FUNDAMENTALS OF ACCOUNTING

PROBLEMS AND SOLUTIONS

N. BHATTACHARYYA

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CONTENTS

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Chapter 1

ACCOUNTING PROCESS LEADING TO THE PREPARATION OF TRIAL BALANCE

[P 1] Enter the following transactions in the books of the Roops and Chhota Singh Computers.

1993		(Rs.)
April 1	**Assets :**	
" "	Land and Building	36,000
" "	Machinery	55,200
" "	Stock	1,03,800
" "	Cash at Bank	15,240
" "	Cash in hand	1,720
" "	Due from Arun & Co.	2,920
" "	Due from Kalyani & Co.	2,520
" "	Furniture and Fixture	3,000
	Liabilities :	
" "	6% Loan A/c	40,000
" "	Due to Cauvery	12,000
" 3	Drawn from bank (for wages to be paid in the following day)	3,000
" 4	Wages paid	2,870
" 7	Purchased goods from Cauvery	11,872
	Charges Rs. 94	
" 9	Returned goods to Cauvery (not being up to quality)	896
" 12	Paid customs duty by cheque	13,720
" 17	Sold goods to Arun & Co	11,400
" 18	Paid Cauvery by cheque in full settlement of amount due on April, 1	11,700
" "	Received from Kalyani & Co. by cheque in full settlement	2,470
" 19	Purchased from Sunny-Snig (P) Ltd. advertising stickers	2,200
" 24	Bishnu Engineers (P) Ltd. charge for repairing machinery paid in cash	500
" "	Sold goods to Kalyani & co.	1,000
" 25	Purchased goods from Karali Traders	6,720
" 26	Received from Arun & Co. on account cheque	4,000
" 27	Received for Machinery sold	600
" "	Bank informs that Kalyani & Co.'s cheque is dishonoured	
" 28	Purchased goods from Rajdoot Deep (P) Ltd.	10,416
	Charges Rs. 14	
" 29	Paid for advertisements	460
" 30	Paid for repairs to furniture	60
" "	Paid for ground rent	1,200
" "	Drawn from Bank for Private use	800
" "	Bank charged interest for the month	70

Contd.

1993		(Rs.)
April30	Received intimation that Kalyani & Co. has proved insolvent, no possibility of recovering anything.	
" "	Allowed interest on capital @ 5% p.a.	
" "	Goods taken for Private use (Sales Value)	20
" "	Salaries for the month of April unpaid	4,000
" "	Sold goods to Babui & Co.	9,040
	Packing charges 60	

Solution :

In the books of the Roops and Chhota Singh (P) Ltd.

Journal

1993			L.F.	Dr. (Rs.)	Cr. (Rs.)
April 1					
" "	Land and Building A/c	Dr.		36,000	
" "	Machinery A/c	Dr.		55,200	
" "	Furniture and Fixture A/c	Dr.		3,000	
" "	Stock A/c	Dr.		1,03,800	
" "	Cash at Bank	Dr.		15,240	
" "	Cash A/c	Dr.		1,720	
" "	Arun & Co. A/c	Dr.		2,920	
" "	Kalyani & Co. A/c	Dr.		2,520	
	To Loan A/c				40,000
	To Cauvery A/c				12,000
	To Capital A/c				1,68,400
	(Opening Entry for opening balances of assets and liabilities, Capital being ascertained as balancing figure)				
" 19	Advertising stickers A/c	Dr.		2,200	
	To Sunny-Snig (P) Ltd. A/c				2,200
	(Purchased Advertising posters on credit as per invoice no ..... dated ....)				
" 30	Bad Debts A/c	Dr.		3,520	
	To Kalyani & Co. A/c				3,520
	(Bad Debts Written off)				
" "	Interest A/c	Dr.		702	
	To Capital A/c				702
	(Interest on capital charged for the month of April)				
" "	Drawings A/c	Dr.		20	
	To Sales A/c				20
	(Goods drawn by proprietor)				
" "	Salaries A/c	Dr.		4,000	
	To Salaries Outstanding A/c				4,000
	(Salaries unpaid for the month of April)				

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

Date	Particulars	Discount allowed (Rs.)	Cash (Rs.)	Bank (Rs.)	Date	Particulars	Discount received (Rs.)	Cash (Rs.)	Bank (Rs.)
1993									
Apr. 1	To Balance b/d		1,720	15,240	Apr. 3	By Cash A/c			3,000
" 3	" Bank A/c		3,000		" 4	" Wages A/c		2,870	
" 18	" Kalyani and Co. A/c	50		2,470	" 12	" Customs Duty A/c			13,720
" 26	" Arun & Co.			4,000	" 18	" Cauvery A/c	300		11,700
" 27	" Machinery A/c		600		" 24	" Repairs to Machinery A/c		500	
" 30	" Balance c/d			10,050	" 27	" Kalyani & Co. (Cheque dishonoured)	50		2,470
					" 29	" Advertisement A/c		460	
					" 30	" Repairs to Furniture and Fixture A/c		60	
					" "	" Ground Rent A/c		1,200	
					" "	" Drawings A/c			800
					" "	" Interest A/c			70
					" "	" Balance c/d		230	
		50	5,320	31,760			350	5,320	31,760
May 1	To Balance b/d		230		May 1	By Balance b/d			10,050

Purchase Day Book

1993		(Rs.)	(Rs.)
April 7	Cauvery (Invoice No..........dated.........)		
	Goods Purchased	11,872	
	Charges	94	11,966
" 25	Karali Traders (Invoice No..........dated.........)		
	Goods Purchased		6,720
" 28	Rajdoot Deep (P) Ltd (Invoice No..........dated.........)		
	Goods Purchased	10,416	
	Charges	14	10,430
			29,116

Sales Day Book

1993		(Rs.)	(Rs.)
April 17	Arun & Co. (Invoice No..........dated.........)		
	Goods Sold		11,400
" 24	Kalyani & Co. (Invoice No..........dated.........)		
	Goods Sold		1,000
" 30	Babui & Co. (Invoice No..........dated.........)		
	Goods Sold	9,040	
	Packing	60	9,100
			21,500

Returns outward Book

		(Rs.)	(Rs.)
1993 Apr 9	Cauvery Goods returned (not being up to quality)		896

Ledger

Dr. **Capital A/c** Cr.

1993		Rs.	1993		Rs.
Apr 30	To Balance c/d	1,69,102	Apr 1	By Balance b/d	1,68,400
			" 30	" Interest on Capital	702
		1,69,102			1,69,102
			May 1	" Balance b/d	1,69,102

Dr. **Loan A/c** Cr.

1993		Rs.	1993		Rs.
Apr 30	To Balance c/d	40,000	Apr 1	By Balance b/d	40,000
		40,000			40,000
			May 1	" Balance b/d	40,000

Dr. **Cauvery A/c** Cr.

1993		Rs.	1993		Rs.
Apr 9	To Returns Outwards	896	Apr 1	By Balance b/d	12,000
" 18	" Cash A/c	12,000	" 7	" Purchases	11,966
" 30	" Balance c/d	11,070			
		23,966			23,966
			May 1	" Balance b/d	11,070

Dr. **Land and Building A/c** Cr.

1993		Rs.	1993		Rs.
Apr 1	To Balance b/d	36, 000	Apr 30	By Balance c/d	36,000
May 1	To Balance b/d	36,000			

Dr. **Machinery A/c** Cr.

1993		Rs.	1993		Rs.
Apr 1	To Balance b/d	55,200	Apr 27	By Cash A/c	600
			" 30	" Balance c/d	54,600
		55,200			55,200
May 1	To Balance b/d	54,600			

Furniture and Fixture A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Apr 1	To Balance b/d	3,000	Apr 30	By Balance c/d	3,000
		3,000			3,000
May 1	To Balance b/d	3,000			

Stock A/c

Dr.					Cr.
		Rs.			Rs.
1993					
1	To Balance b/d	1,03,800			

Arun & Co. A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Apr 1	To Balance b/d	2,920	Apr 26	By Cash A/c	4,000
17	" Sales	11,400	" 30	" Balance c/d	10,320
		14,320			14,320
May 1	To Balance b/d	10,320			

Kalyani & Co. A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Apr 1	To Balance b/d	2,520	Apr 18	By Cash A/c	2,520
" 24	" Sales	1,000	" 30	" Bad Debts A/c	3,520
" 27	" Cash A/c (Cheque dishonoured)	2,520			
		6,040			6,040

Purchases A/c

Dr.					Cr.
1993		Rs.			Rs.
Apr 30	To Purchases (as per Purchase Day Book)	29,116			

Sales A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
			Apr 30	By Sales (as per Sales Day Book)	21,500
			" "	" Drawings A/c	20

Returns Outward A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
			Apr 30	By Returns (as per Returns out—wards Book)	896

Dr. **Sunny—Snig (P) Ltd. A/c** *Cr.*

1993		Rs.	1993		Rs.
Apr 30	To Balance c/d	2,200	Apr 19	By Advertising Posters A/c	2,200
		2,200			2,200
			May 1	By Balance b/d	2,200

Dr. **Karali Traders A/c** *Cr.*

1993		Rs.	1993		Rs.
Apr 30	To Balance c/d	6,720	Apr 25	By Purchases	6,720
		6,720			6,720
			May 1	By Balance b/d	6,720

Dr. **Rajdoot Deep (P) Ltd A/c** *Cr.*

1993		Rs.	1993		Rs.
Apr 30	To Balance c/d	10,430	Apr 28	By Purchases	10,430
		10,430			10,430
			May 1	By Balance b/d	10,430

Dr. **Salaries Outstanding A/c** *Cr.*

1993		Rs.	1993		Rs.
Apr 30	To Balance c/d	4,000	Apr 30	By Salaries A/c	4,000
		4,000			4,000
			May 1	By Balance b/d	4,000

Dr. **Babui & Co. A/c** *Cr.*

1993		Rs.	1993		Rs.
Apr 30	To Sales	9,100	Apr 30	By Balance c/d	9,100
		9,100			9,100
May 1	To Balance b/d	9,100			

Dr. **Bad Debts A/c** *Cr.*

1993		Rs.	1993		Rs.
Apr 30	To Kalyani & Co. A/c	3,520			

Dr. **Wages A/c** *Cr.*

1993		Rs.	1993		Rs
Apr 4	To Cash A/c	2,870			

Dr. Customs Duty A/c Cr.

1993		Rs.	1993		Rs.
Apr 12	To Cash A/c	13,720			

Dr. Repairs to Machinery A/c Cr.

		Rs.			Rs.
Apr 24	To Cash A/c	500	1993		

Dr. Advertisement A/c Cr.

1993		Rs.	1993		Rs.
Apr 29	To Cash A/c	460			

Dr. Ground Rent A/c Cr.

1993		Rs.	1993		Rs.
Apr 30	To Cash A/c	1,200			

Dr. Drawings A/c Cr.

1993		Rs.	1993		Rs.
Apr 30	To Cash A/c	800	Apr 30	By Balance c/d	820
" "	" Sales A/c	20			
		820			820
May 1	" Balance b/d	820			

Dr. Interest A/c Cr.

1993		Rs.	1993		Rs.
Apr 30	To Cash A/c	70	Apr 30	By Balance c/d	772
" "	" Capital A/c	702			
		772			772
May 1	" Balance b/d	772			

Dr. Repairs to Furniture & Fixture A/c Cr.

1993		Rs.	1993		Rs.
Apr 30	To Cash A/c	60			

Dr. Salaries A/c Cr.

1993		Rs.	1993		Rs.
Apr 30	To Salaries Outstanding A/c	4,000			

Dr. Advertising Stickers A/c Cr.

1993		Rs.	1993		Rs.
Apr 19	To Sunny-Snig (P) Ltd. A/c	2,200			

Dr. Discount Allowed A/c Cr.

1993		Rs.	1993		Rs.
Apr 30	To Cash A/c	50			

Dr. Discount Received A/c Cr.

1993		Rs.	1993		Rs.
			Apr 30	By Cash A/c	350

Trial Balance as at April 30th, 1993

	Dr. (Rs.)	Cr. (Rs.)
Cash in hand	230	
Bank Overdraft		10,050
Capital		1,69,102
Loan		40,000
Cauvery		11,070
Land and Building	36,000	
Machinery	54,600	
Furniture and Fixture	3,000	
Stock	1,03,800	
Arun & Co.	10,320	
Purchases	29,116	
Sales		21,520
Returns Outwards		896
Sunny-Snig (P) Ltd.		2,200
Karali Traders		6,720
Rajdoot Deep (P) Ltd .		10,430
Salaries Outstanding		4,000
Babui & Co.	9,100	
Bad Debts	3,520	
Wages	2,870	
Customs Duty	13,720	
Repairs & Machinery	500	
Advertisement	460	
Repairs to Furniture and Fixture	60	
Ground Rent	1,200	
Drawings	820	
Interest	772	
Advertising Stickers	2,200	
Salaries	4,000	
Discount Allowed	50	
Discount Received		350
	2,76,338	2,76,338

[P 2] Enter the following transactions in the books of Delta Traders.

1993			(Rs.)
Sept	1	Cash in hand	47,100
"	"	Cash at Bank	76,200
"	"	Capital A/c	1,23,300
"	3	Purchased goods for cash	12,300
"	4	Purchased goods from Sachin Tendulkar., less 10% trade discount	17,400
"	7	Sold goods to Sunny-Vishy & Co., less 20% trade discount	26,700
"	9	Withdrew from Bank for private use	1,500
"	12	Sold goods to Ms. Steffi Graff	19,200
"	15	Paid to Sachin Tendulkar, in full settlement of their account	15,000
"	18	Goods returned by Ms Steffi Graff	1,200
"	20	Received from Ms. Steffi Graff	12,000
"	21	Purchased goods from Maradona Bros.	26,100
"	23	Paid, to Maradona Bros. by cheque (discount allowed Rs. 900)	18,000

Contd.

1993		(Rs.)
Sept. 24	Purchased furniture from Kapil International on credit	2,400
" 26	Paid into Bank	6,600
" 28	Ms. Steffi Graff declared insolvent, a final dividend of 50 paise in a rupees is received from him.	
" 29	Goods returned to Maradona Bros.	1,800
" 30	Interest on Capital Provided	1,233
" "	Goods taken by proprietor for personal use	1,200
" "	Advertisement expenses paid by cheque	1,500
" "	Staff salaries	5,400
" "	Cash Sales	65,400
" "	Paid into Bank	60,000
" "	Purchased 100 shares in Amitabh Movies at Rs. 33 per share,	
	Brokerage paid	25
" "	Received from Sunny-Vishy & Co. (discount allowed Rs. 300)	17,700

Solution :

Journal

			Dr. (Rs.)	Cr. (Rs.)
1993 Sept 1	Cash A/c	Dr.	47,100	
" "	Bank A/c	Dr.	76,200	
	To Capital A/c			1,23,300
	(Opening entry for assets and liabilities)			
24	Furniture and Fixture A/c	Dr.	2,400	
	To Ms. Steffi Graff A/c			2,400
	(Bad Debts Written off)			
" 28	Bad Debts A/c	Dr.	3,000	
	To Ms Steffi Graff A/c			3,000
	(Bad Debts Written off)			
" 30	Interest on Capital A/c	Dr.	1,233	
	To Capital A/c			1,233
	(Interest on capital charged)			
" "	Drawings A/c	Dr.	1,200	
	To Purchase A/c			1,200
	(Goods drawn by the Proprietor)			

Sales Day Book

		Rs.	Rs.
1993			
Sept 7	Sunny-Vishy & Co. Goods Sold	26,700	
	Less : 20% Trade Discount	5,340	21,360
" 12	Ms Steffi Graff		19,200
			40,560

Purchase Day Book

		Rs.	Rs.
1993			
Sept 4	Sachin Tendulkar—Goods Purchased	17,400	
	Less : 10% Trade Discount	1,740	15,660
" 21	Maradona Bros.		26,100
			41,760

Returns Inward Book

		Rs.
1993		
Sept 18	Ms Steffi Graff	1,200
		1,200

Returns Outward A/c

		Rs.
1993		
Sept 29	Marodona Bros.	1,800
		1,800

Dr. **Cash Book** Cr.

		Discount allowed Rs.	Cash Rs.	Bank Rs.			Discount received Rs.	Cash Rs.	Bank Rs.
1993									
Sept. 1	To Balance b/d		47,100	76,200	Sept. 3	By Purchases A/c		12,300	
" 20	" Ms Steffi Graff		12,000		" 9	" Drawings			1,500
" 26	" Cash			6,600	" 15	" Sachin Tendulkar.	660	15,000	
" 28	" Ms Steffi Graff		3,000		" 23	" Maradona Bros.	900		18,000
" 30	" Sales A/c		65,400		" 26	" Bank		6,600	
" "	" Cash A/c			60,000	" 30	" Advertisement A/c			1,500
" "	" Sunny-Vishy & Co.	300	17,700		" "	" Salaries A/c		5,400	
					" "	" Bank		60,000	
					" "	" Investment in Shares A/c		3,375	
					" "	" Balance c/d		42,525	121,800
	Discount A/c Dr.	300	145,200	142,800			1,560	145,200	142,800
Oct 1	To Balance b/d		42,525	121,800					

Dr. **Furniture and Fixture A/c** Cr.

		Rs.			Rs.
1993			1993		
Sept. 24	To Kapil International	2,400	Sept. 30	By Balance c/d	2,400
		2,400			
Oct 1	To Balance c/d	2,400			

Kapil International

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 30	To Balance c/d	2,400	Sept. 24	By Furniture and Fixture A/c	2,400
		2,400			2,400
			Oct 1	By Balance b/d	2,400

Bad Debts A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 28	To Ms Steffi Graff	3,000	Sept. 30	By Balance c/d	3,000
		3,000			3,000
Oct 1	To Balance b/d		3,000		

Ms Steffi Graff A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 12	To Sales A/c	19,200	Sept. 18	By Sales Returns A/c	1,200
			" 20	" Cash A/c	12,000
			" 28	" Cash A/c	3,000
			" "	" Bad Debts A/c	3,000
		19,200			19,200

Interest on Capital A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 30	To Capital A/c	1,233	Sept. 30	By Balance c/d	1,233
		1,233			1,233
Oct 1	To Balance b/d	1,233			

Drawings A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 30	To Bank A/c	1,500	Sept. 30	By Balance c/d	2,700
" 30	" Purchases A/c	1,200			
		2,700			2,700
Oct 1	" Balance b/d		2,700		

Purchases A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 4	To Cash A/c	12,300	Sept. 30	By Drawings A/c	1,200
" 30	" Amount as per Purchase Book	41,760	" "	" Balance c/d	52,860
		54,060			54,060
Oct 1	To Balance b/d	52,860			

Sunny-Vishy & Co. A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 7	To Sales A/c	21,360	Sept. 30	By Cash A/c	17,700
			" "	" Discount Allowed A/c	300
			" "	" Balance c/d	3,360
		21,360			21,360
Oct 1	To Balance c/d	3,360			

Sales A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 30	To Balance c/d	1,05,960	Sept. 30	By Amount as per Sales Day Book	40,560
			" 30	" Cash A/c	65,400
		1,05,960			1,05,960
			Oct 1	By Balance b/d	1,05,960

Sachin Tendulkar A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 15	To Cash A/c	15,000	Sept 4	By Purchases A/c	15,660
" 15	" Discount A/c	660			
		15,660			15,660

Maradona Bros.

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 23	To Bank A/c	18,000	Sept 21	By Purchases A/c	26,100
" "	" Discount Received A/c	900			
" 29	" Purchases Returns A/c	1,800			
" 30	" Balance c/d	5,400			
		26,100			26,100
			Oct 1	By Balance b/d	5.400

Returns Inward A/c

Dr.					Cr.
1993		Rs.	1993		Rs.
Sept. 30	To Amount as per Sales Returns Book	1,200	Sept. 30	By Balance c/d	1,200
		1,200			1,200
Oct 1	To Balance b/d	1,200			

Dr. **Returns Outward A/c** *Cr.*

1993		Rs.	1993		Rs.
Sept. 30	To Balance c/d	1,800	Sept. 30	By Amount as per Purchases Returns Book	1,800
		1,800			1,800
			Oct 1	By Balance b/d	600

Dr. **Advertisement A/c** *Cr.*

1993		Rs.	1993		Rs.
Sept. 30	To Bank A/c	1,500	Sept. 30	By Balance c/d	1,500
		1,500			1,500
Oct 1	To Balance b/d	1,500			

Dr. **Salaries A/c** *Cr.*

1993		Rs.	1993		Rs.
Sept. 30	To Cash A/c	5,400	Sept. 30	By Balance c/d	5,400
		5,400			5,400
Oct 1	To Balance b/d	5,400			

Dr. **Investment in Shares A/c** *Cr.*

1993		Rs.	1993		Rs.
Sept. 30	To Cash A/c	3,375	Sept. 30	By Balance c/d	3,375
		3,375			3,375
Oct 1	To Balance b/d	3,375			

Dr. **Discount A/c** *Cr.*

1993		Rs.	1993		Rs.
Sept. 30	To Amount as per Cash Book	300	Sept. 30	By Amount as per Cash Book	1,560
" "	" Balance c/d	1,260			
		1,560			1,560
			Oct 1	By Balance b/d	1,260

Trial Balance as at Sept 30, 1993

	Dr. (Rs.)	Cr. (Rs.)	
Capital		1,24,533	
Drawings	2,700		
Furniture and Fixture	2,400		
Kapil International		2,400	
Bad Debts	3,000		
Interest on Capital	1,233		
Purchases	52,860		
Sunny-Vishy & Co.	3,360		

Contd.

	Dr. (Rs.)	Cr. (Rs.)	
Sales		1,05,960	
Maradona Bros.		5,400	
Returns Inward	1,200		
Returns Outward		1,800	
Advertisement	1,500		
Salaries	5,400		
Investment in shares	3,375		
Discount	300	1,560	
Cash in hand	42,525		
Cash at Bank	1,21,800		
	2,41,653	2,41,653	

TRIAL BALANCE

[P 1] The following balances are extracted from the books of Sri Srigopal Mallick as at 31. 12.1985.

	(Rs.)
Capital	15,000
Land & Building	15,600
Bank Overdraft	2,500
Cash in hand	600
Stock-in trade (1.1.85)	6,000
Purchases	7,200
Provision for Bad Debts	370
Sales	17,000
Wages	1,250
Salaries	700
Advertisement	210
Rent & taxes	160
Insurance	40
Discount Allowed	300
Repairs to building	210
Interest & discount received	500
Debtors	6,620
Creditors	4,100
General expenses	580

Prepare a Trial Balance. **[C. U. B. Com adapted]**

Solution :

Trial balance as at 31.12.1985

	Dr. (Rs.)	Cr. (Rs.)
Capital		15,000
Land & Building	15,600	
Bank Overdraft		2,500
Cash in hand	600	
Stock in trade (1.1.85)	6,000	
Purchase	7,200	
Provision for Bad Debts		370
Sales		17,000
Wages	1,250	
Salaries	700	
Advertisement	210	
Rent and Taxes	160	
Insurance	40	
Discount Allowed	300	
Repairs to Building	210	
Interest and discount received		500
Debtors	6,620	
Creditors		4,100
General expenses	580	
	39,470	39,470

[P 2] The total of debit side of the Trial Balance of a Large Boot & Shoe repairing firm as at 31. 12. 86 is Rs. 1,66,590 and that of the Credit side is Rs. 42,470.

After several checking and re-checking the following mistakes are discovered :

Items of Accounts	Correct figure as it should be	Figure as it appears in the Trial Balance
Opening Stock	14,900	14,800
Repairs	61,780	61,780 (appears on the debit side)
Rent & Rates	2,160	2,400
Sundry Creditors	6,070	5,900
Sundry Debtors	8,060	8,310

Ascertain the correct total of the Trial Balance. **[C. U. B. Com (Hons) adapted]**

Statement showing Computation of Correct Total of the Trial Balance.

		Debit (Rs)	Credit (Rs)
Wrong Total (as given in the problem)		1,66,590	42,470
Opening Stock (14,900-14,800)		100	—
Repairs (Since it is an income to a repairing firm)			61,780
Sundry Creditors (6,070-5,900)			170
	(A)	1,66,690	1,04,420
Repairs (Since it is an income to a repairing firm)		61,780	—
Rent & rates (2,400 – 2,160)		240	—
Sundry Debtors (8,310 – 8,060)		250	—
	(B)	62,270	—
Therefore, Required Correct Total	(A – B)	1,04,420	1,04,420

[P 3] The under-mentioned Trial Balance of Brown Company was drafted by one of their newly appointed book-keeper, but due to his lack of proper knowledge in book-keeping he could not agree the same. You now prepare a Correct Trial Balance giving reasons for your corrections :

Trial Balance as at 31. 3. 1985

	Dr. (Rs.)	Cr. (Rs.)
Opening Stock	1,655	
Cash in hand	45	
Bank Deposits		5,000
Reserve Fund	1,100	
Purchases	6090	
Carriage on goods purchased	80	
Purchase Returns		120
Discount on Cash Purchases	40	
Sales		10,260
Sales Returns	240	
Carriage on goods sold		185
Discount on cash sales		75
Capital		15,000
Import Duty		120
Export Duty	50	
Debtors	4,065	
Creditors		1,250
Plant & Machinery	5,900	
Salary to Staff	2,100	
Wages to Workers	1,070	
Bills Receivable	1,500	
Bills Payable		800
Interest Received	380	
Commission on Sales		150
Miscellaneous Expenses	625	
Closing Stock	1,360	
	26,300	32,960

[W. B. S. E. B.]

Solution :

Trial Balance as at 31. 3. 1985

	Dr. (Rs.)	Cr. (Rs.)
Opening Stock	1,655	
Cash in hand	45	
Bank Deposits (Asset)	5,000	
Reserve Fund (Liability)		1,100
Purchases	6,090	
Carriage on goods purchased	80	
Purchase Returns		120
Discount on Cash Purchases (Income)		40
Sales		10,260
Sales Returns	240	
Carriage on goods sold (Expenditure)	185	
Discount on cash sales (Expenditure)	75	
Capital		15,000
Import Duty (Expenditure)	120	
Export Duty	50	
Debtors	4,065	
Creditors		1,250
Plant & Machinery	5,900	
Salary to Staff	2,100	
Wages to Workers	1,070	
Bills Receivable	1,500	
Bills Payable		800
Interest Received (Income)		380
Commission on Sales (Expenditure)	150	
Miscellaneous Expenses	625	
	28,950	28,950

Exercise

[E 1] Enter the following transactions in the books of E. T. & T. Ltd.

1993		(Rs.)
April 1	**Assets :**	
" "	Land and Building	72,000
" "	Machinery	1,10,400
" "	Stock	2,07,600
" "	Cash at Bank	30,480
" "	Cash in hand	3,440
" "	Due from Protim & Co.	5,840
" "	Due from Subir & Co.	5,040
" "	Furniture and Fixture	6,000
	Liabilities :	
" "	5% Loan A/c	80,000
" "	Due to Bappaditya	24,000
" 3	Drawn from bank (for wages to be paid in the following day)	6,000
" 4	Wages paid	5,740

Contd.

1993		(Rs.)
April 7	Purchased goods from Bappaditya Charges Rs. 188	23,744
" 9	Returned goods to Bappaditya (not being up to quality)	1,792
" 12	Paid customs duty by cheque	27,740
" 17	Sold goods to Protim & Co.	22,800
" 18	Paid Bappaditya by cheque in full settlement of amount due on April, 1	23,400
" "	Received from Subir & Co. by cheque in full settlement	4,940
" 19	Purchased from Joy (P) Ltd. advertising stickers	4,400
" 24	Nilesh Engineers (P) Ltd. charge for repairing machinery paid in cash	1,000
" "	Sold, goods to Subir & Co.	2,000
" 25	Purchased goods from Siddhartha Traders	13,440
" 26	Received from Protim & Co. on account, cheque	8,000
" 27	Received for Machinery sold	1.200
" "	Bank informs that Subir & Co.'s cheque is dishonoured	
" 28	Purchased goods from Subhojeet (P) Ltd. Charges Rs. 28	20,832
" 29	Paid for advertisements	920
" 30	Paid for repairs to furniture	120
" "	Paid for ground rent	2,400
" "	Drawn from Bank for Private use	1,600
" "	Bank charged interest for the month	140
" "	Received intimation that Subir & Co. has proved insolvent, no possibility of recovering anything	
" "	Allowed interest on capital @ 6% per annum	
" "	Goods taken for Private use (Sales Value)	40
" "	Salaries for the month of April unpaid	8,000
" "	Sold goods to Microtech (P) Ltd. & Co. Packing charges Rs. 120	18,080

[E 2] Enter the following transactions in the books of Enbee Traders.

1993		(Rs.)
Sept 1	Cash in hand	23,550
" "	Cash at bank	38,100
" "	Capital A/c	61,650
" 3	Purchased goods for cash	6,150
" 4	Purchased goods from Shyam Thapa, less 10% trade discount	8,700
" 7	Sold goods to Surajit Sengupta., less 20% trade discount	13,850
" 9	Withdrew from Bank for private use	750
" 12	Sold goods to Ms Sabatini	9,600
" 15	Paid to Shyam Thapa, in full settlement of his account	7,500
" 18	Goods returned by Ms Sabatini	600
" 20	Received from Ms Sabatini	6,000
" 21	Purchased goods from Pele	13,050
" 23	Paid to Pele by cheque (discount allowed Rs. 900)	9,000
" 24	Purchased furniture from Botham International on credit	1,300
" 26	Paid into Bank	3,300
" 28	Ms Sabatini declared insolvent, a final dividend of 50 paise in a rupee is received from her	
" 29	Goods returned to Pele	900
" 30	Interest on Capital provided	617

Contd.

1993			(Rs.)
Sept	"	Goods taken by proprietor for personal use	600
"	"	Advertisement expenses paid by cheque	750
"	"	Staff salaries	2,700
"	"	Cash Sales	32,700
"	"	Paid into Bank	30,000
"	"	Purchased 100 shares in Uttam Movies at Rs. 17 per share Brokerage paid Rs. 20	
"	"	Received from Surajit Sengupta (discount allowed Rs. 150)	8,850

TRIAL BALANCE

[E 1] The following balances are extracted from the books of Sri Satyajit Ray as at 31. 12. 1992.

	(Rs.)	
Capital	30,000	
Land & Building	31,200	
Bank Overdraft	5,000	
Cash in hand	1,360	
Stock-in trade (1.1.92)	12,000	
Purchases	14,400	
Provision for Bad Debts	740	
Sales	34,000	
Wages	2,500	
Salaries	1,400	
Advertisement	420	
Rent & taxes	320	
Insurance	80	
Discount Allowed	600	
Repairs to Building	420	
Interest & discount received	1,000	
Debtors	13,240	
Creditors	8,200	
General expenses	1,000	

Prepare a Trial Balance.

[E 2]

Items of Accounts	Correct figure as it should be	Figure as it appears to the Trial Balance
Opening Stock	7,450	7,400
Repairs	30,890	30,890 (appears in the debit side)
Rent & Rates	1,080	1,200
Sundry Creditors	3,035	2,950
Sundry Debtors	4,030	4,155

Ascertain the correct total of the Trial Balance. **[C. U. B.Com (Hons) adapted]**

[E 3] The under-mentioned Trial Balance of Pepsi Ltd. was drafted by one of their newly appointed book-keepers, but due to his lack of proper knowledge in book-keeping he could not agree the same. You now prepare a Correct Trial Balance giving reasons for your corrections. :

Trial Balance as at 31. 3. 1993

	Dr. (Rs.)	Cr. (Rs.)
Opening Stock	3,310	
Cash in hand	90	
Bank Deposits		10,000
Reserve Fund	2,200	
Purchases	12,180	
Carriage on goods purchased	160	
Purchase Returns		240
Discount on Cash Purchases	80	
Sales		20,520
Sales Returns	480	
Carriage on goods sold		370
Discount on cash sales		150
Capital		30,000
Import Duty		240
Export Duty	100	
Debtors	8,130	
Creditors		2,500
Plant & Machinery	11,800	
Salary to Staff	4,200	
Wages to workers	2,140	
Bills Receivable	3,000	
Bills Payable		1,600
Interest Received	760	
Commission on Sales		300
Miscellaneous Expenses	1,250	
Closing Stock	2,720	
	52,600	65,920

[W. B. S. E. B. adapted]

Chapter 2

BANK RECONCILIATION

[P 1] From the following information available from the books and records of M/s Sunil Metal Products, Prepare Bank Reconciliation Statements.

	Bank A/c No. I (Rs.)	Bank A/c No. II (Rs.)
Balance at the end of the month as per cash book	Dr. 50,040	Cr 1,79,280
Cheques issued not presented at the end of the month	39,260	21,422
Cheques deposited for collection not cleared till end of the month		47,420
Interest not adjusted in cash book		2,400
Cheques issued against A/c No. II wrongly debited by bank to A/c No. I		1,800

[C. A. Entrance D 80]

Solution :

In The Books of
Sunil Metal Products
Bank Reconciliation Statement as at—

	Bank A/c No. I (Rs.)	Bank A/c No. II (Rs.)
Balance as per Cash Book	Dr. 50,040	Cr. 1,79,280
Add/ (Less) Cheques issued but not yet presented	39,260	(21,422)
	89,300	1,57,858
Add/ (Less) Cheques deposited but not yet cleared	—	47,420
	89,300	2,05,278
Add/ (Less) Interest not adjusted in Cash Book	—	2,400
	89,300	2,07,678
Add/ (Less) Cheque issued against A/c No. II wrongly debited by Bank to A/c No. I	(1,800)	(1,800)
Balance as per Bank Statements	Cr. 87,500	Dr. 2,05,878

[P 2] From the following particulars, ascertain the bank balance as per pass book of Mr. Kesari, as at 31st March, 1981 :-

(i) Credit balance as per cash book as at March 31st, 1981 : Rs. 38,721.

(ii) Interest charged by bank Rs. 879 recorded in Pass book only.

(iii) Out of cheques worth Rs. 2,400 deposited for collection up to March 31, value of cheques collected Rs. 1 879 only.

(iv) Dividends on shares collected by bankers with intimation to Mr. Kesari Rs. 850.

(v) Out of cheques issued during the last week of March, cheques not presented for payment were Rs. 1,850.

(vi) The bank had credited Rs. 200 on March 30, 1981 which sum should have been credited to Mr. Kesari's A/c.

(vii) Incidental charges debited by bank with no advice : Rs. 20. **[C. A. Entrance D 81]**

Solution :

Mr. Kesari
Bank Reconciliation Statement
as on 31 st March, 1981

			Rs.
Bank Balance as per Cash Book	Cr.		38,721
Add: Interest charged by the bank not yet recorded in the cash book		879	
Cheques deposited but not yet collected		521	
Incidental charges debited by Bank, not yet intimated		20	1,420
			40,141
Less: Dividends collected by the Bank, not yet intimated		850	
Cheques issued but not yet presented		1,850	2,700
∴ Bank Balance as per Pass Book	Dr.		37,441

[P 7] On 30th Sept. 1983, the bank account of X, according to the bank Column of the Cash Book was overdrawn to the extent of Rs. 4,062. On the same date the bank statement showed a balance of Rs.1,400 in favour of X. An examination of the Cash Book and Bank Statement reveals the following :-

(1) Cheque for Rs. 1,140 deposited on 29th Sept. 1983 was credited by the bank only on 3rd Oct. 1983.

(2) A payment by cheque for Rs. 160 has been entered twice in the Cash Book.

(3) On 29th Sept. 1983, the bank credited an amount of Rs. 1,740 received from a customer of X, but the advice was not received by X until 1st, Oct. 1983.

(4) Bank charges amounting to Rs. 58 had not been entered in the Cash Book.

(5) On 6th Sept. 1983, the bank credited Rs. 2,000 to X in error.

(6) A bill of exchange for Rs. 1,000 was discounted by X with his bank. This bill was dishonoured on 28th Sept. 1983, but no entry had been made in books of X.

(7) Cheques issued up to 30th Sept. 1983 but not presented for payment upto that date totalled Rs. 3,760.

You are required :-

(a) to show the appropriate rectifications required in the Cash Book of X to arrive at the correct balance on 30th Sept. 1983; and

(b) to prepare a Bank Reconciliation Statement as on that date. **[C.A. Entrance D 83]**

Solution :

(a) **In the Books of X**

Amended Cash Book (Bank Column)

1983		(Rs.)	1983		(Rs.)
Sept. 30.	To Party A/c	160	Sept. 30	By Balance b/d	4,062
	" Customer A/c (Direct deposit)	1,740		" Bank Charges	58
	" Balance c/d	3,220		" Customer A/c (B/R dishonoured)	1,000
		5,120			5,120

(b) **Bank Reconciliation Statement as on 30th Sept, 1983**

			(Rs.)
Bank Balance as per Cash Book (as amended)	Cr.		3,220
Add: Cheque deposited but not yet collected			1,140
			4,360
Less: Cheques issued but not yet presented for payment		3,760	
A/c credited by Bank in error		2,000	5,760
∴ Bank Balance as per Bank Statement	Cr.		1,400

[P 3] From the following information, prepare a Bank Reconciliation Statement as at 31st Dec. 1983 for M/s New Steels Limited :-

		(Rs.)
(1)	Bank overdraft as per Cash Book on 31st Dec. 1983	2,45,900
(2)	Interest debited by Bank on 26th Dec. 1983 but no advice received	27,870
(3)	Cheque issued before 31st Dec. 1983 but not yet presented to bank	66,000
(4)	Transport subsidy received from the State Govt. directly by the bank but not adviced to the company	42.500
(5)	Draft deposited in the bank, but not credited till 31st Dec. 1983	13,500
(6)	Bills for collection credited by the bank till 31st Dec. 1983 but no advice received by the company	83,600
(7)	Amount wrongly debited to the company account by the Bank, for which no details are available	7,400

[C.A. Entrance D 84]

Solution :

M/s. New Steels Ltd.

Bank Reconciliation Statement as on 31st Dec. 1983

			(Rs.)
Bank Balance as per Cash Book	Cr.		2,45,900
Add: Interest debited by the bank not yet intimated		27,870	
Draft deposited in bank but not yet credited		13,500	
Amount wrongly debited by the bank		7,400	48,770
			2,94,670
Less : Cheque issued but not yet presented to Bank		66,000	
Transport subsidy received not yet intimated		42,500	
Bills for collection credited by the bank not yet intimated		83,600	1,92,100
∴ Bank Balance as per Bank Statement	Dr.		1,02,570

[P 4] The Bank Account of Mukesh was balanced on 31st March, 1992. It showed an overdraft of Rs. 5,000. The Bank Statement of Mukesh showed a credit balance of Rs. 76,750.

Prepare a Bank Reconciliation Statement taking the following into account:-

(1) Cheques issued but not presented for payment till 31.3.1992, Rs. 12,000.

(2) Cheques deposited but not collected by Bank till 31.3.1992, Rs. 20,000.

(3) Interest on Term Loan- Rs. 10,000 debited by Bank on 31.3.1992 but not accounted in Mukesh's books.

(4) Bank charges–Rs. 250 was debited by Bank during March 1992 but accounted in the books of Mukesh on 4.4.1992.

(5) An amount of Rs. 1,00,000 representing collection of Mukesh's cheque was wrongly credited to the account of Mukesh by the bank in their Bank statement. **[C.A.Foundation J 93]**

Solution :

Mukesh

Bank Reconciliation Statement as at 31.3.92

			(Rs.)
Bank Balance as per Cash Book	Cr.		5,000
Add: Cheques deposited but not yet Collected.		20,000	
Interest on Term Loan debited by Bank not yet intimated.		10,000	
Bank charges debited by Bank not yet intimated		250	30,250
			35,250
Less: Cheques issued but not yet presented		12,000	
Cheque of a 3rd Party (Mukesh) wrongly credited by Bank		1,00,000	1,12,000
∴ Bank Balance as per Bank Statement	Cr.		76,750

[P 5] Prepare Bank Reconciliation Statement from the following data as on 30.11.1984 :

(i) Balance as per Pass Book on 30.11.1984 overdrawn Rs. 9,204.

(ii) Cheques drawn on 30.11.84 but not cleared till December 1984 Rs. 3,225, Rs. 745 and Rs. 926.

(iii) Bank Overdraft interest charged on 28.11.84 not entered in Cash Book Rs. 1,610.

(iv) Cheques received on 29.11.84 entered in Cash book but not deposited to Bank till 3rd December, 1984 Rs. 11,322 and Rs. 1,730.

(v) Cheque received amounting to Rs. 35 entered in Cash Book twice.

(vi) Bills receivable due on 29.11.84 was sent to Bank for collection on 28.11.84 and was entered in cash book forthwith but the proceeds were not credited in Bank Pass book till 3rd December, 1984 Rs. 2,980.

(vii) A periodic payment by Bank of Rs. 80 under standing instruction not entered in Cash Book.

(viii) Cheque deposited on 30th November, 1984, dishonoured but the entry thereof was not made in the Cash Book Rs. 1,890. **[I. C. W. A. Inter D 84]**

Solution :

Bank Reconciliation Statement as on 30.11.1984

			(Rs.)
Bank balance as Pass Book	Dr.		9,204
Add: Cheques drawn but not cleared till December '84 (3,225 + 745 + 926)			4,896
			14,100
Less: Bank overdraft interest not yet entered in Cash Book		1,610	
Cheques received entered in the Cash book, but not yet banked. (11,322 + 1,730)		13,052	
Cheque received entered twice in the Cash Book		35	
Bills Receivable sent to Bank for collection, but not yet credited by bank		2,980	
Periodic payment by bank under standing instruction not yet entered in the Cash Book		80	
Cheque deposited dishonoured but not yet entered in the Cash Book		1,890	19,647
∴ Bank Balance as per Cash Book	Dr.		5,547

[P 8] A Firm operates a Current Account with Punjab National Bank, on 31st March, 1992, the Bank statement disclosed a credit balance of Rs. 36,500 which did not agree with the Cash Book balance on the date. A careful scrutiny revealed the following :

(a) A cheque of Rs. 7,500 was issued to a creditor on 25th March but was presented for payment on 6th April. The amount of the cheque was entered in the Cash Book as Rs. 5,700.

(b) Cheques totalling Rs. 15,000 were deposited prior to 31st March, out of these cheques, a cheque for Rs. 8,500 was returned dishonoured on 30th March but no entry for dishonour was made in the Cash Book. The rest amount was collected by the Bank on 10th April.

(c) Withdrawal column of Bank Statement was overcast by Rs. 1,000.

(d) Bank charges Rs. 560 debited by the Bank but not recorded in the Cash Book.

You are required to make necessary corrections in the Cash Book and starting from the amended Cash Book balance, prepare a Bank Reconciliation Statement as at 31st March, 1992.

[I. C. W A. Inter. J 92]

Solution :

Statement to ascertain the Cash Book Balance before amendment.

	(Rs.)	(Rs.)
Bank Balance as per statement		36,500
Less: Cheques for Rs. 7,500 issued entered in the cash book as Rs. 5,700 yet to be presented to Bank for payment on 6th April		5,700
		30,800
Add: Cheques deposited for Rs. 15,000 out of which Rs. 8,500 returned dishonoured , dishonour entry not yet passed in Cash book, the rest amount yet to be collected by Bank on 10th April	15,000	
Overcast withdrawal column of the Bank statement	1,000	
Bank charges debited by Bank but not yet entered in Cash Book	560	16,560
∴ Bank Balance as per Cash book (before amendment)		47,360

Amended Cash Book (Bank Column)

Dr.		(Rs.)			*Cr.* (Rs.)
To	Balance b/d	47,360	By	Sundry Creditors (7,500 – 5,700)	1,800
			"	Sundry Debtors (Cheque dishonoured)	8,500
			"	Bank Charges	560
			"	Balance c/d	36,500
		47,360			47,360

Bank Reconciliation Statement as at 31st March, 1992

	Dr.		Rs.
Bank balance as per amended Cash Book			36,500
Add: Cheque issued but not yet presented for payment			7,500
			44,000
Less : Cheques deposited but not yet credited (Rs. 15,000 – 8,500)		6,500	
Withdrawal column of Bank statement overcast		1,000	7,500
∴ Bank Balance as per Bank Statement	Cr.		36,500

[P 9] D's Cash Book shows an overdrawn position of Rs. 3,630 on 31st March, 1990, although the bank statement shows only Rs. 3,378 overdrawn. Detailed examination of two records revealed the following :

(a) A cheque for Rs. 1,560 in favour of Rath Associates had been omitted by the Bank from its statement, the cheque having been debited to another customer's A/c.

(b) The debit side of own book had been under-cast by Rs. 300

(c) A cheque for Rs. 182 drawn in payment of Electric Account had been entered in the Cash Book on Rs. 128 and was shown correctly in Bank Statement.

(d) A cheque for Rs. 210 from S. Gupta, having been paid into the bank, was dishonoured and shown as such on bank statement, although no entry relating to dishonour had been made in the Cash Book.

(e) The Bank had debited a cheque for Rs. 126 to D's account in error. It should have been debited to Shukla's A/c

(f) A dividend of Rs. 90 on D's holding of Fquity Shares has been directly collected by Bank, but no entry has been made in Cash Book.

(g) A lodgement of Rs. 1,080 on 31.3.90 had not been credited by the Bank.

(h) Interest of Rs. 228 had been directly debited by Bank but not recorded in Cash Book.

You are required to prepare a Bank Reconciliation Statement after necessary amendment in Cash book as on 31st March, 1990. **[I. C. W. A. Inter. J 90]**

Solution :

Amended Cash Book (Bank column.)

Date		Particulars	(Rs.)	Date		Particulars	(Rs.)
1990							
Mar. 31	To	Dividend	90	Mar. 31	By	Balance b/d	3,630
" "	"	Undercasting error	300	" "	"	Electric charges (182 – 128)	54
" "	"	Balance c/d (amended balance)	3,732	" "	"	S. Gupta (Cheques dishonoured)	210
				" "	"	Bank Interest (Interest on overdraft charged by bank)	228
			4,122				4,122
				Apr. 31	By	Balance b/d (amended balance)	3,732

Bank Reconciliation Statement of D as at 31. 3. 90

			Amount (Rs.)
Bank Balance as per Cash Book (as amended)	Cr.		3,732
Add: Cheque wrongly debited by bank		126	
Lodgement not yet credited by bank		1,080	1,206
			4,938
Less : Cheque issued but not debited by Bank by mistake			1,560
∴ Bank Balance as per Pass Book	Dr.		3,378

[P 6] The Bank Pass book of a Trader showed an overdraft for Rs. 4,500 on 31st March, 1988 and a difference was noted when compared with the balance as per Cash Book. On a careful scrutiny the following facts were noticed:

(a) Cheques deposited for Rs.. 7,500 but were not credited by the Bank before 31st March, 1988.
(b) Cheques issued for Rs. 3,850 were presented for payment on 4th April, 1988.
(c) Bank column total of Debit side of the Cash Book folio 36 for Rs. 65,950 was carried forward to the next folio as Rs. 56,950.
(d) Withdrawal column of the Bank Pass book was added Rs. 600 excess.
(e) A cheque for Rs.3,500 withdrawn from bank but recorded in the Cash Book as Rs. 5,300.
(f) Bank charges Rs. 150 debited by the bank but not recorded in the Cash Book.

You are required to prepare Bank Reconciliation Statement (without preparing amended Cash Book) as at 31st March, 1988 and ascertain the balance as shown by the Cash Book on that date.

[I. C. W. A. Inter. J 88]

Solution :

Bank Reconciliation Statement as at 31st March. 1988

			(Rs.)
Bank Balance as per Pass Book	Dr.		4,500
Add: Cheques issued but not yet presented to bank for payment		3,850	
Carry forward error in Cash Book (65,950 – 56,950)		9,000	
Excess amount recorded in Cash Book for cheques withdrawn from Bank (5,300 – 3,500)		1,800	14,650
Less : Cheques deposited but not yet credited by Bank		7,500	19,150
Withdrawal column of Bank Pass book overcast		600	
Bank charges not yet recorded in the Cash Book		150	8,250
∴ Bank Balance as per Cash Book	Cr.		10,900

[P 10] On 30th June, 1986 the bank column of the Cash book of M showed a credit balance of Rs. 11,810. On examination of the Cash Book and Bank Statement you find that :

(a) Cheques issued amounting to Rs. 17,520 in June, 1986 had been entered in the cash book as Rs. 17,250. These cheques were not presented at the Bank for payment until July, 1986.

(b) A cheque for Rs. 350 paid into the Bank in May, 1986 had been debited by the Bank in error in June, 1986.

(c) Interest of Rs. 880 charged by the Bank was not recorded in the Cash book.

(d) Cheques received and recorded in the Cash Book but not sent to Bank for collection Rs. 1,240.

(e) Payment received from customer direct by the Bank Rs. 2,730 but no entry was made in the Cash Book.

(f) Rs. 4,490 was entered in the Cash Book as paid into Bank on 30th June, 1986 but not credited by the Bank until the following day.

(g) The payment side of the Cash Book and had been undercast by Rs. 100.

You are required to show the necessary corrections in the Cash Book and to prepare a statement reconciling the amended cash balance with that shown in the Bank Pass Book as on 30th June, 1986. **[I. C. W. A. Inter D 86]**

Solution :

In the books of M
Amended Cash Book (Bank Column)

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1986					
Jun. 30	To Customer (Direct deposit)	2,730	Jun. 30	By Balance b/d	11,810
" "	" Balance c/d (amended balance)	10,330	" "	" Creditors (Cheques issued for Rs. 17,520 wrongly recorded as Rs. 17,250)	270
			" "	" Interest on overdraft	880
			" "	" Under-casting error	100
		13,060			13,060
			Jul 1	By Balance b/d (amended balance)	10,330

Bank Reconciliation Statement as on 30th June, 1986

			Amount (Rs.)
Bank Balance as per Cash Book (as amended)	Dr.		10,330
Add: Cheques paid into the Bank but wrongly debited by them (350 + 350)		700	
Cheque received recorded in the Cash Book, but not yet sent to Bank for collection		1,240	
Cheques paid in but not yet credited by the Bank		4,490	6,430
			16,760
Less: Cheques issued but not yet presented at the Bank for payment			17,520
∴ Bank Balance as per Pass Book	Cr.		760

Exercise

BANK RECONCILIATION STATEMENT

[E 1] Fun-Fare Ltd. have a current account with National Bank Ltd. The following is an extract from the Bank's books of account for the last week of March, 1992.

ACCOUNT OF FUN-FARE LTD.

Favouring/Particulars	*Cheque No.*	*(Rs.)*	*Clearing etc.*	*(Rs.)*
Gopal Bros.	212	4,000	Balance b/d	21,000
Nandkumar Traders	213	7,200	Cheque of Pros Industries	5,000
Gopal Bros.	215	4,100	Cheque of Ramgopal Sons	7,800
"Ourselves"	216	2,400	Dividend warrant	200
Incidental charges	—	10		
Interest on loan	—	900		
Lalchand	217	1,000		
Balance c/d	—	14,390		
		34,000		34,000
			Balance b/d	14,390

It is understood that :

(i) Cheque No. 214 drawn in favour of Teewee Traders for Rs. 2,100 was not yet presented to the Bank.

(ii) Advices regarding incidental charges, interest on loan and dividend warrant, reached Fun-Fare Ltd. only in April, and

(iii) Cheque favouring Lalchand was towards rent for the month of March.

From the above date you are required to prepare the Cash book (Bank column only) of Fun-Fare Ltd. for the above period and a Bank reconciliation statement in their books at the end of the month. **[C. A. Entrance adapted]**

(Ans : Amended Cash book Balance (Dr.) Rs. 13,000 Bank Balance as per Pass Book (Cr.) Rs. 14,390.)

[E 2] Perfect (P) Ltd., has two accounts with Ever Bank Ltd. The accounts were known as 'Account I' and Account II'. As at December 31, 1977, the balance as per A/c Books reflected the following:

Account I—Rs. 1,25,000 Regular Balance.

Account II— Rs. 1,11,250 Overdraft Balance.

The Accountant failed to tally the balance with the Pass Book and the following information was available:

(a) The Bank has charged Interest on Account II Rs. 11,375 and credited Interest on Account I Rs. 1,250. These were not recorded by the Accountant.

(b) Rs. 12,500 drawn on December 10, 1977, from Account I was recorded in the books of Account II.

(c) Bank charges of Rs. 150 and Rs. 1,125 for Account I and Account II were not recorded in books.

(d) A deposit of Rs. 17,500 in Account I was wrongly entered in Account II in the books.

(e) Two cheques of Rs. 12,500 and Rs. 13,750 deposited in Account I, but entered in Account II in the books, were dishonoured. The entries for dishonoured cheque were entered correctly in Account II.

(f) Cheques issued for Rs. 1,50,000 and Rs. 15,000 respectively from Account I and II were not presented until January 5, 1978.

(g) Cheques deposited for Rs. 1,25,000 and Rs. 1,17,500 in Account I & II respectively, were credited by Bank only on February 2, 1978. **[I. C. W. A. Inter D 77]**

(Ans: Bank Balance as per Pass Book (Dr.) Rs. 2,31,250.)

[E 3] From the following particulars, find out adjusted bank balance as per Cash Book and prepare thereafter Bank Reconciliation Statement as on 31-12-1975 of a sole-proprietor:

	(Rs.)
Bank overdraft as per cash book	80,000
Cheques deposited as per bank statement but not entered in cash book	3,000
Cheques recorded for collection but not sent to Bank	10,000
Credit side of Bank column cast short	1,000
Premium on Proprietor's LIP paid on standing advice	5,000
Bank charges recorded twice in cash book	100
Customer's cheque returned as per Bank statement only	4,000
Cheques issued but dishonoured on technical grounds	3,000
Bills collected by Bank directly	20,000
Cheque for Rs. 50,000 deposited but collection as per Bank Stament	49,980
Cheque received entered twice in cash book	5,000

[I. C. W. A. Inter. J 76]

(Ans: Amended Cash Book Balance (Cr.) Rs. 9,920 Bank Balance as per Pass book (Dr.) Rs. 78,920)

[E 4] Dipankar has two Bank Accounts with State Bank of India styled as Account number 1 and Account number 2.

His cash book showed the following balance as on 31-2-80·

Account Number 1	Rs. 27,000
Account Number 2	Rs. 54,000

The following are revealed on scrutiny of the Bank statements :

(a) Rs. 3,000 has been transferred from Account number 2 to Account number 1 by the Bank without any intimation;

(b) Rs. 100 and Rs. 20 have been debited as incidental and other charges in Account numbers 1 and 2 respectively but no advice was sent by the bank.

(c) A cheque for Rs. 5,000 drawn on Account number 1 on 21-3-80 in favour of Sen and Company has not been presented so far;

(d) A cheque for Rs. 3,100 deposited in Account number 2 has been credited by the bank in Account number 1.

You are required to prepare reconciliation statement showing the balances as per Bank Pass Books. **[C. S. Preli. D 80]**

(Ans. Pass Book Balances: A/c No. 1 Rs. 38,000; A/c No. 2 Rs. 47,880)

[E 5] On December 31, 1978, the bank column of A's cash book showed a debit balance of Rs. 4,610. On a scrutiny of the cash book and bank statement you find that:

1. Cheques amounting to Rs. 6,300 which were issued to creditors and entered in the cash book before December 31, 1978, were not presented for payment until after the date.
2. Cheques amounting to Rs. 2,500 had been recorded in the cash book as having been paid into the bank on December 31, 1978, but were entered in the bank statement on January 1, 1979.
3. A cheque for Rs. 730 deposited had been dishonoured prior to December 31, 1978, but no record of this fact appeared in the cash book.
4. A dividend of Rs. 380 paid direct to the bank had not been recorded in the cash book.
5. Bank interest and charges amounting to Rs. 420 had been charged in the bank statement but not entered in the cash book.
6. No entry had been made in the cash book for a trade subscription of Rs. 100 paid by the bank in November, 1978.
7. A cheque for Rs. 10 issued had been entered in the cash book twice.
8. A cheque for Rs. 270 drawn by Akhil had been charged to A's Bank Account erroneously in December, 1978.

You are required to :

(a) to prepare a Bank Reconciliation Statement, and

(b) to work out the correct bank balance to be shown in the Balance Sheet.

[C. S. Preli. D 79]

[E 6] The Cash Book of Mr. Zed has an overdraft of Rs. 210 on September 30, 1981. On going through the Pass Book, the following differences are noted:

(a) Cheques paid into the bank but not cleared up to September 30, 1981, for Rs. 240.

(b) Cheques for Rs. 1,875 were drawn, of which cheques for Rs. 375 were presented for payment.

(c) A customer Mr. Dee deposited Rs. 600 direct into the bank and no entry in the cash book could be made.

(d) Mr. Cee's cheque for Rs. 243 was deposited into the bank, but wrongly entered in the cash book as Rs. 234.

(e) Bank charged commission of Rs. 23 and interest on overdraft Rs. 16.

(f) Bank paid insurance premium of Rs. 120 but no entry was passed in the cash book for it.

(g) A bills receivable from Mr. Bee for Rs. 250 discounted with the bank was dishonoured on September 26, 1981, and no entry was passed in the cash book.

(h) Dividend of Rs. 90 collected by the bank has not been recorded in the cash book.

From the above details find out the correct balance of the cash book and then prepare a Bank Reconciliation Statement to find out bank pass book balance on September 30, 1981.

[C. S. Preli. D 81]

(Ans. Bank Balance as per Pass Book Rs. 1,340)

[E 7] From the following particulars prepare a Bank Reconciliation Statement as on 31st December, 1993 :—

(1) On 31st December, 1993 the Cash-book of a firm showed a bank balance of Rs. 6,000. (Debit Balance)

(2) Cheques had been issued for Rs. 5,000, out of which cheques worth Rs. 4,000 only were presented for payment.

(3) Cheques worth Rs. 1,400 were deposited in the bank on 28th December, 1993 but had not been credited by the bank. In addition to this, one cheque for Rs. 500 was entered in the Cash-book on 30th December, 1993 but was banked on 3-1-1994.

(4) A cheque from Susan for Rs. 400 was deposited in the bank on 26th December, 1993 but was dishonoured and the advice was received on 2-1-1994.

(5) Pass-book showed bank charges of Rs. 20 debited by the bank.

(6) One of the debtors deposited a sum of Rs. 500 in the bank account of the firm on 20th December, 1993 but the intimation in this respect was received from the bank on 2-1-1994.

(7) Bank Pass-book showed a credit balance of Rs. 5,180 on 31st December, 1993.

[C. A Foundation J 94]

Bank Reconciliation Statement as at 31st December, 1993

Particulars		Details	Amount (Rs.)
Bank Balance as per Cash Book	Dr.		6,000
Add: Cheques issued but not yet presented to Bank for payment (5,000 – 4,000)		1,000	
Direct Deposit by Debtor not yet intimated		500	1,500
			7,500
Less: Cheques deposited but not yet credited by Bank		1,400	
Cheques entered in Cash Book not yet banked		500	
Cheques deposited dishonoured but no advice has yet been received		400	
Bank charges debited by Bank not yet intimated		20	2,320
∴ Bank Balance as per Pass Book	Cr.		5,180

Chapter 3

RECTIFICATION OF ERRORS

[P 1] Pass rectification journal entries in the following cases :

(i) The payments side of bank column in cash book has been short-totalled by Rs. 560.

(ii) The discount column in the receipts side of cash book was over totalled by Rs. 650.

(iii) The total of the Purchases Returns book in page 12 reading as Rs. 16,570, was carried over to page 13 as Rs. 15,670.

(iv) A sum of Rs. 1,200 paid towards cost of a second-hand typewriter purchased, has been debited to Repairs A/c.

You may assume that the difference in Trial Balance has been placed to a Suspense A/c.

[C.A. Entrance D 80]

Solution :

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Suspense A/c Dr.		560	
	To Bank A/c			560
	(Short totalling in the Cash Book rectified.)			
	Suspense A/c Dr.		650	
	To Discount Allowed A/c			650
	(Overtotalling in the discount column in the Cash Book rectified.)			
	Suspense A/c Dr.		900	
	To Purchases A/c			900
	(Carrying over error rectified)			
	Typewriter A/c Dr.		1,200	
	To Repairs A/c			1,200
	(Wrong posting of the cost of the typewriter rectified.)			

[P 10] In taking out a trial balance a book-keeper finds that the debit exceeds by Rs. 41. Being desirous of closing his books he places the difference to a newly opened Suspense Account. After recording the difference in Suspense Account he discovers that :

a. A sum of Rs. 83 received from X was posted to his debit as Rs. 38.

b. Rs. 62 written off as depreciation on Furniture has not been posted to Depreciation Account.

c. Rs. 1,000 paid for new furniture has been charged to repairs.

d. A discount of Rs. 21 allowed to a customer has been credited to his account as Rs. 20.

e. The total of the Sales Returns Book has been added one rupee short.

f. An item of sale of Rs. 68 was posted as Rs. 86 in the sales account.

You are required to give the journal entries for rectification of the above and to show the Suspense Account.

[C.A. Entrance J 82]

Solution :

Journal of ....

	Particulars		L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Suspense A/c	Dr.		121	
	To X A/c				121
	(Short posting rectified.)				
(b)	Depreciation A/c	Dr.		62	
	To Suspense A/c				62
	(Omission of posting rectified)				
(c)	Furniture A/c	Dr.		1,000	
	To Repairs A/c				1,000
	(Misposting rectified)				
(d)	Suspense A/c	Dr.		1	
	To Customer A/c				1
	(Short posting in Customer's A/c rectified)				
(e)	Returns Inward A/c	Dr.		1	
	To Suspense A/c				1
	(Undercasting of Sales Returns Book rectified)				
(f)	Sales A/c	Dr.		18	
	To Suspense A/c				18
	(Excess posting in Sales A/c rectified.)				

Dr. **Suspense A/c** *Cr.*

	(Rs.)		(Rs.)
To X A/c	121	By Balance b/d	41
" Customer A/c	1	(Difference in Trial Balance)	
		" Depreciation A/c	62
		" Returns Inward A/c	1
		" Sales A/c	18
	122		122

[P 2] Pass rectification entries for the following transactions :—

a. A builder's bill for Rs. 4,600 for erection of a small shed was debited to repairs account.
b. Repairs to plant amounting to Rs. 900 had been charged to Plant and Machinery Account.
c. Wages paid to the firm's workmen for making certain additions to machinery amounting to Rs. 340 were debited to Wages account.
d. A cheque for Rs. 750 received from S. Desai was credited to the account of R Ram.
e. Goods to the value of Rs. 700 returned by X were included in the closing stock but no entry was made in the books.
f. Goods costing Rs. 2,000 were purchased for various members of the staff and the cost was included in "Purchases". A similar amount was deducted from the salaries of the staff members concerned and the net payments to them debited to Salaries account.
g. A bill of exchange (received from Hari) for Rs. 3,000 had been returned by the Bank, with whom it had been discounted, as dishonoured and had been credited to Bank Account and debited to Bills receivable Account.
h. Goods sold to Z for Rs. 475 have been wrongly entered in the Sales Book as Rs. 745.

[C.A. Entrance D 83]

Solution :

Journal of ....

