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DEPARTMENTAL ACCOUNTS

QUESTION NO 1 (CROSS TRANSFERS)

Telarad & co. has two Departments A and B. From the following particulars prepare Departmental trading account and consolidated trading account for the year ending 31st march 1993:

	Department A Rs.	Department B Rs.
Opening stock (at cost)	1,00,000	60,000
Purchases	4,60,000	3,40,000
Carriage	10,000	10,000
Wages	60,000	40,000
Sale (excluding inter-transfers)	7,00,000	5,60,000
Purchased goods transferred:		
By B to A	50,000	
By A to B		40,000
Finished goods transferred:		
By B to A	1,75,000	
By A to B		2,00,000
Return of finished goods:		
By B to A	50,000	
By A to B		35,000
Closing stock:		
Purchased goods	22,500	30,000
Finished goods	1,20,000	70,000

Purchased goods have been transferred at their respective Departmental purchase cost and finished goods at Departmental market price. 20% of the finished stock (closing) at each Department represented finished goods received from the other Department.

QUESTION NO 2 (SIMPLE CASE OF CONTENT RATIO)

Green & co. has two Departments P & Q. Department P sells goods to Department Q at normal selling prices. From the following particulars prepare Departmental trading and Profit and Loss account for the year ended 31.3.1994 and also ascertain the net Profit to be transferred to the Balance Sheet:

Particulars	Department P Rs.	Department Q Rs.
Opening stock	1,00,000	NIL
Purchases	23,00,000	2,00,000
Goods from department P	--	7,00,000

Wages	1,00,000	1,60,000
Traveling expenses	10,000	1,40,000
Closing stock at cost to the	5,00,000	1,80,000
department	23,00,000	15,00,000
Sales	20,000	16,000
Printing and stationary		

The following expenses incurred for both the Departments were not apportioned between the Departments:

(a) Salaries Rs.270000.

(b) Advertisement expenses Rs. 90000.

(c) General expenses Rs.800000

(d) Depreciation @ 25 % on the machinery value of Rs.48000.

Advertisement expenses are to be apportioned in the turnover ratio; Salaries in 2:1 ratio and Depreciation in 1:3 ratio between the Departments P and Q. General expenses are to be apportioned in 3:1 ratio.

QUESTION NO 3 (MANAGER COMMISSION)

Department X sells goods to Department Y at a Profit of 25% on cost and to Department Z at 10% Profit on cost. Department Y sells goods to X and Z at a Profit of 15% and 20% on sales, respectively. Department z charges 20% and 25% Profit on cost to Department X and Y respectively.

Department Managers are entitled to 10 % commission on net Profit subject to unrealized Profit on Departmental sales being eliminated. Departmental Profits after charging managers commission, but before adjustment of unrealized Profit are as under:

Department X	36000
Department Y	27000
Department Z	18000

Stocks lying at different Departments at the end of the year are as under:

	Department X Rs.	Department Y Rs.	Department Z Rs.
Transfer from Department X	--	15,000	11,000
Transfer from Department Y	14,000	--	12,000
Transfer from department Z	6,000	5,000	--

Find out the correct Departmental Profits after charging managers commission.

QUESTION NO 4

A firm has two Departments, Timber and Furniture. Furniture was made by the firm itself out of timber supplied by Timber Department at its usual selling price. From the following figures, prepare Departmental trading and profit and loss account for the year 2002:

	Timber	Furniture
Opening stock (1.1.2002)	3,00,000	50,000
Purchases	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to furniture Department	3,00,000	-
Expenses: Manufacturing	-	60,000
Selling	20,000	6,000
Closing stock	2,00,000	60,000

The stocks in the furniture Department may be considered as consisting 75% of timber and 25% other expenses. Timber Department earned gross profit at the rate of 20% in 2001. General expenses of the business as a whole came to Rs.1,00,000.

ANSWER:

TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING ON 31.12.2002

Particulars	Timber Department	Furniture Department	Particulars	Timber Department	Furniture Department
To opening stock	3,00,000	50,000	By sales	22,00,000	4,50,000
			By trans.	3,00,000	-
To purch.	20,00,000	15,000	By closing stock	2,00,000	60,000
To trans.	-	3,00,000			
To manuf. exp.	-	60,000			
To gross profit	4,00,000	85,000			
	27,00,000	5,10,000		27,00,000	5,10,000
To selling exp.	20,000	6,000	By gross profit	4,00,000	85,000
To net profit	3,80,000	79,000			
	4,00,000	85,000		4,00,000	85,000

GENERAL PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31.12.2002

Particulars	Rs.	Particulars	Rs
To stock reserve (closing stock)	7,200	By net profit: (3,80,000+79,000)	4,59,000
To general expenses	1,00,000	By stock reserve (opening stock)	7,500
To net profit	3,59,300		
	4,66,500		4,66,500

Working notes:

Calculation of stock reserve:

(on opening stock of furniture)

75% of stock is Timber i.e, portion of timber included in furniture= 50,000*75/100=37,500

stock reserve=37500*20/100=7500

(on closing stock of furniture)

G.P.ratio of timber Department:= 4,00,000/25,00,000*100=16%

Stock reserve=60,000*75%*16%=7,200

QUESTION NO 5 (PARTNERSHIP MIXED WITH DEPARTMENTAL)

Messrs D, B and R carried on a business of Drapers and Tailors in Delhi; D was in-charge of Department "A" dealing in cloth, B of Department "B" for selling garments and R of Department "C" the tailoring section. It had been agreed that each of the three partners would receive 75% of the Profits disclosed by the accounts of the Department of which he was in charge and he balance of the Profits would be shared in the proportion: D $\frac{1}{2}$, B $\frac{1}{4}$ and R $\frac{1}{4}$. The following is the Trading and Profit and Loss Account of the firms for the six months ended March 31, 1999.

Trading and Profit and Loss Account

	Rs.	Rs.		Rs.	Rs.
To Opening stock:			By Sales:		
Cloth (A)	37,890		Cloth (A)	1,80,000	
Ready-made Garments (B)	24,000		Ready-made Garments (B)	1,30,000	
Tailoring Jobs (C)	20,000	81,890	Tailoring Jobs (C)	90,000	4,00,000
To Purchase:			By Discount received		800
Cloth (A)	1,40,700		By Closing stock:		
Ready-made Garments (B)	80,600		Cloth (A)	45,100	

Tailoring Jobs (C)	44,400	2,65,700	Ready-made Garments (B)	22,300	
To Salaries & Wages		48,000	Tailoring Jobs (C)	21,600	89,000
To Advertising		2,400	[Including Rs.5,700 for goods transferred from department (A)]		
To Rent		10,800			
To Discount allowed		1,200			
To Sundry exp.		12,000			
To Depreciation on Furniture and Fittings		750			
Net profit		67,060			
		4,89,800			4,89,800

After consideration of the following prepare Departmental accounts and Profit and Loss appropriation account:

(i) Cloth of the value of Rs.10700 and other goods of the value of Rs.600 were transferred at selling price by Departments A and B respectively to Department C.

(ii) Cloth and garments are sold in the show- room. Tailoring work is carried out in the workshop.

(iii) The details of salaries and wages were as follows:

(a) General office 50%, show room 25% and 25 % for the workshop, which is for tailoring.

(b) Allocate general office Expenses, in the proportion of 3:2:1 among the Departments A, B, C.

(c) Distribute show-room expenses in the proportion of 1:2 between Departments A and B.

(iv) The workshop rent is Rs.1000 per month. The rent of the general office and show room is to be divided equally between Department A and B.

(v) Depreciation charges are to be allocated equally amongst the three Departments.

(vi) All other expenses are to be allocated on the basis of turnover.

(vii) Discounts received are to be credited to the three Departments as follows: A: Rs.400; B: Rs.250; C: Rs.150.

(viii) The opening stock of Department C does not include any goods transferred from Department A.

QUESTION NO 6 (MARK UP ACCOUNTS)

Southern store Limited is a retail store operating two Departments. The company maintains a memorandum stock account and memorandum mark up account for each of the Departments. Supplies issued to the Departments are debited to the memorandum stock account of the Department at cost plus the mark up and Departmental sales are credited to this account. The mark up on supplies issued to the Departments is credited to the mark up account for the Department. When it is necessary; to reduce the selling price below the normal selling price, i.e., cost plus mark up, the reduction (mark down) is entered in the memorandum stock account and in the mark up account. Department Y has a mark up of 33-1/3 % on cost and Department Z 50% on cost.

The following information has been extracted from the records of southern store LTD. for the year ended 31st December 1988:

	Department Y	Department Z
Stock 1st January 1988, at cost	24,000	36,000
Purchases	1,62,000	1,90,000
Sales	2,10,000	2,85,000

(i) The stock of Department Y at 1st January 1988 includes goods, on which the selling price has been marked down by Rs.510. These goods were sold in January 1988 at the reduced price.

(ii) Certain goods purchased in 1988 for Rs.2700 for Department Y, were transferred during the year to Department Z, and sold for Rs.4050. Purchases and sales are recorded in the purchases of Department Y and the sales of Department Z respectively, but no entries in respect of the transfer have been made.

(iii) Goods purchased in 1988 were marked down as follows:

	Department Y	Department Z
Cost	8,000	21,000
Mark down	800	4,100

At the end of the year there were some items in the stock of Department Z, which had been marked down to Rs.2300. With this exception all goods marked down in 1988 were sold during the year at the reduced prices.

(iv) During stock taking at 31st December 1988 goods, which had cost Rs.240 were found to be missing in Department Y. It was determined that the Loss should be regarded as irrecoverable.

(v) The closing stock in both Departments is to be valued at cost for the purpose of the annual accounts.

You are requested to prepare for each Department for the year ended 31st December 1988:

(a) A Trading Account

(b) A Memorandum stock Account and,

(c) A Memorandum Mark up Account.

QUESTION NO 7 (UNIFORM GP RATIO)

The following purchases were made during the year 1989 by a business house having three Departments:

Department A	1000 units
Department B	2000 units
Department C	2400 units

At a total cost of Rs.1,00,000

Stock on 1st January 1989 were:

Department A	120 units
Department B	80 units
Department C	152 units

The sales during, 1989 were:

Department A 1020 units at Rs.20 each
Department B 1920 units at Rs.22.50 each
Department C 2496 units at Rs.25 each

The rate of gross Profit is the same in each case. Prepare Departmental Trading account for the year 1989.

QUESTION NO 8 (CHAIN TRANSFERS)

Complex Limited has 3 departments A, B, and C. the following information is provided:

	A	B	C
	Rs.	Rs.	Rs.
Opening stock	3,000	4,000	6,000
Consumption of direct materials	8,000	12,000	-
Wages	5,000	10,000	-
Closing stock	4,000	14,000	8,000
Sales	-	-	34,000

Stock of each department is valued at cost to the department concerned, stocks of A department are transferred to B at a margin of 50% above departmental cost, stocks of B department are transferred to C department at a margin of 10% above departmental cost. Other expenses were:

Salaries	2,000
Printing and stationary	1,000
Rent	6,000
Interest paid	4,000
Depreciation	3,000

Allocate expenses in the ratio of departmental gross profit. Opening figures of reserves for unrealized profits on departmental stock were:

Department B Rs.1,000
Department C Rs.2,000

Prepare departmental trading and Profit and Loss account for the year ending March 31, 1999.

QUESTION NO 9 (UNIFORM GP RATIO)

Shankar is earning uniform rate of gross profit in all the three departments he is handling. Following are the relevant details:-

Department A	15000 packets
Department B	20000 packets
Department C	15000 packets

The total cost to purchases came to Rs.6,00,000.

Sales:-

Department A	16,000 packets at Rs.20 per packet
Department B	22,000 packets at Rs.15 per packet
Department C	17,000 packets at Rs.10 per packet

Details of opening stock:

Department A	4,000 packets
Department B	5,000 ,,
Department C	4,000 ,,

You are required to prepare the trading account for the three departments in a columnar form. Working required:

(i) Calculation of gross profit for each department assuming no stock situations.
(ii) Department wise purchase price and value and
(iii) Valuation of opening and closing stocks.

QUESTION NO 10 (APPLICATION OF GP RATIO ON NORMAL SELLING PRICE)

A Limited has three departments X, Y, and Z. from the following particulars given by A Limited, compute:-

(i) The value of stock as on 31st March 1999 and
(ii) The departmental results

1.	X	Y	Z
	Rs.	Rs.	Rs.
Stock (opening)	12,000	18,000	6,000
Purchases	73,000	62,000	24,000
Actual sales	86,250	79,700	37,300
Gross profit on normal selling price	20%	25%	33.333%

2. During the year certain goods were sold at a discount given below and these discounts were reflected in the values of sale stated above:-

	X	Y	Z
Sales at normal selling price	5,000	1,500	500

Sales at actual price 3,750 1,200 300

(Ans:- closing stock: X=15,000, Y= 20,000, Z= 5,000)
profit of X=16,250, Y=19,700, Z=12,300)

QUESTION NO 11(CHAIN TRANSFER) (same question 8)

FGH Ltd. has three departments I.K.J. The following information is provided for the year ended 31.3.2004:

	I Rs	J Rs	K Rs
Opening stock	5,000	8,000	19,000
Opening reserve for unrealized profit	--	2,000	3,000
Material consumed	16,000	20,000	--
Direct Labour	9,000	10,000	--
Closing stock	5,000	20,000	5,000
Sales	--	--	80,000
Area occupied (Sq. mtr.)	2,500	1,500	1,000
No. of employees	30	20	10

Stocks of each department are cost to the department concerned. Stocks of I are transferred to J at cost plus 20% and stocks of J are transferred to K at a Gross Profit of 20% on sales. Other common expenses are Salaries and Staff Welfare Rs18,000 Rent Rs6,000.

Prepare Departmental Trading, Profit and Loss Account for the year ending 31.3.2004.

ANSWER:

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31.3.2004

PARTICULRS	I (Rs.)	J (Rs.)	K(Rs.)	PARTICULRS	I (Rs.)	J (Rs.)	K(Rs.)
To opening stock	5,000	8,000	19,000	By internal transfer	30,000	60,000	-
To materials	16,000	20,000	-	By sales	-	-	80,000
To D.Labour	9,000	10,000	-	By closing stock	5,000	20,000	5,000
To Internal trans.	-	30,000	60,000				
To gross profits	5,000	12,000	6,000				
	35,000	70,000	85,000		35,000	70,000	85,000
PARTICULRS	**I (Rs.)**	**J (Rs.)**	**K(Rs.)**	**PARTICULRS**	**I (Rs.)**	**J (Rs.)**	**K(Rs.)**
To salaries (30:20:10)	9,000	6,000	3,000	By gross profits	5,000	12,000	6,000
To Rent (Area)	3,000	1,800	1,200	By net loss	7,000	-	-
To net profits		4,200	1,800				
	12,000	12,000	6,000		12,000	12,000	6,000

GENERAL P & L ACCOUNT

Particulars	Rs	Particulars	Rs
To net loss	7,000	By net profit (J+K)	6,000
To stock reserve		By stock reserve (J+K)	5,000
J	1,667		
K	1,333		
To net profit	1,000		
	-------------		---------------
	11,000		11,000

WORKING NOTES:

(1) Calculation of gross profit:

	Department I	Department J
Opening stock	5,000	8,000
Materials and labours	25,000	30,000
	------------------	-----------------
	30,000	38,000
Less: Closing Stock	(5,000)	(20,000)
Add transfer	-	30,000
	-----------------	----------------
Total cost of sales	25,000	48,000
Gross profit:		
25,000*1/5	5,000	-
48,000*1/4	-	12,000

(2) Stock Reserve J

Cost	30,000
Transfer from I	30,000
Closing stock	20,000

Proportion of stock 20,000*30,000/60,000=10,000

Stock reserve 10,000*20/120=1,667

(3) Stock reserve K

Stock transferred from J	5,000
Less: profit 20%	(1,000)

Cost of J	4,000

Proportion of stock 4000*30,000/60,000=2,000

Stock reserve 2,000*20/120=333

Total reserve = 1,000+333=1333

(4) Salaries and welfare exp have been allocated on the basis of number of employees and rent has been allocated on the basis of area occupied.

(STOCK RESERVE CAN ALSO BE COMPUTED ALTERNATIVELY 1000 & 2000)

AS WE DISCUSSED IN CLASS IN QUESTION 8.

QUESTION NO 12 (PREVIOUS YEAR GP RATIO)

Snow white Ltd. has two departments- cloth and Readymade clothes. Ready made lothes are made by the firm itself out of cloth supplied by the cloth department iat its usual selling price. From the following figures, prepare departmental trading and profit and loss account for the year ended 31st March:

	Cloth department	Readymade clothes
Opening stock on 1st April	3,00,000	50,000
Purchases	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to readymade clothes department	3,00,000	-
Manufacturing expenses	-	60,000
Selling expenses	20,000	6,000
Closing stock on 31st March	2,00,000	60,000

The stock in the readymade clothes department may be considered as consisting of 75% cloth and 25% other expenses. The cloth department earned gross profit at the rate of 15% during the previous year. General expenses of the business as a whole came to Rs.1,10,000.

QUESTION NO 13

THE trading and profit and loss account of Gopa kishore for the year ending 31st March is as under:

Purchases	Rs.	Sales	Rs.
-Transistors	1,60,000	-Transistors	1,75,000
-Tape recorders	1,25,000	-Tape recorders	1,40,000
-Spare parts for repairs	80,000	-Spare parts for repairs	35,000
Salaries and wages	48,000		
Rent	10,800	stock on 31st March:	
Sundry expenses	11,000	transistors	60,100
Net profit	40,200	tape recorders	20,300
	4,75,000	spare parts for repairs	44,600
			4,75,000

Prepare departmental accounts for each of the three departments A, B and C mentioned above after taking into consideration the following :

(a) transistors and tape recorders are sold at the showroom. Servicing and repairs are carried out at workshop.

(b) Salaries and wages comprise as follows:

i. Show room 3/4th and

ii. Workshop 1/4th

iii. It was decided to allocate the showroom salaries and wages in ratio 1:2 between department A and B.

(c) Workshop rent is Rs.500 per month. Showroom rent is to be divided equally between departments A and B.

(d) Sundry expenses are to be allocated on the basis of the turnover of each department.

QUESTION NO 14 (SAME TO SAME AS QUESTION NO.5)

Samsare co, a firm has three departments L, M, and N which are under the charge of the partners X, Y and Z respectively. The following consolidated profit and loss account is given below:

Particulars	Rs.	Particulars	Rs.
To opening stocks (note 1)	81,890	By sales (note 7)	4,00,000
To purchases (note 2)	2,65,700	By closing stocks(note 8)	89,000
To salaries and wages (note 3)	48,000	By discounts received (note10)	800
To rent expenses(note 4)	10,800		
To selling expenses(note 5)	14,400		
To discount allowed(note 5)	1,200		
To depreciation (note 6)	750		
To net profit for the year	67,060		
	4,89,800		4,89,800

From the above account and following additional information, prepare the departmental profit and loss account for the year ended 31st march:

(a) Break up of opening stock departmentwise is : L Rs.37890, M Rs.24000 and N Rs.20000

(b) Total purchases were as under : L Rs.140,700, M Rs.80,600 and N Rs.44,400

(c) Salaries and wages include Rs.12,000 wages of department N. The balances salaries should be apportioned to the three departments as 4:4:1

(d) Rent is to be apportioned in the ratio of floor space which as to 2:2:5

(e) Selling expenses and discount allowed are to be apportioned in the ratio of turnover.

(f) Depreciation on assets should be equally charged to the three departments.

(g) Sales made by three departments were: L Rs.1,80,000, M Rs.1,30,000 and N Rs.90,000.

(h) Break up of closing stock department wise is : L Rs.45,100, M Rs.22,300 and N Rs.21,600. The closing stock of department N includes Rs.5700 goods transferred from department L. however , opening stock does not include any goods transferred from other departments.

(i) Departments L and M sold goods worth Rs.10,700 and Rs.600 respectively to department N.

(j) Discounts received are traceable to departments :L Rs.400, M Rs.250 and N Rs.150.

(k) Partners are to share profits as under :
   a. 75% of the profits of the departments L, M and N to the respective partner incharge
   b. balance profits tobe credited as 2:1:1.

QUESTION NO15 (MARK UP ACCOUNTS)

Fairways Ltd. is a retail organization with several departments. Goods supplied to each department are debited to a memorandum, departmental stock account at cost plus a fixed percentage (mark up) to give the normal selling price. The mark up is credited to memorandum departmental mark up account. Any reduction in selling prices (mark down) required adjustment in the stock account and in mark up account. The mark up for department A for the last three years has been 40%.

Figures relevant to Department A for the year ended 30th june 2002 were as follows:

Stock on 1st July,2001 at cost	Rs.80,000
Purchases at cost	Rs.1,80,000
Sales	Rs.3,20,000

It is further ascertained that:

(a) The goods purchased in the period were marked down by Rs.1400 from a cost of Rs.16000. Marked down stock costing Rs.4000 remained unsold on 30th June 2002.
(b) Stock shortages at the year end, which had cost Rs.1200 were to be written off.
(c) Stock at 1st July 2001 including goods costing Rs.8200 had been sold during the year and had been marked down in the selling price by Rs.740. the remained stock had been sold during the year.
(d) The departmental closing stock is to be valued at cost subject to adjustments for markup and markdown.

You are required to prepare:

(a) A departmental trading account for A department for the year ended june 2002 in head office books.
(b) A memorandum stock for the year
(c) A memorandum mark up account for the year

QUESTION NO 16 (PRODUCTION DEPARTMENTS WITH SERVICE DEPTT.)

MOON Ltd. has three departments. They are "cloth stitching department" "selling department " and "General administration deparments". Cloth department transfer its goods to selling department 20% profit on cost. From the following details, prepare departmental trading account and profit and loss account for the year ended 31st December 2002;

	Cloth stitching department	Selling department
Opening stock	1.,20,000	80,000
Purchases	5,00,000	-
Wages and other expenses	1,25,000	25,000

Closing stock	45,000	95,000
Sales	-	11,05,000

The expenses of general administration department are as follows:

Manager salary	@ 1000 per month
Clerk₹s salary (2 no.)	Rs.600 per month each
Maintenance expenses	Rs 9600

Apportioned general department expenses equally to the cloth stitching and selling department.

QUESTION NO 17 (CHAIN TRANSFERS)

Calculate stock reserve A,B and C are three departments:

	Content Ratio	Profit Ratio	Closing Stock
A	Nil	¼ of sales	15,000
B	2/10	1/5 of cost	22,000
C	5/15	not available	40,000

Assume A sales to B sales to C.

QUESTION NO 18 (PROBLEM WITHOUT STOCK RESERVE)

From the following trial balance prepare departmental trading and profit and loss account for the year ending 31.03.2004:

		Rs (in ₹000)
Stock 1st April 2003	Department A	1,700
	Department B	1,450
Purchases	Department A	3,540
	Department B	3,020
Sales	Department A	6,080
	Department B	5,125
Wages	Department A	820
	Department B	270
Rent, Rates and taxes and Insurance	-	939
Sundry expenses	-	360
Salaries	-	300
Lighting and Heating	-	210
Discounts allowed	-	222
Discounts received	-	65
Advertising	-	368
Carriage inward	-	234
Furniture and fitting	-	300
Machinery	-	2100
Sundry Debtors	-	606

Sundry creditors	-	1,860
Capital accounts	-	4,766
Drawings	-	450
Cash at bank		1,007

The following further information is available:

a. Internal Transfer of goods from A to B Department Rs.42,000.
b. The items rent, rates and taxes and insurance, sundry expenses, lighting and heating, salaries and carriage are to be apportioned 2/3 to A department and 1/3 to B Department.
c. Advertising is to be apportioned equally.
d. Discount allowed and received are to apportioned on the basis of Departmental sales and purchases excluding transfers
e. Depreciation @ 10% per annum on furniture and on machinery is to be charged ($3/4^{th}$ to A Department and $1/4^{th}$ to B Department)
f. Services rendered by B Department to A Department are included in wages Rs.50,000.
g. Stock on 31.3.2004 in A Department was worth Rs.16,74,000 and in B Department was worth Rs.12,05,000.

ANSWER:

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31.3.2004

Particulars	A Dept.	B Dept.		A Dept.	B Dept.
To opening stock	1,700	1,450	By sales	6,080	5,125
			By tran.	42	50
To purchases	3,540	3,020	By closing stock	1,674	1,205
To wages	820	270			
To transfer	50	42			
To carriage inward	156	78			
To gross profit	1,530	1,520			
	7,796	6,380		7,796	6,380
To salaries	200	100	By gross profit	1,530	1,520
To rent, rates, taxes and insu.	626	313	By discount	35	30
			By net loss	126	nil
To sundry exp.	240	120			
To lighting, heat.	140	70			
To advertising	184	184			
To depreciation:					

Machinery Furniture To discount To net profit	158 22 121 nil	52 8 101 602			
	1,691	1,550		1,691	1,550

QUESTION NO 19 (PROBLEM WITHOUT STOCK RESERVE)

From the following figures prepare accounts to disclose total profit and the profit of the two Departments, A and B:

		Rs
Stock 1st April 2003	Department A	15,200
	Department B	10,800
Purchases	Department A	75,100
	Department B	69,800
Sales	Department A	1,00,000
	Department B	80,000
Salaries	Department A	9,000
	Department B	8,500
Purchase Returns	Department A	1,100
	Department B	800
Carriage inward	-	2,860
Discounts received	-	1,430
General salaries	-	11,600
Rent, Rates	-	6,000
Advertising	-	8,100
Insurance	-	1,000
General expenses	-	5,400
Discounts allowed	-	1,800
Accounting charges		500

The following further information is supplied:

1. Goods Transferred from Department A to Department B were Rs.5,000 this has not yet been recorded.
2. General salaries are to be allocated Equally.
3. Allocate carriage inward and discount received on suitable basis
4. The area occupied is in the ratio of 3:2
5. Insurance premium is for a comprehensive policy, allocation being inconvenient
6. the closing stock of the two Department were A:17,800 and B 15,600
7. Allocate advertising, general expenses and discount allowed in the ratio of sales

ANSWER:

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31.3.2004

Particulars	A Depart.	B Depart.		A Depart.	B Depart.
To opening stock	15,200	10,800	By sales	1,00,000	80,000
			By transfer	5,000	-
To purchases less returns	74,000	69,000	By closing stock	17,800	15,600
To carriage inward	1,480	1,380			
To transfer	-	5,000			
To gross profit	32,120	9,420			
	1,22,800	95,600		1,22,800	95,600
To salaries :			By gross profit	32,120	9,420
Departmental	9,000	8,500	By discount	740	690
General	5,800	5,800	By net loss	-	13,390
To rent,rates	3,600	2,400			
To advertising	4,500	3,600			
To general exp.	3,000	2,400			
To discount	1,000	800			
To net profit	5,960	-			
	32,860	23,500		32,860	23,500
To net loss		13,390	By net profit		5,960
To insurance		1,000	By net loss to balance sheet		-
To accout.cha.		500			8,930
		14,890			14,890

Notes:

1. Carriage inward and discount received have been allocated in the ratio of net purchase
2. Rent and taxes have been allocated in the ratio of area occupied.

QUESTION NO 20

A firm has two Departments, Timber and Furniture. Furniture was made by the firm itself out of timber supplied by Timber Department at its usual selling price. From the following figures, prepare Departmental trading and profit and loss account for the year 2002:

	Timber	Furniture
Opening stock (1.1.2002)	3,00,000	50,000
Purchases	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to furniture Department	3,00,000	-
Expenses: Manufacturing	-	60,000
Selling	20,000	6,000
Closing stock	2,00,000	60,000

The stocks in the furniture Department may be considered as consisting 75% of timber and 25% other expenses. Timber Department earned gross profit at the rate of 20% in 2001. General expenses of the business as a whole came to Rs.1,00,000.

ANSWER:

TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING ON 31.12.2002

Particulars	Timber Depart.	Furniture Depart.	Particulars	Timber Depart.	Furniture Depart.
To O. stock	3,00,000	50,000	By sales	22,00,000	4,50,000
To purchases	20,00,000	15,000	By transfer	3,00,000	-
To transfer	-	3,00,000	By closing stock	2,00,000	60,000
To manu.exp.	-	60,000			
To gross profit	4,00,000	85,000			
	27,00,000	5,10,000		27,00,000	5,10,000
To selling exp.	20,000	6,000	By gross profit	4,00,000	85,000
To net profit	3,80,000	79,000			
	4,00,000	85,000		4,00,000	85,000

GENERAL PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31.12.2002

Particulars	Rs.	Particulars	Rs
To stock reserve (closing stock)	7,200	By net profit: (3,80,000+79,000)	4,59,000
To general expenses	1,00,000	By stock reserve (opening stock)	7,500
To net profit	3,59,300		
	--------------		---------------
	4,66,500		4,66,500

Working notes:

Calculation of stock reserve:

(on opening stock of furniture)

75% of stock is Timber i.e, portion of timber included in furniture= 50,000*75/100=37,500

stock reserve=37500*20/100=7500

(on closing stock of furniture)

G.P.ratio of timber Department:= 4,00,000/25,00,000*100=16%
Stock reserve=60,000*75%*16%=7,200

QUESTION NO 21 (CA IPCC NOV 2009)

Goods are transferred from Department P to Department Q at a price 50% above cost. If closing stock of Department Q is Rs. 27,000, compute the amount of stock reserve.

(ANS:9000)

QUESTION NO 22 (CA IPCC MAY 2010) (CROSS TRANSFERS)

Siva Ltd. Has two departments X and Y. from the following particulars prepare departmental trading accounts and general profit and loss account for the year ending 31st March, 2009.

	Dept. X	Dept.
Opening stock (at cost)	80,000	48,000
Purchase	3,68,000	2,72,000
Carriage inward	8,000	8,000
Wages	48,000	32,000
Sales	5,60,000	4,48,000
Purchase goods transferred		
By Dept. Y to X	40,000	-
By Dept. X to Y	-	32,000
Finished goods transferred		
By Dept. Y to X	1,40,000	-
By Dept. X toY	-	1,60,000
Return of finished goods		
By Dept. Y to X	40,000	-
By Dept. X to Y	-	28,000
Closing stock		
Purchased goods	18,000	24,000
Finished goods	96,000	56,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 25% of the closing finished stock with each departmental represents finished goods received from the other department.

ANSWER:

GROSS PROFIT: X 1,70,000 Y 1,68,000

QUESTION NO 23 (CA NOV 2010 IPCC) (COMMISSION)

Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 10% profit on cost. Department Y sell goods to X and Z at a profit 15% and 20% on sales, respectively. Department Z charges 20% and 25% profit on cost to Department X and Y, respectively.

Department Managers are entitled to 10% commission on net profit of before charging such commission, subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging Managers₹ commission, but before adjustment of unrealized profit are as under; -

Department X	Rs. 54,000
Department Y	Rs. 40,500
Department Z	Rs. 27,000

Stock lying at different departmental at the end of the year are as under;

	Dept. X	Dept. Y	Dept. Z
	Rs.	Rs.	Rs.
Transfer from Department X		22,500	16,500
Transfer from Department Y	21,000		18,000
Transfer from Department Z	9,000	7,500	

Find out the correct department Profits after charging Manager₹s Commission.

ANSWER:

Deptt. X	**48,600**
Deptt. Y	**34,425**
Deptt. Z	**24,300**

Examiner Comments: Most of the Candidates failed to give the correct treatment for the unrealized profit in the concerned department . as a result, department profit and manager₹s commission after unrealized profit was calculated incorrectly.

QUESTION NO 24 (CA MAY 2011)

The Z Ltd has three departments and submits the following information for the year ending on 31st march, 2009.

	A	B	C	Total Rs.
Purchases (Units	5,000	10,000	15,000	
Purchases (Amounts)				8,40,000
Sales (Units)	5,200	9,800	15,300	
Selling price (per unit)	Rs 40	Rs 45	Rs 50	
Closing stock (units)	400	600	700	

You are required to prepare department trading account of Z Ltd. Assuming that the rate of Profit on sale is the uniform in each case.

ANSWER: UNIFORM GP RATIO 40%

QUESTION 25 (C A IPCC NOV.11)(8MARKS)

M/s AM Enterprises had two departments. Cloth and Read/made Clothes. The Readymade clothes were made by the firm itself out of the cloth supplied by the Cloth Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit and Loss Account for the year ended 31st March, 2011:

	Cloth Department Rs.	Readymade Clothes Department Rs.
Opening Stock on 1st April, 2010	31,50,000	5,32,000

Purchases	2,10,00,000	1,68,000
Sales	2,31,00,000	47,25,000
Transfer to Readymade Clothes Department	31,50,000	--
Manufacturing Expenses	--	6,30,000
Selling Expenses	2,10,000	73,500
Rent & Warehousing	8,40,000	5,60,000
Stock on 31st March, 2011	21,00,000	6,72,000

In addition to the above, the following information is made available for necessary consideration:

(i) The stock in the Readymade Clothes Department may be considered as consisting of 75% cloth and 25% other expenses.

(ii) The Cloth Department earned a gross profit at the rate of 15% in 2009-10.

(iii) General Expenses of the business as a whole amount to Rs. 10,85,000.

Answer :

M/s AM Enterprises
Trading and Profit and Loss Account
For the year ended 31st March, 2011

Particulars	**Cloth Rs.**	**Ready Rs.**	**Particulars**	**Cloth Rs.**	**Ready Rs.**
To Opening stock	31,50,000	5,32,000	By Sales	2,31,00,000	47,25,000
To Purchases	2,10,00,000	1,68,000	By Transfer	31,50,000	---
To Transfer ₹	--	31,50,000	By Closing stock	21,00,000	6,72,000
To Mfg. Expenses	--	6,30,000			
To Gross profit c/d	42,00,000	9,17,000			
	2,83,50,000	53,97,000		2,83,50,000	53,97,000
To Selling Expenses	2,10,000	73,500	By Gross Profit b/d	42,00,000	9,17,000

To Rent & Warehousing	8,40,000	5,60,000			
To Net Profit	31,50,000	2,83,500			
	42,00,000	**9,17,000**		**42,00,000**	**9,17,000**

GENERAL PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31.03.2011

Particulars	Rs.	Particulars	Rs
To stock reserve (closing stock)	80,640	By net profit: (3150000+283500)	34,33,500
To general expenses	10,85,000	By stock reserve (opening stock)	59,850
To net profit	23,27,710		
	34,93,350		34,93,350

Working Notes :

1. **Calculation of Stock Reserve**

	Opening	Closing
Total	5,32,000	6,72,000
Break Up		
75% cloth	3,99,000	5,04,000
25% Other expenses	1,33,000	1,68,000
Stock reserve		
@ 15% on opening stock	59,850	--
@ 16% on closing stock (refer WN 12)	--	80,640

2. Calculation of Gross Profit %

Opening (given)	0.15	--
Closing		
$\frac{\text{Gross Profit}}{\text{Total Sales}} = \frac{42,00,000}{2,62,50,000}$ (including dept. trf.)	----	0.16

QUESTION NO 26 (NOV 2012 8MARKS)

Department A sells goods to Department B at a Profit of 20% on cost and to Department C at 15% Profit on cost. Department B sells goods to A and C at a Profit of 10% and 20% on sales, respectively. Department C charges 15% and 10% Profit on cost to Department A and B respectively.

Department Managers are entitled to 10 % commission on net Profit subject to unrealized Profit on Departmental sales being eliminated. Departmental Profits after charging managers commission, but before adjustment of unrealized Profit are as under:

Department A	36000
Department B	27000
Department C	18000

Stocks lying at different Departments at the end of the year are as under:

	Department A Rs.	Department B Rs.	Department C Rs.
Transfer from Department A	--	7,200	5,750
Transfer from Department B	19,000	--	15,000
Transfer from department C	46,00	3,300	--

Find out the correct Departmental Profits after charging managers commission.

ANSWER:COMMISSION=A,B,C=3805,2510,1910

ACCURATE PROFITS=A,B,C=34245,22590,17190

QUESTION NO 27(MAY 2013 4MARKS)

Department A sells goods to Department B at a Profit of 50% on cost and to Department C at 20% Profit on cost. Department B sells goods to A and C at a Profit of 25% and 15% on sales, respectively. Department C charges 30% and 40% Profit on cost to Department A and B respectively.

Stocks lying at different Departments at the end of the year are as under:

	Department A Rs.	Department B Rs.	Department C Rs.
Transfer from Department A	--	45,000	42,000
Transfer from Department B	40,000	--	72,000
Transfer from department C	39,000	42,000	--

Find out the correct Departmental Profits after charging managers commission.

ANSWER: STOCK RESERVE=A,B,C=22000,20800,21000

QUESTION NO 28 (MAY 2014 8MARKS)

Department P sells goods to Department S at a Profit of 25% on cost and to Department Q at 15% Profit on cost. Department S sells goods to P and Q at a Profit of 20% and 30% on sales, respectively. Department Q charges 20% and 10% Profit on cost to Department P and S respectively.

Department Managers are entitled to 10 % commission on net Profit subject to unrealized Profit on Departmental sales being eliminated. Departmental Profits after charging managers commission, but before adjustment of unrealized Profit are as under:

Department P	90000
Department S	60000
Department Q	45000

Stocks lying at different Departments at the end of the year are as under:

	Department A Rs.	Department B Rs.	Department C Rs.
Transfer from Department P	--	18000	14000
Transfer from Department S	48000	--	38000
Transfer from department Q	12000	8000	--

Find out the correct Departmental Profits after charging managers commission.

QUESTION 29

M/s Omega is a departmental store having tree departments X,Y and Z. The information regarding three departments for the year ended 31st March, 2013 are given below :

	X	Y	Z
	Rs	Rs	Rs
Opening Stock	36000	24000	20000
Purchases	132000	88000	44000
Debtors at end	15000	10000	10000
Sales	180000	135000	90000
Closing stock	45000	17500	21000
Value of furniture in each department	20000	20000	10000
Floor space occupied by each department (in sq. ft.)	3000	2500	2000
Number of employees in each Department	25	20	15
Electricity consumed by each department (in units)	300	200	100

The balances of other revenue items in the books for the year are given below:

	Amount (Rs)
Carriage inwards	3000
Carriage outwards	2700
Salaries	48000

Advertisement	2700
Discount allowed	2250
Discount received	1800
Rent, Rates and taxes	7500
Depreciation on furniture	1000
Electricity expenses	3000
Labour welfare expenses	2400

You are required to prepare Departmental Trading and Profit and Loss Account for the year ended 31st March, 2013 after providing provision for Bad Debts

Solution

In the Books of M/s Omega
Departmental Trading and Profit and Loss Account
for the year ended 31st March, 2013

Particular	Deptt. X	Deptt. Y	Deptt. Z	Total	Particular	Deptt. X	Deptt. Y	Deptt. Z	Total
	Rs	Rs	Rs	Rs		Rs	Rs	Rs	Rs
To Stock	36,000	24000	20000	80000	By Sales	180000	135000	90000	405000
To Purchase	132000	88000	44000	264000	By Stock	45000	17500	21000	83500
To Carriage Inwards	1500	1000	500	3000					
To Gross Profit c/d	55500	39500	46500	141500					
	2,25,000	152500	111000	488500		225000	152500	11100	488500
To Carriage Outwards	1200	900	600	2700	By Gross Profit b/d	55500	39500	46500	141500
						900	600		1800

To Electricity	1500	1000	500	3000	By Discount received			300	
To Salaries	20000	16000	12000	48000					
To Advertisement	1,200	900	600	2700					
To Discount allowed	1000	750	500	2250					
To Rent, Rates	3000	2500	2000	7500					
To Depreciation	400	400	200	1000					
To Provision for Bad Debts	750	500	500	1750					
To Labour welfare expenses	1,000	800	600	2400					
To Net Profit	26350	16350	29300	72000					
	56400	**40100**	**46800**	**143300**		56400	40100	46800	143300

Working Note:

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)
Labor welfare expenses	No. of Employees (5:4:3)
Electricity expense	Units consumed (3:2:1)
Provision for bad debts	Debtors balances (3:2:2)

QUESTION 30

M/s X has **two** departments, A and B. From the following particulars prepare the consolidated Trading Account and Departmental Trading Account for the year ending 31st December, 2012:

	A Rs	B Rs
Opening Stock (at cost)	20,000	12,000
Purchases	92,000	68,000
Sales Wages Carriage	1,40,000 12000 2000	1,12,000 8000 2000
Closing Stock:		
i,) Purchased goods (ii) Finished goods	4500 24000	6000 14000
Purchased goods transferred.		
by B to A by A to B	10000	 8000
Return of finished goods: by A to B by B to A	 1000	 7000
Finished goods transferred: BY A TO B BY B TO A	 35,000	 40,000

You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

Solution

M/s X

Departmental Trading A/c for the year ending 31st December, 2012

	Deptt.A Rs.	Deptt.B. Rs		Deptt.A Rs.	Deptt.B. 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	12,00	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 transferred	10,000	8,000	By Closing Stock :		
To F.G. transferred	40,000	35,000	Purchased Goods	4,500	6,000
To Ret. of finished Goods	7,000	10,000	Finished Goods	24,000	14,000
To Gross profit	38,500	46,000			
	2,21,500	1,89,000		2,21,500	1,89,000

Consolidated Trading Account for the year ending 31st December, 2012

To Opening stock	32,000	By Sales	2,52,000
To Purchase	1,60,000	By Closing Stock:	
To Wages	20,000	Purchased Goods	10,500
To Carriage	4,000	Finished Goods	38,000
To Stock Reserve	2,196		
To Gross Profit c/d	82,304		
	3,00,500		3,00,500

Working note :

	Deptt. A	Deptt. B.
Closing Stock out of transfer	4,800	2,800
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 $\frac{38,500}{1,68,000} \text{x } 100 = 22.916\%$ $\frac{46,000}{1,42,000}$ x 100 = 32.394%

Unrealised Proift 4,800 x 32.394% = 1,555 2,800 x 22.916% = 641

QUESTION 31 (BEST QUESTION ON DEPARTMENTAL COVERING ALL CONCEPTS)

M/s Alpha, has a factory with two manufacturing department ₹X₹ and ₹Y₹ part of the output of department X is transferred to department Y for further processing and the balance is directly transferred to selling department. The entire production of department Y is directly transferred to the selling department. Inter-department stock transfers are made as follows:

X department to Y department at 33-1/3% over department cost.

X department to selling department at 50% over department cost.

Y department to selling department at 25% over departmental cost.

The following information is given for the year ending 31st March, 2013.

	Department X		Department Y		Selling Department	
	Units	Rs	Units	Rs	Units	Rs
Opening stock						
Finished Goods	60	60,000	20	40000	50	1,28,000
Raw materials	-	-	-	-	-	-
Raw material consumed	-	1,82,000	-	20,000	-	-
Labour charges	-	70,000	-	32,000	-	-
Sales	-	-	-	-	120	4,80,000
Closing stock						
Finished	40	-	50	-	60	-

Out of the total transfer by X department 30 units were transferred to selling department, while the remaining to department Y. per unit material and labour consumption of X department on production to be transferred directly to the selling department is 300 per cent of the labour and material consumption on units transferred to Y department. General Administration expenses Rs 1,80,000.

Prepare Department Profit and Loss Account and General Profit and Loss Account.

QUESTION 32 (MARK UP ACCOUNTS)

Gram Udyog, a retail store, has two department, ₹Khadi and Silks₹ for each of which stock account and memorandum ₹mark up₹ accounts are kept. All the goods supplied to each department are debited to the stock account at cost plus a ₹Mark-up₹, which together make-up the selling price of the goods and in the account of the sale proceeds of the goods are credited. The amount of ₹mark-up₹ is credited to the departmental mark up account. if the selling price of any goods is reduced below its normal selling price, the reduction ₹marked down₹ is adjusted both in the stock account and the departmental ₹Mark up₹ account. The rate of ₹Mark-up₹ for Khadi Department is 33-1/3% of the cost and for Silks Department it is 50% of the cost.

The following figures have been taken from the books:

Particulars	**Khadi**	**Silk**
Opening stock at cost	10,500	18,600
Purchases	75,900	93400
Sales	95,600	1,25,000

The following figures have been taken from the books for the year ended December 31, 2012:

(1) The stock of Khadi on January 1, 2012 included goods the selling price of which had been marked down by Rs 1,260. These goods were sold during the year at the reduced prices.

(2) Certain stock of the value of Rs 6,900 purchased for the Khadi Department were later in the year transferred to the Silks department and sold for Rs 10,350. As a result though cost of the goods is included in the Khadi Department the sale proceeds have been credited to the silks Department.

(3) During the year 2012 to promote sale the goods were marked down as follow :

	Cost	Marked down
Khadi	5,600	360
Silk	10,000	2,000

Al the goods marked down, were sold except Silks of the value of Rs 5,000 marked down by Rs 1,000.

(4) At the time of stock-taking on December 31, 2012 it was discovered that Khadi cloth of the cost of Rs 390 was missing and it was decided that the amount be written off.

You are required to prepare for both the departments for the year 2012.

(a) The Memorandum stock Account ; and

(b) The Memorandum mark up Account

Solution

Silk Stock Account

2012		Rs	2012	Rs
To balance b/d			By Sales A/c	1,25,000
To Cost	18,600		By Mark-up A/c	2,000
Mark-up	9,300	27,900	By Balance c/d	51,350
To Purchase	93,400			
Mark-up	46,700	1,40,100		
To Khadi A/c	6,900			
Mark-up	3,450	10,350		
		1,78,350		1,78,3500

Silk Mark-up Account

2012	Rs	2012	Rs
To stock A/c	2,000	By Balance b/d	9,300
To Profit & Loss A/c	41,000	By Stock A/c	46,700
To balance c/d [1/3 of 52, 350) - 1000]	16,450	By Stock A/c	3,450
	59,450		59450

Working Notes:

Verification of Profit	Rs
Sale	Rs 1,25,000
Add: Mark down in goods sold	1,000
Gross Profit 1/3	1,26,000
Less: Mark down	42,000
Gross profit as per books	(1,000)
	41,000

Khadi stock Account

2012		Rs	Rs	2012	Rs		Rs
	To Balance b/d				By Sales		95,600
	(10, 500+2,240)		12,740		Silks Deptt.	6900	
	To Purchase	75,900			Mark-up A/c	2300	9,200
	Markup	25,300	1,01,200		By Loss of	390	
					stock A/c		
					Mark-up A/c	130	520
					By Mark-u/s A/c		360
					By Balance c/d		8260
			1,13,940				1,13,940

Khadi Mark-up Account

2012		Rs	2012		Rs
	To Stock A/c (transfer)	2,3000		By Balance b/d	
	To Stock A/c (Re-sale)	130		(3,500-1,260)	2240
	To Stock A/c (mark down)	360		By Stock A/c	25300
	To Profit & Loss A/c	22,685			
	To Balance (1/4 of Rs 8,260)	2,065			
		27,540			**27,540**

Working Note:

	Rs
Verification of Profit	
	95,600
Sales as per books	1,620
Add: Mark-down (1260+360)	97, 220
Gross profit on fixed selling price @ 25@ on Rs 97, 220	24,305
	(1,620)
	22,685

CONCEPT 15: LATEST EXAMINATION PROBLEMS

QUESTION NO 33 (CA NOV.2016) (8 MARKS) (MARK UP QUESTION)

M/s. Shyam Udyog, a retail store, has two departments, Department X and Department Y for each of which stock account and memorandum ₹mark-up₹ account are kept. All the goods supplied to each department are debited to the stock account at cost plus a ₹mark-up₹, which together make up the selling price of the goods and in the account the sale proceeds of the goods are credited. The amount of ₹mark-up₹ is credited to the Departmental Mark-up Account. If the selling price of any goods is reduced below its normal selling price, the reduction ₹marked down₹ is adjusted both in the Stock Account and the Departmental Mark-up Account. The rate of ₹Markup₹ for X Department is 33-1/3% of the cost and for Y Department it is 50% of the cost.

The following figures have been taken from the books for the year ended March, 2016:

Particulars	X Deptt. Amount (Rs.)	Y Deptt. Amount (Rs.)
Stock as on April 1st at cost	3,15,000	5,58,000
Purchases	22,77,000	28,02,000
Sales	28,68,000	37,50,000

(1) The stock of Department X on April 1, 2015 included goods the selling price of which had been marked down by Rs.37,800. These goods were sold during the year at the reduced prices.

(2) Certain stock of the value of Rs.2,07,000 purchased from the Department X was later in the year transferred to the Department Y and sold for Rs. 3,10,5000. As a result though cost of the goods is included in the Department X the sale proceeds have been credited to the Department Y.

(3) During the year 2015-16 to promote the goods, they were marked down as follows:

	Cost Rs.	Marked down (Rs.)
Department X	1,68,000	10800
Department Y	3,00,000	60,000

All the goods marked down, were sold except of Department Y of the value of Rs.1,50,000 marked down by Rs. 30,000.

(4) At the time of stock taking on 31st March,2016 it was discovered that cloth of Department X of the cost of Rs. 11,700 was missing and it was decided that the amount be written off.

You are required to prepare for both the departments for the year ended 31st March, 2016:

(a) The Memorandum Stock Account; and
(b) The Memorandum Mark-up Account.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami₹s Trading and Profit & Loss Account (excluding branch transactions) for the year ended 31st March 2016.

ANSWER

(a) **Department X Memorandum Stock Account.**

2015-16	Rs.	Rs.	2015-16	Rs.	Rs.
	To Balance b/d (3,15,000 + 105,000 – 37,800)	3,82,200		By Sales	28,68,000
				XDeptt. 2,07,000	
				Mark-up A/c. 69,000	2,76,000
	To Purchases 22,77,000			By Loss of	
	Mark up 7,59,000	30,36,000		Stock A/c. 11,700	
				Mark-up A/c. 3,900	15,600
				By Mark up A/c.	10,800
				By Balance c/d.	2,47,800
		34,18,200			34,18,200

Department X Memorandum Mark-up Account

2015-16	Rs.	2015-16	Rs.
To Stock A/c.(Transfer)	69,000	By Balance b/d	
To Stock A/c. (re-sale)	3,900		
To Stock A/c. (markdown)	10,800	(1,05,000 – 37,800)	67,200
To Profit & Loss A/c.	6,80,550	By Stock A/c.	7,59,000
To Balance (1/4 of Rs.2,47,800)	61,950		
	8,26,200		8,26,200

Working Note:

Verification of Profit	Rs.
Sales as per books	28,68,000
Add: Mark-down (37,800 + 10,800)	48,600
	29,16,600
Gross Profit on fixed selling price @ 25% on Rs. 29,16,600	7,29,150
Less: Mark down	(48,600)
	6,80,550

Department Y Memorandum Stock Account

2015-16	Rs.	2015-16	Rs.
To Balance b/d (558000+279000) To cost 28,02,000 Mark up 14,01,000 To x Deptt. A/c. 2,07,000 Mark-up 1,03,500	 8,37,000 42,03,000 3,10,500	By Sales A/c. By Mark-up A/c. By Balance c/d	37,50,000 60,000 15,40,500
	53,50,500		53,50,500

Department Y Memorandum Mark up Account

2015-16	Rs.	2015-16	Rs.
To Stock A/c. To Profit & Loss A/c. To Balance c/d: (1/3 (15,40,500+30,000)- Rs.30,000)	60,000 12,30,000 4,93,500	By Balance b/d By Stock A/c. (28,02,000 x 50%) By Stock A/c.	2,79,000 14,01,000 1,03,500
	17,83,500		17,83,500

Working Notes:

Verification of Profit	Rs.
Sales	37,50,000
Add: Mark-down in goods sold	30,000
	37,80,000
Gross Profit 1/3	12,60,000
Less: Mark down	(30,000)
Gross Profit as per books	12,30,000

QUESTION NO 34 (CA MAY 2016) (8MARKS)

There is transfer/sale among the three departments as below:

Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at20% profit on cost.

Department Y sells goods at a x and Z at a profit of 15% and 20% on sales respectively.

Department Z charges 20% and 25% profit on cost to Department x and Y respectively.

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

Departmental profits after charging Managers₹ commission, but before adjustment of unrealized profit are as under:

Department X	1,80,000
Department Y	1,35,000
Department Z	90,000

Stocks lying at different Departments at the end of the year are as under:

	Dept. X	Dept. Y	Dept. Z
Transfer from Department X	--	75,000	57,000
Transfer from Department Y	70,000	-	60,000
Transfer from Department Z	30,000	25,000	--

Find out the correct departmental profits after charging Manager₹s commission.

ANSWER

(a) Calculation of Correct Profit

	Department X	Department Y	Department Z
	Rs.	Rs.	Rs.
Profit after charging managers₹ commission	1,80,000	1,35,000	90,000
Add back: Managers₹ commission (1/9)	20,000	15,000	10,000
	2,00,000	1,50,000	1,00,000
Less: Unrealized profit on stock (W.N.)	(24,500)	(22,500)	(10,000)

Profit before Manager₹s commission	1,75,500	1,27,500	90,000
Less: Commission for Department Manager @ 10%	(17,550)	(12,750)	(9,000)
Departmental Profits after manager₹s commissioner	1,57,950	1,14,750	81,000

Working Note:

Stock lying with

	Dept. X	Dept. Y	Dept.Z	Total
Unrealized Profit of:				
Department X		1/5x75,000=15,000	20/120x57,000=9,500	24,500
Department Y	0.15x70,000=10,500		0.20x60,000=12,000	22,500
Department Z	20/120x30,000=5,000	25/125x25,000=5,000		10,000

QUESTION NO 35 (CA NOV.2015) (4MARKS)

Sona Ltd. has three departments – P, Q and R. From the following particulars given below, compute:

(i) The departmental results:

(ii) The value of stock as on 31st December, 2014:

Particulars	P	Q	R
Stock as on 01.01.2014	30,000	45,000	15,000
Purchases	1,60,000	1,30,000	60,000
Actual Sales	1,88,000	1,66,000	93,000
Gross Profit on normal sales price	25%	33%	40%

During the year 2014 some items were sold at discount and these discounts were reflected in the above sales value. The details are given below:

Particulars	P	Q	R
Sales at normal price	15,000	8,000	6,000
Sales at actual price	11,000	6,000	4,000

SOLUTION

Calculation of Departmental Results:

	P (Rs.)	Q (Rs.)	R (Rs.)
Actual Sales	1,88,000	1,66,000	93,000
Add: Discount (Refer W.N.)	4,000	2,000	2,000
Normal Sale	1,92,000	1,68,000	95,000
Gross Profit % on normal sales	25%	33.33%	40%
Normal gross profit	48,000	56,000	38,000
Less: Discount	(4,000)	(2,000)	(2,000)
Actual gross Profit	44,000	54,000	36,000

Computation of value of stock as on 31st Dec. 2014

Departments	P	Q	R
Stock (on 1.1.2014)	30,000	45,000	15,000
Add: Purchase	1,60,000	1,30,000	60,000
	1,90,000	1,75,000	75,000
Add: Actual gross Profit	44,000	54,000	36,000
	2,34,000	2,29,000	1,11,000
Less: Actual Sales	(1,88,000)	(1,66,000)	(93,000)
Closing Stock as on 31.12.2014 (bal.fig)	46,000	63,000	18,000

Working Note:

Calculation of discount on sales

Departments	P	Q	R
Sales at normal price Less: Sales at actual price	15,000 (11,000)	8,000 (6,000)	6,000 (4,000)
	4,000	2,000	2,000

QUESTION NO 36 (CA MAY 2015) (8MARKS)

M/s. Suman Enterprises has two Departments, Finished Leather and Shoes. Shoes are made by the Firm itself out of leather supplied by Leather Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit and Loss Account for the year ended 31st March, 2014:

	Finished Leather Department (Rs.)	Shoes Department (Rs.)
Opening Stock (As on 01.04.2013) Purchases Sales Transfer to Shoes Department Manufacturing Expenses	30,20,000 1,50,00,000 1,80,00,000 30,00,000 -	4,30,000 2,60,000 45,20,000 - 5,00,000

Selling Expenses	1,50,000	60,000
Rent and Warehousing	5,00,000	3,00,000
Stock on 31.03.2014	12,20,000	5,00,000

The following further information are available for necessary consideration:

(i) The stock in Shoes Department may be considered as consisting of 75% of Leather and 25% of other expenses.

(ii) The Finished Leather Department earned a Gross Profit @ 15% in 2012-13.

(iii) General expenses of the business as a whole amount to Rs. 8,50,000.

SOLUTION

Departmental Trading and Profit and Loss Account for the year ended 31st March, 2014

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	45,20,000	2,25,20,000
To Purchases	1,50,00,000	2,60,000	1,52,60,000	By Shoes Deptt. Transfer	30,00,000	-	30,00,000
To Transfer from Leather Deptt.		30,00,000	30,00,000	By Closing Stock	12,20,000	5,00,000	17,20,000
To Mfd. Exp.		5,00,000	5,00,000				
To Gross Profit c/d	42,00,000	8,30,000	50,30,000				
	2,22,20,000	**50,20,000**	**2,72,40,000**		**2,22,20,000**	**50,20,000**	**2,72,40,000**
To Selling Expenses	1,50,000	60,000	2,10,000	By Gross Profit b/d	42,00,000	8,30,000	50,30,000
To Rent & warehousing	5,00,000	3,00,000	8,00,000				
To Net Profit	35,50,000	4,70,000	40,20,000				
	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 Unrealized 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
Rent of Gross Profit of Finished leather Department, for the year 2013-14

$= \frac{\text{Gross Profit}}{\text{Total Sales}} \times 100 = (42,00,000)/(1,80,00,000 + 30,00,000) \times 100 = 20\%$

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 unrealized profit @ 20% on closing stock.
Rs.3,75,000 x 20% = Rs. 75,000

Stock reserve for unrealized profit included in opening stock of Shoes Dept. @ 15% i.e. (Res.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

QUESTION NO 37 (CA NOV 2014) (8 MARKS)

Mega Ltd. has two departments, A and B. From the following particulars, prepare departmental Trading A/c. and General Profit & Loss Account for the year ended 31st March, 2014.

Particulars	Amount (Rs.)	
	Department A	Department B
Opening Stock as on 01.04.2013 (at cost)	70,000	54,000
Purchases	3,92,000	2,98,000
Carriage Inward	6,000	9,000
Wages	54,000	36,000
Sales	5,72,000	4,60,000
Purchased Goods Transferred		
By Department B to A	50,000	
By Department A to B		36,000
Finished Goods Transferred		
By Department B to A	1,50,000	
By Department A to B		1,75,000
Return of Finished Goods		
By Department B to A	45,000	
By Department A to B		32,000
Closing Stock		
Purchased Goods	24,000	30,000
Finished Goods	1,02,000	62,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 30% of the closing finished stock with each department represents finished goods received from the other department.

SOLUTION

Department Trading Account in the books of Mega Ltd.
for the year ended 31st March, 2014

Particulars	Department A	Department B	Particulars	Deptt. A	Deptt. B
To Opening Stock	70,000	54,000	By Sales	5,72,000	4,60,000
			By Transfer:		
To Purchase	3,92,000	2,98,000	Purchased Good	36,000	50,000
To Carriage Inward	6,000	9,000	Finished Goods	1,30,000	1,18,000
			By Closing stock:		
To Wages	54,000	36,000			
To ransfers:			Purchase.Goods	24,000	30,000
Purchased Goods	50,000	36,000	Finished* Goods	1,02,000	62,000
Finished** Goods	1,18,000	1,30,000			
To Gross Profit c/d	1,74,000	1,57,000			
	8,64,000	7,20,000		8,64,000	7,20,000

* Finished goods from other department included inclosing stock.

Particulars	Department A (Rs.)	Department B (Rs.)
Stock of Finished Goods	1,02,000	62,000
Stock related to other department (30% of Finished Goods)	30,600	18,600

** Net transfer of Finished goods by

Department A to B = Rs. (1,75,000 – 45,000) = Rs. 1,30,000
Department B to A = Rs. (1,50,000 – 32,000)= Rs. 1,18,000

Profit and Loss A/c.
For the year ended 31st March, 2014

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Provision for unrealized Profit including in closing stock:		By Gross Profit b/d:	
Department A (W.N.2)	8,311	Department A	1,74,000
Department B (W.N.2)	4,611	Department B	1,57,000
To Net Profit	3,18,078		
	3,31,000		3,31,000

Working Notes

1. Calculation of ratio of gross profit margin on sales.

Particulars	Department A (Rs.)	Department B (Rs.)
Sales	5,72,000	4,60,000
Add: Transfer of Finished Goods	1,75,000	1,50,000
	7,47,000	6,10,000
Less: Return of Finished Goods	(45,000)	(32,000)
	7,02,000	5,78,000
Gross Profit	1,74,000	1,57,000
Gross Profit margin =	$\frac{1,74,000}{7,02,000} \times 100 = 24.79\%$	$\frac{1,57,000}{5,78,000} \times 100 = 27.16\%$

2. Unrealized profit included in the closing stock

Department A = 27.16% of Rs. 30,600 (30% of Stock of Finished Goods Rs. 1,02,000) = Rs. 8311.00

Department B = 24.79% of Rs. 18,600 (30% of Stock of Finished Goods Rs. 62,000) = Rs. 4611.00

QUESTION NO 38(CA MAY 2014) (8MARKS)

Department P sells goods to Department S at a profit of 25% on cost and to Department Q at a profit of 15% on cost. Department S sells goods to P and Q at a profit of 20% and 30% on sales respectively. Department Q sells goods to P and S at 20% and 10% profit on cost respectively.

Departmental Managers are entitled to10% commission on net profit subject to unrealized profit on departmental sals being eliminated. Departmental profits after charging Manager₹s commission, but before adjustment of unrealized profits are as below:

	Rs.
Department P	90,000
Department S	60,000
Department Q	45,000

Stock lying at different Departments at the end of the year are as below:

			Figures in rs.
	DEPARTMENS		
	p	S	Q
Transfer from P	-	18,000	14,000
Transfer from S	48,000	-	38,000
Transfer from Q	12,000	8,000	--

Find out correct Departmental Profits after charging Managers₹ Commission.

SOLUTION

Calculation of correct Departmental Profits

	Department P (Rs.)	Department S (Rs.)	Department Q (Rs.)
Profit after charging Manager₹s Commission Add: Manager₹s Commission (1/9)	90,000 10,000	60,000 6,667	45,000 5,000
 Less: Unrealized Profit on Stock (WN)	1,00,000 (5,426)	66,667 (21,000)	50,000 (2,727)
Profit Before Manager₹s Commission Less: Manager₹s Commission 10%	94,574 (9,457)	45,667 (4,567)	47,273 (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.)
Unrealized Profit of: Department P		25/125x18,000 = 3,600	15/115x14,000 = 1,826	5,426
Department S	20/100x48,000 =9,600	-	30x100x38,000 =11,400	21,000
Department Q	20/120x12,000 =2,000	10/110x8,000 =727		2,727

QUESTION NO 39 (CA INTER MAY 2017)(8 MARKS)

(a) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and General Profit & Loss Account for the year ended 31st December, 2016.

Particulars	Deptt. A (Rs.)	Deptt. B (Rs.)
Opening Stock	3,00,000	2,40,000
Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were Rs. 7,50,000 and you are also supplied with the following information:

(ii) Closing Stock of Department A Rs. 6,00,000 including goods from Department B for Rs. 1,20,000 at cost to Department A.

(iii) Closing Stock of Department B Rs. 12,00,000 including goods for Department A for Rs. 1,80,000 at cost to Department B.

(iv) Opening stock of Department A and Department B include goods of the value of Rs. 60,000 and Rs.90,000 taken from Department B and Department A respectively at cost to transferee departments.

(v) The gross profit is uniform from year to year.

