CMA INTER

PAPER – 6 FINANCIAL ACCOUNTING

1. FUNDAMENTALS & INTRODUCTION TO FINANCIAL ACCOUNTING

Problem No. 1 Answer:

Books of Vikas and Vaibhavi

	Journal			Dr.	Cr.
Date	**Particulars**	**L.F.**	**V.N.**	**(Rs.)**	**(Rs.)**
2022 April 1	Cash A/c……. Dr. To, Vikas's Capital A/c To, Vaibhavi's Capital A/c (Being capital brought by the partner)			7,50,000	 5,00,000 2,50,000
April10	Furniture A/c………. Dr. To, Cash A/c (Being furniture purchased in cash)			25,000	 25,000
April11	Bank of BB A/c……. Dr. To, Cash A/c (Being current account opened with Bank of BB)			1,00,000	 1,00,000

Date	Particulars	L.F.	V.N.	(Rs.)	(Rs.)
April15	Rent A/c…………… Dr. To, Bank of BB A/c (Being Rent paid)			15,000	 15,000
April20	Motor Car A/c ……. Dr. To, Bank of BB A/c To, Loan from HH Bank A/c (Being car purchased from Millenium Motors by making adown payment and Loan arrangements)			4,50,000	 50,000 4,00,000
April25	Bank of BB A/c……. Dr. AA Pharmaceuticals A/c….. Dr. To, Consultancy Fees A/c (Being amount received and revenue recognized for feescharged)			2,50,000 7,50,000	 10,00,000
April30	Salary A/c………. Dr. To, Salary Payable A/c (Being the entry to record salary obligation for the month.)			15,000	 15,000

Ledger

Dr. **Cash Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
1.4.22	To, Vikas's Capital A/c		5,00,000	10.4.22	By, Furniture A/c		25,000
1.4.22	To, Vaibhavi's Capital A/c		2,50,000	11.4.22	By, Bank of BB A/c		1,00,000
				30.4.22	By, Bal c/d		6,25,000
			7,50,000				7,50,000
1.5.22	To, Bal b/d		6,25,000				

Dr. **Mr.Vikas's Capital Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
30.4.22	To, Bal c/d		5,00,000	1.4.22	By, Cash A/c		5,00,000
				1.5.22	By, Bal b/d		5,00,000

Dr. **Mrs.Vaibhavi's Capital Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
30.4.22	To, Bal c/d		2,50,000	1.4.22	By, Cash A/c		2,50,000
				1.5.22	By, Bal b/d		2,50,000

Dr. **Furniture Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
1.4.22	To, Cash A/c		25,000	30.4.22	By, Bal b/d		25,000
1.5.22	To, Bal b/d		25,000				

Dr. **Bank of BB Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
11.4.22	To, Cash A/c		1,00,000	15.4.22	By, Rent A/c		15,000
25.4.22	To, Consultancy Fees A/c		2,50,000	20.4.22	By, Motor Car A/c		50,000
				30.4.22	By, Bal c/d		2,85,000
			3,50,000				3,50,000
1.5.22	To, Bal b/d		2,85,000				

Dr. **Rent Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
15.4.22	To, Bank of BB A/c		15,000	30.4.22	By, Bal c/d		15,000
1.5.22	To, Bal b/d		15,000				

Dr. **Motor Car Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
20.4.22	To, Bank of Baroda A/c		50,000	30.4.22	By, Bal c/d		4,50,000
"	To, Loan from HH Bank A/c		4,00,000				
			4,50,000				4,50,000
1.5.22	To, Bal b/d		4,50,000				

Dr. **Loan from HDFC Bank Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
30.4.22	To, Bal c/d		4,00,000	20.4.22	By, Motor Car A/c		4,00,000
				1.5.22	By, Bal b/d		4,00,000

Dr. **Avon Pharmaceuticals Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
25.4.22	To, Consultancy Fees A/c		7,50,000	30.4.22	By, Bal c/d		7,50,000
			7,50,000				

Dr. **Consultancy Fees Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
				25.4.22	By, Bank of BB A/c		2,50,000
30.4.22	To, Bal c/d		10,00,000	"	By, AA Pharmaceuticals A/c		7,50,000
			10,00,000				10,00,000
				1.5.22	By Bal b/d		10,00,000

Dr. **Salary Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
30.4.22	To, Salary Payable A/c		15,000	30.4.22	By, Bal c/d		15,000
			15,000				

Dr. **Salary Payable Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
30.4.22	To, Bal c/d		15,000	30.4.22	By, Salary A/c		15,000
							15,000
				1.5.22	By Bal b/d		

(Illustration-1)

Problem No. 2 Answer:

Books of Mr. Ratanlal

Dr. **Cash Book (Triple Column)** **Cr.**

Date	Particulars	VN	LF	Cash	Bank	Disc.	Date	Particulars	VN	LF	Cash	Bank	Disc.
2022 Mar-1	To bal b/f			20,000	26,000		Mar 3	By Office EquipmentA/c			12,000		
Mar 5	To SalesA/c			34,000			Mar 8	By Drawings A/c				22,000	
Mar 7	To Hriday A/c			32,000			Mar 10	By Bank A/c		C	31,000		
Mar 10	To Cash A/c		C		31,000		Mar 17	By Rent A/c				2,000	
Mar 17	To Mr. Sen A/c			24,000		500	Mar 19	By Drawings A/c				3,400	
Mar 19	To Mr. Ratul A/c			22,800		200	Mar 24	By Salaries A/c			12,000		
Mar 24	To Sandeep A/c			12,800			Mar 25	By Bank A/c		C	12,800		
Mar 25	To Cash A/c		C		12,800		Mar 27	By Bank Charges A/c				300	
Mar-27	To Interest A/c				200		Mar-28	By Sneha A/c			23,700		
							Mar-28	By bal c/f			54,100	42,300	
				145,600	**70,000**	**700**					**145,600**	**70,000**	**300**

(Illustration-2)

Problem No. 3 Answer:

In the Books of Ashutosh, KolkataPetty Cash Book

Receipts	Date	V/N	Particulars	Total Payment (Rs.)	Conveyance (Rs.)	Cartage (Rs.)	Stationery (Rs.)	Postage (Rs.)	Wages (Rs.)	Sundries (Rs.)
20,000	2022 Jan. 1		To Cash A/c							
	Jan. 2		By Conveyance A/c	100	100					
	Jan. 2		By Cartage A/c	500		500				

Receipts	Date	V/N	Particulars	Total Payment (Rs.)	Conveyance (Rs.)	Cartage (Rs.)	Stationery (Rs.)	Postage (Rs.)	Wages (Rs.)	Sundries (Rs.)
	Jan. 3		By Postage A/c	1,000				1,000		
	Jan. 3		By Wages A/c	1,200					1,200	
	Jan. 4		By Stationery A/c	800			800			
	Jan. 4		By Conveyance A/c	400	400					
	Jan. 5		By Repairs of Furniture A/c	3,000						3,000
	Jan. 5		By Conveyance A/c	200	200					
	Jan. 6		By Conveyance A/c	600	600					
	Jan. 6		By Cartage A/c	600		600				
	Jan. 6		By Stationery A/c	400			400			
	Jan. 6		By General Expenses A/c	1,000						1,000
				9,800	1,300	1,100	1,200	1,000	1,200	4,000
	Jan. 6		By Bal. c/d	10,200						
20,000				20,000						
10,200	Jan. 7		To bal B/d							
98,00	Jan. 7		To Cash A/c							

(Illustration-3)

Problem No. 4 Answer:

Trial Balance of Mr. Sen

Dr. **as on 31st March, 2022** **Cr.**

Heads of Accounts	**(Rs.)**	**Heads of Accounts**	**(Rs.)**
Adjusted Purchase	8,00,000	Capital	80,000
Petty Cash	10,000	Sales	10,00,000
Sales Ledger Balance	1,20,000	Current A/c	10,000

Salaries	24,000	Purchase Ledger Balance	60,000
Carriage Inward	4,000	Outstanding Expenses	10,000
Discount Allowed	10,000	Loan A/c	66,000
Building	80,000	Profit & Loss A/c (Cr.)	20,000
Prepaid Insurance	2,000	Bad Debts Recovered	2,000
Depreciation	4,000	Interest Received	10,000
Cash at Bank	80,000	Provision for Bad debts	6,000
Stock (31.03.2022)	1,20,000	General Reserve	20,000
Accrued Interest	4,000		
Investment	20,000		
Carriage outward	6,000		
	12,84,000		**12,84,000**

Note: Closing Stock will appear in Trial Balance since there is adjusted purchase.Adjusted purchase = Opening Stock + Purchase - Closing Stock.

It may be noted that if only adjusted purchase is considered then the matching concept is affected. Hence, to satisfy the matching concept, closing stock is also considered in Trial Balance.

(Illustration-6)

Problem No. 5 Answer:

(i) In the books of ……………….

Journal

Date	Particulars		Debit (Rs.)	Credit (Rs.)
31.03.22	Bad Debts A/c To, Sundry Debtors A/c (Being Bad Debts)	Dr.	2,500	 2,500

Date	Particulars		Debit (Rs.)	Credit (Rs.)
31.03.22	Provision for Bad & Doubtful Debts A/c To, Bad Debts A/c (Being Bad Debts during the year)	Dr.	12,000	 12,000
31.03.22	Profit and Loss A/c To, Provision for Bad & Doubtful Debts A/c (Being Provision for Bad Debts transferred to Profit & Loss A/c)	Dr.	15,125	 15,125

(ii) Ledger Accounts

Dr. Bad Debts Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.03.22 31.03.22	To Balance b/d To Sundry Debtors A/c	9,500 2,500	31.03.22	By Provision for Bad & Doubtful Debts A/c	12,000
		12,000			**12,000**

Dr. Provision for Bad & Doubtful Debts Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.03.22	To Bad Debts A/c	12,000	01.04.21	By Balance b/d	13,000
31.03.22	ToBalance c/d [5% on (3,25,000 - 2,500)]	16,125	31.03.22	By Profit and Loss A/c (b/fig)	15,125
		28,125			**28,125**

Dr. Sundry Debtors Account (includes) Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.03.22	To Balance b/d	3,25,000	31.03.22 31.03.22	By Bad Debts A/cBy Balance c/d	2,500 3,22,500
		3,25,000			**3,25,000**

(iii) Profit and Loss Account for the year ended 31st March, 2022 (includes)

Particulars	(Rs.)	(Rs.)
To Provision for Bad & Doubtful Debts:		
Provision as on 31.3.2022	16,125	
Add: Bad Debts (9,500 + 2,500)	12,000	
	28,125	
Less: Provision as on 1.4.2021	13,000	15,125

Balance Sheet as on 31st March, 2022 (includes)

Liabilities	(Rs.)	Assets		(Rs.)
		Sundry Debtors Less: Further Bad Debts	3,25,000 2,500	
		 Provision for Bad Debts	3,22,500 16,125	3,06,375

(Illustration-18)

Problem No. 6 Answer:

In the Books of ……

Dr. Provision for Bad Debts A/c Cr. (in '000s)

Date	Particulars	Rs. '000	Date	Particulars	Rs. '000
31.12.20	To, Bad Debts A/c	800	01.01.20	By, Balance b/d	4,550
31.12.20	To, Profit & Loss A/c	850			
31.12.20	To, Balance c/d 5% of (Rs.58,000)	2,900			
		4,550			**4,550**
31.12.21	To, Bad Debts A/c	1,500	01.01.21	By, Balance b/d	2,900
31.12.21	To, Balance c/d 5% of (Rs.40,000)	3,500	31.12.21	By, Profit & Loss A/c	600
		3,500			**3,500**

Dr. Provision for Discount on Debtors Account Cr. (in '000s)

Date	Particulars	Rs. '000	Date	Particulars	Rs. '000
31.12.20	To, Discount A/c	1,200	01.01.20	By, Balance b/d	800
31.12.20	To, Balance c/d [2% on (Rs.58,000 – Rs.2,900)]	1,102	31.12.20	By, Profit & Loss A/c	1,502
		2,302			**2,302**
31.12.21	To, Discount	500	01.01.21	By, Balance b/d	1,102
31.12.21	To, Balance c/d [2% on (Rs.40,000 – Rs.2,000)]	760	31.12.21	By, Profit & Loss A/c	158
		1,260			**1,260**

(Illustration-19)

Problem No. 8 Answer:

Bank Reconciliation Statement

as on 31st March 2022

Particulars	(Rs.)	(Rs.)
Balance as per Cash Book (Dr.)		1,58,280
Add: (b) Cheques issued on 28th March but not yet presented for payment	10,000	
(d) A cheque deposited into bank but not recorded in Cash Book	2,400	
(f) Rebate on bill not entered in Cash Book (Note)	600	

(g) Cheque wrongly credited by bank	10,000	
(i) Cheque drawn on Savings Bank A/c but wrongly recorded in Current A/c	800	23,800
		1,82,080
Less: (a) Cheques deposited on 25th March but not yet collected till 31st March	30,000	
(c) A cheque entered in Cash Book but not yet banked	4,000	
(e) Discounted Bills Receivable dishonoured but not recorded in Cash Book	2,080	56,080
(h) Amount Wrongly debited by the Bank	20,000	
Balance as per Bank Pass Book (Cr.)		1,26,000

(Illustration-4)

Problem No. 9 Answer:

In the Books of Sethi

Dr. Cash Book (Bank column only) Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
2022 Jan-31	To, Dividend on shares	3,000	2022 Jan-31	By, Balance b/f	2,50,000
	To Bal c/d	2,59,740		By, Drawings (Rs. 3840 + Rs. 2400)	6,240
				By, Interest	2500
				By, Debtors- discounted bill dishonoured	2000
		2,60,740			2,60,740
			2022 Feb:1	By, Bal b/d	2,59,740

Bank Reconciliation Statement

as on 31.01.2022

Particulars	(Rs.)	(Rs.)
Bank balance as per Cash Book (overdrawn)		2,59,740
Add: Cheques deposited but not credited in the Pass Book (4600+ 900)		5,500
		2,65,240
Less: Cheques issued but not presented for payment		27,400
Bank balance as per Pass Book (overdrawn)		2,37,840

(Illustration5)

2. ACCOUNTING FOR DEPRECIATION

Problem No. 1 Answer:

Machine No	Cost of Machine (Rs.)	Expenses incurred at the time of purchase to be capitalize (Rs.)	Total Cost of Asset = (b+c) (Rs.)	Estimated Residual Value (Rs.)	Expected Useful Life in years	Depreciation = (d-e)/f (Rs.)	Rate of Depreciation under SLM = (g/d)×100
a	**b**	**c**	**d**	**e**	**f**	**g**	**h**
1	90,000	10,000	1,00,000	20,000	8	10,000	10%
2	24,000	7,000	31,000	3,100	6	4,650	15%
3	1,05,000	20,000	1,25,000	12,500	5	22,500	18%
4	2,50,000	30,000	2,80,000	56,000	10	22,400	8%

(Illustration-8)

Problem No. 2 Answer:

Here, Total Cost of Asset = Purchased Price + Cost of Cartage and Installation

= Rs.7,00,000 + Rs.3,00,000 = Rs.10,00,000

Amount of Depreciation:

= Total Cost of Asset × Rate of Depreciation x $\frac{\text{Period from the date of purchase to date of closing accounts}}{12}$

(a) The machine was purchased on 1st April, 2021:

Amount of Depreciation = Rs.10,00,000 × 20% × $\frac{12}{12}$ = Rs.2,00,000

(b) 1st July, 2021

Amount of Depreciation = Rs.10,00,000 × 20% × $\frac{9}{12}$ = Rs.1,50,000

(c) 1st October, 2021

Amount of Depreciation = Rs.10,00,000 × 20% × $\frac{6}{12}$ = Rs.1,00,000

(d) 1st January, 2022

Amount of Depreciation = Rs.10,00,000 × 20% × $\frac{3}{12}$ = Rs.50,000

(Illustration-9)

Problem No. 3 Answer:

Year	Opening Book Value (Rs.)	Rate	Depreciation (Rs.)	Closing Book Value (Rs.)
2011	1,50,000	10%	15,000	1,35,000

2012	1,35,000	10%	13,500	1,21,500
2013	1,21,500	10%	12,150	1,09,350

Note: Cost of the machine (i.e. Opening Book Value for the year 2019)

= Cost of Purchase + Cost of Installation

= Rs.1,00,000 + Rs.50,000 = Rs.1,50,000

Sum of the Units Method:

Depreciation for the period —

Production during the year / Estimated Total Production

(Illustration-10)

Problem No. 4 Answer:

Year	Computation	Depreciation (Rs.)
1-2	$\frac{20,000}{2,00,000}$ x (60, 00, 000 - 4, 00, 000)	5,60,000
3-6	$\frac{15,000}{2,00,000}$ x (60, 00, 000 - 4, 00, 000)	4,20,000
7-10	$\frac{25,000}{2,00,000}$ x (60, 00, 000 - 4, 00, 000)	7,00,000

(Illustration11)

Problem No. 5 Answer:

In the books of Som Ltd.

Dr. **Machinery Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.04.19	To, Bank A/c	66,000	31.03.20	By, Depreciation A/c	5,000
	To, Bank A/c	14,000		By, Balance c/d	75,000
		80,000			80,000
01.04.20	To, Balance b/d	75,000	31.03.21	By, Depreciation A/c	5,000
				By, Balance c/d	70,000
		75,000			75,000
01.04.21	To, Balance b/d	70,000	01.10.21	By, Depreciation A/c	2,500
				By, Bank A/c (sale)	50,000
				By, Profit & Loss A/c (Loss)	17,500
		70,000			**70,000**

Working Note:

1. Total Cost = Rs.66,000 + Rs.5,000 + Rs.7,000 + Rs.1,000 + Rs.500 + Rs.500 = Rs.80,000

Depreciation = $= \frac{\text{Total Cost} - \text{Scrap Value}}{\text{Expected life}} = \frac{80,000 - 5,000}{15} = \text{Rs.}5,000$

The amount spent on repairs and renewals on 1st January, 2020 is of revenue nature and hence, does not form part of the cost of asset.

(Illustration-14)

Problem No. 6 Answer:

Statement of Depreciation.

Date	Particulars	Machines – I Cost = Rs.80,000		Machines – II Cost = Rs.40,000		Machines – III Cost = Rs.20,000	Total Depreciation
		(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
01.01.2019	Book Value	48,000	32,000				
31.12.2019	Depreciation	4,800	3,200				8,000
01.01.2020	W.D.V.	43,200	28,800				
01.07.2020	Purchase			28,000	12,000		
31.12.2020	Depreciation	4,320	2,880	1,400	600		9,200
01.01.2021	W.D.V.	38,880	25,920	26,600	11,400		
31.03.2021	Depreciation				285		285
	W.D.V.				11,115		
	Sold For				11,000		
	Loss on sale				115		
30.06.2021	Depreciation		1,296				1,296
	W.D.V.		24,624				
	Sold For		26,700				
	Profit on Sale		2,076				
01.10.2021	Purchase					20,000	
31.12.2021	Depreciation	3,888		2,660		500	7,048
01.01.2022	W.D.V.	34,992		23,940		19,500	

Dr. **Machinery Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.11	To, Bank A/c	80,000	31.12.11	By, Depreciation A/c	8,000
				,, Balance c/d	72,000
		80,000			**80,000**
01.01.12	To, Balance b/d	72,000	31.12.12	By, Depreciation A/c	9,200
01.07.12	" Bank A/c	40,000		,, Balance c/d	1,02,800

		1,12,000			**1,12,000**
01.01.13	To, Balance b/d	1,02,800	31.3.13	By, Bank (Sale) A/c	11,000
30.06.13	" P & L A/c (Profit on Sale)	2,076		,, Depreciation A/c	285
	" Bank A/c	20,000	30.6.13	,, P & L A/c (Loss on Sale)	115
				,, Bank A/c (Sale)	26,700
			31.12.13	,, Depreciation A/c	1,296
				,, Depreciation A/c	7,048
				,, Balance c/d	78,432
		1,24,876			**1,24,876**

(Illustration-12)

Problem No. 7 Answer:

S & Co.

Dr. Machinery Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.19	To, Bank A/c	1,00,000	31.12.19	By, Balance c/d	1,00,000
		1,00,000			1,00,000
01.01.20	To, Balance b/d	1,00,000			
01.07.20	To, Bank A/c	1,50,000	31.12.20	By, Balance c/d	2,50,000
		2,50,000			2,50,000
01.01.21	To, Balance b/d	2,50,000	31.12.21	By, Machinery Disposal A/c	1,00,000
			31.12.21	By, Balance c/d	1,50,000

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
		2,50,000			2,50,000
01.01.22	To, Balance b/d	1,50,000			

Dr. Provision for Depreciation Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.12.19	To, Balance c/d	15,000	31.12.19	By, Depreciation A/c	15,000
		15,000			15,000

31.12.20	To, Balance c/d	41,250	01.01.20	By, Balance b/d	15,000
			31.12.20	By, Depreciation A/c (Rs.15,000 + Rs.11,250)	26,250
		41,250			41,250
31.12.21	To, Machinery Disposal A/c	30,000	01.01.21	By, Balance b/d	41,250
31.12.21	To, Balance c/d	33,750	31.12.21	By, Depreciation A/c	22,500
		63,750			63,750
			01.01.22	By, Balance b/d	33,750

Dr. **Machinery Disposal Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.12.21	To, Machinery A/c	1,00,000	31.12.21	By, Provision for Depreciation A/c By, Depreciation A/c By, Bank A/c By, Profit & Loss A/c(Loss on Sale)	30,000 15,000 50,000 5,000
		1,00,000			**1,00,000**

Working Notes:

1. Depreciation for the machine purchased on 1.7.2020

For the year 2020 (used for 6 months) = Rs.1,50,000 × 15% × 6/12 = Rs.11,250 For the year 2021 (used for full year) = Rs.1,50,000 × 15% = Rs.22,500

2. Depreciation for the machine purchased on 1.1.2019 Depreciation = Rs.1,00,000 × 15% = Rs.15,000

So, Depreciation for 2 years = Rs.15,000 × 2 = Rs.30,000

(Illustration-13)

Problem No. 8 Answer:

In the books of Ram Ltd.

Dr. **Machinery Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.22	To, Balance b/d	9,72,000	01.07.22	By, Depreciation A/c [W.N.3]	3,240
	(9,07,200 + 64,800)			By, Bank A/c - Sale	45,000
				By, Loss on sale of Machine A/c	
01.07.22	To, Bank A/c (1,50,000 + 8,000)	1,58,000		[W.N.4]	16,560
			31.12.22	By, Depreciation A/c:	
				- For the year 2012	1,12,000
				- For ½ year [1,58,000×10%×½]	7,900

				By, Profit & Loss A/c : Adjustment	 11,200
				By, Balance c/d : - M1 (9,07,200 – 1,12,000 – 11,200) - M2 - M3 (1,58,000 – 7,900)	 7,84,000 Nil 1,50,100
		11,30,000			**11,30,000**

Working Notes:

(1) At 10% depreciation on Diminishing Balance Method :

Particulars	(Rs.)
If balance of machinery in the beginning of the year is	10
Depreciation for the year is	1
Balance of Machinery at the end of the year	2

By using the formula, balance of asset on 1st January 2019 will be calculated as follows:

Particulars	(Rs.)
Balance as on 1st January, 2022	9,72,000
Balance as on 1st January, 2021 is 9,72,000 × 10/9 =	10,80,000
Balance as on 1st January, 2020 is 10,80,000 × 10/9 =	12,00,000

This balance, Rs.12,00,000 is composed of 2 machines, one of Rs.11,20,000 and another of Rs.80,000.

Particulars	(Rs.)
Depreciation at 10% p.a. on Straight Line Method on Rs.11,20,000	1,12,000
Total Depreciation for 2020 and 2021 (Rs.1,12,000 × 2)	2,24,000
Total Depreciation charged for 2020 and 2021 on Diminishing Balance Method (1,12,000 + 1,00,800)	2,12,800
Balance to be charged in 2022 to change from Diminishing Balance Method to Straight Line Method	11,200

(2) Machine purchased on 1st January, 2020 for Rs.80,000 shows the balance of Rs.64,800 on 1st January 2013 as follows :

Particulars	(Rs.)
Purchase price	80,000

Particulars	(Rs.)
Less : Depreciation for 2020	8,000
	72,000
Less : Depreciation for 2021	7,200
Balance as on Jan. 1, 2022	64,800

(3) On second machine (original purchase price Rs.80,000), depreciation at 10% p.a. on Rs.64,800 for 6 months, viz., Rs.3,240 has been charged to the machine on July 1, 2022 i.e., on date of sale.

(4) Loss on sale of (ii) machine has been computed as under:

Particulars	(Rs.)
Balance of the machine as on 1.1.2022	64,800
Less : Depreciation for 6 months up to date of sale	3,240
Balance on date of sale	61,560
Less : Sale proceeds	45,000
Loss on sale	16,560

(Illustration-15-Modified)

3. BILLS OF EXCHANGE

Problem No. 1 Answer:

Sl. No.	Particulars	Calculation of Due Date
1	Date of drawing of bill	01.01.2021
	Period / Tenure (month)	4
		01.05.2021
	Days of grace	3
	Due date / Maturity date	04.05.2021

Sl. No.	Particulars	Calculation of Due Date
2	Date of drawing of bill Period / Tenure (month)	23.11.2021
		2
		23.01.2022
	Days of grace	3
	Due date / Maturity date	26.01.2022
	But 26.01.2022 is a National Holiday. So due date would be one day before i.e. 25.01.2022	

(Illustration-1)

Problem No. 2 Answer:

In the Books of X Journal

(i) When the bill is retained till its maturity

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2021					
January 1	Y's A/c	Dr.		20,000	
	To, Sales A/c				20,000
	(Being goods sold to Y's on credit)				
January 1	Bills Receivable A/c	Dr.		20,000	
	To, Y's A/c				20,000
	(Being received Y's acceptance payable after three months)				
April 5	Bank A/c	Dr.		20,000	
	To, Bills Receivable A/c				20,000
	(Being Y met his acceptance on maturity)				

(ii) When the bill was discounted from the book

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2022				
January 1	Y's A/c Dr. To, Sales A/c (Sold goods to Y's)		20,000	20,000
January 1	Bills Receivable A/c Dr. To, Y's A/c (Received Y's acceptance three months)		20,000	20,000
January 1	Bank A/c Dr. Discount A/c $\left(\text{Rs.}20{,}000 \times 12\% \times \frac{3}{12}\right)$ Dr. To, Bills Receivable A/c (Y's acceptance discounted with the bank)		19,400 600	20,000

(iii) When X endorsed the bill in favour of his creditor Z

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2022				
January 1	Y's A/c Dr. To, Sales A/c (Sold goods to Y's on credit)		20,000	20,000
January 1	Bills Receivable A/c Dr. To, Y's A/c (Received Y's acceptance for three months)		20,000	20,000
January 1	Z's A/c Dr. To, Bills Receivable A/c (Y acceptance endorsed in favour of Z)		20,000	20,000

(iv) When the bill was sent for collection by X to the bank

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2022				
Jan. 01	Y's A/c Dr. To, Sales A/c (Sold goods to Y's on credit)		20,000	20,000

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
Jan. 01	Bills Receivable A/c To, Y's A/c (Received Y's acceptance payable after three months)	Dr.		20,000	 20,000
Mar. 31	Bills Sent for Collection A/c To, Bills Receivable A/c (Bills sent for collection)	Dr.		20,000	 20,000
Apr. 05	Bank A/c To, Bills sent for collection A/c (Bills sent for collection collected by the bank)	Dr.		20,000	 20,000

The following journal entries will be made in the books of Y under all the four circumstances

In the Books of Y Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2022					
Jan. 01	Purchases A/c To, X's A/c (Purchases goods from X on credit)	Dr.		20,000	 20,000
Jan. 01	X's A/c To, Bill's Payable A/c (Accepted bill drawn by X payable after three months)	Dr.		20,000	 20,000
Apr. 04	Bills payable A/c To, Bank A/c (Met acceptance maturity)	Dr.		20,000	 20,000

(Illustration-2)

Problem No. 3 Answer:

In the Books of X Journal

(i) When the bill was retained till its maturity

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2022 **Jan. 01**	Y's A/c To, Sales A/c (Sold goods to Y)	Dr.		15,000	 15,000
Jan. 01	Bills Receivable A/c To, Y's A/c (Received Y's acceptance)	Dr.		15,000	 15,000

Apr. 04	Y's A/c To, Bills Receivable A/c To, Cash A/c (Y dishonoured his acceptance and paid Rs. 50 as noting charges)	Dr. Dr.		15,050	 15,000 50

(ii) When the bill was discounted with the bank

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2022 **Jan. 01**	 Y's A/c To, Sales A/c (Sold goods to Y)	 Dr.		 15,000	 15,000

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
Jan. 01	Bills Receivable A/c To, Y's A/c (Received Y's acceptance payable after three months)	Dr.		15,000	 15,000
Jan. 01	Bank A/c Discount A/c To, Bills Receivable A/c (Y's acceptance discounted)	Dr. Dr.		14,550 450	 15,000
Apr. 04	Y's A/c To, Bank A/c (Y dishonoured his acceptance on maturity and bank paid noting charges of Rs.50)	 Dr.		15,050	 15,050

(iii) When the bill was endorsed to Z

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2022 **Jan. 01**	Y's A/c To, Sales A/c (Sold goods to Y)	Dr.		15,000	 15,000
Jan. 01	Bill's Receivable A/c To, Y's A/c (Received Y's acceptance)	Dr.		15,000	 15,000
Jan. 01	Z's A/c To, Bills Receivable A/c (Y's acceptance endorsed in favour of Z)	Dr.		15,000	 15,000

Apr. 04	Y's A/c To, Z's A/c (Y dishonoured his acceptance on maturity and Z paid Rs. 50 as noting charges)	Dr.		15,050	15,050

The following journal entries will be made in the books of Y in all the three cases.

In the Books of Y Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2022 **Jan.01**	Purchases A/c Dr. To, X's A/c (Purchase goods from X)		15,000	15,000

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
Jan. 01	X's A/c Dr. To, Bills Payable A/c (Accepted X's draft)		15,000	15,000
Apr. 04	Bills Payable A/c Dr. Noting charges A/c Dr. To, X's A/c (Acceptance in favour of X dishonoured)		15,000 50	15,050

(Illustration-3)

Problem No. 4 Answer:

In the Books of X Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2022 **Feb. 01**	Y's A/c To, Sales A/c (Sold goods to Y)	Dr.		18,000	18,000
Feb. 01	Cash A/c Bills Receivable A/c To, Y's A/c (Received Rs. 3,000 in cash from X and an acceptance for the balance)	Dr. Dr.		3,000 15,000	18,000

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
May 01	Y's Account To, Bills Receivable A/c To, Interest A/c $\left(\text{Rs.}15{,}000 \text{x} 12\% \text{x} \frac{2}{12}\right)$ (Cancelled old bill on renewal Rs. 300 as	Dr.		15,300	15,000 300

	interest)				
May 04	Bill's Receivable A/c Cash A/c To, Y's A/c (Received new acceptance from Y)	Dr. Dr.		15,000 300	15,300
Jul. 07	Bank A/c To, Bills Receivable A/c (Y met his new acceptance)	Dr.		15,000	15,000

In the Books of Y Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2022 **Feb. 01**	Purchases A/c To, X A/c (Purchased goods from X)	Dr.		18,000	18,000
Feb.01	X's A/c To, Cash's A/c To, Bills Payable A/c (Received cash from X and his acceptance)	Dr.		18,000	3,000 15,000
May 04	Bill Payable A/c Interest A/c To, X A/c (Old bill cancelled on renewal, Rs. 300 charged as interest)	Dr. Dr.		15,000 300	15,300
May 04	X's A/c To, Bills Payable A/c To, Cash A/c (Accepted new bill and paid cash for interest)	Dr.		15,300	15,000 300

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
Jul. 07	Bill Payable A/c To, Bank A/c (Met acceptance of the new bill on maturity)	Dr.		15,000	15,000

(Illustration-4)

Problem No. 5 Answer:

In the books of X

(a) Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2022				
January 1	Y's A/c Dr. To, Sales A/c (Sold goods to Y)		10,000	 10,000
January 1	Bills Receivable A/c Dr. To, Y's A/c (Received Y's acceptance for three months)		10,000	 10,000
March 4	Bank A/c Dr.		9,950	
	Rebate on bills A/c $\left(\text{Rs.}10{,}000 \times 6\% \times \frac{1}{12}\right)$		50	
	To, Bills Receivable A/c (Y retired her acceptance and rebate allowed to him)			10,000

(b) The recorded entries will be posted to the following ledger accounts:

Dr. **Y's Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
2022 Jan. 01	To, Sales A/c		10,000	2022 Jan 01	By, Bills Receivable A/c		10,000
			10,000				**10,000**

Dr. **Bill Receivable Account** **Cr.**

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
2022 Jan. 01	To, Y A/c		10,000	2022 Mar 04	By, Cash A/c By, Rebate on Bill A/c		9,950 50
			10,000				**10,000**

In the Books of Y Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
2022					
January 1	Purchases A/c To X A/c (Purchased goods from X)	Dr.		10,000	 10,000

January 1	X's A/c To Bills Payable A/c (Accepted X's draft payable after three months)	Dr		10,000	10,000
March 4	Bill Payable A/c To Cash A/c To Rebate on bills A/c (Acceptance in favour of X retired and rebate received)	Dr		10,000	 9,950 50

(c) Dr. X's Account Cr.

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
2022 Jan. 01	To, Bills Payable A/c		10,000	2022 Jan. 04	By, Purchases A/c		10,000
			10,000				**10,000**

Dr. Bills Payable Account Cr.

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
2022 **Jan. 01**	To, Cash A/c To, Rebate on bills A/c		9,950 50	2022 Jan. 01	By, X A/c		10,000
			10,000				**10,000**

(Illustration-5)

Problem No. 7 Answer:

In the books of X

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
01.04.2022	Bills Receivable A/c Dr. To, Y A/c (Accommodation bill drawn and acceptance received)		6,000	 6,000
	Bank A/c Dr. Discount on Bills A/c $\left(\text{Rs.}6{,}000 \text{x} 6\% \text{x} \frac{3}{12}\right)$ Dr. To, Bills Receivable A/c (The bill discounted with the bank @ 6%)		5,910 90	 6,000

	Y A/c Dr. To, Bank A/c To, Discount on Bills A/c (1/3rd of the proceeds remitted and proportionate discount charged)		2,000	 1,970 30

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
04.07.2022	Y A/c $\left(\text{Rs.}6{,}000\text{x}\frac{3}{12}\right)$ To, Bank A/c (Own share of the accommodation bill remitted to Y)		4,000	 4,000

In the books of Y Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
01.04.2022	X A/c Dr. To, Bills Payable A/c (Acceptance give to the Accommodation bill)		6,000	 6,000
	Bank A/c Dr. Discount A/c Dr. To, X A/c (1/3rd of the proceed received and proportionate discount allowed)		1,970 30	 2,000
04.07.2022	Bank A/c Dr. To, X A/c (X's share received)		4,000	 4,000
	Bills Payable A/c Dr. To, Bank A/c (The bill honoured by payment)		6,000	 6,000

(Illustration-6)

Problem No. 8 Answer:

In the books of X Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bills Receivable A/c Dr. To, Y A/c (Being on 1st bill drawn on Y for mutual accommodation)		1,200	 1,200

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. Discount on Bills A/c Dr. To, Bills Receivable A/c (Being the bill discounted with the banker for 1110)		1,110 90	 1,200
	Y A/c (Rs.1,200× $\frac{1}{3}$) Dr. To, Bank A/c To, Discount on Bills A/c (Rs.90× $\frac{1}{3}$) (Being 1/3rd of the proceeds remitted to Y – the loss on discount shared proportionately)		400	 370 30
	Y A/c Dr. To, Bills Payable A/c (Being the bill drawn on X by Y)		1,800	 1,800
	Bank A/c Dr. Discount on Bills A/c Dr. To, Y A/c (Rs.1,200× $\frac{1}{3}$) (Being the net amount remitted to X by Y)		360 40	 400
	Bank A/c Dr. To, Y A/c (Being the balance amount of the 2nd bill remitted by Y)		600	 600
	Bills Payable A/c (Rs.1800 – Rs.1,200) Dr. To, Bank A/c (Being the 2nd bill honoured at maturity)		1,800	 1,800

In the books of Y Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	X A/c Dr. To, Bills Payable A/c (Being a bill drawn on Y by X for mutual accommodation)		1,200	 1,200
	Bank A/c Dr. Discount on Bills A/c Dr. To, X A/c (Being 1/3rd of the proceed received and the loss on discount shared proportionately)		370 30	 400

Date	**Particulars**	**L.F.**	**Dr. (Rs.)**	**Cr. (Rs.)**
	Bills Receivable A/c Dr. To, X A/c (Being the bill drawn on X)		1,800	 1,800
	Bank A/c Dr. Discount on Bills A/c (Bal. fig.) Dr. To, Bills Receivable A/c (Being the bill discounted with the banker for Rs. 1,740)		1,740 60	 1,800
	X A/c Dr. To, Bank A/c To, Discount on Bills A/c (Being 1/3rd of the proceeds remitted to X – the loss on discount shared proportionately)		400	 360 40
	Bills Payable A/c Dr. To, Bank A/c (Being the 1st bill honoured at maturity)		1,200	 1,200
	X A/c Dr. To, Bank A/c (Being the balance amount of the 2nd bill remitted to X)		600	 600

Note: Before the due date of the 1st bill, X was to remit Rs. 800 to Y to enable him to honour the bill. But X was not in a position to remit the required amount. He accepted a bill of Rs. 1800 drawn by Y. Y discounted the bill for Rs. 1,740 and remitted to X Rs. 360 after adjusting Rs. 800 in respect of the 1st bill. Therefore, X enjoyed Rs. (360+800) Rs. 1,160 out of Rs. 1,740. X's share of discount will be: Rs. 60/1,740 × Rs. 1,160 = Rs. 40

(Illustration-7)

4. CONSIGNMENT ACCOUNTING

Problem No. 1 Answer:

Books of Agarwal

Dr. Consignment to Bhagalpur Account Cr.

Particulars		(Rs.)	Particulars	(Rs.)
To, Goods sent on Consignment A/c		1,00,000	By, Biyani A/c [Sale]	1,50,000
To, Bank A/c [Expenses incurred] - Freight and Insurance		12,000		
To, Biyani A/c [Expenses paid by consignee] - Delivery Charges	3,000			
- Selling Expenses	2,000	5,000		
To, Biyani A/c [Commission due] - Ordinary Commission [1,50,000 × 5%] Del credere Commission [1,50,000 × 3%]	7,500 4,500	12,000		
To, Provision for Expenses A/c		260		
[Provision created for collection charges]				
To, P/L A/c [Profit on consignment transferred]		20,740		
		1,50,000		**1,50,000**

Dr. Biyani Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.12.21	To Consignment to Bhagalpur A/c [Sales]	1,50,000	31.12.21	By Consignment to Bhagalpur A/c [Expenses paid by consignee]	5,000
			31.12.21	By Consignment to Bhagalpur A/c [Commission due]	12,000
			31.12.21	By Balance c/d [Balance due: : B/Fig.	1,33,000
		1,50,000			1,50,000
1.1.22	To Balance b/d	1,33,000	5.1.22	By Cheque for Collection A/c [Final remittance]	1,33,000
		1,33,000			**1,33,000**

Dr. **Provision for Expenses Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
9.1.22	To, Cheque for Collection A/c [Bank charges deducted]	260	31.12.21	By, Consignment to Bhagalpur A/c	260
		260			**260**

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

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
9.1.22	To, Cheque for Collection A/c [1,33,000 – 260]	1,32,740	9.1.22	By, Balance c/f	1,32,740
		1,32,740			**1,32,740**

(Illustration 8)

Problem No. 2 Answer:

Books of M/s Singha Traders

Dr. **Consignment to Mumbai Account** **Cr.**

Particulars		(Rs.)	Particulars	(Rs.)
To, Goods Sent on Consignment A/c [5,000 × Rs. 32]		1,60,000	By, M. Ltd. A/c [Sale]	1,65,000
To, Bank A/c [Expenses incurred by consignor]			By, Goods Destroyed-in-Transit A/c [WN:1]	6,600
- Freight and Insurance Charges		5,000		
To, M. Ltd. A/c [Expenses incurred by consignee]				
- Clearing Charges	6,100		By, Consignment Stock A/c [WN:1]	24,500
- Godown Rent	300			
- Salesman's Salaries	900	7,300		
To, M. Ltd. A/c [Commission due]				
- Ordinary Commission [1,65,000 × 6%]	9,900			
- Del credere Commission [1,65,000 × 4%]	6,600	16,500		
To P/L A/c [Profit on consignment – transferred]		7,300		
		1,96,100		**1,96,100**

Workings Note:

Value of Goods Destroyed-in-transit & Unsold Stock

	Litres	(Rs.)
Cost of goods sent [5,000 × Rs. 32]	5,000	1,60,000
Add: Consignor's expenses (being, freight and insurance charges)	-	5,000
	5,000	1,65,000
Less: Goods destroyed -in-transit [Rs. 1,65,000 × 200/5,000]	200	6,600
Goods received by consignee	4,800	1,58,400
Add: Non-recurring expenses incurred by consignee (being, clearing charges)	-	6,100
	4,800	1,64,500
Less: Normal loss	100	-
	4,700	1,64,500
Unsold Stock = [5,000 – 200 – 100 – 4,000] = 700 litres	Rs. 1,64,500 × $\frac{700}{4700}$ = Rs. 24,500	
∴ Value of 700 litres		

(Illustration 9)

Problem No.3 Answer:

Books of B

Dr. **Consignment Account** **Cr.**

Particulars	(Rs.)	Particulars		(Rs.)
To, Goods sent on Consignment A/c	19,000	By, A A/c [Sale]		
[100 × Rs. 190]		[68 × Rs. 280]	19,040	
To, Bank A/c [Expenses incurred]	500	[11 × Rs. 270]	2,970	22,010
To, A A/c [Expenses paid by consignee]	1,520	By, Goods Damaged A/c [WN: 1]		195
To, A A/c [Commission due: Rs. 22,010 × 6%]	1,321	By, Consignment Stock A/c [WN: 1]		3,900

Particulars	(Rs.)	Particulars	(Rs.)
To, P/L A/c [Profit on consignment transferred]	3,764		
	26,105		**26,105**

Dr. **Goods Damaged Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Consignment A/c	195	By, A A/c [Sale of damaged calculator]	50

To, A A/c [Commission on sale of damaged goods: Rs. 50 × 6%]	3	By, P/L A/c [Net loss transferred – B/Fig.]	148
	198		**198**

N.B. As the commission is allowed on gross sales, consignee is also entitled to get commission on sale of damaged goods also.

