.8.2011 – 30.9.2011) (W.N.5)	28,021	95,521
B's share		
(a) Profit for 4 months (1.4.2011 – 31.7.2011) (W.N.3)	42,700	
(b) Profit for 2 months (1.8.2011 – 30.9.2011) (W.N.6)	24,787	
(c) Profit for 6 months (1.10.2011 – 31.3.2012) (W.N.10)	93,600	1,61,087
C's share		
(a) Profit for 4 months (1.4.2011 – 31.7.2011) (W.N.3)	28,467	
(b) Profit for 2 months (1.8.2011 – 30.9.2011) (W.N.6)	16,525	
(c) Profit for 6 months (1.10.2011 – 31.3.2012) (W.N.10)	62,400	1,07,392
D's share		
(a) Profit for 6 months (1.10.2011 – 31.3.2012) (W.N.10)	52,000	52,000
		4,16,000

(ii) Journal Entries

Year 2011			*Dr.* ₹	*Cr.* ₹
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, 2011)			

	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		
	(₹ 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 1.4.2011 – 31.7.2011

A's share in profit for the period of 1st April, 2011 to 31st July, 2011 is to be calculated on the basis of profit earned during the immediately previous accounting year i.e. year ended on 31st March, 2011

	₹
Profit for the year ended 31st March, 2011	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 ₹ 30,000 (being the value of machinery @ 20% p.a. for 6 months)	(3,000)
Correct profit for the year ended 31st March, 2011	4,05,000

Profit for 4 months on the basis of last year's profit = ₹ 4,05,000 × $\frac{4}{12} = 1{,}35{,}000$

A's share in profit = 1,35,000 × $\frac{5}{10} = 67{,}500$

(2) Valuation of Goodwill

	₹
Profit for the year ended 31st March, 2009	3,29,000
Profit for the year ended 31st March, 2010	3,46,000
Profit for the year ended 31st March, 2011	4,05,000
Total Profit	10,80,000

Average Profit $= ₹ \frac{10,80,000}{3} = ₹\ 3,60,000$

Goodwill (two years' purchase) = ₹ 3,60,000 × 2 = ₹ 7,20,000

(3) Distribution of profit for 4 months ended 31st July, 2011

	₹
Net Profit (₹ 4,16,000 × $\frac{4}{12}$)	1,38,667
A's share (W. N. 1)	67,500
B's share (₹ 71,167 × $\frac{3}{5}$)	42,700
C's share (₹ 71,167 × $\frac{2}{5}$)	28,467

(4) Partners' Capital Accounts as on 31st July, 2011

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
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 ₹ 12,20,000 × $\frac{6}{100} \times \frac{2}{12}$ = ₹ 12,200

Or

(ii) Profit earned out of unsettled capital

$$₹\ 4,16,000 \times \frac{2}{12} \times \frac{₹\ 12,20,000}{₹\ (12,20,000+9,54,600+8,44,067)} = ₹\ 28,021 \text{ (approx.)}$$

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 ₹ 28,021.

(6) Distribution of profit for 2 months ended 31st Oct, 2011

		₹
Net profit	(₹ 4,16,000 × $\frac{2}{12}$)	69,333
A's executor's share (W. N. 5)		28,021
B's share	(₹ 41,312 × $\frac{3}{5}$)	24,787
C's share	(₹ 41,312 × $\frac{2}{5}$)	16,525

(7) A's Executor's Account

	₹		₹
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, 2011 to 30th Sept., 2011)

Dr.	*B*	*C*		*B*	*C*
	₹	₹		₹	₹
To Drawings	10,000	10,000	By Balance 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, 2012

	₹
Net profit (₹ 4,16,000 × $\frac{6}{12}$)	2,08,000
B's share (₹ 2,08,000 × $\frac{9}{20}$)	93,600
C's share (₹ 2,08,000 × $\frac{6}{20}$)	62,400
D's share (₹ 2,08,000 × $\frac{5}{20}$)	52,000

(11) Partner's Capital Accounts as on 31st March, 2012

	B ₹	C ₹	D ₹		B ₹	C ₹	D ₹
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. 2011. 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, 2011:

Liabilities		₹	*Assets*		₹
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 ₹ 60,000 being the proceeds of the sale during the year of premises costing ₹ 70,000.*

(ii) *Machinery having a net book value of ₹ 4,300 had been scrapped during the year. The original cost was ₹ 12,300.*

(iii) *₹ 2,000 paid for the License fee for the year ending 30th September, 2011 had been written off.*

(iv) *Debts amounting to ₹ 10,420 were considered to be bad and further debts amounting to ₹ 5,400 were considered doubtful and required 100% provision. Provision for doubtful debts had previously been made for ₹ 10,000.*

(v) *An item in the Inventory was valued at ₹ 37,400, but had a realisable value of ₹ 26,000 only. Scrap Material having a value of ₹ 6,600 had been omitted from the stock valuation.*

(vi) *The cashier had misappropriated ₹ 700.*

(vii) The cash-book for the year ending 31st March, 2011 included payments amounting to ₹ 6,924, the cheques having been made out, but not dispatched to suppliers until April 2011.