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Building A/c Dr.		4,600	
	To Repairs A/c			4,600
	(Erection charges wrongly shown as revenue expenditure, now rectified by capitalising the same)			
(b)	Repairs A/c Dr.		900	
	To Plant & Machinery A/c			900
	(Repairs wrongly capitalised instead of being treated as revenue expenditure, now rectified)			
(c)	Plant & Machinery A/c Dr.		340	
	To Wages A/c			340
	(Wages for additions to Machinery wrongly treated as Revenue expenditure, now rectified by capitalising the same.)			
(d)	R. Ram A/c Dr.		750	
	To S. Desai A/c			750
	(Wrong posting of cheque received rectified.)			
(e)	Returns Inward A/c Dr.		700	
	To X A/c			700
	(Returns inward not recorded by mistake, now rectified.)			
(f)	Salaries A/c Dr.		2,000	
	To Purchases A/c			2,000
	(Goods purchased for staff members wrongly recorded as purchases, now rectified.)			
(g)	Hari A/c Dr.		3,000	
	To Bills Receivable A/c			3,000
	(Dishonour of discounted Bill recorded in the books as Bills Receivable by mistake, now rectified.)			
(h)	Sales A/c Dr.		270	
	To Z A/c			270
	(Excess recording of Sales in Sales Day Book rectified			

[P 3] Rectify the following errors by way of Journal Entries and work out their effect on the profit and loss account of the concern :—

a. Returns Inward Book for December was short totalled by Rs. 100.
b. Rs. 5,810 being cash paid to Hira Chand was debited to Ram Chand as Rs. 5,010.
c. Rs. 1,500 worth of furniture purchased on credit was debited to goods account.
d. A purchase made for Rs. 500 was posted to the purchases account as Rs. 50.
e. Wages paid for erection of machinery amounting to Rs. 700 was debited to wages account.
f. Goods purchased for proprietor's use for Rs. 1,000 was debited to goods account.
g. A sum of Rs. 1,000 written of machinery has not been posted to depreciation account.
h. Rs. 100 received from Raghu has been debited to Sunder.
i. Rs. 1,150 received from Radhey Mohan was debited to his account.

j. Purchase returns worth Rs. 980 to Shri Hari Kishan were not recorded in the books.

[C. A. Entrance J 85]

Solution :

Journal of ....

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Returns Inward A/c Dr.		100	
	To Suspense A/c			100
	(Return Inward Book cast short, now rectified)			
(b)	Hira Chand's A/c Dr.		5,810	
	To Ram Chand's A/c			5,010
	To Suspense A/c			800
	(Cash payment to Hira Chand, wrongly debited to Ram Chand, now rectified.)			
(c)	Furniture A/c Dr.		1,500	
	To Purchase (Goods) A/c			1,500
	(Wrongly recorded as purchases, now rectified.)			
(d)	Purchases A/c Dr.		450	
	To Suspense A/c			450
	(Short posting to purchase A/c rectified.)			
(e)	Machinery A/c Dr.		700	
	To Wages A/c			700
	(Machinery erection wages wrongly shown as revenue expenditure now rectified by capitalising the same.)			
(f)	Drawings A/c Dr.		1,000	
	To Purchases A/c			1,000
	(Goods purchased for proprietor wrongly recorded as purchases, now rectified.)			
(g)	Depreciation A/c Dr.		1,000	
	To Suspense A/c			1,000
	(Depreciation written off, omitted to be posted to Depreciation A/c, now rectified.)			
(h)	Suspense A/c Dr.		200	
	To Raghu's A/c			100
	To Sunder's A/c			100
	(Amount received from Raghu wrongly debited to Sunder, now rectified.)			
(i)	Suspense A/c Dr.		2,300	
	To Radhey Mohan A/c			2,300
	(Rs. 1,150 received from Radhey Mohan wrongly debited to his A/c, now rectified.)			
(j)	Hari Kishan's A/c Dr.		980	
	To Returns Outward A/c			980
	(Purchase Return of Rs. 980 from Hari Kishan omitted to be recorded in the books by mistake, now rectified.)			

Statement showing effect of rectification on Net Profit

Entry	Effect on Net Profit		
(a)	Decrease by	Rs.	100
(c)	Increase by	Rs.	1,500
(d)	Decrease by	Rs.	450
(e)	Increase by	Rs.	700
(f)	Increase by	Rs.	1,000
(g)	Decrease by	Rs.	1,000
(j)	Increase by	Rs.	980

Therefore, Total Effect on Net Profit is : Increase by Rs. 2,630.

The rectification entries not incorporated in the above mentioned statement have no impact on Net Profit.

[P 11] A merchant while balancing his books finds that he is with excess credit Rs. 280. Being required to prepare the final accounts, he places the difference to a newly opened suspense account which he carries forward to the next year. In the next year the following mistakes were discovered :

(a) Goods bought from Mr. Ghosh amounting to Rs. 50 had been posted to the credit of his account as Rs. 550.

(b) A dishonoured Bill of exchange Receivable for Rs. 2,000 returned by the bank had been credited to the bank account and debited to Bills Receivable account.

(c) An item of Rs. 100 entered in the Sales Returns Book had been posted to the debit of the customer who returned the goods.

(d) Sundry items of Furniture sold amounting to Rs. 2,600 had been entered in Sales Day Book.

(e) Discount amounting to Rs. 20 from a creditor had been duly entered in his account but not posted to discount account.

Draft the Journal entries necessary for rectifying the above mistakes. Prepare the Suspense Account and show the ultimate result of the mistakes on the last year's Profit and Loss Account, by preparing Profit and Loss Adjustment Account. **[C. A. Entrance N 87]**

Solution :

Journal

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Mr. Ghosh A/c Dr. To Suspense A/c (Short posting rectified)		500	 500
(b)	Drawee A/c Dr. To Bills Receivable A/c (Dishonoured Bills returned by Bank recorded as Bills Receivable, rectified.)		2,000	 2,000
(e)	Suspense A/c Dr. To Customer's A/c (Goods returned by customer wrongly recorded to the debit of Customer's A/c, now rectified.)		200	 200
(d)	Profit & Loss Adjustment A/c Dr. To Furniture A/c (Sales of furniture wrongly recorded in Sales Day Book, now rectified.)		2,600	 2,600
(e)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Discount received omitted to be posted to Discount A/c, now rectified.)		20	 20

Dr. **Suspense A/c** Cr.

	(Rs.)		(Rs.)
To Balance b/d	280	By Ghosh A/c	500
" Customer A/c	200		
" Profit & Loss Adjustment A/c	20		
	500		500

Dr. **Profit & Loss Adjustment A/c** Cr.

	(Rs.)		(Rs.)
To Furniture A/c	2,600	By Suspense A/c	20
		" Capital A/c (Bal. fig. being loss)	2,580
	2,600		2,600

[P 4] A trader has Trial Balance by putting the difference of Rs. 310 in a debit of Suspense Account and has prepared a Trading and Profit and Loss account and the Balance Sheet. On subsequent scrutiny the books disclosed several errors as detailed below. Rectify these errors and prepare Suspense Account :—

a. A sale of goods to X for Rs. 350 has been credited to his account.
b. Goods purchased from Y amounting to Rs. 750 were entered in the Purchases Day Book but were omitted from Y's Account in the creditors Ledger.
c. An Office Typewriter purchased for Rs. 500 had been passed through the Purchases Account.
d. Goods returned to S. Sen, valued Rs. 75 were debited to P. Sen's Account.
e. Repairs to Office Car valued Rs. 750 were debited to the Office Car Account.
f. Goods sold to R. Banerjee valued Rs. 730 have been posted in his Account as Rs. 370.

[C.A. Entrance N 88]

Solution :

Journal

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	X A/c Dr. To Suspense A/c (Wrong crediting of Mr. X A/c for sales rectified, thus cancelling Suspense A/c to the extent of 2 × 350, i.e. Rs. 700)		700	700
(b)	Suspense A/c Dr. To Y A/c (Non crediting Mr. Y A/c for purchases rectified)		750	750
(c)	Office Equipment A/c Dr. To Profit & Loss Adjustment A/c (Asset shown as purchase, now rectified)		500	500

Journal ***Contd.***

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(d)	S. Sen A/c Dr. To P. Sen A/c (Goods returned to S. Sen, wrongly debited to P. Sen. now rectified)		75	 75
(e)	Profit & Loss Adjustment A/c Dr. To Office Car A/c (Revenue expenses wrongly capitalised, now rectified)		750	 750
(f)	R. Banerjee A/c Dr. To Suspense A/c (Under debiting of R. Banerjee's A/c rectified		360	 360
(g)	Capital A/c Dr. To Profit & Loss Adjustment A/c (Profit & Loss Adjustment A/c balance created on rectification, transferred to capital)		250	 250

[P 12] Rectify the following errors found in the books of Mr. B. The Trial Balance had Rs. 930 Excess Credit. The difference has been posted to a Suspense Account :—

(i) The total of Returns Inward Books has been cast Rs. 1,000 short.

(ii) The purchase of an office table costing Rs. 3,000 has been passed through the Purchase Day Book.

(iii) Rs. 3,750 paid for wages to workmen for making showcases had been charged to Wages Account.

(iv) A purchase of Rs. 670 had been posted to the Creditor's Account as Rs. 600.

(v) A cheque for Rs. 2,000 rceived from Mr. P. C. Joshi had been dishonoured and was passed to the debit of "Allowances Account".

After rectification reflect the transactions in the Suspense Account.

[C.A. Entrance M 89]

Solution :

In the books of Mr. B
Journal

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(i)	Returns Inward A/c Dr. To Suspense A/c (Undercasting of return Inward book rectified)		1,000	 1,000
(ii)	Office Furniture A/c Dr. To Purchases A/c (Furniture wrongly debited to purchases, now rectified)		3,000	 3,000

Journal **(Contd.)**

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(iii)	Furniture & Fixture A/c Dr. To Wages A/c (Wages paid for making furniture wrongly shown as revenue expenditure, now rectified by capitalising the same)		3,750	3,750
(iv)	Suspense A/c Dr. To Creditors A/c (Under credit to creditors rectified)		70	70
(v)	P. C. Joshi A/c Dr. To Allowances A/c (Wrong debiting of Allowance A/c for P. C. Joshi's dishonoured cheque rectified)		2,000	2,000

Dr. **Suspense A/c** *Cr.*

	(Rs.)		(Rs.)
To Balance b/d (difference in trial balance)	930	By Returns Inward A/c	1,000
" Creditors' A/c	70		
	1,000		1,000

[P13] On 31st March, 1989 while balancing the books of accounts of Shri Ramdoss, they did not agree. The difference in trial balance amounting to Rs. 783 was debited to Suspense Account. Later, the following errors were noticed. Give the journal entries for rectification and prepare the Suspense Account :—

a. The total of Purchases Book of March, 1989 has been undercast by Rs. 300.
b. Rs. 228 paid for repairing the machinery has been debited to Machinery Account.
c. The Sales Book has been overcast by Rs. 150.
d. A Sale of Rs. 1,200 to Mr. David has been passed through the Purchases Book.
e. Cash Rs. 117 received from Shri M. Das, though entered in the Cash Book has not been posted to Shri M. Das's account
f. Goods returned by Mr. N. Navin Rs. 225 have been entered in the Returns Outward Book. However, Mr. N. Navin's account is correctly posted.

[C.A. Entrance N 89]

Solution :

In the books of Shri Ramdoss
Journal

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1989 Mar. 31.	Purchases A/c Dr. To Suspense A/c (Under casting of Purchase book rectified)		300	300

Journal of Shri Ramdoss *(Contd.)*

	Particulars		L.F.	Debit (Rs.)	Credit (Rs.)
1989 Mar. 31.	Repairs to Machinery A/c	Dr.		228	
	To Machinery A/c				228
	(Revenue expenditure wrongly capitalised, now rectified)				
"	Sales A/c	Dr.		150	
	To Suspense A/c				150
	(Overcasting of Sales Book rectified)				
"	David A/c	Dr.		2,400	
	To Purchases A/c				1,200
	" Sales A/c				1,200
	(Sales wrongly shown in Purchase Book, now rectified)				
"	Suspense A/c	Dr.		117	
	To Shri M. Das A/c				117
	(M. Das A/c omitted to be credited, now rectified)				
" 31.	Returns Inward A/c	Dr.		225	
	Returns Outward A/c	Dr.		225	
	To Suspense A/c				450
	(Returns Inward wrongly shown as Returns Outward now rectified)				

Dr. **Suspense A/c** *Cr.*

Date		(Rs.)	Date		(Rs.)
1989 Mar. 31	To Balance b/d (difference in trial balance)	783	1989 Mar. 31.	By Purchases	300
" "	" Shri Das	117	" "	" Sales	150
			" "	" Returns Inward	225
			" "	" Returns Outward	225
		900			900

[P 14] The Trial Balance of Shri Govind shows a difference of Rs. 500, the credit side being excess. The difference is subsequently found due to the following mistakes :

(a) The purchase of an Office table costing Rs. 2,000 had been passed through the Purchase Day Book.

(b) A motor car had been purchased for Rs. 3,400. Cash had been correctly credited, but the Motor Car account had been debited with Rs. 3,140 only.

(c) Interest on deposits received Rs. 60 had been debited in the Cash account, but had not been credited to the Interest account.

(d) The balance in the account of Mr. Rahim Rs. 100 had been written off as bad but no other account had been debited.

(e) A debit balance of Rs. 100 on the personal account of Mr. John (correctly shown in the ledger) has been omitted when extracting a trial balance.

Give the necesary entries for rectification and show the Suspense Account.

[C. A. Entrance M 90]

Solution :

In the books of Shri Govind
Journal

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Furniture & Fixture A/c Dr. To Purchases A/c (Wrong recording of furniture in Purchase Day Book rectified.)		2,000	 2000
(b)	Motor Car A/c Dr. To Suspense A/c (Under debiting of Motor Car A/c rectified)		260	 260
(c)	Suspense A/c Dr. To Interest A/c (Interest received omitted to be posted in Interest A/c, now rectified.)		60	 60
(d)	Bad Debts A/c Dr. To Suspense A/c (Bad Debts written off omitted to be posted in Bad Debts A/c, now rectified)		100	 100
(e)	No Journal entry is to be passed, as there is nothing wrong in the books of accounts. So Trial Balance should include it and, automatically, Suspense a/c shall be rectified.			

Dr. **Suspense A/c** *Cr.*

	(Rs.)		(Rs.)
To Balance b/d (Difference in Trial balanace)	500	By Motor car A/c	260
" Interest A/c	60	" Bad Debts A/c	100
		" Mr. John A/c	200
	560		560

[P 15] In taking out a trial balance, a Book-Keeper finds that debit total exceeds the credit total by Rs. 352. The amount is placed to the credit of a newly opened Suspense account. Subsequently the following mistakes were discovered. You are required to pass the necessary entries for rectifying the mistakes, and show the Suspense Account.

a. Sales Day Book was overcast by Rs. 100.
b. A sale of Rs. 50 to Shri Ram was wrongly debited to Shri Krishna.
c. General expenses Rs. 18 was posted as Rs. 80.
d. Cash received from Shri Govind was debited to his account Rs. 150.
e. While carrying forward the total of one page of the Purchase Book to the next, the amount of Rs. 1,235 was entered as Rs. 1,325.

[C. A. Entrance N 90]

Solution :

Journal

	Particulars		L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Sales A/c	Dr.		100	
	To Suspense A/c				100
	(Over casting of Sales Day Book rectified)				
(b)	Shri Ram A/c	Dr.		50	
	To Shri Krishna A/c				50
	(Wrong debiting of Shri Krishna rectified)				
(c)	Suspense A/c	Dr.		62	
	To General Expenses A/c				62
	(Excess debiting of General Expenses A/c rectified)				
(d)	Suspense A/c	Dr.		300	
	To Shri Govind A/c				300
	(Wrong debiting of Shri Govind A/c rectified)				
(e)	Suspense A/c	Dr.		90	
	To Purchases A/c				90
	(Wrong carry forward in the purchases book, rectified)				

Dr. **Suspense A/c** *Cr.*

	(Rs.)		(Rs.)
To General Expenses A/c	62	By Balance b/d (Difference in Trial Balance)	352
" Govind A/c	300		
" Purchases A/c	90	" Sales A/c	100
	452		452

[P 16] There is difference in the trial balance of Shri Om. Subsequently, the following errors were found to have been committed. Pass journal entries to rectify them and ascertain the difference in the Trial Balance.

a. A sale of Rs. 2,000 to Shanti & Co. was credited to their account.

b. The Returns Inwards Book had been cast Rs. 1,000 short.

c. A sale of Rs. 10,000 had been passed through the Purchase Day Book. The customer's account had, however been correctly debited.

d. Rs. 3,750 paid for wages to workmen for making show cases had been charged to Wages Account.

e. A purchase of Rs. 6,710 had been posted to the debit of the creditor's account as 6,170. The creditor was Paras and Co. **[C. A. Entrance M 91]**

Solution :

In the books of Shri Om
Journal

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Shanti & Co. A/c Dr.		4,000	
	To Suspense A/c			4,000
	(Wrong credit to Shanti & Co. rectified)			
(b)	Returns Inward A/c Dr.		1,000	
	To Suspense A/c			1,000
	(Under casting of Returns Inward Book rectified)			
(c)	Suspense A/c Dr.		20,000	
	To Purchases A/c			10,000
	To Sales A/c			10,000
	(Wrong recording of Sales in Purchases Day Book rectified)			
(d)	Furniture A/c Dr.		3,750	
	To Wages A/c			3,750
	(Wages paid for making furniture wrongly shown as revenue expenditure, now rectified by capitalising the same)			
(e)	Suspense A/c Dr.		12,880	
	To Creditors A/c (Paras & Co.)			12,880
	(Rectification entry passed to cancel wrong debit and include correct credit for Paras & Co. Amount = 6,170 + 6,710.)			

Dr. **Suspense A/c** *Cr.*

	(Rs.)		(Rs.)
To Purchases A/c	10,000	By Balance b/d (Difference in Trial Balance)	27,880
" Sales A/c	10,000	" Shanti & Co.	4,000
" Creditors A/c	12,880	" Returns Inward A/c	1,000
	32,880		32,880

[P 17] There was difference in the trial balance of Shri Arihant which was put to newly opened Suspense Account. Subsequently the following mistakes were discovered. Pass Journal entries to rectify them and ascertain the difference in the Trial Balance :

a. Materials costing Rs. 700 in the erection of machinery and the wages paid for it amounting to Rs. 400 were included in the Purchases Account and the Wages Account respectively.
b. Goods sold under credit terms Rs. 16,900 to Mohan were recorded properly in the Sales Book but were debited to his account as Rs. 19,600 and carriage outward and freight paid Rs. 700 chargeable from him were posted to Sales Expenses Account.
c. Sales Returns to Yogesh Rs. 2,300 were correctly recorded in the Sales Returns Book from where they were debited to Yogesh Account by Rs. 3,200.
d. Old furniture originally purchased for Rs. 1,800 written down to Rs. 1,100 was sold for cash Rs. 1,700 and was credited to Furniture Account.

e. Machinery purchased on credit Rs. 17,000 was recorded in Purchases book and transport charges for the machine Rs. 1,200 were debited to Trade Expenses Account.

[C. A. Entrance N 91]

Solution :

In The Books of Shri Arihant
Journal

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Machinery A/c Dr.		1,100	
	To Purchases A/c			700
	" Wages A/c			400
	(Material & wages paid for the erection of machinery wrongly shown as revenue expenditure now rectified by capitalising the same)			
(b) (i)	Suspense A/c Dr.		2,700	
	To Mohan A/c			2,700
	(Excess debit to Mohan A/c rectified by cancellation of the same)			
(ii)	Mohan A/c Dr.		700	
	To Sales Expenses A/c			700
	(Carriage outward, Freight etc. chargeable from Mohan posted to Sales Expenses A/c by mistake, now rectified)			
(c)	Suspense A/c Dr.		5,500	
	To Yogesh A/c.			5,500
	(Yogesh A/c credited for wrong debit Rs. 3,200 & correct credit Rs. 2,300.)			
(d)	Furniture A/c Dr.		600	
	To Profit & Loss A/c			600
	(Profit on sale credited to furniture A/c my mistake now rectified.)			
(e)	Machinery A/c Dr.		18,200	
	To Purchases A/c			17,000
	" Trade Expenses A/c			1,200
	(Cost of Machine purchased wrongly recorded in Purchases Book and Transport Charges for the machine wrongly debited to Trade Expenses A/c, now rectified by capitalising both the items)			

Dr. **Suspense A/c** *Cr.*

	(Rs.)		(Rs.)
To Mohan A/c	2,700	By Balance b/d	8,200
" Yogesh A/c	5,500	(Difference in Trial Balance)	
	8,200		8,200

[P 5] The following errors affecting the accounts for the year 1980 were detected in the books of Govilla Brothers :—

(i) Sale of old furniture for Rs. 1,500 was treated sale of goods.

(ii) Goods worth Rs. 1,000 bought from Mohan Brothers have remained unrecorded so far.
(iii) Sales return of Rs. 1,200 from Mahesh & Co. was posted to their debit.
Give Journal entries. **[C. A. Entrance J 81]**

Solution :

In The Books of Govilla Brothers
Journal

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(i)	Sales A/c Dr. To Furniture A/c (Sale of furniture shown as sales, now rectified)		1,500	1,500
(ii)	Purchases A/c Dr. To Mohan Brothers A/c (Purchases omitted to be recorded, now recorded)		1,000	1,000
(iii)	Suspense A/c Dr. To Mahesh & Co. A/c (Wrong posting of sales return to the debit of Mahesh & Co. A/c now rectified.)		2,400	2,400

Assumption : Rectification is carried out before drawing up final account.

[P 18] Ganesh drew a Trial Balance of his operations for the year ended 31.03.1992. There was a difference in the Trial Balance which he closed which a Suspense Account. On a scrutiny by the Auditors, the following errors were found :

(i) Purchases Day Book for the month of April, 91 was undercast by Rs. 1,000.
(ii) Sales Day Book of October, 91 was overcast by Rs. 10,000.
(iii) A furniture purchased for Rs. 8,100 was entered in the Furniture Account as Rs. 810.
(iv) A bill for Rs. 10,000 drawn by Ganesh was not entered in the Bills Receivable Book.
(v) A Machinery purchased for Rs. 10,000 was entered in the purchase day book.

Pass necessary journal entries to rectify the same and ascertain the difference in the Trial Balance that was shown under the Suspense A/c in respect of the above items. **[C. A. F. J 93]**

Solution :

In the books of Ganesh
Journal

Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
Purchase A/c Dr. To Suspense A/c (Undercasting of purchase Day Book rectified.)		1,000	1,000
Sales A/c Dr. To Suspense A/c (Overcasting of sales day book rectified.)		10,000	10,000
Furniture A/c Dr. To Suspense A/c (Undercasting of Furniture A/c rectified.)		7,290	7,290
Bills Recivable A/c Dr. To Sundry Debtors A/c (Bills receivable omitted to be entered into books now taken into accounts.)		10,000	10,000
Machinery A/c Dr. To Purchases A/c (Machinery wrongly shown as purchases rectified by capitalising the same)		10,000	10,000

Suspense A/c

Dr.	(Rs.)		Cr. (Rs.)
To Balance b/d (difference in trial balance)	18,290	By Purchases A/c	1,000
		" Sales A/c	10,000
		" Furniture A/c	7,290
	18,290		18,290

[P 6] Mr. Mehrotra closes his books on 31st March every year. In August, 1985, he found that his books for the year 1984-85 contained some errors inspite of an agreed Trial Balance. The errors were :

(a) Rs. 800 paid for purchase of Office Furniture was posted to the Purchase Account.
(b) The Sales Book was overcast by Rs. 250.
(c) Rs 275 paid for freight on machinery was debited to Freight Account for Rs. 525.
(d) Closing stock was overstated by Rs. 3,000 by a wrong casting in the Inventory.
(e) An amount of Rs. 700 was received in full settlement from a customer after he was allowed a discount of Rs. 70, but while writing the books, the amount received was entered in the discount column and the discount allowed was entered in the amount column.
(f) A cheque of Rs. 7,330 received from Mr. Rao, after allowing discount of Rs. 70 was endorsed to Mr. Ray in full settlement for Rs. 7,500. The cheque was finally dishonoured but no entries for dishonour were passed in the books.

Give Journal entries to rectify the above errors using Suspense Account where necessary.

[I. C. W. A. Inter D 85]

Solution :

In The Books of Mr. Mehrotra
Journal

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Office Furniture A/c Dr.		800	
	To Profit & Loss Adjustment A/c			800
	(Purchase of Office Furniture, wrongly posted to Purchase A/c, i.e. Nominal A/c, now rectified by capitalising the same)			
(b)	Profit & Loss Adjustment A/c Dr.		250	
	To Suspense A/c			250
	(Overcasting of Sales Day Book, rectified.)			
(c)	Machinery A/c Dr.		275	
	Suspense A/c Dr.		250	
	To Profit & Loss Adjustment A/c			525
	(Expenditure that should have been capitalised wrongly shown with a wrong figure in Nominal A/c, rectified)			
(d)	Profit & Loss Adjustment A/c Dr.		3,000	
	To Opening Stock A/c			3,000
	(Overcasting of opening stock, rectified.)			
(e)	Cash A/c Dr.		630	
	To Profit & Loss Adjustment A/c			630
	(Discount allowed column and Amount column interchanged by mistake, rectified.)			

Journal ***(Contd)***

	Particulars		L.F.	Debit (Rs.)	Credit (Rs.)
(f)	Rao A/c	Dr.		7,400	
	Profit & Loss Adjustment A/c	Dr.		100	
	To Ray A/c				7,500
	(Dishonour entry along with cancellation of discount allowed passed.)				
(g)	Capital A/c	Dr.		1,395	
	To Profit & Loss Adjustment A/c				1,395
	(Net effect on Capital due to the rectification entries passed recorded.)				

[P 7] You are presented with a Trial Balance showing a difference which has been carried to Suspense Account, and the following errors are revealed :

(a) Rs. 1,700 paid in cash for a Typewriter was charged to Office Expenses Account.

(b) A cash sale of Rs. 5,000 to Black, correctly entered in the cash book, was posted to the credit of Black's Account in the Sales Ledger.

(c) Goods amounting to Rs. 800, returned by Blue, were entered in the Sales Book and posted there from to the credit of Blue's Account.

(d) Bills receivable from Brown for Rs. 3,000 posted to the credit of Bills Payable Account and credited to Brown's Account.

(e) Goods amounting to Rs. 10,000 sold to Red were correctly entered in Sales Book but posted to Red's Account for Rs. 18,000.

(f) Sales Returns Book was overcast by Rs. 100

Journalise the necessary corrections and prepare the Suspense Account. **[I. C. W. A. Inter D 87]**

Solution :

In The Books of Trader
Journal

	Particulars		L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Office Equipment A/c	Dr.		1,700	
	To Office Expenses A/c				1,700
	(Expenditure that should have been capitalised wrongly shown as revenue expenditure now rectified)				
(b)	Black A/c	Dr.		5,000	
	To Sales A/c				5,000
	(Cash Sales wrongly posted to customer's A/c, now rectified)				
(c)	Sales A/c	Dr.		800	
	Returns Inward A/c	Dr.		800	
	To Suspense A/c				1,600
	(Returns Inward wrongly credited to Sales, now rectified.)				
(d)	Bills Payable A/c	Dr.		3,000	
	Bills Receivable A/c	Dr.		3,000	
	To Suspense A/c				6,000
	(Bills Receivable wrongly recorded as Bills Payable now rectified)				

Journal **(Contd)**

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(e)	Suspense A/c Dr. To Red A/c (Wrong amount posted to his A/c, now rectified.)		8,000	8,000
(f)	Suspense A/c Dr. To Returns Inward A/c (Overcasting of Sales Returns book rectified.)		100	100

[P 8] The Trial Balance of a concern has agreed but the following mistakes discovered after the preparation of Final Accounts :—

(a) No Adjustment entry was passed for an amount of Rs. 2,000 relating to outstanding rent.
(b) Purchase Book was overcast by Rs. 1,000.
(c) Rs. 4,000 depreciation on Machinery had been omitted to be recorded in the books.
(d) Rs. 6,000 paid for Purchases of Stationery had been debited to Purchases Account.
(e) Sales Book was overcast by Rs. 1,000.
(f) Rs. 5,000 received in respect of Book Debts had been credited to Sales Account.

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

[I. C. W. A. Inter. D 90]

Solution :

Trading and Profit & Loss Account :

1) Net Profit is over-stated by Rs. 2,000.
2) Both Gross Profit and Net Profit are understated by Rs. 1,000.
3) Net Profit is over-stated by Rs. 4,000.
4) Gross Proft is under-stated by Rs. 600, but no effect on Net Profit.
5) Both Gross Profit and Net Profit are over-stated by Rs. 1,000.
6) Both Gross Profit and Net Profit are over-stated by Rs. 5,000.

Balance Sheet :

1) Capital is over-stated by Rs. 2,000.
2) Capital is understated by Rs. 1,000.
3) Both Machinery and Capital are over-stated by Rs. 4,000.
4) There is absolutely no effect.
5) Capital is overstated by Rs. 1,000.
6) Both Capital and Sundry Debtors are over-stated by Rs. 5,000.

[P 9] A Company prepared its financial statements for the year ended 31st March, 1992 after transferring the difference in Trial Balance to Suspense account which was carried to Balance Sheet.

In the next year the following errors were discovered relating to 1991-92.

(a) Wages included Rs. 8,000 towards installation of a new plant on 1st April, 1991. The company charges depreciation on Plant & Machinery @ 15% p.a.
(b) A cheque of Rs. 10,800 was paid to creditor who allowed 10% cash discount, but the payment was wrongly posted to Purchase account as Rs. 1,080 only without any other entry.
(c) Sundry Debtors includes Rs. 1,500 which proved irrecoverable but was not written off. A Reserve for Bad Debts was created @ 5% on closing debtors.
(d) A Bill receivable amounting to Rs. 6,000 was discounted for Rs. 5,800 but the proceeds was posted to sales account as Rs. 580 and no other entry was made in this respect.

Give appropriate journal entries to rectify the above. **[I. C. W. A. Inter. D 92]**

Solution :

In The Books of A Company
Journal Entries

	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Plant & Machinery A/c Dr.		6,800	
	(8,000 × 85%)			
	To Profit & Loss Adjustment A/c			6,800
	(Expenditure that should have been capitalised wrongly shown as revenue expenditure, now rectified by debiting the asset A/c at its written down value.)			
(b)	Sundry Creditors A/c Dr.		12,000	
	To Profit & Loss Adjustment A/c			2,280
	" Suspense A/c			9,720
	(Rs. 10,800 paid to a creditor wrongly debited to Purchase A/c at Rs. 1,080, rectified after giving effect for 10% cash discount allowed by him.)			
(c)	Profit & Loss Adjustment A/c Dr.		1,425	
	Reserve for Bad Debt A/c Dr.		75	
	To Sundry Debtors A/c			1,500
	(Bad debt not written off adjusted and Reserve for Bad Debt wrongly created, cancelled.)			
(d)	Profit & Loss Adjustment A/c Dr.		780	
	Suspense A/c Dr.		5,220	
	To Bills Receivable A/c			6,000
	(Bills Receivable for Rs. 6,000 discounted for Rs. 5,800 wrongly shown as revenue income at Rs. 580, now rectified.)			

Exercise

Rectification of Errors

[E 1] Pass rectification entries for the following transactions :

(a) A builder's bill for Rs. 14,600 for erection of a small shed was debited to Repairs Account.
(b) Repairs to plant amount to Rs. 1,900 had been charged to Plant Machinery Account.
(c) Wages paid to the firm's workmen for making certain additions to Machinery amounting to Rs. 1,340 were debited to Wages Account.
(d) A cheque for Rs. 7,500 received from S. Desai was credited to the account of R. Ram.
(e) Goods to the value of Rs. 700 returned by X were included in closing stock, but no entry was made in the books.
(f) Goods costing Rs. 2,000 were purchased for various members of the staff and the cost was included in Purchases. A similar amount was deducted from the salaries of the staff members concerned and the net payments to them debited to Salaries Account.
(g) A bill of exchange (received from Hari) for Rs. 13,000 had been returned by the Bank with whom it had been discounted, as dishonoured and had been credited to Bank Account and debited to Bills Receivable Account.
(h) Goods sold to Z for Rs. 475 have been wrongly entered in the Sales Journal as Rs. 745.

[C.A. Entrance adapted]

[E 2] From the books of a trader for the year 1985 you find the following errors. Pass rectification entries and prepare a statement showing their effect on profits :

(a) An amount of Rs. 200 being rent paid in advance in the previous year, had not been brought forward in the rent account.

(b) Goods Rs. 125, returned to Satish Bros. were recorded in the Returns Inwards Book as Rs. 152 and from there it was posted to the debit of Satish Bros. Account.

(c) Paid an acceptance to Lila Ram for Rs. 7,600 was posted to the debit of Sita Ram as Rs. 6,700.

(d) Goods purchased from Gupta Rs. 3,250 entered in the Sales Day Book as Rs. 3,520.

[I. C. W. A. Inter. D 81]

[E 3] The under-mentioned errors were discovered in the books of Shri Ramnarayan after the Profit and Loss Account had been prepared for the year ended 31st March, 1976. The difference in Trial Balance was carried to Suspense Account in the Balance Sheet. Shri Ramnarayan provided depreciation on Machinery at 10% p.a. and on Furniture at 5% p.a. A Reserve for Bad Debt was provided at 2% on outstanding debtors. No profit for the year was transferred to Capital Account.

(a) A cheque received for Rs. 8,000 from a customer was not posted to ledger. The corresponding Sales Invoice was for Rs. 12,000 which had been wrongly passed through the Sales Day Book as Rs. 2,000.

(b) A machinery purchased for Rs. 20,000 on 1st April, 1975, was wrongly debited to Furniture Account.

(c) Sales included Rs. 25,000 for goods sold for cash on behalf of Shri Chandrakant. Shri Ramnarayan was entitled to a commission of 10% on sales plus expenses for which no adjustment was made. His trade expenses included Rs. 1,500 as selling expenses in connection with the above sale.

(d) Some old Furniture (book value on April, 1, 1975, Rs. 6,000) was disposed of for Rs. 3,000 on September 30, 1975, but the proceeds has been wrongly credited to Sales Account.

(e) A credit sale for Rs. 5,000 had been passed twice through the Sales Day Book.

[C.A. Inter. N 76]

[E 4] Rectify the following errors through suitable journal entries :—

(a) Purchased goods from Mathai Rs. 300 passed through Sales Book.

(b) Received one bill from Arun for Rs. 500, passed through Bills Payable book.

(c) An item of Rs. 150 relating to Prepaid Rent account was omitted to be brought forward.

(d) An item of Rs. 40 in respect of purchases returns instead of being debited to the personal account from Returns Outward book, had been wrongly entered in the Purchases Book and posted therefrom wrongly to the debit of personal account.

(e) Rs. 500 paid to Messers Mehta Brothers against our acceptance were debited to Messers Malhotra Brothers Account.

(f) Received final dividend of Rs. 20 from Ajit whose account had already been written off as bad debt, was credited to a newly opened account and was included in the list of creditors.

(g) A bill received from Janaki Das for repairs done to radio Rs. 150, and radio supplied for Rs. 950, was entered in the Invoice Book as Rs. 1,000.

[C. S. Preli D 79]

[E 5] An accountant while balancing his books found that there was a difference (excess credit) of Rs. 860 in the trial balance. The difference was placed in the Suspense Account and the books were closed. The following errors were disclosed afterwards :—

(a) Rs. 3,000 sales proceeds of old machinery, had been posted to the Sales A/c.

(b) Rs. 50 the price of goods purchased from Ram Ratan, had been shown in the credit side of his account as Rs. 500.

(c) Rs. 30, discount allowed by Rizvi, had been shown in his account, but not posted to discount account.

(d) A sum of Rs. 640 owed by Shyam Mohan had not been included in the list of debtors.

(e) Account of Sukh Ram had been debited with Rs. 100 on account of goods returned by him.

Give Journal entries to correct these errors and prepare the suspense account

[C. S. Preli J 78]

[E 6] There was a difference in the trial balance of Nirmal Traders on Dec. 31,1992, and the difference in books (excess debit Rs. 1,300) was carried to a suspense account and the books were closed. On going through the books in 1993, you find that :

(a) Rs. 540 received from Dinesh Mohta was posted to the debit of his account.

(b) Discount Rs. 200 received from a creditor entered in the cash book, was not posted in the ledger.

(c) A sale of Rs. 350 to Kishore was entered inthe sales book as Rs. 530.

(d) Rs. 460 paid for freight on machinery was debited to the account of Anil in the personal ledger.

(e) Cash received Rs. 400 from Anthony was debited to the account of Anil in the personal ledger.

(f) General expenses Rs. 18 were posted in the general ledger as Rs. 80.

Pass Jounal entries to rectify the above errors and prepare Suspense account.

[C.S Preli 78]

[E 7] Pass Journal entries to rectify the following errors, the difference being already put to Suspense Account. :

(a) Purchased goods from Dinesh Rs. 800, passed through Sales Book.

(b) Received final dividend of Rs. 40 from Vibhore, whose account had already been written off bad debt, was credited to a newly opened account and was included in the list of creditors.

(c) Bill received from Ahmed for repairs done to radio Rs. 250 and radio supplied for Rs. 950, were entered in the purchases book, as Rs. 1,000.

(d) Received one bill from Barun Rs. 500, passed through Bills Payable Book.

(e) Bill Receivable from Mr. Ramesh of Rs. 1,000 was posted to the credit of Bill Payable account and also credited to the account of Mr. Ramesh.

(f) An item of purchase of Rs. 158 was entered in the Purchases Book as Rs. 15, and posted to the suppliers account as Rs. 58. **[C. S. Preli J 79]**

Chapter 4

PREPARATION OF FINAL ACCOUNTS (for Non-Corporate entities)

[P 1] Prepare the Manufacturing, Trading and Profit & Loss Account for the year ended 30/06/1985 and a Balance as at that date from the following balances extracted from the books of Anand :

	Dr. (Rs.)	Cr. (Rs.)
Advertising	1,660	
Bad Debts	1,210	
Provision for Bad Debts		2,000
Bank Charges	240	
Capital Account		70,000
Current Account		3,246
Drawings	16,000	
Discount Received		824
Factory Power	7,228	
Furniture	1,800	
General Expenses — Factory	410	
Office	692	
Insurance	1,804	
Light & Heat	964	
Plant as on 1.7.84	30,000	
Plant bought on 31.12.84	4,000	
Purchases	67,336	
Packing & Transport	2,170	
Rent & Rates	2,972	
Repairs to Plant	1,570	
Salaries — Office	7,380	
Sales		1,58,348
Stock on 1.7.84 :		
Raw Materials	10,460	
Finished Goods	14,760	
Work-in-Progress	3,340	
Factory Wages	41,400	
Debtors	21,120	
Creditors		12,300
Cash in hand	350	
Cash at bank	7,852	
	2,46,718	2,46,718
Stock at 30/06/1985 are :		
Raw Materials	7,120	
Work-in-Progress	3,480	
Finished Goods	19,300	
Packing Material	250	

Following Liabilities are to be provided :		
(a) Factory Power	1,124	
(b) Rent & Rates	772	
(c) Light & Heat	320	
(d) General Expenses — Factory	50	
(e) Office	80	
(f) Insurance prepaid	340	

Provide depreciation @ 10% on plant and 5% on Furniture. Increase Bad Debts provision by Rs. 1,000.

5/6th of Rent and Rates Light and Heat and Insurance are to be allocated to the factory and 1/6th to the Office. **[I.C.W.A. Inter. D 85]**

Solution :

In the Books of Anand
Manafacturing, Trading and Profit & Loss A/c
for the year ended 30/06/85

Dr *Cr.*

		(Rs.)			(Rs.)
To Raw Materials consumed		80,000	By Cost of Production (balancing figure (transferred to Trading A/c)		1,30,928
Opening Stock	10,460		" Work in-Progress		
Add: Purchases	67,336		Closing	3,480	
	77,796		Less : Opening	3,340	140
Less: Closing Stock	7,120	70,676			
" Factory Wages		41,400			
Prime Cost		1,12,076			
" Factory Overhead					
Factory Power	7,228				
Add: Outstanding	1,124	8,352			
" Rent and Rates	2,972				
Add: Outstanding	772				
	3,744				
Less : allocated to the office $\frac{1}{6} \times 3{,}744$	624	3,120			
Insurance	1,804				
Less: Pre-paid	340				
	1,464				
Less : allocated to the office $(\frac{1}{6} \times 1{,}464)$	624	1,220			
" Light and Heat	964				
Add: Outstanding	320				
	1,284				
Less : allocated to the office $(\frac{1}{6} \times 1{,}284)$	214	1,070			
" General Expenses	410				
Add: Outstanding	50	460			

(Contd.)

"	Repairs to Plant		1,570				
"	Depreciation on Plant 1.7.84 (10/100 × 30,000)	3,000					
	31.12.84 (10/100 × 6/12 × 4,000)	200	3,200				
			1,31,068				1,31,068
"	Opening Stock of finished goods	14,760		By	Sale of finished goods		1,58,348
	Add: Cost of Production of finished goods	1,30,928					
		1,45,688					
	Less: Closing Stock of finished goods	19,300	1,26,388				
"	Gross Profit c/d		31,960				
			1,58,348				1,58,348
	Salaries		7,380	By	Gross Profit b/d		31,960
"	Rent & rates (* 1/6 × 3744)		624	"	Discount Received		824
To	Insurance (** 1/6 × 1,464)		244				
"	Light & Heat (*** 1/6 × 1,284)		214				
"	General Expenses	692					
	Add: Outstanding	80	772				
"	Depreciation : Furniture (5/100 × 1,800)		90				
"	Advertising		1,660				
To	Packing & Transport	2,170					
	Less: Closing Stock of Packing Materials	250	1,920				
"	Bank Charges		240				
"	Provision for Bad Debts New (2,000 + 1,000)	3,000					
	Add : Bad Debts	2,210					
		5,210					
	Less : Old	2,000	3,210				
"	Net Profit (transferred to Current A/c)		17,430				
			32,784				32,784

Balance Sheet *as at 30.06.85*

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital A/c		70,000	Plant & Machinery	30,000	
Current A/c	3,246		Add: Purchased	4,000	
Add: Net Profit	17,430				
				34,000	
	20,676		Less: Depreciation	3,200	30,800
Less: Drawings	16,000	4,676			
			Furniture	1,800	
Creditors		12,300	Less: Depreciation	90	1,710
Outstanding Expenses					
(General Expenses)			Closing Stock		
Factory 50			Raw materials	7,120	
Office 80	130		Work-in-Progress	3,480	
			Finished goods	19,300	
Factory Power	1,124		Packing materials	250	30,150
Light & Heat	320				
Rent & Rates	772	2,346	Debtors	21,120	
			Less: Provision for Doubtful debts (1000 + 2000)	3,000	18,120
			Prepaid Insurance		340
			Cash at Bank		7,852
			Cash in Hand		350
		89,322			89,322

[P 2] An extract of the Trial Balance as at 31st Dec. 1980 of the firm of William and Moraes is available. The partners share profits and losses in the proportion of 60% and 40% respectively, with following further stipulations :—

(i) Each partner is entitled to be paid Rs. 2,000 p.m. by way of salary; and

(ii) Interest at the rate of 15% will be charged on drawings other than salary

Trial balance as at 31-12-1980.

	Dr. (Rs.)	Cr. (Rs.)
Capital Accounts —		
Willam		80,000
Moraes		80,000
Sundry Creditors		35,000
Fixed Assets	1,82,000	
Goodwill	20,000	
Stock in trade (31-12-80)	42,250	
Sundry Debtors	71,450	
Cash in hand	13,300	
Staff Salary Advance	3,000	
Partners' Salaries	48,000	
Office Expenses Outstanding		1,000
Depreciation	18,000	
Staff Salaries	20,000	
Office Expenses	18,000	
Trading A/c (Gross Profit)		2,40,000
	4,36,000	4,36,000

Utilising the following additional information, you are required to prepare :—

i. Profit and Loss account for the year 1980

ii. Balance Sheet as at 31st December1980 ; and

iii. Partners Capital accounts.

Additional Information :

a) A perusal of the payment vouchers for January 1981 indicates payment of salaries of Rs. 2000 and office expenses of Rs. 8000, relating to periods before 31-12-80

b) Partners have drawings in their accounts as follows :—

Moraes	:	On 1-1-1980	Rs. 20,000
Willaim	:	on 1-5-1980	Rs. 20,000

c) Rs. 1,000 out of Staff Salary Advance Account is to be carried forward to 1981.

[C. A. Entrance J 81]

Solution :

In the books of M/s William and Moraes

Dr. **Profit & Loss A/c for the year 1980** *Cr.*

		Rs.			Rs.
To Staff Salaries	20,000		By Gross Profit b/d		2,40,000
Add : Advance not carried forward (3,000 — 1,000)	2,000		" Interest on Drawings :		
	22,000		Williams	2,000	
Add : Outstanding as per adjustment (a)	2,000	24,000	Moraes	3,000	5,000
To Office Expenses	18,000				
Add: Outstanding as per adjustment (a)	8,000	26,000			
" Depreciation on Fixed Assets		18,000			
" Partners' Salaries					
William	24,000				
Moraes	24,000	48,000			
" Net Profit					
Williams	77,400				
Moraes	51,600	1,29,000			
		2,45,000			2,45,000

Balance Sheet as on 31st Dec, 1980

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital Account			Goodwill		20,000
Willams	1,55,400		Fixed Assets	2,00,000	
Moraes	1,28,600	2,84,000	Less: Depreciation	18,000	1,82,000
Sundry Creditors		35,000	Stock in trade		42,250
Outstanding Expenses			Sundry Debtors		71,450
Office Expenses	9,000		Cash in hand		13,300
Salaries	2,000	11,000	Staff Salary Advance		1,000
		3,30,000			3,30,000

Dr. **Capital A/c** *Cr.*

	William (Rs.)	Moraes (Rs.)		William (Rs.)	Moraes (Rs.)
To Interest on Drawings $(20,000 \times {}^{15}/_{100} \times {}^{8}/_{12})$ = 2,000 $(20,000 \times {}^{15}/_{100})$	2,000	3,000	By Balance b/d	80,000	80,000
			" Share of Profit	77,400	51,600
" Balance c/d	1,55,400	1,28,600			
	1,57,400	1,31,600		1,57,400	1,31,600
			By Balance b/d	1,55,400	1,28,600

Note : (1) Profit & Loss Appropriation A/c is not prepared . So appropriation items are treated in the Profit & Loss A/c itself.

(2) Cash drawings appear in the adjustment. So, it is ignored on the assumption that when drawings were made the entry must have been—Partners' Capital A/c .... Dr.
To Cash A/c

(3) Partners salary appear in Trial Balance. So, it is taken in the Profit & Loss A/c only.

[P 3] Padmanabhan who commenced business as a retail trader on Janary 1, 1980, extracted the following balances as on 31st December 1980:—

	Rs.
Capital A/c	6,00,000
Drawings A/c	12,000
Buildings	2,00,000
Furniture and Fittings	30,000
Depreciation Reserve — Buildings	10,000
" " Furniture etc.	3,000
Depreciation for the year	13,000
Purchases	4,00,000
Sundry Creditors	40,000
Sales	5,00,000
Sundry Debtors	1,20,000
Establishment Charges	20,000
Electricity Charges	6,575
Postage and Telegrams	1,284
Travelling and Conveyance	3,816
Advance for Salesman's commission	1,000
Insurance	2,500
Rent received	12,000
Motor Van (purchased on 1-1-80)	80,000
Motor Van maintanance	23,425
Fixed Deposit with Bank (deposited on1-9-1980)	1,00,000
Cash in hand	1,823
Cash at Bank	1,47,977

In view of the difference in Trial Balance, an examination of the books was conducted which revealed the following errors :—

i. Rs. 25 conveyance paid were debited to Motor Van Maintanance A/c

ii. Rs. 2000 drawn from Bank towards establishment charges for November, was omitted to be posted into the ledger.

iii. The 'Cash' Column in the Cash Book on the receipts side, stands excess totalled by Rs. 400.

You are required to prepare the Trading and Profit and Loss A/c for the year ended 1980 and a Balance Sheet at the end of the year after taking into account the undernoted adjustments :—

1. Establishment charges have been paid only upto end November and provision of Rs. 2000 has to be made for December.
2. Electricity charges are outstanding to the tune of Rs. 25
3. 1/2% commission on total sales is payable to the salesman towards which Rs. 1000 has been paid as advance.
4. Fixed Deposit earns interest at 9% p.a.
5. Provide depreciation @ 20% on Motor Van.
6. Closing Stock as on 31-12-80. - Rs. 1,00,000. **[C. A. Entrance D 81]**

Solution :

In the books of Mr. Padmanabhan
Trading and Profits & Loss A/c
for the year ended 31st December 1980

Dr. *Cr.*

			(Rs.)				(Rs.)
To	Purchases		4,00,000	By	Sales		5,00,000
"	Gross Profit		2,00,000	"	Closing Stock		1,00,000
			6,00,000				6,00,000
To	Establishment Charges	20,000		By	Gross Profit b/d		2,00,000
	Add: Omitted by mistake	2,000		"	Rent		12,000
	Outstanding	2,000	24,000	"	Interest on Fixed Deposit (accrued)		3,000
"	Electricity Charges	6,575					
	Add: Outsatnding	25	6,600				
"	Postage & Telegram		1,284				
"	Insurance		2,500				
"	Motor Van Maintenance	23,425					
	Less: Wrongly Debited	25	23,400				
"	Travelling & Conveyance	3,816					
	Add: Adjusted against Motor Van Maintenance	25	3,841				
"	Salesman's Commission	1,000					
	Add: Outstanding ($^1/_{200} \times 5,00,000$)	1,500	2,500				
"	Depreciation:						
	Building	10,000					
	Furniture & Fittings	3,000					
	Motor Van ($^{20}/_{100} \times 80,000$)	16,000	29,000				
"	Net Profit (Transferred to Capital A/c)		1,21,875				
			2,15,000				2,15,000

Balance Sheet as at 31st December 1980

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital :	6,00,000		Buildings	2,00,000	
Less: Drawings	12,000		Less: Depreciation	10,000	1,90,000
	5,88,000		Furniture & Fittings	30,000	
Add: Net Profit	1,21,875	7,09,875	Less: Depreciation	3,000	27,000
Sundry Creditors		40,000	Motor Van	80,000	
Outstanding Expenses			Less: Depreciation	16,000	64,000
Establishment	2,000		20 /100 × 80000)		
Commission	1,500		Fixed Deposit at		
Electricity	25	3,525	Bank		1,00,000
			Stock in trade		1,00,000
			Sundry Debtors		1,20,000
			Accrued Interest on		
			Fixed Deposit		3,000
			Cash in hand		1,423
			Cash at Bank		1,47,977
		7,53,400			7,53,400

[P 4] The following is the Trial Balance of Mr. Mahesh as on 31-12-83. Prepare a Trading and Profit and Loss account for the year 1983 and a Balance Sheet as at 31-12-83 :—

	Dr. (Rs.)	Cr. (Rs.)
Purchases	1,80,000	
Opening Stock	10,000	
Salaries Less P.F.	5,400	
P.F. remittance including Prop. contribution 50%	1,200	
Rent @ 250 p.m.	2,750	
Machinery	29,000	
Wages	3,000	
Furniture and Fittings	5,000	
Electricity	550	
Trade Expenses	1,500	
Debtors	10,500	
Interest on Loan	900	
Commission	200	
Buildings	30,000	
Sales		2,05,000
Loans (10% Int)		10,000
Creditors		15,000
Capital		55,000
Drawings	5,000	
	2,85,000	2,85,000

On 1-1-83, machinery worth Rs. 5,000 was sold for Rs. 4,000 and credited to machinery account. Wages include Rs. 1,000 paid for machinery erection charges. Purchases include cost of Moped Scooter for Rs. 5,000. Proprietor has taken goods costing Rs. 1,000 for which no entry has been made. Sundry debtors include Rs. 500 which has become bad. Provide 10% reserve for bad debts. Electricity outstands Rs. 50. Goods costing Rs. 5,000 were destroyed by fire, and insurance claim was received for Rs. 4,000. Provide depreciation at 10% on machinery, furniture and moped. Provide depreciation @5% on building. Closing Stock is Rs. 12,000. **[C. A. Entrance D 85]**

Solution :

In the boods Mahesh

Trading and Profit & Loss A.c for the year ended 31st December, 1983

Dr.		(Rs.)			Cr. (Rs.)
To Opening Stock	10,000		By Sales		2,05,000
Less: Drawings of goods	1,000	9,000	" Stock destroyed fire	5,000	
" Purchases	1,80,000		Less : Insurance		
Less: Cost of Moped Scooter	5,000	1,75,000	Claim received	4,000	1,000
			" Gross Stock		12,000
" Wages	3,000				
Less: Machinery erection charges	1,000	2,000			
" Gross Profit c/d		32,000			
		2,18,000			2,18,000
To Salaries	5,400		By Gross Profit b/d		32,000
Add: PF (employees share)	600	6,000			
" PF Contribution (employer's share)		600			
" Rent	2,750				
Add: Outstanding	250	3,000			
" Electricity	550				
Add: Outstanding	50	600			
" Trade Expenses		1,500			
" Interest on loan	900				
Add: Outstanding $(\frac{10}{100} \times 10{,}000 - 900)$	100	1,000			
" Commission		200			
" Bad debts		500			
" Reserve for bad debts		1,000			
" Stock destroyed by fire		1,000			
" Loss on sale of Machinery (5000-4000)		1,000			
" Depreciation					
Building	1,500				
Machinery	2,900				
Moped Scooter	500				
Furniture	500	5,400			
" Net Profit (transferred to Capital)		10,200			
		32,000			32,000

Balance Sheet as on 31st Dec. 1980

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	55,000		Building	30,000	
Less: Drawings	5,000		Less: Depreciation ($^5/_{100} \times 30{,}000$)	1,500	28,500
	50,000		Machinery	29,000	
Less: drawing of goods	1,000		Add: Erection Charges	1,000	
	49,000				
Add: Net Profit	10,200	59,200		30,000	
			Less: Loss on Sale (5,000-4,000)	1,000	
Creditors		15,000			
10% Loan		10,000		29,000	
Outstanding expenses			Less: Depreciation (10/100 × 29,000)	2,900	26,100
Interest on loan	100				
Rent	250				
Electricity	50	400	Moped Scooter	5,000	
			Less: Depreciation (10/100 × 5,000)	500	4,500
			Furniture	5,000	
			Less: Depreciation (10/100 × 5,000)	500	4,500
			Closing Stock		12,000
			Debtors	10,500	
			Less: Bad debts (Adjustment)	500	
				10,000	
			Less: Reserve for bad Debts (10/100 × 10,000)	1,000	9,000
		84,600			84,600

[P 5] From the following particulars prepare the Trading and Profit and Loss Account for the year 1985 and Balance Sheet as on 31-12-1985 of Prem Niwas :—

	Dr. (Rs.)	Cr. (Rs.)
Building	50,000	
Machinery	22,000	
Furniture	10,000	
Bank	9,000	
Cash	1,000	
Loan (since 1-1-1985)		30,000
Capital		52,000
Debtors/Creditors	50,000	40,000
Opening Stock	12,000	
Purchases/Returns	2,50,000	10,000
Sales/Returns	12,000	3,22,000
Rent	6,000	
Establishment	16,000	
P.F. deducted from Salaries		1,000
Interest (10%)	2,000	
Electricity	1,000	

	Dr. (Rs.)	Cr. (Rs.)
Phone	1,000	
Commission	6,000	
Insurance Premium	1,000	
Bad Debts	2,000	
Bills Receivable	4,000	
	4,55,000	4,55,000

Provide depreciation on Building @ 5%, Machinery @ 15% and Furniture @ 10%. Stock was not taken on 31-12-1985 but only on 7-1-1986. The transactions from 1-1-1986 to 7-1-1986 are— Sales Rs. 25,000, Purchases Rs. 15,000, Stock on 7-1-1986 Rs. 18,000 and the Gross Profit 20%. During the year machinery to the value of Rs. 10,000 was destroyed by fire and the insurance claim was settled at Rs. 8,000 and credit to Machinery Account. Also provide—Employer's share of P.F. Rs. 1000; Provision for Bad Debts at 5%; Commission to the Manager @ 10% on net profit after providing the commission. **[C. A. Entrance M 86]**

Solution :

In the books of Prem Niwas

Dr. **Trading and Profit & Loss A/c for the year ended 31st Dec, 1985** *Cr.*

			(Rs.)				(Rs.)
To	Opening Stock		12,000	By	Sales	3,22,000	
"	Purchases	2,50,000			Less: Returns		
	Less: Returns Outward	10,000	2,40,000		Inward	12,000	3,10,000
"	Gross Profit c/d		81,000	"	Closing Stock [Stock 7.1.86)	18,000	
					Add: Cost of sale during 1.1.86 - 7,1,86 (80/100 × 25000)	20,000	
						38,000	
					Less: Purchases during1.1.86 - 7.1.86	15,000	23,000
			3,33,000				3,33,000
To	Rent		6,000	By	Gross Profit b/d		81,000
"	Establishment		16,000				
	Provident Fund Contribution		1,000				
"	Interest on Loan	2,000					
	Add: Outstanding ($\frac{10}{100}$ × 30,000)	1,000	3,000				
"	Electricity		1,000				
"	Phone		1,000				
"	Commission		6,000				
"	Insurance		1,000				
"	Bad Debts		2,000				
"	Loss on machine destroyed by fire (10,000-8,000)		2,000				

Dr.					*Cr.*
		(Rs.)			(Rs.)
To Depreciation :					
Building	2,500				
Machinery	3,000				
Furniture	1,000	6,500			
" Provision for Bad Debts		2,500			
" Balance c/d		33,000			
		81,000			81,000
" Provision for Manager's Commission (10/110 × 33,000)		3,000	By Balance b/d		33,000
" Net Profit (transferred to capital A/c)		30,000			
		32,000			32,000

Balance Sheet as at 31st December, 1985

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital A/c			Building	50,000	
Opening Balance	52,000		Less: Depreciation	2,500	47,500
Add: Profit	30,000	82,000	(5/500 × 5,000)		
Loan		30,000	Machinery	22,000	
Interest on Loan (Outstanding)		1,000	Less: Destroyed by fire	10,000	
Sundry Creditors		40,000			
Provident Fund:					
Employees Contribution	1,000			12,000	
Employer's Contribution	1,000	2,000	Add: Insurance Claim	8,000	
				20,000	
Provision for Manager's Commission		3,000	Less: Depreciation (15/100 × 20,000)	3,000	17,000
			Furniture	10,000	
			Less: Depreciation (10/100 × 10,000)	1,000	9,000
			Stock in trade		23,000
			Debtors	50,000	
			Less: Provision for Bad Debts (5/100 ×50,000)	2,500	47,500
			Bills Receivable		4,000
			Cash at Bank		9,000
			Cash in Hand		1,000
		1,58,000			1,58,000

[P 6] The following is the Trial Balance of Mr. Ram Lal as on 31st Dec. 1986 :—

	Dr. (Rs.)	Cr. (Rs.)
Ram Lal's Capital A/c		86,690
Stock on 1st January 1986	46,800	
Sales		3,89,600
Returns Inwards	8,600	
Purchases	3,21,700	
Returns Outwards		5,800
Freight and Carriage	18,600	
Rent and Taxes	5,700	
Salaries & Wages	9,300	
Sundry Debtors	24,000	
Sundry Creditors		14,800
Bank Loan @ 6% p.a.		20,000
Bank Interest	900	
Printing and Advertising	14,600	
Miscellaneous Income		250
Cash at Bank	8,000	
Discount Earned		4,190
Furniture & Fittings	5,000	
Discount Allowed	1,800	
General Expenses	11,450	
Insurance	1,300	
Postage and Telegrams	2,330	
Cash in Hand	380	
Travelling Expenses	870	
Drawings	40,000	
	5,21,330	5,21,330

The following adjustments should be made :—

1. Included amongst the Debtors is Rs,. 3,000 due from K. Abraham and included among the Creditors Rs. 1,000 due to him.
2. Provision for Bad and Doubtful Debts be created at 5% and Reserve for Discount @ 2% on Sundry Debtors.
3. Depreciation on Furniture & Fittings @ 10% shall be written off.
4. Personal Purchases amounting to Rs. 600 had been included in the Purchases Day Book
5. Interest on Bank Loan shall be provided for the whole year.
6. A quarter of the amount of Printing and Advertising is to be carried forward to the next year.
7. Credit Purchase Invoice amounting to Rs. 400 had been omitted from the Books.

8. Stock on 31-12-1986 was Rs. 78,600.

Prepare (i) Trading % Profit And Loss Account for the year ended 31-12-1986 and
(ii) Balance Sheet as on 31st December1986. **[C.A. Entrance M 87]**

Solution :

In the books of Shri Ram Lal
Trading and Profit & Loss A/c
for the year ended 31st December, 1986

Dr. | *Cr.*

		Rs.		Rs.	
To Opening Stock		46,800	By Sales	3,89,600	
" Purchases	3,21,700		Less: Returns		
Add: Invoices Omitted	400		Inward	8,600	3,81,000
	3,22,100		Closing Stock		78,600
Less: Returns Outward	5,800				
	3,16,300				
Less: Drawings of goods	600	3,15,700			
" Freight & Carriage		18,600			
" Gross Profit c/d		78,500			
		4,59,600			4,59,600
To Rent and Taxes		5,700	By Gross Profit b/d		78,500
" Salaries & Wages		9,300	" Miscellaneous		
" Interest on Bank Loan	900		Income		250
" Add: Outstanding	300	1,200	" Discount Earned		4,190
$(\frac{6}{100} \times 20{,}000)$					
" Printing & Advertise-					
ment	14,600				
Less: Prepaid	3,650	10,950			
(1/4 × 14,600)					
" Discount allowed		1,800			
" General expenses		11,450			
" Insurance		1,300			
" Postage & Telegram		2,330			
" Travelling expenses		870			
" Provision for Bad and Doubtful Debts		1,150			
" Reserve for Discount on Debtors		437			
" Depreciation on Furniture		500			
" Net Profit (transferred to capital)		35,953			
		82,940			82,940

Balance Sheet as at 31st December, 1986

Liabilities		(Rs.)	Assets		(Rs.)
Capital	86,690		Furniture & Fittings	5,000	
Less : Drawings of Cash	40,000		Less: Depreciation	500	4,500
			$(\frac{10}{100} \times 5,000)$		
	46,690				
Less : Drawings of Goods	600		Sundry Debtors	24,000	
			Less : Mutual Debt set		
	46,090		off (Mr. Abraham)	1,000	
Add : Net Profit	35,953	82,043		23,000	
Bank Loan		20,000	Less : Provision for		
Outstanding Expenses :			Bad and Doubtful Debts		
Interest on Bank Loan		300		1,150	
Sundry Creditors	14,800		$(\frac{5}{100} \times 23,000)$		
Add : Purchase Invoice				21,850	
Omitted	400		Less : Reserve for Dis-		
			count on Debtors	437	21,413
	15,200				
Less : Mutual Debt Set off			$(\frac{2}{100} \times 21,850)$		
(Mr. Abraham)	1,000	14,200	Closing Stock		78,600
			Prepaid Expenses :		
			Printing Advertisement		3,650
			Cash at Bank		8,000
			Cash in Hand		380
		1,16,543			1,16,543

[P 7] From the following trial balance of Sri. Goyal, prepare trading and profit and loss account for the year ending 31st December 1986, and Balance Sheet as on that date after taking into consideration the adjustments given at the end of the trial balance :—

Trial Balance as on 31st December 1986

	Dr. (Rs.)	Cr. (Rs.)
Sales		3,70,000
Purchases (adjusted)	3,49,600	
Wages	10,450	
Capital Account		34,250
National Insurance	150	
Carrige Inwards	200	
Carriage Outwards	250	
Lighting	300	
Rates and Insurance (including premium of Rs. 150 p.a. paid up to 30th June 1987)	200	
Stock at 31-12-1986	30,625	
Cash in hand and at Bank	875	
Discount earned		300
Plant and Machinery	15,000	
Discount allowed	50	
Debtors and Creditors	3,000	10,000
Furniture	4,000	
Dividends Received		150
	4,14,700	4,14,700

Adjustments:—

(i) National Insurance also includes employee's contribution of Rs. 75. Wages are shown "Net" after deducting national insurance contribution borne by the employee.

(ii) Owing to the nature of employment, some employees are housed in the building of the business. The rental value of such portion is assessed at Rs. 250 p.a. The benefit to the employees treated as wages and the rental as income of Shri Goyal.

(iii) Depreciate Plant and Machinery at 15% p.a. and Furniture at 10% p.a.

(iv) Goods worth Rs. 2,000 given by Shri Goyal to his son at Cost.

(v) The Manager is entitled to a commisssion of 20% of the Net Profits after charging his commission. (Calculation may be made nearest to the multiple of a Rupee).