Dr. **A Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Consignment A/c [Sale]	22,010	By, Consignment A/c [Expenses incurred]	1,520
To, Goods Damaged A/c	50	By, Consignment A/c [Commission due]	1,321
		By, Goods Damaged A/c [Commission on sale of damaged goods]	3
		By, Balance c/f	19,216
	22,060		**22,060**

Dr. **Goods Sent on Consignment Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Purchases/ Trading A/c [Transfer]	19,000	By, Consignment A/c	19,000

Books of A

Dr. **B Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Bank A/c [Expenses paid]	1,520	By, Bank A/c [Cash Sales: (Rs. 22,010 – Rs. 280)]	21,730
To, Commission A/c [Commission earned]	1,324	By, Consignment Debtors A/c [Credit Sales]	280
To, Balance c/f [Balance due: B/Fig.]	19,216	By, Bank A/c [Sale of damaged calculator]	50
	22,060		**22,060**

Dr. **Consignment Debtors Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, B A/c [Credit sales]	280	By, Bank A/c [Collection]	250
		By, Commission A/c [Bad debts written-off]	30
	280		**280**

Dr.	Commission Account		Cr.
Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To, Consignment Debtors A/c [Rs. 280 – Rs. 250]	30	By, B A/c	1,324
To, P/L A/c [B/Fig.]	1,294		
	1,324		**1,324**

Workings Note:

1. Value of goods damaged & unsold stock

	Units	**(Rs.)**
Cost of goods sent	100	19,000
Add: Consignor's expenses	--	500
	100	19,500
Less: Goods damaged [Rs. 19,500 × 1/100]	1	195
	99	19,305
Unsold stock = [100 – (68 + 11) - 1] = 20 units ∴ Value of 20 units		Rs. 19,305 × $\frac{20}{99}$ = Rs. 3,900

(Illustration 10)

Problem No. 4 Answer:

Books of Shri G

Dr.	Consignment to Amritsar Account		Cr.
Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To, Goods Sent on Consignment A/c [Rs. 1,32,000 + 20% there off]	1,58,400	By, Shri H A/c [Cash Sales – WN:1]	66,000
To, Bank A/c [Expenses incurred]		By, Consignment Debtors A/c [Credit sales – WN:1]	66,000
- Freight and other Forwarding Charges	4,000		
To, Shri H A/c [Expenses paid by consignee]		By, Goods sent on Consignment A/c	26,400
- Establishment Charges [2,000 × 3/12] 500 - Godown Rent and Insurance 1,000	1,500	[Loading on goods sent: Rs. 1,32,000 × 20%]	
To, Shri H A/c [Commission due: 1,32,000 × 5%]	6,600	By, Consignment Stock A/c [WN: 2]	40,600
To, Consignment Debtors A/c [Bad debt written off]	10,000		
To, Stock Reserve A/c [WN:2]	6,600		

To, P/L A/c [Profit on consignment transferred]	11,900		
	1,99,000		**1,99,000**

Dr. **Shri H Account** **Cr.**

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

Dr. **Consignment Debtors Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Consignment to Amritsar A/c [Sales]	66,000	By, Shri H A/c [Amount recovered by consignee]	56,000
		By, Consignment to Amritsar A/c [Bad debt written off]	10,000
	66,000		**66,000**

Dr. **Goods sent on Consignment Account** **Cr.**

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

Workings Note:

1. Cash & credit sales made by consignee

	(Rs.)
Cost price of goods sent	1,32,000
Cost price of goods sold [Rs. 1,32,000 × 3/4]	99,000
Add: Profit @ 33 1/3 % on Cost [Rs. 99,000 × 33 1/3 %]	33,000
Total Sales	1,32,000
∴ Cash Sales [Rs. 1,32,000 × 1/2]	66,000
∴ Credit Sales [Rs. 1,32,000 × 1/2]	66,000

2. Value of unsold stock

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

(Illustration 12)

Problem No. 5 Answer:

Books of Veemal

Dr. **Consignment to Kolkata Account** **Cr.**

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To, Consignment Stock A/c [Unsold stock]	25,000	By, Stock Reserve A/c	5,000
To, Goods sent on Consignment A/c [sent at IP]	1,25,000	[Load on opening stock : 25,000 × 25/125]	
To, Bank A/c [Expenses incurred]		By, Anand A/c [Sale: Rs. 53,750 + Rs. 70,000]	1,23,750
- Railway charges & Insurance	3,500		
To, Anand A/c [Expenses paid by consignee]		By, Goods Sent on Consignment A/c	25,000
- Selling expenses 6,250		[load on goods sent: Rs. 1,25,000 × 25/125]	
- Discount Allowed 2,500	8,750	By, Goods Damaged-in-Transit A/c	19,275
To, Anand A/c [Commission due]		[WN: 1] By, Consignment Stock A/c [WN: 1]	19,275
- Ordinary Commission [1,23,750 × 5%] 6,188			
- Del credere Commission [70,000 × 3%] 2,100	8,288		

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To, Goods Damaged-in-Transit A/c [Load - WN: 1]	3,750		

To, Stock Reserve A/c [Load on unsold stock – WN: 1]	3,750		
To, P/L A/c [Profit on consignment transferred]	14,262		
	1,92,300		**1,92,300**

Dr. **Anand Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Consignment A/c [Sales]	1,23,750	By, Bank A/c [Advance]	37,500
To, Goods Damaged-in-Transit A/c [Insurance claim received]	6,750	By, Consignment A/c [Expenses incurred]	8,750
To, Goods Damaged-in-Transit A/c [Sale of damaged goods]	5,750	By, Consignment A/c [Commission due]	8,288
		By, Goods Damaged-in-Transit A/c [Commission on sale of damaged goods]	288
		By, Bank A/c [Final remittance – B/Fig.]	51,250
	1,36,250		**1,36,250**

Dr. **Goods Damaged-in-Transit Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Consignment A/c [Goods damaged]	19,275	By, Consignment A/c [Load on goods damaged]	3,750
To, Anand A/c	288	By, Anand A/c [Insurance claim received]	6,750
[Commission on sale of damaged goods – Rs. 5,750 × 5%]		By, Anand A/c [Sale of damaged goods] By, P/L A/c [Net loss – B/Fig.]	5,750 3,313
	19,563		**19,563**

Workings Note:

1. Value of Goods Damaged in Transit & Unsold Stock

	Units	(Rs.)
IP of goods sent	200	1,25,000
Add: Consignor's expenses [being, Railway charges & Insurance]	-	3,500
Less: Goods Damaged-in-Transit [1,28,500 × 30/200]	200	1,28,500
Load on Goods Damaged-in-Transit: Total load × 30/200 =		

Rs. 1,25,000 × 30/200 = Rs. 3,750	30	19,275
∴ Value of goods received by consignee	170	1,09,225
Unsold Stock = [40 + 200 – 30 – (80 + 100)] = 30 units		
∴ Value of unsold stock of 30 units	Rs. 1,09,225 × $\frac{30}{170}$ = Rs.19,275	
Load on unsold stock: Total load × 30/200 = Rs. 1,25,000 × 30/200 = Rs. 3,750		

(Illustration 14)

Problem No. 6 Answer:

Books of Kunal

Dr. **Consignment to Meerut Account** **Cr.**

Particulars		(Rs.)	Particulars	(Rs.)
To, Goods sent on Consignment A/c [Rs. 45,000 + 331/3% thereof]		60,000	By, Quereshi A/c [Sale – WN :2]	35,556
To, Bank A/c [Expenses incurred]			By, Goods Destroyed-in-Transit A/c [WN:1]	6,834
- Carriage	300		By, Goods Sent on Consignment A/c	15,000
- Freight & Insurance	1,200	1,500	[Load on goods sent: 45,000 × 1/3]	
To, Quereshi A/c [Expenses paid by consignee]			By, Consignment Stock A/c [WN: 1]	18,301
- Carriage	240			
- Godown Rent	600	840		
To, Quereshi A/c [Commission due]				
- Ordinary Commission [35,556 × 5%]	1,778			
- Del credere Commission [35,556 × 21/2%]	889	2,667		
To, Goods Destroyed-in-Transit A/c [loading on goods destroyed –WN: 1]		1,667		
To, Stock Reserve A/c [Loading on unsold stock – WN: 1]		4,444		
To, P/L A/c [Profit on consignment transferred]		4,573		
		75,691		**75,691**

NB: Discount on bill being purely a finance charge, would be recorded in debit side of P/L A/c.

Dr. **Quereshi Account** **Cr.**

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

Workings Note:

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

	Invoice Price (Rs.)	Load (Rs.)
Goods sent	60,000	15,000 [45,000 × 1/3]
Add: Consignor's expenses [being, Carriage and Freight & Insurance]	1,500	-
	61,500	15,000
Less: Goods destroyed-in-transit [Goods costing Rs. 5,000 were destroyed i.e. Rs. 5,000/ Rs. 45,000 = 1/9th of goods sent] ∴ Load on goods destroyed-in-transit = [Rs. 15,000 × 1/9] = Rs. 1,667	6,833	1,667
	54,667	13,333
Add: Non-recurring expenses incurred by consignee [being, carriage]	240	-
	54,907	13,333
∴ Unsold stock = 1/3rd of goods received [See note]	54,907 × 1/3 = 18,302	
∴ Value unsold stock		
∴ Load on goods unsold stock = [Rs. 13,333 × 1/3] = Rs. 4,444		

2. Sales made by Quereshi

	(Rs.)
Cost of goods sent by consignor	45,000
Less: Cost of goods lost in transit	5,000

∴ Cost of goods received by consignee	40,000
Cost of goods sold by consignor [Rs. 40,000 × 2/3]	26,667
Add: Profit @ 33 1/3% on Cost	8,889
∴ Sale made by Quereshi	35,556

(Illustration 13)

Problem No. 7 Answer:

Books of Consignor

Dr. **Consignment Account** **Cr.**

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

Dr. **Consignee Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Consignment Debtors A/c	4,49,150	By, Bills Receivable A/c	10,000
[Collection from debtors: Rs. 4,50,000 – Rs. 850]		By, Consignment A/c [Expenses incurred]	5,000

		By, Consignment A/c [Commission due]	22,500
		By, Bank A/c [Final remittance - B/Fig.]	4,11,650
	4,49,150		**4,49,150**

Workings Note:

1. Goods sent on consignment

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

2. Value of unsold stock

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

(Illustration 15)

Problem No. 8 Answer:

Books of Mr. P

Dr. **Consignment to Dhanbad Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Goods sent on Consignment A/c [Rectification - WN:1]	40,000	By, Consignment Debtors A/c [Credit Sale]	45,000
To, Mr. D's A/c [Consignor's expenses - rectified]		By, Consignment Stock A/c [WN: 2]	4,320
- Freight	3,000		
To, Mr. D A/c [Expenses paid by consignee]			
- Loading & Cartage 200			
- Other Expenses [Rs. 800 – Rs. 200] 600	800		
To, Mr. D A/c [Commission due: 5% on Rs. 38,000]	1,900		
To, Consignment Debtors A/c			
- Discount Allowed 2,000			
- Bad debt 1,000	3,000		
To, P/L A/c [Profit on consignment transferred]	620		
	49,320		**49,320**

Dr. **Mr. D Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/f	19,300	By, Goods A/c [Rectification – WN: 1]	40,000
To, Consignment Debtors A/c [Collection from Debtors]	38,000	By, Consignment A/c [Expenses of consignor – rectified]	3,000
		By, P/L A/c [Profit wrongly included - rectified]	1,300
		By, Consignment A/c [Commission due]	1,900
		By, Consignment A/c [Expenses paid]	800
		By, Balance c/f [Balance due: B/Fig.]	10,300
	57,300		**57,300**

Dr.	Consignment Debtors Account		Cr.
Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To, Consignment A/c [Sales]	45,000	By, Dharani A/c [Amount collected]	38,000
		By, Consignment A/c [Discount Allowed]	2,000
		By, Consignment A/c [Bad debt]	1,000
		By, Balance c/f [B/Fig.]	4,000
	45,000		**45,000**

Workings Note:

1. Rectification of errors

Transaction	**Rectification Entry**		
Goods sent on consignment	Consignment A/cDr. To Goods Sent on Consignment A/c		40,000 40,000
	Goods A/c To Mr. D A/c	Dr.	40,000 40,000
Expenses paid by Nripesh	Consignment A/c To Mr. D A/c	Dr.	3,000 3,000
Cash received from Mr. D	No Rectification Entry is needed		
Profit	P/L A/c To Mr. D A/c	Dr.	1,300 1,300

2. Cost price of unsold stock

	(Rs.)	**(Rs.)**
Cost of goods sent		40,000
Less: Cost of goods sold:		
Sales	45,000	
Less: Margin over Invoice Price	9,000	36,000
∴ Cost of unsold stock		4,000

3. Value of Unsold Stock

		(Rs.)
Cost of unsold goods [WN:2]		4,000
Add: Proportionate expenses of consignor	[Rs. 3,000 × 4,000/ 40,000]	300
Add: Proportionate expenses of consignee	[Rs. 200 × 4,000 / 40,000]	20
		4,320

(Illustration 16)

5. JOINT VENTURE ACCOUNTS

Problem No. 1 Answer:

Statement showing calculation of profit on joint venture

	(Rs.)	**(Rs.)**
Sales		2,50,000
Closing stock (5% of Rs.2,00,000)		10,000
		2,60,000
Less: Purchase	2,00,000	
A's commission (Rs.2,00,000 × 1%)	2,000	
B's commission (Rs.2,50,000 × 5%)	12,500	
Discount charges (Rs.2,00,000 × 80%) – Rs.1,50,000	10,000	2,24,500
Net Profit		35,500

B's share of Profit (Rs. 35,500 × 2/5) = Rs. 14,200.

(Illustration-18)

Problem No. 2 Answer:

Dr. **Joint Venture Account** **Cr.**

Particulars		**(Rs.)**	**Particulars**	**(Rs.)**
To, Sagar A/c (Material)		35,000	By, Joint Bank A/c	5,00,000
To, Pakhi A/c: Architect fees		20,000	By, Pakhi A/c Unused materials	15,000
To, Joint Bank A/c Materials Wages	 2,80,000 1,20,000	4,00,000		
To, Profit on Joint Venture Sagar Pakhi	 30,000 30,000	60,000		
		5,15,000		**5,15,000**

Dr. **Co-Venturers Account** **Cr.**

Particulars	**Sagar (Rs.)**	**Pakhi (Rs.)**	**Particulars**	**Sagar (Rs.)**	**Pakhi (Rs.)**
To, Joint Venture A/c	-	15,000	By, Joint Bank A/c	1,25,000	75,000
To, Joint Bank A/c	1,90,000	1,10,000	By, Joint Venture A/c	25,000	20,000
			By, Joint Venture A/c	30,000	30,000
	1,90,000	**1,25,000**		**1,90,000**	**1,25,000**

Dr. **Joint Bank Account** Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Sagar	1,25,000	By, Joint Venture A/c	4,00,000
To, Pakhi	75,000	By, Sagar	1,90,000
To, Joint Venture	5,00,000	By, Pakhi	1,10,000
	7,00,000		**7,00,000**

(Illustration-19)

Problem No.3 Answer:

Dr. **Joint Venture Account** Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)
To, X (goods)		10,000	By, Joint Bank A/c (sales)	45,000
To, Y (expenses)		2,000		
To, Joint Bank A/c (goods)		15,000		
To, Joint Bank A/c (expenses)		4,000		
To, Profit on Joint Venture transferred to:				
X (4/7 share)	8,000			
Y (3/7 share)	6,000	14,000		
		45,000		**45,000**

Profit on joint venture is to be divided in proportion to the contributions of X and Y. Their contributions are:

	X's contribution (Rs.)	Y's contribution (Rs.)
Amount contributed in cash	10,000	13,000
Expenses paid by Y		2,000
Goods purchased by X	10,000	
	20,000	**15,000**

Thus, profit sharing ratio between X and Y is 20,000 : 15,000 i.e. 4:3 or 4/7 and 3/7 respectively.

Dr. **Joint Bank Account** Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, X	10,000	By, Joint Venture A/c (expenses)	4,000
To, Y	13,000	By, Joint Venture A/c (goods)	15,000
To, Joint Venture A/c (sales)	45,000	By, X	28,000
		By, Y	21,000
	68,000		**68,000**

Dr. **X Account** Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Joint Bank A/c	28,000	By, Joint Bank A/c	10,000
		By, Joint Venture A/c (goods)	10,000
		By, Joint Venture A/c (profit)	8,000
	28,000		**28,000**

Dr. **Y Account** Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Joint Bank A/c	21,000	By, Joint Bank A/c	13,000
		By, Joint Venture A/c (expenses)	2,000
		By, Joint Venture A/c (profit)	6,000
	21,000		**21,000**

(Illustration-20)

Problem No. 4 Answer:

(a) In the books of Anil

Dr. **Joint Venture Account** Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Bank A/c:		By, Bank A/c : Contract price	2,40,000
Materials	68,000	By, Mukesh A/c : Plant taken over	10,000
Cement	13,000		
Architects Fees	10,000		
To Mukesh A/c:			
Materials	50,000		
Cement	17,000		
Wages	27,000		
License Fees	5,000		
Plant	20,000		
To, Mukesh A/c: Share of Profit	20,000		
To, P/L A/c : Share of Profit	20,000		
	2,50,000		**2,50,000**

Dr. **Mukesh's Account (Co-venturer)** Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Joint Venture A/c	10,000	By, Joint venture A/c	1,19,000
To, Balance c/d	1,29,000	By, Plant A/c	20,000

	1,39,000		**1,39,000**

(b) In the books of Mukesh

Dr. Joint Venture Account Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Anil A/c:		By, Anil A/c : Contract Price	2,40,000
Materials	68,000	By, Plant A/c : Plant taken over	10,000
Cement	13,000		
Architects Fees	10,000		
To, Bank A/c:			

Particulars	(Rs.)	Particulars	(Rs.)
Materials	50,000		
Cement	17,000		
Wages	27,000		
License Fees	5,000		
Plant	20,000		
To, P/L A/c: Share of Profit	20,000		
To, Anil A/c : Share of Profit	20,000		
	2,50,000		**2,50,000**

Dr. Anil Account (Co-venturer) Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Joint Venture A/c	2,40,000	By, Joint Venture A/c	91,000
		By, Joint Venture A/c	20,000
		By, Balance C/d	1,29,000
	2,40,000		**2,40,000**

(Illustration-21)

Problem No. 5 Answer:

Books of Sahani

Dr. Joint Venture Account Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Food grains A/c (400 × 800)	3,20,000	By, Sandeep A/c - Sales (800 × 1200)	9,60,000
To, Bank A/c - freight & insurance	10,000		

To, Sahu A/c -food grains (400 × 1000)	4,00,000		
To, Sahu A/c - expenses (8,000 + 2,500 + 500)	11,000		

Particulars	(Rs.)	Particulars	(Rs.)
To, Sandeep A/c - Expenses	21,000		
To, Sandeep A/c - Commission 5%	48,000		
To, Profit & Loss A/c (3/5th share)	90,000		
To, Sahu A/c (2/5th share)	60,000		
	9,60,000		**9,60,000**

Dr. **Sahu's Account (Co-venturer)** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Bank A/c - advance	50,000	By, Joint Venture A/c - grains	4,00,000
To, Sandeep A/c - bill	2,91,000	By, Joint Venture A/c - expenses (Rs.8,000 + 2,500 +1,500)	11,000
To, Bank A/c - final balance	1,30,000	By, Joint Venture A/c - profit share	60,000
	4,71,000		**4,71,000**

Dr. **Sandeep's Account (Co-venturer)** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Joint Venture A/c - sales	9,60,000	By, Joint Venture A/c - expenses	21,000
		By, Joint Venture A/c - commission	48,000
		By, Bank A/c - cheque received	6,00,000
		By, Sahu A/c - Bill	2,91,000
	9,60,000		**9,60,000**

(Illustration-22)

Problem No. 6 Answer:

In the Books of Hari Memorandum Joint Venture Account

Particulars	(Rs.)	Particulars	(Rs.)
To, Bank A/c [Purchase] (10,000 × 10)	1,00,000	By, Om A/c [Sales] (Rs.15,000 × 10)	1,50,000
To, Bank A/c [Expense] (1,000 × 10)	10,000		
To, Discount A/c (Bill discounted)	5,000		

To, Om A/c [Expenses]	2,000		
To, Om A/c [Commission] (1,50,000 × 5%)	7,500		

Dr. **Joint Venture with Om Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Bank A/c [Purchase]	1,00,000	By, Bills Receivable A/c	50,000
To, Bank A/c [Expense]	10,000	By, Balance c/d	80,300
To, Discount on Bill A/c	5,000		
To, P/L A/c [Share of profit]	15,300		
	1,30,300		**1,30,300**

(Illustartion-23)

Problem No. 7 Answer:

Memorandum Joint Venture Account

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

In the books of Jiban

Dr. **Joint Venture with Mitrik Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Bank: (Stamp charges, advertising charges, car expenses and printing charges)	 6,42,000	By Bank (commission)	15,00,000
To, Share of profit	27,98,667	By, Bank	25,00,000

To, Bank (Remittance)	5,59,333	(Sale proceeds of shares)	
	40,00,000		**40,00,000**

(Illustartion-24)

6. PREPARATION OF FINANCIAL STATEMENTS OF COMMERCIAL ORGANIZATIONS

Problem No. 1 Answer:

M/s P. Sen Trading Account

Dr. for the year ended 31st March, 2022. Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Opening Stock		10,000	By, Sales	3,00,000	
To, Purchase	1,60,000		Less: Return Inward	16,000	2,84,000
Less: Return Outward	10,000				
	1,50,000		By, Closing Stock	20,000	
Less: Goods taken by Proprietor	3,000		Add: Stock Destroyed	10,000	
	1,47,000			30,000	
Add: Goods-in-transit	6,000	1,53,000	Add: Goods-in-Transit	6,000	36,000
To, Wages	30,000				
Add: Outstanding	4,000	34,000			
To, Carriage Inwards		10,000			
To, Freight	8,000				
Less: Prepaid	1,000	7,000			
To, Royalty on production		6,000			
To, Gas & fuel		2,000			
To, Profit & Loss A/c		98,000			
(Gross profit transferred)					
		3,20,000			**3,20,000**

Note:

(a) Stock should be valued as per cost price or market price whichever is lower.

(b) The claim which was admitted by insurance company and the loss of stock, will not appear in Trading Account **(Illustration 1)**

Problem No. 2 Answer:

Mr. Shankar

Profit and Loss Account

Dr. for the year ended 31st March 2022 Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Rent	22,000		By, Trading A/c.		1,00,000
Add: Outstanding	2,000	24,000	-Gross Profit		
" Salaries	10,000		" Commission	12,000	
Add: Outstanding	4,000	14,000	Less: Received in advance	2,000	10,000
" Insurance	8,000		" Interest	6,000	
Less: Prepaid	2,000	6,000	Add: Accrued Interest	2,000	8,000
" Bad Debts	2,000				
Add: further Bad Debts	2,000	4,000	" Discount received		2,000
" Depreciation on Plant & Machinery @10% on Rs.80,000		8,000	" Provisions for Bad Debts	4,000	
" Capital A/c (Net Profit Transferred)		66,100	Less: New Provision @ 5% on (Rs.40,000 – Rs.2,000)	1,900	2,100
		1,22,100			**1,22,100**

(Illustration 2)

Problem No.3 Answer:

M/s BJ & Sons

Dr. Trading Account for the year ended 31st March 2022 Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Opening Stock :			By, Sales	35,00,000	
Finished Goods		2,00,000	Less: Sales Returns	1,00,000	34,00,000
To, Purchases	22,00,000				
Less: Purchases Returns	50,000	21,50,000	By, Closing Stock		
To, Carriage Inwards		50,000	Finished Goods		4,00,000
To, Wages & Salaries		80,000			
To P/L A/c		13,20,000			
(Gross Profit transferred)		**38,00,000**			**38,00,000**

Dr. **Profit & Loss Account for the year ended 31st March 2022** **Cr.**

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Administrative expenses	-		Gross Profit b/d		13,20,000
To, Salaries & wages	2,20,000		Discount received		5,000
Add: Outstanding	30,000	2,50,000	Commission received	30,000	
To, Depreciation: on Furniture		40,000	Add : Receivable	5,000	35,000
on Machinery		60,000			
To, Insurance		60,000			
To, Rent	60,000				
Less: Paid in Advance	5,000	55,000			
To, Printing & Stationery		30,000			
To, Advertising		50,000			
To, Carriage Outwards		40,000			
To, Discounts		5,000			
To, Bad debts		10,000			
To, Commission		10,000			
To, Provision for Doubtful Debts		10,000			
To, BJ's Capital A/c (Net Profit transferred)		740,000			
		13,60,000			**13,60,000**

Dr. **Balance Sheet as on 31st March 2022** **Cr.**

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
BJ's Capital	5,00,000		Fixed Assets:		
Less : Drawings	70,000		Furniture	400,000	
Add : Net Profit for the year	7,40,000	11,70,000	Less: Depreciation	40,000	3,60,000
Long Term Liabilities:		-	Machinery	300,000	
			Less: Depreciation	60,000	2,40,000
Current Liabilities:			Loose Tools		1,00,000
Sundry Creditors		4,00,000			

Outstanding Salaries & Wages		30,000	Current Assets:		
			Stocks		4,00,000
			Sundry Debtors	200,000	
			Less: Provision for Doubtful Debts	10,000	1,90,000
			Bills Receivables		50,000
			Cash in Hand		45,000
			Cash at Bank		2,00,000
			Petty Cash		5,000
			Prepaid Rent		5,000
			Commission Receivable		5,000
		16,00,000			**16,00,000**

Notes:

(1) Closing stock is valued at market price here as it is less than cost price (conservatism concept)

(Illustration 4)

Problem No. 4 Answer:

Mr. Arvind Kumar

Dr. Trading Account for the year ended 31st March 2022 Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Opening stock:			By, Sales A/c	4,98,000	
Finished goods		74,000	Less: Sent on Approval	(12,000)	4,86,000
To, Purchases:	2,50,000				
Less: Purchases returns	(3,000)	2,47,000	By, Closing stock A/c		
			Finished goods	60,000	
To, Wages:		54,000	Add Sent on Approval	10,000	70,000
To, P/L A/c (Gross Profit transferred)		181,000			
		5,56,000			**5,56,000**

Dr. Profit and Loss Account for the year ended 31st March 2022 Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Salaries		21,000	By, Trading A/c		
To, Repairs to Machinery		5,200	(Gross Profit transferred)		1,81,000
To, Depreciation: on Machinery		4,000	By, Discount Received		7,080
on Building		5,000			

To, Rent		2,400			
To, Bad Debts	2,000				
Add: Further Bad Debts	6,000				
Provision for Doubtful Debts	2,480				

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
Less: Provision Opening	(10,000)	480			
To, Commission to Works Manager		18,000			
To, Commission to General Manager		12,000			
To, Capital A/c (Net Profit transferred)		1,20,000			
		1,88,080			**1,88,080**

Balance Sheet as on 31st March 2022

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
Arvind Kumar's Capital	1,00,000		Fixed Assets:		
Less: Drawings (income tax)	(1,000)		Land & Building		1,49,000
Add: Net Profit for the year	1,20,000	2,19,000	Machinery		36,000
Long term Liabilities:		-	Current Assets:		
Current Liabilities:			Stocks	60,000	
Sundry Creditors		62,520	Add: Sent on Approval	10,000	70,000
Outstanding Salaries		4,000	Sundry Debtors	70,000	
			Less: Goods on Approval	(12,000)	
CC Bank's Overdraft		7,600	Less: Bad Debts	(6,000)	
Bills Payable		16,000	Less: Related to Landlord	(2,400)	
Commission Payable		30,000	Less: Provision for Doubtful Debts	(2,480)	47,120
			Bills Receivable		30,000
			Cash in Hand		4,000
			Accrued Income		3,000
		3,39,120			**3,39,120**

Working Notes:

(1) Commission payable to works manager & general manager is computed as below:

	(Rs.)
Profit before charging any commission	1,50,000
Commission to works manager @ 12% on 1,50,000	18,000
Profit after works manager's commission	1,32,000
Commission to General Manager	12,000

(Illustration 5)

Problem No. 5 Answer:

Rectification of Errors:

(a) Cash withdrawn was recorded as

Cash A/c	Dr	Rs.15,000	
To Bank A/c			Rs.15,000

But it was charged to drawing and Rs. 11,000 was recorded as expenses as well i.e.

Drawings A/c	Dr	Rs.15,000	
Expenses A/c	Dr	Rs.11,000	
To Cash A/c			Rs.26,000

This resulted in negative cash of Rs. 11,000. The rectification entry to be passed is

Cash A/c	Dr	Rs.11,000	
To Drawings A/c			Rs.11,000

(b) Omitted transaction to be recorded

Purchases A/c	Dr	Rs.19,000	
To Suppliers' A/c			Rs.19,000

(c) Incorrect recording of purchase returns corrected by

Suspense A/c	Dr	Rs.3,000	
To Purchase return A/c			Rs.1,500
To sales return A/c			Rs.1,500

(d) Incorrect expenses rectified by

Prepaid expenses A/c	Dr	Rs.3,750	
To Expenses A/c			Rs.3,750

(e) Over-casting of purchase book rectified by

Suspense A/c	Dr	Rs.1,000	
To Purchases A/c			Rs.1,000

Based on these rectifications we can now proceed to complete the final accounts.

Mr. Abhay

Dr. **Trading Account for the year ended 31st March, 2022** **Cr.**

Particulars	**(Rs.)**	**(Rs.)**	**Particulars**	**(Rs.)**	**(Rs.)**
To, Opening Stock	-	36,500	By, Sales	8,50,000	

To, Purchases	6,75,000		Less: Returns	(34,000)	
Less: Returns	(13,500)		Add: Rectification	1,500	8,17,500
Less: Additional returns	(1,500)		By, Closing stock		45,000

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
Add: Purchases missed out Less: Over-casting rectified To, Gross Profit c/d	19,000 (1,000)	6,78,000 1,48,000			
		8,62,500			**8,62,500**

Dr. **Profit and Loss Account for the year ended 31st March, 2022** **Cr.**

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Expenses	45,750		By, Gross Profit b/d		1,48,000
Less : Prepaid	3,750	42,000			
To, Depreciation		13,500	By, Interest on Bank deposits		5,750
To, Advertising		2,00,000	By, Net Loss		1,01,750
		2,55,500			**2,55,500**

Balance Sheet as on 31st March, 2022

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
Mr. Abhay's Capital	1,50,000		Fixed Assets		
Add: Wrong charge to drawing	11,000		Gross Block	1,35,000	
	1,61,000		Less: Depreciation	13,500	1,21,500
Less: Drawings	75,000	86,000	Current Assets:		
			Stocks		45,000
Current Liabilities:			Sundry Debtors		95,000
Sundry Creditors	3,25,000		Cash in hand	(3,000)	
Add: Missed out purchase	19,000	3,44,000	Add: Rectification	11,000	8,000
			Fixed deposit with Bank		55,000
			Prepaid expenses		3,750
			Miscellaneous Expenditure:		
			Profit & Loss (Dr.)		1,01,750
		4,30,000			**4,30,000**

Note: The expenditure incurred on intangible items after the date AS 26 became/becomes mandatory (01.04.2003 or 01.04.2004, as the case may be) would have to be expensed when incurred since these do not meet the definition of an 'asset' as per AS 26. Hence, full amount of Advertisement expense is charged to Profit & Loss Account.

(Illustration 6)

Problem No. 6 Answer:

Mrs. Sexena

Trading and Profit and Loss Account

Dr. for the year ended 31st March, 2022 Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Opening Stock		80,000	By, Sales (Rs. 6,80,000 - Rs. 30,000)		6,50,000
To, Purchases	4,60,000		By, Closing Stock		47,500
Less: Drawings	5,000	4,55,000			
To, Profit & Loss A/c.					
Gross Profit transferred		1,62,500			
		6,97,500			6,97,500
To, Salaries:		49,000	By, Trading A/c. (Gross Profit)		1,62,500
To, Rent		5,000	By, Bank Interest		1,200
To, Insurance		1,500	By, Selling Commission (15% on Rs. 30,000)		4,500
To, Audit Fees		1,000			
To, Printing & Stationery		1,500	By, Discount Received		1,800
To, Miscellaneous Expenses		21,200			
To, Discount Allowed		1,200			
To, Travelling Expenses		6,500			
To, Depreciation:					
Machinery	37,500				
Furniture	5,000	42,500			
To, Capital Account (Net Profit transferred)		40,600			
		1,70,000			**1,70,000**

Balance Sheet

as at 31st March, 2022

Liabilities	**(Rs.)**	**(Rs.)**	**Assets**	**(Rs.)**	**(Rs.)**
Capital Account	2,45,750		Machinery	2,50,000[1]	
Add: Net Profit	40,600		Less: Depreciation	37,500	2,12,500
	2,86,350		Furniture	50,000[2]	
Less: Drawings (28,000+5,000)	33,000	2,53,350			
			Less: Depreciation	5,000	45,000
Sundry Creditors		82,000	Stock		47,500
Outstanding Liabilities:			Debtors (Rs.38,000 - Rs.5,600)		32,400
Salaries	1,500		Cash		7,800
Audit Fees	1,000		Bank		18,500
Printing	600	3,100	Prepaid Insurance		250
Thakurlal's A/c. (Rs.30,000 – Rs.4,500)		25,500			
		3,63,950			**3,63,950**

Notes:

		(Rs.)
1.	Machinery as per Trial Balance	1,70,000
	Add: Depreciation	30,000
		2,00,000
	Additions	50,000
		2,50,000
2.	Furniture	49,500
	Add: Depreciation	5,500
		55,000
	Less: Wrong Debit	5,000
3.	Suspense A/c is eliminated by item	50,000

(i) Rs. 45,000 (Rs.50,000 – Rs.5,000) and item

(ii) by Rs.5,600 (debited), respectively.

(Illustration 8)

Problem No. 7 Answer:

Mr. Agarwal

Trading and Profit and Loss Account

Dr. for the year ended 31st March, 2022 Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Opening Stock		50,000	By, Sales	8,38,200	
To, Purchases	6,80,000		– Less: Sale on account of Joint Venture	60,000	7,78,200
– Less: Motor Car	40,000	6,40,000			
To, Carriage Inward		6,500	". Closing Stock (W.N. 1)		75,000
To, Profit & Loss A/c -Gross Profit transferred		1,56,700			
		8,53,200			8,53,200
To, Salaries		24,000	By, Trading A/c. - Gross Profit transferred		1,56,700
To, Travelling Expenses		6,500	" Sale of old papers		1,500
To, Printing & Stationery		1,500	" Profit on Joint Venture (40% of Rs. 15,000)		6,000
" Electricity & Telephone		6,800	" Profit on replacement of Motor Car (W. N. 2) [(Rs.1,20,000 – (Rs.56,000 + Rs.40,000)]		24,000
" Rent	18,000				
– Add: Outstanding	6,000				
	24,000				
– Less: Drawings	12,000	12,000			
" Bad Debts		2,000			
". Miscellaneous Expenses		12,000			
" Repairs		7,500			

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
" Depreciation on:					
– Furniture	9,000				
– Office Equipment	6,000				

– Motor Car (W.N. 3)	24,000	39,000			
‘’ Capital Account - Net Profit transferred		76,900			
		1,88,200			**1,88,200**

Balance Sheet

as at 31st March, 2022

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
Capital Account	1,97,000		Furniture & Fixtures	90,000	
Add: Net Profit	76,900		Less: Depreciation	9,000	
	2,73,900				81,000
Less: Drawings (36,000 + 12,000)			Office Equipment	60,000	
	48,000				
		2,25,900	Less: Depreciation	6,000	
Bank Overdraft		60,000			54,000
Creditors	1,14,000		Motor Car	56,000	
Less: Due to Trivedi	4,000		Additions	1,20,000	
		1,10,000		1,76,000	
			Less: Sold	56,000	
				1,20,000	
			Less: Depreciation	24,000	
Amount payable to Reddy (Rs.60,000 – Rs.6,000)		54,000			96,000
Outstanding Liabilities:			Stock		75,000
Salaries	2,500		Debtors	96,000	
Rent	6,000		Less: Due from Trivedi	4,000	

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
		8,500			92,000
			Cash		5,900
			Bank		53,000
			Prepaid Salary		1,500
		4,58,400			**4,58,400**

Working Notes:

1. **Depreciation on Motor Car**

on new motor car i.e., @ 20% on Rs. 1,20,000 = Rs. 24,000

2. Profit on Replacement of Motor Car

	(Rs.)	(Rs.)
Cost of new Motor Car		1,20,000
Less: Exchange Value	56,000	
Cash Payment	40,000	96,000
Profit on replacement		24,000

3. **Closing Stock**

Maximum allowable limit (100 – 20)% = 80% of stock. Overdraft is Rs. 60,000 which is equal to 80%.

So, closing stock = Rs. 60,000 × $\frac{100}{80}$ = Rs. 75,000.

(Illustration 9)

7. PREPARATION OF FINANCIAL STATEMENTS OF NON-PROFIT ORGANIZATIONS

Problem No. 1 Answer:

Particulars	(Rs.)
Subscriptions received during the year 2021-2022	50,000
Add : Subscription outstanding on 31.3.2022	2,250
	52,250
Less : Subscription outstanding on 1.4.21	5,000
	47,250
Add : Subscription paid in advance on 31.3.2021	1,250
	48,500
Less : Subscription received in advance on 31.3.2022	1,000
Subscription for 2021-2022	47,500

(Illustration 14)

Problem No. 2 Answer:

Income & Expenditure Account of OB Library Society

Dr. for the year ended 31-3-2022 Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Electricity Charges To, Postage & Stationery To, Telephone Charges To, Rent 88,000 Add: Outstanding 4,000	7,200 5,000 5,000 92,000	By, Entrance Fees (30,000 × 25%) By, Membership Subscription 2,00,000 Less: Advance 10,000 By, Sale of Old Papers By, Hire of Lecture Hall	7,500 1,90,000 1,500 20,000

Particulars	(Rs.)	Particulars	(Rs.)
To, Salaries 66,000		By, Interest on Securities 8,000	
Add: Outstanding 3,000	69,000	Add. Accrued Interest 500	8,500
To, Depreciation on:		————	
Books (10% on 4,60,000)	46,000	[5% on 1,50,000 + (5% on 40,000) × $\frac{1}{2}$	
Electrical fittings (10% on 1,50,000)	15,000	8,000]	
Furniture (10% on 50,000)	5,000	By, Deficiency	16,700
	2,44,200		**2,44,200**

Balance Sheet of OB Library as on 31.03.2022

Liabilities		(Rs.)	Assets	(Rs.)
Capital Fund	7,93,000		Electrical Fitting (1,50,000 – 15,000)	1,35,000
Add: Entrance fees	22,500		Furniture (50,000 – 5,000)	45,000
	8,15,500		Books (4,60,000 – 46,000)	4,14,000
Less: Excess of			Investment in securities (1,50,000 ÷ 40,000)	1,90,000
Expenditure over Income	16,700	7,98,800	Accrued Interest	500
Outstanding Expenses: Rent	 4,000		Cash at Bank Cash in Hand	20,000 11,300
Salaries	3,000	7,000		
Membership Subscription in Advance		10,000		
		8,15,800		**8,15,800**

(Illustration 18)

Problem No.3 Answer:

Receipts and Payments
for the year ended 31st March, 2022

Receipts	(Rs.)	Payments	(Rs.)
To, Balance b/d	13,600	By, Salaries W.N. (2)	1,18,000
To, Subscription (WN.3)	1,63,400	By, Printing & Stationery	6,000
To, Entrance Fees	4,000	By, Postage	500
To, Annual Dinner Contribution	36,000	By, Telephone	1,500
		By, General Expenses	12,000
		By, Audit Fees	2,000
		By, Dinner Expenses	25,000
		By, Interest	5,500
		By, Equipments W.N. (1)	18,000
		By, Balance c/d	28,500
	2,17,000		**2,17,000**

Balance Sheet as at 31st March, 2022

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)
Capital (W.N.- 4)	2,20,600		Buildings	1,90,000
Add: Surplus	30,000	2,50,600	Equipments	63,000
Bank Loan		30,000	Cash in Hand	28,500

Creditors : Salaries		8,000	Subscription Receivable	18,000
Audit Fees O/S		2,500		
Subscription Received in Advance		8,400		
		2,99,500		**2,99,500**

Working Notes:

(1)

Dr. **Equipment Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/d To, Bank A/c (B/f)	52,000 18,000	By, Depreciation By, Balance c/d	7,000 63,000
	70,000		**70,000**

(2)

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

Particulars	(Rs.)	Particulars	(Rs.)
To, Salary O/S (2021 - 22) To, Bank A/c (Bal. fig.)	8,000 1,18,000	By, Income & Expenditure A/c By, Salary O/S (2020-21)	1,20,000 6,000
	1,26,000		**1,26,000**

(3)

Dr. **Subscription Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Subscription Receivable (2020-21) To, Subscription Received in Advance (2022-23) To, Income & Expenditure A/c	16,000 8,400 1,70,000	By, Subscription Receive in Advance (2020-21) By, Subscription Receivable (2021-22) By, Bank A/c (Bal. fig.)	13,000 18,000 1,63,400
	1,94,400		**1,94,400**

(4)

Balance Sheet as at 31st March, 2021

Liabilities	(Rs.)	Assets	(Rs.)
Capital fund (Bal. fig.)	2,20,600	Building	1,90,000
Bank loan	30,000	Equipment	52,000
Creditors Salaries	6,000	Cash in hand	13,600
Audit Fees O/S	2,000	Subscription Receivable	16,000
Subscription Received in Advance	13,000		
	2,71,600		**2,71,600**

(Illustration 16)

Problem No. 4 Answer:

New Youth Club

Dr. **Receipts & Payments Account** **Cr.**

for the year ending 31st March, 2022 **(Rs. in 000)**

Receipts	(Rs.)	Payments	(Rs.)
To, Donations	2,500	By, Land	800
To, Entrance fees	251	By, Building	1,300
To, life Membership fees	105	By, Books	202
To, Subscription	1,151	By, Furniture	315
To, Play Ground rent	110	By, Honorarium and Salaries	131
To, Refreshment account	115	By, Maintenance of Play Ground	50
To, Sundry incomes	49	By, Refreshment Account	79
		By, Insurance Premium	15
		By, Sundry Expenses	65
		By, Govt. Securities	1,050
		By, Term Deposits	150
		By, Balance c/d	124
	4,281		**4,281**

Income & Expenditure Account

Dr. **for the year ending 31st March, 2022** **Cr.**

(Rs. in 000)

Expenditure	(Rs.)	(Rs.)	Income	(Rs.)	(Rs.)
To, Honorarium and Salaries	131		By, Subscription	1,151	
Add: Outstanding	34	165	Less: Received in Advance	52	
To, Maintnc. of Play Ground.	50			1,099	
Add: Outstanding	2	52	Add: Outstanding	61	1,160
To, Insurance Premium	15		By, Entrance Fees		251
Less: Prepaid	3	12	By, Play Ground Rent	110	
To, Sundry Expenses	65		Add: Outstanding	10	120
Add: Outstanding	5	70	By, Prof it on Refreshment		36
To, Depreciation			By, Sundry Incomes	49	
On Building-10% on Rs.13 Lakh		130	Add: Outstanding	13	62
On Furniture - 10% on Rs.3,45,000		34.50	By, Interest on Govt. Securities		21

On Books- 15% on Rs.2,36000		35.40	(Accrued)		
To, Surplus		1,151. 10			
		1,650			**1,650**

Balance Sheet as on 31st march, 2022

(Rs. in 000)

Liabilities	(Rs.)	Assets	(Rs.)
Capital Fund		Land	800
Add: Life Membership fees 105.00		Building (Rs. 13 Lakh- Rs. 13 Lakh)	1,170
Add: Surplus 1,151.10	1,256.10	Books (Rs. 2,36,000 - Rs. 35,400)	200.6
Donations for Building	2,500	Furniture (Rs.3,45,000 - Rs.34,500)	310.5
Creditors for Books	34	8% Govt. Securities	1,050
Creditors for Furniture	30	Out. Int. on Govt. Securities	21
Outstanding Hon. and salaries	34	Outstanding Subscription	61
Outs. Maintenance of play ground	2	Prepaid Insurance Premium	3
Outstanding Sundry expenses	5	Play Ground rent- Outstanding	10
Subscription Received in Advance	52	Sundry incomes - Outstanding	13
		Term Deposits	150
		Cash and Bank	124
	3,913.10		**3,913.10**

Working Notes:

(1) Donation received for building has been treated as capital item.