(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, 2011

		₹			₹
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 (License fee)		1,000
To Cash (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, 2011

	Mr. A	*Mr. B*		*Mr. A*	*Mr. B*
31.3.2011	₹	₹	*31.3.2010*	₹	₹
To Drawings	40,000	76,000	By Balance b/d	4,02,000	2,00,000
To Profit & Loss			31.3.2011		
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

	₹		₹
To Bad Debts	10,420	By Balance b/d	10,000
To Balance c/d (required)	5,400	By Profit & Loss Adjustment A/c (bal.fig.)	5,820
	15,820		15,820

(2) Interest on Capitals

Mr. A ₹ 3,62,000 × 9% p.a. = ₹ 32,580

Mr. B ₹ 1,24,000 × 9% p.a. = ₹ 11,160

Note : Misappropriation by cashier may be debited to cashier also. In that case, ₹ 700 will not be debited to Profit and Loss Adjustment Account and profit transferred to partners will be ₹ 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, 2011 was as follows :

		₹			₹
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, 2011. 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 1.1.2012 and it was agreed that of the amount then remaining due to him a sum of ₹ 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) ₹ 10,000 should be written off from the premises.

(ii) Plant and Machinery was revalued at ₹ 58,000.

(iii) Provision for doubtful debts to be increased by ₹ 1,200

(iv) ₹ 5,000 due to creditors for expenses had been omitted from the books of account.

(v) ₹ 4,000 to be written off on stocks.

(vi) Provide ₹ 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 ₹ 80,000 should be charged for remuneration to partners. The necessary profits before charging such remuneration were:

Year ending 30.12.2009	*₹ 1,44,000*	
Year ending 31.12.2010	*₹ 1,68,000*	
Year ending 31.12.2011	*₹ 1,88,200*	*(As per draft accounts)*

It was agreed that, for the purpose of valuing goodwill, the amount of profit for the year 2011 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, 2012.

Answer

(i) Revaluation Account

	₹			₹
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 ₹
To Revaluation 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

	₹		₹
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, 2012

Liabilities		₹	*Assets*		₹
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, 2011

		₹
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.2011 (adjusted)	1,68,000
Profit for the year ending 31st Dec. 2010	1,68,000
Profit for the year ending 31st Dec. 2009	1,44,000
	4,80,000
Average Profits before partners' salaries	1,60,000
Less: Partners' 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 31.3.2011 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 31.3.2011:

Liabilities	₹	Assets	₹
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 ₹ 30,000.*

(b) *Land and Building to be valued at ₹ 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 31.3.2008 – Profit ₹ 50,000

Year ended 31.3.2009 – Profit ₹ 60,000

Year ended 31.3.2010 – Profit ₹ 55,000

(g) *Out of the amount due to Robert ₹ 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*
		₹	₹	₹	₹			₹	₹	₹	₹
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 31.3.2011
after the admission of Richard

Liabilities	₹	*Assets*	₹
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

	₹			₹
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 31.3.2008	50,000
Profit for the year ended 31.3.2009	60,000
Profit for the year ended 31.3.2010	55,000
	1,65,000

$$\text{Average profit} = \frac{1,65,000}{3} = ₹\ 55,000$$

Goodwill = ₹ 55,000 × 2 years = ₹ 1,10,000.

(3) Bank Account

	₹		₹
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 31.12.2011:

Liabilities	₹	*Assets*	₹
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 ₹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 ₹10,000.*

(vi) *Investments worth ₹ 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

		₹			₹
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 31.12.2011

Liabilities	₹	*Assets*	₹
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 = ₹ 11,70,000

B = ₹ 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

Question 7

P, Q, R are three doctors who are running a Polyclinic. Their capital on 31st March, 2009 was ₹ 1,00,000 each. They agreed to admit X, Y and Z as partners w.e.f. 1st April 2009. The terms for sharing profits & losses were as follows:

(a) *70% of the visiting fee is to go to the specialist concerned.*

(b) *50% of the chamber fee will be payable to the individual specialist.*

(c) *40% of operation fee and fee for pathological reports, X-rays and ECG will accrue in favour of the doctor concerned.*

(d) *Balance of profit or loss is shared equally.*

(e) *All the partners are entitled for 6% interest on capital employed.*

They further agreed that:

* 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.

(i) *X, Y and Z brought in ₹ 20,000 each as goodwill. Goodwill is shared by the existing partners equally.*

(ii) *X, Y and Z brought in ₹ 50,000 each as capital. Each of the original partners also contributed ₹ 50,000 by way of capital.*

The receipts for the year after admission of new partners were:

Name of doctors	Particulars	Visiting Fees (₹)	Chambers Fees (₹)	Fees for reports, operation etc. (₹)
P	*General Physician*	*1,50,000*	*2,00,000*	-
Q	*Gynecologist*	*25,000*	*1,75,000*	*1,00,000*
R	*Cardiologist*	-	*1,00,000*	*75,000*
X	*Child Specialist*	*1,00,000*	*1,50,000*	-
Y	*Pathologist*	-	-	*1,00,000*
Z	*Radiologist*	-	*40,000*	*2,00,000*
	Total	*2,75,000*	*6,65,000*	*4,75,000*

Expenses for the year were as follows:

Particulars	*₹*
Medicines, injections and other consumables	*1,00,000*
Printing and stationery	*5,000*
Telephone expenses	*5,000*
Rent	*42,000*
Power and light	*10,000*
Nurses salary	*20,000*
Attendants wages	*20,000*
Total	*2,02,000*
Depreciation:	
X-Ray machines	*15,000*
ECG equipments	*5,000*
Furniture	*5,000*
Surgical equipments	*5,000*
Total Depreciation	*30,000*

You are requested to:

(i) Pass necessary journal entries on admission of partners.