[C. A. Entrance N 87]

Solution :

In the books of Shri Goyal
Trading and Profit & Loss A/c
for the year ended 31st December 1986

Dr.		(Rs.)			Cr. (Rs.)
To Purchases	3,49,600		By Sales		3,70,000
Less: Drawings	2,000	3,47,600			
" Wages	10,450				
Add: Employees Contribution to National Insurance	75				
Employers Contribution to National Insurance	75				
Rental Value of free Accomodation	250	10,850			
" Carriage Inwards		200			
" Gross Profit c/d		11,350			
		3,70,000			3,70,000
To Carriage Outwards		250	By Gross Profit b/d		11,350
" Lighting		300	" Discount earned		300
" Rates & Insurance	200		" Dividends received		150
Less: Prepaid	75	125	" Rental Value of Free Accommodation		250
" Discount Allowed		50			
" Depreciation:					
Plant & Machinery ($\frac{15}{100} \times 15{,}000$)	2,250				
Furniture ($\frac{10}{100} \times 4{,}000$)	400	2,650			
" Balance c/d		8,675			
		12,050			12,050
To Manager's Commission ($\frac{20}{120} \times 8{,}675$)		1,446	By Balance b/d		8,675
" Net Profit (transferred to capital)		7,229			
		8,675			8,675

Balance Sheet as at 31st December 1986

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital A/c	34,250		Plant & Machinery	15,000	
Less : Drawings	2,000		Less: Depreciation	2,250	12,750
(goods given to son)	32,250		$(\frac{15}{100} \times 15,000)$		
Add : Net Profit	7,229	39,479	Furniture	4,000	
			Less: Depreciation	400	3,600
			$(\frac{10}{100} \times 4,000)$		
			Stock-in-trade		30,625
Sundry Creditors		10,000	Sundry Debtors		3,000
Manager's Commission		1,446	Prepaid Insurance		75
(yet to be paid)			Cash in hand and		
			at Bank		875
		50,925			50,925

[P 8] The following trial balance is extracted from the books of a merchant on 31st December 1987 :—

	Dr. (Rs.)	Cr. (Rs.)
Furniture and Fittings	640	
Motor Vehicles	6,250	
Buildings	7,500	
Capital Account		12,500
Bad Debts	125	
Provision for Bad Debts		200
Sundry debtors and creditors	3,800	2,500
Stock on January 1987	3,460	
Purchases and Sales	5,475	15,450
Bank Overdraft		2,850
Sales and Purchases returns	200	125
Advertising	450	
Interest (on Bank Overdraft)	118	
Commission		375
Cash	650	
Taxes and Insurance	1,250	
General Expenses	782	
Salaries	3,300	
	34,000	34,000

The following adjustments are to be made:—

a) Stock in hand on 31st December 1987 was Rs. 3,250.

b) Depreciate buildings at the rate of 5%, furniture and fittings at the rate of 10% and motor vehicles at the rate of 20%
c) Rs. 85 is due for interest on bank overdraft.
d) Salaries Rs. 300 and taxes Rs. 120 are outstanding.
e) Insurance amounting to Rs, 100 is prepaid.
f) One- third of the commission received is in respect of work to be done next year.
g) Write off a further sum of Rs. 100 as bad debt and provision for bad debts is to be made equal to 10 percent on sundry debtors.

Prepare a trading and profit and loss account for the year ending 31st December 1987 and balance sheet as on that date. **[C.A. Entrance N 88]**

Solution :

In the books of a Merchant
Trading and Profit & Loss Account
for the year ended 31st December, 1987.

Dr. *Cr.*

			(Rs.)				(Rs.)
To	Opening Stock		3,460	By	Sales	15,450	
"	Purchases	5,475			Less: Returns		
	Less: Returns Outward	125	5,350		Inward	200	15,250
				"	Closing stock		3,250
To	Gross Profit c/d		9,690				
			18,500				18,500
"	Salaries	3,300		By	Gross Profit b/d		9,690
	Add: Outstanding	300	3,600	"	Commission	375	
					Less: Received in		
"	General Expenses		782		advance	125	250
"	Taxes and Insurance	1,250					
	Add: Outstanding	120					
		1,370					
	Less: Prepaid Insurance	100	1,270				
"	Depreciation :						
	Building	375					
	$(\frac{5}{100} \times 7{,}500)$						
	Furniture & Fittings	64					
	$(\frac{10}{100} \times 640)$						
	Motor Vehicles	1,250	1,689				
	$(\frac{20}{100} \times 6{,}250)$						
"	Advertising		450				
"	Provision for Bad Debts						
	Closing	370					
	Add: Bad Debts (125+100)	225					
		595					
	Less: Opening	200	395				
"	Interest on Bank						
	Overdraft	118					
	Add: Outstanding	85	203				
	Net profit (transferred capital)		1,551				
			9,940				9,940

Balance Sheet as at 31st Dec, 1987

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	12,500		Buildings	7,500	
Add: Net Profit	1,551	14.051	Less: Depreciation ($\frac{5}{100} \times 7500$)	375	7,125
Sundry Creditors		2,500	Furniture	640	
			Less: Depreciation ($\frac{10}{100} \times 640$)	64	576
Bank Overdraft	2,850		Motor Vehicles	6,250	
Add: Interest due	85	2,935	Less: Depreciation ($\frac{20}{100} \times 6{,}250$)	1,250	5,000
Outstanding Expenses					
Salaries	300		Stock in trade		3,250
			Sundry Debtors	3,800	
Taxes	120	420	Less: Adjustment		
Commission Received			Bad debts	100	
in Advance		125			
				3,700	
			Less: Closing Provision for Bad Debts ($\frac{10}{100} \times 3{,}700$)	370	3,330
			Prepaid Insurance		100
			Cash in Hand		650
		20,031			20,031

[P 9] The following Trial Balance was extracted from the books of Mr. 'A' as on 30th September 1988 :

	Debit (Rs.)	Credit (Rs.)
Capital Account		1,00,000
Plant and machinery	78,000	
Furniture	2,000	
Sales		1,27,000
Purchases	60,000	
Returns	1,000	750
Opening Stock	30,000	
Discount	425	800
Sundry Debtors	45,000	
Sundry Creditors		25,000
Salaries	7,550	
Manufacturing Wages	10,000	
Carriage Outward	1,200	
Provision for Bad Debts		525
Rent, Rates and Taxes	10,000	
Advertisement	2,000	
Cash	6,900	
	2,54,075	2,54,075

Prepare Trading and Profit and Loss Account for the year ended 30th September, 1988 and a Balance Sheet as on that date after taking into account the following adjustments :—

(i) Closing Stock was valued at Rs. 34,220.

(ii) Provision for Bad Debts is to be kept at Rs. 500.

(iii) Allow Interest on Capital at 10% p.a.

(iv) Furniture was Sold and the same was disposed off for Rs. 760 in exchange of new furniture costing Rs. 1,680. The net invoice of Rs. 920 was passed through Purchase Register. (No Depreciation need be charged on old and new furniture).

(v) Depreciation Plant and Machinery by 10% p.a.

(vi) The proprietor Mr. A has taken goods worth Rs. 5,000 for personal use, and distributed goods worth Rs. 1,000 as free samples. **[C. A. Entrance M 89]**

Solution :

In the Books of Mr. A
Trading and Profit and Loss Account
for the year ended September 30, 1988

Dr. *Cr.*

			(Rs.)				(Rs.)
To	Opening Stock		30,000	By	Sales	1,27,000	
"	Purchases	60,000			Less: Returns Inward	1,000	1,26,000
	Less: Drawings of goods	5,000		"	Closing stock		34,220
		55,000					
	Less: Distribution of free samples	1,000					
		54,000					
	Less: Returns Outwards	750					
		53,250					
	Less: Funiture wrongly debited	920	52,330				
"	Manufacturing Wages		10,000				
"	Gross Profit c/d		67,890				
			1,60,220				1,60,220
To	Salaries		7,550	By	Gross Profit b/f		67,890
"	Rent, Rates & Taxes		10,000	"	Provision for Bad		
"	Carriage Outwards		1,200		Debts : Opening	525	
"	Distribution of Free				Less : Closing	500	25
	Samples		1,000				
"	Advertisement		2,000				
"	Discount Allowed		425				
"	Loss on sale of furniture		1,240				
	(2,000 — 760)			"	Discount Received		800
"	Depreciation on Plant &						
	Machinery		7,800				
"	Interest on capital		10,000				
"	Net Profit		27,500				
	(transferred to capital)						
			68,715				68,715

Balance Sheet as at 30th September, 1988

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	1,00,000		Plant & Machinery	78,000	
Less: Drawings of Goods	5,000		Less: Depreciation	7,800	70,200
			$(\frac{10}{100} \times 78{,}000)$		
	95,000		Furniture	2,000	
Add : Interest on Capital	10,000		Add: Purchase	920	
Net Profit	27,500	1,32,500			
				2,920	
Sundry Creditors		25,000	Less: Loss on sale	1,240	1,680
			(2000 —760)		
			Closing Stock		34,220
			Sundry Debtors	45,000	
			Less: Provision for Bad Debts	500	44,500
			Cash in Hand		6,900
		1,57,500			1,57,500

[P 10] From the following figures extracted from the books of Shri Govind, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 1990 and a Balance Sheet as on that date after making the necessary adjustments :—

	(Rs.)		(Rs.)
Shri Govind's capital	2,28,800	Stock 1-4-89	38,500
Shri Govind's drawings	13,200	Wages	35,200
Plant and Machinery	99,000	Sundry creditors	44,000
Freehold property	66,000	Postage and Telegrams	1,540
Purchases	1,10,000	Insurance	1,760
Returns outwards	1,100	Gas and fuel	2,970
Salaries	13,200	Bad debts	660
Office expenses	2,750	Office rent	2,860
Office furniture	5,500	Freight	9,900
Discount A/c (Dr.)	1,320	Loose tools	2,200
Sundry debtors	29,260	Factory lighting	1,100
Loan to Shri Krishna @ 10% p.a.		Provision for Doubtful Debts	880
—balance on 1-4-89	44,000	Interest on loan to Shri Krishna	1,100
Cash at bank	29,260	Cash in hand	2,640
Bills payable	5,500	Sales	2,31,440

Adjustments :—

1. Stock on 31st March, 1990 was valued at Rs. 72,600.
2. A new machine was installed during the year costing Rs. 15,400 but it was not recorded in the books as no payment was made for it. Wages Rs. 1,100 paid for its erection have been debited to wages account.
3. Depreciate Plant and Machinery by $33\frac{1}{2}$%.

Furniture	by 10%
Freehold property	by 5%

4 Loose tools were valued at Rs. 1,760 on 31-3-1990.
5. Of the Sundry Debtors Rs. 660 are bad and should be written off.
6. Maintain a provision of 5% on Sundry debtors for doubtful debts.
7. The manager is entitled to a commission of 10% of the net profits after charging such commission. **[C. A. Entrance N 90]**

Solution :

In the Books of Shri Govind

Dr. **Trading and Profit & Loss Account for the year ended 31-3-1990** *Cr.*

			(Rs.)				(Rs.)
To	Opening Stock		38,500	By	Sales		2,31,440
"	Purchases	1,10,000		"	Closing Stock		72,600
	Less: Returns Outward	1,100	1,08,900				
"	Wages	35,200					
	Less: for erection of new machinery	1,100	34,100				
"	Gas & Fuel		2,970				
"	Freight		9,900				
"	Factory Lighting		1,100				
"	Gross Profit c/d		1,08,570				
			3,04,040				3,04,040
To	Salaries		13,200	By	Gross Profit b/d		1,08,570
"	Office expenses		2,750	"	Interest	1,100	
"	Postage & Telegram		1,540		Add: Accrued		1,100
"	Insurance		1,760		but not yet		
"	Office Rent		2,860		received	3,300	4,400
"	Discount Allowed		1,320		$(\frac{10}{100} \times 44{,}000)$		
	Provision for Doubtful Debts						
	Closing	1,430					
	Add: Bad Debts (660 + 660)	1,320					
		2,750					
	Less: Opening	880	1,870				
"	Depreciation:						
	Machinery	38,500					
	Furniture	550					
	Freehold property	3,300					
	Loose Tools	440	42,790				
"	Balance c/d		44,880				
			1,12,970				1,12,970
"	Commission to Manager $(\frac{10}{110} \times 44{,}880)$		4,080	By	Balance b/d		44,880
"	Net Profit (transferred to capital)		40,800				
			44,880				44,880

Balance Sheet as at 31.3.1990

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	2,28,800		Plant & Machinery	99,000	
Less : Drawings	13,200		Add: New Machinery installed (15,400 + 1,100)	16,500	
	2,15,600			1,15,500	
Add : Net profit	40,800	2,56,400	Less: Depreciation $\left(\frac{33\frac{1}{3}}{100} \times 1,15,500\right)$	38,500	77,000
Bills Payable		5,500			
Sundry Creditors		59,400	Freehold Property	66,000	
Commission to Manager (yet to be paid)		4,080	Less: Depreciation $(\frac{20}{100} \times 66,000)$	3,300	62,700
			Office Furniture	5,500	
			Less: Deprecialtion $(\frac{10}{100} \times 5,500)$	550	4,950
			Loose Tools	2,200	
			Less: Depreciation (2,200–1,760)	440	1,760
			Closing Stock		72,600
			Sundry Debors	28,600	
			Less: Provision for Doubtful Debts $(\frac{5}{100} \times 28,600)$	1,430	27,170
			Loan to Shri Krishna	44,000	
			Add: Interest accrued but not yet received	3,300	47,300
			Cash at Bank		29,260
			Cash in Hand		2,640
		3,25,380			3,25,380

[P 11] The following Trial Balance of Shri Om, as on 31st March, 1991. You are requested to prepare the Trading and Profit and Loss Account for the year ended 31st March, 1991 and a Balance Sheet as on that date after making the necessary adjustment :—

	Debit (Rs.)	Credit (Rs.)
Sundry Debtors	5,00,000	
Sundry Creditors		2,00,000
Outstanding liability for Expenses	55,000	
Wages	1,00,000	
Carriage Outwards	1,10,000	
Carriage Inwards	50,000	
General Expenses	70,000	
Cash Discounts	20,000	
Bad Debts	10,000	
Motor Car	2,40,000	

(Contd.)

	Debit (Rs.)	Credit (Rs.)
Printing and Stationery	15,000	
Furniture and Fittings	1,10,000	
Advertisement	85,000	
Insurance	45,000	
Salesman's commission	87,500	
Postage and Telephone	57,500	
Salaries	1,60,000	
Rates and Taxes	25,000	
Drawings	20,000	
Capital Account		14,43,000
Purchases	15,50,000	
Sales		19,87,500
Stock on 1-4-90	2,50,000	
Cash at Bank	60,000	
Cash in hand	10,500	
	36,30,500	36,30,500

The following adjustments are to be made :

1. Stock on 31st March, 1991 was valued at Rs. 7,25,000.
2. A Provision for Bad and Doubtful Debts are to be created to tbe extent of 5 percent on Sundry Debtors.
3. Depreciate— Furniture and Fittings by 10%
   Motor Car by 20%
4. Shri Om had withdrawn goods worth Rs. 25,000 during the year.
5. Sales include goods worth Rs. 75,000 sent out to Shanti and Company on approval and remaining unsold on 31st March, 1991. The cost of the goods was Rs. 50,000.
6. The Salesmen was entitled to a Commission of 5% on total sales.
7. Debtors include Rs. 25,000 bad debts.
8. Printing and Stationary expenses of Rs. 55,000 relating to 1989-90 had not been provided in that year but was paid in this year by debiting outstanding liabilities.
9. Purchases include purchase of Furniture worth Rs. 50,000. **[C.A. Entrance N 91]**

Solution :

In the books of Shri Om
Trading and Profit and Loss Account
for the year ended 31st March

Dr. *Cr.*

			(Rs.)				(Rs.)
To	Opening Stock		2,50,000	By	Sales	19,87,500	
"	Purchases	15,50,000			Less: Goods sent out for approval	75,000	19,12,500
	Less: Drawings of goods	25,000					
		15,25,000		"	Closing Stock	7,25,000	
	Less: Furniture wrongly included	50,000	14,75,000		Add: Cost of Stock out on approval	50,000	7,75,000
"	Wages		1,00,000				
"	Carriage Inwards		50,000				
"	Gross Profit c/d		8,12,500				
			26,87,500				26,87,500

Dr.				Cr.
		(Rs.)		(Rs.)
To Salaries		1,60,000	By Gross Profit b/d	8.12.500
" Rates & Taxes		25,000		
" Postage & Telephone		57,500		
" Insurance		45,000		
" Printing & Stationery		15,000		
" General Expenses		70,000		
Depreciation: Furniture ($\frac{10}{100}$ × 1,60,000)		16,000		
" Motor Car ($\frac{20}{100}$ × 2,40,000)		48,000		
" Salesmen's Commission	87,500			
Add : Outstanding ($\frac{5}{100}$ × 19,12,500)	8,125	95,625		
" Advertisement		85,000		
" Carriage Outwards		1,10,000		
" Provision for Bad and Doubtful Debts ($\frac{5}{100}$ × 4,00,000)		20,000		
" Cash Discount		20,000		
" Bad Debts (10,000+ 25,000)		35,000		
" Net Profit		10,375		
" (Bal. fig. transferred to Capital A/c)				
		8,12,500		8,12,500

Balance Sheet as at 31.3.1990

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	14,43,000		Furniture & Fittings	1,10,000	
Less : Drawings of Cash	20,000		Add: Purchased during the year	50,000	
	14,23,000			1,60,000	
Less: Drawings of Goods	25,000		Less: Depreciation	16,000	1,44,000
	13,98,000		Motor Car	2,40,000	
Less: Printing & Stationery (expenses of 1989-90 not provided in that year)	55,000		Less: Depreciation	48,000	1,92,000
	13,43,000		Closing Stock	7,25,000	
Add : Net Profit	10,375	13,53,375	Add : Cost of Stock out on approval	50,000	7,75,000
Sundry Creditors		2,00,000	Sundry Debtors	5,00,000	
Commission outstanding to Salesmen (Rs. 95,625 — Rs.87,500)		8,125	Less: Goods sent on approval	75,000	
				4,25,000	
			Less: Bad Debt (adjustment)	25,000	
				4,00,000	
			Less: Provision for doubtful debts ($\frac{5}{100}$ × 4,00,000)	20,000	3,80,000
			Cash at Bank		60,000
			Cash in Hand		10,500
		15,61,500			15,61,500

[P 12] The following is the trial balance of Shri Paras, as on 31st March, 1991. You are requested to prepare the final accounts, after giving effect to the adjustments :—

	Debit (Rs.)	Credit (Rs.)
Sundry Creditors		63,000
Sundry Debtors	1,45,000	
Capital Account		7,10,000
Drawings	52,450	
Insurance	6,000	
General Expenses	30,000	
Salaries	1,50,000	
Patents	75,000	
Machinery	2,00,000	
Freehold land	1,00,000	
Building	3,00,000	
Stock on 1-4-90	57,600	
Carriage on Purchases	20,400	
Carriage on Sales	32,000	
Fuel and Power	47,300	
Wages	1,04,800	
Returns Outwards		5,000
Returns Inwards	6,800	
Sales		9,87,800
Purchases	4,06,750	
Cash at Bank	26,300	
Cash in Hand	5,400	
	17,65,800	17,65,800

The following adjustments are to be made :

1. Stock on 31st March, 1991 was valued at Rs. 68,000.
2. A provision for Bad and Doubtful Debts is to be created to the extent of 5 percent on Sundry Debtors.
3. Depreciate Machinery by 10%.
Patents by 20%
4. Wages include a sum of Rs. 20,000 spent on erection of a cycle shed for employees and customers.
5. Salaries for the month of March, 1991, amounting to Rs. 15,000 were unpaid.
6. Insurance includes a premium of Rs. 1,700 on a policy, expiring on 30th September, 1991.

[C. A. Entrance M 91]

Solution :

In The Books of Shri Paras

Dr. **Trading and Profit & Loss Account for the year ended 31-3-1991** Cr.

		(Rs.)			(Rs.)
To Opening Stock		57,600	By Sales	9,87,800	
" Purchases	4,06,750		Less: Returns Inward	6,800	9,81,000
" Less : Returns Outward	5,000	4,01,750	By Closing Stock		68,000
" Carriage on Purchases		20,400			
" Wages	1,04,800				
Less : Cost of Erection of a Cycle shed (Building) (wrongly included	20,000	84,800			
" Fuel & Power		47,300			
Gross Profit c/d		4,37,150			
		10,49,000			10,49,000

(Contd.)

		(Rs.)		(Rs.)
To Salaries	1,50,000		By Gross Profit b/d	4,37,150
Add: Outstanding	15,000	1,65,000		
" Insurance	6,000			
Less: Prepaid	850	5,150		
" Carriage on Sales		32,000		
" General Expenses		30,000		
" Provision for Doubtful Debts ($\frac{5}{100} \times 1,45,000$)		7,250		
" Depreciation: Machinery ($\frac{10}{100} \times 200000$)		20,000		
Patents ($\frac{10}{100} \times 2,00,000$)		15,000		
" Net Profit (balancing figure transferred to capital)		1,62,750		
		4,37,150		4,37,150

Balance Sheet as at 31.3.1991

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	7,10,000		Freehold land		1,00,000
Less : Drawings	52,450		Building	3,00,000	
			Add: Cost of Erection of a Cycle Shed	20,000	3,20,000
	6,57,550				
Add : Net Profit	1,62,750	8,20,300	Machinery	2,00,000	
Sundry Creditors		63,000	Less : Depreciation ($\frac{10}{100} \times 2,00,000$)	20,000	1,80,000
Outstanding Salary		15,000	Patents	75,000	
			Less: Depreciation ($\frac{20}{100} \times 75,000$)	15,000	60,000
			Stock in trade		68,000
			Sundry Debtors	1,45,000	
			Less: Provision for Doubtful Debts ($\frac{5}{100} \times 1,45,000$)	7,250	1,37,750
			Cash at Bank		5,400
			Cash in Hand		26,300
			Prepaid Insurance		850
		8,98,300			8,98,300

[P 13] Mr. A, a Shopkeeper had prepared the following trial balance from his ledger on 31st March, 1989 :—

	Dr. (Rs.)	Cr. (Rs.)
Purchases	6,20,000	
Sales		8,30,000
Cash in hand	4,200	
Cash at Bank	24,000	
Stock of Goods on 1.4.1988	1,00,000	
Mr. A's Capital		5,77,200
Drawings	8,000	
Salaries	64,000	
Postage and Telephones	23,000	
Salesmen' Commission	70,000	
Insurance	18,000	
Advertising	34,000	
Furniture	44,000	
Printing & Stationery	6,000	
Motor Car	96,000	
Bad Debts	4,000	
Cash Discount	8,000	
General Expenses	60,000	
Carriage Inwards	20,000	
Carriage Outwards	44,000	
Wages	40,000	
Creditors		80,000
Debtors	2,00,000	
Total Rs.	14,87,200	14,87,200

You are requested to prepare Trading and Profit and Loss Account for the year ended 31st March, 1989 and Balance Sheet as on that date.

You are also given the following information :—

(1) Cost of goods in stock as on 31st March, 1989 Rs. 1,45,000.

(2) Mr. A had withdrawn goods worth Rs. 5,000 during the year.

(3) Purchases include purchase of furniture worth Rs. 10,000.

(4) Debtors include Rs. 5,000 bad debts.

(5) Creditors include a balance of Rs. 4,000 to the credit of Mr. B in respect of which it has been decided and settled with the party to pay only Rs. 1,000.

(6) Sales include goods worth Rs. 15,000 sent to Ram & Co. on approval and remaining unsold as on 31st March, 1989, the cost of the goods was Rs. 10,000.

(7) Provision for bad debts is to be created at 5% on Sundry debtors.

(8) Depreciate Furniture by 15% and Motor Car by 20%.

(9) The Salesmen are entitled to a commission of 10% on total sales.

[C. A. Inter. N 89]

Solution :

In the books ofMr.A

Dr. **Trading and Profit & Loss A/c for the year ended31.3.89** *Cr.*

			(Rs.)			(Rs.)
To	Opening Stock		1,00,000	By	Sales 8,30,000	
"	Purchases	6,20,000			Less Goods sent on Approval 15,000	8,15,000
	Less Drawings of Goods	5,000				
		6,15,000		"	Closing Stock 1,45,000	
	Less Purchase of Furniture included by mistake	10,000	6,05,000		Add: Gooods sent on Approval not yet approved (cost) 10,000	1,55,000
"	Wages		40,000			
"	Carriage Inwards		20,000			
"	Gross Profit c/d		2,05,000			
			9,70,000			9,70,000
"	Salaries		64,000	"	Gross Profit b/d	2,05,000
"	Postage & Telephone		23,000	"	Discount Received from Creditors	3,000
"	Insurance		18,000			
"	Printing & .Stationery		6,000	"	Net Loss (Balancing figure transferred to Capital A/c)	1,75,800
"	General Expenses		60,000			
"	Bad Debts (4,000 + 5,000)		9,000			
"	Provision for Bad Debts $[\frac{5}{100} \times (2,00,000 - 15,000$ $5,000)]$		9,000			
"	To Salesmen's Commission	70,000				
	Add: Outstanding $(\frac{10}{100} \times 8,15,000)$	11,500	81,500			
"	Advertising		34,000			
"	Cash Discount		8,000			
"	Depreciation :					
	Motor Car $(\frac{20}{100} \times 96,000)$		19,200			
	Furniture $[\frac{15}{100} (44,000 + 10,000)]$		8,100			
"	Carriage Outwards		44,000			
			3,83,800			3,83,800

Balance Sheet as on March 31.3.89

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	5,77,200		Motor Car	96,000	
Less Drawings of Cash	8,000		Less Depreciation $(\frac{20}{100} \times 96,000)$	19,200	76,800
	5,69,200				
Less Drawings of Goods	5,000		Furniture	44,000	
	5,64,200		Add Included in Purchases by mistake	10,000	
				54,000	

(Contd.)

Less Net Loss	1,75,800	3,88,400			
Sundry Creditors	80,000		Less Depreciation		
Less Discount	3,000	77,000	$(\frac{15}{100} \times 54{,}000)$	8,100	45,900
Commission outstanding to Salesmen		11,500	Sundry Debtors Less Goods Sent on approval not yet approved	2,00,000 15,000	
				1,85,000	
			Less Bad Debts	5,000	
				1,80,000	
			Less Provision for Bad Debts $(\frac{5}{100} \times 1{,}80{,}000)$	9,000	1,71,000
			Closing Stock	1,45,000	
			Add Goods Sent on approval not yet approved (cost)	10,000	1,55,000
			Cash at Bank		24,000
			Cash in Hand		4,200
		4,76,900			4,76,900

[P 14] From the following balances and information recieved from the books of Mr. X on 31-3-1990, you are required to prepare the Trading and Profit and Loss Account for the ended on 31-3-1990 and the Balance Sheet as on that date.

	Dr. (Rs.)	Cr. (Rs.)
Mr. X's Capital Account		60,000
Plant and Machinery	18,000	
Depreciation on Plant and Machinery	2,000	
Repairs to Plant	1,600	
Wages	28,000	
Salaries	4,000	
Income Tax	500	
Cash in hand	2,000	
Land	24,500	
Building Depreciation	2,500	
Purchases, less Returns	1,23,500	
Sales		2,49,000
Bank overdraft		13,800
Accrued Income	1,500	
Salaries outstanding		2,000
Bills Receivable	30,000	
Bills Payable		3,000
Provision for bad debts		6,000
Bad Debts	1,000	
Discount on purchases		4,000
Sundry Debtors	35,000	
Sundry Creditors		23,300
Stock in hand on 1st April, 1989	37,000	
Building	50,000	
	3,61,100	3,61,100

Additional information given were :

(a) Stock on 31-3-1990 was Rs. 30,000.

(b) Write off Rs. 3,000 bad debts and maintain a provision for bad debts at 5% on Sundry Debtors.

(c) Goods costing Rs. 5,000 were sent to a customer on (Sale or approval basis) on 30-3-1990. These were recorded as actual sale. The rate of gross profit was 1/6th of sale.

(d) Rs. 1,200 paid as rent of the office were debited to landlord acount and were included in sundry debtors.

(e) General Manager is to be given commission at 10% after charging the commission of Works Manager and his own on net profits.

(f) Works Manager is to be given commission at 5% after charging commission of General Manager and his own on net profits. Such commissions shall be calculated to the nearest multiple of a rupee. **[C. A. Inter. N 90]**

Solution :

In the books of Mr. X

Dr. **Trading and Profit & Loss A/c for the year ended 31-3-90** *Cr.*

		(Rs.)		(Rs.)	
To Opening Stock		37,000	By Sales	2,49,000	
" Purchases (Less returns)		1,23,500	Less : Goods sent on Sale or Approval	6,000	2,43,000
" Wages		28,000			
" Gross Profit c/d		89,500			
			" Closing Stock	30,000	
			Add : Cost of Goods sent on Sale or Approval ($\frac{100}{120} \times 6,000$)	5,000	35,000
		2,78,000			2,78,000
To Salaries		4,000	By Gross Profit b/d		89,500
" Rent		1,200	" Prov. for Bad Debt		
" Depreciation:			Opening 6,000		
Plant & Mahcinery	2,000		Less: Bad Debts	4,000	
Building	2,500	4,500			
				2,000	
			Less: Closing	1,240	760
" Repairs to Plant		1,600			
" Commission to General Manager (Due) (as per workings)		7,214	" Discount on Purchases		4,000
" Commission to Works Manager (Due) (as per workings)		3,607			
" Net Profit (Balancing figure transferred to capital)		72,139			
		94.260			94,260

Balance Sheet as at 31.3.90

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital A/c	60,000		Plant & Machinery		18,000
Less : Income Tax	500		Land		24,500
(Personal Expenses)			Building		50,000
Paid	59,500		Closing Stock	30,000	
Add : Net Profit	72,139	1,31,639	Cost of Goods sent on		
Commission to General		7,214	Sale or Approval	5,000	35,000
Manager (Due)			Sundry Debtors	24,800	
Commission to Works			Less: Provision for		
Manager (Due)		3,607	Bad Debts	1,240	23,560
Sundry Creditors		23,300	$(\frac{5}{100} \times 24{,}800)$		
Bills Payable		3,000	Bills Receivable		30,000
Bank Overdraft		13,800	Cash in Hand		2,000
Outstanding Salaries		2,000	Accrued Income		1,500
		1,84,560			1,84,560

Workings :

Let, G.M.'s commission = x W.M. 's commission = y

Therefore, x = 10/110 (82,960 — y) ....(i)

y = 5/105 (82,960—x) ....(ii)

Solving (i) and (ii)

x = Rs. 7,214

y = Rs. 3,607

[P 15] From the following balances taken from the Ledger of Shri Krishna on 31st March 1989, prepare the Trading and Profit and Loss Account for the year ended 31st March, 1989 and the Balance Sheet as at 31st March, 1989 of Shri Krishna :—

	(Rs.)		(Rs.)
Sundry Creditors	19,000	Bad Debts	100
Building	15,000	Loan from Ram	2,500
Income Tax	1,025	Sundry Debtors	9,500
Loose Tools	1,000	Investments	6,500
Cash at Bank	16,200	Bad Debts Reserve	1,600
Sundry Expenses	1,990	Rent & Rates	850
Bank Interest (Cr.)	75	Furniture	3,000
Purchases	1,57,000	Stock (1-4-1988)	27,350
Wages	10,000	Capital	47,390
Carriage Inwards	1,120	Discount allowed	630
Sales	1,85,000	Dividends received	535
Motor Van	12,500	Drawings	2,000
Cash in hand	335	Bills payable	10,000

Adjustment s to be taken into account :—

(a) Write off further Rs. 300 as bad out of Sundry Debtors and create a Reserve for Bad Debts at 20% on Debtors.

(b) Dividends accrued and due on Investments is Rs. 135. Rates paid in advance Rs. 100 and wages owing Rs. 450.

(c) On 31-3-1989 stock was valued at Rs. 15,000 and Loose Tools were valued at Rs. 800.

(d) Write off 5 perçent for depreciation on Buildings and 40 per cent on Mator Van..

(e) Provide for interest at 12 percent per annum due on Loan taken on 1-6-1988.

(f) Income tax paid has to be treated as Drawings. **[C. A. Entrance N 89]**

Solution :

In the books of Shri Krishna

Dr. **Trading and Profit & Loss A/c for the year ended 31st March, 1989** *Cr.*

		(Rs.)			(Rs.)
To Opening Stock		27,350	By Sales		1,85,000
" Purchase		1,57,000	" Closing Stock		15,000
" Wages	10,000				
Add: Outstanding	450	10,450			
" Carriage Inwards		1,120			
" Gross Profit c/d		4,080			
		2,00,000			2,00,000
" Rent & Rates	850		By Gross Profit b/d		4,080
" Less: Prepaid	100	750	" Bank Interest		75
" Sundry Expenses		1,990	" Dividends	535	
" Interest on loan $(\frac{12}{100}\times\frac{10}{12}\times 2{,}500)$		250	Add: Accrued and due	135	670
" Depreciation :					
Building		750	" Net Loss (Bal. fig. transferred to Capital)		5,385
Motor Van		5,000			
Loose Tools		200			
" Discount allowed		630			
" Reserve for Bad Debts Closing	1,840				
Add: Bad Debts (100+300)	400				
	2,240				
Less: Opening	1,600	640			
		10,210			10,210

Balance Sheet as at 31st March1989

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	47,390		Building	15,000	
Less : Drawings	2,000		Less: Depreciation $(\frac{15}{100}\times 15{,}000)$	750	14,250
	45,390				
Less : Net Loss	5,385		Motor Van	12,500	
	40,005		Less: Depreciation $(\frac{40}{100}\times 12{,}500)$	5,000	7,500
Less: Income tax	1,025	38,980	Loose Tools	1,000	
Loan from Ram		2,500	Less: Depreciation $(\frac{20}{100}\times 1{,}000)$	200	800
Sundry Creditors		19,000	Furniture		3,000
Interest outstanding on loan from Ram		250	Investments	6,500	
Bills Payable		10,000	Add: Dividend accrued & due	135	6,635
Outstanding wages		450	Closing Stock		15,000
			Sundry Debtors	9,500	
			Less: Bad Debts (adj.)	300	

(Contd.)

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
			Less : Reserve for Bad Debts	9,200	
			$(\frac{20}{100} \times 9{,}200)$	1,840	7,360
			Cash at Bank		16,200
			Cash in Hand		335
			Prepaid Rates		100
	71,180				71,180

[P 16] The following is the trial balance or Shri Ram at 31st March, 1990 and it is desired to prepare final accounts showing the results of the transactions of the year :—

	Debit (Rs.)	Credit (Rs.)
Capital Account		41,000
Plant and Machinery	51,000	
Office Furniture	2,600	
Stock, April 1, 1989	48,000	
Motor Van	12,000	
Sundry Debtors	45,000	
Cash in hand	400	
Balance at Bank	6,500	
Wages— Factory	1,50,000	
Office	14,000	
Purchases	2,13,500	
Sales		4,80,000
Bills Receivable	7,200	
Bills Payable		5,600
Sundry Creditors		52,000
Returns Inward	9,300	
Provision for Bad Debts		2,500
Drawings	6,000	
Returns Outward		5,500
Rent	6,000	
Lighting	800	
Telephone	1,350	
Insurance	300	
Advertisement	6,350	
General expenses	1,000	
Bad debts	2,500	
Discount allowed	6,500	
Discount received		3,700
	5,90,300	5,90,300

The following adjustments are to be made :

(a)	Stock—March 31st 1990	Rs. 52,000
(b)	Rent due but not paid, March 31st 1990	Rs. 2,000
(c)	Lighting due but not paid, March 31st 1990	Rs. 300
(d)	Insurance paid in advance	Rs. 100

(e) Depreciation—to be written off

Plant & Machinery @ $33\frac{1}{3}\%$

Office Furniture @ 10%

Motor Van @ $33\frac{1}{3}\%$

(f) The provision for bad and doubtful debts has to be increased to Rs. 3,000.

(g) Discounts at $2\frac{1}{2}\%$ (Two and half percent) on Debtors and Creditors are to be provided.

[C. A. Entrance M 90]

Solution :

In the books of Shri Ram
Trading and Profit & Loss A/c
for the year ended 31st March, 1990

		(Rs.)			(Rs.)
To Opening Stock		48,000	By Sales	4,80,000	
" Purchases	2,13,500		Less: Returns		
Less: Returns Outward	5,500	2,08,000	Inward	9,300	4,70,700
" Wages (factory)		1,50,000	" Closing Stock		52,000
" Gross Profit c/d		1,16,700			
		5,22,700			5,22,700
To Salaries & Wages		14,000	By Gross Profit b/d		1,16,700
" Rent	6,000		" Discount Received		3,700
Add: Outstanding	2,000	8,000	" Provision for Discount from Creditors		1,300
To Lighting	800				
Add: Outstanding	300	1,100			
" Telephone		1,350			
" Insurance	300				
Less: Prepaid	100	200			
" General Expenses		1,000			
" Depreciation:					
Plant and Machinery $\left(\frac{33\frac{1}{3}}{100} \times 51,000\right)$		17,000			
Office Furniture $\left(\frac{10}{100} \times 2,600\right)$		260			
Motor Van $\left(\frac{33\frac{1}{3}}{100} \times 12,000\right)$		4,000			
" Advertisement		6,350			
" Discount Allowed		6,500			
" Provision for Bad Debts :					
Closing	3,000				
Add: Bad Debts	2,500				
	5,500				
Less: Opening	2,500	3,000			
" Provision for Discount on Debtors		1,050			
" Net Profit (transferred to Capital A/c)		57,890			
		1,21,700			1,21,700

Balance Sheet as at 31st March, 1990

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital	41,000		Plant & Machinery	51,000	
Less : Drawings	6,000		Less: Depreciation	17,000	34,000
	35,000				
Add : Net Profit	57,890		$\left(\frac{33\frac{1}{3}}{100} \times 51,000\right)$		
Sundry Creditors	52,000		Office Furniture	2,600	
Less: Provision for Discount	1,300	92,890	Less: Depreciation	260	2,340
Bills Payable		5,600	$\left(\frac{10}{100} \times 2,600\right)$		
Outstanding Expenses			Motor Van	12,000	
Rent	2,000		Less: Depreciation	4,000	8,000
Lighting	300	2,300	$\left(\frac{33\frac{1}{3}}{100} \times 12,500\right)$		
			Sundry Debtors	45,000	
			Less: Provision for Bad Debts	3,000	
				42,000	
			Less: Provision for Discount	1,050	40,950
			Stock in trade		52,000
			Bills Receivable		7,200
			Cash in Hand		400
			Cash at Bank		6,500
			Prepaid Insurance		100
		1,51,490			1,51 490

Exercise

[E 1] The following figures are extracted from the Trial Balance of New Central Book Agency as on 31.3.1993 :—

	Dr. (Rs.)	Cr. (Rs.)
Inventories :		
Finished	40,000	
Raw Materials	70,000	
Work-in-Progress	1,00,000	
Office Appliances	8,700	
Plant & Machinery	2,30,250	
Buildings	1,00,000	
Sale		3,84,000
Sales Return and Rebates	7,000	
Materials purchased	1,60,000	
Freight insured on materials	8,000	

(Contd.)

Purchases returns		2,400
Direct labour	80,000	
Indirect labour	9,000	
Factory supervision	5,000	
Repairs & Upkeep —Factory	7,000	
Heat, Light & Power	32,500	
Rates & Taxes	3,150	
Miscellaneous factory Expenses	9,850	
Sales Commission	16,800	
Sales Travelling	5,500	
Sales Promotion	11,250	
Distribution Deptt. —Salaries and Expenses	9,000	
Office salaries & expenses	4,300	
Interest on borrowed funds	1,000	

Further details are available as follows :

(i)	Closing inventories	
	Finished goods	57,500
	Raw materials	90,000
	Work-in-progress	96,000
(ii)	Accrued expenses on :	
	Direct labour	4,000
	Indirect labour	600
	Interest on borrowed funds	1,000
(iii)	Depreciation to be provided on :	
	Office Appliances	5%
	Plant & Machinery	10%
	Buildings	4%

(iv) Distribution of the following costs :
Heat, Light and Power to factory.
Office and Distribution in the ratio of 8:2
Rates and Taxes two-thirds to Factory and one third to Office.
Depreciation on Building to Factory, Office and Selling in the ratio 8 : 2.

With the help of the above information, you are required to prepare a Manufacturing Profit & Loss Account of New Central Book Agency for the year ended 31.3.1993.

[C.A. Inter. adapted]

[E 2] From the following Trial Balance of Delta International particulars prepare the Manufacturing, Trading and Profit & Loss Account for the year ended 31.3.1993 and a Balance Sheet as at that date from the following balances extracted from the books of Delta International.

	Dr. (Rs.)	Cr. (Rs.)
Advertising	830	
Bad Debts	605	
Provision for Bad Debts		1,000
Bank Charges	120	
Capital Account		35,000
Current Account		1,623

(Contd.)

Drawings	8,000	
Discount		412
Factory Power	3,664	
Furniture	900	
General Expenses — factory	205	
office	346	
Insurance	902	
Light & Heat	482	
Plant as on 1.7.84	15,000	
Plant bought on 31.12.84	2,000	
Purchases	33,668	
Packing & Transport	1,085	
Rent & rates	1,486	
Repairs to plant	785	
Salaries —Office	3,690	
Sales		79,174
Stock on 1.7.84 :		
Raw Materials	5,230	
Finished	7,380	
Work-in-Progress	1,670	
Factory Wages	20,700	
Debtors	10,560	
Creditors		6,150
Cash in hand	175	
Cash at Bank	3,926	
	1,23,359	1,23,359

	(Rs.)
Stock at 30-06-1985 are :	
Raw Materials	3,560
Work-in-Progress	1,740
Finished Goods	9,650
Packing Materials	125
Following Liabilities are to be provided :	
(a) Factory Power	562
(b) Rent & Rates	386
(c) Light & Heat	160
(d) General Expenses—Factory	25
Office	40
(e) Insurance prepaid	170

Provide depreciation @ 10% on Plant and 5% on Furniture. Increase Bad Debts Provision by Rs. 1,000.

5/6 ths of rent and rates, light and heat and insurance are to be allocated to the factory and 1/6th to the Office. **[I. C. W. A. Inter. adapted]**

[E 4] From the Trial Balance of Messrs. Hocus and Pocus, you are required to prepare Trading and Profit and Loss Account for the year ended December 31, 1982, and the Balance Sheet as on that date after taking into account the additional information. Partners share profits and losses equally.

Trial Balance (31.12.82)

Particulars		Dr. (Rs.)	Cr. (Rs.)
Capital:	Hocus		1,80,000
	Pocus		1,50,000
Drawings:	Hocus	14,450	
	Pocus	10,000	
Stock on 1.1.82		2,00,000	
Bills Receivable		25,000	
Purchases		2,75.000	
Sales			4,00,000
Bills Payable			61,000
Return Inwards		5,000	
Return Outwards			4,500
Plant and Machinery		1,00,000	
Loose Tools		25,000	
Patents		25,000	
Sundry Debtors		1,20,000	
Sundry Creditors			1,40,000
Cash in Hand and at Bank		77,550	
Salaries		12,000	
Wages		19,000	
Rent and Taxes		11,500	
Insurance		3,000	
Printing and Stationery		2,000	
General Expenses		6,500	
Power and Fuel		4,500	
Total		9,35,500	9,35,500

Additional information :

1. Stock as at 31.12.82 was Rs. 1,60,000.
2. It is discovered that credit sales effected on 31.12.82 of the value of Rs. 2,000 has not been recorded in the books.
3. Stock worth Rs. 3,000 uninsured has been destroyed by fire.
4. Depreciate Plant and Machinery by 10%, Patents by 20% and revalue Loose Tools at Rs. 20,000.
5. Provide for bad and doubtful debts Rs. 6,000.
6. Outstanding expenses : Salaries Rs. 2,500 ; Wages Rs. 1,000.
7. Prepaid Insurance Rs. 500. **[C.S. D 83]**

[E 5] Prepare the final accounts from the following information :

Mr. Fox is the proprietor of a large business of Silk piece goods. The following trial balance was prepared form his books as on December 31, 1987.

Debit Balances	**(Rs.)**	**Credit Balances**	**(Rs.)**
Land & Building	40,000	Sales	4,68,100
Purchases	3,26,700	Income from Investments	990
Returns Inward	2,500	12% Bank Loan secured on	
Travelling Expenses	6,900	Fixed Assets (no movements	
Printing & Stationery	1,600	during the year)	40,000
Cash at Bank	30,795	Mr. Fox's capital account	80,000

(Contd.)

Discount allowed	1,800	Sundry Creditors	63,100
Misc. Expenses	18,620	Bills Payable	2,600
Sundry Debtors	64,000	Returns outward	3,700
Postage	800	Discount received	1,200
Furniture	8,000		
Cash in Hand	5,900		
Motor Car	16,000		
Investment (Market value Rs. 14,000)	12,000		
Drawings	10,000		
Bills Receivable	4,800		
Stock (1-1-1987)	63,680		
Interest on Bank Loan	3,000		
Salaries (including Advance Rs. 1,500)	22,000		
Establishment Expenses	1,595		
Carriage Inwards	3,000		
Advertisement	16,000		

The following further information was obtained :
(1) Stock as on December 31, 1987, was Rs. 1,20,000. (2) Sundry Debtors include a sum of Rs. 3,000 due from Mr. B. and Sundry creditors include a sum of Rs. 4,000 due to Mr. B. (3) The Reserve for Doubtful Debts is to be maintained @ 10% on Sundry Debtors and Reserve for Discount on Debtors and Discount on Creditors are to be created @ 5%. (4) Bills receivable include dishonoured bill for Rs. 600. (5) Stock worth Rs. 10,000 destroyed by fire on 25-11-1987 in respect of which the insurance company admits claim for only Rs. 7,500. (6) The of Mr. Fox is entitled to a commission of 10% of Net Profit calculated after charging such commission. (7) 3/4ths of the Advertisement expenses are to be carried forward. (8) $2\frac{1}{2}$% of the Net Profit is to be charged to Reserve Fund' (9) Depreciation to be charged on (i) Land & Building @ $2\frac{1}{2}$ % (ii) Furniture @ 10% and (iii) Motor car @ 20%. **[C. A. M. 79]**

[E 7] The following balances were extracted from the books of Shri V. Balkrishnan as on December 31, 1988.

Debit Balances	**(Rs.)**	**Credit Balances**	**(Rs.)**
Plant & Machinery	20,000	Capital Account	80,000
Manufacturing Wages	34,500	Sundry Creditors	44,560
Salaries	15,850	Bank Loan	15,000
Furniture	10,000	Purchases Returns	1,740
Freight on Purchases	1,860	Sales	2,50,850
Freight on Sales	2,140	Reserve for Bad debts	2,000
Buildings	24,000		
Manufacturing Expenses	9,500		
Insurance and Tax	4,250		
Goodwill	25,000		
General Expenses	8,200		
Factory, Fuel and Power	1,280		
Sundry Debtors	78,200		
Factory Lighting	950		
Sales Returns	3,100		
Bad Debts	1,400		
Interest & Bank charges	400		
Cash at Bank	4,200		
Cash in Hand	1,120		

Prepare the Trading and Profit and Loss Account for the year ended December 31, 1988, and the Balance Sheet as on that date taking into consideration the following information :

1. Stock on hand on December 31, 1988, was valued at Rs. 30,500.
2. Depreciate Plant & Machinery by 10%, Furniture by 5%, and Motor Car by Rs. 1,000.
3. Bring Provision for Bad Debts to 5% of Sundry Debtors.
4. A commission of 2% on net profit (after charging the Works Manager's commission) is to be credited to the General Manager. **[C. A. Entrance adapted]**

(**Ans.** G.P. Rs. 95,700; N.P. Rs. 55,951, B/S Total Rs. 1,97,610)

[E 8] The Accountant of M/s. Kasturi Agencies exrracted the following Trial Balance as on March 31, 1987 :

	Dr. (Rs.)	Cr. (Rs.)
Capital		1,00,000
Drawings		18,000
Buildings	15,000	
Furniture & Fittings	7,500	
Motor Van	25,000	
Loan from Hari @ 12% interest	15,000	
Interest paid on above	450	
Sales		1,00,000
Purchases	75,000	
Stock as at 1-4-1986	25,000	
Stock as at 31-3-1987		32,000
Establishment expenses	15,000	
Freight Inwards	2,000	
Freight Outwards		1,000
Commission received		7,500
Sundry Debtors	28,100	
Bank Balance	20,500	
Sundry Creditors		10,000
	2,28,550	2,68,500

The Accountant located the following errors but is unable to proceed further any more :

(a) A totalling error in bank column of payment side of Cash Book whereby the column was under—totalled by Rs. 500.

(b) Interest on loan paid for the quarter ending December 31, 1986, Rs. 450 was omitted to be posted in the ledger. There was no further payment of Interest.

(c) You are required to set right the Trial Balance and to prepare the Trading and Profit and Loss Account for the year ended March 31, 1987, and the Balance Sheet as at that date, after carrying out the following :

(i) Depreciation is to be provided on the assets as follows :

Buildings	$2\frac{1}{2}$% p.a.
Furniture & Fittings	10% p.a.
Motor Van	10% p.a.

(ii) Balance of interest due on the loan is also to be provided for

[C.A. Entrance Adapted]

(Ans. T.B. total Rs. 2,32,500; G.P. Rs. 30,000; N.P. Rs. 16,525; B/S. total Rs. 1,23,975)

[E 9] From the following information and from the Trial Balance of Mr. G.S. prepare a Trading and Profit & Loss Account for the year ended December 31, 1988, and a balance sheet as on that date :

Trial Balance as on (31.12.1988)

	Dr. (Rs.)		Cr. (Rs.)
Materials	7,50,000	Capital	2,00,000
Stock on 31-12-1988	1,00,000	Sales	10,00,000
Debtors	50,000	Creditors	40,000
Wages—Productive	1,00,000	Commission	3,000
Wages—Other	10,000	Discounts	4,000
Salaries	12,000	Special Rebates	2,000
Rent, rates and taxes	3,000	Suspense Account of N.K.S.	40,000
Electric charges	2,000		
Telephone charges	1,000		
Delivery charges	2,000		
Freight and insurance on purchases	2,000		
Depreciation	5,000		
Commission	2,000		
Discount	6,000		
Special Rebate	1,000		
Postage and Telegrams	2,000		
Travelling Expenses	5,000		
Plant & Machinery	57,000		
Furniture	14,000		
Land & Building	98,000		
Suspense account of K.S.	15,000		
Drawings	9,000		
Insurance	2,000		
Books and Library	5,000		
Cash in Hand and Bank	26,000		
Loan to G.M.	10,000		
	12,89,000		12,89,000

Additional information :

(a) Salary includes proprietor's monthly drawing of Rs. 250 p.m.

(b) Divide rent, electricity and telephone between factory and office in the ratio of 3:2.

(c) An analysis of N.K.S.'s Account reveals that goods costing Rs. 60,000 were sent to him under cosignment agreement. All the goods were sold (except 1/4th which were valued at cost) for Rs. 1,00,000 against which a cheque of Rs. 40,000 was received. No entry was passed except that for cash received. Commission at the rate of 10% is payable to N.K.S.

(d) Similarly, a joint venture agreement was entered with K.S. for which an advance of Rs. 15,000 was made. It is now ascertained that the venture earned a profit of Rs. 10,000 of which K.S. is entitled to get 3/5ths share.

(e) Depreciation has been provided on the following assets :
(i) Plant & Machinery (chargeable to factory) Rs. 3,000; (ii) Furniture & Fittings Rs. 1,000; (iii) Land & Buildings Rs. 1,000.

(f) Insurance premium include Rs. 500 for the life of G.S.

(g) One year interest on loan to G.M. has accrued @ 9%. **[C. A. Inter adapted]**

(Ans. G.P. Rs. 2,02,400 : N.P. Rs. 2,19,400 ; B/S total Rs. 4,46,900)

[E 10] Mr. Reddy, a retired Government Officer who started business in Calcutta on April, 1973, gives you the following balances relating to the year ending March, 1977 :

	(Rs.)		(Rs.)
Sundry Debtors	84,000	Salaries	18,910
Sundry Creditors	38,000	Suspense Account (Dr.)	3,000
Stock on trade (1-4-76)	40,000	Bad debts	1,200
Machineries	56,000	Reserve for doubtful debts	3,200
Furniture	8,500	Purchases	4,95,000
Bills Receivable	4,900	Sales	6,76,000
Bills Payable	3,700	Printing charges	2,300
Building Rent	9,600	Postage	1,500
Cash in Hand	4,250	Travelling charges	7,900
Cash at Bank	17,394	Telephone	1,600
Drawings	12,000	Miscellaneous expenses	41,806
Capital Account (Cr.)	90,000	Insurance	1,040

Additional information :

1. An old Furniture which stood at Rs. 1,200 in the books on April 1, 1976, was disposed of at Rs. 580 on September 30, 1976, in part exchange for a new furniture costing Rs. 1,040. A net Invoice at Rs. 460 was passed through the Purchases Day Book.
2. Sales include Rs. 20,000 as Hire Purchase sale. Hire Purchase Sales Prices are determined after adding $33\frac{1}{3}$ per cent on cost price. 40 per cent on the instalments have not fallen due as yet (profit or loss on H.P. sales is to be shown in P & L account).
3. Suspense Account represents money advanced to Sales Manager who was sent to Delhi in August 1976 for Sales Promotion. On returning to Calcutta he submitted a statement disclosing that Rs. 1,200 was incurred for travelling. Rs. 500 for legal expenses and Rs. 900 for miscellaneous expenses. The balance lying with him is yet to be refunded.
4. Mr. Reddy desires to change the method of depreciation on machineries from Straight Line Method to Diminishing Balance Method with retrospective effect from April 1973 and adjust the difference in the accounting year 1976-77. The rates of depreciation will, however, remain unchanged.
5. Business is carried on in a rented house. The ground floor being 50 per cent of the accommodation is used for business. Mr. Reddy lives with his family on the first floor.
6. Total bad debts for the year amounted to Rs. 2,000. Reserve for doubtful debts is to be maintained at 5% on outstanding debtors.
7. Insurance premium covers a period of one month in advance.
8. Depreciation on time basis is to be provided on Machineries at 10% p.a. as instructed and on Furniture 5% p.a. on diminishing balance method.
9. Closing stock amounted to Rs. 50,000.

Prepare Mr. Reddy's Trading Account, Profit & Loss Account for the year ended March 31, 1977, and a Balance Sheet as on that date after taking into consideration the above mentioned information. **[C. A. Inter. M 77]**

(**Ans.** G.P. Rs. 1,86,460; N.P. Rs. 1,00,001 B/S Total Rs. 2,14,901)

[E 11] Hari Singh has extracted the following trial balance from his books as on March 31, 1976 :

	Dr. (Rs.)	Cr. (Rs.)
Drawings	16,000	
Cash	6,760	
Petty Cash	1,000	
Leasehold Land	20,000	
Opening stock at Market value	50,000	
Salary	12,000	

(Contd.)

	Dr. (Rs.)	Cr. (Rs.)
Sundry Debtors	50,000	
Wages	40,000	
Bank	21,000	
Capital		34,000
Rent	9,000	
Electricity	6,000	
Motor Car	10,240	
Advertising	9,000	
Sundry Creditors		35,000
Purchases	4,00,000	
Postage & Telegrams	3,000	
Sales		6,00,000
Discounts	11,400	
General Charges	4,000	
Petty Cash Expenses	9,600	
Suspense		10,000
	6,79,000	6,79,000

You are required to prepare a Trading, Profit & Loss Account and a Balance Sheet using the following additional information :

(1) Closing stock at market value as on March 31, 1976, was Rs. 80,000 (cost Rs. 75,000). Stock is being valued on a consistent basis of cost or market price whichever is lower.

(2) The petty cash balance represents the month-end imprest amount. As on the closing date the petty cashier had vouchers totalling to Rs. 400 for which he had not received reimbursement from the main cashier.

(3) Discounts allowed amounting to Rs. 1,000 had been posted to the debit of Sundry debtors.

(4) Cash withdrawn from bank Rs. 4,000 had not been entered in the Bank column of the Cash Book.

(5) Sales account had been undercast on the credit side by Rs. 4,000.

(6) The motor car which had been purchased in 1972-73 was being depreciated at 20% on the reducing balance method. The original cost of the car is Rs. 20,000. It is now decided to charge depreciation at 6% on straight line method and to make this change, effective from the year of purchase of the motor car.

(7) The leasehold land was purchased during the year. On the date of purchase the unexpired period of the lease was five years.

(8) No entry had been passed in the books for stock withdrawn from the business by the proprietor valued at Rs. 10,000.

(9) Advertising includes cost of a campaign run during the year Rs. 6,000. It is expected that the effect of this campaign will be felt for at least three years.

(10) Telephone bills amounting to Rs. 1,000 remain unpaid. **[C. A. Inter. N 76]**

(Ans. G.P. Rs. 1,99,000; N.P. Rs. 1,32,400 ; B/S Total Rs. 1,82,560)

Chapter 5

DEPRECIATION

[P 1] The following Ledger account has been extracted from the books of Electric Ltd.

Dr. **Machinery A/c** *Cr.*

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1-1-81	To Balance b/d (Cost Rs. 8,00,000)	4,00,000	1-1-'81	By Bank (Sale of old machine)	80,000
9-4-81	" Bank A/c —Cost of a new machine.	2,00,000		" Balance c/d	9,20,000
11-7-81	" Bank A/c—Cost of a new machine	4,00,000			
		10,00,000			10,00,000

The company charges 10% depreciation on the reducing balance method. Depreciation for the full year is provided on the additions during the year. The machinery sold on 1-1-81 was purchased on 29-8-77 at a cost of Rs. 2,00,000.

You are required (i) to compute profit or loss on sale and to show journal entry to record the adjustment necessary in respect of the machine sold; and (ii) to calculate the amount of depreciation chargeable for the year ended 31st December 1981 and to record the journal entry for the depreciation charged. **[C.A. Entrance J 82]**

Solution :

Statement showing computation of Profit or Loss on Sale of Machinery

	(Rs.)
Cost of Machinery purchased in 1977	2,00,000
Less : Depreciation for 1977 ($\frac{10}{100} \times 2,00,000$) :—	20.000
W. D. V. on 31.12.77	1,80,000
Less : Depreciation for 1978 ($\frac{10}{100} \times 1,80,000$) :—	18,000
W . D. V. on 31. 12. 78	1,62,000
Less : Depreciation for 1979 ($\frac{10}{100} \times 1,62,000$) :—	16,200
W. D. V. on 31. 12. 79	1,45,800
Less : Depreciation for 1980 ($\frac{10}{100} \times 1,45,800$) :—	14,580
W. D. V. on 31. 12. 80	1,31,220
Less : Sold for	80,000
Therefore, Loss on Sale of Machinery	51,220

Journal

Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
Loss on Sale of Machinery A/c Dr.		51,220	
To Machinery A/c			51,220
(Loss on sale of Machinery as per statement given above)			

Computation of depreciation for 1981

		Rs.
W. D. V. as on 1.1.81		4,00,000
Less :	W. D. V. of Machine sold	1,31,220
	W. D. V. of Machines unsold	2,68,780
Add :	Cost of machines purchased in 1981	6,00,000
		8,68,780

Therefore, Depreciation for the year 1981 = $\frac{10}{100} \times 8{,}68{,}780$ = Rs. 86,878

Journal

Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
Depreciation A/c Dr. To Machinery A/c (Depreciation for the year 1981 charged)		86,878	86,878

[P 2] M/s Suba Pharmacuticals has imported a machine on 1st July, 1980 for £ 8,000 paid customs duty and freight Rs. 80,000 and incurred erection charges Rs. 60,000. Another local machinery costing Rs. 1,00,000 was purchased on January 1, 1981. On 1st July, 1982 a portion of the imported machinery (value one-third) got out of order and was sold for Rs. 34,800. Another machinery was purchased to replace the same for Rs. 50,000. Depreciation is to be calculated at 20% p.a. Show the Machinery Account for 1980, 1981 and 1982.

Exchange rate is Rs. 20 per £ (Pound Sterling). **[C. A. Entrance J 85]**

Solution :

Dr. **Machinery A/c** *Cr.*

Date	Particulars	(Rs.)	Date	Particulars		(Rs.)
1980 Jul. 1.	To Bank A/c imported Mc I (8000 × 20)	1,60,000	1980 Dec. 31	By Depreciation A/c (Mc. I for 6 month) ($\frac{20}{100} \times \frac{6}{12} \times 3{,}00{,}000$)		30,000
	" Bank A/c Freight 80,000 Erection charges 60,000	1,40,000		" Balance c/d (Mc I)		2,70,000
		3,00,000				3,00,000
1981 Jan. 1.	To Bal. b/d (Mc I)	2,70,000	1981 Dec. 31.	By Depreciation A/c :— Mc I :— [$\frac{20}{100} \times 3{,}00{,}000$]	60,000	
" "	" Bank (Purchased Mc II)	1,00,000		Mc II :— [$\frac{20}{100} \times 1{,}00{,}000$]	20,000	80,000
			" "	" Balance c/d Mc I :— (2,70,000 −60,000)	2,10,000	
				Mc II :— (1,00,000 −20,000)	80,000	2,90,000
		3,70,000				3,70,000

Machinery A/c

Dr | | | | | *Cr.*

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1982 Jan. 1.	To Balance b/d Mc I 2,10,000 Mc II 80,000	2,90,000	1982 Jul. 1	By Bank A/c ($\frac{1}{3}$ portion of machine imported on 1.7.80 sold)	34,800
" "	" Bank A/c (purchased Mc III)	50,000	" "	" Depreciation A/c [On machinery sold $\frac{20}{100}\times\frac{6}{12}\times(\frac{1}{3}\times 3,00,000)$]	10,000
				" Profit & Loss A/c (Loss on sale) [W.D.V. of Machine sold on 1.7.82 $(\frac{100-2\times 20}{100}\times 1,00,000)$ 60,000 *Less* : Sold for 34,800]	25,200
			Dec.31	" Depreciation A/c Mc I 40,000 $(\frac{20}{100}\times 2,00,000)$ Mc II 20,000 $(\frac{20}{100}\times 1,00,000)$ Mc III 5,000 $(\frac{20}{100}\times\frac{6}{12}\times 50,000)$	65,000
				" Balance c/d Mc I 1,00,000 [2,10,000 − (34,800 + 10,000 + 25,200) − 40,000] Mc II 60,000 [80,000 − 20,000] Mc III 45,000 [50,000 − 5,000]	2,05,000
		3,40,000			3,40,000
1983 Jan. 1.	To Balance c/d Mc I 1,00,000 Mc II 60,000 Mc III 45,000	2,05,000			

[P 3] On 1-1-80 A purchased a Roasting Machine for Rs. 60,000 and a Grinding Machine for Rs. 40,000. On 1-1-1981 he purchased one Oil Expeller for Rs. 1,00,000. On 1-1-1982 the Roasting Machine got out of order and a new Roaster was purchased costing Rs. 1,20,000 after surrendering the old one and paying cash Rs. 90,000. On 1-1-83, the Oil Expeller purchased on 1-1-81 was destroyed by fire and the insurance company paid Rs. 60,000 only.