(2) Amount of Term Deposit = Donations Received – (Cost of Building + 8% Govt. Securities) Rs. 25 Lakh – (Rs. 13 Lakh + Rs. 10.50 Lakh) = Rs. 1 ,50,000

(3) Profit on Refreshment = Rs. 1,15,000 - Rs. 79,000 = Rs. 36,000

(4) Outstanding Subscription=Rs. 11,60,000 - (Rs. 11,51,000 – Rs. 52,000) = Rs. 61,000

(5) Accrued Interest on Govt. Securities: Rs. 10,50,000 × 8% × 3/12= Rs. 21,000

(Illustration 20)

Problem No. 5 Answer:

Receipts and Payments Account of RR Clinic for the year ended 31.03.2022

Receipts	(Rs.)	Payments	(Rs.)
To, Cash in Hand (Opening)	56,000	By, Medical Supply	2,10,000
To, Subscription	3,50,000	By, Honorarium to doctors	1,90,000
To, Donation	1,55,000	By, Salaries	70,000
To, Interest on Investment	63,000	By, Misc. Expenses	7,000
To, Medical Camp collections	87,500	By, Purchase of Equipment	1,05,000

		By, Telephone Expenses	6,000
		By, Medical Camp Expenses	10,500
		By, Cash in Hand (Closing)	1,13,000
	7,11,500		**7,11,500**

Income and Expenditure Account of RR Clinic

Dr. **for the year ended 31.03.2022** **Cr.**

Expenditure	(Rs.)	Income	(Rs.)
To, Medicine Consumed To, Honorarium to Doctors To, Salaries	2,03,000 1,90,000 70,000	By, Subscription By, Donation By, Interest on Investments	3,58,400 1,05,000 63,000

Expenditure	(Rs.)	Income	(Rs.)
To, Telephone Expenses	6,000	By, Profit on Medical camp:	
To, Misc. Expenses To, Depreciation on:	7,000	Collections 87,500 Less: Expenses 10,500	77,000
Medical Equipment 37,800 Building 35,000 (3,50,000 – 3,15,000)	72,800		
To, Surplus-excess of Income over Expenditure	54,600		
	6,03,400		**6,03,400**

Balance Sheet of RR Clinic as on 31st March, 2022

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
Capital Fund:			Building	3,50,000	
Opening Balance	12,62,100		Less:	(35,000)	3,15,000
Add: Surplus	54,600	13,16,700	Depreciation:	1,47,000	
Building Fund		50,000	Medical Equipment	1,05,000	
Subscription Received		4,900		2,52,000	
in Advance			Add: Purchase	(37,800)	2,14,200
Creditors for Medicine supply		91,000			
			Less: Depreciation		1,05,000
			Stock of Medicine Investments		7,00,000

			Subscription		15,400
			Receivable -		1,13,000
			Cash in hand		
		14,62,600			**14,62,600**

		(Rs.)	(Rs.)
1	**Subscription for the year ended 31.03.2022**		
	Subscription received during the year		3,50,000
	Less: Subscription receivable on 01.04.2021	10,500	.
	Less: Subscription received in advance on 31.03.2022	4,900	(15,400)
	Add: Subscription receivable on 31.03.2022	15,400	3,34,600
	Add: Subscription received in advance on 01.04.2021	8,400	23,800
	Subscription for the year 2021-22		3,58,400
2.	**Purchase of Medicine**		
	Payment of Medicine Supply		2,10,000
	Less: Amount due for Medicine Supply 01.04.2021		(63,000)
			1,47,000
	Add: Amount due for Medicine Supply on 31.03.2022		91,000
	Purchase of Medicine during 2021-22		2,38,000
3.	**Medicine Consumed**		
	Stock of Medicine on 01.04.2021		70,000
	Add: Purchase of Medicine during the year		2,38,000
			3,08,000
	Less: Stock of Medicine on 31 03.2022		(1,05,000)
	Medicines Consumed		2,03,000
4	**Depreciation on Equipment**		
	Value of Equipment on 01.04.2021		1,47,000
	Add: Purchase of Equipment during the year		1,05,000
			2,52,000
	Less: Value of Equipment on 31.03.2022		(2,14,200)
	Depreciation on Equipment for the year		37,800

Balance Sheet of Radix Clinic as on 31st March, 2021

Liability	(Rs.)	Assets	(Rs.)
Capital Fund: (balancing Figure)	12,62,100	Building	3,50,000

Subscription Received in Advance	8,400	Medical Equipment	1,47,000
Creditors for Medicine Supply	63,000	Stock of Medicine	70,000
		Investments	7,00,000
		Subscription Receivable	10,500
		Cash in Hand	56,000
	13,33,500		**13,33,500**

Problem No. 6 Answer:

BJ Club

Balance Sheet as at 31st December, 2021

Liabilities	**(Rs.)**	**Assets**	**(Rs.)**
Outstanding Liabilities:		Building	44,000
Advertisement (Rs.1,800 – Rs.1,600)	200	Furniture	4,000
Printing and Stationery (Rs.2,600 – Rs.2,000)	600	Cricket Equipment	25,000
Capital Fund (Bal. fig.)	78,000	Entrance Fees in arrear Subscription in arrear Cash	1,000 600 4,200
	78,800		**78,800**

BJ Club

Balance Sheet as at 31st December, 2022

Liabilities	**(Rs.)**	**(Rs.)**	**Assets**	**(Rs.)**	**(Rs.)**
Capital Fund:			Building	44,000	
Balance on 1.1.2021	78,000		Less: Depreciation 5%	2,200	41,800
Add: Excess of Income					
over Expenditure	18,160	96,160	Furniture	4,000	
Subscription Received in Advance		400	Less: Depreciation 6%	240	3,760
Outstanding Liabilities:					
Printing and Stationery		400	Cricket Equipment	25,000	
Manager's Salary:			Less: Depreciation 10%	2,500	22,500
(1,500 – 1,000)		500	Investments		20,000

Audit Fees		500	Subscriptions in Arrear (15,600 – 15,000)		600
			Entrance Fees in Arrear (10,500 – 10,000)		500
			Accrued Interest on Investments (4,000 – 3,000)		1,000
			Prepaid Insurance (1,200 – 1,000)		200
			Cash		7,600
		97,960			**97,960**

Note: Advertisement expenses and Printing and Stationery which were paid in excess over Income and Expenditure A/c are assumed to be outstanding for the previous year.

Problem No. 7 Answer:

Restaurant Trading Account

Dr. **for the year ended 31st March, 2022** **Cr.**

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Opening Stock A/c		2,600	By, Restaurant Receipts A/c		56,800
” Purchases A/c	50,400		” Closing Stock A/c		3,000
” Add: Outstanding for 31.3.2022	5,600 56,000				
Less: Outstanding for 01.04.2021	5,200	50,800			
” Income & Expenditure A/c (G.P. transferred)		6,400			
		59,800			**59,800**

Balance Sheet as at 1st April, 2021

Liabilities	(Rs.)	Assets	(Rs.)
Accumulated Fund: (Bal. fig.)	50,390	Furniture and Equipment	48,000
Owing for Supplies to Restaurant	5,200	Restaurant Stock	2,600
Outstanding Rent (Jan. to March 2021)	1,250	Stock of Prize	800

		Outstanding Subscriptions	700
		Cash and Bank	4,740
	56,840		**56,840**

Income and Expenditure Account

Dr. **for the year ended 31st March, 2022** **Cr.**

	Expenditure	**(Rs.)**	**(Rs.)**		**Income**	**(Rs.)**	**(Rs.)**
To	Wages		13,380		By Subscription : Subscription already received	29,720	
”	Rent	7,500			Less: Outstanding for 1.4.12	700	
”	Less: Outstanding on	1,250				29,020	
1.4.2021		6,250			Add: Outstanding for 2022	1,000	
”	Less: Prepaid for 3 months (Rs.7,500 × 3/18)	1,250	5,000			30,020	
”	Rates		2,700		Less: Received in advance	400	29,620
”	Secretary’s Salary		3,120	”	Games Competition Receipts		13,640
”	Lighting, Cleaning, Services		7,200	”	Restaurant Trading – Gross Profit		6,400
”	Competition Prize	4,000					
”	Add: Opening Stock	800					
		4,800					
”	Less: Closing Stock	500	4,300				
”	Printing, Postage and Sundries		6,000				

Expenditure	**(Rs.)**	**(Rs.)**	**Income**	**(Rs.)**	**(Rs.)**
” Dep. on Furniture and Equipment @ 10%		4,800			
” Surplus – Excess of Income over Expenditure		3,160			
		49,660			**49,660**

Balance Sheet as at 31st March, 2022

Liabilities	**(Rs.)**	**(Rs.)**	**Assets**	**(Rs.)**	**(Rs.)**
Accumulated Fund:			Furniture and Equipment	48,000	
Balance on 1.4.2021	50,390		Less: Depreciation	4,800	43,200
Add: Surplus	3,160	53,550	Restaurant Stock		3,000
Entrance Fees		3,200	Stock of Prize		500
Subscription Received in Advance		400	Outstanding Subscriptions		1,000
Owing for Supplies to Restaurant		5,600	Prepaid Rent		1,250
Outstanding Petty Expenses		80	Fixed Deposit with Bank		8,000
			Cash and Bank		5,880
		62,830			**62,830**

(Illustration 21)

8. ACCOUNTS FROM INCOMPLETE RECORDS

(Exclusive from CMA Source)

Problem No. 1 Answer:

Here the information about opening and closing capital is not given. Both these figures can be computed basedon statement of affairs as on 31.03.2021 and 31.03.2022.

These figures will then be used together with further information to ascertain the profit or loss for the period bydrafting the Statement of Profit or Loss for the year ended 31-03-2022.

Mr. Prakash

Statement of Affairs as on 31.03.2022

Liabilities	(Rs.)	Assets	(Rs.)
Creditors	55,200	Cash at Bank	600
Bills Payable	26,400	Bills Receivables	16,200
Capital (Bal. figure.)	96,000	Debtors	45,600
		Stock in Trade	31,000
		Machinery	66,200
		Computers	18,000
	1,77,600		**1,77,600**

Statement of Affairs as on 31.03.2022

Liabilities	(Rs.)	Assets	(Rs.)
Creditors	58,500	Cash at Bank	1,500
Bills Payable	28,200	Bills Receivables	18,300
Capital (Bal. fig.)	131,400	Debtors	56,000
		Stock in Trade	47,300
		Machinery	78,000
		Computers	17,000
	2,18,100		**2,18,100**

Statement of Profit or Loss for the year ended 31.03.2022

Particulars	(Rs.)
Closing Capital as per Statement of Affairs as on (31.03.2022)	1,31,400
Less: Opening Capital as per Statement of Affairs as on (31.03.2021)	(96,000)

Increase or decrease in capital Add: Drawings (Goods + Cash) [Rs.7,200 + Rs.2,100] Add: Interest on Drawings @ 10% (Rs. 9,300 × 10%) Less: Interest on Opening Capital @ 5% (Rs. 96,000 × 5%) Less: Fresh Capital Introduced	35,400 9,300 930 (4,800) (7,500)
Net Profit or Loss for the year	33,330

(Illustration-23)

Problem No. 2 Answer:

Determination of Capital balance of Mr. Karan on 31.03.2020 and on 31.03.2021

Particulars	31.03.2020 (Rs.)	31.03.2021 (Rs.)
Assets	16,65,000	28,40,000
Less: Liabilities Capital	4,13,000	5,80,000
	12,52,000	22,60,000

Determination of Profit by applying the method of the Capital Comparison

Particulars	(Rs.)
Capital Balance as on 31.3.2021	22,60,000
Less. Fresh Capital Introduces(matured life insurance policy amount)	(50,000)
	22,10,000
Add: Drawings (Rs. 32,000 × 12)	3,84,000
	25,94,000
Less: Capital Balance as on 01.04.2020	(12,52,000)
Profit	13,42,000
Income Declared	9,12,000
Suppressed Income	4,30,000

The Income Tax Officer's contention that Mr. Kanan has not declared his true income is correct. Mr. Kanan's true income is in excess of the disclosed income by Rs. 4,30,000.

(Illustration-24)

Problem No. 3 Answer:

Statement of Affairs

Particulars	**(Rs.)**	**(Rs.)**	**Particulars**	**(Rs.)**	**(Rs.)**
Capital (opening & closing) (Bal. fig.)	44,000	83,000	Cash at Bank	20,000	21,000
			Debtors	17,000	25,000
Creditors	32,000	22,000	Stock	40,000	60,000
Loan from Mrs. Sashi	30,000	30,000	Furniture	29,000	29,000
	1,06,000	**1,35,000**		**1,06,000**	**1,35,000**

Dr. Statement of Profit & Loss for the year ended 31.03.2022 Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
Opening Capital		44,000	Closing Capital		83,000
Further Introduction of Capital		35,000	Drawings (5,000 × 12)		60,000
Trading Profit		64,000			
		1,43,000			**1,43,000**
Depreciation (29,000 × 10%)		2,900	Trading Profit		64,000
Interest on Loan (30,000 × 10%)		3,000			
Net Profit		58,100			
		64,000			**64,000**
Commission to Shop Assistant			Net Profit		58,100
(58,100 × 5%)		2,905			
Net Profit		5,5195			
		58,100			**58,100**

Statement of Affairs for the year ended 31.03.2022

Particulars	(Rs.)	Particulars	(Rs.)
Capital	44,000	Cash at Bank	21,000
Further Capital Introduced	35,000	Debtors	25,000
Drawings	(60,000)	Stock	60,000
Net profit	55,195	Furniture (Rs.29,000 – Rs.2,900)	26,100
Creditors	22,000		
Interest on Loan	3,000		
Commission to Assistant	2,905		
Loan from Mrs. Sashi	30,000		
	1,32,100		**1,32,100**

(Illustration-25)

Problem No. 4 Answer:

Ram Prakash

Trading and Profit and Loss Account

Dr. for the year ended 31st March, 2022 Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)
To, Opening Stock		60,000	By, Sales:	
To, Purchases		2,30,000	Credit (WN 1)	4,40,000

To, Transportation		40,000	Cash (WN 3)	84,000
To, Gross Profit c/d		2,14,000	By, Closing Stock	20,000
		5,44.000		**5,44.000**
To, Sundry Exp.	1,40,000			
Less: Unpaid exp. For 2021	12,000 1,28,000		By, Gross Profit b/d	2,14,000
Less: Prepaid Exp. 2022	4,000			
	1,24,000			
	20.000	1,44,000		
Add: Unpaid Exp. For 2022				
To, Provision for Doubtful Debts.		14,000		
To, Net Profit transferred to Capital A/c		56,000		
		2,14,000		**2,14,000**

Balance Sheet as at 31st March, 2022

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
Creditors (WN 2)		70,000	Cash and balance		6,000
Unpaid Expenses		20,000	Debtors	1,40,000	
Capital (WN 4)	2,50,000		Less: Provision for	14,000	1,26,000
Add: Net Profit	56,000		Doubtful Debts		20,000
	3,06,000		Closing Stock		4,000
Less: Drawing	(120,000)	1,86,000	Prepaid Expenses		
			Furniture	1,00,000	
			Add: Additions	20,000	1,20,000
		2,76,000			**2,76,000**

Working Notes:

1. **Calculation of Credit Sales:**

Dr. **Total Debtors Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/d To, Sales A/c — credit (Bal. fig.)	1,20,000 4,40,000	By, Cash/Bank A/c By, Balance c/d	4,20,000 1,40,000
	5,60,000		**5,60,000**

2. **Calculation of Closing Creditors Balance:**

Dr. **Total Creditors Account** **Cr.**

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

3. **Calculation of Cash Sales:**

Dr. **Cash Book** **Cr.**

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

4. **Calculation of Opening Capital:**

Statement of Affairs as at 31st March, 2021

Particulars	(Rs.)	Particulars	(Rs.)
Creditors	40,000	Furniture A/c	1,00,000
Unpaid Expenses	12,000	Stock	60,000
Capital (B/F)	2,50,000	Debtors	1,20,000
		Cash in Hand	22,000
	3,02,000		**3,02,000**

(Illustration-26)

Problem No. 5 Answer:

Chirag

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

For the year ending on 31st March, 2022

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)
To, Opening Stock		20,000	By Sales	1,80,000
To, Purchase (Bal. fig.)		1,54,000	By Closing stock	30,000
To, Gross Profit old (@ 20% on sales)		36,000		
		2,10,000		**2,10,000**

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)
To, Sundry Business Expenses		20,000	By, Gross Profit b/d	36,000
To, Depreciation: on Building	1,625			
on Furniture	250			
on Motor	1,800	3,675		
To, Net Profit transferred to Capital A/c.		12,325		
		36,000		**36,000**

Balance Sheet as at 31st March, 2022

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
Capital Account:			Building	32,500	
Opening Balance	48,000		Less: Depreciation	(1,625)	30,875
Add: Net Profit	12,325		Furniture	5,000	
	60,325		Less: Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	Less: Depreciation	(1,800)	7,200
Sundry Creditors [W.N. 2]		47,500	Stock in Trade		30,000
Outstanding expenses		5,000	Sundry Debtors [W.N. 1]		21,000
			Cash at Bank [W.N. 3]		22,000
			Sundry Advances [W.N. 3] (Amount recoverable from cashier)		4,500
		1,20,325			**1,20,325**

Working Notes:

1. Total Debtors Account

Dr. **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/d To, Sales (80% of Rs. 1,80,000)	17,000 1,44,000	By, Bank (Rs.1,40,000 – Rs.35,000) By, Cash A/c By, Balance c/d	1,05,000 35,000 21,000
	1,61,000		**1,61,000**

2. Total Creditors Account

Dr. **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		**1,85,000**

3. **Cash Book**

Dr. **Cr.**

Particulars	Cash (Rs.)	Bank (Rs.)	Particulars	Cash (Rs.)	Bank (Rs.)
To, Balance b/d	2,000	8,500	By, Business Expenses	9,000	6,000
To, Sales	36,000	—	By, Drawings	—	7,500
To, Sundry Debtors	35,000	1,05,000	By, Sundry Creditors	—	1,37,500
To, Cash (Contra)	—	71,500	By, Bank (Contra)	71,500	—
To, Bank (Contra)	12,000	—	By, Cash (Contra)	—	12,000
			By, Amount Recoverable	4,500	—
			from Cashier (Bal. fig.)	—	22,000
			By, Balance c/d (Bal. fig.)		
	85,000	**1,85,000**		**85,000**	**1,85,000**

(iv) Last years Total Sales = Gross Profit × 100/20 = Rs. 30,000 × 100/20 = Rs. 1,50,000

(v) Current year's Total Sales = Rs. 1,50,000 + 20% of Rs. 1,50,000 = Rs. 1,80,000

(vi) Current year's Credit Sales = Rs. 1,80,000 × 80% = Rs. 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = Rs. 1,80,000 – 36,000 = Rs. 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock

= Rs. 1,44,000 + Rs. 30,000 – Rs. 20,000 = Rs. 1,54,000.

(Illustration-27)

Problem No. 6 Answer:

Dr. **Sundry Debtors Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/f To, Credit Sales (Bal. fig.) A/c	15,000 7,000	By, Bank A/c By, Balance c/f	2,000 20,000
	22,000		**22,000**

Dr. **Sundry Creditors Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Bank A/c To, Balance c/f	40,000 8,000	By, Balance b/f By, Credit Purchases (Bal. fig.)	10,000 38,000
	48,000		**48,000**

Dr. **Cash Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/f	1,000	By, Drawing: (13 × Rs. 200)	2,600
To, Cash Sales	48,000	By, Sundry Expenses: (13 × Rs. 100)	1,300

		By, Bank A/c	42,000
		By, Balance being cash missing	3,100
	49,000		**49,000**

Note: Calculation of Cash Sales:

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

(Illustration-28)

PROBLEMS DISCUSSED FROM CA SOURCE FOR PRACTICAL UNDERSTANDING

Problem No. 1 Answer:

Statement of Affairs

as on 31-12-2013 & 31-12-2014

Liabilities	**31-12-2013**	**31-12-2014**	**Assets**	**31-12-2013**	**31-12-2014**
	Rs.	**Rs.**		**Rs.**	**Rs.**
Capital(Bal. Fig.)	2,41,200	4,40,700	Building	1,00,000	97,500
			Furniture	50,000	45,000
Loans	1,00,000	80,000	Inventory	1,20,000	2,70,000
Sundry creditors	40,000	70,000	Sundry debtors	40,000	90,000
			Cash at bank	70,000	85,000
			Cash in hand	1,200	3,200
	3,81,200	5,90,700		3,81,200	5,90,700

(SM)

Problem No. 2 Answer:

Capital Account of Shri Moti

		1-4-2013		1-4-2015
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash in hand		25,500		16,000
Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor Car		—		1,25,000
Loan to Moti's Brother		—		20,000
		3,88,000		6,20,000
Liabilities:				
Owing to Moti's Brother	40,000		—	
Sundry creditors	35,000	75,000		55,000
Capital		3,13,000		5,65,000
Income during the two years:				
Capital as on 1-4-2015				5,65,000

Add: Drawings – Domestic Expenses for the two years (Rs. 4,000 × 24 months)	96,000
	6,61,000
Less: Capital as on 1-4-2013	(3,13,000)
Income earned in 2013-2014 and 2014-2015	3,48,000
Income declared (Rs. 1,05,000 + Rs. 1,23,000)	2,28,000
Suppressed Income	1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by Rs. 1,20,000. **(SM)**

Problem No. 3 Answer:

Trading and Profit and Loss Account of Mr. Shiv Kumar
for the year ended 31st March, 2015

	Rs.		Rs.
To Opening inventory (balancing figure)	80,000	By Sales(3,20,000x 100/80)	4,00,000
To Purchases (1,92,000x100/80)	2,40,000	By Closing inventory	40,000
To Gross profit c/d @ 30% on sales	1,20,000		
	4,40,000		4,40,000
To Miscellaneous expenses (Rs. 80,000 – Rs. 8,000 + Rs. 10,000)	82,000	By Gross profit b/d	1,20,000
		By Miscellaneous receipts	20,000
To Depreciation:		By Net loss transferred to Capital A/c	25,840
Building Rs. 36,000			
Furniture Rs. 7,800 (Rs. 6,800+Rs. 1,000)			
Motor Car Rs. 16,000	59,800		
To Loss on sale of furniture	11,000		
To Bad debts	8,000		
To Provision for doubtful debts	5,040		
	1,65,840		**1,65,840**

Balance Sheet of Mr. Shivkumar as on 31st March, 2015

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital as on 1st April, 2014		7,16,000	Building	3,20,000	
			Add: Addition during the year	40,000	3,24,000
Profit and Loss A/c Opening balance	40,000			3,60,000	
			Less: Provision for		

Less: Loss for the year	(25,840)	14,160	depreciation	(36,000)	
Sundry creditors		1,12,000	Furniture	60,000	
Bills payable		16,000	Less: Sold during the year	(20,000)	
Outstanding salary		10,000		40,000	
			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
			Inventory in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	(5,040)	2,46,960
		8,68,160	Bills receivable		28,000
			Cash in hand and at bank		1,04,000
					8,68,160

Working Notes:

(i) Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,60,000	By Cash/Bank A/c	2,00,000
To Sales A/c	3,20,000	By Bills Receivable A/c	20,000
		By Bad debts A/c	8,000
		By Balance c/d (bal. fig.)	2,52,000
	4,80,000		4,80,000

(ii) Sundry Creditors Account

	Rs.		Rs.
To Cash/Bank A/c	1,84,000	By Balance b/d	1,20,000
To Bills Payable A/c	16,000	By Purchases A/c	1,92,000
To Balance c/d (bal. fig.)	1,12,000		
	3,12,000		3,12,000

(iii) Bills Receivable Account

		Rs.			Rs.
To	Balance b/d	32,000	By	Cash/ Bank A/c (bal. fig.)	24,000
To	Sundry Debtors A/c	20,000	By	Balance c/d	28,000
		52,000			52,000

(iv) Bills Payable Account

		Rs.			Rs.
To	Cash/Bank A/c (bal. fig.)	28,000	By	Balance b/d	28,000
To	Balance c/d	16,000	By	Sundry Creditors A/c	16,000
		44,000			44,000

(v) Furniture Account

		Rs.			Rs.
To	Balance b/d	60,000	By	Bank/Cash A/c	8,000
To	Bank A/c	28,000	By	Depreciation A/c	1,000
			By	Profit and loss A/c (loss on sale)	11,000
			By	Depreciation A/c	6,800
		__	By	Balance c/d	61,200
		88,000			88,000

(vi) Cash/Bank Account

		Rs.			Rs.
To	Balance b/d	1,80,000	By	Misc. trade expenses A/c	80,000
To	Miscellaneous receipts A/c	20,000	By	Purchases A/c	48,000
To	Sundry debtors A/c	2,00,000	By	Furniture A/c (bal. fig.)	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

(vii) Opening Balance Sheet of Mr. Shivkumar as on 31st March, 2014

Liabilities	Rs.	Assets	Rs.
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Inventory 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

(SM)

Problem No. 4 Answer:

A. Adamjee

Trading and Profit & Loss Account for the year ended 31-12-2014

	Rs.	Rs.		Rs.
To Opening Inventory		3,900	By Sales	62,100
To Purchases		49,100	By Closing Inventory	5,700
To Gross profit c/d		14,800		
		67,800		67,800
To Salaries		6,500	By Gross Profit b/d	14,800
To Rent and Taxes		1,500	By Interest on investment	200
To General expenses		2,500		
To Depreciation :				
Machinery	750			
Furniture	120	870		
To Provision for doubtful debts		800		
To Balance being profit				
carried to Capital A/c		2,830		
		15,000		15,000

Balance Sheet as on 31st December, 2014

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
A. Adamjee's Capital			Machinery	7,500	
on 1st January, 2014	29,100		Less : Depreciation	(750)	6,750
Add : Fresh Capital	6,000		Furniture	1,200	
Add : Profit for the year	2,830		Less : Depreciation	(120)	1,080
Less : Drawings	37,930				
	(3,600)	34,330	Inventory-in-trade		5,700
Sundry creditors		7,900	Sundry debtors	17,600	
			Less : Provision for		
			doubtful debts	(800)	16,800
			Investment		5,000
		—	Cash at bank		6,400
		42,230	Cash in hand		

					500
					42,230

Working Notes:

1. Statement of Affairs of A. Adamjee as on 1-1-2014

	Rs.		Rs.
Sundry creditors	5,800	Machinery	7,500
A. Adamjee's capital	29,100	Furniture	1,200
(balancing figure)		Inventory	3,900
		Sundry debtors	14,500
		Investments	5,000
		Bank balance (from Cash statement)	2,800
	34,900		34,900

2. Ledger Accounts

A. Adamjee's Capital Account

		Rs.			Rs.
Dec. 31	To Drawings	3,600	Jan. 1	By Balance	29,100
Dec. 31	To Balance c/d	31,500	Dec. 31	By Cash	6,000
		35,100			35,100

Sales Account

		Rs.			Rs.
Dec. 31	To Trading A/c	62,100	Dec. 31	By Cash	11,000
		62,100	Dec. 31	By Total Debtors Account	51,100
					62,100

Total Debtors Account

		Rs.			**Rs.**
Jan. 1	To Balance b/d	14,500	Dec. 31	By Cash	48,000
Dec. 31	To Credit sales (Balancing figure)	51,100	Dec. 31	By Balance c/d	17,600
		65,600			65,600
Jan. 1	To Balance b/d	17,600			

Purchases Account

		Rs.			**Rs.**
Dec. 31	To Cash A/c	12,000			

	ToTotal Creditors A/c	37,100	Dec. 31	By Trading Account	49,100
		49,100			49,100

Total Creditors Account

		Rs.			Rs.
Dec. 31	To Cash	35,000	Jan. 1	By Balance b/d	5,800
Dec. 31	To Balance b/d	7,900	Dec. 31	By Credit Purchases	
				(Balancing figure)	37,100
		42,900			42,900

(SM)

Problem No. 5 Answer:

Trading and Profit & Loss Account of Mr. Anup for the year ended 31-12-2014

	Rs.	Rs.		Rs.	Rs.
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales		
Less: Purchases			Return	(1,200)	9,58,550
Return	(4,200)	4,49,900	By Closing		
To Gross Profit		5,88,650	Inventory		1,90,000
		11,48,550			
To Wages (9,200 x12)		1,10,400			11,48,550
To Electricity & Tel.			By Gross Profit		5,88,650
Charges(18,700+2,200)		20,900	By Discount		2,700
To Legal expenses		17,000			
To Discount (2,400+ 750)		3,150			
To Shop exp. (600 x12)		7,200			
To Provision for claims for damages		1,55,000			
To Shop Rent		20,000			
To Net Profit		2,57,700			
		5,91,350			5,91,350

Balance-Sheet as on 31-12-2014

Liabilities	Rs.		Assets	Rs.
Capital A/c (W.N.vi)	2,38,200		Building	3,72,000
Add : Fresh capital introduced			Furniture	25,000
Maturity value from LIC	20,000		Inventory	1,90,000
Rent	14,000		Sundry debtors	92,000
Add : Net Profit	2,57,700		Bills receivable	6,000

	5,29,900		Cash at Bank	87,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Cash in Hand	5,300
Rent outstanding		20,000		
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity &				
Telephone charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		7,77,300

Working Notes :

(i) Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	70,000	By Bill Receivable A/c- Bills accepted by customers	40,000
To Bill receivable A/c-Bills dishonoured	3,000	By Bank A/c - Cheque received	5,700
To Bank A/c- Cheque dishonoured	5,700	By Cash	8,97,150
To Credit sales (Balancing Figure)	9,59,750	By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

(ii) Bills Receivable Account

	Rs.		Rs.
To Balance b/d	15,000	By Sundry creditors A/c (Bills endorsed)	10,000
To Sundry Debtors A/c (Bills accepted)	40,000	By Bank A/c	19,250
		By Discount A/c (Bills discounted)	750
		By Bank Bills collected on maturity	16,000
		By Sundry debtors Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

(iii) Sundry Creditors Account

	Rs.		Rs.
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase (Balancing figure)	4,54,100
To Bill Payable A/c	24,000		
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

(iv) Bills Payable A/c

	Rs.		Rs.
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c	
	—	Bills accepted	24,000
	36,000		36,000

(v) Summary Cash Statement

	Cash	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors (Bal. Fig)	8,97,150		By Cash		1,21,000
			By Shop exp.	7,200	
To Cash		7,62,750	By Wages	1,10,400	
To Bank	1,21,000		By Drawing A/c	16,800	
			By Bills Payable		22,000
To S. Debtors		5,700	By Sundry creditors	77,200	3,20,000
To Bills receivable		19,250	By Furniture	25,000	
To Bills receivable		16,000	By Sundry Debtors		5,700
To Capital (maturity value of LIC policy)		20,000	By Electricity & Tel. Charges	18,700	
To Capital (Rent received)		14,000	By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

(vi) Statement of Affairs as on 31-12-2013

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

(SM)

Problem No. 6 Answer:

Trading and Profit and Loss Account of Ms. Rashmi for the year ended 31st December, 2014

		Rs.		Rs.
To Opening Inventory		16,000	By Sales	1,46,100
To Purchases	91,200		By Closing inventory	14,000
Less : For advertising	(1,800)	89,400		
To Freight inwards		6,000		
To Gross profit c/d		48,700		
		1,60,100		1,60,100
To Sundry expenses		28,400	By Gross profit b/d	48,700
To Advertisement		1,800	By Interest on investment	4
To Discount allowed –			(200 x 4/100 x ½)	
Debtors	3,000		By Discount received	1,600
Bills Receivable	250	3,250	By Miscellaneous income	1,000
To Depreciation on furniture		1,300		
To Provision for doubtful debts		972		
To Net Profit		15,582		
		51,304		51,304

Balance Sheet as on 31st December, 2014

Liabilities	Amount		Assets		Amount
	Rs.	Rs.		Rs.	Rs.
Capital as on 1.1.2014 Less: Drawings	37,600 (15,808)		Furniture (w.d.v.) Additions during the year	12,000 2,000	

	21,792		Less : Depreciation	(1,300)	12,700
Add : Net Profit	15,582	37,374	Investment		192
Sundry creditors		30,000	Interest accrued		4
Outstanding expenses		3,600	Closing Inventory		14,000
			Sundry debtors	38,900	
			Less : Provision for doubtful debts	972	37,928
			Bills receivable		3,500
			Cash in hand and at bank		1,250
			Prepaid expenses		1,400
		70,974			70,974

Working Notes :

(1) Capital on 1st January, 2014

Balance Sheet As On 1st January, 2014

Liabilities	Rs.	Assets	Rs.
Capital (Bal.fig.)	37,600	Furniture (w.d.v.)	12,000
Creditors	22,000	Inventory at cost	16,000
Outstanding expenses	4,000	Sundry debtors	32,000
		Cash in hand and at bank	2,400
	__	Prepaid expenses	1,200
	63,600		63,600

(2) Purchases made during the year

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	78,400	By Balance b/d	22,000
To Discount received A/c	1,600	By Sundry debtors A/c	800
To Bills Receivable A/c	4,000	By Purchases A/c (Balancing figure)	91,200
To Balance c/d	30,000		
	1,14,000		1,14,000

(3) Sales made during the year

		Rs.
Opening inventory		16,000
Purchases	91,200	
Less : For advertising	(1,800)	89,400
Freight inwards		6,000
		1,11,400

Less : Closing inventory		(14,000)
Cost of goods sold		97,400
Add : Gross profit (@ 50% on cost)		48,700
		1,46,100

(4) Debtors on 31st December, 2014

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	32,000	By Cash and bank A/c	1,17,000
To Sales A/c	1,46,100	By Discount allowed A/c	3,000
To Sundry creditors A/c		By Bills receivable A/c	20,000
(bill dishonoured)	800	By Balance c/d (Bal.fig.)	38,900
	1,78,900		1,78,900

(5) Additional drawings by Ms. Rashmi

Cash and Bank Account

	Rs.		**Rs.**
To Balance b/d	2,400	By Freight inwards A/c	6,000
To Sundry debtors A/c	1,17,000	By Furniture A/c	2,000
To Bills Receivable A/c	12,250	By Investment A/c	192
To Miscellaneous income A/c	1,000	By Expenses A/c	29,000
		By Creditors A/c	78,400
		By Drawings A/c	15,808
		[Rs. 14,000 + Rs. 1,808 (Additional drawings)] By Balance c/d	1,250
	1,32,650		1,32,650

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	Rs.		**Rs.**
To Prepaid expenses A/c (on 1.1.2014)	1,200	By Outstanding expenses A/c (on 1.1.2014)	4,000
To Bank A/c	29,000	By Profit and Loss A/c (Balancing figure)	28,400
To Outstanding expenses A/c (on 31.12.2014)	3,600	By Prepaid expenses A/c	1,400
	33,800		33,800

(7) Bills Receivable on 31st December, 2014

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	20,000	By Creditors A/c	4,000
		By Bank A/c	12,250
		By Discount on bills receivable A/c	250
	__	By Balance c/d (Balancing figure)	3,500
	20,000		20,000

(SM)

Problem No. 7 Answer:

In the books of Mr. A

Trading and Profit and Loss Account for the year ending 31st March 20X2

Particulars	Rs.	Particulars		Rs.
To Opening stock	2,80,000	By Sales (W.N. 3)		
To Purchases (W.N. 1)	3,64,000	Credit	4,80,000	
To Gross profit (b.f.)	1,16,000	Cash	1,20,000	6,00,000
		By Closing stock		1,60,000
	7,60,000			7,60,000
To Salary (2,000 x 12)	24,000	By Gross profit		1,16,000
To Rent	16,000			
To Office expenses (1,200 x 12)	14,400			
To Loss of cash (W.N. 6)	23,600			
ToDepreciation on furniture	4,000			
To Net Profit (b.f.)	34,000			
	1,16,000			1,16,000

Balance Sheet as on 31st March, 20X2

Liabilities		Rs.	**Assets**	Rs.
A's Capital	4,04,000		Furniture 40,000	
Add: Net Profit	34,000		Less: Depreciation (4,000)	36,000
Less: Drawings (500 x 12)	(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

(SM)

Problem No. 8 Answer:

Trading and Profit and Loss Account of M/s Rohan & Sons for the year ended 31st March, 2020

	Rs.		**Rs.**
To Opening stock	3,75,000	By Sales	24,60,000
To Purchases	18,85,000	By Closing stock	4,15,000
ToGross Profit c/d (25%)	6,15,000	(Balancing Figure)	
	28,75,000		28,75,000
To Depreciation	80,000	By Gross profit b/d	6,15,000
To Expenses (15% of Rs. 24,60,000)	3,69,000	By Profit on sale of Fixed assets	2,000
To Net Profit (b.f.)	1,68,000		
	6,17,000		6,17,000

To Opening stock	3,75,000	By Sales	24,60,000
To Purchases	18,85,000	By Closing stock	4,15,000
ToGross Profit c/d (25%)	6,15,000	(Balancing Figure)	
	28,75,000		28,75,000
To Depreciation	80,000	By Gross profit b/d	6,15,000
To Expenses (15% of Rs. 24,60,000)	3,69,000	By Profit on sale of Fixed assets	2,000
To Net Profit (b.f.)	1,68,000		
	6,17,000		6,17,000

Cash and Bank Account

To Bal. b/d	1,95,000	By Creditors (1,90,000 + 16,20,000 + 1,40,000)	19,50,000
To Debtors (3,65,000 + 20,75,000)	24,40,000	By Expenses	3,69,000
To Fixed assets	56,000	By Fixed assets	1,50,000
	—	By Bal. c/d	2,22,000
	26,91,000		26,91,000

Fixed Assets Account

To Bal. b/d	6,50,000	By Cash	56,000
To Profit on sale of Fixed asset	2,000	By Depreciation on sold fixed asset	6,000
		By Depreciation (59,000 + 15,000)	74,000

To Bank A/c	1,50,000	By Bal. c/d	6,66,000
	8,02,000		8,02,000

(SM)

Problem No. 9 Answer:

Trading and Profit and Loss Account of

Mr. Kumar for the year ended 31st March, 2021

	Rs.		Rs.
To Opening Stock	25,000	By Sales	14,50,000
To Purchases	10,87,500	By Closing Stock	25,000
To Gross Profit c/d	3,62,500		
	14,75,000		14,75,000
To Business Expenses	1,85,500	By Gross Profit b/d	3,62,500
To Repairs	4,000	By Net loss	14,000
To Depreciation (WDV basis)	39,000		
To Travelling Expenses	20,000		
To Loss by theft	1,28,000		
	3,76,500		3,76,500

Balance Sheet of Mr. Kumar as at 31st March, 2021

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	4,10,000		Machinery	1,60,000	
			Add: additions	1,00,000	
Add: Additional				2,60,000	
Capital	25,000		Less: Dep. @ 15%	(39,000)	2,21,000
Less: Net Loss	(14,000)		Stock in Trade		25,000
	4,56,000		Sundry Debtors		1,81,250
Less: Loss of			Bank		34,375
Furniture	(35,000)				
Drawings	(10,000)				
Sundry		3,76,000			
Creditors		85,625			
		4,61,625			4,61,625

Working Notes:

1.	Sales during 2020-2021	**Rs.**
	Debtors as on 31st March, 2020	1,45,000
	(Being equal to 2 months' sales)	
	Total credit sales in 2019- 2020, Rs. 1,45,000 × 6	8,70,000
	Cash Sales, being equal to 1/3rd of credit sales or 1/4th of the total	2,90,000
	Sales in 2019-2020	11,60,000
	Increase, 25% as stated in the problem	2,90,000
	Total sales during 2020-2021	14,50,000
	Cash sales: 1/4th	3,62,500
	Credit sales: 3/4th	10,87,500
2.	Purchases Sales in 2020-2021	 14,50,000
	Gross Profit @ 25%	3,62,500
	Cost of goods sold being purchases (no change in stock level)	10,87,500
3.	Debtors equal to two months credit sales	1,81,250
4.	Sundry Creditors for goods	
	(Rs. 10,87,500 – Rs. 60,000) /12 = Rs. 10,27,500/12	85,625
5.	Collections from Debtors	
	Opening Balance	1,45,000
	Add: Credit Sales	10,87,500
		12,32,500
	Less: Closing Balance	(1,81,250)
		10,51,250
6.	Payment to Creditors	
	Opening Balance	60,000
	Add: Credit Purchases (Rs. 10,87,500 – Rs. 60,000)	10,27,500
		10,87,500
	Less: Closing Balance	(85,625)
	Payment by cheque	10,01,875

7. **Cash and Bank Account**

		Cash	Bank			Cash	Bank
To To To To	Balance b/d Collection from Debtors Sales Additional Capital	25,000 – 3,62,500 –	80,000 10,51,250 – 50,000	By By By By By By By	Payment to Creditors Misc. Expenses Addition to Machinery Travelling Expenses Private Drawings Loss by theft Balance	60,000 1,75,500 – 24,000	10,01,875 10,000 1,00,000 –
		3,87,500	11,81,250			3,87,500	11,81,250

(MAY 2022-RTP)

Problem No. 10 Answer:

In the books of Mr. Manoj

Trading and Profit & Loss Account for the year ending 31st March, 20X2

	Rs.	Rs.		Rs.	Rs.
To Opening Inventory		8,040	By Sales		
			Cash Credit	4,600	
To Purchases (58,000 + 1,030)	59,030			67,210	
				71,810	
Less: Returns To Gross profit c/d	(400)	58,630	Less: Returns	(1,450)	70,360
		14,810	By Closing inventory		11,120
		81,480			81,480
To Sundry expenses (W.N.(v))		9,300	By Gross profit b/d		14,810
To Discount To Bad Debts		1,500	By Discount		700
To Net Profit transfer to Capital		420			
		4,290			
		15,510			15,510

Balance Sheet of Mr. Manoj as on 31st March, 20X2

Liabilities	Rs.	Rs.	Assets	Rs.
Capital			Sundry assets	12,040
Opening balance	26,770		Inventory in trade	11,120
Add: Addition	8,500		Sundry debtors	17,870
Net Profit	4,290		Cash in hand & at bank	8,080
	39,560			

Less: Drawings	(3,180)	36,380		
Sundry creditors		12,400		
Outstanding expenses		330		
		49,110		49,110

Working Notes:

(i) Cash sales

Combined Cash & Bank Account

	Rs.		Rs.
To Balance b/d	6,960	By Sundry creditors	60,270
To Sundries (Contra)	5,000	By Sundries (Contra)	5,000
To Sundries (Contra)	9,240	By Sundries (Contra)	9,240
To Sundry debtors	62,500	By Drawings	3,180
To Capital A/c	8,500	By Machinery	430
To Sales (Cash Sales- Balancing Figure)	4,600	By Sundry expenses	9,570
		By Purchases	1,030
		By Balance c/d	8,080
	96,800		96,800

(i) Total Debtors Account

	Rs.		Rs.
To Balance b/d	16,530	By Bank	62,500
To Sales (71,810–4,600[3])	67,210	By Discount(64,000 - 62,500)	1,500
		By Return Inward	1,450
		By Bad Debts	420
		By Balance c/d	17,870
	83,740		83,740

(ii) Total Creditors Account

	Rs.		Rs.
To Bank	60,270	By Balance b/d	15,770
To Discount	700	By Purchases	58,000
To Return Outward	400		
To Balance c/d	12,400		
	73,770		73,770

(iii) Balance Sheet as on 1st April, 20X1

Liabilities	Rs.	Assets	Rs.
Capital	26,770	Sundry Assets	11,610
Sundry Creditors	15,770	Inventory in Trade	8,040
Outstanding Expenses	600	Sundry Debtors (from total debtors A/c)	16,530
		Cash in hand & at bank	6,960
	43,140		43,140

(iv)

Expenses paid in Cash	9,570
Add: Outstanding on 31-3-20X2	330
	9,900
Less: Outstanding on 1-4-20X1	(600)
	9,300

(i) Due to lack of information, depreciation has not been provided on fixed assets.