(ii) Prepare the Profit and Loss Account of the polyclinic for the year ended 31st March, 2010.

(iii) Prepare capital accounts of all the partners at the end of the financial year 2009-10. Also show the distribution of profit among partners.

Answer

(i) Journal Entries (on admission of partners)

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
1st April, 2009	X's capital A/c	Dr.	20,000	
	Y's capital A/c	Dr.	20,000	
	Z's capital A/c	Dr.	20,000	
	To P's capital A/c			20,000
	To Q's capital A/c			20,000
	To R's capital A/c			20,000
	(Being goodwill adjusted through capital accounts)			
	Bank A/c	Dr.	2,10,000	
	To X's capital A/c (20,000 + 50,000)			70,000
	To Y's capital A/c (20,000 + 50,000)			70,000
	To Z's capital A/c (20,000 + 50,000)			70,000
	(Being goodwill and capital brought in by new partners)			
	Bank A/c	Dr.	1,50,000	
	To P's capital A/c			50,000
	To Q's capital A/c			50,000
	To R's capital A/c			50,000
	(Being capital brought in by existing partners)			

(ii) Profit & Loss Account
for the year ended 31st March, 2010

Particulars	(₹)	Particulars	(₹)
To Medicines, injections and other consumables	1,00,000	By Visiting fee	2,75,000
To Printing and stationery	5,000	By Chamber fee	6,65,000
To Telephone expenses	5,000	By Fee for report, operation etc.	4,75,000
To Rent	42,000		
To Power and light	10,000		
To Nurses salary	20,000		
To Attendants wages	20,000		
To Depreciation			
X-ray machine 15,000			
ECG equipment 5,000			
Furniture 5,000			
Surgical equipment 5,000	30,000		
To Interest on capital (W.N.3)	39,600		
To Net profit transferred to partners' capital accounts	11,43,400		
	14,15,000		14,15,000

(iii) Partners' Capital Accounts
for the year ended 31st March, 2010

Debit side

Particulars	*P*	*Q*	*R*	*X*	*Y*	*Z*
	₹	₹	₹	₹	₹	₹
To P, Q & R A/cs (Goodwill)	-	-	-	20,000	20,000	20,000
To Balance c/d	4,56,600	3,96,600	3,31,600	2,69,400	1,64,400	2,24,400
	4,56,600	3,96,600	3,31,600	2,89,400	1,84,400	2,44,400

Credit side

Particulars	*P* ₹	*Q* ₹	*R* ₹	*X* ₹	*Y* ₹	*Z* ₹
By Balance b/d	1,00,000	1,00,000	1,00,000	-	-	-
By X, Y & Z A/cs (Goodwill)	20,000	20,000	20,000	-	-	-
By Bank	50,000	50,000	50,000	70,000	70,000	70,000
By Interest on capital (W.N.3)	10,200	10,200	10,200	3,000	3,000	3,000
By Fee (share) (W.N.1)	2,05,000	1,45,000	80,000	1,45,000	40,000	1,00,000
By Profit (share) (W.N.2)	71,400	71,400	71,400	71,400	71,400	71,400
	4,56,600	3,96,600	3,31,600	2,89,400	1,84,400	2,44,400

Working Notes:

1. **Statement showing distribution of fee among partners**

Partner Name	*Visiting fees (70%) (₹.)*	*Chamber fees (50%) (₹)*	*Operations fees (40%) (₹)*	*Total (₹)*
P	1,05,000	1,00,000	-	2,05,000
Q	17,500	87,500	40,000	1,45,000
R	-	50,000	30,000	80,000
X	70,000	75,000	-	1,45,000
Y	-	-	40,000	40,000
Z	-	20,000	80,000	1,00,000
	1,92,500	3,32,500	1,90,000	7,15,000

2. **Statement showing distribution of profit among partners**

	₹
Profits as per profit and loss account	11,43,400
Less: Fee payable to partners	(7,15,000)
Profit to be divided equally among partners	4,28,400

Share of each partner in remaining profit = ₹ 4,28,400/6 = ₹71,400.

3. Interest on capital employed

	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
Opening balance	1,00,000	1,00,000	1,00,000	-	-	-
Add: Premium for goodwill shared equally by old partners	20,000	20,000	20,000	-	-	-
Add: Capital brought in cash	50,000	50,000	50,000	50,000	50,000	50,000
	1,70,000	1,70,000	1,70,000	50,000	50,000	50,000
Interest @ 6%	10,200	10,200	10,200	3,000	3,000	3,000

Total interest = ₹ 39,600.