Show the Machinery Account for 1980, 1981, 1982 and 1983. Charge depreciation at 10% p.a. on the W. D. V method. **[C. A. Entrance M 86]**

Solution :

Dr. **Machinery A/c** *Cr.*

Date	Particulars		(Rs.)	Date	Particulars		(Rs.)
1980 Jan. 1.	To Bank A/c			1980 Dec.31.	By Depreciation A/c		
	Roasting Mc.	60,000			Roasting Mc. $(\frac{10}{100} \times 60,000)$	6,000	
	Grinding Mc.	40,000	1,00,000		Grinding Mc.	4,000	10,000
					" Balance c/d		
					Roasting Mc. (60,000 – 6,000)	54,000	
					Grinding Mc. (40,000 – 4,000)	36,000	90,000
			1,00,000				1,00,000
1981 Jan. 1.	To Balance b/d			1981 Dec.31.	By Depreciation A/c		
	Roasting Mc	54,000			Roasting Mc. $(\frac{10}{100} \times 54,000)$	5,400	
	Grinding Mc.	36,000	90,000		Grinding Mc. $(\frac{10}{100} \times 36,000)$	3,600	
	" Bank A/c Oil Expeller Purchased		1,00,000		Oil Expeller $(\frac{10}{100} \times 1,00,000)$	10,000	19,000
					" Balance c/d		
					Roasting Mc. (54,000 – 5,400)	48,600	
					Grinding Mc. (36,000 – 3,600)	32,400	
					Oil Expeller (1,00,000 – 10,000)	90,000	1,71,000
			1,90,000				1,90,000
1982 Jan. 1.	" Balance c/d			1982 Jan. 1.	" Vendor A/c (agreed value of Roasting Mc.)		30,000
	Roasting Mc.	48,600			" Profit & Loss A/c (Loss on Exchange)		
	Grinding Mc.	32,400			W. D. V. of Roasting Mc.	48,600	
	Oil Expeller	90,000	1,71,000		Less : Agreed exchange value	30,000	18,600
	" Vendor A/c (Roaster Purchased)		1,20,000				

(Contd.)

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1982 Jan. 1.			1982 Jan. 1.	" Depreciation A/c	
				Grinding Mc. 3,240 ($\frac{10}{100} \times 32,400$)	
				Oil Expeller 9,000 ($\frac{10}{100} \times 90,000$)	
				Roaster (New) 12,000 ($\frac{10}{100} \times 1,20,000$)	24,240
				" Balance c/d	
				Grinding Mc. 29,160 (32,400 – 3,240)	
				Oil Expeller 81,000 (90,000 – 9,000)	
				Roaster (New) (1,20,000 – 12,000) 1,08,000	2,18,160
		2,91,000			2,91,000
1983 Jan. 1.	To Balance b/d Grinding Mc. 29,160 Oil Expeller 81,000 Roaster (New) 1,08,000	2,18,160	1983 Jan. 1.	By Bank Insurance claim recd	60,000
				" Profit & Loss A/c (Loss on Oil Expeller being destroyed by fire) W. D. V. of Oil Expeller 81,000 Less : Insurance claim 60,000	21,000
			Dec.31.	" Depreciation A/c Grinding Mc. 2,916 ($\frac{10}{100} \times 29,160$) Roaster (New) 10,800 ($\frac{10}{100} \times 10,800$)	13,716
				" Balance c/d Grinding Mc. 26,244 (29,160 – 2,916) Roaster (New) 97,200 (1,08,000 – 10,800)	1,23,444
		2,18,160			2,18,160
1984 Jan. 1.	By Balance b/d Grinding Mc. 26,244 Roaster 97,200	1,23,444			

[P 4] The Machinery account of a factory showed a balance of Rs. 1,90,000 on 1st January 1986. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On 1st June 1986, New Machinery acquired at a cost of Rs. 28,000 and installation charges incurred in erecting the machine works out to Rs. 892 on the same date. On 1st June 1986 a machine which had cost Rs. 6,000 on 1st January 1981 was sold for Rs. 750, another machine which had cost Rs. 600 on 1st January 1982, was scrapped on the same date and it realised nothing.

Write up Plant and Machinery Account for the year 1986, allowing the same rate of depreciation as in the past calculating Depreciation to the nearest multiple of a Rupee.

[C. A. Entrance M 87]

Solution :

Dr. **Plant & Machinery A/c** *Cr.*

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1986			1986		
Jan. 1.	To Balance b/d	1,90,000	Dec.31.	By Bank (sold)	750
	" Bank Cost 28,000 Installation Charges 892	28,892		" Depreciation on machine sold $\left[\frac{10}{100}\times\frac{5}{12}\times\left(\frac{90}{100}\right)^5\times 6{,}000\right]$ * Multiplied by $\left(\frac{90}{100}\right)^5$ to get the W. D. V. on 1.1.86 i.e., Rs. 3,543 (approx.) and it is again multiplied by $\frac{5}{12}$ and $\frac{10}{100}$ to get deprecia-tion for 5 months up to 31-5-86]	148
				" Profit & Loss A/c [Loss on sale = 3543 – 750 – 148]	2,645
				" Depreciation on Machine Scrapped $\left[\frac{10}{100}\times\frac{5}{12}\times\left(\frac{90}{100}\right)^4\times 600\right]$ * Multiplied by $\left(\frac{90}{100}\right)^4$ to get the W.D.V. on 1.1.86 i.e., Rs. 394 (approx.) and it is again multiplied by $\frac{5}{12}$ and $\frac{10}{100}$ to get deprciation for 5 months up to 31/5/86.	16
				" Profit & Loss A/c [Loss on scrapping = 394 – 16]	378

Plant & Machinery A/c

Dr. Date	Particulars	(Rs.)	Date	Particulars	Cr. (Rs.)
			Dec. 31.	" Depreciation Old 18,606 $\left[\frac{10}{100} \times (1{,}90{,}000 - 3{,}543 - 394)\right]$ $= \left[\frac{10}{100} \times 1{,}86{,}063\right]$ New 1,685 $\left[\frac{10}{100} \times \frac{7}{12} \times 28{,}892\right]$	20,291
				" Balance c/d Old 1,67,457 [1,86,063-18,606] New 27,207 [28,892 – 1,685]	1,94,664
		2,18,892			2,18,892
1987 Jan. 1.	To Balance b/d Old 1,67,457 New 27,207	1,94,664			

[P 5] A Company whose accounting year is the calendar year purchased machineries on 1st April 1985 costing Rs. 30,000.

It further purchased a machine costing Rs. 20,000 on 1st October, 1985 and another machine costing Rs. 10,000 on 1st July, 1986.

On 1st January, 1987 of the machineries which were purchased on 1st April, 1985, one machine costing Rs. 10,000 became obsolete and was sold for Rs. 3,000.

Show the Machinery Account would appear for all the three years in the books of the company after charging depreciation at 10% p.a. on written down value method.

[C. A. Entrance N 88]

Solution :

Machinery A/c

Dr. Date	Particulars	(Rs.)	Date	Particulars	Cr. (Rs.)
1985 Jan. 1.	To Bank (Mc I Purchased)	30,000	1985 Dec.31.	By Depreciation Mc I 2,250 $\left(30{,}000 \times \frac{10}{100} \times \frac{9}{12}\right)$ Mc II 500 $\left(20{,}000 \times \frac{10}{100} \times \frac{3}{12}\right)$	2,750
Oct. 1.	" Bank (Mc II Purchased)	20,000		" Balance c/d Mc I 27,750 Rs. (30,000 – 2,250) Mc II 19,500 Rs. (20,000 – 500)	47,250
		50,000			50,000

(Contd.)

Date	Particulars		(Rs.)	Date	Particulars		(Rs.)
1986				1986			
Jan. 1.	To Balance b/d			Dec.31.	By Depreciation		
	Mc I	27,750			Mc I $\left(27{,}750 \times \frac{10}{100}\right)$	2,775	
	Mc II	19,500	47,250		Mc II $\left(19{,}500 \times \frac{10}{100}\right)$	1,950	
Jul. 1.	" Bank (Mc III Purchased)		10,000		Mc III $\left(10{,}000 \times \frac{10}{100} \times \frac{6}{12}\right)$	500	5,225
					" Balance c/d		
					Mc I Rs. (27,750 – 2,775)	24,975	
					Mc II Rs. (19,500 – 1,950)	17,550	
					Mc III Rs. (10,000 – 500)	9,500	52,025
			57,250				57,250
1987				1987			
Jan. 1.	To Balance b/d			Jan. 1.	By Bank (sold)		3,000
	Mc I	24,975			" Profit & Loss A/c (Loss on Sale)		
	Mc II	17,550			W. D. V. of Mc sold $\left(\frac{10{,}000}{30{,}000} \times 24{,}975\right)$	8,325	
	Mc III	9,500	52,025		Less : sold for	3,000	5,325
					" Depreciation		
					Mc I $(24{,}975 - 8{,}325) \times \frac{10}{100}$	1,665	
					Mc II $\left(17{,}550 \times \frac{10}{100}\right)$	1,755	
					Mc III $\left(9{,}500 \times \frac{10}{100}\right)$	950	4,370
					" Balance c/d		
					Mc I Rs. (16,650 – 1,665)	14,985	
					Mc II Rs. (17,550 – 1,755)	15,795	
					Mc III Rs. (9,500 – 950)	8,550	39,330
			52,025				52,025

[P 6] ABC & Co. close their accounts on 31st March every year. On 1-7-1986 machineries costing Rs. 60,000 were purchased. Further on 1-1-1987 a machinery costing Rs. 60,000 was purchased and another machine costing Rs. 10,000 on 1-10 -1987.

Out of the machineries which were purchased on 1-7-1986, one machine costing Rs. 20,000 became obsolete and was sold for Rs. for Rs. 6,000 on 1-4-1988.

On 1-1-1989 a new machine was purchased for Rs. 30,000.

Show how the Machinery account would appear for all the three years in the books of ABC & Co. after charging depreciation at $33\frac{1}{3}\%$ on written down value method. While preparing the machinery account you are required to observe the following notes.

(i) Calculate the amount of depreciation to the nearest rupee.

(ii) Provide depreciation for the full year even if the machinery has been used for a part of the year. **[C. A. Entrance N 89]**

Solution :

Dr. **Machinery A/c** *Cr.*

Date	Particulars		(Rs.)	Date	Particulars		(Rs.)
1986 Jul. 1.	To Bank (Mc I Purchased)		60,000	1987 Mar.31.	By Depreciation Mc I $(60{,}000 \times \frac{1}{3})$	20,000	
1987 Jan. 1.	" Bank (Mc II Purchased)		60,000		Mc II $(60{,}000 \times \frac{1}{3})$	20,000	40,000
					" Balance c/d Mc I (60,000 – 20,000)	40,000	
					Mc II (60,000 – 20,000)	40,000	80,000
			1,20,000				1,20,000
1987 Jan. 1.	To Balance b/d Mc I	40,000		1988 Mar.31.	By Depreciation Mc I $(40{,}000 \times \frac{1}{3})$	13,333	
	Mc II	40,000	80,000		Mc II $(40{,}000 \times \frac{1}{3})$	13,333	
Oct. 1.	" Bank (Mc III purchased)		10,000		Mc III $(10{,}000 \times \frac{1}{3})$	3,334	30,000
					" Balance c/d Mc I (40,000 – 13,333)	26,667	
					Mc II (40,000 – 13,333)	26,667	
					Mc III (10,000 – 3,334)	6,666	60,000
			90,000				90,000
1988 Jul. 1.	To Balance b/d Mc I	26,667		1987 Apr. 1.	By Bank (Sold part of Mc I)		6,000
	Mc II	26,667			" Profit & Loss A/c (Loss on sale on part of Mc I sold)		
	Mc III	6,666	60,000		WDV $\frac{20{,}000 \times 26{,}667}{60{,}000}$	8,889	
1989 Jan. 1.	To Bank (Mc IV purchased)		30,000		Less Sold for	6,000	2,889
				1989 Mar.31.	" Depreciation Mc I $(26{,}667 - 8{,}889) \times \frac{1}{3}$	5,926	

(Contd.)

Date	Particulars	(Rs.)	Date	Particulars		(Rs.)
				Mc II $(26,667 \times \frac{1}{3})$	8,889	
				Mc III $(6,666 \times \frac{1}{3})$	2,222	
				Mc IV $(30,000 \times \frac{1}{3})$	10,000	27,037
				" Balance c/d		
				Mc I $(26,667 - 8,889 - 5,926)$	11,852	
				Mc II $(26,667 - 8,889)$	17,778	
				Mc III $(6,666 - 2,222)$	4,444	
				Mc IV $(30,000 - 10,000)$	20,000	54,074
		90,000				90,000

[P 7] Giri Raj Enterprises purchased some second hand machinery on 1st April, 1987 for Rs. 3,70,000 and installed at a cost of Rs. 30,000. On 1st October, 1988, it purchased another machine for Rs. 1,00,000 and on 1st October, 1989, it sold off the first machine purchased in 1987, for Rs. 2,80,000.

On the same date it purchased a machinery for Rs. 2,50,000. On 1st October 1990, the second machinery purchased for Rs. 1,00,000 was sold off for Rs. 20,000.

In the beginning depreciation was provided on machinery @ 10% p.a. on the original cost each year on 31st March. From the year 1988-89, however, the trader changed the method of providing depreciation and adopted the written down value method, the rate of depreciation being 15% p.a.

Give the Machinery Account for the period 1987 to 1991. **[C. A. Entrance N 89]**

Solution :

In the books of Giri Raj Enterprises
Machinery A/c

Dr. *Cr.*

Date	Particulars	(Rs.)	Date	Particulars		(Rs.)
1987 Jul. 1.	To Bank A/c (Mc I Purchased)	3,70,000	1988 Mar.31.	By Depreciation A/c $\left(\frac{10}{100} \times 4,00,000\right)$		40,000
"	" Bank A/c (Expenses)	30,000	"	" Balance c/d Mc I		3,60,000
		4,00,000				4,00,000
1988 April 1.	To Balance b/d	3,60,000	1989 Mar.31	To Depreciation A/c		
Oct. 1.	" Bank A/c (Mc II Purchased)	1,00,000		Mc I $\left(\frac{15}{100} \times 3,60,000\right)$	54,000	
				Mc II $\frac{15}{100} \times \frac{6}{12} \times 1,00,000$	7,500	61,500

(Contd.)

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
			Mar.31.	" Balance c/d Mc. I 3,06,000 (3,60,000 – 54,000) Mc. II 92,500 (1,00,000 – 7,500)	3,98,500
		4,60,000			4,60,000
1989 April 1.	To Balance b/d Mc (1. 4.' 87) : 3,06,000 Mc (1. 10. '88) 92,500	3,98,500	1989 Oct. 1.	By Bank (Sold Mc. I)	2,80,000
				" Depreciation A/c	22,950
Oct. 1.	" Bank (Purchased)	2,50,000		" [On Mc. sold for the period 1.4.89 – 1. 10. 89] $\left[\frac{15}{100} \times \frac{6}{12} \times 3{,}06{,}000\right]$	
				" Profit & Loss A/c [Loss on Sale = [3,06,000 – (2,80,000 + 22,950)]	3,050
			Mar.31.	" Depreciation A/c Mc. I 13,875 $\left[\frac{15}{100} \times 92{,}500\right]$ Mc. II 18,750 $\left(\frac{15}{100} \times \frac{6}{12} \times 2{,}50{,}000\right)$	32,625
				" Balance c/d Mc. II 78,625 (92,500 – 13,875) Mc. III 2,31,250 (2,50,000 – 18,750)	3,09,875
		6,48,500			6,48,500
1990 April 1.	To Balance b/d Mc. II 78,625 Mc. III 2,31,250	3,09,875	1990 Oct. 1.	By Bank A/c [Sold Mc. II]	20,000
				" Depreciation A/c	5,897

(Contd.)

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
				[On Mc. II sold for the period 1.4.90 – 1.10.90] $\frac{15}{100}\times\frac{6}{12}\times 78{,}625$	
				" Profit & Loss A/c [Loss on sale = 78,625 – (5,897 + 20,000)]	52,728
			Mar.31.	" Depreciation A/c. Mc. III $\frac{15}{100}\times 2{,}31{,}250$	34,687
			"	By Balance c/d Mc. III 2,31,250 – 34,687	1,96,563
		3,09,875			3,09,875
1990 April 1.	To Balance b/d Mc. III	1,96,563			

[P 4] Depreciation has been charged for the years 1981 to 1984 at 10% on reducing balance method on opening balance of each item of Plant and Machinery in use. The balance of Plant and Machinery Account on 31st December, 1984 was Rs. 54,000. There were no sales during these years but purchases were Rs. 16,800 in September 1981 and Rs. 11,400 in December, 1983.

The management decided that depreciation should be charged at 20% on the same method but calculated on the closing balance of each year with retrospective effect from 1981.

You are required to pass Journal entry for giving effect to the revised basis at the end of 1984, and prepare Plant and Machinery Account and Revised Plant and Machinery Account for all the years. **[C. A. Inter N 85]**

Solution :

Dr. **Plant and Machinery A/c** *Cr.*

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1981 Jan. 1.	To Balance b/d (Balancing figure)	48,000	1981 Dec.31.	By Depreciation A/c $\frac{10}{90}\times(60{,}000-16{,}800)$	4,800
Sept.	" Bank A/c (Purchased)	16,800	"	" Balance c/d	60,000
		64,800			64,800
1982 Jan. 1.	To Balance b/d (Balancing figure)	60,000	1982 Dec.31.	To Depreciation A/c $(\frac{10}{90}\times 54{,}000)$	6,000
			"	" Balance c/d	54,000
		60,000			60,000

Dr. **Plant and Machinery A/c** Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1983 Jan. 1.	To Balance b/d (Balancing figure)	54,000	1983 Dec.31.	By Depreciation $\frac{10}{90} \times (60{,}000 - 11{,}400)$	5,400
Dec. 1.	" Bank A/c	11,400		" Balance c/d	60,000
		65,400			65,400
1984 Jan. 1.	" Balance b/d (Balancing figure)	60,000	1984 Dec. 1.	" Depreciation A/c $(\frac{10}{90} \times 54{,}000)$	6,000
				" Balance c/d	54,000
		60,000			60,000
1985 Jan. 1.	To Balance b/d	54,000			

Now depreciation is calculated on the revised system :

Dr. (*Revised*) **Plant and Machinery A/c** Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1981 Jan. 1.	To Balance b/d	48,000	1981 Dec.31.	By Depreciation $(\frac{20}{100} \times 64{,}800)$	12,960
Sep. 1.	" Bank A/c (Purchased)	16,800		" Balance c/d	51,840
		64,800			64,800
1982 Jan. 1.	To Balance b/d	51,840	1982 Dec. 1.	To Depreciation A/c $(\frac{20}{100} \times 51{,}840)$	10,368
				" Balance c/d	41,472
		51,840			51,840
1983 Jan. 1.	To Balance c/d	41,472	1983 Dec. 1.	By Depreciation $(\frac{20}{100} \times 52{,}872)$	10,574
Dec. 1.	" Bank A/c (Purchased)	11,400		" Balance c/d	42,298
		52,872			52,872
1984 Jan 1.	To Balance b/d	42,298	1984 Dec. 1.	To Depreciation $(\frac{20}{100} \times 42{,}298)$	8,460
				" Balance c/d	33,838
		42,298			42,298
1985 Jan. 1.	To Balance b/d	33,838			

WDV on 31. 12. 84 as per old basis	Rs.	54,000
Less : WDV on 31. 12. '84 as per new basis	Rs.	33,838
Further Depreciation	Rs.	20,162

Journal

Particulars	L.F.	Debit Rs.	Credit Rs.
Depreciation A/c Dr.		20,162	
To Plant & Machinery A/c			20,162
(Further depreciation charged)			

Exercise

Depreciation

[E 1] Gautam & Co. purchased Plant and Machinery for Rs. 1,00,000 on 1st July, 1989. The assets was to be depreciated at the rate of 10% p.a. on written down value basis.

The machinery was sold on 3rd January, 1992 for Rs. 56,500.

Write up Machinery Account assuming accounting year to end on 30th June every year.

(**Ans.** : Loss on sale Rs. 12,755) **[C. A. Entrance adapted]**

[E 2] On 1.1.1976 machinery was purchased for Rs. 80,000. On 1.1.1977 additions were made to the amount of Rs. 40,000. On 31.3.1978 machinery purchased on 1.1.1977, costing Rs. 12,000, was sold for Rs. 11,000 and on 30.6.78 additions were made to the amount of Rs. 32,000 was sold for Rs. 26,700. On 1.10.78 additions were made to the amount or Rs. 20,000. Depreciation was provided at 10% p.a. on the diminishing balance method.

Show the Machinery Account for the three years from 1976 to 1978 (year ended on December, '31). **[I.C.W.A. Inter. D 79]**

(**Ans.** : Profit on Sale Rs. 530; Rs. 1,422 ; Closing Balance Rs. 78,232.)

[E 3] A firm purchased on 1st January, 1974, certain Machinery for Rs. 58,200 and spent Rs. 1,800 on its erection. On 1st July, 1974, additional machinery costing Rs. 20,000 was purchased. On 1st July, 1976, the machinery purchased on 1st January, 1974, having become obsolete was auctioned for Rs. 28,600 and on the same date fresh machinery was purchased at a cost of Rs. 40,000. Depreciation was provided for annually on 31st Dec. at the rate of 10 percent on written down value. In 1977, however, the firm changed this method of providing depreciation and adopted the method of providing 5 percent per annum depreciation on the original cost of the machinery.

Give the Machinery Account as it would stand at the end of each year from 1974 to 1977.

(**Ans.** : Balance on Jan. 1, 1978, Rs. 53,500) **[C.A. Entrance M 78]**

[E 4] A second-hand machine was purchased on 1.1.1970 for Rs. 4,00,000. Overhauling and installation expenses for the same machine amounted to Rs. 1,00,000. Another machine was purchased for Rs. 2,00,000 on 1.7.1970.

On 1.7.1972 the machine installed on 1.1.1970 was sold for Rs. 2,50,000. Dismantling charges for the machine sold on 1.7.1972 were Rs. 10,000. On the same date another machine was purchased for Rs. 8,00,000 and was commissioned on 30.9.72. The company had adopted calendar year as its financial year. Under the existing practice, the company provides depreciation at 10% per annum on original cost. In 1973, it has been decided that depreciation will be charged on the diminishing balance at 15% p.a. The change is to be made with retrospective effect. Show Plant Account for 1970 to 1974. Also show sale of asset account. **[I.C.W.A .Inter. J 75]**

(**Ans.** : Balance in Plant A/c on 3.12.74 Rs. 6,71,925; Loss on sale of asset in 1972 Rs. 1,35,000)

[E 5] Messers Mill and Sright commenced business on 1st January, 1970, when they purchased plant and equipments for Rs. 7,00,000. They adopted a policy of (i) charging depreciation at 15% per annum on diminishing balance basis and (ii) charging full year's depreciation on additions. Over their purchases of plant have been :

Date	Amount
1.8.1971	1,50,000
30.9.1974	2,00,000

On 1.1.1974 it was decided to change the method and rate of depreciation to 10% on straight line basis with retrospective effect from 1.1.1970, the adjustment being made in the account for the year ending 31st Dec., 1974.

Calculate the difference of depreciation to be adjusted in the Plant and Equipment A/c on 1.1.1974 and show the ledger account for the year, 1974. **[C.A. Entrance M 79]**

(**Ans.** : Balance on 1.1.75, Rs. 6,20,000)

[E 6] Depreciation has been charged for the years 1981 to 1984 at 10% on reducing balance method on opening balance of each item of Plant and Machinery in use. The balance of Plant and Machinery Account on 31.12.84 was Rs. 54,000. There were no sales during these years but purchases were Rs. 56,800 in September, 1981 and Rs. 11,400 in December, 1983.

The management decided that depreciation should be charged at 20% on the same method but calculated on the closing balance of each year with retrospective effect from 1981.

You are required to pass journal entry for giving effect to the revised basis at the end of 1984, and prepare Plant and Machinery Account and Revised Plant and Machinery Account for all the years. **[C.A. Inter. N 85]**

(**Ans.** : W.D.V. of Plant and Machinery on 31.12.84 according to new basis Rs. 33,838, further depreciation to be provided Rs. 20,162)

[E 7] A Ltd. Company was charging depreciation on its Plant and Machinery on straight line method at 10 per cent per annum since 1972. The Directors decided in 1977 to change the method of providing depreciation to Written Down Value keeping the rate at 10% retrospectively. The following information were available from records. :

(In Rupees)

	1972	1973	1974	1975	1976
Plant & Machinery Purchased at cost	1,80,000	40,000	60,000	—	2,50,000
Plant & Machinery Sold at cost price (as purchsed in '72)	—	5,000	8,000	—	—
Depreciation charged to Profit and Loss A/c	18,000	21,500	26,700	26,700	51,700
Actual Sale proceeds of Plant & Machinery as sold	—	4,000	7,200	—	—

Depreciation is not charged on assets sold during the year. You are required to compute the impact on profits on the Company pursuant to the change in method of computing depreciation and the Assets account (at cost) and Depreciation account and also the Profit/Loss on assets sold in the two methods of depreciation. **[I.C.W.A. Inter. D 77]**

(Ans. :	Excess depreciation charged under straight line method	Rs.	19,194
	Less : Excess profit taken to the credit of profit and loss account	Rs.	80
	Net increase in profit due to change of method		19,114

[E 8] The following Ledger Account has been extracted from the books of Electric Ltd. :

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

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1.1.91	To Balance b/d (Cost Rs. 8,00,000)	4,00,000	1.1.91	By Bank—Sale of old machine	80,000
9.4.91	" Bank—Cost of a new machine	2,00,000	31.12.91	" Balance c/d	9,20,000
11.7.91	" Bank—Cost of a new machine	4,00,000			
		10,00,000			10,00,000

The Company charges 10% depreciation on the reducing balance method. Depreciation for the full year is provided on the additions during the year. Machinery sold on 1.1.91 was purchased on 29.8.87 at a cost of Rs. 2,00,000.

You are required (i) to compute profit or loss on sale and to show journal entry to record the adjustment necessary in respect of the machine sold; and (ii) to calculate the amount of depreciation chargeable for the year ended 31st December, 1991 and to record the journal entry for the depreciation charged. **[C.A. Entrance adapted]**

(**Ans.** : Loss on sale = Rs. 51,220; Depreciation for 1991 = Rs. 86,878).

[E 9] A lease was purchased on 1.4.1988 for five years at a cost of Rs. 50,000. It is proposed to depreciate the lease by annuity method charging 5% interest. Show the lease account for 5 years and also the relevant entries in the Profit and Loss Account. The reference to the annuity table shows that to depreciate Re. 1 by annuity method over 5 years by charging interest at 5% one must write off a sum of Re. 0.230975 every year. **[C.A. Foundation J 94]**

Dr. **Lease A/c** *Cr.*

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1.4.88	To Bank A/c	50,000.00	31.3.89	By Depreciation A/c (50,000 ×0.230975)	11,548.75
31.3.89	" InterestA/c [$\frac{5}{100} \times 50{,}000$]	2500.00	31.3.89	" Balance c/d	40,951.25
		52,500.00			52,500.00
1.4.89	" Balance b/d	40,951.25	31.3.90	" Depreciation A/c	11,548.75
31.3.90	" Interest A/c [$\frac{5}{100} \times 40{,}951.25$]	2,047.56		" Balance c/d	31,450.06
		42,998.81			42,998.81
1.4.90	" Balance b/d	31,450.06	31.3.91	" Depreciation A/c	11,548.75
31.3.91	" Interest A/c [$\frac{5}{100} \times 31{,}450.06$]	1,572.50	31.3.91	" Balance c/d	21,473.81
		33,022.56			33,022.56
1.4.91	" Balance b/d	21,473.81	31.3.91	" Depreciation A/c	11,548.75
31.3.92	" Interest A/c [$\frac{5}{100} \times 21{,}473.81$]	1,073.69	31.3.91	" Balance c/d	10,998.75
		22,547.50			22,547.50
1.4.92	" Balance b/d	10,998.75	31.3.93	" Depreciation A/c	11,548.75
31.3.93	" Interest A/c (Balancing figure	550.00			
		11,548.75			11,548.75

Dr. **Profit & Loss A/c (includes)** *Cr.*

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.3.89	To Depreciation A/c	11,548.75	31.389	By Interest A/c	2,500.00
31.3.89	" Depreciation A/c	11,548.75	31.3.90	" Interest A/c	2,047.56
31.3.91	" Depreciation A/c	11,548.75	31.3.91	" Interest A/c	1,572.50
31.3.92	" Depreciation A/c	11,548.75	31.3.92	" Interest A/c	1,073.69
31.3.93	" Depreciation A/c	11,548.75	31.3.93	" Interest A/c	550.00

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Chapter 6

INVENTORY VALUATION

[P 1] Sundaram closed his books of account on 31st March 1981, but due to certain difficulties, it was not possible for him to conduct physical stock-taking on that date. Physical stock was taken on 7th April when it was valued at Rs. 45,000.

An examination of the records of inventories from 1st to 7th April revealed the following :

a. Net sales during the period were Rs. 10.200. These goods were sold at the usual rate of Gross Profit of 25% on cost except goods which realised Rs. 1,200 on the basis of 20% profit on cost.

b. Purchases during the period were Rs. 8,000 of which Rs. 1,000 worth of goods were delivered on 9th April only.

c. Sales returns during the period were Rs. 1,200 of which 50% were out of the sales at 20% gross profit mentioned above.

d. On 5th April, Sundaram received cetain goods costing Rs. 5,000 to be sold by him on consignment basis.

You are required to prepare a statement showing clearly the value of the stock to be taken into account in Sundaram's final accounts for the year ended 31st March 1981. **[C. A. Entrance J 81]**

Solution :

Statement showing valuation of stock on 31st, March, 1981

			RS.
Stock as per physical stock taking on 7th April 1981			45,000
Add : Cost of goods sold during 1.4.81—7.4.81 $[(\frac{100}{125} \times 900) + (\frac{100}{120} \times 1{,}200)]$			8,200
			53,200
Less : (i) Cost of goods purchased and received		7,000	
(ii) Cost of Sales Returns $[(\frac{100}{125} \times 600) + (\frac{100}{120} \times 600)]$		980	
(iii) Goods received on consignment		5,000	12,980
Therefore, Value of stock to be shown in final accounts for the year ended 31st March, 1981			40,220

[P 2] FY Ltd. conducts physical stock taking every year at the end of the accounting year. Due to certain difficulties it was not possible for it to conduct physical stock taking at the end of the accounting year ending 30th June 1984. Physical stock was taken on 8th July, 1984 when it was valued at Rs. 34,500.

The following transactions took place during 1st July to 8th July 1984 :—

a. Net sales during the period were Rs. 9,340. These goods were sold at the usual the rate of gross profit of 25% on cost except goods which realised Rs. 840 on the basis of 20% profit on cost.

b. Purchases during the period were Rs. 7,500 of which Rs. 800 worth of goods were delivered to the company only on 10th July 1984.

8

c. Sales return during the period were Rs. 1,500 of which 50% were out of the sales at 20% gross profit mentioned above.

d. On 5th July 1984 goods worth Rs. 4,000 were received, which were to be sold on consignment basis.

You are required to prepare a statement showing clearly the value of the stock to be taken into account in FY Ltd. 's final accounts for the year ended 30th June 1984.

[C. A. Entrance D 84]

Solution :

Statement showing value of stock on 30th June, 1984

		(Rs.)
Stock as per physical stock taking on 8th July 1984		34,500
Add : Cost of good sold during 1st July to 8th July $[(\frac{100}{125} \times 8{,}500) + (\frac{100}{120} \times 840)]$		7,500
		42,000
Less : Purchases during 1st July to 8th July (7,5000 – 800)	6,700	
Cost of sales Return $[(\frac{100}{125} \times 750) + (\frac{100}{120} \times 750)]$	1,225	
Goods received on consignment basis	4,000	11,925
Therefore, value of stock to be shown in final accounts for the year ended 30th June, 1984		30,075

[P 3] On account of unavoidable circumstances M/s Mahesh Electricals could not do Stock-taking on 31–12–84. However this stock was taken on January 10, 1985.

The following are details of transactions from January 1st to 10th on which day Inventory was taken :—

	(Rs.)
a. Purchases in Jan. upto 10th	45,000
Goods received after 10th	5,000
Purchase returns	3,000
b. Purchase include special items for	11,000
c. Sales	80,000
Sales returns	2,000
Sale of goods invoiced but delivered after 10th	8,000
d. Sales include half the quantity of special item purchased for balance left in stock.	6,600
e. Gross profit ratio 25% Inventory taken on 10th Jan. Find out the value of stock as on 31-12-84.	1,75,000

[C. A. Entrance D 85]

Solution :

		(Rs.)
Stock as per physical stock taking on January 10, 1985		1,75,000
Add.Sales in January upto 10th	80,000	
Less : Returns	2,000	
	78,000	
Less : Goods not delivered up to 10th	8,000	
	70,000	
Less : Sales of special items	6,600	
	63,400	
Less : 25% Gross Profit ($\frac{25}{100} \times 63,400$)	15,850	47,550
Add : Special items Balance left in stock		5,500
		2,28,050
Less : Goods received in January up to 10th	45,000	
Less : Returns	3,000	
	42,000	
Less : Goods not received up to 10th	5,000	37,000
Therefore, value of stock as on 31-12-1984		1,91,050

[P 4] Mr. Vijay's financial year ends on 30th June 1987, but actual stock is not taken until the following 8th July 1987, when it is ascertained at Rs. 7,425.

You find that

(a) Sales are entered in the sales book on the same day as despatched and returns inward in the return inward book the day the goods are received back.

(b) Purchases are entered in the Purchases day book as the invoices are received.

(c) Sales between 30th June 87 and 8th July 87 as per the sales day book and cash book are Rs. 8,600.

(d) Purchases between 30th June 87 and 8th July 87 as per the purchase day book are Rs. 660 but, of these, goods amounting to Rs. 60 are not received until after the stock was taken,

(e) Goods invoiced during June (before 30th June), but not received until after 30th June amounted to Rs. 500 of which Rs. 350 worth are received between 30th June 87 and 8th July 87.

(f) Rate of gross profit is $33\frac{1}{3}\%$ on cost.

Ascertain the value of Stock on 30th June 1987. **[C. A. Entrance N 87]**

Solution :

Statement showing Ascertainment of value of Stock on 30th June, 1987

		(Rs.)
Stock as per physical stock taking on 8th July, 1987		7,425
Add : Cost of goods sold ($\frac{75}{100} \times 8,600$)		6,450
Add :Purchases invoiced before 30th June, 1987	500	
Less : not received up to 8th July, 1987	350	150
		14,025
Less : Purchases (30th June -8th July)	660	
Less : Received after 8th July, 1987	60	600
Therefore, Stock on 30th June, 1987		13,425

[P 5] Hans Ltd. keeps no running stock records but a physical inventory of stock is made at the end of each quarter and evaluated at cost. The company's year ends on 30th September, 1985 and draft accounts have been prepared to that date. The stock inventory taken on 30th September, 1985 was accidentally destroyed before the items had been evaluated, the closing stock figure used in the draft accounts being that shown by the inventory taken on 30th June 1985. The gross margin earned by company is 25% of cost.

During your audit you discovered the following :—

(a) The cost of the stock on 30th June 1985 as shown by the inventory was Rs. 40,525.

(b) On 30th June 1985 stock sheets showed the following discrepancies.

1. A page total of Rs. 5,059 had been carried to the summary as Rs. 5,509.
2. The total of a page had been undercast by Rs. 98.
3. 100 items which had cost Rs. 5 each had been taken at 25 paise each.

(c) Invoice for purchases entered in Purchase Book during the month of July, August and September, 1983 totalled Rs. 38,560. Of this total Rs. 2,800 related to goods received on or prior to 30th June 1985. Invoices entered in October, 1985 relating to goods received in September 1985 totalled Rs. 3,700.

(d) Sales invoiced to customers in July, August and September, 1985 totalled Rs. 51,073. Of this total, Rs. 3,824 related to goods despatched to customers before 30th September1985 but invoiced in October 1985 totalled Rs. 5,241

(e) During the final quarter to the Company's year, credit notes at invoice value of Rs. 1,280 had been issued to customers in respect of goods returned during that period.

You are required to prepare a statement showing the amount of the stock at cost as on 30th September 1985. **[C. A. Inter. M 86]**

Solution :

Statement showing amount of stock at cost as on 30th September, 1985

				Amount (Rs.)
	Cost of the stock on 30 th June, 1985 (as per inventory)			40,525
Add	i) Under-valuation Of 100 items 100 (5.00 – 0.25)	475		
	ii) Under-Casting of a page	98	573	
	Less Carry forward error		450	123
				40,648
Add	i) Purchases during the month of July, August and September	38,560		
	ii) Goods received in September 1985 entered in October	3,700	42,260	
	Less Goods received on or prior to 30 . 6 . 85 included in purchases		2,800	39,460
				80,108
Less	i) Sales during the month of July, August and September	51,073		
	ii) Goods despatched to customers before 30 . 9 . 85. entered in Ocotober	5,241	56,314	

Contd.

				Amount (Rs.)
	Less Goods despatched on or before 30 . 6 . 85 included in sales		3,824	
	Less Credit notes issued for goods returned during the final		52,490	
	Quarter (July-Sept)		1,280	
			51,210	
Less	Gross Profit (25% on cost = 20% on sales i.e. $\frac{20}{100} \times 51,210$)		10,242	40,968
	stock at cost on 30th September, 1985			39,140

The following are the details of a spare partof Sriram Mills :—

1-1-93	Opening stock	Nil
1-1-93	Purchases	100 units @ Rs. 30 per unit
15-1-93	Issued for consumption	50 units
1-2-93	Purchases	200 units @ Rs. 40 per unit
15-2-93	Issued for consumption	100 units
20-2-93	Issued for consumption	100 units
1-3-93	Purchases	150 units @ Rs. 50 per unit
15-3-93	Issued for consumption	100 units

Find out the value of stock as on 31-3-93 if the comany follows :—

1. First in First Out basis
2. Last in First Out basis
3. Weighted Average basis.

[C. A. Foundation D 93]

Solution :

1. First in First Out basis

Statement showing Computation of Value of Stock on 31.3.93.

Date	Particulars	Receipts			Issues			Balance		
		Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)
1.1.93	Opening Balance							Nil		
1.1.93	Purchases	100	30	3,000				100	30	3,000
15.1.93	Consumption				50	30	1,500	50	30	1,500
								5	30	1,500
1.2.93	Purchases	200	40	8,000				200	40	8,000
15.2.93	Consumption				50	30	1,500			
					50	40	2,000	150	40	6,000
20.2.93	Consumption				100	40	4,000	50	40	2,000
								50	40	2,000
1.3.93	Purchases	150	50	7,500				150	50	7,500
15.3.93	Consumption				50	40	2,000			
					50	50	2,500	100	50	5,000

∴ Value of Stock on 31.3.93 = Rs. 5,000

2. Last in First Out basis

Statement showing Computation of Value of Stock on 31.3.93

Date	Particulars	Receipts			Issues			Balance		
		Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)
1.1.93	Opening Balance							Nil		Nil
1.1.93	Purchases	100	30	3,000				100	30	3,000
15.1.93	Consumption				50	30	1,500	50	30	1,500
1.2.93	Purchases	200	40	8,000				50 200	30 40	1,500 8,000
15.2.93	Consumption				100	40	4,000	50 100	30 40	1,500 4,000
20.2.93	Consumption				100	40	4,000	50	30	1,500
1.3.93	Purchases	150	50	7,500				50 150	30 50	1,500 7,500
15.3.93	Consumption				100	50	5,000	50 50	30 50	1,500 2,500

∴ Value of Stock on 31.3.93 = Rs. 1,500 + Rs. 2,500 = Rs. 4,000

3. Weighted Average basis

Statement showing Computation of Value of Stock on 31.3.93

Date	Particulars	Receipts			Issues			Balance		
		Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)
1.1.93	Opening Balance							Nil		Nil
1.1.93	Purchases	100	30	3,000				100	30	3,000
15.1.93	Consumption				50	30	1,500	50	30	1,500
1.2.93	Purchases	200	40	8,000				250	38	9,500
15.2.93	Consumption				100	38	3,800	150	38	5,700
20.2.93	Consumption				100	38	3,800	50	38	1,900
1.3.93	Purchases	150	50	7,500				200	47	9,400
15.3.93	Consumption				100	47	4,700	100	47	4,700

∴ Value of Stock on 31.3.93 = Rs. 4,700

Exercise

Inventory valuation

[E 1] Anandram is a wholesaler in textile goods. On January 1, 1992, had stocks of main varieties A and B valued of Rs. 14,000 and Rs. 24,000 respectively. During the six months ended June 30, 1992 his purchases were Rs. 72,000 and Rs. 1,44,000 respectively. He had taken for personal and family use one bale of variety A costing Rs. 6,000. On 30th June his stocks were : A Rs. 8,000 and B Rs. 18,000.

Goods were sold by Anandram at the retail prices fixed by the manufacturer which yield 25% gross profit on sales.

Determine the total sales figure of Anandram for the six months. Total sales Rs. 2,96,000.

[C. A. Entrance adapted]

(Ans. Sales vqriety A Rs. 96,000; Variety B Rs. 2,00,000)

[E 2] A trader prepared his accounts to 31st March each year. Due to some unavoidable reasons no stock taking could be possible till 15th April on which date the total cost of goods in his godown came to Rs. 60,500. The following facts were established in between 31st March and 15th April :

(a) Sales–Rs. 45,590 [Including cash sales Rs. 10,120]
(b) Purchases–Rs. 16,710 [Including cash purchases Rs. 5,990]
(c) Sales Returns Rs. 1,200
(d) Collections from Debtors–Rs.14,600
(e) Payment to Creditors–Rs. 7,816
(f) On 15th March, goods of the sale value of Rs. 6,800 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest.
(g) The trader had received goods costing Rs. 8,000 in March, for sale on consignment basis: 20% of the goods had sold by 31st March, and another 40% by 15th Aprill. These Sales are not included in (a) above.

Goods are sold by the trader at a profit of 20% on Sales. You are required to ascertain the value of stock on hand on 31st March.

(Ans : Rs. 79,366.) **[C.A. Inter. N 76]**

[E 3] Alpha Ltd. prepares accounts to 31st March each year. On 31st March 1992 its stock-taking expert was ill and the preparation of the physical inventory was delayed until 3rd April 1992 on which date the stock valued at cost amounted to Rs. 2,40,000.

An examination of inventories and related financial records disclosed that between 1st and 3rd April 1992 :—

(1) Sales totalled Rs. 40,000 including (i) Rs. 2,000 in respect of goods which left the warehouse on 29th March 1992, and (ii) Rs. 4000 in respect of goods not despatched until 12th April 1992. The rate of gross profit to sales was 30%.
(2) Returns from customer's totalled Rs. 6,000.
(3) Purchases totalled Rs. 18,000 which included (i) Rs. 6,000 for goods received in March 1992, and (ii) Rs. 3,000 for goods received on 10th April 1992.
(4) Returns to suppliers totalled Rs. 4,000
(5) There were arithmetical errors in the stock sheets on 3rd April 1992 resulting in an overvaluation of Rs. 4,600.

Prepare a statement showing the correct amount of the company's stock at cost on 31st March 1992.

(Ans : Rs. 2,50,000) **[C. A. Entrance adapted]**

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Chapter 7

CONSIGNMENT

[P 1] Karnath sold goods on behalf of Vijay Sales Corporation on Consignment basis. On January 1, 1979, he had with him a stock of Rs. 20,000 on consignment.

Karnath had instruction to sell the goods at cost plus 25% and was entitled to a commission of 4% on sales in addition to 1% del-credere commission on total sales for guaranteeing collection of all the sales proceeds.

During the year ended 31st December, 1979, cash sales were Rs. 1,20,000, credit sales were Rs. 1,05,000 and Karnath's expenses relating to the consignment Rs. 3,000 being salaries and insurance. Bad debts were Rs. 3,000 and goods sent on consignment Rs. 2,00,000.

From the above, prepare Consignment Account in the books Vijay Sales Corp.

[C. A. Entrance D 80]

Solution :

In the Books of Vijay Sales Corporation

Consignment A/c

Dr. *Cr.*

Particulars		(Rs.)	Particulars	(Rs.)
To Consignment Stock A/c (Opening Stock)		20,000	By Karnath's A/c (Sales)	2,25,000
" Goods sent on consignment		2,00,000	" Consignment Stock A/c [Closing Stock = $[(20,000 + 2,00,000 - (\frac{100}{125} \times 2,25,000)]$	40,000
" Karanath's A/c				
Salaries & Insurance	3,000			
Ordinary Commission $(\frac{4}{100} \times 2,25,000)$	9,000		* Cost of sales = $\frac{100}{125} \times 2,25,000$	
Del-credere Commission $(\frac{1}{100} \times 2,25,000)$	2,250	14,250		
" Profit on consignment (transferred to Profit & Loss A/c		30,750		
		2,65,000		2,65,000

[P 2] Mr. Shetty is a consignment agent for Electra Engineers Ltd., Bombay, who manufactures transistors. Model P and Model T are the most popular models with fixed retail selling price of Rs. 200 and Rs. 250 respectively, on which the manufacturers have a profit of 20% calculated on the selling prices.

The consignment arrangements with Mr. Shetty provides for the following commission structure :—

a. Model P— $2\frac{1}{2}$% on the selling price.

b. Model T— 4% on the selling price.

On July 1, 1980 stock with Mr. Shetty was 200 Nos. of Model T and 200 Nos. of Model P. During the half year ended 31-12-1980, the transactions were :—

	Model—P	Model—T
Goods sent to Mr. Shetty	2,000 Nos.	1,000 Nos.
Sales by Mr. Shetty	2,100 Nos.	900 Nos.

The consignment sent to Mr. Shetty cost Rs. 30,000 in terms of the freight incurred at consignor's end, and were transferred at cost.

You are required to show the Consignment A/c in the books of Electra Engineers Ltd., showing separately the computation of commission due and the value of the closing stock.

[C. A. Entrance D 81]

Solution :

In the Books of Electro Enginears Ltd.

Consignment A/c

Dr. *Cr.*

	Particulars		(Rs.)		Particulars		(Rs.)
1980				1980			
	To Consignment Stock :				By Shetty (Sales)		
	Opening Stock				Model—P	4,20,000	
	Model—P	32,000			Model—T	2,25,000	6,45,000
	$\left[200 \times \left(\frac{80}{100}\right) \times 200\right]$						
	Model—T	40,000	72,000				
	$\left[200 \times \left(\frac{80}{100}\right) \times 250\right]$						
	" Goods sent on Consignment				" Consignment Stock :		
	Model—P	3,20,000			Model—P	17,000	
	(2,000 × 160)				[100 (160 + 10)]		
	Model—T	2,00,000	5,20,000		Model—T	63,000	80,000
	(1,000 × 200)				[300 (200 + 10)]		
	" Bank (freight)		30,000				
	" Shetty (Commission)						
	Model—P	10,500					
	($2\frac{1}{2}\%$ of 4,20,000)						
	Model—T	9,000	19,500				
	(4% of 2,25,000)						
	" Profit on consignment (transferred to P/L A/c)		83,500				
			7,25,000				7,25,000

[P 3] Niresh consigns 1,000 bats costing Rs. 500 each to Swaroop for sales and incurs Rs. 4,000 towards freight and Rs. 1,000 for insurance. Swaroop was able to take delivery of 900 bats only and 100 bats were destroyed in transit. Insurance Co. admitted the claim and paid the same. Swaroop will be entitled to a commission of 5% on sales, 2% del credere commission on credit sales only. He will be entitled for additional commission of 25% of the excess if the sale price exceeds the cost price by more than 20%. Swaroop has spent Rs. 2,000 towards sales expenses. The sale account is as under :—

500 bats at Rs. 600 per bat cash.
200 bats at Rs. 700 per bat credit.

Consignment debtors paid their dues except one customer to whom 4 bats sold for Rs. 2,800, could pay only Rs. 800.

Show Consignment Account, Consignment Debtors A/c, Swaroop A/c and commission calculation. **[C.A. Entrance D 85]**

Solution :

In the Books of Niresh

Consignment A/c

Dr. Particulars		(Rs.)	Cr. Particulars		(Rs.)
To Goods sent on Consignment $(1,000 \times 500)$		5,00,000	By Swaroop A/c		
" Bank			Cash Sales (500×600)	3,00,000	
Freight	4,000		Credit Sales (200×700)	1,40,000	4,40,000
Insurance	1,000	5,000	" Stock Destroyed in Transit A/c $\frac{100}{1000}(5,00,000 + 5,000)$		50,500
" Swaroop A/c			" Consignment Stock A/c $\frac{200}{1000}(5,00,000 + 5,000)$		1,01,000
Sales Expenses	2,000				
Commission $(\frac{5}{100} \times 4,40,000)$	22,000				
Del- credere Commission $(\frac{2}{100} \times 1,40,000)$	2,800				
Special Commission $\frac{25}{100} \times [4,40,000 - (700 \times 500 \times \frac{120}{100})]$	5,000	31,800			
" Profit on Consignment (balancing figure transferred to P & L A/c)		54,700			
		5,91,500			5,91,500

Consignment Debtors A/c

Dr. Particulars	(Rs.)	Cr. Particulars	(Rs.)
To Swaroop A/c	1,40,000	By Bank A/c [1,40,000 – (2,800 – 800)]	1,38,000
		" Swaroop A/c (Bad debts)	2,000
	1,40,000		1,40,000

Swaroop A/c

Dr. Particulars	(Rs.)	Cr. Particulars	(Rs.)
To Consignment A/c	4,40,000	By Consignment A/c	31,800
" Consignment Debtors	2,000	" Consignment Debtors	1,40,000
		" Bank (Balancing figure being remittance)	2,70,200
	4,42,000		4,42,000

[P 4] On 1st September, 1986 goods of the value of Rs. 2,64,000 were consigned by Shri Shyamlal of Bangalore to his agent Shri Mahesh of Cochin at proforma invoice price of 20% profit on cost price. Shri Shyamlal paid insurance and other forwarding charges on consignment amounting to Rs. 10,000. Shri Mahesh was allowed Rs. 2,000 being establishment cost. He was entitled to 5% commission on gross sales and an additional 3% del credere commission on credit sales only. Shri Mahesh made an expenses of Rs. 2,040 as landing charges.

Three-fourths of the goods were sold at $33\frac{1}{3}\%$ profit on cost, half of which were credit sales. One half of the balance of goods were destroyed by fire and a claim lodged for Rs. 28,000 was settled at a discount of 10%. The balance of goods were in stock. Show the Consignment Account and the Stock lost on Consignment Account as on 31-12-86 in the books of Shri Shyamlal.

[C.A. Entrance N 87]

Solution :

In the Books of Shri Shymlal

Consignment A/c

Dr. Cr.

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1980 Sep. 1.	To Good sent on Consignment $(2,64,000 \times \frac{120}{100})$	3,16,800	1980 Dec. 31.	By Mahesh A/c Cash Sales 1,32,000 Credit Sales 1,32000	2,64,000
	" Bank (Insurance & Forwarding charges)	10,000		" Stock Lost on Consignment $[\frac{1}{2} \times \frac{1}{4} \times (3,16,800 + 10,000 + 2,040)$	41,105
Dec.31.	" Shri Mahesh A/c : Establishment 2,000 Landing charges 2,040 Commission 13,200 $(\frac{5}{100} \times 2,64,000)$ Delcredere Commission 3,960 $(\frac{3}{100} \times 1,32,000)$	21,200		" Consignment Stock $[\frac{1}{2} \times \frac{1}{4} \times (3,16,800 + 10,000 + 2,040)]$	41,105
	" Stock Reserve A/c (Load $= \frac{1}{8} \times 52,800$)	6,600		" Goods sent on Consignment (Total Load = (3,16,800 – 2,64,000)	52,800
	" Stock Lost on Consignment (Load $= \frac{1}{8} \times 52,800$)	6,600			
	" Profit on Consignment (transferred to P&L A/c)	37,810			
		3,99,010			3,99,010

Stock A/c

Dr. Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To Consignment A/c	41,105	By Consignment A/c (Lost on Consignment)	6,600
		" Insurance Claim $(28,000 \times \frac{90}{100})$	25,200
		" P&L A/c (Balancing figure)	9,305
	41,105		41,105

[P 5] On 1st Jan. 1987 Lila & Co. of of Calcutta consigned 100 cases of Milk Powder to Shila & Co. of Bombay. The goods were charged at a proforma invoice value of Rs. 10,000 including a profit of 25% on invoice price. On the same date the consignors paid Rs. 600 for Freight and Insurance. On 1st July, the consignee paid import duty Rs. 1,000, dock dues Rs. 200 and sent to the consignors a Bank Draft for Rs. 4,000 as advance. On 1st August, they sold 80 cases for Rs. 10,500 and sent a remittance for the balance due to the consignors after deducting commission @ 5% on gross sale proceeds. Show the Consignment Account and Shila & Co.'s Account in Lila & Co.'s books.

[C.A. Entrance N 88]

Solution :

Lila & Co. Ledger
Consignment A/c

Dr. *Cr.*

	Particulars	(Rs.)		Particulars	(Rs.)
1987			1987		
Jan. 1.	To Good sent on Consignment	10,000	Jan. 1.	By Shila & Co. (Sales)	10,500
	" Bank (Freight & Insurance)	600	Aug. 1.	" Goods sent onConsignment (Load = $\frac{25}{100} \times 10{,}000$)	2,500
Jul. 1.	" Shila & Co.			" Consignment Stock $\frac{20}{100}(10{,}000 + 600 + 1{,}000 + 200)$	2,360
	Import duty 1,000				
	Dock Dues 200				
	Commission 525 ($\frac{5}{100} \times 10{,}500$)	1,725			
Jul. 1.	" Stock Reserve ($\frac{20}{100} \times 2{,}500$)	500			
	" Profit transferred to P & L A/c (transferred)	2,535			
		15,360			15,360

Shila & Co. A/c

Dr. *Cr.*

	Particulars	(Rs.)		Particulars	(Rs.)
1987			1987		
Aug. 1.	To Consignment A/c	10,500	Jul. 1.	By Consignment A/c	
				Import Duty 1,000	
				Dock Dues 200	
				Commission 525	1,725
			Aug. 1.	" Bank (Bal. fig.)	8,775
		10,500			10,500

[P 6] On 1-1-1989 Mr. John of Bombay consigned to Mr. Raj of Madras goods for sale at invoice price. Mr. Raj is entitled to a commission of 5 per cent on sales at invoice price and 20 per cent of any surplus price realised. Goods costing Rs. 1,00,000 were consigned to Madras at the invoice price of Rs. 1,50,000. The direct expenses of the consignment amounted to Rs. 10,000. On 31-3-1989 an account sales was received by Mr. John from Mr. Raj showing that he had effected sales of Rs. 1,10,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses were Rs. 3,000. Mr. Raj accepted a bill drawn by Mr. John for Rs. 1,00,000 and remitted the balance due in cash.

Show the consignment account and the account of Mr. Raj in the books of Mr. John.

Solution :

In the books of Mr. John

Consignment A/c

Dr. *Cr.*

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1989			1989		
Jan. 1.	To Good sent on Consignment	1,50,000	Jan. 1.	By Mr. Raj A/c (Sales)	1,20,000
" "	" Bank (Expenses)	10,000	Aug. 1.	" Goods sent on Consignment (Total Load = (1,50,000 – 1,00,000)	1,20,000
Mar.31.	" Mr. Raj A/c Expenses 3,000 Commission 6,000 $[(\frac{5}{100} \times 1{,}20{,}000) + \frac{20}{100}(\frac{4}{5}(1{,}50{,}000 - 1{,}20{,}000))]$	9,000	Mar.31 " "	" Consignment Stock $[(\frac{1}{5}(1{,}50{,}000 + 10{,}000)]$	32,000
	" Stock Reserve $[\text{Load} = \frac{1}{5} \times 50{,}000]$	10,000			
	Profit on Consignment (transferred)	23,000			
		2,02,000			2,02,000

Dr. **Mr. Raj A/c** *Cr.*

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1989			1989		
Mar.31.	To Consignment A/c	1,20,000	Mar.31	By Consignment Expenses 3,000 Commission 6,000	9,000
			" "	" Bills Receivable	1,00,000
			" "	" Cash (Bal fig)	11,000
		1,20,000			1,20,000

[P 7] Goods are invoiced by Shri Amar, Consignor, to his agent Shri. Ashok at selling price. The agent reports sales made and collection of book-debts by him and by monthly advice. He received 5% commission on cash collected plus an alowance of expenses @ Rs. 400 per annum.

During the half year ended 30-9-89 goods were invoiced to the agent at a value of Rs. 80,600 . Such goods cost Shri Amar Rs. 59,000 plus freight and packing charges thereon Rs. 3,740. During the same period, sales were made by the agent amounting 68,400. Debts collected were Rs. 57,600 and discounts were allowed amounting to Rs. 400. The agent remitted to Shri Amar Rs. 56,000.

Some of the goods consigned to Shri Ashok were damaged in transit and a claim on the insurance company was settled for Rs. 1,240.

On 30-9-89, the the stock in the hands of the agent and unsold represented a cost to Shri Amar Rs. 8,200.

Prepare the Consignment account and the account of Shri Ashok in the books of Shri Amar, for the half year ended 30-9-89. **[C.A. Entrance N 90]**

Solution :

In the books of Shri Amar

Consignment A/c

Dr. | Cr.

Date		Particulars		(Rs.)	Date		Particulars	(Rs.)
1989 Sept.30.	To	Good sent on Consignment		59,000	1989 Sept.31.	By	Ashoke (Sales)	68,400
	"	Bank A/c (Freight &Packing charges)		3,740		"	Stock lost in transit (as per workings)	777
	"	Ashok				"	Consignment Stock $\left[\frac{(59{,}000 + 3{,}740)}{59{,}000} \times 8{,}200\right]$	8,720
	"	Discount	400					
		Allowance for Expenses $(\frac{1}{2} \times 400)$	200					
		Commission $(\frac{5}{100} \times 57{,}600)$	2,880	3,480				
	"	Profit on consignment (transferred to P&L A/c)		11,677				
				77,897				77,897

Ashok A/c

Dr. | Cr.

Date		Particulars	(Rs.)	Date		Particulars		(Rs.)
1989 Sept.30.	To	Consignment A/c	68,400	1989 Sept..30	By	Consignment A/c :		
						Discount	400	
						Allowance for Expenses	200	
						Commission	2,880	3,480
					"	Cash (remittance)		56,000
					"	Balance c/d		8,920
			68,400					68,400

Workings :

	IP or Sales Rs.	Cost Rs.
	80,600	59,000 + 3,740 = 62,740
Therefore,	1	$\frac{62{,}740}{80{,}600}$
"	68,400	$\left(\frac{62{,}740}{80{,}600}\right) \times 68{,}400$
		= Rs. 53,243
Therefore Cost of Goods Sold		= Rs. 53,243
" Stock Lost in Transit		= Cost of Goods Sent + freight & packing charges – (Consignment Stock (Closing) + Cost of goods sold.]
		= (59,000 + 3,740) – [8,720 + 53,243]
		= 62,740 – 61,963.
		= Rs. 777.

[P 8] 2,000 shirts were consigned by Bhagwan & Company of Delhi to Shreyans of Tokyo at a cost of Rs. 150 each. Bhagwan & Company paid freight Rs. 20,000 and insurance Rs. 3,000.

During the transit 200 shirts were totally damaged by fire. Shreyans took delivery of the remaining shirts and paid Rs. 28,800 as customs duty.

Shreyans had sent a bank draft to Bhagwan & Company for Rs. 1,00,000 as advance payment. 1,600 shirts were sold by him at Rs. 200 each. Expenses incurred by Shreyans on godown rent and advertisements, etc. amounted to Rs. 4,000. He is entitled to a commission of 5%

One of the customers to whom the goods were sold on credit could not pay the cost of 10 shirts.

Prepare the consignment account and the account of Mr. Shrenyas in the books of Bhagwan & Co. Shreyans settled his account immediately. Nothing was recovered from the insurars for the damaged goods. **[C.A. Entrance N 91]**

Solution :

In the books of Bhagwan & Co.

Consignment A/c

Dr. | | *Cr.*

Particulars		(Rs.)	Particulars	(Rs.)
To Goods sent on Consignment A/c		3,00,000	By Consignment Debtors (Credit Sale = 1600 × 200)	3,20,000
" Bank A/c :			" Stock lost in transit $\left[\frac{200\,(3{,}00{,}000 + 23{,}000)}{2{,}000}\right]$	32,300
Freight	20,000			
Insurance	3,000	23,000	" Consignment Stock $\left[\frac{200\,(3{,}23{,}000 - 32{,}300 + 28{,}800)}{1{,}800}\right]$	35,500
" Shreyans				
" Customs duty	28,800			
" Expenses	4,000			
" Commission $\left(\frac{5 \times 3{,}20{,}000}{100}\right)$	16,000	48,800		
" Consignment Debtors (Bad Debts)		2,000		
" Profit on Consignment		14,000		
		3,87,800		3,87,800

Shreyans A/c

Dr. | | *Cr.*

Particulars	(Rs.)	Particulars		(Rs.)
To Consignment Debtors A/c (Collected)	3,18,000	By Bank A/c		1,00,000
		" Consignment A/c		
		Customs duty	28,800	
		Expenses	4,000	
		Commission	16,000	48,800
		" Bank (Balancing figure being final remittance)		1,69,200
	3,18,000			3,18,000

[P 9] A. Co. Ltd., manufactures and deals in edible oil, consigns to their Bangalore agent, 1,000 crates of oil (each crate containing 12 one-kilo sachet) in March, 1991. The consignment was sent at 20% over the cost of Rs. 30 per kilo. A bill was drawn on the agent for 80% of the value of the consignment which was met on presentation. Expenses incurred by the company by way of freight and insurance came to Rs. 12,000.

The agent received the consignment by lorry and sold in March, 1991, 900 crates a profit margin of 25% on his cost (excluding consignor's expenses). He found that 500 sachets had got damaged in transit—the manufacturer accepted this as a normal loss—and these were sold to consumers at Rs. 20/sachet. The Insurance Co. settled the loss claim for Rs. 2,500.

Agent incurred expenses of Rs. 5,000 on his own account (unconnected with the liability under the agreement) and Rs. 3,000 on consignor's account. He is entitled to a commission of 5% on sales effected by 15th April, 1991, the agent remitted the balance due by him to the company.

Draw the account in the books of A Co. Ltd, to record the above transactions.

[C.A. Inter N 91]

Solution :

In the books of A Co. Ltd.

Dr. **Consignment A/c** *Cr.*

	Particulars	(Rs.)		Particulars	(Rs.)
1991 Mar. 1.	To Good sent on Consignment A/c $\left(1,000 \times 12 \times 30 \times \frac{120}{100}\right)$	4,32,000	1991 Mar.31	By Bangalore Agent A/c (Sales = $900 \times 12 \times 45$)	4,86,000
	" Bank A/c (Expenses)	12,000	"	" Lost in Transit A/c $\frac{500\,(4,32,000 + 12,000)}{1,000 \times 12}$	18,500
31	" Bangalore Agent A/c Expenses 3,000 Commission 24,800 $\left(\frac{5 \times 4,96,000}{100}\right)$	27,800	"	" Goods Sent on Consignment A/c (Total Load = $\frac{20}{120} \times 4,32,000$)	72,000
"	" Stock Reserve (Load on Closing Stock $= \frac{700 \times 72{\cdot}000}{12{\cdot}000}$)	4,200	"	" Consignment Stock $\left[\frac{700\,(4,32,000 + 12,000)}{12,000}\right]$	25,900
"	" Profit on consignment (Bal. fig. tranferred to P & L A/c)	1,26,400			
		6,02,400			6,02,400

Dr. **Lost in Transit A/c (Normal Loss)** *Cr.*

	Particulars	(Rs.)		Particulars	(Rs.)
1991 Mar.31	To Good sent on Consignment A/c	18,500	1991 Mar.31	By Bangalore Agent A/c (500 × 20)	10,000
			" "	" Bank A/c (Insurance Claim)	2,500
			" "	" Profit & Loss A/c (Balancing figure)	6,000
		18,500			18,500

Dr. **Goods sent on Consignment A/c** Cr.

	Particulars	(Rs.)		Particulars	(Rs.)
1991 Mar.31	To Consignment A/c	72,000	1991 Mar.	1. By Consignment A/c	4,32,000
" "	" Trading A/c (Balancing figure transferred)	3,60,000			
		4,32,000			4,32,000

Dr. **Bangalore Agent A/c** Cr.