9. INSURANCE CLAIMS

(Exclusive from CMA Source)

Problem No. 1 Answer:

Memorandum Trading Account for the period from 1.1.2021 to 15.9.2021

Particulars	Current Year (Rs.)	Last Year (Rs.)	Particulars	Current Year (Rs.)	Last Year (Rs.)
To Opening Stock	60,000	60,000	By, Sales	2,10,000	2,00,000
,, Purchase	1,76,000	1,60,000	By, Closing Stock	1,32,000	1,20,000
,, Gross Profit	1,06,000 (B/fig.)	1,00,000 (50% of Sales)			
	3,42,000	**3,20,000**		**3,42,000**	**3,20,000**

Working Notes:

1. Value of Closing Stock **(Rs.)**

Stock at last years' level 60,000

Add: 10% increase in cost of purchase 6,000

66,000

Amount of Claim **(Rs.)**

Closing Stock 1,32,000

Less: Stock Salvaged 4,000

Actual Value of Stock last 1,28,000

Actual Value of Stock Loss

Trading Account (for ascertaining rate of Gross Profit)

Dr. **For the year ended 31.12.2020** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Opening Stock	40,000	By, Sales (less returns)	1,20,000
To, Purchase (less returns)	80,000	By, Closing Stock	60,000
To, Gross profit (bal. fig.)	60,000		
	1,80,000		**1,80,000**

∴ Percentage of gross profit on sales = (Gross Profit/Sales) × 100

= (Rs.60,000/Rs.1,20,000) × 100

= 50% **(Illustration 1)**

Problem No. 2 Answer:

In the books of X Ltd.

Memorandum Trading Account for the period ended 31st March, 2022

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)
To, Opening Stock		60,000	By, Sales	1,80,000
" Purchase	2,60,000		" Closing Stock	2,06,800
Add: Carriage Inward	1,600		(bal. figure)	
Add: Com. on Purchase	5,200	2,66,800		
" Gross Profit		60,000		
(@ 50% on cost or 33 % on sale)				
		3,86,800		**3,86,800**

Note: Carriage Inward and Com. on Purchase are direct expenses and hence, these are added to purchases.

Loss of Stock:

	(Rs.)
Stock at the date of fire	2,06,800
Less: Stock Salvaged	41,360
Loss of Stock	**1,65,440**

Amount of claim applying Average Clause

$$\text{Amount of Claim} = \text{Actual Loss} \times \frac{\text{Amount of Policy}}{\text{Value of stocks at the date of fire}}$$

= Rs.1,65,440 × (Rs.1,60,000/ Rs.2,06,800)

= Rs.1,28,000

(Illustration 3)

Problem No.3 Answer:

(a) For ascertaining the rate of Gross Profit

In the books of Y Ltd.

Dr. Trading Account for the year ended 31.12.2021 Cr.

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Opening Stock		75,000	By, Sales		4,00,000
" Purchases	3,10,000		" Closing Stock	80,000	
Less: Purchase of Abnormal items of goods	4,800	3,05,200	Add: Loss on value of abnormal items	200	80,200

" Gross Profit (bal. fig.)		1,00,000	(Rs.5,000 – Rs.4,800)		
		4,80,200			**4,80,200**

Percentage of Gross Profit on sales = $\frac{\text{Rs.}1,00,000}{\text{Rs.}4,00,000} \times 100$

= 25%

Memorandum Trading Account

for the period ended 31st March, 2022

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**	**(Rs.)**
To, Opening Stock " Purchases " Gross Profit (@25% on Rs.98,000)	80,200 75,000 24,500	By, Sales Less: Sale of abnormal Stock (Rs.2,400 – Rs.400) " Closing Stock (bal. fig.)	1,00,000 2,000	 98,000 81,700
	1,79,700			**1,79,700**

Alternative approach

In a combined form

Trading Account

Dr. **for the year ended 31st December, 2022** **Cr.**

Particulars	**Normal Items**	**Abnormal Items**	**Total**	**Particulars**	**Normal Items**	**Abnormal Items**	**Total**
To Opening Stock	75,000	---	75,000	By Sales	4,00,000	---	4,00,000
,, Purchase				,, Closing Stock	80,200	(-) 200	80,000
,, Gross Profit	3,05,200	4,800	3,10,000	,, Gross Loss			
@25% on sales	1,00,000	---	1,00,000		---	5,000	5,000
	4,80,200	**4,800**	**4,85,000**		**4,80,200**	**4,800**	**4,85,000**

Memorandum Trading Account

for 3 months ending 31st March, 2022

Particulars	**Normal Items**	**Abnormal Items**	**Total**	**Particulars**	**Normal Items**	**Abnormal Items**	**Total**
To Opening Stock	80,200	(-) 200	80,000	By Sales	98,000	2,000	1,00,000
,, Purchase	75,000	---	75,000	,, Closing Stock	81,700	2,400[1]	84,100
,, Gross Profit	24,500	4,600	29,100	(bal. fig)			
	1,79,700	**4,400**	**1,84,100**		**1,79,700**	**4,400**	**1,84,100**

1. 50% of Rs.4,800 i.e., remaining abnormal stocks are valued at cost.

Amount of Claim (Rs.)

Value of Stock at the date of fire	84,100
Less: Stock Salvaged	5,000
	79,100

(Illustration 5)

Problem No.4 Answer:

GP for previous accounting period

= Net profit for previous accounting period + Insured standing charges.

= Rs.80,000 + Rs.70,000 = Rs.1,50,000

GP rate = $\frac{GP}{Sales} x100 = \frac{Rs.1,50,000}{Rs.6,00,000} x100 = 25\%$

Short sale = standard turnover – actual turnover for indemnity period.

= Rs.(2,40,000 × 125%) – Rs.70,000 = Rs.2,30,000

GP Lost = Short sale × GP rate

= Rs.2,30,000 × 25% = Rs.57,500

Admissible additional expenses for insurance claim

Least of the following:	(Rs.)
i. Actual additional exp.	12,000
ii. Sales due to additional expenses × GP rate (Rs.70,000 × 25%)	17,500
iii. Actual additional expenses × $\frac{\text{Net Profit} + \text{Insured standing charges}}{\text{Net Profit} + \text{All standing charges}}$	
Rs.$\left(12000 x \frac{80,000 + 70,000}{8,00,000 + 1,20,000}\right)$	9,000
Admissible additional expenses	**9,000**

Gross claim = GP lost + admissible expenses for insurance claim – Saving in standing charges.

= Rs.(57,500 + 9,000 – 2,000) = Rs.64,500

Insurable value = adjusted annual turnover × GP rate

= (Rs.56,00,000 × 125%) × 25% = Rs.1,75,000

Net Claim = $\frac{\text{Policy value}}{\text{Insurable value}} x \text{Gross claim} = \frac{Rs.1,40,000}{Rs.1,70,000}$ = Rs.53,118

(Illustration 8)

Problem No.5 Answer:

GP rate = 18% + 2% = 20%

Short sale = standard turnover – actual turnover for indemnity period.

= (Rs.2,25,000 × 110%) – Rs.67,500 = Rs.1,80,000

GP Lost = Short sale × GP rate

= Rs.1,80,000 × 20% = Rs.36,000

Admissible additional expenses for insurance claim

Least of the following:	(Rs.)
i. Actual additional exp.	12,000
ii. Sales due to additional expenses × GP rate (Rs.30,000 × 20%)	6,000
iii. Actual additional expenses × $\frac{\text{Net Profit} + \text{Insured standing charges}}{\text{Net Profit} + \text{All standing charges}}$	
$\text{Rs.}\left(12000 \text{x} \frac{36{,}000 + 72{,}000}{3{,}60{,}000 + (72{,}000 + 6{,}000}\right)$	<u>11,368</u>
Admissible additional expenses	<u>**6000**</u>

Gross claim = GP lost + admissible expenses for insurance claim – saving in standing charges = Rs.(36,000 + 6,000 – 4,500) = Rs.37,500

Insurable value = adjusted annual turnover × GP rate

= (Rs.6,60,000 × 110%) × 20% = Rs.1,45,200

Net Claim = $\frac{\text{Policy value}}{\text{Insurable value}} \text{x} \text{Gross claim} = \frac{\text{Rs.}1{,}08{,}900}{\text{Rs.}1{,}45{,}200}$ = × Rs.37,500 = Rs.28,125 **(Illustration 9)**

Problem No.6 Answer:

Statement of Claim for Loss of Profit

Particulars	(Rs.)
GP lost on Short Sales [WN: 4]	16,080
Less: Savings in Standing Charges	Nil
∴ Gross Claim	16,080

∴ **Net Claim** (under "Average clause") = Gross Claim × $\frac{\text{Policy value}}{\text{Insurable value}}$

= Rs.16,080 × $\frac{80{,}000}{1{,}19{,}680}$

= Rs.10,749 (Approx.)

Working Notes:

WN: 1 Trend of Turnover of last few years

Sales of: 2018 = Rs.(1,20,000 + 80,000 + 1,00,000 + 1,36,400) = Rs.4,36,400

2019 = Rs.(1,30,000 + 90,000 + 1,10,000 + 1,50,000) = Rs.4,80,000

2020 = Rs.(1,42,000 + 1,00,000 + 1,20,000 + 1,66,000) = Rs.5,28,000

Rate of Turnover change = $\frac{\text{Turnover of the current year - Turnover of the previous year}}{\text{Turnover of the previous year}} \times 100$

For 2020 = $\frac{5,28,000 - 4,80,000}{4,80,000} \times 100 = 10\%$

For 2019 = $\frac{4,80,000 - 4,36,400}{4,36,400} \times 100 = 10\%$ (approx.).

Thus, we observe a 10% upward trend in turnover over the last few years.

2. Calculation of GP Rate

Particulars	(Rs.)
Net Profit of 2020	56,000
Add: Insured Standing Charges	49,600
∴ Insured Gross Profit	1,05,600

Sales of 2020 = Rs.5,28,000 (as computed above)

∴ Rate of Gross Profit in 2020 $= \frac{\text{Gross Profit}}{\text{Sales}} \times 100$

$= \frac{1,05,600}{5,28,000} \times 100$

= 20 %

3. Calculation of Short Sales

Particulars	(Rs.)	(Rs.)
Standard Turnover (from March 15, 2021 to June 15, 2021):		
Turnover from April 1, 2020 to June 30, 2020	1,00,000	
Add: Turnover from March 16, 2020 to March 31, 2020	28,000	
	1,28,000	
Less: Turnover from June 16, 2020 to June 30, 2020	24,000	1,04,000
Add: Upward trend @ 10% [WN: 1]		10,400
		1,14,400
Less: Actual Turnover (from March 15, 2021 to June 15, 2021)		
Turnover from April 1, 2021 to June 30, 2021	40,000	
Add: Turnover from March 16, 2021 to March 31, 2021	Nil	
	40,000	
Less: Turnover from June 16, 2021 to June 30, 2021	6,000	34,000
∴ Short Sales		80,400

4. GP lost on Short Sales

Short sales × Rate of GP = Rs.80,400 × 20%

= Rs.16,080

5. Annual Turnover i.e. Sale for the year ending March 15, 2021

	(Rs.)
From March 16, 2020 to March 30, 2020	28,000
From April 1, 2020 to June 30,2020	1,00,000
From July 1, 2020 to September 31,2020	1,20,000
From October 1, 2010 to December 31, 2010	1,66,000
From January 1, 2021 to March 31, 2021	1,30,000
	5,44,000
Less: March 16, 2021 to March 31, 2021	Nil
	5,44,000

6. Applicability of Average Clause

Insurable Value = Adjusted Annual Turnover × GP Rate = (Rs.5,44,000 × 110%) × 20% = Rs.1,19,680

Policy Value = Rs.80,000 (Given)

In this case, as Policy Value < Insurable Value, there is 'under insurance' and so Average Clause is applicable.

(Illustration 1 0)

PROBLEMS DISCUSSED FROM CA SOURCE FOR PRACTICAL UNDERSTANDING

Problem No.1 Answer:

Statement showing valuation of stock as on 31.3.20X2

	Rs.	**Rs.**
Stock as on 01.04.20X1	28,500	
Less: Book value of abnormal stock (Rs. 10,000 – Rs. 3,500)	6,500	
Add: Purchases		22,000
Manufacturing expenses		1,52,500
		30,000
Less: Cost of Sales: Sales		2,04,500
Less: Sale of abnormal stock		
	2,49,000	
Less: Gross profit @ 20%	(9,000)	
Value of Stock as on 31st March, 20X2	2,40,000	
	(48,000)	(1,92,000)
		12,500

Alternative Method (Trading Account Approach)

Computation of Gross Profit for the Year	**Rs.**
Total Sales	2,49,000
Less: Abnormal Sales	(9,000)
Regular Sales	2,40,000
A. Gross Profit on Regular Sales @ 20%	48,000
B. Gross Profit on Abnormal Sales [9,000 – 6,500*]	2,500
Total Gross Profit (A+B)	50,500
* Written down cost (Original Cost 10,000 less write off for 3,500)	
Computation of Closing Stock as on 31st March, 20X2	
Opening Stock	28,500
Add: Purchases	1,52,500
Add: Manufacturing Expenses	30,000
Add: Gross Profit (as computed above)	50,500
	2,61,500
Less: Total Sales	(2,49,000)
Value of Stock as on 31st March, 20X2	12,500

(SM)

Problem No.2 Answer:

Computation of claim for loss of stock:

	Rs.
Stock on the date of fire i.e. 31.12.20X1(Refer working note)	30,500
Less: Salvaged stock	(3,000)
Loss of stock	27,500

Amount of claim:

$$= \frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times 100$$

= 27500 x 25000/30500 = Rs. 22,541

Working Note:

Memorandum trading account can be prepared for the period from 1.10.20X1 to 31.12.20X1 to compute the value of stock on 31.12.20X1.

Memorandum Trading Account
for period from 1.10.20X1 to 31.12.20X1

	Rs.	**Rs.**		**Rs.**
To Opening stock (Rs. 29,700 x 100/90)		33,000	By Sales	1,40,000
			By Closing stock (bal. fig.)	30,500
To Purchases	75,000			
Less: Cost of plant	(5,000)	70,000		
To Wages	33,000			
Less: Wages paid for plant	(500)	32,500		
To Gross profit (33.33% on cost or 25% on sales)		35,000		
		1,70,500		**1,70,500**

(SM)

Problem No.3 Answer:

Memorandum Trading A/c (1.4.20X1 to 20.10.20X1)

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To Opening stock (at cost, 2,16,000 / 0.90)	2,40,000	By Sales (Rs. 6,20,000 – Rs. 80,000)	5,40,000
To Purchases (Rs. 2,80,000 + Rs. 40,000)	3,20,000	By Closing stock (bal. fig.)	1,55,000
To Gross profit (Rs. 5,40,000 x 25%*)	1,35,000		
	6,95,000		6,95,000

* It is assumed that gross profit is provided as a percentage of sales

	Rs.
Stock on the date of fire (i.e. on 20.10.20X1)	1,55,000
Less: Stock salvaged	(31,000)
Stock destroyed by fire	1,24,000

Insurance claim = Loss of Stock X Insured Value / Total Cost of Stock

= Rs.1,24,000 X 1,00,000 / 1,55,000 = Rs.80,000 **(SM)**

Problem No.4 Answer:

Shri Ramesh Trading Account for 20X1

(to determine the rate of gross profit)

		Rs.			Rs.	Rs.
To	Opening Stock	73,500	By	Sales A/c		4,87,000
To	Purchases	3,98,000	By	Closing Stock :		
To	Gross Profit (b.f.)	97,400		As valued	79,600	
				Add: Amount written off to restore stock to original cost	2,300	81,900
		5,68,900				5,68,900

The (normal) rate of gross profit to sales is = $\frac{97,4004}{87,000} \times 100 = 20\%$

Memorandum Trading Account upto March 31, 20X2

	Normal items Rs.	Abnormal items Rs.	Total Rs.		Normal Rs.	Abnormal items Rs.	Total items Rs.
To Opening Stock	75,000	6,900*	81,900	By Sales By Loss	2,28,000 —	3,200 250	2,31,200 250
To Purchases To Gross Profit (20% on Rs. 2,28,000)	1,62,000 45,600	— —	1,62,000 45,600	By Closing Stock (bal. fig.)	54,600	3,450**	58,050
	2,82,600	**6,900**	**2,89,500**		**2,82,600**	**6,900**	**2,89,500**

* at cost, book value is Rs. 4,600

** Book value will also be restored for remaining unsold abnormal stock since the remainder of this stock was now estimated to be worth its original cost.

Calculation of Insurance Claim

	Rs.
Value of Stock on March 31, 20X2	58,050

Less: Salvage	(5,800)
Loss of stock	52,250

Claim subject to average clause:

$$= \frac{\text{Amount of policy}}{\text{Value of stock}} \times \text{Actual Loss of stock}$$

$$= \frac{50,000}{58,050} \times 52,250 = \text{Rs.}45,004$$ **(SM)**

Problem No.5 Answer:

Computation of claim for loss of stock

	Rs.
Stock on the date of fire i.e. on 30th March, 20X2 (W.N.1)	62,600
Less: Value of salvaged stock	(12,300)
Loss of stock	50,300
Amount of claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times 100$ $= \left(\frac{60,000}{62,600} \times 50,300\right)$	48,211 (approx.)

A claim of Rs. 48,211 (approx.) should be lodged by M/s Suraj Brothers to the insurance company.

Working Notes:

1. Calculation of closing stock as on 30th March, 20X2

Memorandum Trading Account for
(from 1st January, 20X2 to 30th March, 20X2)

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
To Opening stock	95,600	By Sales (W.N.3)	2,42,000
To Purchases (1,70,000-30,000)	1,40,000	By Goods with customers (for approval) (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

* For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the concern and, hence, there was no loss of such stock as a result of fire.

2. Calculation of goods with customers

Since no approval for sale has been received for the goods of Rs. 33,000 (i.e. 2/3 of Rs. 49,500) hence, these should be valued at cost i.e. Rs. 33,000 – 20% of Rs. 33,000 = Rs. 26,400.

3. Calculation of actual sales

Total sales – Sale of goods on approval ($2/3^{rd}$)= Rs. 2,75,000 – Rs. 33,000 = Rs. 2,42,000.

(SM)

Problem No.6 Answer:

The claim in respect of profit will be calculated as follows:

(a) Short Sales:	Rs.
Turnover 1-4-20X1 to 30-9-20X1	5,00,000
Less: Turnover 1-4-20X2 to 30-9-20X2	(3,00,000)
Reduction in turnover	2,00,000
Down-trend:	Rs.
Quarterly sales in 20X1 $\left(\frac{\text{Rs.}12,00,000}{12}\times 3\right)$	3,00,000
Sales of first quarter in 20X2: Rs.11,70,000 $\left(\frac{\text{Rs.}12,00,000}{12}\times 9\right)$	2,70,000
(Jan-Mar 20X2)	30,000
Adjusted Annual Turnover:	Rs.
Sales for the period 1-4-20X1 to 31-12-20X1	
(11,70,000 - 2,70,000)	9,00,000
Add: Sales from 1-1-20X2 to 31-3-20X2	2,70,000
	11,70,000

(SM)

Problem No.7 Answer:

Computation of the amount of claim for the loss of profit

Reduction in turnover	**Rs.**
Standard Turnover from 1st Feb. 20X1 to 30th June, 20X1	2,00,000
Add: 15% expected increase	30,000
Adjusted Standard Turnover	2,30,000
Less: Actual Turnover from 1st Feb., 20X2 to 30th June, 20X2	(80,000)
Short Sales	1,50,000
Gross Profit on reduction in turnover @ 30% on Rs. 1,50,000	
(see working note 1)	45,000

Add: Claim for Additional Expenses being Lower of

(i) Actual = Rs. 6,700

(ii) $\text{Additional Exp.}\times\frac{\text{G.P. on Adjusted Annual Turnover}}{\text{G.P. as above} + \text{Uninsured Standing Charges}}$

$$6{,}700 \times \frac{1{,}55{,}250}{1{,}63{,}250} = 6{,}372$$

(iii) G.P. on sales generated by additional expenses

— 80,000 x 30% = 24,000

Therefore, lower of above is	<u>6,372</u>
	51,372
Less: Saving in Insured Standing Charges	<u>(2,450)</u>
Amount of claim before Application of Average Clause	<u>48,922</u>

Application of Average Clause:

$$= \frac{\text{Amount of policy}}{\text{G.P on Annual Turnover}} \times \text{Amount of Claim}$$

$$= \frac{1{,}25{,}000}{1{,}55{,}250} \times 48{,}922 \qquad 39{,}390$$

Amount of claim under the policy = Rs. 39,390

Working Notes:

(i) Rate of Gross Profit for last Financial Year:

	Rs.
Gross Profit:	
Net Profit	70,000
Add: Insured Standing Charges	<u>56,000</u>
	<u>1,26,000</u>
Turnover for the last financial year	4,20,000

Rate of Gross Profit = $\frac{1{,}26{,}000}{4{,}20{,}000} \times 100 = 30\%$

(ii) Annual Turnover (adjusted):

Turnover from 1st Feb., 20X1 to 31st January, 20X2	4,50,000
Add: 15% expected increase	<u>67,500</u>
	<u>5,17,500</u>
Gross Profit on Rs. 5,17,500 @ 30%	1,55,250
Standing charges not Insured (64,000 – 56,000)	<u>8,000</u>
Gross Profit plus non-insured standing charges	<u>1,63,250</u>

(SM)

Problem No.8 Answer:

Calculation of loss of stock:

Sony Ltd.

Trading A/c

for the period 1.1.20X2 to 31.3.20X2

	Rs.		Rs.
To Opening stock	90,000	By Sales	2,50,000
To Purchases	3,00,000	By Closing stock	2,60,000
To Manufacturing expenses	70,000	(balancing figure)	
ToGross profit (20%* of Rs. 2,50,000) (W.N.3)	50,000		
	5,10,000		5,10,000
			Rs.
Stock destroyed by fire			2,60,000
Amount of fire policy			3,00,000

As the value of stock destroyed by fire is less than the policy value, the entire claim will be admitted.

Calculation of loss of profit

Computation of short sales:

	Rs.	
Average sales for the period 1.4.20X1 to 30.6.20X1 (W.N.1) (Rs. 7,82,610/3)	2,60,870	
Add: Increasing trend of sales (15%)	39,130	(Approx.)
	3,00,000	
Less: Sales during the period 1.4.20X2 to 30.6.20X2	87,500	
Short sales	2,12,500	

Computation of G.P. Ratio:

$$\text{Gross profit ratio} = \frac{\text{Net profit} + \text{Insured standing charges}}{\text{Sales}} \times 100$$

$$= \frac{\text{Rs.}50{,}000 + \text{Rs.}50{,}000}{10{,}00{,}000} \times 100 \qquad = 10\%$$

Less: Decreasing trend in G. P. <u>5%</u>

<u>5%</u>

Loss of profit = 5% of Rs. 2,12,500 = Rs. 10,625

Amount allowable in respect of additional expenses (least of the following):-

(i) Actual expenditure Rs. 60,000

(ii) G.P. on sales generated by additional expenses 5% of Rs. 87,500Rs. 4,375

(assumed that entire sales during disturbed period is due to additional expenses)

(iii) $\text{Additional exp} \times \frac{\text{G.P on Adjustment Annual Turnover}}{\text{G.P as above} + \text{Uninsured Standing charges}}$

$60{,}000 \times \frac{57{,}500}{57{,}500 + 1{,}30{,}000} = 18{,}400 \text{(Approx.)}$

least i.e. Rs. 4,375 is admissible

G.P. on annual turnover:

Adjusted annual turnover:

	Rs.
Average turnover for the period 1.4.20X1 to 31.12.20X1 (W.N.1)	7,82,610
Turnover for the period 1.1.20X2 to 31.3.20X2	2,50,000
Annual Turnover (1.4.20X1 to 31.3.20X2)	10,32,610
Add: Increase in trend (15% of Rs. 7,82,610) (W.N.2)	1,17,390
Adjusted Annual Turnover	11,50,000
Gross profit on adjusted annual turnover (5% of Rs. 11,50,000)	57,500

As the gross profit on annual turnover (Rs. 57,500) is less than policy value (Rs. 1,00,000), average clause is not applicable.

Insurance claim to be submitted:

	Rs.
Loss of stock	2,60,000
Loss of profit	10,625
Additional expenses	4,375
	2,75,000

Note: According to the given information standing charges include administrative expenses (Rs. 80,000) and finance charges (Rs. 1,00,000). Insured standing charges being Rs. 50,000, uninsured standing charges would be Rs. 1,30,000 (Rs. 1,80,000 – Rs. 50,000).

Working Note:

		Rs.
1.	**Break up of sales for the year 20X1:**	
	Sales of the first quarter of 20X1	
	(Rs. 2,50,000 x 100/115)	2,17,390* (approx.)
	Sales for the remaining three quarters of 20X1	
	Rs. (10,00,000-2,17,390)	7,82,610

* Sales for the first quarter of 20X1 is computed on the basis of sales of the first quarter of 20X2.

2. The increase in trend of sales has been applied to the sales of 20X1 only, as the sales figure of the first quarter of 20X2 was already trend adjusted.

3. Rate of gross profit in 20X1

= Gross profit/ Sales x 100 = 2,50,000/ 10,00,000 x 100 = 25%

In 20X2, gross profit had declined by 5% due to increased cost, hence, the rate of gross profit for loss of stock is taken at 20%. **(SM)**

Problem No.9 Answer:

(1) Calculation of short sales:

	Rs.
Sales for the period 15.6.20X1 to 15.12.20X1	2,40,000
Add: 25% increase in sales	60,000
Estimated sales in current year	3,00,000
Less: Actual sales from 15.6.20X2 to 15.12.20X2	(70,000)
Short sales	2,30,000

(2) Calculation of gross profit:

$$\text{Gross profit} = \frac{\text{Net profit} + \text{Insured standing charges}}{\text{Turnover}} \times 100$$

$$= \frac{\text{Rs.}80{,}000 + \text{Rs.}70{,}000}{\text{Rs.}6{,}00{,}000} \times 100$$

$$= \frac{\text{Rs.}1{,}50{,}000}{\text{Rs.}6{,}00{,}000} \times 100$$

= 25%

(3) Calculation of loss of profit:

Rs. 2,30,000 x 25% =Rs. 57,500

(4) Calculation of claim for increased cost of working:

Least of the following:

i) Actual expense= Rs. 12,000

ii) Expenditure $\times \dfrac{\text{Gross profit on adjusted turnover}}{\text{Gross profit as above} \quad \text{Uninsured standing charges}}$

$$\text{Rs.}12{,}000 \times \frac{(25/100) \times \text{Rs.}7{,}00{,}000}{[(25/100) \times \text{Rs.}7{,}00{,}000] + \text{Rs.}50{,}000} = \text{Rs.}9{,}333 \text{ approx}$$

Where,

Adjusted turnover	**Rs.**
Turnover from 16.06.20X1 to 15.06.20X2	5,60,000
Add: 25% increase	1,40,000
	7,00,000

iii) Gross profit on sales generated due to additional expenditure =
25% x Rs. 70,000 = Rs. 17,500.

Rs. 9,333 being the least, shall be the increased cost of working.

(5) Calculation of total loss of profit

	Rs.
Loss of profit	57,500
Add: Increased cost of working	9,333
	66,833
Less: Saving in insured standing charges	(2,000)
	64,833

(6) Calculation of insurable amount:

Adjusted turnover x G.P. rate

= Rs. 7,00,000 x 25% = Rs. 1,75,000

(7) Total claim for consequential loss of profit – Due to Average Clause

$$= \frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$$

$$= \frac{\text{Rs.}1,40,000}{\text{Rs.}1,75,000} \times 64,833 = \text{Rs.}51,866.40$$

(SM)

10. HIRE PURCHASE & INSTALLMENT SALE TRANSACTIONS

(Exclusive from CMA Source)

Problem No.1 Answer:

Following table is useful for calculating interest paid with each installment :

Analysis of Installments

Year	Opening Balance of Cash Price	Installments	Payment towards Principal/Cash Price	Payment towards Interest	Closing Balance of Cash Price
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
01.01.18	4,50,000	90,000	90,000	-	3,60,000
31.12.19	3,60,000	1,70,000	1,34,000	36,000	2,26,000
31.12.22	2,26,000	1,50,000	1,27,400	22,600	98,600
31.12.21	98,600	1,08,460	98,600	9,860	-

Situation – II : When rate of interest and installments are given but total cash price is not given

(Illustration 1)

Problem No.2 Answer:

Calculation of Cash Price	Installment (Rs.)	Analysis of Installments	
		Interest (Rs.)	Cash Price (Rs.)
3rd Installment	5,000	536	4,464
(-) Interest (12/112 × 5,000)	536		
	4,464		
Balance of Cash Price	3,000		
(+) 2nd Installment	7,464		

Calculation of Cash Price	Installment (Rs.)	Analysis of Installments	
		Interest (Rs.)	Cash Price (Rs.)
(-) Interest (12/112 × 7,464)	800	800	2,200
Balance of Cash Price	6,664	1,143	2,857
(+) 1st Installment	4,000	-	3,000
(-) Interest (12/112 × 10,664)	10,664	2,479	12,521
Balance of Cash Price	1,143		

(+) Down Payment Total Cash Price	9,521 3,000 12,521		

Situation – III : When only installments are given, but cash price and rate of interest are not given

(Illustration 2)

Problem No.3 Answer:

Hire-purchase Price	(Rs.)
Down Payment	60,000
1st installment	55,000
2nd installment	50,000
3rd installment	45,000
4th installment	40,000
Total	2,50,000

As each installment comprises equal amount of cash price the differences in installment amounts are due to interest amount only. Assuming X is the amount of Cash Price in each installment and I is the amount of interest.

Thus for the installments, starting from last installment, we have the following equations:

	(Rs.)
(i) X + I =	40,000
(ii) X + 2I =	45,000
(iii) X + 3I =	50,000
(iv) X + 4I =	55,000

Subtracting any preceding equation from the following equation we get I = Rs. 5,000 and by substituting the value of I in any equation we get X = Rs. 35,000.

The hire-purchase price is divided into cash price and interest parts as under :

Particulars	Cash Price (Rs.)	Interest (Rs.)	Installment (Rs.)
Down Payment	60,000	-	60,000
First installment	35,000	20,000	55,000
Second installment	35,000	15,000	50,000
Third installment	35,000	10,000	45,000
Fourth installment	35,000	5,000	40,000
Total	2,00,000	50,000	250,000
Total Cash Price	2,00,000		

Hire Purchase Price	2,50,000		
Total Interest	50,000		

Situation – IV : When reference to annuity table rate of interest and installments are given but total cash price is not given

In such questions the reference to annuity table gives the present value of the annuity for a number of years at a certain rate of interest. This present worth is equal to total cash price. Therefore, with the help of annuity tables the total cash price of the total installments given can be calculated and then question can be solved by the first method.

(Illustration 3)

Problem No. 4 Answer:

Amount of Interest	Present value
Rs. 1	Rs. 2.7232
Rs. 15,000	$\frac{\text{Rs.}15{,}000 \times 2.7232}{1} = \text{Rs.}40{,}848$

∴ Cash Price = Rs. 40,848 + Rs. 15,000 (down) = Rs. 55,848.

Accounting Treatment

Accounting treatment in the books of buyer is presented in below :

In the Books of the Hire-Purchaser

The following methods are followed:

(1) Cash Price Method

(2) Interest Suspense Method

Cash Price Method:

Particulars	Debit (Rs.)	Credit (Rs.)
1. Hire Purchase A/c Dr.	xxx	
To, Hire Vendor A/c [Cash price]		xxx
2. Hire Vendor A/c Dr.	xxx	
To, Bank A/c [Down payment]		xxx
3. Interest A/c Dr.	xxx	
To, Hire Vendor A/c		xxx
4. Hire Vendor A/c Dr.	xxx	
To, Bank A/c [Installment amount]		xxx

5. P/L A/c Dr.	xxx	
To, Interest A/c		xxx
To, Depreciation A/c		xxx

Interest Suspense Method:

Particulars		**Debit (Rs.)**	**Credit (Rs.)**
1. Hire Purchase Asset A/c [Cash Price]	Dr.	xxx	
Interest Suspense A/c [Total Interest]	Dr.	xxx	
To, Hire Vendor A/c [H.P price]			xxx
2. Hire Vendor A/c	Dr.	xxx	
To, Bank A/c [Down payment]			xxx
3. Interest A/c	Dr.	xxx	
To, Interest Suspense A/c			xxx
4. Hire Vendor A/c	Dr.	xxx	
To, Bank A/c [Installment amount]			xxx
5. P/L A/c	Dr.	xxx	
To, Interest A/c			xxx
To, Depreciation A/c			xxx

(Illustration 4)

Problem No. 5 Answer:

Computation of Cash Price and Periodic Interest

A Installment Number	**B Closing Balance after the Payment of Installment**	**C Installment Amount**	**D = B + C Closing Balance before the payment of Installment**	**E = D×R/ (100 + R) Interest D× 10/110**	**F = D-E Opening Balance**
IV	—	2,20,000	2,20,000	20,000	2,00,000
III	2,00,000	2,40,000	4,40,000	40,000	4,00,000
II	4,00,000	2,60,000	6,60,000	60,000	6,00,000
I	6,00,000	2,80,000	8,80,000	80,000	8,00,000

Let the cash price be ‘X

X = Rs. 8,00,000 + 20% of X (i.e. down payment) 0.8

X = Rs. 8,00,000 X = Rs. 8,00,000/0.8 = Rs.10,00,000

In the Book of A

Dr. Machinery Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.20	To, B's A/c	10,00,000	31.12.20	By, Depreciation A/c By, Balance c/d	2,00,000 8,00,000
		10,00,000			**10,00,000**
01.01.21	To, Balance b/d	8,00,000	31.12.21	By, Depreciation A/c By, Balance c/d	2,00,000 6,00,000
		8,00,000			**8,00,000**
01.01.22	To, Balance b/d To, P&L A/c (Profit)	6,00,000 60,000	01.01.22	By, B's A/c	6,60,000
		6,60,000			**6,60,000**

Dr. B's Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.20	To, Bank A/c (Down payment)	2,00,000	01.01.20	By, Machinery A/c	10,00,000
31.12.20	To, Bank A/c [Rs. 2,00,000 + Rs. 80,000]	2,80,000	31.12.20	By, Interest A/c [(Rs. 10,00,000 - Rs. 2,00,000) × 10/100]	80,000
	To, Balance c/d	6,00,000			
		10,80,000			**10,80,000**
31.12.21	To, Balance c/d	6,60,000	01.01.21	By, Balance b/d	6,00,000
				By, Interest A/c (Rs. 6,00,000 × 10/100)]	60,000
01.01.22	To, Machinery A/c	6,60,000	01.01.22	By, Balance b/d	6,60,000

In the Books of B

Dr. A's Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.20	To, H.P. Sales A/c	10,00,000	01.01.20	By, Bank A/c (Down Payment)	2,00,000

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.12.20	To, Interest A/c [(Rs. 10,00,000 - Rs. 2,00,000) × 10/100]	80,000	31.12.20	By, Bank A/c (Rs. 2,00,000 + Rs. 80,000) By, Balance c/d	2,80,000 6,00,000
		10,80,000			**10,80,000**
01.01.21 31.12.21	To, Balance b/d To, Interest A/c [Rs. 6,00,000 × 10/100]	6,00,000 60,000	31.12.21	By, Balance c/d	6,60,000
		6,60,000			**6,60,000**
01.01.22	To, Balance b/d	6,60,000	01.01.22	By, H.P. Goods Repossessed A/c	3,60,000
				By, Profit & Loss A/c	3,00,000
		6,60,000			**6,60,000**

Dr. **H.P. Goods Repossessed Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.22	To, A's A/c	3,60,000	30.06.22	By, Bank A/c	2,66,000
	To, Bank A/c	6,000		By, P&L A/c	1,00,000
		3,66,000			**3,66,000**

(Illustration 7)

Problem No.6 Answer:

A Installment Number	B Closing Balance after the payment of Installment	C Installment	D= B+C Closing Balance before the payment of Installment	E = D×R/ (100 +R) Interest D× 10/110	F = D-E Opening Balance
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
IV	-	2,20,000	2,20,000	20,000	2,00,000
III	2,00,000	2,40,000	4,40,000	40,000	4,00,000
II	4,00,000	2,60,000	6,60,000	60,000	6,00,000
I	6,00,000	2,80,000	8,80,000	80,000	8,00,000

Let the cash price be 'X'

X= Rs. 8,00,000 +20% of X (i.e. down payment)

0.8X = Rs. 8,00,000

X = Rs. 8,00,000/0.8 = Rs. 10,00,000

In the Books of A

Dr. Machinery Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.20	To, B A/c	10,00,000	31.12.20	By, Depreciation A/c	2,00,000
				By, Balance c/d	8,00,000
		10,00,000			**10,00,000**
01.01.21	To, Balance b/d	8,00,000	31.12.21	By, Depreciation A/c	2,00,000
				By, Balance c/d	6,00,000
		8,00,000			**8,00,000**
01.01.22	To, Balance b/d	6,00,000	01.01.22	By, B A/c	2,16,000
				By, P&L A/c [loss on default]	1,44,000
				By, Depreciation A/c	80,000
				By, Balance c/d	1,60,000
		6,00,000			**6,00,000**

Dr. B's Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.20	To, Bank A/c (Down payment)	2,00,000	01.01.20	By, Machinery A/c	10,00,000
31.12.10	To, Bank A/c	2,80,000	31.12.20	By, Interest A/c	80,000
	[Rs. 2,00,000 + Rs. 80,000]			[(Rs. 10,00,000 - Rs. 2,00,000)	
	To, Balance c/d	6,00,000		× 10/100]	
		10,80,000			**10,80,000**
31.12.21	To, Balance c/d	6,60,000	01.01.21	By, Balance b/d	6,00,000
			31.12.21	By, Interest A/c [(Rs. 6,00,000 × 10/100)]	60,000
01.01.22	To, Machinery A/c	6,60,000	01.01.22	By, Balance b/d	6,60,000

Working Notes:

1. Calculation of Book value of Goods Repossessed(Rs.)

A. Cost [Rs. 2,00,000 × 3]	6,00,000
B. Less: Depreciation for 2 years [Rs. 6,00,000 × 20% × 2]	2,40,000
	3,6,0000

2. **Calculation of Agreed value of Goods Repossessed (**Rs.**)**

A. Cost [Rs. 2,00,000 × 3]	6,00,000
B. Less: Depreciation for 1st Year [40% of Rs. 6,00,000]	2,40,000
C. Book Value in the beginning of 2nd year	3,60,000
D. Less: Depreciation for 2nd year [40% of Rs. 3,60,000]	1,44,000
E. Book Value at the end of 2nd Year	2,16,000

3. **Loss on Default = Book Value – Agreed Value = Rs. 3,60,000 - Rs. 2,16,000 = Rs. 1,44,000**

In the Books of B

Dr. A's Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.20	To, H.P. Sales A/c	10,00,000	01.01.20	By, Bank A/c (Down payment)	2,00,000
31.12.20	To, Interest A/c [(Rs. 10,00,000 – Rs. 2,00,000) × 10/100]	80,000	31.12.20	By, Bank A/c [Rs. 2,00,000 + Rs. 80,000]	2,80,000
				By, Balance c/d	6,00,000
		10,80,000			**10,80,000**
01.01.21	To, Balance b/d	6,00,000	31.12.21	By, Balance c/d	6,60,000
31.12.21	To, Interest A/c [Rs. 6,00,000 × 10/100]	60,000			
		6,60,000			**6,60,000**
01.01.22	To, Balance b/d	6,60,000	01.01.22	By, H.P. Goods Repossessed A/c	2,16,000
				By, Balance c/d	4,44,000
		6,60,000			**6,60,000**

Dr. H.P. Goods Repossessed Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.22	To, A's A/c	2,16,000	30.06.22	By, Bank A/c	2,10,000
	To, Bank A/c (Repairs) [Rs. 6,000 × 3]	18,000		By, P&L A/c (Loss)	24,000
		2,34,000			**2,34,000**

(Illustration 8)

Problem No.7 Answer:

In the Books of X

Dr. Machinery Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.19	To, Z's A/c	6,00,000	31.12.19	By, Depreciation A/c	60,000
				By, Balance c/d	5,40,000
		6,00,000			**6,00,000**
01.01.20	To, Balance b/d	5,40,000	31.12.20	By, Depreciation A/c	60,000
				By, Balance c/d	4,80,000
		5,40,000			**5,40,000**
01.01.21	To, Balance b/d	4,80,000	31.12.21	By, Depreciation A/c	60,000
				By, Z's A/c	2,00,000
				By, Profit and Loss A/c	80,000
				(balancing figure)	
				By, Balance c/d	1,40,000
		4,80,000			**4,80,000**

Dr. Z's Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.19	To, Bank A/c	1,80,000	31.12.19	By, Machinery A/c	6,00,000
31.12.19	To, Balance c/d	4,62,000		By, Interest A/c [10% on (Rs. 6,00,000 – Rs. 1,80,000)]	42,000
		6,42,000			**6,42,000**
31.12.21	To, Bank A/c (1,40,000 + 42,000 + 46,200)	2,28,200	01.01.20 31.12.20	By, Balance c/d By, Interest A/c	4,62,000 46,200
	To, Balance c/d	2,80,000		[10% on Rs. 4,62,000]	
		5,08,200			**5,08,200**
31.12.21	To, Machinery A/c	2,00,000	01.01.21	By, Balance b/d	2,80,000
	To, Balance c/d	1,08,000	31.12.21	By, Interest A/c	28,000
		3,08,000			**3,08,000**

Working Notes:

1. Book value of machine left and repossessed

Particulars	1 left	2 repossessed
A. Costs	**2,00,000**	**4,00,000**
B. Less: Depreciation for 3 years @10%	**(60,000)**	**(1,20,000)**

	1,40,000	**2,80,000**

2. Agreed Value of 2 Machinery Repossessed = Cash Price – 50% of cash price

= Rs. (4,00,000 – 2,00,000)

= Rs. 2,00,000

3. Loss on Default = Agreed Value – Book Value

= Rs. (2,00,000 – 2,80,000)

= Rs. 80,000 **(Illustration 11)**

Problem No. 8 Answer:

In Books of Hire-Purchaser

Dr. Truck Account Cr.