Note: It is assumed that amount of premium for goodwill brought in by new partners X, Y and Z has not been withdrawn by old partners P, Q and R and it is still kept in the business.

Question 8

The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2008 stood as follows:

Liabilities		*Amount*	*Assets*		*Amount*
		₹			₹
Capital:			*Land & Buildings*		*74,000*
Amitabh	*60,000*		*Investments*		*10,000*
Abhishek	*40,000*		*Goodwill*		*37,800*
Amrish	*40,000*	*1,40,000*	*Life Policy (at surrender value):*		
Creditors		*25,800*	*Amitabh*		*2,500*
General Reserve		*8,000*	*Abhishek*		*2,500*
Investment Fluctuation Reserve		*2,400*	*Amrish*		*1,000*
			Stock		*20,000*
			Debtors	*20,000*	
			Less: Provision for doubtful debts	*(1,600)*	*18,400*
			Cash & bank balance		*10,000*
		1,76,200			*1,76,200*

Amrish died on 31 March, 2009, due to this reason the following adjustments were agreed upon:

(i) Land and Buildings be appreciated by 50%.

(ii) Investment be valued at 6% less than the cost.

(iii) All debtors (except 20% which are considered as doubtful) were good.

(vi) Stock to be reduced to 94%.

(v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(vi) Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceeding the year of death.

The profits of the last five years are as follows:

Year	*Rs.*
2004	*23,000*
2005	*28,000*
2006	*18,000*
2007	*16,000*
2008	*20,000*
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of Rs.1,000 is payable every year on 1st August.

Give the necessary Journal Entries in the books of account and prepare the Balance Sheet of the reconstituted firm.

Answer

Journal Entries

Particulars			*Amount*	*Amount*
1.	Insurance Company's A/c	Dr.	10,000	
	To Life Policy A/c			10,000
	(Being the policy on the life of Amrish matured on his death)			
2.	Life Policy A/c	Dr.	9,000	
	To Amitabh's Capital A/c			3,000
	To Abhishek's Capital A/c			3,000

	To Amrish's Capital A/c			3,000
	(Being the transfer of balance in life policy account to all partners' capital accounts)			
3.	Amitabh's Capital A/c	Dr.	12,600	
	Abhishek's Capital A/c	Dr.	12,600	
	Amrish's Capital A/c	Dr.	12,600	
	To Goodwill A/c			37,800
	(Being goodwill standing in the books written off fully)			
4.	Land & Buildings A/c	Dr.	37,000	
	To Revaluation A/c			37,000
	(Being an increase in the value of assets recorded)			
5.	Investment Fluctuation Reserve A/c	Dr.	600	
	To Investment A/c			600
	(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6.	Revaluation A/c	Dr.	3,600	
	To Stock A/c			1,200
	To Provision for Doubtful Debts A/c			2,400
	(Being the fall in value of assets recorded)			
7.	Amitabh's Capital A/c	Dr.	3,500	
	Abhishek's Capital A/c	Dr.	3,500	
	To Amrish's Capital A/c			7,000
	(Being the share of Amrish's revalued goodwill adjusted through capital accounts of the remaining partners)			
8.	Profit & Loss Suspense Account	Dr.	1,500	
	To Amrish's Capital A/c			1,500
	(Being Amrish's Share of profit to date of death credited to his account)			
9.	Revaluation A/c	Dr.	33,400	
	To Amitabh's Capital A/c			11,133
	To Abhishek's Capital A/c			11,133

	To Amrish's Capital A/c			11,134*
	(Being the transfer of profit on revaluation)			
10.	General Reserve A/c	Dr.	8,000	
	Investment Fluctuation Reserve A/c (₹ 2,400 - ₹ 600)	Dr.	1,800	
	To Amitabh's Capital A/c			3,267
	To Abhishek's Capital A/c			3,267
	To Amrish's Capital A/c			3,266
	(Being the transfer of accumulated profits to capital accounts)			
11.	Amrish's Capital A/c	Dr.	53,300	
	To Amrish's Executor's A/c			53,300
	(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			

Balance Sheet
as at 31st March, 2009

Liabilities	*Amount*	*Assets*		*Amount*
Amithabh's Capital Account	61,300	Land & Building		1,11,000
Abhishek's Capital Account	41,300	Life Policy: Amitabh	2,500	
Amrish's Executor's Account	53,300	Abhishek	2,500	5,000
Sundry Creditors	25,800	Investments		9,400
		Stock		18,800
		Debtors	20,000	
		Less: Provisions	(4,000)	16,000
		Insurance Company		10,000
		Cash & Bank Balance		10,000
		Profit and loss Suspense A/c		1,500
	1,81,700			1,81,700

Working Notes:

(i) Calculation of Amrish's Share of Profit

Total profit for last three years ₹ 18,000 + ₹ 16,000 + ₹ 20,000= ₹ 54,000

Average profit 54,000/3 = ₹ 18,000

Profit for 3 months = 18,000 x 3/12 = ₹ 4,500

* Rounded off.