	Particulars	(Rs.)		Particulars	(Rs.)
1991 Mar.31	To Consignment A/c	4,86,000	1991 Mar.31	By Bank A/c (Advance $= \frac{80}{100} \times 4{,}32{,}000$)	3,45,600
" "	" Lost in Transit A/c	10,000	" "	" Consignment A/c (Expenses & Commission)	27,800
			Apr.15	" Bank A/c (bal. fig. (being remittance)	1,22,600
		4,96,000			4,96,000

[P 10] In the Sales ledger of XY Goods Co. the following account appears;

1985		Ram	1985		
May 10.	To Goods	12,000	July 5.	By Cash	5,000
	" Expenses	720	" 31.	" Balance c/d	7,720
		12,720			12,720

Upon enquiry you find that the debit to Ram of Rs. 12,000 represented goods costing Rs. 10,000 delivered to him on the understanding that he will try sell them in his own make, or otherwise return them. For this he is to be allowed a commission of 10% on all sales effected, out of which he is to defray the expenses that he may incur.

On 31st July, 1985, when XY Goods Co. make up their annual accounts, it transpires that Ram has sold half the goods at the prices at which they were invoiced to him but is doubtful about his ability to sell the remaining. He therefore proposes to offer his customers a special trade discount of 20% and to waive any further sales commission. To this XY Goods Co. agreed and took this information into account when closing their books.

You are required :

a. to show the necessary corrective entries in the firm's journal.
b. to set out the account of Ram as it will appear when the journal entries have been posted, and
c. to state clearly the resultant profit or loss on the matter. **[C. A. Inter N 85]**

Solution :

In the books of XY Goods Co. Ltd.
Necessary corrective entries in the firm's Journal

Date	Particulars		L.F.	Debit (Rs.)	Credit (Rs.)
1985					
July 31.	Consignment A/c	Dr.		10,000	
	Sales (Goods) A/c	Dr.		2,000	
	To Ram A/c				12,000
	(Wrong Sales entry cancelled.)				

(Contd.)

1985 July 31.	Consignment A/c Dr. To Ram A/c (Expenses wrongly debited to Ram A/c transferred to consignment A/c)	720	720
" "	Ram A/c Dr. To Consignment A/c $\left(\frac{1}{2} \times \text{the goods sent sold at their invoice price} = \frac{1}{2} \times 12{,}000 = 6{,}000\right)$	6,000	6,000
" "	Consignment A/c Dr. To Ram A/c $\left(\text{Commission due} = \frac{10 \times 6{,}000}{100} = 600\right)$	600	600
" "	Consignment Stock A/c Dr. To Consignment A/c $\left(\text{Unsold stock valued at 80\% of invoice price} = \frac{80 \times 6{,}000}{100}\right)$	4,800	4,800
" "	Profit & Loss Dr. To Consingnment A/c (Loss on Consignment transferred to Profit & Loss A/c)	520	520

Dr. **Ram A/c** *Cr.*

	Particulars	(Rs.)		Particulars	(Rs.)
1995 Jul. 31.	To Balance b/d	7,720	1995 Jul.31.	By Sales (Goods) A/c	2,000
" "	" Consignment A/c	6,000	" "	" Consignment A/c	10,000
			" "	" Consignment A/c	720
			" "	" Consignment A/c	600
			" "	" Balance c/d	400
		13,720			13,720
Aug. 1.	To Balance b/d	400			

Dr. **Consignment A/c** *Cr.*

Particulars	(Rs.)	Particulars	(Rs.)
To Ram A/c (goods sent, working 1)	10,000	By Ram A/c $\left(\text{Sold} = \frac{1 \times 12{,}000}{2}\right)$	6,000
" Ram A/c (consignor's expenses wrongly debited to Ram A/c now rectified)	720	" Consignment Stock $\left(\text{Unsold stock} = \frac{1 \times 12{,}000 \times 80}{2 \times 100}\right)$	4,800
" Ram A/c $\left(\text{Commission} = \frac{10 \times 6{,}000}{100}\right)$	600	" Profit & Loss A/c (Loss on Consignment transferred to P/L A/c)	520
	11,320		11,320

Workings

Wrong Entry	Correct Entry	Rectification Entry
(1) Ram A/c Dr. 12,000 To Sales A/c 12,000 (Goods A/c)	Consignment A/c Dr. 10,000 To Goods sent on Consignment A/c 10,000	Consignment A/c Dr. 10,000 Sales (Goods) A/c Dr. 2,000 To Ram A/c 12,000
(2) Ram A/c Dr. 720 To Expenses 720	Consignment A/c Dr. 720 To Expenses A/c 720	Consignment A/c Dr. 720 To Ram A/c 720

[P 11] Rama consigned goods to Ravindran, his agent at New Delhi at cost price of Rs. 40,000. Rama's accountant, at the end of the year, drew up the agent's account as under :—

Dr. **Ravindran A/c** *Cr.*

		(Rs.)			(Rs.)
To	Goods	40,000	By	Cash	24,000
"	Profit and loss A/c	3,300	"	Balance	19,300
		43,300			43,300

Ravindran sold the goods for Rs. 45,000 which exceeded by Rs. 9,000 their invoice value. He collected Rs. 38,000 after allowing discount of Rs. 2,000 to customers. Bad debts come to Rs. 1,000 and his expenses to Rs. 800. Ravindran was entitled to a 5% commission on cash collected. Balance of stock is to be valued at invoice prices.

From the above information, draw the accounts of Ravindran, Consignment and Consignment Debtors in the books of Rama. **[C. A. Inter M 89]**

Solution :

In the Books of Rama

Dr. **Ravindran A/c** *Cr.*

	Particulars	(Rs.)		Particulars	(Rs.)
To	Balance b/d	19,300	By	Consignment A/c	40,000
"	Consignment Debtors A/c (Collected)	38,000	"	Consignment A/c	2,700
			"	Consignment A/c	3,300
			"	Balance c/d	11,300
		57,300			57,300

Dr. **Consignment A/c** *Cr.*

	Particulars		(Rs.)		Particulars	(Rs.)
To	Ravindran A/c (goods sent on Consignment debited to Ravindran now rectified as per Workings 1.)		40,000	By	Consignment Debtors A/c (Credit Sales)	45,000
	Consignment Debtors A/c			"	Consignment Stock A/c [40,000 – (45,000 – 9,000)]	4,000
	Discount allowed	2,000				
	Bad Debts	1,000	3,000			

(Contd.)

To	Ravindran A/c Expenses 800 Commission 1,900 $\frac{5 \times 38,000}{100}$	2,700			
"	Ravindran A/c (Profit on Consignment wrongly debited to Ravindran A/c now rectified as per Workings 2)	3,300			
		49,000			49,000

Dr. **Consignment Debtors A/c** *Cr.*

	Particulars	(Rs.)		Particulars	(Rs.)
To	Consignment A/c	45,000	By	Ravindran A/c	38,000
			"	Consignment A/c Discount Allowed 2,000 Bad Debts 1,000	3,000
			"	Balance c/d	4,000
		45,000			45,000
To	Balance b/d	4,000			

Workings (1)

Wrong Entry	Correct Entry	Rectification Entry
(1) Ravindran A/c Dr. 40,000 To Goods (Sales) 40,000	Consignment A/c Dr. 40,000 To Goods senton Consignment A/c 40,000	Consignment A/c Dr. 40,000 To Ravindran A/c 40,000
(2) Ravindran A/c Dr. 3,300 To Profit& Loss A/c 3,300	Consignment A/c Dr. 3,300 To Profit & Loss A/c 3,300	Consignment A/c Dr. 3,300 To Ravindran 3,300

[P 12] Mr. Krishna Murty requests you to prepare a Consignment Account for the year ended 30th June, 1988 and for the purpose gives you the following information to ascertain the profit earned on consignment.

			Rs.
(i)	Agents commission @ 5% on gross sales		20,000
(ii)	Cost of goods fully damaged in transit (insurance claim recovered Rs. 18,000)		20,000
(iii)	Expenses incurred by the agent :	Rs.	
	Godown Rent	400	
	Landing & Clearing	1,000	
	Advertisements	200	
	Transport charges	900	
	Selling expenses	1,000	3,500

(iv) Freight expenses incurred by Krishnamurty 2,000
(v) Cost of unsold stock lying with agent at the end of the year. 60,000

All sales were effected by the agent at a profit of 25% on cost. **[I.C.W.A. Inter D 88]**

Solution :

In the boooks of Krishnamurthy
Consignment A/c

Dr. *Cr.*

Particulars		(Rs.)	Particulars	(Rs.)
To Goods sent on Consignment A/c Cost = $(60,00 + 20,000 + \frac{100 \times 4,00,000}{125})$		4,00,000	By Agent A/c (Sales $= \frac{100}{5} \times 20,000$)	4,00,000
" Bank A/c (Freight etc.)		2,000	" Lost in Transit A/c $\left[\frac{20,000}{4,00,000}(4,00,000 + 2,000)\right]$	20,100
" Agent A/c			" Consignment Stock A/c $\left[\frac{60,000}{3,80,000}(4,02,000 - 20,100 + 1,000 + 900)\right]$	60,600
Landing & Clearing	1,00			
Transport charges	900			
Godown Rent	400			
Advertisement	200			
Selling expenses	1,000	3,500		
" Agent A/c $\left(\text{Commission} = \frac{5 \times 4,00,000}{100}\right)$		20,000		
" Profit on Consignment (transferred to Profit & Loss A/c)		55,200		
		4,80,700		4,80,700

Workings

Loss in Transit $= \frac{20,000}{4,00,000} = \frac{1}{20}$ th part of the goods sent

Consignment Stock $= \frac{60,000}{4,00,000 - 20,000} = \frac{3}{19}$ th part of the goods sent

Cost of goods sent =		Rs.	4,00,000
Add : Pre Loss Non Recurring Expenses (Consignor's)		"	2,000
			4,02,000
Less : Lost in Transit $\left(\frac{1 \times 4,02,000}{20}\right)$		"	20,100
			3,81,900
Add : Post Loss Non Recurring Expenses (Agent's)			
Handling & Clearing	1,000		
Transport	900		
			1,900
			3,83,800

Therefore, Consignment Stock $= \frac{3 \times 3,83,800}{19}$
= Rs. 60,600

[P 13] The Account sales received from Agent disclosed that the total sales effected by him during 1989-90 amounted to Rs. 4,50,000. This included Rs. 3,12,500 for sales made at Invoice price which is cost plus 25% and the balance at 10% above the Invoice price. He incurred expenses to the tune of Rs. 5,000, out of which a sum of Rs. 1,800 is recurring in natuere. Forwarding expenses of the Consignor totalled Rs. 2,400 . The Agent had remitted the balance due from him through Bank

Draft after deducting the expenses, 5% commission on gross sales, bad debts Rs. 850 and a Bill payable accepted by him for Rs. 50,000.

The value of unsold stck at original cost lying with the Agent as on 31st March, 1990 amounted to Rs. 10,000.

You are required to prepare the Consignment Account and the Agents' Account in the books of the Consignor. **[I.C.W.A. Inter J 90]**

Solution :

In the boooks of Consignor
Consignment A/c

Dr. *Cr.*

Particulars		(Rs.)	Particulars	(Rs.)
To Goods sent on Consignment (as per Workings)		5,00,000	By Consignment Debtors (Sales)	4,50,000
" Bank (forwarding expenses)		2,400	" Goods sent on Consignment (Load = 5,00,000 – 4,00,000)	1,00,000
" Agent A/c			" Consignment Stock $\left[\frac{50,000}{4,00,000}(5,00,000 + 2,400 + 3,200)\right]$	63,200
Non Recurring Expenses	3,200			
Recurring Expenses	1,800			
Commission	22,500	27,500		
" Consignment Debtors (Bad Debts)		850		
" Stock Resereve $\left(\text{Load} = \frac{1 \times 1,00,000}{8}\right)$		12,500		
" Profit on Consignment (transferred to General P&L A/c)		69,950		
		6,13,200		6,13,200

Agent A/c

Dr. *Cr.*

Particulars	(Rs.)	Particulars		(Rs.)
To Consignment Debtors (Collection from Debtors = 4,50,000 – 850)	4,49,150	By Bills Receivable		10,000
		" Consignment A/c		
		Non Recurring expenses	3,200	
		Recurring expenses	1,800	
		Commission	22,500	27,500
		" Bank (Bal. Fig. being final remitance)		4,11,650
	4,49,150			4,49,150

Workings :

	1st Part Rs.	2nd Part Rs.	Total Rs.
Sales	3,12,500	1,37,500	4,50,000
Invoice price $\left(\frac{100 \times 1,37,500}{125} = 1,25,000\right)$	3,12,500	1,25,000	4,37,500

Therefore, Cost Price of goods sold $\left(\frac{100 \times 4,37,500}{125}\right)$ = Rs. 3,50,000

Add : Cost of unsold stock = Rs. 50,000

Therefore, Cost of goods sent on Consignment = Rs. 4,00,000

Therefore, Invoice Price of goods sent on Consignment $= \frac{125 \times 4,00,000}{100}$

= Rs. 5,00,000.

[P 14] Auto agencies have sold out the following goods on behalf of different parties for which they have incurred expenses and are entitled to commission and reimbursement of expenses.

	Life Light (Rs.)	Sieac (Rs.)	Akriti (Rs.)
Stock in hand	8,000	12,000	12,000
Goods Received	20,000	30,000	36,000
Godds sold	24,000	26,000	44,000
Expenses	600	400	800
Remittance	20,000	22,000	40,000
Commission	10%	6%	5%

Prepare the Consignors Account and Commission Account in the Books of Auto Agencies.

[I.C.W.A. Inter D 92]

Solution :

In the books of Auto Agencies

Dr. **Consignor A/c** *Cr.*

	Life Light (Rs.)	Sieac (Rs.)	Akriti (Rs.)		Life Light (Rs.)	Sieac (Rs.)	Akriti (Rs.)
To Bank A/c (Expenses)	600	400	800	By Bank A/c (Sales)	24,000	26,000	44,000
" Commission A/c $(\frac{10 \times 24,000}{100} = 2,400$; $\frac{6 \times 26,000}{100} = 1,560$; $\frac{5 \times 44,000}{100} = 2,200)$	2,400	1,560	2,200				
" Bank (Remittance)	20,000	22,000	40,000				
" Balance c/d	1,000	2,040	1,000				
	24,000	26,000	44,000		24,000	26,000	44,000
				By Balance b\f	1,000	2,040	1,000

Dr. **Commission A/c** *Cr.*

Particulars	(Rs.)	Particulars	(Rs.)
To Profit & Loss A/c (Bal. Fig. transferred)	6,160	By Life Light	2,400
		" Sieac	1,560
		" Akriti	2,200
	6,160		6,160

[P 15] Ramesh consigned 2,000 MT of chemicals at a cost of Rs. 800 per MT to John. Ramesh paid freight and insurance charges of Rs. 20,000. Of the above 500 MT of chemicals were destroyed by fire during transit. John cleared the balance of 1,500 MT chemicals and sold 1,000 MT at an average price of Rs. 1,000 per MT. John incurred the following expenses : Godown Rent Rs. 5,000. InsuranceRs. 3,000, Clearing Charges Rs. 4,500. Insurance claim received against fire Rs. 4,00,000 after admitting the salvage value of stock destroyed by fire at Rs. 10,000. John was entitled to a commission of 10% on sale proceeds. John sends the balance to Ramesh after adjusting his commission and expenses out of the sale proceeds.

Prepare a Consignment A/c and John's A/c in the books of Ramesh. **[C.A.Foundation J 93]**

Solution :

In the boooks of Remesh

Consignment A/c

Dr. Cr.

Particulars		(Rs.)	Particulars	(Rs.)
To Goods sent on Consignment A/c (2,00,000 × 800)		16,00,000	By John's A/c (Sold = 1,000 × 1,000)	10,00,000
" Bank A/c (freight & Insurance)		20,000	" Stock destroyed by fire $\left[\frac{500 \times 16{,}20{,}000}{2{,}000} - 10{,}000\right]$	
" John's A/c				
Godown Rent	5,000		" Consignment Stock $\left[\frac{50}{150}(16{,}20{,}000 - 4{,}05{,}000 + 4{,}500) + 10{,}000\right]$	4,16,500
Insurance Claim	3,000			
Clearing charges	4,500	12,500		
" John's A/c (Commission) $\frac{10 \times 1{,}00{,}000}{100}$		1,00,000		
" Profit on consignment (Transferred to P & L A/c)		79,000		
		18,11,500		18,11,500

John's A/c

Dr. Cr.

Parficulars	(Rs.)	Particulars	(Rs.)
To Consignment A/c	10,00,000	By Consignment A/c	12,500
		" Consignment A/c	1,00,000
		" Bank (Bal fig being final remittance)	8,87,000
	10,00,000		10,00,000

Exercise

Consignment

[E 1] On 1st Dec., 1974, Sri S. Gupta of Bombay sent 500 cases at Rs. 150 each to Sri M.K. Menon of Madras by S. S. Jala Puri to be sold on his account and at his risk for $7\frac{1}{2}$% commission and $2\frac{1}{2}$% del credre commission, and incurred Rs. 5,500 expenses and Rs. 20,000 advance has been received on 31st December, 1974. Sri Menon sent an Account Sale disclosing that 300 cases have been sold for Rs. 230 each and other 100 cases at Rs. 220 each. He has incurred unloading expenses etc. Rs. 750 and selling expenses Rs. 1,000. He sends a Bank Draft for the net amount due. Prepare (a) Account Sale, and (b) Ledger Account in the Books of Sri S. Gupta. **[I.C.W.A. Inter. D 1976]**

(**Ans.** : Profit on Consignment Rs. 15,900)

[E 2] Johar of Jaipur sends goods on consignment to Pawan of Patna. The terms are that Pawan will received 10 per cent commission (including del credere) on the invoice price (which is cost plus 25 per cent) and 20 per cent of any price realised above invoice price.

Johar sent goods for Rs. 90,000 at invoice price and spent Rs. 6,740 on freight, for warding charges etc. Pawan accepted a bill for 2 months for Rs. 72,000 immediately on receiving cosignment. His expenses were Rs. 1,200 as rent and Rs. 150 as insurance. Pawan sold $\frac{3}{4}$ ths of goods for Rs. 87,750. One customer failed to pay Rs. 1,800. This amount could not be realised. Pawan met his acceptance and remitted the amount due to Johar.

Give Journal entries to record the above transactions in the books of Johar and of Pawan. Give the important Ledger accounts in the books of Johar.

[C.S. Preli. Modified]

(Ans. : Profit on Consignment Rs. 16,545; Final remittance Rs. 3,600)

[E 3] A cloth mill in Bombay sends regular consignment of cloth to Manju and Company of Madras who are selling agents for selling cloth at the risk of the Bombay Mill.

Record the following transactions into the ledger accounts of Bombay Mill. showing the profit made on the consignment and the balance due to the Agents after allowing them commission @ 3 paise per metre of cloth sold by them :

(a) Total quantity of consigned 2,50,000 metres at cost which amounted to 65 paise per metre
(b) Total quantity of cloth sold 1,90,000 metres @ Re. 1 per metre.
(c) Total remittances by the agents at Rs. 1,55,000, rail-freight paid by the Agents Rs. 16,000.
(d) The balance of the cloth is to be valued at cost price plus the freight.

[C.S. Preli. D 83]

(**Ans.** : Profit on Consignment Rs. 48,640)

[E 4]. Anurag Agarwal consigned 800 packets of lipsticks, each packet containing 200 lipsticks. Cost price of each packet was Rs. 600. Anurag spent Rs. 100 per packet as cartage, freight insurance and forwarding commission. Two packets were lost on the way and Anurag lodged claim with the insurance company and could get only Rs. 540 as claim on average basis. Consignee took delivery of the rest of the packets and spent Rs. 39,900 as other non-recurring expenses and Rs. 22,500 as recurring expenses. He sold 740 packets at the rate of Rs. 13 per lipstick. He was entitled to 4% commission on sale plus 2% del credere commission.

Prepare the consignment account and consignee's personal account in the books of Anurag Agarwal. **[C.S. Preli. D 78]**

(**Ans.** : Profit on consignment Rs. 12,31,060)

[E 5] Haresh of Bangalore sent 4,000 transistors each costing Rs. 150 to Vasan of Hyderabad for sale on consignment.

The important terms of the arrangement were :

(a) The minimum selling price per piece was to be Rs. 200.
(b) Commission payable to Vasan was to be on the following basis :
   (i) For the sales in first month—5% on minimum price, Additional 2% on price in excess of minimum price.
   (ii) For sales in subsequent month—The above rates are subjected to a deduction of $\frac{1}{2}$% on both for each subsequent month.
(c) Vasan to remit the proceeds at the completion of each month.

On arrival of the consignment, Vasan paid Rs. 1,000 as freight and clearing charges which were to be reimbursed by the consignor. He reported sales as follows and sent his remittances for each month on the due dates.

Month	Quantity	Price Rs.
June	1,500	200
June	200	230
July	1,200	250
July	50	225
July	50	220
August	500	220
August	500	200

Prepare a statement showing the amount Vasan would have sent at the end of each month. Calculations may be to the nearest rupee. **[C.A. Entrance adapted]**

(**Ans.** Amount sent : June Rs. 3,27,580; July Rs. 3,06,815; August Rs. 2,01,500)

[E 6] Bhola consigned 40 machines to Ram on January 1, 1973, on the following terms :

1. All Machines were to be sold 20% above the cost of Rs. 10,000. Any deficit in selling price is to be borne by Ram while Ram is to retain 50% of any surplus price realised.
2. Ram is to be paid 3% commission and 2% del-credere Commission on all sales. Bhola incurred freight charges of Rs. 40,000 in consigning the machines.

Ram sent Account Sale on December 31, 1973, disclosing

10 machines sold for Rs. 12,000 each.

5 machines sold for Rs. 10,000 each.

15 machines sold for Rs. 14,000 each.

Ram had incurred unloading charges of Rs. 4,000 and selling expenses of Rs. 6,000. He had collected the entire sale proceeds except Rs. 2,000 which had become a bad debt. Ram sent a bank draft for the net amount due to Bhola.

On June 30, 1974, Ram sent a further Account Sale disclosing :

10 machines sold at Rs. 12,000 each. Selling expenses were Rs. 1,500. He also sent a draft for the net amount due.

Bhola closes his books on December, 31 each year.

Write up the ledger accounts in the books of Bhola recording the above transactions.

[C.A. Inter. M 75]

(Ans. : Profit on Consignment Rs. 16,500 ; Final remittance Rs. 1,12,500)

[E 7] On April, 1, 1983, Mr. Doshi of Darjeeling consigned 2,000 kg. of Tea costing Rs. 60 per kg. to Mr. Naik of Nagpur. Mr. Doshi incurred the following expenses :

Freight	Rs.	2,000
Insurance	Rs.	400
Sundry Expenses	Rs.	600

During the year ended March 31, 1984, Mr. Naik incurred the following expenses :

Freight	Rs.	600
Godown rent	Rs.	500
Carriage to Godown	Rs.	1,000

On December 1, 1983, Mr. Naik sold 1,200 kg. of Tea for cash at a profit of 25% on sales. On 15th December, 1983, Mr. Naik returned 150 kg. of Tea which were of poor quality to Mr. Doshi and paid return freight and carriage of Rs. 250. Out of the remaining Tea 200 kg. being partially damaged were valued at 30% less than cost. Mr. Naik charged his commission at 5% and the balance so far due from him to Mr. Doshi on March 31, 1984. Mr. Doshi closes his books every year on March 31.

You are required to prepare the following Accounts in the books of Mr. Doshi :

1. Consignment to Nagpur, 2. Goods sent on Consignment and 3. Personal Account of Mr. Naik.

[I.C.W.A. Inter. J 84]

(**Ans.** : Profit on Consignment Rs. 15,150; Final remittance Rs. 88,850)

[E 8] Mr Achut of Bombay consigned 100 units of a commodity to Mr. Rao of Delhi. The goods were invoiced at Rs. 150 so as to yield a profit of 50 per cent on cost. Mr. Achut incurred Rs. 1,000 on freight and insurance. Mr. Rao incurred Rs. 500 on freight and Rs. 800 on Rent. Before December 31, 1976, he sold 50 units for cash at Rs. 160 per unit, 20 units for Rs. 175 on credit. He retained his commission 5 per cent and 1 per cent for the del credere arrangements and remitted the Balance on December 31, 1976. Mr. Rao noticed that 10 units were damaged on account of bad packing and he could sell it only for Rs. 80 per unit. A debtor for Rs. 1,000 to whom the goods were sold by Mr. Rao became insolvent and only 50 paise in a rupee was recovered. Mr. Rao sent an account sale on March 31, 1977, detailing the transactions for the quarter ended on that date and he remitted the balance due. **[C.A. Inter. M 77]**

(**Ans.** : Profit on Consignment Rs. 1,960)

[E 9] On 1.9.79 goods cost price of which was Rs. 66,000 were consigned byShri Laxmi Dass of Delhi to his agent Sardar Ram Singh in Amritsar at a proforma invoice price of 20% above cost. Sardar Ram Singh paid the freight and other forwarding charges amounting to Rs. 2,000. He was allowed Rs. 1,000 per annum towards establishment cost, 5% commission on gross sales and 3%

del credere commission. Sardar Ram Singh paid Rs. 500 as rent of godown for 3 months ended 31.12.79.

Three-fourths of the goods were sold at $33\frac{1}{3}\%$ above cost, half of which were credit sales. Half of the remaining of goods were stolen, but the stock being insured, a claim lodged for Rs. 7,000 was settled for Rs. 6,900. Rest of the stock was valued at proforma invoice price.

Write up the consignment account as on 31.12.79 in the books of Shri Laxmi Dass.

(**Ans.** : Profit on Consignment Rs. 7,470) **[C.S. Preli. J 80]**

[E 10] A of Ahmedabad consigned goods to B of Bombay for sale at proforma invoice price or over. B is entitled to a commission on sale at 5 per cent on proforma invoice price and 25 per cent of any surplus price realised. Goods consigned by A to B during the year ended 31.3.79 cost A Rs. 20,900 and invoiced at Rs. 28,400. A paid Rs. 1,045 as freight and received Rs. 10,000 as advance from B.80 per cent of the goods were sold by B for Rs. 26,000. B remitted the balance of proceeds after deducting his commission.

Prepare necessary ledger accounts in the books of A. **[C.S. Preli. D 79]**

(**Ans.** : Profit on Consignment Rs. 6,508)

[E 11] On 1.3.'78, A of Ajmer consigned goods to B of Baroda for sale at invoice price or over. B was entitled to a commission of 3% on invoice price and 20% of any surplus price realised.

Goods costing Rs. 24,000 were consigned to Baroda. This was invoiced at a price so as to show a profit of 25% on invoice price. A paid thereon Rs. 1,500 for freight and Rs. 500 for insurance. On arrival of the goods, B paid Rs. 800 as landing charges and Rs. 2,000 for selling and godown expenses.

On 31.12.78, an Account Sales was received from B showing that he had effected sales of Rs. 30,000 in respect of $\frac{4}{5}$ths of the quantity of goods consigned to him. B sent a Bank Draft for the amount so far due from him.

Show necessary ledger accounts in the books of A. **[I.C.W.A. Inter. D 79]**

(**Ans.** : Profit on Consignment Rs. 4,912)

[P 12] Dinesh of Bombay consigned medicines to Rao of Madras costing Rs. 1,00,000. The invoice was made proforma so as to show a profit of 25% on cost. Dinesh paid freight, insurance Rs. 2,000.

Rao sold part of consignment for Rs. 88,000 at uniform price of 10 per cent over invoice price and sent Rs. 3,000 as warehousing charges, Rs. 1,000 as selling expenses.

Sri Rao is entitled to a commission of 5 per cent on sales and 25 per cent of the net profit after charging such commission Sri Rao paid the amount due by bank draft.

Draw up the Consignment Account and Rao's Account in the books of Dinesh.

(Ans. : Profit on Consignment Rs. 11,456 ; Final remittance Rs. 76,736)

[C.A. M 92, Modified]

[P 13] On 1st September, 1991 Faquir Lal of Agra consigned to Tilong of Shilong 100 bales of cloth invoiced at Rs. 60 each. The invoice price was made up of 20% above cost. The freight and other charges amount to Rs. 310. Faquir Lal also drew a bill on Tilong for Rs. 3,000 and discounted the same with the bank for Rs. 2,980. Tilong duly met the bill on due date.

On 25th December, 1991. Tilong sent Account sales together with the necessary remittance showing that 40 bales had realised Rs. 60 each and that 30 bales at Rs. 70 each and that 30 bales remained unsold. Out of these 20 bales were damaged due to faulty packing and that he estimated the selling price of damaged goods to be Rs. 20 per bale. Tilong was entitled to a selling commission of 5%. Show the consignment account in tbe books of Faquir Lal. Also ascertain the final remittance made by Tilong. **[C.A. Entrance adapted]**

(Ans. : Profit Rs. 558; Unsold stock Rs. 1,031 (600 + 31 + 400) ; Loss on stock written off to P & L a/c. Rs. 662 (1,062 – 400); Final remittance by Tilong Rs. 1,275)

[E 14] Lubrizols Ltd. of Bombay consigned, 1,000 barrels of Lubricant oil costing Rs. 800 per barrel to Central Oil Company, Calcutta, on 1st Jan. 1973. Lubrizols Ltd. paid Rs. 50,000 as freight and insurance. 25 barrels were destroyed on 7-1-73 in transit. The insurance claim was settled at Rs. 15,000 and was paid directly to consignors.

Central Oil Co. took delivery of the consignment on 19th Jan., 1973, and accepted a bill drawn upon them by Lubrizols Ltd. for Rs. 5,00,000 for 3 months on 31st March, 1973. Central Oil Co. reported as follows :

(i) 750 barrels were sold at Rs. 1,200 per barrel

(ii) The other expenses were :

Unloading	Rs.	2,500
Godown rent	Rs.	10,000
Wages	Rs.	50,000
Printing etc	Rs.	21,300

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

Central Oil Co. is entitled to a commission of 5% on all the sales effected by them. Central Oil Co. paid the amount due in respect of the consignment on 31st March itself. Show the consignment account, the account of Central Oil Co. and the loss in transit account as they will appear in the books of Lubrizols Ltd. **[I.C.W.A. J 74—adapted]**

(**Ans.** : Profit on Consignment Rs. 1,17,450)

[E 15] Rahim of Bombay consigned to Raju of Madras goods to be sold at invoice price which represents125% of cost. Raju is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Rahim were Rs. 10,000. The account sales received by Mr. Rahim shows that Raju effected sales aggregating to Rs. 1,00,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs. 8,000. 10% of the consignment goods of the value of Rs. 12,500 were destroyed in fire at the Madras godown and the Insurance Company paid Rs. 12,000 net of salvage. Raju remitted the balance in favour of Rahim.

Prepare Consignment Account and the Account of Mr. Raju in the books of Mr. Rahim along with necessary workings. **[C.A. Foundation J 94]**

(**Ans.** : Abnormal Loss Rs. 13,500, Consignment Stock Rs. 20,250, Profit on Consignment Rs. 1,062)

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Chapter 8

JOINT VENTURE

[P 3] Adarsh of Delhi and Laxman of Bangalore entered into a joint venture for purchase and sale of one lot of Mopeds. The cost of each Moped was Rs. 3,600 and the fixed retail selling price Rs. 4,500. The following were the recorded transactions.

1980		
Jan.	1	Adarsh purchased 100 mopeds, paying Rs. 72,000 in cash on account.
		Adarsh raised a loan from A. Bank for Rs. 50,000 at 18% p. a. interest, repayable with interest on 1-3-1980.
		Adarsh forwarded 80 mopeds to Laxman incurring Rs. 2,880 as forwarding and insurance charges.
Jan.	7	Laxman received the consignment and paid Rs. 720 as clearing charges.
Feb.	1	Adarsh sold 5 mopeds on cash.
		Laxman sold 20 mopeds for cash.
		Laxman raised a loan of Rs. 1,50,000 from B. Bank, repayable with interest at 18% p. a. on 1-3-80.
		Laxman telegraphically transferred Rs. 1,50,000 to Adarsh incurring charges of Rs. 50.
		Adarsh paid balance due for the mopeds.
Feb	26	Adarsh sold the balance mopeds for cash.
		Laxman sold the balance mopeds for cash.
		Adarsh paid selling expenses Rs. 5,000.
		Laxman paid selling expenses Rs. 20,000.
Mar.	1	Accounts are settled between the venturers and loans repaid, profit being appropriated equally.

You are required to show :—

a. The Memorandum Joint Venture Account ;
b. Joint venture with Laxman A/c in Adarsh's books ; and
c. Joint venture with Adarsh A/c in Laxman's books.
You are to assume that each venturer recorded only such transactions as concluded by him.

[C. A. Entrance J 81]

Solution :

In the books of Adarsh and Laxman

Dr. **Memorandum Joint Venture A/c** *Cr.*

Particulars		(Rs.)	Particulars		(Rs.)
To Adarsh :			By Adarsh		90,000
Cost of Mopeds (3600 × 100)	3,60,000		[Sales = (100 – 80 × 4,500]		
Forwarding & Insurance	2,880		" Laxman		3,60,000
Interest (2 mths)	1,500		[Sales =80 × 4,500]		
Selling Expenses	5,000	3,69,380			
" Laxman					
Clearing Charges	720				
Interest (1 mths)	2,250				
Sundry Expenses (Telegraphic transferred charges)	50				
Selling Expenses	20,000	23,020			
" Net Profit to					
Adarsh (1/2)	28,800				
Laxman (1/2)	28,800	57,600			
		4,50,000			4,50,000

In the books of Adarsh

Joint Venture with Laxman A/c

Dr.							Cr.
			(Rs.)				(Rs.)
To	Bank	72,000		By	Bank (Sale Proceeds) ceeds)		22,500
	(part payment of Cost)				(5 mopeds @ Rs. 4,500 each)		
"	Forwarding charges	2,880		"	Bank (Remittance from Laxman)		1,50,000
"	Balance cost of Purchase	2,88,000					
'	Selling Expenses	5,000		"	Bank (sale proceeds of 20 – 5, ie.15 mopeds @ Rs. 4,500 each)		
'	Interest	1,500	3,69,380				67,500
'	Profit & Loss A/c		28,800				
				"	Bank (cash received in settlement)		1,58,180
			3,98,180				3,98,180

In the books of Laxman

Joint Venture with Adarsh A/c

Dr.							Cr.
			(Rs.)				(Rs.)
To	Bank (clearing charges)		720	By	Bank (sale proceeds of 20 mopeds @ Rs. 4,500 each)		90,000
"	Bank (remittance including of Rs. 50)		1,50,050	"	Bank (sale proceeds of 80– 20. ie. 60 mopeds @ Rs.4,500 each)		2,70,000
"	Bank (selling expenses)	20,000					
"	Interest	2,250	22,250				
"	Profit & Loss A/c (share of profit)		28,800				
"	Bank (paid in settlement)		1,58,180				
			3,60,000				3,60,000

[P 4] David of Bombay and Khosla of Delhi entered into a joint venture for the purpose of buying and selling second-hand motor cars. David to make purchases and Khosla to effect sales. The profit or loss was to be shared equally. Khosla remitted a sum of Rs. 1,50,000 to David towards venture.

David purchased 5 cars for Rs. 1,60,000 and paid Rs. 60,000 for their reconditioning and sent them to Delhi. He also incurred an expense of Rs. 5,000 in transporting the cars to Delhi.

Khosla sold 4 cars for Rs. 2,40,000 and retained the fifth car himself at an agreed value of Rs. 50,000. His expenses were : Insurance Rs. 1,000 ; Garage rent Rs. 2,000 ; Brokerage Rs. 2,000 ; and Sundry expenses Rs. 400.

Each party's ledger contains a record of his own transactions on joint venture. Prepare a statement showing the result of the venture and the joint venture account with David in the books of Khosla as it will finally appear, assuming that the matter was finally settled between the parties.

[C.A. Entrance D 83]

Solution :

In the books of Khosla
Joint Venture A/c with David

Dr. Cr.

			(Rs.)			(Rs.)
To	Bank (remittance)		1,50,000	By Bank (Sales)		2,40,000
	Insurance	1,000		" Vehicles (Car retained)		50,000
	Garage Rent	2,000				
	Brokerage	2,000				
	Sundry Exp.	400	5,400			
"	Profit & Loss A/c (Share of Profit)		29,800			
"	Bank (Final remittance, being balancing figure)		1,04,800			
			2,90,000			2,90,000

Statement showing the results of the venture
Memorandum Joint Venture A/c

Dr. Cr.

			(Rs.)			(Rs.)
To	David			By Khosla		
	Cars	1,60,000		Sales	2,40,000	
	Reconditioning	60,000		Car retained	50,000	2,90,000
	Transport Charges	5,000	2,25,000			
"	Khosla					
	Insurance	1,000				
	Garage Rent	2,000				
	Brokerage	2,000				
	Sundry Expenses	400	5,400			
"	Net Profit					
	David (1/2)	29,800				
	Khosla (1/2)	29,800	59,600			
			2,90,000			2,90,000

[P 5] Hari, an architect and Ram, a real estate dealer enter into an agreement for the purpose of purchasing a large land and converting it into plots. The purchase price (Rs. 1,60,000) and the legal expenses (Rs. 11,100) are paid by Hari, who borrowed the money from bank.

Ram provides the materials costing Rs. 58,000 for the levelling of land and the development of plots. 10 plots of 200 sq. mts. each and 5 plots of 400 sq. mts each are sold respectively @ Rs. 75 per sq. mt. and @ Rs. 70 per sq. mt. The sales proceeds of 5 plots of 200 sq. mts. each are received by Ram. The balance is received by Hari, who paid Rs. 15,000 for sales expenses. Hari repaid the loan and interest there on amounting to Rs. 9,600.

The agreement provides that after crediting Hari with interest charged on the borrowed money and allowing 15% on the cost of the levelling to cover overhead expenses, Hari is to receive 2/3 of the profit and Ram 1/3.

Each party's ledger contains records of his own receipts and payment on the joint account. You are required to prepare (a) a statement showing the result of the venture, and (b) the account of the venture in each party's ledger as it will finally appear.

[C.A. Entrance D 84]

Solution :

Statement showing the result of the Venture
Memorandum Joint Venture A/c

Dr. | *Cr.*

			(Rs.)				(Rs.)
To	Hari			By	Ram		75,000
	Land	1,60,000			Sales (5 × 200 × 75)		
	Legal Expenses	11,100		"	Hari		2,15,000
	Sales Expenses	15,000			Sales [(5 × 200 ×75)		
	Interest	9,600	1,95,700		+ (5 × 400 × 70)]		
"	Ram						
	Levelling & Development Expenses	58,000					
	Overhead Expenses	8,700	66,700				
"	Profit on Venture						
	Hari (2/3)	18,400					
	Ram (1/3)	9,200	27,600				
			2,90,000				2,90,000

In Hari's Ledger
Joint Venture with Ram

Dr. | *Cr.*

			(Rs.)				(Rs.)
To	Bank			By	Bank		
	Land	1,60,000			(Sales)		
	Legal Expenses	11,100			200 Sq. mts plots	75,000	
	Sales Expenses	15,000			(5 × 200 × 75)		
	Interest	9,600	1,95,700		400 Sq. mts plots	1,40,000	2,15,000
"	Profit & Loss A/c (Share of Profit)		18,400		(5 × 400 × 70)		
"	Balance c/d (due to Ram)		900				
			2,15,000				2,15,000
				"	Balance b/d		900

In Ram 's Ledger
Joint Venture with Hari

Dr. | *Cr.*

			(Rs.)				(Rs.)
To	Bank	58,000		By	Bank		75,000
	Levelling & Development Expenses				Sales		
				"	200 Sq. mts plots		900
	Overheads Expenses	8,700	66,700		(5 × 200 × 75)		
				"	Balance c/d		
"	Profit & Loss A/c (Share of profit)		9,200		(due from Hari)		
			75,900				75,900

[P 6] Mr. Peter and Mr. Paul agree to share the ultimate profit or loss of a certain business venture in the proportions 3: 2

Mr. Peter, accordingly purchases the freehold of a house for Rs. 57,000. For this purpose Mr. Peter borrows Rs. 30,000 from his bank and finds Rs. 20,000 himself. Mr. Paul pays the remaining Rs. 7,000. The house is turned into three flats at a total expense of Rs. 11,000 which is found equally by Mr. Peter and Mr. Paul. Timber from the garden is sold for Rs. 3,500 which is used to reduce Mr. Peter 's bank loan. The flats are let at rentals which produce Rs. 9,000 in all (received equally by the parties) and finally the whole property is sold for Rs. 80,000 less agent's commission Rs. 1,750. The net proceeds are received by Mr. Peter and he repays his bank loan plus interest Rs. 1,500 (agreed to be borne by the venture). As between the parties it is agreed that Mr. Peter shall receive interest out of the venture Rs. 300 and Mr. Paul Rs. 100. Finally the venture comes to an end and the accounts are settled among the parties.

You are required to prepare (a) Memorandum Joint Venture Account and (b) the account of the joint venture with Mr. Peter in the books of Mr. Paul. **[C.A. Entrance M 90]**

Solution :

Dr. **Memorandum Joint Venture A/c** *Cr.*

			(Rs.)				(Rs.)
To	Mr. Peter			By	Mr. Peter		
	Freehold House	50,000			Sale (Timber)	3,500	
	Expenses	5,500			Rentals	4,500	
	Bank Interest	1,500		"	Sale (flats) 80,000		
	Interest	300	57,300		Less : Agents Commission 1,750	78,250	86,250
"	Mr. Paul						
	Freehold House	7,000			Mr. Paul		4,500
	Expenses	5,500			(Rentals)		
	Interest	100	12,600				
"	Net Profit						
	Mr. Peter	12,510					
	Mr. Paul	8,340	20,850				
			90,750				90,750

In the books of Mr. Paul

Dr. **Joint Venture with Mr. Peter A/c** *Cr.*

			(Rs.)				(Rs.)
To	Bank		7,000	By	Bank		4,500
	Freehold house				Rentals		
"	Bank		5,500	"	Bank		16,440
	Expenses				(final remittance)		
"	Interest		100				
"	Profit & Loss A/c		8,340				
	(Share of Profit)						
			20,940				20,940

(5) A and B enter into a joint venture to take a building contract for Rs. 2,40,000 . They provide the following information regarding the expenditure incurred by them :

	A (Rs.)	B (Rs.)
Materials	68,000	50,000
Cement	13,000	17,000
Wages		27,000
Architect's fee	10,000	
Licence fees		5,000
Plant		20,000

Plant was revalued at Rs. 10,000 at the end of the contract and B agreed to take at the value. Contract amount of Rs. 2,40,000 was received by A.

Show :

(i) Joint venture account and B ' s account in the books of A; and
(ii) Joint venture account and A ' s account in the books of B **[C. A. Entrance M 86]**

Solution :

In the books of A
Joint Venture with B A/c

Dr.					Cr.
		(Rs.)			(Rs.)
To Bank			By Bank (Contract Amount received)		2,40,000
Materials	68,000				
Cement	13,000				
Architect's Fees	10,000	91,000	" B A/c (Plant taken over)		10,000
" B A/c					
Material	50,000				
Cement	17,000				
Wages	27,000				
Licence Fees	5,000				
Plant	20,000	1,19,000			
" Profit on Venture					
Profit & Loss A/c (1/2)	20,000				
B (1/2)	20,000	40,000			
		2,50,000			2,50,000

B A/c

Dr.					Cr.
		(Rs.)			(Rs.)
To Joint Venture with B A/c		10,000	By Joint Venture with B A/c		1,19,000
" Bank A/c (Balancing figure being final remitt-ance)		1,29,000	" Profit on Venture		20,000
		1,39,000			1,39,000

In the books of B
Joint Venture with A A/c

Dr.					Cr.
		(Rs.)			(Rs.)
To A A/c			By A A/c (Contract price received)		2,40,000
Materials	68,000				
Cement	13,000				
Architect's Fees	10,000	91,000			
" Bank					
Materials	50,000		" Plant A/c (taken over)		10,000
Cement	17,000				
Wages	27,000				
Licence Fees	5,000				
Plant	20,000	1,19,000			
" Profit on Venture					
A (1/2)	20,000				
Profit & Loss A/c (1/2)	20,000	40,000			
		2,50,000			2,50,000

Dr. **A A/c** Cr.

		(Rs.)			(Rs.)
To Joint Venture with A		2,40,000	By Joint Venture with A		91,000
			" Profit on Venture		20,000
			" Bank A/c (Balancing figure being final remittance)		1,29,000
		2,40,000			2,40,000

[P 1] Mr. S and Mr. R carrying on a business separately as contractors, jointly take up the work of constructing a building at an agreed price of Rs. 3,50,000, payable in cash Rs. 2,40,000 and in fully paid shares of a Company for the balance of Rs. 1,10,000. A bank Account is opened in which Mr. S and Mr. R paid Rs. 75,000 and Rs. 50,000 respectively. The following costs were incurred in completing the construction and the contract price was duly realised :

(i) Wages paid Rs. 90,000
(ii) Materials purchased for cash Rs. 2,10,000
(iii) Materials supplied by Mr. R from his stock Rs. 27,000
(iv) Consulting Engineer's fees paid by Mr. S Rs. 6,000

The Accounts were closed, Mr. S taking up all the shares of the company at an agreed valuation of Rs. 48,000, treating Loss on Shares as Joint Venture Loss and Mr. R taking the remaining stock of materials at Rs. 9,000.

Prepare and close the Joint Venture Account and the Personal Accounts of Mr. S and Mr. R assuming that a separate set of Books are opened for this purpose and that the net result of the venture is shared by Mr. S and Mr. R in the ratio of 2 : 1. **[C.A. Entrance M 87]**

Solution :

In the books of M/s S & R

Dr. **Joint Venture A/c** Cr.

		(Rs.)			(Rs.)
To Joint Bank A/c			By Joint Bank (part of Contract Price received)		2,40,000
Wages	90,000				
Materials	2,10,000	3,00,000			
			" Shares A/c (balance of Contract Price received)		1,10,000
" R A/c (materials supplied)		27,000			
" S A/c (Consulting Engineer's fees paid)		6,000	" R A/c (materials taken over)		9,000
			" Loss on Venture		
" Share A/c (loss on S's taking over)		62,000	Mr. S (2/3)	24,000	
			Mr. R (1/3)	12,000	36,000
		3,95,000			3,95,000

Dr. **Joint Bank A/c** Cr.

		(Rs.)			(Rs.)
To Mr. S A/c		75,000	By Joint Venture A/c		
			Wages	90,000	
" Mr. R A/c		50,000	Materials	2,10,000	3,00,000
" Joint Venture A/c (part of Contract Price received)		2,40,000	" Mr. S A/c (withdrawn)		9,000
			" Mr. R A/c (Withdrawn)		56,000
		3,65,000			3,65,000

Dr. **Shares A/c** Cr.

		(Rs.)			(Rs.)
To Joint Venture A/c		1,10,000	By Mr. S A/c		48,000
			" Joint Venture A/c (Loss on S ' s taking over)		62,000
		1,10,000			1,10,000

Dr. **Mr S A/c** Cr.

		(Rs.)			(Rs.)
To Shares A/c (taken over)		48,000	By Joint Bank A/c		75,000
" Loss on Venture A/c		24,000	" Joint Venture A/c		
" Joint Bank A/c (balancing figure being withdrawn on termination of venture)		9,000	" (Consulting Engineer's Fees Paid)		6,000
		81,000			81,000

Dr. **Mr. R A/c** Cr.

		(Rs.)			(Rs.)
To Joint Venture A/c (Materials taken over)		9,000	By Joint Bank A/c		50,000
			" Joint Venture A/c (Materials Supplied)		27,000
" Loss on Venture		12,000			
" Joint Bank A/c (balancing figure being withdrawn on tarmination of venture)		56,000			
		77,000			77,000

[P 9] X and Y are partners in a Joint Venture sharing profits and losses in the proportion of 4/5 and 1/5 respectively. X supplies goods of the value of Rs. 10,000 and incurs expenses amounting to Rs. 800. Y supplies goods of the value of Rs. 8,000 and his expenses amount to Rs. 600. Y sells goods on behalf of the joint venture and realises Rs. 24,000. Y is entitled to a commission of 5% sales. Y settles his account by bank draft.

Give the journal entries and the relevant ledger accounts in the books of X.

[C.A. Entrance M 91]

Solution :

In the books of X

Journal

Date	Particulars	F	Dr. (Rs.)	Cr. (Rs.)
	Joint Venture A/c Dr.		10,800	
	To Purchases A/c			10,000
	" Cash A/c			800
	(Supplies made and expenses incurred)			
	Joint Venture A/c Dr.		8,600	
	To Y A/c			8,600
	(Supplies made and expenses incurred by Y)			
	Y A/c Dr.		24,000	
	To Joint Venture A/c			24,000
	(Sales made by Y)			
	Joint Venture A/c Dr.		1,200	
	To Y A/c			1,200
	(5% Commission payable to Y)			
	Joint Venture A/c Dr.		3,400	
	To Profit & Loss A/c			2,720
	" Y A/c			680
	(Own share of profit credited to Profit & Loss A/c, Y's share being credited to his A/c)			
	Bank A/c Dr.		13,520	
	To Y A/c			13,520
	(Final remittance received from Y)			

Dr. **Joint Venture with Y A/c** *Cr.*

Date	Particulars		F	(Rs.)	Date	Particulars	F	(Rs.)
	To Purchases (Supplies)			10,000		By Y (Sales)		24,000
	" Cash (expenses)			800				
	" Y							
	Supplies	8,000						
	Expenses	600						
	Commission	1,200		9,800				
	" Y Share of Profit (1/5)			680				
	" Profit & Loss A/c Own share of Profit (4/5)			2,720				
				24,000				24,000

Dr. **Y A/c** Cr.

Date	Particulars	F	(Rs.)	Date	Particulars	F	(Rs.)
	To Joint Venture with Y A/c		24,000		By Joint Venture with Y A/c		9,800
					" Joint Venture with Y A/c		680
					" Bank A/c (Balancing figure being final remittance)		13,520
			24,000				24,000

[P 7] Aswin of Madras and Gupta of Delhi entered into a joint venture on 1-4-1992 for the purpose of buying second-hand cars,recondition and sell them as Diesel-air conditioned cars. Aswin has agreed to buy second-hand cars and recondition them and fit diesel engines. Gupta has agreed to fix air-conditioners and sell them at Delhi. They have agreed to share the profits and losses equally and settle their accounts at the end of each year.

The following are the details of purchase, sale and expenses incurred by Aswin and Gupta. during the year 1-4-92 to 31-3-93 :—

	Aswin (Rs.)	Gupta (Rs.)
Cost of 10 cars purchased at average price	5,00,000	
Reconditioning expenditure	45,000	
Cost of 10 diesel engines	30,000	
Labour charges	18,000	32,000
8 Air conditioners purchased		4,00,000
Buying commission @ 5%	25,000	
Selling commission @ 5%		60,000
Sale value realised on sale of 8 cars		12,00,000
Expenses incurred		
Freight—local	10,000	8,000
Delhi	30,000	—
Rent—Office	10,000	10,000
—Garage	12,000	20,000
Insurance	16,000	20,000
Miscellaneous expenses	6,000	10,000

Gupta sent a cheque for Rs. 6,00,000 to Aswin on 1-3-93. Of the balance of 2 cars, one car was met with accident on the way to garage before reconditioning and the insurance company settled the claim at Rs. 30,000 as a total loss. The old petrol engines were sold @ Rs. 500 per engine and one diesel engine was sold at Rs. 3,000 by Aswin. All of them were sold before 31-3-93. Aswin retained the balance one car as a non-airconditioned diesel car for his personal use which was priced at average cost.

Aswin/Gupta settled the balance due to/by them as on 31-3-93 sending a crossed cheque as the case may be.

Prepare : (1) Memorandum Joint Venture Account.
(2) Joint Venture Account with Gupta in the Books of Aswin.
(3) Joint Venture Account with Aswin in the Books of Gupta.

[C.A. Foundation D 93]

Solution:

Dr. **Memorandum Joint Venture A/c** *Cr.*

		(Rs.)			(Rs.)
To Aswin			By Aswin		
" Cost of Cars	5,00,000		" Sell of Petrol Engine	4,500	
" Reconditioning Expenditure	45,000		" Sell of Diesel Engine	3,000	
" Cost of Diesel Engine	30,000		Insurance Claim " Received	30,000	
" Labour Charges	18,000		" Cost of Car Retained	68,389	1,05,889
" FreightCharges (Local)	10,000		$[\frac{1}{10}$ (5,00,000 + 30,000 + 10,000 + 25,000) + $\frac{1}{9}$ (45,000 + 18,000 + 10,000 + 12,000 + 16,000 + 6,000)]		
" Freight Charges (Delhi)	30,000		$=[\frac{1}{10}$ (5,65,000) + $\frac{1}{9}$ (1,07,000)]		
" Office Rent	10,000				
" Garage Rent	12,000				
" Buying Commission	25,000				
" Insurance	16,000				
" Miscellaneous Exp.	6,000	7,02,000	" Gupta (Sales)		12,00,000
" Gupta					
" Labour Charges	32,000				
" Cost of Air Conditioners	4,00,000				
" Freight Charges (Local)	8,000				
" Office Rent	10,000				
" Garage Rent	20,000				
" Selling Commission	60,000				
" Insurance	20,000				
" Miscellaneous Exp.	10,000	5,60,000			
" Profit on Venture					
Aswin ($^1/_2$)	21,945				
Gupta ($^1/_2$)	21,944	43,889			
		13,05,889			13,05,889

In the books of Aswin

Dr. **Joint Venture with Gupta A/c** *Cr.*

Date			(Rs.)	Date			(Rs.)
1993 March 31	To Bank A/c			1993 March 1	By Bank A/c (Advance from Gupta)		6,00,000
	Cost of Cars	5,00,000		31	" Bank A/c		
	Reconditioning Expenditure	45,000			Sell of Petrol Engine	4,500	
	Cost of Diesel Engine	30,000			Sell of Diesel Engine	3,000	
	Labour Charges	18,000			Insurance Claim Received	30,000	37,500
	Freight Charges (Local)	10,000					

(Contd.)

1993 March 31	Freight Charges (Delhi)	30,000		1993 March 31	" Motor Car A/c (Retained)		68,389
	Office Rent	10,000					
	Garage Rent	12,000		31	" Bank A/c (Balancing figure being final remittance from Gupta)		18,056
	Buying Commission	25,000					
	Insurance	16,000					
	Miscellaeous Expenses	6,000	7,02,000				
	To Profit & Loss A/c (Share of Profit)		21,945				
			7,23,945				7,23,945

In the books of Gupta
Joint Venture with Aswin A/c

Dr. | *Cr.*

Date			(Rs.)	Date		(Rs.)
1993 March 1	To Bank A/c (Advance to Aswin)		6,00,000	1993 March 31	By Bank A/c (Sales)	12,00,000
31	To Bank A/c					
	Labour Charges	32,000				
	Cost of Air Conditioners	4,00,000				
	Freight Charges (Local)	8,000				
	Office Rent	10,000				
	Garrage Rent	20,000				
	Selling Commission	60,000				
	Insurance	20,000				
	Miscellaneous Expenses	10,000	5,60,000			
31	To Profit & Loss A/c (Share of Profit)		21,944			
31	To Bank A/c (Balancing figure being Remittance to Aswin)		18,056			
			12,00,000			12,00,000

[P 2] X and Y enter into Joint venture to build a multistoried building. They agree to share the Profit and Losses equally up to Rs. 50,000 of the Profit or Loss from the Venture. Thereafter the Profit and Losses are to be shared in the following proportion :

X = 3/5, Y = 2/5

X contributes Plant and Machinery worth Rs. 40,000 and meets registration expenses worth Rs. 10,000

Y. contributes the plot on which the building is to be built, valued at Rs. 1,00,000

Other expenses incurred are :—

	(Rs.)
Fuel and Electricity Charges	40,000
Raw Materials	1,60,000
Labour Charges	75,000
Advertisement Expenses	5,000

All the above expenses were met form the Bank Account for the Joint Venture.

At the end of the Venture X agreed to take the Plant and Machinery valued at Rs. 10,000

Y sold off the multistoried building for a total of Rs. 7,20,000 and collected all dues from the buyers, except for one flat, valued at Rs. 1,80,000 which he kept for himself in lieu of his expected share of profit.

The Venturers who had agreed to maintain their Venture accounts in separate sets of books, asks you to prepare the Joint Venture Account, Joint Bank Account and Venturers Capital Accounts.

[I.C.W.A.Inter. J 88]

Solution :

In the books of X & Y

Joint Venture A/c

Dr. *Cr.*

			(Rs.)				(Rs.)
To	X ' s Capital			By	X ' s Capital A/c (Plant & Machinery taken over)		10,000
	Plant & Machinery	40,000		"	Y ' s Capital A/c		
	Registration Charges	10,000	50,000		Sales Proceeds taken over	7,20,000	
"	Y's CapitalA/c Plot		1,00,000		Flat taken over	1,80,000	9,00,000
"	Joint Bank A/c						
	Fuel & Electricity	40,000					
	Raw Materials	1,60,000					
	Labour charges	75,000					
	Advertisement Exp	5,000	2,80,000				
"	Profit on venture						
	X $(\frac{1}{2} \times 50{,}000 + \frac{3}{5} \times (4{,}80{,}000 - 50{,}000)$	2,83,000					
	Y $(\frac{1}{2} \times 50{,}000) + \frac{2}{5} \times (4{,}80{,}000 - 50{,}000)$	1,97,000	4,80,000				
			9,10,000				9,10,000

Venturer's Capital A/c

Dr.			Cr.		
		(Rs.)			(Rs.)
To Joint Venture A/c	10,000	9,00,000	By Joint Venture A/c	50,000	1,00,000
" Joint Bank A/c (Bal fig)	3,23,000	——	" Profit on Venture	2,83,000	1,97,000
			" Joint Bank A/c (Bal fig)	——	6,03,000
	3,33,000	9,00,000		3,33,000	9,00,000

Joint Bank A/c

Dr.			Cr.		
		(Rs.)			(Rs.)
To Y's Capital A/c (Brought in)		6,03,000	By Joint Venture A/c		2,80,000
			" X's Capital A/c (Paid off)		3,23,000
		6,03,000			6,03,000

[P 10] John and Ali entered into a Joint Venture agreeing to share profits and losses in the ratio of 3:2.
On 4.1.1986, Ali purchased goods costing Rs. 60,000 and spent Rs. 2,000 as expenses. On the same date he sent to John part of these goods costing Rs. 40,000.
On 7. 2.1986, John sent Rs. 30,000 to Ali. On 10. 2. 1986, he purchased goods costing Rs. 50,000 and sent half of the goods to Ali. He paid Rs. 1,000 as carriage.
On 24. 3. 1986, Ali sold most of the goods in his possession for Rs. 55,000 and the remaining goods costing Rs. 3,000 were taken over by him at an agred valuation of Rs. 4,000.
On 18. 4. 1986, John sold all the goods in his possession for Rs. 75,000 except some damaged goods costing Rs. 5,000 which it was agreed to be written off as unsaleable. His selling expenses amounted to Rs. 2,000.
On 30. 4. 1986, the amount required to settle the accounts between John and Ali was paid by the appropriate party.
Show the Joint Venture Account and John ' s Account in the books of Ali. **[I.C.W.A. Inter. J 86]**

Solution :

In the books of Ali

Joint Venture A/c

Dr.				Cr.		
1986			(Rs.)	1986		(Rs.)
4.1	To Bank			24.3	By Bank	
	Purchases	60,000			Sales	55,000
	Expenses	2,000	62,000	"	" Purchases	4,000
10.2	" John's A/c				" John's A/c	75,000
	Purchases	50,000		18.4	Sales	
	Carriage	1,000	51,000			
18.4	" John's A/c					
	Selling expenses		2,000			
30.4	Profit on Venture					
	Profit & Loss A/c (2/5)	7,600				
	John's A/c (3/5)	11,400	19,000			
			1,34,000			1,34,000

Dr. **John's A/c** Cr.

1986		(Rs.)	1986			(Rs.)
18.4	To Joint Venture A/c Sales	75,000	7.2	By	Bank A/c (Advance received)	30,000
30.4	" Bank A/c (With drawn on termination of Venture)	19,400	10.2	"	Joint Venture A/c (Purchases & Expenses)	51,000
			18.4	"	Joint Venture A/c (Selling expenses)	2,000
			30.4	"	Joint Venture A/c (Share of profit)	11,400
		94,400				94,400

[P 8] Thread of Tatanagar and Needle of Nagpur entered into a Joint Venture to trade together in the buying and re-selling of cheap machinery. Profit or loss to be shared in the ratio of 2:3. Thread under took to make the purchases and Needle to effect sales.

Needle remitted Rs. 75,000 to Thread towards the Joint Venture. Thread purchased machinery worth Rs. 60,000 and paid Rs. 28,500 for repairs of these, 2.5% as buying commission and Rs. 2,700 for other sundry expenses, He then sent all the machines purchased and repaired to Needle at Nagpur.

While taking delivery of the machinery at Nagpur, Needle incurred Rs. 4,500 towards Railway Freight and Rs. 2,100 towards Octroi. He sold part of the machinery for Rs. 1,05,000 and kept the remaining for himself at an agreed value of Rs. 22,500. Other expenses of Needle were :

(a) Godown rent Rs. 1,350
(b) Insurance Rs. 1,680
(c) Brokerage Rs. 2,490 and
(d) Miscellaneous Rs. 1,920.

Both the parties decided to close the Venture at this stage.

You are to prepare Accounts for the Joint Venture to show how matters stood in each party's ledger and prepare a statement showing the result of the venture. **[I.C.W.A. Inter D 90]**

Solution :

In the books of Thread

Dr. **Joint Venture with Needle A/c** Cr.

		(Rs.)			(Rs.)
To Bank A/c					
Purchase of Machinery	60,000		By Bank A/c (remittance received from Needle)		75,000
Repairs	28,500				
Commission	1,500				
Sundry Expenses	2,700	92,700	" Balance c/d		26,004
" Profit & Loss A/c [Share of Profit on Venture (2/5)]		8,304			
		1,01,004			1,01,004
" Balance b/d		26,004			

In the books of Needle

Joint Venture with Thread A/c

Dr.			Cr.		
		(Rs.)			(Rs.)
To Bank A/c (remittance to Thread)		75,000	By Bank A/c (Sale Proceeds)		1,05,000
" Bank A/c			" Purchases A/c (Value of machinery taken over)		22,500
Railway Freight	4,500				
Octroi	2,100				
Godown Rent	1,350				
Insurance	1,680				
Brokerage	2,490				
Miscellaneous Expenses	1,920	14,040			
" Profit & Loss A/c [Share of Profit on Venture (3/5)]		12,456			
" Balance c/d		26,004			
		1,27,500			1,27,500
			" Balance b/d		26,004

In the books of Thread & Needle

Memorandum Joint Venture A/c

Dr.			Cr.		
		(Rs.)			(Rs.)
To Thread			By Needle		
Purchase of machinery	60,000		Sales proceeds	1,05,000	
Cost of Repairs	28,500		Machinery retained	22,500	1,27,500
Buying Commission (2.5% of 60,000)	1,500				
Sundry Expenses	2,700	92,700			
" Needle					
Railway Freight	4,500				
Octroi	2,100				
Goodown Rent	1,350				
Insurance	1,680				
Brokerage	2,490				
Miscellaneous Expenses	1,920	14,040			
" Profit on Venture					
Thread (2/5)	8,304				
Needle (3/5)	12,456	20,760			
		1,27,500			1,27,500

Exercise

Joint Venture

[E 1] A and B, both contractors, undertook a Joint Venture involving the construction of a building. A Joint Bank Account was opened in which A deposited Rs. 75,000 and B deposited Rs. 37,000. The contract price was Rs. 3,75,000. The result of Joint Venture was to be shared as to A 2/3 and B 1/3. The details of the transactions were as follows :—

Wages paid	89,000
Materials Supplied by A	13,500

Materials Supplied by B	12,000
Materials purchased	1,65,000
Salaries	12,000
Cartage	18,500
Architect's fee paid by A	10,000
Concrete Mixer plant purchased	38,500

The stock of materials on the completion of the contract, valued at Rs. 16,500, was taken over by A. Concrete Mixer plant was taken over by B for Rs. 30,000. A was to be paid Rs. 18,000 per annum against establishment expenses, to be charged to the Joint Venture Account. The contract lasted for 8months. Prepare Joint Venture Account, Joint Bank Account and Accounts of A & B.