Answer

Departmental Trading Account for the year ended on 31st December, 2016

Particulars	A	B	Particulars	A	B
	₹	₹		₹	₹
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	24,00,000	45,00,000			
	66,00,000	1,02,00,000		66,00,000	1,02,00,000

General profit and loss account of Beta for the year ended on 31st December,2016

Particulars	Amount	Particulars	Amount
	₹		₹
To General expenses*	7,50,000	By Stock reserve (opening stock)	
To stock reserve		Dept. A	30,000
(closing stock)			
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net profit	60,84,000	Dept. A	24,00,000
		Dept. B	45,00,000
	69,66,000		69,66,000

Working Notes:

		Dept. A	Dept.B
1.	Percentage of Profit	24,00,000/60,00,000 x100 40%	45,00,000/90,00,000 x 100 50%
2.	Opening Stock reserve	60,000 x 50% = 30,000	90,000 x 40% = 36,000
3.	Closing Stock reserve	1,20,000 x 50% = 60,000	1,80,000 x 40% = 72,000

ACCOUNTING FOR BONUS ISSUE AND RIGHT ISSUE

CHAPTER OVERVIEW

BONUS SHARES	Bonus issue means of issue of free additional shares to existing shareholders. A company may issue fully paid-up bonus shares to its share- holders out of – (i) Its free reserves; (ii) securities premium account; or (iii) capital redemption reserve account: Bonus shares should not be issued out of revaluation reserves (i.e., reserves created by the revaluation of assets).
RIGHT ISSUE	Rights issue is an issue of rights to a company's existing share-holders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. In a rights offering, the subscription price at which each share may be purchased is generally at a discount to the current market price. Rights are often transferable, allowing the holder to sell them in the open market. The difference between the cum-right and ex-right value of the share is the value of the right.

ISSUE OF BONUS SHARES

A bonus share may be defined as issue of shares at no cost to current shareholders in a company, based upon the number of shares that the shareholder already owns. In other words, no new funds are raised with a bonus issue while the issue of bonus shares increases the total number of shares issued and owned, it does not increase the net worth of the company. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant.

Bonus issue is also known as 'capitalization of profits. Capitalization of profits refers to the process of converting profits or reserves into paid up capital. A company may capitalize its profits or reserves which otherwise are available for distribution as dividends among the members by issuing fully paid bonus shares to the members.

If the subscribed and paid-up capital exceeds the authorized share capital as a result of bonus issue, a resolution shall be passed by the company at its general body meeting for increasing the authorized capital. A return of bonus issue along with a copy of resolution authorising the issue of bonus shares is also required to be filed with the Registrar of Companies.

PROVISIONS OF THE COMPANIES ACT, 2013

Section 63 of Companies Act, 2013 deals with the issue of bonus shares. According to Sub-section (1) of Section 63, a company may issue fully paid up bonus shares to its member, in any manner whatsoever, out of-

(i) Its free reserves*;

(ii) The securities premium account; or

(iii) The capital redemption reserve account:

Provided that no issue of bonus shares shall be made by capitalizing reserves created by the revaluation of assets.

Sub-section (2) of Section 63 provides that no company shall capitalize its profits or reserves for the purpose of issuing fully paid-up bonus shares under sub sub-section (1), unless-

(a) it is authorized by its articles;

(b) it has, on the recommendation of the Board, been authorized in the general meeting of the company;

(c) it has not defaulted in payment of interest of principal in respect of fixed deposits or debt securities issued by it;

(d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus,

(e) the party paid-up shares, if any outstanding on the date of allotment, are made fully paid-up.

The company which has once announced the decision of its Board recommending a bonus issue shall not subsequently withdraw the same.

Sub-section (3) of the Section also provides that the bonus shares shall not be issued in lieu of dividend.

A securities premium account and a capital redemption reserve account may be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares. In other words, securities premium account and capital redemption

reserve cannot be applied towards payment of unpaid amount on any shares held by existing shareholders.

As per Section 63(2) of the Companies Act, 2013, bonus shares cannot be issued unless party paid-up shares are made fully paid-up. Para 39 (ii) of Table F under Schedule I to the Companies act, 2013 allows use of free reserves for paying up amounts unpaid on shares held by existing shareholders. On a combined reading of both the provisions, it can be said that free reserves may be used for paying up amounts unpaid on shares held by existing shareholders (though securities premium account and capital redemption reserve cannot be used.)

SEBI REGULATIONS

A listed company, while issuing bonus shares to its members, has to comply with the following requirements under the SEBI (issued of Capital and Disclosure Requirements) Regulations, 2009:

Regulation 92- Conditions for Bonus issue

Subject to the provisions of the Companies Act, 2013 or any other applicable law for the time being in force, a listed company may issue bonus shares to its members if:

(a) it is authorized by its articles of association for issue of bonus shares, capitalization or reserves, etc.:

Provided that if there is no such provision in the articles of association, the issuer shall pass are solution at its general body meeting making provision in the articles of associations for captalisation of reserve;

(b) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

(c) it has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus;

(d) the partly paid shares, if any outstanding on the date of allotment, are made fully paid up

Regulation 93- Restriction on bonus issue

No issuer shall make a bonus issue of equity shares unless it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments, if any, in proportion to the convertible part thereof. The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments shall be issued at the time of conversion of such convertible debt instruments on the same terms of same proportion at which the bonus shares were issued.

Regulation 94- Bonus shares only against reserves, etc. if capitalized in cash

The bonus issue shall be made out of free reserves built out the genuine profits or securities premium collected in cash only and reserves created by revaluation of fixed assets shall not be capitalized for the purpose of issuing bonus shares. The bonus share shall not be issued in lieu of dividend.

Regulation 95- Completion of bonus issue

An issuer, announcing a bonus issue after the approval of its board of directors and not requiring shareholder's approval for capitalization of profits or reserves for making the bonus issue, shall implement the bonus issue within fifteen days from the date of approval of the issue by its board of directors: Provided that where the issuer is required to seek shareholder's approval for capitalization of profits or reserves for making the bonus issue, the bonus issue shall be implemented within two months from the date of the meeting of its board of directors wherein the decision to announce the bonus issue was taken subject to shareholder's approval.

Once the decision to make a bonus issue is announced, the issue cannot be withdrawn.

Journal Entries

(A) **(1) Upon the sanction of an issue of bonus shares**

(a) Debit Capital Redemption Reserve Account

Debit Securities Premium Account [1]

Debit General Reserve Account

Debit Profit & Loss Account

(b) Credit Bonus to Shareholders Account.

(2) Upon issue of bonus shares

(a) Debit Bonus to Shareholders Account

(b) Credit Share Capital Account.

(B) (1) Upon the sanction of bonus by converting partly paid shares into fully paid shares

(a) Debit General Reserve Account

Debit Profit & Loss Account

(b) Credit Bonus to Shareholders Account

(2) On making the final call due

(a) Debit Share Final Call Account

(b) Credit Share Capital Account

(3) On adjustment of final call

(a) Debit Bonus to Shareholders Account

(b) Credit Share Final Call Account

QUESTION NO. 1

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 20X1:

	₹
40,000 Equity shares of ₹ 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of profit and Loss Account	2,00,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

SOLUTION

Journal Entries in the Books of Bharat Ltd.

		Dr. (₹)	Cr. (₹)
Capital Redemption Reserve A/c	Dr.	55,000	
Securities Premium A/c	Dr.	30,000	
General Reserve A/c (b.f.)	Dr.	15,000	
To Bonus to Shareholders A/c			1,00,000
(Bonus issue of one share for every four shares held, by utilizing various reserves as per Boards' resolution dated ……….)			

Bonus to Shareholders A/c Dr.	1,00,000	
To Equity Share Capital A/c		1,00,000
(Capitalisation of profit)		

QUESTION NO. 2

Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 20X1:

	₹
Authorised capital :	
10,000 12% Preference shares of ₹ 10 each	1,00,000
1,00,000 Equity shares of ₹ 10 each	10,00,000
	11,00,000
Issued and Subscribed capital :	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000
Reserves and Surplus :	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
Secured Loan :	
12% Debentures @ ₹ 100 each	5,00,000

On 1st April, 20x1 the Company has made final call @ ₹ 2 each on 90,000 equity shares.

The call money was received by 20th April, 20x1. Thereafter the company decided to capitalize its reserves by way of bonus of the rate of one share every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorized capital.

SOLUTION

Solid Ltd.

Journal Entries

20X1			Dr. (₹)	Cr. (₹)
April 1	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Final call of ₹ 2 per share on 90,000 equity shares due as per Board's Resolution dated…………)			
April 20	Bank A/c	Dr.	1,80,000	
	To Equity Share Final Call A/c			1,80,000
	(Final Call money on 90,000 equity shares received)			
	Securities Premium A/c	Dr.	20,000	
	General Reserve A/c	Dr.	1,60,000	
	Profit and Loss A/c (b.f)	Dr.	45,000	
	To Bonus to Shareholder A/c			2,25,000
	(Bonus issue @ one share for every four shares held by utilizing various reserves as per Board's Resolution dated….)			
April 20	Bonus to Shareholder A/c	Dr.	2,25,000	
	To Equity Share Capital A/c			2,25,000
	(Capitalisaiton of profit)			

Balance Sheet (Extract) as on 30th April, 20X1 (after bonus issue)

		Particulars	Notes	Amounts (₹)
		Equity and Liabilities		
1		**Shareholder's funds**		
	a	Share capital	1	12,05,000
	b	Reserves and Surplus	2	1,95,000
2		**Non-current liabilities**		
	a	Long –term borrowings	3	5,00,000
		Total		19,00,000

Note to Account

1	**Share Capital**		
	Equity share capital		
	Authorised share capital		
	1,25,000 Equity shares of ₹ 10 each (refer working note below)		12,50,000
	Issued, subscribed and fully paid share capital		
	1,12,500 Equity shares of ₹ 10 each, fully paid		
	(Out of above, 22,500 equity shares @ ₹ 10 each were issued by way of bonus) (A)		11,25,000
	Preference share capital		
	Authorised share capital		
	10,000 12% Preference share of ₹ 10 each		1,00,000
	Issued, subscribed and fully paid share capital		
	8,000 12% Preference shares of ₹ 10 each (B)		80,000
	Total (A+B)		**12,05,000**
2	**Reserves and Surplus**		
	Revaluation Reserve		35,000
	Securities Premium	20,000	
	Less: Utilised for bonus issue	(20,000)	Nil
	General reserve	1,60,000	
	Less: Utilised for bonus issue	(1,60,000)	Nil
	Profit & Loss Account	2,05,000	
	Less: Utilised for bonus issue	(45,000)	1,60,000
	Total		**1,95,000**
3.	**Long –term borrowings**		
	Secured		
	12% Debentures @ ₹ 100 each		5,00,000

Working Note:

The authorized capital should be increased as per details given below:

	₹
Existing authorized Equity share capital	10,00,000
Add: Issue of bonus shares to equity shareholders	
(25% of ₹ 10,00,000)	2,50,000
	12,50,000

QUESTION NO. 3

Following is the extract of the Balance Sheet of Preet Ltd. as at 31st March, 20X1

Authorized	₹
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	15,00,000
	16,50,000
Issued and Subscribed capital :	
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	10,80,000
Reserves and surplus	
General Reserve	1,80,000
Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 20X1, the Company has made final call @ ` 2 each on 1,35,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 20X1 after bonus issue.

ANSWER

Journal Entries in the books of Preet Ltd.

			₹	₹
1-4-20X1	Equity share final call a/c	Dr.	2,70,000	
	To Equity share capital A/c			2,70,000
	(For final calls of ₹ 2 per share on 1,35,000 equity share due as per Board's Resolution dated…….)			
20-4-20X1	Bank A/c	Dr.	2,70,000	
	To Equity share final call A/c			2,70,000
	(For final call money on 1,35,000 equity shares received)			
	Securities Premium A/c	Dr.	37,500	
	Capital Redemption Reserve A/c	Dr.	60,000	
	General Reserve A/c	Dr.	1,80,000	
	Profit and Loss A/c	Dr.	60,000	
	To Bonus to shareholders A/c			3,37,500
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	3,37,500	
	To Equity share capital A/c			3,37,500
	(For issue of bonus share)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	₹
Authorised Capital	
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,83,750 Equity shares of ₹ 10 each (refer working note below)	18,37,500
Issued and subscribed capital	
12,000 12% Preference shares of ₹ 10 each, fully paid	1,20,000
1,68,750 Equity shares of ₹ 10 each, fully paid	16,87,500

(Out of above, 33,750 equity shares @ ₹ 10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	2,40,000

Working Note:

The authorized capital should be increased as per details given below:	₹
Existing authorized Equity share capital	15,00,000
Add: Issue of bonus shares to equity shareholders	3,37,500
	18,37,500

QUESTION 4

Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 20X1:

Particulars	Amount
4,500 Equity Shares of ₹ 100 each	4,50,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

QUESTION 5

The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 20X1:

Notes		₹ in Lakhs
(1)	Share Capital	
	Authorised:	
	20 crore shares of ₹ 10 each	20,000
	Issued and Subscribed:	

	10 crore Equity Shares of ₹ 10 each	10,000
	2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
	Total	12,000
	Called and paid up:	
	10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up	8,000
	2 crore 11% Cumulative Preference Shares of ₹ 10 each,	
	Fully called and paid up	2,000
	Total	10,000
(2)	Reserves and Surplus:	
	Capital Redemption Reserve	1,485
	Securities Premium (collected in cash)	2,000
	General Reserve	1,040
	Surplus i.e. credit balance of profit & Loss Account	273
	Total	**4,798**

On 2nd April 20X1, the company made the final call on equity shares @ ₹ 2 per share.

The entire money was received in the month of April, 20X1.

On 1st June 20X1, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held. Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

QUESTION 6

Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

Authorized capital:	₹
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24, 000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000

Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 20X1 after bonus issue.

Right Issue

Provision of section 62(1) (a) govern any company, public or private, desirous of raising its subscribed share capital by issue of further shares. Whenever a company intends to issue new shares, the voting and governance rights of the existing shareholders may be diluted, if they are not allowed to preserve them. It may happen because new shareholders may subscribe to the issued share capital. Companies Act, 2013 allows existing shareholders to preserve their position by offering those newly issued shares at the first instance to them. The existing shareholders are given a right to subscribe these shares, if they like. However, if they do not desire to subscribe these shares, they are even given the right to renounce it in favour of someone else (unless the articles of the company prohibits such a right to renounce).

In nutshell, the existing shareholders have a right to subscribe to any fresh issue of shares by the company in proportion to their existing holding for shares. They have an implicit right to renounce this right in favour of anyone else, or even reject it completely.

In other word, the existing shareholders have right of first refusal, i.e., the existing shareholders enjoy a right to either sub-scribe for these shares or sell their rights or reject the offer.

Example

Assume a company makes a right issue of 10,000 shares when its existing issued and subscribed capital is 100,000 shares. This enables any shareholder having 10 shares to subscribe to 1 new share. Hence X, an existing shareholder holding 1,000 shares, may subscribe to 100 shares as a matter of right. The existing share percentage of X was 1% (1,000/100,000). If X subscribes these shares, his percentage holding in the company will be maintained (1,00/110,00). However, if X does not mind his share % diluting (1,000/110,000), he may renounce the right in favour of anyone else, say Y. Hence, these 100 shares will be issued to Y, at the insistence of X.X may charge & for this privilege, which is technically termed as the value of right.

A company desirous of issuing new shares has to offer, as per Section 62(1) (a) of Companies Act 2013, the shares to existing equity shareholders through a letter of offer subject to the ***following conditions,*** namely:

- The offer shall be made by notice specifying the number of shares offered and limiting a time not being less then fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;
- Unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares

offered to him or any of them in favour of any other person; and the notice (referred to in above bullet point) shall contain a statement of this right;

- After the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and the company

Exceptions to the rights of existing equity shareholders

Section 62 recognises four situations under which the further shares are to be issued by a company, but they need not be offered to the existing shareholders.

The shares can be offered, without being offered to the existing shareholders, **Provided the company has passed a special resolution and shares are offered to**

Situation 1

To employees under a scheme of employee's stock option subject to certain specified conditions

Situation 2

To any persons, either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer subject to certain specified conditions.

Situation 3

Sometimes companies borrow money through debentures/ loans and give their creditor an option to buy equity shares of a company. An option is a right, but not an obligation, to buy equity shares on a future date (expiry date) at a price agreed in advance (exercise price).

According to Section 62(3), nothing in this section shall apply to the increase of the subscribed capital of a company caused by the exercise of an option as a term attached to the debentures issued or loan raised by the company to covert such debentures or loans into shares in the company.

Provided that the terms of issue of such debentures or loan containing such an option have been approved before the issue of such debentures or the raising of loan by a special resolution passed by the company in general meeting.

Situation 4

It is a special situation where the loan has been obtained from the government, and government in public interest, directs the debentures/ loan to be converted into equity shares.

According to Section 62(4), notwithstanding anything contained in sub-section (3), where any debentures have been issued, or loan has been obtained from any Government by a company, and if that Government considers it necessary in the public interest so to do, it may, by order, direct that such debentures or loans or any part thereof shall be converted into shares in the company on such terms and conditions as appear to the Government to be reasonable in the circumstances of the case even if terms of the issue of such debentures or the raising of such loans do not include a term for providing for an option for such conversion.

Provided that where the terms and conditions of such conversion are not acceptable to the company, it may, within sixty days from the date of communication of such order, appeal to the Tribunal which shall after hearing the company and the Government pass such order as it deems fit.

In determining the terms and conditions of conversion under sub-section (4), the Government shall have due regard to the financial position of the company, the terms of issue of debentures or loans, as the case may be, the rate of interest payable on such debentures or loans and such other matters as it may consider necessary.

Where the Government has, by an order made under sub-section (4), directed that any debenture or loan or any part thereof shall be converted into shares in a company and where no appeal has been preferred to the Tribunal or where such appeal has been dismissed, the memorandum of such company shall, where such order has the effect of increasing the authorized share capital of the company, stand altered and the authorized share capital of such company shall stand increased by an amount equal to the amount of the value of shares which such debentures or loans or part thereof has been converted into.

Financial effects of a further issue

The financial position of a business is contained in the balance sheet. Further issue of shares increase the amount of equity (net worth[2]) as well as the liquid resources (Bank). The amount of equity is the product of further number of shares issued multiplied by issue price. The issue price may be higher than the face value (issue at a premium). Companies Act does not allow issue of shares at a discount, except issue of sweat equity shares under section 53.

Book Value of a share

Book value of share = Net worth (as per books)/ Number of shares

If there are 10,000 shares with book value 1,25,000. The book value of one share is (₹ 125,000/10,000 shares) ₹ 12.50 per share. However, the market value may differ from the book value of shares. The market value of a company's shares represents the present value of future cash flows expected to be earned from the share in the form in the form of dividends and capital gains from expected future shares price appreciation.

The market price, which exists before the rights issue, is termed as Cum-right Market Price of the share. If the company decides to issue further shares, it may affect the market value of the share. 'Theoretically', the value of a company's shares after a rights issue must equal the sum of market capitalization immediate prior to rights issue and the cash inflows generated from the rights issue.

Normally, the further public issue to the existing shareholders are offered at a discounted price from the market value, to evoke positive response as well as to reward the existing shareholders.

Assume 1,000 shares are issued (making it a right issue of 1:10; or 1 share for 10 existing shares held) at a price of ₹ 14 per share. The existing worth of tangible assets held by the business shall become 264,000 (Existing net worth ₹ 250,000 + Fresh Issue ₹ 14,000). Equity shares shall correspondingly command a valuation of ₹ 264,000.

The market price of the shares after further issue of shares (right issue) is termed as Ex-right Market price of the shares. Theoretical Ex-Rights Price is a deemed value, which is attributed to a company's share immediately after a rights issue transaction occurs. This price is going to prevail after the further issue of shares is executed.

EXAMPLE:

Mr. Narain has 100 shares of Prosperous Company before rights issue.

Current worth of holding = No. of shares × Cum-right Market price

= 100 × 25

= ₹ 2,500

(a) If Narain exercises his rights, he will pay ₹ 14X10 shares = ₹ 140.

His total investment in the company including rights is ₹ 2,640 (₹ 2,500+₹ 140).

On a per share basis, it is ₹ 2,640/110 shares = ₹ 24, which is the Ex-right Market value of the share.

(b) If Narain does not exercises his right to further issue, his holding's worth will decline to ₹ 24X100 shares = ₹ 2400. The law allows him to compensate for this dilution of shareholding by renouncing this right in favour of, say, Mr. Murthy.

Narain can charge Murthy, in well-functioning capital markets, this dilution of ₹ 100 by renouncing his right to acquire 10 shares. Hence Murthy will be charged ₹10 per share (₹100/10 shares), in return for a confirmed allotment of 10 shares at ₹ 14 each.

For every share to be offered to Murthy, Narain must have ten share at the back.

Hence his holding of 10 shares fetches him right money of ₹ 10 or ₹ 1 per share held.

This is exactly equal to the difference between Cum-right and Ex-right value of the share. It is termed as the Value of Right.

In a well-functioning capital market, this mechanism works in a fair manner to all the participants.

- Murthy's total investment will be ₹ 140 (payable to Company) + ₹ 100 (payable to Narain, by way of value of right), or ₹ 240. He will end up holding ten shares at an average cost of ₹ 24, which is the Ex-right Market Price of the share.
- Narain will have a final holding of ten shares worth ₹ 2400+ ₹ 100 by way of value of right received from Murthy. It matches with his cum-right holding valuation.

Right of Renunciation

Right of renunciation refers to the right of the shareholder to surrender his right to buy the securities and transfer such right to any other person. Shareholders that have received right shares have three choices of what to do with rights issue; they can sell them in the market; or they can pass on taking advantage of their rights (i.e., reject the right offer).

The renunciation of the right is valuable and can be monetised by the existing shareholders in well-functioning capital market. The monetized value available to the existing shareholders due to right issue is known as 'value of right'. If a shareholder decides to renounce all or any of the right shares in favour of his nominee, the value of right is restricted to the sale price of the re-nouncement of a right in favour of the nominee. IN case the right issue offer is availed by an existing shareholder, the value of right is determined as given below:

Value of right = Cum-right value of share – Ex-right value of share

Ex-right value of the share = [Cum-right value of the existing shares + (Rights shares × issue Price)]/ (Existing Number of shares + Number of right shares)

In our previous example, Ex-right value of share = [₹ 250,000 + (14 × 1,000 shares)]/ 10,000 + 1,000 shares = ₹ 24

Value of right = ₹ 25 - ₹ 24 = ₹ 1 per share.

The Ex-right value of the share is also known as the average price.

QUESTION NO. 7

A company offers new shares of ₹ 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹ 150. Calculate the value of a right. What should be the ex-right market price of a share?

SOLUTION:

Ex-right value of the share = (Cum-right value of the existing shares + Rights shares Issue Price)/ (Existing Number of shares + Right Number of shares)

= (₹ 150 × 4 share + ₹ 125 × 1 Share)/ (4+1) Shares

= ₹ 725/ 5 shares

= ₹ 145 per share.

Value of right = Cum-right value of the share –Ex-right value of the share

= ₹ 150 - ₹ 145 = ₹ 5 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 125 will have to pay ₹ 20 (4 shares × ₹) to an existing shareholder holding 4 shares and willing to renounce his right of buying one share in favour of that person.

ACCOUNTING FOR RIGHT ISSUE

The accounting treatment of rights share is the same as that of issue of ordinary shares and the following journal entry will be made:

Bank A/c Dr.

To Equity shares capital A/c

In case rights shares are being offered at a premium, the premium amount is credited to the securities premium account.

The accounting entry is usual and is

Bank A/c Dr.

To Equity share capital A/c

To Securities Premium A/c

EXAMPLE:

A company having 100,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 46, issues rights shares in the ratio of 1:10 at an issue price of ₹ 31.

The entry at the time of subscription of right shares by the existing shareholders will be

Bank A/c	Dr.		
To Equity Share Capital A/c		3,10,000	100,000
To Securities Premium A/c			210,000

ADVANTAGES AND DISADVANTAGES OF RIGHT ISSUE

Advantages of right Issue

1. Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights. It works as a deterrent to the management, which may like to issue shares to known persons with a view to have a better control over the company's affairs.
2. In well-functioning capital markets, the right issue necessarily leads to dilution in the value of share. However, the existing shareholders are not affected by it because getting new shares at a discounted value from their cum-right value will compensate decrease in the value of shares. The cum-right value is maintained otherwise also, if the existing shareholders renounce their right in favour of a third party.
3. Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.
4. Right issue has an image enhancement effect, as public and shareholders view it positively.
5. The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

Disadvantages of right issue

1. The right issue invariably leads to dilution in the market value of the share of the company.
2. The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.

QUESTION 8

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share of ₹ 120 each. Calculate the value of a right. What should be the ex-right market price of a share?

EXTRA QUESTIONS ON BONUS SHARES

QUESTION NO 9

The following was the Balance sheet of Abhishek Cosmetics Limited as on 31st December, 1997.

Liabilities	Rs.	Assets	Rs.
40,000 equity shares of Rs.10 each	4,00,000	Sundry Assets	8,20,000
Securities premium	1,40,000		
General Reserve	70,000		
Profit and Loss Account	1,20,000		
Sundry creditors	90,000		
	8,20,000		8,20,000

The Company issued one bonus share for every four fully paid up shares. Securities Premium Account will be utilized first. Show journal Entries.

QUESTION NO 10

Moon and Lal Limited has Rs.11,20,000 in equity capital consisting of 80,000 shares of Rs.10 each fully paid and 40,000 shares of Rs.10 each of which Rs.8 paid it has Rs.40,000 in capital Reserve , Rs.90,000 in share premium Account, Rs.1,40,000 in capital Redemption reserve Account and Rs.3,00,000 in General Reserve.

By way of Bonus the party paid up shares are converted in fully paid up shares and the holders of fully paid up shares are allotted fully paid up Bonus shares in the same ratio

Share premium Account includes a premium of Rs.50,000 for shares issued to vendors other than cash..

Pass journal entries showing separately the two types of Bonus issues as mentioned above with the minimum reduction in free reserves.

QUESTION NO 11

The Balance Sheet of a Limited as at 31.3.1995 is follows;

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

The Company wanted to issue bonus shares to its shareholders @ one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complies with.

You are required to Give affect to the proposal by passing journal Entries in the books of A Limited:

REDEMPTION OF PREFERENCE SHARES

(SECTION 55 OF COMPANIES ACT)

PURPOSE OF ISSUING REDEEMABLE PREFERENCE SHARES

A company may issue redeemable preference shares because of the following:

1. It is a proper way of raising finance in a dull primary market.
2. A company may face difficulty in raising share capital, as its shares are not traded on the stock exchange. Potential investors, hesitant in putting money into shares that cannot easily be sold, may be encouraged to invest if the shares are redeemable by the company.
3. The preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use.

In India, The issue and redemption of preference shares is governed by Section 55 of the Companies Act, 2013.

PROVISIONS OF THE COMPANIES ACT (SECTION 55)

A company limited by shares if so authorized by its Articles, may issue preference shares which at the option of the company, are liable to be redeemed within a period, normally not exceeding 20 years from the date of their issue. It should be noted that:

(a) no shares can be redeemed except out of profit of the company which would otherwise be available for dividend or out of proceeds of fresh issue of shares made for the purpose of redemption;

(b) no such shares can be redeemed unless they are fully paid;

(c) (i) in case of such class of companies, as may be prescribed and whose financial statement comply with the accounting standards prescribed for such class of companies under Section 133, the premium, if any, payable on redemption shall be provided for out of the profits of the company, before the shares are redeemed:

Provided also that premium, if any, payable on redemption of any preference shares issued on or before the commencement of this Act by any such company shall be provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed.

(ii) in case of other companies (not falling under (i) above), the premium, if any payable on redemption shall be provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed.

(d) where any such shares are proposed to be redeemed out of the profits of the company, there shall, out of profits which would otherwise have been available for dividends, be transferred to a reserve account to be called Capital Redemption Reserve Account, a sum equal to the nominal amount of the shares redeemed; and the provisions of the Act relating to the reduction of the share capital of a company shall, except as provided in the Section, apply as if the Capital Redemption Reserve (CRR) Account were the paid-up share capital of the company. The utilisation of CRR Account is further restricted to issuance of fully paid-up bonus shares only.

From the legal provision outlined above, it is apparent that on the redemption of redeemable preference shares out of accumulated profits it will be necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of capital made for the purpose of redemption. The object is that with the repayment of redeemable preference shares, the security for creditors/ bankers, etc. should not be reduced. At times, a part of the preference share capital may be redeemed out of accumulated profits and the balance out of a fresh issue.

METHODS OF REDEMPTION OF FULLY PAID-UP SHARES

Redemption of preference shares means repayment by the company of the obligation on account of shares issued. According to the Companies Act, 2013, preference shares issued by a company must be redeemed within the maximum period (normally 20 years) allowed under the Act. Thus, a company cannot issue irredeemable preference shares. Section 55 of the Companies Act, 2013, deals with provisions relating to redemption of preference shares. It ensures that there is no reduction in shareholders' funds due to redemption and, thus, the interest of outsiders is not affected. For this, it requires that either fresh issue of shares is made or distributable profits are retained and transferred to 'Capital Redemption Reserve Account'.

The rationale behind these provisions is to protect the interest of outsiders to whom the amount is payable before redemption of preference share capital. The interest of outsiders is protected if the nominal value of capital redeemed is substituted, thus, ensuring the same amount of shareholders fund. In case of redemption of preference shares out of proceeds of a fresh issue of shares, replacement of capital and tangible assets is obvious. But, if redemption is done out of distributable profits, replacement of capital is ensured in an indirect manner by retention of profit by transfer to Capital Redemption Reserve. In this case, the amount which would have gone to shareholders in the form of dividend is retained in the business and is used for settling the claim of preference shareholders. Thus, there is no additional claim on net assets of the Company. The transfer of divisible profits to Capital Redemption Reserve makes them non-distributable profits. As Capital Redemption Reserve can be used only for issue of fully paid bonus shares, profits retained in the business ultimately get converted into share capital.

Security cover available to outside stakeholders depends upon called-up capital as well as uncalled capital to be demanded by the company as per its requirements. To ensure that the interests of outsiders are not reduced, Section 55 provides for redemption of only fully paid-up shares.

From the above paras, it can be concluded that the 'gap' created in the company's capital by the redemption of redeemable preference shares much be filled in by:

(a) The proceeds of a fresh issue of shares;

(b) The capitalisation of undistributed profits; or

(c) A combination of (a) and (b).

Redemption of Preference Shares by Fresh Issue of Shares

One of the methods for redemption of preference shares is to use the proceeds of a fresh issue of shares. A company can issue new shares (equity share or preference share) and the proceeds from such new shares can be used for redemption of preference shares.

The proceeds from issue of debentures cannot be utilized for the purpose.

A problem arises when a fresh issue is made for the purpose of redemption of preference shares, at a premium. The point to ponder is that whether the proceeds of a fresh issue of shares will include the amount of securities premium for the purpose of redemption of preference shares.

For securities premium account, Section 52 of the Companies Act, 2013 provides that the securities premium account may be applied by the company;

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities

(b) To write off preliminary expenses of the company

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of its own shares or other securities.

Note : If may be noted that certain class of Companies whose financial statements comply with the Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, can't apply the securities premium account for the purposes (b) and (d) mentioned above.

Note : All the questions in this chapter have been solved on the basis that the companies referred in the questions are governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them. Accordingly the balance in securities premium account has not been utilized for the purpose of premium payable to redemption of preference share.

Any other way, except the above prescribed ways, in which securities premium account is utilised will be in contravention of law.

Thus, the proceeds of a fresh issue of shares will not include the amount of securities premium for the purpose of redemption of preference shares.

Reasons for issue of New Equity Shares

A company may prefer issue of new equity shares for the following reasons:

(a) When the company has come to realise that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.

(b) When the balance of profit, which would otherwise be available for dividend, is insufficient.

(c) When the liquidity position of the company is not good enough.

Advantages of redemption of preference shares by issue of fresh equity shares

Following are the advantages of redemption of preference shares by the issue of fresh equity shares:

(1) No cash outflow of money – now or later.

(2) New equity shares may be valued at a premium.

(3) Shareholders retain their equity interest.

Disadvantages of redemption of preference shares by issue of fresh equity shares

The disadvantages are:

(1) There will be dilution of future earnings;

(2) Share-holding in the company is changed.

Accounting Entries

1. When new shares are issued at par

   Bank Account Dr.

   To Share Capital Account

   (Being the issue of ....shares of ₹......each for the purpose of redemption of preference shares, as per Board's Resolution No...... dated.......)

2. When new shares are issued at a premium

   Bank Account Dr.

   To Share Capital Account

   To Securities Premium Account

   (Being the issue of ....shares of ₹......each at a premium of ₹......each for the purpose of redemption of preference shares as per Board's Resolution No..... dated......)

3. When preference shares are redeemed at par

   Redeemable Preference Share Capital Account Dr.

   To Preference Shareholders Account

4. When preference shares are redeemed at a premium

   Redeemable Preference Share Capital Account Dr.

   Premium on Redemption of Preference Shares Account Dr.

   To Preference Shareholders Account

5. When payment is made to preference shareholders

   Preference Shareholders Account Dr.

   To Bank Account

6. For adjustment of premium on redemption

   Profit and Loss Account Dr.

   To Premium on Redemption of Preference Shares Account

QUESTION NO. 1

Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of ₹100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

QUESTION NO. 2

C Ltd. had 10,000, 10% Redeemable Preference Shares of ₹100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹10 each at a premium of ₹2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

QUESTION NO. 3

G India Ltd. had 9,000 10% redeemable Preference Shares of ₹10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹9 each fully paid up.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Calculation of Minimum Fresh Issue of Shares

Sometimes, examination problem does not specify the number of shares to be issued for the purpose of redemption of preference shares and requires that the minimum number of shares should be issued to ensure that provisions of Section 55 of the Companies Act, 2013, are not violated. This is done in four steps as given below:

(1) In such cases, the maximum amount of reserves and surplus available for redemption is ascertained taking into account the balances appearing in the balance sheet before redemption and the additional information provided in the problem. For example, if balance of general reserve in the balance sheet is ₹ 1,00,000 and additional information provides that the Board of Directors have decided that the balance of general reserve should not be less than ₹ 40,000 under any circumstances, then, the maximum amount of general reserve available for redemption is ₹ 60,000.

(2) After ascertaining the maximum amount of reserves and surplus available for redemption, adjustment for premium on redemption payable out of profits is made and then it is compared with the nominal value of shares to be redeemed. By comparison, one gets the minimum proceeds of fresh issue as Section 55 permits redemption either out of proceeds of fresh issue or out of divisible profits. Thus,

Minimum Proceeds of Fresh Issue of shares :

Nominal value of preference shares to be redeemed – Maximum amount of reserve and surplus available for redemption.

(3) After computation of minimum proceeds, the minimum number of shares to be issued are determined by dividing minimum proceeds by the proceeds of one share. This is done as follows:

Minimum Number of Shares = Minimum proceeds to comply with Section 55/ face value of one share

Proceeds of one share mean the par value of a share issued, if it is issued at par or premium. However, in case of issue of share at a discount, it refers to the discounted value.

(4) Minimum number of shares calculated as per (3) above, needs to be adjusted due to various reasons. Firstly, shares fractions cannot be issued. Thus, if minimum number of shares as per (3) above includes a fraction, it must be approximated to the next higher figure to ensure that provisions of Section 55 are not violated. Secondly, if the examination problem states that the proceeds/number of shares should be a multiple of say, 10 or 50 or 100, then again the next higher multiple should be considered.

QUESTION NO. 4

The Board of Directors of a Company decide to issue minimum number of equity shares of ₹9 to redeem ₹5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹3,00,000. Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of ₹50 only.

Fresh Issue at a Premium and Minimum Fresh Issue

The calculation of minimum number of shares, when fresh issue is at a premium should be handled very carefully Minimum fresh issue cannot be calculated unless one knows the profits available for replacement of preference shares and profit available for replacement cannot be determined unless one knows the portion of profit available for redemption which is required for paying premium on redemption. To tackle this, assume that **profits available for redemption is not required for paying premium on redemption of preference shares.** In other words, it means that securities premium including premium on fresh issue is comparatively more than premium on redemption.

If the above assumption holds good, minimum number of shares can be calculated in a simple manner without use of equation. But, if above condition does not hold good, then an equation is used to determine the minimum number of shares.

Minimum Fresh Issue to Provide Funds for Redemption

Besides, ensuring compliance with Section 55, the fresh issue of shares is made to provide funds for making payment to preference shareholders. To calculate minimum number of fresh shares to be issued to provide funds, amount payable to preference shareholders is compared with funds available for redemption and the balance of funds to be raised by fresh issue of shares are calculated. The amount to be raised is divided by the issue price of a share (amount payable by shareholder including premium, if any, on fresh issue) to compute the minimum number of shares to be issued.

QUESTION NO. 5

The Balance Sheet of X Ltd. as on 31st March, 20X3 is as follows:

Particulars	₹
EQUITY AND LIABILITIES	
1. Shareholders' funds	
a. Share capital	2,90,000
b. Reserve and Surplus	48,000
2. Current liabilities	
Trade Payables	56,500
Total	**3,94,500**
ASSETS	
1. Fixed Assets	
Tangible asset	3,45,000
Non-current investments	18,500
2. Current Assets	
Cash and cash equivalents (bank)	31,000
Total	**3,94,500**

The share capital of the company consists of ₹50 each equity shares of ₹2,25,000 and ₹100 each Preference shares of ₹65,000(issued on 1.4.20X1). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) To sell all the investments for ₹15,000.

(b) To finance part of redemption from company funds, subject to, leaving a bank balance of ₹12,000.

(c) To issue minimum equity share of ₹50 each at a premium of ₹10 per share to raise the balance of funds required.

You are required to pass:

The necessary Journal Entries to record the above transactions and prepare the balance sheet as on completion of the above transactions.

Redemption of Preference Shares by Capitalisation of Undistributed Profits

Another method for redemption of preference shares, as per the Companies Act, is to use the distributable profits in place of issuing new shares. When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve Account by debiting the distributable profit. In other words, some of the distributable profits are kept aside to ensure that it can never be distributed to shareholders as dividend.

In this connection, the provisions of the Companies Act state that 'When any such shares are redeemed otherwise than out of the proceeds of a fresh issue, there shall out of profits which would otherwise have been available for dividend, be transferred to a reserve fund to be called the Capital Redemption Reserve Account sum equal to the nominal amount of the shares redeemed'.

Advantages of redemption of preference shares by capitalisation of undistributed profits

The advantages of redemption of preference shares by capitalisation of undistributed profits are:

(1) No change in the percentage of equity share-holding of the company;

(2) Surplus funds can be used.

Disadvantages of redemption of preference shares by capitalisation of undistributed profits

The disadvantage of redemption of preference shares by capitalisation of undistributed profits is that there may be a reduction in liquidity.

Accounting Entries

1. When shares are redeemed at par

Redeemable preference share capital account Dr.

To preference shareholders account

(Being the amount payable on redemption of preference shares transferred to preference shareholders account)

2. When shares are redeemed at a premium

   Redeemable preference share capital account Dr.

   Premium on redemptions of preference shares account Dr.

   To preference shareholders account

   (Being the amount payable on redemption transferred to preference shareholders account)

3. When payment is made to preference shareholders

   Preference shareholder account Dr.

   To Bank account

   (Being the payment to preference shareholders as per terms)

4. For adjustment of premium redemption

   Profit and loss account Dr.

   To premium on redemption of preference shares account

   (Being the premium on redemption adjusted against profit and loss Account)

5. For transferring nominal amount of shares redeemed to capital redemption Reserve Account

   General Reserve Account Dr.

   Profit and Loss Account Dr.

   To Capital redemption Reserve Account

   (Being the amount transferred to Capital redemption reserve account as per the requirement of the of the Act.)

QUESTION NO. 6

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1.

Share capital: 40,000 Equity shares of ₹10 each fully paid – ₹4,00,000; 1,000 10% Redeemable preference shares of ₹100 each fully paid – ₹1,00,000.

Reserve & Surplus: Capital reserve – ₹50,000; Securities premium – ₹50,000; General reserve –₹75,000; Profit and Loss Account – ₹35,000

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Redemption of Preference Shares by Combination of Fresh Issue and Capitalisation of Undistributed Profits

A company can redeem the preference shares partly from the proceeds from new issue and partly out of profits. In order to fill in the 'gap' between the face value of shares redeemed and the proceeds of new issue, a transfer should be made from distributable profits (Profit & Loss Account, General Reserve and other Free Reserves) to Capital Redemption Reserve Account.

Formula:

		₹
(i)	Amount to be transferred to Capital Redemption Reserve	₹
	Face Value of shares redeemed	***
	Less: Proceeds from New Issue	***
		***
(ii)	Proceeds to be collected from New Issue	₹
	Face Value of shares redeemed	***
	Less: Profits available for distribution as dividend	***
		***

QUESTION NO. 7

C Limited had 3,000, 12% Redeemable Preference Shares of ₹100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 25,000 Equity Shares of ₹10 each at par,

(ii) 1,000 14% Debentures of ₹100 each.

The issue was fully subscribed and all amounts were received in full .The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

QUESTION NO. 8

The capital structure of a company consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve ₹80,000; Profit and Loss Account ₹20,000; Investment Allowance Reserve out of which ₹5,000, (not free for distribution as dividend) ₹10,000; Securities Premium ₹2,000, Cash at bank amounted to ₹98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

Sale of Investments to Provide Sufficient Funds for Redemption

Companies may have sufficient investments, which can be sold, in the market to arrange funds for redemption of preference shares.

REDEMPTION OF PARTLY CALLED-UP PREFERENCE SHARES

One of the conditions of redemption is that only fully paid up preference shares can be redeemed by a company. If the examination problem states that it is decided to redeem preference shares which are partly called up, then it is assumed that final call on these shares is demanded and received before proceeding with redemption of these shares. If information about both fully paid and partly paid preference shares is provided, then, only fully paid shares are redeemed.

QUESTION NO.9

The Balance Sheet of XYZ as at 31st December, 20X1 inter alia includes the following:

	₹
50,000, 8% preference shares of ₹100 each , ₹70 paid up	35,00,000
1,00,000 Equity shares of ₹100 each fully paid up	1,00,00,000
Securities Premium	5,0,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 20X2 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹100 each at ₹110 per share, ₹20 being payable on application, ₹35 (including premium) on allotment and the balance on 1st January, 20X3. The issue was fully subscribed and allotment made on 1st March, 20X2. The money due on allotment were received by 31st March, 20X2. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, 20X1.

Redemption on fully called but partly paid –up preference shares

The problem of unpaid calls on fully called up shares may be studied under following categories.

When calls –in arrears in received by the company

If the amount of unpaid calls is received by the Company before redemption, the entry passed is as under:

Bank A/c Dr.

To Calls-in-Arrears A/c

After receipt of calls in arrears, the shares become fully paid up and, then, company can proceed with redemption in the normal course.

In case of Forfeited Shares

If, on getting a proper notice from the company, the shareholders fail to pay the unpaid calls, the Board of Directors may decide to forfeit the shares and cancel these shares instead of reissuing the forfeited shares because redemption of these shares is due immediately or in near future. In this case, entry for forfeiture is passed as usual.

QUESTION 10

The books of B Ltd. showed following balance on 31st December, 20X3: 30,000 Equity Shares of ₹ 10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹ 10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 20X2).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 80,000; General Reserve ₹ 1,20,000; Securities Premium Account ₹ 15,000 and Capital Reserve ₹ 21,000.

Preference shares are redeemed on 1st January, 20X1 at a premium of ₹ 2 per share. The whereabouts of the holders of 100 shares of ₹ 10 each fully paid are not known.

For redemption, 3,000 equity shares of ₹ 10 each are issued at 10% premium. At the same time, a bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account.

Show the necessary Journal Entries to record the transactions.

QUESTION 11

The following is the summarized Balance Sheet of Bumbum Limited at 31st March, 20X1:

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

In Annual General Meeting held on 20th June, 20X1 the company passed the following resolutions:

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

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

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

(iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date. On 10th July, 20x1 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

40% of Debenture holders exercised their option to accept cash and their claims were settled on 1st August, 20X1.

The company fixed 5th September, 20X1 as record date and bonus issue was concluded by 12th September, 20X1

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 20X1. All working notes should form part of your answer.

QUESTION 12

The following is the summarized Balance Sheet Trinity Ltd. as at 31.3.20X1:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
Authorised		Gross Block	3,00,000
10,000 10% Redeemable Preference		Less: Depreciation	1,00,000
Shares of ₹ 10 each	1,00,000		2,00,000
90,000 Equity Shares of ₹ 10 each	9,00,000	Investments	1,00,000
	10,00,000	Current Assets and Loans and Advances	
Issued, Subscribed and Paid-up Capital 10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000	Inventory	45,000
10,000 Equity Shares of ₹ 10 each	1,00,000	Trade receivable	25,000
		Cash and Bank Balances	50,000
(A)	2,00,000		
Reserves and Surplus			
General Reserve	1,20,000		
Securities Premium	70,000		
Profit and Loss A/c	18,500		
(B)	2,08,500		

Current Liabilities and Provisions (C)	11,500		
Total (A+B+C)	4,20,000	Total	4,20,000

For the year ended 31.3.20X2, the company made a net profit of ₹ 35,000 after providing ₹ 20,000 depreciation.

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

1. The preference dividend for the year ended 31.3.20X2 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.20X2, was the same as on 31.3.20X1.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.20X2.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at 90% of cost on 31.3.20X2.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

PROFIT OR LOSS PRE AND POST INCORPORATION

INTRODUCTION

When a running business is taken over by the promoters of a company, as at a date prior to the date of incorporation of company, the amount of profit or loss of such a business for the period prior to the date the company came into existence is referred to as pre-incorporation profits or losses. Such profits or losses, though belonging to the company or payable by it, are of capital nature; it is necessary to disclose them separately from trading profits or losses.

The general practice in this regard is that:

i. If there is a loss, it is either written off by debit to the Profit and Loss Account or to a special account described as "Loss Prior to Incorporation" and show as an "asset" in the Balance Sheet, Alternatively, it may be debited to the Goodwill Account.

ii. On the other hand, if a profit has been earned by business prior to the same being taken over and the same is not fully absorbed by any interest payable for the period, it is credited to Capital Reserve Account or to the Goodwill Account, if any goodwill has been adjusted as an asset. The profit will not be available for distribution as a dividend among the members of the company.

COMPUTING PROFIT OR LOSS PRIOR TO INCORPORATION

The determination of such profit or loss would be a simple matter if it is possible to close the books and take the stock held by the business before the company came into existence. In such a case, the trial balance will be abstracted from the books and the profit or loss computed. Thereafter, the books will be either closed off or the balance allowed continuing undistributed; only the amount of profit or loss so determined being adjusted. The simplest, though not always the most expedient method is to close off old books and open new books with the assets and liabilities as they existed at the date of incorporation. In this way, automatically the result to that date will be adjusted, the difference between the values of assets and liabilities acquired and the purchase consideration being accounted for either as goodwill or as reserve. The accounts, therefore, would relate exclusively to the post-incorporation period and any adjustment for the pre-incorporation period, whether an adjustment of profit or loss, would not be required.

Since the decision to take over a business usually takes time from the date when it is agreed to be taken over it is normally not possible to follow any of the method aforementioned. The only alternative left, in the circumstances, is to split up the profit of the year of the transfer of the business to the company between 'pre' and 'post' incorporation periods. This is done either on the time basis or on the turnover basis or by a method which combines the two.

BASIS OF APPORTIONMENT BASIS OF APPORTIONMENT BETWEEN PRE AND POST

Item	Basis of Apportionment between pre and post incorporation period
Gross profit or gross loss	Sales Ratio-On the basis of turnover in the respective periods (first Preference) Or On the basis of cost of goods sold in the respectively periods in the absence of any information regarding turnover (second preference) Or Time Ratio- On the basis of time in the respective periods in the absence of any information regarding turnover and cost of goods sold (third preference)
Variable expenses linked with turnover [e.g. Carriage/ Cartage outward, Selling and distribution expenses, Commission to selling agents/traveling agents, advertisement expenses, Bad debts, Brokerage, sales Promotion]	Sales Ratio
Fixed common charges [e.g., Formation expenses, interest on debentures directors fees Directors remuneration, Preliminary Expenses, share issue Expenses, Underwriting Commission, Discount on issue of securities.	Charge to Post-incorporation period

Audit Fees (i) For company's Audit under the Companies Act. (ii) For Tax Audit Under Section 44AB of the income tax Act, 1961	Charge to Post-incorporation Period On the basis of turnover in the respective periods
Interest on Purchase consideration to Vendor (i) For the period from the date of acquisition of Business to date of incorporation. (ii) From the date of incorporation	Charge to pre-incorporation period Charge to Post-incorporation period

Calculation of time ratio and sales ratio.

EXAMPLE

Lion Ltd. was incorporated on 1.8.20X1 to take over the running business of M/s Happy with assets from 1.4.20X1. The accounts of the company were closed on 31.3.20X2.

The average monthly sales during the first four months of the year (20X1-X2) was twice the average monthly sales during each of the remaining eight months.

Calculate time ratio and sales ratio for pre and post incorporation periods.

SOLUTION

Time ratio:

Pre-incorporation period (1.4.20X1 to 1.8.20X1) = 4 months

Post incorporation period (1.8.20X1 to 31.3.20X2) = 8 months

Time ratio = 4 : 8 or 1 : 2

Sales ratio:

Average monthly sale before incorporation was twice the average sale per month of the post incorporation period. If weightage for each post-incorporation month is x, then

Weighted sales ratio = 4 × 2x : 8 × 1x = 8x : 8x or 1 : 1

PRE-INCORPORATION PROFITS & LOSSES

S.No	Pre-incorporation Profits	Pre –incorporation Losses
1.	It is transferred to capital Reserve Account (i.e. Capitalised).	I\t is treated as a part of business acquisition cost (Goodwill).
2.	It can be used for: • Writing off Goodwill on acquisition • Writing off Preliminary Expenses • Writing down over Valued assets	It can be used for: • Setting off against Post incorporation Profit • Addition to Goodwill on acquisition • Writing off Capital Profit

QUESTION NO 1

The promoters of Glorious Ltd. took over on behalf of the company a running business with effect from 1st April, 20X1. The company got incorporated on 1st August, 20X1. The annual accounts were made up to 31st March, 20X2 which revealed that the sales for the whole year totaled ₹ 1,600 lakhs out of which sales till 31st July, 20X1 were for ₹ 400 lakhs. Gross profit ratio was 25%.

The expenses from 1st April 20X1, till 31st March, 20X2 were as follows:

	(₹in Lakhs)
Salaries	69
Rent , Rates and insurance	24
Sundry Office Expenses	66
Travellers' Commission	16
Discount Allowed	12
Bad Debts	4
Directors fee	25
Tax Audit Fee	9
Depreciation on Tangible Assets	12
Debenture Interest	11

Prepare a statement showing the calculation of profits for the pre-incorporation and post-incorporation periods.

SOLUTION

Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
	(₹in Lakhs)		(₹in Lakhs)	(₹In Lakhs)
Gross profit (25% of ₹1,600)	400	Sales	100	300
Less: Salaries	69	Time	23	46
Rent, rates and insurance	24	Time	8	16
Sundry office expenses	66	Time	22	44
Travellers' commission	16	Sales	4	12
Discount allowed	12	Sales	3	9
Bad Debts	4	Sales	1	3
Directors' fee	25	Post	-	25
Tax audit fees	9	Sales	2.25	6.75
Depreciation on tangible assets	12	Time	4	8
Debenture interest	11	Post	-	11
Net profit	152		32,75	119.25

Working Notes:

1. **Sales ratio**

	(₹ in Lakhs)
Sales for the whole year	1,600
Sales up to 31st July, 20X1	400
Therefore, sales for the period from 1st August 20X1 to 31st March, 20X2	1,200

Thus, sale ratio = 400:1200 = 1:3

2. **Time ratio**

1st April, 20X1 to 31st July, 20X1 : 1st August, 20X1 to 31st March, 20X2

= 4 months: 8 months = 1:2

Thus, time ratio is 1:2.

QUESTION NO 2

ABC Ltd. took over a running business with effect from 1st April, 20X1. The company was incorporated on 1st August, 20X1. The following summarised Profit and Loss Account has been prepared for the year ended 31.3.20X2:

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

Additional information:

(a) Total sales for the year, which amounted to ₹ 19,20,000 arose evenly up to the date of 30.9.20X1. Thereafter they recorded an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ ₹ 2,000 per month up to September, 20X1 and thereafter it was increased by ₹ 400 per month.

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

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

(e) Purchase consideration was discharged by the company on 30th September, 20X1 by issuing equity shares of ₹10 each.

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

SOLUTION

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.20X2

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

Working Notes:

1. **Time Ratio**

Pre incorporation period = 1st April, 20X1 to 31st July, 20X1

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. **Sales ratio**

Let the monthly sales for first 6 months (i.e. from 1.4.20X1 to 30.09.20X1) be x Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.X1 to 31.3.20X2) = $x + \frac{2}{3}x = \frac{5}{3}x$

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

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

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

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

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

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

3. **Rent**

		₹
Rent for pre-incorporation period (₹2,000 X4)		8,000(pre)
Rent for post incorporation period		
August, 20X1 & September, 20X1 (₹2,000X2)	4,000	
October, 20X1 to March, 20X2 (₹2,400x6)	14,400	18,400(post)

4. **Travelling expenses and sales promotion expenses**

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

5. Interest paid to vendor till 30th September, 20X1

	Pre ₹	Post ₹
Interest for pre-incorporation period $\left(\frac{₹4,200}{6} \times 4\right)$	2,800	
Interest for post incorporation period i.e. for August, 20X1 &September, 20X1 $\left(\frac{₹4,200}{6} \times 2\right)$		1,400

6. Depreciation

P		Pre ₹	Post ₹
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	(600)		
Remaining (for Pre and post incorporation period)	9,000		600
Depreciation for pre-incorporation period $\left[9,000 \times \frac{4}{12}\right]$ *		3000	
Depreciation for post incorporation period $\left[9,000 \times \frac{8}{12}\right]$ *			
*Time Ratio = 1 : 2			6,000
		3000	6,600

QUESTION NO 3

ABC Ltd. was incorporated on 1.5.20X1 to take over the business of DEF and Co. from 1.1.20X1. The summarised Profit and Loss Account as given by ABC Ltd. for the year ending 31.12.20X1 is as under:

Summarised Profit and Loss Account

	₹		₹
To rent and taxes	90,000	By Gross Profit	10,64,000
To salaries including manager's salary of 85,000	3,31,000	By Interest on Investment	36,000
To Carriage Outwards	14,000		
To Printing and Stationery	18,000		
To Interest on Debentures	25,000		
To Sales Commission	30,800		
To Bad Debts (related to Sales)	91,000		
To Underwriting Commission	26,000		
To Preliminary Expenses	28,000		
To Audit Fees	45,000		
To Loss on sale of investments	11,200		
To Net profit	3,90,000		
	11,00,000		11,00,000

Prepare a Statement showing allocation of expenses and calculations of pre- incorporation and post-incorporation profits after considering the following information:

(i) G.P. ratio was constant throughout the year.

(ii) Sales for January and October were 11/2 times the average monthly sales while sales for December were twice the average monthly sales.

(iii) Bad Debts are shown after adjusting a recovery of ₹ 7,000 of Bad Debt for a sale made in July, 20X0.

(iv) Manager's salary was increased by ₹ 2,000 p.m. from 1.5.20X1.

(v) All investments were sold in April, 20X1.

(vi) The entire audit fees relates to the company.

SOLUTION

Pre-incorporation period is for four months, from 1st January, 20X1 to 30th April, 20X1. 8 months' period (from 1st May, 20X1 to 31st December, 20X1) is post-incorporation period.

Statement showing calculation of profit/losses for pre and post incorporation periods

	Pre-Inc ₹	Post-Inc ₹
Gross Profit	3,42,000	7,22,000
Interest on investments	36,000	--
Bad debts Recovery	7,000	-
	3,85,000	7,22,000
Less: Rent and Taxes	30,000	60,000
Salaries		
Manager's salary (85,000-refer note below)	23,000	62,000
Other salaries (3,31,000-85,000)	82,000	1,64,000
Printing and stationery	6,000	12,000
Audit Fees	-	45,000
Carriage outwards	4,500	9,500
Sales commission	9,900	20,900
Bad Debts (91,000 + 7,000)	31,500	66,500
Interest on Debentures	--	25,000
Underwriting Commission	--	26,000
Preliminary expenses	--	28,000
Loss on sale of investments	11,200	--
Net Profit	1,86,900	2,03,100

Working Notes :

(i) Calculation of Sales ratio

Let average monthly sales be x.

Thus Sales from January to April are $4\frac{1}{2}$ x (i.e., 1.5x + x + x + x) and sales from May to December are $9\frac{1}{2}$ x (x + x + x + x + x + 1.5x + x + 2x).

Sales are in the ratio of 9/2x : 19/2x or 9 : 19.

Calculation of Time Ratio

Pre-incorporation period = 1.1.20X1 to 30.4.20X1 = 4 months

Post-incorporation period = 1.5.20X1 to 31.12.20X1 = 8 months

Time ratio = 1:2

(ii) Gross profit, carriage outwards, sales commission and bad debts written off (after adjustment for bad debt recovery) have been allocated in pre and post incorporation periods in the ratio of Sales i.e. 9 : 19.

(iii) Rent, salaries (subject to increase in manager's salary), printing and stationery are allocated on time basis.

(iv) Interest on debentures, underwriting commission and preliminary expenses are allocated in post incorporation period.

(v) Interest on investments, loss on sale of investments and bad debt recovery are allocated in pre-incorporation period.

Note :

Let Pre-incorporation period manager's monthly salary be x

Total pre-incorporation period manager's monthly salary = 4x Post-incorporation period nager's monthly salary = x + 2,000

Total pre-incorporation period manager's monthly salary = 8 (x + 2,000)

Total manager's salary (pre and post) = ₹85,000

Thus, 4x + 8(x + 2,000) = 85,000

x = 5,750

Total pre-incorporation period manager's monthly salary = 4 x 5,750 = ₹ 23,000

Total pre-incorporation period manager's monthly salary = 8(5,750 + 2,000) = ₹ 62,000

QUESTION 4

Sneha Ltd. was incorporated on 1st July, 20X1 to acquire a running business of Atul Sons with effect from 1st April, 20X1. During the year 20X1-X2, the total sales were ₹ 24,00,000 of which ₹ 4,80,000 were for the first six months. The Gross profit of the company ₹ 3,90,800. The expenses debited to the Profit & Loss Account included:

(i) Director's fees ₹ 30,000

(ii) Bad debts ₹ 7,200

(iii) Advertising ₹ 24,000 (under a contract amounting to ₹ 2,000 per month)

(iv) Salaries and General Expenses ₹ 1,28,000

(v) Preliminary Expenses written off ₹ 10,000

(vi) Donation to a political party given by the company ₹ 10,000.]

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 20X2.

ANSWER

Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

For the year ended 31st March, 20X2

Particulars	Total Amount	Basis Allocation	Pre-incor Poration	Post-incor Poration
Gross profit	3,90,800	Sales	39,080	3,51,000
Less : Director's fee	30,000	Post	-	30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Time	6,000	18,000
Salaries & General Expenses	1,28,000	Time	32,000	96,000
Preliminary expenses				
Donation to political Party	10,000	Post		10,000
Net Profit	10,000	Post		10,000
(Pre-incorporation profit transfer to Capital Reserve)	1,81,600		360	1,81,240

Working Notes:

1. Sales ratio

Particulars	₹
Sales for period up to 30.06.20X1 (4,80,000 x 3/6)	2,40,000
Sales for period from 01.07.20X1 to 31.03.20X2 (24,00,000-2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 20X1 to 30 June, 20X1: 1st July, 20X1 to 31st March, 20X2

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

QUESTION 5

The partners Kamal and Vimal decided to convert their existing partnership business into a Private Limited Company called M/s. KV Trading Private Ltd. with effect from 1-7-20X2.

The same books of accounts were continued by the company which closed its account for first term on 31-3-20X3.

The summarised Profit and Loss Account for the year ended 31-3-20X3 is below:

	(₹)in Lakhs	(₹)in Lakhs
Turnover		240.00
Interest on investments		6.00
		246.00
Less : cost of goods sold	102.00	
Advertisement	3.00	
Sales commission	6.00	
Salary	18.00	
Managing director's remuneration	6.00	
Interest on debentures	2.00	
Rent	5.50	
Bad Debts	1.00	
Underwriting commission	2.00	
Audit fees	2.00	
Loss on sale of investment	1.00	
Depreciation	4.00	152.50
		93.50

The following additional information was provided:

(i) The average monthly sales doubled from 1-7-20X2. GP ratio was constant.

(ii) All investments were sold on 31-5-20X2.

(iii) Average monthly salary doubled from 1-10-20X2.

(iv) The company occupied additional space from 1-7-20X2 for which rent of ₹20,000 per month was incurred.

(v) Bad debts recovered amounting to ₹ 50,000 for a sale made in 20X0, has been deducted from bad debts mentioned above.

(vi) Audit fees pertains to the company.

Prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the Profit/Loss for such periods.

ANSWER

K V Trading Private Limited

Statement showing calculation of profit/loss for pre and post incorporation periods

₹ in lakhs

	Ratio	Total	Pre-incorporation	Post-incorporation
Sales	1:6	240.00	34.29	205.71
Interest on investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.50	0.50	-
(i)		246.50	40.79	205.71
Cost of goods sold	1:6	102.00	14.57	87.43
Advertisement	1:6	3.00	0.43	2.57
Sales commission	1:6	6.00	0.86	5.14
Salary (W.N.3)	1:5	18.00	3.00	15.00
Managing directors remuneration	Pots	6.00	-	6.00
Interest on debentures	Post	2.00	-	2.00
Rent (W.N.4)		5.50	0.93	4.57
Bad debts (1+0.5)	1:6	1.50	0.21	1.29
Underwriting commission	Post	2.00	-	2.00
Audit fees	Post	2.00	-	2.00
Loss on sale of investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
(ii)		153.00	22.00	131.00
Net profit [(i) – (ii)]		93.50	18.79	74.71

Working Notes:

1. **Calculation of Sales Ratio**

   Let the average sales per month be x

   Total sales from 01.04.20X2 to 30.06.20X2 will be 3x

   Average sales per month from 01.07.20X2 to 31.03.20X3 will be 2x

   Total sales from 01.07.20X2 to 31.03.20X3 will be 2x X 9 =18x

   Ratio of Sales will be 3 x: 18x i.e. 3:18 or 1:6

2. **Calculation of time Ratio**

   3 Months: 9 Months i.e. 1:3

3. **Apportionment of Salary**

   Let the salary per month from 01.04.20X2to 30.09.20X2 is x

   Salary per month from 01.10.20X2 to 31.03.20X3 will be 2x

   Hence, pre incorporation salary (01.04.20X2 to 30.06.20X2) = 3x

   Post incorporation salary from 01.07.20X2 to 31.03.20X3 = (3x + 12x) i.e.15x

   Ratio for division 3 x: 15x or 1: 5

4. **Apportionment of Rent**

		₹ Lakhs
Total Rent		5.5
Less: additional rent from 1.7.20X2 to 31.3.20X3		1.8
Rent of old premises for 12 months		3.7
Apportionment in time ratio	0.925	2.775
Add: Rent for new space	-	1.80
Total	0.925	4.575

QUESTION 6

SALE Limited was incorporated on 01.08.20X1 to take-over the business of a partnership firm w.e.f. 01.04.20X1. The following is the extract of Profit and Loss Account for the year ended 31.03.20X2:

Particulars	Amount (₹)	Particulars	Amount (₹)
To salaries	1,20,000	By gross Profit	6,00,000
To Rent, Rates & taxes	80,000		
To Commission on sales	21,000		
To Depreciation	25,000		
To Interest on Debentures	32,000		
To Director Fees	12,000		
To Advertisement	36,000		
To Net profit for the year	2,47,000		
	6,00,000		6,00,000

(i) SALE Limited initiated an advertising campaign which resulted increase in monthly average sales by 25% post incorporation.

(ii) The Gross profit ratio post incorporation increased to 30% from 25%.

You are required to apportion the profit for the year between pre-incorporation and post-incorporation, also explain how pre-incorporation profit is treated in the accounts.