Amrish's share of Profit = 4,500 x 1/3 = ₹ 1,500

(ii) Calculation of Goodwill

Total profits for last five years ₹ 1,05,000

Average profit 1,05,000/5 = ₹ 21,000

Goodwill at one year's purchase ₹ 21,000 x 1 =₹ 21,000

Question 9

A, B and C run a business sharing profits and losses in proportion of 2:2:1. On 1st January, 2008 their respective capitals were Rs.96,000, Rs.90,000 and Rs.84,000. On 30th June, 2008 the following was the position:

	₹
Creditors	*30,000*
Furniture	*9,000*
Book debts	*1,80,000*
Stock	*90,000*
Cash in hand and at bank	*36,000*

The drawings of the partners respectively were Rs.12,000, Rs.9,000 and Rs.6,000 during the half-year. Each partner is entitled to an interest at the rate of 5% p.a. on capital. Interest on drawings was calculated as Rs.600 for A, Rs.450 in case of B and Rs.300 in case of C.

You are required to prepare:

(i) A statement of affair as on 30th June, 2008.

(ii) Calculate the profits for the half-year ending on 30th June, 2008 and allocate the same amongst the partners. Also calculate capital of each partner as on 30th June, 2008.

Answer

(i) Statement of Affairs of A, B & C

As on 30th June, 2008

Liabilities	₹	*Assets*	₹
Capital (Bal. Fig.)	2,85,000	Furniture	9,000
Creditors	30,000	Stock	90,000
		Book debts	1,80,000
		Cash in hand and at bank	36,000
	3,15,000		3,15,000

(ii) Statement showing Profit and Loss of partners A, B and C for six months ending on 30th June, 2008

Particulars	₹
Capital as on 30th June, 2008	2,85,000
Add: Drawings of A, B and C (₹ 12,000 + ₹ 9,000 ₹ 6,000)	27,000
Add: Interest on drawings of A, B and C (₹ 600 + ₹ 450 + ₹ 300)	1,350
	3,13,350
Less: Interest on capital of A, B and C (₹ 2,400+₹ 2,250+₹ 2,100)	(6,750)
	3,06,600
Less: Capital as on 1st January, 2008 of A, B and C (₹ 96,000 + ₹ 90,000 + ₹ 84,000)	(2,70,000)
Net Profit	36,600

Statement showing allocation of profits and other adjustments in the capital accounts of A, B and C

Particulars	*A (₹)*	*B (₹)*	*C (₹.)*
Capital as on 1st January, 2008	96,000	90,000	84,000
Add: Net profit in the ratio of 2:2:1	14,640	14,640	7,320
Add: Interest on capital @ 5% p.a. for 6 months	2,400	2,250	2,100
	1,13,040	1,06,890	93,420
Less: Drawings	(12,000)	(9,000)	(6,000)
Less: Interest on drawings	(600)	(450)	(300)
Capital as on 30th June, 2008	1,00,440	97,440	87,120

Question 10

'A' and 'B' are partners sharing Profits and Losses in the ratio of 3:1. Their capitals were ₹ 3,00,000 and ₹ 2,00,000 respectively. As from 1st April, 2009, it was agreed to change the profit sharing ratio to 3:2. According to the partnership deed, goodwill should be valued at two years' purchase of the average of three years' profits. The profits of the previous three years ending 31st March were:

2007-₹.1,50,000; 2008-₹2,00,000 and 2009-₹2,50,000. Pass the necessary journal entry to give effect to the above arrangement in the capital accounts of the partners.

Answer

Journal Entry

	₹	₹
B's Capital A/c Dr.	60,000	
To A's Capital A/c		60,000
(Being the adjusting entry for goodwill, passed due to change in profit and loss sharing ratio, through capital accounts of partners)		

Working Notes:

1. Calculation of Goodwill

	₹.
Profit for the year 2007	1,50,000
Profit for the year 2008	2,00,000
Profit for the year 2009	2,50,000
Total profit of 3 years	6,00,000

Average Profit = $\frac{6,00,000}{3} = ₹\ 2,00,000$

Goodwill = ₹2,00,000 × 2 = ₹4,00,000

2. Effect of change in Profit Sharing Ratio

Old ratio of A and B = 3 : 1

New ratio of A and B = 3 : 2

Gaining Ratio = New Ratio – Old Ratio

For A = $\frac{3}{5} - \frac{3}{4} = \frac{12-15}{20} = \frac{3}{20}$ i.e. A loses by $\frac{3}{20}$

For B = $\frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$ i.e. B gains by $\frac{3}{20}$

3. Amount of compensation payable by B to A

$\frac{3}{20} \times ₹\ 4,00,000 = ₹60,000$

Question 11

Good, Better and Best are in partnership sharing profits and losses in the ratio 3:2:4. Their capital account balances as on 31st March, 2012 are as follows:

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

Following further information provided:

(1) ₹ 22,240 is to be transferred to General Reserve.