Date	**Particulars**	**(Rs.)**	**Date**	**Particulars**	**(Rs.)**
01.07.21	To, Hire Vendor's A/c (Cost of Trucks @ Rs. 1,00,000 each)	7,00,000	30.06.22	By, Depreciation A/c	1,40,000
				By, Hire Vendor's A/c (Value of 3 Trucks returned to Vendor)	81,000
				By, P & L A/c (Loss on surrender)	1,59,000
				By, Balance c/d [4/7 of (Rs. 7,00,000 - Rs. 1,40,000)	3,20,000
		7,00,000			**7,00,000**

Dr. Hire Vendor's Account Cr.

Date	**Particulars**	**(Rs.)**	**Date**	**Particulars**	**(Rs.)**
01.07.21	To, Bank A/c (7,00,000 × 20/100)	1,40,000	01.07.21	By, Truck A/c By, Interest A/c	7,00,000
			31.12.21	[5,60,000 × 2.5%]	14,000
31.12.21	To, Bank A/c [(20% of 5,60,000 +14,000]	1,26,000	30.06.22	By, Interest A/c [4,48,000 × 2.5%]	11,200
30.06.22	To, Truck A/c	81,000			
30.06.22	(Value of Truck surrendered) To, Balance c/d	3,78,200			
		7,25,200			**7,25,200**

Rate of interest is [5% ÷ 2] = 2.5% for half year.

Working Notes :

(i) Credit allowed by Vendor against 3 trucks (Rs.)

Total amount of principal paid against 7 trucks

(Rs. 1,40,000 + Rs. 1,12,000) 2,52,000

Total amount of principal paid against 3 trucks (Rs. 2,52,000 × 3/7) 1,08,000

Credit allowed by Vendor (Rs. 1,08,000 – 25% of Rs. 1,08,000) 81,000

(ii) Loss on surrender of 3 trucks

Book value of 3 turcks surrendered [(Rs. 1,00,000 × 3) less 20% of Rs. 3,00,000]	2,40,000
Less : Credit allowed by Vendor against these 3 Trucks	81,000
Loss on surrender of 3 Trucks	1,59,000

In Books of Hire Vendor

Dr. Z Associates Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.07.21 31.12.21 30.06.22	To H.P. Sales A/c To Interest A/c To Interest A/c	7,00,000 14,000 11,200	01.07.22 31.12.21 30.06.22 30.06.22	By Bank A/c By Bank A/c By Goods Repossessed A/c By Balance c/d	1,40,000 1,26,000 81,000 3,78,200
		7,25,200			**7,25,200**

Dr. Goods Repossessed Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
30.6.22 30.6.22	To Banerjee & Co. To Cash A/c (expenses)	81,000 2,000	30.6.22 30.6.22	By Bank A/c (Sales) By Profit & Loss A/c (Loss on Sale)	80,000 3,000
		83,000			**83,000**

(Illustration 13)

Problem No.9 Answer:

Method A: Debtors Method

Books of Beta Ltd.

Hire Purchasing Trading Account

Dr. for the year ended 31.3.2022 Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, H.P. Stock [at H.P. price: 1.4.2021]	2,40,000	By, Stock Reserve [2,40,000 × 1/4]	60,000
To, H.P. Debtors [1.4.2017]	18,000	By, Goods sent on H.P. [Load: 5,28,000 × ¼]	1,32,000
To, Goods sent on H.P. [at H.P. Price	5,28,000	By, Cash Received	
– W.N:1]		By, Goods Repossessed [Unmatured Installments]	4,80,000 12,000
To, Loss on Repossession [WN:4]	7,200		

To, Stock Reserve [2,64,000 × 1/4]	66,000	By, H.P. Stock [at H.P. Price: 31.3.2022- WN:3]	2,64,000
To, General P/L A/c [Profit on H.P transferred	1,18,800	By, H.P. Debtors [31.3.2022]	30,000
	9,78,000		9,78,000

Working Notes:

1. Goods sent on H.P. basis (at H.P. price)

Memorandum Shop Stock Account

Particulars	(Rs.)	Particulars	(Rs.)
To, Opening Balance To, Purchases	30,000 4,08,000	By, Goods sent on H.P [at cost: Bal. Fig.] By, Closing Balance	3,96,000 42,000
	4,38,000		4,38,000

Therefore, Goods Sent on H.P [at H.P price] = 3,96,000 + 33 1/3% = Rs. 5,28,000.

2. Installments Matured during the year

Memorandum H.P Debtors Account

Particulars	(Rs.)	Particulars	(Rs.)
To, Opening Balance [Installments due] To, Installments Matured [Bal.Fig.]	18,000 4,92,000	By, Cash Received By, Closing Balance [Installments due]	4,80,000 30,000
	5,10,000		5,10,000

3. Balance of H.P. Stock on 31.3.2022

Memorandum H.P. Stock Account

Particulars	(Rs.)	Particulars	(Rs.)
To, Opening Balance [stock out on hire purchase at H.P price]	2,40,000	By, Intsalments Matured [WN:2]	4,92,000
To, Goods sent on H.P [WN:1]	5,28,000	By, Goods Repossessed [Unmatured installments]	12,000
		By, Closing Balance [Stock with customers at SP – Bal. fig.]	2,64,000
	7,68,000		**7,68,000**

Loss on Repossession = Installments not yet matured on repossessed goods – Value on repossession = Rs. [12,000 – 4,800] = Rs. 7,200. It is to be debited to H.P. Trading A/c.

Alternatively, Instead of recording value of "Goods Repossessed" and "Loss on Repossession", the value on repossession Rs. 4,800 may be reflected on the credit side of H.P. Trading A/c.

Method B: Stock-Debtors Method

Books of Beta Ltd.

Dr. **Shop Stock Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1.4.21	To, Balance b/f [Opening Stock at Shop]	30,000	31.3.22	By, Goods Sent on H.P A/c [Cost Price of goods sent: Bal. Fig.]	3,96,000
31.3.22	To, Purchases A/c	4,08,000	31.3.22	By, Balance c/f [Closing Stock at shop]	42,000
		4,38,000			**4,38,000**

Dr. **Goods Sent on H.P Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.3.22	To, Shop Stock A/c [Cost of goods sent]	3,96,000	31.3.22	By, H.P. Stock A/c [Goods sent at H.P Price]	5,28,000
31.3.22	To, H.P Stock Adjustment A/c [Loading on goods sent: 3,96,000 × 1/3]	1,32,000			
		5,28,000			**5,28,000**

Dr. **H.P Stock Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1.4.21	To, Balance b/f [stock with customers at H.P Price]	2,40,000	31.3.22	By, H.P. Debtors A/c [Matured Installments]	4,92,000
31.3.22	To, Goods sent on H.P A/c [at H.P Price]	5,28,000	31.3.22	By, Goods Repossessed A/c	12,000
			31.3.22	By, Balance b/f [Stock with customers at H.P Price: Bal. Fig]	2,64,000
		7,68,000			**7,68,000**

Dr. **H.P. Debtors Account** Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1.4.21	To, Balance b/f [Installments overdue]	18,000	31.3.22	By, Bank A/c [Cash Received]	4,80,000
31.3.22	To, H.P Stock A/c [Matured Installments: Bal. Fig]	4,92,000	31.3.22	By, Balance b/f [Installments overdue]	30,000
		5,10,000			**5,10,000**

Dr. **H.P. Stock Adjustment Account** Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.3.22	To, Goods Repossessed A/c [Repossession Loss]	7,200	1.4.21	By, Balance b/f [Load on opening H.P Stock: 2,40,000 × ¼]	60,000
31.3.22	To, General P/L A/c [H.P Profit transferred]	1,18,800	31.3.22	By, Goods Sent on H.P A/c [Load on goods sent: 5,28,000 × ¼]	1,32,000
31.3.22	To, Balance c/f [Load on Closing H.P Stock: 2,64,000 × ¼]	66,000			
		1,92,000			**1,92,000**

Dr. **Goods Repossessed Account** Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.3.22	To, H.P Stock A/c [Installments not matured]	12,000	31.3.22	By, H.P. Stock Adj. A/c [Repossession Loss]	7,200
			31.3.22	By, Balance c/f	4,800
		12,000			**12,000**

Method C: Final Accounts Method

Books of Beta Ltd.

Hire Purchase Trading Account

Dr. for the year ended 31.3.2022 Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/f:		By, H.P Slaes	4,92,000
Stock at shop	30,000	[Matured Intsalments – WN:1]	
Stock with customer	1,80,000	By, Balance c/f:	
[2,40,000 × ¾]		Stock at Shop	42,000

To, Purchases	4,08,000	Stock with Customer [2,64,000 × ¾] (WN:2)	1,98,000
To, General P/L A/c	1,18,800		
[Profit on H. P. transferred]		Repossessed Goods	4,800
	7,36,800		7,36,800

Working Notes:

1. Matured Installments during 2021-22:

Dr. **H.P. Sales Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, H.P. Trading A/c [Matured Installments- B/Fig]	4,92,000	By, Balance b/f: Stock with customer	2,40,000
To, H.P. Sales A/c [Installment due on repossessed goods]	12,000	By, H.P. Debtors A/c	5,28,000
To, Balance c/f:	2,64,000	[Goods sold on H.P. basis – WN:3]	
Stock with Customer			
	7,68,000		**7,68,000**

2. Stock with customers at H.P. Price on 31.3.2022:

Dr. **H.P. Debtors Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/f:		By, Cash A/c [Received during the year]	4,80,000
Stock with Customer	2,40,000	By, H.P. Sales A/c [Installment due on repossessed goods] By, Balance c/f: Stock with Customer [Bal. Fig.]	12,000 2,64,000
Installment overdue To, H.P. Sales A/c [Goods sold on H.P. basis – WN:3]	18,000 5,28,000	Installments due	30,000
	7,86,000		**7,86,000**

Goods sent on H.P basis (at H.P. Price) during 2021-22

Cost of goods sent under H.P basis :

Opening Shop Stock + Purchases – Closing Shop Stock

= Rs.[30,000 + 4,08,000 - 42,000] = Rs. 3,96,000

∴ Goods sold on H.P. basis at H.P. Price = Cost of goods sold under H.P. basis + Profit

= Rs.3,96,000 + 33.33 % = Rs. 5,28,000

PROBLEMS FROM CA SOURCE FOR PRACTICAL UNDERSTANDING

Problem No.1 Answer:

Statement showing cash value of the machine acquired on hire-purchase basis

	Instalment Amount	Interest @ 5% half yearly (10% p.a.) = 5/105 = 1/21 (in each instalment)	Principal Amount (in each instalment)
	Rs.	**Rs.**	**Rs.**
5th Instalment	6,000	286	5,714
Less: Interest	(286)		
	5,714		
Add: 4th Instalment	6,000		
	11,714	558	5,442
Less: Interest	(558)		(6,000 – 558)
	11,156		
Add: 3rd instalment	6,000		
	17,156	817	5,183
Less: Interest	(817)		(6,000 – 817)
	16,339		
Add: 2nd instalment	6,000		
	22,339	1,063	4,937
Less: Interest	(1,063)		(6,000 – 1,063)
	21,276		
Add: 1st instalment	6,000		
	27,276	1,299	4,701
Less: Interest	(1,299)		(6,000 –1,299)
	25,977	4,023	25,977

The cash purchase price of machinery is Rs. 25,977. **(SM – ILLUSTRATION 2)**

Problem No.2 Answer:

Calculation of Cash Price – The present value of an annuity of Re. 1 paid for 3 year @ 5% = Rs. 2.723. Hence, the present value of Rs. 30,000 for 3 years = 2.723 x 30,000 = Rs. 81,690.

Thus, Cash Price will be computed as Rs. 81,690.

Cash price may also be calculated using the annuity formula discussed above:

Cash price = Annual instalment x $\frac{(1+r)^n - 1}{r(1+r)^n}$

= 30,000 x [$(1 + 0.05)^3$ – 1]/ 0.05 $(1 + 0.05)^3$

= Rs. 81697.

Note- The difference in cash price of Rs. 7 is on account of approximation.

(SM – ILLUSTRATION 3)

Problem No.3 Answer:

Calculation of interest

	Total (Rs.)	Interest in each instalment (1)	Cash price in each instalment (2)
Cash Price	80,000		
Less: Down Payment	(21,622)	Nil	Rs. 21,622
Balance due after down payment	58,378		
Interest / Cash Price of 1^{st} instalment	-	Rs. 58,378 x10/100 = Rs. 5,838	Rs. 15,400 – Rs. 5,838 = Rs. 9,562
Less: Cash price of 1^{st} instalment	(9,562)		
Balance due after 1^{st} instalment	48,816		
Interest/cash price of 2^{nd} instalment	-	Rs. 48,816 x 10/100 = Rs. 4,882	Rs. 15,400 - Rs. 4,882= Rs. 10,518
Less: Cash price of 2^{nd} instalment	(10,518)		
Balance due after 2^{nd} instalment	38,298		
Interest/Cashprice of 3^{rd} instalment	-	Rs. 38,298 x 10/100 = Rs. 3,830	Rs. 15,400 - Rs. 3,830= Rs. 11,570
Less: Cash price of 3^{rd} instalment	(11,570)		
Balance due after 3^{rd} instalment	26,728		
Interest/Cashprice of 4^{th} instalment	-	Rs. 26,728 x10/100 = Rs. 2,672	Rs. 15,400 - Rs. 2,672 = Rs. 12,728
Less: Cash price of 4^{th} instalment	(12,728)		
Balance due after 4^{th} instalment	14,000		
Interest/Cashprice of 5^{th} instalment	-	Rs.14,000 x10/100 = Rs. 1,400	Rs. 15400– Rs. 1,400 = 14,000

Less: Cash price of 5th instalment	(14,000)		
Total	Nil	Rs. 18,622	Rs. 80,000

Total interest can also be calculated as follow:

(Down payment + instalments) – Cash Price = Rs. [21,622 +(15400 x 5)] – Rs. 80,000 = Rs. 18,622

(SM – ILLUSTRATION 4)

Problem No.4 Answer:

Calculation of total Interest and Interest included in each installment Hire Purchase Price (HPP) = Down Payment + instalments

= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000

Total Interest = 1,80,000 – 1,50,000 = 30,000

Computation of IRR (considering two guessed rates of 6% and 12%)

Year	Cash Flow	DF @6%	PV	DF @12%	PV
0	30,000	1.00	30,000	1.00	30,000
1	50,000	0.94	47,000	0.89	44,500
2	50,000	0.89	44,500	0.80	40,000
3	30,000	0.84	25,200	0.71	21,300
4	20,000	0.79	15,800	0.64	12,800
		NPV	1,62,500	NPV	1,48,600

Interest rate implicit on lease is computed below by interpolation:

Interest rate implicit on lease = $6\% + \frac{1,62,500 - 1,50,000}{1,62,500 - 1,48,600} \times (12 - 6) = 11.39\%$

Thus, repayment schedule and interest would be as under:

Instalment no.	Principal at beginning	Interest included in each instalment	Gross amount	Instalment	Principle at end
Cash down	1,50,000		1,50,000	30,000	1,20,000
1	1,20,000	13,668	1,33,668	50,000	83,668
2	83,668	9,530	93,198	50,000	43,198
3	43,198	4,920	48,118	30,000	18,118
4	18,118	2,064	20,182	20,000	182*
		30,182*			
* difference is on account of approximations					

(SM – ILLUSTRATION 5)

Problem No.5 Answer:

In the books of HP M/s Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
20X1 Jan. 1	Pick-up Van A/c To FM M/s A/c (Being the purchase of a pick-up van on hire purchase from FM M/s)	Dr.	1,00,000	 1,00,000
"	FM M/s A/c To Bank A/c (Being the amount paid on signing the H.P. contract)	Dr.	40,000	 40,000
Dec. 31	Interest A/c To FM M/s A/c (Being the interest payable @ 6% on Rs. 60,000	Dr.	3,600	 3,600
"	FM M/s A/c (Rs. 20,000+Rs. 3,600) To Bank A/c (Being the payment of 1st instalment along with interest)	Dr.	23,600	 23,600
"	Depreciation A/c To Pick-up Van A/c (Being the depreciation charged @ 10% p.a. on Rs. 1,00,000)	Dr.	10,000	 10,000
"	Profit & Loss A/c To Depreciation A/c To Interest A/c (Being the depreciation and interest transferred to Profit and Loss Account)	Dr.	13,600	 10,000 3,600
20X2 Dec. 31	Interest A/c To FM M/s A/c (Being the interest payable @ 6% on Rs. 40,000)	Dr.	2,400	 2,400
	FM M/s A/c (Rs. 20,000 + Rs. 2,400) To Bank A/c (Being the payment of 2nd instalment along with interest)	Dr.	22,400	 22,400
	Depreciation A/c To Pick-up Van A/c (Being the depreciation charged @ 10% p.a.)	Dr.	10,000	 10,000

	Profit & Loss A/c To Depreciation A/c To Interest A/c (Being the depreciation and interest charged to Profit and Loss Account)	Dr.	12,400	 10,000 2,400
20X3 Dec. 31	Interest A/c To FM M/s A/c (Being the interest payable @ 6% on Rs. 20,000)	Dr.	1,200	 1,200
	FM M/s A/c (Rs. 20,000 + Rs. 1,200) To Bank A/c (Being the payment of final instalment along with interest)	Dr.	21,200	 21,200
	Depreciation A/c To Pick-up Van A/c (Being the depreciation charged @ 10% p.a. on Rs. 1,00,000)	Dr.	10,000	 10,000
	Profit & Loss A/c To Depreciation A/c To Interest A/c (Being the interest and depreciation charged to Profit and Loss Account)	Dr.	11,200	 10,000 1,200

Ledgers in the books of HP M/s Pick-up Van Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.20X1	To FM M/s A/c	1,00,000	31.12.20X1	By Depreciation A/c	10,000
			31.12.20X1	By Balance c/d	90,000
		1,00,000			1,00,000
1.1.20X2	To Balance b/d	90,000	31.12.20X2	By Depreciation A/c	10,000
			31.12.20X2	By Balance c/d	80,000
		90,000			90,000
1.1.20X3	To Balance b/d	80,000	31.12.20X3	By Depreciation A/c	10,000
			31.12.20X3	By Balance c/d	70,000
		80,000			80,000

FM M/s Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.20X1	To Bank A/c	40,000	1.1.20X1	By Pick-up Van A/c	1,00,000
31.12.20X1	To Bank A/c	23,600	31.12.20X1	By Interest c/d	3,600

31.12.20X1	To Balance c/d	40,000			
		1,03,600			1,03,600
31.12.20X2	To Bank A/c	22,400	1.1.20X2	By Balance b/d	40,000
31.12.20X2	To Balance c/d	20,000	31.12.20X2	By Interest A/c	2,400
		42,400			42,400
31.12.20X3	To Bank A/c	21,200	1.1.20X3	By Balance b/d	20,000
			31.12.20X3	By Interest A/c	1,200
		21,200			21,200

Depreciation Account

Date		Particulars	Rs.	Date	Particulars	Rs.
31.12.20X1	To	Pick-up Van A/c	10,000	31.12.20X1	By Profit & Loss A/c	10,000
31.12.20X2	To	Pick-up Van A/c	10,000	31.12.20X2	By Profit & Loss A/c	10,000
31.12.20X3	To	Pick-up Van A/c	10,000	31.12.20X3	By Profit & Loss A/c	10,000

Interest Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.20X1	To FM M/s A/c	3,600	31.12.20X1	By Profit & Loss A/c	3,600
31.12.20X2	To FM M/s A/c	2,400	31.12.20X2	By Profit & Loss A/c	2,400
31.12.20X3	To FM M/s A/c	1,200	31.12.20X3	By Profit & Loss A/c	1,200

Balance Sheet of HP M/s as at 31st December, 20X1

Liabilities	Rs.	Assets	Rs.
FM M/s	40,000	Pick-up Van	90,000

Balance Sheet of HP M/s as at 31st December, 20X2

Liabilities	Rs.	Assets	Rs.
FM M/s	20,000	Pick-up Van	80,000

Balance Sheet of HP M/s as at 31st December, 20X3

Liabilities	Rs.	Assets	Rs.
		Pick-up Van	70,000

(SM – ILLUSTRATION 6)

Problem No.6 Answer:

H.P. Interest Suspense Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.20X1	To FM M/s A/c (W.N.)	7,200	31.12.20X1	By Interest A/c	3,600
			31.12.20X1	By Balance c/d	3,600
		7,200			7,200
1.1.20X2	To Balance b/d	3,600	31.12.20X2	By Interest A/c	2,400
			31.12.20X2	By Balance c/d	1,200
		3,600			3,600
1.1.20X3	To Balance b/d	1,200	31.12.20X3	By Interest A/c	1,200

Interest Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.20X1	ToH.P. Interest Suspense A/c	3,600	31.12.20X1	By Profit & Loss A/c	3,600
31.12.20X2	ToH.P. Interest Suspense a/c	2,400	31.12.20X2	By Profit & Loss A/c	2,400
31.12.20X3	ToH.P. Interest Suspense A/c	1,200	31.12.20X3	By Profit & Loss A/c	1,200

FM M/s Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.20X1	To Bank A/c	40,000	1.1.20X1	ByPick-upVan A/c	1,00,000
31.12.20X1	ToBank A/c To	23,600		ByH.P. Interest	7,200
31.12.20X1	Balance c/d	43,600	1.1.20X1	Suspense A/c	
		1,07,200			1,07,200
31.12.20X2	To Bank A/c	22,400		By Balance b/d	43,600
31.12.20X2	To Balance c/d	21,200	1.1.20X2		
		43,600			43,600
31.12.20X3	To Bank A/c	21,200	1.1.20X3	By Balance b/d	21,200

Balance Sheet of HP M/s as at 31st December, 20X1

Liabilities		Rs.	Assets		Rs.
FM M/s	43,600		Pick-up Van	1,00,000	
Less: H.P. Interest Suspense	(3,600)	40,000	Less: Depreciation	(10,000)	90,000

Balance Sheet of HP M/s as at 31st December, 20X2

Liabilities		Rs.	Assets	Rs.	
FM M/s	21,200		Pick-up Van	90,000	
Less: H.P. Interest			Less:		
Suspense	(1,200)	20,000	Depreciation	(10,000)	80,000

Balance Sheet of HP M/s as at 31st December, 20X3

Liabilities	Rs.		Assets		Rs.
			Pick-up Van	80,000	
			Less: Depreciation	(10,000)	70,000

Working Note:

Total Interest = Rs. 3,600 + Rs. 2,400 + Rs. 1,200 = Rs. 7,200. **(SM – ILLUSTRATION 7)**

Problem No.7 Answer:

Machinery Account

		Rs.			Rs.
I Yr.	To Hire Vendor A/c (W.N.)	15,533	I Yr.	By Depreciation A/c	1,553
			II Yr.	By Balance c/d	13,980
		15,533	III Yr.		15,533
II Yr.	To Balance b/d	13,980		By Depreciation A/c*	1,398
				By Balance c/d	12,582
		13,980			13,980
III Yr.	To Balance b/d	12,582		By Depreciation A/c*	1,258
				By Hire Vendor	11,000
				By Profit & Loss A/c (Loss on Surrender) (bal.fig.)	324
		12,582			12,582

*Depreciation has been directly credited to the Machinery Account; it could have been accumulated in provision for depreciation account.

Hire Vendor Account

		Rs.			Rs.
I Yr.	To Bank A/c	6,000	I Yr.	By Machinery A/c	15,533
	To Balance c/d	12,639		By Interest A/c	3,106
		18,639			18,639
II Yr.	To Bank A/c	6,000	II Yr.	By Balance b/d	12,639
	To Balance c/d	9,167		By Interest A/c	2,528
		15,167			15,167

III Yr.	To Machinery A/c (transfer)	11,000	III Yr.	By Balance b/d	9,167
				By Interest A/c	1,833
		11,000			11,000

Note: Alternatively, total interest could have been debited to Interest Suspense A/c and credited to Hire Vendor A/c with consequential changes.

Working Notes:

		Instalment Amount	Interest	Principal
4th Instalment		6,000	Rs.	Rs.
Interest	$6,000 \times \frac{20}{120}$	1,000	1,000	5,000
		5,000		
Add: 3rd Instalment		6,000		
		11,000		
Interest	$11,000 \times \frac{20}{120}$	1,833	1,833	4,167
		9,167		
Add: 2nd Instalment		6,000		
		15,167		
Interest	$15,167 \times \frac{20}{120}$	2,528	2,528	3,472
		12,639		
Add: Ist Instalment		6,000		
		18,639		
Interest	$18,639 \times \frac{20}{120}$	3,106	3,106	2,894
		15,533	8,467	15,533

(SM – ILLUSTRATION 10)

Problem No.8 Answer:

In the Books of X Ltd.

Journal Entries

		Dr. (Rs.)	Cr. (Rs.)
I Year			
Milk Vans purchased:			
Milk Vans A/c	Dr.	2,25,000	
To Vendor A/c			2,25,000

(Being purchase of 3 Milk Vans on hire purchase at Rs. 75,000 each)			
On down payment:			
Vendor A/c	Dr.	45,000	
To Bank			45,000
(Being down payment made)			
I Year end			
Interest A/c (Rs. 1,80,000 @ 9%)	Dr.	16,200	
To Vendor A/c			16,200
(Being Interest due on outstanding balance)			
Vendor A/c	Dr.	76,200	
To Bank A/c (60,000 + 16,200)			76,200
(Being First Instalment paid along with Interest)			
Depreciation A/c	Dr.	45,000	
To Milk Vans A/c			45,000
(Being depreciation provided@ 20%)			
Profit & Loss A/c	Dr.	61,200	
To Depreciation			45,000
To interest A/c			16,200
(Being Interest and Depreciation charged to profit and loss account)			
II Year end			
Depreciation A/c	Dr.	36,000	
To Milk Vans A/c			36,000
(Being Depreciation provided @ 20%))			
Interest A/c	Dr.	10,800	
(1,20,000 @ 9%)			
To Vendor A/c			10,800
(Being interest due on balance outstanding)			
For Loss on Repossession:			
Super Motors A/c (1,50,000 – 45,000 – 31,500)	Dr.	73,500	
Profit & Loss A/c (b.f.)	Dr.	22,500	
To Milk Vans A/c [(2,25,000 – 45,000 – 36,000) x 2/3]			96,000
(Being re-possession of Milk Vans)			
Vendor A/c	Dr.	57,300	
To Bank			57,300
(Being vendor's account settled)			

Milk Vans Account

Year		Rs.	Year		Rs.
1	To Super Motors A/c	2,25,000	1 end	By Depreciation A/c	45,000
			”	By Balance c/d	1,80,000
		2,25,000			2,25,000
2	To Balance b/d	1,80,000	2 end	By Depreciation	36,000
				BySuper Motors (value of 2 Milk Vans after depreciation for 2 years @ 30%)	73,500
				By P & L A/c (balancing figure)	22,500
				By Balance c/d (one scooter less dep. for 2 years) @ 20%	48,000
		1,80,000			1,80,000

Super Motors Account

Year		Rs.	Year		Rs.
1	To Bank A/c	45,000	1	By Milk Vans A/c	2,25,000
	To Bank A/c	76,200		By Interest @ 9% on Rs. 1,80,000	16,200
	To Balance c/d	1,20,000			
		2,41,200			2,41,200
2	To Milk Vans A/c	73,500	2	By Balance b/d	1,20,000
	To Bank A/c	57,300		By Interest A/c	10,800
		1,30,800			1,30,800

(SM – ILLUSTRATION 8)

Problem No.9 Answer:

		Rs.
(i)	Price of two cars = Rs. 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = Rs. 2, 80,000 x $\frac{30}{100}$	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000

	Cash purchase price of one car	2,00,000
	Less: Depreciation on Rs. 2,00,000 @20% for the first year	40,000
	Written drown value at the end of first year	1,60,000
	Less: Depreciation on Rs. 1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	1,28,000
	Book value of one car as calculated above	1,28,000
	Book value of Two cars = Rs. 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in (i) above	1,96,000
	Hence, loss to hire purchaser on cars taken back by hire vendor = Rs. 2,56,000 – Rs. 1,96,000 =	Rs. 60,000

(NOV 2020-RTP -11)

Problem No.10 Answer:

Hire Purchase accounts in the buyer's books

(a) Tractors on Hire Purchase Account

20X1			**Rs.**	**20X1**				**Rs.**
April 1	To HP Co. - Cash price			Dec. 31	By	Balance c/d		
	Tractor A		14,000			Tractor A	14,000	
Oct. 1	" HP Co. - Cash price					Tractor B	19,000	33,000
	Tractor B		19,000					
			33,000					33,000

20X2			**Rs.**	**20X2**				**Rs.**
Jan. 1	ToBalance b/d			June 30	By	Disposal of		
	Tractor A Tractor B					Tractor A/c - Transfer		19,000
		14,000			By	Balance c/d		14,000
		19,000	33,000	Dec. 31				33,000
			33,000					
20X3 Jan. 1	ToBalance b/d		14,000					

(b) ***Provision for Depreciation of Tractors Account***

20X1		Rs.	20X1			Rs.
Dec. 31	To Balance c/d	3,050	Dec.31	By P & L A/c: Tractor A Tractor B	2,100* 950**	3,050
		3,050				3,050

* 14,000 x 20% x 9/12 = 2,100

** 19,000 x 20% x 3/12 = 950

20X2		Rs.	20X2		Rs.
June30	To Disposal of Tractor account—Transfer (950 + 1,900)	2,850	Jan. 1	ByBalance b/d	3,050
			Jun. 30	ByP & L A/c (Dep. for Tractor B) (19,000 x 20% x 6/12)	1,900
Dec. 31	To Balance c/d	4,900	Dec. 31	ByP & L A/c (Dep. for Tractor A) (14,000 x 20%)	2,800
		7,750			7,750
			20X3		**Rs.**
			Jan. 1	By Balance b/d	4,900

(c) Disposal of Tractor Account

20X2		Rs.	20X2		Rs.
June30	To Tractors on hire purchase —Tractor B	19,000	June 30	By Provision for Depn. of Tractors A/c	2,850
			July 10	By Cash: Insurance	**15,000**
			Dec. 31	By P & L A/c: Loss (b.f.)	**1,150**
		19,000			**19,000**

(SM – ILLUSTRATION 9)

Problem No.11 Answer:

X Transport Ltd. Tempo Account

20X1		Rs.	20X1		Rs.
Jan. 1	ToDelhi Motors	1,50,000	Dec. 31	By Depreciation A/c: 20% on 1,50,000	30,000
				ByBalance c/d	1,20,000

		1,50,000			1,50,000
20X2 Jan 1.	To Balance b/d	1,20,000	20X2 Dec.31.	ByDepreciation A/c ByDelhi Motors A/c (Value of 2 tempos taken away) ByProfit and Loss A/c [(96,000 x 2/3) – 49,000] ByBalance c/d (Value of one tempo left) (W.N.1)	24,000 49,000 15,000 32,000
		1,20,000			1,20,000
20X3 Jan. 1	To Balance b/d	32,000	20X3 Dec. 31	ByDepreciation A/c By Balance c/d	6,400 25,600
		32,000			32,000

Delhi Motors Account

20X1			Rs.	20X1			Rs.
Jan. 1	To	Bank (Down Payment)	30,000	Jan. 1	By	Tempos A/c	1,50,000
Dec. 31	To	Bank	50,800	Dec. 31	By	Interest (9% on Rs. 1,20,000)	10,800
	To	Balance c/d	80,000				
			1,60,800				1,60,800
20X2				20X2			
Jan. 1	To	Tempo	49,000	Jan. 1	By	Balance b/d	80,000
Dec. 31	To	Balance c/d	38,200	Dec. 31	By	Interest (9% on Rs. 80,000)	7,200
			87,200				87,200
20X3			Rs.	20X3			Rs.
Dec. 31	To	Bank	41,638	Jan. 1	By	Balance b/d	38,200
				Dec. 31	By	Interest (9% on Rs. 38,200)	3,438
			41,638				41,638

Working Notes:

(1) Value of a Tempo left with the buyer: Rs.

Cost 50,000

Depreciation @ 20% p.a. under WDV method for 2 years [i.e. Rs. 10,000 + Rs. 8,000]	(18,000)
Value of the Tempo left with the buyer at the end of 2nd year	32,000

(2) Value of Tempos taken away by the seller:

No. of tempos Two

	Rs.
Cost Rs. 50,000 × 2 =	1,00,000
Depreciation @ 30% Under WDV method for 2 years [i.e. Rs. 30,000 + Rs. 21,000]	(51,000)
Value of tempos taken away at the end of 2nd year	49,000

(SM – ILLUSTRATION 11)

11. DEPARTMENTAL ACCOUNTS

(Exclusive from CMA Source)

Problem No. 1 Answer:

M/s Unique

Departmental Trading and Profit & Loss Account

Dr. for the year ended 31.03.2022 Cr.

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
To, Opening Stock	72,000	48,000	40,000	By, Sales	3,60,000	2,70,000	1,80,000
To, Purchases	2,64,000	1,76,000	88,000	By, Closing Stock	90,000	35,000	42,000
To, Carriage Inwards (WN:1)	3,000	2,000	1,000				
To, Gross Profit c/d	1,11,000	79,000	93,000				
	4,50,000	**3,05,000**	**2,22,000**		**4,50,000**	**3,05,000**	**2,22,000**
To, Rent, Rates & Taxes (WN:1)	6000	5000	4000	By, Gross Profit b/d	1,11,000	79,000	93,000
To, Wages (WN:1)	40,000	32,000	24,000				
To, Carriage Outwards (WN:1)	2,400	1,800	1,200	By, Discount Received	1800	1200	600
To, Discount Allowed (WN:1)	2,000	1,500	1,000				
To, Electricity Expenses	3,000	2,000	1,000				

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
To, Advertisement (WN:1)	2,400	1,800	1,200				
To, Depreciation (WN:1) (WN:1)	800	800	400				
To, Employees Welfare Expenses (WN:1)	2000	1600	1200				
To, Provision for Bad Debt (WN:2)	1500	1000	1000				
To, General P/L A/c (Dept. NP transferred)	52,700	32,700	58,600				
	1,12,800	**80,200**	**93,600**		**1,12,800**	**80,200**	**93,600**

Working Notes

1. Allocation of unallocated income and expenses

Item of Expenses	(Rs.)	Basis	Ratio	X (Rs.)	Y (Rs.)	Z (Rs.)
Carriage Inwards Rent,	6000	Purchases Floor	3:2:1	3,000	2,000	1,000
Rates & Taxes Wages	15,000	area	6:5:4	6,000	5,000	4,000

Carriage Outwards	96,000	Number of	5:4:3	40,000	32,000	24,000
Discount Allowed	5,400	employees Sales	4:3:2	2,400	1,800	1,200
Electricity expenses	4,500	Sales	4:3:2	2,000	1,500	1,000
Advertisement	6,000	Electricity	3:2:1	3,000	2,000	1,000
Depreciation on Furniture	5,400	consumed Sales	4:3:2	2,400	1,800	1,200
Employees Welfare	2,000	Value of Furniture	2:2:1	800	800	400
Expenses	4,800	Number of				
Discount Received	3,600	employees	5:4:3	2,000	1,600	1,200
		Purchases	3:2:1	1,800	1,200	600

2. Provision for Bad Debt

Dept. X: Rs. 30,000 × 5% = Rs. 1,500,

Dept. Y: Rs. 20,000 × 5% = Rs. 1,000, Dept. Z: Rs. 20,000 × 5% = Rs. 1,000

(Illustration-14)

Problem No. 2 Answer:

A & Co.

Departmental Trading and P/L Account

Dr. for the year ended 31.03.2018 Cr.

Particulars	Deptt. P (Rs.)	Deptt. Q (Rs.)	Total (Rs.)	Particulars	Deptt. P (Rs.)	Deptt. Q (Rs.)	Total (Rs.)
To, Opening Stock	5,00,000	Nil	5,00,000	By, Sales	30,00,000	20,00,000	50,00,000
To, Purchases	28,00,000	3,00,000	31,00,000	By, Goods transferred to Q	8,00,000		
To, Goods from P		8,00,000		By, Closing Stock	8,00,000	2,09,000	10,09,000
To, Wages	3,50,000	2,00,000	5,50,000				
To, Gross Profit c/d	9,50,000	9,09,000	18,59,000				
	46,00,000	**22,09,000**	**60,09,000**		**46,00,000**	**22,09,000**	**60,09,000**
To, Travelling Expenses	20,000	1,60,000	1,80,000	By, Gross Profit b/d	9,50,000	9,09,000	18,59,000
To, Printing & Stationery	30,000	25,000	55,000				

Particulars	Deptt. P (Rs.)	Deptt. Q (Rs.)	Total (Rs.)	Particulars	Deptt. P (Rs.)	Deptt. Q (Rs.)	Total (Rs.)
To, Salaries (2:1)	2,20,000	1,10,000	3,30,000				
To, Advertisement Expenses (3:2)	72,000	48,000	1,20,000				
To, General Expenses (3:1)	3,75,000	1,25,000	5,00,000				
To, Depreciation (1:3)	7,200	21,600	28,800				
To, Net Profit c/d	2,25,800	4,19,400	6,45,200				
	9,50,000	**9,09,000**	**18,59,000**		**9,50,000**	**9,09,000**	**18,59,000**
To, Provision for unrealised profit on closing stock (note 2)			38,000	By, Net Profit b/d			6,45,200
To, Capital A/c (net profit transferred)			**6,07,200**				

Working notes:

1. Gross profit ratio of department P = Rs. 9,50,000/Rs. (30,00,000 + 8,00,000) × 100 = 25%
2. Proportionate P department's stock in department Q
   (Purchase from department P/total purchases of department Q) × total stock of department Q
   = Rs. (8,00,000/11,00,000) × Rs. 2,09,000 = Rs. 1,52,000
   Unrealised profit = 25% of Rs. 1,52,000 = Rs. 38,000

(Illustration-16)

Problem No. 3 Answer:

A Ltd.

Departmental Trading Account

Dr. for the year ended 31.3.2022 Cr.

Particulars	X (Rs.)	Y (Rs.)	Particulars	X (Rs.)	Y (Rs.)
To, Opening Stock	20,000	15,000	By, Sales	1,90,000	1,35,000
To, Purchases	1,00,000	80,000	By, Transfer [Goods sent]:		
To, Transfer [Goods received]:			Purchased goods	6,000	5,000
Purchased goods	5,000	6,000	Finished goods	20,000	35,000
Finished goods	35,000	20,000	By, Closing Stock:		

To, Wages	12,500	7,500	Purchased goods	2,000	5,000
To, Departmental Profit [Bal.Fig.]	52,500	59,500	Manufactured goods	7,000	8,000
	2,25,000	**1,88,000**		**2,25,000**	**1,88,000**

Trading Account

Dr. for the year ended 31.3. 2022 Cr.

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To, Opening Stock [20,000 + 15,000]	35,000	By Sales [1,90,000 + 1,35,000]	3,25,000
To, Purchases [1,00,000 + 80,000]	1,80,000	By Closing Stock:	
To, Wages [12,500 + 7,500]	20,000	Purchased goods [2,000 + 5,000]	7,000
To, Gross Profit [Bal. Fig.]	1,11,110	Manufactured goods[WN: 1]	14,110
	3,46,110		**3,46,110**

Reconciliation of Profits:

The departmental profits ascertained from the Departmental Trading & P/L A/c and the company's Gross Profit determined from the Company's Trading A/c can be reconciled as under:

Gross Profit of the company = Profit of Dept. X + Profit of Dept. Y – Unrealised profit in Unsold stock

= Rs. 52,500+ Rs. 59,500 – Rs. (490+400) = Rs. 1,11,110

Working Notes:

1. Value of closing stock of manufactured goods:

	Dept. X (Rs.)	**Dept. Y (Rs.)**
'Profit rate of the transferor'on 'transferred goods' $\left[\frac{\text{Gross Profit}}{\text{Sales} + \text{Transfer of Finished Goods}} \times 100\right]$	$\frac{52,500}{1,90,000 + 20,000} \times 100 = 25\%$	$\frac{59,500}{1,35,000 + 35,000} \times 100 = 35\%$
Value of 'transferred goods' included in closing stock	Rs. 1,400 [7,000 × 20%]	Rs. 1,600 [8,000 × 20%]
Less: Unrealised profits included in closing stock [Transferred goods × Profit rate of transferor]	Rs. 490 [1,400 × 35%]	Rs. 400 [1,600 × 25%]
Total cost of closing stock of manufactured goods = [7,000 + 8,000] – [490 + 400] = Rs. 14,110		

(Illustration-17)

Problem No. 4 Answer:

Dr. Departmental Trading and Profit & Loss Account for the year ended 31.3.2022 Cr.

Particulars	Raw Materials	Manufac-turing	Particulars	Raw Materials	Manufac-turing
To, Opening Stock To, Purchases	1,20,000 8,00,000	20,000 6,000	By, Sales By, Transfer (Transferred to MF)	8,80,000 1,20,000	1,80,000 -
To, Transfer (Received from RM)	-	1,20,000	By, Closing Stock	80,000	24,000
To, Manufacturing Expenses	-	24,000			

Particulars	Raw Materials	Manufac-turing	Particulars	Raw Materials	Manufac-turing
To, Gross Profit c/d	1,60,000	34,000			
	10,80,000	**2,04,000**		**10,80,000**	**2,04,000**
To, Salaries (44:9)	4,150	850	By, Gross Profit b/d	1,60,000	34,000
To, Selling Expenses	1,600	800			
To, Insurance Premium (44:9)	1328	272			
To, General P/L A/c (Dept. Net Profit transferred)	1,52,922	32,078			
	1,60,000	**34,000**		**1,60,000**	**34,000**

Dr. General Profit & Loss Account for the year ended 31.3.2022 Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Stock Reserve (WN:1)	1380	By, Departmental Profit & Loss A/c	1,52,922
To, Capital A/c (NP transferred)	1,83,620	Raw Materials Manufacturing	32,078
	1,85,000		**1,85,000**

Working Notes:

1. Unrealized Profit in unsold stock:

Profit rate on transferred goods = GP rate of Raw Materials Dept.