ANSWER

Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	Total Amount	Basis of amount	Pre-incorporation	Post-incorporation
	₹	₹	₹	₹
Gross profit (W.N.2)	6,00,000	1:3	1,50,000	4,50,000
Less : Salaries	1,20,000	Time	40,000	80,000
Rent rates and taxes	80,000	Time	26,667	53,333
Sales' Commission	21,000	Sales (2:5)	6,000	15,000
Depreciation	25,000	Time	8,333	16,667
Interest on Debentures	32,000	Post		32,000
Director's fee	12,000	Post		12,000
Advertisement	36,000	Post		36,000
Net profit	2,47,000		69,000	2,05,000

Working Notes:

1. **Sales ratio**

   Let the monthly sales for first 4 months (i.e. from 1.4.20X1 to 31.7.20X1) be = x

   Then, sales for 4 months = 4x

   Monthly sales for next 8 months (i.e. from 1.8.X1 to 31.3.20X2) = x + 25% of x= 1.25x

   Then, sales for next 6 months = 1.25x X 8 = 10x

   Total sales for the year = 4x + 10x = 14x

   Sales Ratio = 4 x :10 x i.e. 2:5

2. **Gross profit ratio**

   From 1.4.20X1 to 31.7.20X1 gross profit is 25% of sales

   Then, 25% of 4x= 1x

   gross profit for next 8 months (i.e. from 1.8.X1 to 31.3.20X2) is 30%

   Then, 30% of 10x = 3x

   Therefore gross profit ratio will be 1:3

3. **Time ratio**

   1st April, 20X1 to 31st July, 20 X1 : 1st August, 20X1 to 31st March, 20X2

   = 4 months: 8 months = 1:2

   Thus, time ratio is 1:2.

QUESTION NO 7

VK Ltd. was incorporated on the 1st March 2003 and received its certificate for commencement of business on 1st April 2003. The company bought the business of M/s Shared singh brothers with effect from 1st November 2002 from the following figures relating to the year ending October 31, 2003, find out the profits available for dividends:

(a) Sales for the year Rs.6,00,000 out of which sales up to 1st March were Rs.2,50,000 and upto 1st April Rs.3,00,000.

(b) Gross profit for the year was 1,80,000

(c) The expenses debited to the profit and loss account were:

a.	Rent	9,000
b.	Salaries	15,000
c.	Directors fees	4,800
d.	Interest on debentures	5,000
e.	Audit fees	1,500

f.	Discount on sales	3,600
g.	Depreciation	24,000
h.	General expenses	4,800
i.	Advertising	18,000
j.	Stationary and printing	3,600
k.	Commission on sales	6,000

l. Bad debts 1500(Rs.500 relate to debts to created prior to incorporation)

m. Interest to vendor on purchase consideration up to 1st May 2003 Rs.3000

QUESTION NO 8

A company was incorporated on 1st May 2004 to take over the business a going concern from 1st January of the same year. The total turnover for the year ended 31st December was Rs.2,00000 namely Rs.60,000 for the first period upto 1st May and Rs.1,40,000 for the following period. The gross profit is Rs.70,000 and the profit and loss account is given below. Ascertain profits prior to incorporation:

PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2004

Particulars	Rs.	Particulars	Rs.
Rent and rates	3,240	Gross profit b/d	70,000
Insurance	720		
Lighting and heating	2,040		
Salaries	7,800		
Directors fees	2,000		
Sales commission	10,000		
Sales discounts	5,000		
General office expenses	2,400		
Carriage outwards	3,000		
Bank charges	420		
Repairs	1,380		
Bad debts	600		
Loan interest	1,200		
Net profit	30,200		
	70,000		70,000

QUESTION NO 9

Neeraj Ltd. was incorporated as a private Ltd. company on 1st August 2003 to take over a business as a going concern as from 1st February 2003. The purchase price of the business for such acquisition was fixed on the basis of the Balance Sheet of the firm as at 31st January 2003 but the agreement provided that the vendors would get 80% of the profit prior to 1st August 2003 as compensation. Company's accounts were made up to 31st January each year and the summarized trading and profit and loss account for the year ended 31.1.2004 disclosed the following results:

Particulars	Rs.	Particulars	Rs.
To material consumed	1,86,000	By net sales	2,60,000
To manufacturing wages	48,500	By finished goods	49,000
To misc. expenses	18,600	By incomplete goods	6,000
To carriage inwards	6,300		
To gross profits	55,600		
	3,15,000		3,15,000
To salaries and charges	18,300	By gross profit	55,600
To office expenses	2,750		
To director fees	1,800		
To bad debts	2,300		
To debentures interest	1,250		
To commission and discounts	7,800		
To carriage outwards	1,600		
To depreciation	10,300		
To net profit	9,500		
	55,600		55,600

Further information available was that sales made by the company amounted to Rs.1,16,000 and bad debts amounting to Rs.1,100 were written off prior to 1st August 2003.

Prepare a statement showing the profits earned prior and after incorporation, state also the amount of profit prior to 1st August 2003 payable to the vendors.

How should the company deal with its share of profits in the year ending 31.1.2004.

QUESTION NO 10

X Ltd. was incorporated on 1.5.2004 to acquire a business as on 1st Jan 2004. The first accounts were closed on 30.9.2004.

The gross profit for the period was Rs.42,000. Details of the other expense:

General expenses	7200
Directors remuneration	12000
Preliminary expenses	2000

Rent upto 30th June was Rs.6000 per annum after which it was increased by 40%

Salary of the manager, who on information of the company had become a whole time director and whose remuneration has been given above, was Rs.5100 per annum.

The company earned uniform gross profits. The sales upto 30th September 2004 were Rs.98000. The monthly average of sales for the first four months of the year was one half of the remaining period.

Show the profit and loss account and indicate how you would deal with the pre incorporation reserve.

QUESTION NO 11

The partners of Maitri agencies decided to convert the partnership in to private Ltd. company called MA (P) company Ltd. with effect from 1.1.2003. The consideration was agreed at Rs.1,17,00,000 based on the firm's Balance Sheet at 31.12.2002. however, due to some procedural difficulties, the company could be incorporated only on 1.4.2003. Meanwhile the business continued on behalf of the company and the consideration was settled on that date with interest at 12% per annum. The same books of account were continued the company which closed its accounts for the first time on 31.3.2004. Prepare the following summarized the profit and loss account:

Sales	2,34,00,000
Cost of goods sold	(1,63,80,000)
Salaries	(11,70,000)
Depreciation	(1,80,000)
Advertisements	(7,02,000)
Discounts	(11,70,000)
Managing director's remuneration	(90,000)

Misc. office expenses	(1,20,000)
Office cum show room rent	(7,20,000)
Interest	(9,51,000)

Profit	19,17,000

The company's only borrowed was a loan of Rs.50,00,000 at 12% per annum to pay the purchase consideration due to the firm and for working capital requirement.

The company was able to double the average monthly sales of the firm, from 1.4.2003 but the salaries trebled from that date. It had to occupy additional space from 1.7.2003 for which rent was Rs.30,000 per month.

Prepare a profit and loss account in columnar form apportioning cost and revenue between pre incorporation and post incorporation periods. Also suggest how the pre incorporation profits are to be dealt with.

QUESTION NO 12

Ashish Ltd. was incorporated on 1.7.2003 to take over the running business Mr.sham with effect from 1.4.2003. The following profit and loss account for the year 31.3.2004 was drawn up:

Particulars	Rs.	Particulars	Rs.
To commission	2,625	By gross profit	98,000
To advertisement	5,250	By bad debts realized	500
To managing director remun.			
To depreciation	9,000		
To salaries	2,800		
To insurance	18,000		
To preliminary expenses	600		
To rent and taxes	700		
To discounts	3,000		
To bad debts	350		
To net profits	1,250		
	54,925		
	98,500		98,500

The following details are available:

(a) The average monthly turnover from july 2003 onwards was double then that of the previous months.

(b) Rent for the first three months was paid at Rs.200 per month and thereafter at the rate increased by Rs.50 per month.

(c) Bad debts Rs.350 related to sales effect after 1st September 2003 and the realization of the bad debts was in respect of debts written off during 2002-03.

(d) Advertisement expenses were directly proportionate to the sales.

You are required to find out the profit prior to incorporation and to state the treatment thereof in the books of the company.

QUESTION NO 13

MR X formed a private Ltd. company under the name and style of EXE private Ltd. to take over his existing business as from 1st April 2000 but the company was not incorporated until 1st july 2000. No entries related to transfer of the business were entered in the books, which were carried on without a break until 31.3.2001. The following balances were extracted from the books as on 31.3.2001:

	Debit	Credit
Opening stock	43,000	
Purchases	1,89,000	
Carriage outwards	3,300	
Traveling commission	7,500	
Office salaries	21,000	
Administration expenses	19,900	
Rent and rates	12,000	
Directors fees	18,000	
Fixed assets	1,00,000	
Current assets (excluding stock)	34,000	
Preliminary expenses	5,200	
Sales		2,78,000
Mr. X capital account (1.4.2000)		2,30,000
Current liabilities		37,000

You are also given that

(a) Stock on 31.3.2001 Rs.44,000

(b) The gross profit ratio is constant and monthly sales in April 2000, February 2001 and March 2001 are doubled the average monthly sales for the remaining months of the year

(c) The purchase consideration was agreed to be satisfied by issue of 3000 equity shares of Rs.100 each

(d) The preliminary expenses are to be written off.

(e) You are to assume that carriage outward and traveler's commission vary in direct proportion to sales.

You are required to prepare profit and loss account for the year ended on 31.3.2001 apportioning the profit or loss of the periods before and after incorporation. Depreciation shall be provided at 25% per annum on fixed assets.

QUESTION NO 14

C private Ltd. was incorporated on 1.2.2003. It took over the properitory business of C with effect from 1.1.2003. The Balance Sheet of C as at 31.12.2002 is as follows:

Liabilities	Amount	Assets	Amount
Capital	4,31,500	Debtors	25,700
Creditors	17,000	Buildings	1,10,000
Loans	8,500	Machinery	3,00,000
Expenses outstanding	2,500	Loss	23,800
	4,59,500		**4,59,500**

It was agreed to pay Rs.4,50,000 in equity shares to C. The company decided to close its first year's accounts as at 31.12.2003. The following are the further details, furnished to you:

Sales	3,00,000
Purchases	1,40,000
Salaries and wages	40,000
General expenses	32,000
Freight	4,700

Interest paid	8,000
Stock in trade	22,000
Additions to buildings	38,000
Depreciation may be provided 10% on assets including additions	

Prepare Profit and loss account showing separately pre incorporation and post incorporation profits for the year ending 31.12.003.

QUESTION NO 15

Bidyut Ltd. was incorporated on 1st July 1998 to acquire from Bijli as and from 1st January, the individual business carried on by him. The purchase price of the fixed assets and goodwill was agreed to be the sum equal to 80% of the profits made each year on ascertainment of the sum due.

The following trail balances as on 31.12.98 is presented to you to enable you to prepare a Balance Sheet as at that date. Also prepare a statement of appropriation of profit writing off one third of the preliminary expenses.

	Debit	Credit
Share capital 1500 equity shares of Rs100 each 80 paid		
Debtors		1,20,000
Stock on 31.12.98	82,000	
Cash at bank and in hand	67,000	
Directors fees	24,000	
Preliminary expenses	3,000	
Creditors	24,000	
Net profit for the year providing for all expenses under agreement entered into with Bijli		32,000 48,000

QUESTION NO 16

Inder and Vishnu, working in partnership registered a joint stock company under the name of Fellow Travelers Ltd. on May 31,2000 to take over their existing business. It was agreed that they would take over the assets of the partnership for a sum of Rs.3,00,000 as from

January 1st , 2000 and that until the amount was discharged they would pay interest on the amount at the rate of 6% per annum. The amount was paid on June 30,2000. To discharge the purchase consideration, the company issued 20,000 equity shares of Rs.10 each at a premium of Re.1 each and allotted 7% debentures of the face value of Rs.1,50,000 to the vendors at par.

The profit and loss account of the "Fellow Travellers Ltd." for the year ended 31.12.2000 was as follows:

Particulars	Rs.	Particulars	Rs.
Purchase, including stock	1,40,000	Sales:	
Freight and carriage	5,000	1.1.2000-31.5.2000	60,000
Gross profit c/d	60,000	1.06.2000-31.12.2000	1,20,000
		Stock in hand	25,000
	2,05,000		2,05,000
Salaries and wages	10,000	Gross profit b/d	60,000
Debentures interest	5,250		
Depreciation	1,000		
Interest on PC (up to 30.6.)			
Selling commission	9,000		
Director's fees	9,000		
Preliminary expenses	600		
Provision for taxes	900		
Dividend on equity shares (5%)	6,000		
Balance c/d	5,000		
	13,250		
	60,000		60,000

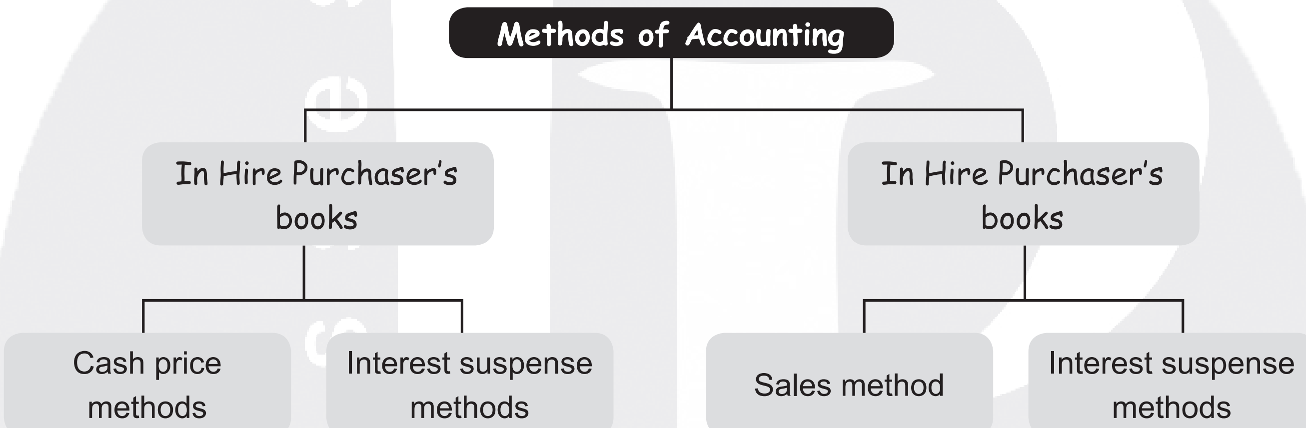
Prepare statement apportioning the balance between the post and pre incorporation periods and also show how these figures would appear in the Balance Sheet of the company.

HIRE PURCHASE SYSTEM

CHAPTER OVERVIEW

Hire Purchase Accounting: Under Hire Purchase System, hire purchaser pays the cost of purchased asset in number of installments. The ownership of the goods is transferred by the Hire Vendor only after payment of outstanding balance.

Installment System: Under Installment also, the purchaser pays the cost of purchased asset in number installments. However, under installment system, ownership of the goods is transferred by owner on the date of delivery of the goods



With an increasing demand for better life, the consumption of goods has been on the expanding scale. But, this has not been backed up by adequate purchasing power, transforming it into effectual demand, i.e., actual sale at set or settled prices. This has created the market for what is called hire purchase.

When a person wants to acquire an asset, but is not sure how to make payment within a stipulated period of time he may pay in installments if the vendor agrees. This enables the purchaser to use the asset while paying for it in installments over an agreed period of time. This type of a business deal is known as hire purchase transaction. Here, the customer pays the entire amount either in monthly or quarterly or yearly instilments, while the asset remains the property of the seller until the buyer squares up his entire liability. For the seller, the agreed instalments include his interest on the assets given on credit to the purchaser. Therefore, when the total amount (being paid in instalments over a period of time) is certainly higher than the cash down price of the asset because of interest charges. Obviously, both the parties gain in the bargain. By virtue of this, the purchaser has the right of immediate use of the asset without making immediate payment for the asset, by this, he gets both credit and product from the same seller. From seller's view point, he derives the benefits by way of increase in sales and also he recovers his own cost of credit.

NATURE OF HIRE PURCHASE AGREEMENT

Under the Hire Purchase System, the Hire Purchaser gets possession of the goods at the outset and can use it, while paying for it in installments over a specified period of time as per the agreement. However, the ownership of the goods remains with the Hire Vendor until the hire purchaser has paid all the installments. Each installment paid by the hire purchaser is treated as hire charges for using the asset. IN case he fail to pay any of the installments (even the last one) the hire vendor has the right to take back his goods without compensating the buyer, i.e., the hire vendor is not going to pay back a part of whole of the amount received through installments till the date of default from the buyer.

SPECIAL FEATURES OF HIRE PURCHASE AGREEMENT

1. **Possession:** The hire vendor transfers only possession of the goods to the hire purchaser immediately after the contract for hire purchase is made.
2. **Installments:** The goods are delivered by the hire vendor on the condition that a hire purchaser should pay the amount in periodical installments.
3. **Down Payment:** The hire purchaser generally makes a down payment, i.e., an amount on signing the agreement.
4. **Constituents of Hire purchase installments:** Each consists of two elements- finance charge (interest on unpaid amount) and capital payment.
5. **Ownership:** The property in goods is to pass to the hire purchaser on the payment of the last installment and exercising the option conferred upon him under the agreement.
6. **Repossession:** In case of default in respect of payment of even the last installment, the hire vendor has the right to take the goods back without making any compensation.

TERMS USED IN HIRE PURCHASE AGREEMENTS

1. **Hire Vendor:** Hire vendor is a person who delivers the goods along with its possession to the hire purchase under a hire purchase agreement.
2. **Hire Purchaser:** Hire purchaser is a person who obtains the goods and rights to use the same from hire vendor under a hire purchase agreement.
3. **Cash Price:** Cash price is the amount to be paid by the buyer on outright purchase in cash.
4. **Down Payment:** Down payment is the initial payment made to the hire vendor by the hire purchaser at the time of entering into a hire purchase agreement.

5. **Hire Purchase Instalment:** Hire purchase instalment is the amount which the hire purchaser has to pay after a regular interval upto certain period as specified in the agreement to obtain the ownership of the asset purchased (on payment of the last installment) under a hire purchase agreement. It comprises of principal amount and the interest on the unpaid amount.

6. **Hire purchase price:** It means the total sum payable by the hire purchaser to obtain the ownership of the asset purchased under hire purchase agreement. It comprises of cash price and interest on outstanding balances.

QUESTION NO. 1

What are the differences between Hire Purchase and Installment System?

ANSWER

Statement showing differences between Hire Purchase and Installment System

	Basis of Distinction	Hire Purchase	Installment System
1.	Governing Act	It is governed by Hire Purchase Act, 1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership	The title of goods passes on last payment	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installment	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods
6.	Right of Disposal	Hirer cannot hire out sell, pledge of assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose of the goods and give good title to the bona fide purchaser.

7.	Responsibility for Risk of Loss.	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.
9.	Component other than cash price.	Component other than cash price included in installment is called Hire charges.	Component other than cash price included in Installment is called interest.

QUESTION NO 2 (BASIC PROBLEM)

On 1st January 1995, transport company purchased a Motor Lorry from Motor supply com Ltd. on hire purchase basis, the cash price being Rs.60,000, Rs.15,000 was paid on the signing of the contract and balance in three annual installments of Rs.15,000 each on 31st December. In addition to it, interest at 5% per annum was also payable to vendors on outstanding balances. Calculate the amounts of interest and installments.

QUESTION NO 3 (CALCULATION OF CASH PRICE)

Mr.X purchased a machine on Hire Purchase system on 1st January 2003. He paid Rs.5,000 at spot and then three annual installments of Rs.5,000 each. The rate of interest was 5% per annum. Find out the amount of interest included in installments and cash price of the machine.

QUESTION NO 4 (TWO YEAR SIMPLE RATE)

Remesh purchased an asset on hire purchase system. He paid Rs.1,000 down and 1200 each at the end of 2nd, 4th and 6th year. Interest is charged @10% per annum on two yearly rests. Calculate the amount of interest and cash price included in each installment.

QUESTION NO 5 (TWO YEAR COMPOUNDING RATE)

G.D Milling industries purchased an asset on hire purchase system. They pay Rs.1524 down payment and Rs.5400 in 3 installments of Rs.1800 each at the interval of two years. Hire vendor charge interest at 10 percent per annum on yearly rests.

QUESTION NO 6 (SALES METHOD)

On 1st April, 2012, M/s power Motors sold on hire purchase basis a truck whose cash price was Rs. 9,00,000 to M/s Singh & Singh, a firm of transporters. The terms of the contract were that the transporters were to pay Rs. 3,00,000 down and six four-monthly installments of Rs. 1,00,000 plus interest on standing amount of cash price for the intervening four months. The installments were payable on 31th July, 30th November and 31st March in each one of the two accounting years. Interest was calculated @ 12% per annum.

M/s. Singh & Singh duly paid the installment on 31st July,2012 but failed to pay the installment on 30th November,2012

M/s power Motors, spent Rs. 80,000 on repairs and repairing of the truck and on 7th janaury,2013 sold it for Rs. 7,50,000 cash.

You are required to prepare the amount of M/s. Singh & Singh and Goods Repossessed Account in the books of M/s power Motors.

QUESTION NO 7 (LOSS OF GOODS)

A firm acquired two tractors under hire purchase agreements, details of which were as follows:

Date of purchase	Tractor A 1st April, '01	Tractor B 1st October, '01
Cash price	14,000	19,000
Deposit	2,000	2,680
Interest (deemed to accrue evenly over the period of agreement)	2,400	2,880

Both agreements provided for payment to be made in twenty-four monthly installments, commencing on the last day of the month of purchase, all installments being paid on due dates.

On 30th June, 2002 tractor B was completely destroyed by fire. In full settlement, on 10th July 2002 an insurance company paid Rs.15,000 under a comprehensive policy out of which Rs.10,000 was paid to the hire purchase company in termination of the agreement. Any balance on the hire purchase company's account in respect of these transactions was to be written off.

The firm prepared accounts annually to 31st December and provided depreciation on tractors on a straight-line basis at a rate of 20 per cent per annum rounded off to nearest rupee, apportioned as from the date of purchase to the date of disposal.

You are required to record these transactions in the following accounts, carrying down the balance on 31st December 2001 and 31st December 2002:

(i) Tractors on hire purchase

(ii) Provision for depreciation of tractors

(iii) Disposal of tractors

(iv) Hire purchase-company.

QUESTION NO 8 (PARTIAL REPOSSESSION)

X Transport Limited purchased from Delhi Motors 3 Tempos costing Rs.50,000 each on the hire purchase system on 1-1-2000. Payment to be made Rs.30,000 down and the remainder in 3 equal annual installments payable on 31-12-2000, 31-12-2001 and 31-12-2002 together with interest @ 9%. X Transport Limited write off depreciation at the rate of 20% on the diminishing balance. It paid the installment due at the end of the first year i.e. 31-12-2000 but could not pay the next on 31-12-2001. Delhi Motors agreed to leave one Tempo with the purchaser on 1-1-2002 adjusting the value of the other 2 Tempos against the amount due on 31-12-2001. The Tempos were valued on the basis of 30% depreciation annually. Show the necessary accounts in the books of X Transport Limited for the years 2000, 2001 and 2002.

QUESTION 9 (CALCULATION OF CASH PRICE)

On 1st April, 2012, Fastrack Motor Co. sells at truck on hire purchase basis to Teja Transport Co. for a total hire purchase price of ₹ 9,00,000 payable as to ₹ 2,40,000 as down payment and the balance in three equal annual instalments of ₹ 2,20,000 each payable on 31st March 2013, 2014 and 2015.

The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for Teja transport Co. Calculations may be made to the nearest rupee.

ANSWER

$$\text{Ratio of interest and amount due} = \frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}.$$

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period included interest portion also. Therefore, to ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

Calculation of Interest and cash Price

No of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3rd	2,20,000	1/11 of ₹ 2,20,000 = ₹ 20,000	2,00,000
2nd	4,20,000 pW.N.1]	1/11 of ₹ 4,20,000 = ₹ 38,182	3,81,818
1st	6,01,818 [W.N.2]	1/11 of ₹ 6,01,818 = ₹ 54,711	5,47,107

Total cash price = ₹ 5,47,107 + 2,40,000 (down payment) = ₹ 7,87,107.

Working Notes:

1. ₹ 2,00,000 + 2nd instalment of ₹ 2,20,000 = ₹ 4,20,000.
2. ₹ 3,81,818 + 1st instalment of ₹ 2,20,000 = ₹ 6,01,818.

QUESTION NO 10 (PARTIAL REPOSSESSION)

X Limited purchased 3 milk vans from Super Motors costing Rs.75,000 each on hire purchase system. Payment was to be made: Rs.45,000 down and the remainder in 3 eqal installments together with interest @ 9%. X Limited writes off depreciation @ 20% on the diminishing balance. It paid the instalment at the end of the 1st year but could not pay the next. Super Motor agreed to leave one milk van with the purchaser, adjusting the value of the other two milk vans against the amount due. The milk vans were valued on the basis of 30% depreciation annually on written down value basis. X Limited settled the seller's dues after three months.

QUESTION NO 11 (HYBRID QUESTION)

A machinery is sold on hire purchase. The terms of payment is four annual instalments of Rs.6,000 at the end of each year commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of Rs.6,000.

Show Machinery account and Hire vendor account in the books of the purchaser who defaulted in the payment of the third yearly payment whereupon the vendor re-possessed the machinery. The purchaser provides depreciation on the machinery @ 10% per annum. All workings should form part of your answer.

QUESTION NO 12 (CALCULATION OF CASH PRICE)

A acquired on 1st January, 2003 a machine under a hire purchase agreement which provides for 5 half yearly installments of Rs.6000 each, the first installment being due on 1st July, 2003. Assuming that the applicable rate of interest is 10 per cent per annum. Calculate the cash value of the machine. All working should form part of the answer.

QUESTION NO 13 (CALCULATION OF CASH PRICE)

Ram & Co. acquired a motor lorry on hire-purchase basis. It has to make cash down payment of Rs. 1,00,000 at the beginning. The payments to be made subsequently are Rs. 2,63,000; Rs. 1,85,000 and Rs. 1,14,000 at the end of first year, second year and third year respectively. Interest charged is @ 14% per annum. Calculate the cost price of motor lorry and interest paid in each installment.

QUESTION NO 14 (CALCULATION OF CASH PRICE)

From the following, calculate the cash price of the asset:

	Rs,
Hire purchase price of the asset	50,000
Down payment	10,000
Four annual installments at the end of each year	10,000
Rate of Interest	5% p.a.

QUESTION NO 15 (CALCULATION OF IRR)

On 1st April, 2009 a car company sold to Arya Bros., a motor car on hire-purchase basis. The total hire-purchase price was Rs. 4,60,000 with down payment of Rs. 1,60,000. Balance amount was to be paid in there annual installments of Rs. 1,00,000 each. The first installment payable on 31st March, 2010. The cash price of the car was Rs. 4,00,000.

How will Arya Bros. account for interest over three accounting years assuming books of accounts are closed on 31st March every year.

QUESTION NO 16(HIRE PURCHASE SYSTEM)

Discuss installment payment system and its distinction from sale and hire purchase agreement. (1992 — November [6]) 5 Marks

Nature of Hire Purchase Agreement and Installment Payment Agreement

A hire purchase agreement is a contract of bailment coupled with an option to the hire purchaser to acquire the goods delivered to him under such an agreement. By the delivery of goods to the hire purchaser, the hire vendor merely parts with their possession, but not the ownership. The property or title to the goods is transferred to the hire-purchaser, on his paying the last installment of the hire price or complying with some other conditions stipulated in the contract. At any time before that the hire-purchaser has the option to return the goods and, if he does so, he has only to pay the installments of price that by then have fallen due. The right or option to purchase is the essence of hire-purchase agreement. In the event of a default by the buyer (hire purchaser) in the payment of any of the installments of hire price, the vendor can take back the goods into his possession. This is legally permissible since the property in the goods is still with the vendor.

On the other hand, it may have been agreed between the buyer and the seller that the price of the goods would be payable by installments and the property would immediately pass to the buyer; in the event of a default of installments, it would not be possible for the vendor to recover back the goods. He, however, would have the right to bring an action against the purchaser for the recovery of the part of the price that has not been paid to him.

QUESTION NO 17

Mumbai Roadways Ltd. purchased three trucks costing Rs. 1,00,000 each from Hindustan Auto Ltd. on 1st January, 1979 on the hire purchase system. The term were Payment on delivery Rs. 25,000 for each truck and balance of the principal amount by 3 equal installments plus interest at 15% per annum, to be paid at the end of each year. Mumbai Roadways Ltd. writes off 25% depreciation each year on the diminishing balance method.

Mumbai Roadways Ltd paid the installment due on 31st December, 1979 and 31st December, 1980 but could not pay the final installment. Hindustan Auto Ltd. re-possessed two trucks adjusting values against the amount due. The re-possession was done on 1st January, 1982 on the basis of 40% depreciation on the diminishing balance method.

1. Write up the ledger accounts in the books of Mumbai Roadways Ltd. showing the above transactions upto 1-1-1982, and
2. Show the disclosure of the balance arising from the above in the Balance Sheet of Mumbai Roadways Ltd. as on 31st December, 1981 (15 marks)

SOLUTION:

**Books on Mumbai Roadways Ltd. **

Vendor (Hindustan Auto Ltd.A/c

To Cash Account (25,000x3)	75,000	By Assets (Truck) A/c	3,00,000
To Cash A/c (75,000+33,750)	1,08,750	By Interest (2,25,000x 15%)	33,750
To balance C/d	1,50,000		
	3,33,750		3,33,750
To cash (75,000 + 22,500)	97,500	By Balance B/d	1,50,000
To Balance C/d	75,000	By Interest (1,50,000x15%	22,500
	1,72,500		1,72,500
To Assets (truck) A/c	43,200	By Balance B/d	75,000
To Balance C/d	43,050	By Interest (75,000x15%)	11,250
	86,250		86,250

	Truck Account		
Hindustan Auto Ltd.	3,00,000	By Deprecation (3,00,000x 25%)	75,000
(1, 00,000x3)		By Balance C/d	2,25,000
	3,00,000		3,00,000
To Balance B/d	2,25,000	By Deprecation (2,25,000x 25%)	56,250
To bank	2,25,00 1,68,750	By Deprecation (1,68,750 x 25%)	1,68,750 2,25,000 42,188
		By Hindustan Auto Ltd.	43,200
		By Loss on Repossession	41,175
		By Balance C/d	
		(1,68,750-42,188) /3	42,187
	1,68,750		1,68,750

Working Note -1

Calculation of Goods Repossessed Value :	
Value of 2 Truck on 1st Jan. 1979	2,00,000
(-) Deprecation for 1st year @ 40%	80,000
Remaining Assets	1,20,000
(-) Deprecation for 2nd year @ 40%	48,000
Remaining Assets	72,000
(-) Deprecation for 3rd year @ 40%	28,800
remaining Assets	43,200

QUESTION NO 18 (CALCULATION OF IRR)

Calculate Interest

	Rs.
Cost price	1,00,000
Rate of interest	?
Down payment	20,000
First installment `	40,000
Second installment	30,000
Third installment	30,000

QUESTION NO 19 (CALCULATION OF CASH PRICE)

Date of purchase of assets 1st January, 2002. Rate of interest 12% p.a. following payments were agree. Calculate Cost.

	Rs.
January 1, 2002	30,000
July 1,2002	50,000
January 1,2003	40,000
October 1,2003	40,000
January 1,2004	40,000

QUESTION NO 20(MASTER PROBLEM)

Calculate cost Price where rate of interest is 12% p.a. charged quarterly and down payment is Rs. 10,000

Date	Amount	Nature
1.1.2003	10,000	Down
1.4.2003	15000	1st Instal
1.11.2003	20,000	2nd Instal
1.4.2004	20,000	3rd Instal
1.6.2005	30,000	4th Instal

Rate of interest is increasing by 2% every year with effect from 1.1.2004

QUESTION NO 21 (CALCULATION OF CASH PRICE)

K. Industries Ltd. Acquired plant delivered on January 1,1998 on the following hire purchase terms.

(i) On initial payment of Rs. 40,000 payable on or before delivery;

(ii) Four half yearly payment of Rs. 30,000 each commencing from June 30,1999.

In arriving at terms the plant manufactures computed interest at 6% per annum with yearly rests.

QUESTION NO. 22 (CALCULATION OF CASH PRICE)

Asha purchased at truck on hire purchase system. As terms she is required to pay ₹ 70,000 down, ₹ 53,000 at the end of first year ₹ 49,000 at the end of second year and ₹ 55,000 at the end of third year. Interest is charged @ 10% p.a.

You are required to calculate the total cash price of the truck and the interest paid with each instalment.

SOLUTION.

(1) Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = \frac{1}{11}$.

(2) **Calculation of Interest and Cash Price**

No. of instalments	Amount due at the time of instlment	Interest	Cash price
[1]	[2]	[3]	[4]
3rd	55,000	1/11 of ₹ 55,000 = ₹ 5,000	50,000
2nd	* 99,000	1/11 of ₹ 99,000 = ₹ 9,000	90,000
1st	** 1,43,000	1/11 of ₹ 1,43,000 = ₹ 13,000	1,30,000

Total cash price = ₹ 1,30,000 + 70,000 (down payment) = ₹ 2,00,000.

* ₹ 50,000 + 2nd instalment of ₹ 49,000 = ₹ 99,000.

** ₹ 90,000+ 1st instalment of ₹ 53,000 = ₹ 1,43,000.

QUESTION NO 23 (ANNUITY METHOD)

On 1st April, 20x1 a manufacturing company buys on Hire-purchase system a machinery for ₹ 90,000, payable by three equal annual instalments combining principal and interest, the rate of interest was 5% per annum, Calculate the amount of cash price and interest. Assume that the present value of on annuity of one rupee for three years at 5% interest is ₹ 2.723.

QUESTION NO 24 (CALCULATION OF CASH PRICE)

Om Ltd. Purchased a machine on hire purchase basis from Kumar Machinery Co. Ltd. On the following terms:

(a) Cash price ₹ 80,000

(b) Down payment at the time of signing the agreement on 1.1. 20 x 1 ₹ 21,622.

(c) 5 annual instalment of ₹ 15,400, the first to commence at the end of twelve months from the date of down payment.

(d) Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in cash instalment.

QUESTION NO 25 (IRR)

Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.20x1 from Ganesh Enterprises. The terms were as follows:

Particular	*Amount (₹)*
Hire Purchase Price	*180,000*
Down Payment	*30,000*
1st installment payable after 1 year	*50,000*
2nd installment after 2 years	*50,000*
3rd installment after 3 years	*30,000*
4th installment after 4 years	*20,000*

Cash price of van ₹ 1,50,000 you are required to calculate Total Interest and Interest included in each instalment.

QUESTION NO. 26 (CASH PRICE METHOD)

On January 1, 20x1 HP M/s acquired a pick-up Van on hire purchase from FM M/s the terms of the contract were as follows:

(a) The cash price of the van was ₹ 1, 00,000.

(b) ₹ 40,000 were to be paid on signing of the contract.

(c) The balance was to be paid in annual instalments of ₹ 20,000 plus interest.

(d) Interest chargeable on the outstanding balance was 6% p.a.

(e) Depreciation at 10% p.a. is to be written off using the straight-line method

You are required to:

(a) Give journal Entries and show the relevant accounts in the books of HP M/s from January 1, 20x1 to December 31, 20x3; and

(b) Show the relevant items in the balance sheet of the purchaser as on December 31,20x1 to 20x3.

SOLUTION

In the books of HP M/s

Journal Entries

Date			Dr.	Cr.
			₹	₹
20 x 1	Pick-up Van A/c	Dr.	1,00,000	
Jan. 31	To FM M/S A/c			1,00,000
	(Being the purchase of a pick-up van on hire purchase from FM M/s)			
,,	FM M/s A/C	Dr.	40,000	
	To Bank A/c			40,000
	(Being the amount paid on signing the H.P. contract			
Dec. 31	Interest A/c	Dr.	3,600	
	To FM M/s A/c			3,600
	(Being the interest payable @ 6% on ₹ 60,000)			
,,	FM M/s A/c (₹ 20,000 + ₹ 3,600)	Dr.	23,600	
	To Bank A/c			23,600
	(Being the payment of 1st instalment along with interest)			
,,	Depreciation A/c	Dr.	10,000	
	To pick-up Van A/c			10,000
	(Being the depreciation charged @ 10% p.a. on ₹ 1,00,000)			
,,	Profit & Loss A/c	Dr.	13,600	
	To Depreciation A/c			10,000
	To Interest A/c			3,600
	(Being the depreciation and interest transferred to Profit and Loss Account)			
20x2	Interest A/c	Dr.	2,400	
Dec. 31	To FM M/s A/c			2,400
	(Being the interest payable @ 6% on ₹ 40,000)			

	FM M/s A/c (₹ 20,000 + ₹ 2,400)	Dr.	22,400	
	To Bank A/c			22,400
	(Being the payment of 2nd instalment along with interest)			
	Depreciation A/c	Dr.	10,000	
	To Pick-up Van A/c			10,000
	(Being the depreciation charged @ 10% p.a.)			
	Profit & Loss A/c	Dr.	12,400	
	To Depreciation A/c			10,000
	To Interest A/c			2,400
	(Being the depreciation and interest charged to profit and Loss Account)			
20x3	Interest A/c	Dr.	1,200	
Dec.31	To FM M/s A/c			1,200
	(Being the interest payable @ 6% on ₹ 20,000)			
	FM M/s A/c (₹ 20,000 + ₹ 1,200)	Dr.	21,200	
	(Being the payment of final instalment along with interest)			21,200
	Depreciation A/c	Dr.	10,000	
	To Pick-up Van A/c			10,000
	(Being the depreciation charged @ 10% p.a. on ₹ 1,00,000)			
	Profit & Loss A/c	Dr.	11,200	
	To Depreciation A/c			10,000
	To Interest A/c			1,200
	(Being the interest and depreciation charged to Profit and Loss Account)			

Ledgers in the books of HP M/s

Pick-up Van Account

Date	Particular	₹	Date	Particular	₹
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	Particular	₹	Date	Particular	₹
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	Particular	₹	Date	Particular	₹
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		31.12.20x2	By Profit & Loss A/c	
31.12.20x3	To Pick-up Van A/c	10,000	31.12.20x3	By Profit & Loss A/c	10,000
		10,000			10,000

Interest Account

Date	Particular	₹	Date	Particular	₹
31.12.20x1	To FM M/s A/c	3,600	31.12.20x2	By Profit & Loss A/c	3,600
31.12.20x2	To FM M/s A/c		31.12.20x3	By Profit & Loss A/c	
31.12.20x3	To FM M/s A/c	2,400		By Profit & Loss A/c	2,400
		1,200			1,200

Balance Sheet of HP M/s as at 31st December, 20x1

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

Balance Sheet of HP M/s as at 31st December, 20x2

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

Balance Sheet of HP M/s as at 31st December, 20x3

Liabilities	₹	Assets	₹
		Pick -up Van	70,000

QUESTION NO. 27 (INTEREST SUSPENSE ACCOUNTING)

In illustration 6 assume that the hire purchaser adopted the interest suspense method for recording his hire purchase transactions. On this basis, prepare H.P. Interest Suspense Account, Interest Account and FM M/s Accounts and Balance Sheets in the books of hire purchaser.

SOLUTION

H.P. Interest Suspense Account

Date	Particular	₹	Date	Particular	₹
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	Particular	₹	Date	Particular	₹
31.12.20x1	To H.P. Interest Suspense A/c	3,600	31.12.20x1	By Profit & Loss A/c	3,600
31.12.20x2	To H.P. Interest Suspense A/c	2,400	31.12.20x2	By Profit & Loss A/c	2,400
31.12.20x3	To H.P. Interest Suspense A/c	1,200	31.12.20x3	By Profit & Loss A/c	1,200

FM M/s Account

Date	Particular	₹	Date	Particular	₹
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	1.1.20x1	By H.P. Interest Suspense A/c	7,200

31.12.20x1	To Balance c/d	43,600			
		1,07,200			1,07,200
31.12.20x2	To Bank A/c	22,400	1.1.20x2	By Balance b/d	43,600
31.12.20x2	To Balance c/d	21,200			
		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		₹	Assets		₹
FM M/s	21,200		Pick-up Van	90,000	
Less: H.P. Interest Suspense	(1,200)	20,200	Less: Depreciation	(10,000)	80,000

Balance Sheet of HP M/s as at 31st December, 20x3

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

Working Note:

Total interest = ₹ 3,600 + ₹ 2,400 + ₹ 1,200 = ₹ 7,200

QUESTION NO. 28 (CALCULATION OF CASH PRICE)

On 1st April, 20x1, Fastrack Motors co. sells truck on hire purchase basis to Teja Transport co. for a total hire purchase price of ₹ 9,00,000 payable as to ₹ 2,40,000 as down payment and the balance in three equal annual instalments of ₹ 2,20,000 each payable on 31st March 20x2,k 20x3 and 20x4.

The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for Teja Transport Co. Calculations may be made to the nearest rupee.

QUESTION NO. 29 (CALCULATION OF CASH PRICE & ACCOUNTING)

Lucky bought 2 tractors from Happy on 1-10-20x1 on the following terms:

	₹
Down payment	5,00,000
1st installment at the end of first year	2,65,000
2nd installment at the end of 2nd year	2,45,000
3rd installment at the end of 3rd year	2,75,000

Interest charged at 10% p.a.

Lucky provides depreciation @ 20% on the diminishing balances.

On 30-9-20x4 Lucky failed to pay the 3rd installment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @ 18% p.a.

You are required to:

(1) Calculate the cash price of the tractors and the interest paid with each installment

(2) Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every. Figures may be rounded off to the nearest rupee.

QUESTION NO 30 (BASIC PROBLEM)

Cash price of asset purchased on hire purchase system Rs.37,500

Down payment Rs.5,000

Annual installment 5 of Rs.7,500 each

Rate of interest: 5% calculate interest included in each installment

NOTES

INSURANCE CLAIM

Business enterprises get insured against the loss of stock on the happening of certain events such as fire, flood theft earthquake etc. insurance being a contact of identify, the claim for loss is restricted to the actual loss of assets sometimes an enterprises also gets itself insured against consequential loss of profit due to decreased turnover, Increased expenses etc.

If loss consequential to the loss of stock is also insured, the policy is known as loss of profit of consequential loss policy.

Insurance claim can be studied under two parts as under:-

(i) Claim for loss of stock

(ii) Claim for loss of profit

1. **Fire (whether resulting from explosion or otherwise) not occasioned or happening through:**
   (a) Its own spontaneous fomentation or heating or its undergoing any process involving the application of heat;
   (b) Earthquake subterraneous fire riot civil commotion war invasion act of foreign enemy hostilities (whether war be declared or not), civil war rebellion revolution, insurrection military or usurped power,
2. **lightening**
3. **explosion not occasioned or happening through any of the perils specified in 1 (a) above.**
   (i) of boilers used for domestic purpose only;
   (ii) of any other boilers or economies on the premises;
   (iii) in a building not being any part of any gas works or gas for domestic purpose or used for lightning or heating the building.

The policy of insurance can be made to cover any of the excepted perils by agreement and payment of extra premium, if any damage may also be covered if caused by storm or tempest, flood, escape of water, impact and break down of machinery, etc, again by agreement with the insurer.

Usually, fire policies covering stock or other assets do not cover explosion of boilers used for domestic purpose or other boilers or economizers in the premises in the premises but policies in respect of profit cover such explosions.

CLAIM FOR LOSS OF STOCK

Fire insurance being a contract of indemnity, a claim can be lodged only for the actual amount of the loss, not exceeding the insured value. In dealing with problems requiring determination of the claim the following point must be noted:

a. Total loss: if the goods are totally destroyed, the amount of claim is equal to the actual loss, provided the goods are fully insured. However in case of under insurance (i.e.) insurable value of stock insured is more than the sum insured), the amount of claim is restricted to the policy amount.

b. Partial loss: if the goods are partially destroyed, the amount of claim is equal to the actual loss provided the goods are fully insured. However in case of under insurance the amount of claim will depend upon the nature of insurance policy as follows:

   i) Without average clause:- claim is equal to the lower of actual loss or the sum insured.

   ii) with average clause:- amount of claim for loss of stock is proportionately reduced, considering the ratio of policy amount (i.e. insured amount) to the value of stock as on the date of fire (i.e. insurable amount) as shown below:

   Amount of claim= Loss of stock x Sum insured/Insurable amount (total cost)

One should note that the average clause applies only where the insured value is less than the total cost and not vice versa.

RELEVANT POINTS:

(i) where stock records are maintained and such records are not destroyed by fire, the value of the stock as at the date of the fire can be easily arrived at.

(ii) Where either stock records are not available or where they are destroyed by the fire the value of stock at the date of the fire has to be estimated. The usual method of arriving at this value is to build up a trading account as from the date of last accounting year. After allowing for the usual gross profit, the figure of closing stock on the date of the fire can be ascertained as the balancing item.

(iii) Where books of account are destroyed the task of building up the trading account become difficult. In that case information is obtained from the customers and suppliers have to be circulated to ascertain the amount of sales and purchases.

(iv) After the insurance company makes payment for total loss, it has the same rights which the insured had over the damaged stock. These are subrogated to the insurance company. In practice, in determining the amount of the claim, credit is given for damaged and salvaged stock.

(v) Frequently salvaged stock can be made saleable after it is reconditioned. In that case, the cost of such stock must be credited to the trading account and debited an the sales credited to this account, the final balance being transferred to the profit & loss account.

Loss of Stock	
Amount of loss of stock is calculated as under:	
Value of stock on the date of fire	xxxx
Less- Value of salvaged stock	xxxx
Amount of loss of stock	xxxx

QUESTION NO 1

Significance of "Average clause' in a fire insurance policy.

ANSWER

In order to discourage under-insurance, fire insurance policies often include an average clause. The effect of these clause is that if the insured value of the subject matter concerned is less than the total cost then the average clause will apply, that is the loss will be limited to that position of the loss as the insured value bears to the total cost.

The actual claim amount would therefore be determined by the following formula:

$$\text{Claim} = \frac{\text{insured value}}{\text{total cost}} \times \text{Loss suffered}$$

For example clause applies only when the insured value is less than the total value of the insured subject matter

QUESTION NO 2

On 20th October, 2009 the Godown and business premises of Aman Ltd. were affected by fire from the salvaged accounting records the following information is available

	Rs.
Stock of goods@ 10% lower than cost as on 31st March 09	2,16,000
Purchases less returns (1.4.09 to 20.10.09)	2,80,000
Sales less returns (1.4.09 to 20.10.09)	6,20,000

Additional information:

(1) sales up to 20th October, 09 includes Rs. 80,000 for which goods had not been dispatched.

(2) purchase up to 20th October, 09 did not include Rs. 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.

(3) Past records show he gross profit rate of 25%

(4) The value of goods salvaged from fire Rs.31,000.

(5) Aman Ltd. has insured their stock for Rs.1,00,000.

Compute the amount of claim to be lodged to the insurance company.

ANSWER

Memorandum trading A/c (1.4.09 to 20.10.09)

Particulars	Rs.	Particulars	Rs.
To opening stock (refer W.N.)	2,40,000	By sales	5,40,000
To purchase	3,20,000	(Rs.6,20,000 - Rs.80,000)	
(Rs.2,80,000 + Rs.40,000)		By closing stock	1,55,000
To gross profit		(bal. fig.)	
(Rs.5,40,000x25%)	1,35,000		
	6,95,000		6,95,000

	Rs.
Stock on the date of fire (i.e. on 20.10.2009)	1,55,000
Less: stock salvaged	(31,000)
Stock destroyed by fire	1,24,000

$$\text{Insurance claim} = \frac{\text{loss of stock}}{\text{value of stock on the date of fire}} \times \text{amount of policy}$$

$$= \frac{1{,}24{,}000}{1{,}55{,}000} \times 1{,}00{,}000 = \text{Rs.}80{,}000$$

Working Note:

Stock as on 1st April, 2009 was valued at 10% lower than cost.

Hence, original cost of the stock as on 1st April, 2009 would be

$$= \frac{2{,}16{,}000}{90} \times 100 = \text{Rs.}2{,}40{,}000$$

QUESTION NO 3

A fire occurred in the premises of M/s. kailash & co. on 30th September 2013. From the following particulars relating to the period from 1st April 2013 to 30th September 2013. You are following to ascertain the amount of claim to be filled with the insurance company for the loss of stock. The company has taken an insurance policy for Rs.75,000 which is subject to average clause. The value of goods salvaged was estimated at Rs. 27,000. The average rate of Gross profit was 20% throughout the period.

	Particular	Amount in Rs.
(i)	Opening stock	1,20,000
(ii)	Purchase made	2,40,000
(iii)	Wages paid (including wages for the installation of machine (Rs.5,000)	75,000
(iv)	Sales	3,10,000
(v)	Goods taken by the proprietor (sale value)	25,000
(vi)	Cost of goods sent to consignee on 20th September 2013, lying unsold with them	18.000
(vii)	Free samples distributed-cost	2,500

ANSWER

Memorandum Trading Account for the period 1st April, 2013 to 30th Sept. 2013

	Rs.		Rs.
To opening stock	1,20,000	By sales	3,10,000
To purchase 2,40,000		By consignment stock	18,000
Less: Advertisement (2,500)		By closing stock (Bal.fig.)	1,41,500
Cost of goods			
Taken by proprietor (20,000)	2,17,500		
To wages	70,000		
To gross profit	62,000		
(20% of sales			
	4,69,500		4,69,500

Statement of insurance claim

	Rs.
Value of stock destroyed by fire	1,41,500
Less: salvaged stock	(27,000)
Insurance claim	1,14,500

Note: since policy amount is less than claim amount, average clause will apply. Therefore, claim amount will be computed by applying the formula

$$\text{Claim} = \frac{\text{insured value}}{\text{total cost}} \times \text{Loss suffered}$$

Claim amount = Rs.60,000 (11,4,500 x 75,000 /1,41,500)

QUESTION NO 4

On 12th June 2006, fire occurred in the premises of Patel, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being Rs.11,200. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at Rs.10,500. From the books of account, the following particulars were available:

(a) His stock at the close of account on December 31, 2005 was valued at Rs.83,500.

(b) His purchases from 1.1.2006 to 12.6.2006 amounted to Rs.1,12,000 and his sales during that period amounted to Rs.1,54,000.

On the basis of his accounts for the past three years it appears that he earns on an average a gross profit of 30% on sales.

Patel has insured his stock for Rs.60,000. Compute the amount of claim.

QUESTION NO 5

On 1st April, 2006 the stock of Shri Ramesh was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

	Rs.
Stock at cost 1st January 2005	73,500
Stock at cost 31st December 2005	79,600
Purchases- year ended 31st December 2005	3,98,000
Sales- year ended 31st December 2005	4,87,000
Purchases 1.1.2006-31.3.2006	1,62,000
Sales 1.1.2006-31.3.2006	2,31,200

In valuing the stock for the balance sheet at 31st December, 2005 Rs.2,300 had been written off on certain stock which was a poor selling line having the cost Rs.6900. A portion of these goods were sold in March,2006 at loss of Rs.250 on original cost of Rs.3450. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout year.

The value of stock salvaged was Rs.5,800. The policy was for Rs.50,000 and was subject to the average clause. Work out the amount of the claim of loss by fire.

QUESTION NO 6

On 19th May, 2011, the premises of shri Graib das were destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained:

	Rs.
Stock at cost on 1.1.2010	36,750
Stock at cost on 31.12.2010	39,800
Purchase less returns during 2010	1,99,000
Sales less return during 2010	2,43,500
Purchases less returns during 1.1.2011 to 19.5.2011	81,000
Sales less returns during 1.1.2011 to 19.5.2011	1,15,600

Is valuing the stock for the balance sheet as at 31st December,2010,Rs1,150 had been written off on certain stock which was a poor selling line having the cost Rs.3,450. A portion of these goods were sold in March, 2011 at a loss of Rs.125 on original cost of Rs.1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was Rs.2,900.

Show the amount of the claim of stock destroyed by fire. Memorandum trading account to be prepared for the period from 1-1-2011 to 19-5-2011 for normal and abnormal items.

ANSWER

Shri Garib Das

Trading Account for the year ended on 31st December, 2010

		Rs.			Rs.	Rs.
To	Opening stock	36,750	By	Sales A/c		2,43,500
To	Purchase	1,99,000	By	Closing stock:		
To	Gross Profit	48,700		As valued	39,800	
				Add: amount written off to restore stock to full cost	1,150	40,950
		2,84,450				2,84,450

The normal rate of gross profit to sales is = $\frac{48,700}{2,43,500} \times 100 = 20\%$

Memorandum trading account upto 19, may 2011

	Normal Items	Abnormal Items	Total		Normal	Abnormal Items	total Itmes
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To opening stock	37,500	3,450	40,950	By sales	1,14,000	1,600	1,15,600
To purchase	81,000	--	81,000	By loss	--	125	125
To gross profit (20% on Rs. 1,14,000)	22,800	--	22,800	By closing stock (bal. fig.)	27,300	1,725	29,025
	1,41,300	3,450	1,44,750		1,41,300	3,450	1,44,750

Calculation of insurance claim

	Rs.
Value of stock on 19th May,2011	29,025
Less: salvage	(2,900)
Loss of stock	26,125

Therefore, insurance claim will be for Rs.26,125 only.

QUESTION NO 7

On 30th March, 2012 fire occurred in the premises of M/s Suraj brothers. The concern had taken an insurance policy of Rs.60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March 2012.

(1) Stock as per balance sheet at 31st December, 2011 Rs.95,600.

(2) Purchase (including purchase of machinery costing Rs.30,000) Rs.1,70,000

(3) Wages (including wages Rs.3,000 for installation of machinery) Rs.50,000.

(4) sales (including goods sold on approval basis amounting to Rs.49,500) Rs.2,75,000. No approval has been received in respect of 2/3rd of the goods sold on approval.

(5) The average rate of gross profit is 20% sales.

(6) The value of the salvaged goods was Rs.12,300.

You are required to compute the amount of the claim to be lodged to the insurance company.

ANSWER

Computation of claim for loss of stock

	Rs.
Stock on the date of fire i.e. on 30th March , 2012 (W.N.1)	62,600
Less: value of salvaged stock	(12,300)
Loss of stock	50,300
Amount of claim = $\frac{\text{insured value}}{\text{total cost of stock on the date of fire}}$ x Loss of stock	48,211 (approx.)
$= \frac{60,000}{62,600} \times 50,300$	

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

Working Note:

1. Calculation of closing stock as on 30th March 2012

Memorandum trading account for

(from 1st January, 2012 to 30th March 2012)

Particulars	Amount Rs.	Particulars	Amount Rs.
To opening stock	95,600	By sales (W.N.3)	2,42,000
To purchases		By goods with cutomers	
(1,70,000-30,000)	1,40,000	(for approval) (W.N.2)	26,400
To wages (50,000-3,000)	47,000	By closing stock (Bal. fig.)	62,600
To gross profit			
(20% on sales)	48,400		
	3,31,000		3,31,000

2. Calculate 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 (2/3rd) = Rs.33,000 = Rs.2,42,000.

QUESTION NO 8

A fire occurred in the premises of M/s . fireproof co. on 31st August 2011 from the following particulars relating to the period from 1st April 2011to 31st August you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for Rs.60,000 which is subject to an average clause.

		Rs.
(i)	Stock as per balance sheet at 31-03-211	99,000
(ii)	Purchase	1,70,000
(iii)	Wages (including wages for the installation of machine Rs.3,000)	50,000
(iv)	Sales	2,42,000
(v)	Sale value of goods drawn by partners	15,000
(vi)	Cost of goods sent to consignee on 16th august 2011,lying unsold with them	16,500
(vii)	Cost of goods distributed as free samples	1,500

While valuing the stock at 31st March 2011. Rs.1,000 were written off in respect of a slow moving items. The cost of which was Rs.5,000. A portion of these goods were sold at a loss of Rs.500 on the original cost of Rs.2,500. The remainder of the stock in now estimated to be worth the original cost. The value of goods salvaged was estimated at Rs.20,000. The average rate of gross profit was 20% throughout.

ANSWER

Memorandum Trading Account for the period 1st April, 2011 to 31st August, 2011

	Normal Items Rs.	Abnormal Items Rs.	Total Rs.		Normal Items Rs.	Abnormal Items Rs.	Total Rs.
To opening stock	95,000	5,000	1,00,000	By sales	2,40,000	2,000	2,42,000
To purchase				By goods	16,500	-	16,500
(refer W.N.)	1,56,500	-	1,56,500	Sent to			
To wages	47,000	-	47,000	consignee			
To gross profit@20%	48,000		48000	By loss	-	500	500
				By closing stock (Bal. fig.)	90,000		
	3,46,500	5,000	3,51,500		3,46,500	5,000	3,51,500

Statement Of claim for loss of Stock

	Rs.
Book value of stock as on 31.08.2011	92,500
Less: stock salvaged	(20.000)
Less of stock	72,500

Amount of claim to be lodged with insurance company

$$= \text{less of stock} \times \frac{\text{policy value}}{\text{value of stock on the date of fire}}$$

$$= 72{,}500 \times \frac{60{,}000}{92{,}500} = \text{Rs.}47{,}027$$

Working Note:

Calculation of adjusted purchase

	Rs.
Purchase	1,70,000
Less: Drawings	(12,000)
Free samples	(1,500)
Adjusted purchases	1,56,500

QUESTION NO 9

On 29th august, 2012 the godown of a trader caught fire and a large part of the stock of goods was destroyed. However goods costing Rs.1,08,000 could be salvaged incurring the fighting expenses amounting to Rs.4,700.

The trader provides you the following additional information:

	Rs.
Cost of stock on 1st April,2011	7,10,500
Cost of Stock on 31st March, 2012	7,90,100
Purchase during the year ended 31st March, 2012	56,79,600
Purchase from 1st April 2012 to the date of fire	33,10,700

Cost of goods distributed as samples for advertising from 1st April 2012 to the date of fire	41,000
Cost of goods withdrawn by trader for personal use from 1st April, 2012 to the date of fire	2,000
Sales for the year ended 31st March, 2012	80,00,000
Sales from 1st April, 2012 to the date of fire	45,36.000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for Rs.9,00,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company.

ANSWER

Memorandum trading account for the period 1st April, 2012 to 29th august 2012

		Rs.		Rs.
To opening stock		7,90,100	By sales	45,36,000
To purchases	33,10,700		By closing stock (Bal. fig.)	8,82,600
Less advertisement	(41,000)			
Drawings	(2,000)	32,67,700		
To gross profit [30% of sales – refer working Note]		13,60,800		
		54,18,600		54,18,600

Statement of insurance claim

	Rs.
Value of stock destroyed by fire	8,82,600
Less: salvaged stock	(1,08,000)
Add: fire fighting expenses	4,700
Insurance claim	7,79,300

Note: since policy amount is more than claim amount, average caluse will not apply.

Therefore claim amount of Rs.7,79,300 will be admitted by the insurance company.

Working Note:

Trading account for the year ended 31st March 2012

	Rs.		Rs.
To opening stock	7,10,500	By sales	80,00,000
To purchases	56,79,600	By closing stock	7,90,100
To gross profit	24,00,000		
	87,90,100		87,90,100

Rate of Gross Profit in 2011-12

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = \frac{24,00,000}{80,00,000} \times 100 = 30\%$$

QUESTION NO 10

From the following information ascertain the value of stock as on 31st March 2012:

	Rs.
Stock as on 01-04-2011	28,500
Purchase	1,52,500
Manufacturing expenses	30,000
Selling expenses	12,100
Administration expenses	6,000
Financial expenses	4,300
Sales	2,49,000

At the time of valuing stock as on 31st March, 2011 a sum of Rs.3,500 was written off on a particular item, which was originally purchased for Rs.10,000 and was sold during the year for Rs.9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

ANSWER

Statement showing valuation of stock as on 31.3.2012

	Rs.	Rs.
Stock as on 01.04.211	28,500	
Less: Book value of abnormal stock (Rs.10,000- Rs. 3,500)	6,500	22,000
Add: purchases		1,52,500
Manufacturing expenses		30,000
Less: cost of sales:		2,04,500
Sales as per books	2,49,000	
Less: sales of abnormal item	(9,000)	
Less: gross profit @ 20%	2,40,000	
Value of stock as on 31st March, 2012	(48,000)	(1,92,000)
		12,500

QUESTION NO 11

On 15th December, 2012 a fire occurred in the premises of M/s OM Exports. Most of the stocks were destroyed. Cost of stock salvaged being Rs.1,40,000. From the books of account, the following particulars were available:

(i) stock at the close of account on 31st March 2012 was valued at Rs.9,40,000.

(ii) purchase from 01-04-2012 to 15-12-2012 amounted to Rs.13,20,000 and the sales during that period amounted to Rs.20,25,000.

On the basis of his accounts for the past three years. It appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, If the stock were insured for Rs.4,00,000.

ANSWER

Memorandum Trading Account
For the period 01.04.2012 to 15.12.2012

Particulars	Rs.	Particulars	Rs.
To opening stock	9,40,000	By sales	20,25,000
To purchase	13,20,000	By closing stock	6,40,000
To gross profit @20%	4,05,000	(bal. figure)	
	26,65,000		26,65,000

Statement of claim

	Rs.
Estimated value of stock as at date of fire	6,40,000
Less: value of salvaged stock	1,40,000
Estimated value of stock lost by fire	5,00,000

As the value of stock is more than insured value, amount of claim would be subject to average clause.

$$\text{Amount of claim} = \frac{\text{amount of policy}}{\text{value of stock}} \times \text{actual Loss of Stock}$$

$$\text{Amount of claim} = \frac{4{,}00{,}000}{6{,}40{,}000} \times 5{,}00{,}000 = \text{Rs.}3{,}12{,}500$$

QUESTION NO 12

Out of goods costing Rs.2,00,000, 3/4 are destroyed by fire. Find out the amount under following conditions:

(1) Sum insured – Rs.2,00,000

(2) Sum insured without average clause 1,00,000

(3) Sum insured with average clause 1,00,000***

SOLUTION

$$\text{Turnover Lost} = 2{,}00{,}000 \times \frac{3}{4} = \text{Rs.}1{,}50{,}000$$

(i) Policy taken = 2,00,000

Claim = 1,50,000

(ii) Policy taken = 1,00,000

Claim = 1,00,000

(iii) Policy taken = 1,00,000

$$\text{Claim} = \text{Loss suffered} \times \frac{\text{Sum insured}}{\text{Actual Insurable Value}}$$

$$= 1{,}50{,}000 \times \frac{1{,}00{,}000}{2{,}00{,}000} = 75{,}000$$

Note Average clause applies only where the insured value is Less than the total cost.

QUESTION NO 13

Calculation the Gross profit Ratio for the for Calender year 2006.

Opening Stock	Rs. 3,20,000
Purchases	Rs. 1,776,000
Wages	Rs. 2,00,000
Sales	Rs. 23,20,000
Closing Stock	Rs. 4,40,000

SOLUTION

Trading A/c for the year ending on 31.12.06

Particulars	Rs.	Particulars	Rs.
Opening Stock	3,20,000	Sales	2,320,000
Purchases	1,77,6000	Closing Stock	4,40,000
Wages	2,00,000		
G.P (Balance figure)	4,64,000		
	2,760,000		2,760,000

$$\text{G.P Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$= \frac{4,64,000}{23,20,000} \times 100 = 20\%$$

QUESTION NO 14

Due to fire on July 2004 the entire Stock was bunt except. Some costing Rs.35,000. The information available from the books of accounts saved were as follows:

(i) The average G.P was 25% on Sales

(ii) The wages for the period is 72,000

(iii) The Stock on 31st December 2003 valued as per practice at 10% above Cost was Rs.1,10,000

(iv) The Purchase & Sales from 1.1.2003 upto date of fire were Rs.1,50,000 & 3,40,000 respectively,

(v) The Company insured Stock for Rs.60,000

(vi) The policy had an average clause.

Prepare a Statement showing the amount of stock Lost by fire and the amount of claim to be collaged with the insurance company.