(2) Good, Better and Best are paid monthly salary in cash amounting ₹ 2,400, ₹ 1,600 and ₹ 1,800 respectively.

(3) Partners are allowed interest on their closing capital balance @ 6% p.a. and are charged interest on drawings @ 8% p.a.

(4) Good and Best are entitled to commission @ 8% and 10% respectively of the net profit before making any appropriation.

(5) Better is entitled to commission @ 15% of the net profit before charging Interest on Drawings but after making all other appropriations.

(6) During the year Good withdraw ₹ 2,000 at the beginning of every month, Better ₹ 1,750 at the end of every month and Best ₹ 1,250 at the middle of every month.

(7) Firm's Accountant is entitled to a salary of ₹ 2,000 per month and a commission of 12% of net profit after charging such commission.

The Net Profit of the firm for the year ended on 31st March, 2012 before providing for any of the above adjustments was ₹ 2,76,000.

You are required to prepare Profit and Loss Appropriation Account for the year ended on 31st March, 2012

Answer

Profit and Loss Appropriation Account

	Particulars	₹		Particulars	₹
To	General reserve	22,240	By	Net Profit (See W.N.1)	2,25,000
To	Salaries to partners		By	Interest on drawings (W.N.3)	2,410
	Good 28,800			Good 1,040	
	Better 19,200			Better 770	
	Best 21,600	69,600		Best 600	
To	Interest on Capital				

	Good 10,200			
	Better 6,600			
	Best 7,320	24,120		
To	Commission to partners			
	Good 18,000			
	Better 10,281 (W.N.4)			
	Best 22,500	50,781		
To	Partners' Capital A/cs (profit)			
	Good 20,223			
	Better 13,482			
	Best 26,964	60,669		
		2,27,410		2,27,410

Working Notes:

1. Profit and Loss Account

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

2. Commission of Firm's Accountant

$$= \frac{\text{Profit after salary of firm's accountant}}{(100+12)\%} \times 12\%$$

$$= \frac{(2{,}76{,}000 - 24{,}000)}{(100+12)\%} \times 12\% \ = ₹\ 27{,}000$$

3. Interest on Drawings

		₹
Good (at the beginning of every month)	(₹2,000 x 6.5 x 8%)	1,040
Better (at the end of every month)	(₹1,750 x 5.5 x 8%)	770
Best (at the middle of every month)	(₹1,250 x 6 x 8%)	600
		2,410

4. Commission of Better

Commission of Better = [Net profit for appropriation (excluding interest on drawings) - General reserve – Interest on capital - Salaries to partners – Commission to Good and Best] x 15%

Commission to Better = ₹ [2,25,000 – 22,240 – 24,120 – 69,600– 18,000 – 22,500] x 15%

= ₹ 68,540 x 15% = ₹ 10,281

Question 12

X, Y and Z are partners sharing profits an losses in the ratio of 4:3:2 respectively. On 31st March, 2012 Y retires and X and Z decide to share profits and losses in the ratio of 5:3. Then immediately, W is admitted for 3/10th shares in profits, 2/3rd of which was given by X and rest was taken by W from Z . Goodwill of the firm is valued at ₹ 2,16,000. W brings required amount of goodwill.

Give necessary Journal Entries to adjust goodwill on retirement of Y and admission of W if they do not want to raise goodwill in the books of accounts.

Answer

Journal Entries

Date	*Particulars*	*L.F.*	*Dr. (₹)*	*Cr.(₹)*
31.3.12	X's capital A/c Dr.		39,000	
	Z's capital A/c Dr.		33,000	
	To Y's capital A/c (3/9 x ₹ 2,16,000)			72,000
	(Being Y's share of goodwill adjusted in the capital accounts of gaining partners in their gaining ratio 13:11 – Refer Working Note.)			
	Cash A/c Dr.		64,800	
	To W's capital A/c (3/10 x ₹ 2,16,000)			64,800
	(Being the amount of goodwill brought in by W)			
	W's capital A/c Dr.		64,800	
	To X's capital A/c			43,200
	To Z's capital A/c			21,600
	(Being the goodwill credited to sacrificing partners in their sacrificing ratio 2:1)			

Working Note:

Calculation of gaining ratio of X and Z

Gaining ratio = New ratio – Old ratio

For X = 5/8-4/9 = 13/72

Z = 3/8-2/9 = 11/72

Gaining ratio = 13:11

Question 13

A and B are in partnership sharing profits and losses in the ratio of 3:2. The capitals of A and B are ₹ 80,000 and ₹ 60,000 respectively. They admit C as a partner who contributes ₹ 35,000 as capital for 1/5th share of profits to be acquired equally from both A & B. The capital accounts of old partners are to be adjusted on the basis of the proportion of C's capital to his share in the business. Calculate the amount of actual cash to be paid off or brought in by the old partners for the purpose and pass the necessary journal entries.