(C.S. Preli D 81)

(*Ans* :— Profit on Venture Rs. 51,000.)

[E 2] Ashok and Baijal doing business separately as building contractors, undertake jointly to construct a building for a newly started joint stock company for a contract price of Rs. 2,00,000 payable as to Rs. 1,60,000 by instalments in cash and Rs. 40,000 fully paid shares of the new company. A banking account is opened in their joint names, Ashok paying Rs. 50,000 and Baijal Rs. 30,000. They are to share profit or loss in the proportion of 2 : 1. Their transactions were as follows :

	Rs.		Rs.
Paid wages	60,000	Bought materials	1,40,000
Material supplied by Ashok	10,000	Materials supplied by Baijal	8,000
Architect's fees paid Ashok	4,000		

The contract was completed and the price duly received. The joint venture was closed, by Ashok taking up all the shares of the company at an agreed valuation of Rs. 32,000 and Baijal taking up the stock of materials at an agreed valuation of Rs. 6,000. Prepare joint venture account, joint bank account and personal accounts of Ashok and Baijal. **(C.S., Preli J 78)**

(*Ans* :— Loss Rs. 24,000)

[E 3] Gavaskar and Biswanath jointly underwrite and place on the market 50,000 shares of Bombay Machineries Ltd. of Rs. 10 each. It was agreed with the company that they would be allotted 2,000 shares as fully-paid towards their remuneration.

Their profit sharing ratio is 3 : 2.

Applications were received from the public only for 45,000 shares. Gavaskar paid Rs. 4,000 for postage and advertisement in addition to 60% of the amount required to take up the short subscription. Biswanath financed the balance amount. These are accounted for through Joint Bank Account.

All the shares including those allotted for remuneration were sold. Gavaskar sold 3,000 shares for Rs. 35,000 and Biswanath sold the balance shares for Rs. 48,000. Biswanath incurred expenses Rs. 2,000. Sale proceeds were retained individually.

Show necessary accounts in the books of the venturers, which were separately started for this purpose.

The inter se account was settled through the Joint Bank Account. **(C.A. Inter. M 80)**

(*Ans* :— Profit on Venture Rs. 27,000)

[E 4] Sakti and Sadhan agree to enter into a joint venture to by and sell television sets. Profits and losses were to be shared equally.

On May 5, 1980, Sakti purchased three television sets for Rs. 3,000, Rs. 3,500 and Rs. 4,000 respectively. He bought a special cabinet costing Rs. 750, which he fixed for one of the sets. On May 31, 1980, he sold two of the sets for Rs. 4,000 each paying the proceeds into his private bank account.

On June 15, 1980, he sold the other set for Rs. 4,500 which amount he paid over to Sadhan who paid into his bank account.

On 6th May, 1980, Sadhan purchased a TV set for Rs. 3,000 having incurred expenditure of Rs. 200 on repairing, sold it on 14th May, 1980, for Rs. 3,800, paying the proceeds into his own bank account. This set developed mechanical trouble and on 26th May, 1980, Sadhan agreed to take the set back at a price of Rs. 2,800 which he paid out of his bank account. The set was still unsold at 30 June, 1980, and it was agreed that Sadhan should take it over for his personal use at a valuation of Rs. 2,600.

Sakti incurred Rs. 300 as showroom charges and Sadhan incurred Rs. 225 as travelling and postage.

You are required to prepare (a) the account of Joint Venture with Sakti as it would appear in the books of Sadhan, and (b) Memorandum Joint Venture Account showing the net profit.

(I.C.W.A. Inter. D 80)

(*Ans.* Profit on venture 1,125 ; Amount paid to Sakti Rs. 4,112.50)

[E 5] Wadekar and Pataudi enter into a joint venture to develop some building sites and sell them on the understanding that the result of the venture would be shared in the ratio of 4 : 5 between them. It is also agreed that any cash investment they make in the venture would be entitled to interest at 10% p.a.

They choose a five-acre agricultural plot and purchased it for Rs. 60,000. They approached a nationalised bank which agreed to finance them to the extent of 80% of the cost at 16% interest per annum. The buying arrangements were finalised on July 1, 1977, and the vendors paid off on the same day. Balance of purchase consideration and also the registration expenses which came to 8% were met by Wadekar form out of his own resources.

Pataudi met the costs of preparation of the layout, advertisement, etc., which were as under :

(a)	Levelling and engineering costs paid to architects and town planners on 1-8-1977	at Rs.	250	per ground
(b)	Municipal fees on 1-9-1977	Rs.	400	"
(c)	Advertisement expenses met on 1-10-77	Rs.	17,500	
(d)	Entertainment expenses on 31-12-77	Rs.	1,120	

Plots were advertised for sale in newspapers on 15-9-77 and on the basis of response, the entire area was dealt with as under :

(1) 15% of the total area was to be left for roads, market place, police station and a park.

(2) 10 plots each of 3, $2\frac{1}{2}$ and $1\frac{1}{2}$ grounds were made.

(3) The balance area was taken equally be Wadekar and Pataudi at cost.

(4) $1\frac{1}{2}$ ground plots carried a premium of 50% , $2\frac{1}{2}$ ground plots a premium of 40% and 3 ground plots a premium of 25% over cost.

(5) Pataudi to receive 8% of the sale proceeds as management fee for his efforts.

The entire transactions were put through by December 31,1877. Show the joint venture account and the statement of account settlement between the ventures.

(1 acre is equal to 18 grounds of 2,400 sq. feet each.) **(C.A. Inter. M 79)**

(*Ans* : — Profit on venture Rs. 10,455)

[E 6] M and N decided to work in partnership with the following scheme agreeing to share profits as under :

M 3/4th share
N 1/4th Share

They guaranteed the subscription on part of 10,00,000 shares of Re. 1 each in S Ltd. and to pay all expenses up to allotment in consideration of S Ltd. issuing to them 50,000 other shares of Re. 1 each fully paid.

M and N introduced cash as follows :

M	stamp charges etc.	4,000
	Advertising charges	3,000
	Printing charges etc.	3,000
N	Rent	2,000
	Solicitor's charges	3,000

Applications fell short of the 10,00,000 by 30,000 shares and N introduced Rs. 30,000 for the purchase of those shares. The guarantee having been fulfilled S Ltd. handed over to the venturers 50,000 shares. All their holdings were subsequently sold by the venturers, N receiving Rs. 18,000 and M Rs. 50,000. Write up the necessary accounts in the books of both the parties on the presumption that Memorandum Joint Venture Account is opened for the purpose.

(I.C.W.A. Inter. J 77)

(*Ans.* Profit on venture Rs. 23,000)

[E 7] Red and Blue agree to enter into a joint venture to buy and sell Television sets. Profits and losses were to be divided : Red two-third and Blue one-third.

On 3rd May, 1974, Red purchased three Television sets for Rs. 2,800, Rs. 3,250 and Rs. 3,775 respectively. He bought a special cabinet costing Rs. 750 which he fixed for one of the sets, the old cabinet was not re-usable. On 31st May, 1975, he sold two of the sets for Rs. 4,000 each, paying the proceeds into his private bank account.

On 15th June, 1974, he sold the other set for Rs. 4,500 which amount he paid over to Blue, who paid it into his bank account.

On 4th May, 1974, Blue purchased a TV set for Rs. 2,500 having incurred expenditure of Rs. 250 on repairing, sold it on 12th May, 1974, for Rs. 3,000 paying the proceeds into his own bank account. On 25th May, 1974, Blue agreed to take the set back at a price of Rs. 2,850 which he paid out of his bank account. The set was still unsold at 30th June, 1974, and it was agreed that Blue should take it over for his personal use at a valuation of Rs. 2,650.

Other expenditures were incurred was as follows :

	RED	BLUE
Travelling, Postage	80	64
Showroom charges	225	120

Red paid into his bank net receipts of Rs. 140 in respect of commission given by the Manufacturers.

On 1st July, 1974, the sum required in full settlement as between Red and Blue was paid by the party accountable.

You are required to prepare :

(a) Account of the Joint Venture with Red as it would appear in the books of Bule ; and

(b) The Memorandum Joint Ventures Account, showing the net profits.

(I.C.W.A. Inter. D 74)

(*Ans* . Profit on venture Rs. 1,626)

[E 8] On January 31, 1982, Pandey and Parker entered into a Joint Venture to consign goods to Parkesh to be sold on their joint risk. They agreed to share profits and losses in the ratio of 3 : 2.

On April 15, 1982, Pandey consigned goods to the value of Rs. 36,000 and incurred expenses amounting to Rs. 3,000. On 1st July, 1982, Parker also consigned goods to the value of Rs. 22,000 and incurred expenses amounting to Rs. 1,800.

On November, 15, 1982, Parker sold 80% of the total goods for Rs. 60,000 and remitted the proceeds to Pandey after deducting 5% commission on sales. On December 31, 1982, on which date accounts were prepared, an interim settlement was effected between Pandey and Parker.

On 15th August, 1983, Parker sold the remainder of the total goods for Rs. 8,000 and remitted the proceeds to Parker, less 5% commission on sales. On October 31, 1980, a financial settlement was effected between Pandey and Parker.

You are required :

(1) To show the account in the books of each co-venturer to record his own transactions, and

(2) To prepare Memorandum Joint Venture Account. **(I.C.W.A. Inter. D 83)**

(*Ans.* Profit on Venture Rs. 6,760)

[E 9] Bharat and Sharad joined together as co-venturers for equal share in profits through sale of television cabinets. On March 31, 1992, Bharat purchased 2,000 cabinets at Rs. 250 each for cash and sent 1,500 of these to Sharad for sale, the selling price of each being Rs. 300. All the cabinets were sold by April 30, 1992 by both and the proceeds collected.

Each venturer recorded in his books only those transactions concluded by him, final profit/loss being ascertained through a Memorandum Joint Venture Account.

The expenses met by the venturers were :

		Rs.
Bharat........	Freight and insurance	9,000
	Selling expenses	4,500
Sharad........	Cooley and clearing charges	900
	Selling expenses	13,500

Final settlement between the ventures took place on May 31, 1992. You are required to show :

(a) Joint venture with Sharad A/c in the books of Bharat.

(b) Joint venture with Bharat A/c in the books of Sharad; and

(c) Memorandum Joint Venture A/c

(C.A. Entrance adapted)

(*Ans.* Profit on Venture Rs. 72,100 : Final remittance from sharad to Bharat Rs. 3,99,550.)

[E 10] Menon sent goods to Sri Gupta to be sold on Consignment basis at 5% commission. Goods costing Rs. 4,00,000 were sent and Rs. 40,000 expenses were incurred. Sri Gupta had to incur Rs. 10,000 expenses for landing and 75% of the goods were sold out for Rs. 4,80,000. Sri Gupta sent the amount due from him with the Account Sale, but wanted to return the balance of goods as he was not agreeable to carry on as commission agent. He was, however, persuaded to continue on Joint Venture basis for 1/3 Profit. Rs. 2,00,000 worth of goods was further despatched by Sri Menon. All the goods (except Rs. 20,000 which were taken over by Sri Gupta for the same amount) were sold out for Rs. 5,00,000. Sri Menon incurred Rs. 20,000 expenses and expenses of Sri Gupta amounted to Rs. 17,000. Show the necessary account in the books of both the parties.

(I.C.W.A. J 75)

(*Ans.* Profit on Consignment Rs. 118,500
Profit on Venture Rs. 170,500)

[E 11] A and B entered into a joint venture of understanding the subscription at par of the entire share capital of the Copper Mines Ltd. consisting of 1,00,000 equity shares of Rs. 10 each and to pay all expenses up to allotment. The profits were to be shared by them in proportions of 3/5ths and 2/5ths. The consideration in return for this agreement was the allotment of 12,000 other shares of Rs. 10 each to be issued to them as fully paid. A provided the funds for registration fees Rs. 12,000, advertising expenses of Rs. 11,000, for expenses on printing and distributing the prospectus amounting to Rs. 7,500 and other printing and stationary expenses of Rs. 2,000. B contributed towards payment of office rent Rs. 3,000, Legal charges Rs. 13,750, Salary to clerical staff of Rs. 9,000 and other petty disbursements of Rs. 1,750. The prospectus was issued and applications fell short of the issue by 15,000 shares. A took these over on joint account and paid for the same in full. The venturers received the 12,000 fully paid shares as underwriting commission. They sold their entire holding at Rs. 12.50 less 50 paise brokerage per share. The net proceeds were received by A for 15,000 shares and B for 12,000 shares. Write out the necessary accounts in the books of both the parties showing the final adjustments. **(C.A. Inter. M 83)**

(*Ans.* Profit on venture Rs. 1,14,000)

Chapter 9

AVERAGE DUE DATE AND ACCOUNT CURRENT

Average Due Date

[P 1] Mohan Ram has accepted the following bills drawn by Sumonth:—

On 8th March, 1984 Rs. 4,000 for 4 months
On 16th March, 1984 Rs. 5,000 for 3 months
On 7th April, 1984 Rs. 6,000 for 5 months
On 17th May, 1994 Rs. 5,000 for 3 months

He wants to pay all the bills on a single day. Find out this date.
Interest is charged @ 18% p.a. and Mohan ram wants to save Rs. 150 by way of interest.
Find out the date on which he has to effect the payment to save interest of Rs. 150.

[C.A. Entrance J 85]

Solutions :

Computation of the required Single day (i.e. Average Due Date)

Date		Due Date (X)	Amount Rs. (f)	No. of days from Base Date (19 June) $d = x - A$ $= x - 19$	Product Rs. (fd)
8th	March	11th July	4,000	22	88,000
16th	March	19th June = A	5,000	0	—
7th	April	10th Sept.	6,000	83	4,98,000
17th	May	20th Aug.	5,000	62	3,10,000
			20,000 $= \Sigma f$		8,96,000 $= \Sigma fd$

Average Due Date = $(\bar{X}) = A + \frac{\Sigma fd}{\Sigma f}$

= 19 June + 896000/20000 = 19 June + 45 days
= 3rd August.

Interest on Rs. 20,000 for 1 day
= $20,000 \times 18/100 \times 1/12 \times 1/30$ (Taking 30 days in a month on average)
= Rs. 10

Required savings = Rs. 150
Therefore, no. of days to saved = 150/10 = 15
Therefore, the required date to save interest of Rs. 150 = 3rd August - 15 days
= 19 July.

[P 2] For goods sold, Nair draws the following Bills on Roy who accepts the same as per terms :

Amount of the Bills (Rs.)	Date of drawing	Date of acceptance	Tenor	
8,000	6.1.1986	9.1.1986	3	Months after the date
9,000	15.2.1986	18.2.1986	60	days
8,000	21.2.1986	21.2.1986	2	months
15,000	14.3.1986	17.3.1986	30	days after sight

On 18th March, 1986, it is agreed that the above Bills will be withdrawn the acceptor will pay the whole amount in one lump sum by a cheque, 15 days ahead of average due date and for this a rebate of Rs. 1,000 will be allowed.

Calculate the average due date, the amount and the due date of the cheque.

[I.C.W.A. Inter J 86]

Solution :

Computation of the average Due Date

Amount of Bill (f) (Rs.)	Due Date	No. of days from Base Date (9th April) $d = x - 9.4.86$	Product Rs. (fd)
8,000	9.4.86	0	0
9,000	19.4.86	10	90,000
8,000	24.4.86	15	1,20,000
15,000	19.4.86	10	1.50,000
40,000 $= \Sigma f$			3,60,000 $= \Sigma fd$

Average Due Date $(\bar{X})$ $A + \frac{\Sigma fd}{\Sigma f} =$ 9th April $+ \frac{3,60,000}{40,000}$

= 9th April + 9 days = 18th April.

Amount of the Cheque = Rs. 40,000 – Rebate Rs. 1,000 = Rs. 39,000.

Due date of the Cheque = 18.4.86 –15 days, i.e. 3.4.86.

[P 3] A drew upon B several Bills of Exchange due for payment on different due dates as under :

Date	Amount Rs.	Tenure
2,10,89	600	3 months
20.10.89	800	2 months
10.11.89	1000	3 months
27.11.89	750	3 months
8.12.89	900	1 month
16.12.89	1200	2 months

Find out the Average Due Date on which a payment may be made in one single amount.

[I.C.W.A. Inter D 89]

Date	Due Date	No. of days from Base Date $d = x - A = x -$ 23.12.89	Amount Rs.	Product (fd)
2.10.89	5.1.90	13	600	17,800
20.10.89	23.12.89	0	800	0
10.11.89	13.2.90	52	1000	52,000
27.11.89	2.2.90	69	750	51,570
8.12.89	11.1.90	19	900	17,100
16.1.89	19.2.90	58	1200	69,600
			5,250	1,98,070

(a) Average Due Date $(\bar{X})$ = $A + \frac{\Sigma fd}{\Sigma d}$ = 23rd December, 1989 + $\frac{1,98,070}{5,250}$

= 23rd December + 38 days

=30th January, 1990.

Account Current

[P 2] Following transactions took place between X and Y during the month of April 85.

1985			(Rs.)
April	1	Amount payable by X to Y	10,000
-do-	7	Received acceptance of X to Y for 2 months	5,000
-do-	10	Bills Receivable (accepted by Y) on 7.2.85 honoured on this due date	10,000
-do-	10	X sold goods to Y (invoice dated 10.5.85)	15,000
-do-	12	X received cheque from Y (dated 15.5.85)	7,500
-do-	15	Y sold goods to X (invoice dated 15.5.85)	6,000
-do-	20	X returned goods sold by Y on 15.4.85	1,000
-do-	20	Bill accepted by Y is dishonoured on this due date	5,000

You are required to make out an account current by products method to be rendered by X to Y, as on 30.4.1985, taking interest into account at the rate of 10% per annum.

[I.C.W.A. Inter. J 85]

Solution :

Y in Account Current with X

Dr.

Date		Particulars	Due Date		Amount (Rs.)	Days in between 30th April & Due Date	Product
Apr.	7	To Bills Payable A/c (Acceptance to Y, Contra 1)	Jun	10	5,000	—	—
„	10	„ Sales A/c (Contra 2)	May	10	15,000	—	—
„	20	„ Returns Outward (Contra 5)	May	15	1,000	—	—
„	20	„ Bills Receivable A/c	Apr.	20	5,000	10	50,000
„	30	„ Red Ink product (Contra 3 = 7,500 × 15				15	1,12,500
„	30	„ Red Ink Product (Contra 4 = 6000 ×15)				15	90,000
		„ Balance c/d	—	—	—	—	4,17,500
					26,000		6,70,000

Cr.

Date		Particulars	Due Date		Amount (Rs.)	Days in between 30th April & Due Date	Product
Apr.	1	By Balance b/d			10,000	30	3,00,000
„	12	„ Bank A/c Cheques recd. Contra.3)	May	15	7,500	—	—

(Contd.)

Date		Particulars	Due Date	Amount (Rs.)	Days in between 30th April & Due Date	Product
Apr. 15	By	Purchase A/c (Contra 4)	May 15	6,000	—	—
„ 20	„	Red Ink Product (Contra 1 =5,000 × 41)	Jun. 10		41	2,05,000
„ 30	„	Red Ink Product Contra-2 = 15000 ×10	May 10		10	1,50,000
„ 30	„	Red Ink Product (Contra 5 = 1000 x 15)			15	15,000
	„	Interest A/c		114.38		
	„	Balance c/d		2,385.62	—	—
				26,000.00		6,70,000

[P 1] From the following particulars make up an account Current to be rendered by S. Dasgupta to A. Halder at 31st Dec. reckoning interest at 5% p.a.

1985		(Rs.)
June 30	Balance owing by A. Halder	520
July 17	Goods sold to A. Halder	40
Aug. 1	Cash received from a. Halder	500
Aug 19	Goods sold to A Halder	720
Aug 30	Goods sold to A. Halder	50
Sept 1	Cash received from A. Halder	400
Sept 1	Halder accepted Dasgupta's draft 3 months date for	300
Oct 22	Goods bought from A. Halder	20
Nov. 12	Goods Sold to A. Halder	14
Dec. 14	Cash received from A. Halder	50

[I.C.W.A. Inter. D 79]

Solution :

Dr. A Holder in Account Current with S. Dasgupta *Cr.*

Date	Particulars	Amount Rs.	Days	Product Rs.	Date	Particulars	Amount Rs.	Days	Product Rs.
1985					1985				
July 1	To Balance b/d	520	185	96.200	Aug 1	By Cash	500	152	76,000
17	„ Sales	40	167	6,680	Sep. 1	„ Cash	400	121	48,400
Aug 19	„ Sales	720	134	96,480		„ Bills Recd.	300	27	8,100
30	„ Sales	50	123	6,150	Oct. 22	„ Purchase	20	70	1,400
Sep. 12	„ Sales	14	49	686	Dec 14	„ Cash	50	17	850
Dec 31	„ Interest	9.79	—	—		„ Balance c/d	83.79	—	71,446
		1353.79		2,06196			1353.79		2,06196

[Note: Interest will be Rs. $71,446 \times 5/100 \times \frac{1}{365}$ = Rs. 9.79 (approx).]

Statement showing Calculation of Days (due date – Dec 31)

Transaction Date	Due Date	Jun 30	Jul 31	Aug 31	Sep 30	Oct 31	Nov 30	Dec 31	Total Days
Op. Bal.	—	1	31	31	30	31	30	31	185
Jul 17	Jul 17	—	14	31	30	31	30	31	167
Aug 1	Aug 1	—	—	30	30	31	30	31	152
Aug 19	Aug 19	—	—	12	30	31	30	31	134
Aug 30	Aug 30	—	—	1	30	31	30	31	123
Sep 1	Sep 1	—	—	—	29	31	30	31	121
Sep 1	Dec 4	—	—	—	—	—	—	27	27
Oct 22	Oct 22	—	—	—	—	9	30	31	70
Nov 12	Nov 12	—	—	—	—	—	18	31	49
Dec 14	Dec 14	—	—	—	—	—	—	17	17

[P 3] S had the following transaction with K.

1993		(Rs.)
Jan 1	Balance due from k	1,000
Feb. 16	Purchased goods from him	6,000
Feb. 28	Sold goods to him	10,000
Mar. 16	Received a cheque	3,000
Apr. 20	Sold him goods (invoiced on May 3)	10,000
Jun 16	Purchased goods from him (invoiced on July 16)	15,000
Sep. 23	Paid him cash	3,000
Oct 24	Accepted his bill for 3 months	5,000
Nov. 26	Received his acceptance for 2 months	8,000

You are asked to prepare an Account Current of K completed up to December 31, 1993 as will appear in the books of S reckoning 5% interest on the balance due.

[C.A. adapted]

Dr. K in Account Current with S

Date		Particulars	Due Date	Amount (Rs.)	Days in between 30th April & Due Date	Product
1993						
Jan 1	To	Balance b/d		1,000	365	3,65,000
Feb. 21	„	Sales A/c	Feb 21	10,000	306	30,60,000
Apr. 20	„	Sales A/c	May 03	10,000	242	24,20,000
Sep 23	„	Bank A/c	Sep 23	3,000	99	2,97,000
Oct 24	„	Bills Payable A/c (Contra 1)	Jan 27	5,000	—	—
Dec 31	„	Red Ink Product (contra 2 = 8,000 × 29)	Jan 29	—	29	2,32,000
„ „	„	Interest A/c $\left(\frac{5}{100} \times 9{,}41{,}000 \times \frac{1}{365}\right)$	— —	129	—	—
	„	Balance c/d	—	2,871	—	—
				32,000		63,74,000

Cr.

Date	Particulars	Due Date	Amount (Rs.)	Days in between 30th April & Due Date	Product
1993					
Feb 16	By Purchase A/c	Feb 16	6,000	318	19,08,000
Mar 16	„ Bank A/c	Mar 16	3,000	290	8,70,000
Jun 16	„ Purchases A/c	Jul 16	15,000	168	25,20,000
Nov 26	„ Bills Receiveable A/c (Contra 2)	Jan 29	8,000	—	—
Dec. 31	„ Red Ink Product (Contra 1 = 5,000 ×27)	—	—	27	1,35,000
	„ Balance of Products	—	—	—	9,41,000
			32,000		63,74,000

[P 4] The follwoing are the transactions that took place between X and Y during the period from 1st January 1993 to 30th June 1993 :—

(1) Balance due to X by Y as at January 1, Rs, 602
(2) Goods sold by X to Y on January 17, Rs. 884
(3) Goods sold by Y to X on February 16 (Inv. April 1), Rs. 1,296
(4) Goods returned by X to Y on February 18 (Out of the goods purchased on February 16) Rs. 112.
(5) Goods sold by Y to X on March 24 (Inv. May 1) Rs. 712.
(6) Bill drawn by Y on X for 3 months, accepted by the latter on April 22, Rs. 300.
(7) Cash paid by X to Y on April 29, Rs. 500.
(8) Goods sold by X to Y on May 17 (Inv June 1) Rs. 542.
(9) Goods sold by Y to X on June 22 (Inv. August 1), Rs. 456.

Draw up an Account Current up to June 30, 1993, to be rendered by X to Y charging interest at 18% per annum.

[C.A adapted]

Dr. Y in Account Current with X

Date	Particulars	Due Date	Amount (Rs.)	Days in between 30th April & Due Date	Product
1993					
Jan 1	To Balance b/d		602	182	1,09,564
„ 17	„ Sales A/c	Jan 17	884	165	1,45,860
Feb 18	„ Returns Outward A/c	Apr. 01	112	90	10,080
Apr 22	Bills Payable A/c (Contra 1)	Jul 25	300	—	—
„ 29	„ Cash A/c	Apr 29	500	62	31,000
May 17	„ Sales A/c	Jun 01	542	29	15,718
Jun 30	„ Red Ink Product (Contra 2 = 456 × 32)			32	14,592
„ „	„ Interest A/c $\left(1{,}59{,}954 \times \frac{10}{100} \times \frac{1}{365}\right)$		43.82		
			2983.82		3,04,722

Date		Particulars	Due Date		Amount (Rs.)	Days in between 30th April & Due Date	Product
1993							
Feb 16	By	Purchases A/c	Apr	01	1,296	90	1,16,640
Mar. 24	„	Purchases A/c (Contra 2)	May	01	712	60	42,720
Jun 22	„	Purchases A/c	Apr	01	456	—	—
„ 30	„	Red Ink Product (Contra 1 = 300 × 25)	Jul	25	—	25	7,500
	„	Balance c/d	—	—	519.82	—	1,59,954
					2,983.82		3,26,814

Exercise

Average Due Date

[E 1] A trader having accepted the following several bills falling due on different dates now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date:—

Serial No. of the bill	*Date of bill*	*Amount*	*Usance of the bill*
1.	1st March	400.00	2 months
2.	10th March	300.00	3 months
3.	5th April	200.00	2 months
4.	20th April	375.00	1 month
5.	10th May	500.00	2 months.

You are required to find out the said average due date. **[I.C.W.A. Inter. N 74]**

[E 2] Satyajit and Prosenjit are two partners of a Firm. They have drawn the following amounts from the Firm in the year ending 31st March, 1982:

Satyajit			Prosenjit		
Date		Rs.	Date		Rs.
1981	1st July	300	1981	1st June	500
	30th Sept	500		1st August	400
	1st Nov.	800	1982	1st February	400
1982	28th February	200		1st March	900

Interest at 6% is charged on all drawings. Calculate interest chargeable under Average Due date system. (Calculation to be made in months.) **[I.C.W.A. Inter. J 83]**

(**Ans.** Interest : Satyajit Rs. 40.50;
Interest : Prosenjit Ts. 49.50)

Account Current

[E 1] Make out an Account current to be rendered by Murugan to Srinivasan on 30th September, 1976, in respect of the following transactions appearing in the books of Murugan:

1976			Rs.
July	1	Debit balance b/d	1,350
	15	Sold goods to Srinivasan	900
	15	Received cash from Srinivasan	1,350
Aug	4	Sold goods to Srinivasan	1,920
	14	Received cash from Srinivasan	900
1976			Rs.
Sept.	1	Bought goods from Srinivasan	2,100
	1	Paid cash to Srinivasan	750
	12	Sold goods to Srinivasan	960
	15	Paid cash to Srinivasan	600

Interest is to be taken into account at 5% per annum, calculated to the nearest rupee according to product method.

[C.S. Preli. D 77]

(**Ans.** Interest due to Murugan Rs. 35).

[E 2] × sold goods to Y as detailed below:

Date of invoice	Value of goods sold	Date of invoice	Value of goods sold
05.05.90	Rs. 3,000	26.05.90	2,250
12.05.90	Rs. 1,500	01.06.90	2,000
19,05,90	Rs. 3,500	03.06.90	1,000

The payments were agreed to be made by bills payable 40 days from the respective dates of invoice. However Y wanted to arrange for payment of all the bills to be made on a single date.

Calculate the date on which such payment could be made without loss of interest to either party. **[C.A. Inter. adapted]**

[E 3] Gopal Krishnan had the following transaction with Balsubramaniam.

1987			Rs.
Jan	1	Balance due from Balsubramaniam	2,000
Feb.	16	Purchased goods from him	12,000
Feb.	28	Sold goods to him	20,000
Mar.	16	Received a cheque	6,000
Apr.	20	Sold him goods (Invoiced on May 3)	20,000
June	16	Purchased goods from him (Invoiced on July 10)	30,000
Sept.	23	Paid him cash	6,000
Oct.	24	Accepted his bill for 3 months	10,000
Nov.	26	Received his acceptance for 2 months	16,000

You are asked to prepare an Account current of Balsubramaniam completed up to December 31, 1987 as will appear in the books of Gopal Krishnan reckoning 10% interest on balance due.

[C.A. Inter. adapted]

Chapter 10

BILLS

[P 1] Rahim owed Ram Rs. 70,000 for which he accepted a bill drawn on him by Ram payable after 3 Months from 1-1-80.

On the 4th January the bill was discounted by the drawer with his bank for 95% value.

The bill was not met on the due date and the bank, therefore, debited the same to the drawer's account with Rs. 10 incidential charges and Rs. 40 over due interest, on the 10th April.

The drawee settled the bill value together with cost on 11th April.

Pass Journal Entries in the books of Rahim and of Ram for the above transactions.

[C.A. Entrance D 80]

Solution :

In the books of Ram

Journal

Date 1980	Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
Jan 1	Bills Receivable A/c	Dr.		70,000	
	To Rahim A/c				70,000
	(Being Bill drawn on Rahim for 3 months and acceptance received)				
" 2	Bank A/c	Dr.		66,500	
	Discounting Charges A/c	Dr.		3,500	
	To Bills Receivable A/c				70,000
	(Being the bill discounted with bank for 95% value)				
" 10	Rahim A/c	Dr.		70,050	
	To Bank A/c				70,050
	(At maturity the discounted bill being dishonoured, Bill Value plus incidental charges and interest debited by Bank).				
" 11	Bank A/c	Dr.		70,050	
	To Rahim A/c				70,050
	(Being the amount received from Rahim in settlement of the dishonoured bill)				

In the books of Rahim

Journal

Date 1980	Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
Jan 1	Ram A/c	Dr.		70,000	
	To Bills Payable A/c				70,000
	(Being Acceptance given to Ram)				
Apr. 4	Bills Payable A/c	Dr.		70,000	
	Interest A/c	Dr.		40	
	Incidental Charges A/c	Dr.		10	
	To Ram A/c				70,050
	(Being the acceptance dishonoured at maturity)				
" 11	Ram A/c	Dr.		70,050	
	To Bank A/c				70,050
	(Being payment made to Ram in settiement of the dishonoured bill including Incidental charges and Interest)				

[P 2] Yashpal owed money to Srinivas and hence accepted two bills each or Rs. 4,850 of three months duration drawn on him by the latter, on July 1, 1981. Srinivas endorsed one of the bills in favour of Hariram on July 7, 1981. On the same date he discounted the other bill with his bank and received net proceeds of Rs. 4,675.

Yashpal failed to meet both the bills on the due date. On 4th Oct., 1981, the bank debited the account of Srinivas with value of second bill plus their charges of Rs. 20.

Yashpal is adjuged insolvent and his estate paid 60 paise in the rupee, on 1st Nov., 1981.

Show Journal Entries in respect of the above in the books of Yashpal and Srinivas.

[C.A. Entrance D 81]

Solution :

In the books of Yashpal
Journal

Date 1981	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
July 1	Srinivas A/c Dr.		9,700	
	To Bills Payable A/c			9,700
	(Accepted two bills each of Rs. 4,850 payable 3 months after date)			
Oct. 4	Bills Payable A/c Dr.		9,700	
	Bank Charges A/c Dr.		20	
	To Srinivas			9,720
	(Acceptances to Mr. Srinivas dishonoured, Rs. 20 due to him for bank charges)			
Nov. 1	Srinivas A/c Dr.		9,720	
	To Bank A/c			5,832
	,, Deficiency A/c			3,888
	(First and final payment made @ 60 paise in a rupee of the net amount due)			

In the books of Srinivas
Journal

Date 1980	Particulars	L.F	Dr (Rs.)	Cr. (Rs.)
July 1	Bills Receivable A/c Dr.		9,700	
	To Yashpal A/c			9,700
	(Received two bills each of Rs. 4,850 payable 3 months after date)			
" 7	Hari Ram A/c Dr.		4,850	
	To Bills Receivable A/c			4,850
	(Bills endorsed to Hari Ram)			
" 7	Bank A/c Dr.		4,675	
	Discounting Charges A/c		175	
	To Bills Receivable A/c			4,850
	(Bill discounted for Rs.4,675)			
Oct. 4	Yashpal A/c Dr.		4,870	
	To Bank A/c			4,870
	(Dishonoured bill taken over from Bank on payment of Bill value plus Bank Charges)			

(Contd.)

Date 1981	Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
	Yashpal A/c	Dr.		4,850	
	To Hari Ram A/c				4,850
	(Endorsed Bill dishonoured)				
Nov. 1	Bank A/c	Dr.		5,832	
	Bank Debts A/c	Dr.		3,888	
	To Yashpal A/c				9,720
	(First and final dividend received @ 60 paise in a rupee of the net amount due)				

[P 3] Amarnath drew on Parker a bill of exchange for Rs. 1,00,000 on 1st January 1982 payable after 3 months from 1st January 1982, which Parker accepted. On 4th January 1982 Amarnath discounted the bill with his bankers at 18% p.a. Parker failed to meet the bill on due date and the bill was returned to Amarnath with bank charges Rs. 200 debited to him by the bank. Amarnath claimed the bill value plus bank charges from Parker. However only 40% of the amount claimed could be recovered by Amarnath on 8th April 1982 as Parker was declared insolvent.

Pass Journal Entries in the books of Amarnath and Parker for the above transactions.

[C.A. Entrance J 82]

Solution :

In the books of Amarnath

Journal

Date 1982	Particulars		L.F	Dr (Rs.)	Cr. (Rs.)
Jan. 1	Bills Receivable A/c	Dr.		1,00,000	
	To Parker A/c				1,00,000
	(Acceptance received payable 3 months after date)				
,,	Bank A/c	Dr.		95,500	
	Discounting Charges A/c	Dr.		4,500	
	To Bills Receivable A/c				1,00,000
	(Bill discounted at 18% p.a. $\frac{18}{100} \times \frac{3}{12} \times 1,00,000$)				
Apr. 4	Parker A/c	Dr.		1,00,200	
	To Bank A/c				1,00,200
	(Acceptance dishonoured, Bank Charges being Rs. 200)				
Apr. 8	Bank A/c	Dr.		40,080	
	Bad Debts A/c	Dr.		60,120	
	To Parker A/c				1,00,200
	(First and final dividend received @ 40% of the net amount due)				

In the books of Parker
Journal

Date 1982	Particulars		L.F	Dr (Rs.)	Cr. (Rs.)
Jan 1	Amarnath A/c	Dr..		1,00,000	
	To Bills Payable A/c				1,00,000
	(Acceptance given for 3 months after date)				
Apr 4	Bills Payable A/c	Dr.		1,00,000	
	Bank Charges A/c	Dr.		200	
	To Parker A/c				1,00,200
	(Acceptance to Amarnath being dishonoured his A/c is credited with bill value plus bank charges)				
Apr 8	Amarnath A/c	Dr.		1,00,200	
	To Bank A/c				40,080
	To Deficiency A/c				60,120
	(First and final payment made @ 40% of the net amount due)				

[P 4] Ramratan sold goods to Ahmed for Rs. 10,000 on 30th June, 1990, for which the latter accepted 4 bills of Rs. 2,500 each drawn on him, payable after 2,4,6 and 8 months respectively. Ramratan retained the first bill. The second bill was sent by him for collection. The third bill was endorsed by him to C in part payment of Rs. 4,000 owed to him. The fourth bill was discounted by him with his bankers at a discount of 15% p.a.

The first bill was met on the due date. As regards the second bill, Ahmed met Ramratan two days before the maturity date of the bill and paid him Rs. 1,000 and accepted a fresh bill for 30 days for the balance with interest of 18% p.a. This bill as well as the third bill were met by the drawer.

Ahmed was declared an insolvent on 31st December, 1990, and on the fourth bill becoming due, the Bank debited Ramratan with the amount of the bill and charges of Rs. 250. It is ascertained by Ramrantan that the estate of Ahmed will not be in a position to meet the liabilities to an extent of more than 40%.

What will be the Journal Entries to be made in the books of Ramratan to record the above transactions ? Show these with narrations.

[C.A. Inter. M 92]

Solution :

In the books of Ramratan
Journal

Date 1990	Particulars		L.F	Dr (Rs.)	Cr. (Rs.)
Jun 30	Ahmed A/c	Dr.		10,000.00	
	To Sales A/c				10,000.00
	(sold goods)				
	Bills Receivable No. 1 A/c	Dr.		2,500.00	
	Bills Receivable No. 2 A/c	Dr.		2,500.00	
	Bills Receivable No. 3 A/c	Dr.		2,500.00	
	Bills Receivable No. 4 A/c	Dr.		2,500.00	
	To Ahmed A/c				10,000.00
	(Bills Received)				

(Contd.)

Date 1990	Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
Jun 30	Bills for Collection A/c To Bills Receivable No. 2 A/c (Sent to Bank for Colletion)	Dr.		2,500.00	 2,500.00
„	C A/c To Bills Receivable No. 3 A/C (Endorsed)	Dr.		2,500.00	 2,500.00
„	Bank A/c Discounting Charges A/c To Bills Receivable No. 4 A/c (Discounted with Bankers ; Discounting Charges $= 2{,}500 \times \frac{15}{100} \times \frac{8}{12}$)	Dr. Dr.		2,250.00 250.00	 2,500.00
Sept. 3	Bank A/c To Bills Receivable No. 1 A/c (Payment received at maturity)	Dr.		2,500.00	 2,500.00
Nov. 1	Ahmed A/c To Bills for Collection A/c (Cancelled on renewal)	Dr.		2,500.00	 2,500.00
„ „	Ahmed A/c To Interest A/c (Interest charged $\frac{18}{100} \times \frac{1}{12} \times 1{,}500$)	Dr.		22.50	 22.50
„ „	Cash A/c Bills Receivable No. 5 A/c To Ahmed A/c (Interest charged $\frac{18}{100} \times \frac{1}{12} \times 1{,}500$)	Dr. Dr.		1,000.00 1,522.50	 2522.50
Dec. 30	Bank A/c To Bills Receivable No. 5 A/c (Payment received at maturity)	Dr.		1,522.50	 1.522.50
Mar.3.91	Ahmed A/c To Bank A/c (Discounted Bill taken over at Bill Value plus Bank charges on the drawee's being declared insolvent)	Dr.		2,750.00	 2,750.00
„	Bad Debts A/c To Ahmed A/c (60% of Rs. 2,750 due from him is no more recoverable)	Dr.		1,650.00	 1,650.00

[P 5] On 1st January, 1985, P draws a threee months bill of exchange for Rs. 30,000 on his debtor Q who accepts it on the same date. P discounts the bill on 4th January 1985, with his bankers, the discount rate being 6% p.a.

On the due date, the bill is dishonoured, the noting charges being Rs. 200. Q immediately makes an offer to P to pay him Rs. 10,000 cash on account and to settle the balance by agreeing to accept one bill of exchange for Rs. 12,000 at one month and the other for the balance at three months, the latter including interest at 12% p.a. for both the bills.

P accepts the arrangement. The bill for Rs. 12,000 is met on the due date but the other bill is dishonoured.

Show Q's Account and Bills Receivable Account in the books of P.

[I.C.W.A. Inter. D 85]

Solution :

In the books of P

Dr. **Q A/c** *Cr.*

1985			Rs.	1985			Rs.
Jan	1	To Balance b/d	30,000	Jan 1	By	Bills Receivable A/C	30,000
Apr.	4	„ Bank A/c	30,200	Apr. 4	„	Bank A/c	10,000
"	4	„ Interest A/c $[(12000\times\frac{1}{12}\times\frac{12}{100})+(8200\times\frac{3}{12}\times\frac{12}{100})=120+246]$	366	„ „	„	Bills Receivable	12,000
				„ „	„	Bills receivable [8200 + 366]	8,566
„	„	„ Bills Receivable A/c	8,566	July 7	„	Balance c/d	8,566
			69,132				69,132
Jul	7	To Balance b/d	8,566				

In the books of P

Dr. **Q A/c** *Cr.*

1985			Rs.	1985			Rs.
Jan	4	To Q A/c	30,000	Jan 4	By	Bank A/c	29,550
Apr.	1	„ Q A/c	12,000	„ „	„	Discounting Charges A/c [30,000 × 3/12 × 6/100]	450
"	1	„ Q A/c	8,566	May 7	„	Bank	12,000
				July 7		Q A/c	8,566
			50,566				50,566

[P 6] P draws the following Accommodation bills :

(a) On Q Rs. 20,000. This is discounted for Rs. 19,600 and half of the proceeds is sent to Q. Before maturity P remits his share and the bill is honoured.

(b) On R, Rs. 24,000. This is discounted for Rs. 23,400 and one third of the proceeds is sent to R. R fails to pay on maturity and Rs. 60 noting charge is incurred. The bill is met by P. R becomes insolvent and 50 paise dividend in a rupee is realised from his estate.

Show Journal Entries in the books of P. **[I.C.W.A. Inter. J 89]**

Solution :

In the books of P

				(Rs.)	(Rs.)
(a)	Bills receivable A/c	Dr.		20,000	
	To Q A/c				20,000
	(Acceptance Received)				
	Bank A/c	Dr.		19,600	
	Discounting Charges A/c			400	
	To Bills Receivable A/c				20,000
	(Discounted the Bill with bank.)				

(Contd.)

			(Rs.)	(Rs.)
	Q A/c Dr.		10,000	
	ToBank A/c			9,800
	To Discounting Charges A/c			200
	(Remitted half of the proceeds.)			
	Q A/c Dr.		10,000	
	To Bank A/c			10,000
	(Remitted the balance of the dues before maturity of the Bill)			
(b)				
	Bills Receivable A/c Dr.		24,000	
	To R A/c			24,000
	(Acceptance received)			
	Bank A/c Dr.		23,400	
	Discounting Charges A/c Dr.		600	
	To Bils Receivable A/c			24,000
	(Discounted the Bill with bank.)			
	R A/c Dr.		8,000	
	To Bank A/c			7,800
	To Discounting Charges A/c			200
	(Remitted 1/3 of the proceeds)			
	R A/c Dr.		24,020	
	Noting Charges A/c Dr.		40	
	To Bank A/c			24,060
	(Accommodation Bill dishonoured, taken over from Bank and noted. 1/3 of the noting charges borne by R, his liability being restricted to the proportion of the proceeds he received.)			
	Bank A/c Dr.		4,010	
	Bad Debts A/c Dr.		4,010	
	To R A/c			8,020
	(First and final dividend of 50 paise in a rupee is realised from estate on insolvency.)			

[P 7] On 1st January, 1986, Pandit, for mutual accommodation of himself and Thakur, drew upon the latter a three months bill for Rs.12,000, which was duly accepted, Pandit discounted the bill at 6% p.a. 4th January, 1986 and remitted half the proceeds to Thakur.

On 1st February, 1986, Thakur drew and Pandit accepted a bill at three months for Rs. 4,800. On 4th February, 1986, Thakur discounted the bill at 6% p.a. and remitted half the proceeds to Pandit.

At maturity Pandit met his acceptance, but Thakur failed to meet his and Pandit had to take it up. Pandit drew and Thakur accepted an new bill at two months on 4th May 1986, for the amount due to Pandit plus Rs.100 as interest. On 1st July, 1986, Thakur became insolvent and a first and final dividend of 50 paise in the rupee was received from his estate on 30th September, 1986.

Pass necessary Journal Entries in the books of Pandit.

[I.C.W.A. Inter. J 87]

Solution :

In the books of Pandit
Journal

1986		Dr.	Cr.
Jan. 1	Bills Receivable A/c Dr. To Thakur A/c (Acceptance received)	12,000	12,000
" 4	Bank A/c Dr. Discounting Charges A/c To Bills Receivable A/c (Discounted the bill with bank)	11,820 180	12,000
" 4	Thakur A/c Dr. To Bank A/c To Discounting Charges A/c (remitted half of the proceeds)	6,000	5,910 90
Feb. 1	Thakur A/c Dr. To Bills payable A/c (Acceptance given)	4,800	4,800
" 4	Bank A/c Dr. Discounting Charges A/c To Thakur A/c (Half of the proceeds of the 2nd Bill received)	2,364 36	2,400
Apr. 4	Thakur A/c Dr. To Bank A/c (Discounted Bill taken over on Thakur's failure to honour the same)	12,000	12,000
May. 4	Bills Payable A/c Dr. To Bank A/c (Acceptance honoured)	4,800	4,800
" 4	Thakur A/c Dr. To Interest A/c (Interest charged from Thakur.)	100	100
" "	Bills Receivable A/c Dr. To Thakur A/c (Fresh acceptance received for net amount due)	8,500	8,500
Jul 1	Thakur A/c Dr. To Bills Receivable A/c (Fresh Bill dishonoured on maturity.)	8,500	8,500
Sep. 30	Bank A/c Dr. Bad Debts A/c To Thakur A/c (First and final dividend received @ 50 paise in a rupee of the net amount due)	4,250 4,250	8,500

[P 9] Journalise the following transactions in the books of S. Swamy.

(a) Our acceptance to P. Pandey for Rs. 1,500 renewed for 3 months on the condition that Rs. 500 is paid in cash immediately and the remaining balance to carry interest @ 12% p.a.

(b) K. Pathak's Promissory Note for Rs. 1,200 endorsed in favour of D. Gupta returned dishonoured. D. Gupta paid Rs. 30 as noting charges. S. Swamy pays D.Gupta by cheque and accepts from K. Pathak another bill for the amount due along with interest Rs. 80.

(c) A Bills Payable accepted in favour of K. Modi for Rs. 4,000 returned unpaid due to lack of instructions to the Bank. Mr. Modi claims Rs. 4,050 (Rs. 50 as noting charges) which is paid by cheque. **[I.C.W.A. J 92]**

Solution :

In the books of Swamy

Date	Particulars		L.F.	Dr.	Cr.
(a)					
	Bills Payable A/c	Dr.		1,500	
	Interest A/c	Dr.		30	
	To P. Pandey A/c				1,530
	(Original Bills Payable cancelled and Interest charged for renewal of the same)				
	P.Pandey A/c	Dr.		1,530	
	To Cash A/c				500
	To Bills Payable A/c				1,030
	(Pandey paid off partly in cash and partly through fresh acceptance)				
(b)					
	K. Pathak A/c	Dr.		1,230	
	To D. Gupta A/c				1,230
	(Endorsed Bill dishonoured)				
	D.Gupta A/c	Dr.		1230	
	To Bank A/c				1230
	(D. Gupta paid off)				
	K.Pathak A/c	Dr.		80	
	To Interest A/c				80
	(Interest charged from K. Pathak)				
	Bills Receivable A/c	Dr.		1,310	
	To K. Pathak A/c				1,310
	(Fresh acceptance received from K. Pathak for the net amount due)				
(c)					
	Bills Payable A/c Dr.			4,000	
	Noting Charges A/c			50	
	To K.Modi A/c				4,050
	(Acceptance given to Modi dishonoured, noting charges being paid by him)				
	K. Modi A/c	Dr.		4,050	
	To Bank A/c				4,050
	(K. Modi paid off by cheque)				

[P 8] Arun and Anand were friends and in need of funds. On 1-1-93 Arun drew a bill for Rs. 2,00,000 for 3 months on Anand. On 4-1-93 Arun got the bill discounted at 10% p.a. and remitted half of the proceeds to Anand. On the due date, Anand could not meet the bill, intead, Arun accepted Anand's bill for Rs. 1,20,000 on 4-4-93 for two months. This was discounted by Anand at 12% p.a. Out of this Rs. 19,600 was paid to Arun after deducting Rs. 400 discounting charges. Due to financial crisis, Arun became insolvent andthe bill drawn on him was dishonoured and his estate paid 50%. Days of grace for discount purposes may be ignored.

Give journal entries in the books of Arun and prepare Anand's account in Arun's books and Arun's account in the books of Anand. **[C A Foundation D 93]**

Solution :

In the Books of Arun
Journal

Date	Particulars	L.F.	Dr.	Cr.
1.1.93	Bills Receivable A/c Dr. To Anand A/c (Acceptance for 3 months received on accommodation)		2,00,000	2,00,000
4.1.93	BankA/c Dr. Discounting Charges A/c Dr. To Bills Receivable A/c (Bill discounted at 10% p.a. Discounting Charges $=\frac{10}{100}\times\frac{3}{12}\times 2,00,000$)		1,95,000 5,000	2,00,000
4.1.93	Anand A/c Dr. To Bank A/c " Discounting Charges A/c (Half of the proceeds remitted; discounting Charges borne by Anand being $\frac{1}{2}\times 5,000$)		1,00,000	97,500 2,500
4.4.93	Anand A/c Dr. To Bills Payable A/c (Acceptance given for 2 months)		1,20,000	1,20,000
4.493	Bank A/c Dr. Discounting Charges A/c Dr. To Anand A/c (Proceeds of discounted bill received from Anand)		19,600 400	20,000
7.6.93	Bills Payable A/c Dr. To Anand A/c (Acceptance given dishonoured due to insolvency)		1,20,000	1,20,000
7.6.93	Anand A/c Dr. To Bank A/c " Deficiency A/c (50% of the balance due paid off the balance being treated as deficiency)		1,20,000	60,000 60,000

In the books of Arun
Anand A/c

Dr. *Cr.*

		(Rs.)			(Rs.)
4.1.93	To Bank A/c	97,500	1.1.93	By Bills Receivable A/c	2,00,000
4.1.93	" Discounting Charges A/c	2,500	4.4.93	" Bank A/c	19,600
4.4.93	" Bills Payable A/c	1,20,000	4.4.93	" Discounting Charges A/c	400
7.6.93	" Bank A/c	60,000	7.6.93	" Bills Payable A/c	1,20,000
7.6.93	" Deficiency A/c (Bal fig.)	60,000			
		3,40,000			3,40,000

In the books of Anand

Arun A/c

Dr. *Cr.*

		(Rs.)			(Rs.)
1.1.93	To Bills Payable A/c	2,00,000	4.1.93	By Bank A/c	97,500
4.4.93	" Bank A/c	19,600	4.1.93	" Discounting Charges A/c	2,500
4.4.93	" Discounting Charges A/c	400	4.4.93	" Bills Receivable A/c	1,20,000
7.6.93	" Bank A/c	1,20,000	7.6.93	" Bank A/c	60,000
			7.6.93	" Bad Debts A/c (Bal. fig.)	60,000
		3,40,000			3,40,000

Exercise

Bills of Exchange

[E 1] On May 1, 1980, Ahmed sold goods to Bawa for Rs. 6,000 and also purchased goods from Charles for Rs. 5,900. On the same date Ahmed drew a bill on Bawa for Rs. 5,800 for 3 months after date in full settlement of the claim. On May 5, 1980, Bawa accepted the same and returned to Ahmed. On May 8, 1980, Ahmed endorsed the bill to Charles in full settlement of the account.

On May 11, 1980, Charles discounted the bill from his banker for Rs. 5,650. On the due date, the bill was dishonoured, the noting charges incurred by the banker amounting to Rs. 50.

Journalise the above transactions in the books of Ahmed, Bawa and Charles.

[I.C.W.A. Inter. D 80]

[E 2] On 1st July, 1971, M owes to S Rs. 1,200 and accepts three bills of Rs. 400 each due respectively in one, two and four months. The first bill is retained by S and is duly met. The second bill was discounted (Charges being Rs. 4) and is met in due course. The third is also discounted (Charges Being Rs. 4) and is dishonoured. The noting charges being Rs.10.

New arrangements are duly made whereby M pays cash Rs. 100 and accepts a bill due for two months for the balance of the amount with interest at 6% per annum. The bill is retained. On due date, the same is dishonoured, noting charges being Rs. 7. M shortly became insolvent and 25 paise in the rupee was received from his estate.

Pass Journal Entries in the books of S.

[CS Preli. J 80]

[E 3] For mutual accommodation of themselves, Samaresh and Animesh draw bills on each other. On January 2, 1979, Samaresh draws a bill on Animesh for Rs. 2,000 payable three months and on 3rd January, 1979, Animesh draws a bill on Samaresh for Rs. 1,000 payable three months. As arranged, both the bills are immediately discounted at 5% per annum and the proceeds are shared equally. On maturity of the first bill Animesh becomes insolvent and is unable to honour the bill. A dividend of 50 paise in the rupee is realised from his estate on 30th June, 1979.

[I.C.W.A. Inter. D 79]

[E 4] On 1-7-83 Salil for mutual accommodation of himself and Sunil drew on the other a bill for Rs. 10,000 payable at 3 months date. The bill was discounted with Central Bank of India at 5% and half of the proceeds were remitted to Sunil on 2-7-83.

On 2-7-83 Sunil drew a bill on Salil for Rs. 4,000 payable at 3 months date. He discounted the bill with Bank of India at 10% and remitted half of the Proceeds to Salil.

Sunil became bankrupt on 31-8-83 and only 25% was received by Salil on 15-9-83 as the first and final dividend from his estate. Write the Journal Entries in the books of Salil.

[I.C.W.A. Inter. D 83]

[P 5] On 1st July, 1973, Mr. Verma for mutual accommodation of himself and Mr. Sharma drew on the latter a Bill for Rs. 5,000 payable 90 days after sight (without grace). On the same date the bill was discounted with the Punjab National Bank at $7\frac{1}{2}\%$ and half of the proceeds were remitted to Mr. Sharma on 2-7-1973.

On 3-7-73 Mr. Sharma drew a bill on Mr. Verma for Rs. 2,000 payable 90 days after sight (also without grace). He discounted the bill with the Central Bank of India at 10% and remitted half the proceeds to Mr. Verma on the same date.

Mr. Sharma became bankrupt on 10-9-73 and only 50% was received by Mr. Verma on 25-7-93 as the first and final dividend from his estate.

Pass the necessary journal entries and show the account of Mr. Sharma in the books of Mr. Verma.

[I.C.W.A. Inter. J 74

[P 5] Rahim for mutual accommodation draws a bill of Rs. 3,000 on Ratan. Rahim discounted it for Rs. 2,925. He remits Rs. 975 to Ratan. On the due date Rahim is unable to remit his dues to Ratan to enable him to meet the bill. He however, accepts a bill for Rs. 3,750 which Ratan discounts for Rs. 3,625. Ratan sends Rs. 175 to Rahim after discounting the above bill Rahim becomes insolvent and a dividend of 80 paise in the rupee is received from his estate. Pass the necessary Journal Entries in the books of both the parties .

[I.C.W.A. Inter. D 76]

Chapter 11

SELF-BALANCING

[P 1] You have been furnished with the following information by M/s Mehra & Sons, New Delhi :—

		Rs.
Opening Balances		2,70,900
Bought ledger :	Credit balances	29,000
	Debit balances	3,27,000
Sales ledger :	Debit balances	
Purchases returns		2,700
Cheques issued in favour of creditors		8,32,800
Acceptance of bills payable		1,00,000
Credit sales		18,27,000
Credit Purchases		9,27,600
Discount received		22,500
Receipts from debtors		13,42,000
Bills receivables		6,00,000
Discount allowed		7,500

You have to prepare :—

(a) Bought Ledger Adjustment Account in General Ledger

(b) Sales Ledger Adjustment Account in General Ledger

(c) General Ledger Adjustment Account in Sales Ledger. **[C. A. Entrance J 81 & J 85]**

Solution :

In the books of Mehra & Sons

In General Ledger

Dr. **Bought Ledger Adjustment A/c** *Cr.*

			(Rs.)			(Rs.)
To	Balance b/d		29,000	By	Balance b/d	2,70,900
"	General Ledger Adjustment A/c :			"	General Ledger Adjustment A/c :	
	Purchase Returns	2,700			Purchases	9,27,600
	Bank	8,32,800				
	Bills payable	1,00,000				
	Discount	22,500	9,58,000			
"	Balance c/d		2,11,500			
			11,98,500			11,98,500
				By	Balance b/d	2,11,500

Sales Ledger Adjustment A/c

Dr.		(Rs.)				Cr. (Rs.)
To	Balance b/d	3,27,000	By	General Ledger Adjustment A/c :		
"	General Ledger Adjustment A/c : Sales	18,27,000	"	Bank/Cash	13,42,000	
				Bills Receivable	6,00,000	
				Discount allowed	7,500	19,49,500
			"	Balance c/d		2,04,500
		21,54,000				21,54,000
To	Balance b/d	2,04,500				

In Sales Ledger
General Ledger Adjustment A/c

Dr.			(Rs.)			Cr. (Rs.)
To	Sales Ledger Adjustment A/c :			By	Balance b/d	3,27,000
	Bank	13,42,000		"	Sales Ledger Adjustment A/c : Sales	18,27,000
	Bills receivable	6,00,000				
	Discount allowed	7,500	19,49,500			
To	Balance c/d		2,04,500			
			21,54,000			21,54,000
				By	Balance b/d	2,04,500

[P 2] From the following particulars, prepare the Sales Ledger Adjustment Account and Purchase Ledger Adjustment Account in the General Ledger ;—

			(Rs.)
Opening Balances			
	Purchase Ledger :	Credit	2,00,000
		Debit	22,700
	Sales Ledger :	Credit	2,400
		Debit	4,21,000
Transactions :			
Credit Purchases			20,00,000
Cash Purchases			2,00,000
Credit Sales			18,00,000
Cash Sales			7,00,000
Credit Purchase Returns			1,00,000
Credit Sales Returns			80,000
B/R received			3,00,000
B/P accepted			2,00,000
Bad debts written off			10,600
Provision for Doubtful Debts created during the year			10,600
B/R dishonoured			40,000
Cash received from debtors			12,00,000
Cash paid to creditors			16,00,000
Closing balances :			
	Purchases Ledger :	Cr.	?
		Dr.	17,000
	Sales ledger :	Cr.	9,000
		Dr.	?

[C. A. Entrance J 82]

Solution :

In the books of Mehra & Sons
In the General Ledger
Sales Ledger Adjustment A/c

Dr.		(Rs.)	Cr.		(Rs.)
To Balance b/d		4,21,000	By Balance b/d		2,400
" General Ledger Adjustment A/c :			" General Ledger Adjustment A/c :		
Sales	18,00,000		Cash	12,00,000	
Bills Receivable dishonoured	40,000	18,40,000	Bills Receivable	3,00,000	
			Return Inward	80,000	
			Bad Debts	10,600	15,90,600
" Balance c/d		9,000	" Balance c/d		6,77,000
		22,70,000			22,70,000

Purchase Ledger Adjustment A/c

Dr.		(Rs.)	Cr.	(Rs.)
To Balance b/d		22,700	By Balance b/d	2,00,000
" General Ledger Adjustment A/c :			" General Ledger Adjustment A/c :	
Cash	16,00,000		Purchases	20,00,000
Bills Payable	2,00,000		" Balance c/d	17,000
Return Outward	1,00,000	19,00,000		
" Balance c/d		2,94,300		
		22,17,000		22,17,000
" Balance b/d		17,000	" Balance b/d	2,94,300

[P 3] From the following particulars prepare Customers Control Account in General Ledger and General Ledger Control Account in Customers Ledger :—

		Rs.
Opening balance in Customers Ledger :	Dr.	2,35,000
	Cr.	3,500
Goods sold during the year		7,65,000
Returns inward		15,000
Cash/Cheques received		5,90,000
Bills received		1,10,000
Discount allowed		9,000
Cheque received dishonoured		5,000
Bills received dishonoured		7,000
Bad Debts		9,000

A debit of Rs. 1,500 is to be transferred from Customers Ledger to Supplier's Ledger. Similarly a credit entry of Rs. 1,600 is to be transferred from Supplier's Ledger to Customers Ledger. Closing credit balance in Customers Ledger is Rs. 3,000.