SOLUTION

Memorandum Trading Account

For the period 1.1.2003 to 1.7.04

Particulars	Rs.	Particulars	Rs.
Opening Stock		Sales	3,40,000
$1,10,000 \times \frac{100}{110}$	1,00,000		
Purchase	1,50,000		
Wages	72,000		
Gross profit		Closing Stock	
(25% of 3,40,000)	85,000	(Balance figure)	67,000
	4,07,000		407,000

Loss suffered = 67,000 – 35,000 = 32,000

$$\text{Claim} = \text{Loss suffered} \times \frac{\text{Sum insured}}{\text{Actual Insurable Value}}$$

$$= 32,000 \times \frac{60,000}{67,000} = 28,656$$

QUESTION NO 15

A fire occurred in the premises of Agni On 25th August 2003 when a large pant of the Stock was destroyed. Salvage was Rs. 15,000. Agni gives you the following information for the period of January 1, 2003 to August 25, 2003

(a) Purchases Rs.85,000

(b) Sales Rs.90,000

(c) Goods costing Rs.5,000 were taken by Agni for personal use.

(d) Cost price of Stock On January 1. was Rs.40,000

Over the past few years, Agni has been selling goods at a consistent gross profit margin of 33 – 1/3%.

The insurance policy was Rs.50,000. It included an average clause Agni asks you to prepare a statement of claim to be made on the insurance company.

SOLUTION

Statement of Claim

Closing stock	60,000
Less salvage	15.000
Loss	45,000
Application of average clause :	
Value of stock on hand	60,000
Amount of policy	50,000
Admissible claim $(45,000 \times \frac{50,000}{60,000})$	37,500

Memorandum Trading A/c

For the period ending 25.8.03

Particulars	Rs.	Particulars	Rs.
To Opening Stock	40,000	Sales	90,000
To Purchase 85000			
Less: Drawinq 5000	80,000	By Closing Stock	60,000
To G.P		(Balance figure)	
(33 – 1/3 of 90,000)	30,000		
	1,50,000		1,50,000

QUESTION NO 16

Mr. A prepares accounts on 30th September each year but on 31.12.2001 fire destroyed the great in part of his Stock. Following information was collected form his book:

Stock as On 1.10.1	29,700
Purchase from 1.10to31.12.01	75,000
Wages from 1.10.to 31.12.01	33,000
Sales from 1.10 to 31.12.01	1,40,000

The rate of gross profit is 33.33% on Cost Stock to the value of Rs.3,000 was salvaged. Insurance policy was for Rs.25,000 and claim was subject to average clause.

Additional information's:

(a) Stock in the beginning was calculated at 10% less than cost.

(b) A plant was installed by firm's own worker. He was paid Rs.500. Which was included in wages?

(c) Purchases include the purchase of the plant for Rs.5,000

You are required to calculate claim for the Loss of stock the Loss of Stock

SOLUTION

Compulation of claim for Loss of stock

Stock on the date of fire	30,500
Less: salvage stock	3,000
Loss of stock	27,500

$$\text{Amount of claim} = \frac{\text{Insured Values}}{\text{Total cost of stock on the date a fire}} \times \text{loss of stock}$$

$$= \frac{25,000}{30,500} \times 27,500 = 22,541$$

Memorandum Trading Account
For period from 1.10 to 31.12.01

Particulars		Rs.	Particulars	Rs.
To Opening Stock		33,000	Sales	1,40,000
$(29,700 \times \frac{100}{9})$			Closing Stock (Balance figure)	30,500
Purchase	75,000			
(–) Cost of Plant	5,000	70,000		
Wages	33,000			
(–) Waqes paid	500	32,500		
G.P (25% on sales).		35,000		
		1,70,500		1,70,500

Note:– G.P 33.33% On Cost or 25% on Sales = 35,000

QUESTION NO 17

Mr. 'A' prepares accounts on 30th September each year, but on 31st December, 2001 fire destroyed the greater part of this stock. Following information was collected from his books;

	Rs.
Stock as on 1.10.2001	29,700
Purchase from 1.10.2001 to 31.12.2001	75,000
Wages from 1.10.2001 to 31.12.2001	33,000
Sales form 1.10.2001 to 31.12.2001	1,40,000

The rate of Gross Profit is 33 1/3 % on cost. Stock to the value of Rs. 3,000 was salvaged. Insurance policy was for Rs. 25,000 and claim was subject to average clause.

Additional Information's:

(i) Stock in the beginning was calculated at 10% less than cost.

(ii) A plant was installed by firm's worker. He was paid Rs. 500, which was included in wages

(iii) Purchase included the purchase of the plant for Rs. 5,000.

You are required to calculate the claim for the loss of Stock.

QUESTION NO 18

A fire occurred in the workshop of Mr. on 31st March, 2006 where a large part of stock was destroyed. Scarp realized Rs. 7,500. Mr. A gives you're the following information for the period of 1st January to 31st March, 2006:

	Rs.
(i) Purchase	42,500
(ii) Sales	45,000
(iii) Goods costing Rs. 1,000 were taken by Mr. A for personal use.	
(iv) Cost price of stock on 1st January, 2006 was Rs. 20,000.	
(v) Over the past few years, Mrs. A has been selling goods at a consistent gross profit margin of 30%	
(vi) The Insurance policy was for Rs. 25,000. It included an average clause. Prepare a statement of claim to be made on the Insurance Company by Mr. A	

QUESTION NO 19

On 2.6.2007 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished form the recorders saved:

	Rs.
Stock at cost on 1.4.2006	1,35,000
Stock at 90% of cost on 31.3.2007	1,62,000
Purchases for the year ended 31.3.2007	6,45,000
Sales for the year ended 31.3.2007	9,00,000
Purchases from 1.4.2007 to 2.6.2007	2,25,000
Sales from 1.4.2007 to 2.6.2007	4,80,000

Sales upto 2.6.2007 includes Rs. 75,000 being the goods not dispatched to the customers. The sales invoice price is Rs. 75, 000.Purchase upto 2.6.2007 includes a machinery acquired for Rs. 15, 000. Purchases upto 2.6.2007 does not included goods worth Rs. 30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire. Value of stock salvaged from fire Rs. 22,500 and this has been handed over the insurance company.

The insurance policy is for Rs. 1,20,000 and it is subject to average clause . Ascertain the amount of claim for loss of stock.

QUESTION NO 20

On 11.11.2007 the premises of Rocky Ltd. Was destroyed by fire. The following information is made available :

	Rs
Stock as on 1.4.2006	3,75,000
Purchase from 1.4.2006 to 31.3.2007	5,20,000
Sales from 1.4.2006 top 31.3.2007	8,55,000
Stock as on 31.36.2007	2,00,000
Purchase from 1.4.2004 to 11.11.2007	3,41,000
Sales from 1.4.2007 to 11.11.2007	4,35,500

In valuing the stock on 31.3.2007, due to damage 50% of the value of the stock which originally cost Rs. 22,000 was written off.

In June, 2007 about 50% of this stock was sold for Rs. 5,500 and the balance of obsolete stock is expected to relies the same price (.i.e 50% of the original cost).

The gross profit ratio is to be assumed as uniform in respect of other sales. Stock salvaged from fire amounts to Rs. 11,500.

Compute the value of stock lost in fire

QUESTION NO 21

A fire broke out in the godown of a business house on 8th July, 2009 Goods costing Rs. 2,03,000 in a small sub- godown remain un-affected by fire. The goods retrieved in a damaged condition from the main godown were valued at Rs. 1,97,000

The following particulars were available from the books of accounts:

Stock on the last Balance Sheet date at 31st March, 2009 was Rs. 15,72,000. Purchases for the period from 1st April, 2009 to 8th July, 2009 were Rs. 37,10,000 and sales during the same period amounted to Rs. 52,60,000. The average gross profit margin was 30% on sales.

The business house has a fire insurance policy for Rs. 10,00,000 in respect of its entire stock. Assist accountant of the business house in computing amount of claim of loss by fire

QUESTION NO 22

In January, 2010 a firm took an insurance policy for Rs. 60 lakhs to insure goods in its godown against fire subject to average clause, On 7th March, 2010 a fire broke out destroying good costing Rs. 44 lakhs. Stock in the godown was estimated at Rs. 80 lakhs. Computer the amount of insurance claim.

QUESTION NO 23

On 20th July, 1991, the godown and business premises of a merchant were affected by fire and from accounting records salvaged, the following information is made available to you.

Stock of goods at cost on 1st April , 1990	1,00,000
Stock of goods at 10% lower than cost as on 31st March, 1991	1,08,000
Purchase of goods for the year from 1st April, 1990 to 31st march, 1991	4,20,000
Sale for the same period	6,00,000
Purchase less return for the period from 1st April to 20th July, 1991	1,40,000
Sales less returns for the above period	3,10,000

Sale upto 20th July 1991 included Rs. 40,000 for which goods had not been dispatched. Purchases upto 20th July, 1991 did not include Rs. 20,000 for which purchase invoices had not been received from suppliers, thought goods have been received at the godown.

Goods salvaged from the accident were worth Rs. 12,000 and these were handed over to the insurance company.

Ascertain the value of the claim for loss of goods/ stock which could be preferred on the insurer.

SOLUTION

Trading A/c 1.4.90 to 31.3.90)

Particulars	Amount	Particulars	Amount
To Opening stock	1,00,000	By sales	6,00,000
To purchases	4,20,000	By closing stock (100%)	1,20,000
To Gross profit	2,00,000		
	7,20,000		7,20,000

$$\text{GP ratio} = \frac{2,00,000}{6,00,500} \times 100 = 33.33\%$$

Memorandum Trading A/c (1.4..01 to 20.7.01)

Particulars	Amount	Particulars	Amount
To Opening stock	1,20,000	By sales	2,70,000
To purchases	1,60,000	(3,10,000-40, 000)	
(1,40,000 + 20,000)		By closing stock	1,00,000
To gross profit	90,000	(bal. figure)	
	3,70,000		**3,70,000**

Stock on the date of fire = 1,00,000

Insurance claim= 1,00,000 because salvaged goods have been handed over to insurance company

QUESTION NO 24

On 2.6.2007 the stock of Mr. Black was destroyed by fire. However following particulars were furnished from the records saved:

	Rs.
Stock at cost on 1.4.2006	1,35,000
Stock at 90% of cost on 31.3.2007	1,62,000
Purchase for the year ended 31.3.2007	6,45,000
Sales for the year ended 31.3.2007	9,00,000
Purchases from 1.4.2007 to 2.6.2007	2,25,000
Sales from 1.4.2007 to 2.6.2007	4,80,000

Sale upto 2.6.2007 includes Rs .75,000 being the goods not dispatched to the customers. The sales invoice price is Rs 75,000.

Purchase upto 2.6.2007 includes a machinery acquired for.	Rs .15,000
Purchase upto 2.6.2007 does not includes goods worth	Rs. 30,000

Received from suppliers, but invoice not received upto the date of fire.

These goods have remained in the godown at the time of fire.

Value of stock salvaged from fire Rs. 22,500 and this has been handed over to the insurance company.

The insurance policy is for Rs. 1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

SOLUTION

In the books of Mr. Black

Trading Account for the year ended 31.3.2007

	Rs.		Rs.
To opening stock	1,35,000	By sales	9,00,000
To purchase	6,45,000	By Closing stock at cost	1,80,000
To Gross profit	3,00,000	(1,62,000 x 100 ¸ 90)	
	10,80,000		10,80,000

Memorandum Trading A/c

For the period from 1.4.2007 to 02.06.2007

To opening stock at cost		1,80,000		By sales	4,80,000	
To purchases	2,25,000			Less: Goods not		
Add: Goods received but invoice not received		30,000 2,55,00		Dispatched	75,000	4,05,000
Less: Machinery		15,000	2,40,000	By Closing Stock (Balancing Figure)		1,50,000
To Gross Profit (Refer working note)			1,35,000 5,55,00			5,55,000

Calculation of Insurance Claim

Claim subject to average clause = Actual loss of stock x Amount of policy / Value of stock on the date of fire

= 1,50,000 x (1,20,000 ÷ 1,50,000) = Rs. 1,20,000

Working Note :

G.P. ratio = (3,00,000 ÷ 9,00,000) x 100 = 33.33%

Amount of Gross profit = Rs. 4,05,000 x 33.33%

= Rs. 1,35,0000

- Salvaged stock amounting Rs. 22,500 handed over to the insurance company is also a loss to Mr. Black.

QUESTION NO 25

On 30th June, 1996, accidental fire destroyed a major part of , the stocks in the godown of Jay Associates. Stocks costing Rs. 30,000 could be salvaged but not their stores ledgers. A fire insurance policy was in force under which the sum insured was Rs. 3,50,000. From available records, the following information was retrieved:

(i) Total of sales invoices during the period April-June amounted to Rs. 30,20,000. An analysis showed that goods of the value of Rs. 3,00,000 had been returned by the customers before the date of the fire.

(ii) Opening stock on 1-4-96 was Rs. 2,20,000 including stocks of value of Rs. 20,000 being lower of cost and net value subsequently realized.

(iii) Purchases between 1-4-96 and 30.6.96 were Rs. 21,00,000.

(iv) Normal gross profit rate was 331/3% on sales.

(v) A sum of Rs. 30,000 was incurred by way of fire fighting expenses on the day of the fire.

Prepare a statement showing the insurance claim recoverable.

QUESTION 26

On 1st April 2016 the stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Stock at cost 1 Jan. 2015	1,47,000
Stock at cost 31 Dec. 2015	1,59,200
Purchases year ended 31stDec. 2015	7,96,000
Sales year ended 31st Dec. 2015	9,74,000
Purchases 1.1.2016 to 31.3.2016	3,24,000
Sales 1.1.2016 to 31.3.2016	4,62,400

In valuing the stock for the Balance Sheet at 31st dec.2015 Rs. 4,600 had been written off on certain stock which was a poor selling line having the cost Rs. 13,800. A portion of these goods were sold in March 2016 at a loss of rs.500on original cost of Rs. 6,900. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception gross profit had remained at a uniform rate throughout the year.

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

Work out the amount of the claim of Loss by fire.

ANSWER

Trading Account for the year ending on 31.12.2015

Particulars	Amount	Particulars	Amount
To opening stock	1,47,000	By sales	9,74,000
To purchase	7,96,000	By closing stock	1,63,800
To gross profit	1,94,800	(1,59,200+4600)	
	11,37,800		11,37,800

GP RATIO = (194800/974000) × 100 = 20%

Memorandum Trading Account

(1.1.2016-1.4.2016)

Particulars	Normal	Abnormal	Particulars	Normal	Abnormal
To opening stock	1,50,000	13,800	By sales	4,56,000	6,400
To Purchases	3,24,000	-	By gross loss	-	500
To Gross Profit @20%	91,200		**By closing stock** (bal.fig.)	1,09,200	6,900
	5,65,200	**13,800**		**5,65,200**	**13,800**

CALCULATION OF CLAIM

Closing stock : Normal goods	109200
Abnormal goods	6900
Total stock	116100
Salvaged goods	11600
Damaged goods	104500

Claim = (100000/116100) x 104500 = 90009

Claim for Loss of Profit

When a fire occurs, apart from the direct loss on account of stock or other assets destroyed, there is also a consequential loss because, for some time, the business is disorganized or has to be discontinued and during that period the standing expenses of the business like rent salaries etc. continue moreover there is loss of profits which the business would have earned during the period. This loss can be insured against by a loss of profit or consequential loss policy there must be a separate policy in respect of the consequential loss but claim will be admitted in respect of the policy unless the claim on account of fire is also admitted under other policies.

The loss of profit policy normally covers the following items:

(1) Loss of net profit

(2) Standing charges.

(3) Any increased cost of working e.g., renting of temporary premises.

In every business there is some standard by which its activity or progress can be accurately judged: it may be sales affected or the quantity of goods (or services) produced. To measure the loss suffered by a firm due to fire, it is necessary to set up some standard expressed in such units to represents the volume of work. There should be a direct relation between the amount of standard and the amount of profit raised. A comparison between the amount of the standard before and after the fire will give a reliable indication of the loss of profit sustained.

The most satisfactory unit of measuring the prosperity (and therefore profits) is usually turnover:

A claim for loss of profits can be established only if:

(i) The insured's premises or the property therein are destroyed or damaged by the peril defined in the policy; and

(ii) The insured business carried on the premises is interrupted or interfered with as a result of such damage.

A claim for loss of profit cannot arise if the claim for loss of property as a result of the fire is not also admitted. This is very convenient as it avoids independent investigation into loss of property for purposes of loss of profits policy. It is possible that the business of the insured may suffer because of fire in the neighborhood, not causing damage to the property of the insured say by closing the street for some time. Such eventualities may be covered by agreement with the insurer on payment of extra premium. If fire does not affect the volume of business there can be no claim for loss of profits.

Also, it does not follow that if there is a large property claim, there will be necessarily a large claim for loss of profit or vice versa.

Terms defined

The following terms should be noted:

Gross profit is the sum produced by adding to the net profit the amount of the insured standing charges or if there be no net profit, the amount of the insured standing charges less such a proportion of any net trading loss as the amount of the insured standing charges bears to all the standing charges of the business.

Net profit is the net trading profit (exclusive of all capital) receipts and accretion and all outlay properly (chargeable to capital) resulting from the business of the insured at the premises after due provision has been made for all standing and other charges including depreciation.

Insured standing charges: interest on debentures mortgage loans and bank overdrafts, rent, Rates and taxes (other than taxes which form part of net profit) salaries of permanent staff and wages to skilled employees boarding and lodging of resident directors and/or Manager, directors fees, unspecified standing charges [not exceeding 5% (five per cent) of the amount recoverable in respect of specified standing charges].

Conditions included in a loss of profit insurance policy

Insurance policies covering loss of profit contain the following conditions usually:

Rate of Gross Profit: the rate of gross profit earned on turnover during the financial year immediately before the date of damage.

Annual turnover: the turnover during the twelve months immediately before the damage.

Standard turnover: the turnover during that period in the twelve months immediately before the date of damage which corresponds with the indemnity period.To which such adjustment shall be made as may be necessary to provide for the trend of the business and for variations in or special circumstances affecting the business either before or after the damage or which would have affected the business had the damage not occurred, so that the figures thus adjusted shall represent, as nearly as may be reasonably practicable the results which but for the damage would have been obtained during the relative period after damage.

Indemnity Period: the period beginning with the occurrence of the damage and ending not later than twelve months thereafter during which the results of the business shall be affected in consequence of the damage.

Memo 1: if during the indemnity period goods shall be sold or services shall be rendered elsewhere than at the premises for the benefit of the business either by the insured or by others on the insured's behalf the money paid or payable in respect of such sales or service shall be brought into account in arriving at the turnover during the indemnity period.

Memo 2: if any standing charges of the business be not insured by this policy then in computing the amount recoverable hereunder as increase in cost of workings that proportion only of the additional expenditure shall be brought into account which the sum of the net profit and the insured standing charges beat to the sum of the net profit and all standing charges.

Memo3: This insurance does not cover loss occasioned by or happening though or in consequence of destruction of or damage to a dynamo motor, transformer, rectifier or any part of an electrical installation resulting from electric current however arising.

The student should note the following:

(I) The word turnover used above may be replaced by any other term denoting the basis for arriving at the loss of profit e.g., output.

(ii) Insured standing charges may include additional items, by agreement with the insurer.

(iii) Net profit means profit before income tax based on profit.

(iv) Depending upon the nature of business, the indemnity period may extend beyond 12 months (it may be as long as 6 years). Indemnity period shall not be confused with the period of insurance which cannot be more than one year.

The insurance for loss of profit is limited to loss of gross profit due to:

(i) reduction in turnover and

(ii) increase in the cost of working.

The amount payable as indemnity is the sum of (a) and (b) below:

(a) in respect of reduction in turnover: the sum produced by applying the rate of gross profit to the amount by which the turnover during the indemnity period shall, in consequence of the damage falls short of the standard turnover.

(b) in respect of increase in cost of working: the additional expenditure[subject to the provision of memo (2) given above] necessarily and reasonably incurred for the sole purpose of avoiding or diminishing the reduction in turnover which, but for that expenditure would have taken place during the indemnity period in consequence of the damage : the amount allowable under this provision cannot exceed the sum produced by applying the rate of gross profit to the amount of reduction avoided by the additional expenditure.

The amount payable arrived at as above is reduced by any sum saved during the indemnity period in respect of such of the insured standard charges as may cease or be reduced in consequence of the damage.

Insurance policies provide that if the sum insured in respect of loss of profit is less than the sum produced by applying the rate of gross profit to he annual turnover (as adjusted by the trend of the business of variation in special circumstances affecting the business either before or after the damage or which would have affected the business had the damage not occurred), the amount payable by the insurer shall be proportionately reduced. This is nothing but application of the average clause.

The turnover of a business rarely remains constant and where there has been an upward or downward trend since the date of the last accounts and upto the date of the fire, the standard turnover should be appropriately adjusted as per definition given above.

QUESTION NO 27

The premises of XY Ltd. were partially destroyed by fire on 1st March 2006 and as a result, the business was practically disorganized upto 31st August 2006. The company is insured under a loss of profit policy for Rs.1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:

(i) Actual turnover during period of dislocation (1.3.2006-31.8.2006) Rs.80,000

(ii) Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire (1.3.2005 to 31.8.2005) Rs.240000

(iii) Turnover for the 12 months immediately preceding the fire (1.3.2005 to 28.2.2006) Rs.6,00,000

(iv) Net profit for the last financial year Rs.90,000

(v) Insured standing charges for the last financial year Rs.60,000

(vi) Uninsured standing charges Rs.5,000

(vii) Turnover for the last financial year Rs.5,00,000

Due to substantial increase in trade, before and up to the time of the fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to Rs.9300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only Rs.55,000. There was also a saving during the indemnity period of Rs.2700 in insured standing charges as a result of the fire.

QUESTION NO 28

From the following data, compute a consequential loss claim:

1. Financial year end on 31st December, Turnover Rs. 2,00,000.
2. Indemnity period 6 months, Period of interruption 1st July to 31st October.,

3. Net profit Rs. 18,000.
4. Standing charges Rs. 42,000 out of which Rs. 10,000 have not been insured.
5. Sum assured Rs. 50,000. Standard turnover 65,000
6. Turnover in the period of interruption Rs. 25,000 out of which Rs. 6,000 was from a rented place at Rs. 600 per month.
7. Annual turnover Rs. 2,40,000. Saving in standing charges Rs. 4,725 per annum.

Date of fire night of 30th June. It was agreed to between the insured that the business trends would lead to an increase of 10% in the turnover.

[Ans Rs. 8750]

QUESTION NO 29

The premises of a company was partly destroyed by fire on 1st March 1992, as a result of which the business was disorganized from 1st March to 31st July, 1992 A/cs are closed on 31st December every year. The company is insured under a 'loss of profit' policy for Rs. 7,50,000. The period of indemnity specified in the policy is 6 months. From the following information, you are required to compute the amount of claim under the loss of profit policy. (all figures in Rs.)

Turnover for the year 1991	40,00,000
Standard turnover for the corresponding period i.e., from 1.3.91 to 31.7.91	20,00,000
Net profit fro preceding year	4,80,000
Insured standing charges	2,40,000
Annual turnover for the year immediately preceding i.e., 1.3.91 to 29.2.92	44,00,000
Uninsured standing charges	80,000
Turnover during the period of disorganisation i.e., from 1.3.92 to 31.7.92	8,00,000
Increased cost of working	1,50,000
Saving in insured standing charges	30,000
Reduction in turnover avoided through increase in working cost	4,00,000

Owing to reasons acceptable to the insurer, the "Special circumstances clause" stipulates for: (a) Increases of turnover (standard and annual) by 10% and (b) Increase of rate gross profit by 2%.

QUESTION NO 30

Find out the amount of net claim for loss of profit by applying clauses from the following in formation:

(i)	Adjusted annual turnover preceding the date of fire	50,000
(ii)	Policy amount	7,500
(iii)	Loss suffered	2,500
(iv)	Adjusted Insured G.P rate	20%

SOLUTION

G.P rate = 20%

Loss suffered = 2,500

$$\text{Amount of Claim} = \frac{\text{Policy amount}}{\text{Insured profit}} \times \text{Loss suffered}$$

$$= \frac{7{,}500}{20\% \text{ of } 50{,}500} \times 2{,}500$$

$$= \frac{7{,}500}{10{,}000} \times 2{,}500 = 1{,}875$$

QUESTION NO 31

On account of fire on 15th June 2002 in the business house of a company the working remained disturbed upto 15 December, 2002 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against cons Consequential losses for Rs. 1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increased of 25% was marked in the current year's sales as compared to the last year. The company incurred an additional expenditure of Rs. 12,000 to make sales possible and made a Saving of Rs.2,000 in the insured standing changes.

Actual sales from 15 June, 2002 to 15 December, 2002	70,000
Sales from 15. June, 2001 to 15 December, 2001	2,40,000
Net profit for last financial year	80,000
Insured standing changes for the last financial year	70,000
Total standing changes for the last financial year	1,20,000
Turnover for the last financial year	6,00,000
Turnover for the year: 16 June, 2001 to 15 June, 2002	5,60,000

SOLUTION

(1) Period of Claim = 6 months (15 June to 15 December)

(2) Gross profit ratio $= \dfrac{\text{Net profit + Insured Standing Changes}}{\text{Turnover}} \times 100$

$= \dfrac{80{,}000 + 70{,}000}{6{,}00{,}000} \times 100 = 25\%$

(3) Turnover Lost = Standard – Actual

= 2,40,000+ (25% of 2,40,000) – 70,000 = 2,30,000

Loss of profit = 25% of 2,30,000 = 57,500

(4) Calculation of Claim for increased (Cost of Working)

(i) Actual expense = 12,000

(ii) Gross profit or Sale generated by additional expenditure= 25% of 70,000 =17,500

(iii) Additional expense $\times \dfrac{\text{Gross profit on adjusted turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$

$= \dfrac{12{,}000 \times 25\% \times 7{,}00{,}000}{25\% \times 7{,}00{,}000 + (1{,}20{,}000 \;\; 70{,}000)}$

= 9,333 (approx)

Adjusted annual turnover = 5,60,000 + 25% = 7,00,000

Rs.9,333 being the Least Shall be increased cost of working

(5) Total Claim = 57,500 + 9,333 – 2,000 = 64,833

(6) Net Claim $= \dfrac{\text{Insured Amount}}{\text{Insurable Amount}} \times \text{Total Claim}$

$= \dfrac{1{,}40{,}000}{25\% \text{ of } 7{,}00{,}000} \times 64{,}833 = 51{,}866.40$

QUESTION NO 32

On account of a fire on 15 June, 2002 in the business house of a company, the working remained disturbed upto 15 Dec., 2002 as a result of which, it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for Rs. 1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increase of 25% was marked in the current years' sales as compared to last year. The company incurred an additional expenditure of Rs. 12,000 to make sales possible and made a saving of Rs. 2,000 in the insured standing charges.

Ascertain the claim under the consequential loss policy keeping the following additional information in view.

	Rs.
Actual sales form 15 June, 2002 to 15 Dec., 2002	70,000
Sales from 15 June, 2001 to 15 Dec., 2001	2,40,000
Net Profit for last Financial year	80,000
Insured standing charges for the last Financial year	70,000
Total standing charges for the last Financial year	1,20,000
Turnover for the last Financial year	6,00,000
Turnover for one year : 16 June , 2001 to 15 June, 2002	5,60,000

QUESTION NO 33

From the following details, calculate consequential loss claim :

1. Date of fire : 1st September, following :
2. Indemnity period : 6 months:
3. Period of disruption : 1st September, 1st February:
4. Sum insured: Rs. 1,08,900:
5. Sales were Rs. 6,00,000 for preceding financial year ended on 31st March.
6. Net Profit for preceding financial year Rs. 36,000 plus insured standing charges .Rs. 72,000;
7. Rate of Gross profit 18%.
8. Unisnured standing charges Rs. 6,000:
9. Turnover during the destitution period Rs. 67, 500:
10. Annual turnover for 12 months immediately preceding the date of fire Rs. 6,60,000;
11. Standard turnover i.e. for corresponding month (1st September to 1st February) in the year preceding the date of fire Rs. 2,25,000
12. Increase in the cost of Working capital Rs. 12,000 with a saving of insured standing charges Rs. 4,500 during the disruption period;
13. Reduced turnover avoided through increase in Working capital Rs. 3,000;
14. Special clause stipulated :

    (a) Increase in rate of G.P. 2%

    (b) Increase in turnover (Standard and Annual) 10%

QUESTION NO 34

X Ltd. has insured itself under a loss of profit policy for Rs. 3,63,000.

The indemnity period under the policy is six month. On 1st September, 1998 a fire occurred in the factory of X Ltd. and the normal business was affected upto 1st March, 1999.

The following information is complied for the year ended on 31st March, 1998:

	Rs.
Sales	20,00,000
Insured standing charges	2,40,000
Uninsured standing charges	20,000
Net profit	1,20,000

Following further details of turnover are furnished:

(a) Turnover during the period of 12 months ending on the date of fire was Rs. 22,00,000.

(b) Turnover during the period of interruption was Rs. 2,25,000;

(c) Actual turnover during the period from 1.9.1997 to 1-3-1998 during the preceding year corresponding to the indemnity period was Rs. 7,50,000;

X Ltd spent an amount of Rs. 40,000 as additional cost of working. During the indemnity period. On account of this additional expenditure :

(a) There was a saving of Rs. 15,000 in insured standing charges during the period of indemnity;

(b) Reduced turnover avoided was Rs. 1,00,000 i.e. , but for this expenditure, the turnover after the date of fire would have been only Rs. 1,25,000.

A special clause in the policy stipulates that owing to the reasons acceptable to the insurer under the special circumstances the following increases are to be made :

(a) Increase of turnover standard and actual-by 10%.

(b) Increase in rate of gross profit by 2% from previous year's level.

X Ltd asks you to compute the claim for loss of profit. All calculations should be made to the nearest rupee.

ANSWER

Computation of loss of Profit for insurance claim

(1) Rate of gross profit

$$\frac{\text{net profit for the last financial year+insured standing charges}}{\text{turnover for the last financial year}} \times 100$$

Add: Adjustment for increase in gross profit rate = $\frac{2\%}{20\%}$

(2) Calculation of short sales:

	Rs.
Turnover from 1.9.2009 to 1.3.2010	7,50,000
Add: adjustment for increase in turnover @ 10%	75,000
Adjusted turnover	8,25,000
Less: Actual Turnover from 1.9.2010 to 1.3.2011	2,25,000
Short sales	6,,00,000

(3) Additional expenses:

	Rs.
(i) Actual expenses	40,000
(ii) gross profit on sale generated by additional expenses	
[(20/100)xRs.1,00,000]	20,000

(iii) additional expenses x $\frac{\text{Gross profit on annual adjusted turnover}}{\text{gross profit on annual adjusted turnover+uninsured standing charges}}$

$$= \text{Rs.}40{,}000 \times \frac{20\% \text{ on Rs. } 24{,}20{,}000^*}{(20\% \text{ on Rs. } 24{,}20{,}000) + \text{Rs. } 20{,}000}$$

$$= \text{Rs.}40{,}000 \times \frac{\text{Rs. } 4{,}84{,}000}{\text{Rs. } 5{,}04{,}000}$$

= Rs.38,413

Least of the above three figures i.e. Rs.20,000 Is allowable.

*Rs.22,00,000 x (110/100)

(4) Amount of claim before application of average clause

	Rs.
Gross profit on short sales(20% on Rs.6,00,000)	1,20,000
Add: allowable additional expenses	20,000
	1,40,000
Less: Saving in insured standing charges	(15,000)
	1,25,000

(5) Application of average clause

	Rs.
Annual turnover i.e. turnover from 1.9.2009 to 31.8.2010	22,00,000
Add: adjustments for increase in turnover (10% of Rs.22,00,00)	2,20,000
	24,20,000
Gross profit on annual adjusted turnover (20% on Rs.24,20,000)	4,84,000
Loss of profit policy value	3,63,000

Since the policy-value is less than profit on adjusted annual turnover, the average clause is applicable.

Hence the amount of claim = Rs. 1,25,000 x (Rs.3,63,000/Rs.4,84,000) = Rs.93,750

QUESTION NO 35

A fire occurred on 1st February, 2006, in the premises of Pioneer Ltd., a retail store and business was partially disorganized upto 30th June, 2006. The company was insured under a loss of profits for Rs.1,25,000 with a six months period indemnity. From the following information, compute the amount of claim under the loss of profit policy.

	Rs.
Actual Turnover from 1st February to 30th June 2006	80,000
Turnover from 1st February to 30th June 2005	2,00,000
Turnover from 1st February 2005 to 31st January 2006	4,50,000
Net profit for last financial year	70,000
Insured standing charges for last financial year	56,000
Total standing charges for last financial year	64,000
Turnover for the last financial year	4,20,000

The company incurred additional expenses amounting to Rs.6700 which reduced the loss in turnover. There was also a saving during the indemnity period of Rs.2450 in the insured standing charges as a result of the fire.

There had been a considerable increase in trade since the date of the last annual accounts and it has been agreed that an adjustment of 15% be made in respect of the upward trend in turnover.

MIXED QUESTIONS
(DUAL POLICY CONSITING STOCK & PROFIT)

QUESTION NO 36

Remote & Sons had taken out policies (without average clause) both against loss of stock and loss of profit for Rs.2,10,000 and Rs.3,20,000 respectively. A fire occurred on 1st July , 2011 and as a result of which sales were seriously affected for a period of 3 months.

Trading and profit & loss A/c of ramda & sons for the years ended on 31st March, 2011 is given below:

Particular	Amount Rs.	Particulars	Amount Rs.
To opening stock	96,000	By sales	12,00,000
To purchase	7,56,000	By closing stock	1,85,000
To wages	1,58,000		
To manufacturing expenses	75,000		
To gross profit c/d	3,00,000		
	13,85,000		13,85,000
To administrative expenses	83,600	By gross Profit b/d	3,00,000
To selling expenses (fixed)	72,400		
To commission on sales	34,200		
To carriage outward	49,800		
To net profit	60,000		
	3,00,000		3,00,000

Further detail provided is as below:

(a) sales purchases wages and manufacturing expenses for the period 1.04.2011to 30.06.2011 were Rs,3,36,000, Rs.2,14,000, Rs.51,000 and Rs.12,000 respectively

(b) other sales figure were as follows

	Rs.
form 01.04.2010 to 30.06.2010	3,00,000
from 01.07.2010 to 30.09.2010	3,20,000
from 01.07.2011 to 30.09.2011	48,000

(c) due to decrease in the material cost, gross profit during 2011-12 was expected to increase by 5% on sales.

(d) Rs.1,98,000 were additionally incurred during the period after fire. The amount of policy included Rs.1,56,,000 for expenses leaving Rs.42,000 uncovered.

Compute the claim for stock,. Loss of profit and additional expenses

ANSWER

Claim for loss of stock

Memorandum trading account for the period 1st April to 1st July, 2011

	Rs.		Rs.
To opening stock	1,85,000	By sales	3,36,000
To purchase	2,14,000	By closing	
To wages	51,000	(Bal. fig.)	2,26,800
To manufacturing expenses	12,000		
To gross profit (336000 x 30%)	1,00,800		

Claim for loss of stock will be limited to Rs.2,10,000 only which is the amount of insurance policy and no average clause will be applied.

(Note: We have calculated GP Ratio from trading account of previous year which is already given in question. (i.e., 300000/1200000 = 25% plus increase in GP ratio by 5%)

Loss of profit

(a) Short sales:

Sales from 1st july, 2010 to 30th Sept. 2010	3,20,000
Add: 12% rise observed in 2011-12 over 2010-11	
(April-June Rs.3,36,000 instead of Rs.3,00,000)	38,400
	3,58,400
Less: Sales from 1st July, 2011 to 30th Sept. 2011	(48,000)
Short sales	3,10,400

(b) Gross profit ratio

$$= \frac{\text{Net profit+insured standing charges (2010-11)}}{\text{sales (2010-11)}} \times 100$$

$$= \frac{60,000 + 1,56,000}{12,00,000} \times 100 \qquad 18\%$$

Add: Expected rise due to decline in material cost	5%	23%

(c) loss of gross profit

23% on short sales Rs.3,10,400 = Rs.71,392

(d) Annual turnover (12months to 1st July,2011)

	Amount(Rs.)
Sales for april 2010-March,2011	12,00,000
Less: from 1-4-2010 to 30-6-2010	(3,00,000)
	9,00,000
Add: from 1-4-2011 to 30-6-2011	3,36,000
	12,36,600
Add:12% increasing trend	1,48,320
	13,84,320
Gross profit on annual turnover @23%	3,18,394

(e) amount allowable in respect of additional expenses

	Amount (Rs.)
Least of the following:	
(i) actual expenses	1,98,000
(ii) Gross profit on sales during indemnity period 23% of 48,000	11,040
(iii) $\frac{\text{gross profit on annual (adjusted)turnover}}{\text{gross profit as above+uninsured charges}}$ x additional Expenses	
(3,18,394/3,60,394)x1,98,000 Least i.e. Rs.11,040 is admissible.	1,74,925
Claim	**Rs.71,392.**
Loss of Gross profit	**Rs.11,040**
Add: Addition expenses	**Rs.82,432**

Insurance claim for loss of profit will be of Rs.82,432 only.

Working Note:

Rate of Gross profit in 2010-11

$$= \frac{\text{gross Profit}}{\text{Sales}} \times 100$$

$$= \frac{3,00,000}{12,00,000} \times 100 = 25\%$$

In 2011-12, Gross profit is expected to increase by 5% as a result of decline material cost, hence the rate of Gross profit for loss of stock is taken at 30%

QUESTION NO 37

Monalisa & Co. runs plastic goods shop. Following details are available from quarterly sales tax return filed.

Sales	2009	2010	2011	2012
	Rs.	Rs.	Rs.	Rs.
From 1st January to 31st March	1,80,000	1,70,000	2,05,950	1,62,000
From 1st April to 30th June	1,28,000	1,86,000	1,93,000	2,21,000
From 1st July to 30th September	1,53,000	2,10,000	2,31,000	1,75,000
From 1st October to 31st December	1,59,000	1,47,000	1,90,000	1,48,000
Total	6,20,000	7,13,000	8,19,950	7,06,000

Period	Rs.
Sales from 16-09-2011 to 30-09-2011	34,000
Sales from 16-09-2012 to 30-09-2012	Nil
Sales from 16-12-2011 to 31-12-2011	60,000
Sales from 16-12-2012 to 31-12-2012	20,000

A loss of profit policy was taken for Rs.1,00,000. Fire occurred on 15th September, 2012 indemnity period was for 3 months. Net profit was Rs.1,20,000 and standing charges (all insured) amounted to Rs.43,990 for year ending 31st December, 2011.

Determine the insurance claim.

QUESTION NO 38

From the following particulars, you are required to calculate the amount of claim for buildwell Ltd., whose business premises was party destroyed by fire:

Sum insured (from 31st December 2013)	Rs.4,00,000
Period of indemnity	12 months
Date of damage	1st January, 2014
Date on which disruption of business ceased	31st October, 2014

The subject matter of the policy was gross profit but only net profit and insured standing charges are included.

(a) The gross profit for the financial year 2013 was Rs.3, 60,000.

(b) The actual turnover for financial year 2013 was Rs.12, 00,000 which was also the turnover in this case.

(c) The turnover for the period 1st January to 31st October, in the year preceding the loss, was Rs.10, 00,000.

During dislocation of the position, it was learnt that in November-December 2013, there has been an upward trend in business done (compared with the figure of the previous years) and it was stated that had the loss not occurred, the trading results for 2014 would have been better than those of the previous year.

The insurance company official appointed to assess the loss accepted this view and adjustments were made to the pre-damaged figures to bring them up to the estimated amounts which would have resulted in 2014.

The pre-damaged figures together with agreed adjustments were:

Period	Pre-damaged figures	Adjustments to be added	Adjusted standard turnover
	Rs.	Rs.	Rs.
January	90,000	10,000	1,00,000
Feb.to October	9,10,000	50,000	9,60,000
November to December	2,00,000	10,000	2,10,000
	12,00,000	70,000	12,70,000
Gross profit	3,60,000	46,400	4,06,400

Rate of gross profit 30% (actual for 2013), 32% (adjusted for 2014).

Increased cost of working amounted to Rs.1,80,000.

There was a clause in the policy relating to savings in insured standard charges during the indemnity period and this amounted to Rs.28,000

Standing Charges not covered by insurance amounted to Rs.20,000 p.a. the annual turnover for January was nil and for the period February to October 2014 Rs.8,00,000

QUESTION NO 39

S & M Ltd. give the following Trading and Profit and Loss Account for year ended 31st December, 2005:

Trading and Profit and Loss Account for the year ended 31st December, 2005

	Rs.		Rs.
To Opening Stock	50,000	By Sales	8,00,000
To Purchases	3,00,000	By Closing Stock	70,000
To Wages			
(Rs. 20,000 for skilled labour)	1,60,000		
To Manufacturing Expenses	1,20,000		
To Gross Profit	2,40,000		——
	8,70,000		8,70,000
To Office Administrative Expenses	60,000	By Gross Profit	2,40,000
To Advertising	20,000		
To Selling Expenses (Fixed)	40,000		
To Commission on Sales	48,000		
To Carriage Outward	16,000		
To Net Profit	56,000		-
	2,40,000		2,40,000

The company had taken out policies both against loss to stock and against loss of profit, the amounts being Rs. 80,000 and Rs. 1,72,000. A fire occurred on 1st May, 2006 and as a result of which sales were seriously affected for a period of 4 months. You are given the following further information:

(a) Purchases, wages and other manufacturing expenses for the first 4 months of 2006 were Rs. 1,00,000, Rs. 50,000 and Rs. 36,000 respectively.

(b) Sales for the same period were Rs. 2,40,000.

(c) Other sales figures were as follows:

	Rs.
From 1st January 2005 to 30th April, 2005	3,00,000
From 1st May 2005 to 31st August, 2005	3,60,000
From 1st May, 2006 to 31st August, 2006	60,000

(d) Due to rise in wages, gross profit during 2006 was expected to decline by 2% on sales.

(e) Additional expenses incurred during the period after fire amounted to Rs. 1,40,000. The amount of the policy included Rs. 1,20,000 for expenses leaving Rs. 20,000 uncovered. Ascertain the claim for stock and for loss profit.

All workings should form part of your answers.

QUESTION NO 40

Sony Ltd.'s. Trading and profit and loss account for the year ended 31st December, 2005 were as follows:

Trading and profit and Loss Account for the year ended 31.12.2005

	Rs.		Rs.
Opening stock	20,000	Sales	10,00,000
Purchases	6,50,000	Closing stock	90,000
Manufacturing expenses	1,70,000		
Gross profit	2,50,000		-
	10,90,000		10,90,000
Administrative expenses	80,000	Gross profit	2,50,000
Selling expenses	20,000		
Finance charges	1,00,000		
Net profit	50,000		
	2,50,000		2,50,000

The company had taken out a fire policy for Rs. 3,00,000 and a loss of profits policy for Rs. 1,00,000 having an indemnity period of 6 months. A fire occurred on 1.4.2006 at the premises and entire stock were gutted with nil salvage value. The net quarter sales i.e. 1.4.2006 to 30.6.2006 was severely affected. The following are the other information:

Sales during the period	1.1.06 to 31.3.06	2,50,000
Purchases during the period	1.1.06 to 31.3.06	3,00,000
Manufacturing expenses	1.1.06 to 31.3.06	70,000
Sales during the period	1.4.06 to 30.6.06	87,500
Standing charges insured		50,000
Actual expense incurred after fire		60,000

The general trend of the industry shows an increase of sales by 15% and decrease in GP by 5% due to increased cost.

Ascertain the claim for stock and loss of profits.

CALCULATION OF SUM INSURED

QUESTION 41

A firm has decided to take out a loss of profit policy for the year 2016 and given the following information for the last accounting year 2015.Variable manufacturing expenses Rs. 14,20,000. Standing charges Rs. 1,50,000 Net profits Rs. 80,000 Non-operating income Rs. 2,5000. Sales Rs. 18,00,000.

Compute the sum to be insured in each of the following alternative cases showing the anticipating for the year 2016:

(i) If sales will increase by 15%.

(ii) If sales will increase by 15% and only 50% of the present standing charges are to be insured.

(iii) If sales and variable expenses will increase by 15% and standing charges will increase by 10%.

(iv) If sales will increase by 15% and variable expenses will decrease by 5%.

(v) If sales will increase by 10% and standing charges will increase by 15%.

(vi) If the turnover and standing charges will increase by 15% and variable expenses will decrease by 10% but only 50% of the present standing charges are to be insured

ANSWER

Calculation of amount of insurance policy to be taken

	I	II	III	IV	V	VI
Sales (existing)	18	18	18	18	18	18
Increase	2.7	2.7	2.7	2.7	1.8	2.7
Expected sales	20.7	20.7	20.7	20.7	19.8	20.7
Variable exp.	16.33	16.33	16.33	15.51	15.62	14.70
Gross profit	4.37	4.37	4.37	5.19	4.18	6
Increase in fixed expenses	-	-	.15	-	.225	.1125
Uninsured fixed exp.	-	(.75)	-	-	-	(.75)
Sum to be insured	**4.37**	**3.62**	**4.52**	**5.19**	**4.41**	**5.3625**

QUESTION NO 42

A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	₹
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 31,250.

ACCOUNTING FOR INCOMPLETE RECORDS

QUESTION NO 1

The following information relates to the business of Mr.Shiv Kumar, who requests you to prepare a Trading and profit and loss account for the year ended 31.3.2003 and Balance Sheet as on that date:

	Balance as on 31.3.2002	Balance as on 31.03.2003
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motor car	80,000	80,000
Stocks	-	40,000
Bills payable	28,000	16,000
Cash and bank balances	1,80,000	1,04,000
Sundry Debtors	1,60,000	-
Bills receivables	32,000	28,000
Sundry creditors	1,20,000	-

Cash transactions during the year included the following besides certain other items:

Sale of old papers and miscellaneous income	20,000
Miscellaneous trade expenses (including salaries)	80,000
Collection from Debtors	2,00,000
Cash purchases	48,000
Payment to creditors	1,84,000
Cash sales	80,000

The following are the other information:

1) Bills receivable drawn during the year amount to Rs. 20,000 and Bills payable accepted Rs. 16,000.
2) Some items of old furniture, whose written down value on 31st march, 2002 was Rs. 20,000 was sold on 30th September 2002 for Rs. 8,000. Depreciation is to be provided on building and furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.

3) Of the Debtors, a sum of Rs. 8,000 should be written off as Bad debts and a reserve for doubtful is to be provided @ 2%.
4) Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.
5) Outstanding salary on 31.3.2002 was Rs. 8,000 and on 31.3.2003 was Rs. 10,000. On 31.3.2002 profit and loss account had a credit balance of Rs. 40,000.
6) 20% of total sales and total purchases are to be treated as for cash.
7) Additions in furniture account took place in the beginning of the year and there was no opening provision for doubtful debts.

ANSWER:

TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST March 2003

Particulars	Rs.	Particulars	Rs.
To Opening stocks	80,000	By Sales:	4,00,000
To Purchase	2,40,000	By Closing Stock	40,000
To Gross profits(30% on sales)	1,20,000		
	----------------		------------------4,40,000
	4,40,000		
To mis. Expenses		By Gross profits	1,20,000
(80,000-8,000+10,000)	82,000	By misc. incomes	20,000
To depreciation:		By net loss transferred to capital account	25,840
Building	36,000		
Furniture	7,800		
Motor car	16,000		
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 AS ON 31.03.2003

('000)

Liabilities	Amount	Assets		Amount
Capital	7,16,000	Building		3,24,000
Profit and loss account:		Furniture		61,200
Opening balance 40,000		Motor car		64,000
Less: loss (C.Y) (25,840)	14,160	Stock in trade		40,000
		Debtors	2,52,000	
Creditors	1,12,000	Less; Provision	(5,040)	2,46,960
Bills payable	16,000	Bills receivable		28,000
Outstanding salary	10,000	Cash in hand and Bank		1,04,000
	8,68,160			8,68,160

WORKING NOTES:

Debtors Account

Particulars	Amount	Particulars	Amount
To balance b/d	1,60,000	By bank (collection)	2,00,000
		By bills receivable	20,000
To credit sale	3,20,000	By bad debts	8,000
		By balance c/d	2,52,000
	4,80,000		4,80,000

Creditors Account

Particulars	Amount	Particulars	Amount
To bank (payment)	1,84,000	By balance b/d	1,20,000
To bills payable	16,000		
To balance c/d (balancing figure)	1,12,000	By credit purchases	1,92,000
	3,26,000		3,26,000

Bills Receivable Account

Particulars	Amount	Particulars	Amount
To balance b/d	32,000	By bank (balancing fig.	24,000
To Debtors account	20,000	By balance c/d	28,000
	52,000		52,000

Bills Payable Account

Particulars	Amount	Particulars	Amount
To cash/bank (bal.fig.)	28,000	By balance b/d	28,000
To balance c/d	16,000	By creditors account	16,000
	44,000		44,000

Furniture Account

Particulars	Amount	Particulars	Amount
To balance b/d	60,000	By bank/cash account	8,000
To bank	28,000	By depreciation	1,000
		By profit and loss account	
		(loss on sale)	11,000
		By depreciation account	6,800
		By balance c/d	61,200
	88,000		88,000

Cash and Bank Account

Particulars	Amount	Particulars	Amount
To balance b/d	1,80,000	By misc. expenses	80,000
To misc. Expenses	20,000	By purchases	48,000
To Debtors account	2,00,000	By furniture	28,000
To sales	80,000	By creditors account	1,84,000
To furniture	8,000	By bills payable account	28,000
To bills receivable	24,000	By building account	40,000
		By balance c/d	1,04,000
	5,12,000		5,12,000

OPENING BALANCE SHEET AS ON 31.03.2002

('000)

Liabilities	Amount	Assets	Amount
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss account	40,000	Furniture	60,000
Creditors	1,20,000	Motor car	80,000
Bills payable	28,000	Stock in trade	80,000
O/s salary	8,000	Debtors	1,60,000
		Bills receivable	32,000
		Cash in hand and Bank	1,80,000
	9,12,000		9,12,000

Motor Car Account

Particulars	Amount	Particulars	Amount
To balance b/d	80,000	By depreciation	16,000
		By balance c/d	64,000
	80,000		88,000

Building Account

Particulars	Amount	Particulars	Amount
To balance b/d	3,20,000	By depreciation	36,000
To cash/bank account	40,000	By balance c/d	3,24,000
	3,60,000		3,60,000

(Hint: In the given question, it is mentioned that depreciation is to be provided on fixed assets. So we have revised closing balances in fixed assets)

QUESTION NO 2 (SAME AS QUESTION NO.29)

Lucky does not maintain proper books of accounts. However he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare his final accounts for the year 2003:

	1.1.2003	31.12.2003
Debtors	1,02,500	-
Creditors	-	46,000
Stock	50,000	62,500
Bank balance	-	50,000
Fixed assets	7,500	9,000

Details of his bank transaction were as follows:

Received from debtors	Rs.3,40,000
Additional capital brought in	Rs. 5,000
Sale of fixed assets (books value Rs.2500)	Rs. 1,750
Paid to creditors	Rs.2,80,000
Expenses paid	Rs. 49,250
Personal drawings	Rs. 25,000
Purchase of fixed assets	Rs. 5,000

No cash transaction took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was Rs.2,60,000.

ANSWER:

TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING ON 31.12.2003

Particulars	Amount	Particulars	Amount
TO opening stock	50,000	By sales	3,25,000
To purchases	2,72,500	By closing stock	62,500
To gross profit	65,000		
	3,87,500		3,87,500
To depreciation	1,000	By gross profit	65,000
To loss on sale of asset	750		
To expenses	49,250		
To net profit	14,000		
	65,000		65,000

BALANCE SHEET AS ON 31.12.2003

LIABILITIES	Amount	ASSETS	Amount
Capital	1,63,000	Fixed assets	9,000
		Stock	62,500
Creditors	46,000	Debtors	87,500
		Bank account	50,000
	2,09,000		2,09,000

WORKING NOTES:

Debtors Account

Particulars	Amount	Particulars	Amount
To balance b/d	1,02,500	By bank (collection)	3,40,000
To credit sale	3,25,000	By balance c/d	87,500
	4,27,500		4,27,500

Creditors Account

Particulars	Amount	Particulars	Amount
To bank (payment)	2,80,000	By balance b/d (balancing figure)	53,500
To balance c/d	46,000		
		By credit purchases	2,72,500
	3,26,000		3,26,000

Bank Account

Particulars	Amount	Particulars	Amount
To balance b/d (balancing figure)	62,500	By creditors account	2,80,000
		By expenses	49,250
To debtors account	3,40,000	By drawings	25,000
To capital account	5,000	By fixed assets	5,000
To fixed assets account	1,750	By balance c/d	50,000
	4,09,250		4,09,250

Fixed Assets account

Particulars	Amount	Particulars	Amount
To balance b/d	7,500	By bank account	1,750
To bank account	5,000	By profit and loss (loss on sale)	750
		By depreciation (balancing figure)	1000
		By balance c/d	9,000
	12,500		12,500

Calculation of closing capital

Opening balance of capital		1,69,000
ADD:	Profits	14,000
	Additional capital employed during the year	5,000
LESS	Drawings	25,000
	Closing capital	1,63,000

Calculation of purchases made during the year

Cost of goods sold during the year		2,60,000
ADD:	Closing stock	62,500
LESS:	Opening stock	50,000
		2,72,500

STATEMENT OF AFFAIRS AS ON 1.1.2003

LIABILITIES	Amount	ASSETS	Amount
Capital (bal. fig.)	1,69,000	Fixed assets	7,500
		Stock	50,000
Creditors	53,500	Debtors	1,02,500
		Bank account	62,500
	2,22,500		2,22,500

QUESTION NO 3

The following is the balance sheet of Sri Agni dev as on 31st March 2001:

	Rs.		Rs.
Capital	2,52,500	Machinery	1,20,000
Creditors	45,000	Furniture	20,000
		Stock	33,000
		Debtors	1,00,000
		Cash in hand	8,000
		Cash at bank	16,500
	2,97,500		2,97,500

Riots occurred and fire broke out on the enening of 31st March.2002 destroying the books of account and furniture. The cahier was grievously hurt and the cash available in the cash box was stolen. The trader gives you the following information:

(a) Sales are effected as 25% for cash and balance on credit. His total sales for the year ended 31st March 2002 were 20% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).

(b) Terms of credit

i. Debtors 2 months

ii. Creditors 1 month

(c) Stock level was maintained at Rs.33000 all throughout the year.

(d) A steady gross profit rate of 25% on the turnover was maintained throughout. Creditors are paid by cheque only, except for cash purchase of Rs.50000.

(e) His private records and the bank pass book disclosed the following transaction for the year

i. Miscellaneous business expenses (Rs.157500 including Rs.5000 paid by cheque and Rs.7500 was outstanding as on 31st march 2002)

ii. Repairs Rs.3500 by cash

iii. Addition to machinery Rs.60000 paid by cheque

iv. Private drawings Rs.30000 paid by cash

v. Travelling expenses Rs.18000 paid by cash

vi. Introduction of Additional capital by depositing in to the bank Rs.5000

vii. Collection from Debtors were all through cheques

viii. Depreciation on machinery is to be provided @15% on the closing book value

ix. The cash stolen is to be charged to the profit and loss account

x. Loss of furniture is to be adjusted from the capital account

Prepare trading, profit and loss account for the year ending 31st March and a balance sheet as on that date. Make appropriate assumptions wherever necessary. All workings should form part of your answer.

ANSWER:

TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST March 2002

Particulars	Rs.	Particulars	Rs.
To Opening stocks	33,000	By Sales:	9,60,000
To Purchase	7,20,000	By Closing Stock	33,000
To Gross profits	2,40,000		
	-------------		--------------
	9,93,000		9,93,000
To expenses	1,57,500	By Gross profits	2,40,000
To Repairs	3,500		
To depreciation	27,000		
To traveling expenses	18,000		
To loss by theft	1,500		
To net profit	32,500		
	--------------		-------------
	2,40,000		2,40,000

BALANCE SHEET AS ON 31.03.2002

('000)

Liabilities		Amount	Assets	Amount
Capital	2,52,500		Machinery	
Add: additional capital	5,000		(1,80,000-27,000)	1,53,000
Add: net profit	32,500		Closing Stock	33,000
Less: Drawings	30,000		Debtors	1,20,000
Less: furniture	20,000			
	----------	2,40,000		
Bank overdraft		2,667		
Creditors		55,833		
Outstanding expenses		7,500		
		--------------		--------------
		3,06,000		3,06,000

WORKING NOTES:

Cash and Bank Account

Particulars	Cash	Bank	Particulars	Cash	Bank
To balance b/d	8,000	16,500	By creditors a/c	50,000	6,59,167
To Debtors a/c	-	7,00,000	By Misc. expenses	1,45,000	5,000
To sales	2,40,000	-	By repairs	3,500	-
To additional			By machinery a/c	-	60,000
capital	-	5,000	By traveling exp.	18,000	-
To balance c/d	-	2,667	By drawings	30,000	-
(Bank overdraft)			By balance c/d	1,500	-
			(Lost by theft)		
	----------	------------		--------	--------
	2,48,000	7,24,167		2,48,000	7,24,167

	Rs
1.Sales during 2001-2002	
Debtors as on 31.3.2001	1,00,000
(being equal to 2 months sales)	
Total credit sales in 2000-2001, Rs.1,00,000*6	6,00,000
Cash sales, being equal to 1/3rd of credit sales or 1/4th of the	2,00,000
total	8,00,000
Sales in 2000-2001	1,60,000
Increase, 20% as stated in the problem	9,60,000
Total sales during 2001-2002	2,40,000
Cash sales 1/4th	7,20,000
Credit sales 3/4th	
2.Debtors equal to two months credit sales (720000*2/12)	1,20,000
3.Purchases	
Sales in 2001-2002	9,60,000
Gross profit @25%	2,40,000
Cost of goods sold being purchases	7,20,000
(since there is no change in stock level)	
4.Creditors for the goods(720000-50000/12)	55,833
5.Collection from Debtors	
Opening balance	1,00,000
Add: credit sales	7,20,000
Less: closing balance	1,20,000

	7,00,000
Payment to creditors	
Opening balance	45,000
Add: Credit purchases (720000-50000)	6,70,000
Less: Closing balance	55,833

Payment by cheque	5,69,167

QUESTION NO 4

Mr. X runs a retail business. Suddenly he finds on 31.3.2006 that his cash and bank balances have reduced considerably. He provides you the following information:

	31.03.2005 Rs.	31.03.2005 Rs.
Sundry debtors	35,400	58,800
Sundry creditors	84,400	22,400
Bank	1,08,400	2,500
Cash	10,400	500
Rent outstanding for one month	2,400	3,000
Stock	11,400	20,000
Electricity and telephone bills	-	6,400

Pass book reveals the following:

	Rs.
Total deposits	10,34,000
Withdrawals:	
Creditors	8,90,000
Professional Expenses	34,000
Furniture and fixtures (acquired on 1.10.05)	54,000
Proprietor	1,61,900

Rent had been increased since January 2006.

II. The proprietor deposited all cash sales and collections after meeting shop expenses, payment of rent, electricity and telephone bills and wages.

III. He made all purchases on credit.

IV. Monthly wages Rs.6, 500.

V. Electricity and Telephone bills paid Rs.24,000, Shop expenses Rs.18,000 paid

VI. He maintained all statements of credit sales from which he ascertained that credit sales were Rs.9, 00,000.

VII. Charge depreciation @ 10% p.a. on furniture.

Finalize the accounts of Mr. X.

ANSWER:

TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDING ON 31.03.2006

Particulars	Amount	Particulars		Amount
To opening stock	11,400	By sales :		
To purchases	8,28,000	Cash	2,97,500	
(w.n#2)		**(w.n#6)**		
To wages (6500*12)	78,000	Credit	9,00,000	11,97,500
To gross profit	3,00,100		-----------	
		By closing stock		20,000
	12,17,500			12,17,500
To depreciation	2,700	By gross profit		3,00,100
To rent	30,600			
(w.n#7)				
To elect. & telephone.	30,400			
(w.n#8)				
To shop expenses	18,000			
To professional charges	34,000			
To net profit	1,84,400			
	3,00,100			3,00,100

BALANCE SHEET AS ON 31.03.2006

LIABILITIES	Amount	ASSETS	Amount
Capital **(w.n#5)**	1,01,300	Furniture **(w.n#4)**	51,300
		Stock	20,000
Creditors	22,400	Debtors	58,800
O/s Rent	3,000	Bank account	2,500
O/s tele. & electri.	6,400	Cash account	500
	1,33,100		1,33,100

WORKING NOTES:

Debtors Account (1)

Particulars	Amount	Particulars	Amount
To balance b/d	35,400	By bank (collection) (balancing figure)	8,76,600
To credit sale	9,00,000	By balance c/d	58,800
	9,35,400		9,35,400

Creditors Account (2)

Particulars	Amount	Particulars	Amount
To bank (payment)	8,90,000	By balance b/d	84,400
To balance c/d	22,400	By credit purchases (balancing figure)	8,28,000
	9,12,400		9,12,400

Bank Account (3)

Particulars	Amount	Particulars	Amount
To balance b/d	1,08,400	By creditors account	8,90,000
To cash account (deposits)	10,34,000	By professional exp.	34,000
		By furniture	54,000
		By drawings	1,61,900
		By balance c/d	2,500
	11,42,400		11,42,400

Furniture account (4)

Particulars	Amount	Particulars	Amount
To balance b/d	Nil	By depreciation (54000*10%*6/12)	2,700
To bank account	54,000	By balance c/d	51,300
	54,000		54,000

Calculation of closing capital (5)

Opening balance of capital		78,800
ADD:	Profits	1, 84,400
LESS:	Drawings	(1, 61,900)

	Closing capital	1, 01,300

Cash account (6)

Particulars	Amount	Particulars	Amount
To balance b/d	10,400	By bank	10,34000
To debtors	8,76,600	(deposits)	
To cash sales	2,97,500	By wages	78,000
(balancing figure)		By electricity	24,000
		By shop exp.	18,000
		By rent	30,000
		By balance c/d	500
	11,84,500		11,84,500

Rent account (7)

Particulars	Amount	Particulars	Amount
To cash account	30,000	By balance b/d	2,400
(balancing figure)			
		By profit and loss a/c:	
To balance c/d	3,000	April to Dec	
		(2400*9)	21,600
		Jan to March	
		(3000*3)	9,000
	33,000		33,000

Electricity and Telephone bills (8)

Particulars	Amount	Particulars	Amount
To cash account	24,000	By balance b/d	Nil
		By profit and loss a/c:	
To balance c/d	6,400	(balancing figure)	30,400
	30,400		30,400

STATEMENT OF AFFAIRS AS ON 31.03.2005 (9)

LIABILITIES	Amount	ASSETS	Amount
Capital (bal. fig.)	78,800	Stock	11,400
		Debtors	35,400
Creditors	84,400	Bank account	1,08,400
Rent outstanding	2,400	Cash account	10,400
	1,65,600		1,65,600

QUESTION NO 5 (MASTER PROBLEM)

Mr. X runs a retail business. Suddenly he finds on 31.12.1992 that his bank account shows a balance of Rs.1,100 only and his cash in hand is only Rs.150. But he did a good business during the year. He provides you the following information:

(i)

Balance	31.12.1991 Rs.	31.12.1992 Rs.
Sundry debtors	17,700	29,400
Sundry creditors	42,200	11,200
Bank	54,200	1,100
Cash	5,200	150
Rent outstanding for one month	1,200	1,500
Stock	5,700	10,000

(ii) Pass book reveals the following:

	Rs.
Total deposits	5,67,000
Withdrawals:	
Creditors	4,45,000
Legal expenses	17,000
Showcase	27,000
Proprietor	1,31,100

(iii) Rent had been increased since September 1992.

(iv) The proprietor deposited all cash sales and collections after meeting shop expenses, payment of rent, electricity and telephone bills and wages. But he made all purchases on credit. Monthly wages Rs.5,600; Electricity and Telephone bills paid Rs.18,200 and due Rs.4,200; Shop expenses Rs.500 per month.

(v) He maintained all statements of credit sales from which he ascertained that credit sales were Rs.4,50,000.