Answer

Share of profit taken from A and B each= 1/5 x 1/2 = 1/10 each

Calculation of New Profit Sharing Ratio

	A	B
Existing ratio	3/5	2/5
Less: Share of profit transferred to C	(1/10)	(1/10)
New share	5/10	3/10

New profit sharing ratio of A:B:C = 5/10 : 3/10 : 2/10

Calculation of Total Capital of the Reconstituted Firm

Capital brought in by C for 1/5th share = ₹ 35,000

Total Capital = ₹ 35,000 x (5/1) = ₹ 1,75,000

Calculation of Actual Cash to be paid or brought in by old partners

	A (₹)	B (₹)	C (₹)
New capital of ₹ 1,75,000 distributed in the ratio 5:3:2	87,500	52,500	35,000
Less: Adjusted old capital of A & B	(80,000)	(60,000)	-
Cash brought in	7,500		35,000
Cash to be paid		(7,500)	

Journal Entries

Particulars	*L.F.*	*Dr. Amount* ₹	*Cr. Amount* ₹
Cash A/c Dr.		7,500	
To A's Capital A/c			7,500
(Being the shortage of capital brought in cash by A)			

B's Capital A/c Dr.		7,500	
To Cash A/c			7,500
(Being the excess capital withdrawn by B)			

Note: Entries for cash brought in and paid off only, have been passed.

Question 14

Arun and Varun were partners sharing profits in the ratio of 13 : 11 respectively. On 1st April, 2012 they admitted Tarun as a new partner on the following conditions:

(i) All partners would share profits equally in the new firm.

(ii) Tarun would bring in ₹ 52,000 as his capital and ₹ 36,000 as his share of goodwill. No goodwill account appeared in the books of the firm at the time of Tarun's admission and it was decided not to open any goodwill account. Adjustment for Tarun's goodwill being made through capital accounts.

Pass journal entries to record all the transactions on Tarun's admission.

Clearly show the calculation of ratio of sacrifice.

Answer

Journal Entries on Tarun's admission

Year 2012			*Dr. ₹*	*Cr. ₹*
1st April	Bank A/c	Dr.	88,000	
	To Tarun's Capital A/c (52,000 + 36,000)			88,000
	(Being amount brought by Tarun towards his capital and share of goodwill)			
	Tarun's Capital A/c	Dr.	36,000	
	To Arun's Capital A/c			22,500
	To Varun's Capital A/c			13,500
	(Being Tarun's share of goodwill in the firm ₹ 36,000, has been credited to the old partners in the sacrificing ratio 5:3)			

Note: In place of above entries, 'Premium on goodwill' or 'Goodwill A/c' may also be opened instead of 'Tarun's capital A/c', for share of goodwill brought by him in cash.

Working Note:

Calculation of Sacrificing Ratio

	Old Ratio	*New Ratio*	*Sacrificing Ratio (Old – new)*
Arun	13/24	1/3	(13/24 – 1/3) = 5/24
Varun	11/24	1/3	(11/24 – 1/3) = 3/24
Tarun	--	1/3	--

Therefore, sacrificing ratio is 5:3.

Question 15

Atul, Balbir and Chatur were carrying on a business in partnership sharing profits in the ratio of 5 : 3 : 2 respectively. On 31st March, 2012 their Balance Sheet stood as follows:

Liabilities	₹	Assets	₹	₹
Atul's Capital	6,25,000	Goodwill		80,000
Balbir's Capital	3,75,000	Land and Buildings		7,00,000
Chatur's Capital	2,50,000	Furniture		1,65,000
General Reserve	1,00,000	Stock		2,86,000
Trade Creditors	2,10,000	Trade Debtors	1,80,000	
		Less: Provision for Doubtful Debts	3,600	1,76,400
		Cash at Bank		1,52,600
Total	15,60,000	Total		15,60,000

Atul retired on the above mentioned date and partners agreed that :

(i) The current value of goodwill be taken to be equal to the book value of the asset.

(ii) Land and Buildings be considered worth ₹ 9,00,000.

(iii) The provision for bad debts on trade debtors be raised to 5%.

(iv) Provision be made for compensation of ₹ 5,000 to an ex-employee.

(v) Half of the amount due to Atul be paid immediately in cash and the balance be treated as 10% loan, repayable within 3 years.

In order to facilitate cash payment to Atul, Balbir and Chatur brought in ₹ 3,00,000 in the ratio of 3 : 2 respectively.

Prepare Revaluation Account, the Capital Accounts of all the partners and Bank Account. Also draw the Initial Balance Sheet of Balbir and Chatur, immediately after Atul's retirement after writing off goodwill.