= { Gross profit /(Sales + Transfer)} × 100

= { 1,60,000 / (8,80,000 + 1,20,000) } × 100

= 16%

Value of the goods of Manufacturing dept. included in the Closing stock of Raw Materials Dept.

= Rs. 24,000 × 75% = Rs. 18,000

Unrealized Profit in Closing Stock = Rs. 18,000 × 16% = Rs. 2,880

Value of the goods of Manufacturing dept. included in the Opening stock of Raw Materials Dept.

= Rs.. 20,000 * 75% = Rs. 15,000

Unrealised Profit in Opening Stock = Rs. 15,000 × 10% = Rs. 1,500

Net Stock Reserve = Rs. 2,880 – Rs. 1,500 = Rs. 1,380

(Illustration-15)

Problem No. 5 Answer:

Statement showing computation of correct departmental profit:

Particulars	**Spares (Rs.)**	**Service (Rs.)**	**Repairs (Rs.)**
Net Profit/ (Loss) as per accounts	(19,000)	25,200	36,000
Add: Managerial Remuneration: [Spares: Higher of (19,000) × 5/95) and 3,000]	3,000		
[Service: Higher of (22,500 × 10/90) and 3,000]	-	3,000	-
[Repairs:Higher of (36,000 × 10/90) and 3,000]	-	-	4,000
∴ Profits before Managerial Remuneration	(16,000)	28,200	40,000
Less: Unrealised Profits of transferor department [WN:1]	691	-	2,000
	(16,691)	28,200	38,000
Less: Managerial Remuneration: [Spares: Higher of (16,691) × 5%) and 3,000]	3,000	-	-
[Service: Higher of (28,200 × 10%) and 3,000]	-	3,000	-
[Repairs:Higher of (38,000 × 10%) and 3,000]	-	-	3,800
∴ Correct departmental profit	(19, 691)	25,200	34,200

Working Notes:

		Transferee		
		Services (Rs.)	**Repairs (Rs.)**	**Total (Rs.)**
Transferor	**Spares**	500 [10,500 × 5/105]	191 [Rs. 2,100 × 10/110]	691
	Repairs	2,000 [22,000 × 10/110]	..	2,000

(Illustration-20)

PROBLEMS DISCUSSED FROM CA SOURCE FOR PRACTICAL UNDERSTANDING

Problem No. 1 Answer:

	Rs.
Closing Stock of Department Q	27,000
Goods send by Department P to Department Q at a price 50% above	
Cost	
Hence profit of Department P included in the stock will be -	9,000
27,000 x 50/150	
Amount of the Stock Reserve will be Rs. 9,000.	

Working Note:

Dept P transfers goods to Dept Q at a profit of 50% of cost. Hence, if cost is Rs. 100/- the profit = Rs. 50 and Transfer Price = Rs. 150. Therefore, the profit of Dept P included in the stock value of Dept Q is one – third of the sale value.

(SM ILLUSTRATION 1)

Problem No. 2 Answer:

In the books of Z Ltd

Dr. **Departmental Trading A/c** **Cr.**

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To opening stock [W.N:2]	11,520	8,640	12,240	By Sales	2,44,800	5,18,400	7,48,800
To Purchases [W.N:1]	96000	2,16,000	2,88,000	By closing stock	9,600	17,280	720
To Gross profit [Bal. fig]	1,46,880	3,11,040	4,49,280				
	2,54,400	**5,35,680**	**7,49,520**		**2,54,400**	**5,35,680**	**7,49,520**

Working Notes:

i. If entire purchase units sold

Dept – A (6,000 x 40) – 2,40,000

Dept – B (12,000 x 45) – 5,40,000

Dept – C (14,400 x 50) – 7,20,000

Total Sales = 15,00,000

Less: cost of Sales (6,00,000)

Total profit 9,00,000

Gross profit Margin = $\frac{9\text{lacs}}{15\text{lacs}} x = 100 = 60\%$

WORKING NOTE: 1 Purchase cost of unit:-

Particulars	A (Rs.)	B (Rs.)	C (Rs.)
Selling Price	40	45	50
(-) GP @ 60%	(24)	(27)	(30)
Cost per unit	16	18	20

WORKING NOTE: 2 Calculation of opening stock

Opening stock = sales + closing stock – purchases

Dept A = 6120 + 600 - 6,000 = 720 units = 720 x Rs. 16 = Rs. 11,520

Dept B = 11,520 + 960 - 12,000 = 480 units

= 480 x Rs. 18 = Rs. 8,640

Dept C = 14,476 + 36 - 14,400 = 612 units

= 612 x Rs. 20 = Rs. 12,240

Notes:

⇒ It is assumed that there is no change in cost per unit in current year and previous year

⇒ Cost is taken same for opening stock, purchases and closing stock.

(SM ILLUSTRATION 2)

Problem No. 3 Answer:

Departmental Trading & Profit and Loss Account for the year ended 31st March, 20X1 in Books of M/s Omega

PARTICULARS	DEP.X	DEP.Y	DEP.Z	Total	PARTICULARS	DEP.X	DEP.Y	DEP.Z	Total
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Stock (opening)	36,000	24,000	20,000	80,000	By Sales	1,80,000	1,35,000	90,000	4,05,030
To Purchases	132,000	88,000	44,000	2,64,000	By Stock (closing)	45,000	17,500	21,000	83,500
To Carriage Inwards	1,500	1,000	500	3000					
To Gross Profit c/d									
(b.f.)	55,500	39,500	46,500	1,41,500					
	225000	**1,52,500**	**111000**	**488500**		**225 000**	**152500**	**111000**	**488500**
To Carriage Outwards	1,200	900	600	2700	By Gross Profit b/d	55,500	39,500	46,500	1,41,500
To Electricity	1,500	1,000	500	3000	By Discount received	900	600	300	1,800

To Salaries	20,000	16,000	12,000	48,000					
To Advertisement	1,200	900	600	2700					
To Discount allowed	1,000	750	500	2250					
To Rent. Rates and Taxes	3,000	2500	2,000	7,500					
To Depreciation	400	400	200	1,000					
To Provision for Bad Debts @ 5% of debtors	750	500	500	1,750					
To Labour welfare expenses	1,000	800	600	2400					
To Net Profit (b/ f.)	26,350	16350	29,300	72000					
	56,400	**40,100**	**46,803**	**1,43,300**		**56,400**	**40,100**	**46,800**	**1,43,300**

Basis of allocation of expenses	
Carriage inwards	Purchases (3:2:1)
Carriage outwards	Turnover (4:3:2)
Salaries	No. of Employees (5:4:3)
Advertisement	Turnover (4:3:2)
Discount allowed	Turnover (4:3:2)
Discount received	Purchases (3:2:1)
Rent Rates and Taxes	Floor Space occupied (6:5:4)
Depreciation on furniture	Value of furniture (2:2:1)
Labour welfare expenses	No. of Employees (5:4:3)
Electricity expense	Units consumed (3:2:1)
Provision for bad debts	5% of respective debtors balance

(SM ILLUSTRATION 3)

Problem No. 4 Answer:

M/s X

Departmental Trading A/c for the year ending 31st December, 20X1

		Deptt.A	**Deptt.B**			**Deptt.A**	**Deptt.B**
		Rs.	**Rs.**			**Rs.**	**Rs.**
To	Stock	20,000	12,000	By	Sales	1,40,000	1,12,000

To	Purchases	92,000	68,000	By	Purchased Goods transferred	8,000	10,000
To	Wages	12,000	8,000	By	Finished goods transferred	35,000	40,000
To	Carriage	2,000	2,000		Return of finished Goods	10,000	7,000
To	Purchased Goods			By	Closing Stock:		
	transferred	10,000	8,000		Purchased Goods	4,500	6,000
To	Finished Goods transferred	40,000	35,000		Finished Goods	24,000	14,000
To	Return of finished goods	7000	10,000				
To	Gross profit c/d (b.f)	38500	46,000				
		221500	**189000**			**221500**	**189000**

Consolidated Trading Account for the year ending 31st December, 20X1

	Rs.			**Rs.**
Opening Stock	32,000	By	Sales	2,52,000
Purchases	1,60,000	By	Closing Stock:	
Wages	20,000		Purchased Goods	10,500
Carriage	4,000		Finished Goods	38,000
Stock Reserve	2,196			
Gross Profit c/d	82,304			
	3,00,500			3,00,500

Working note:

	Deptt. A	**Deptt. B**
Sale	1,40,000	1,12,000
Add: Transfer	35,000	40,000
	1,75,000	1,52,000
Less: Returns	(7,000)	(10,000)
Net Sales plus Transfer	**1,68,000**	**1,42,000**

Rate of gross profit (38500/168500) x 100 = 22.916% (46000/142000) x 100=32.94%

Closing stock out of transfer (20% of closing stock)	4800	2800

Unrealised profit 4800x32.394% =1555 2800x22.916% = 641 **(SM ILLUSTRATION 4)**

Problem No. 5 Answer:

Calculation of correct Departmental Profits

	Department P(Rs.)	Department S(Rs.)	Department Q(Rs.)
Profit after charging Manager's Commission	90,000	60,000	45,000
Add: Manager's Commission (1/9)	10,000	6,667	5,000
	1,00,000	66,667	50,000
Less: Unrealised profit on Stock(wn)	(5,426)	(21,000)	(2,727)
Profit Before Manager's Commission	94,574	45,667	47,273
Less: Manager's Commission 10%	(9,457)	(4,567)	(4,727)
Correct Profit after Manager's Commission	**85,117**	**41,100**	**42,546**

Working Notes:

	Department P (Rs.)	Department S (Rs.)	Department Q (Rs.)	Total (Rs.)
Unrealised Profit				
of:				
Department P	-	25/125X18,000	15/115X14,000	
		=3,600	= 1,826	5,426
Department S	20/100X48,000	**11**	30/100X38,000	
	=9,600		=11,400	21,000
Department Q	20/120X12,000	10/110X8,000		
	=2,000	=727		2,727

(SM ILLUSTRATION 5)

Problem No. 6 Answer:

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 20X3

PARTICULARS	Finished leather(Rs.)	Shoes (Rs.)	Total (Rs.)	PARTICULARS	Finished leather(Rs.)	Shoes (Rs.)	Total (Rs.)
To Opening stock	30,20,000	4,30,000	34,50,000	By Sales	1,80,00,000	4520,000	22520,000
To Purchases	1,50,00,000	2,60,000	1,52,60,000	By Transfer			
				to shoes			
				Deptt,	30,00,000	-	30,00,000

To Transfer from Leather Department		30,00,000	30,00,000	By Closing stock	12,20,000	5,00,000	1720,000
To Manufacturing expenses		5,00,000	5,00,000				
To Gross profit c/d (b.f)	42,00,000	8,30,000	50,30,000				
	2,22,20,000	**50,20,000**	**2,7240,000**		**2,22,20,000**	**50,20,000**	**2,72,40,000**
To Selling	1,50,000	60,000	210,000	By Gross	42,00,000	8,30,000	50,30,000
expenses				profit b/d			
To Rent &	5,00,000	3,00,000	8,00,000				
warehousing							
To Net profit							
(b-f,)	35,50,000	4,70,000	4020,000				
	42,00,000	**8,30,000**	**50,30,000**		**42,00,000**	**8,30,000**	**50,30,000**

General Profit and Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To General expenses	8,50,000	By Net profit	40,20,000
To Unrealised profit (Refer W.N)	26,625		
To General net profit (Bal. fig)	31,43,375		
	40,20,000		**40,20,000**

Working Note:

Calculation of Stock Reserve

Rate of Gross Profit of Finished leather Department, for the year 20X2-X3 =

Gross Profit/ Total Sales x 100 = [(42,00,000)/ (1,80,00,000 + 30,00,000)] x100 = 20%

Closing Stock of Finished leather in Shoes Department = 75% i,e, **Rs.** 5,00,000 x 75% = **Rs.** 3,75,000

Stock Reserve required for unrealised profit @ 20% on closing stock **Rs.** 3,75,000 x 20% = **Rs.** 75,000

Stock reserve for unrealised profit included in opening stock of Shoes dept, @ 15% i,e, (**Rs.** 4,30,000 x 75% x 15%) = **Rs.** 48,375

Additional Stock Reserve required during the year = **Rs.** 75,000 – **Rs.** 48,375 = **Rs.** 26,625

(SM ILLUSTRATION 6)

Problem No. 7 Answer:

Silk Stock Account

20X1		Rs.	20X1	Rs.
To Balance b/d:			By Sales A/c	1,25,000
Cost	18,600		By P& L A/c	1,000
Mark-up @50%	9,300	27,900	By Balance c/d	52,350
To Purchases	93,400			
Mark-up @50% To Khadi	46,700	1,40,100		
Deptt. (ts/f)	6,900			
Mark-up@50%	3,450	10,350		
		1,78,350		1,78,350

Silk Mark-up Account

20X1	Rs.	20X1	Rs.
		By Balance b/d	9,300
To Profit & Loss A/c (bal.fig.)	42,000	By Silk Stock A/c	46,700
To Balance c/d [1/3* of 52,350]	17,450	By Silk Stock A/c	3,450
	59,450		59,450

* 1/2 on cost is equal to 1/3 on sales

Khadi Stock Account

20X1	Rs.	Rs.	20X1	Rs.	Rs.
To To Balance b/d:			By Sales		95,600
Cost	10,500				
Mark-up @ 33-1/3%	3,500	14,000	By Silk Dept. (ts/f)	6,900	
To Purchases	75,900		Mark-up A/c @ 33- 1/3%		
			By Loss of stock A/c	2,300	9,200
Mark up @ 33-1/3%	25,300	1,01,200	Mark-up A/c @ 33- 1/3%	390	
			By P&L A/c	130	520
			By Balance c/d (b.f.)		1,620
					8,260
		1,15,200			1,15,200

Khadi Mark-up Account

20X1	Rs.	20X1	Rs.
To Stock A/c (transfer)	2,300	By Balance b/d	3,500
To Stock A/c (Loss of stock)	130	By Khadi Stock A/c	25,300
To Profit & Loss A/c (bal.fig)	24,305		
To Balance (1/4 of Rs. 8,260)	2,065		
	28,800		28,800

Profit and Loss Account (Extract)

20X1	Rs.	20X1	Rs.
To Khadi Stock A/c	1,620	By Khadi Mark up A/c	24,305
To Silk Stock A/c	1,000	By Silk Mark up A/c	42,000

(SM ILLUSTRATION 7)

12. BRANCH ACCOUNTS + AS-11

Problem No. 1 Answer:

(a) Debtors Method

Delhi Branch Account

20X1		**Rs.**	**Rs.**	**20X1**			**Rs.**	**Rs.**
Jan, 1	To Opening branch assets:			Dec 31	By	Bank		
	Stock	7,000				Cash Sales	17,500	
	Debtors	12,600				Cash from		
	Petty cash	200	19,800			sundry Debtors	28,500	46,000
Dec, 31	To Goods sent to Branch A/c		26,000		By	Goods sent to Branch A/c – returns to H,O		1000
	To bank:				By	closing brach assets		
	Salaries & wages	6200				Stock	6500	
	Rent & rates	1200				Debtors	9800	
	Sundry exp,	800	8200			Petty cash	100	16400
	To net profit transfer to general p&l A/c		9400					
			63400					**63400**
Jan 1, 20x2			**16400**					

(b)Stock and Debtors Method

Branch Stock Account

20X1		**Rs.**	**20X1**			**Rs.**
Jan, 1	To Balance b/d - Opening Stock	7,000	Dec, 31	By Sales:		
Dec, 31	To Goods Sent to Branch A/c	26,000		Cash	17,500	
				Credit	28,400	
		A/c		Less: Return	(500)	45,40C
				By Goods sent to		1,000

				Branch A/c Return By Balance c/d Closing Stock		6,500
		52,900				**52,900**
20x2 Jan,1	To balance b/d Opening stock	-	6500			

Delhi Branch Debtors Account

20X1			**Rs.**	**20X1**			**Rs.**
Jan, 1	To	Balance b/d	12,600	Dec, 31	By	Cash	28,500
Dec 31	To	Sales	28,400		By	Returns	500
					By	Allowances	200
					By	Discounts	1,400
					By	Bad debts	600
					By	Balance c/d	9,800
			41,000				**41,000**
20X2 **Jan, 1**	To	Balance b/d	9,800				

Delhi Branch Expenses Account

20X1			**Rs.**	**20X1**		**Rs.**
Dec,	To	Salaries & Wages	6,200	Dec,	By Branch P&L	10,500
31	To	Rent & Rates	1,200	31	A/c	
	To	Sundry Expenses	800			
	To	Petty Cash expenses (200-100)	100			
	To	Allowance to customers	200			
	To	Discount	1,400			
	To	Bad Debts	600			
			10,500			**10,500**

Delhi Branch Profit & Loss Account

20X1		**Rs.**	**20X1**		**Rs.**
Dec, 31	To Branch Exp, A/c To Net Profit ts/f to General P & L A/c	10,500 9,400	Dec, 31	By Gross Profit b/d	19,900
		19,900			19,900

(c) **Memorandum branch trading & pl Method**

Branch Trading and Profit and Loss Account

To	Stock		7,000	By	Sales:		
To	Goods sent				Cash	17,500	
	from H,O,	26,000			Credit 28,400		
	Less: Returns	(1,000)	25,000		Less:		
	to H,O,				returns (500)	27,900	45,400
To	Gross profit c/d		19,900	By	Closing Stock		6,500
			51,900				51,900
To	Salaries & Wages		6,200	By	Gross Profit b/d		19,900
To	Rent & Rates		1,200				
To	Sundry Exp,		800				
To	Petty Cash Exp,		100				
To	Allowances to Customers		200				
To	Discounts		1,400				
To	Bad Debts		600				
To	Net Profit		9,400				
			19,900				**19,900**

(SM)

Problem No. 2 Answer:

Books of Harrison

Branch Stock Account

	Rs.		Rs.
To Balance b/d - Op Stock	30,000	By Branch Debtors (Sales)	1,65,000
To Goods Sent to Branch	2,40,000	By Branch Cash	59,000
A/c			
To Branch Adjustment A/c	2,000	By Balance c/d	
(Balancing Figure -		Goods in Transit	
Excess of Sale over Invoice Price)		(**Rs.** 2,40,000 - **Rs.** 2,20,000)	20,000
		Closinq Stock at	28,000
		Branch	
	2,72,000		**2,72,000**

Branch Debtors Account

	Rs.		Rs.
To Balance b/d To Branch Stock A/c (Sales)		ByBad debts written off ByBranch Cash (bal, fig,)	
	1,97,750	ByBalance c/d	**1,97,750**

Branch Cash Account

	Rs.		Rs.
To Balance b/d	5,000	By Bank Remittance to H,O,	2,22,500
To Branch Stock	59,000	By Branch Expenses	10,000
To Branch Debtors	1,71,000	[met by Branch (Bal, fig,)]	
		By Balance c/d	2,500
	2,35,000		**2,35,000**

Branch Adjustment Account

		By Stock Reserve opening	5,000
		(25,000 x 20%)	
To Branch P &L - Gross	39,000	By Goods sent to Branch	40,000
Profit (Bal, fig,)		A/c	
To Stock Reserve (on		By Branch Stock A/c	2,000
closinq stock (48,000 *	8,000		
1/6)			
	47,000		**47,000**

Branch Expenses

	Rs.		Rs.
To Cash (H,O)	12,000		
To Branch Cash	10,000	By Branch P&L A/c	22,000
	22,000		**22,000**

Branch Profit and Loss Account

	Rs.		Rs.
To Branch Expenses To Branch Debtors (bad debts) To Net Profit	22,000 750 16,250	By Gross Profit (from Branch Adjustment A/c)	39,000
	39,000		**39,000**

Goods Sent to Branch Account

	Rs.		Rs.
To Branch Adjustment A/c	40,000	By Branch to Stock A/c	2,40,000
To Purchase A/c - Transfer	2,00,000		
	2,40,000		**2,40,000**

(SM)

Problem No. 3 Answer:

Calculation of profit earned by the branch

In the books of Jammu Branch

Trading Account and Profit and Loss Account

Particulars	Amount (Rs.)	Particulars	Amount(Rs.)
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closinq stock (Refer W,N,)	3,60,000
To Expenses	45,000		
To Net profit (Bal fig)	1,95,000		
	15,60,000		**15,60,000**

(i) Stock reserve in respect of unrealised profit = **Rs.** 3,60,000 x (20/120) = **Rs.** 60,000

Working Note:

	Rs.	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
Calculation of closing stock at invoice price		
Opening stock at invoice price	2,20,000	
Goods received durinq the year at invoice price	11,00,000 13,20,000	
Less: Cost of goods sold at invoice price	(9,60,000)	[12,00,000x(120/150)]
Closing stock	**3,60,000**	

(SM)

Problem No. 4 Answer:

In the books of Arnold

Lucknow Branch Account

	Rs.		Rs.
To Balance b/d		By Bank (Remittance)	6,13,250
-Opening Branch Assets		By Closing Branch Assets	

Opening stock:		Closing stock:	
Ghee	17,000	Ghee	13,250
Oil	27,000	Oil	44,750
Debtors	75,750	Debtors (W.N.1)	86,900
Cash on hand	7,540	Cash on hand (W.N. 2)	12,350
Furniture & fittings	6,250	Furniture & fittings	5,625
To Goods sent to Branch			
A/c			
Ghee (15x 1500x 12)	2,70,000		
Oil (25 x 1000 x 12)	3,00,000		
To Bank (Expenses paid)	14,250		
To Branch Manager			
commission			
(? 58,335 x 1/11)	5,303		
To Net Profit transferred			
to General P & L A/c	53,032		
	7,76,125		**7,76,125**

Arnold

Trading and Profit and Loss account for the year ended 31st December, 20X1

(Excluding branch transactions)

	Rs.		**Rs.**
To Opening Stock:		By Sales:	
Ghee	1,50,000	Ghee	18,46,350
Oil	3,50,000	Oil	27,41,250
To Purchases:		By Closing Stock:	
Ghee 14,75,000		Ghee	3,12,500
Less: Goods sent		Oil	4,17,250
to Branch (2,70,000)	12,05,000		
Oil 29,32,000			
Less: Goods sent			
to Branch 3,00,000)	26,32,000		
To Direct Expenses	3,83,275		
To Gross Profit c/d	5,97,075		
	53,17,350		53,17,350

To Manager's Salary	24,000	By Gross Profit b/d	5,97,075
To General Expenses	24,000	By Branch Profit	53,032
		transferred	
To Depreciation:			
Furniture @10% 2,150			
Plant & Machinery			
@ 15% (w.n.3) 1,36,500	1,38,650		
To General Manager's			
Commission @ 10%			
(i,e,, 4,63,457 x 1/11)	42,132		
To Net profit	4,21,325		
	6,50,107		**6,50,107**

Working Notes:

Memorandum Branch Debtors Account

	Rs.		**Rs.**
To Balance b/d	75,750	By Cash Collections	6,47,330
		(including Cash Sales)	
To Sales (includinq Cash		By Balance c/d	86,900
Sales)			
Ghee	3,42,750		
Oil	3,15,730		
	7,34,230		**7,34,230**

Memorandum Branch Cash Account

	Rs.		**Rs.**
To Balance b/d	7,540	By Remittance	6,13,250
To Collections	6,47,330	By Exp (Balance fig,)	29,270
		By Balance c/d	12,350
	6,54,870		6,54,870

Depreciation on Plant & Machinery = 3,07,250 x 15% + 6,02,750 x 15% = **Rs.**1,36,500

Problem No. 5 Answer:

Outlet Stock Account

	Rs.		Rs.
To Balance b/d	30,000	By Sales (Working Note1) By Goods lost	3,60,000
To Goods sent to outlet	3,24,000	by fire (b.f.) By Balance c/d	18,000
To Gross Profit c/d	60,000		36,000
	4,14,000		4,14,000

Outlet Profit & Loss Account

	Rs.		Rs.
To Expenses	20,000	By Gross Profit b/d	60,000
To Goods lost by fire (WN2)	18,000		
To Profit transferred	22,000		
	60,000		60,000

Stock Reserve Account

	Rs.		Rs.
To HO P & L A/c - Transfer	6,000	By Balance b/d	6,000
To Balance c/d (Stock Res.	7,200	By HO P&L A/c(W.N.3)	
required)			7,200
	13,200		13,200

Working Notes:

	Rs.
(1) Wholesale Price 100+25 =	125
Retail Price 125 + 20% =	150
Gross Profit at the outlet	
Wholesale Price – Retail Price (150 – 125) =	25

Retail sales value = 60,000 × 150/25 = Rs.3,60,000

(2) Goods lost by fire Opening Stock + Goods Sent + Gross Profit – Sales – Closing Stock

=30,000 + 3,24,000 + 60,000 – 3,60,000 – 36,000 = Rs. 18,000

(3) Stock Reserve

Opening Stock = 30,000 x25/125=Rs.6000

Closing Stock = 36,000 x 25/125 = Rs.7200

Problem No. 6 Answer:

In Branch Books

Head Office Account

	Rs.		Rs.
To Sundry Debtors A/c	10,500	By Balance b/d	78,500
To Balance c/d	90,000	By Goods in transit	10,000
		By Branch expenses	12,000
	1,00,500		**1,00,500**
		By Balance b/d	90,000

In the Books of Head Office

Branch A/c

	Rs.		Rs.
To Balance b/d	1,12,000	By Cash in Transit	15,000
To Sundry Income	7,500	By Sundry Creditors	14,500
		By Balance c/d	90,000
	1,19,500		**1,19,500**
To Balance b/d	90,000		

Problem No. 7 Answer:

Journal Entries in Books of Branch

1. Head office account Dr.	5,000	
To Salaries account		5,000
(Being the rectification of salary paid on behalf of H,O,)		
2. Head office account Dr.	25,000	
To Bank / Liability A/c		25,000
(Being Asset purchased by branch but Asset account retained at head office books)		
1. No Entry in Branch Books		
2. Head office account Dr.	25,000	
To Debtors account		25,000
(Being the amount of branch debtors collected by H,O,)		

3. Bank A/c Dr. To Head Office (Remittance of Funds by H.O, to Branch)	5,000	 5,000

(SM)

Problem No. 8 Answer:

H,O, Books

Branch Account

20X1			**20X1**		
Dec, 31	To Balance b/d	31,536	Dec, 31	By Cash in transit By Balance c/d	3,500 28,036
		31,536			**31,536**

Cash in transit Account

20X1			**20X1**		
Dec, 31	To Branch A/c	3,500	Dec, 31	By Balance c/d	3,500
		3,500			**3,500**

Stock Reserve Account

20X1			**20X1**		
Dec, 31	To Balance b/d (4,565+3,641) x 10/110	746	Jan, 1	By Balance b/d By Revenue A/c (b.f.)	693 53
		746			**746**

Revenue Account

20X1			**20X1**		
Dec, 31	To Stock reserve To balance c/d	53 43,157	Dec, 31	By Balance b/d	43,210
		43,210			**43,210**

Branch Books

Head Office Account

20X1			20X1		
Dec, 31	To Current Assets To Balance c/d	750 28,036	Dec, 31	By Balance b/d By Goods in transit By Motor Vehicle	22,645 3,641 2,500
		28,786			**28,786**

Goods in Transit Account

20X1			20X1		
Dec, 31	To Head Office	3,641	Dec, 31	By Balance c/d	3,641

Motor Vehicle Account

20X1			20X1		
Dec, 31	To Head Office By	2,500	Dec, 31	Balance c/d	2,500

Sundry Current Assets A/c

20X1			20X1		
Dec, 31	To Balance b/d	23,715	Dec, 31	By H,O, (Remittance by Debtor) By Balance c/d	750 22,965
		23,715			**23,715**

(PRACTICAL QUESTION 10 – SM)

Problem No. 9 Answer:

(a) Journal entry in the books of Head Office

Date	Particulars	Dr.	Cr.
30th April, 20X1	Mumbai Branch Account Dr. Chennai Branch Account Dr. To Delhi Branch Account To Kolkata Branch Account (Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 20X1)	3,000 70,000	 15,000 58,000

Working Note:

Inter – Branch transactions

	Particulars	Delhi	Mumbai	Chennai	Kolkata
A	**Delhi Branch**				
(1)	Received goods	50,000 (Dr.)	35,000 (Cr.)		15,000 (Cr.)
(2)	Sent goods	45,000 (Cr.)		25,000 (Dr.)	20,000 (Dr.)
(3)	Received Bills receivable	20,000 (Dr.)		20,000 (Cr.)	
(4)	Sent acceptance	35,000 (Cr.)	25,000 (Dr.)		10,000 (Dr.)
B,	**Mumbai Branch**				
(4)	Received goods	20,000 (Cr.)	35,000 (Dr.)		15,000 (Cr.)
(6)	Sent cash	15,000 (Dr.)	22,000 (Cr.)		7,000 (Dr.)
C,	**Chennai Branch**				
(7)	Received goods			30,000 (Dr.)	30,000 (Cr.)
(8)	Sent cash and acceptances			30,000 (Cr.)	30,000 (Dr.)
D,	**Kolkata Branch**				
(9)	Sent goods			35,000 (Dr.)	35,000 (Cr.)
(10)	Sent cash			15,000 (Dr.)	15,000 (Cr.)
(11)	Sent acceptances			15,000 (Dr.)	15,000 (Cr.)
		15,000 (Cr.)	3,000 (Dr.)	70,000 (Dr.)	58,000 (Cr.)

(ILLUSTRATION 3 - SM)

Problem No. 10 Answer:

Journal Entries

Date		Dr. Rs.	Cr. Rs.
20X1 30 Sept,	Salary Advance A/c Dr. To Salaries A/c (The amount paid as advance adjusted by debit to Salary Advance Account)	2,000	2,000

Prepaid Insurance A/c (3,200 x 6/12)	Dr.	1,600	
To Fire Insurance A/c			1,600
(Six months premium transferred to the Prepaid Insurance A/c)			
Head Office Account	Dr.	88,400	

To Purchases A/c			48,000
To Wages A/c			20,000
To Salaries A/c (6,400 - 2,000)			4,400
To General Expenses A/c			1,600
To Fire Insurance A/c (3,200 x 6/12)			1,600
To Manager's Salary A/c			4,800
To Discount Allowed A/c			8,000
(Transfer of various revenue accounts (Dr.) to the H.O, Account for closing the accounts)			
Sales Accounts	Dr.	2,40,000	
Discount Earned A/c	Dr.	1,200	
To Head Office A/c			2,41,200
[Revenue accounts (Cr.) transferred to H.O,]			
Head Office Account	Dr.	4,000	
To Building Account			4,000
(Transfer of amounts spent on building extension to H.O, A/c)			

Head Office Account

20X1		Rs.	20X1		Rs.
Sep, 30	To Cash-remittance	38,400	April 1	By Balance b/d	1,68,000
	To Sundries (Revenue	88,400	Sep, 30	By Sundries	2,41,200
	A/cs)			(Revenue A/cs)	
	To Building A/c	4,000			
	To Balanced c/d	2,78,400			
		4,09,200			**4,09,200**

Balance Sheet of Delhi Branch as on Sept, 30, 20X1

Liabilities	Rs.	Assets	Rs.
Creditors Balances	26,800	Debtors Balances	2,72,000
Head Office Account	2,78,400	Salary Advance	2,000
		Prepaid Insurance	1,600
		Building Extension A/c	
		transferred to H.O,	—
		Cash in Hand	1,600
		Cash at Bank	28,000
	3,05,200		**3,05,200**

Cash and Bank Account

	Rs.			Rs.
To Balance b/d	8,000	By	Wages	20,000
To Collection from	1,60,000	By	Salaries	6,400
Debtors				
		By	Insurance	3,200
		By	General Exp,	1,600
		By	H.O. A/c	38,400
		By	Manager's Salary	4,800
		By	Creditors	60,000
		By	Building A/c	4,000
		By	Balance c/d	
		By	Cash in Hand 1,600	
		By	Cash at Bank 28,000	29,600
	1,68,000			**1,68,000**

Debtors Account

	Rs.		Rs.
To Balance b/d	2,00,000	By Cash Collection	1,60,000
To Sales	2,40,000	By Discount (allowed)	8,000
		By Balance c/d	2,72,000
	4,40,000		**4,40,000**
To Balance b/d	2,72,000		

Creditors Account

	Rs.		Rs.
To Cash	60,000	By Balance b/d	40,000
To Discount (earned)	1,200	By Purchases	48,000
To Balance c/d	26,800		
	88,000		**88,000**
		By Balance b/d	26,800

Problem No. 11 Answer:

The Branch Current Account in the Head Office Books and Head Office Current Account in the Branch Books do not show the same balances, Therefore, in order to reconcile them, the following journal entries will be passed in the Head Office books:

Journal Entries

		Dr,	Cr,
20X1 Dec,, 31	Cash in Transit A/c Dr, To Branch Current A/c (Cash sent by the Branch on 31st Dec,, 20X1 but received at H,O, on 1st Jan,, 20X2)	3,000	 3,000
	Loss by theft A/c Dr, To Branch Current A/c (Stock lost in transit from H,O, to Branch)	1,700	 1,700

In order to incorporate, in the H,O, books, the given Branch trial balance which has been drawn up after preparing the Branch Profit & Loss Account, the following journal entries will be necessary:

Journal Entries

20X1			**Rs.**	**Rs.**
Dec, 31	Branch Current Account Dr, To Profit & Loss Account (Branch Profit for the year)		31,700	31,700
	Branch Fixed Assets	Dr,	95,000	
	Branch Stock	Dr,	50,460	
	Branch Debtors	Dr,	19,100	
	Branch Cash	Dr,	6,550	
	To Branch Current Account			1,71,110
	(Branch assets brought into H,O, Books)			
	Branch Current A/c	Dr,	10,400	
	To Branch Creditors			10,400
	(Branch creditors brought into H,O, Books)			

Branch Current Account

	Rs.		**Rs.**
To Balance b/d	1,33,710	By Cash in transit	3,000
To Profit & Loss A/c	31,700	By Loss of theft	1,700
To Branch Creditors	10,400	By Sundry Branch Assets	1,71,110
	1,75,810		**1,75,810**

Profit and Loss Account for 20X1

	Rs.		**Rs.**
To Loss by Theft	1,700	By Balance b/d	25,310
To Balance c/d	1,07,510	By Year's Profit: H.O, Branch	52,200
			31,700
	1,09,210		**1,09,210**

(SM)

Problem No. 12 Answer:

In the books of KP

Trading and Profit & Loss Account for the year ended 31st Dec,, 20X1

	H.O.	Branch	Total		H.O.	Branch	
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening stock of finished goods	13,000	9,200	22,200	By Sales	200,000	65,200	265,200
To Material consumed (W.N.1)	34,500	-	34,500				
To Wages	1,08,500	-	1,08,500	By Goods Sent	46,000	-	-
To Factory Overheads	39,000	-	39,000	to Branch			
To Goods from H.O.		46,000		By Closing	15,000	9,560	24,560
				stock including transit (W.N2)		(Bal Fig)	
To Gross Profit c/d(W.N.3)	66,000	19,560	85,560				
	2,61,000	**74,760**	**289,760**		**261,000**	**74,760**	**2,89,760**
To Admn, Salaries	13,900	4,000	17,900	By Gross Profit b/d	66,000	19,560	85,560
To Salesmen Salaries	22500	6,200	28,700				
To Other Admn, &							
selling Overheads	12500	2,300	14,800				
To Stock Reserve	47	-	47				
(W.N4)							
To Bonus to Staff	-	156	156				
To Net Profit	17,053	6,904	23,957				
	66,000	**19,560**	**85,560**		**66,000**	**19,560**	**85,560**

Balance Sheet as on 31st Dec,, 20X1

			H.O. Rs.	Branch Rs.	Total Rs.		H.O. Rs.	Branch Rs.	Total Rs.
Capital			50,000		50,000	Fixed Assets	2,300	9,560	2300
Profit	HO	17,053			23,957	**Current**	15,000		23,313'
Trade	Branch	6,904	23,957		13,000	**Assets:**			
Creditors			13,000			Raw material			
						Finished			
						Goods			

Bonus Payable			156	156	less Stock Res,)			
H.O,.Account'			10,404		Debtors	37,000	*	37,000
Stock Reserve					Cash (including	23,500	1,000	24,5 CO
W,NA)		1,247			transit item)			
					Branch A/c	10,404”		
		88,204	**10,560**	**87,113**		**88,204**	**10,560**	**87,113**

*9,560 × 100/115 i,e,, (8,313 + 15,000) = **Rs.** 23,313 or (15,000 + 9,560) – 1,247 (Stock reserve)

** (5,000 + 6,904) – 1500 = **Rs.** 10,404,

Working Notes:

(1) Material consumed

Opening raw material + Raw Material Purchased – Closing raw material

= 1,800 + 35,000 - 2,300 = 34,500

(2) Closing stock at head office

(a) Calculation of total factory cost = Material consumed + Wages + Factory overhead

= 34,500 + 1,08,500 + 39,000 = 1,82,000

(b) Cost (factory cost) of goods sold = Sales – Gross profit

= 2,00,000 – 2,00,000 x 30% = 1,40,000

(c) Stock transferred to branch = 46,000 x 100/115 = 40,000

(d) Closing stock = 13,000 (Opening Stock) + 1,82,000 – 1,40,000 – 40,000 = 15,000

(3) Gross profit of Branch = Sales x Gross profit ratio = 65,200 x 30% = 19,560

(4) Closing stock reserve = 9,560 x 15/115 = 1,247

Charge to profit and loss = 1,247 – 1,200 (existing) = 47

(SM)

EXCLUSIVE PROBLEMS FROM CMA SOURCE

Problem No. 1 Answer:

Books of X Ltd. (Assam H.O.)

Dr. Darjeeling Branch Current Account Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/f	4,11,100	By, Goods-in-Transit A/c [WN:1]	22,000
		By, Cash-in-Transit A/c [WN:2]	86,500
		By, Balance c/f [B/fig]	3,02,600
	4,11,100		**4,11,100**

NB: The Darjeeling Branch Current A/c (in the books of H.O.) Assam H.O. Current A/c (in the Branch books) reflects the same but opposite balance; hence H.O. can proceed with incorporation of the Branch accounts in its books.

Working Notes

Assam H.O. Current Account			
Goods sent to Branch	13,02,400	Journal Entry:	
Less: Goods received by Branch	12,80,400	Goods-in-Transit A/c Dr. To,	22,000
	22,000	Darjeeling Branch A/c	22,000
Cash-in-Transit Account			
Cash sent to Branch	1,86,500	Journal	
Less: Cash received by H.O.	1,00,000	Cash-in-Transit A/c……. Dr.	86,500
	86,500	To Darjeeling Branch A/c	86,500

(Illustration - 8)

Problem No. 2 Answer:

Books of Kolkata Head Office

Dr. Journal Cr.

Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
(a) Agra Branch A/c	Dr.		50,000	
To, Delhi Branch A/c				50,000
(Being the goods supplied by Delhi Branch to Agra Branch)				
(b) Delhi Branch A/c	Dr.		40,000	
To, Agra Branch A/c				40,000
(Being a B/R drawn by Delhi upon Agra Branch)				
(c) Delhi Branch A/c	Dr.		10,000	
To, Agra Branch A/c				10,000
(Being Cash sent by Agra Branch to Delhi Branch)				

(d) Delhi Branch A/c To, Agra Branch A/c (Being the goods returned by customer of Agra Branch to Delhi Branch)	Dr.		20,000	 20,000
(e) Agra Branch A/c To, Delhi Branch A/c (Being the Cash collected by Agra Branch from a customer of Delhi Branch	Dr.		20,000	 20,000

Books of Delhi Branch

Dr. **Journal** **Cr.**

Particulars		L.F.	(Rs.)	(Rs.)
(a) Kolkata Kolkata H.O. A/c To, Goods sent to Branch A/c (Being the goods supplied to Agra Branch)	Dr.		50,000	 50,000
(b) Bills Receivable A/c To, Kolkata Kolkata H.O. A/c (Being the acceptance of a B/R received from Agra Branch)	Dr.		40,000	 40,000
(c) Cash A/c To, Kolkata H.O. A/c (Being the cash received from Agra Branch)	Dr.		10,000	 10,000
(d) Goods Sent to Branch A/c To, Kolkata H.O. A/c (Being the goods received from a customer of Agra Branch)	Dr.		20,000	 20,000
(e) Kolkata H.O. A/c To, Debtors A/c (Being the cash collected by Agra Branch from our customer)	Dr.		20,000	 20,000

Books of Agra Branch

Dr. **Journal** **Cr.**

Particulars		L.F.	(Rs.)	(Rs.)
(a) Goods sent to Branch A/c To, Kolkata H.O. A/c (Being the goods received from Delhi Branch)	Dr.		50,000	 50,000

(b) Kolkata H.O. A/c To, Bill Payable A/c (Being a B/P accepted for Delhi Branch)	Dr.		40,000	 40,000
(c) Kolkata H.O. A/c To, Cash A/c (Being cash paid to Delhi Branch)	Dr.		10,000	 10,000
(d) Kolkata H.O. A/c To, Debtors A/c (Being the goods returned by customer of Delhi Branch)	Dr.		20,000	 20,000
(e) Cash A/c To, Kolkata H.O. A/c (Being the Cash received from a customer of Delhi Branch)	Dr.		20,000	 20,000

(Illustration - 7)

Problem No. 3 Answer:

Method 1:

In the books of Branch Journal

Date	Particulars	L/F	Dr. (Rs.)	Cr. (Rs.)
31.12.21	Depreciation A/c Dr. To, Head Office A/c (Depreciation on fixed assets maintained in head office books @ 10% on Machinery and 15% on Furniture)		2,650	 2,650

Date	Particulars	L/F	Dr. (Rs.)	Cr. (Rs.)
	Rent A/c Dr. To, Outstanding Rent A/c (Rent Outstanding)		150	 150
	Cash-in-Transit A/c Dr. To, Head Office A/c (Cash remitted to H.O. but not received within 31st December)		4,000	 4,000
	Head Office A/c Dr. To, Opening Stock ,, Purchases ,, Wages ,, Manufacturing Expenses ,, Rent (Rs. 1,700 + Rs. 150)		50,150	 8,200 12,800 6,550 3,400 1,850

	,, Salaries ,, General Expenses ,, Goods received from H.O. ,, Depreciation (Above items transferred to H.O. A/c)			5,500 2,000 7,200 2,650
	Discount A/c Sales A/c Dr. Purchase Returns A/c Dr. Closing Stock A/c Dr. To, Head Office A/c Dr. (Above items transferred to H.O. A/c)		150 34,950 300 14,350	 49,750
	Head Office A/c Dr. To, Closing Stock A/c ,, Debtors A/c ,, Bank A/c ,, Cash-in-Transit A/c (Assets transferred to H.O. A/c)		23,100	 14,350 4,000 750 4,000
	Creditors A/c Dr. Outstanding Rent A/c Dr. To, Head Office A/c (Liabilities transferred to H.O. A/c)		2,700 150	 2,850

Dr. Head Office Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.12.21	To, Sundries- (debit balance of Revenue items)	50,150	1.1.20	By, Balance b/d	14,000
				,, Depreciation A/c	2,650
	,, Sundry Assets	23,100		,, Cash-in-Transit A/c	4,000
				,, Sundries –Credit Balance of Revenue items	49,750
				,, Sundry Liabilities	2,850
		73,250			**73,250**

Method 2:

Date	Particulars	L/F	(Rs.)	(Rs.)
2021 Dec. 31	Depreciation A/c Dr. To, Head Office A/c (Depreciation on fixed assets @ 10% Monthly and @ 15% or Furniture in H.O. Books.)		2,650	 2,650

	Rent A/c To, Outstanding Rent A/c (Rent Outstanding)	Dr.		150	150
	Cash-in-Transit A/c To, Head Office A/c (Cash remitted to H.O. but in transit)	Dr.		4,000	4,000
	Head Office A/c To, Profit & Loss A/c (Net Loss Transferred.) [Rs. 50,150 – Rs. 49,750]	Dr.		400	400
	Head Office A/c To, Closing Stock ,, Debtors ,, Cash at Bank ,, Cash-in-Transit (Asset transferred to H.O. A/c)	Dr.		23,100	14,350 4,000 750 4,000

Date	Particulars		L/F	(Rs.)	(Rs.)
	Creditors A/c Outstanding Rent A/c To, Head Office A/c (Various Liabilities transferred to H.O. A/c)	Dr. Dr.		2,700 150	2,850

Dr. **Head Office Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.12.21	To, Profit & Loss A/c	400	31.12.21	By, Balance b/d	14,000
	Net Loss			,, Depreciation A/c	2,650
	,, Closing Stock A/c	14,350		,, Cash-in-Transit A/c	4,000
	,, Debtors A/c	4,000		,, Credit A/c	2,700
	,, Cash at Bank	750		,, Outstanding Rent	150
	,, Cash-in-Transit A/c	4,000			
		23,500			**23,500**

(Illustration - 11)

Problem No. 4 Answer:

(a) First Method

In the Books of H.O. Journal

Date	Particulars	L/F	Dr. (Rs.)	Cr. (Rs.)
31.03.22	Branch Trading A/c Dr. To Branch A/c (Items of Br. Trading incorporated) Rs. 12,000 + Rs. 35,600 + Rs. 18,000)		65,600	65,600

	Branch A/c Dr. To Branch Trading A/c (Items of Br. Trading incorporated i.e., Rs. 76,000 + Rs. 12,000 + Rs. 5,400)		93,400	 93,400
	Branch Trading A/c Dr. To Branch Profit & Loss A/c (Gross Profit transferred) [Rs. 93,400 – Rs. 65,600]		27,800	 27,800
	Branch Profit and Loss A/c Dr. To Branch A/c (Item of Branch Profit & Loss incorporated i.e., Rs. 3,000 + Rs. 1,920 + Rs. 940)		5,860	 5,860
	Branch Profit and Loss A/c Dr. To General Profit & Loss A/c (Net Profit Transferred) [Rs. 27,800 – Rs. 5,860]		21,940	 21,940
	Goods-in-Transit A/c Dr. To Branch A/c (Goods-in-Transit adjusted)		5,000	 5,000
	Remittance (Cash)-in-Transit A/c Dr. To Branch A/c (Remittance-in-Transit adjusted)		2,400	 2,400
	Branch Asset A/c Dr. To Branch A/c (Branch Asset incorporated) [Rs. 2,800 + Rs. 5,400 + Rs. 7,400 + Rs. 3,560]		19,160	 19,160
	Branch A/c Dr. To Branch Liabilities A/c (Branch liabilities incorporated)		3,700	 3,700

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

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Branch A/c			By, Branch A/c Sales		
Stock	12,000		Goods supplied to H.O.	76,000	
Purchase	35,600		Closing Stock	12,000	
Goods from H.O.	18,000	65,600		5,400	93,400
To, Branch Profit and Loss A/c (Gross Profit transferred)		27,800			
		93,400			**93,400**

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Branch A/c			By, Branch Trading A/c		27,800
Salaries	3,000		- Gross Profit		
Rent	1,920				
Office Expenses	940	5,860			
To, General Profit and Loss A/c (Net Profit transferred)		21,940			
		27,800			**27,800**

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

Date	Particulars	(Rs.)	Date	Particulars		(Rs.)
01.04.21	To Balance b/d	920	31.03.22	By Branch Trading A/c		65,600
				,, Branch P&L A/c		5,860
31.03.22	,, Branch Trading A/c	93,400		,, Goods-in-Transit A/c		5,000
				,, Remittance-in-Transit A/c		2,400
	,, Branch Liabilities A/c	3,700		,, Branch Assets A/c		
	Creditors			Furniture	2,800	
				Stock	5,400	
				Debtors	7,400	
				Cash	3,560	19,160
		98,020				98,020

Branch Balance Sheet as at 31st March, 2022

Liabilities	(Rs.)	Assets	(Rs.)
H.O. A/c		Furniture	2,800
Opening balance (Dr.) 6,480		Stock	5,400
Less: Net Profit 21,940	15,460	Debtors	7.400
Creditors	3,700	Cash at Bank	3,560
	19,160		**19,160**

(b) Second Method/Abridged Method

Dr. Branch Account Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.04.21	To, Balance b/d	920	31.03.22	By, Goods-in-Transit A/c	5,000
				,, Remittance-in-Transit A/c	2,400
31.03.22	,, Branch P&L A/c Net Profit	21,940		,, Balance c/d	15,460*
		22,860			**22,860**

Note: This is the difference between Branch Assets and Branch Liabilities

(Rs.19,160 – Rs.3,700) = Rs.15,460.

(Illustration - 10)

AS 11: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Problem No. 13 Answer:

Inventories	Non-monetary
Trade receivables	Monetary
Investment in equity shares	Non-monetary
Property, Plant and Equipment	Non-monetary

(SM)

Problem No. 14 Answer:

As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions, Thus, goods purchased on 1.1.20X1 and corresponding creditors would be recorded at **Rs.** 11,25,000 (i,e, $15,000 × **Rs.** 75).

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate, Thus, creditors of US $15,000 on 31.3.20X1 will be reported at Rs. 11,10,000 (i.e, $15,000 × Rs.74) and exchange profit of Rs. 15,000 (i.e, 11,25,000 – 11,10,000) should be credited to Profit and Loss account in the year ended 31st March, 20X1.

On 7.7.20X1, creditors of $15,000 is paid at the rate of Rs.73, As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs. 15,000 (i.e, 11,10,000 – 10,95,000) will be credited to Profit and Loss account in the year ended 31st March, 20X2,

(SM)

Problem No. 15 Answer:

Journal Entries in the Books of Kalim Ltd

Date	Particulars		Rs.(Dr,)	Rs.(Cr,)
20X1 Jan, 01	Bank Account (4,50,000 x 48)	Dr.	216,00,000	
	To Foreign Loan Account			216,00,000
March	Foreign Exchange Difference Account	Dr.	4,50,000	
31	To Foreign Loan Account [4,50,000 x (49-48)]			4,50,000
July 01	Foreign Exchange Difference Account	Dr.	2,25,000	
	[4,50,000 x (49.5-49)]			
	Foreign Loan Account	Dr.	220,50,000	
	To Bank Account			2,22,75,000

(SM)

Problem No. 16 Answer:

As per AS 11 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or expenses in the period in which they arise. Thus exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognised as income or expense.

<u>Calculation of Exchange Difference</u>:

3,000 lakhs Foreign currency loan = 75 lakhs US Dollars (3000Lakhs/40Rs.)

Exchange difference = 75 lakhs US Dollars (42.50 – 40.00) = Rs.187.50 lakhs (including exchange loss on payment of first instalment)

Therefore, entire loss due to exchange differences amounting Rs. 187.50 lakhs should be charged to profit and loss account for the year,

Note: The above answer has been given on the basis that the company has not exercised the option of capitalisation available under paragraph 46 of AS 11. However, if the company opts to avail the benefit given in paragraph 46A, then nothing is required to be done since the company has done the correct treatment.

(SM)

Problem No. 17 Answer:

In recording a forward exchange contract intended for trading or speculation purposes, the premium or discount on the contract is ignored and at each balance sheet date, the value of the contract is marked to its current market value and the gain or loss on the contract is recognized.

Sale Rate	Rs. 47.18
Less: Contract Rate	(Rs. 47.10)
Premium on Contract	Rs. 0.08
Contract Amount	US$ 1,00,000
Total Profit (1,00,000 x 0.08) =	Rs. 8,000

(SM)

Problem No. 18 Answer:

Forward Rate	**Rs.** 49.15
Less: Spot Rate	(Rs. 48.85)
Premium on Contract	Rs. 0.30
Contract Amount	US$ 1,00,000
Total Loss (1,00,000 x 0.30)	Rs. 30,000

Contract period 3 months (2 months falling in the year ended 31st March, 20X1)

Loss to be recognised (30,000/3) x 2 = Rs. 20,000 in the year ended 31st March, 20X1.

Rest Rs. 10,000 will be recognised in the following year. **(SM)**

Problem No. 19 Answer:

In the books of English Firm (Head Office in New York)

Chennai Branch Profit and Loss Account for the year ended 31st December, 20X2

	Rs.		Rs.
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500/51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625
To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		**23,625**

Balance Sheet of Chennai Branch as on 31st December, 20X2

Liabilities	$	$	Assets	$
Head Office A/c	13,400		Furniture	
Add: Net profit	17 500		Closing Stock	
Trade creditors			Trade Debtors	
Bills Payable			Bills Receivable	
		44,400	Cash at bank	44,400

Working Note:

Calculation of Exchange Translation Loss

Chennai Branch Trial Balance (converted in $) as on 31st December, 20X2

	DR(Rs.)	CR(Rs.)	ConversionRate	Dr($)	Cr($)
Stock on 1st Jan,,	2,34,000		52	4,500	
20X2					
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and	2,04,000	1,78,500	51	4,000	3,500
Bills Payable					
Salaries and wages	1,00,000		50	2,000	

Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation					
loss (bal, fig,)-T/f to p&l				2,000	
	36,31,400	**36,31,400**		**73,775**	**73,775**

(Illustration 15 OF MAIN CHAPTER BRANCH ACCOUNTS- SM)

Problem No. 20 Answer:

In the Books of Head Office

Branch Trading and Profit & Loss A/c (in Dollars) for the year ended 31st December, 20X1

Particulars	$	Particulars	$
To Opening stock	11,200	By Sales	84,000
To Goods from H.O,	64,000	By Closing stock (W.N,2)	8,000
To Gross profit c/d	16,800		
	92,000		**92,000**
To Expenses	5,000	By Gross profit b/d	16,800
To Depreciation (24,000 x 10%)	2,400		
To Manager's commission	470		
(W.N,1)	8,930		
To Net profit c/d	16,800		16,800

(ii) **(a) Converted Branch Trial Balance (into Indian Currency)**

Particulars	Rate per $	Dr, (Rs.)	Cr, (Rs.)
Machinery	40	9,60,000	-
Stock January 1, 20X1	46	5,15,200	-
Goods from head office	Actual	29,26,000	-
Sales	47	-	39,48,000
Expenses	47	2,35,000	-
Debtors & creditors	48	2,30,400	1,63,200
Cash at bank	48	57,600	-
Head office A/c	Actual	-	8,60,000
Difference in exchange rate (b.f,)		47,000	-
		49,71,200	**49,71,200**
Closing stock $ 8,000 (W.N.2) Rs.	48		3,84,000

(b) **Branch Trading and Profit & Loss A/c for the year ended 31st December, 20X1**

To Opening stock	5,15,200	By Sales	39,48,000
To Goods from head office	29,26,000	By Closing stock (W.N,2)	3,84,000
To Gross profit c/d	8,90,800		
	43,32,000		**43,32,000**
To Expenses	2,35,000	By Gross profit b/d	8,90,800
To Depreciation @ 10% on 9,60,000	96,000		
To Exchange difference	47,000		
To Manager's commission(W.N.1)	22,560		
To Net Profit c/d	4,90,240		
	8,90,800		**8,90,800**

A.**Branch Account**

To Balance b/d	8,60,000	By Machinery	9,60,000	
To Net profit	4,90,240	Less: Depreciation	(96,000)	
To Creditors	1,63,200			8,64,000
To Outstanding commission	22,560	By Closing stock		3,84,000
		By Debtors		2,30,400
		By Cash at bank		57,600
	15,36,000			15,36,000

Working Notes:

1, Calculation of manager's commission @ 5% on profit

i,e, 5% of $[16,800 – (5,000 + 2,400)]

Or 5% × $9,400 = $ 470

Manager's commission in Rupees = $ 470 × Rs. 48 = Rs. 22,560

2. **Calculation of closing stock** $

Opening stock	11,200
Add: Goods from head office	64,000
	75,200

Less: Cost of goods sold (at invoice price) i,e,

(84,000 X100)/125	(67,200)
Closing stock	8,000

Closing stock in Rupees = $8,000 x Rs. 48 = Rs. 3,84,000,

Note: Manager is entitled to commission on profits earned at the end of the year,

(PRACTICAL QUESTION 10 OF MAIN CHAPTER BRANCH ACCOUNTS-SM)

EXCLUSIVE PROBLEMS FROM CMA SOURCE

Problem No. 1 Answer:

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

∴ Fees for technical services $24,000 would be recorded on 07.12.2021 applying the exchange rate existing on that date = 24,000 × Rs. 68.80 = Rs. 16,51,200.

(b) For 2021-22:

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

∴ Exchange loss to be charged to the Statement of Profit and Loss = Rs. (16,90,800 – 16,51,200) = Rs. 39,600. For 2022-23:

On 20.05.2022, Outstanding fess for technical services paid should be recognised using the existing rate ($1

= Rs. 71.50) i.e. 24,000 × Rs. 71.50 = Rs. 17,16,000.

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

= Rs. 25,200.

(Illustration 7)

Problem No. 2 Answer:

Cost of machine (in US$) = Rs. 216,00,000/ 67.50 = $3,20,000.

∴ Exchange loss on payment of first instalment = 3,20,000 × Rs. (70.45 – 67.50) = Rs. 9,44,000.

This entire loss due to exchange differences amounting Rs. 9,44,000 should be charged to the Statement of Profit and Loss.

(Illustration 8)

Problem No. 3 Answer:

Auckland Branch Trial Balance as at December 31, 2022

Item	Rate (Rs.)	Dr. (NZ $)	Cr. (NZ $)	Dr. (Rs.)	Cr. (Rs.)
H.O. Account	-		18,000		13,20,000
Sales	90		1,20,000		108,00,000
Goods from H.O. A/c	-	90,000		80,00,000	
Stock on Jan. 1, 2021	88	15,000		13,20,000	
Office Furniture	80	20,000		16,00,000	
Cash	92	100		9,200	
Bank	92	1,900		1,74,800	
Expenses outstanding	92		2,000		1,84,000

Salaries	90	6,000		5,40,000	
Taxes & Insurance	90	500		45,000	
Rent	90	2,000		1,80,000	
Debtors	92	4,500		4,14,000	
		1,40,000	**1,40,000**	**1,22,83,000**	**1,23,04,000**
Difference in exchange				21,000	
				123,04,000	123,04,000
Closing stock	92	18,000		**8,28,000**	

Auckland Branch Trading and Profit & Loss Account

Dr. **for the year ended December 31, 2022** **Cr.**

Particulars	(Rs.)	**Particulars**	(Rs.)
To, Opening Stock	13,20,000	By, Sales	108,00,000
To, Goods from H.O.	80,00,000	By, Closing Stock	8,28,000
To, Gross Profit c/d	23,08,000		
	116,28,000		**116,28,000**
To, Salaries	5,40,000	By, Gross Profit b/d	23,08,000
To, Taxes & Insurance	45,000		
To, Rent	1,80,000		
To, Difference in exchange	21,000		
To, Depreciation	1,60,000		
To, Net Profit	13,62,000		
	23,08,000		**23,08,000**

Dr. **Auckland Branch Account** **Cr.**

Particulars		**(Rs.)**	**Particulars**		**(Rs.)**
To, Balance b/d		13,20,000	By, Branch Trading A/c	(Rs.)	
To, Branch Trading A/c	(Rs.)		Opening stock	13,20,000	
Sales	108,00,000		Goods from H.O.	80,00,000	93,20,000
Stock	8,28,000	116,28,000	By, Branch P & L A/c		9,46,000
			(Sundry expenses)		
			By, Balance c/d		26,82,000
		1,29,48,000			**1,29,48,000**

(Illustration 13)

13. PARTNERSHIP ACCOUNTS

Problem No. 1 Answer:

M/s X & Y

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2022 Cr.

Particulars	**(Rs.)**	**(Rs.)**	**Particulars**	**(Rs.)**	**(Rs.)**
To, Opening Stock		3,00,000	By, Sales	8,20,000	
" Purchases	3,80,000		Less: Return Inwards	4,000	8,16,000
Less: Returns Outwards	3,000	3,77,000	" Closing Stock		1,20,000
" Wages		60,000			
" Carriage Inward		4,000			
" Profit & Loss A/c					
-Gross Profit transferred		1,95,000			
		9,36,000			9,36,000
To, Salaries		40,000	By, Trading A/c.		
" Carriage Outward		2,000	- Gross Profit		1,95,000
" Trade Charges		8,000	" Interest		1,000
" Depreciation on:					
- Furniture		1,000			

Particulars	**(Rs.)**	**(Rs.)**	**Particulars**	**(Rs.)**	**(Rs.)**
To, P&L Appropriation A/c.					
- Net Profit transferred		1,45,000			
		1,96,000			**1,96,000**

Profit and Loss Appropriation Account

Dr. for the year ended 31st March, 2022 Cr.

Particulars	**(Rs.)**	**(Rs.)**	**Particulars**	**(Rs.)**	**(Rs.)**
To, Interest on Capital			By, Profit and Loss A/c		1,45,000
X	960		-Net Profit		
Y	640	1,600	By, Interest on Drawings:		
To, Salary			X	360	
Y:		4,800	Y	300	660
To, Commission – X		16,400			
"Reserve Fund (50%)		61,430			
To Partner's Capital A/c					

‘‘ Net Divisible Profit					
X	30,715				
Y	30,715				
		61,430			
		1,45,660			**1,45,660**

Dr. **Partners' Capital Account** **Cr.**

Particulars	X (Rs.)	Y (Rs.)	Particulars	X (Rs.)	Y (Rs.)
To, Drawings	12,000	10,000	By, Balance b/d.	24,000	16,000
‘‘ Interest on Drawings	360	300	‘‘ Interest on Capital	960	640
‘‘ Balance c/d.	59,715	41,855	‘‘ Salary	---	4,800
			‘‘ Commission	16,400	---
			‘‘ Share of Profit	30,715	30,715
	72,075	**52,155**		**72,075**	**52,155**

Balance Sheet as at 31st March, 2022

Liabilities	(Rs.)	Assets	(Rs.)	(Rs.)
Capital :		Land		11,000
X	59,715	Furniture	10,000	
Y	41,855	Less: Depreciation	1,000	9,000
Reserve Fund	61,430	Loan		20,000
		Closing Stock		1,20,000
		Cash		3,000
	1,63,000			**1,63,000**

(Illustration-10 of Fs of Commercial organizations)

Problem No.2 Answer:

a) S's new share $\left[\frac{5}{8}-\frac{1}{5}\right]=\frac{25-8}{40}=\frac{17}{40}$

N's ne share $=\left[\frac{3}{8}-\frac{1}{10}\right]=\frac{15-4}{40}=\frac{11}{40}$

J's share $=\frac{3}{10}=\frac{12}{40}$

Hence New profit/loss sharing ratios of the partners = 17:11:12

b)

X's New share = 3/6 - (1/6 × 3/5) = 12/30

Y's New share = 2/6 - (1/6 × 2/5) 1=8/30

Z’s share = 1/6

W’s share = 1/6

Therefore, New Profit Sharing Ratio = X:Y:Z:W = 12:8:5:5

c) Calculation of Sacrificing Ratio of A & B after C’s admission

A :B :C

Old Ratio 4 :3

New Ratio5 :3 :2

$$A = \frac{4}{7} - \frac{5}{10} = \frac{40-35}{70} = \frac{5}{70}$$

$$B = \frac{3}{7} - \frac{3}{10} = \frac{30-21}{70} = \frac{9}{70}$$

Sacrificing Ratio is 5 : 9

(Illustration-3, 2, 1)

Problem No. 3 Answer:

(i) R’s remuneration as Manager

Salary Rs. 60,000 & Commission Rs. 4,27,500 - Rs. 60,000 = Rs. 3,67,500 × $\frac{5}{150}$ = Rs.17,500

Or Rs. 60,000 + Rs. 17,500 = Rs. 77,500

(ii) R’s share in profit = Rs. 4,27,500 × $\frac{1}{5}$ = Rs. 85,500; it excess over above (i)

= Rs. 85,500 - Rs. 77,500 = Rs. 8,000 which to be borne by Q

(iii) Share in profits of P & Q

P = Rs. 4,27,500 - Rs. 77,500 = Rs. 3,50,000 × $\frac{5}{9}$ = Rs. 1,94,444

Q = Rs. 3,50,000 × $\frac{4}{9}$ = Rs. 1,55,556 - Rs. 8,000 = Rs. 1,47,556

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

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To P’s Capital A/c:		1,94,444	By Profit for the year		4,27,500
To, Q’s Capital A/c: Less: transferred to R: To, R’s Capital A/c	1,55,556 8,000	1,47,556			
As Manager: Add: Transferred from Q	77,500 8,000	85,500			
		4,27,500			**4,27,500**

(Illustration-7)

Problem No. 4 Answer:

Journal

Particulars		Dr. (Rs.)	Cr. (Rs.)
i. Bank A/c	Dr.	2,10,000	
To, Z's Capital A/c			1,50,000
To, Premium for Goodwill A/c			60,000
(Being amount brought in as capital and premium for goodwill by Z)			
ii. X's Capital A/c (5/9 × Rs. 1,65,000)	Dr.	91,667	
Y's Capital A/c (4/9 × Rs. 1,65,000)	Dr.	73,333	
To, Goodwill A/c			1,65,000
(Being existing Goodwill account written off)			
iii. Premium for goodwill A/c	Dr.	60,000	
To, X's Capital A/c			40,000
To, Y's Capital A/c			20,000
(Being transfer of premium brought by Z to X & Y's A/c)			

New Profit sharing ratio will be:

X's new share = $\frac{5}{9}-\left[\frac{1}{5}\times\frac{2}{3}\right]=\frac{5}{9}-\frac{2}{15}=\frac{25-6}{45}=\frac{19}{45}$

Y's new share = $\frac{4}{9}-\frac{1}{15}=\frac{20-3}{45}=\frac{17}{45}$

Y's new share = $\frac{1}{5}\text{or}\frac{9}{45}$

Hence new ratio = 19 : 17 : 9

(Illustration-4)

Problem No. 5 Answer:

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

Particulars	(Rs.)	Particulars	(Rs.)
To, Motor Car A/c	1,000	By, Property A/c	10,000
To, Provision for Bad Debts A/c	1,250		
Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To, Profit on Revaluation:			
Sun 3/5 4,650			
Moon 2/5 3,100	7,750		
	10,000		**10,000**

Dr. **Partners' Capital Account** **Cr.**

Particulars	Sun (Rs.)	Moon (Rs.)	Pluto (Rs.)	Particulars	Sun (Rs.)	Moon (Rs.)	Pluto (Rs.)
				By Balance b/d	50,000	41,000	—
				By Cash A/c	—	—	37,500
				By Profit on Revaluation	4,650	3,100	—
To Balance c/d	57,650	46,100	37,500	By General Reserve	3,000	2,000	
	57,650	**46,100**	**37,500**		**57,650**	**46,100**	**37,500**

Calculation of sacrificing / gaining ratio of sun & moon because of admission , Pluto.

	Sun: Moon : Pluto
Old Ratio	3:2
New Ratio	2:1:1
Sacrificing ratio (Sun's)	$\frac{3}{5}-\frac{2}{4}=\frac{12-10}{20}=\frac{2}{20}$
Moon's Sacrificing ratio =	$\frac{2}{5}-\frac{1}{4}=\frac{8-5}{20}=\frac{3}{20}$

Or, 2: 3

Dr. **Statement showing Adjusted Profit Account** **Cr.**

Particulars	2019-20 (Rs.)	2020-21 (Rs.)	2021-22 (Rs.)
Profits	5,000	6,000	7,500
Bad Debts Recovered	+ 400	—	—
Closing Stock Undervalued	+ 1,250	- 1,250	—
Furniture purchased debited to Purchases A/c		+ 300	—
Depreciation		-30	
Closing stock overvalued		- 2,000	+ 2,000
Purchases not recorded			- 1,000
Closing stock undervalued			+ 1,000
	6,650	**3,020**	**9,500**

Calculation of premium to be paid by Pluto Average profit of 3 year's:

Goodwill = $\frac{\text{Rs.}(6{,}650+3{,}020+9{,}500)}{3}=\text{Rs.}6{,}390$

Pluto's share of goodwill = Rs.12,780 × ¼ = Rs.3,195

Journal

Particulars		Dr. (Rs.)	Cr.(Rs.)
Property A/c To, Revaluation A/c (Being revaluation of property done at the time of admission of Pluto)	Dr.	10,000	10,000

Revaluation A/c To, Motor Car A/c To, Provision for bad debts A/c (Being revaluation done of motor car & Provision calculated on debtors @ 5%)	Dr.	2,250	1,000 1,250
Revaluation A/c To, Sun's Capital A/c To, Moon's Capital A/c (Being profit on revaluation distributed to Partner's Capital A/c)	Dr.	7,750	4,650 3,100
Cash A/c To, Pluto's Capital A/c (Being cash brought in by Pluto as his share of capital)	Dr.	37,500	37,500
Cash A/c To, Pluto's Capital A/c (Being cash .brought by Pluto for his share of goodwill)	Dr.	3,195	3,195
Pluto's Capital A/c To, Sun's Loan A/c To, Moon's Loan A/c (Being Pluto's share of premium for goodwill credited to Old Partner's Capital A/c in their sacrificing ratio)	Dr.	3,195	1,278 1,917

Balance Sheet (Post-Admission)

Capital:		Property (35,000 + 10,000)	45,000
Sun	57,650	Motor Car (7,500 - 1,000)	6,500
Moon	46,100	Furniture	1,000
Pluto	37,500	Debtors (25,000 - 1,250)	23,750
Loan (Sun) (5,000 + 1278)	6,278	Stock	45,000
(Moon)	1,917	Cash (4,000 + 37,500 + 3,195)	44,695
Sundry creditors	15,000		
Outstanding Expenses	1 ,500		
	1,65,945		**1,65,945**

(Illustration-6)

Problem No. 6 Answer:

In the books of the Firm Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
31.3.2022	Reserve A/c Dr. To, Compass' Capital A/c To, Cone's Capital A/c To, Circle's Capital A/c		30,000	15,000 10,000

	(Reserve transferred to the capital accounts of the partners in 3 : 2 : 1)			5,000
	Machinery A/c Dr. To, Revaluation A/c (Value of the machinery increased on Cone's retirement)		3,000	 3,000
	Revaluation A/c Dr. To, Stock A/c To, Furniture A/c To, Provision for Bad Debts A/c To, Outstanding Expenses A/c (Value of the assets reduced on Cone's retirement)		2,700	 1,000 400 1,000 300
	Revaluation A/c Dr. To, Compass' Capital A/c To, Cone's Capital A/c To, Circle's Capital A/c (Profit on revaluation transferred to the capital accounts of the partners)		300	 150 100 50
	Compass's Capital A/c Dr. Circle's Capital A/c Dr. To, Cone's Capital A/c (Cone's share of goodwill to be adjusted against remaining partner's capital accounts in the gaining ratio of 3 : 7)		2,400 5,600	 8,000
	Profit and Loss Suspense A/c Dr. To, Compass' Capital A/c To, Cone's Capital A/c		18,000	 9,000 6,000

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	To, Circle's Capital A/c (Estimated profit transferred to the capital accounts of the partners)			3,000
	Cone's Capital A/c Dr. To, Bank A/c (Payment is made to Cone on his retirement)		84,100	 84,100
	Bank A/c Dr. To, Compass' Capital A/c To, Circle's Capital A/c (Cash to be brought in by Compass and Circle as per agreement)		46,100	 16,430 29,670

Dr. **Partners' Capital Account** **Cr.**

Particulars	Compass (Rs.)	Cone (Rs.)	Circle (Rs.)	Particulars	Compass (Rs.)	Cone (Rs.)	Circle (Rs.)
To, Cone's Capital A/c	2,400	—	5,600	By, Balance b/d	40,000	60,000	20,000
" Bank A/c (Bal. fig.)	—	84,100	—	" Reserve A/c	15,000	10,000	5,000
" Balance c/d	78,180	—	52,120	" Revaluation A/c			
				— Profit	150	100	50
				" Share of Profit	9,000	6,000	3,000
				" Compass' Capital A/c	—	2,400	—
				" Circle's Capital A/c	—	5,600	—
				" Bank A/c (Bal. fig.)	16,430	—	29,670
	80,580	**84,100**	**57,720**		**80,580**	**84,100**	**57,720**
				By Balance b/d	78,180	—	52,120

Working Notes :

1. Total value of goodwill Rs. 24,000

   ∴ Cone's share of goodwill = Rs.24,000 × 2/6 = Rs.8,000 to be adjusted against Compass's and Circle capital in 3 : 7.

   Computation of ratio : Compass = 3/5 - 3/6 = 3/30 (gain) Circle = 2/5 - 1/6 = 7/30 (gain)

2. **Bank Related Transactions**

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

Particulars	(Rs.)	Particulars	(Rs.)
To, Balance b/d	40,000	By, Cone's Capital By, Balance c/d	84,100
" Profit — increase in Cash	18,000	(to be maintained)	20,000
" Compass and Circle's Capital			
(balance figure)	46,100		
	1,04,100		**1,04,100**

3. Total adjusted capitals of Compass and Circle :

Particulars	(Rs.)
Compass' Capital Rs.(40,000 + 15,000 + 150 + 9,000 – 2,400)	61,750
Circle's Capital :	

Rs.(20,000 + 5,000 + 50 + 3,000 – 5,600)	22,450
Add : Total Cash to be brought in	46,100
Combined adjusted capitals	1,30,300

∴ Compass' Capital = Rs.1,30,300 × 3/5 = Rs.78,180 Circle's Cap. = Rs.1,30,300 × 2/5 = Rs.52,120

(Illustration 11)

Problem No. 7 Answer:

Balance Sheet as on 31st March, 2022

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
Capital Account:			Land and Building		50,000
A	35,000		Plant and Machinery		17,000
C	21,000	56,000	Stock		16,000
B's Loan A/c		39,600	Debtors	10,000	
Creditors		13,800	Less: Provision for Bad Debt	200	9,800
			Cash at Bank (Rs. 11,000 + Rs. 5,600)		16,600
		1,09,400			**1,09,400**

Note: Since assets and liabilities will appear in the Balance Sheet at their old figure Memorandum Revaluation

Account should be opened.

Working Notes:

Gaining Ratio

$$A = \frac{5}{8} - \frac{4}{9} = \frac{45-32}{72} = \frac{13}{72}$$

$$C = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{72}$$

Hence, gaining ratio = 13: 11

Memorandum Revaluation Account

.Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Under valuation of Stock To, Provision for Bad Debts Rs.(500-200) To, Provision for legal changes		960 300 1,540	By, Overvaluation of Land and Building		10,000

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To, Profit on Rev: A B C	 3,200	7,200			

	2,400 1,600	10,000			
		10,000			**10,000**
To, Reversal of items To, Over valuation of Land and Building		10,000	By, Reversal of items: By, Undervaluation of Stock By, Provision for Bad Debts By, Provision for legal changes By, Capital A/c Profit to be written-back A-5/8 = 0-3/8 =	4,500 2,700	960 300 1,540 7,200
		10,000			**10,000**

B's share of goodwill = Rs. 21,600 × 3/9 = Rs. 7,200

The entry being:

Particulars		Debit (Rs.)	Credit (Rs.)
A's Capital A/c	Dr.	3,900	
C's Capital A/c		3,300	
To, B's Capital A/c			7,200
(Being gaining ratio)			

Dr. Partners' Capital Account Cr.

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To, Memo. Reval. A/c	4,500	-----	2,700	By, Balance b/d	40,000	30,000	20,000
To, B's Capital A/c	3,900	-----	3,300	By, Revaluation A/c – Profit	3,200	2,400	1,600
To, B's Loan A/c	----	39,600	-----	By, A's capital A/c	-----	3,900	-----

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
				By, B's Capital A/c	-----	3,300	-----
To, Balance c/d	35,000*	-----	21,000	By, Bank A/c (Balance Fig.)	200	-----	5,400
	43,400	**39,600**	**27,000**		**43,400**	**39,600**	**27,000**

* Total Capital = Rs. 56,000 in 5 : 3, i.e., A Rs. 35,000; C Rs. 21,000.

(Illustration 12)

Problem No. 8 Answer:

(a)

Dr. **In the books of the firm Revaluation Account** **Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To, Plant A/c	4,000	By, Premises A/c	60,000
To, Stock A/c	16,400		
To, Provision for doubtful debts A/c	6,000		
To, Partner's Current A/c s	33,600		
A 16,800			
B 11,200			
C 5,600			
	60,000		**60,000**

(b)

Dr. **Partners' Capital Account** **Cr.**

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	D (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)	D(Rs.)
To, Goodwill A/c	36,000	24,000	—	24,000	By, Balance b/d	1,70,000	1,30,000	70,000	—
(3:2:2)	—	—	84,000	—	By, Goodwill	42,000	28,000	14,000	—
To, Loan A/c	42,000	—	—	1,34,000	A/c (3:2:2)				
To, Bank A/c	1,34,000	1,34,000	—	1,58,000	By, Bank A/c	—	—	—	1,58,000
To, Balance c/d									
2,12,000									
	2,12,000	**1,58,000**	**84,000**	**1,58,000**		**2,12,000**	**1,58,000**	**84,000**	**1,58,000**

(c)

Dr. **Partners' Current Account** **Cr.**

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	D (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)	D (Rs.)
To, Balance b/d	—	5,018	—	—	By, Balance b/d	7,428	—	9,356	—
To, C's Loan A/c	—	—	14,956	—	By, Revaluation	16,800	11,200	5,600	—

To, Bank A/c	18,046	—	—	—	A/c				
To, Balance c/d	6,182	6,182	—	6,182	By, Bank A/c	—	—	—	6,182
	24,228	**11,200**	**14,956**	**6,182**		**24,228**	**11,200**	**14,956**	**6,182**

(d)

Dr. **C's Loan Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.03.22	To, Vehicles A/c	7,800	31.03.22	By, Balance b/d	56,000

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
	To, Bank A/c (Bal. fig.) To, Balance c/d	1,07,156 40,000		By, C's Capital A/c By, C's Current A/c	84,000 14,956
		1,54,956			**1,54,956**

(e)

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

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

(f) Balance Sheet of as on 01 .04.2022

Liabilities	(Rs.)	(Rs.)	Assets	(Rs.)	(Rs.)
Capital Accounts:			Premises		2,40,000
A	1,34,000		Plant		70,000
B	1,34,000		Vehicles		22,200
D	1,34,000	4,02,000	Fixtures		4,000
Current Accounts:			Stock		1,08,358
A	6,182		Debtors	69,960	
B	6,182		Less: Provision for bad debts	6.000	63,960
D	6,182	18,546	Cash		1,520
C's Loan Account:		40,000			
Creditors		38,072			
Bank Overdraft		11,420			
		5,10,038			**5,10,038**

Working Notes:

Calculation of New P.S.R.

D's share = B's share = $\frac{2}{6}$

A's share = $\frac{3}{6}$;

B's share = $\frac{2}{6}$

$\therefore$ A:B:D = $\frac{3}{6} : \frac{2}{6} : \frac{2}{6}$ = 3:2:2

(Illustration 17)

Problem No. 9 Answer:

Books of the firm

Journal

(Rs. in Lakh)

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
01.08.21	Land & Building A/c To, Revaluation A/c (For increase in the value of land and building)	Dr.		40	 40
"	Revaluation A/c To, Plant & Machinery A/c (For degrease in the value of Plant & Machinery)	Dr.		15	 15
"	Revaluation A/c To, A's Capital A/c To, B's Capital A/c To, C's Capital Ac (For profit on revaluation)	Dr.		25	 12.5 8.333 4.167
"	General Reserve A/c To, A's Capital A/c To, B's Capital A/c To, C's Capital A/c (For transfer of general reserve)	Dr.		165	 82.5 55 27.5
"	A's Capital A/c C's Capital A/c To, B's Capital A/c (For the adjustment of goodwill)	Dr.		108 36	 144
"	Profit & Loss Suspense A/c To, B's Capital A/c (For the adjustment of profit from 1.4.18 to 1.8.18)	Dr.		18.333	 18.333

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
"	B's Loan A/c To, B's Capital A/c (Balance transferred)	Dr.		20	 20
"	Interest on B's Loan A/c To, B's Capital A/c (Interest on B's Loan from 1.04.18 to 1.08.18 credited to B's Capital A/c)	Dr.		0.40	 0.40
"	B's Capital A/c To, B's Executor's A/c (Being balance of B's Capital A/c transferred to his Executor's A/c = 110 + 8.333 + 55 + 144 + 18.333 + 20 + 0.40)	Dr.		356.066	 356.066
"	B's Executor's A/c To, Bank A/c (Amount paid)	Dr.		50	 50
"	Interest A/c To, B's Executor's A/c (For interest due)	Dr.		10.202	 10.202
01.12.21	Bs Executor's A/c To, Bank A/c (Amount due to Bs Executor including interest, paid)	Dr.		316.268	 316.268

Rs. in lakh)

Dr. **B's Executor's Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1.08.21 1.12.21	To Bank A/c To Bank A/c	50 316.268	1.08.21 1.12.21	By Capital A/c By Interest A/c	356.066 10.202
		366.268			**366.268**

Working Notes:

(1) Calculation of Share of B in Goodwill:

Average of past four years profits = Rs. (135 Lakh + 145 Lakh + 131 Lakh + 165 Lakh)/4
= Rs. 144 Lakh

Value of Firm's Goodwill = Rs. 144 Lakh × 3 = Rs. 432 Lakh

B's Share in Goodwill = Rs. 432 Lakh × 2/6 = Rs. 144 Lakh, which will be credited to B's Capital A/c and debited to A's Capital A/c & C's Capital A/c in the ratio of 3:1

(2) B's Share in profit from 01 .04.2021 to 1.8.2021 = (Rs. 165 × 4/12) × 2/6 = Rs. 18.333 Lakh

(3) Interest on B's Loan from 01.04.2021 to 1.8.2021 = Rs. 20 Lakh × 6% × 4/12 = Rs. 40,000

(4) Interest to B's Executor's from 01.08.2021 - 01.12.2021 = Rs. 356.066 Lakh – Rs. 50 Lakh = Rs. 306.066 × 10% × 4/12 = Rs. 10.2022 Lakh **(Illustration 19)**

Problem No. 10 Answer:

In the Books of firm

Dr. Revaluation Account Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To, Furniture and Fixture A/c	15,000	By, Land and Building A/c	60,000
To, Partners' Capital A/c s	45,000		
(A- Rs.18,000, B - Rs.13,500, C - Rs.13,500)			
	60,000		**60,000**

Dr. Partners' Capital Account Cr.

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To, C's Capital A/c — Goodwill	19,980	39,960	------	By, Balance b/d	3,00,000	1,50,000	1,80,000
To, C's Current A/c. —Transfer	-----	-----	25,650	By, Revaluation a/c	18,000	13,500	13,500
To, C's Heir A/c	-----	-----	2,27,790	By, A's Capital A/c Goodwill	-------	-------	19,980
To, Balance c/d	2,98,020	1,23,540	------	By, A's Capital N/c Goodwill	-------	-------	39,960
	3,18,000	**1,63,500**	**2,53,440**		**3,18,000**	**1,63,500**	**2,53,440**

Dr. Partners' Current Account Cr.

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To, Balance b/d	48,000	72,000	72,000	By, P/L Appropriation A/c (Interest on Capital A/c)	3,00,000	15,000	9,000
To, Balance c/d	91,716	40,266		By, P/L Appropriation A/c	1,09,716	97,266	37,350
				By, Capital A/c — (Transfer)	-------	-------	26,650
	1,39,716	**1,12,266**	**72,000**		**1,39,716**	**1,12,266**	**72,000**

Dr. **C's Heir Account** **Cr.**

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

Balance Sheet as on 31st March, 2022

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

Working Note:

(1) Adjustment in Regard to Goodwill

Particulars	(Rs.)
Aggregate profits for three years upto date of death (30.09.2021) are as follows:	
Profit for the year ended 30.9.19: (½ of Rs. 3,36,000 + ½ of Rs. 3,78,000)	3,57,000
Profit for the year ended 30.9.20: (½ of Rs. 3,78,000 + ½ of Rs. 3,60,000)	3,69,000
Profit for the year ended 30.9.21: (½ of Rs. 3,60,000 + ½ of Rs. 3,12,000)	3,36,000
Total profits for three years	10,62,000
Average profits (Rs. 10,62,000 ÷ 3)	3,54,000
Less: interest on capital employed (8% on Rs.7,80,000) Rs.62,400	
Fair remuneration to partners Rs.2,25,000	2,87,400
Adjusted average profit for goodwill	66,600
Goodwill is the purchase of 3 year's profit = 3 × Rs.66,600	1,99,800

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

Profit & Loss Appropriation Account

Dr. **Cr.**

Particulars	01.04.21 to 30.09.21	01.10.21 to 31.03.22	Particulars	01.04.21 to 30.09.21	01.10.21 to 31.03.22
To Partners' Current A/c			By Profit & Loss A/c	1,56,000	1,56,000
Interest on Capital A/c - A	15,000	15,000	(Apportioned on Time Basis)		
Interest on Capital A/c - B	7,500	7,500			
Interest on Capital A/c- C	9,000				
To Interest on hire C's A/c	—	—			
(-12%)					
Partners' Current A/cs - A	49,800	13,668			
Partners' Current A/cs - B	37,350	59,916			
Partners' Current A/cs - C	37,350	59,916			
	1,56,000	**1,56,000**		**1,56,000**	**1,56,000**

(Illustration 18)

Problem No. 11 Answer:

(i)

Dr. **Joint Life Policy Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.03.22	To Partner's Capital A/c Naresh Rs.80,000 Rohit Rs.80,000 Krishna Rs.40,000	2,00,000	31.03.22	By, Bank (Policy Money Received)	2,00,000
		2,00,000			**2,00,000**

(ii)

Dr. **Joint Life Policy Account** **Cr.**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.19	To, Bank A/c (Premium)	10,000	31.03.19	By, P & L A/c	10,000
		10,000			10,000
01.11. 20	To, Bank A/c (Premium)	10,000	31.03. 20	By, P & L A/c	8,000
			31.03. 20	By, Balance C/d	2,000
		10,000			10,000
01.04.20	To, Balance B/d	2,000	31.03.20	By, P & L A/c	7,000
01.01.21	To, Bank A/c (Premium)	10,000	31.03.21	By, Balance C/d	5,000
		12,000			12,000

01.04.21	To, Balance B/d	5,000			
01.01.22	To, Bank A/c (Premium)	10,000	31.03.22	By, Bank A/c (Police Money Received)	2,00,000
31.03.22	To, Partner's Capital A/c Naresh Rs.74,000 Rohit Rs.74,000 Krishna Rs.37,000	1,85,000			
		2,00,000			**2,00,000**

(Illustration 21)

14. INTRODUCTION TO ACCOUNTING STANDARDS

Problem No. 1 Answer:

The question deals with the issue of Applicability of Accounting Standards to a noncorporate entity. For availment of the exemptions, first of all, it has to be seen that M/s Omega & Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 4 levels viz Level I, Level II, Level III and Level IV entities.