Finalise accounts of Mr. X to show his profit. Prepare statement of Affairs and reconcile the profit balance.

QUESTION NO 6

Suresh does not maintain his books of accounts under the double entry system but keeps slips of papers from which he makes up his annual accounts. He has borrowed moneys from a bank to whom he has to render figures of profits every year. He has given the bank the following profit figures:

Year ending 31st December	Profits Rs.
1994	20,000
1995	32,000
1996	35,000
1997	48,000
1998	55,000

The appoints you to audit the statements and verify whether the figures of profits report are correct or not; for this purpose the following figures are made available to you:

(a) Position as on 31st December 1993: Sundry debtors Rs.20,000; Stock in trade (at 95% of the cost) Rs.47,500; Cash in hand and at bank Rs.12,600; Trade creditors Rs.6,000; Expenses due Rs.1,600.

(b) He had borrowed Rs.5,000 from his wife on 30th September 1993 on which he had agreed to pay simple interest at 12% p.a. The loan was repaid along-with interest on 31st December 1995.

(c) In December 1994 he had advanced Rs.8,000 to A for purchase of a vacant land. The property was registered in March 1996 after payment of balance consideration of Rs.32,000. Costs of registration incurred for this were Rs.7,500.

(d) Suresh purchased jewellery of Rs.15,000 for his daughter in October 1996 Marriage expenses incurred in January were Rs.24,000.

(e) A new VCR was purchased by him in March 1998 for Rs.18,000 and presented by him to his friend in November 1998.

(f) His annual household expenses amounted to a minimum of Rs.24,000.

(g) The position of assets and liabilities as on 31st December 1998 was found to be overdraft with bank (secured against property) Rs.12,000; Trade creditors Rs.10,000; Expenses payable Rs.600; Sundry debtors (including Rs.600 due from a peon declared insolvent by court) Rs.28,800; Stock in trade (at 125% of cost to reflect market value) Rs.60,000 and cash in hand Rs.250.

It is found that the rate of profit has been uniform throughout the period and the proportion of sales during the years to total sales for the period was in the ratio of 3:4:4:6:8.

Ascertain the annual profits and indicate differences, if any, with those reported by Suresh to the bank earlier.

All workings should form part of your answer.

QUESTION NO 7

A Adamjee keeps his books on single entry basis. The analysis of the cash-book for the year ended on 31st December 1992 is given below:

Receipts	Rs.	Payments	Rs.
Bank balance as on 1st January 1992	2,800	Payments to sundry creditors	35,000
Received from sundry debtors	48,000	Salaries	6,500

Cash sales	11,000	General expenses	2,500
Capital brought during the year	6,000	Rent and taxes	1,500
Interest on investments	200	Drawings	3,600
		Cash purchases	12,000
		Balance at bank on 31st December 1992	6,400
		Cash in hand on 31st December 1992	500
	68,000		68,000

Particulars of other assets and liabilities are as follows:

	1st January 1992	31st December 1992
Sundry debtors	14,500	17,600
Sundry creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Stock	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st December 1992 after providing depreciation at 10% on machinery and furniture and Rs.800 against doubtful debts.

SOLUTION:

Statement of Affairs of A. Adamjee as on 1.1.2010

	Rs		Rs
Sundry Creditors	5,800	Machinery	7,500
A. Adamjee's Capital (balancing figure)	29,100	Furniture	1,200
		Stock	3,900
		Sundry Debtors	14,500
		Investment	5,000
		Bank balance (from Cash Statement)	2,800
	34,900		**34,900**

A. Adamjee's Capital Account

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

Sales Account

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

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	37,100
		42,900		(Balancing figure)	42,900

A. Adamjee
Trading and Profit & Loss Account for the year ended 31.12.2010

		Rs		Rs
To Opening stock		3900	By sales	62,100
To purchases		49100	By Closing Stock	5700

To Gross Profit c/d		14800		—
		67800		67800
To Salaries		6,500	By Gross Profit b/d	14800
To Rent and Taxes		1500	By Interest on Investment	200
To General Expenses		2500		
To Deprecation :				
Machinery	Rs 750			
Furniture	Rs 120	870		
To provision for Doubtful Debts		800		
To Balance being profit				
Carried to Capital A/c		2830		
		15,000		15,000

Balance Sheet as on 31st December, 2010

Liabilities	Rs	Rs	Assets	Rs	Rs
A. Adamjee's Capital			Machinery	7,500	
On 1st January, 2010	29,100		Less: Depreciation	(750)	6750
Add: Fresh Capital	6,000		Furniture	1200	
Add: Profit for the year	2830		Less: Depreciation	(120)	1080
	37930				
Less: Drawings	(3,600)	34330	Stock -in-trade		5700
			Sundry Debtors	17600	
Sundry Creditors		7900	Less: Provision for Doubtful debts	(800)	16800
			Investment		5,000
			Cash at Bank		6400
			Cash in Hand		500
		42230			42230

QUESTION NO 8

From the following date, you are required to prepare a Trading and Profit and Loss account for the year ended 31st March 1992 and a Balance Sheet as at that date.

Assets and Liabilities

	As on 1st April 1991 Rs.	As on 31st March 1992 Rs.
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry assets	11,610	12,040
Stock in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	X	17,870

Details relating to transactions in the year:

	Rs.
Cash and discount credited to debtors	64,000
Sales return	1,450
Bad debts	420
Sales (cash and credit)	71,810
Discount allowed by trade creditors	700
Purchase returns	400
Additional capital-paid into bank	8,500
Realizations from debtors-paid into bank	62,500
Cash purchases	1,030
Cash expenses	9,570
Paid by cheque for machinery purchased	430
House hold expenses drawn from bank	3,180
Cash paid into bank	5,000
Cash drawn from bank	9,240
Cash in hand on 31.3.1992	1,200
Cheques issued to trade creditors	60,270

QUESTION NO 9 (NOV 2005)

From the following furnished by Shri Ramji, you are required to prepare a Trading and Profit and Loss account for the year ended 31.03.2005 and a Balance Sheet as at that date.

Assets and Liabilities

	1.4.2004 Rs.	31.3.2005 Rs.
Creditors	3,15,400	2,48,600
Sundry expenses O/S	12,000	6,600
Sundry assets	2,32,200	2,40,800
Stock in trade	1,60,800	2,22,400
Cash in hand	59,200	24,000
Cash at bank	80,000	1,37,600
Trade debtors	3,30,600	?

Details relating to transactions in the year:

	Rs.
Cash and discount credited to debtors	12,80,000
Sales return	29,000
Bad debts	8,400
Sales (cash and credit)	14,36,200
Discount allowed by trade creditors	14,000
Purchase returns	8,000
Additional capital-paid into bank	1,70,000
Realizations from debtors-paid into bank	12,50,000
Cash purchases	20,600
Cash expenses	1,91,400
Paid by cheque for machinery purchased	8,600
House hold expenses drawn from bank	63,600
Cash paid into bank	1,00,000
Cash drawn from bank	1,84,800
Cash sales	92,000
Cheques issued to trade creditors	12,05,400

Note: Ramji has not sold any fixed asset during the year.

ANSWER

In the boos of Shri Ramji

Trading and profit and loss account

For the year ended 31st March ,2011

	Rs.	Rs.		Rs.	Rs.
To opening stock			By sales:		
To purchase			Cash	92,000	
Cash	20,600		Credit	13,44,200	
Credit (W.N.3)	11,60,000			14,36,200	
	11,80,600		Less: returns	(29,000)	14,07,200
Less: return	(8,000)	11,72,600			
To gross profit c/d		2,96,200	By closing stock		2,22,400
		16,29,600			16,29,600
To discount			By gross profit		2,96,200
Allowed		30,000			
To bad debts		8,400	By discount		14,000
To general					
expenses (W.N.5)		1,86,000			
To depreciation					
(W.N.4)		55,000			
To net profit		30,800			
		3,10,200			3,10,200

Balance sheet as at 31st March, 2011

Liabilities		Rs.	Assets		Rs.
Capital (w.N.1)	5,35,400		Sundry assets	2,32,200	
Add: Additional	1,70,000		Add: new machinery	63,600	
capital				2,95,800	
Net profit	30,800		Less : depreciation	(55,000)	2,40,800
Less: drawings	7,36,200	7,27,600	Stock in trade		2,22,400

Sundry creditors	(8,600)	2,48,000	Sundry debtors		3,57,400
Expenses outstanding		6,600	(W.N2)		
			Cash in hand		24,000
			Cash in bank		1,37,600
		9,82,200			9,82,200

Working Notes:

(1) **Statement of Affairs as At 31st March 2011**

Liabilities	Rs.	Assets	Rs.
Sundry creditors	3,15,400	Sundry assets	2,32,200
Outstanding expenses	12,000	Stock	1,60,800
Ramjis capital		Debtors	3,30,600
(balancing figure)	5,35,400	Cash in hand	59,200
		Cash at bank	80,000
	8,62,800		8,62,800

(2) **Sundry debtors account**

	Rs.		Rs
To balance b/d	3,30,600	By cash	12,50,000
To sales (14,36,200-92,000	13,44,200	By discount	30,000
		By returns (sales)	29,000
		By bad debts	8,400
		By balance c/d (bal. fig.)	3,57,400
	16,74,800		16,74,800

(3) **Sundry creditors Account**

	Rs.		Rs.
To bank- payments	12,05,400	By balance b/d	3,15,400
To discount	14,000	by purchases credit	11,60,000
To returns	8,000	(balancing figure)	
To balance c/d (closing balance)	2,48,000		
	14,75,400		14,75,400

(4)

Depreciation on fixed assets:	**Rs.**
Opening balance	2,32,200
Add: Additions	63,600
	2,95,800
Less: closing balance	(2,40,800)
Depreciation	55,000

(5) expenses to be shown in profit and loss account

Expenses in cash	1,91,400
Add: outstanding of 2011	6,600
	1,98,000
Less: outstanding of 2010	12,000
	1,86,000

(6) **Cash and bank account**

	Cash	**Bank**		**Cash**	**Bank**
	Rs.	Rs.		Rs.	Rs.
To balance b/d	59,200	80,000	By purchases	20,600	
To capital		1,70,000	By expenses	1,91,400	
To debtors		12,50,000	By plant and machinery		63,600
To bank	1,84,800		By drawings		8,600
To cash		1,00,000	By creditors		12,05,400
To sales	92,000		By cash		1,84,800
			By bank	1,00,000	
			By balance c/d	24,000	1,37,600
	3,36,000	16,00,000		3,360,000	16,00,000

QUESTION NO 10 (MASTER PROBLEM)

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31-12-91	31-12-92
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Stock	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during 1991-92:

(i) Deposited to bank after payment of shop expenses @ Rs.600 p.m., wages @ Rs.9,200 p.m. and personal expenses @ Rs.1,400 p.m. Rs.7,62,750.

(ii) Withdrawals Rs.1,21,000

(iii) Cash payment to suppliers Rs.77,200 for supplies and Rs.25,000 for furniture.

(iv) Cheques collected from customers but dishonored Rs.5,700

(v) Bills accepted by customers Rs.40,000

(vi) Bills endorsed Rs.10,000.

(vii) Bills discounted Rs.20,000 discount Rs.750

(viii) Bills matured and duly collected Rs.16,000

(ix) Bills accepted Rs.24,000

(x) Paid suppliers by cheque Rs.3,20,000

(xi) Received Rs.20,000 on maturity of one LIC policy of the proprietor by cheque.

(xii) Rent received Rs.14,000 by cheque.

(xiii) A building was purchased on 30-11-92 for opening a branch for Rs. 3,50,000 and some expenses were incurred details of which are not maintained.

(xiv) Electricity and telephone bills paid by cash Rs.18,700, due Rs.2,200

Other transactions:

(a) Claim against the firm for damages Rs.1,55,000 is under legal dispute. Legal expenses Rs.17,000. The firm anticipates defeat in the suit.

(b) Goods returned to suppliers Rs.4,200

(c) Goods returned by customers Rs.1,200

(d) Discount offered by suppliers Rs.2,700

(e) Discount offered to the customers Rs.2,400

(f) The business is carried on at the premises owned by the proprietor. 50% of the ground floor space is used for business and remaining 50% is let out for an annual rent of Rs.20,000.

Prepare Trading and Profit and Loss account of Mr. Anup for the year ended 31-12-1992 and a Balance Sheet as on that date.

QUESTION NO 11 (MASTER PROBLEM)

AVL is an unemployed science graduate with typewriting qualification. Being unable to get employment for more than Rs.500 p.m. he decided to start his own typewriting institute. He approached U.B.C. Bank which sanctioned him a loan of Rs.20,000 on 1.1.1992. His father gifted him Rs.5,000 on the same date. He purchased 6 typewriters worth Rs.24,000.

Unable to understand the accounts properly, he seeks your help in preparing a Profit and Loss account and a Balance Sheet relating to the year ending 31-12-1992. His pass book reveals the following:

(a) Expenses of the institute Rs.8,400

(b) Salary to self Rs.4,000

(c) Monthly fees collected Rs.32,700 (Totaled)

(d) Examination fees collected Rs.4,200

The following other additional details available:

(a) During the year AVL purchased a second hand cycle costing Rs.400 from a student who owed monthly fees of Rs.100. The balance was paid. The cycle is used for the institute only.

(b) AVL helped a friend by en-cashing a cheque for Rs.1,000 which was dishonored. The friend has so far repaid only Rs.400

(c) AVL has taken Rs.600 per month for personal expenses in addition to his salary.

(d) AVL runs the institute from his house for which a rent of Rs.600 per month is paid. 50% may reasonably be allocated for his own living.

(e) The following are outstanding as at end of 31-12-1992:

	Rs.
Fees receivable	2,200
Expenses payable	1,000
Salary to self for November and Dec.,	
Stock of stationary on hand	200

Provide depreciation 20% on typewriters and cycle.

(g) The loan from bank is repayable at Rs.500 per month from the beginning of July onwards. Interest is payable at 12% per annum in addition to installments for principal.

(h) Assume that all transactions are routed through bank and no cash is handled.

QUESTION NO 12 (MASTER PROBLEM)

Indian Travel Agency sells tickets for Inland Transport Limited Bharat Air Lines and Government Railways. The rate of commission due to Agency on account of sales of tickets are 10 per cent, 7.5 per cent and 5 per cent, respectively on the sale price of tickets. The firm closes its books on 31st December. The balances as on 31st December 1991 were as follows:

	Rs.	Rs.
Capital		50,000
Deposits from customers of Inland Transport Limited		10,000
Deposits from general public		10,000
Interest due for half year on above		500
Auditors' fees		1,500
Advertising		1,000
Rates and taxes		500
Fixtures and fittings	20,000	
Motor car	18,000	
Debtors for Rail Tickets	5,000	
Debtors for Air Tickets	2,000	
Rent paid in advance	1,250	
Bank balance	27,250	
	73,500	73,500

Other available particulars are:

(a) From the bank statements, returned cheques and the pay-in-slips for the year ended 31st December 1992.

	Rs.
Banking (DEPOSITS)	8,97,500
Payment for tickets	
Inland Transport Limited	6,20,000
Bharat Air Lines	1,69,000
Government Railways	84,000
Rent paid for 4 quarters	5,000
Electricity	5,000
Rates and taxes	3,000
Interest paid to public on their deposits	1,000
Amount paid to auditors	1,500
Advertising	6,250
Bank balance as on 31st December 1992	30,000

Weekly expenditure (52 weeks) defrayed from cash receipts before banking:

Staff wages	1,100
Petty expenses (total for 52 weeks)	4,200

In addition to the above, the owner, has drawn Rs.2,000 per month to meet personal expenses and spent Rs.1,000 per month for maintenance of car in the interest of Agency out of the cash receipts before banking.

(c) Liabilities of the firm as on 31st December 1992 include:

	Rs.
Auditors	1,500
Advertising charges	1,250
Rates and taxes	1,000
Inland Transport Limited	5,500
Bharat Air Lines	16,000
Government Railways	11,000

Customers deposits on 31st December 1992 were for Inland Transport Limited Rs.8,000

(e) Debtors for air and rail tickets on 31st December 1992 were Rs.2,500 and Rs.800 respectively.

(f) Depreciation on car and fixtures is allowed at the rate of 20% and 10% of the last year's balance respectively.

(g) Owner agrees to treat the cash differences, if any, as his drawings.

You are required to draw a Profit and Loss account showing commission earned for each class of tickets sold for the year ending 31st December 1992 and a Balance Sheet as on the same date.

QUESTION NO 13 (TRADE DISCOUNT)

From the following information of M/s Pradip & Company prepare the Trading and Profit and Loss account for the year ended 31st March 1993 and the Balance Sheet as on that date:

Liabilities and assets	**31.3.1992 Rs.**	**31.3.1993 Rs.**
Car	90,000	90,000
Furniture	10,000	10,000
Stock	70,000	90,000
Debtors	62,000	46,000
Bank	9,000	16,000
Creditors	60,000	?

The following further information is also available:

(a) M/s Pradip & Company purchases goods for resale from manufactures who allow discount of 3% on goods purchased in excess of Rs.5,00,000 in a year. The discount for the year ended 31st March 1993 was Rs.12,480.

(b) All goods are sold at a gross profit margin of 30% on selling price.

(c) Bank statements for the year reveal the following payments:

	Rs.
Creditors	9,03,520
Salaries	60,000
Car expenses	23,000

Rent	30,000
Printing and stationary	6,400
Rates and taxes	3,000
Carriage outward	18,600
Traveling expenses	14,900
Delivery van purchase	1,70,000
Miscellaneous expenses	9,580
Drawings	50,000

Depreciation on car and van @ 20% and furniture @ 10% is to be provided on balances as on 31.3.1993.

(**Hint:** In the given question, it is mentioned that depreciation is to be provided on fixed assets. So we have revised closing balances in fixed assets)

QUESTION NO 14 (MASTER PROBLEM)

K. Azad who is in business as a wholesaler in sunflower oil, is a client of your accounting firm. You are required to draw up his final accounts for the year ended 31.3.1996.

From the files your pick up his Balance Sheet as at 31.3.1995 reading as below:

Balance Sheet as at 31.3.1995

Liabilities	Rs.	Rs.
K. Azad's capital		1,50,000
Creditors for oil purchases		2,00,000
12% Security Deposits from customers		50,000
Creditors for expenses:		
Rent		6,000
Salaries		4,000
Commission		20,000
		4,30,000

Assets	Rs.	Rs.
Cash and bank balance		75,000
Debtors		1,60,000
Stock of oil (125 tins)		1,25,000
Furniture	30,000	
Less: Depreciation	3,000	27,000
Rent advance		12,000
Electricity deposit		1,000
3-Wheeler Tempo Van	40,000	
Less: Depreciation	10,000	30,000
		4,30,000

A summary of the rough cash book of K. Azad for the year ended 31.3.1996 is as below:

Cash and Bank Summary

	Rs.
Receipts:	
Cash sales	5,26,500
Collections from debtors	26,73,500
Payments:	
To Landlord	79,000
Salaries	48,000
Miscellaneous office expenses	12,000
Commission	20,000
Personal income-tax	50,000
Transfer on 1.10.1995 to 12% Fixed Deposit	6,00,000
To Creditors for oil supplies	24,00,000

A scrutiny of the other records gives you the following information:

(a) During the year oil was purchased at 250 tins per month basis at a unit cost of Rs.1,000. 5 tins were damaged in transit in respect of which insurance claim has been preferred. The surveyors have since approved the claim at 80%. The damaged ones were sold for Rs.1,500 which is included in the cash sales. One tin has been used up for personal consumption. Total number of tins sold during the year was 3,000 at a unit price of Rs.1,750.

(b) Rent until 30.9.1995 was Rs.6,000 per month and was increased thereafter by Rs.1,000 per month. Additional advance rent of Rs.2,000 was paid and this is included in the figure of payments to landlord.

(c) Provide depreciation at 10% and 25% of WDV on furniture and tempo van respectively.

(d) It is further noticed that a customer has paid Rs.10,000 on 31.3.1996 as security deposit by cash. One of the staff has defalcated. The claim against the insurance company is pending.

You are required to prepare the final accounts for the year ended 31.3.1996.

QUESTION NO 15

The following is the Balance Sheet of Sanjay, a small trader as on 31.3.1996:

(Figures in Rs.'000)

Liabilities	Rs.	Assets	Rs.
Capital	200	Fixed assets	145
Creditors	50	Stock	40
		Debtors	50
		Cash on hand	5
		Cash at bank	10
	250		250

A fire destroyed the accounting records as well as the closing cash of the trader on 31.3.1997. However, the following information was available:

(a) Debtors and Creditors on 31.3.1997 showed an increase of 20% as compared to 31.3.1996.

(b) Credit period:

Debtors—1 month   Creditors—2 months

(c) Stock was maintained at the same level throughout the year.

(d) Cash sales constituted 20% of total sales.

(e) All purchases were for credit only.

(f) Current ratio as on 31.3.1997 was exactly 2.

(g) Total expenses excluding depreciation for the year amounted to Rs.2,50,000.

(h) Depreciation was provided at 10% on the closing value of fixed assets.

(i) Bank and cash transactions:

a. Payments to creditors included Rs.50,000 by cash.

b. Receipts from debtors included Rs.5,90,000 by way of cheques.

c. Cash deposited into the bank Rs.1,20,000

d. Personal drawings from bank Rs.50,000

e. Fixed assets purchased and paid by cheques Rs.2,25,000.

You are required to prepare:

(1) The Trading and Profit and Loss account for the year ended 31.3.1997 and

(2) A Balance Sheet on that date.

For your exercise, assume cash destroyed by fire is written off in the Profit and Loss account.

QUESTION NO 16

Following is the abridged Balance Sheet of the Everest Company Limited as at 31st March 1996:

Balance Sheet as on 31st March 1996

	Rs.		Rs.	Rs.
Paid-up share capital	5,00,000	Freehold property		4,00,000
Profit and Loss account	85,000	Plant and machinery	2,50,000	
		Depreciation	75,000	1,75,000
Current liabilities	2,00,000	Stocks		1,05,000
		Debtors		1,00,000
		Bank		5,000
	7,85,000			7,85,000

From the following information you are required to prepare the Profit and Loss account and Balance Sheet as at 31st March 1997:

(a) The composition of the total of the 'Liabilities' side of the company's Balance Sheet as at 31.3.1997 (the paid-up share capital remaining the same as at 31.3.1996) was:

Share capital	50%
Profit and Loss account	15%
7% Debentures	10%
Creditors	25%

The debentures were issued on 1st April 1996, interest being paid on 30th September 1996 and 31st March 1997.

(b) During the year ended on 31.3.1997, Additional Plant and machinery had been bought and a further Rs.25,000 depreciation written off. Freehold property remained unchanged. The total fixed assets then constituted 60 per cent of total fixed and current assets.

(c) The current ratio was 1.6 : 1. The quick assets ratio was 1 : 1.

(d) The debtors (four-fifths of the quick assets) to sales ratio revealed a credit period of two months.

(e) Gross profit was at the ratio of 15 per cent of selling price and return on net worth as at 31.3.1997 was 10%.

Ignore taxation.

QUESTION NO 17 (MASTER PROBLEM)

Shri Rashid furnishes you with the following information relating to his business:

Assets and Liabilities:

Assets and liabilities as on	1.1.1997 Rs.	31.12.1997 Rs.
Furniture (w.d.v.)	6,000	6,350
Stock at cost	8,000	7,000
Sundry debtors	16,000	?
Sundry creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

Receipts and payments during 1997:

Collections from debtors after allowing discount of Rs.1,500 amounted to Rs.58,500.

Collections on discounting of bills of exchange after deduction of discount of Rs.125 by the bank, totalled to Rs.6,125.

Creditors of Rs.40,000 were paid Rs.39,200 in full settlement of their dues.

Payment for freight inward Rs.3,000

Amounts withdrawn for personal use Rs.7,000.

Payment for office furniture Rs.1,000.

Investment carrying annual interest of 4% were purchased at Rs.96 on 1st July 1997 and payment made therefore.

Expenses including salaries paid Rs.14,500.

Miscellaneous receipts Rs.500.

(b) Bills of exchange drawn on and accepted by customers during the year amounted to Rs.10,000. Of these bills of exchange of Rs.2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs.400 was dishonoured.

(c) Goods costing Rs.900 were used as advertising materials.

(d) Goods are invariably sold to show a gross profit of 33 and 1/3% on sales.

(e) Difference in cash book, if any, is to be treated as further drawing or introduction by Shri Rashid.

(f) Provide at 2.5% for doubtful debts on closing debtors.

Rashid asks you to prepare Trading and Profit and Loss account for the year ended 31st December 1997 and the Balance Sheet as on that date.

QUESTION NO 18 (GOOD QUESTION)

The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December 1998:

Liabilities	Rs.	Assets	Rs.
Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash in bank	14,500
		Cash in hand	2,000
	1,21,500		1,21,500

You are furnished with the following information:

(a) Sri Srinivas sells his goods at a profit of 20% on sales.

(b) Goods are sold for cash and credit. Credit customers pay by cheques only.

(c) Payments for purchases are always made by cheques.

(d) It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying the every week, salary of Rs.300 to the clerk, sundry expenses of Rs.50 and personal expenses Rs.100.

Analysis of the bank Pass-book for the 13 weeks period ending 31st March 1999 disclosed the following:

	Rs.
Payments to creditors	75,000
Payments of rent upto 31.3.1999	4,000
Amounts deposited into the bank	1,25,000
(include Rs.30,000 received from debtors by cheqeus)	

The following are the balances as on 31st March 1999:

Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31st March 1999 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by cashier and also a Profit and Loss account for the period ended 31st March 1999 and a Balance Sheet as on that date.

QUESTION NO 19 (OUT OF COURSE NOW)

Shri Kisan, a farmer, maintains a cash book, through which he records all receipts and payments and a diary in which he records other relevant information. On 31st March 1999 he had cash in hand Rs.1,000 and balance of Rs.500 with local Grameen Bank. He also owed Rs.600 to Beej Bhandar for seeds purchased by that date.

During the year ended 31st March 2000 he realised:

	Rs.
Sale proceeds of crops	59,100
Sale proceeds of cattle and cattle products	12,500
Sale proceeds of wood and grass	3,000
Sale of cowdung	5,000
Receipt on account from Babu (a credit customer)	12,000
Grant from Zilla Parishad for installing tubewell—cheque	10,000

During the year ended 31st March 2000 he paid:

	Rs.
Wages	65,000
Beej Bhandar	600
Seeds, feeds and fertilizer	3,000
Power	5,000
Land revenue	2,000
Tools purchased	2,500
Household expenses	10,000

During the year ended 31st March 2000 his other transactions were:

	Rs.
(i) Sale of crop to Babu on credit	20,000
(ii) Purchase on 25th March 2000 from Beej Bhandar on credit of one month seeds of	2,000
(iii) Efforts put in by self and family members of the farm were conservatively valued at	60,000
(iv) Value of crop used for consumption by:	
Self and family	30,000
Agricultural labourers	40,000

On 31st March 2000 his cash in hand was only Rs.2,500.

The rest was banked. He did not have any stock of seeds.

The tubewell for which the grant cheque was realized in the last week of March 2000 is to be installed in April 2000.

Shri Kisan asks you to prepare his cash and income summaries for the year ended 31st March 2000 and his statement of financial position as on that date.

QUESTION NO 20 (GOOD QUESTION)

A trader keeps his books of account under single entry system. On 31st March 2000 his statement of affairs stood as follows:

Liabilities	Rs.	Assets	Rs.
Trade creditors	5,80,000	Furniture, Fixtures and Fittings	1,00,000
Bills payable	1,25,000	Stock	6,10,000
Outstanding expenses	45,000	Trade debtors	1,48,000
Capital account	2,50,000	Bills receivables	60,000
		Unexpired insurance	2,000
		Cash in hand and at bank	80,000
	10,00,000		10,00,000

The following was the summary of Cash-book for the year ended 31st March 2001:

Receipts	Rs.	Payments	Rs.
Cash in hand and at bank as on 1st April 2000	80,000	Payment to trade creditors	75,07,000
		Payment for bills payable	8,15,000
Cash sales	73,80,000	Sundry expenses paid	6,20,700
Receipts from trade debtors	15,10,000	Drawings	2,40,000
Receipts for bills receivable	3,40,000	Cash in hand and at bank as on 31st March 2001	1,27,300
	93,10,000		93,10,000

Discount allowed to trade debtors and received from trade creditors amounted to Rs.36,000 and Rs.28,000 respectively. Bills endorsed amounted to Rs.15,000. Annual Fire Insurance premium of Rs.6,000 was paid every year on 1st August for the renewal of the policy. Furniture, Fixtures and Fittings were subject to depreciation @ 15% per annum on diminishing balances method.

You are informed about the following balances as on 31st March 2001:

	Rs.
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivables	75,000
Bills Payables	1,40,000
Outstanding expenses	5,000

The trader maintains a steady gross profit ratio of 10% on sales.

Prepare the Trading and Profit and Loss account for the year ended 31st March 2001 and Balance Sheet as at that date.

QUESTION NO 21

The following is the Balance Sheet of a concern on 31st March 2000:

	Rs.		Rs.
Capital	10,00,000	Fixed assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit and Loss account	60,000	Debtors	1,50,000
		Cash and bank	3,50,000
	12,00,000		12,00,000

The management estimates the purchases and sales for the year ended 31st March 2001 as under:

	Up-to 28.2.2001	March 2001
Purchases	Rs. 14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest Rs.1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to trade creditors for purchase and receipt from sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31st March 2001 assuming that creditors are all trade creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances.

QUESTION NO 22

Assets and liabilities of Mr. X as on 31-12-97 and 31-12-98 are as follows:

	31-12-97 Rs.	31-12-98 Rs.
Assets:		
Building	1,00,000	
Furniture	50,000	
Stock	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
Liabilities:		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5% and furniture by 10%. One life insurance policy of the proprietor was matured during the period and the amount Rs.40,000 is retained in the business. Proprietor took @ Rs.2000 p.m. for meeting family expenses.

Prepare statement of affairs.

QUESTION NO 23

Assets and liabilities of Mr. X as on 31-12-97 and 31-12-98 are as follows:

	31-12-97 Rs.	31-12-98 Rs.
Assets:		
Building	1,00,000	
Furniture	50,000	
Stock	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200

Liabilities:		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5% and furniture by 10%. One life insurance policy of the proprietor was matured during the period and the amount Rs.40,000 is retained in the business. Proprietor took @ Rs.2000 p.m. for meeting family expenses.

Find out profit of Mr. X.

QUESTION NO 24

Mr. X started a business with Rs.1,00,000 as on 1.1.98. He took a loan of Rs.50,000 from State Bank of India @ 18% p.a. He purchased/invested for the following assets:

	Rs.
Furniture	15,000
Telephone	8,000
Deposit with Electric Supply Authority	10,000

He did not maintain any books of accounts. But he maintained accounts for his debtors and creditors. Debtors as on 31.12.1998 were Rs.1,40,000 and creditors Rs.70,000. He repaid first installment of loan Rs.10,000 with interest.

During the year, he withdraw @ Rs.1,000 p.m. It appeared that stock in hand was Rs.30,000. His other liabilities were:

	Rs.
Unpaid wages for December 1998	1,500
Unpaid shop rent	4,500
Unpaid electricity bill	8,000
Unpaid telephone bill	2,500
He found that the following advances were made:	
For advertisement	2,000
For purchase of a showcase	7,000
Suppliers	8,000

On scrutiny it was found, he sent goods worth Rs.70,000 on consignment basis to Mr. YK. YK sold 50% of the consignment at 120% of cost. Mr. X met all related cost. Mr. YK paid

60% of the sale proceeds. He is entitled to 20% commission on sales. Furniture should be depreciated by 10% per annum. Cash at the end Rs.56,100. Deposits with telephone and electricity supply authorities have been adjusted against current year's bill.

Find out profit earned by Mr. X during 1998.

QUESTION NO 25

The following is the Balance Sheet of Mr. Rama shankar as on 30th June 2000:

	Rs.		Rs.
Rama Shankar's Capital	96,000	Building	60,000
General Reserve	30,500	Furniture	12,000
Creditors	62,000	Motor car	18,000
		Stock	40,000
		Debtors	34,000
		Cash in hand	7,500
		Cash at Bank	17,000
	1,88,500		1,88,500

A fire occurred in the evening of 30th June,2001 in the premises of the trader destroying all the books and records. The cashier absconded with the available cash. Mr. Rama shankar gives you the following information:

a. His sales for the year 20% higher than the previous year's. He sells his goods at cost plus 25%: 20% of the total sales were for cash. There were no cash purchases.

b. From 1st July 2001, the stock level was raised to Rs. 50,000 and maintained at that level all throughout the year.

c. Collection from Debtors amounted to Rs.2,60,000 of which Rs.60,000 was received in cash. Business expenses amounted Rs.42,000 of which of Rs.10,000 was outstanding on 30th June 2001 and Rs.12,000 was paid by cheques. Creditors were paid by Cheques only.

d. Analysis of the pass book revealed the following:

i.	Payment to creditors	Rs.2,75,000
ii.	Personal drawings	Rs.15,000
iii.	Cash deposited in bank	Rs.1,33,700
iv.	Cash withdrawn from bank	Rs.24,000

e. Gross profit as per last year's audited accounts was Rs.60,000. Provide depreciation on building and furniture at 5% and motor car 20%.

You are required to ascertain the amount defalcated by the cashier and prepare the trading and Profit and Loss Account for the year the ended 30th June 2001 and a Balance Sheet as on the that date after defalcation.

QUESTION NO 26

The ITO, assuming the income of Shri Moti for the financial year 1997-98 and 1998-99 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti on 1st April 1997 and 1st April 1999:

			Rs.
1-4-1997	Assets:	Cash in hand	25,500
		Stock	56,000
		Sundry debtors	41,500
		Land and building	1,99,000
		Wife's jewellery	75,000
	Liabilities:	Owing to Moti's Brother	40,000
		Sundry creditors	35,000
1-4-1999	Assets:	Cash in hand	16,000
		Stock	91,500
		Sundry debtors	52,500
		Land and building	1,90,000
		Motor car	1,25,000
		Wife's jewellery	1,25,000
		Loan to Moti's Brother	20,000
	Liabilities:	Sundry creditors	55,000

During the two years the domestic expenditure was Rs.4,000 p.m. The declared income of the financial years were Rs.1,05,000 for 1997-98 and Rs.1,23,000 for 1998-99 respectively.

State whether the ITO's contention is correct. Explain by giving your workings.

QUESTION NO 27

Mr. Ashok Keep his books in Single Entry system. From the following Information, prepare Trading and Profit & Loss Account for the year ended 31st ended 31st March, 2006 and the Balance Sheet as on that date:

Assets and Liabilities	31.3.2005	31.3.2006
	(Rs.)	(Rs.)
Sundry Creditors	30,000	25,000
Outstanding expenses	1,000	500
Fixes Assets	23,000	22,000
Stock	16,000	22,500
Cash in Hand and at Bank	14,000	16,000
Sundry Debtors	?	36,000

Following further details are available for the Current Year

	Rs.		Rs.
Cash receivable from debtors	1,30,000	Cash purchases	2,000
Returns inward	3,000	Fixed Assets purchased	
Bad Debts	1,000	And paid by cheque	1,000
Total Sales	1,50,000	Drawings by cheqeus	6,500
Discount received	1,500	Deposited into the bank	10,000
Return outwards	1,000	Withdrawn from bank	18,500
Capital introduced		Cash in hand at the end	2,500
(paid into bank)	15,000	Paid to creditors by cheques	1,20,000
Cheques received from debtors	1,25,000	Expenses paid	20,000

ANSWER

TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDING ON 31.03.2006

Particulars	Amount	Particulars	Amount
TO opening stock	16,000	By sales	
To purchases		Cash	11,500
Cash	2,000	Credit	1,38,500
Credit **W.N # 3**	1,17,500	By Purchase return	1,000
To sale return	3,000	By closing stock	22,500
To gross profit	35,000		
	1,73,500		1,73,500
To Expenses	19,500	By gross profit	**35,000**
(20000+500-1000)		By discount received	1,500
To bad debts	1,000		
To Discount	1,000		
To Depreciation	2,000		
To net profit	13,000		
	36,500		36,500

BALANCE SHEET AS ON 31.03.2006

LIABILITIES		Amount	ASSETS	Amount
Capital	49500		Fixed Assets	22000
Profit	13000		Stock	22500
Drawings	(6500)		Debtors	36000
Additional	15000		Cash on hand	16000
	-------------	71000		
Creditors		25000		
Outstanding exp.		500		
		96500		96500

W.N # 1

Cash and Bank Account

Particulars	Amount	Particulars	Amount
To balance b/d	14,000	By cash purchases	2,000
To capital	15,000	By fixed assets	1,000
To debtors	1,25,000	By drawings	6,500
To cash sales	11,500	By creditors	1,20,000
(bal.fig)		By expenses	20,000
		By balance c/d	16,000
	1,65,500		1,65,500

W.N # 2

Debtors Account

Particulars	Amount	Particulars	Amount
To balance b/d	27,500	By bank (collection)	1,25,000
		By bad debts	1,000
To credit sale	1,38,500	By sales return	3,000
(150000-11500)		By discount	1,000
		By balance c/d	36,000
	1,66,000		1,66,000

W.N # 3

Creditors Account

Particulars	Amount	Particulars	Amount
To bank (payment)	1,20,000	By balance b/d	30,000
To purchase return	1,000	By credit purchases	1,17,500
To discount	1,500	**(bal.fig)**	
To balance c/d	25,000		
	1,47,500		1,47,500

W.N # 4

STATEMENT OF AFFAIRS AS ON 31.03.2005

LIABILITIES	Amount	ASSETS	Amount
Capital (BAL.FIG.)	**49,500**	Fixed Assets	23,000
		Stock	16,000
Creditors	30,000	Debtors	27,500
Outstanding exp.	1,000	Cash on hand (4500 + 9500)	14,000
	80,500		80,500

W.N # 5

Fixed Assets account

Particulars	Amount	Particulars	Amount
To balance b/d	23,000	By depreciation	2,000
To bank	1,000	By balance c/d	22,000
	24,000		24,000

W.N # 6

Cash receivable from debtors	130000
Collection	(125000)
Bad debts	(1000)
Return inward	(3000)

Discount	1000

QUESTION NO 28 (SAME QUESTION AS Q.20)

Mr. Y Keeps his books under single entry system. On 31st March, 2006 his balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Capital of Mr. Y	4,50,000	Fixed assets	2,25,000
Creditors	8,70,000	Stock	9,15,000
Bills payable	1,87,500	Debtors	2,22,000

Expenses outstanding	67,500	Bills receivable Prepaid insurance Cash/ Bank balance	90,000 3,000 1,20,000
	15,75,000		15,75,000

(i) Following are the summary of cash and bank transactions for the year ended 31st March, 2007:

		Rs.
(i)	Cash sales	1,10,70,000
	Collection from debtors	22,65,000
	Payments to creditors	1,12,60,500
	Paid for bills payable	12,22,500
	Sundry expenses paid	9,31,050
	Drawing for domestic expenses by Mr. Y.	3,60,000
	Cash and bank balance as on 31.3.2007	1,90,950
(ii)	Following further details are finished :	
	Gross profit on sales @ 10%	
	Bills receivable from debtors during the year	6,52,500
	Discount allowed to debtors	54,000
	Discount received from creditors	42,000
	Bills receivable endorsed to creditors	22,500
	Annul fire insurance premium paid	
	(This is paid on 1st August every year	9,000
	Depreciate fixed assets @ 10%	
(iii)	Balances as on 31.3.2007 are given below :	Rs.
	Stock in hand	9,75,000
	Debtors	2,28,000
	Bills receivable	2,10,000
	Bills payable	2,10,000
	Outstanding expense	7,500

Prepare Trading profit and Loss Account for the year ended 31st March, 2007 and Balances sheet on that date .

ANSWER:

TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDING ON 31.03.2007

Particulars	Amount	Particulars	Amount
TO opening stock	9,15,000	By sales	
To purchases **W.N # 5**	1,27,02,750	Cash	1,10,70,000
To gross profit	14,04,750	Credit **W.N # 2**	29,77,500
		By closing stock	9,75,000
	1,50,22,500		1,50,22,500
To Expenses**(w.n#6)**	8,71,050	By gross profit	**14,04,750**
To Discount	54,000	By discount received	42,000
To Depreciation	22,500		
To net profit	4,99,200		
	14,46,750		14,46,750

BALANCE SHEET AS ON 31.03.2007

LIABILITIES		Amount	ASSETS	Amount
Capital	450000		Fixed Assets	202500
Profit	499200		(225000-22500)	
Drawings	(360000)		Stock	975000
	-------------	589200	Debtors	228000
			Bills receivable	210000
Bills payable		210000	Prepaid insurance	3000
Creditors		1002750	Cash on hand	190950
Outstanding expenses		7500		
		1809450		1809450

WORKING NOTES:

W.N # 1

Bills Receivable Account

Particulars	Amount	Particulars	Amount
To balance b/d	90,000	By cash **(bal.fig)**	5,10,000
To Debtors	6,52,500	By Creditors	22,500
		By balance c/d	2,10,000
	7,42,500		7,42,500

W.N # 2

Debtors Account

Particulars	Amount	Particulars	Amount
To balance b/d	2,22,000	By bank (collection)	22,65,000
		By discount	54,000
To credit sale **(Bal.fig)**	29,77,500	By bills receivable	6,52,500
		By balance c/d	2,28,000
	31,99,500		31,99,500

W.N # 3

Bills Payable Account

Particulars	Amount	Particulars	Amount
To bank (payment)	12,22,500	By balance b/d	1,87,500
		By creditors	12,45,000
To balance c/d	2,10,000	**(bal.fig)**	
	14,32,500		14,32,500

W.N # 4

Creditors Account

Particulars	Amount	Particulars	Amount
To bank (payment)	1,12,60,500	By balance b/d	8,70,000
To discount	42,000	By credit purchases	1,27,02,750
To BR endorsed	22,500		
To B/P	12,45000		
To balance c/d (bal.fig)	10,02,750		
	1,35,72,750		1,35,72,750

W.N # 5

Calculation of Purchases

COGS = Opening Stock + Purchases - Closing Stock

14047500 - 10% = 915000 + Purchases - 975000

Purchases = 12702750

W.N # 6

Expenses Account

Particulars	Amount	Particulars	Amount
To balance b/d	3000	By balance b/d	67500
To cash	931050	By profit loss	871050
To balance c/d	7500	**(bal.fig)**	
		By balance c/d	3000
	941550		941550

QUESTION NO 29

The books of Mr. Z showed the following information:

	1.1.2007	31.12.2007
	Rs.	Rs.
Bank balance	-	50,000
Debtors	-	87,500
Creditors	-	46,000

Stock	50,000	62,500
Fixed Assets	7,500	9,000
The following are the details of the bank transactions:		
	Rs.	
Receipt from customers	3,40,000	
Payment to creditors	2,80,000	
Capital brought in	5,000	
Sale of Fixed assets	1,750	
Expenses paid	49,250	
Drawings	25,000	
Purchase of Fixed assets	5,000	
Other information :		
(i) Cost of goods sold		2,60,000
(ii) Gross profit 25% on cost of goods sold		
(iii) Books value of assets sold		2,500

Prepare Trading, Profit & Loss account for the year ended 31.12.2007 and Balance Sheet as at 31..12.2007.

QUESTION NO 30 (ALL FIGURES ARE DOUBLE OF Q.15)

Following is the balance Sheet of Mr. Ram, a small trader, as on 31st March, 2008;

Liabilities	Rs.	Assets	Rs.
Creditors	1,00,000	Cash	10,000
Capital	4,00,000	Bank	20,000
		Stock	80,000
		Debtors	1,00,000
		Fixed Assets	2,90,000
	5,00,000		5,00,000

A fire occurred on the night of 31st March, 2009, destroying the accounting records as well as the closing cash of the trader. However, the following information was available:

(i) Debtors and creditors as on 31st March, 2009 showed an increase of 20% as compared to 31st March, 2008.

(ii) Credit period:

Debtors: 1 month

Creditors: 2 months

(iii) Stock was maintained at the same level throughout the year.

(iv) Cash sales constituted at 20% of the total sales.

(v) All purchases were on credit basis only.

(vi) Current ratio on 31st March, 2009 was exactly 2.

(vii) Total expenses excluding depreciation for the year amounted to Rs. 5,00,000.

(viii) Depreciation was provided @ 10% on the closing book value of fixed assets.

(ix) Bank and cash transactions for the financial year 2008-09 were as under:

(a) Payment to creditors included Rs. 1,00,000 by cash.

(b) Received from debtors included Rs. 11,80,000 by way of chequye.

(c) Cash deposited into the bank Rs. 2,40,000.

(d) Personal drawings from Bank Rs. 1,00,000.

(e) Fixed assets purchased and paid by cheques Rs. 4,50,000.

(f) Assume that cash destroyed by fire is written off in the Profit and Loss account you are required to prepare :

(i) Trading and Profit and Loss account of Shri Ram for the year ended 31st March, 2009.

(ii) A Balance Sheet as at that date.

QUESTION NO 31

The books of account of Ruk Maan of Mumbai showed the following figures :

	31.3.2008	31.3.2008
	Rs.	Rs.
Furniture & Fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	
Cash in hand & bank	1,10,000	

Creditors	1,35,000	1,90,000
Bills Payable	70,000	80,000
Outstanding Salaries	19,000	20,000

An analysis of the cash book revealed the following :

		Rs.
Cash Sales		16,20,000
Collection from debtors		10,58,000
Discount allowed to debtors		20,000
Cash purchases		6,15,000
Payment to Creditors		9,73,000
Discount received from creditors		32,000
Payment for bills payable		4,30,000
Drawings for domestic expenses		1,20,000
Salaries paid		2,36,000
Rent paid		1,32,000
Sundry trade expenses		81,000

Depreciation is provided on furniture & fixtures @ 10% p.a. on diminishing balances method. Ruk Ruk Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare trading and profit and loss account for year ended 31st March, 2009 and Balance sheet as on that date.

ANSWER

TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDING ON 31.03.2009

Particulars	Amount	Particulars	Amount
To opening stock	2,45,000	By sales	
To purchases		Cash	16,20,000
Cash	6,15,000	Credit **W.N # 3**	11,00,000
Credit **W.N # 1**	15,00,000	By closing stock	3,20,000
To gross profit	6,80,000		
	30,40,000		30,40,000
To salaries **(w.n#6)**	2,37,000	By gross profit	**6,80,000**
To Rent	1,32,000	By discount received	32,000
To trade expenses	81,000		
To Discount	20,000		
To Depreciation	26,000		
To net profit	2,16,000		
	7,12,000		7,12,000

BALANCE SHEET AS ON 31.03.2009

LIABILITIES		Amount	ASSETS	Amount
Capital	516000		Fixed Assets :	
Profit	216000		Furniture	234000
Drawings	(120000)	612000	Stock	320000
	-------------		Debtors (W.N#4)	147000
			Cash on hand	201000
Bills payable		80000		
Creditors		190000		
Outstanding SALARIES		20000		
		902000		902000

W.N # 1

Bills Payable Account

Particulars	Amount	Particulars	Amount
To bank (payment)	430000	By balance b/d	70000
		By creditors	440000
To balance c/d	80000	**(bal.fig)**	
	510000		510000

W.N # 2

Creditors Account

Particulars	Amount	Particulars	Amount
To bank (payment)	973000	By balance b/d	135000
To discount	32000	By credit purchases	1500000
To B/P	440000	**(bal.fig)**	
To balance c/d	190000		
	1635000		1635000

W.N # 3

CALCULATION OF CREDIT SALES

Particulars	Amount
Opening Stock	245000
Add: Purchases (615000 + 1500000)	2115000
Less: Closing stock	(320000)
Cogs	2040000
Gp Ratio On Sales	25%
Total Sales (2040000/75) X 100	2720000
Less:credit Sales	(1620000)
	1100000

W.N # 4

Debtors Account

Particulars	Amount	Particulars	Amount
To balance b/d	1,25,000	By bank (collection)	10,58,000
		By discount	20,000
To credit sale	11,00,000	By balance c/d	1,47,000
		(BAL.FIG)	
	12,25,000		12,25,000

W.N # 5

Salaries Account

Particulars	Amount	Particulars	Amount
To cash	236000	By balance b/d	19000
To balance c/d	20000	By profit loss	237000
		(bal.fig)	
	256000		256000

W.N # 6

Cash and Bank Account

Particulars	Amount	Particulars	Amount
To balance b/d	1,10,000	By cash purchases	6,15,000
To cash sales	16,20,000	By creditors	9,73,000
To debtors	10,58,000	By bills payable	4,30,000
		By drawings	1,20,000
		By salaries	2,36,000
		By rent	1,32,000
		By trade expenses	81,000
		By balance c/d	2,01,000
	27,88,000		27,88,000

W.N # 7

STATEMENT OF AFFAIRS AS ON 31.03.2008

LIABILITIES	Amount	ASSETS	Amount
Capital (BAL.FIG.)	**5,16,000**	Fixed Assets :	
		Furniture	2,60,000
Bills payable	70,000	Stock	2,45,000
Creditors	1,35,000	Debtors	1,25,000
Outstanding SALARIES	19,000	Cash on hand	1,10,000
	7,40,000		7,40,000

QUESTION NO 32

Mr. A runs business of readymade garments. He closes the books of accounts on 31st March. The balance sheet as on 31st March , 2011 was as follows:

Liabilities	Rs.	Assets	Rs.
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		4,86,000

You are furnished with the following information:

(1) His sales for the year ended 31st March, 2012 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.-Total sales during the year 2010-11 were Rs.5,00,000.

(2) Payments for all the purchases were made by cheques only.

(3) Goods were sold for cash and credit both. Credit cutomers pay be cheques only.

(4) Depreciation on furniture is to be charged 10% p.a.

(5) Mr. A sent to the bank collection of the month at the last date of the each month after paying salary of Rs.2,000 to the clerk, office expenses Rs.1,200 and personal expenses Rs.500

Analysis of bank pass book for the year ending 31st March 2012 disclosed the following:

	Rs.
Payment to creditors	3,00,000
Payment of rent up to 31st March 2012	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March 2012:

	Rs.
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2012, the cashier absconded with the available cash in the cash back.

You are required to prepare trading and profit and loss A/c for the year ended 31st March. 2012 and balance sheet as on that date. All the working should from part of the answer.

ANSWER

Trading and profit and loss Account for the year ending 31st March 2011

Particulars	Rs.	Partiulars		Rs.
To opening stock	2,80,000	By sales (W.N.3)		
To purchase (W.N.1)	3,64,000	Credit	4,80,000	
To gross profit	1,16,000	Cash	1,20,000	6,00,000
		By closing stock		1,60,000
	7,60,000			7,60,000
To salary	24,000	By gross profit		1,16,000
To rent	16,000			
To office expenses	14,400			
To loss of cash (W.N.6)	23,600			
To depreciation on furniture	4,000			
To net profit	34,000			
	1,16,000			1,16,000

Balance sheet as on 31st March, 2011

Liabilities		Rs.	Assets		Rs.
A's capital	4,04,000		Furniture	40,000	
Add: Net Profit	34,000		Less: depreciation	(4,000)	36,000
Less: Drawings	(6,000)	4,32,000	Stock		1,60,000
Creditors		1,46,000	debtors		1,20,000
			Cash at bank		2,62,000
		5,78,000			5,78,000

Working Notes:

(1) Calculation of purchase

Creditors accounts

Particulars	**Rs.**	**Particulars**	**Rs.**
To bank A/c	3,00,000	By balance b/d	82,000
To balane c/d	1,46,000	By purchase (bal. fig.)	3,64,000
	4,46,000		4,46,000

Calculation of total sales

	Rs.
Sales for the year 2010-11	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 2011-10	6,00,000

Calculation of credit sales

	Rs.
Total sales	6,00,000
Less: cash sales (20%of total sales)	(1,20,000)
	4,80,000

Calculation of cash collected from debtors

Debtors account

Particulars	Rs.	Particulars	Rs.
To balance	1,00,000	By bank A/c (bal. fig.)	4,60,000
To sales A/c	4,80,000	By balance c/d	1,20,000
	5,80,000		5,80,000

Calculation of closing balance of cash at bank

Bank account

Particulars	Rs.	Particulars	Rs.
To balance b/d	38,000	By creditors A/c	3,00,000
To debtors A/c	4,60,000	By rent A/c	16,000
To cash A/c	80,000	By balance c/d	2,62,000
	5,78,000		5,78,000

Calculation of the amount of cash defalcated by the cashier

		Rs.
Cash balance as on 1st Aprill 2011		28,000
Add: cash sale during the year		1,20,000
		1,48,000
Less: salary (Rs.2,000x12)	24,000	
Office expenses (Rs.1,200x12	14,400	
Drawings of A (Rs.500x12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 2012(defalcated by the cashier)		23,600

QUESTION NO 33

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs.10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and liabilities	As on 1.4.2010	As on 31.3.2011
Cash in hand	10,000	10,000
sundry creditors	40,000	90,000
Cash at bank	50,000(Cr.)	80,000(Cr.)
Sundry debtors	1,00,000	3,50,000
Stock in trade	2,80,000	?

Analysis of his bank pass book reveals the following information:

(a) payment to creditors Rs.7,00,000

(b) payment for business expenses Rs.1,20,000

(c) receipts from debtors Rs.7,50,000

(d) loan from laxman Rs. 1,00,000 taken on 1.1.2010 at 10% per annum

(e) cash depostited in the bank Rs.1,00,000

He informs you that he paid creditors for goods Rs..20,000 in cash and salaries Rs.40,000 in cash. He has drawn Rs.80,000 in cash for personal expenses. During the year ram had not introduced any addition capital. Surplus cash if any , to be taken as cash sales.

Prepare:

(i) trading and profit and loss account for the year ended 31.3.2011.

(ii) balance sheet as at 31st March 2011.

ANSWER

Trading and profit and loss account

For the year ended 31st March 2011

	Rs.			Rs.
To opening stock	2,80,000	By sales		
To purchase	7,70,000	Cash	2,40,000	
To gross profit @ 25%	3,10,000	Credit	10,00,000	12,40,000
		By closing stock (bal. fig.)		1,20,000
	13,60,000			13,60,000

To salaries	40,000	By gross profit	3,10,000
To business expenses	1,20,000		
To interest on loan	5,000		
(10% of 1,00,000*6/12)			
To net profit	1,45,000		
	3,10,000		3,10,000

Balance sheet as at 31st March, 2011

Liabilities	Rs.	Rs.	Assets	Rs.
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at bank	80,000
Add: net profit	1,45,000		Sundry debtors	3,50,000
	4,45,000		Stock in hand	1,20,000
Less: drawings	(80,000)	3,65,000		
Loan from laxman		1,05,000		
(including interest due)				
Sundry creditors		90,000		
		5,60,000		5,60,000

Working Notes:

1. **Sundry debtors account**

	Rs.		Rs.
to balance b/d	1,00,000	By bank A/c	7,50,000
to credit sales (Bal. fig.)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

2. **Sundry creditors account**

	Rs.		Rs.
To bank A/c	7,00,000	By balance b/d	40,000
To cash A/c	20,000	By purchase (Bal. fig.)	7,70,000
To balance c/d	90,000		
	8,10,000		8,10,000

3. **Cash and bank account**

	CASH	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To balance b/d	10,000		By balance b/d		50,000
To sales (bal. fig.)	2,40,000		By bank A/c (C)	1,00,000	
To cash (C)		1,00,000	By salaries	40,000	
To debtors		7,50,000	By creditors	20,000	7,00,00
To laxman's loan		1,00,000	By Drawings	80,000	
			By business expenses		1,20,000
			By balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

4. calculation of Ram's capital on 1st April, 2010

Balance sheet as at 01.04.2010

Liabilities	Rs.	Assets	Rs.
Ram's capital (bal. fig)	3,00,000	Cash in hand	10,000
Bank overdraft	50,000	Sundry debtors	1,00,000
Sundry creditors	40,000	Stock in trade	2,80,000
	3,90,000		3,90,000

QUESTION NO 34

The closing capital of Mr. B as on 31.3.2010 was Rs. 4,00,000. On 1.4.2009 his capital was Rs.3,50,000. His net profit for the year ended 31.3.2010 was Rs.1,00,000. He introduced Rs.30,000 as additional capital in February, 2010. Find out the amount drawn by Mr. B for his domestic expenses.

ANSWER

Computation of drawings during the year

	Rs.
Opening capital as on 01.4.2009	3,50,000
Add: Net profit	1,00, 000
	4,50,000
Add: additional capital introduced in February, 2010	30,000
	4,80,000
Less: closing capital as on 31.3.2010	(4,00,000)
Drawings by Mr. 'B' during the year 2009-2010	80,000

QUESTION NO 35

Lokesh, who keeps books by single entry had submitted his income-tax returns to income tax

Authorities showing his incomes to be as follows:

		Rs.
Year ending March 31,2005	=	33,075
Year ending March 31,2006	=	33,300
Year ending March 31,2007	=	35,415
Year ending March 31,2008	=	61,875
Year ending March 31,2009	=	54,630
Year ending March 31,2010	=	41,670

The income tax office is not satisfied as to the accuracy of the incomes returned. You are appointed as a consultant to assist in establishing correctness of the incomes returned and for that purpose you are given the following information:

(a) business liabilities and assets 31.2004 were:

Creditors Rs.32,940, furniture & fittings: Rs.22,500, stock: Rs.24,390 (at selling price which is 25% above cost), debtors: Rs.11,025, cash at bank and in hand Rs.15,615.

(b) lokesh owned his brother Rs.18,000 on March 31,2004. On February 15,2007 he repaid this amount and on April 1,2009, he lent his brother Rs.13,500.

(c) lokesh owns a house which he purchased in 1999 for Rs.90,000 and a car which he purchased in October, 2005 for Rs.33,750. In January, 2009, he bought debentures in X Ltd. having face value of Rs.40,000 for Rs.33,750

(d) in may, 2009 a sum of Rs.13,500 was stolen from his house.

(e) lokesh estimates that his living expenses have been 2004-05-Rs.13,500; 2005-06-Rs.18,000; 2006-07-Rs.27,000; 2007-08, 2008-09 and 2009-10-Rs.31,500 p.a. exclusive of the amount stolen.

(f) on March 31, 2010 business liabilities and assets were: creditors Rs.37,800, furniture, fixture and fitting Rs.40,500, stock Rs.54,330(at selling price with a gross profit of 25%), debtors Rs.26,640, cash in hand and at bank Rs.29,025.

From the information submitted prepare statements showing whether or not the incomes declared by lokesh are correct.

ANSWER

Statement of affairs of Lokesh As on March 31,2004

Liabilities	Rs.	Assets	Rs.
Creditors	32,940	Furniture, fixture & fittings	22,500
Loan from brother	18,000	Stock (24,390 x 100/125)	19,512
Capital (bal. fig.)	1,07,712	Debtors	11,025
		Cash in hand and at bank	15,615
		Building (house)	90,000
	1,58,652		1,58,652

Statement of affairs of Lokesh as on March 31.2010

Liabilities	Rs.	Assets	Rs.
Creditors	37,800	Furniture fixtures & fittings	40,500
Capital (Bal. Fig.)	2,70,112	Stock (54,330 x 75%)	40,747
		Debtors	26,640
		Cash in hand and at bank	29,025
		Loan to brother	13,500
		Building (House)	90,000
		Car	33,750
		Debentures in 'X Ltd.'	33,750
	3,07,912		3,07,912

Statement of Profit:

Particulas			Rs.
Capital as on March 31.2010			2,70,112
Add: drawings			
2004-05	13,500		
2005-06	18,000		
2006-07	27,000		
2007-08	31,500		
2009-09	31,500		
2009-10	31,500		1,53,000
			4,23,112
Add: Amount stolen in May 2009			13,500
			4,36,612
Less: opening Capital as on March 31.2004			(1,07,712)
			3,28,900
Less: profit as shown by I.T.O.			
For the year ending March 31.2005		33,075	
For the year ending March 31,2006		33,300	
For the year ending March 31,2007		35,415	
For the year ending March 31, 2008		61,875	
For the year ending March 31, 2009		54,6303	
For the year ending March 31,2010		41,670	(2,59,965)
Understatement of income			68,935

Note: in the absence of the information regarding depreciation in the question, no depreciation has been provided on building (house) and car. The candidates may assume any appropriate rate of depreciation and can provide depreciation.

QUESTION NO 36

M/s ice limited gives you the following information to find out total sales and total purchases:

Particulars	Amount
Debtors as on 01.04.2011	70,000
Creditors as on 01.04.2011	81,000
Bills receivables received during the year	47,000
Bills payable issued during the year	53,000
Cash received from customers	1,56,000
Cash paid to suppliers	1,72,000
Bad debts recovered	16,000
Bills receivables endorsed to creditors	27,000
Bills receivables dishonored by customers	5,000
Discount allowed by suppliers	7,000
Discount allowed to customers	9,000
Endorsed bills receivables dishonored	3,000
sales return	11,000
Bills receivable discounted	8,000
Discounted bills receivable dishonored	2,000
Cash sales	1,68,500
Cash purchases	1,97,800
Debtors as on 31.3.2012	82,000
Creditors as on 31.3.2012	95,000

Answer

1. total sales = cash sales + credit sales
   = Rs. 1,68,500+ Rs. 2,25,000(W.N.1)
   = Rs. 3,93,500

2. total purchase = cash purchases + credit purchases
   = rs. 1,68,500+Rs.2,70,000(W.N.2)
   = Rs.4,67,800

Working Notes:

1. **Debtors Account**

Particulars	Rs.	Particulars	Rs.
To balance b/d	70,000	By bills receivable	47,000
To bills receivable dishonored	5,000	By cash	1,56,000
To bills receivable dishonored (endorses)	3,000	By discount allowed	9,000
		By sales return	11,000
To bills receivable dishonored (discounted)	2,000	By balance c/d	82,000
To credit sales (Bal.fig.)	2,25,000		
	3,05,000		3,05,000

2. **Creditors account**

Particulars	Rs.	Particulars	Rs.
To bills payable	53,000	By Balance b/d	81,000
To cash	1,72,000	By Bills receivable dishonored (endorsed)	3,000
To discount received	7,000		
To bills receivable endorsed	27,000	By credit purchase (Bal. fig.	2,70,000
To balance c/d	95,000		
	3,54,000		3,54,000

Note: it Is assumed that sales return is out of credit sales only.

QUESTION NO 37

A sole trader requests you to prepare his trading and profit & Loss account for the year ended 31st March 2013 and balance sheet as at that date. He provides you to following Information:

Statement of affairs as at 31st March 2012

Liabilities		Rs.	Assets	Rs.
Bank overdraft		4,270	Furniture	96,000
Outstanding expenses			Computer	24,300
Salaries	8,000		Mobile phone	8,000
Rent	6,000	14,000	Stock	89,500
Bills payable		22,500	Trade debtors	55,000
Trade creditors		52,500	Bills receivable	15,000
Capital			Unexpired insurance	2,400
(balancing figure)		1,97,430	Stock of stationery	200
			Cash in hand	300
Total		2,90,700	Total	2,90,700

He informs you that there has been no addition to or sale of furniture, computer and mobile phone during the accounting year 2012-13. The other assets and liabilities on 31t March. 2013 are as follows:

	Rs.
Stock	95,400
Trade debtors	65,000
Bills receivable	20,000
Unexpired insurance	2,500
Stock of stationary	250
Cash at bank	18,000
Cash at hand	7,230
Salaries outstanding	8,300
Rent outstanding	6,000
Bills payable	26,500
Trade creditors	76,000

He also provides you to following summary of his cash transaction:

Receipts	Rs.	Payments	Rs.
Cash sales	5,09,800	Trade creditors	3,06,000
Trade debtors	1,51,900	Bills payable	80,000
Bills receivable	65,000	Salaries	99,000
		Rent	72,000
		Insurance premium	10,000
		Stationery	1,500
		Mobile phone expenses	9,000
		Drawings	1,20,000

It is found prudent to depreciate furniture @ 5% compute @10% and mobile phone @25% A provision for bad debts @ 5% on trade debtors is also considered desirable.