[C. A. Entrance M 86]

Solution :

In General Ledger
Customers Control A/c

Dr.			(Rs.)				Cr. (Rs.)
To	Balance b/d		2,35,000	By	Balance b/d		3,500
"	General Ledger Control A/c			"	General Ledger Control A/c		
	Sales	7,65,000			Bank/Cash	5,90,000	
	Bills Receivable Dishonoured	7,000			Return Inwards	15,000	
	Bank (Cheques Dishonoured)	5,000	7,77,000		Bills Receivable	1,10,000	
					Discount allowed	9,000	
					Bad Debts	9,000	
					Debit entry Transfer to Suppliers Ledger	1,500	
"	Balance c/d		3,000		Credit Entry Transfer from Suppliers Ledger	1,600	7,36,100
				"	Balance c/d		2,75,400
			10,15,000				10,15,000
By	Balance b/d		2,75,400	"	Balance b/d		3,000

In Customers Ledger
General Ledger Control A/c

Dr.			(Rs.)				Cr. (Rs.)
To	Balance b/d		3,500	By	Balance c/d		2,35,000
"	Customers Control A/c			"	Customers Control A/c		
	Bank/Cash	5,90,000			Sales	7,65,000	
	Returns Inward	15,000			Bills Receivable (Dishonoured)	7,000	
	Bills Receivable	1,10,000			Bank (Cheques Dishonoured)	5,000	7,77,000
	Discount	9,000					
	Bad Debts	9,000					
	Debit entry Transfer to Suppliers Ledger	1,500					
	Credit entry Transfer from Suppliers Ledger	1,600	7,36,100				
"	Balance c/d		2,75,400	"	Balance c/d		3,000
			10,15,000				10,15,000
"	Balance b/d		3,000	"	Balance b/d		2,75,400

[P 4] The under mentioned particulars have been obtained from the books of Mr. Ram who keeps only one Sales Ledger under the Self Balancing System. Prepare the relative Sales ledger Adjustment Account as on 31st December 1986 :

30th June 1986 Debtor's Balances Rs. 21,300
Transactions during the Half Year ended 31st December 1986
Total sales amount to Rs. 77,000 of which cash sales amount to Rs. 33,200

Returns from Debtors	525
Cash received from debtors	30,975
Discount allowed to Debtors	1,125
Acceptances received from Debtors	3,150
Acceptances returned Dishonoured	450
Bad debts, written off	675
Sundry charges debited to debtors	22
Bad Debts Recovered	51
Reserve for Bad Debts	200

[C. A. Entrance M 87]

Solution :

In Sales Ledger

General Ledger Adjustment A/c

Dr. *Cr.*

1986			(Rs.)	1986			(Rs.)
Dec. 31	To Sales Ledger Adjustment A/c :			Jul 1	By Balance b/d		21,300
	Cash	30,975		Dec. 31	" Sales Ledger Adjustment A/c		
	Discount Allowed	1,125			Sales	43,800	
	Bills Receivable	3,150			B/R Dishonoured	450	44,272
	Sales	525			Sundry charges	22	
	Bad Debts	675	36,450				
"	" Balance c/d		29,122				
			65,572				65,572
				1987 Jan. 1	" Balance b/d		29,122

In General Ledger

Sales Ledger Adjustment A/c

Dr. *Cr.*

1986			(Rs.)	1986			(Rs.)
Jul. 1	To Balance b/d		21,300	Dec. 31	By General Ledger Adjustment A/c		
	" General Ledger Adjustment A/c				Cash	30,975	
	Sales	43,800			Discount Allowed	1,125	
	B/R Dishonoured	450			Bills Receivable	3,150	
	Sundry charges	22	44,272		Sales Returns	525	
					Bad Debts	675	36,450
				"	By Balance c/d		29,122
			65,572				65,572
1987 Jan. 1	" Balance b/d		29,122				

[P 5] From the following figures extracted from the books of Shri Janardan for 1988, give the General Ledger Adjustment Accounts in the Bought Ledger and Sales Ledger Adjustment Account in the General Ledger :—

	Rs.
Balance of the Bought Ledger Adjustment Account as on 1-1-88 (Cr.)	3,860
Balance of the Sales Ledger Adjustment Account as on 1-1-88 (Dr.)	2,750
Credit Purchases	40,000
Acceptance received from Customers	2,500
Allowances received	400
Credit Sales	50,000
Interest on Customers' overdue accounts	400
Collection from Debtors	29,000
Sales Returns	800
Credit transferred from Bought Ledger to Sales Ledger	75
Cash sales	2,000
Acceptance returned to us dishonoured	700
Paid to Creditors	13,000

[C. A. Entrance M 89]

Solution :

In the Books of Mr. Janardan
In Bought Ledger
General Ledger Adjustment A/c

Dr. | | *Cr.*

Date		Particulars		(Rs.)	Date		Particulars		(Rs.)
1.1.88	To	Balance b/d		3,860	31.12.88	By	Bought Ledger Adjustment A/c (in General Ledger)		
31.12.88	"	Bought Ledger Adjustment A/c (in General Ledger)					Bank	13,000	
		Purchases		40,000			Allowances	400	
							Transfer	75	13,475
					"	"	Balance c/d		30,385
				43,860					43,860
1.1.89	To	Balance b/d		30,385					

In Sales Ledger
General Ledger Adjustment A/c

Dr. | | *Cr.*

Date		Particulars		(Rs.)	Date		Particulars		(Rs.)
1.1.88	To	Balance b/d		2,750	31.12.88	By	General Ledger Adjustment A/c (in Sales Ledger)		
31.12.88	"	General Ledger Adjustment A/c (in Sales Ledger)					Bank	29,000	
		Sales	50,000				Sales Return	800	
		Interest	400				Bills Receivable	2,500	
		B/R Dishonoured	700	51,100			Transfer	75	32,375
						"	Balance c/d		21,475
				53,850					53,850
1.1.89	"	Balance b/d		21,475					

[P 6] Below are given particulars from the Sales Ledger of Shri Ramlal, a trader, for the month of March, 1990 :—

	Rs.
March 1, 1990	
Opening balance	31,000
March 31, 1990	
Total sales for the month	91,000
Sales Return	1,500
Cash received from debtors	41,000
Bills Receivable	16,000
Bills dishonoured	2,500
Discount allowed to debtors	1,400
Bad debts	1,350
Transfer from another ledger	1,750
Bills receivable endorsed to suppliers	2,200

You are required to prepare the relative Sales Ledger and General Ledger Adjustments Accounts.

[C. A. Entrance N 90]

Solution

In the Booksof Ramlal
In General Ledger
Sales Ledger Adjustment A/c

Dr. Cr.

Date	Particulars		(Rs.)	Date	Particulars		(Rs.)
1990				1990			
Mar. 1	To Balance b/d		31,000	Mar. 31	By General Ledger Adjustment A/c		
	" General Ledger Adjustment A/c				Sales Return	1,500	
	Sales	91,000			Cash	41,000	
	Bills Receivable (dishonoured)	2,500	93,500		Bills Receivable	16,000	
					Discount	1,400	
					Bad Debts	1,350	
					Transfer (set off)	1,750	63,000
					" Balance c/d		61,500
			1,24,500				1,24,500

In Sales Ledger
General Ledger Adjustment A/c

Dr. Cr.

Date	Particulars		(Rs.)	Date	Particulars		(Rs.)
1990				1990			
Mar. 31	To Sales Ledger Adjustment A/c			Mar. 1	By Balance b/d		31,000
	Sales Return	1,500		" 31	Sales Ledger Adjustment A/c		
	Cash	41,000			Sales	91,000	
	Bills Receivable	16,000			Bills Receivable (dishonoured)	2,500	93,500
	Discount	1,400					
	Bad Debts	1,350					
	Transfer (set off)	1,750	63,000				
	" Balance c/d		61,500				
			1,24,500				1,24,500
				Apr. 1	" Balance b/d		61,500

[P 7] From the following particulars, ascertain the amount of credit sales and credit purchases for the year ended 31st March, 1991 :—

	Rs.
Total Creditors : 1-4-90	4,00,000
Total Debtors : 1-4-90	8,00,000
Cash received from Customers	14,50,000
Received for Bills Receivable	80,000
Paid to Sundry Creditors	5,60,000
Bills Payable met	1,20,000
Discount allowed to Customers	20,000
Discount earned	10,000
Sales Returns	60,000
Purchase Returns	80,000
Bad Debts	30,000

	Rs.
Total Creditors : 31-3-91	9,20,000
Total Debtors : 31-3-91	9,80,000
Bills Receivable : 1-4-90	60,000
Bills Receivable : 31-3-91	1,80,000
Bills Payable : 1-4-90	1,40,000
Bills Payable : 31-3-91	1,00,000

[C. A. Entrance M 91]

Solution :

Total Debtors A/c

Dr.		(Rs.)		Cr.	(Rs.)
1.4.90	To Balance b/d	8,00,000		By Cash	14,50,000
				" Discount allowed	20,000
				" Sales Returns	60.000
				" Bad Debts	30,000
	Sales (Bal fig)	19,40,000		" Bills Receivable	2,00,000
			31.3.91	" Balance c/d	9,80,000
		27,40,000			27,40,000
1.4.91	To Balance b/d	9,80,000			

Total Creditors A/c

Dr.		(Rs.)		Cr.	(Rs.)
	To Cash	5,60,000	1.4.90	By Balance b/d	4,00,000
	" Discount earned	10,000		" Purchases (Credit Purchase) (balancing figure)	12,50,000
	" Purchase Returns	80,000			
	" Bills Payable	80,000			
31.3.91	" Balance c/d	9,20,000			
		16,50,000			16,50,000
			1.4.91	By Balance b/d	9,20,000

Bills Receivable A/c

Dr.		(Rs.)		Cr.	(Rs.)
1.4.90	To Balance b/d	60,000		By Cash	80,000
	" Sundry Debtors (balancing figure)	2,00,000	31.3.91	" Balance c/d	1,80,000
		2,60,000			2,60,000
1.4.91	To Balance b/d	1,80,000			

Bills Payable A/c

Dr.		(Rs.)		Cr.	(Rs.)
31.3.91	To Cash	1,20,000	1.4.90	By Balance b/d	1,40,000
	" Balance c/d	1,00,000		" Sundry Creditors A/c (balancing figure)	80,000
		2,20,000			2,20,000
			1.4.91	By Balance b/d	1,00,000

[P 8] Prepare the Sales Ledger Control Account and the Bought Ledger Control Account from the following particulars :—

	Debtors Ledger Rs.	Creditors Ledger Rs.
Debit Balances as on 1-4-90	1,54,000	800
Credit Balances as on 1-4-90	200	1,25,840
Credit sales and Purchases	4,83,400	2,86,860
Cash received and paid	3,02,000	1,84,000
Cash Paid to debtors	1,000	—
B/R received and B/P accepted	43,000	34,300
Discount allowed and received	8,000	6,000
Returns	12,400	5,600
Transfer from Bought to Sold Ledger	8,400	8,400
Bad debts	1,300	—
Provision for Bad Debts	3,400	—
B/P Dishonoured (Cancelled)	—	2,100
Debit balances as on 31-3-91	2,64,200	400
Credit balances as on 31-3-91	600	1,76,100

There is excess debit of Rs. 450 in the Trial Balance of General Ledger. Give your comments regarding the difference. **[C. A. Entrance M 91]**

Solution :

In General Ledger

Sales Ledger Control A/c

Dr. *Cr.*

			(Rs.)				(Rs.)
1.4.90	To Balance b/d		1,54,700	1.4.90	By Balance b/d		200
	" General Ledger Control A/c				" General Ledger Control A/c		
	Sales	4,83,400			Cash	3,02,000	
	Cash	1,000	4,84,400		B/R	43,000	
					Discount Allowed	8,000	
					Returns	12,400	
					Bad Debts	1,300	
					Transfer	8,400	3,75,100
31.3.91	" Balance c/d		600	31.3.91	" Balance c/d		2,64,400
			6,39,700				6,39,700
1.4.91	" Balance b/d		2,64,400	1.4.91	" Balance b/d		600

Bought Ledger Control A/c

Dr. *Cr.*

			(Rs.)				(Rs.)
1.4.90	To Balance b/d		800	1.4.90	By Balance b/d		1,25,840
	" General Ledger Control A/c				" General Ledger Control A/c		
	Cash	1,84,000			Purchases	2,86,860	
	B/P	34,300			Bills Payable (Dishonoured)	2,100	2,88,960
	Discount Received	6,000					
	Returns	5,600					
	Transfer	8,400	2,38,300				
31.3.91	" Balance c/d (Balancing figure)		1,76,100	31.3.91	" Balance c/d		400
			4,15,200				4,15,200
1.4.91	" Balance b/d		400	1.4.91	" Balance b/d		1,76,100

Comment ; The difference may be due to posting error in the Control A/cs in the General Ledger.

[P 9] Prepare the Sales Ledger Control Account and Purchases Ledger Control Account from the following particulars :—

	Sales Ledger Rs.	Purchases Ledger Rs.
Debit balance as on 1-1-93	1,50,000	1,000
Credit balance as on 1-1-93	200	1,25,000
Credit sales and purchases	4,00,000	3,80,000
Cheque received and paid	4,50,000	3,50,000
Advance paid to creditors		2,000
B/R received and B/P accepted	50,000	50,000
Discounts allowed and received	5,000	3,000
Returns	10,000	5,000
Transfer from Purchases to Sales Ledger	10,000	10,000
Bad debts	2,000	
Reserve for discounts	10,000	5,000
B/R, B/P dishonoured	5,000	5,000
Debit Balances as on 30-6-93	30,000	?
Credit Balances as on 30-6-93	?	72,000

[C. A. Foundation D 93]

Solutions :

In the Books of
In the General Ledger
Sales Ledger Control A/c

Dr. *Cr.*

Date		Particulars		(Rs.)	Date		Particulars		(Rs.)
1.1.93	To	Balance b/d		1,50,000	1.1.93	By	Balance		200
30.6.93	"	General Ledger Adjustment A/c (in Sales Ledger)			30.6.93	"	General Ledger (Adjustment A/c (in Sales Ledger)		
		Sales	4,00,000				Cheque received	4,50,000	
		B/R dishonoured	5,000	4,05,000			B/R received	50,000	
							Discount allowed	5,000	
	"	Balance c/d		2,200			Returns	10,000	
							Transfer from Purchase Ledger	10,000	
							Bad Debts	2,000	5,27,000
					30.6.93	"	Balance c/d		30,000
				5,57,200					5,57,200
1.7.93	"	Balance b/d		30,000	1.7.93	"	Balance b/d		2,200

Purchase Ledger Control A/c

Dr. *Cr.*

Date		Particulars		(Rs.)	Date		Particulars		(Rs.)
1.1.93	To	Balance b/d		1,000	1.1.93	By	Balance b/d		1,25,000
30.6.93	"	General Ledger Adjustment A/c (in Purchase Ledger)			30.6.93	"	General Ledger Adjustment A/c (in Purchase Ledger)		
		Cheques paid	3,50,000				Purchases	3,80,000	
		Advance paid	20,000				Bills Payable (Dishonoured)	5,000	3,85,000
		B/P Accepted	50,000			"	Balance c/d		1,000
		Discount received	3,000						
		Returns	5,000						
		Transfer to Sales Ledger	10,000	4,38,000					
	"	Balance c/d		72,000					
				5,11,000					5,11,000
1.7.93	"	Balance b/d		1,000	1.7.93	"	Balance b/d		72,000

Exercise

Self-Balancing Ledger

[E 1] From the following information prepare (1) Total Debtors Account and (2) Total Creditors Account.

		Rs.
January 1, 1985 :	Balance of Suridry Debtors	32,000
June 30, 1986 :	Balance of Sundry Creditors	37,000
	Credit Purchases	9,000
	Credit Sales	19,600
	Cash Sales	1,500
	Cash Purchases	1,000
	Paid to Creditors	19,750
	Discount allowed by them	650
	Cash received from Debtors	15,600
	Discount allowed to them	400
	Bills Payable accepted	3,000
	Bills Receivable received	6,000
	Returns Inward	1,750
	Returns Outward	1,200
	Rebate allowed to Debtors	550
	Rebate allowed by Creditors	300
	Provision for doubtful debts	320
	Bad debts	900
	Bills Receivable dishonoured	750
	Bad debts previously written off now recovered	500

(I.C.W.A. Inter. J 83—Modified)

(Ans. Debtors Dr. Rs. 27,150 ; Creditors Cr. Rs. 21,100)

[E 2] From the following particulars prepare the relevant adjustment account as would appear in the General Ledger of Mr. Vasu for the month of March 1977 :

Date *Particulars*

1. Purchased from Mr. X Rs. 2,000
2. Paid Rs. 1,000 after adjusting the initial advance in full to Mr. X.
13. Paid Rs. 1,000 to Mr. R towards the purchases made in February in full.
13. Paid advance to Mr. Y Rs. 3,000.
14. Purchased goods from Mr. A Rs. 4,000.
25. Returned goods worth Rs. 500 to Mr. A.
26. Settled the balance due to A at a discount of 10 per cent.
27. Goods purchased from Mr. Y Rs. 2,500 against the advance paid on 13th.
28. Received back the advance from Mr. P paid on 28th 1977, Rs. 2,000.
30. Purchases from B Rs. 2,000.
31. Goods returned to Q Rs. 750. The goods were originally purchased for cash in February.

(C.A. Inter. M 77)

(Ans. Closing Balance Rs. 12,500)

[E 3] From the following particulars prepare Purchase Ledger Adjustment and Sales Ledger Adjustment Accounts as they would appear in General Ledger :

	Rs.
Debtors on 1.4.82	71,700
Creditors on 1.4.82	47,100
Credit purchases	74,600
Cash purchases	25,400
Cash sales	34,525

Self-Balancing Ledgers'

	Rs.
Total Sales	1,27,800
Cash received from customers	69,300
Cash paid to suppliers	41,700
Bills Receivable received	18,400
Bills Payable issued	14,800
Cash received on Bills Receivable	10,400
Cash paid on Bills Payable	9,800
Bills Receivable dishonoured	3,200
Goods returned by customers	2,225
Discount received	1,150
Discount allowed	3,230
Bad debts written off	2,320
Transfer from Purchase Ledger to Sales Ledger	1,830
Credit balance in Sales Ledger on 30.4.82	1,200
Credit balance in Purchase Ledger on 30.4.82	700

(C.S. Preli. J 82)

(**Ans.** Debtors' Ledger Balance Rs. 72,070 ; Creditors' Ledger Balance Rs. 62,920)

[E 4] From the following particulars write up necessary Adjustment Accounts as they would appear in the General Ledger :

	Rs.	
Debtors' balance in Ledger Adjustment Account	49,850	(Debit)
Creditors' balance in Ledger Adjustment Account	28,010	(Credit)
Credit Sales	40,400	
Cash Sales	18,080	
Cash Purchases	15,930	
Creditors paid off	26,500	
Credit Purchases	27,600	
Received from Debtors	44,100	
Discount allowed to the business	1,450	
Discount allowed by the business	1,540	
Return Inwards	1,795	
Return Outwards	2,240	
Bills Payable accepted	5,300	
Bills Receivable received	3,500	
Bills Receivable dishonoured	325	
Interest charged for dishonoured bill	20	
Allowances	1,605	
Bad debts	1,495	
Transfer from Debtors' Ledger to Creditors' Ledger	400	

(I.C.W.A. Inter. D 79)

(**Ans.** Debtors' Balance Rs. 36,160 ; Creditors' Balance Rs. 19,720)

Chapter 12

PARTNERSHIP

CHANGE IN TERMS

[P 1] The firm of A, B and C has existed for some years, profit being shared as 2/5, 2/5 and 1/5 respectively. C, however, feels that this arrangement has not been satisfactory to him and requires to be placed on same basis as regards profits as A and B. He further wants that this arrangement shall apply not only to future profits but also retrospectively to profits of the past three years which were Rs. 26,000, Rs. 22,100 and Rs. 25,805. A and B have no objection to this, They further agree that in making such adjustment regard should be had to Rs. 6,500 value of goods which had been charged to profits but which actually were taken privately by B and Rs. 3,900 of office equipment for which no asset account had been opened in the books but charged to Profit and Loss account. Plant and machinery of the firm had not been depreciated over past years and it was estimated that the total of the amounts which should have been written off was Rs. 9,035. It was further agreed that after adjustment the capital accounts were to be equalised without, however, increasing or reducing the total capital of the firm.

Show the adjustment account and the capital account of the firm after giving effect to the above agreement, assuming that immediately after the distribution of the last year's profits capital accounts stood as under.

	Rs.
A	52,000
B	39,000
C	27,430

(C.A. Inter. N 85)

Solution :

In the Books of M/s A, B & C
Adjustment A/c

Dr. Cr.

		(Rs.)				(Rs.)
To Depreciation on Plant and Machinery		9,035	By A's Capital A/c	29,562		
" Profit on Adjustment			" B's Capital A/c	29,562		
(as per revised arrangement)			" C's Capital A/c	14,781		73,905
A(1/3)	25,090		Shares of Profit as per original arrangement written back			
B (1/3)	25,090		" B's Capital A/c (Good taken over)			6,500
C (1/3)	25,090	75,270	" Office Equipments A/c assets wrongly written off, now written back			3,900
		84,305				84,305

Dr. **Capital A/c** Cr.

	A (Rs.)	B (Rs.)	C (Rs.)		A (Rs.)	B (Rs.)	C (Rs.)
To Adjustment A/c	29,562	29,562	14,781	By Balance b/d	52,000	39,000	27,430
" AdjustmentA/c		6,500		" Profit on Adjustment	25,090	25,090	25,090
" Cash A/c (Balancing figure being excesscapital withdrawn)	9,763			" Cash A/c (Balancing figure being introduction of further capital)	—	9,737	26
" Balance c/d $\frac{1}{3}$ (52,000 + 39,000 + 27,430 + 3,900–9,035)	37,765	37,765	37,765				
	77,090	73,827	52,546		77,090	73,827	52,546
				" Balance b/d	37,765	37,765	37,765

ADMISSION

[P 2] G was in business maintaining his accounts on the calendar year basis. During 1979, he decided to admit his manager S as a partner with effect from 1-10-1979, on the following terms :—

a. Profits and losses are to be shared in the ratio of 4 : 1 between G and S.

b. G's capital of Rs. 1,60,000 on 1-10-1979 will carry interest at 12% p. a. from that date.

c. The sum of Rs. 2,000 paid as salary to S at the end of every month shall henceforth be treated as his drawings subject to interest at 9% p. a.

The results for 1979 after charging manager's salary for all 12 months were as under :—

Net Profit for the period 1.1.79—30.9.79	Rs.	70,000
Net Profit for the period 1.10.79—31.12.79	Rs.	34,000

You are required to prepare a Profit and Loss Adjustment Account and the Partner's Capital Accounts under the above circumstances. **[C.A. Entrance D 80]**

Solutions :

In the books of G & S

Profit and Loss Adjustment A/c

Dr. *Cr.*

	1.1.79 to 30.9.79 (Rs.)	1.10.79 to 31.12.79 (Rs.)		1.1.79 to 30.9.79 (Rs.)	1.10.79 to 31.12.79 (Rs.)
To Interest on Capital A/c	—	4,800	By Net Profit b/d (34,000 + 6,000 = 40,000)	70,000	40,000
" G's Capital A/c	70,000	28,196	" Interest on Drawings A/c	—	45
" S"s Capital A/c	—	7,049			
	70,000	40,045		70,000	40,045

Capital A/c

Dr. *Cr.*

Date 1979			G (Rs.)	S. (Rs.)	Date 1979			G (Rs.)	S. (Rs.)
Oct. 31	To	Drawings A/c	—	2,000	Oct. 1	By	Balance b/d	1,60,000	
Nov. 30	"	Drawings A/c	—	2,000	Dec. 31	"	Interest on Capital A/c	4,800	
Dec. 31	To	Drawings A/c	—	2,000	Dec. 31	"	Profit & Loss Adjustment A/c	98,196	7,049
	"	Interest on drawings $[(\frac{2}{12} \times \frac{9}{100} \times 2{,}000) + (\frac{1}{12} \times \frac{9}{100} \times 2000)]$		45					
	"	Bal. c/d	2,62,996	1,004					
			2,62,996	7,049				2,62,996	7,049
					1980 Jan. 1	By	Balance b/d	2,62,996	1,004

[P 3] A and B are carrying on business in partnership sharing profits and losses equally. Following is their Balance Sheet as at 31st December 1980 :—

	(Rs.)		(Rs.)
A's Capital	2,00,000	Plant and Machinery	3,00,000
B's Capital	2,00,000	Stock	1,00,000
Creditors	1,00,000	Cash and Bank Balances	1,00,000
	5,00,000		5,00,000

On 1st January 1981 they admit C as partner giving him three-tenths share in profits and losses on the following terms :—

a. Plant and Machinery shall be revalued at Rs. 4,00,000
b. Stock shall be revalued at Rs. 80,000.
c. The future profits and losses shall be shared as A- 4/10th ; B- 3/10th and C- 3/10th.
d. Goodwill has been valued at Rs. 60,000 and C shall bring in Rs. 18,000 as his share of goodwill, which amount shall be credited to old partners. No goodwill account will appear in the books.
e. C will bring in Rs. 80,000 in cash as his capital.
f. The whole amount brought in by C shall remain in the business.

Give the journal entries to give effect to these and show the opening Balance Sheet of the new firm. **[C. A. Entrance D 81]**

Solution :

Journal

			Dr. (Rs.)	Cr. (Rs.)
1981				
Jan. 1	Plant & Machinery A/c	Dr.	1,00,000	
	To Revaluation A/c			1,00,000
	(Value of Plant & Machinery increased on Revaluation)			
	Revaluation A/c	Dr.	20,000	
	To Stock A/c			20,000
	(Value of stock reduced on Revaluation)			
	Revaluation A/c	Dr.	80,000	
	To A's Capital A/c			40,000
	To B's Capital A/c			40,000
	(Partner's capital A/cs credited with their share of profit on Revaluation)			
	Bank A/c	Dr.	98,000	
	To C's Capital A/c			80,000
	To Goodwill A/c			18,000
	(Capital and premium for goodwill brought in by C, the new partner)			
	Goodwill A/c	Dr.	18,000	
	To A's Capital A/c			6,000
	To B's Capital A/c			12,000
	(Premium for goodwill shared by old partners in their sacrificing ratio 1 : 2)			

Computation of sacrificing ratio :

	A	B
Old Share	$\frac{1}{2}$	$\frac{1}{2}$
New Share	$\frac{4}{10}$	$\frac{3}{10}$
Therefore, sacrifice	$(\frac{1}{2}-\frac{4}{10}) = \frac{1}{10}$	$(\frac{1}{2}-\frac{3}{10}) = \frac{2}{10}$

Therefore, sacrificing ratio A : B = $\frac{1}{10} : \frac{2}{10} = 1:2$

In the books of M/s A, B & C
Balance Sheet *as at January 1, 1981*

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital		Plant & Machinery	4,00,000
A	2,46,000	Stock in trade	80,000
B	2,52,000	Cash in hand & at Bank	1,98,000
C	80,000		
Current Liabilities			
Sundry Creditors	1,00,000		
	6,78,000		6,78,000

[P 4] A and B were equal partners and their Balance Sheet as on 30th June 1982 was as follows :—

	Rs.		Rs.
Creditors	2,000	Cash at Bank	1,800
Bills Payable	1,000	Debtors	2,400
A's Capital	6,000	Stock	7,400
B's Capital	7,000	Furniture	1,400
		Building	3,000
	16,000		16,000

On 1st July 1982 C was admitted on the following terms :—

C is to bring in Rs. 6,000 as his capital at once and he be entitled to one-third of the profits. The value of Building is to be written down by 5% and Stock to be revalued at Rs. 7,000. At the end of the year, a Goodwill Account is to be raised at three times the net profit of that year in excess of Rs. 3,000, the amount of such goodwill to be divided equally between A and B.

During the year, the following transactions took place :—

	Rs.
Purchases	53,000
Sales	60,000
Accounts for purchases paid (Gross Rs. 49,000 ; discount 2%)	48,020
Received from Debtors (Gross Rs. 34,000 ; discount Rs. 200)	33,800
Buying Expenses paid	320
Selling Expenses paid	5,600
Sundry Expenses due	400
Management Expenses paid	1,500
Partners withdrew Rs. 600 each	1,800

On 30th June 1983 Stock was valued at Rs. 12,000, Furniture was to be depreciated by Rs. 100. After Goodwill has been raised, C contributes sufficient further cash in order to raise his capital to one-third of the total capital of the firm.

Prepare amended Balance Sheet of the new firm as at 1st July 1982 and Trading and Profit & Loss A/c and Balance Sheet for the year ended 30th June 1983, after adjustments. Give your working notes as part of your answer. **[C.A. Entrance D 83]**

Solution :

In the books of A and B
Balance Sheet (as amended) *as on 1st July, 1982*

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital A/c		Building	2,850
A	5,725	Furniture	1,400
B	6,725	Stock in trade	7,000
C	6,000	Sundry Debtors	2,400
Sundry Creditors	2,000	Cash at Bank	7,800
Bills Payable	1,000		
	21,450		21,450

In the books of A, B and C
Trading and Profit & Loss A/c
for the year ending 30th June, 1983

		(Rs.)			(Rs.)
To Opening Stock		7,000	By	Sales	60,000
" Purchases		53,000	"	Closing Stock	12,000
" Buying Expenses		320			
" Gross Profit c/d		11,680			
		72,000			72,000
To Management Expenses		1,500	By	Gross Profit b/d	11,680
" Selling Expenses		5,600	"	Discount	980
" Sundry Expenses (Outstanding)		400			
" Discount		200			
" Depreciation on Furniture		100			
" Net Profit (Transferred to Capital)					
A	1,620				
B	1,620				
C	1,620	4,860			
		12,660			12,660

Balance Sheet *as on 30th June, 1983*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital			Goodwill		5,580
A	9,535		Building		2,850
B	10,535		Furniture	1,400	
C	10,035	30,105	Less Depreciation	100	1,300
Sundry Creditors		6,000	Stock in Trade		12,000
Bills Payable		1,000	Sundry Debtors		28,400
Outstanding Sundry Expenses		400			
Bank Overdraft		12,625			
		50,130			50,130

Workings 1

Revaluation A/c

	(Rs.)		(Rs.)
To Building	150	By Loss on Revaluation	
" Stock	400	A $\frac{1}{2} \times 550 = 275$	
		B $\frac{1}{2} \times 550 = 275$	550
	550		550

Workings 2

Dr. **Capital A/cs (1.7.1982)** Cr.

	A Rs.	B Rs.	C Rs.		A Rs.	B Rs.	C Rs.
To Loss on. Revaluation A/c	275	275		By Balance b/d	6,000	7,000	
" Balance c/d	5,725	6,725	6,000	" Bank			6,000
	6,000	7,000	6,000		6,000	7,000	6,000

Workings 3

Dr. **Total Debtors A/c** Cr.

	Rs.		Rs.
To Balance b/d	2,400	By Bank	33,800
" Sales	60,000	" Discount allowed	200
		" Balance c/d	28,400
	62,400		62,400

Workings 4

Dr. **Total Creditors A/c** Cr.

	Rs.		Rs.
To Bank	48,020	By Balance b/d	2,000
" Discount received	980	" Purchases	53,000
" Balance c/d	6,000		
	55,000		55,000

Workings 5

Dr. **Bank A/c** Cr.

	Rs.			Rs.
To Balance b/d	1,800	By Sundry Creditors		48,020
" C's Capital A/c	6,000	" Buying Expenses		320
" Sundry Debtors	33,800	" Selling Expenses		5,600
" C's Capital A/c	3,015	" Management Expenses		1,500
" Balance c/d	12,625	" Drawings		
		A	600	
		B	600	
		C	600	1,800
	57,240			57,240

Workings 6

Capital A/c *as on 30th June, 1983*

	A (Rs.)	B (Rs.)	C (Rs.)		A (Rs.)	B (Rs.)	C (Rs.)
To Drawings	600	600	600	By Balance b/d (Workings 2)	5,725	6,725	6,000
" Balance c/d [(A+B) = 9,535 + 10,535 = 20,070 for $(1-\frac{1}{3})$ i. e. $\frac{2}{3}$ share Capital = Rs. 20,070 ∴ for $\frac{1}{3}$ share C's Capital = $\frac{1}{3} \times \frac{3}{2} \times$ 20,070 = 10,035	9,535	10,535	10,035	" Profit & Loss Loss A/c (Profit for the year	1,620	1,620	1,620
				" Goodwill $\frac{1}{2} \times 3 \times (4{,}860 - 3{,}000)$	2,790	2,790	—
				" Bank A/c (Balancing figure being further cash contributed)	—	—	3,015
	10,135	11,135	10,635		10,135	11,135	10,635

[P 5] The following is the Balance Sheet of A and B as on 31.12.1985, who share profits and losses equally :—

Capitals :	A	15,000	Machinery	50,000
	B	15,000	Stock	15,000
Creditors		15,000	Debtors	10,000
Current Accounts	A	20,000	Bills Receivable	5,000
	B	20,000	Cash/Bank	5,000
		85,000		85,000

They admit C as an equal partner on 1.1.1986. Goodwill valued at Rs. 30,000. Stock to be valued at Rs. 25,000, Machinery at Rs. 60,000. C is to bring in Rs. 15,000 as his capital and the necessary cash towards his share of goodwill. Goodwill account will not remain in the books.
Show necessary Journal entries and also the Balance Sheet after admission of C.

[C. A. Entrance M 86]

Solution :

Journal

		Dr. (Rs.)	Cr. (Rs.)
Machinery A/c	Dr.	10,000	
Stock A/c	Dr.	10,000	
To Revaluation A/c			20,000
(Increase in the value of assets on revaluation)			
Revaluation A/c	Dr.	20,000	
To A's Capital A/c			10,000
To B's Capital A/c			10,000
(Profit on Revaluation shared by old Partners in their old P.S.R. 1 : 1)			
Cash A/c	Dr.	25,000	
To C's Capital A/c			15,000
To Goodwill A/c ($\frac{1}{3} \times 30{,}000$)			10,000
(Capital and premium for goodwill brought in by new partner C)			
Goodwill A/c	Dr.	10,000	
To A's Capital A/c			5,000
To B's Capital A/c			5,000
(Premium for goodwill shared by old partners in their sacrificing ratio 1 : 1)			

In the books of A, B, and C
Balance Sheet *as on 1st Jan, 1986*

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital A (15,000 + 10,000 + 5,000)	30,000	Machinery	60,000
B (15,000 + 10,000 + 5,000)	30,000	Stock	25,000
C	15,000	Debtors	10,000
Current A/c :		Bills Receivable	5,000
A	20,000	Cash/Bank	30,000
B	20,000	(5,000 + 25,000)	
Sundry Creditors	15,000		
	1,30,000		1,30,000

[P 6] Mr. Giridhar and Mr. Gopal are partners in a firm sharing profits and losses as 5 : 3. The position of the firm as on 31st March 1987 is as follows :—

Liabilities		(Rs.)	*Assets*	(Rs.)
Current A/c			Plant and Machinery	40,000
Mr. Giridhar	30,000		Stock	30,000
Mr. Gopal	20,000	50,000	Sundry Debtors	20,000
Sundry Creditors		15,000	Bills Receivable	10,000
Bank loan		42,500	Cash at Bank	7,500
		1,07,500		1,07,500

Mr. Ganshyam now joins them on condition that he will share $\frac{3}{4}$ths of the future profit, the balance being shared by the old partners in the old ratio. He introduces Rs. 40,000 by way of Capital in cash and pays off the Bank Loan, such amount being credited to Ganshyam's Loan A/c. He also pays Rs. 4,000 by way of premium for goodwill of the business and this amount is to remain in the business. The partners agree to depreciate Plant and Machinery by 10% and raise a Reserve against Sundry Debtors at 5%.

You are asked (i) to journalise the entries in the books of the firm and show the resultant Balance Sheet, and (ii) to ascertain the new profit sharing ratio. **[C.A. Inter. M 87]**

Solution :

Journal

		Dr. (Rs.)	Cr. (Rs.)
Bank A/c	Dr.	40,000	
To Mr. Ganshyam's Capital A/c		40,000	
(Capital brought in by Mr. Ganshyam)			
Bank A/c	Dr.	4,000	
To Goodwill A/c			4,000
(Being premium for goodwill brought in by new partner Mr. Ganshyam.)			
Goodwill A/c	Dr.	4,000	
To Mr. Giridhar's Capital A/c			2,500
To Mr. Gopal's Capital A/c			1,500
(Being Goodwill premium shared by old partners in their sacrificing ratio 5 : 3)			
Bank Loan A/c	Dr.	42,500	
To Mr. Ganshyam's Loan A/c			42,500
(Being Bank Overdraft paid off by new partner Mr. Ganshyam.)			

Revaluation A/c	Dr.	5,000	
To Plant & Machinery A/c			4,000
To Reserve for Bad & Doubtful Debts			1,000
(Decrease in the value of assets and creation of Reserve for Bad & Doubtful Debts)			
Mr. Giridhar's Capital A/c	Dr.	3,125	
Mr. Gopal's Capital A/c		1,875	
To Revaluation A/c			5,000
(Loss on Revaluation shared by old partners in their old P. S. R. 5 : 3.)			

In the books of Mr. Giridhar, Mr. Gopal & Mr. Ganshyam

Balance Sheet of as at 1st April, 1987

Liabilities		(Rs.)	*Assets*		(Rs.)
Current A/cs :			Plant and Machinery		36,000
Mr. Giridhar (30000+2500–3125)	29,375		Stock		30,000
Mr. Gopal (20000 +1500 –1875)	19,625		Sundry Debtors	20,000	
			Less : Reserve for Bad & Doubtful Debts	1,000	19,000
Mr. Ganshyam	40,000	89,000			
			Bills Receivable		10,000
Sundry Creditors		15,000	Cash at Bank		51,500
Mr. Ganshyam's Loan A/c		42,500	(7,500 + 40,000 + 2,500 +1,500)		
		1,46,500			1,46,500

Statement showing ascertainment of new Profit Sharing Ratio

Ganshyam = $\frac{3}{4} = \frac{24}{32}$

Therefore, Giridhar + Gopal = $1 - \frac{3}{4} = \frac{1}{4}$

" Giridhar's new share = $\frac{5}{8} \times \frac{1}{4} = \frac{5}{32}$

" Gopal's new share = $\frac{3}{8} \times \frac{1}{4} = \frac{3}{32}$

" New profit Sharing Ratio

= Giridhar : Gopal : Ganshyam

= $\frac{5}{32} : \frac{3}{32} : \frac{24}{32}$

= 5 : 3 :24

[P 7] The Balance Sheet of Sridhar and Ghanshyam as on 31st December 1987 is set out below : they share profits and losses in ratio of 2 : 1 :—

	Rs.		Rs.
Sridhar's Capital	60,000	Freehold property	20,000
Ghanshyam's Capital	30,000	Furniture	6,000
General reserve	24,000	Stock	12,000
Creditors	16,000	Debtors	80,000
		Cash	12,000
	1,30,000		1,30,000

They agree to admit Prem into the firm subject to the following terms and conditions :—

(a) Prem will bring in Rs. 21,000 of which Rs. 9,000 will be treated as his share of Goodwill to be retained in the business

(b) He will be entitled to $\frac{1}{4}$th share of the profits of the firm
(c) 50% of the General Reserve is to remain as a Reserve for Bad and Doubtful Debts
(d) Depreciation is to be provided on Furniture at the rate of 5%.
(e) Stock is to be revalued at Rs. 10,500.
Draft the Journal entries giving effect to the aforesaid arrangements (including cash transactions) and prepare the opening Balance Sheet of the new partnership.

[C. A. Entrance N 88]

Solution :

In the Books of M/s Sridhar & Ghanshyam Journal
Journal

			Dr. (Rs.)	Cr. (Rs.)
(i)	Bank A/c	Dr.	21,000	
	To Prem's Capital A/c			12,000
	To Goodwill A/c			9,000
	[Being amount brought in by Mr. Prem on admission as partner for his capital and goodwill premium Rs. (21,000 − 9000), ie. Rs. 12,000]			
(ii)	Goodwill A/c	Dr.	9,000	
	To Sridhar's Capital A/c			6,000
	To Ghanshyam's Capital A/c			3,000
	(Being premium for goodwill shared by old partners in their sacrificing ratio 2 : 1)			
(iii)	Revaluation A/c	Dr.	1,800	
	To Furniture A/c			300
	To Stock A/c			1,500
	(Being value of Assets reduced on revaluation)			
(iv)	Sridhar's capital A/c	Dr.	1,200	
	Ghanshyam's Capital A/c	Dr.	600	
	To Revaluation A/c			1,800
	(Being Loss on revaluation shared by old partners in their old ratio 2 : 1)			
(v)	General reserve	Dr.	24,000	
	To Reserve for bad & Doubtful Debts			12,000
	To Sridhar's Capital			8,000
	To Ghanshyam's Capital A/c			4,000
	(Being 50% of General reserve applied to create Reserve for bad & Doubtful Debts, the balance 50% being shared by old partners in their old ratio			

In the books of Mr. Sridhar, Ghanshyam & Prem
Balance Sheet as at 1st January, 1988

Liabilities	(Rs.)	*Assets*		(Rs.)
Sirdhar's Capital		Freehold Property		20,000
Rs. (60,000 + 6,000 + 8,000 −1,200)	72,800	Furniture		5,700
Ghanshyam's Capital		Stock in trade		10,500
Rs. (30,000 + 3,000 + 4,000 −600)	36,400	Sundry Debtors	80,000	
Prem's Capital	12,000	Less : Reserve for		
Sundry Creditors	16,000	Bad & Doubtful		
		Debts $\left(\frac{50}{100} \times 24{,}000\right)$	12,000	68,000
		Cash at Bank Rs. (12,000 + 21,000)		33,000
	1,37,200			1,37,200

[P 8] Mr. X and Mr. Y are partners sharing profits in the ratio of 3 : 1. Their Balance Sheet as at 31st March, 1989 was as follows :—

Liabilities		(Rs.)	*Assets*	(Rs.)
Sundry Creditors		40,000	Cash at Bank	25,000
Capital Accounts :			Sundry Debtors	9,000
Mr. X	30,000		Stock	20,000
Mr. Y	10,000	40,000	Furniture	6,000
			Premises	20,000
		80,000		80,000

They decide to admit Mr. Z into partnership on the following terms :—

(a) Goodwill of Rs. 30,000 be created.
(b) Depreciate Furniture by 10%
(c) Stock has to be valued at Rs. 18,000.
(d) Provision for doubtful debts at 10% be created on Sundry Debtors .
(e) Premises have to be valued higher by 25%.
(f) Mr. Z shall bring Rs. 10,000 for $\frac{1}{4}$th share of the profits.

Pass Journal entries and also show th Revaluation account, Capital accounts of partners and Balance Sheet after admission of Mr. Z. **[C. A. Entrance N 89]**

Solution :

In the Books of M/s X, Y and Z
Journal

Date 1989			Debit (Rs.)	Credit (Rs.)
Apr. 1	Goodwill A/c	Dr.	30,000	
	To Mr. X's Capital A/c			22,500
	To Mr. Y's Capital A/c			7,500
	(Being Goodwill of Rs. 30,000 created as per instruction, credit being given to Partners' Capital A/c in their old ratio of 3 : 1)			
"	Revaluation A/c	Dr.	600	
	To Furniture A/c			600
	(Being Furniture depreciated by 10%)			
"	Revaluation A/c	Dr.	2,000	
	To Stock A/c			2,000
	(Being Stock value reduced by Rs. 2,000)			
"	Revaluation A/c	Dr.	900	
	To Provision for Doubtful Debts A/c			900
	(Being Provision for doubtful debts at 10% created on Sundry Debtors)			
"	Premises A/c	Dr.	5,000	5,000
	To Revaluation A/c			
	(Being the value of premises increased by 25%)			
"	Revaluation A/c	Dr.	1,500	
	To X's Capital A/c			1,125
	To Y's Capital A/c			375
	(Being profit on revaluation account shared by the old partners' in their old ratio 3 : 1)			
"	Bank A/c	Dr.	10,000	
	To Z's Capital A/c			10,000
	(Being Capital brought in by Z for his $\frac{1}{4}$ share of the profits)			

Revaluation A/c

Dr.	(Rs.)	Cr.	(Rs.)
1989		1989	
April 1		April 1	
To Furniture A/c	600	By Premises A/c	5,000
„ Stock A/c	2,000		
„ Provision for Doubtful Debts A/c	900		
„ Profit on revaluation: X 1,125; Y 375	1,500		
	5,000		5,000

Partner's Capital A/c

Dr.	X (Rs.)	Y (Rs.)	Z (Rs.)	Cr.	X (Rs)	Y (Rs.)	Z (Rs.)
1989 Apr. 1				1989 Apr. 1			
To balance c/d	53,625	17,875	10,000	By Balance b/d	30,000	10,000	—
				„ Goodwill A/c	22,500	7,500	—
				„ Bank A/c	—	—	10,000
				„ Profit on revaluation	1,125	375	—
	53,625	17,875	10,000		53,625	17,875	10,000
				1989 Apr. 1 By Balance b/d	53,625	17,875	10,000

In the books of M/s X, Y and Z

Balance sheet as on April 1, 1989

Liabilities		(Rs.)	Assets		(Rs.)
Sundry Creditors		40,000	Cash at bank		35,000
Capital Accounts			Sundry Debtors	9,000	
X	53,625		Less : Provision for Doubtful Debts $\left(\frac{10 \times 9{,}000}{100}\right)$	900	8,100
Y	17,875		Stock	20,000	
Z	10,000	81,500	Less : Reduction in value $\left(\frac{10 \times 20{,}000}{100}\right)$	2,000	18,000
			Furniture	6,000	
			Less : Depreciation $\left(\frac{10 \times 6{,}000}{100}\right)$	600	5,400
			Premises	20,000	
			Add : Appreciation	5,000	25,000
			Goodwill		30,000
		1,21,500			1,21,500

[P 9] M/s A, B and C with respective capitals of Rs. 30,000, Rs. 20,000 and Rs. 10,000 and sharing profits in the ratio of 3 : 2 : 1 agreed to admit Mr. D as a partner for 1/6 share on the terms that he brings in Rs. 20,000 as his capital and Rs. 10,000 as premium for Goodwill and Mr. C would retain his original share.

Mr. D paid in his capital money but in respect of premium he could bring in only Rs. 5,000 and therefore he agreed to the raising of goodwill account in the books of the firm as would be appropriate in the circumstances.

You are required to:

1. Give the Journal entries to carry out the above arrangement
2. Construct the Capital accounts of the partners and
3. Work out the new profit sharing ratio of the partners.

[C. A. Entrance N 90]

Solution :

Journal

			Dr. (Rs.)	Cr. (Rs.)
(1)	Cash A/c	Dr.	25,000	
	To D's Capital			25,000
	(Being the total cash brought in by D credited to his capital)			
(2)	Goodwill A/c	Dr.	60,000	
	To A's Capital A/c			30,000
	To B's Capital A/c			20,000
	To C's Capital A/c			10,000
	(Being goodwill raised to its full value as per arrangement with D, the new partner on his failure to bring in the requisite premium)			

Dr. **Capital Accounts of Partners** *Cr.*

	A Rs.	B Rs.	C Rs.	D Rs.		A Rs.	B Rs.	C Rs.	D Rs.
To balance c/d	60,000	40,000	20,000	25,000	By Balance b/d	30,000	20,000	10,000	—
					„ Cash A/c	—	—	—	25,000
					Good will	30,000	20,000	10,000	—
	60,000	40,000	20,000	25,000		60,000	40,000	20,000	25,000
					By Balance b/d	60,000	40,000	20,000	25,000

Computation of New Profit Sharing ratio

$C = 1/6 = 5/30$

$D = 1/6 = 5/30$

Therefore, $A + B = 1 - (1/6 + 1/6) = 4/6$

Therefore, A's Share $= \frac{3}{5} \times \frac{4}{6} = \frac{12}{30}$

B's Share $= \frac{2}{5} \times \frac{4}{6} = \frac{8}{30}$

Therefore, $A : B : C : D = \frac{12}{30} : \frac{8}{30} : \frac{5}{30} : \frac{5}{30} = 12 : 8 : 5 : 5$

[P 10] A and B are partners in a firm. They share profits and losses in the ratio of 2 : 1. They admit C into partnership on the terms that C will bring in Cash Rs. 30,000 for goodwill and will bring such an amount that his Capital be $\frac{1}{3}$rd of the total Capital.

C will be given 1/3 share in future profits. At the time of admission of C the Balance sheet of A and B was as under :—

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital A/cs		Machinery	1,20,000
A	1,40,000	Furniture	10,000
B	1,20,000	Stock	80,000
Sundry Creditors	50,000	Sundry Debtors	30,000
		Cash	70,000
	3,10,000		3,10,000

On independent valuation, it was found that the stock is over-valued by Rs. 5,000.

Write off depreciation on Furniture and Machinery at 10% and 5% respectively. Make provision of Rs. 3,000 on Sundry Debtors for Doubtful Debts.

Prepare Balance Sheet of the firm after the admission of C and give your full workings.

[C. A. Entrance M 91]

Solution :

Dr. **Revaluation A/c** *Cr.*

		(Rs.)				(Rs.)
To	Stock	5,000	By	Loss on revaluation		
,,	Furniture	1,000		A (2/3)	10,000	
,,	Machinery	6,000		B (1/3)	5,000	15,000
,,	Sundry Debtors	3,000				
		15,000				15,000

Dr. **Partner's Capital A/c** *Cr.*

	A (Rs.)	B (Rs.)	C (Rs.)		A (Rs.)	B (Rs.)	C (Rs.)
To Loss on Revaluation A/c	10,000	5,000	—	By Balance b/d	1,40,000	1,20,000	—
,, Balance c/d	1,50,000	1,25,000	1,37,500	,, Goodwill A/c (share of premium)	20,000	10,000	—
				,, Cash A/c (Workings 2)	—	—	1,37,500
	1,60,000	1,30,000	1,37,000		1,60,000	1,30,000	1,37,000
				By Balance b/d	1,50,000	1,25,000	1,37,500

In the books of M/s A, B and C

Balance Sheet *after admission of* C

Dr. Cr.

Liabilities		(Rs.)	Assets		(Rs.)
Capital A/cs			Machinery		1,14,000
A	1,50,000		Furniture		9,000
B	1,25,000		Stock		75,000
C	1,37,500	4,12,500	Sundry Debtors	30,000	
Sundry Creditors		50,000	Less : Provision for		
			Doubtful Debts	3,000	27,000
			Cash		2,37,500
			(70,000 + 30,000 + 1,37,500)		
		4,62,500			4,62,500

Workings (1)

Computation of New Profit Sharing ratio :

$C = \frac{1}{3} = \frac{3}{9}$

Therefore, $A + B = 1 - \frac{1}{3} = \frac{2}{3}$

Therefore, A's new share $= \frac{2}{3} \times \frac{2}{3} = \frac{4}{9}$

B's new Share $= \frac{1}{3} \times \frac{2}{3} = \frac{2}{9}$

Therefore, A : B: C = 4 : 2: 3

Sacrificing ratio of A and B = Old Ratio = 2:1

Workings (2)

Capital of A & B (as per capital A/c) = 1,50,000 + 1,25,000 = Rs. 2,75,000 for total $\frac{2}{3}$ share.

Therefore, for $\frac{1}{3}$ share C's Capital $= \frac{1}{3} \times \frac{3}{2} \times 2{,}75{,}000$ = Rs. 1,37,500

[P 11] Gopal and Govind are partners sharing profits and losses in the ratio 60 : 40. The firms Balance Sheet as on 31.03.'92 was as follows :—

Liabilities	(Rs.)	Assets	(Rs.)
Capitals :		Fixed Assets	3,00,000
Gopal	1,20,000	Investments	50,000
Govind	80,000	Current Assets	2,00,000
Long Term Loan	2,00,000	Loans and Advances	1,00,000
Current Liabilities	2,50,000		
	6,50,000		6,50,000

Due to financial difficulties, they have decided to admit Guru as a partner in the firm form 01.04.1992 on the following terms :—

Guru will be paid 40% of the profits.

Guru will bring in cash Rs. 1,00,000 as Capital. It is agreed that Goodwill of the firm will be valued at 2 years' purchase of 3 years' normal average profits of the firm and Guru will bring in cash his share of Goodwill. It was also decided that the partners will not withdraw the share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows :—

For the year ended 31.03.1990 Profit Rs. 20,000 (includes insurance claim received of Rs. 40,000).

For the year ended 31.03.1991 Loss Rs. 80,000 (includes voluntary retirement compensation paid Rs. 1,10,000).

For the year ended 31.-3.1992 Profit of Rs. 1,05,000 (includes a profit of Rs. 25,000 on the sale of Assets).

It was decided to revalue on 31.03.1992 as follows :—

Fixed Assets (net)	Rs.	4,00,000
Investments	"	Nil
Current Assets	"	1,80,000
Loans and Advances	"	1,00,000

The new Profit sharing ratio after the admission of Guru was 35 : 25 : 40.

[C. A. Foundation J 93]

Solution :

In the books of Gopal, Govind and Guru

Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
Fixed Assets A/c	Dr.		1,00,000	
To Revaluation A/c				1,00,000
(Increase in assets value on revaluation)				
Revaluation A/c	Dr.		70,000	
To Investment A/c				50,000
" Current assets				20,000
(Decrease in asset value on revaluation.)				
Revaluation A/c	D.r		30,000	
To Gopal's Capital A/c				12.000
" Govind's Capital A/c				18,000
(Profit on revaluation shared by old partners in their old ratio 60 : 40)				
Current Assets (cash)	Dr.		1,24,000	
To Guru's Capital A/c				1,00,000
" Goodwill A/c				24,000
(Cash brought in by Guru towards his capital and premium for goodwill)				
Goodwill A/c	Dr.		24,000	
To Gopal s Capital				15,000
" Govind's Capital				9,000
(Goodwill premium brought in by Guru shared by old partners in the sacrificing ratio : {(60/100 – 35/100) : (40/100 – 25/100) i.e. 25 : 15 = 5 : 3)				

Statement showing Goodwill calculation Profit for the year ended 31.3.90

	(Rs.)
Profit for the year ended 31.3.'90 [20,000 – 40,000]	(20,000)
Profit for the year ended 31.3.'91 [1,10,000 – 80,000]	30,000
Profit for the year ended 31.3.'92 [1,05,000 – 25,000]	80,000
Total Profit for 3 years	90,000

Normal Average Profits = $\frac{1 \times 90{,}000}{3}$ = Rs. 30,000

Goodwill = $2 \times 30{,}000$ = Rs. 60,000

Guru's share of Goodwill = $\frac{40 \times 60{,}000}{100}$ = Rs. 24,000

Dr. **Revaluation A/c** *Cr.*

		Rs.		Rs.
To Investment A/c		50,000	By Fixed Assets A/c	1,00,000
" Current Assets		20,000		
" Profit on Revaluation				
Gopal	12,000			
Govind	8,000			
		30,000		
		1,00,000		1,00,000

RETIREMENT

[P 12] A, B and C are partners sharing profits and losses in the ratio of 3 : 2: 1. Following is their Balance Sheet as at 31st March 1982:—

Liabilities		(Rs.)	*Assets*	(Rs.)
Capital Accounts			Plant and Machinery	4,00,000
A	4,00,000		Stock	2,00,000
B	3,00,000		Debtors	2,00,000
C	2,00,000	9,00,000	Cash and Bank balances	2,00,000
Creditors		1,00,000		
		10,00,000		10,00,000

B retires from the business owing to illness from 1st April 1982. The following was agreed upon on retirement of B :—

a. The goodwill of the firm has been valued at Rs. 3,00,000, but no goodwill account is to be raised in the books.
b. Plant and Machinery has been revalued at Rs. 6,00,000 and Stock revalued at Rs. 1,80,000.
c. A sum of Rs, 30,000 out of Debtors was agreed to be bad and was to be written off.
d. A and C will continue to carry on the business and shall share profits and losses equally in future.

e. Amount payable to B shall remain in the business as loan carrying interest at 18% p.a. You are required :—
   a. to give journal entries to give effect to the above, and
   b. to prepare the opening Balance Sheet of A B as at 1st April 1982.

[C.A. Entrance J 82]

Solution :

In the books of M/s A, B & C
Journal

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
1982 March 31	Plant & Machinery A/c Dr.		2,00,000	
	To Stock in trade			20,000
	„ Sundry Debtors			30,000
	„ Revaluation A/c			1,50,000
	(Decrease in the value of assets on Revaluation)			
	Revaluation A/c Dr.		1,50,000	
	To A's Capital A/c			75,000
	„ B's Capital A/c			50,000
	„ C's Capital A/c			25,000
	(Profit on revaluation transferred to old partners capital in their old PSR)			
	C's Capital A/c Dr.		1,00,000	
	To B's Capital A/c			1,00,000
	(Capital of C, the only gaining partner being adjusted to give B, the retiring partners his share of goodwill. C's gain = $\frac{1}{2}-\frac{1}{6}=\frac{2}{6}$			
	B's Capital A/c Dr.		4,50,000	
	To B's Loan A/c			4,50,000
	(B, the retiring partner's dues being transferred to his Loan A/c)			

In the books of M/s A & C
Balance Sheet (after B's retirement)
as at 1st April, 1982

Dr. *Cr.*

Liabilities		(Rs.)	*Assets*	(Rs.)
Capital Accounts			Plant and Machinery	6,00,000
A (4,00,000 + 75,000)	4,75,000		Stock	1,80,000
B (2,00,000 + 25,000 – 1,00,000)	1,25,000	6,00,000	Sundry Debtors	1,70,000
			Cash and Bank balances	2,00,000
B's Loan		4,50,000		
Sundry Creditors		1,00,000		
		11,50,000		11,50,000

[P 13] The Balance Sheet of A, B and C who were sharing profits and losses in proportion of their capitals i.e. 4 : 3: 2, stood as follows as on 31st December 1988.

Dr. *Cr.*

Liabilities		(Rs.)	*Assets*		(Rs.)
Sundry Creditors		6,900	Cash at Bank		5,500
Capital Accounts			Sundry Debtors	5,000	
A	20,000		Less : Provision	100	4,900
B	15,000		Stock		8,000
C	10,000	45,000	Plant and Machinery		8,500
			Factory Land and Building		25,000
		51,900			51,900

On 31-12-88, B retires and the following re-adjustments of the assets and liabilities have been agreed upon before the ascertainment of the amount payable by the firm to B :—

(a) The stock to be written off by 6%

(b) The Provision for doubtful debts be brought up to 5% on Sundry Debtors.

(c) The Factory Land and Building be appreciated by 20%.

(d) A provision of Rs. 770 be made in respect of outstanding legal charges.

(e) The Goodwill of the entire firm be fixed at Rs. 10,800 and B's share of the same be adjusted in the accounts of A and C who are going to share profits in future in the proportion of $\frac{5}{8}$ and $\frac{3}{8}$ respectively (no Goodwill account is to be raised).

(f) The entire capital of the firm, as newly constituted be fixed at Rs. 28,000 between A and C in the proportion of $\frac{5}{8}$ and $\frac{3}{8}$ after passing entries in the accounts for Goodwill (i.e. actual cash to be paid off to or to be brought in by the continuing partners, as the case may be.)

Pass Journal entries to give effect to the above arrangements and prepare the Balance Sheet of A and C, transferring B's share of capital and goodwill to a separate Loan Account in his name, on 1st January 1989. **[C.A. Entrance M 89]**

Solution :

In the books of M/s A, B & C
Journal

Date		Particulars		L.F	Dr. Rs.	Cr. Rs.
1988						
Dec	31	Factory Land and building A/c	Dr.		5,000	
		To Revaluation A/c				5,000
		(Being value of land and building appreciated by 20%)				
"	"	Revaluation A/c	Dr.		1,400	
		To Stock				480
		„ Provision for Doubtful Debts				150
		„ Provision for Legal Charges				770
		(Being decrease in value of stock and provision created)				

(Contd.)

Date	Particulars		L.F	Rs.	Rs.
1988					
Dec 31	Revaluation A/c	Dr.		3,600	
	To A's Capital A/c				1,600
	„ B's Capital A/c				1,200
	„ C's Capital a/c				800
	(Being Profit on revaluation shared by partners in their profit—sharing ratio 4 : 3: 2)				
" "	A's Capital A/c	Dr.		1,950	
	C's Capital A/c	Dr.		1,650	
	To B's Capital A/c				3,600
	(Being Capital A/cs adjusted for giving B his share of goodwill in the continuing partners' gaining ratio 2 : 1)				
" "	B's Capital A/c	Dr.		19,800	
	To B's Loan A/c				19,800
	(Balance of B's Capital A/c transferred to his Loan A/c as per instruction.)				
" "	Bank A/c	Dr.		1,350	
	To C's Capital A/c				1,350
	(Being Cash brought in by C to make his Capital $\frac{3}{8}$ of the total capital of Rs. 28,000)				
" "	A's Capital A/c	Dr.		2,150	
	To Bank				2,150
	(Being cash withdrawn by A to make his capital $\frac{5}{8}$ of total capital of Rs. 28,000)				

Dr. **Balance Sheet** *as at January 1, 1989* *Cr.*

Liabilities		(Rs.)	*Assets*		(Rs.)
Sundry Creditors		6,900	Cash at Bank		4,700
Provision for Legal charges		770	Sundry Debtors	5,000	
B's Loan A/c		19,800	Less : Provision for for Doubtful Debts	250	4,750
Capital Accounts			Stock in trade	8,000	
A	17,500		Less : Written off $\left(\frac{6 \times 8{,}000}{100}\right)$	480	7,520
C	10,500	28,000			
			Plant & Machinery		8,500
			Factory Land & Building	25,000	
			Add: Appreciation 20%	5,000	30,000
		55,470			55,470

Dr. **Partner's Capital A/cs** *Cr.*

	A (Rs.)	B (Rs.)	C (Rs.)		A (Rs.)	B (Rs.)	C (Rs.)
1988 Dec. 31				1988 Dec. 31			
To B's Capital A/c	1,950	—	1,650	By Balance b/d	20,000	15,000	10,000
" Cash (Bal. fig.)	2,150			" Revaluation A/c	1,600	1,200	800
" B's Loan A/c		19,800		" Cash (Bal. fig.)	—	—	1,350
" Balance c/d	17,500	—	10,500	" A's Capital		1,950	
				" C's Capital		1,650	
	21,600	19,800	12,150		21,600	19,800	12,150
				1989 Jan 1			
				By Balance b/d	17,500	—	10,500

Dr. **Bank A/c** *Cr.*

	(Rs.)		(Rs.)
1988 Dec. 31		1988 Dec. 31	
To Balance b/d	5,500	By A's Capital A/c	2,150
" C's Capital A/c	1,350	" Balance c/d	4,700
	6,850		6,850
1989 Jan. 1			
To Balance b/d	4,700		

[P 14] M/s Amar, Akbar and Anthony were in partnership sharing profits equally. The Balance Sheet of the firm as at 31st March, 1989 (Year-ending) stood as follows :

Balance Sheet as at 31st March, 1989

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		14,190	Cash in hand	5,500
General Reserve		6,600	Sundry Debtors	11,000
Capital Accounts			Stock	11,000
Mr. Amar	33,000		Investment (at cost)	5,500
Mr. Akbar	22,000		Freehold Property	44,000
Mr. Anthony	22,000	77,000	Goodwill	20,790
		97,790		97,790

Mr. Anthony agreed to retire from the partnership on 30th June, 1989 on the following terms. :

a. Revaluation has to be made in respect of : Freehold Property at Rs. 63,800
Stock at Rs. 10,340
Investments at Rs. 5,170
Goodwill at one year's purchase of the average Profit of the past five completed accounting years.

b. His share of profit to the date of retirement has to be calculated on the basis of the average profits of the preceding three accounting years.

The books showed the profits of the last five accounting years as follows :

1984-85	Rs.	12,650;	1985-86	Rs.	15,400;	1986-87	Rs.	9,900
1987-88	Rs.	8,800;	1988-89	Rs.	11,000;			

(i) Pass journal entries to give effect to the above arrangements and show the Capital A/c of Mr. Anthony

(ii) Prepare the Balance Sheet of the remaining partners just after retirement of Mr. Anthony.

[C.A. Entrance M 90]

Solution :

In the books of M/s Amar, Akbar & Anthony

Journal

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
1989 June. 30.	Freehold property A/c Dr. To Revaluation A/c (Being increase in Asset value on revaluation)		19,800	 19,800
" "	Revaluation A/c Dr. To Stock " Investment A/c " Goodwill A/c (20,790 – 11,550) (Being decrease in Asset Value on revaluation)		10,230	 660 330 9,240
" "	Revaluation A/c Dr. To Amar's Capital A/c " Akbar's Capital A/c " Anthony's Capital A/c (Being profit on revaluation 19,800 – 10,230 = 9,570 credited to partner's capital in their profit-sharing ratio.)		9,570	 3,190 3,190 3,190
" "	General Reserve A/c Dr. To Mr. Amar's Capital A/c " Mr. Akbar's Capital A/c " Mr. Anthony's Capital A/c (Being General Reserve credited to partners in their profit-sharing ratio.)		6,600	 2,200 2,200 2,200
" "	Profit & Loss Suspense A/c Dr. To Mr. Anthony's Capital A/c (Being Mr. Anthony's Share of profit for 3 months, i.e. to the date of his retirement credited to his Capital Amount = [$\frac{1}{3}\times\frac{3}{12}\times\frac{1}{3}$ (11,000 + 8,800 + 9,900)]		825	 825
" "	Mr.Anthony's Capital A/c Dr. To Mr. Anthony's Loan A/c (Being Mr. Anthony's capital balance transferred to his Loan A/c.)		28,215	 28,215

Balance Sheet as on July 1, 1990

Liabilities		(Rs.)	*Assets*	(Rs.)
Capital Accounts			Cash in hand	5,500
Mr. Amar	38,390		Sundry Debtors	11,000
Mr Akbar	27,390	65,780	Stock	10,340
Sundry Creditors		14,190	Investments	5,170
Mr. Anthony's Loan A/c		28,215	Freehold Property	63,800
			Goodwill	11,550
			Profit & Loss Suspense A/c	825
		1,08,185		1,08,185

Dr. **Mr. Anthony's Capital A/c** *Cr.*

	(Rs.)		(Rs.)
To Mr. Anthony's Loan A/c (Balancing figure transferred)	28,215	By Balance b/d	22,000
		" Revaluation A/c	3,190
		" General Reserve	2,200
		" Profit & Loss Suspense A/c	825
	28,215		28,215

Working Notes. :

(1)

Dr. **Revaluation A/c** *Cr.*

		(Rs.)		(Rs.)
To Stock		660	By Freehold property	19,800
" Investments		330		
" Goodwill		9,240		
" Profit on Revaluation :				
Amar	3,190			
Akbar	3,190			
Anthony	3,190	9,570		
		19,800		19,800

(2) Goodwill :—

$$= 1 \times \frac{1}{5}(11{,}000 + 8{,}800 + 9{,}900 + 15{,}400 + 12{,}650)$$

$$= \text{Rs. } 11{,}550$$

(3)

Dr **Partners' Capital A/cs** *Cr.*

	Amar (Rs.)	Akbar (Rs.)		Amar (Rs.)	Akbar (Rs.)
To Balance c/d	38,390	27,390	By Balance b/d	33,000	22,000
			" Revaluation A/c	3,190	3,190
			" General reserve	2,200	2,200
	38,390	27,390		38,390	27,390
			By Balance b/d	38,390	27,390

[P 15] Paras, Rajesh and Moti are partners in a firm. They shared profits and losses in the ratio of 3 : 2 : 1. On 1st April, 1991, Rajesh retired and on that date the Balance Sheet of the firm was as under :

Liabilities	Rs.	*Assets*	Rs.
Capital A/cs :		Land and Buildings	2,50,000
Paras	3,40,000	Plant and Machinery	3,00,000
Rajesh	2,20,000	Investments	50,000
Moti	1,90,000	Stock	1,80,000
Sundry Creditors	1,60,000	Bills Receivable	20,000
Bills Payable	50,000	Sundry Debtors	1,00,000
		Cash at Bank	60,000
	9,60,000		9,60,000

1. Paras and Moti decided to share future profits in the ratio of $\frac{5}{8}$ and $\frac{3}{8}$ respectively.
2. The Goodwill of the firm was valued at two years' purchase based on the average of last three years profits. The profits of the last years were as under :

1989-90	Profit	Rs.	2,48,000
1988-89	Loss	Rs.	36,000
1987-88	Profit	Rs.	1,48,000

It was decided that Rajesh's Share of Goodwill will be adjusted in the Capital Accounts of Paras and Moti. (No Goodwill Account is to be raised in the bills of the firm.).