Non-corporate entities which meet following criteria are classified as Level IV entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) does not exceed rupees ten crores in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) does not exceed rupees two crores at any time during the immediately preceding accounting year.

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

As the turnover of M/s Omega & Co. is less than Rs. 10 crores and borrowings less than Rs. 2 crores, it falls under Level IV non-corporate entities. In this case, AS 3, AS 14, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27 and AS 28 will not be applicable to M/s Omega & Co. Relaxations from certain requirements in respect of AS 10, AS 11, AS 13, AS 15, AS 19, AS 22, AS 26 and AS 29 are also available to M/s Omega & Co.

(SM-EXAMPLE 1)

Problem No. 2 Answer:

The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non SMCs under the Companies (Accounting Standards) Rules, 2021.

As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and

- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was Rs. 50 crores which does not exceed Rs. 250 crores and borrowings of Rs. 1 crore are less than Rs. 50 crores, it is a small and medium sized company (SMC).

(SM-PARCTICAL PROBLEM 1)

Problem No. 3 Answer:

As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not a SMC and subsequently becomes a SMC, should not be qualified for exemption or relaxation in respect of accounting standards available to a SMC until the company remains a SMC for two consecutive accounting periods.

Therefore, the management of the company cannot avail the exemptions/ relaxations available to the SMCs for the FY 20X2-X3.

(SM-PARCTICAL PROBLEM 2)

15. AS 12- ACCOUNTING FOR GOVERNMENT GRANTS

Problem No. 1 Answer:

Journal in the books of Z Ltd.

Year	Particulars	Rs. (Dr.)	Rs. (Cr.)
1st	Fixed Assets Account Dr.	50,00,000	
	To Bank Account		50,00,000
	(Being Fixed Assets purchased)		
	Bank Account Dr.	10,00,000	
	To Fixed Assets Account		10,00,000
	(Being grant received from the government)		
	Depreciation Account Dr.	7,00,000	
	To Fixed Assets Account		7,00,000
	(Being Depreciation charged on SLM)		
	Profit & Loss Account Dr.	7,00,000	
	To Depreciation Account		7,00,000
	(Being Depreciation transferred to P/L Account)		
2nd	Depreciation Account Dr.	7,00,000	
	To Fixed Assets Account		7,00,000
	(Being Depreciation charged on SLM)		
	Profit & Loss Account Dr.	7,00,000	
	To Depreciation Account		7,00,000
	(Being Depreciation transferred to P/L Account)		

(SM –ILLUSTRATION 1)

Problem No. 2 Answer:

Journal in the books of Z Ltd.

Year	Particulars	Rs. (Dr.)	Rs. (Cr.)
1st	Fixed Assets Account Dr.	50,00,000	
	To Bank Account		50,00,000
	(Being fixed assets purchased)		
	Bank Account Dr.	10,00,000	
	To Deferred Government Grant Account (Being grant received from the government)		10,00,000
	Depreciation Account Dr.	9,00,000	
	To Fixed Assets Account		9,00,000
	(Being depreciation charged on SLM)		

	Profit & Loss Account Dr. To Depreciation Account (Being depreciation transferred to P/L Account)	9,00,000	 9,00,000
	Deferred Government Grants Account Dr. To Profit & Loss Account (Being proportionate government grant taken to P/L Account)	2,00,000	 2,00,000
2nd	Depreciation Account Dr. To Fixed Assets Account (Being depreciation charged on SLM)	9,00,000	 9,00,000
	Profit & Loss Account Dr. To Depreciation Account (Being depreciation transferred to P/L Account)	9,00,000	 9,00,000
	Deferred Government Grant Account Dr. To Profit & Loss Account (Being proportionate government grant taken to P/L Account)	2,00,000	 2,00,000

(SM –ILLUSTRATION 2)

Problem No. 3 Answer:

As per AS 12 'Accounting for Government Grants', when government grant is received for a specific purpose, it should be utilised for the same. So the grant received for setting up a factory is not available for distribution of dividend.

In the second case, even if the company has not spent money for the acquisition of land, land should be recorded in the books of accounts at a nominal value. The treatment of both the elements of the grant is incorrect as per AS 12.

(SM –ILLUSTRATION 3)

Problem No. 4 Answer:

As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are of the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus, it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to capital reserve. Therefore, the accounting treatment desired by the company is not proper.

(SM –ILLUSTRATION 4)

Problem No. 5 Answer:

(i) Rs. 35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively,Rs. 35 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(ii) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of Rs. 100 lakhs should be credited to capital reserve.

(SM –ILLUSTRATION 5)

Problem No. 6 Answer:

Fixed Assets Account Dr. Rs. 7,00,000

To Bank Account Rs. 7,00,000

(Being government grant on asset refunded)

(SM –ILLUSTRATION 6)

Problem No. 7 Answer:

Journal Entries

Year	Particulars		Rs. in lakhs (Dr.)	Rs. in lakhs (Cr.)
1	Fixed Asset Account To Bank Account (Being fixed asset purchased)	Dr.	20	20
	Bank Account To Fixed Asset Account (Being grant received from the government reduced the cost of fixed asset)	Dr.	8	8
	Depreciation Account (W.N.1) To Fixed Asset Account (Being depreciation charged on Straight Line method (SLM))	Dr.	2	2
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss	Dr.	2	2

2	Account at the end of year 1)			
	Fixed Asset Account To Bank Account (Being government grant on asset partly refunded which increased the cost of fixed asset)	Dr.	5	5
	Depreciation Account (W.N.2) To Fixed Asset Account (Being depreciation charged on SLM on revised value of fixed asset prospectively)	Dr.	3.67	3.67
	Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 2)	Dr.	3.67	3.67

Working Notes:

1. Depreciation for Year 1

	Rs. in lakhs
Cost of the Asset	20
Less: Government grant received	(8)
	12
Depreciation $\left(\frac{12-4}{4}\right)$	2

2. Depreciation for Year 2

	Rs. in lakhs
Cost of the Asset	20
Less: Government grant received	(8)
	12
Less: Depreciation for the first year $\left(\frac{12-4}{4}\right)$	2
	10
Add: Government grant refundable	5
	15
Depreciation for the second year $\left(\frac{15-4}{4}\right)$	3.67

(SM –ILLUSTRATION 7)

Problem No. 8 Answer:

According to para 21 of AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing deferred income balance, as appropriate, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(Rs. in lakhs)
1st April, 20X1	Acquisition cost of machinery (Rs. 1,500 – Rs. 300)	1,200.00
31st March, 20X2	Less: Depreciation @ 20%	(240.00)
	Book value	960.00
31st March, 20X3	Less: Depreciation @ 20%	(192.00)
	Book value	768.00
31st March, 20X4	Less: Depreciation @ 20%	(153.60)
1st April, 20X4	Book value	614.40
May, 20X4	Add: Refund of grant	300.00
	Revised book value	914.40

Depreciation @ 20% on the revised book value amounting Rs. 914.40 lakhs is to be provided prospectively over the residual useful life of the asset.

(SM –ILLUSTRATION 8)

Problem No. 9 Answer:

In the books of A Ltd.

Journal Entries (at the time of refund of grant)

(1) If the grant is credited to Fixed Assets Account:

		Rs.	**Rs.**
I	Fixed Assets A/c Dr.	16 lakhs	
	To Bank A/c (Being grant refunded)		16 lakhs

II The balance of fixed assets after two years depreciation will be Rs.16 lakhs (W.N.1) and after refund of grant it will become (Rs.16 lakhs + Rs.16 lakhs)

= Rs.32 lakhs on which depreciation will be charged for remaining two years. Depreciation = (32-8)/2 = Rs.12 lakhs p.a. will be charged for next two years.

(2) If the grant is credited to Deferred Grant Account:

As per para 14 of AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (Rs.16 lakhs /4 years) = Rs.4 lakhs p.a.x 2 years = Rs.8 lakhs were credited to Profit and Loss Account and Rs.8 lakhs was the balance of Deferred Grant Account after two years.

Therefore, on refund in the 3rd year, following entry will be passed:

		Rs.	Rs.
I	Deferred Grant A/c Dr. Profit & Loss A/c Dr. To Bank A/c (Being Government grant refunded)	8 lakhs 8 lakhs	 16 lakhs

II Deferred grant account will become Nil. The fixed assets will continue to be shown in the books at Rs.24 lakhs (W.N.2) and depreciation will continue to be charged atRs.8 lakhs per annum for the remaining two years.

Working Notes:

1. **Balance of Fixed Assets after two years but before refund (under first alternative)**

   Fixed assets initially recorded in the books = Rs.40 lakhs – Rs.16 lakhs =
   Rs.24 lakhs

   Depreciation p.a. = (Rs.24 lakhs – Rs.8 lakhs)/4 years = Rs.4 lakhs per year Value of fixed assets after two years but before refund of grant

   = Rs.24 lakhs – (Rs.4 lakhs x 2 years) = Rs.16 lakhs

2. Balance of Fixed Assets after two years but before refund (under second alternative)

   Fixed assets initially recorded in the books = Rs.40 lakhs

   Depreciation p.a. = (Rs.40 lakhs – Rs.8 lakhs)/4 years = Rs.8 lakhs per year Book value of fixed assets after two years = Rs.40 lakhs – (Rs.8 lakhs x 2 years)

   = Rs.24 lakhs

   Note: Value of fixed assets given above is after refund of government grant.

(SM –ILLUSTRATION 9)

Problem No. 10 Answer:

1. As per AS 10 Property, Plant and Equipment, biological asset is a living animal or plant. Bearer plant is a plant that (a) is used in the production or supply of agricultural produce; (b)is expected to bear produce for more than a period of twelve months; and (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. Plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber); plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and annual crops (for example, maize and wheat) are not bearer plants.

(SM –PRATICAL Q.NO.8)

16. AS 10: PROPERTY, PLANT AND EQUIPMENT

Problem No. 1 Answer:

The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales) and the cost of remodelling can be measured reliably, therefore, it should be capitalised.

(SM –ILLUSTRATION -1)

Problem No. 2 Answer:

De-recognition of the carrying amount occurs regardless of whether the cost of the previous part/inspection was identified in the transaction in which the item was acquired or constructed.

(SM –ILLUSTRATION -2)

Problem No. 3 Answer:

It may use the cost of the replacement or the estimated cost of a future similar inspection as an indication of what the cost of the replaced part/existing inspection component was when the item was acquired or constructed.

(SM –ILLUSTRATION -3)

Problem No. 4 Answer:

Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of relocating or reorganising operations of the company and do not meet the requirement of AS 10 (Revised) and therefore, cannot be capitalised.

(SM –ILLUSTRATION -4)

Problem No. 5 Answer:

Particulars		**Rs.**
Purchase Price	Given	1,58,00,000
Add: Site Preparation Cost	Given	1,40,000
Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	50,000
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Machinery		**1,61,55,000**

(SM –ILLUSTRATION -5)

Problem No. 6 Answer:

Management should capitalise the costs of construction and remodelling the supermarket, because they are necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management. The supermarket cannot be opened without incurring the remodelling expenditure, and thus the expenditure should be considered part of the asset.

However, if the cost of salaries, utilities and storage of goods are in the nature of operating expenditure that would be incurred if the supermarket was open, then these costs are not necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management and should be expensed.

(SM –ILLUSTRATION -6)

Problem No. 7 Answer:

The net operating costs should not be capitalized, but should be recognized in the Statement of Profit and Loss.

Even though it is running at less than full operating capacity (in this case 80% of operating capacity), there is sufficient evidence that the amusement park is capable of operating in the manner intended by management. Therefore, these costs are specific to the start-up and, therefore, should be expensed as incurred.

(SM –ILLUSTRATION -7)

Problem No. 8 Answer:

Since the transaction has commercial substance the plant and machinery would be recorded at Rs. 25,00,000, which is equivalent to the fair value of the land of Rs. 45,00,000 less the cash received of Rs. 20,00,000.

(SM –ILLUSTRATION -8)

Problem No. 9 Answer:

The entity recognizes the assets received at the book value of car X. Therefore, it recognizes cash of Rs. 15,000 and car Y as PPE with a carrying value of Rs. 12,85,000.

(SM –ILLUSTRATION -9)

Problem No. 10 Answer:

Entity A's management can apply the revaluation model only to the office buildings. The office buildings can be clearly distinguished from the industrial buildings in terms of their function, their nature and their general location.AS 10 (Revised) permits assets to be revalued on a class by class basis.

The different characteristics of the buildings enable them to be classified as different PPE classes. The different measurement models can, therefore, be applied to these classes for subsequent measurement.

However, all properties within the class of office buildings must be carried at revalued amount.

(SM –ILLUSTRATION -10)

Problem No. 11 Answer:

The depreciable amount of a tangible fixed asset should be allocated on a systematic basis over its useful life. The depreciation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Useful life means the period over which the asset is expected to be available for use by the entity. Depreciation should commence as soon as the asset is acquired and is available for use. Thus, the policy of Entity A is not acceptable. **(SM –ILLUSTRATION -11)**

Problem No. 12 Answer:

The entity has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e (1,00,000/10 years).

On 1st January 20X5, the asset's net book value is [1,00,000 – (10,000 x 4)] Rs. 60,000.

The remaining useful life is 4 years.

The company should amend the annual provision for depreciation to charge the unamortised cost over the revised remaining life of four years.

Consequently, it should charge depreciation for the next 4 years at Rs. 15,000 per annum i.e. (60,000 / 4 years). **(SM –ILLUSTRATION -12)**

Problem No. 13 Answer:

The entity should begin charging depreciation from the date the machine is ready for use – that is, 1st November 20X1. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.

(SM –ILLUSTRATION -13)

Problem No. 14 Answer:

<u>Case (a)</u>

The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost.

There is, therefore, no depreciable amount and depreciation is correctly zero.

<u>Case (b)</u>

The company considers that the residual value, based on prices prevailing at the balance sheet date, will be Rs. 9,00,000 and the depreciable amount is, therefore, Rs. 1,00,000.

Annual depreciation (on a straight-line basis) will be Rs. 5,000 [{10,00,000 – 9,00,000} ÷ 20].

(SM –ILLUSTRATION -14)

Problem No. 15 Answer:

The straight-line depreciation method should be adopted, because the production output is consistent from year to year.

Factors such as maintenance costs or technical obsolescence should be considered in determining the blending machines' useful life. **(SM –ILLUSTRATION -15)**

Problem No. 16 Answer:

Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 (Revised).

Entity A should separately recognize a receivable and a gain in the income statement resulting from the insurance proceeds under AS 29 (Revised)* once receipt is virtually certain. The receivable should be measured at the fair value of assets that will be provided by the insurer.

(SM –ILLUSTRATION -16)

Problem No. 17 Answer:

According to AS 10 (Revised), these costs can be capitalised:

1.	Cost of the plant	25,00,000
2.	Initial delivery and handling costs	2,00,000
3.	Cost of site preparation	6,00,000
4.	Consultants' fees	7,00,000
5.	Estimated dismantling costs to be incurred after 7 years	3,00,000
		43,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of Rs. 2,00,000 and operating losses before commercial production amounting to Rs. 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(PRACTICAL QUESTION 6 – SM)

Problem No. 18 Answer:

AS 10 states that the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

Further, the standard provides that the standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. The cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalization of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalized as a part of overall cost of the project. From this, it can be concluded that, in the given case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalized as part of the items of property, plant and equipment of the refinery.

(RTP-MAY 2021 -17(B))

(EXAM QP-NOV 2019-1(C))

17. AS-16-BORROWING COST

Problem No. 1 Answer:

Qualifying Asset as per AS 16 = Rs. 50 lakhs (construction of a shed)

Borrowing cost to be capitalised = 18L x 50/120 = Rs. 7.5 lakhs

Interest to be debited to Profit or Loss account = Rs. (18 – 7.5) lakhs = Rs. 10.5 lakhs

(SM –ILLUSTRATION -1)

Problem No. 2 Answer:

(i) Computation of weighted average accumulated expenses

	Rs.
Rs. 2,00,000 x 12 / 12	2,00,000
Rs. 2,50,000 x 9 / 12	1,87,500
Rs. 4,50,000 x 6 / 12	2,25,000
Rs. 1,20,000 x 1 / 12	10,000
	6,22,500

(ii) Calculation of weighted average interest rate other than for specific borrowings

Amount of loan (Rs.)	Rate of interest	Amount of interest (Rs.)
5,00,000	11%	55,000
9,00,000	13%	1,17,000
14,00,000		**1,72,000**
Weighted average rate of interest 1,72,000/ 14,00,000 X 100		12.285% (approx)

(iii) Interest on weighted average accumulated expenses

	Rs.
Specific borrowings (Rs. 1,00,000 x 10%)	10,000
Non-specific borrowings (Rs. 5,22,500 x 12.285%)	64,189
Amount of interest to be capitalized	**74,189**

(iv) Total expenses to be capitalised for building.

	Rs.
Cost of building Rs. (2,00,000 + 2,50,000 + 4,50,000 + 1,20,000)	10,20,000
Add: Amount of interest to be capitalised	74,189
	10,94,189

(v) Journal Entry

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31.12. 20X1	Building account To Bank account (Being amount of cost of building and borrowing cost thereon capitalised)	Dr.	10,94,189	 10,94,189

(SM –ILLUSTRATION -2)

Problem No. 3 Answer:

As per para 6 of AS 16 'Borrowing Costs', borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

A qualifying asset is an asset that necessary takes a substantial period of time to get ready for its intended use or sale.

The treatment for total interest amount of Rs. 52.20 lakhs can be given as:

Purpose	Type of Asset	Interest to be capitalised	Interest to be charged to profit and loss account
Modernisation and renovation of plant and machinery	Qualifying asset	(52.20x406)/580=36.54	
Advance to supplies for additional assets	Qualifying asset	(52.20x58)/580=5.22	
Working Capital	Not a qualifying asset		(52.20x116)/580=10.44
		41.76	**10.44**

NOTES:

1. A substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case.
2. It is assumed in the above solution that the modernisation and renovation of plant and machinery will take substantial period of time (i.e. more than twelve months). Regarding purchase of additional assets, the nature of additional assets has also been considered as qualifying assets. Alternatively, the plant and machinery and additional assets may be assumed to be non-qualifying assets on the basis that the renovation and installation of additional assets will not take substantial period of time. In that case, the entire amount of interest, Rs. 52.20 lakhs will be recognised as expense in the profit and loss account for year ended 31st March, 20X2.

(SM –ILLUSTRATION -3)

Problem No. 4 Answer:

As per AS 13 (Revised) "Accounting for Investments", the cost of investment includes acquisition charges such as brokerage, fees and duties. In the present case, Take Ltd. has used borrowed funds for purchasing shares of its subsidiary company Give Ltd. Rs. 4 lakhs interest payable by Take Ltd. to State Bank of India cannot be called as acquisition charges, therefore, cannot be constituted as cost of investment.

Further, as per para 3 of AS 16 "Borrowing Costs", a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Since, shares are ready for its intended use at the time of sale, it cannot be considered as qualifying asset that can enable a company to add the borrowing cost to investments. Therefore, the directors of Take Ltd. cannot capitalise the borrowing cost as part of cost of investment. Rather, it has to be charged to the Statement of Profit and Loss for the year ended 31st March, 20X2.

(SM –ILLUSTRATION -4)

Problem No. 5 Answer:

According to AS 16, Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use.

<u>The treatment of interest by Amazing Construction Ltd. can be shown as</u>:

	Qualifying Asset	Interest to be capitalised	Interest to be charged to Profit & Loss A/c	
Construction of sea-link	Yes	62,50,000		[80,00,000x(25/32)]
Purchase of equipment and machineries	No		7,50,000	[80,00,000x(3/32)]
Working capital	No		5,00,000	[80,00,000x(2/32)]
Purchase of vehicles	No		1,25,000	[80,00,000x(0.5/32)]
Advance for tools, cranes etc.	No		1,25,000	[80,00,000x(0.5/32)]
Purchase of technical know-how	No		2,50,000	[80,00,000x(1/32)]
Total		62,50,000	17,50,000	

(SM PRACTICAL PROBLEM-12)

Problem No. 6 Answer:

AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2021) i.e. Rs. 18 lakhs alone can be capitalized. It cannot be extended to Rs. 25 lakhs.

(RTP-NOV-2021-20)

Problem No. 7 Answer:

Para 10 of AS 16 'Borrowing Costs' states that to the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Vital Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2019-20 should be calculated as follows:

Actual interest for 2019-20 (10% of Rs. 150 crores)	15.00 crores
Less: Income on temporary investment from specific borrowings	(1.50 crores)
Borrowing costs to be capitalized during year 2019-2020	13.50 crores

(RTP-NOV-2020-20)

18. AS-22 ACCOUNTING FOR TAXES ON INCOME

Problem No. 1 Answer:

The purchase of machine at a cost of Rs. 1,50,000 in 20X1 gives rise to a tax saving of Rs. 60,000. If the cost of the machine is spread over three years of its life for accounting purposes, the amount of the tax saving should also be spread over the same period as shown below:

Statement of Profit and Loss

(for the three years ending 31st March, 20X1, 20X2, 20X3)

(Rupees in thousands)

Profit before depreciation and taxes	200	200	200
Less: Depreciation for accounting purposes	50	50	50
Profit before taxes	150	150	150
Less: Tax expense			
Current tax			
0.40 (200 – 150)	20		
0.40 (200)		80	80
Deferred tax			
Tax effect of timing differences originating during the year 0.40 (150 – 50)	40		

Tax effect of timing differences reversing during the year		(20)	(20)
0.40 (0 – 50)	60	60	60
Tax expense	90	90	90
Profit after tax	100	50	0
Net timing differences	40	20	0
Deferred tax liability			

In 20X1, the amount of depreciation allowed for tax purposes exceeds the amount of depreciation charged for accounting purposes by Rs. 1,00,000 and, therefore, taxable income is lower than the accounting income. This gives rise to a deferred tax liability of Rs. 40,000. In 20X2 and 20X3, accounting income is lower than taxable income because the amount of depreciation charged for accounting purposes exceeds the amount of depreciation allowed for tax purposes by Rs. 50,000 each year. Accordingly, deferred tax liability is reduced by Rs. 20,000 each in both the years. As may be seen, tax expense is based on the accounting income of each period.

In 20X1, the profit and loss account is debited and deferred tax liability account is credited with the amount of tax on the originating timing difference of Rs. 1,00,000 while in each of the following two years deferred tax liability account is debited and profit and loss account is credited with the amount of tax on the reversing timing difference of Rs. 50,000.

The following Journal entries will be passed:

Year 20X1

Profit and Loss A/c Dr. 20,000

To Current tax A/c 20,000

(Being the amount of taxes payable for the year 20X1 provided for)

Profit and Loss A/c Dr. 40,000

To Deferred tax A/c 40,000

(Being the deferred tax liability created for originating timing difference of Rs. 1,00,000)

Year 20X2

Profit and Loss A/c Dr. 80,000

To Current tax A/c 80,000

(Being the amount of taxes payable for the year 20x2 provided for)

Deferred tax A/c Dr. 20,000

To Profit and Loss A/c 20,000

(Being the deferred tax liability adjusted for reversing timing difference of Rs. 50,000)

Year 20X3

Profit and Loss A/c Dr. 80,000

To Current tax A/c 80,000

(Being the amount of taxes payable for the year 20x3 provided for)

Deferred tax A/c Dr. 20,000

To Profit and Loss A/c 20,000

(Being the deferred tax liability adjusted for reversing timing difference of Rs. 50,000)

In year 20X1, the balance of deferred tax account i.e., Rs. 40,000 would be shown separately from the current tax payable for the year . In Year 20X2, the balance of deferred tax account would be Rs. 20,000 and be shown separately from the current tax payable for the year as in year 20X1. In Year 20X3, the balance of deferred tax liability account would be nil.

(Illustarion-1 in AS text)

Problem No. 2 Answer:

If the rate of tax changes, it would be necessary for the enterprise to adjust the amount of deferred tax liability carried forward by applying the tax rate that has been enacted or substantively enacted by the balance sheet date on accumulated timing differences at the end of the accounting year.

The deferred tax liability carried forward each year would appear in the balance sheet as under:

31st March, 20X1 = 0.40 (1,00,000) = RS.40,000

31st March, 20X2 = 0.35 (50,000) = RS.17,500

31st March, 20X3 = 0.38 (Zero) = RS.Zero

Accordingly, the amount debited/(credited) to the profit and loss account (with corresponding credit or debit to deferred tax liability) for each year would be as under:

31st March, 20X1 Debit = RS. 40,000

31st March, 20X2 (Credit) = RS.(22,500)

31st March, 20X3 (Credit) = RS.(17,500)

Problem No. 3 Answer:

Table showing calculation of deferred tax asset / liability

Particulars	Amount	Timing differences	Deferred tax	Amount @ 50%
	Rs.			Rs.
Excess depreciation as per tax records (? 5,00,000-? 2,00,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	30,000	Timing	Deferred tax asset	(15,000)
Net deferred tax liability				1,35,000

(SM)

Problem No. 4 Answer:

Statement of Profit and Loss

	31.3.20X1	31.3.20X2	31.3.20X3
	Rs.	Rs.	Rs.
Profit (Loss)	(2,00,000)	1,00,000	1,20,000
Less: Current tax (20,000 x 40%)			(8,000)
Deferred tax:			
Tax effect of timing differences originating during the year (2,00,000 x 40%)	(80,000)		

Tax effect of timing differences reversed/adjusted during the year (1,00,000 x 40%)		40,000	40,000
Profit (Loss) After Tax Effect	(1,20,000)	60,000	72,000

(**SM)**

Problem No. 5 Answer:

Omega Limited.

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
20X0-20X1	11,00,000	7,00,000	4,00,000	1,40,000
20X1-20X2	16,00,000	18,00,000	2,00,000	70,000
20X2-20X3	21,00,000	23,00,000	NIL	NIL
	48,00,000	48,00,000		

(**SM)**

Problem No. 6 Answer:

Tax as per accounting profit 6,00,000X20%= Rs. 1,20,000

Tax as per Income-tax Profit 60,000X20% = Rs. 12,000

Tax as per MAT 3,50,000X7.50%= Rs. 26,250

Tax expense= Current Tax +Deferred Tax

Rs. 1,20,000 = Rs. 12,000+ Deferred tax

Therefore, Deferred Tax liability as on 31-03-20X1

= Rs. 1,20,000 – Rs. 12,000 = Rs. 1,08,000

Amount of tax to be debited in Profit and Loss account for the year 31-03-20X1

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= Rs. 12,000 + Rs. 1,08,000 + Rs. 14,250 (26,250 – 12,000)

= Rs. 1,34,250

(**SM)**

Problem No. 7 Answer :

As per AS 22, 'Accounting for Taxes on Income', deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognised to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognised in the year in which the timing differences originate.

However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first. Out of Rs. 200 lakhs timing difference due to depreciation, difference amounting Rs. 80 lakhs (Rs. 10 lakhs x 8 years) will reverse in the tax holiday period and therefore, should not be recognised. However, for Rs. 120 lakhs (Rs. 200 lakhs – Rs. 80 lakhs), deferred tax liability will be recognised for Rs. 48 lakhs (40% of Rs. 120 lakhs) in first year. In the second year, the entire amount of timing difference of Rs. 400 lakhs will reverse only after tax- holiday period and hence, will be recognised in full. Deferred tax liability amounting Rs. 160 lakhs (40% of Rs. 400 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be Rs. 208 lakhs (48 lakhs + 160 lakhs).

(**SM)**

19. AS-1 DISCLOSURE OF ACCOUNTING POLICIES

Problem No. 1 Answer :

As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Prashant Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

'The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 201X1-X2, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by Rs. 16,000. **(Illustration-1-SM)**

Problem No. 2 Answer :

As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

1. During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital- intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at Rs. 50 crores and the profit for the year is increased by Rs. 20 crores.
2. So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.
3. The company has decided to provide Rs. 10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by Rs. 10 crores. **(Illustration 2-SM)**

Problem No. 3 Answer :

AS 1 'Disclosure of Accounting Policies' recognises 'prudence' as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

Also as per AS 1, 'accrual' is one of the fundamental accounting assumptions. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be replaced in a disadvantageous position for non- payment of interest in respect of overdue amount.

From the aforesaid, it is apparent that the company has an obligation on account of the overdue interest. In this situation, the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. However, in respect of the overdue interest amounts, which are settled, the liability should be accrued to the extent of amounts settled. Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting. Therefore, the treatment, done by the company, of not providing the interest amount from due date to the date of repayment is not correct.

(Illustration 3-SM)

Problem No. 4 Answer :

1. **False**; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
2. **False**; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
3. **True**; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
4. **False;** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(**MAY 2020 RTP-16(b))**

Problem No. 5 Answer :

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 3.5 lakhs to Rs. 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2019-20:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by Rs. 1 lakh."

(RTP MAY 2020- 16(a))

Problem No. 6 Answer :

The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

The economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred although legal title has not been transferred. A Ltd. should record the sale and recognise the gain of Rs. 20 lakhs in its profit and loss account. The building should be derecognized,i.e eliminated in the financial statements.

(PRACTICAL QUESTION 1 – SM-ADVANCED ACCOUNTING)

COMMON QUESTIONS FOR ACCOUNTING STANDARDS

Problem No.1 Answer:

As per As 1, the fundamental accounting assumptions are: Going Concern, Consistency and Accruals

(Illustration 2)

Problem No.2 Answer:

As per AS 1, the Disclosures of Accounting Policies are: All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

If the fundamental accounting assumptions, viz, Going Concern, Consistency and Accruals, are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(Illustration 3)

Problem No.3 Answer:

The major considerations governing the selection and application of accounting policies are:

Prudence – Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement. These uncertainties may be regarding collectability of recoverable, number of warranty claims that may occur. Prudence means making of estimates that are required under conditions of uncertainty.

Substance over form – It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.

Materiality – Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/ user of financial statement.

(Illustration 4)

Problem No.4 Answer:

The suggestion of the accountant of Dee Ltd. is incorrect. As per AS 10, when fixed assets are revalued upwards, the increase on account of revaluation should be credited to Revaluation Surplus Account.

(Illustration 5)

Problem No.5 Answer:

Cost of new component: As the new component results in increased output, it would result in increasing the future benefits from the machine. So, the cost incurred Rs.85,000 should be capitalised.

Cost of dismantling and re-erection: Rs.38,000 incurred towards dismantling and re-erection should be charged to the Statement of Profit and Loss.

(Illustration 6)

Problem No.6 Answer:

When government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in the case of such grants. These are credited directly to shareholders' funds. So, Dee Ltd. should credit the amount of Rs.80,00,000 to capital reserve and the same would get reflected in the Balance Sheet.

(Illustration 9)

Problem No.7 Answer:

As per AS 12, the amount refundable in respect of government grant is related to specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In case the book value of the asset is increased, depreciation is provided on the revised book value.

Calculation of Depreciation for the years 2022-23 and 2023-24 Rs.'000

Cost of machine on 01.01.2020	4,485
Less: Grant from Government of India	735
Net cost of machine	3,750
Estimated useful life	4 years
Depreciation p.a. under straight line method $\left[\frac{3,750-1,536}{4}\right]$	553.5
Depreciation charged during 2020-21 and 2021-22 [553.5 × 2]	1,107
Book value of machine on 01.04.2022 [3,750 – 1,107]	2,643
Add: Refund of government grant during 2022-23	735
Revised Book value of machine	3,378
Remaining useful life of machine	2 years
Revised depreciation p.a. $\left[\frac{3,750-1,536}{2}\right]$	921

(Illustration 10)

Problem No.8 Answer:

In this case, the work got suspended due to temporary delay which is a necessary part of the construction process. Capitalisation of borrowing cost would continue during the extended period during which high water levels delay construction of the railway bridge, as such high water levels are common during the monsoon period in the geographic region involved.

So, the treatment done by Ms. Mathur, the company accountant is correct.

(Illustration 11)

Problem No.9 Answer:

In this case, only the factory shed is a Qualifying Asset (QA) as per AS 16. The amount of interest on borrowings and its treatment is presented below:

Particulars	Nature of asset	Interest capitalised	Interest charged to Income Statement
Purchase of equipment	Not a QA		3,51,000 [11.7 × 19.5/65]
Construction of factory shed	QA	4,68,000 [11.7 × 26/65]	
Advance for purchase of delivery vehicle	Not a QA		1,17,000 [11.7 × 6.5/65]
Working capital	Not a QA		2,34,000 [11.7 × 13/65]
Total		**4,68,000**	**7,02,000**

(Illustration 12)

Problem No.10 Answer:

Particulars	Nature of difference	DTA/ DTL
Unabsorbed depreciation	Timing Difference	DTA
Income tax penalty	Permanent Difference	Neither DTA nor DTL to be created
Interest on loan taken from scheduled bank accounted in the books, but not paid till the date of filing Return of Income.	Permanent Difference	Neither DTA nor DTL to be created

(Illustration 13)

Problem No.11 Answer:

Calculation of Current Tax (in Rs.Lakhs)

Particulars	2018-19	2019-20	2020-21	2021-22
Profit before tax	28.00	31.5	35.00	24.50
Timing Differences	3.15	2.10	(0.70)	Nil
Permanent Differences	3.50	2.80	3.15	4.20
Taxable Income	34.65	36.40	37.45	28.70
Corporate tax rate	40%	38%	35%	30%
Current Tax (Taxable Income Tax rate)	13.86	13.832	13.1075	8.61

(Illustration 14)

Problem No.12 Answer:

Timing Difference = Additional depreciation as per Income Tax Act (-) Preliminary expenditure to be allowed

= Rs.(20,00,000 – 8,00,000) - 1,50,000 = Rs.10,50,000.

Deferred Tax Liability = Rs.10,50,000 40% = Rs.4,20,000.

(Illustration 15)

20. LEASE ACCOUNTING

Problem 1 Answer

1. If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease.
2. The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.
3. Since the asset is procured only for the use of lessee, it is a finance lease.
4. The lease is a finance lease if X = Y, or where X substantially equals Y.

(SM)

Problem 2 Answer:

Interest rate implicit on lease is computed below:

Interest rate implicit on lease is a discounting rate at which present value of minimum lease payments and unguaranteed residual value is Rs. 2 lakhs.

PV of minimum lease payments and unguaranteed residual value at guessed rate 10%

Year	MLP+ UGR	DF (10%)	PV
	Rs.		Rs.
1	50,000	0.909	45,450
2	50,000	0.826	41,300
3	50,000	0.751	37,550
4	50,000	0.683	34,150
5	50,000	0.621	31,050
5	25,000	0.621	15,525
5	15,000	0.621	9,315
			2,14,340

PV of minimum lease payments and unguaranteed residual value at guessed rate 14%

Year	MLP+ UGR Rs.	DF (14%)	PV Rs.
1	50,000	0.877	43,850
2	50,000	0.769	38,450
3	50,000	0.675	33,750
4	50,000	0.592	29,600
5	50,000	0.519	25,950
5	25,000	0.519	12,975
5	15,000	0.519	7,785
			1,92,360

Interest rate implicit on lease is computed below by interpolation:

Interest rate implicit on lease =10% +(14%-10%/ 2,14,340- 1,92,360) X (2,14,340 - 2,00,000)

Problem 3 Answer:

Present value of minimum lease payment is computed below:

YEAR	MLP + UGR Rs.	DF (12.6%)	PV Rs.
1	50,000	0.890	44,500
2	50,000	0.790	39,500
3	50,000	0.700	35,000
4	50,000	0.622	31,100
5	50,000	0.552	27,600
5	25,000	0.552	13,800
			1,91,500

Present value of minimum lease payment = Rs.1,91,500

Fair value of leased asset = Rs.2,00,000.

The accounting entry at the inception of lease to record the asset taken on finance lease in books of lessee is suggested below:

			Rs.	**Rs.**
	Asset A/c Dr. To Lessor (Lease Liability) A/c (Being recognition of finance lease as asset and liability)		1,91,500	 1,91,500

Problem 4 Answer

Accounting entries in year 1 to recognise the finance charge in books of lessee are suggested below:

			Rs.	**Rs.**
	Finance Charge A/c Dr. To Lessor (Being finance charge due for the year)		24,129	 24,129
	Lessor Dr. To Bank A/c (Being payment of lease rent for the year)		50,000	 50,000
	P & L A/c Dr. To Finance Charge A/c (Being recognition of finance charge as expense for the year)		24,129	 24,129

Problem 5 Answer

According to para 11 of AS 19 “Leases”, the lessee should recognise the lease as an asset and a liability at an amount equal to the lower of the fair value of the leased asset at the inception of the finance lease and the present value of the minimum lease payments from the standpoint of the lessee.

In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment Rs.	Implicit interest rate (Discount rate @15%)	Present value Rs.
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	7,50,000	0.5718	4,28,850
Total	26,25,000		18,55,850

Present value of minimum lease payments Rs. 18,55,850 is less than fair value at the inception of lease i.e. Rs. 20,00,000, therefore, the asset and corresponding lease liability should be recognised at Rs. 18,55,850 as per AS 19. **(SM)**

Problem 6 Answer

As per AS 19 on Leases, **unearned finance income** is the difference between (a) the **gross investment** in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Where:

(a) Gross investment in the lease is the aggregate of

(i) minimum lease payments from the stand point of the lessor and

(ii) any unguaranteed residual value accruing to the lessor.

Gross investment = Minimum lease payments + Unguaranteed residual value

= [Total lease rent + Guaranteed residual value (GRV)] + Unguaranteed residual value (URV)

= [(Rs. 8,00,000 x 5 years) + Rs. 1,60,000] + Rs. 1,40,000 = Rs. 43,00,000 (a)

(b) Table showing present value of

(i) Minimum lease payments (MLP) and

(ii) Unguaranteed residual value (URV).

Year	MLP inclusive of URV Rs.	Internal rate of return (Discount factor @15%)	Present Value Rs.
1	8,00,000	0.8696	6,95,680
2	8,00,000	0.7561	6,04,880
3	8,00,000	0.6575	5,26,000

4	8,00,000	0.5718	4,57,440
5	8,00,000	0.4972	3,97,760
	1,60,000 *(GRV)*	0.4972	79,552
	41,60,000		27,61,312 (i)
	1,40,000 *(URV)*	0.4972	69,608 (ii)
	43,00.000	(i)+ (ii)	28,30,920(b)

Unearned Finance Income (a) - (b) = Rs. 43,00,000 – Rs. 28,30,920= Rs. 14,69,080.

(SM)

Problem 7 Answer

The accounting entries for year 1 in books of lessee are suggested below:

			Rs.	Rs.
	Lease Rent A/c Dr. Lease Equalization A/c Dr. To Lessor (Being lease rent for the year due)		15,000 10,000	 25,000
	Lessor Dr. To Bank A/c (Being payment of lease rent for the year)		25,000	 25,000
	P & L A/c Dr. To Lease Rent A/c (Being recognition of lease rent as expense for the year)		15,000	 15,000

Since total lease rent due and recognised must be same, the Lease Equalisation A/c will close in the terminal year. Till then, the balance of Lease Equalisation A/c can be shown in the balance sheet under "Current Assets" or Current Liabilities" depending on the nature of balance.

(SM-PRACTICAL PROBLEM 16)

Problem 8 Answer

(i) Annual lease rent

Total lease rent

= 130% of Rs. 1,50,000 x <u>Output during lease period</u>

Total output

= 130% of Rs. 1,50,000 x (40,000 +50,000+ 60,000)/(40,000 + 50,000 + 60,000 + 80,000 + 70,000)

= 1,95,000 x 1,50,000 units/3,00,000 units = Rs. 97,500

Annual lease rent = Rs. 97,500 / 3 = Rs. 32,500

(ii) Lease rent Income to be recognized in each operating year

Total lease rent should be recognised as income in proportion of output during lease period, i.e. in the proportion of 40 : 50 : 60.

Hence income recognised in years 1, 2 and 3 will be as:

Year 1 Rs. 26,000,

Year 2 Rs. 32,500 and

Year 3 Rs. 39,000.

(iii) Depreciation for three years of lease

Since depreciation in proportion of output is considered appropriate, the depreciable amount Rs. 1,50,000 should be allocated over useful life 5 years in proportion of output, i.e. in proportion of 40 : 50 : 60 : 80 : 70 .

Depreciation for year 1 is Rs. 20,000, year 2 = 25,000 and year 3 = 30,000**.**

Problem 9 Answer

<u>Following will be the treatment in the given cases:</u>

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

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

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

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

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

(SM)

PROBLEMS EXCLUSIVE FROM CMA SOURCE

Problem 1 Answer

As per AS-19, lease payments under an operating lease should be recognised as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

The pattern of payment, in this case, does not follow straight line basis, rather it is arising towards the end of the lease period. For accounting purpose, such effect should be neutralized i.e. the total payment of Rs.63,00,000 in the last 3 years should be spread over the entire lease period of 5 years i.e. Rs.12,60,000 should be charged to the statement of profit and loss for each year.

(Illustration 1)

Problem 2 Answer

(a) Present value of unguaranteed residual value = Rs.2,00,000 × 0.7513 = Rs.1,50,260

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

Present value of lease payments as percentage of Fair value = 13,49,740 / 15,00,000 = 90% (approx.)

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

(b) Annual lease payments = Present value of lease payments / PVAF10%, 3

= 13,49,740 / 2.4868 = Rs.5,42,762 (approx.)

Gross investment in lease = Rs.[(Rs.5,42,762 × 3) + 2,00,000] = Rs.18,28,286

∴ Unearned finance income = Excess of 'Gross investment in lease' over 'Cost of the printing machine'

= Rs.(18,28,286 – 15,00,000)

= Rs.3,28,286

(Illustration 2)

THE END