ANSWER

Trading and profit and loss account For the year ended 31st March 2013

Particulars		Rs.	Particulars	Rs	Rs.
To opening stock		89,500	By sales:		
To purchase (W.N.3)		4,13,500	Credit (W.N.1	2,31,900	
To gross profit c/d(Bal. Fig.)		3,34,100	Cash	5,09,800	7,41,700
To insurance (W.N.5)		8,37,100	By closing stock		95,400
To salaries (W.N.6)		9,900			8,37,100
To rent (W.N.7)		99,300	By gross profit b/d		3,34,100
To stationery (W.N.8)		72,000			
To mobile phone expenses		1,450			
To provision for doubtful		9,000			
Debts (5% of 65,000)		3,250			
To depreciation:					
Furniture	4,800				
Computer	2,430				
Mobile Phone	2,000	9,230			
To net profit		1,29,970			
		3,34,100			3,34,100

Balance sheet as on 31st March 2013

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital A/c:			Furniture	96,000	
Opening balance	1,97,300		Less: depreciation	4,800	91,200
Less: Drawing s	(1,20,000)		Computer	24,300	
	77,430		Less: depreciation	2,430	21,870
Add: net profit	1,29,970	2,07,400	Mobile phone	8,000	
Bills payable		26,500	Less : depreciation	2,000	6,000
Trade creditors		76,000	Trade debtors	65,000	
Outstanding			Less: provision for	3,250	61,750
Expenses:			doubtful debts		
Salaries		8,300	Bills receivable		20,000
Rent		6,000	Closing sock		95,400
			Unexpired insurance		2,500
			Stock of stationary		250
			Cash at bank		18,000
			Cash in hand		7,230
		3,24,200			3,24,200

Working Notes:

1. **Trade debtors account**

	Rs.		Rs.
To balance	55,000	By cash bank	1,51,900
To credit sales (bal. fig.)	2,31,900	By bills receivable A/c (W.N.2)	70,000
		By balance c/d(given)	65,000
	2,86,900		2,86,900

2. **Bills receivable account**

	Rs.		Rs.
To balance b/d	15,000	by cash/Bank	65,000
To sundry debtors (bal. fig.)	70,000	by bal. c/d (given)	20,000
	85,000		85,000

3. **Trade creditors account**

	Rs,		Rs.
To bank/ cash	3,06,000	By Bal.b/d	52,500
To bills payable A/c (W.N.4)	84,000	By credit purchase (Bal. fig.)	4,13,500
To Bal. c/d(given)	76,000		
	4,66,000		4,66,000

4. **Bills payable account**

	Rs.		Rs.
To cash/bank A/c	80,000	By bal. b/d	22,500
To bal. c/d(given)	26,500	By sundry crediters (bal. fig.)	84,000
	1,06,500		1,06,500

5. **Insurance expenses for the year 2012-2013**

	Rs.
Insurance paid during the year	10,000
Add: unexpired insurance as on 1.4.2012	2,400
Less: unexpired insurance as on 31.3.2013	(2,500)
	9,900

6. **Salaries for the year 2012-2013**

	Rs.
Salaries paid during the year	99,000
Add: salaries outstanding as on 31.3.2013	8,300
	1,07,300
Less: salaries outstanding as on 1.4.2012	(8,000)
	99,300

7. **Rent expenses for the year 2012-2013**

	Rs.
Rent paid during the year	72,000
Add: rent outstanding as on 31.3.2013	6,000
	78,000
Less: rent outstanding as on 1.04.2012	(6,000)
	72,000

8. **stationary expenses for the year 2012-2013**

	Rs.
Stock of stationery as on 1.4.2012	200
Add: stationery purchased during the year	1,500
	1,700
Less: stock of stationer as on 31.3.2013	(250)
	1,450

QUESTION NO 38

The details of assets and liabilities of Mr. 'A' as on 31-3-2012 and 31-3-2013 are as follows:

	31.3.2012	31.3.2013
	Rs.	Rs.
Assets:		
Furniture	50,000	
Building	1,00,000	
Stock	1,00,000	2,50,000
Sundry debtors	60,000	1,10,000
Cash in hand	11,200	13,200
Cash at bank	60,000	75,000
Liabilities:		
Loans	90,000	70,000
Sundry creditors	50,000	80,000

Mr. 'A' decided to provide depreciation on building by 2.5% and furniture by 10% for the period ended on 31-3-2013. Mr. 'A' purchased jewellery for Rs.24,000 for his daughter in December 2012 he sold his car on 30-3-2013 and the amount of Rs.40,000 is retained in the business.

You are required to :

(i) Prepare statement of affairs as on 31-3-2012 and 31-3-2013.

(ii) Calculate the profit received by 'A' during the year ended 31-3-2013

SOLUTION

(i) **Statement of affairs**

Liabilities	31.3.12	31.3.13	Assets	31.3.12	31.3.13
	Rs.	Rs.		Rs.	Rs,
Loans	90,000	70,000	Furniture	50,000	45,000
Creditors	50,000	80,000	Building	1,00,000	97,500
Capital A/c	2,41,200	4,40,700	Stock	1,00,000	2,50,000
			Debtors	60,000	1,10,000
			Cash in hand	11,200	13,200
			Cash at bank	60,000	75,000
	3,81,200	5,90,700		3,81,200	5,90,700

Working Note:

Dep. On Building Rs. 2,500 (2.5% of Rs 1,00,000)

Dep. On furniture Rs. 5,000 (10% of Rs. 50.000)

(ii) Calculation of profit earned by a during the year ended 31st March,2013

Capital account

	Rs.		Rs.
To drawings	24,000	By bal. b/d	2,41,200
To Bal. c/d	4,40,700	By additional capital	40,000
		(car sale proceeds)	
		By P&L A/c (Bal. fig.)	1,83,500
	4,64,700		4,64,700

Note: internal on drawings and capital has been ignored in the balance of information

QUESTION NO 39

The following is the balance sheet of M/s. care traders as on 1-4-2014

	Rs.
<u>Source of funds</u>	
Share capital	10,00,000
Profit and loss	1,47,800
Unsecured loan @ 10%	1,75,000
Trade payables	45,800
	13,68,600
<u>Application of funds</u>	
Machinery	8,25,500
Furniture	1,28,700
Inventory	1,72,000
Trade receivables	2,29,600
Bank balance	12,800
	13,68,600

A fire broke out in the premises on 31.3.2015 and destroyed the books of account. The accountant could however provide the following information:

(1) Sales for the year ended 31-3-2015 was Rs.18,60,000. Sales for the current year was 20% higher than the last year.

(2) 25% sales were made in cash and the balance was on credit.

(3) Gross profit on sales is 30%

(4) Terms of credit

Debtors: 2months

Creditors: 1 month

All creditors are paid by cheque and all credit sales are collected in cheque.

(5) the bank pass book has the following details (other than payment to creditors and collected in cheque.

	Rs.
Machinery purchased	1,14,000
Rent paid	1,32,000
Advertisement expenses	80,000
Travelling expenses	78,400
Repairs	36,500
Sales of furniture	9,500
Cash withdrawn for pretty expenses	28,300
Interest paid on unsecured loan	8,750

(6) Machinery was purchased on 1-10-2014.

(7) Rent was paid for 11 months only and 25% of the advertisement expenses relates to the next year.

(8) Travelling expenses of Rs.7,800 for which cheques were issued but not presented in bank.

(9) Furniture was sold on 1-4-2014 at a loss of Rs.2,900 on book value.

(10) Physical verification as on 31-3-2015 ascertained the stock position at Rs. 1,81,000 and petty cash balance at nil.

(11) There was no change in unsecured loan during the year.

(12) Depreciation is to be provided at 10% on machinery and 20% on furniture.

Prepare bank account. Trading and profit and loss account for the year ended 31-3-2015 in the books of M/s care traders and a balance sheet as on that date. Make necessary assumptions wherever necessary.

ANSWER

In the book of M/s care traders

Bank account as on 31.3.2015

Particulars	Amount Rs.	Particualrs	Amount Rs
To opening balance	12,800	By creditors (payment made) (WN6)	14,86,250
To cash sales (WN 1)	5,58,000	By machinery (purchased)	1,14,000

To debtors (collection made) (WN 4)	16,24,600	By advertisement expenses	80,000
To furniture (sold)	9,500	By rent	1,32,000
		By traveling expenses (78,400+7,800)	86,200
		By repairs	36,500
		By petty cash	28,300
		By interest on unsecured loan	8,750
		By balance c/d (bal. fig.)	2,32,900
	22,04,900		22,04,900

Trading and profit and loss account

For the year ended 31st March 2015

Particulars	Amount Rs.	Particulars	Amount Rs.
To opening stock	1,72,000	By sales (WN1)	22,32,000
To purchases (WN2)	15,71,400	By closing stock	1,81,000
To gross Profit b/d (WN1)	6,69,600		
	24,13,000		24,13,000
To rent (1,32,000x12/11)	1,44,000	By gross Profit c/d	6,69,600
To advertisement expenses	60,000		
To travelling expenses	86,200		
To repairs	36,500		
To petty cash expenses	28,300		
To interest on unsecured loan	17,500		
To loss on sale of furniture	2,900		
To depreciation			
machinery (W.N.8)	88,250		
Furniture	23,260		
To net profit	1,82,690		
	6,69,600		6,69,600

Balance sheet of M/s. care traders as on 01.4.2015

Liabilities		**Rs.**
Share capital		
Profit and loss		10,00,000
Opening balance		
Add: profit for the year	1,47,800	
	1,82,690	3,30,490
Unsecured loan @10%		1,75,000
Interest on unsecured loan		8,750
Trade payables (W.N.5)		1,30,950
Outstanding expenses rent		12,000
		16,57,190
Assets		
Machinery		
Gross block value (WN7)	9,39,500	
Less: depreciation	(88,250)	8,51,250
Furniture		
Gross block value (WN9)	1,16,300	
Less: depreciation	(23,260)	93,040
Inventory		1,81,000
Trade receivables (WM 3)		2,79,000
Prepaid expenses (advertisement)		20,000
Bank balance		2,32,900
		16,57,190

Working Notes:

1. sales for the year endd 31.03.2015

Last years sales	18,60,000
Add: growth @20%	3,72,000
Sale for 2014-15(A)	22,32,000
Cash sales (25%of Rs.22,32,000)	5,58,000
Credit sales (22,32,000-5,58,000)	16,74,000
Gross profit 30% on sales (B)	6,69,600

2. Purchases for the year ended 31.03.2015

Cost of sales (A-B) (22,32,000-6,69,600	15,62,400
Add Closing stock	1,81,000
	17,43,400
Less: opening stock	(1,72,000)
Purchases during the year	15,71,400

3. Trade receivables (debtors) as on 31.03.2015 **Rs.**

Total credit sales	16,74,000
Debtors 2 months credit (16,74,000x2/12)	2,79,900

4. Collection from Debtors account

	Amount Rs.		Amount Rs.
To opening balance	2,29,600	By bank (collection) Bal. fig.	16,24,600
To credit sales	16,74,000	By closing balance	2,79,000
	19,03,600		19,03.600

5. trade payables (creditors) as on 31.03.2015

Total credit purchases	15,71,400
(all creditors paid by cheque, hence there are no cash purchases)	
Creditors 1 month credit	1,30,950
(15,71,400x1/12)	

6. Payment to creditors account

	Amount Rs.		Amount Rs.
To bank (Payment) Bal. Fig.	14,86,2550	By opening Balance	45,800
To closing balance	1,30,950	By credit purchases	15,71,400
	16,17,200		16,17,200

7. Machinery account

	Amount Rs.		Amount Rs.
To opening balance	8,25,500	By closing balance (Bal. fig)	9,39,500
To machinery purchased	1,14,000		
	9,39,500		9,39,500

8. Depreciation on machinery

Existing machinery for 1 year (Rs.8,25,500x10%)	82,550
New Machinery (purchased on 1,10,2014	5,700
For 6 months (Rs.1,14,400 x $\frac{1}{2}$ x 10%)	
	88,250

9. Furniture account

	Amount Rs.		Amount Rs.
To Opening balance	1,28,700	By bank (sales)	9,500
		By loss on sale	2,900
		By closing balance	1,16,300
	1,28,700		1,28,700

ASSUMPTIONS FOR SINGLE ENTRY SYSTEM

(1) In case cash sales & cash purchases are not given or cannot be calculated on the basis of given information then ***we should always assume that all sales & all purchases are on credit basis.***

(2) *In case Bills receivable or Bills payable are given in questions then we should close these accounts before closing sundry debtors & sundry creditors account.*

(3) In addition collections from Bills receivable & payment for Bills Payable is always to be assumed in Bank Account if cash and bank accounts are prepared separately.

(4) In case sales or purchases are not given for the year but credit period is given for debtor or creditors then we should assume uniform sales or purchases on the basis of given credit periods ***(Refer question 15).***

(5) *If incomes or expenses are missing in any question but profit is required to be calculated then we should apply capital comparison method for the calculation of profit.*

(6) If any stock is consumed by proprietor or distributed as free samples as advertisement then we should not consider such stock but we should transfer such stock in drawings or profit and loss account (Refer question 17 & 14)

(7) If depreciation is to provided is written in question then we should assume that closing balances in fixed assets are before charging depreciation and we should revise closing balances after charging depreciation (Refer question 13,7 & 1)

(8) if date of acquisition of fixed assets is not given in questions then assumption of purchase in the beginning of the year should be preferred.

(9) In case outstanding expenses or prepaid expenses are given in questions then we should these balances in a single account " Expenses Account" rather than separate accounts for prepaid or outstanding. The following format may be considered:

Particulars	Amount	Particulars	Amount
To Balance b/d(prepaid)	xxxx	By Balance b/d(O/S)	xxxx
To Cash/Bank	xxxx	By Profit & loss	xxxx
To Balance c/d(O/S)	xxxx	ByBalance c/d(Prepaid)	xxxx
	xxxx		xxxx

(10) if cash & bank balances are not given separately then we should prepare cash and bank account in combined. In addition, we should ignore contra entries in such account because net effect of contra entries will be zero in such account.

(11) *NOTIONAL EXPENSES:*

In case notional expenses are given in the form of salary to self or rent for own property then we can ignore these transactions or we can also consider these expenses in profit and loss account as well as a saving due to non-payment to any outside party.

ACCOUNTING STANDARDS BASICS
Accounting Standards – Introduction
(FOR SELF READING)

QUESTION NO 1

What are Accounting Standards?

SOLUTION

Accounting Standards (AS) are written policy documents issued by an Expert Accounting Body, or by Government, or by other Regulatory Body, covering the following aspects of accounting transactions in Financial Statements –

1. Recognition of transactions and events in the Financial Statements.
2. Measurement of these transactions and events.
3. Presentation of these transactions and events in Financial Statements, in a meaningful & understandable manner, &
4. Disclosure requirements in Financial Statements.

QUESTION NO 2

Outline the advantages and disadvantages of Accounting Standards.

SOLUTION

Objectives/Advantages	Disadvantages
1. To promote the dissemination of timely and useful financial information to all Stakeholders and Users.	1. In some cases, alternative solutions to specific accounting problems may have valid supportive arguments. Choice of any one solution becomes difficult.
2. To provide a set of standard accounting policies, valuation norms and disclosure requirements.	2. Standards may be applied in a rigid and inflexible manner, focusing ore on form than substance.
3. To improve the quality of Financial Reporting, by promoting comparability, consistency and transparency.	3. Standards cannot override the Statute, and should be framed within the framework of the Law.

4. To ensure disclosure of accounting principles and treatments, where important information is not otherwise statutorily required to be disclosed. 5. To reduce (or eliminate if possible), accounting alternatives, thereby leading to better inter-Firm & Intra-Firm comparison of Financial Statements. 6. To reduce scope for creative accounting i.e. twisting of accounting policies to produce Financial Statements favourable to a particular interest group.	

QUESTION NO 3

Explain the composition of the Accounting Standards Board (ASB) of ICAI.

SOLUTION

The Accounting Standards Board (ASB) was constituted on 21st April 1977 by the ICAI. Its composition is as under:-

1. Elected Members: (a) Elected members of the Council of the ICAI nominated on the ASB, (b) Chairman of the Research Committee and the Chairman of the Expert Advisory Committee of the ICAI, if they are not otherwise members of the ASB.
2. Nominated Members: Central Government's Nominee on the Council representing –(a) Department of Company Affairs (DCA) (b) C & AG, and (c) Central Board of Direct Taxes (CBDT).
3. Professional Institutions: Representative of – (a) Institute of Cost and Works Accountants of India (ICWAI)and (b) Institute of Company Secretaries of India (ICSA).
4. Academic Institutions: Representative from – (a) Universities & (b) Indian Institutes of Management (IIM).
5. Government Representatives: Representative of – (a) Central Board of Excise and Customs (CBEC), (b) Controller General of Accounts.

6. Institution Representatives: Representative of – (a) Reserve Bank of India (RBI), (b) Securities and Exchange Board of India (SEBO) and (c) Financial Institutions.
7. Industry Associations: Representative from – (a) Associated Chambers of Commerce and Industry (ASSOCHAM), (b) Confederation of Indian Industry (CII), and (c) Federation of Indian Chambers of Commerce and Industry (FICCI).
8. Other Members: (a) Eminent Professionals co-opted by ICAI (either in practice or in industry, government, education, etc.) and (b) Representative(s) of any other body, as considered appropriate by the ICAI.

QUESTION NO 4

Outline the Objectives and Functions of the Accounting Standards Board (ASB) of ICAI.

SOLUTION

1. To conceive of and suggest areas in which Accounting Standards need to be developed.
2. To formulate Accounting Standards with a view to assisting the Council of the ICAI in evolving and establishing Accounting Standards in India.
3. To examine how far the relevant International Accounting Standard/ International Financial Reporting Standard can be adapted while formulating the Accounting Standard and to adopt the same.
4. To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions, and, if necessary, revise the same.
5. To provide, from time to time, interpretations and guidance on Accounting Standards.
6. To carry out such other functions relating to Accounting Standards.

QUESTION NO 5

What factors are considered by ASB while formulate Accounting Standards?

SOLUTION

Accounting Standards are issued under the authority of the Council of the ICAI. While formulating the Accounting Standards the ASB will take into consideration the following -

1. International Accounting Standards (IASs) issued by the International Accounting Standards Committee (predecessor body to IASB) or International Financial Reporting Standards (IFRSs) issued by the IASB.
2. Applicable Laws in India

3. Customs and Usages in India
4. Business Environment prevailing in India.

QUESTION NO 6

Describe the procedure in the issue of an Accounting Standard in India.

SOLUTION

For formulating accounting Standards, the following procedure is adopted –

Step	Procedure
1. Determining the need for AS	Determination of – (a) the broad areas in which Accounting Standards need to be formulated, and (b) the priority in regard to the selection thereof.
2. Constituting Study Group	Constituting a Study Group consisting of Members of ICAI and others, to consider specific projects and prepare Preliminary Drafts of proposed Accounting Standards.
3. Drafting the Standard	The Study Group makes a Draft of the proposed standard containing – (a) Objectives and Scope (b) Definitions of terms used, (c) Recognition and measurement principles, wherever applicable, and (d) Presentation and disclosure requirements.
4. Analysing the Draft	• ASB considers the Preliminary Draft prepared by the Study Group. • When any revision is required on the basis of deliberations the ASB either – (a) makes the same, or (b) refers the same to the study Group.
5. Circulating the Draft	ASB circulates the AS Draft to the Council Members of the ICAI and the following specified bodies for their comments:- (a) The Institute of Cost and Works Accountants of India (ICWAI). (b) The Institute of Company Secretaries of India (ICSI). (c) Department of Company Affairs (DCA). (d) Comptroller and Auditor General of India (C&AG). (e) Central Board of Direct Taxes (CBDT). (f) Standing Committee/Conference of Public Enterprises (SCOPE).

	(g) Reserve Bank of India (RBI). (h) Indian Banks' Association (IBA). (i) Securities and Exchange Board of India (SEBI). (j) Associated Chambers of Commerce and Industry (ASSOCHAM), Confederation of Indian Industry (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI). (k) Any other body considered relevant by the ASB keeping in view the nature of the Accounting Standard.
6. Holding Discussion and Finalising Exposure Draft.	(a) ASB holds a meeting with the representatives of Specified Bodies, to ascertain their views on the Draft Accounting Standard. (b) Based on comments received and discussion with representatives of specified bodies, ASB finalises the Exposure Draft of proposed Accounting Standard.
7. Circulating the Exposure Draft.	(a) The Exposure Draft of the Proposed Standard is issued for comments by the Members of ICAI and the public. (b) The Exposure Draft will also be specifically sent to Specified Bodies (as listed above), Stock Exchanges and other interest groups, as considered appropriate.
8. Finalising the Exposure Draft	Considering the comments received, the ASB finalises the draft of the Proposed Standard, and submits the same to the Council of the ICAI.
9. Modifying and issuing the Accounting Standard.	The Council of the ICAI considers the finalized draft Standard, and if necessary, modifies the same in consultation with the ASB, and then issues the Accounting Standard (after modification) on the relevant subject.

QUESTION NO 7

Outline the nature and scope of Accounting Standards in India.

SOLUTION

1. AS are intended to apply only to material items. Material items are those the knowledge of which will have a significant effect on the decisions of Users of Financial Statements.
2. AS's are primarily intended to be broad principles not detailed rules.
3. AS by their nature cannot and do not override the Local Regulations which govern the preparation and presentation of Financial Statements in the country.
4. If a particular AS is not in conformity with law, the provisions of law will prevail and the Financial Statements should be prepared in conformity with such law. (In the Financial Statements, there should be a description of the accounting treatment made, along with the reason that it has been adopted because of Law/Court/Tribunal Order description of the difference between the AS and the treatment given by the Enterprise, and (c) financial impact, if any, arising due to the difference.
5. The prescribed disclosure (by way of appropriate notes explaining the treatment of particular items) to be made in Financial Statements and the Auditor's Report, are intended only as a clarification, and need not be treated as adverse comments on the Financial Statements.
6. ICAI specifies the date from which a particular standard will come into effect and the class of enterprises to which it will apply. However, no standard will have retrospective application, unless otherwise stated.
7. AS will be mandatory from respective date(s) mentioned in the Accounting Standard(s). The Auditor is responsible for examining compliance with AS in the Financial Statements and reporting deviations therefrom.
8. Treatment of a Revenue/Expense (or) Receipt/Payment under AS will not influence its treatment under Tax Laws, governing allowability of expense, treatment of income/ receipt, etc. However, in case of audit u/s 44AB of the Income Tax Act, 1961, all Financial Statements prepared under Mercantile System of Accounting should comply with AS.

QUESTION 8

Write a short note on NACAS/NFRA

SOLUTION

National Advisory Committee on Accounting Standard (NACAS) – Under section 210A of Companies Act, 1956, the Central Government by notification has constituted a committee to advise the Central Government on the formulation and lying down on accounting policies and accounting standards for adoption by companies or class of companies specified under the Act, Based on the recommendations of NACAS, the Central Government has notified AS-1 to AS-7 and AS-9 to AS-29 in December 2006 in the form of Companies (Accounting Standards) Rules, 2006.

Under Section 132 of the Companies Act, 2013, National Financial Reporting Authority (NFRA) has been constituted and Accounting Standards will be notified by the Central Government in consultation with National Financial Reporting Authority in place of NACAS.

Status of the Accounting Standards issued by the Institute of Chartered Accountants of India.

Number of the Accounting Standard (AS)	Title of the Accounting Standard	Date from which mandatory (accounting periods commencing on or after)	Entity to which applicable.
AS-1	Disclosure of Accounting Policies	1.4.1993	All
AS-2	Valuation of Inventories	1.4.1999	All
AS-3	Cash Flow Statement	1.4.2001	Level-1 and Non- SMC
AS-4	Contingenices and Events Occurring after the Balance Sheet Date	1.4.1998	All
AS-5	Net Profit or Loss for the Period. Prior Period Items and Changes in Accounting Policies	1.4.1996	All
AS-6	Depreciation Accounting	1.4.1995	All
AS-7 (Revised)	Construction Contracts	1.4.2002	All
AS-8	Withdrawn and included in AS-26	-	-
AS-9	Revenue Recognition	1.4.1993	All
AS-10	Accounting for Fixed Assets	1.4.1993	All
AS-11 (Revised 2003)	The Effects of Changes in Foreign Exchange Rates	1.4.2003	All
AS-12	Accounting for Govt. Grants	1.4.1994	All
AS-13	Accounting for Investments	14.1995	All

AS-14	Accounting for Amalgamations	1.4.1995	All
AS-15 (Revised 2005)	Employees benefit	1.4.2006	All
AS-16	Borrowing Costs	1.4.2000	All
AS-17	Segment Reporting	1.4.2001	Level-1 and Non-SMC
AS-18	Related Party Disclosure	1.4.2001	Level – I, II and all companies
AS-19	Leases	1.4.2001	All
AS-20	Earning Per Shares	1.4.2001	All
AS-21	Consolidated Financial Statements	1.4.2001	See Note-1
AS-22	Accounting for Taxes on Income	1.4.2001	For Listed Companies
		1.4.2002	Companies other than listed
		1.4.2006	All
AS-23	Accounting for Investment in Associates in Consolidated Financial Statements	1.4.2002	See Note-I
AS-24	Discontinuing operations	1.4.2004	Level-I, II, and all companies.
AS-25	Interim Financial Reporting	1.4.2002	Note-2
AS-26	Intangible Assets	1.4.2003	All
AS-27	Financial Reporting of Interests in Joint Ventures	1.4.2002	See Note-I
AS-28	Impairment of Assets	1.4.2004 1.4.2006 1.4.2006	Level-I)and all Level-II) companies Level-III
AS-29	Provisions, Contingent liabilities and Contingent Assets	1.4.2004	All
AS-30	Financial Instruments – Recognition and Measurement	**WITHDRAWN**	Non-SME

AS-31	Financial Instruments – Presentation	**WITHDRAWN**	Non-SME
AS-32	Financial Instruments – Disclosures	**WITHDRAWN**	Non-SME

Note 1 :

AS-21, AS-23 and AS-27 (relating to consolidated financial statements) are required to be complied with by an entity if the entity, pursuant to the requirements of a statute/ regulator or voluntarily, prepares and presents consolidated financial statements.

Note 2:

If an entity is required or elect to prepare and present an interim financial report, it should comply with this standard.

NOTES

ACCOUNTING STANDARDS: BASICS APPLICATION OF ACCOUNTING STANDARDS (SELF READING: ALREADY COVERED IN CLASS)

CONCEPT 1: APPLICABILITY OF ACCOUNTING STANDARDS TO NON-CORPORATE ENTITIES

For the purpose of applicability of accounting standards entitles are classified into three categories by the ICAI, however this classification is not applicable to companies covered by classification made by Companies (Accounting Stands) Rules, 2006.

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

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

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

Level II Entities (SMEs) - Non corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities from the accounting year commencing on or after April 01, 2012:

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

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

Level III Entities (SMEs) –Non-corporate entities which are not covered under Level I and Level II are considered as Level III entities.

Applicability of Accounting Standard to Level I – All the 29 Accounting Standards are fully applicable to Level-I entities except AS 21, 23, and 27, unless the relevant regulations require compliance with these three standards.

Applicability of Accounting Standard to Levels II and III entities (SME) – For the purpose of applicability of accounting standard to Level0II enterprises the case can be divided into three categories:

- Accounting standards fully applicable.
- Accounting standards applicable but relaxation from certain disclosure requirements.
- Accounting Standards not applicable.

Accounting Standards fully applicable – AS-1, AS-2, AS-4, AS-5, AS-6, AS-7, AS-9, AS-10, AS-11, AS-12, AS-13, AS-14, AS-15, AS-16, AS-22, AS-26 and AS-28.

AS-28, "Impairment of Assets" is applicable:

- For Level-I entities w.e.f. 1.4.2004
- For Level-II entities w.e.f. 1.4.2006 and
- For Level-III entities w.e.f. 1.5.2008

Accounting Standards applicable but relaxation from certain disclosures requirements – AS-19, AS-20 and AS-29.

Accounting Standards not applicable – AS-3, AS-17, AS-18 and AS-24, AS-21, AS-23, AS-25 and AS-27 are not applicable because of existing regulation in India.

Note: Consequent upon the issue of Companies (Accounting Standards) Rules, 2006, the applicability of the Accounting Standards as announced by the Institute of Chartered Accountants mentioned above is only for the entities other than companies. For the companies the applicability of Accounting Standards is as per Companies (Accounting Standards) Rules, 2006 as detailed in para

CONCEPT 2: APPLICABILITY OF ACCOUNTING STANDARD TO CO-OPERATIVE SOCIETIES:

The Institute of Chartered Accountants of India has explained that the Accounting Standards issued by the Institute shall apply in respect of financial statements of co-operative societies, which carry on commercial, industrial or business activities, and are subject to the attest function of the members of the Institute.

Accounting Standards made mandatory by the Institute as specified in the respective standards or made mandatory by separate announcement, are also mandatory in respect of co-operative societies.

The Institute of Chartered Accountants of India has further clarified that even if a very small proportion of the activities of a co-operative society is considered to be commercial, industrial or business in nature, then it cannot claim exemption from the application of Accounting Standards. The Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.

By this the members of the Institute of Chartered Accountants of India who are appointed as auditors of the co-operative societies have the responsibility to qualify their reports in case the relevant accounting standards are not followed in the preparation and presentation of the financial statements of the co-operative societies.

CONCEPT 3: APPLICABILITY OF ACCOUNTING STANDARDS TO CHARITABLE ENTITIES

Accounting Standard apply to commercial, industrial or business enterprises. Therefore, they do not apply to purely charitable entities, however, if charitable entity is also engaged in business or commercial activity (howsoever insignificant) then accounting standards would apply to its entire activity, charitable and non-charitable.

CONCEPT 4: APPLICABILITY OF ACCOUNTING STANDARD TO PARTNERSHIP AND PROPRIETORSHIP

The preface to the statement of Accounting Standard clarified that the Accounting Standards are issued "for use in the presentation of general purpose financial statements issued to the public by such commercial, industrial or business enterprises, as may be specified by the Institute from time to time and subject to the attest function of its members. The term "General Purpose Financial Statements" includes balance sheet, statement of profit and loss and other statements and explanatory notes, which form part thereof. Thus, compliance with accounting standards is required to be examined by an auditor in an audit of financial statements of individuals and non-corporate enterprises (viz. sole, proprietary concerns, partnership firms, societies registered under Societies Registration Act, Trusts, Hindu undivided families, and association of persons). Therefore, Accounting Standards are applicable not only to limited companies but also to partnership firms or proprietorships.

CONCEPT 5: APPLICABILITY OF ACCOUNTING STANDARDS FOR COMPANIES

The Central Govt. in exercise of powers under section 211(3C) of the Companies Act, 1956 notified the Companies (Accounting Standards) Rules, 2006 in the Official Gazette w.e.f. accounting period commencing on or after 7.12.2006 (now deemed to be Accounting Standard as specified under section 133 of the Companies Act, 2013):

- The rules provide that Accounting Standards 1 to 7 and 9 to 29 recommended by the Institute of Chartered Accountants of India shall be the "Accounting Standards" (referred to as the "Notified Accounting Standards") for the purpose of section 129(1) and Section 143(3) (e) of the Companies Act, 2013.
- The notified accounting standards for the most part, are a verbatim reproduction of the Accounting Standards as issued by the Institute of Chartered Accountants of India.
- All the 30 Accounting Standards Interpretations issued by Institute of Chartered Accountants of India have been incorporated at the relevant places by way of explanation except Accounting Standards Interpretations 11, 12, 27 and 29.
- The notified Accounting Standards are mandatory for all companies and their auditors except as exempted/relaxed for SMCs.
- Exemptions/relaxations to Small and Medium Companies (SMCs) have been given.

The definition of SMCs is much simpler than the definition of SMEs given by Institute of Chartered Accountants of India (which involved classifying enterprises in Level-I Enterprises, Level-II Enterprises and Level-III Enterprises).

Transitional Provision under Rule 7 of Chapter IX of the new Companies Act, 2013 provides the standards of accounting as specified under the Companies Act, 1956 (I of 1956) shall be deemed to be the accounting standards until accounting standards are specified by the Central Government under section 133.

Applicability for specified companies –

Indian Accounting Standards (abbreviated as Ind AS) are another set of accounting standards notified by the Ministry of Corporate Affairs, Government of India which are converged with International Financial Reporting Standards (IFRS). These accounting Standards are formulated by Accounting Standards Board of Institute of Chartered Accountants of India. Now India will have two sets of accounting standards viz. existing Accounting Standards under Companies (Accounting Standards) Rules, 2006 and IFRS converged Indian Accounting Standards (Ind AS). The Ind AS are named and numbered in the same way as the corresponding IFRS. The MCA has notified 39 Ind AS as Companies (Indian Accounting Standards) Rules, 2015 with following roadmap of implementation:

Phase-I	1st April 2015 or thereafter: Voluntary Basis for all companies (with Comparatives).
	Ist April 2016 : Mandatory Basis
	(a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth > INR 5 Billion. (b) Unlisted Companies having net worth > INR 5 Billion. (c) Parent, Subsidiary, Associate and J.V. of above.
Phase-II	Ist April 2017 : Mandatory Basis
	(a) All companies which are listed/or in process of listing inside or outside India on Stock Exchange not covered in Phase I (other than companies listed on SME Exchanges). (b) Unlisted companies having net worth of INR 2.5 Billion or more. (c) Parent, Subsidiary, Associate and J.V. of above.
	Companies listed on SME exchange not required to apply Ind AS
	Once Ind ASs are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements.

Companies not covered by the above roadmap shall continue to apply existing Accounting Standards notified in Companies (Accounting Standards) Rules, 2006.

Small and Medium Companies (SMCs) –

Small and Medium Companies (SMCs) has been defined as in rule 2(f) of Companies (Accounting Standards) Rules, 2006 issued under Companies Act 1956, as per the rule, company which satisfies all the following five conditions as at the end of the accounting period shall be called SMC:

(a) the equity debt securities of the company are not listed or are not in the process of listing of any stock exchange, whether in India or outside India.

(b) the company is not a bank or financial institution or insurance company.

(c) the company's turnover (excluding other income) does not exceed Rs. 50 Crores in the immediately preceding accounting year.

(d) the company does not have borrowing (including public deposits) exceeding Rs. 10 Crores at any time during the immediately preceding accounting year and

(e) the company is not a holding company or subsidiary of a non-SNC.

***Enterprise* –**

Rule 2(e) has given the new definition of "enterprise" which means a company as defined in section 3 of the Companies Act, 1956. Wherever the word "enterprise" has been used in notified accounting standards this will means company registered under Companies Act.

***Exemptions/relaxations to SMCs* –**

The SMCs are given the following relaxation in complying the notified accounting standards-

- SMCs need not to disclose the segment reporting as per AS-17. As per section 2(40) of Companies Act, 2013, AS-3 is not mandatory for one person company, small company (Sec. 2(85) and dormant company.
- The SMCs have been given following relaxation as regards AS-15 "Employee Benefits".
  - SMCs need not comply paras 11 to 16 of AS-15 to extent they deal with recognition and measurement of short-term accumulated compensating absences.
  - Discounting the amount payable after 12 months of balance sheet as regards defined contribution plans and termination benefits.
  - Recognition, measurement and disclosure principles in respect of defined benefit plans and other long-term employee benefits plan. However, such enterprises should provide and disclose the accrued liability in respect of defined benefit plan and other long-term employee benefit plan as per actuarial valuation based on projected unit credit method and discount rate based on yield on Government bonds.
- SMCs need not disclose diluted EPS as per AS-20 "Earning Per Share".
- SMCs need not comply with disclosure requirements regarding operating leases of sub-paras (b) & (d) of para 46 and sub-paras(a), (b) & (e) of para 25 of AS-19 "Leases" and sub-paras(a) & (f) of para 37 and sub-paras (c) (e) & (f) of para 22 of AS-19 regarding disclosure for finance lease by the lessor and lessee respectively.
- Value in use has been differently defined for SMCs which provides and alternate to calculate value in use based on a reasonable estimate of future cash flows.
- SMCs are exempt from disclosure requirements of paras 66 and 67 of AS-29 regarding provisions and its descriptions.

AS-18 "Related Party Disclosures" will now apply to all companies including SMCs and as no exemptions/relaxations has been given by Companies (Accounting Standards) Rules, 2006.

Change in Status of the company

(a) **From SMC to Non-EMC** – Where a company, being an SMC, has qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an SMC. The fact that the company was an SMC in the previous period and it has availed of the exemptions or relaxations available to SMC shall be disclosed in the notes to the financial statements.

(b) **From Non-SMC to SMC** - An existing company, which was previously not an SMC and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of accounting standards available to an SMC until the company remains as SC for two consecutive accounting periods.

QUESTION 1

Examine whether the following Companies can be classified as SMC as per Companies (AS) Rules, 2006.

(a) A Pvt. Ltd. a Subsidiary of a Multinational Company listed on London Stock Exchange. It has a Turnover of Rs. 12 Crores, and Borrowings of Rs. 5 Crores.

(b) B Pvt. Ltd. which has a Turnover of Rs. 45 Crores, other Income of Rs. 7 Crores, and Bank Borrowings of Rs. 9 Crores.

(c) C Ltd., which has appointed Merchant Bankers to prepare a Red Herring Prospectus for the purpose of filling the same with the Securities Exchange Board of India.

CONCLUSION:

Company	Status	Reason
A Pvt. Ltd	Non-SMC	The Multinational Company is a Listed Company is not a SMC. Hence, its Subsidiary A Pvt. Ltd. is not a SMC. Turnover and Borrowings of A Pvt. Ltd. are not relevant in this regard.
B Pvt. Ltd.	SMC	Turnover (excluding Other Income) does not exceed Rs. 50 Crores, and Borrowings does not exceed Rs. 10 Crores. Hence, it is an SMC.
C Ltd.	Non-SMC	It is in the process of listing and hence a Non-SMC.

QUESTION 2

Hari Ltd. with a Turnover of Rs. 35 Lakhs and Borrowings of Rs. 10 Lakhs during any time of the previous year, wants to avail of the exemptions available in adoption of AS applicable for Companies for the financial year. Advise the Management the exemptions available under Companies (AS) Rules, 2006.

CONCLUSION:

Hari Ltd. is a SMC and is eligible for the exemption/relaxations as given in the previous question.

QUESTION 3

A Company which satisfies the conditions of a SMC as per Companies (AS) Rules, 2006, has represented that it does not require to give disclosures required by AS-3 Cash Flow Statements and AS-18 Related Party Disclosures in its Financial Statements. Comment.

CONCLUSION:

AS-3 is not applicable to SMC. However AS-18 is applicable and required disclosures are to be given.

QUESTION 4

A Company was classified as Non-SMC in 2011-12. In 2012-13, it has been classified as SMC. The Management desires to avail the exemption or relations available to SMCs in 2012-13. However, the Accountant of the Company does not agree with the same, Give your views.

CONCLUSION:

The Company is not eligible for exemption/relaxation available to SMC's, until the Company remains as an SMC for two consecutive accounting periods. The Accountant's view is correct

ACCOUNTING STANDARD 11
FOREIGN EXCHANGE TRANSACTIONS

QUESTION NO 1

Compute the Loss/Gain for the financial year ending 31st March 20X1 and 20X2 from the following:-

Raw Materials imported on 1st Jan.20X1 USD 10,000	Rate of Exchange Rs.55 Per USD
Financial Year ending on 31st March 20X1	Rate of Exchange Rs. 54 per USD
Date of Actual Payment 7th July 20X1	Rate of Exchange Rs. 53 Per USD

The Chief Accountant of Company passed an entry on 31st March 20X1, adjusting the cost of Raw Material Consumed for the difference between Rs.55 and Rs. 53 per USD. Discuss whether this treatment is justified.

SOLUTION

The Raw Material Purchase should be recorded at the Transaction Rate, i.e. USD = Rs.55 = Rs 5,50,000. The treatment of Exchange Differences will be as under:-

Purchase of Goods for 10,000 USD	**Financial Year Ending**	**Payment to Supplier**
Transaction Date 1st Jan.20X1	Balance Sheet Date 31st March	Settlement Date 7th July 20X1
USD = Rs. 55.00	USD = Rs. 54.00	USD = Rs. 53.00
Exchange Diff. = Rs.1.00 Per USD (Gain) (due to Reporting) i.e.Rs.10,000 Credited to P&L A/c. for the year ending 31st March 20X1		Exchange Diff. = Rs.1.00 Per USD (Gain) (due to Settlement) i.e. Rs. 10,000 Credited to P&L A/c. in next FY i.e. after 31st March 20X1

Conclusion:

For the year ended 31st March 20X1, the gain of Rs. 10,000 should be separately credited to P&L A/c. as an Exchange Difference and disclosed as required under AS-11, and Schedule III which requires specific disclosure of Net Gain/Loss on Foreign Currency Transaction and Translation. It should not be adjusted to the Cost of Materials Consumed.

QUESTION NO 2

Rudra Ltd. exported goods for USD 2,00,000 in February (Exchange Rate Rs. 54.38). The amount was received in June (Exchange Rate Rs. 54.43). The Company closes its books of accounts on 31st March every year. The Exchange Rate on 31st March current year was Rs. 54.50. Find out the Exchange Fluctuation Gain/Loss on the Balance Sheet date, and on the date of receipt.

SOLUTION

Export of Goods USD 2,00,000	Financial Year Ending	Receipt from Customer
Transaction Date=February	Balance Sheet Date= March	Settlement Date= June
USD = Rs. 54.38	USD = Rs. 54.50	USD = Rs. 54.43
Exchange Diff. = Rs.0.12 Per USD (Gain) (due to Reporting) i.e.Rs.24,000 Credited to P&L A/c. for the year ending 31st March		Exchange Diff. = Rs.0.07 Per USD (Loss) (due to Settlement) i.e. Rs. 14,000 Debited to P&L A/c. in next FY i.e. after 31st March

QUESTION NO 3

Ambikapati Ltd. imported certain stock worth USD 60,000 on 30th June when 1 USD = Rs. 54.00. The payment is made on 31st December when 1 USD = Rs.55.40. The Stock is in hand and lying unsold as on 30th September when the Company closes its accounts. Give Journal Entries under AS-11, if the rate on the Balance Sheet date was 1 USD = Rs. 53.85.

SOLUTION

Date	Particulars	Dr.(Rs.)	Cr. (Rs.)
30th June (Transaction Date)	Purchases A/c. Dr. To Vendor/Foreign Supplier A/c. (Being import of raw materials, recorded at spot rate, i.e. USD 60,000x Rs.54.00)	32,40,000	32,40,000

30th Sept. (FY end)	Vendor/Foreign Supplier A/c. Dr. To Profit and Loss A/c. (Exchange Rate Difference) (Being translation of payable, i.e. monetary item at the Closing Rate and recognition of gain due to exchange difference (60,000 x (54.00 – 53.85)	9,000	9,000
30th Sept. (FY end)	Closing stock A/c. Dr. To Trading A/c. (Being Stock, non-monetary item, carried at Fair Value, presumed equal to Rs.32.40 Lakhs, i.e. cost)	32,40,000	32,40,000
Next Fy 31st Dec. (Settlement Date)	Vendor/Foreign Supplier A/c. Dr. Profit & Loss A/c. (Exch. Rate Diff.) Dr. To Bank A/c. (Being payment made to Vendor at Rs.55.40 x USD 60,000, the difference due to settlement (Rs. 53.85 – Rs.55.40) x USD 60,000, being loss transferred to P&L A/c.)	32,31,000 93,000	33,24,000

QUESTION NO 4

Tejas Ltd. borrowed US $ 5,00,000 on 1st Jan. 2013 which will be repaid (settled) as on 30th June 2013. The Company prepares its Financial Statements ending on 31st March 2013. Assume that Exchange Rate between Reporting Currency (Rupee) and Foreign Currency (US $) on different dates are as under:-

1st Jan. 2013 : 1 US $ = Rs. 54.00	31st March 2013	30th June 2013
	1 US $ = Rs.54.50	1 US $ = Rs.54.75

(a) Calculate the Borrowing in reporting currency to be recognised in the books on above mentioned dates. Also show the Journal Entries for the same.

(b) If Borrowings was repaid (settled) on 28th Feb. 2013 (Take Exchange Rate 1 US $ = Rs. 54.20) what entry should be passed in such case?

SOLUTION

	Date	Particulars	Dr.(Rs.)	Cr. (Rs.)
1.	1 Jan. 2013	Bank A/c. Dr. To Foreign Currency Loan Borrowing (5,00,000 USD at 54) (Being Foreign Currency Loan at 54 per USD, spot rate)	2,70,00,000	2,70,00,000
2.	31 Mar 2013	Profit & Loss A/c. (Exchange Rate Diff.) (5,00,000 x (54.50 – 54) Dr. To Foreign Currency Loan Borrowings (Being Foreign Currency Monetary Item, i.e. Loan reported using Closing Rate of Rs.54.50), Carrying Amount of Loan = Rs.272,50,000, difference being loss due to reporting difference, written off to P&L)	2,50,000	2,50,000
3A.	30 Jun 2013	Foreign Currency Loan Borrowings Dr. Profit & Loss A/c. (Exchange Rate Difference) (5,00,000 x (54.75 – 54.50)Dr To Bank A/c. (5,00,000 x 54.75) (Being Foreign Currency Loan settled at 54.75 per USD, difference being exchanged loss on settlement, written off to P&L A/c.)	2,72,50,000 1,25,000	2,73,75,000
		If Loan repaid (settled) on 28th Feb.2013:		
3B.	28 Feb 2013	Foreign Currency Loan Borrowings Dr. Profit & Loss A/c. (Exchange Rate Difference) (5,00,000 x (54.20 – 54.00)Dr (Being Foreign Currency Loan settled at 54.20 per USD, difference being exchanged loss on settlement, written off to P&L A/c.)	2,70,00,000 1,00,000	2,71,00,000

QUESTION NO 5

Amaresh bought a Forward Contract for three months of USD 1,00,000 on 1st December 20X1 at 1 USD = Rs. 52.10 when the Exchange Rate was 1 USD = Rs.52.02. On 31st December 20X1, when he closed his books, the Exchange Rate was 1 USD = Rs. 52.15. On 31st January 20X2, he decided to sell the Contract at Rs.52.18 per Dollar. Show how the profits from the Contract will be recognized in the books. Give the full accounting treatment assuming that the above transaction is on 'non-speculative basis".

Also discuss the accounting treatment, if the above transaction is on "speculative basis", on the assumption that on 31st December 20X2, the 2 months Forward Rate is 1 USD = Rs. 53.

SOLUTION

Situation A : If the above Forward Contract has been entered on "non-speculative" basis.

S.No.	Particulars	Dr.(Rs.)	Cr. (Rs.)
1st Dec. 20X1	Foreign Currency Receivable A/c.(1,00,000 USD x Rs.52.02 Spot Rate) Dr. Forward Contract Deferred Premium A/c. (1,00,000 USD x (Rs.52.10 – Rs. 52.02) Dr. To Forward Contract Payable A/c. (1,00,000 USD x Rs.52.10 Fwrd Rate) (Being 3 months Forward Contract entered into for 1,00,000 USD)	52,02,000 8,000	 52,10,000
31st Dec. 20X1	Foreign Currency Receivable A/c. Dr. (1,00,000 USD x (Rs.52.15-Rs.52.02) To Profit and Loss A/c. (Being re-statement of FC Receivable to Reporting Date Rate, gain adjusted)	13,000	 13,000
31st Dec. 20X1	Profit and Loss A/c. Dr. To Forward Contract Deferred Premium A/c. (Being the amortization of Forward Contract Premium Rs. 8,000 for 3 months, now transferred to P&L proportionately for 1 month period)	2,667	 2,667

31st Jan. 20X2	Forward Contract Payable A/c. Dr. Bank A/c. (1,00,000 USD x (Rs.52.18-Rs.52.10) Dr. To Foreign Currency Receivable A/c. To Profit and Loss A/c. (difference Gain adjusted) (Being settlement of Forward Contract)	52,10,000 8,000	 52,15,000 3,000
31st Jan. 20X2	Profit and Loss A/c. Dr. To Forward Contract Deferred Premium A/c. (Being the amortization of balance Forward Contract Premium)	5,333	 5,333

<u>(STUDENTS ARE ADVISED TO PASS ENTRIES AS WE PASSED IN CLASS: CA PARVEEN JINDAL)</u>

Situation B: If the above Forward Contract has been entered on **"speculative"** basis.

S.No.	Particulars	Dr.(Rs.)	Cr. (Rs.)
31st Dec. 20X1	Foreign Contract Asset Receivable A/c.(1,00,000 USD x Rs.53.00-Rs.52.10) Dr. To Profit and Loss A/c. (Being adjustment of difference between Contract Forward Rate and B/s Date Rate of Forward Contract for remaining maturity period, Gain credited to P&L)	90,000	 90,000
31st Jan. 20X2	Profit and Loss A/c. (balancing figure) Dr. Bank A/c. (1,00,000 USD x (Rs.52.18 – Rs.52.10) To Forward Contract Asset Rec'ble A/c. (reversal of B/s recognised amt) (Being settlement of Forward Contract, loss adjusted to P&L A/c)	82,000 8,000	 90,000

QUESTION NO 6

On 1st February 2013, an Indian Company sold goods to an American Company at an Invoice Price of USD 20,000 when the Spot Market Rate was 1 USD = Rs.54.10. Payment was to be made in three months time, namely by 1st May 2013.

To avoid the risk of Foreign Exchange fluctuations, the Indian Exporter acquired a Forward Contract to sell USD 20,000 at Rs. 53.90 per USD on 1st May 2013.

The Indian Company's accounting year ended on 31st March 2013, and the Spot Rate on this date was Rs. 53.20 per USD. The Spot Rate on 1st May 2013, the date by which the money was due from the American Buyer, was Rs.56 per USD.

Show the accounting entries in the books sof the Indian Exporter at the relevant period of time. .

SOLUTION

Journal Entries in the books of Indian Exporter (assumed as SME)

S.No.	Particulars	Dr.(Rs.)	Cr. (Rs.)
01.02.13	Sundry Debtors (American Company) A/c. Dr. To Sales A/c. (Being Sales recorded at Rs.10,82,000 (USD 20,000 x Rs. 54.10)	10,82,000	 10,82,000
01.02.13	Forward (Rs.) Contract Receivable A/c. Dr. (USD 20,000 x Rs. 53.90) Deferred Discount A/c. Dr. (USD 20,000 x Rs. 0.20) To Forward ($) Contract Payable A/c. (USD 20,000 x Rs. 54.10) (Being Translation Loss USD 20,000 x (Rs.54.10-Rs.53.20) by re-statement of Debtors, Difference between Rates on Date of Transaction and Reporting Date)	10,78,000 4,000	 10,82,000
31.03.13	Profit & Loss A/c. Dr. To Sundry Debtors (American Company) A/c. (Being Translation Loss USD 20,000 x (Rs.54.10-Rs.53.20) by re-statement of Debtors, Difference between Rates on Date of Transaction and Reporting Date)	18,000	 18,000

31.03.13	Forward ($) Contract Payable A/c. Dr. To Profit and Loss A/c. (Being Translation Loss USD 20,000 x (Rs.54.10-Rs.53.20) as less Rupees becoming payable to Exchange Dealer based on Spot Rate at year end)	18,000	 18,000
31.03.13	Discount A/c. Dr. To Deferred Discount A/c. (Being proportionate discount (2/3rd of Rs.4,000) charged as Discount Expense)	2,666	 2,666
01.05.13	Bank A/c. (USD 20,000 x 56,000) Dr. To Sundry Debtors A/c.(USD 20,000xRs.53.20) To Profit and Loss A/c.(USD 20,000axRs.2.80) (Being actual receipt of money from the Buyer recorded)	11,20,000	 10,64,000 56,000
01.05.13	Forward ($) Contract Payable A/c. Dr. (USD 20,000 x Rs. 53.20) Profit and Loss A/c. (USD 20,000 x Rs.2.80) To Bank A/c. (USD 20,000xRs. 56.00) (Being delivery of 20,000 USD against Forward Contract at Spot Rate on 1st May)	10,64,000 56,000	 11,20,000
01.05.13	Bank A/c. Dr. To Forward (Rs.) Contract Receivable A/c. (Being Forward Contract Settled)	10,78,000	 10,78,000
01.05.13	Discount A/c. Dr. To Deferred Discount A/c. (Being balance amount of Discount recognized/ transferred to P&L)	1,334	 1,334

QUESTION NO 7

Kapali Ltd. purchased a Plant for USD 20,000 on 31st December 2012, payable after 4 months. The Company entered into a Forward Contract for 4 months at Rs.54.85 per USD. On 31st December 2012, the Exchange Rate was Rs.53.50 per USD.

How will you recognize the Profit or Loss on the Forward Contract in the books of Kapali Ltd. for the year ended 31st March 2013? (Journal Entries are not required).

SOLUTION

Particulars	Rs.
1. Value at the rate prevailing at the inception of Forward Contract (USD 20,000 x 53.50)	10,70,000
2. Value at the Forward Rate (USD 20,000 x 54.85)	10,97,000
3. Total Loss on entering into the Forward Contract = arising at inception for 4 months Contract Period	27,000
4. Loss to be recognised for the year ended 31st March 2013, i.e. for 3 months = 27,000 x $\frac{3}{4}$	20,250

QUESTION NO 8

How would you deal with the following foreign exchange transactions on the annual accounts for the year ending March 31, 2002?

- Insight India Ltd. imports a Plant & Machinery on 31st July, 2001 on deferred payment basis for US $ 200000. On March 31, 2002 the exchange rate, which was rs. 38 per dollar on 31st July, 2001, has gone up to Rs. 42.

(Ans: Rs. 800000 to be included in fixed assets

QUESTION NO 9

AD Softex India Ltd. imports certain stock worth US $ 600000 on 15th Aug., 2009 at which date the exchange rate is Rs.46 per dollar. The payment are made on March 31, 2010. When the exchange rate is Rs. 47.10 per dollar. The stock is in hand as on 31st March 2002.

(Ans: Rs. 660000 debited to P&L Account)

QUESTION NO 10

Almaz Impex Ltd. obtains a short term foreign exchange loan of US $ 20,00,000 on 2nd Sept., 2006 when the exchange rate is Rs. 44.50 per dollar. On 31st March 2007, the exchange rate has gone up to Rs. 47.40 per dollar.

(Ans: Rs. 58 Lakhs debited in P&L Account).

QUESTION NO 11

AD Softex India Ltd. imported goods worth US $ 5,00,000 from a US based company ACS Inc. on 12.8.2009 when the exchange rate was 1 US $= 43.90. AD Softex India Ltd. agreed to pay its creditors in four equal instalments falling on 12.9.2009, 12.10.2009, 12.11.2009 and 12.12.2009. The exchange rates on the settlement dates were 43.80, 44.60, 44.90 and 45.60 respectively. Prepare ledger accounts of ACS Inc. in books of AD Softex India Ltd. and calculate net exchange fluctuation loss/gain.

(Ans: Loss of Rs. 412.500 Dr. to Profit and Loss Account).

QUESTION NO 12

Almaz Impex Ltd. an Indian Company took a foreign currency loan of US $ 5,00,000 @ 10% p.a. on 1.1.2009. Interest is payable half-yearly with an instalment for principal of US $ 50,000. The company closes books of account as on 31st March every year. Exchange rates are :-

1.1.2009	42.25
31.3.2009	42.50
31.6.2009	42.90
31.12.2009	43.90
31.3.2010	43.50

Prepare loan account of the company and calculate the exchange fluctuation loss/gain for the financial year ended on 31.3.2009 and 31.3.2010 respectively.

(Ans: Loss – Rs. 1,25,000 (31.3.2009): Loss – Rs. 4,95,000 (31.3.2010)

QUESTION NO 13

Stem Ltd. purchased a Plant for US$ 30,000 on 30th November 2013, payable after 6 months. The Company entered into a forward contract for 6 months @ rs.62.15 per Dollar. On 30th November 2013, the Exchange Rate wass.60.75 per Dollar. How will you recognize the Profit or Loss on Forward Contact in the books of Stem Ltd. for the year ended 31st March 2014?

SOLUTION

The treatment under AS-11 is as under:-

Particulars	**Rs.**
1. Value at the rate prevailing at the inception of forward Contract 30,000 $ x 60.75	18,22,500
2. Value at the forward rate 30,000 $ x 62.15	18,64,500
3. Total Loss on entering into forward contract = arising at inception for 6 months contract (1-2)	42,000
4. Loss to be recognized for the year ended 31st March 2014 i.e .for 4 months = 42000 x 4/6	28,000

Interest Payments should be charged to Profit and Loss Account of each year at the Transaction Value on payment dates.

NOTES

BRANCH ACCOUNTS

PART -1

DEPENDENT BRANCHES

QUESTION NO 1 (DEBTORS METHOD)

Buckingham Bros. Bombay have a branch at Nagpur. They send goods at cost to their branch at Nagpur. However, direct purchases are also made by the branch for which payments are made at head office. All the daily collections are transferred from the branch to the Head Office.

From the following, prepare Nagpur branch account in the books of head office:

Opening balances:- 01-01-1998	
Imprest Cash	2,000
Sundry debtors	25,000
Stock of transferred goods from Head office	24,000
Stock of direct purchases	16,000
Cash sales	45,000
Credit sales	1,30,000
Direct purchases	45,000
Returns from customers	3,000
Goods sent to branch from H.O	60,000
Transfer from H.O for Petty Cash expenses	4,000
Bad debts	1,000
Discount to customers	2,000
Remittances to H.O	
(Received by H.O)	1,65,000
Remittances to H.O	
(Not received by H.O)	5,000
Branch Exp directly paid by H.O	30,000
Closing balances: on 31.12.1998	
Stock: Direct purchases	10,000
Transfer from H.O	15,000
Debtors	?
Imprest cash	?

QUESTION NO 2 (ALL THREE METHODS)

The Bombay trading company invoiced goods to its Delhi branch at cost. Head office paid all the branch expenses from its bank account except petty cash expenses, which were met by the Branch. All the cash collected by the branch was banked on the same day to the credit of the Head office. The following is a summary of the transactions entered into at the branch during the year ended December 31, 1998.

Stock January 1	7,000

Debtors January 1	12,600
Petty cash January 1	200
Goods sent from H.O	26,000
Goods returned to H.O	1,000
Cash sales	17,500
Credit sales	28,400
Allowances to customers	200
Discount to customers	1,400
Bad debts	600
Goods returned by customers	500
Salaries and wages	6,200
Rent and rates	1,200
Sundry expenses	800
Cash received from sundry debtors	28,500
Stock at end of year	6,500
Debtors at the end of year	9,800
Petty cash at end of year	100

Prepare: (a) Branch account (debtors method), (b) Memorandum Branch Trading and Profit and Loss account to prove the results as disclosed by the branch account and (c) Branch Stock account, branch Profit and Loss account, Branch debtors and Branch Expenses account by adopting the stock and debtors Method.

QUESTION NO 3 (STOCK & DEBTORS METHOD: GIT)

Harrison Limited, Madras has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December 1998.

Cost of goods sent to branch at cost	2,00,000
Goods received by branch till 31.12.1998 at invoice price	2,20,000
Credit sales for the year @ invoice price	1,65,000
Cash sales for the year @ invoice price	59,000
Cash remitted to head office	2,22,500
Expenses paid by H.O	12,000
Bad debts written off	750
Balances as on 1.1.1998	
Stock (at cost)	25,000
Debtors	32,750
Cash in hand	5,000
Balance as on 31.12.1998	
Stock (at invoice price)	28,000
Debtors	26,000
Cash in hand	2,500

Show the necessary ledger accounts in the books of the head office and determine the profit and loss of the Branch for the year ended 31st December 1998.

QUESTION NO 4 (STOCK & DEBTORS METHOD)

Sell Well Limited who carried on a retail business opened a branch X on January 1st, 1999 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost. The following were the transactions:-

	Jan₹99	Feb₹99	March₹99
Goods sent to Branch (purchase price)	40,000	50,000	60,000
Sales as shown by the branch monthly	38,000	42,000	55,000
Cash received from debtors and remitted	20,000	51,000	35,000
Returns to H.O (invoice price to Branch)	1,200	600	2,400

The stock of goods held by the branch on March 31, 1999 amounted to Rs.53,400 at invoice to branch.

Record these transactions in the Head Office books, showing balances as on 31st March 1999 and the branch gross profit for the three months ended on that date.

All working should form part of your solution.

QUESTION NO 5 (STOCK & DEBTORS METHOD)

Hindustan Industries Bombay has a branch in Cochin to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit, Branch expenses are paid direct from head office and the Branch has to remit all cash received into the Head office Bank account.

From the following details, relating to calendar year 1998, prepare the accounts in the Head office ledger and ascertain the Branch profit. Branch does not maintain any books of account but sends weekly returns to the head office.

Goods received from Head office at invoice price	6,00,000
Returns to Head office at invoice price	12,000
Stock at Cochin as on 1st Jan, 1998	60,000
Sales in the year-cash	2,00,000
Credit	3,60,000
Sundry debtors at cochin as on 1st January 1998	72,000
Cash received from debtors	3,20,000
Discount allowed to debtors	6,000
Bad debts in the year	4,000
Sales returns at cochin branch	8,000
Rent, rates, Taxes at Branch	18,000
Salaries, wages, Bonus at Branch	60,000
Office expenses	6,000
Stock at branch on 31st December 1998 at invoice price	1,20,000

QUESTION NO 6 (DEBTORS METHOD)

X Limited Bombay started on 1st January 1988 has two branches at Kanpur and Lucknow. All goods sold at the Branches are received from the Head office invoiced at cost plus 25 per cent. All expenses relating to branches are paid by the Head office. All cash collections are remitted daily to Head-office by the Branches. The following particulars relating to the year ended 31st December, 1988 have been extracted from the weekly statements sent by the branches:

	Kanpur Rs.	Lucknow Rs.
Credit sales	1,25,200	1,10,000
Cash sales	78,600	85,200
Sales returns	2,300	1,200
Sundry debtors	34,500	23,600
Rent and rates	3,200	4,500
Bad debts	6,000	
Salaries	16,000	18,000
General expenses	2,600	1,500
Goods received from H.O	1,50,000	1,25,000
Advertisement	7,500	5,200
Stock on 31st December 1988	45,000	35,000

You are required to prepare the Branch accounts as they would appear in the books of the Head office.

QUESTION NO 7 (ABNORMAL LOSSES)

Bombay Traders Limited sends goods its Madras Branch at cost plus 25 per cent. The following particulars are available in respect of the Branch for the year ended 31st March, 1988.

Opening stock at Branch at cost to Branch	80,000
Goods sent to Branch at invoice price	12,00,000
Loss in Transit at invoice price	15,000
Pilferage at invoice price	6,000
Sales	12,19,000
Expenses	60,000
Closing stock at Branch at cost to Branch	40,000
Recovered from insurance company against loss in transit	10,000

Show ledger accounts in the head office books for:-

(a) Branch stock account
(b) Goods sent to branch account
(c) Branch adjustment account
(d) Branch Profit and Loss account

QUESTION NO 8 (RETAIL BRANCH)

New Textiles Limited operates a number of retails shops to which goods are invoiced at wholesale price, which is cost plus 20%. Shops sell the goods at the list price, which is wholesale price plus 10%. From the following particulars ascertain the profit or loss for 1997 at shop no: 143:

Stock at shop on January 1 1997	15,000
Goods invoiced to shop during 1997	1,40,000
Sale at the shop during the year	1,54,770
Goods destroyed by accident (retail value)	660
Expenses at the shop	7,200

QUESTION NO 9 (DEBTORS METHOD)

Arnold BROS. Delhi trades in Ghee and Oil. It has a branch at Lucknow. The company dispatches 25 tins of Oil @ Rs.1,000 per tin and 15 tins of Ghee @ Rs.1,500 per tin on 1st of every month. The branch incurs some expenditure, which is met out of its collections this is in addition to expenditure directly paid by Head Office.