Answer

Revaluation Account

			₹		₹
To	Provision for doubtful debts [(5% of 1,80,000) – 3,600]		5,400	By Land and Buildings	2,00,000
To	Provision for compensation		5,000		
To	Partners' Capital Accounts (Profit)				
	Atul	94,800			
	Balbir	56,880			
	Chatur	37,920	1,89,600		
			2,00,000		2,00,000

Partners' Capital Accounts

	Particulars	Atul	Balbir	Chatur		Particulars	Atul	Balbir	Chatur
		₹	₹	₹			₹	₹	₹
To	Goodwill (5:3:2)	40,000	24,000	16,000	By	Balance b/d	6,25,000	3,75,000	2,50,000
To	Cash A/c	3,84,900			By	General Reserve	50,000	30,000	20,000
To	10% Loan	3,84,900			By	Revaluation A/c	94,800	56,880	37,920
To	Atul's Capital A/c	-	24,000	16,000	By	Balbir's & Chatur's Capital Accounts	40,000		
To	Balance c/d		5,93,880	3,95,920	By	Cash A/c		1,80,000	1,20,000
		8,09,800	6,41,880	4,27,920			8,09,800	6,41,880	4,27,920

Bank Account

		₹			₹
To	Balance b/d	1,52,600	By	Atul's Capital A/c	3,84,900
To	Balbir's capital A/c	1,80,000	By	Balance c/d	67,700
To	Chatur's capital A/c	1,20,000			
		4,52,600			4,52,600

Balance Sheet of Balbir and Chatur as at 31.03.2012 (after Atul's retirement)

Liabilities	₹	*Assets*		₹
Capital Accounts:		Land and Buildings		9,00,000
Balbir	5,93,880	Furniture		1,65,000
Chatur	3,95,920	Stock		2,86,000
10% Loan from Atul	3,84,900	Trade Debtors	1,80,000	
Trade Creditors	2,10,000	*Less*: Provision for doubtful debts	(9,000)	1,71,000
Provision for Compensation	5,000	Cash at Bank		67,700
	15,89,700			15,89,700

EXERCISES

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, 2011 :

(i) the net profit before tax and before making any payment to partners amounted to ₹ 6,90,000;

(ii) interest on capitals at 15% per annum amounted to :

(iii) ₹ 60,000 for X; ₹ 1,50,000 for Y Ltd. and ₹ 1,80,000 for Z Ltd. The capitals have remained unchanged during the year;

Provision for tax is to be at 40% of "total income" of the firm. The total income has been computed at ₹ 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.

(Hints: Investment in partnership with Shri X and Z Ltd. ₹ 12,02,800)

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, 2011, when the firm's balance sheet was as under*

₹ in thousand

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, 2011 in thousands of rupees were:

	₹ in thousand
2007-2008	450
2008-2009	250
2009-2010	600
2010-2011	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, 2011, 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

(Hints: New ratio 11:7:6; Total of Balance Sheet ₹66,00,000)

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

"ERP package is gaining popularity in big organizations." Briefly explain the advantages and disadvantages of using an ERP package, in the light of above statement.

Answer

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

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 3

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 get 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.

Question 4

"Recently a growing trend has developed for outsourcing the accounting function". Explain the advantages and disadvantages of outsourcing the accounting functions.

Answer

Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilise the expertise of the outsourced party.

Advantages

1. Saving of Time: The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.
2. Expertise of the third party: The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
3. Maintenance of data: Storage and maintenance of the data is in the hand of professional people.
4. Economical: The organisation is not bothered about people leaving the organisation in key accounting positions. The proposition is proving to be economically and more sensible as they do not have train the people again. Hence, the training cost is saved.1.

Disadvantages

1. Lack of security & confidentiality*:* The data of the organisation is handed over to a third party This raises two issues, one of security and second of confidentiality. There have been instances of information leaking out of the third party data centres.
2. Inadequate services provided : The third party is unable to meet the standards desirable.
3. High cost*:* The *cost* may ultimately be higher than initially envisaged.

4. Delay in obtaining services*:* The third party service providers are catering to number of clients thereby processing as per priority basis.

Question 5

Write any four disadvantages of Pre-packaged Accounting Software.

Answer

Disadvantage of Pre-packaged Accounting Software:

1. *Lesser Flexibility: Business today is becoming more and more complex. A standard package may not be able to take care of these complexities i.e. it does not cover peculiarities of specific business. Therefore, customization may not be possible in such softwares.*
2. *Covers only few functional areas and only main reports are covered: Many pre-packaged accounting softwares do not cover all functional areas. For example, production process may not be covered by most pre-packaged accounting softwares. The demands for modern day business may make the management desire for several other reports for exercising management control. These reports may not be available in a standard package.*
3. *Lack of security: Any person can view data of all companies with common access password. Levels of access control as we find in many customised accounting software packages are generally missing in a pre-packaged accounting package.*
4. *Bugs in the software: Certain bugs may remain in the software which takes long time to be rectified by the vendor and is common in the initial years of the software*.

Question 6

"In business today, the accounts which were earlier maintained in a manual form, are replaced with computerized accounts". Explain the significance of computerized accounting system in modern time.

Answer

In modern time, computerized accounting systems are used in various areas. The significance of the computerized accounting system is as follows:

(1) Increase speed, accuracy and security - In computerized accounting system, the speed with which accounts can be maintained is several fold higher. Besides speed, level of accuracy is also high in computerized accounting system.

(2) Reduce errors - In computerized accounting, the possibilities of errors are also very less unless some mistake is made while recording the data.

(3) Immediate information - In this system, with an entry of a transaction, corresponding ledger posting is done automatically. Hence, trial balance will also be automatically tallied and the user will get the information immediately.

(4) Avoid duplication of work - Computerized accounting systems also remove the duplication of the work.