Following are the other details:

		Delhi Rs.	Lucknow Rs.
Purchases	Ghee	14,75,000	
	Oil	29,32,000	
Direct expenses		3,83,275	
Expenses paid by H.O.			14,250
Sales	Ghee	18,46,350	3,42,750
	Oil	27,41,250	3,15,730
Collection during the year (including cash sales)			6,47,330
Remittance by Branch to Head Office			6,13,250

(DELHI)			
Balance as on:		1-1-98	31-12-98
Stock:	Ghee	1,50,000	3,12,500
	Oil	3,50,000	4,17,250
Debtors		7,32,750	
Cash on hand		70,520	55,250
Furniture and fixtures		21,500	19,350
Plant and machinery		3,07,250	7,73,500

(LUCKNOW)			
Balance as on:		1-1-98	31-12-98
Stock:	Ghee	17,000	13,250
	Oil	27,000	44,750
Debtors		75,750	---
Cash on hand		7,540	12,350

Furniture and fixtures	6,250	5,625
Plant and machinery	---	---

Addition to plant and machinery on 1-1-98 Rs.6,02,750.

Rate of depreciation: Furniture/fittings @ 10% and Plant/machinery @ 15% (already adjusted in the above figures).

The branch manager is entitled to 10% commission after charging such commission whereas, the general manager is entitled to 10% commission on overall company profits after charging such commission. General manager is also entitled to a salary of Rs.2000 p.m. General expense incurred by the Head Office Rs.24,000.

Prepare the branch account in the head office books and also prepare the company₹s Trading and Profit and Loss account (excluding branch transactions).

QUESTION NO 10 (NOV 1997) (BRANCH OPENED FOR PURCHASES)

T of Calcutta has a branch at Dibrugarh. The branch does not maintain separate books of accounts. The branch has the following assets and liabilities on 31st August 1997 and 30th September 1997:

	31st August 1997	30th September 1997
Stock of tea	1,80,000	1,50,000
Advance to suppliers	5,00,000	4,50,000
Bank balance	75,000	1,00,000
Prepaid expenses	10,000	12,000
Outstanding expenses	13,000	11,000
Creditors for purchases	3,00,000	to be ascertained

During the month, Dibrugarh branch:

(a) Received by electronic mail transfer Rs.10,00,000 from Calcutta head office

(b) Purchased tea worth Rs.12,00,000

(c) Sent tea costing Rs.12,30,000 to Calcutta freight of Rs.80,000 being payable at the destination by the receiver

(d) Spent Rs.25,000 on office expenses

(e) Paid Rs.3,00,000 as advance to suppliers

(f) Paid Rs.6,50,000 to suppliers in settlement of outstanding dues.

In addition, T informs you that the Calcutta office had directly paid Rs.3,50,000 to Dibrugarh suppliers by cheques drawn on bank accounts in Calcutta during the month.

T informs you that for the purpose of accounting Dibrugarh branch is not treated as an outsider. He wants you to write the detailed accounts relating to the transactions of the Dibrugarh branch as would appear in the books of Calcutta head office.

QUESTION NO 11 (MAY 2001) (DEBTORS METHOD)

Widespread ltd. invoices goods to its branch at cost plus 20 %. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding Rs.10000 necessary for meeting immediate requirements of cash. On 31.3.2000 the assets at the branch were as follows:

Rs.(₹000)

Cash in hand	10
Trade debtors	384
Stock at Invoice Price	1080
Furniture and Fittings	500

During the accounting year ended 31.3.2001 the invoice price of goods dispatched by the head office to the branch amounted to Rs.1 crore 32 lakh. Out of the goods received by it the branch sent back to head office goods invoiced at Rs.72,000. Other transactions at the branch during the year were as follows:

	Rs. (₹000)
Cash sales	9700
Credit sales	3140
Cash collected by branch from credit customers	2842
Cash discount allowed to debtors	58
Returns by customers	102
Bad debts written off	37
Expenses paid by the branch	842

On 1st January 2001 the branch purchased new furniture for Rs.1 lakh for which payment was made by head office through a cheque.

On 31st March 2001 branch expenses amounting to Rs.6000 were outstanding and cash in hand was, again Rs.10000. Furniture is subject to depreciation @ 16 % per annum on diminishing balances method.

Prepare branch account in the books of head office for the year ended 31st March 2001.

QUESTION NO 12 (STOCK & DEBTORS: IBT)

Sell well Limited has two branches in Cochin and Bangalore. During the year ended 31st March 1989, goods have been invoiced to the Cochin branch at 20% above cost and to the Banglore branch at 25% above cost. The branches do not maintain complete books of accounts but the following figures are available for the year ended 31st March 1989:-

	Cochin Rs.	Bangalore Rs.
Opening stock at invoice price	10,000	10,000
Goods sent to branch at cost	50,000	40,000
Amount remitted Branch	80,000	80,000
Amount remitted by Head office	15,000	15,000
Goods returned by branch at invoice price	3,000	
Cash as on 1.4.1988	2,000	1,000
Cash as on 31.3.1989	1,000	500
Goods returned by customer at branch at selling price	5,000	4,000
Expenses at Branch in cash	9,000	3,000

All sales at the branches are for cash. During the year Cochin branch purchased fixed assets worth Rs.4,000 and this amount is included in the figure of branch expenses. Cochin branch transferred to the Bangalore branch stock costing Rs.5000 during the year. The Bangalore branch remitted Rs.2000 to the Cochin branch also during the year. There was a closing stock of Rs.24000 valued at invoice price at the Cochin Branch. There was no closing stock at the Bangalore branch. The branch stock adjustment account in the head office books showed the following position as on 1st April, 1988:-

For Cochin:-Rs.2500(cr.) For Bangalore-Rs.2,000(cr.)

Prepare branch stock account, branch adjustment account. Goods sent to Branch account, cash accounts of Branches and Profit and Loss account of branches in the books of Head office books ignoring depreciation.

QUESTION NO 13 (NOV 1992) (BRANCH FINAL A/CS)

M/s Bright & Co. with its head office in Madras invoiced goods to its branch at Bombay at 20% less than the catalogue price which is cost plus 50%, with instructions that cash sales were to be made at invoice price and credit sales at catalogue price. Discount on credit sale at 15 % on prompt payment will be allowed. From the following particulars available from the branch prepare the branch trading and profit and loss account for the year ended 31st March 1992 in the books of head office, so as to show the actual profit or loss of the branch for the year 1991-92:

	Rs.
Stock 1-4-1991 (invoice price)	12,000
Goods received form head office (invoice price)	1,32,000
Debtors on 1-4-1991	10,000
Sales (cash)	46,000
Sales (credit)	1,00,000
Cash received from debtors	85,635
Discount allowed to debtors	13,365
Expenses at the branch	6,000
Remittance to the head office	1,20,000
Debtors on 31-3-1992	11,000
Cash in hand on 31-3-1992	5,635
Stock on 31-3-1992 (invoice price)	15,000

It was reported that a part of stock at the branch was lost by fire during the year whose value is to be ascertained and provision should be made for discount to be allowed to debtors as on 31-3-1992 on the basis of the year₹s trend of prompt payment.

QUESTION N0 14 (MAY 1997) (RETAIL BRANCH)

Rahul Limited operates a number of retail outlets to which goods are invoiced at wholesale price, which is cost plus 25 %. These outlets sells the goods at the retail price, which is wholesale price plus 20 %.

Following is the information regarding one of the outlets for the year ended 31.3.97:

	Rs.
Stock at the outlet 1.4.96	30,000
Goods invoiced to outlet during the year	3,24,000
Gross profit made by the outlet	60,000
Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet 31.3.97	36,000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.3.97:

(a) Outlet stock account

(b) Outlet profit and loss account

QUESTION NO 15 (ACCOUNTING FOR LOSSES)

The Empire store Limited invoice goods to their various branches at cost and the branches sell on credit as well as for cash. For the following details relating to the Bombay branch, prepare the necessary accounts in the Head Office books:-

Debtors 1st January 1992	26,200
Debtors 31st December 1992	31,100
Cash balance 1st January 1992	300
Stock, 1st January 1992	15,000
Stock 31st December 1992	13,900
Goods received from Head office	50,800
Cash received from Head office	1,500
Goods returned to Head office	700
Cash sales	33,500
Credit sales	60,000
Allowances to customers	320
Returns from customers	580
Discount allowed to customers	2,400
Bad debts	600
Remittance to Head office	74,900
Rent and rates	1,800
Wages and salaries	6,000
General Trade charges	1,300
Normal loss of goods due to Wastage	1,200
Abnormal loss of goods due to pilferage	3000

QUESTION NO 16 (STOCK & DEBTORS METHOD)

During the year ended 31st December 2002, X & company of Madras sent to their branch at Bombay goods costing Rs.1,00,000. They used to invoice to the branch at a price designed to show a gross profit of 33-1/3 per cent on invoice price.

Collections at the branch from debtors amounting to Rs.26,390 were all sent to Head office. Branch transactions during the year were:-

Cash sales - Rs.1,21,050

Credit sales-Rs.27,600

Goods returned by customers- Rs.300

Goods returned to Head office – Rs.780 (invoice price).

Opening balances:

Stock	2,250
Debtors	1,320

Closing balances:

Stock	2,700
Debtors	2,230

Goods at the branch of Rs.1260 (invoice price) were lost. Insurances Company paid Rs.730 on the claim. Branch expenses, paid by Head office amount to Rs.36,780.

Show the necessary ledger accounts as would appear in the Head office books recording the above the transactions relating to branch Profit and Loss account.

QUESTION NO 17 (ACCOUNTING FOR LOSSES)

Atlantic paper products send goods to Bhopal branch at cost plus 20%. You are given the following particulars:

Opening stock at branch at its cost	5,000
Goods sent to branch at invoice price	20,000
Loss in transit at invoice price	2,500
Theft at invoice price	1,000
Loss in weight (normal) at invoice price	500
Sales	25,500
Expenses	8,000
Closing stock at branch at cost to Branch	6,000
Claim received from the insurance company for loss in transit.	2,000

You are required to prepare in the head office books:

1. Branch stock account.
2. Branch adjustment account
3. Branch Profit and Loss account

QUESTION NO 18 (HOME WORK: LOSS 800)

On 1st January 1980 goods costing Rs.132000 were invoiced by Madras Head office to its branch at Delhi and charged at selling price to produce a gross profit of 25 per cent on the selling price. At the end of the month the return from Delhi branch showed that the sales were Rs.150000. Goods invoiced at Rs.1200 to Delhi branch had been returned to Madras Head office. The closing stock at Delhi branch was Rs.24000 at selling price. Record the above transactions in Branch stock account in the Head office books and close the said accounts on 31st January 1980.

QUESTION NO 19 (MAY 2006)

Concept & company with its Head office at Mumbai has a branch at Nagpur. Goods are invoiced to the branch at cost plus 33.33%. The following information is given in respect of the Branch for the year ended 31.3.2006:

	Rs.
Goods send to branch (invoice price)	4,80,000
Stock at branch on 1.4.2005 (invoice price)	24,000
Cash sales	1,80,000
Return of goods by customers to the branch	6,000
Branch expenses paid in cash	53,500
Branch Debtors balance on 1.4.2005	30,000
Discount allowed	1,000
Bad debts	1,500
Collection from Debtors	2,70,000
Branch Debtors cheques returned dishonored	5,000
Stock at branch on 31.3.2006(invoice price)	48,000
Branch Debtors balance on 31..03.2006	36,500

Prepare under the stock and Debtors system the following ledger accounts in the books of the head office:

(i) Nagpur branch stock account

(ii) Nagpur branch Debtors account

(iii) Nagpur branch adjustment account

Also compute shortage of stock at branch, if any?

ANSWER:

Branch Stock Account

Particulars	Amount	Particulars	Amount
To Balance b/d	24,000	By Cash sales	1,80,000
To Goods sent to branch (cost)	3,60,000	By Branch Debtors (credit sales)	2,80,000
To Branch adjustment (loading)	1,20,000	By Branch PL a/c	1,500
		By Branch adjust. **(w.n#1)**	500
To Branch Debtors	6,000		
		By Balance c/d	48,000
	5,10,000		5,10,000

Branch Debtors Account

Particulars	Amount	Particulars	Amount
To Balance b/d	30,000	By Discounts	1,000
To Bank (dishonored cheque)	5,000	By B. stock (goods returned)	6,000
To Branch stock (credit sales) (Balancing Figure)	2,80,000	By Bad debts	1,500
		By Bank (collection)	2,70,000
		By Balance c/d	36,500
	3,15,000		3,15,000

Branch Adjustment Account

Particulars	Amount	Particulars	Amount
To Branch Stock (Shortage)	5,00	By Stock reserve (opening)	6,000
To Stock Reserve (closing)	12,000	By Branch stock (loading on goods)	1,20,000
To Branch profit and loss account (Balancing Figure)	1,13,500		
	1,26,000		1,26,000

Working note:1

Calculation of shortage (invoice price)

Opening stock	24,000
Goods sent to branch	4,80,000
Goods from Debtors (returned)	6,000
Less: Cash sales	1,80,000
Credit sales	2,80,000
Closing stock	48,000

Shortage (balancing figure)	2,000
Cost of shortage(2,000*100/133.33)	1,500
Loading (2,000*33.33/133.33)	500

Notes:

(i) Shortage is calculated at invoice price. We have assumed that the shortage is an abnormal shortage so it should be divided into two break ups of cost and loading. Cost should be debited to branch profit and loss account and loading in adjustment account.

(ii) In the question, there is no requirement in relation to calculation of profit, so we have not prepared the profit and loss account.

QUESTION NO 20 (C A MAY 2010) (HOMEWORK)

Ram Limited of Chennai has a branch at Nagpur to which office, goods are invoiced at cost plus 25% . the branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the branch has to remit all cash received into the head Office bank Account at Nagpur.

From the following details , relating to the year 2009, prepare the accounts in Head office Ledgr and ascertain branch

Profit. Branch does not maintain any books of accounts , but sends weekly returns to Head Office :

	Rs.
Goods received from Head Office at invoice price	1,20,000
Returns of head office at invoice price	2,400
Stock at Nagpur Branch on 1.1.2009	12,000
Sale during the year – cash	40,000
Credit	72,000
Debtors at Nagpur Branch	14,400
Cash received from Debtors	64,000
Discounts allowed to debtors	1,200
Bad debts during the year	800
Sales Returns at Nagpur Branch	1,600
Salaries and wages at Branch	12,000
Rent, Rates and taxes at Branch	3,600
Office Expenses at Nagpur Branch	1,200
Stock at Branch on 30.12.2009 at invoice price	24,000

ANSWER

Branch net profit 7120

QUESTION NO 21 (C A MAY 2007)(HOMEWORK)

Red and Co. of Mumbai started a branch at Bangalore on 1.4.2006 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. the branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. following further details are given for the year ending on 31.3.2007 :

	Rs.
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2007 at invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2007	41,600
Bad Debts written off during the year	400

Cash remitted to H.O.	86,000
Closing cash on hadn at branch on 31.3.2007	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger accounts like branch Debtors Account, branch stock account , goods sent to branch account, branch cash Account, branch Expenses Account and branch Adjustments A/c for ascertaining gross profit and branch Profit and loss a/c for ascertaining branch profit.

SOLUTION

Branch Stock Account

Particulars	Amount	Particulars	Amount
To Balance b/d	NIL	By Cash sales	34,000
To Goods sent to branch (IP)	1,20,000	(REFER CASH A/C)	
		By credit sale	1,16,000
		(credit sales)	
To gross profit	54,000		
		By Balance c/d	
		Transit	12,000
		Hand	12,000
	1,74,000		1,74,000

Branch Debtors Account

Particulars	Amount	Particulars	Amount
To credit sale	1,16,000	By bad debts	400
(credit sales)		By cash (bal.fig)	74000
		By Balance c/d	41600
	1,16,000		1,16,000

Branch cash Account

Particulars	Amount	Particulars	Amount
To branch debtors	74,000	By HO cash	86,000
To ho cash (received)	6,000	By Branch expenses	24,000
To branch sales (bal.fig)	34,000	By Balance c/d	4,000
	1,14,000		1,14,000

Branch Adjustment Account

Particulars	Amount	Particulars	Amount
To Stock Reserve (closing) (24000X20/120)	4,000	By GSTB (loading on goods)	20,000
TO GP	70,000	BY GP	54,000
	74,000		74,000

Branch Expenses Account

Particulars	Amount	Particulars	Amount
To Branch cash	24,000	By branch P&L	24,400
To bad debts	400		
	24,400		24,400

Branch P&L Account

Particulars	Amount	Particulars	Amount
TO BRANCH EXPENSES	24,400	BY GP	70,000
TO NP	45,600		
	70,000		70,000

QUESTION NO 22 (C A NOV 2010) (RETAIL BRANCH)

Following is the information of the Jammu branch of Best Ltd. New Delhi for the year ending 31st March 2010 from the following:

(1) Goods are invoiced to the branch at cost plus 20%

(2) The sale price is cost plus 50%

(3) Other information:

	Rs.
Stock as on 1.4.2009	2,20,000
Goods sent during the year	11,00,000
Sale during the year	12,00,000
Expenses incurred at the branch	45,000

Ascertain (i) the profit earned by the branch during the year (ii) branch stock reserve in respect of unrealized profit.

QUESTION 23 (HOMEWORK)

Fanna Cloth Mills opened a branch at Mumbai on is April, 2011. The goods were invoiced to the branch at selling price which was 125% of the cost to the head office. The following are the particulars of the transactions relating to branch during the year ended 31sf March, 2012:

	Rs	Rs
Goods sent to branch at cost to head office		4212600
Sales		
Cash	1876050	
Credit	2661450	4537500
Cash collected from debtors		2355000
Discount allowed to debtors		23550
Returns from debtors		15000
Spoiled cloth in bales written off at invoice price		7500
Cheques sent to branch for:		
Rent		
Salaries	108000	
Other Expenses	270000	
	52500	430500

Prepare Branch Account based on invoice price under Debtors method for ascertaining profit for the year ended 31sf March, 2012.

Solution

Branch Account

	Rs	Rs		Rs	Rs
To Good sent to Branch account		5265750	By H.O.Cash (Remittances)		
To Bank-			Sale	1876050	
Rent	108000		Collection from debtors	2355000	4231050
Salaries	270000				
Other Expenses	52500	430500			
To Branch Stock Reserve		147150	Goods sent to branch		1053150
(7,35,750x25/125)			Account (Loading)		
To H.O. Profit and loss Account		444450	(52,65,750x25/125)		
- Transfer of profit			Balance c/d		

			Branch Stock	735750	
			Branch Debtors	267900	1003650
		6287850			6287850

Working Notes:

Memorandum Branch Stock Account

To Goods Sent to Branch			By Cash- Sale	1876050
			By Credit Sales	2661450
Cost	4212600		By Abnormal Loss -spoiled cloth	7500
Add: Loading @ 25%	1053150	5265750		
To Returns from Debtors		15000	By Balance c\d (Bal.fig.)	735750
		5280750		5280750

Memorandum Branch Debtors Account

	Rs		Rs
To Credit Sales	2661450	By Cash collected	2355000
		By Discount allowed	23550
		By Returns	15000
		By Balance c/d (Balancing figure	2,67,900
	2661450		2661450

QUESTION 24 (DEBTORS METHOD)

LMN is having branch at Mumbai. Goods are invoiced to the branch at 25% profit on sale. B ranch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses, which are met by the Branch. From the following particulars, prepare branch account in the books of head office:

Particular	Amounts (Rs)	Particular	Amounts (Rs)
Stock as on 1st April, 2013 (Invoice price)	40000	Discount allowed to debtors	300
Sundry Debtors as on 1st April, 2013	25,000	Expenses paid by head office :	
Cash in hand as on 1st April, 2013	1,000	Salary	4,000
Office Furniture as on 1st April, 2013	4,000	Staff Welfare	750
Goods invoiced from head office (invoice price)	1,80,000	Telephone Expenses	1,200
		Other Misc. Expenses paid by branch	700
Goods return to head office	6,000	Stock as on 31st March, 2014 (at invoice price)	35,000
Goods return by debtors	1,250	Depreciation to be provided on branch furniture	10% p. a.
cash received from Debtors	65,000		
Cash Sales	1,20,000		
Credit sales	70,000		

Answer

In the books of Head office -LMN
Mumbai Branch Account (At invoice price)

Particular	Amount (Rs)	Particular	Amount (Rs)
To Balance b/d :		By Stock Reserve (opening)	10,000
Stock	40,000	By Remittances	
Debtors	25,000	Cash Sales 1,20,000	
cash in hand	1,000	Cash from Debtors 65,000	1,85,000
Furniture	4,000	By Goods sent to Branch (loading)	45,000
To Goods send to branch	1,80,000	By Good returned by branch	
To Goods returned by branch (loading)	1,500	(Returns to HO)	6,000
		By Balance c/d:	
		Stock	35,000
To Bank (Expenses paid by Head office)		Debtors	28,450
		Cash (Rs 1,000- Rs 700)	300
Salary 4000		Furniture (Rs 4,000- Rs 400)	3,600
Staff 750			
Telephone 1200	5950		
To Stock Reserve (closing)	8750		
To profit Transferred to General profit & Loss A/c	47,150		3,13,350
	3,13,350		

Working Note :

Debtors Account

Particular	Amount (Rs)	Particular	Amount (Rs)
To Balance b/d	25,000	By Cash A/c	65,000
To Sales A/c (Credit)	70,000	By Sales Return	1,250
		By Discount allowed	300
	95,000	By Balance c/d	28,450
			95,000

QUESTION 25 {2011 May}

XYZ Company is having its₹ branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the branch manager. from the following particulars prepare branch account in the books of Head office.

	Rs		Rs
Stock on 1st April 2010 (invoice price)	30,000	Discount allowed to debtors	160
Sundry debtors on 1st April, 2010	18,000	Expenses paid by head office :	
Cash in hand as on 1st April, 2010	800	Rent	1800
		Salary	3200
Office furniture on 1st April, 2010	3,000	Stationary & Printing petty exp. paid by the branch	800 600
Goods invoiced from the head office (invoice price)	1,60,000	Depreciation to be	
Goods return by Branch	2000	Provided on branch	
		furniture at 10% p.a.	
Goods return by debtors	960		
Cash received from debtors	60,000		
Cash sales	1,00,000	Stock on 31st March	
Credit sales	60,000	2011 (at invoice price)	28,000

Answer :

In the books of Head Office - XYZ Company

Kolkata branch Account (at invoice)

Particular	Amt. (Rs)	Particular	Amt. (Rs)
To Balance b/d		By Stock reserve (Opening)	6,000
Stock	30,000	By H O CASH(remittances)	

Debtors	18,000	(Daily= 1,00,000+ 60,000)	1,60,000
Petty cash	800	By Loading in GSTB	32,000
Furniture	3,000	By goods returned by	
To goods sent to branch	1,60,000	Branch (Return to H.O.)	2,000
To Goods returned branch		By Balance c/d	
(loading)	400	Stock	28,000
To Bank (expenses paid by H.O.)		Debtors	16,880
Rent 1800		Cash (800-600)	200
Salary 3200		Furniture (3,000-300)	2,700
Stationery & Printing 800	5,800		
To stock reserve (Closing)	5,600		
To Profit transferred to	24,180		
General Profit & Loss A/c			
	2,47,780		**2,47,780**

Working Note :

Debtors Account

	Rs		Rs
To Balance b/d	18,000	By cash account	60,000
To sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By balance c/d	
			16,880
	78,000		**78,000**

Note : It is assumed that goods returned by branch are at invoice price.

PART-2

INDEPENDENT BRANCHES

QUESTION NO 26

Ring Bell Limited Delhi has a branch at Bombay where a separate set of books is used. The following is the trial balance extracted on 31st December 1998.

Head Office Trial Balance

	Rs.	Rs.
Share capital (Authorised: 10,000 equity shares of Rs.100 each)		
Issued: 8,000 equity shares		8,00,000
Profit and Loss account 1.1.98		25,310
Interim dividend paid--August 1998	30,000	
General reserve		1,00,000
fixed assets	5,30,000	
Stock	2,22,470	
Debtors and creditors	50,500	21,900
Profit for the year 1998		82,200
Cash balance	62,730	
Branch current account	1,33,710	
	10,29,410	10,29,410

Branch Trial Balance

	Rs.	Rs.
Fixed assets	95,000	
Profit for 1998		31,700
Stock	50,460	
Debtors and creditors	19,100	10,400
Cash balance	6,550	
Head office current account		1,29,010
	1,71,110	1,71,110

The difference between the balances of the current account in the two sets of books is accounted for as follows:

(a) Cash remitted by the branch on 31st December 1998 but received by the Head office on 1st January 1999—Rs.3,000

(b) Stock stolen in transit from Head office and charged to branch by the Head office but not credited to Head office in the branch books as the branch manager declined to admit any liability (not covered by insurance) – Rs.1,700.

Give the branch current account in the Head office books after incorporating branch trial balance through journal. Also prepare the company₹s Balance Sheet as on 31st December 1998.

QUESTION NO 27

Ashwin, a trader commenced business on 1st January 1995 with a Head office and one branch. Purchases were made exclusively by the Head office where the goods were processed before sale. There was no loss or wastage.

Only processed goods received from head office were handled by the branch and these were charged to the branch at processed cost plus 10 per cent.

All sales whether by head office or the branch were at uniform gross profit of 25 per cent on their respective cost.

The following Trial Balance as on 31st December 1995 was extracted from the books.

	Head office		Branch	
	Debit Rs.	Credit Rs.	Debit Rs.	Credit Rs.
Capital		2,20,000		
Drawings	25,000			
Purchases	19,93,350			
Cost of processing	34,650			
Sales		14,20,000		6,40,000
Goods sent to branch/ Received by branch		6,51,200	6,40,200	
Selling & General expenses	2,24,000		27,000	
Debtors/Creditors	2,30,000	5,83,350	92,000	2,400
Branch/H.O. current a/c	2,05,550			1,50,800
Balance at bank	1,62,000		34,000	
Total	28,74,550	28,74,550	7,93,200	7,93,200

Further details are:

(a) Goods charged by head office to branch in December 1995 at Rs.11,000, were not received by the branch until January 1996. A remittance of Rs.43,750 from the branch to head office in December 1996 is still in transit.

(b) Stock taking at branch disclosed shortage of Rs.5,000 (at selling price).

(c) Cost of unprocessed goods at head office as on 31st December 1995 was Rs.1,80,000.

You are required to prepare in columnar form Profit and Loss account and Balance Sheet of the head office, branch and the business as whole.

QUESTION NO 28 (NOV.2005)

M/s. Shah & Co. commenced business on 1.4.2004 with a Head office and one branch. Purchases were made exclusively by the Head office where the goods were processed before sale. There was no loss or wastage.

Only processed goods received from head office were handled by the branch and these were charged to the branch at processed cost plus 10 per cent.

All sales whether by head office or the branch were at uniform gross profit of 25 per cent on their respective cost.

The following Trial Balance as on 31.03.2005 was extracted from the books.

	Branch Debit Rs.	Branch Credit Rs.	Head office Debit Rs.	Head office Credit Rs.
Capital		3,10,000		
Drawings	55,000			
Purchases	19,69,500			
Cost of processing	50,500			
Sales		12,80,000		8,20,000
Goods sent to branch/ Received by branch		9,24,000	8,80,000	
Selling & General expenses	50,000		6,200	
Administrative expenses	1,39,000		15,000	
Debtors/Creditors	3,09,600	6,01,400	1,13,600	10,800
Branch/H.O. current a/c	3,89,800			2,61,500
Balance at bank	1,52,000		77,500	
Total	31,15,400	31,15,400	10,92,300	10,92,300

Further details are:

(d) Goods charged by head office to branch in March, 2005 at Rs.44,000, were not received by the branch until 2.4.2005.

(e) A remittance of Rs.84,300 from the branch to head office was also similarly not received up to 31.3.2005.

(f) Stock taking at branch disclosed shortage of Rs.20,000 (at selling price).

(g) Cost of unprocessed goods at head office as on 31.03.2005 was Rs.1,00,000.

You are required to prepare in columnar form Profit and Loss account and Balance Sheet of the head office, branch and the business as whole.

QUESTION NO 29

KP Limited manufactures a range of goods which it sells to wholesale customers only from its head office. In addition the head office transfers goods to a newly opened branch at factory cost plus 15%. The branch then sells these goods to the general public on only cash basis. The selling price to wholesale customers is designed to give a factory profit which amounts to 30% of the sales value. the selling price to the general public is designed to give a gross margin (i.e., selling price less cost of goods from head office) of 30% of the sales value. The company operates from rented premises and leases all other types of fixed assets. The rent and hire charges for these are include in the overhead costs shown in the trial balances.

From the information given below you are required to prepare for the year ended 31st December 1998 in columnar form:

(a) A Profit and Loss Account for (i) H.O. (ii) the branch (iii) the entire business.

(b) A Balance Sheet as on 31st December 1998 for the entire business.

	Head Office		Branch	
	Rs.	Rs.	Rs.	Rs.
Raw materials purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1-1-98				
Raw material	1,800			
Finished goods	13,000		9,200	
Debtors	37,000			
Cash	22,000		1,000	
Administrative salaries	13,900		4,000	
Salesmen₹s salaries	22,500		6,200	
Other administrative & selling overheads	12,500		2,300	
Inter-unit accounts	5,000			2,000
Capital		50,000		
Sundry creditors		13,000		
Provision for unrealized profit in stock		1,200		
Sales		2,00,000		65,200
Goods sent to branch		46,000		
Goods received from H.O.			44,500	
	3,10,200	3,10,200	67,200	67,200

Notes:

(a) On 28th December 1998 the branch remitted Rs.1,500 to head office and this has not yet been recorded in the head office books. Also on the same date, the head office dispatched goods to the branch invoiced at Rs.1,500 and these too have not yet been entered into the branch books. It is the company₹s policy to adjust items in transit in the books of the recipient.

(b) The stock of raw materials held at the head office on 31st December 1998 was valued at Rs.2,300

(c) You are advised that:

(i) There were no stock losses incurred at the head office or at the branch.

(ii) It is the company ₹s practice to value finished goods stock at the head office at factory cost.

(iii) There were no opening or closing stock of work-in-progress.

(d) Branch employees are entitled to a bonus of Rs.156 under a bilateral agreement.

QUESTION NO 30

AFFIX Limited of Calcutta has a branch at Delhi to which the goods are supplied from Calcutta but the cost thereof is not recorded in the Head office books. On 31st March 1997 the Branch Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors balance	40,000	Debtors balance	2,00,000
Head office	1,68,000	Building Extension A/c closed by transfer to H.O. a/c	
		Cash at bank	8,000
	2,08,000		2,08,000

During the six months ending on 30-9-97 the following transactions took place at Delhi.

	Rs.		Rs.
Sales	2,40,000	Manager₹s salary	4,800
Purchases	48,000	Collections from debtors	1,60,000
Wages paid	20,000	Discounts allowed	8,000
Salaries (inclusive of advance of Rs.2,000)	6,400	Discount earned	1,200
		Cash paid to creditors	60,000
General expenses	1,600	Building account (further payment)	4,000
Fire insurance (paid for one year)	3,200	Cash in hand	1,600
Remittance to head office	38,400	Cash at bank	28,000

Set out the head office account in Delhi books and the Branch Balance Sheet as on 30-9-1997. Also give journal entries in the Delhi books.

QUESTION NO 31

The following trial balances as at 31st December 1997 have been extracted from the books of Major Limited and its branch at a stage where the only adjustments requiring to be made prior to the preparation of a Balance Sheet for the undertaking as a whole:

	Head Office		Branch	
	Debit Rs.	Credit Rs.	Debit Rs.	Credit Rs.
Share capital		1,50,000		
Sundry fixed assets	75,125		18,901	
Sundry current assets	1,21,089		23,715	(Note 3)
Sundry current liabilities		34,567		9,721
Stock reserve, 1st Jan. 997 (Note 2)		693		
Revenue account		43,210		10,250
Branch account	31,536			
Head office account				22,645
	2,28,470	2,28,470	42,616	42,616

Notes:

(1) Goods transferred from head office to the branch are invoiced at cost plus 10% and both revenue accounts have been prepared on the basis of the prices charged.

(2) Relating to the head office goods held by the branch on 1st January 1997.

(3) Includes goods received from head office at invoice price Rs.4,565.

(4) Goods invoiced by head office to branch at Rs.3,641 were in transit at 31st December 1997 as was also a remittance of Rs.3,500 from the branch.

(5) At 31st December 1997 the following transactions were reflected in the head office books but unrecorded in the branch books:

(a) The purchase price of lorry, Rs.2,500 which reached the branch on Dec. 25;

(b) A sum received on December 30,1997 from one of the branch debtors Rs.750.

You are required:

(i) To record the foregoing in the appropriate ledger accounts in both set of books.

(ii) To prepare a Balance Sheet as on 31st December 1997 for the undertaking as a whole.

QUESTION NO 32 (MAY 1996)

Head office passes adjustment entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. Form the following inter-branch transactions in January, 1996, make the entry in the books of Head office:

(a) Bombay branch

(i) Received Goods: Rs.6000 from Calcutta Branch, Rs.4000 from Patna Branch.

(ii) Sent Goods to: Rs.10000 to Patna, Rs.8000 to Calcutta.

(iii) Received B/R: Rs.6000 from Patna

(iv) Sent Acceptance: Rs.4000 to Calcutta, Rs.2000 to Patna.

(b) Madras Branch (Apart from the above):

(v) Received goods: Rs.10000 from Calcutta, Rs.4000 from Bombay.

(vi) Cash sent: Rs.2000 to Calcutta, Rs.6000 to Bombay

(c) Calcutta Branch (apart from the above):

(i) Sent goods to Patna Rs.6000

(ii) Paid B/P: Rs.4000 to Patna, Rs.4000 cash to Patna.

QUESTION NO 33 (MAY 2002)

On 31st March 2000 Kanpur branch submits the following trial balance to its head office at Lucknow:

Debit balances	(Rs. in lacs)
Furniture and equipment	18
Depreciation on furniture	2
Salaries	25

Rent	10
Advertising	6
Telephone, Postage and Stationary	3
Sundry office expenses	1
Stock on 1.4.1999	60
Goods received from head office	288
Debtors	20
Cash at bank and in hand	8
Carriage inwards	7
	448
Credit balances	
Outstanding expenses	3
Goods returned to head office	5
Sales	360
Head office	80
	448

Additional information:

Stock on 31st March 2000 was valued at Rs.62 lacs on 29th March 2000 the head office dispatched goods costing Rs.10 lacs to its branch. Branch did not receive these goods before 1st April 2000. Hence the figure of goods received from head office does not include these goods. Also the head office has charged the branch Rs.1,00,000 for centralized services for which the branch has no passed the entry.

You are required to:

(i) Pass journal entries in the books of the branch to make the necessary adjustments.

(ii) Prepare final accounts of the branch including balance sheet and

(iii) Pass journal entries in the books of the head office to incorporate the whole of the Branch Trial Balance.

QUESTION NO 34

A Madras Head office has an independent Branch at Ahmedabad. From the following particulars, close the books of the Ahmedabad Branch.

Ahmedabad Branch

Trial balance as at 31st December, 2002

Debit balances	Amount	Credit balances	Amount
Stock on 1st Jan 2002	8,200	Creditors	2,700
Purchases	12,800	Sales	34,950
Wages	6,550	Head office A/c	14,000
		Discount	150

Manufacturing	3,400	Purchase returns	300
expenses	1,700		
Rent	5,500		
Salaries	4,000		
Debtors	2,000		
General expenses			
Goods received from	7,200		
H.O	750		
Cash at bank			
	52,100		52,100

(a) Closing stock at branch Rs.14,350

(b) The branch fixed assets maintained in H.O books were: machinery Rs.25,000, furniture Rs.1,000. Depreciation is to be charged at 10 per cent on machinery and 15 per cent on furniture.

(c) Rent due Rs.150

(d) A remittance of Rs.4000 made by the branch on 28th December, 2002 was received by the H.O on 4th January 2003.

ANS: *Loss Rs.400*

QUESTION NO 35

A Calcutta H.O passes one entry at the end of each month to adjust the position arising out of inter branch transactions during the month, from the following inter-branch transaction in April 19—make the entries in the books of Calcutta Head office: (give details of working)

(a) Delhi Branch:

   a. Received goods from Nagpur Branch Rs.9000 and Ahmedabad Branch Rs.6000.
   b. Sent goods to Ahmedabad branch Rs.15,000 and Nagpur Branch Rs.12,000.
   c. Received bills receivables from Ahmedabad Branch Rs.9,000.
   d. Sent Acceptances to Nagpur Rs.6,000 and Ahmedabad 3,000.

(b) Kanpur Branch: (in addition to the above)

   a. Received goods from Nagpur branch Rs.15,000 and Delhi Branch Rs.6,000.
   b. Cash sent to Nagpur Branch Rs.3,000 and Delhi Branch Rs.6,000.

(c) Nagpur Branch: (in addition to the above)

   a. Sent goods to Ahmedabad Branch Rs.9,000.
   b. Received bills receivable from Ahmedabad Branch Rs.9,000.
   c. Received cash from Ahmedabad Branch Rs.5000.

QUESTION NO 36

A Bombay merchant opens a new branch in Delhi, which trades independently of the head office. The transactions of the branch for the year ended 31st March 1990 are as under:

	Rs.	Rs.
Goods supplied by Head office		2,00,000
Purchases from outsiders:		
Credit	1,55,500	
Cash	30,000	1,85,500
Sales:		
Credit	2,50,500	
Cash	46,000	2,96,500
Cash received from customers		3,04,500
Cash paid to creditors		1,42,500
Expenses paid by branch		89,500
Furniture purchased by branch on credit		35,000
Cash received from Head office initially		40,000
Remittance to Head office		1,10,000

Prepare the Branch Final Accounts and the Branch Account in Head office books on incorporation of the Brach trial balance in the Head office books after taking the following into consideration:

(a) The accounts of the branch fixed assets are maintained in the Head office books.

(b) Write off depreciation on furniture at 5 per cent per annum for full year.

(c) A remittance of Rs.20,000 from the branch to head office is in transit.

(d) The branch values its closing stock at Rs.1,20,000.

QUESTION NO 37

Anil and Sunil are partners of a business having head office in Delhi and Branch at Calcutta. Anil looks after the Delhi office and Sunil books after the Calcutta Branch. Anil is entitled to 40% of the profits made at Delhi while Sunil is entitled to 30% of the profits at Calcutta. The balance profits/losses are shared equally.

The following trial balances as on 31st December, 1981 are furnished to you.

	DELHI HEAD OFFICE		CALCUTTA BRANCH	
	Dr.	Cr.	Dr.	Cr.
Opening stock at cost	30,000	-	40,000	-
Purchases and returns	1,80,000	10,000	2,75,000	15,000
Goods sent to:				
Calcutta	-	50,000	-	-
Delhi	-	-	-	70,000
Goods received from:				
Calcutta	65,000	-	-	-
Delhi	-	-	48,000	-
Sales and returns	15,000	3,15,000	20,000	3,70,000
Expenses	28,000	-	39,000	-
Customer accounts	64,000	4,000	71,000	3,000
Suppliers accounts	2,000	32,000	1,000	51,000
Bank account	70,000	-	-	6,000

Fixed assets opening	50,000	-	80,000	-
WDV	-	5,000	-	-
Calcutta branch A/c	-	-	17,000	-
Delhi H.O. A/c				
Capital and drawing :	30,000	83,000	4,000	35,000
Anil	5,000	40,000	25,000	70,000
Sunil	5,39,000	5,39,000	6,20,000	6,20,000

You are informed that:

(a) On 30th December 1981 Delhi head office remitted Rs.5000 by bank draft to Calcutta branch. The envelope was received by the branch on 2nd January 1982.

(b) Stock at cost on 31st December 1981, was worth:-

a. Rs.46,000 at Delhi and

b. Rs.54,000 at Calcutta

(c) Depreciation is to be provided at 10%.

(d) 10% of the cash expenses relating to the Head office are to be treated as overheads incurred on behalf of the branch.

(e) You are required to prepare the:-

i. Trading and Profit and Loss account both for the branch and H.O.

ii. Consolidated balance sheet of the firm as on 31st December 1981,

iii. Branch and head office accounts of the respective books.

(Ans:- Net profit:-branch =76,200, Head office=1,00,800. Balance Sheet total=4,37,000 branch and head office accounts balances in the respective books 7200)

QUESTION NO 38

Unique products operates from a head office in Cuttack and a branch in Ranchi. The following trial balance have been extracted from the books of accounts as at 31st March 2000:

	HEAD OFFICE		RANCHI BRANCH	
	Dr.	Cr.	Dr.	Cr.
Capital		20,50,000		
Cash and bank	77,500		65,000	
Debtors and creditors	3,00,000	2,50,000	3,00,000	
Operating expenses	14,02,500		1,07,500	
Branch current account	8,75,000			
Head office account				6,00,000
Bad debt provisions		45,000		12,500
Provision for depreciation		7,00,000		1,50,000
Provision for unrealized profit		20,000		
Opening stock	40,000		1,00,000	
Fixed assets (at cost)	17,50,000		5,00,000	
Drawings	2,00,000			
Sales		42,50,000		21,85,000
Goods sent to branch at invoice price		19,00,000	18,75,000	
Purchases	45,70,000			
	92,15,000	92,15,000	29,47,500	29,47,500

Additional information:

(a) Sock at 31st March 2000 are valued at

1. head office Rs.60,000
2. branch Rs.75,000(invoice price)

(b) All goods are invoiced at cost plus 25%.

(c) Fixed assets are depreciated at 10% on costs.

(d) Provisions for bad debts are to be maintained at 5% on debtors.

(e) Goods in transit at invoice price from the head office to the branch at Rs.25,000

(f) Cash in transit from the branch to the head office Rs.2,50,000.

Prepare, in columnar form, the head office and the branch trading and Profit and Loss account for the year ended 31st March 2000 and a Balance Sheet for the business as a whole.

(Ans:- H.O= gross profit and net profits =16,00,000 and 52,500)
Branch = Gross profit and net profits= 2,85,000 and 1,25,000)
(Balance total is 22,77,500)

QUESTION NO 39 (NOV 2004)

Give journal entries in the books of Branch A to rectify or adjust the following:

(a) Head office expenses Rs.3,500 allocated to the Branch, but not recorded in the branch books.
(b) Depreciation of branch assets, whose accounts are kept by the head office not provided for Rs.1,500.
(c) Branch paid Rs.2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the branch to salaries account.
(d) H.O collected Rs.10,000 directly from a customer on behalf of the branch, but no intimation to this effect has been received by the branch
(e) A remittance of Rs.15,000 sent by the branch has not yet been received by the head office.
(f) Branch A incurred advertisement expenses of Rs.3,000 on behalf of Branch B.

ANSWER:

JOURNAL ENTRIES

(I)	Expenses Account	Dr.	3500	
	To Head Office Account			3500
(ii)	Depreciation Account	Dr.	1500	
	To Head office Account			1500
(iii)	Head office Account	Dr.	2000	
	To Salaries Account			2000
(iv)	Head Office Account	Dr.	10000	
	To Branch Debtors Account			10000
(v)	-----------------------NO ENTRY------------------------------			
(vi)	Head office Account	Dr.	3000	
	To bank account			3000
	(being expenditure is paid on the direction of head office)			

QUESTION NO 40 (MAY 2003)

Show adjustment journal entries in the books of head office at end of April 2003 for incorporation of inter branch transactions assuming that only head office maintains different branch accounts in its books:

(A) Delhi branch

a. Received goods from Mumbai: Rs.35,000 and 15,000 from Kolkata
b. Sent goods to Chennai Rs.25,000 and Kolkata Rs.20,000
c. Bills receivables received Rs.20,000 from Chennai
d. Acceptances sent to Mumbai Rs.25,000, Kolkata Rs.10,000

(B) Mumbai Branch (apart from above)

a. Received goods from Kolkata Rs.15,000, Delhi Rs.20,000
b. Cash sent to Delhi RS.15,000 and Kolkata Rs.7,000

(C) Chennai Branch (apart from above)

a. Received goods from Kolkata Rs.30,000
b. Acceptances and cash sent to Kolkata Rs.20,000 and Rs.10,000 respectively

(D) Kolkata Branch (apart from above)

a. Sent to goods to Chennai Rs.35,000
b. Paid cash to Chennai Rs.15,000
c. Acceptances sent to Chennai Rs.15,000

All working should form part of the answer.

QUESTION NO 41

The following is the Trial Balance of ICS branch as at 30th june 2002:

	Debit	Credit
H.O account	32,400	
Opening stock	60,000	
Purchases	1,78,000	
Goods received from H.O	90,000	
Sales		3,80,000
Goods supplied to H.O		60,000
Salaries	15,000	
Debtors	37,000	
Creditors		18,500
Rent	9,600	
Office expenses	4,700	
Cash in hand and at bank	17,800	
Furniture	14,000	
	-------------------	---------------
	4,58,500	4,58,500

Additional information:

(a) Stock on hand was valued at Rs.27,000

(b) The branch account in the head office books on 30th June 2002 stood at Rs.4600 debit

(c) On 28th June 2002, the Head office forwarded goods to the value of Rs.25,000 to the branch where they were received on 3rd July 2002.
(d) A cash remittance of Rs.12,000 by branch on 24th June was received by H.O on July 1.

Required:

(a) Journal entries necessary to incorporate the above trial balance
(b) The results of trading at branch
(c) ICS branch account in the books of H.O

ANS: 1,09,700

QUESTION NO 42

The head office of Ganpati company and its branch keep their own books prepare own profit and loss account. The following are the balances appearing in the two sets of the books as on 31.3.2004 after ascertainment of profits and after making all adjustments except those referred to below:

Particulars	Head office		Branch office	
Capital	-	10,00,000	-	-
Fixed assets	3,60,000	-	1,60,000	-
Stock	3,42,000	-	1,07,400	-
Debtors and creditors	78,200	39,600	48,400	19,200
Cash	1,07,400	-	14,200	-
Profit and loss account	-	1,46,600	-	30,600
Branch account	2,98,600	-	-	-
Head office account	-	-	-	2,80,200
Total	11,86,200	11,86,200	3,30,000	3,30,000

Set out the Balance Sheet of the business as on 31.03.2004 and the journal entries necessary (in both sets of books) to record the adjustments dealing with the following:

1. On 31.3.2004 the branch had sent a cheque for Rs.10,000 to the head office, not received by the head office nor credited to the branch till next month.
2. Goods valued at Rs.4400 had been forwarded by the head office to the branch and invoiced on 30.3.2004 but were not received by the branch nor dealt with in their books till next month.
3. It was agreed that the branch should be charged with Rs.3000 for administration services rendered by the head office during the year.
4. Stock stolen in transit from the head office to the branch and charged to the branch by the head office but not credited to the head office in the branch books as the manager declined to admit any liability , Rs.4000 (not covered by the insurance)
5. Depreciation of branch assets of which accounts are maintained by head office not provided for Rs.2500.
6. The balance profits shown by the branch is to be transferred to head office books.

ANSWER:

Balance Sheet Of Ganpati Co. as at 31.03.2004

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital	10,00,000		**Fixed assets:**		
Add: net profit:			Head office	3,60,000	
Head office	1,45,600		Branch	1,60,000	
Branch	25,100	11,70,700	Less:		5,17,500
			depreciation	(2,500)	
Creditors:			**Stock:**		
Head office	39,600		Head office	3,42,000	
Branch	19,200	58,800	Branch	1,07,400	
			In transit	4,400	4,53,800
			Debtors:		
			Head office	78,200	
			Branch	48,400	1,26,600
			Cash:		
			Head office	1,07,400	
			Branch	14,200	
			In transit	10,000	1,31,600
		-----------			-----------
		12,29,500			12,29,500

Journal entries in the books of Head office

S.No.	Particulars	Dr	Cr
1.	Cash in transit A/c Dr.	10,000	
	To Branch A/c		10,000
2.	Branch A/c Dr.	3,000	
	To profit and loss a/c		3,000
3.	Profit and loss account Dr.	4,000	
	To Branch A/c		4,000
4.	Branch A/c Dr.	2,500	
	To fixed Assets account		2,500
5.	Branch profit and loss account Dr.	25,100	
	To profit and loss account		25,100

HEAD OFFICE PROFIT AND LOSS ACCOUNT

Particulars	Amount	Particulars	Amount
To branch-stock stolen	4,000	By balance b/d	1,46,600
To profit -transferred	1,45,600	By branch- expenses	3,000
	------------		-------------
	1,49,600		1,49,600

Journal entries in the Books of Branch

S.No.	Particulars	Dr	Cr
1.	Goods in Transit A/c Dr.	4,400	
	To Head office A/c		4,400
2.	Profit and loss account Dr.	3,000	
	To Head office a/c		3,000
3.	Profit and loss account Dr.	2,500	
	To head office A/c		2,500
5.	Profit and loss account Dr.	25,100	
	To Head office Account (being profit transferred to head office account)		25,100

BRANH OFFICE PROFIT AND LOSS ACCOUNT

Particulars	Amount	Particulars	Amount
To head office-expenses	3,000	By balance b/d	30,600
To head office-depreciation	2,500		
To profit-transferred to H.O	25,100		
	30,600		30,600

QUESTION NO 43 (C A NOV 2008)(2MARKS)

Goods worth Rs. 50,000 sent by head office but the branch has received till the closing date goods only Rs. 40,000. Give journal entry in the books of H.O. and branch for goods in transit.

ANSWER Goods in transit Ac/ Dr. 10,000
To Head Office A/c 10,000

QUESTION NO 44 (C A MAY 2007)(2MARKS)

Alpha & Co. Having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account .on 31.3.2007, it was found that the goods dispatched by head office for R.s 2,00,000 was received by the branch only to the extent of Rs. 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

ANSWER

Nagpur branch must include the inventory in its books as goods in transit.
The following journal entry must be made by the branch:

Goods in transit A/c Dr. 50,000
To Head office A/c 50,000

[Being goods sent by head office is still in transit on the closing date]

QUESTION 45

Messrs Ramhand & Co., Hydera bad have a branch in Delhi. The Delhi Branch deals not only in the goods from Head Office but also buys some auxiliary goods and deals in them. They, however, do not prepare any Profit & Loss Account but close all accounts to the Head Office at the end of the year and open them afresh on the basis of advice from their Head Office. The fixed assets accounts are also maintained at the Head Office.

The goods from the Head Office are in voiced at selling prices to give a profit of 20 per cent on the sale price. The goods sent from the branch to Head Office are at cost. From the following prepare Branch Trading and Profit & Loss Account and Branch Assets Account in the Head Office Books.

Trail Balance of the Delhi Branch as on 31-12-2012

Debit	Rs	Credit	Rs
Head office opening balance on 1-1-12	15000	Sales	100000
Goods from H.O	50000	Goods to H.O	3000
Purchase	20000	Head office current A/c	15000
Opening stock		Sundry Creditors	3000
(H.O. goods at invoice prices)	4000		
Opening stock of other goods	500		
Salaries	7000		
Rent	3000		
Office expenditure	2000		
Cash on Hand	500		
Cash at Bank	4000		
Sundry Debtors	15000		
	121000		121000

The Branch balances as on 1st January, 2012, were as under: Furniture 5,000 Sundry Debtors Rs 9,500: Cash 1,000. Creditors 30,000: Stock (HO. goods at invoice price) 4,000; other goods 500. The closing stock at branch of the head office goods at invoice price is 3,000 and that of purchased goods at cost is 1,000. Depreciation is to be provided at 10 per cent on branch assets.

Solution

Delhi Branch Trading and Profit & Loss Account
for the year ended 31st Dec., 2012

		Rs			Rs
To opening Stock			By Sales		1,00,000
Head office Goods	3,200		By Goods from Branch		3,000
Other	500	3700	By Closing Stock:		
To Goods to Branch		40000	Head Office goods	2,400	
To Purchase		20000	Other	1,000	3,400
To Gross profit c/d		42700			
		1,06,400			1,06,400
To Salaries		7,000	By Gross profit b/d		42,700
To Rent		3000			
To office Expenses		2000			
To Dep. on furniture @ 10%		500			
To Net Profit		30,200			
		42,700			42700

Branch (Fixed) Assets Account (In Head office Books)

2012		Rs	2012		Rs
Jan.1	To Balance b/d	5000	Dec. 31	By Delhi Branch A/c (Depreciation)	500
				By Balance c/d	4,500
		5000			5000
2013 Jan.1	To Balance b/d	4500			

Working Notes

Cash/ Bank Account (Branch Books)

	Rs	Rs		Rs
To Balance b/d		1000	By Salaries	7,000
To Debtors			By Rent	3000
Sales	1,00,000		By Office Exp.	2000
Opening balance			By Creditors	47000
Of Debtors	9,500		By Head Office (balancing fig).	32000
	1,09,500			
Less: Closing balance	(15,000)	94,500	By Cash balance	500
			By Bank Balance	4000
		95,500		**95,500**

* Opening Balance + Purchase- Closing balance = payment

Rs 30,000+ Rs 2000- Rs 3,000= Rs 47000

Trial Balance of Delhi Branch as on 1-1-2012

		Dr. Rs	Cr. Rs
Debtors		9500	
Cash		1000	
Stock H.O. Goods	4000		
Others	500	4500	
Creditors			30000
Head Office Account		15,000	
		30,000	**30000**

Head Office

	Rs		Rs
To Balance (transfer	15000	By Goods From Head office	50000
To Cash	32000		
To Goods Sent	3000		
	50000		**50000**

Credit balance in Head Office Account before this transfer will be 15,000 credit.

Note : Furniture A/c is maintained in head office books it is not a part of either opening or closing balance.

QUESTION 46 {2007 - Nov [4]}

Beta Ltd. having office at Mumbai has a branch at Nagpur. The Head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz.., Cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31st march, 2007:

	Head Office Rs	Branch Rs
Opening Stock (as on 1.4.2006)	2,25,000	-
Purchases	25,50,000	-
Goods sent to Brach (Cost to H.O. plus 80%)	9,54,000	-
Sales	27,81,000	9,50,000
Office expenses	90,000	8,500
Selling expenses	72,000	6,300
Staff Salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the Head Office and Branch for the year ended 31st March, 2007.

ANSWER:

Trading & P&L A/c of the Branch

Particulars	Rs	Particulars	Rs
To Op Stock	-	By Sales	9,50,000
To Goods received from	9,54,000	By closing (W.N.-1)	99,000
H.O.	95,000		
To Gross Profit c/d	**10,49,000**		**10,49,000**
		By Gross Profit b/d	95,000
To Office exp.	8,500		
To Selling exp.	6,300		
To Staff salary	12,000		
To Net profit	68,200		
	95,000		**95,000**

Trading & P&L A/c the of H.O.

Particulars	Rs	Particulars	Rs
To Opening Stock	2,25,000	By Sales	27,81,000
To purchase	25,50,000	By goods sold to branch	9,54,000
To G.P. c/d	16,60,000	By closing (W.N.-2)	7,00,000
	44,35,000		44,35,000
To Office expenses	90,000	By Gross Profit b/d	16,60,000
To selling expenses	72,000		
To Staff Salary	65,000		
To Branch Stock Revenue (WN-1)	44,000		
To Net Profit	13,89,000		
	16,60,000		16,60,000

Working Notes:

1. Calculation of closing stock of branch:

	Rs.
Goods received from head office [at invoice value]	9,54,000
Less : Invoice value of goods sold [9,50,000 x 180/200]	8,55,000

2. **Calculation of closing stock of head office:**

	Rs
Opening stock of head office	2,25,000
Goods purchased by head office	25,50,000
	27,75,000
Less: Cost of goods sold [(27,81,000 + 9,54,000) x 100/ 180]	20,75,000
	7,00,000

3. Calculation of unrealised profit in branch stock :

	Rs	
Branch stock		99,000

Profit included 80% of cost

Therefore , unrealised profit would be = Rs 99,000 x 80/180 Rs 44, 000

QUESTION 47 {2014- May [6]}

Pass necessary Journal entries in the books of an independent Branch of a company, wherever required, to rectify or adjust the following :

(i) Income of Rs 2,800 allocated to the branch by Head office but not recorded in the branch books

(ii) Provision for doubtful debts, whose accounts are kept by the Head office, not provided earlier for Rs 1,000.

(iii) Branch paid Rs 3,000 as salary to a Head Office Manager , but the amount paid has been debited by the Branch to Salaries Account.

(iv) Branch incurred travelling expenses of Rs 5,000 on behalf of Branches, but not recorded in the books of Branch.

(v) A remittance of Rs 1,50,000 sent by the branch has not received by Head office on the date of reconciliation Accounts.

(vi) Head office allocated Rs 75,000 to the branch as Head office expenses, which has not yet been recorded by the Branch.

(vii) Head office collected Rs 30,000 directly from a branch Customer. The intimation of the fact has been received by the branch only now.

(viii) Goods dispatched by the Head Office amounting Rs 10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

QUESTION 48 {2011- Nov}

Global Limited has a branch which closes its books of account every year on 31st March, This is an independent branch which maintains comprehensive books of account for recording their transactions.

You are required to show journal entries in the books of branch on 31st March, 2011 to rectify or adjust the following :

(i) Head Office allocates Rs 1,35,000 to the branch as head office expenses, which have not yet been recorded by branch.

(ii) Deprecation of branch fixed assets, whose account are kept by head office in its books, not yet recorded in the branch books Rs 1,15,000.

(iii) Branch paid Rs 1,40,000 as salary to an official from head office on visit to branch and debited the amount to its Salaries Account.

(iv) Head office collected Rs 1,30,000 directly from a branch customer on behalf of the branch, but no intimation was received earlier by the branch.

Now the branch learns about it.

(v) It is learnt that a remittance of Rs 1,50,000 sent by the branch has not been received by head office till date.

Answer :

In the books of Branch
Journal Entries

S.No.	Particulars	Dr. (R)	Cr. (R)
(i)	Expenses A/c Dr.	1,35,000	
	To Global Limited (H.O.) A/c		1,35,000
	(Being expenses allocated to branch by head office		
(ii)	Deprecation a/c Dr.	1,15,000	
	To Global Limited (H.O.) A/c		1,15,000
	(Being depreciation on fixed assets of branch , whose account are maintained by head office)		
(iii)	Global Limited (H.O.) A/c Dr.	1,40,000	
	To Salaries A/c		1,40,000
	(Being the rectification of salary paid, on behalf of the head office)		
(iv)	Global Limited (H.O.) A/c Dr.	1,30,000	
	To Debtors A/c		1,30,000
	(Being adjustment of direct collection from branch debtors, by head office)		
(v)	No. entry shall be passed in the books of Branch but will be shown in the books of Head office as cash-in-transit.		

QUESTION 49 {2012- Nov}

Give Journal Entries in the books of Head office to rectify or adjusted the following :

(i) Goods sent to branch Rs 12,000 stolen during transit, branch manager refused to accept any liability.

(ii) Branch paid Rs 15,000 as salary to the officer of head office on his visit to the branch.

(iii) On 28th March, 2012, The H.O. dispatched goods to the branch invoiced at Rs 25,000 which was not received by branch till 31st March, 2012.

(iv) A remittance of Rs 10,000 sent by the branch on 30th March, 2012, received by the head office on 1st April, 2012.

Answer :

In the books head office
Journal entries

	Particulars	Dr. Amount Rs.	Cr. Amount
(i)	Loss of goods due to theft during transit Dr. To Branch Account (Being goods lost on account of theft during transit.	12,000	 12,000

(ii)	Salaries account Dr. To Branch account (Being salary paid by the branch for H.O. employee)	15,000	 15,000
(iii)	No entry in the books of head office for goods sent to branch not received by branch till 31st March, 2012.		
(iv)	Cash in transit account Dr. To branch account (being remittance by branch not received by 31st March, 2012)	10,000	 10,000

PART-3

FOREIGN BRANCHES (AS 11)

QUESTION NO 50

The New York branch of Fine Textiles Limited, Delhi sent the following Trial Balances as on 31st December 19X9.

	$	$
Fixed assets	1,20,000	
Stock 1st January 19X9	56,000	
Goods from head office	3,20,000	
Sales		4,20,000
Expenses	25,000	
Debtors and Creditors	24,000	17,000
Cash at bank	6,000	
Head office account		1,14,000
	5,51,000	5,51,000

In the head office books the branch account stood as shown below:

New York Branch Account

	Debit Rs.		Credit Rs.
To Balance b/d	10,05,000	By Cash	26,08,000
To Goods sent to branch	24,63,000	By Balance c/d	8,60,000
	34,68,000		34,68,000

Goods are invoiced to the branch at cost plus 10% and branch has instruction to sell at invoice price plus 25%. Fixed assets were acquired on 1st January 19X1 when $ 100 = Rs.380. Rates of exchange were:

1st January 19X9 $ 100 = Rs.760
31st December 19X9$ 100 = Rs.770
Average $ 100 = Rs.750

Fixed assets have to be depreciated by 10% and the branch manager is entitled to commission of 5% on the profit of the branch (on invoice price basis).

You are required to convert the branch Trial Balance into rupees and prepare the Branch Trading and Profit and Loss account and the Branch Account.

QUESTION NO 51

The New York branch of Delhi Export House sent the following Trial Balance as on 31-12-19X3.

	$ Debit	$ Credit
Fixed assets	17,500	
Loan (taken to purchase fixed assets)		13,000

Depreciation	2,500	
Stock 1-1-X3	8,200	
Goods from Head office	58,800	
Sales		1,05,200
Salaries and wages	15,200	
Interest	2,880	
Cash at bank	1,700	
Debtors	21,200	
Head Office account		9,780
	1,27,980	1,27,980

Fixed assets were purchased on 1-1-X1 when \$1 = Rs.25.50, life was estimated to be 10 years. To finance the fixed asset a loan amounting to \$ 22,000 was taken @ 18% interest per annum. Annual loan instalment of 3,000 and interest were payable in every December.

Exchange Rates:

Average of 19X1	\$1 = Rs.25.70	
31-12-19X1		\$1 = Rs.26.10
Average of 19X2	\$1 = Rs.26.20	
31-12-X2		\$1 = Rs.26.40
Average of 19X3	\$1 = Rs.36.50	
31-12-X3		\$1 = Rs.42.20

In the Head office books London Branch account appeared as follows:

New York Branch Account

	\$	Rs.		\$	Rs.
To Balance b/d	7,000	1,84,800	By Bank	56,020	20,44,730
To Goods	58,800	21,46,200	By Balance	9,780	4,12,716
To P & L a/c		1,26,446			
Exchange gain					
	65,800	24,57,446		65,800	24,57,446

Closing Stock : \$ 2,400

You are required to show:

(1) Branch Fixed A/c, (2) Branch Loan A/c, (3) Branch Trial Balance in Rupee Terms, (4) Branch Profit and Loss A/c (5) Adjustment Entries to incorporate branch balances in the head office loans.

QUESTION NO 52 (NOV 1999)

An Indian company has a branch at Washington. Its trial balance as on 30th September 1998 is as follows:

	Dr. US \$	Cr. US \$
Plant and machinery	1,20,000	------
Furniture and fixtures	8,000	------
Stock, October 1,1997	56,000	------

Purchases		2,40,000	------
Sales		------	4,16,000
Goods from Indian co. (H.O.)		80,000	------
Wages		2,000	------
Carriage inward		1,000	------
Salaries		6,000	------
Rent, rates and taxes		2,000	------
Insurance		1,000	------
Trade expenses		1,000	------
Head Office a/c		------	1,14,000
Trade debtors		24,000	------
Trade creditors		------	17,000
Cash at bank		5,000	------
Cash in hand		1,000	------
	US $	5,47,000	5,47,000

The following information is given:

(i) Wages outstanding-- $ 1000

(ii) Depreciation Plant and Machinery and furniture and fixtures @ 10 % p.a.

(iii) The head office sent goods to branch for Rs.39,40,000.

(iv) The head office shows an amount of Rs.43,00,000 due from branch.

(v) Stock on 30th September 1998 -- $ 52,000.

(vi) There were no in transit items either at the start or at the end of the year.

(vii) On September 1, 1996, when the fixed assets were purchased the rate of exchange was Rs.38 to one $.

On October 1,1997 the rate was RS.39 to one $.

On September 30,1998 the rate was Rs.41 to one $.

Average rate during the year was Rs.40 to one $.

You are asked to prepare:

(a) Trial Balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees;

(b) Trading and profit and loss account for the year ended 30th September 1998 and balance sheet as on that date depicting the profitability and net position of the branch as would appear in India for the purpose of purpose of incorporating in the main balance sheet.

QUESTION NO 53 (MAY 1999)

Carlin & Co. has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch furnishes you with its trial balance as on 31.3.99 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousand)	
Stock on 1.4.1998	300	------
Purchases and sales	800	1,200
Sundry debtors and creditors	400	300
Bill of exchange	120	240
Wages and salaries	560	----
Rent, rates and taxes	360	----
Sundry charges	160	----
Computers	240	----
Bank balance	420	----
New York office A/c	----	1,620
Rs.	3,360	3,360

Additional information:

(a) Computers were acquired from a remittance of US $ 6000 received from New York head office and paid to the suppliers. Depreciate computers at 60 % for the year.

(b) Unsold stock of Mumbai branch was worth Rs.4,20,000, on 31.3.1999.

(c) The rates of exchange may be taken as follows:

(i) On 1.4.1998 @ Rs.40 per US $

(ii) On 31.3.1999 @ Rs.42 per US $

(iii) Average exchange rate for the year @ Rs.41 per US $

(iv) Conversion in $ shall be made up to two decimal accuracy.

You are required to prepare in US dollars the revenue statement for the year -ended 31.3.1999 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US $ 39609.18 on 31.3.1999 in New York books and there were no items pending reconciliation.

QUESTION NO 54 (C A NOV 2009)

DM Ltd. Delhi has a branch in London. London branch is an integral foreign operation of DM Ltd at the end of the year 31st March, 2009, the branch furnishes the following trial balance in U.K. Pound :

Fixed assets (Acquired on 1st April, 2005)	24,000	
Stock as on 1st April, 2008	11,200	
Goods from head office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchase	12,000	
Sale		96,000
	1,22,000	**1,22,000**

In head office books, the branch account stood as shown below :

London branch A/c

Dr. Particular	Amount Rs.	Particular	**Cr.** Amount Rs.
To Balance b/d	20,10,000	By bank a/c	52,16,000
To Goods sent to branch	49,26,000	By bank c/d	17,20,000
	69,36,000		**69,36,000**

The following further information are given:

(a) Fixed assets are to be depreciated @ 10% p.a. straight line basis.

(b) On 31st March , 2008:

Expenses outstanding	£400
Prepared expenses	£200
Closing stock	£ 8,000

(C) Rate of Exchange :

1st April, 2005	-	Rs. 70 to £1
1st April, 2008	-	Rs. 76 to £1
31st April, 2009	-	Rs. 77 to £1
AVERAGE RATE	-	RS.75 to £1

You are required to prepare:

(1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.

(2) Trading and profit and Loss A/c for the year ended 31st march, 2009 and the Balance sheet as on that date of Londaon branch as would appear in the books of Delhi head office of DM Ltd.

ANSWER:

Gross profit 11,38,800 Net profit 6,08,200 B/S TOTAL 26,05,400

QUESTION NO 55 (C A MAY 2008)

The Washington branch of XYZ Ltd., Mumbai sent the following trial balance as on 31st December , 2007:

	$	$
Head Office A/c	-	22,800
Sales	-	84,000
Debtors and	4,800	
Creditors		3,400
Machinery	24,000	-
Cash at Bank	1,200	-
Stock, 1 January, 2007	11,200	-
Goods from HO	64,000	-
Expenses	5,000	-
	1,10,200	**1,10,200**

In the books of head office, the Branch a/c stood as follows

Washington Branch A/c

	Rs.		Rs.
To Balance b/d	810,000	By cash	28,76,000
To goods sent to branch	29,26,000	By Balances c/d	8,60,000
	37,36,000		**37,36,000**

Goods are sent to the branch at cost plus 10% and the branch sell goods at invoice price plus 25% Machinery were acquired on 31st January, 2002.
When $ 1.00 = Rs. 40 .

Rate of Exchange were

1st January 2007	$ 1.00 = Rs. 46
31st December 2007	$ 41.00 – Rs. 48
Average	$ 1.00 = Rs. 47

Machinery is depreciated @ 10% and the branch manager is entailed to a commission of 5% on the profit of the branch after charging such commission.

You are required to:

(i) Prepare the branch trading & Profit & Loss a/c in Dollars

(ii) Convert the trial balance of the branch into Indian Currency and prepare branch trading & Profit and Loss a/c and the branch a/c in the books of head office.

ANSWER

(I)

Trading and Profit & Loss A/c (In Dollars)

Particular	Rs.	Particular	Rs.
To Opening Stock	11,200	By Sales	84,000
To Good from H.O.	64,000	By Closing Stock	8,000
To Goods Profit c/d	16,800		
	92,000		**92,000**
To Expenses	5,000	By Gross Profit b/d	16,800
To Depreciation	24000		
To Manager₹s Commission	448		
To Net Profit c/d	8,952		
	16,800		**16,800**

(ii) (a) Converted Trial Balance

Particular	Rate per Re.	(Dr. (Rs)	Cr (Rs.)
Machinery	40	9,60,000	
Stock Jan. 1,2007	46	5,15,200	
Good from H.O.	-	29,26,000	
Sales	47	-	39,48,000
Expenses	47	2,35,000	-
Debtors & Creditors	48	2,30,400	163,200

H.O. A/c	-	-	8,60,000
Cash at Bank	-	57600	-
Difference of Exchange	-	47000	-
	-	**49,71,200**	49,71,200
Closing Stock $ 8,000 (WN 2)	48		3,64,000

(b) Trading and Profit & Loss Account

Particular	Rs.	Particular	Rs.
To Opening Stock	5,15,200	By sales	39,48,000
To Goods from H.O.	29,26,000	By Closing Stock	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	8,90,000
To Depreciation @ 10% on R.s 9,60,000	96,000		
To Exchange differences	47,000		
To Manger₹s Commission (WN1)	21,504		
TO Net Profit c/d	4,91,296		
	8,90,800		**8,90,800**

Working Notes

(i) (ii) (iii) Manager₹s Commission = 5/105 of [16,800 – (5,000 + 2.400)] = $ 448 (approx)

Manager₹s Commission in Rs. $448 x 48 = 21,504

(iv) Calculation of closing stock

Opening stock	11,200
Add: Goods from H.O.	64,000
Less: Cost of Goods Sold (at invoice price) [100/125 x 84,000]	(67,200)
Closing Stock	8,000

QUESTION 56 {2010- May [1]}

On 31st March, 2010, the following Ledger balances have been extracted from the books of Washington branch office :

Ledger A/c	$
Building	180
Stock as on 1.4.2009	26
Cash and bank balances	57
Purchases	96
Sales	110
Commission receipts	28
Debtors	46
Creditors	65

You are required to convert above ledger balances into Indian Rupees .

Use the following rates of exchanges:

Opening Rate $ = 46

Closing Rate $ = 50

Average rate $ = 48

For Fixed Assets $ = 42

Answer :

Conversion of ledger balances (in Dollars) into Rupees

Particulars	$	Rate per $	Amount in Rs
Building	180	42	7560
Stock as on 01.04.2009	26	46	1196
Cash and bank balances	57	50	2850
Purchases	96	48	4608
Sales	110	48	5280
Commission receipts	28	48	1344
Debtors	46	50	2300
Creditors	65	50	3250

QUESTION 57 {2013- May [6]}

ABCD Ltd . Delhi has a branch in New York, USA, which is an integral foreign operation of the company. At the end on 31st March, 2013, the following ledger balances have been extracted from the books of the Delhi office and the New York Branch.

Particulars	Delhi (Rs. thousands)		New York $ thousand	
	Debit	Credit	Debit	Credit
Share capital		1250		
Reserves and Surplus		940		
Land	475			
Building (cost)	1,000			
Buildings Depreciation Reserve		200		
Plant & Machinery (cost)	2,000		100	
Plant & Machinery Depreciation Reserve		500		20
Trade receivables/ payables	500	270	60	20
Stock (01-04-2012)	250		25	
Branch stock Reserve		65		
Cash & Bank Balances	125		4	
Purchases/ Sales	275	600	25	125
Goods sent to branch		1,500	30	
Managing Director₹s salary	50			
Wages & Salaries	100		18	
Rent			6	
Office Expenses	25	12		
Commission receipts		275		100

Branch /H.O. current A/c	800	-	-	15
Total	<u>5,600</u>	<u>5,600</u>	<u>280</u>	<u>280</u>

The following information is also available:

(1) Stock as at 31-01-2013

Delhi - Rs 2,00,000

New york - $ 10 (all stock received from Delhi)

(2) Head office always sent goods to the branch at cost plus 25%

(3) Provision is to be made for doubtful debts at 5%

(4) depreciation is to be provided on Building at 10% and on Building at 10% and on plant and Machinery at 20% on written down values.

You are required.

(a) To convert the Branch Trial balance into rupees, using the following rates of exchange :

Opening Rate 1$ = Rs 50

Closing rate 1$ = Rs 55

Average rate 1$ = Rs 52

For fixed assets 1$ = Rs 45

(b) To prepare the Trading and Profit & Loss Account for the year ended 31st March , 2013, showing to the extent possible, Head office result and branch results separately.

ABCD Ltd.

New York Branch Trial Balance

(As on 31st March, 2013)

	($ ₹000			(Rs ₹000)	
Particular	Dr.	Cr.	Conversion rate per $	Dr.	Cr.
Plant & Machinery (cost)	100		Rs 45	4,500	
Plant& Machinery Dep. Reserve		20	Rs 45		900
Trade receivable / payable	60	20	Rs 55	3,300	1,100
Stock (1.4.2012)	25		Rs 50	1,250	
Cash & Bank Balances	4		Rs 55	220	
Purchase /sales	25	125	Rs 52	1,300	6,500
Goods received from H.O.	30			1,500	
Wages & Salaries	18		Rs 52	936	
Rent	6		Rs 52	312	
Office expenses	12		Rs 52	624	

Commission Receipts		100	Rs 52		5,200
H.O. Current A/c		15			800
				13942	14,500
Exchange loss (bal. fig)				558	
				14500	14,500

(b)

Trading and Profit & Loss Account
for the year ended 31st March, 2013

	H.O.	Branch	Total		H.O.	Branch	Total
To Opening stock	250	1250.00	1500.00	By Sales	6600	500.00	7,100.00
To Purchase	275	1300.00	1575.00	By Goods Sent to Branch	1500	-	1500.00
To Goods receive from Head Office	-	1500.00	1500.00	Closing stock	200	0.55	200.55
To wages & salaries	100	936.00	1036.00				
To Gross Profit c/d	1675	1514.55	3189.55				
	2,300	6500.55	8800.55		2300	6,500.55	3800.55
To Rent	-	312.00	312.00	By Gross profit b/d	1675	1514.55	3189.55
To Office expenses	25	624.00	649.00	By Commission receipt	275	5200.00	5475.00
To Provision for doubtful debts @ 5%	25	165.00	190.00				
To Deprecation (W.N.1)	380	720.00	1100.00				
To Balance c/d	1520	4893.55	6413.55				
	1950		8664.55		1950	6714.55	8664.55
To Exchange loss			558.00	By Balance b/d			6413.55
To Managing director₹s Salary			50.00	By Branch stock Reserve (W.N.2)			64.89
To balances c/d			5870.44				
			6478.44				6478.44

Working Notes:

(1) Calculation of Deprecation **(in ₹000)**

Particular	H.O.Rs	Branch Rs.
Building Cost	1,000	
Less: Dep. Reserve	(200)	
WDV	800	
Deprecation @ 10% (A)	80	
Plant & Machinery Cost	2,000	4500
Less: Dep. Reserve	(500)	(900)
WDV	1,500	3,600
Depreciation @ 20% (B)	300	720
Total Depreciation (A+B)	380	720

(2) Calculation of Additional Branch Stock Reserve **(Rs. in ₹ 000)**

Particulars	(Rs)
Closing stock of Branch	0.55
Reserve on closing stock (0.55 x 1/5)	0.11
Less: Branch stock reserve (as on 1.4.2012)	(65)
Reversal of stock Reserve	(64.89)

QUESTION 58

On 31st December, 2012 the following balances appeared in the books of Chennai Branch of an English firm having its HO office in New York:

	Amount in Rs	Amount in Rs
Stock on 1st Jan., 2012	2,34,000	
Purchases and Sales	1562500	2343750
Debtors and Creditors	765,000	510000
Bills Receivable and Payable	204,000	178500
Salaries and Wages	1,00,000	
Rent, Rates and Taxes	1,06,250	
Furniture	91,000	
Bank A/c	5,68,650	

New York Account	-	599150
	3631400	3631400

Stock on 31st December, 2012 was 6,37,500.
Branch account in New York books showed a debit balance of $13,400 on 31 December, 2012 and Furniture appeared in the Head Office books at $1,750.
The rate of exchange for on 31 December, 2011 was 52 and on 31st December, 2012 was 51. The average rate for the year was 50.
Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch.

Solution

In the books of English Firm (Head Office in New York)
Chennai Branch Profit and Loss Account
for the year ended 31st December, 2012

	$		$
To Opening stock	4500	By Sales	46875
To Purchases	31250	By Closing	12500
To Gross profit c/d	23625	(6,37,500/51)	
	59375		59375
To Salaries	2000	By gross profit	23625
To Rent, rates and taxes	2125		
To Exchange translation loss	2000		
To Net Profit c/d	17500		
	23625		23625

Balance Sheet of Chennai Branch
as on 31st December, 2012

Liabilities	$	$	Assets	$
Head Office A/c	13400		Furniture	1750
Add: Net Profit	17500	30900	Closing Stock	12500
Trade Creditors		10000	Trade Debtors	15000
Bills Payable		3500	Bills Receivable	4000

		44400	Cash at bank	11150 44400

Working Note:

Calculation of Exchange Translation Loss
Chennai Branch Trial Balance (converted in $)
as on 31st December, 2012

	Dr.	Cr.	Conversion	Dr.	Cr.
	Rs	Rs	Rate	($)	($)
Stock on lst Jan., 2012	234000		52	4500	
Purchases & Sales	1562500	2343750	50	31250	46875
Debtors & creditors	765000	510000	51	15000	10000
Bills Receivable and Bills Payable	204000	178500	51	4000	3500
Salaries and wages	100000		50	2000	
Rent, Rates and Taxes	106250		50	2125	
Furniture	91000			1750	
Bank A/c	568650		51	11150	
New York Account		599150			13400
Exchange translation loss (bat. fig.)				2000	
	3631400	3631400		73775	73775

LATEST PAST EXAMINATION QUESTIONS

QUESTION NO 59 (6 MARKS)

Show Adjustment Journal Entry alongwith working notes in the books of head office at the end of April, 2017 for incorporation of inter branch transactions assuming that only head office maintains different branch account in its books:

(A) Delhi Branch:
- (i) Received goods from Mumbai Rs. 1,40,000 and Rs. 60,000 from Kolkata.
- (ii) Sent goods to Chennai Rs. 1,00,000, Kolkata Rs. 80,000
- (iii) Bill receivable received Rs. 80,000 from Chennai.
- (iv) Acceptances sent to Mumbai Rs. 1,00,000, Kolkata Rs. 40,000

(B) Mumbai Branch (Apart from the above):
- (i) Received goods from Kolkata Rs. 60,000, Delhi Rs. 80,000
- (ii) Cash sent to Delhi Rs. 60,000, Kolkata Rs. 28,000

(C) Chennai Branch (Apart from the above):
- (i) Received goods from Kolkata Rs. 1,20,000
- (ii) Acceptance and cash sent to Kolkata Rs. 80,000 and Rs.40,000 respectively.

(D) Kolkata Branch (Apart from the above)
- (i) Sent goods to Chennai Rs. 1,40,000
- (ii) Paid cash to Chennai Rs. 60,000
- (iii) Acceptance sent to Chennai Rs. 60,000

QUESTION NO 60 (SAME QUESTION 9)

Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ Rs. 1,500 per tin and 20 tins of Ghee Rs.5,000 per tin on 1st of every month. The Branch has incurred expenditure of Rs.45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

	Chennai H.O.	Salem B.O.
	Amount (Rs.)	Amount (Rs.)
Purchases:		
Refind Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales:		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year (including cash sales)		20,15,000
Remittance by Branch to Head Office		19,50,000

Chennai H.O.	01.04.2015	31.03.2016
Balance as on	Amount (Rs.)	Amount (Rs.)
Stock:		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000

Building	5,10,800	7,14,870
Furniture & Fixtures	88,600	79,740
Salem Branch Office		
Balance as on	01.04.2015 Amount (Rs.)	31.03.2016 Amount (Rs.)
Stock:		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in Hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional Information:

(i) Addition to Building on 01.04.2015 Rs. 2,41,600 by H.O.

(ii) Rate of depreciation : Furniture & Fixtures @ 10% and Building @ 5% (already adjusted in the above figure)

(iii) The General manager is entitled to 10% commission on overall organizational profits after charging such commission.

(iv) The General Manager is entitled to a salary of Rs. 20,000 per month.

(v) General expenses incurred by Head Office is Rs. 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami₹s Trading and Profit & Loss Account (excluding branch transactions) for the year ended 31st March, 2016.

SOLUTION

In the books of Mr. Chena Swami
Salem Branch Account.

	Rs.		Rs.
To Balance b/d		By Bank (Remittance to H.O.)	19,50,000
Opening Stock:		Balance c/d	
Ghee	40,000	Closing Stock:	
Oil	22,500	Refined Oil	
Debtors	1,80,000	Ghee	19,500
Cash in Hand	25,690	Debtors (W.N.1)	90,000
Furniture & Fittings	23,800	Cash on hand (W.N.2)	2,10,000
To Goods sent to Branch A/c.		Furniture & Fittings	44,800
			21,420
Refined Oil (30x1500x12)	5,40,000		
Ghee (20x5000x12)	12,00,000		
To Bank (Expenses paid by H.O.)	76,800		
To Net Profit transferred to General P&L A/c.	2,26,930		
	23,25,720		23,35,720

Mr. Chena Swami
Trading and Profit and Loss Account for the year
ended 31st March, 2016 (Excluding branch transactions)

	Rs.		Rs.
To Opening Stock:		By Sales:	
Refined Oil	44,000	Refined Oil	24,10,000
Ghee	10,65,000	Ghee	38,40,500
To Purchases:		By GSTB	17,40,000
Refind Oil	27,50,000		
Ghee	48,28,000	By Closing Stock:	
		Refined Oil	8,90,000
To Direct Expenses	6,35,800		
To Gross Profit	11,27,700	Ghee	15,70,000
	10450500		10450500
To Manager₹s Salary	2,40,000	By Gross Profit	11,27,700
To General Expenses	1,86,000		
To Depreciation			
Furniture (88,600-79,740)	8,860		
Building			
(5,10,800+2,41,600-7,14,780)	37,620		
10% (8,82,150x10/110)			
To Net Profit	80,195		
	5,75,025		
	11,27,700		11,27,700

Working Notes:

(1) Debtors Account

	Rs.		Rs.
To Balance b/d	1,80,000	By Cash Collections	20,15,000
To Sales made during the year:		By Balance c/d (Bal. Figure)	2,10,000
Refined Oil	5,95,000		
Ghee	14,50,000		
	22,25,000		22,25,000

(2) Branch Cash Account

	Rs.		Rs.
To Balance b/d	25,690	By Remittance	19,50,000
To Collections	20,15,000	By Exp.	45,890
		By Balance c/d (Bal. Figure)	44,800
	20,40,690		20,40,690

Note:
Since the amount of cash sales was not given specifically in the question, total amount of cash collections during the year amounting Rs. 20,15,000 has been considered as collection from Debtors in the above solution.

QUESTION NO 61

M/s. ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of ABC & Co.

Bangalore branch furnishes you with its trial balance as on 31st March, 2015 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1st April, 2014	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Computers	240	-
Bank Balance	420	-
New York Office A/c.	-	1,620
	3,360	3,360

Additional Information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Bangalore branch was worth Rs. 4,20,000 on 31st March, 2015.

(c) The rates of exchange may be taken as follows:
- On 01.04.2014 @ Rs. 55 per US $
- On 31.03.2015 @ Rs. 60 per US $
- Average exchange rate for the year @ Rs. 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2015 and the balance sheet as on that date of Bangalore branch as would appear in the books of New York head office of ABC & Co. You are informed that Bangalore branch account showed a debit balance of US $ 29845.35 on 31.3.2015 in New York books and there were no items pending reconciliation.

SOLUTION

M/s. ABC & Co.
Bangalore Branch Trial Balance
in (US $) as on 31st March, 2015

	Conversion rate per US $ (Rs.)	Dr. US $ Rs.	Cr. US $ Rs.
Stock on 1.4.14	55	5,454.55	-
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	-
Rent, rates and taxes	58	6,206.90	-
Sundry Charges	58	2,758.62	-
Computers	-	6,000.00	-
Bank Balance	60	7,000.00	-
New York office A/c.	-	-	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account
for the year ended 31st March, 2015

	US $		US $
To Opening Stock To Purchases To Wages and Salaries	5,454.55 13,793.10 9,655.17	By Sales By Closing Stock (Rs.4,20,000/60) By Gross Loss c/d	20,689.66 7,000.00 1,213.16
	28,902.82		28,902.82
To Gross Loss b/d To Rent, rates and taxes To Sundry Charges To Depreciation on computers (US $ 6,000x0.6)	1,213.16 6,206.90 2,758.62 3,600.00	By Net Loss	13,778.68
	13,778.68		13,778.68

Balance Sheet of Bangalore
Branch as on 31st March, 2015

Liabilities		US $	Assets	US $	US $
New York Office A/c. Less: Net Loss	29,845.35 (13,778.68)	16,066.67	Computers Less: Dep. Closing Stock	6,000.00 (3,600,00)	2,400.00 7,000.00
Sundry Creditors		5,000.00	Sundry Debtors		6,666.67
			Bills receivable		2,000.00
Bills Payable		4,000.00			
			Bank Balance		7,000.00
		25,066.67			25,066.67

QUESTION NO 62

Raju Industries, Kolkata has a branch in Delhi to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch expenses are paid direct from head office, and branch has to remit ash received to the Head Office Bank Account.

From the following details, relating to calendar year 2014, prepare the accounts in the Head Office Ledger ascertain the Branch Profit, Branch does not maintain any books of account, but sends weekly returns to Head Office.

Particulars	Amount in Rs.
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head Office at Invoice Price	12,000
Stock at Delhi as on 1st Jan. 2014	60,000
Sales during the year – Cash	1,80,000
- Credit	3,80,000
Sundry Debtors at Delhi as on 1st Jan. 2014	72,000
Discount allowed to debtors	8,000
Bad Debts in the year	6,000
Sales returns at Delhi Branch	6,000
Rent, Rates, Taxes at Branch	16,000
Salaries, Wages, Bonus at Branch	62,000
Office Expenses	6,000
Stock at Branch on 31st December, 2014	1,20,000

SOLUTION

Delhi Branch Stock Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	60,000	By Goods sent to branch A/c. (Returns)	12,000
To Goods sent to branch A/c.	6,00,000	By Bank A/c. (Cash Sales)	1,80,000
To Branch Debtors A/c. (Returns)	6,000	By Branch debtors A/c. (Credit sales)	3,80,000
To Branch adjustment A/c. (Surplus over invoice price)	26,000	By Balance c/d	1,20,000
	6,92,000		6,92,000

Delhi Branch Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Stock reserve – 20% of Rs.1,20,000 (Closing Stock)	24,000	By Delhi Branch stock A/c.	26,000
To Branch profit & loss A/c.	1,31,600	By Stock reserve – 20% of Rs.60,000 (Opening Stock)	12,000
		By Goods sent to branch A/c. – 20% of Rs. 5,88,000	1,17,600
	1,55,600		1,55,600

Branch Expenses Account

Particulars	Rs.	Particulars	Rs.
To Bank A/c. (Rent, rates & taxes)	16,000	By Branch profit and loss A/c. (Transfer)	84,000
To Bank A/c.(Salaries & Wages)	62,000		
To Bank A/c.(Office exp.)	6,000		
	84,000		84,000

Branch Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	72,000	By Bank A/c.	4,32,000
To Branch stock A/c.	3,80,000	By Branch profit and loss A/c. (Bad debts and discount)	14,000
		By Branch stock A/c. (Sales returns)	6,000
	4,52,000		4,52,000

Goods sent to Branch Account

Particulars	Rs.	Particulars	Rs.
To Branch Stock A/c.	12,000	By Branch Stock A/c.	6,00,000
To Branch Adjustment A/c.	1,17,600		
To Purchases A/c.	4,70,400		
	6,00,000		6,00,000

Branch Profit & Loss Account

Particulars	Rs.	Particulars	Rs.
To Branch expenses A/c.	84,000	By Branch adjustment A/c.	1,31,600
To Branch debtors A/c. (Discount)	8,000		
To Branch debtors A/c. (Bad Debts)	6,000		
To Net Profit (transferred to Profit & Loss A/c)	33,600		
	1,31,600		1,31,600

* In the absence of information about closing balance of Branch debtors A/c. and cash received from debtors closing balance of debtors is assumed as nil and balancing figure is considered as cash received from debtors.

AS-13 INVESTMENT ACCOUNT

QUESTION NO 1

In 2011, M/s wye Ltd. issued 12% fully paid debenture of Rs.100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2012 M/s Bull & bear purchased 10,000 of these Debentures at Rs.101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 2013 the firm sold all of these debentures at Rs.106 cum interest price, again paying brokerage @ 1% of cum-interest amount. Prepare investment account in the books of M/s. Bull & Bear for the period 1st December, 2012 to 1st March, 2013.

ANSWER

In the books of M/s Bull & Bear

Investment account

For the period from 1st December 2012 to 1st March, 2013

(Scrip : 12% Debentures of M/s. Wye Ltd.)

Date	Particular	Nominal value (Rs)	Interest	Cost (Rs.)	Date	Particular	Nominal Value (Rs.)	Interest	Cost (Rs.)
1.12.2012	To bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.03.2013	By bank A/c (W.N.2)	10,00, 000	50,000	9,99,400
1.3.2013	To Profit & loss A/c		30,000		1.3.2013	By profit & Loss A/c			700
		10,00,000	50,000	**10,00,100**			10,00,000	50,000	10,00 ,100

Working Notes:

(i) Cost of 12% debentures purchased on 1.12.2012 **Rs.**

Cost Value (10,000 x Rs.101)	=	10, 10,000
Add: Brokerage (1% of Rs.10,10,000)	=	10,100
Less : Cum interest (10,000 x 100 x 12% x 2/12)	=	(20,000)
Total	=	10, 00,100

(ii) Sale proceeds of 12% Debentures sold on 31st March, 2013 Rs.

Sales Price (10,000xRs.106)	=	10,60,000
Less: Brokerage (1% of Rs. 10,60,000)	=	(10,600)
Less: Cum interest (10,000x100x12%x5/12)	=	(50,000)
Total	=	9,99,4000

QUESTION NO 2

On 1st April, 2009, XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of Rs.15 per share(face value Rs.10 per share). On 1st June, 2009, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for Rs.1,00,000. ABC Ltd. announced a bonus and right issue.

(1) Bonus was declared , at the rate of one equity share for every five shares held, on 1st July 2009.

(2) Right shares are to be issued to the existing shareholders on 1st September 2009. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.

(3) dividend for the year ended 31.3.2009 were declared by ABC Ltd. @ 20% which was received by XY Ltd. on 31st October 2009.

XY Ltd.

(i) Took up half the right issue

(ii) Sold the remaining rights for Rs.8 per share.

(iii) Sold half its share holdings on 1st January 2010 at Rs. 16.50 per share. Brokerage being 1%

You are required to prepare investment account of XY Ltd. for the year ended 31st March 2010 assuming the shares are being valued at average cost.

ANSWER

In the books of XY Ltd.
Investment in equity shares of ABC Ltd.
For the year ended 31st March, 2010

Date	Particulars	No	Dividend (Rs.)	Amount (Rs.)	Date	Particular	No	Dividend (Rs.)	Amount (Rs.)
2009 April 1	To balance b/d	15,000	-	2,25,000	2009 Oct.31	By Bank A/c(W.N.5)	-	30,000	10,000
June 1	To bank A/c	5,000	-	1,00,000	2010 Jan.1	By Bank A/c(W.N4)	13,000	-	2,12,355

July 1	To bonus issue (W.N1)	4,000	-	-	March 31	By Balance c/d (W.N.6)	13,000	-	1,69,500
Sep.1 2010	To Bank A/c W.N.2)	2,000	-	24,000					
Jan.1 2010	To P&L A/c (W.N.4)	-	-	42,855					
March 31	To P&L A/c	-	30,000	-					
		26,000	30,000	3,91,855			25,000	30,000	3,91,855

Working Notes:

1. Calculation of no. of bonus shares issued

$$\text{Bonus Shares} = \frac{15{,}000 \text{ shares} + 5{,}000 \text{ shares}}{5} \times 1 = 4{,}000 \text{ shares}$$

2. Calculation of rights shares subscribed

$$\text{Rights share} = \frac{15{,}000 \text{ shares} + 5{,}000 \text{ shares} + 4{,}000 \text{ shares}}{6} = 4{,}000 \text{ shares}$$

$$\text{Shares subscribed by XY Ltd.} = \frac{4{,}000}{2} = 2{,}000 \text{ shares}$$

Value of right shares subscribed = 2,000 shares @ Rs.12 per share= Rs.24,000

3. Calculation of sale of right entitlement

2,000 shares x Rs.8 per share = Rs.16,000

Amount received from sale of tights will be credited to P&L A/c as per Para 13 of AS 13 'Accounting for investment'. IN THE GIVEN INVESTMENT ACCOUNT, WE HAVE PREPARED COLUMN FOR DIVIDEND, SO RIGHT INCOME WILL BE TRANSFERRED TO PL DIRECTLY.

4. Calculation of profit on sale of shares

Total holding =	15,000 shares	original
	5,000 shares	purchased
	4,000 shares	bonus
	2,000 shares	right shares
	26,000shares	

50% of the holding were sold

i.e. 13,000 shares(26,000 shares (on average basis)

= Rs.2,25,000 + Rs.1,00,000 + Rs.24,000 - Rs.10,000

= Rs.3,39,000

Average cost of 13,000 shares would be

$$= \frac{3,39,000}{26,000} \times 13,000 = Rs.1,69,500$$

Sale proceeds of 13,000 shares (13,000 x Rs.16.50)	2,14,500
Less: 1% Brokerage	(2,145)
	2,12,355
Less: cost of 13,000 shares	(1,69,500)
Profit on sale	42,855

5. **Dividend received on investment held as on 1st April,2009**

= 15,000 shares x Rs.10x20%

= Rs.30,000 will be transferred to profit and loss A/c

Dividend received on shares purchased on 1st June 2009

= 5,000 shares x Rs.10 x 20% = Rs.10,000 will be adjusted to investment A/c

Note: it is presumed that no dividend is received on bonus shares as bonus shares are declared on 1st July 2009 and dividend pertains to the year ended 31.3.2009.

6. **Calculation of closing value of shares (on average basis) as on 31st March, 2010**

$$13,000 \times \frac{3,39,000}{26,000} = Rs.1,69,500.$$

QUESTION NO 3

The following information is presented by Mr. Z, relating to his holding in 9% Central Government bonds.

Opening balance (face value) Rs.1,20,000 cost Rs.1,18,000(face value of each unit is Rs.100).

1.3.2008	Purchased 200 units, ex-interest at Rs. 98.
1.7.2008	Sold 500 units, ex-interest out of original holding at Rs.100.
1.10.2008	Purchased 150 units at Rs.98, cum interest.
1.11.2008	Sold 300 units, ex-interest at Rs.99 out of original holdings.

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear as it would in this books. Mr. Z follows FIFO method.

ANSWER

In the books of Mr. Z

9% Central Government bonds (investment) account

Particulars		Face value	Interest	Principal	Particulars		Face vale	Interest	Principle
2008		Rs.	Rs.	Rs.	2008		Rs.	Rs.	Rs.
Jan.1	To balance b/d	1,20,000	2,700	1,18,000	March 31	By Bank A/c	-	6,300	-
March 1	To bank A/c	20,000	750	19,600	July 1	By bank A/c	50,000	1,125	50,000
July 1	To P&L A/c	-	-	833	Sept. 30	By Bank A/c	-	4,050	
Oct.1	To bank A/c	15,000	-	14,700	Nov.1	By Bank A/c	30,000	225	29,700
Nov.1	To P&L A/c	-	-	200	Dec.31	By balance c/d	75,000	1,688	73,633
Dec. 31	To P&L A/c (transfer)		9,938						
		1,55,000	**13,388**	**1,53,333**			**1,55,000**	**13,388**	**1,53,333**

Working Note:

Calculation of closing balance:	**Units**		**Rs.**
Bonds In hand remained in hand at 31st 2008 From original holding (1,20,000-50,000-30,000)=	40,000	$\frac{1,18,000}{1,20,000} \times 40,000=$	39,333
Purchased on 1st March	20,000		19.600
Purchased on 1st October	15,000		14.700
TOTAL	**75,000**		**73,633**

QUESTION NO 4

Mr. Purohit furnishes the following detail relating to his holding in 8% Debentures (Rs.100 each) of P Ltd., held as current assets:

1.4.2009	Opening balance- face Value Rs.1,20,000, cost Rs.1,18,000
1.7.2009	100 debentures purchased ex-interest at Rs.98
1.10.2009	Sold 200 Debentures ex-interest at Rs.100
1.1.2010	Purchased 50 Debentures at Rs.98 cum-interest
1.2.2010	Sold 200 Debentures ex-interest at Rs.99

Due dates for interest are 30th September and 31st march.

Mr. Purohit closes his books on 31.03.20x2. Brokerage is to be paid @ 1% for each transaction. Prepare investment account in the books of investor assuming FIFO method for accounting. Market value of debentures on balance sheet date is 99 per debenture.

SOLUTION

Investment A/c of Mr. Prohit

For the year ending on 31-3-2010

(Scrip: 8% Debentures of P Limited)

(Interest payable on 30th September and 31st March)

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
			(Rs.)	(Rs.)				(Rs.)	(Rs.)
1.4.09	To balance b/d	1,20,000	-	1,18,000	30.9.09	By Bank	-	5,200	-
					1.10.09	By Bank	20,000	-	19,800
1.7.09	To bank (exinterest)	10,000	200	9,898	1.12.10	By Bank (ex interest	20,000	533	19,602
1.10.09	To profit & Loss A/c			133	1.2.10	By profit & Loss A/c			64
1.1.10	To bank (cum interest)	5,000	100	4,849	31.3.10	By Bank	-	3,800	-
					31.3.10	By Balance c/d	95,000	-	93,414
31.3.10	To profit & Loss A/c (Bal.fig.)	-	9,233	-					
		1,35,000	**9.533**	**1,32,880**			**1,35,000**	**9,533**	**1,32,880**

Working Notes:

1. **Valuation of closing balance as on 31.3.2010:**

Market value of 950 Debentures at Rs.99	=	Rs.94,050
Cost Price of800 Debentures cost		
$= \left(\frac{1,18,000}{1,20,000} \times 80,000\right)$	=	78,667
100 Debentures cost	=	9,898
50 Debentures cost-	=	4,849
		93,414

Value at the end = Rs.93,414 i.e. whichever is less

2. **Profit on sale of debentures as on 1.10.2009**

	Rs.
Sales price of Debentures (200 x 100)	20,000
Less: Brokerage @ 1%	(200)
	19,800
Less: cost price of Debentures $= \left(\frac{1,18,000}{1,20,000} \times 20,000\right)$	(19,667)
Profit on sale	133

3. **Loss on sale of debentures as on 1.2.2010**

	Rs.
Sale price of debentures (200x99)	19,800
Less: Broerage @ 1%	(198)
	19,602
Less: cost price of Debentures $= \left(\frac{1,18,000}{1,20,000} \times 20,000\right)$	(19,666)
Loss on sale	64

QUESTION NO 5

Mr. Brown has made following transaction during the financial year 2011-12:

Date	Particulars
01.05.2011	Purchased 24,000 12% bonds of Rs.100 each at Rs. 84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.2011	Purchased 1,50,000 equity shares of Rs.10 each in Alpha limited for Rs.25 each through a broker, who changed brokerage @2%
10.07.2011	Purchased 60,000 equity shares of Rs. 10 each in Beeta Limited for Rs44 each through a broker, who changed brokerage @ 2%
14.10.2011	Alpha limited made a bonus issue of two shares for every three shares held. Sold 80,000 shares in alpha Limited for Rs.22 each.
31.10.2011 01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited.
15.01.2012	Beeta Limited a right issue of One equity share for every four shares held at Rs.5 per share. Mr. Brown exercised his option for 40% his entitlement and sold the balance rights in the market at Rs.2.25 per share.
01.03.2012	Sold 15,000 12% bonds at Rs.90 ex-interest.
15.03.2012	Received 18% interim dividend on equity shares of Beeta Limited.

Interest on 12% bonds was duly received on due dates

Prepare separate investment account for 12% Bonds. Equity shares of Alpha Limited and Equity shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March,2012

ANSWER

In the books of Mr. Brown

12% bonds for the year ended 31st March, 2012

Date	Particulars	No.	Interest (Rs.)	Amount (Rs.)	Date	Particulars	No.	Interest (Rs.)	Amount (Rs.)
2011 May 1	To Bank A/c	24,000	24,000	19,92,000	2011 Sept 30	By bank interest	-	1,44,000	

2012 Mar 1	To P&L A/c (W.N.1)	-	-	1,05,000	2012 Mar 1	By bank A/c	15,000	75,000	13,50,000
March 31	To P&L A/c		2,49,000		2012 Mar. 1	By Bank interest		54,000	
						By Balance c/d (W.N.2)	9,000	-	7,47,000
		24,000	2,73,000	20,97,000			24,000	2,73,000	20.,97,000

Investment in Equity shares of Alpha Ltd.
for the year ended 31st March, 2012

Date	Particulars	No.	Dividend (Rs.)	Amount (Rs.)	Date	Particulars	No.	Dividend (Rs.)	Amount (Rs.)
2011 June 15	To Bank A/c	1,50,000	-	38,25,000	2011 Oct. 31	By bank A/c	80,000	-	17,60,000
Oct. 14	To bonus issue (1,50,000/3x2)	1,00,000	-	-	2012 Jan. 1	By Bank A/c dividend		2,55,000	
31	To P&L A/c (W.N.3)	-	-	5,36,000					
					March 31	By Balance c/d (W.N.4)	1,70,000	-	26,01,000
2012 Mar. 31	To PL	-	2,55,000	-					
		2,50,000	2,55,000	43,61,000			2,50,000	2,55,000	43,61,000

Investment in Equity shares of Beeta Ltd.
for the year ended 31st March, 2012

Date	Particulars	No.	Dividend Rs.	Amount Rs.	Date	Particulars	No.	Dividend Rs.	Amount Rs.
2011 July 10	To bank A/c	60,000	-	26,92,800	2012 Mar.15	By Bank dividend	-	1,18,800	
2012 Jan. 15	To Bank A/c (W.N.5)	6,000	-	30,000	March 31	By Balance c/d (bal. fig.)	66,000		27,22,800
March 31	To P&L A/c	-	1,18,800	-					
		66,000	1,18,800	27,22,800			66,000	1,18,000	27,22,800

Working Notes:

1. **Profit on sale of 12% Bond**

Sales Price	Rs.13,50,000
Less: Cost of Bond sold = $\frac{19,92,000}{24,000} \times 15,000$	(Rs. 12,45,000)
Profit on sale	Rs.1,05,000

2. **Closing balance as on 31.3.2012 of 12% Bond**

$$\frac{19,92,000}{24,000} \times 9,000 = \text{Rs.}7,47,000$$

3. **Profit on sale of equity shares of Alpha Ltd.**

Sales price	Rs.17,60,000
Less cost of bond sold=80,000	Rs.(12,24,000)
Profit on sale	Rs.5,36,000

4. **closing Balance as on 31.3.2012 of equity shares of Alpha Ltd.**

$$\frac{38,25,000}{2,50,000} \times 1,70,000 = \text{Rs.}26,01,000$$

5. **Calculation of right subscribed by Beeta. Ltd.**

Right shares= $\frac{60,000 \text{ shares}}{4} \times 1 = 15,000$ shares

Shares subscribed by Mr. Brown = 15,000 x 40% = 6,000 shares

Value of right shares subscribed = 6,000 shares @ Rs.5 per share = Rs.30,000

6. **calculation of sale of right entitlement by Beeta Ltd.**

No. of right shares sold = 15,000-6,000 = 9,000 shares

Sale value of right = 9,000 shares x Rs.2.25 per share =Rs.20,250

Note: As per Para 13 of AS 13, sale proceeds of rights is to be credited to P&L A/c. WE HAVE PREPARED DIVIDEND COLUMN IN INVESTMENT ACCOUNT, SO WE WILL TRANSFER INCOME FROM RIGHT ISSUE DIRECTLY TO PL.

QUESTION NO 6

On 1st April, 2011, Rajat has 50,000 equity shares of P Ltd. at a book value of Rs.15 per share (face value rs.10 each). He provides you the further information:

(1) on 20th June, 2011 he purchased another 10,000 shares of P Ltd. at Rs.16 per share

(2) on 1st August, 2011, P Ltd. issued one equity bonus share for every six shares held by the shareholders/

(3) on 31st October, 2011, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at Rs.15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of Rs.2 per share and subscribed the rest on 5th November, 2011.

You are required to prepare investment A/c in the books of Rajat for the year ending 31st March, 2012.

ANSWER

In the books of Rajat

Investment Account

(equity shares in P Ltd.)

Date	Particulars	No. of shares	Amount (Rs.)	Date	Particulars	No. of shares	Amount (Rs.)
1.4.11	To balance b/d	50,000	7,50,000	31.3.12	By balance c/d (bal. fig)	90,000	12,10,000
20.6.11	To bank A/c	10,000	1,60,000				
1.8.11	To bonus issue (W.N.1)	10,000					
5.11.2011	To bank A/c (right shares) (W.N.4)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

(1) Bonus shares = $\frac{50,000 + 10,000}{6}$ =10,000 shares

(2) right shares = $\frac{50,000 + 10,000 + 10,000}{7}$ x 3 = 30,000 shares

(3) Sale of Rights = 30,000 shares x $\frac{1}{3}$ x Rs.15 = Rs.3,00,000

<u>Note: We have not shown income column in investment account, so income from sale of right will be transferred to pl directly.</u>

QUESTION NO 7

On 01-04-2011, Mr. T. Shekharan purchased 5,000 equity shares of Rs.100 each in V Ltd. @ Rs.120 each from a broker who charged 2% brokerage. He incurred 50 paisa per Rs.100 as cost of shares transfer stamps. On 31-01-2012 bonus was declared in the ratio of 1:2. Before and after the record date of bonus shares, the shares were quoted at Rs.175 per share and Rs.90 per share respectively. On 3103-2012, Mr. T. shekharan sold bonus shares to a broker, who charged 2% brokerage.

Shoe the investment account in the books of T. Shekharan, who held the shares as current Assets and closing value of investment shall be made at cost or market value whichever is lower.

ANSWER

In the books of T. Shekharan
Investment Account
For the year ended 31st March, 2012
(Script : Equity Shares of V Ltd.)

Date	Particulars	Nominal Value (Rs.)	Cost (Rs.)	Date	Particulars	Nominal Value (Rs.)	Cost (Rs.)
1.4.2011	To Bank A/c (W.N.1)	5,00,000	6,15,000	31.3.2012	By Bank A/c (W.N.2)	2,50,000	2,20,500
31.01.2012	To bonus shares	2,50,000	-				
				31.3.2012	By Balance c/d (W.N.4)	5,00,000	4,10,000
31.3.2012	To profit and Loss A/c (W.N.3)		15,500				
		7,50,000	6,3,500			7,50,000	6,30,500

Working Notes:

1. **cost of equity shares purchased on 1st April, 2011**

   = cost + Brokerage+ cost of transfer stamps

   =5,000 x Rs.120 + 2% of Rs.6,00,000 + $\frac{1}{2}$% of Rs.6,00,000

   =Rs.6,15,000

2. **sale proceeds of equity shares sold on 31st March, 2012**

   = sale price – Brokerage

   =2,500 x Rs.90 – 2% of Rs.2,25,000

   =Rs.2,20,000.

3. profit on sale of bonus shares on 31st March, 2012

= sales proceeds – Average cost

Sales proceeds = Rs.2,20,500

Average cost = Rs. [6,15,000 x 2,50,00/7,50,000] = Rs. 2,05,000

Profit = Rs. 2,20,500 - Rs. 2,05,000 = Rs.15,500.

4. Valuation of equity shares on 31st March 2012

Cost = Rs.[6,15,000 x 5,00,000/7,50,000] = Rs.4,10,000 i.e. Rs. 82 per share

Market Value= 5,000 Shares x Rs.90 = Rs.4,50,000

Closing stock of equity shares has been valued at Rs.4,10,000 i.e. cost being lower than the market value

QUESTION NO 8

Mr. Chatur had 12% Debentures of face value Rs. 100 of M/s Unnati Ltd. as current investments.

He provides the following details relating to the investments.

1-4-2014	Opening balance 4,000 debentures costing Rs.98 each
1-6-2014	Purchased 2,000 debentures @ Rs.120 cum interest
1-9-2014	Sold 3,000 debentures @ Rs.110 cum interest
1-12-2014	Sold 2,000 debentures @ Rs.105 ex-interest
31-1-2015	Purchased 3,000 debentures @ Rs.100 ex-interest
31-1-2015	Market value of the investment Rs.105 each

Interest due date are 30th June and 31st December.

Mr. Chatur closes his books on 31-3-2015. He incurred 2% brokerage for all his transactions show investment account in the books of Mr. Chatur assuming FIFO method is followed

QUESTION NO 9

A limited purchased 5,000 equity shares (face value Rs.100 each) of Allianz limited for Rs.105 each on 1st April, 2014. The shares were quoted cum dividend. On 15th may, 2014, Allianz Limited declared & paid dividend of 2% for year ended 31st March, 2014. On 30th June, 2014 Allianz limited issued bonus shares in ratio of 1:5 on 1st October, 2014 Allianz Limited issued rights share in the ratio of 1:2 @ 45 per share. A Limited subscribed to half of the rights issue and the balance was sold at Rs.5 per right entitlement. The company declared interim dividend of 1% on 30th November, 2014. Right shares were not entitled to dividend. The company sold 3,000 shares on 31st December, 2014 at Rs. 95 per share. The company A Ltd. incurred 2% as brokerage while buying and selling shares.

You are required to prepare investment account in books of A Ltd.

QUESTION NO 10

On 1.4.2014, sundar had 25,000 equity shares of 'X' Ltd. at a book valu of Rs.15 per share (face value Rs 10). On 20.6.2014, he purchased another 5,000 shares of the company at Rs.16 per share. The directors of 'X' Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows:

Bonus basis 1:6(date 16.8.2014).

Rights basis 3:7 (date 31.8.2014)price Rs.15 per share.

Due date for payment 30.9.2014.

Shareholders were entitled to transfer their rights in full or in part. Accordingly sundar sold 33.33% of his entitlement to sekhar for a consideration of Rs.2 per share.

Dividends: dividend for the year ended 31.3.2014 at the rate of 20% were declared by X Ltd. and received by sundar on 31.10.2014. dividends for shares acquired by him on 20.6.2014 are to be adjusted against the cost of purchase.

On 15.11.2014. sundar sold 25,000 equity shares at a premium of Rs.5 per share.

You are required to prepare in the books of sundar.

(1) investment account

(2) profit & Loss account.

For your exercise, assume that the books are closed on 31.12.2014 and shares are valued at average cost.

QUESTION NO 11

On 1.4.2014, Mr Krishna murty purchased 1,000 equity shares of Rs.100 each in TELCO Ltd. @ Rs.120 each from a broker, who charged 2% brokerage. He incurred 50 paise per Rs.100 as cost of shares transfer stamps. On 31.3.2015 bonus was declared in the ratio of 1 : 2 Before and after the record date of bonus shares the shares were quoted at Rs.175 per share and Rs.90 per share respectively. On 31.3.2015 Mr. Krishna Murty sold bonus shares to a broker, who charged 2% brokerage.

Show the investment Account in the books of Mr. Krishna Murty. Who held the shares as Current assets and closing value of investments shall be made at cost of Market value which ever is lower.

QUESTION NO 12

Mr. X purchased 500 equity shares of Rs.100 each in omega Co. Ltd. for Rs. 62,500 inclusive of brokerage and stamp duty. Some years later the company resolved to capitalize its profits and to issue to the holders of equity shares, one equity bonus share for every share held by them. Prior to capitalization, the shares of omega co. Ltd. were quoted at Rs.175 per share. After the capitalization, the shares were quoted at Rs.92.50 per share. Mr. X. sold the bonus shares and received at Rs.90 per share.

Prepare the investment account in X's books on average cost basis.

QUESTION NO 13

On 1st January 2014, singh had 20,000 equity shares in X Ltd. face value of the shares was on Rs.10 each but their book value was Rs. 16 per share. On 1st June 2014, Singh purchased 5,000 more equity shares in the company at a premium of Rs. 4 per share.

On 30th June, 2014, the directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these were received on 2nd august, 2014.

The terms of the rights issue were:

(a) rights shares to be issued to the existing holders on 10th august, 2014.

(b) rights issue would entitle the holders on 10 august, 2014.

(b) rights issue would entitle the holders to subscribe to additional equity shares in the company at the rate of one share per every held at Rs. 15 per share the whole sum being payable by 30th September, 2014.

(c) existing share holders were entitled to transfer their rights to outsiders, either wholly or in part.

(d) Singh exercised his option under the issue for 50% of his entitlements and the balance of rights he sold to ananth for a consideration of Rs.1.50 per share.

(e) dividends for the year ended 31st March, 2014, at the rate of 15% were declared by the company and received by singh on 20th October, 2014.

(f) on 1st November, 2014, Singh sold 20,000 equity shares at a premium of Rs. 3 per share.

The market price of share on 31-12-2014 was Rs.14. Show the investment Account as it would appear is Singh's books on 31-12-2014 and the value of shares held on that date.

QUESTION NO 14

The following transaction of NIDHI took place during the year ended 31st March 2014:

1st April	Purchased Rs.12.00,00, 8% bonds at Rs.80.50 cum-interest. Interest Is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of Rs.10 each in X Ltd. for Rs.40,00,000
1st May	Received half-year's interest on 8% bonds.
15th Mary	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for Rs. 20 each.
1st October	Sold Rs. 3,00,000, 8% bonds at Rs.81 ex-interest.
1st November	Received half years bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March 2014.

QUESTION NO 15

Smart investment made the following investment in the year 2013-14

12% state Govermment bonds having face value Rs.100

Date	Particulars
01.04.2013	Opening balance (1200 bonds) book value of Rs.126,000
02.05.2013	Purchased 2,000 bonds @ Rs.100 cum interest
30.09.2013	Sold 1,500 bonds at Rs.105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd.	
15.04.2013	Purchased 5,00 equity shares @ Rs.200 on cum right basis Brokerage of 1% was paid in addition (face value of shares Rs.10)
03.06.2013	The company announced a bonus issue of 2 shares for every 5 share held.
16.08.2013	The company made a rights issue of 1 share for every 7 shares held. At Rs.250 per share. The entire money was payable by 31.08.2013.

22.8.2013	Rights to the exlent of 20% was sold @ Rs.60. the remaining rights were subscribed.
02.09.2013	Dividend @ 15% for the year ended 31.03.2013 was received on 16.09.2013
15.12.2013	Sold 3,000 shares @ Rs.300. Brokerage of 1%was incurred extra.
15.01.2014	Received interim dividend @ 10% for the year 2013-14
31.03.2014	The shares were quoted in the stock exchange @ Rs.220

Prepare investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

QUESTION NO 16

Bonanzaa Limited held on 1st April 1993 ₹ 2,00,000 of 9% Government loan (2003) at ₹ 1,90,000. (Face value of loan ₹ 100 each). Three month's interest accrued on the above date. On 31st May 1993 the company purchased the same government loan of the face value of ₹ 80,000 at ₹ 95 (net) cum-interest. On 1st June 1993

60,000 face value of the loan was sold at ₹ 94 (net) ex-interest. Interest on the loan was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th November 1993 ₹ 40,000 face value of the loan was sold at ₹ 97 (net) cum-interest. On 1st December 1993 the company purchased the same loan ₹ 10,000 at per ex-interest. On 1st March 1994 the company sold

10,000 face value of the loan at ₹ 95 ex-interest. The market price of the loan on 31st March 1994 was ₹ 96. Draw up the 9% government loan (2003) account in the books of the company. First in first out method shall be followed and the balance of the loan held by the company shall be valued at total average cost or market price whichever is lower. Calculation shall be made to the nearest rupee or multiple thereof.

QUESTION NO 17

A purchased on 1st March, ₹ 24,000 5% Bharat Debenture stock at 90 cum-interest interest being payable on 31st March and 30th September each year, stamp and expenses on purchase amounted to ₹ 20 and brokerage at 2% was charged on cost; interest for the half-year was received on the due date. On 1st September ₹ 10,000 of the stock was sold at 92 ex-interest less brokerage at 2%. On 30th September ₹ 8,000 stock was purchased at 91 ex-interest plus brokerage at 2% and charges ₹ 10. On 1st December ₹ 6,000 stock was sold at 94 cum-interest less brokerage at 2%. The market price of stock on 31st December was 91%. Show the investment account for the year ended 31st December, marking all calculations in months.

QUESTION NO 18

Tee Limited purchased on 1st May 1997 13.5% Convertible Debentures in Dee Limited of face value of ₹ 5,00,000 @ 105; Interest on the debentures is payable each year on 31st March and 30th September. The accounting year adopted by Tee Limited is the calendar year. The following other transactions were entered into in 1997 by Tee Limited in regard to these debentures:

August 1 Purchased ₹ 2,50,000 debentures @ 107 cum interest. October 1 Sale of ₹ 2,00,000 debentures @ 103

December 31 Receipt of 10,000 equity shares in Dee Limited of ₹ 10 each in conversion of 20% of the debentures held.

The market value of the debentures and equity shares in Dee Limited at the end of 1997 was 106 and ₹ 15 respectively.

Prepare the debenture investment account in the books of Tee Limited on average cost basis.

QUESTION NO 19

Y Limited purchases 25,000 shares of ₹ 10 each of X Limited on 15.4.1999 @ 120 per share(cum-right cum dividend). The company paid brokerage 1.5% and stamp duties 1%. It acquires another 30,000 shares of X Limited on 25.5.1999 @ ₹ 140 pr share(cum right cum dividend). And paid for brokerage and stamp duties. The company offered 1:1 right @ 80 per share on 30.5.99. Y Limited acquired 35,000 shares exercising the right and sold the right for 20,000 shares @ ₹ 30 per right. The company received dividend @ 40% on paid up value of shares for 1999-2000. It sold 15,000 shares @ ₹ 110 less brokerage 1.5% on 15.11.1999. Please calculate the cost of investment sold, carrying amount of unsold investments and profit on sale of investments.

QUESTION NO 20

A Limited purchases 10000 shares of X Limited @ ₹ 80 and paid brokerage @ 1.5% and stamp duties ₹ 8000 on 15.12.1999. The company purchases another 15000 shares of X Limited @ 96 and paid brokerage @ 1.5% and stamp duties ₹ 14400 on 25.12.1999. It sold 12000 shares @ 105 and brokerage @ 1.5% on 15.2.2000.

Show the cost of investment balance In account in the balance sheet and amount of profit or loss on the sale?

QUESTION NO 21

Continuing with the example above if X Limited issues one bonus share for every two shares held on 2.1.2000 and X Limited sold 12000 shares on 15.2.2000.

Calculate the carrying amount of investments

QUESTION NO 22

Mr. Lal purchased 500 equity shares of ₹ 100 each in omega co Ltd. for ₹ 62500 inclusive of brokerage and stamp duty on cum right basis. Later the company announced right issue @ one equity share for every share held by them. X accepted 50% of right shares and sold 50% right. The shares of Omega co Ltd. were quoted at ₹ 110 per share pre right and the shares were quoted at Rs92.50 per share after right issue. Mr. X sold the right @10 per right share and paid at ₹ 80 per share as subscription charges for his 50% shares.

Prepare investment account on average cost basis valuation.

QUESTION NO 23

Sharma purchased 1000 equity shares of X Ltd. as ₹ 35 each on 1st April 2003. He further purchased 300 equity shares @32 each on 1 july 2003. On 30 Sep, he received dividend @ ₹ 2 per share for the year 2002-03. He sold 500 shares @38 per share on 1 Nov 2003. Market value of share on 31st March 2004 was ₹ 33, prepare investment account(assume permanent investment).

QUESTION NO 24

Mr. T purchased 1,000 nos. 10% debentures of ₹ 100 each on 1st April, 2009 at ₹ 96 com interest, the previous interest date being 31st December, 2008. Computer cost of investment.

QUESTION NO 25

MY Ltd. Had acquired 200 equity shares of YZ Ltd. At ₹ 105 per share on 1.1.2009 and paid ₹ 200 towards brokerage, stamp duty and STT. On 31st March, 2009 Share of YZ Ltd. Were traded at ₹ 110 per share. At what value investment is to be shown in the Balance Sheet of MY Ltd. As at 31st March, 2009.

QUESTION NO 26

Rose Ltd. Had made an investment of ₹ 500 lakhs in the equity shares of Nose Ltd on 10.01.2009. The realizable value of such investment on 31.03.2009 became ₹ 200 laksh as Nose Ltd. Lost a case of patent rights. Rose Ltd. Follows financial years as accounting year. How will you recognize this reduction in Financial Statements for the year 2008-09.

QUESTION NO 27

Gamma Investment Company hold 1,000, 15% debentures of ₹ 100 each in Beta Industries Ltd. As on April 1,2009 at a cost of ₹ 1,05,000. Interest is payable on June, 30 and December, 31 each year.

On may 1,2009, 500 debentures are purchased cum-interest at ₹ 53,500. On November, 1,2009, 600 debentures are sold ex-interest at ₹ 57,300. on November 30, 2009, 400 debentures are purchased ex-interest at ₹ 38,400. On December 31, 2009 400 debentures are sold cum-interest for ₹ 55,000.

Prepare the investment account showing value of holdings on March 31, 2010 at cost, using FIFO method.

QUESTION NO 28

Define investment as per Accounting Standard-13. How investments are classified by AS-13? What are the items not dealt with by AS-13?

ANSWER:

Meaning of Investments: AS-13 defines investments as assets held by an enterprise for:

Earning income by way of dividends, interest, and rentals, e.g., investment in building let out

Capital appreciation, e.g., increase in the value of land,

Other benefits to the investing enterprise, e.g., to control the investee,

Not held as stock-in-trade, e.g., held by investment company not investment

AS-13 does not deal with:

Bases for recognition of interest, dividends and rentals earned covered by AS-9;

Operating or finance leases;

Investments of retirement benefit plans and life insurance enterprises; and

Mutual funds, banks and public financial institutions

Classification of investments: An enterprise should disclose current investments and long-term investments distinctly in its financial statements.

Current investment: A current investment is an investment that is-

By its nature readily realizable, e.g., land & building are not readily realizable, and

Intended to be held for not more than one year from the date of making such investment (Evidence that held for not more than one year could be management representation)

Therefore,' ready marketability is not the only criteria for classifying the investment in to current or long term. To be classified as current investment, an investment must be made for a period not more than one year.

Long-term investment: A long-term investment is an investment other than a current investment, e.g., investment in property such as land and building should be accounted for as long term investment.

Further classification of current and long-term investments should be as specified in the statute governing the enterprise. In the absence of a statutory requirement, such further classification should disclose, where applicable, investments in:

Government or Trust securities

Shares, debentures or bonds

Investment properties

Others—specifying nature

QUESTION NO 29

Briefly indicate, how would you determine the cost of investment?

ANSWER:

Cost of Investments: AS-13 lays down following with regard to determination of cost:

Acquisition against monetary consideration: The cost of an investment should include purchase price and acquisition charges such as brokerage, fees and duties.

It is also possible that an investment has been purchased on cum-interest or cum-dividend basis, the subsequent receipt of interest/dividend is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion is deducted from cost as it represents recovery of cost.

Acquisition of right shares: When right shares are acquired, the cost of the right shares is added to the carrying amount of the original holding. If rights are not acquired but sold in the market, the sale proceeds are taken to the profit and loss account.

However, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value.

QUESTION NO 30

Summarize the provision contained in the Accounting Standard-13 in respect of valuation of investments in the financial statements.

ANSWER:

Valuation of Investments: Valuation depends upon classification of investments:

Current investments:

Present in the financial statements at the lower of cost and fair value.

Cost or fair value should be determined either on an individual investment basis (i.e., cost and fair value of each investment should be compared separately) or by category of investment (all types preference shares constitute a category), but not on an overall/global basis.

Long-term investments:

Present at cost

Provision for diminution (reduction) in the value of the investments, shall be made to recognise a decline, other than temporary,

Such reduction being determined on individual investment basis

Changes in Carrying Amounts of Investments:

Any reduction in the carrying amount and any reversals of such reductions should be charged or credited to the profit and loss account.

Disposal of Investments: On disposal of an investment, the difference between the carrying amount and net disposal proceeds should be charged or credited to the profit and loss account.

When disposing of a part of the holding of an individual investment, the carrying amount to be allocated to that part is to be determined on the basis of the average carrying amount of the total holding of the investment.

QUESTION NO 31

Briefly summarize the discloser requirements of Accounting Standard-13.

ANSWER:

Disclosure: The following information should be disclosed in the financial statements:

Accounting policies for valuation of investments;

Classification of investments;

Amounts included in profit and loss account for interest, dividends from subsidiary companies, other dividends and rentals separately from long term and current investments.

Gross income should be stated, the TDS being included under Advance Taxes Paid;

Profits and losses on disposal of current and long term investments and changes in the earning amount of such investments;

Significant restrictions on the right of ownership, realisability of investments **or** the remittance of income and proceeds of disposal;

Aggregate amount of quoted and unquoted investments along with market value;

Other disclosures as specifically required by the relevant statute.

QUESTION NO 32

On 01-05-2012, Mr. Mishra purchased 800 equity shares of Rs. 10 each in Fillco Ltd. @ Rs.50 each from a broker who charged 5%. He incurred 20 paisa per Rs. 100 as cost of shares transfer stamps. On 31-10-2012, bonus was declared in the ratio 1:4 The shares were quoted at Rs. 110 and Rs. 60 per share before and after the record date of bonus shares respectively. On 30-11-2012, Mr. Mishra sold the bonus shares to a broker who charged 5%. You are required to prepare Investment Account in the books of Mr. Mishra for the year ending 31-12-2012 and closing value of Investment shall be made at cost or market value whichever is lower.

ANSWER:

In the books of Mr. MISHRA Investment Account for the year ended 31.12.2012

Date	Particular	No. of shars	Amount	Date	Particular	No. of shares	Amount
		(Rs.)	(Rs.)			(Rs.)	(Rs.)
1.5.2012	To bank A/c	800	42,080	30.11.2012	By bank A/c	200	11,400
31.10.2012	To Bonus						
	Shares	200	-	31.12.2012	By Bal. c/d	800	33,664

31.12.2012	To profit on sale		2,984				
		1,000	45,064			1,000	45,064

W.N#1

CALCULATION OF COST OF INVESTMENTS PURCHASED ON 1.5.2012

Particulars	Amount
Purchase price (800*50)	40,000
Brokerage @ 5%	2,000
Stamp duty (40000*.20/100)	80
Total acquisition cost	42,080

W.N#2

CALCULATION OF PROFIT OR LOSS

ON SALE OF INVESTMENTS ON 30.11.2012

Particulars	Amount
Selling price (200*60)	12,000
Brokerage @ 5%	(600)
Net selling price	11,400
Cost for sold portion on weighted average cost basis	8,416
(42080/1000shares x 200shares)	
Profit on sale	2,984

W.N#3

VALUATION OF INVESTMENTS

Particulars	Amount
Cost Of Investments (42080/1000 X800)	33664
Or	
Market Value On Balance Sheet Date (800*60)	48000
Whichever Is Lower	33664

(**Note:** In the given case, cost of investment is lower than market value due to which there is no valuation loss)