3. Stock and Land and Buildings are to be depreciated by 10% and Plant & Machinery to be increased by 10%.
4. 5% is to be provided for Doubtful Debts on Sundry Debtors and Provision is to be made for Rs. 12,000 for Outstanding Legal Expenses.
5. The amount due to Shri Rajesh was transferred to his Loan Account.

Pass the necessary journal entries for the above adjustment. Prepare Profit and Loss Adjustment Account, Partners' Capital Accounts and Balance Sheet of the firm after the retirement of Rajesh.

[C. A. Entrance N 91]

Solution :

In the books of Paras, Rajesh and Moti

Journal

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
April 1.	Paras's Capital A/c Dr.		30,000	
	Moti's Capital A/c Dr.		50,000	
	To Rajesh's Capital A/c			80,000
	(Being continuing partner's capital A/cs adjusted in Gaining Ratio to give Rajesh his share of Goodwill $\left[\frac{2}{6} \times \frac{2}{3} \times (2,48,000 - 36,000 + 1,48,000)\right]$			
	Gaining Ratio = $\left(\frac{5}{8} - \frac{3}{6}\right) : \left(\frac{3}{8} - \frac{1}{6}\right)$, i.e., 3 : 5			

(Contd.)

Date	Particulars		L.F	(Rs.)	(Rs.)
April 1.	Profit & Loss Adjustment A/c	Dr.		48,000	
	To Stock A/c				18,000
	" Land & Buildings A/c				25,000
	" Provision for Doubtful Debts A/c				5,000
	(Being decrease in the value of assets)				
" "	Profit & Loss Adjustment A/c	Dr.		12,000	
	To Outstanding Legal Expenses A/c				12,000
	(Being increase in the value of liabilities)				
" "	Plant & Machinery A/c	Dr.		30,000	
	To Profit & Loss Adjustment A/c				30,000
	(Being increase in the value of assets)				
" "	Paras 's Capital A/c	Dr.		15,000	
	Rajesh's Capital A/c	Dr.		10,000	
	Moti's Capital A/c	Dr.		5,000	
	To Profit & Loss Adjustment A/c				30,000
	(Being Loss on Revaluation transferred to Partner's Capital A/c in their Profit Sharing Ratio.)				

Dr. **Profit & Loss Adjustment A/c** Cr.

	(Rs.)		(Rs.)
1991		1991	
April 1.		April 1.	
To Stock A/c	18,000	By Plant & MachineryA/c	30,000
" Land & Buildings A/c	25,000	" Loss on Revaluation :	
" Provision for Doubtful Debts A/c	5,000	Paras (3\6)	15,000
" Outstanding legal expenses A/c	12,000	Rajesh (2\6)	10,000
		Moti (1\6)	5,000
	60,000		60,000

Dr. **Partners' Capital A/c** Cr.

	Paras (Rs.)	Rajesh (Rs.)	Moti (Rs.)		Paras (Rs.)	Rajesh (Rs.)	Moti (Rs.)
1991				1991			
April 1.				April 1.			
To Rajesh's Capital A/c	30,000	—	50,000	By Balance b/d	3,40,000	2,20,000	1,90,000
" Profit & Loss Adjustment A/c	15,000	10,000	5,000	" Paras 's Capital A/c	—	30,000	—
" Rajesh's Loan A/c	—	2,90,000		" Moti's Capital A/c	—	50,000	—
" Balance c/d	2,95,000	—	1,35,000				
	3,40,00	3,00,000	1,90,000		3,40,000	3,00,000	1,90,000

Balance Sheet as at 1-4-1991

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital A/cs :			Land & Buildings (2,50,000 – 25,000)		2,25,000
Paras	2,95,000				
Moti	1,35,000	4,30,000	Plant & Machinery (3,00,000 + 30,000)		3,30,000
Rajesh's Loan		2,90,000	Investments		50,000
Sundry Creditors		1,60,000	Stock (1,80,000 – 18,000)		1,62,000
Bills Payable		50,000			
Outstanding Legal Expenses		12,000	Bills Receivable		20,000
			Sundry Debtors	1,00,000	
			Less : Provision for Doubtful Debts	5,000	95,000
			Cash at Bank		60,000
		9,42,000			9,42,000

[P 16] X,Y and Z were in partnership sharing profits and losses as one-half, one-fourth and one-fourth respectively. It was agreed that interest should be allowed at the rate of 10% p.a. on partners' capital accounts and charged at the rate of 8% p.a. on their drawings. No interest was to be allowed or charged on current accounts.

The following are the particulars of their capital accounts, current accounts and drawings (as shown by the draft accounts) :—

	Capital Account balance on 1st January, 1984	Current Account balance on 1st January, 1984	Drawings for year to 31st Dec., 1984	Interest on Drawings
	Rs.	Rs.	Rs.	Rs.
X	1,50,000 Cr.	20,000 Cr.	30,000	2,000
Y	80,000 Cr.	10,000 Cr.	20,000	760
Z	60,000 Cr.	10,000 Dr.	20,000	1,400

The draft accounts for the year to 31st Dec., 1984 showed a net profit of Rs. 1,20,000 before taking into account interest on partner's capital account balances and drawings. The audit of the draft accounts revealed the following errors. :—

a. The rent of X's private house, amounting to Rs. 1,500 and paid on 31st Dec., 1984, had been included in rents charged in profit and loss account.

b. Repairs amounting to Rs. 20,000 had been treated as additions to machinery, depreciation on which had been charged @ 20%.

c. The premium, amounting to Rs. 6,000 on Y's Life Insurance Policy, and paid on 30th June, 1984, had been included insurance charges in the profit and loss account.

Z retired from the partnership on 31st Dec., 1984, and agreed to leave the amount due to him from firm as a loan repayable by agreed instalments X and Y agreed to continue in partnership, sharing profits and losses as two-thirds and one-third.

In ascertaining th amount due to Z the firm and the purposes of the new partnership, it was agreed to make the following adjustments :—

a. Goodwill to be raised at Rs. 1,44,000, but no account for goodwill to be raised in the books.

b. The value of the freehold premises to be increased by Rs. 40,000.

c. The provision for bad debts to be increased by Rs. 12,000.

You are required to prepare (a) The profit and Loss appropriation account for the year ended 31st Dec., 1984, making all necessary adjustments for the errors revealed, and

(b) partner's Capital and Current Accounts (in columnar form) for the year ended 31st Dec., 1984, incorporating the adjustments on Z's retirement. **[C.A. Inter M 85]**

Solution :

In the books of X, Y & Z

Profit & Loss Appropriation A/c for the year ended 31.12.84

Dr.		(Rs.)	Cr.		(Rs.)
To Interest on Capital			By Net Profit (1,20,000 + 1,500 + 4,000 + 6,000 – 20,000)		1,11,500
X	15,000		" Interest on Drawings		
Y	8,000		X	2,000	
Z	6,000	29,000	*y	1,000	
" Share of Profit			Z	1,400	4,400
X ($\frac{1}{2}$)	43,450		*[Interest on Drawings of $Y = 760 + \frac{8}{100} \times \frac{6}{12} \times 6{,}000$ $= 760 + 240 = 1{,}000$		
Y ($\frac{1}{4}$)	21,725				
Z ($\frac{1}{4}$)	21,725	86,900			
		1,15,900			1,15,900

Partners' Current A/cs

Dr.	X (Rs.)	Y (Rs.)	Z (Rs.)	Cr.	X (Rs.)	Y (Rs.)	Z (Rs.)
1984 Jan. 1. To Balance b/d	—	—	10,000	1984 Jan. 1. By Balance b/d	20,000	10,000	—
Dec. 31. To Drawings	30,000	20,000	20,000	Dec. 31. By Interest on Capital	15,000	8,000	6,000
" Rent of Private House	1,500	—	—	" Share of Profit	43,450	21,725	21,725
" L.T.P. Premium	—	6,000	—	" Z's Capital (Bal fig)	—	—	6,675
" Interest on Drawings	2,000	1,000	1,400				
" Provisionfor Bad Debt	6,000	3,000	3,000				
" Balance c/d	38,950	9,725	—				
	78,450	39,725	34,400		78,450	39,725	34,400
				By Balance b/d	38,950	9,725	—
To Z's Capital A/c (Share of Goodwill given in gaining ratio 2 : 3)	24,000	12,000	—	By Balance b/d	1,50,000	80,000	60,000
				Dec. 31. By Freehold Premises (Increase)	20,000	10,000	10,000
" Z's Current A/c (Balance transferred to meet the deicitCurrent A/c)			6,675	" X's Capital A/c			24,000
				" Y's Capital A/c			12,000
" Z's Loan A/c (Bal. fig.)			99,325				
" Balance c/d	1,46,000	78,000	—				
	1,70,000	90,000	1,06,000		1,70,000	90,000	1,06,000
				1985 Jan. 1 By Balance b/d	1,46,000	78,000	—

Note : Adjustment for freehold premises being Capital in nature treated in Capital A/cs of partners and provision for bad debt being revenue in nature treated in Current A/cs of partners.

[P 17] On 31st March 1993, the Balance Sheet of M/s. Ram, Rahul and Rohit sharing profits and losses in proportion to their capitals, stood as follows :—

Dr.		Rs.		*Cr.* Rs.
Capital Accounts :			Land & Buildings	2,00,000
Ram	3,00,000		Machinery	2,00,000
Rahul	2,00,000		Closing Stock	1,00,000
Rohit	1,00,000	6,00,000	Sundry Debtors	2,00,000
Sundry Creditors		2,00,000	Cash and Bank Balances	1,00,000
		8,00,000		8,00,000

On 31st March, 1993, Ram desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the Assets and Liabilities on that date on the following basis :—

1. Land and Buildings be appreciated by 30%.
2. Machinery to be depreciated by 20%.
3. Closing stock to be valued at Rs. 80,000.
4. Provision for bad debts to be made at 5%.
5. Old credit balances of Sundry Creditors Rs. 10,000 be written back.
6. Joint Life Policy of the partners surrendered and cash obtained Rs. 60,000.
7. Goodwill of the entire firm to be valued at Rs. 1,80,000 and Ram's share of the Goodwill to be adjusted in the Accounts of Rahul and Rohit who share the future profits equally. No Goodwill account being raised.
8. The total capital of the firm is to be the same as before retirement, Individual capital be in their profit sharing ratio.
9. Amount due to Ram is to be settled on the following basis :—

   50% on retirement and the balance

   50% within one year.

Prepare Revaluation Account, Capital Accounts of Partners, Rahul & Rohit. Loan Account of Ram, Cash Account and Balance Sheet as on 1-4-93 of M/s. Rahul and Rohit.

[C.A. Foundation D 93]

In the books of Ram Rahul and Rohit

Revaluation A/c

Dr.	(Rs.)		*Cr.* (Rs.)
To Machinery $\left(\frac{20}{100} \times 2{,}00{,}000\right)$	40,000	By Land & Building $\left(\frac{30}{100} \times 2{,}00{,}000\right)$	60,000
" Closing Stock (1,00,000 – 80,000)	20,000	" Sundry Creditors	10,000
" Provision for Bad Debts $\left(\frac{5}{100} \times 2{,}00{,}000\right)$	10,000		
	70,000		70,000

Dr. **Capital A/cs** Cr.

	Ram (Rs.)	Rahul (Rs.)	Rohit (Rs.)		Ram (Rs.)	Rahul (Rs.)	Rohit (Rs.)
1984 31.3.93 To Ram Capital (Shareof goodwill given in gaining Ratio 1 : 2) Ram Share of Goodwill $=\frac{3}{6}\times 1{,}80{,}000$ = 90,000)	—	30,000	60,000	1984 31.3.93 By Balance b/d	3,00,000	2,00,000	1,00,000
				" Joint Life Policy (Share in P.S.R.)	30,000	20,000	10,000
				" Rahul Capital	30,000	—	—
				" Rohit Capital	60,000	—	—
" Cash & Bank $[\frac{1}{2}$ (3,00,000 + 30,000 + 30,000 + 60,000)]	2,10,000	—	—	" Cash & Bank (Bal. fig . being amount brought in)	—	1,10,000	2,50,000
" Ram's Loan A/c (Bal. fig.)	2,10,000	—	—				
" Balance c/d $(\frac{1}{2}\times 6{,}00{,}000)$	—	3,00,000	3,00,000				
	4,20,000	3,30,000	3,60,000		4,20,000	3,30,000	3,60,000
				1.4.93 By Balance b/d	—	3,00,000	3,00,000

Dr. **Ram's Loan A/c** Cr.

		(Rs.)			(Rs.)
31.3.93	To Balance c/d	2,10,000	31.3.93	By Ram's Capital A/c	2,10,000
		2,10,000			2,10,000
			1.4.93	" Balance b/d	2,10,000

Dr. **Cash and Bank A/c** Cr.

		(Rs.)			(Rs.)
31.3.93	To Balance b/d	1,00,000	31.3.93	By Ram's Capital A/c	2,10,000
"	" Joint Life Policy	60,000	"	" Balance c/d	3,10,000
"	" Rahul's Capital A/c	1,10,000			
"	" Rohit's Capital A/c	2,50,000			
		5,20,000			5,20,000
1.4.93	" Balance b/d	3,10,000			

In the books of Rahul & Rohit
Balance Sheet as at 1-4-93

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Accounts			Land & Buildings		2,60,000
Rahul	3,00,000		(2,00,000 + 60,000)		1,60,000
Rohit	3,00,000	6,00,000	Machinery		
			(2,00,000 – 40,000)		
Ram Loan's A/c		2,10,000	Closing Stock		80,000
Sundry Creditors		1,90,000	Sundry Debtors	2,00,000	
(2,00,000 – 10,000)			Less : Provision for		
			Bad Debts	10,000	1,90,000
			$(\frac{5}{100} \times 2,00,000)$		
			Cash & Bank Balance		3,10,000
		10,00,000			10,00,000

Workings :
Gaining Ratio

	Rahul	Rohit
Old Ratio	$\frac{2}{6}$	$\frac{1}{6}$
New Ratio	$\frac{1}{2}$	$\frac{1}{2}$
∴ Gain	$\frac{1}{2} - \frac{2}{6} = \frac{1}{6}$	$\frac{1}{2} - \frac{1}{6} = \frac{2}{6}$

∴ Gaining Ratio is Rahul : Rohit = 1 : 2

[P 18] The following is the Balance Sheet of A, B and C who were equal partners on 31st December 1985 :—

Balance Sheet

Liabilities	Rs.	*Assets*	Rs.
A's Capital	33,600	Plant & Machinery (at cost)	49,000
B's Capital	25,200	Furniture	4,800
C's Capital	12,000	Stock in trade	22,800
10% Mortgage Loan	12,000	Sundry Debtors	21,600
Sundry Creditors	16,600	Cash in hand	1,200
	99,400		99,400

On the 1st January, 1986, C retired from business and claimed his share in the Secret Reserve/Profit arising out of the following :—

(1) During the year 1985, purchase of Machinery at a cost of Rs. 5,000 was charged to Purchases Account, the installation charges of Rs. 300 to erect the machinery, being charged to Machinery Repairs Account.

(2) Rs. 1,200 received from a debtor towards Rent of property sub-let, was credited to his personal account, instead of rent account, so as to reduce his debit balance from Rs. 1,600 to Rs. 400 debit.

(3) Interest on mortgage loan was paid in advance up to 31st December, 1986, and the whole amount was charged to Interest Account in 1985.

After rectifying the above errors, it was mutually decided as under :—

(a) The Goodwill of the firm be valued at three times the average profit of the last three years. Such profits should be correct profits and not the book profits. The book profits for the last three years were :—

1983—Rs. 13,830 ; 1984—Rs. 32,000 ; 1985—Rs. 12,010.

(b) Machinery be depreciated by 10% and the provision for Bad abd Doubtful Debts be made at 5% on Debtors.

(c) The Goodwill account should appear in the books to the extent of retiring partners share therein.

(d) C should be paid half of his dues in cash which shall be brought in by A and B in their profit sharing proportion and the other half shall be left in the business as C's Loan fetching 15% interest.

Show necessary Journal entries to give affect to the above adjustments and also prepare C's Capital Account, Profit and Loss Adjustment Account and the balance sheet of A and B after C's retirement. **[C. A. Inter M 86]**

Solution :

In the books of M/s A, B & C

Journal

Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
Plant & Machinery	Dr.		5,300	
To Profit & Loss Adjustment A/c				5,300
(Purchase of Machinery and it's erection charges wrongly shown as revenue, now capitalised)				
Sundry Debtors A/c	Dr.		1,200	
To Profit & Loss Adjustment A/c				1,200
(Rent received wrongly credited to Sundry Debtors A/c now rectified)				
Prepaid Interest A/c	Dr.		1,200	
To Profit & Loss Adjustment A/c				1,200
(Interest on mortgage loan paid, wrongly charged as revenue now adjusted)				
Goodwill A/c	Dr.		21,847	
To C's Capital A/c				21,847
(Goodwill raised for C, the retiring partner's share only)				
Profit & Loss Adjustment A/c	Dr.		6,570	
To Depreciation on Plant & Machinery				5,430
" Provision for Bad & Doubtful Debts				1,140
(Machinery depreciated @ 10% on Rs. 54,300 and Provision for Bad & Doubtful Debts created @ 5%)				
Profit & Loss Adjustment A/c	Dr.		1,130	
To A's Capital A/c				376
" B's Capital A/c				377
" C's Capital A/c				377
(Profit on Adjustment shared by old partners in their old P. S. R. 1 : 1 : 1)				

Dr. **C's Capital A/c** Cr.

	(Rs.)		(Rs.)
1986 Jan. 1.		1986 Jan. 1.	
To Cash A/c $\left(\frac{34,224}{2}\right)$	17,112	By Balance b/d	12,000
" C's Loan A/c $\left(\frac{34,224}{2}\right)$	17,112	" Goodwill A/c	21,847
		" Profit & Loss Adjustment A/c (Profit on Adjustment)	377
	34,224		34,224

Profit & Loss Adjustment A/c

Dr.	Rs.		Cr. Rs.
1986 Jan. 1.		1986 Jan. 1.	
To Depreciation	5,430	By Plant & Machinery (5,000 + 300)	5,300
" Provision for Bad & Doubful Debts $\left(\frac{5 \times 22,800}{100}\right)$	1,140	" Sundry Debtors (1,600 – 400)	1,200
" Profit on Adjustment :		" Prepaid Interest $\left(\frac{10 \times 12,000}{100}\right)$	1,200
A's Capital A/c (1/3)	376		
B's Capital A/c (1/3)	377		
C's Capital A/c (1/3)	377		
	7,700		7,700

In the books of M/s A & B
Balance Sheet as on 1st Jan., 1986

Liabilities	(Rs.)	*Assets*		(Rs.)
A's Capital	42,532	Cash in hand		1,200
B's Capital	34,133	Sundry Debtors	22,800	
C's Loan	17,112	Less : Provision for Bad & Doubtful Debts	1,140	21,660
10% Mortgage Loan	12,000	Stock in trade		22,800
Sundry Creditors	16,600	Prepaid interest		1,200
		Furniture		4,800
		Plant & Machinery	54,300	
		Less : Depreciation	5,430	48,870
		Goodwill		21,847
	1,22,377			1,22,377

[P 19] A and B are equal partners. A, by agreement retires and C joins the firm on the basis of the third share of profits on 01–01–1988. The balance of the books as on 31–12–87 were :

	Dr. (Rs.)	Cr. (Rs.)
Goodwill	10,000	
Fixed Assets – at cost	1,20,000	
Current Assets :		
Stock	60,000	
Debtors	40,000	
Bank Balance	8,000	
Creditors		20,000
Provisions for Depreciation		12,000
Capital Accounts :—		
A		1,04,000
B		1,02,000
	2,38,000	2,38,000

Goodwill and Fixed Assets are valued at Rs. 30,000 and Rs. 1,40,000 respectively and it is agreed to be written up accordingly before admission of C as partner. Sufficient money is to be introduced so as to enable A to be paid off and leave Rs. 5,000 cash at bank ; B and C are to provide such sum as to make their Capitals proportionate to their share of profit. Assuming the agreement is carried out, show the Journal entries required and prepare the Balance Sheet after admission of C. **[C.A. Inter. M 88]**

Solution :

In the books B & C
Journal

	Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
(i)	Goodwill	Dr.		20,000	
	Fixed Assets	Dr.		20,000	
	Provision for Depreciation A/c	Dr.		12,000	52,000
	To Revaluation A/c				
	(Increase in value of goodwill and fixed assets and due to recent increase in the value of fixed assets, Provision for Depreciation is written back)				
ii)	Revaluation A/c	Dr.		52,000	
	To A's Capital A/c				26,000
	" B's Capital A/c				26,000
	(Profit on Revaluation shared by old partners A & B in their old P. S. R. 1 : 1)				
iii)	Bank A/c	Dr.		1,27,000	
	To B's Capital A/c				42,000
	" C's Capital A/c				85,000
	(Amount brought in by B & C to make their capitals proportionate to their share of profit)				
iv)	A's Capital	Dr.		1,30,000	
	To Bank A/c				1,30,000
	(A's Capital balance paid off)				

Balance Sheet as on 1.1.1988

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital:		Goodwill	30,000
B	1,70,000	Fixed Assets	1,40,000
C	85,000	Current Assets	
Sundry Creditors	20,000	Stock	60,000
		Sundry Debtors	40,000
		Cash in Bank	5,000
	2,75,000		2,75,000

Working Notes :— 1.

Capital of B and C in their new firm

				Rs.
	Total Assets of B and C (as per their Balance Sheet)	=	Rs.	2,75,000
Less :	Sundry Creditors	=	Rs.	20,000
	Total Capital of B and C		Rs.	2,55,000

B's New share $= \dfrac{2 \times 2,55,000}{3}$ = Rs. 1,70,000

C's New share $= \dfrac{1 \times 2,55,000}{3}$ = Rs. 85,000

Workings :— 2.

Bank A/c

Dr.	Rs.		Cr. Rs.
To Balance b/d	8,000	By A's Capital A/c	1,30,000
" B's Capital A/c	42,000	" Balance c/d	5,000
" C's Capital A/c	85,000		
	1,35,000		1,35,000

DEATH

[P 20] The partnership agreement of a firm consisting three patners, A, B and C(who share profits $\frac{1}{2}, \frac{1}{4},$ and $\frac{1}{4}$ and whose fixed capitals are Rs. 10,000, Rs. 6,000 and Rs. 4,000 respectively) provides as follows :—

[a] That partners be allowed interest at 10% per annum on their fixed capitals, but no interest be allowed on undrawn profits on charged on drawings.

[b] That, upon the death of a partner, the goodwill of the firm be valued at two years' purchase of the average net profits (after charging interest on capital) for the three years to 31st December preceding the death of a partner.

[c] That an insurance policy of Rs. 10,000 each to be taken in individual names of each partner, the premium to be charged against the profit of the firm.

[d] That, upon the death of a partner, he be credited with his shares of the profits, interest on capital etc. calculated upto 31st December following his death.

[e] That, the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

[f] That the partnership books be closed annually on 31st December.

A died on 30th September, 1983, the amount standing to the credit of his Current A/c on 31st December, 1982 was Rs. 450 and from that date to the date of death he had withdrawn Rs. 3,000 from the business.

An unrecorded liability of Rs. 2,000 was discovered on 30th September, 1983. It was decided to record it and be immediately paid off.

The trading results of the firm (before charging interest on capital) had been as follows : 1980 Profit Rs. 9,640; 1981 Profit Rs. 6,720 ; 1982 Loss Rs. 640 ; 1983 Profit Rs. 3,670.

Assuming the surrender value of the policy to be 20% of the sum assured, you are required to prepare an account showing the amount due to A's legal representative as on 31st December, 1983. **[C.A. Entrance D 84]**

Solution :

A's Capital A/c

Dr.	(Rs.)	Cr.	(Rs.)
1983 Sep. 30. To A's Current A/c	2,550	1983 Jan. 1. By Balance b/d	10,000
Dec. 31. To Profit & Loss Adjustment A/c (Unrecorded liability)	1,000	Dec. 31. By Profit & Loss Adjustment A/c	
" A's Executor's A/c (Balancing figure transferred)	18,525	" Interest on Capital	1,000
		" Share of Profit $\left[\frac{3{,}670 - 2{,}000 \text{ (for Intt. on Cap)}}{2}\right]$	835
		Goodwill [Av. Profit after charging interest on capital = $\frac{(9{,}640 + 6{,}720 - 640) - 3 \times 2{,}000}{3}$ = Rs. 3,240]	3,240
		Insurance Policy A/c $\left[\frac{1}{2}\right.$ A's policy + 20% of B & C's policies = $\left.\frac{1\ (10{,}000 + 4{,}000)}{2}\right]$	7,000
	22,075		22,075

[P 21] The following is the Balance Sheet of the firm of ABC as on 31-12-1983. Their profit sharing ratio is 3 : 2 : 1 :—

Liabilities		Rs.	*Assets*	Rs.
Capital A/cs :			Fixed Assets	40,000
A		16,000	Sundry Debtors	32,000
B		12,000	Insurance policy on Joint Life	
C		10,000	of Partners	6,000
Current A/cs :			Stock	24,000
A		4,000	Bank	9,000
B		3,000	Cash	3,000
C		1,000		
Reserve		18,000		
P & L A/c				
Opening Balance of the year	6,000			
Profit for the year	14,000	20,000		
Creditors		20,000		
Bank O/D		10,000		
		1,14,000		1,14,000

B died on 31-3-84. His account has to be settled and paid.For the year, 1984 proportionate profit of 1983 is to be taken into account. For 1983, a bad debt of Rs. 2,000 has to adjusted. Goodwill has to calculated 3 times of the four years' average profits. A policy is taken on the joint life of partners for Rs. 35,000 and the annual premium of Rs. 2,000 has to be paid on Feb. 1, every year. The profits for 1982 Rs. 16,000, 1981 Rs. 20,000 and 1980 Rs. 12,000. Goodwill account need not be kept in the accounts. Calculate the amount payable to B's heirs. Show necessary ledger accounts of all partners and other detailed calculations. **[C.A. Entrance J 85]**

Solution :

Dr. **Current A/cs** *Cr.*

	A (Rs.)	B (Rs.)	C (Rs.)		A (Rs.)	B (Rs.)	C (Rs.)
To B's Capital A/c (Capital Adj. for Goodwill in gaining ratio)	11,250	—	3,750	By Balance b/d	4,000	3,000	1,000
				" Reserves	9,000	6,000	3,000
" B's Capital A/c (Bal. fig. transferred)	—	39,000	—	" Profit & Loss A/c (6,000 + 14,000 – 2,000 for Bad Debts = Rs. 18,000)	9,000	6,000	3,000
				" A's Current A/c		11,250	
" Balance c/d	24,250	—	7,750	" C's Current A/c (goodwill)		3,750	
				" Joint Life Policy	13,500	9,000	4,500
	35,500	39,000	11,500		35,500	39,000	11,500
				By Balance b/d	24,250	—	7,750

* B's Share of G. W. $= \frac{1}{3}\left[3\left\{\frac{12{,}000 + 20{,}000 + 6{,}000 + (14{,}000 - 2{,}000)}{4}\right\}\right] = 15{,}000$

Dr. **Capital A/cs** Cr.

	A (Rs.)	B (Rs.)	C (Rs.)		A (Rs.)	B (Rs.)	C (Rs.)
To B's Executor's A/c " (Bal. fig transferred)	—	52,000	—	By Balance b/d	16,000	12,000	10,000
				" B's Current A/c	—	39,000	—
" Balance c/d	16,000	—	10,000	" Profit & Loss Suspense A/c [Profit for 1.1.84 – 31.3.84 = $\frac{3\,(14{,}000 - 2{,}000)}{12}$ = Rs. 3,000 B's Share = $\frac{2 \times 3{,}000}{6}$ = Rs. 1,000]	—	1,000	—
	16,000	52,000	10,000		16,000	52,000	10,000
				By Balance b/d	16,000	—	10,000

[P 22] The following was the Balance Sheet of A, B and C who share profits in the ratio of 1 : 2 : 2 as on 31-12-84. C died on 31st March, 1985. His account has to be settled under the following terms :—

Balance Sheet

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	10,000	Goodwill	15,000
Capital :		Debtors	10,000
A	10,000	Machinery	20,000
B	20,000	Building	30,000
C	20,000	Stock	10,000
General Reserve	5,000	Cash at Bank	5,000
Investment fluctuation fund	3,000	Investments	10,000
Bad debt Reserve	2,000		
Bank Loan	30,000		
	1,00,000		1,00,000

Goodwill is to be calculated at the rate of 2 years purchase on the basis of average of 5 years profit or loss. Profit for Jan./March 85 is to be calculated proportionately on the average profit of 3 years. The profits are 1980 Rs. 3,000, 1981 Rs. 7,000, 1982 Rs. 10,000, 1983 Rs. 14,000, 1984 Loss Rs. 12,000. During 1984, a moped costing Rs. 4,000 was purchased and debited to travelling account on which depreciation is to be calculated @ 25%. Other values agreed on assets are Stock Rs. 12,000, Building Rs. 35,000 and Machinery Rs. 25,000. Investment is valued at Rs. 8,000. Debtors are considered good.

Prepare new Balance Sheet of the firm, necessary Journal entries and Ledger account of the Partners. **[C. A. Entrance D 85]**

Solution :

Statement showing Present Value of Goodwill

Total Profit of 5 years, i.e. 1980-84 (as given) [(3,000 + 7,000 + 10,000 + 14,000 – 12,000]		Rs.	22,000
Add :	Cost of Moped shown as travelling in 1984	Rs.	4,000
		Rs.	26,000
Less :	Depreciation on Moped $\left(\frac{25 \times 4{,}000}{100}\right)$:—	Rs.	1,000
	Revised Total Profit of 5 years	Rs.	25,000

Therefore, Average of 5 years profit = $\frac{25{,}000}{5}$ = Rs. 5,000

Therefore, Goodwill = 2×5000 = Rs.10,000

Statement showing computation of Profit for January/March 85

		(Rs.)
Total Profit of 3 years i.e., 1982 – 84 (as given) 10,000 + 14,000 – 12,000		12,000
Add :	Cost of Moped shown as travelling in 1984	4,000
		16,000
Less :	Depreciation on Moped $\frac{25 \times 4{,}000}{100}$	1,000
	Revised Total Profit of 3 years	15,000

Revised Total Profit of 3 years

Therefore, Average of 3 years Profit $= \frac{15{,}000}{3}$ = Rs. 5,000

Therefore, Profit for January/March i.e. 3 months $= \frac{3 \times 5{,}000}{12}$ = Rs. 1,250

Journal

Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
A's Capital A/c	Dr.		1,000	
B's Capital A/c	Dr.		2,000	
C's Capital A/c	Dr.		2,000	
To Goodwill A/c				5,000
(Goodwil written off to bring it down to the present value. Amount w/o = 15,000 – 10,000 = 5,000)				
Stock	Dr.		2,000	
Building	Dr.		5,000	
Machinery	Dr.		5,000	
To Revaluation A/c				12,000
(Increase in the value of assets on revaluation)				
Revaluation A/c	Dr.		2,000	
To Investments				2,000
(Decrease in the value of asset, on revaluation.)				
Reserve	Dr.		5,000	
Investment Fluctuation Fund	Dr.		3,000	
Bad Debt Reserve	Dr.		2,000	
To A's Capital A/c				2,000
" B's Capital A/c				4,000
" C's Capital A/c				4,000
(Reserve, funds etc. shared by partners in their P. S. R. 1 : 2 : 2)				
Revaluation A/c	Dr.		10,000	
To A's Capital A/c				2,000
" B's Capital A/c				4,000
" C's Capital A/c				4,000
(Profit on Revaluation shared by partners in their P. S. R. 1: 2 : 2)				
Moped A/c	Dr.		3,000	
To A's Capital A/c				600
" B's Capital A/c				1,200
" C's Capital A/c				1,200
(Net value of Moped, i.e., after charging depreciation accounted for)				
Profit & Loss Suspense A/c	Dr.		500	
To C's Capital A/c				500
(C is given his share of profit for the period 1.1.85–31.3.85, i.e., 3 months. C's share $= \frac{2 \times 1{,}250}{5} = 500$.				

Capital A/cs

Dr.	A (Rs.)	B (Rs.)	C (Rs.)		A (Rs.)	B (Rs.)	C (Rs.) Cr.
To Goodwill A/c	1,000	2,000	2,000	By Balance b/d	10,000	20,000	20,000
" C's Executor A/c (Bal. fig)	—	—	27,700	" Revaluation A/c	2,000	4,000	4,000
				" Sundry Reserves	2,000	4,000	4,000
" Balance c/d	13,600	27,200	—	" Moped A/c	600	1,200	1,200
				" Profit & Loss Suspense A/c	—	—	500
	14,600	29,200	29,700		14,600	29,200	29,700
				By Balance b/d	13,600	27,200	—

In the books of A & B
Balance Sheet as on 31st March, 1985

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	10,000	Goodwill (15,000 – 5,000)	10,000
Capital :		Debtors	10,000
A	13,600	Machinery (20,000 + 5,000)	25,000
B	27,200	Building (30,000 + 5,000)	35,000
Bank Loan	30,000	Moped	3,000
C' Executor A/c	27,700	Stock (10,000 + 2,000)	12,000
		Bank	5,000
		Investments (10,000 – 2,000)	8,000
		Profit & Loss Suspense A/c	500
	1,08,500		1,08,500

[P 23] The following figures were extracted from the Account Books of Vimal & Co., a partnership firm having partners Mr. Anil and Mr. Bimal who were sharing profits and losses in equal ratio as on 31st March, 1987 :—

	Dr. Rs.	Cr. Rs.
Mr. Anil's Capital Account		46,000
Mr. Bimal's Capital Account		26,000
Mr. Anil's Drawings Account	9,000	
Mr. Bimal's Drawings Account	7,000	
Gross Profit		33,600
Salaries	15,000	
Rent, Rates and Taxes	4,000	
Other overheads	4,000	
Discount Received		400
Fixed Assets	65,000	
Current Assets	2,000	
	1,06,000	1,06,000

The Partnership Deed provides that,

a. Interest at 5% p.a. is to be allowed on capitals, but no interest is to be charged on drawings. (From 1-1-87 to 31-3-87)

b. On the death of a partner the surviving partner shall pay out the interest on the deceased partner.
c. The deceased partner shall be entitled to his share of Goodwill of the firm calculated at two and half years' purchase of the average profits of the preceding three years' profit prior to the date of death of a partner.
d. Assets are to be taken at their book value on the date of death.
Mr. Anil died on 31st March, 1987.

The profits of the preceding three years ending on 31-12-1984, 31-12-1985 and 31-12-1986 respecteively were Rs. 30,000, Rs. 25,000 and Rs. 35,000. The accounts were closed on 31st December each year.

Prepare the Profit and Loss Account and the account to be produced to the executors of Mr. Anil showing the amount due to his estate. **[C.A. Entrance N 87]**

Solution :

In the books of Vimal & Co.

Dr. **Profit & Loss A/c for the period ended 31st March, 1987** Cr.

		(Rs.)		(Rs.)
To Salaries		15,000	By Gross Profit b/d	33,600
" Rent, Rates and Taxes		4,000	" Discount Received	400
" Other overheads		4,000		
" Net Profit c/d		11,000		
		34,000		34,000
To Interest on capital :			B Net Profit b/d	11,000
Mr. Anil $\left(\frac{5 \times 3 \times 46{,}000}{100 \times 12}\right)$	575			
" Mr. Bimal $\left(\frac{5 \times 3 \times 26{,}000}{100 \times 12}\right)$	325	900		
" Share of Profit :				
Mr. Anil $\left(\frac{1 \times 10{,}100}{2}\right)$	5,050			
Mr. Bimal $\left(\frac{1 \times 10{,}100}{2}\right)$	5,050	10.100		
		11,000		11,00

Dr. **Mr. Anil Executors A/c** Cr.

	Rs.		Rs.
To Drawings	9,000	By Mr. Anil's capital A/c	46,000
" Balance c/d	80,125	" Interest on capital	575
		" Share of Profit	5,050
		" Goodwill $\left[\frac{1 \times 5 \times 1}{2 \times 2 \times 3}(30{,}000 + 25{,}000 + 35{,}000)\right]$	37,500
	89,125		89,125

[P 24] You are given the Balance Sheet of M/s X & Co. as on 31-12-89 consisting of three partners—Mr. J, Mr. W and, Mr. N, were sharing profits and losses equally.

Balance Sheet of M/s X Co. as on 31-12-89

Liabilities	Rs.	*Assets*	Rs.
Capital accounts		Plant and Machinery	23,650
Mr. J	10,000	Furniture	4,500
Mr. W	16,000	Stock	20,000
Mr. N	14,000	Debtors	20,540
Creditors	10,000	Cash	11,310
6% Loan	30,000		
	80,000		80,000

Mr. N died on 1-1-90. The following information is available :—

a. Rs. 2,260 received from Mr. Y as rent was credited to Y's account. He has already a debit balance for other transactions.

b. Machinery purchased on 26-12-89 for Rs. 6,000 was debited to purchases account. Erection charges of Rs. 1,000 was charged to repairs account.

c. Interest of Rs. 2,408 was paid in advance. But the entire amount was charged to Profit and Loss Account in 1989.

d. Machinery is valued at 20% below the book value after adjustment for (b) above.

e. Debtors are estimated to be worth 95% of book value.

f. Goodwill account is to be raised to the extent of deceased partner's share.

Goodwill is to be valued at three years' purchase of the average profit of the year 1987, 1988 and 1989 Profits for the year 1987 and 1988 were Rs. 18,000 and Rs. 20,000 respectively. Profit for the year 1989 subject to the adjustment (a), (b), and (c) above was Rs. 13,842.

One half of the dues to the deceased are to be met immediately by cash to be brought in by continuing partners in their P. S. R. Balance will continue as loan with 12% interest p.a. in the name of the Executor of the deceased partner.

Show necessary accounts and Balance Sheet of the firm of the firm after one half of the dues are to paid off. **[C.A. Inter N 90]**

Solution :

In the books of J, W & C

Profit & Loss Adjustment A/c

Dr. *Cr.*

			(Rs.)			(Rs.)
To	Loss on revaluation Machinery $\left(\frac{20 \times 30,650}{100}\right)$	6,130		By	Rent A/c (wrongly credited to Debtors)	2,260
"	Sundry debtors $\left[\frac{5 \times (20,540 + 2,260)}{100}\right]$	1,140	7,270	"	Purchase A/c (Plant & Machinery Repairs)	6,000
"	Profit on Adjustment :—			"	Repairs A/c (Plant & Machinery)	1,000
	J (1/3)	1,466		"	Interest Paid in Advance	2,408
	W (1/3)	1,466				
	N (1/3)	1,466	4,398			
			11,668			11,668

N's Executor A/c

Dr. *Cr.*

		(Rs.)			(Rs.)
To	Cash A/c	18,318	By	N's Capital A/c	14,000
"	12% Loan from Executor A/c	18,318	"	Profit on Adjustment A/c	1,466
			"	Goodwill $\left[\frac{1}{3}\left\{3 \times \frac{1}{3}(18,000 + 20,000 + 25,510)\right\}\right]$	21,170
		36,636			36,636

Dr. **Partners' Capital A/c** Cr.

	J (Rs.)	W (Rs.)		J (Rs.)	W (Rs.)
To Balalance c/d	20,625	26,625	By Balance b/d	10,000	16,000
			" Profit & Loss Adjustment A/c	1,466	1,466
			" Cash A/c	9,159	9,159
	20,625	26,625		20,625	26,625
			By Balance b/d	20,625	26,625

Balance Sheet as on 1.1.1990

Liabilities	(Rs.)	*Assets*		(Rs.)
Capital A/cs :		Goodwill		21,170
Mr. J.	20,625	Plant & Machinery	23,650	
Mr. W	26,625	Add : Wrongly debited		
12% Loan from N's Executor A/c	18,318	to Purchases A/c	6,000	
Sundry Creditors	10,000	Erection Charges	1,000	
6% Loan A/c	30,000		30,650	
		Less : Depreciation $\left(\frac{20 \times 650}{100}\right)$	6,130	24,520
		Furniture		4,500
		Stock		20,000
		Sundry Debtors	20,540	
		Add : Rent Wrongly credited to Debtors	2,260	
			22,800	
		Less : Bad Debts	1,140	21,660
		Interest Paid in advance		2,408
		Cash		11,310
	1,05,568			1,05,568

DISSOLUTION

[P 25] X, Y and Z carrying on business since 1965 decided to dissolve their partnership on 30th June, 1988 when their Balance Sheet was as under :—

Liabilities		Rs.	*Assets*	Rs.
Creditors		34,000	Cash	25,000
Capital accounts :			Debtors	62,000
X	1,20,000		Stock	37,000
Y	90,000		Tools	8,000
Z	60,000	2,70,000	Motors Cars	12,000
			Machinery	60,000
			Freehold Building	1,00,000
		3,04,000		3,04,000

Y and Z agreed to form a new partnership to carry on the business and it is agreed that they shall acquire from the old firm the following assets at amounts shown hereunder :—

	Rs.
Stock	40,000
Tools	5,000
Motor Cars	25,000
Machinery	78,000
Freehold Building	84,000
Goodwill	60,000

The partnership agreement of X, Y and Z provided that trading profits or losses shall be divided in the ratio of 3 : 2 : 1 and that capital profits or losses shall be divided in proportion of their capital.

Debtors realise Rs. 59,000 and discount amounting to Rs. 720 are secured on payments due to creditors.

Prepare the necessary accounts of X, Y and Z giving effect to these transactions and prepare the Opening Balance Sheet of Y and Z who bring the necessary cash in ratio of 3 : 2 to pay to X.

[C. A. Inter N 89]

Solution :

In the books of M/s X, Y and Z

Capital A/cs

Dr. Cr.

	X (Rs.)	Y (Rs.)	Z (Rs.)		X (Rs.)	Y (Rs.)	Z (Rs.)
1988 June 30.				1988 June 30.			
To Cash	1,52,320			By Balance b/d	1,20,000	90,000	60,000
" Balance c/d		1,75,200	1,16,800	" Profit on Realisation	32,320	24,240	16,160
				" Cash		60,960	40,640
	1,52,320	1,75,200	1,16,800		1,52,320	1,75,200	1,16,800
				By Balance b/d		1,75,200	1,16,800

Realisation A/c

Dr. Cr.

		(Rs.)		(Rs.)
To Debtors		62,000	By Creditors	34,000
" Stock		37,000	" Cash (Debtors realised)	59,000
" Tools		8,000	" M/s. Y & Z Co. Purchase Price = (40,000 + 5,000 + 25,000 + 78,000 + 84,000 + 60,000)	2,92,000
" Motor Cars		12,000		
" Machinery		60,000		
" Freehold Building		1,00,000		
" Cash (Creditors Paid off)		33,280		
" Profit on Realisation :				
X	32,320			
Y	24,240			
Z	16,160	72,720		
		3,85,000		3,85,000

Balance Sheet as at 30th June, 1988

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital A/cs :		Goodwill	60,000
Y	1,75,200	Freehold Building	84,000
Z	1,16,800	Machineries	78,000
		Motor Car	25,000
		Tools	5,000
		Stock	40,000
		Cash (25,000 + 59,000 + 60,960 + +40,640 − 33,280 −1,52,320)	—
	2,92,000		2,92,000

[P 26] The following was the Balance Sheet of M/s Ideal Works in which A, B and C are partners showing profit and losses in the ratio of 6 : 3 : 5 :—

Liabilities	Rs.	*Assets*	Rs.
A's Capital A/c	25,000	Land and Building	10,000
C's Capital A/c	15,000	Furniture	5,000
A's Current A/c	1,000	Stock in trade	23,100
C's Curremt A/c	500	Sundry Debtors	30,000
Sundry Creditors	30,000	Cash at Bank	2,500
Loan on mortgage of Land & Building	4,000	B's Current A/c	4,900
	75,500		75,500

It was decided to dissolve the partnership as on the date of the balance sheet. The assets of the firm was realised as under :—

Land and building Rs. 6,000 ; Furniture Rs. 2,000 ; Stock-in-trade Rs. 15,000 and Sundry debtors Rs. 20,000. The expenses of realisation amounted to Rs. 2,000. The Sundry creditors agreed to receive 75 paise in a rupee in full settlement of their claim. Loan on mortgage was paid. It was ascertained that B had become insolvent. B's estate had contributed only 50 paise in a rupee.

Write up the realisation account, bank account, capital account and current account of the partners following the rule given in Garner Vs. Murray. **[C.A. Inter M 91]**

Solution :

In the books of M/s Ideal Works

Realisation A/c

Dr. *Cr.*

			(Rs.)				(Rs.)
To	Sundry assets (transferred)			By	Sundry Liabilities (transferred)		
	Land & Building	10,000			Creditors	30,000	
	Furniture	5,000			Mortgage Loan	4,000	34,000
	Stock in trade	23,100		"	Bank		43,000
	Sundry Debtors	30,000	68,100		(Assets realised 6,000 + 2,000 + 15,000 + 20,000)		
"	Bank			"	Loss on Realisation		
	Creditors paid off	22,500			A (6/14)	8,400	
	Mortgage Loan Paid off	4,000			B (3/14)	4,200	
	Realisation expenses	2,000	28,500		C (5/14)	7,000	19,600
			96,600				96,600

Partners' Current A/cs

Dr. *Cr.*

	A (Rs.)	B (Rs.)	C (Rs.)		A (Rs.)	B (Rs.)	C (Rs.)
31-3-'93				31-3-93			
To Balance b/d	—	4,900	—	By Balance b/d	1,000	—	500
" Realisation A/c	8,400	4,200	7,000	Bank	8,400	—	7,000
" B's Current A/c (B's deficitmade good in last agreed Capital ratio 5 : 3)	2,844	—	1,706	" Bank (50%)	—	4,550	—
				" A's.Current A/c	—	2,844	—
				" C's Current A/c	—	1,706	—
				" Capital A/c (balancing fig.)	1,844	—	1,206
	11,244	9,100	8,706		11,244	9,100	8,706

Dr. **Partners' Capital A/c** *Cr.*

	A (Rs.)	C (Rs.)		A (Rs.)	C (Rs.)
31-3-90			31-3-90		
To Current A/c (transfer)	1,844	1,206	By Balance b/d	25,000	15,000
" Bank A/c (Balancing figure being Capital withdrawn)	23,156	13,794			
	25,000	15,000		25,000	15,000

Dr. **Bank A/c** *Cr.*

	(Rs.)			(Rs.)
To Balance b/d	2,500	By Realisation A/c		
" Realisation A/c (assets realised)	43,000	Creditors paid off	22,500	
		Mortgage Loan paid off	4,000	
" B's Current A/c	4,550	Expenses paid off	2,000	28,500
" A's Current A/c	8,400	" A's Capital A/c		23,156
" C's Current A/c	7,000	" C's Capital A/c		13,794
	65,450			65,450

Exercise

(A) Partnership

[E 1] On January 1, 1991 Johan and Robert commenced business as partners with an initial capital of Rs. 20,000 and Rs. 30,000 in their respective accounts. The partnership deed provides, *inter alia,* that

(i) Profits/Losses shall be shared in the ratio of 2 : 3 as between Johan and Robert.

(ii) Partners shall be entitled to interest on capital at the commencement of each year at 6% p.a. ; and

(iii) Interest on drawings shall be charged at 8% p.a.

During the year ended 31-12-91, the firm made a profit Rs. 19,280 before adjustment of interest on capital and drawings. The partners withdrew during the year Rs. 3,000 each at the end of every quarter commencing from 31-3-1991.

You are required to open Profit & Loss Adjustment A/c and show the entries for interest and distribution of profit. **[C.A. Entrance adapted]**

[**Ans.** : Distributable profit Rs. 17,000 ; Capital Accounts ; Johan Rs. 15,640 ; Robert Rs. 29,640 ; Interest on drawings Rs. 360 each]

(B) Admission

[E 2] Akash and Patel were carrying on business in partnership from 1964.

Balance Sheet of Akash & Patel as on March 31, 1975

Liabilities		Rs.	*Assets*	Rs.
Capital Accounts :			Goodwill	4,000
Akash	Rs. 39,700		Motor Cars	16,500
Patel	Rs. 21,300		Furniture & Fixtures	6,200
		61,000	Stock	29,400
Profit & Loss A/c		9,000	Debtors	39,600
Creditors		26,700	Cash at Bank	2,300
Bills Payable		1,500	Cash in hand	200
		98,200		98,200

On April 1, 1975, they decided to admit Bhuban as a partner on the following conditions :

(1) Bhuban will receive 1/5 of the future profits (after charging interest @ 5% on capitals), subject to a minimum of Rs. 6,000 per annum. Any deficiency in his share of profits is to be met from Akash's share.

(2) The goodwill of the firm is fixed at Rs. 8,000.

(3) An independent valuation revealed that motor cars are worth Rs. 19,000, while the value of the furniture is only Rs. 5,700. An amount of Rs. 1,500 of the debtors is likely to become 'bad'.

(4) Bhuban was to bring in capital equal to 1/5 of the capitals of Akash and Patel, arrived at affer giving effect to the foregoing considerations.

(5) It was decided to restore goodwill to its original value.

During the year which ended March 31, 1976, the firm earned a profit of Rs. 30,000 (before charging interest on capitals).

You are required to :

(a) Show Journal Entries in respect of transactions taking place at the time of Bhuban's admission.

(b) Show the Balance Sheet immediately after Bhuban's admission.

(c) Show the Profit & Loss Appropriation Account for the year ended March 31, 1976, assuming that adjustments in respect of guaranteed profits are to be made through the Profit & Loss Appropriation Account. **[I.C.W.A. J 76]**

[**Ans.** : Capital Accounts : Distributable profit Rs. 20,584 Akash Rs. 56, 531, Patel Rs. 38,064 Bhuban Rs. 20,805 ; Balance Sheet Total Ra. 1,13,600]

[E 3] Deepak, Harish and Farokh were equal partners in a firm named 'Enterprises' and their balance sheet is given below ;

Balance Sheet of Enterprises as on July 1, 1977

			Rs.	Rs.
Fixed Assets :				
Goodwill			1,19,000	
Building			1,95,000	
Furniture			24,000	
				3,38,000
Working Capital :				
	Rs.	Rs.		
Stock	1,14,000			
Debtors	1,08,000			
Cash	6,000			
		2,28,000		
Less : Creditors	33,000			
Bills Payable	60,000			
		93,000		
				1,35,000
Total Assets				4,73,000
Represented by				
Capital Account	Deepak Rs.	2,17,000		
	Harish Rs.	1,66,000		
	Farokh Rs.	90,000		
				4,73,000
				4,73,000

On July 1, 1977, they agreed to take Ram as an equal partner on the following terms :

(1) Ram should bring in Rs. 1,50,000 as his capital and goodwill. His share of goodwill was evaluated at Rs. 50,000.

(2) The Goodwill Account is to be written off before admission.

(3) Provision for loss on stock and provision for debtors was to be made at 10% and 5% respectively.

(4) The value of building was to be taken at Rs. 2,70,000.

(5) The total capital of the new firm was fixed at Rs. 4,00,000 and the partners' capital accounts to be in their profit sharing ratio, any excess is to be transferred to current account or deficit to be introduced in cash.

You are required to prepare the Profit and Loss Adjustment Account and the Balance Sheet of the new firm and partners' Capital Account. **[I.C.W.A.I. D 78]**

[**Ans.** : Loss on Revaluation : Rs. 60,800 ; Capital Accounts : Deepak Rs. 1,00,000, Harish Rs. 1,00,000, Farokh Rs. 1,00,000, Ram Rs. 1,00,000 ; Balance Sheet Total : Rs. 6,68,800.]

[E 4] A & B are partners in a firm sharing profits and losses in the ratio of 3 : 2.

Balance Sheet of A & B as on December 31, 1980

Liabilities		Rs.	*Assets*		Rs.
Sundry creditors		20,000	Goodwill		12,000
Capital Accounts :			Cash in hand		15,000
A	12,000		Sundry debtors	21,000	
B	30,000		*Less* : Reserve for		
		42,000	bad debts	1,000	
					20,000
			Stock in trade		10,750
			Fixtures & fittings		250
			P & L A/c		4,000
		62,000			62,000

On January 1, 1981, they admit C as a partner on the following terms :

(1) The new profit sharing ratio of A, B & C, becomes 5 : 3 : 2..

(2) Agreed value of goodwill is Rs. 20,000 and C brings the necessary premium for goodwill in cash, half of which is retained in the business. Book value of Goodwill should remain undisturbed.

(3) The reserve for bad debts is to be raised to 10% of Sundry Debtors.

(4) Stock in trade is to be revalued at Rs. 12,000 but the effect is not to be shown in the books.

(5) Fixtures and Fittings are to be reduced to Rs. 150.

(6) C should bring further sum in cash in order to make his capital equal to 1/5 of the combined adjusted capitals of A and B.

Show necessary entries and Capital Accounts, and prepare the Balance Sheet of the new firm as on January 1, 1981. **[I.C.W.A. J 81]**

[**Ans.** : Cash brought in by C Rs. 7,770 ; Capital Accounts : A Rs. 9,405 ; B Rs. 28,445 ; C Rs. 7,520 ; Balance Sheet Total Rs. 65,370]

[E 5] The Balance Sheet of P and R as on December 31, 1972, was :

Liabilities	Rs.	*Assets*	Rs.
P's Capital A/c	10,000	Goodwill	10,000
R's Capital A/c	20,000	Land and buildings	12,000
P's Capital A/c	12,000	Furniture & fittings	1,000
R's Capital A/c	8,000	Stock in trade	21,000
Sundry creditors	5,000	Book debts	3,500
Bank overdraft	2,500	Loan to Q	10,000
	57,500		57,500

No interest is payable on capital. P and R share profits and losses in the ratio of 1 : 2. It is agreed that with effect from January 1, 1973, Q will be taken in as a new partner. P and R revalue their assets as follows : Land and Buildings Rs. 24,000 ; Furniture and Fixtures Rs. 2,000 ; Goodwill Rs. 15,000. Q brings the following into the firm from his own proprietory business : Furniture Rs. 1,500 Goodwill of his own business Rs. 5,000 ; Stock Rs. 9,500.

It has been agreed that P, Q and R shall share profits and losses equally and that their Capital Accounts and Current Accounts shall be adjusted in such a way that they are equal, by bringing in cash where necessary.

Loan Account of Q is to be transferred to his Current Account.

Record the necessary Journal Entries incorporating the above and prepare the opening Balance Sheet of the new firm. **[I.C.W.A. J 74]**

[**Ans.** : Balance Sheet Total Rs. 91,600]

(C) Admission-cum-Retirement

[E 6] P and Q were working in partnership sharing profits and losses equally on December 31, 1976. P decided to retire and in his place, his son R was admited as partner from January 1, 1977, with 1/3 share of profit.

Liabilities		Rs.	*Assets*	Rs.
Sundry creditors		14,700		
Capital Accounts :				
P	54,300		Goodwill	15,000
Q	48,000		Land & buildings	40,050
		1,02,300	Motor car	12,000
			Furniture	9,000
			Sundry debtors	24,150
			Cash at bank	16,500
		1,17,000		1,17,000

It was decided that :

(a) The goodwill should be raised to Rs. 20,000.

(b) The motor car would be taken over by P at its book value.

(c) The value of land and buildings would be increased by Rs. 8,280.

(d) Q and R would introduce sufficient capital to pay off P and to leave thereafter a sum of Rs. 7,350 as bank balance, so as to make their capital proportionate to their share of profits.

(e) The capital payable by R was to be gifted to him by his father.

(f) The new partners decided not to show goodwill as an asset.

The new arrangements were duly complied with. Show the partner's Capital Account and the Bank Account. **[I.C.W.A. J 77]**

[**Ans.** : Amount brought in by Q Rs. 8,313 ; Amount paid to P Rs. 17,463 ; Capital Accounts Q Rs. 49,620 ; R Rs. 24,810.]

(D) Retirement

[E 7] Compass, Cone and Circle are in partnership sharing profits and losses in the ratio of 3 : 2 : 1.

Balance Sheet of Compass, Cone and Circle as on December 31, 1981

Liabilities		Rs.	*Assets*		Rs.
Capital Accounts :			Machinery at cost	50,000	
Compass	40,000		*Less* : Provision for depreciation	8,000	
Cone	60,000				42,000
Circle	20,000				
		1,20,000	Furniture		1,000
Reserve		30,000	Sundry debtors	80,000	
Sundry creditors		60,000	*Less* : Provision for doubtful debts	3,000	
					77,000
			Stock		50,000
			Cash at Bank		40,000
		2,10,000			2,10,000

On March 31, 1982, Cone retired and Compass and Circle continued in partnership, sharing profits and losses in the ratio of 3 : 2. It was agreed that the following adjustments were to be made in the Balance Sheet as on March 31, 1982 :

(a) The machinery was to be revalued at Rs. 45,000.
(b) The stock was to be reduced by 2%.
(c) The furniture was to be reduced to Rs. 600.
(d) The provision of Rs. 300 was to be made for outstanding expenses.

The partnership agreement provided that on the retirement of a partner, goodwill was to be valued at Rs. 24,000 and Cone's share of the same was to be adjusted into the accounts of Compass and Circle. The profits up to the date of retirement was estimated at Rs. 18,000.

Cone was to be paid off in full. Compass and Circle were to bring such an amount in cash so as to make their capitals in proportion to the new profit sharing ratio, subject to the condition that a cash balance of Rs. 20,000 was to be maintained as working capital.

Pass the necessary Journal Entires to give effect to the above arrangements and prepare the partner's Capital Accounts as on March 31, 1982. **[I.C.W.A. D 82]**

[**Ans.** : Amount paid to Cone Rs. 84,100, Amount brought in by Compass Rs. 30,230, Amount brought in by Circle Rs. 33,870 ; Capital Accounts : Compass Rs. 66,180, Circle Rs. 44,120.]

[E 8] A, B and C were carrying on business in partnership sharing profits and losses equally. On June 30, 1973, C retired from the firm and A and B agreed to share profits and losses in the ratio of 3 : 2. C continued his association with the firm as an adviser. The parties agreed that as from July 1, 1973 :

(1) C was to be credited with a retainership fee of Rs. 2,000 per month while he remained the adviser.

(2) The partners decided to bring into the accounts of the firm the various assets which up to now were unrecorded. The various assets as on June 30, 1973, were : Goodwill Rs. 60,000 ; Office Equipment Rs. 18,000 ; Library Books Rs. 3,000.

(3) The values of the office equipment and library books were to be retianed in the books but goodwill was not to be recorded as a permanent asset.

(4) C's Capital Account was to bear the whole cost of Rs. 10,000, a payment on March 30, 1973, for providing an annuity for a long-service employee who retired on that date.

The firm's profit for the year ended September 30, 1973, which is deemed to have accrued evenly, amounted to Rs. 90,000, after deduction of the cost of the pension but before adjusting for any of the events listed above. Other relevant figures are :

	Credit Balances on Capital Accounts October 1, 1972	Drawings during the year ended September 30, 1973
	Rs.	Rs.
A	45,000	7,000
B	35,000	9,000
C	55,000	6,000

All entries relevant to partners' entitlements are effected in their Capital Accounts.

You are required to write up, in columnar form, the Capital Accounts of A, B and C for the year ended September 30, 1973, transferring the balance in C's Capital Account to C's Loan Account. **[I.C.W.A. D 74]**

[**Ans.** : C's Loan Rs. 1,03,670 ; Capital Accounts : A Rs. 61,398, B Rs. 58,932.]

(E) Death

[E 9] A, B and C are partners sharing profits and losses in the ratio of 5 : 3 : 2. A dies.

Balance Sheet of A, B, C prior to A's death

Liabilities	Rs.	*Assets*	Rs.
Capital Accounts :		Goodwill	1,00,000
A	2,00,000	Machinery	1,00,000
B	1,50,000	Debtors	3,00,000
C	1,00,000	Stock	2,00,000
Reserves	50,000	Cash at Bank	50,000
Creditors	2,50,000		
	7,50,000		7,50,000

Profit up to the date of death is estimated at Rs. 90,000 without considering any depreciation. One Joint Life Policy of Rs. 1,50,000 (Without profit) was taken in the last year. Premium of Rs. 10,000 was written off to the Profit and Loss Account. Each of the current assets (except Cash and Bank) is estimated to have gone up by 20%. Creditors have increased by Rs. 20,000. Goodwill is to be calculated at 2 years' purchase of average profit of three years. The profit of the preceding 3 years was Rs. 1,80,000, Rs. 2,00,000 and Rs. 2,20,000.

Dues to the deceased partner's representatives were to be settled on receipt of the insurance claim to the extent possible. The balance carrying 10% interest from the date of death was to be paid after one year. Machinery was valued at Rs. 80,000. Prepare necessary accounts and a Balance Sheet immediately after A's death. **[I.C.W.A. J 75]**

[**Ans.** : Profit on Revaluation Rs. 60,000 ; A's Executors A/c Rs. 5,25,000 ; Balance Sheet Total Rs. 13,25,000.]

[E 10] Firm ABC consisted of three partners A, B and C sharing profits and losses in the ratio of 5 : 3 : 2. The partner A died on February 20, 1979. The Profit and Loss Account for the period up to the date of death and the Balance Sheet as on that date were prepared.

Balance Sheet as on February 20, 1979

Liabilities		Rs.	*Assets*	Rs.
Capital Accounts :			Goodwill	6,000
A	12,000		Machinery	35,000
B	16,000		Furniture	6,000
C	12,000		Stock	9,000
		40,000	Debtors	15,000
Loan from A		5,000	Bank	3,000
General Reserve		7,000		
Creditors		22,000		
		74,000		74,000

In addition the assets shown above, the firm had three Life Policies in the name of each partner, at an insured value of Rs. 20,000 each, the premiums of which were charged to the Profit and Loss Account.

According to the partnership deed, on the death of a partner, the assets and liabilities are to be revalued by a valuer. The revalued figures were :

(1) Goodwill Rs. 21,000 ; Machinery Rs. 45,000 ; Debtors are subject to a provision for doubtful debts at 10% ; and Furniture at Rs. 7,000.

(2) Provision for taxation to be created for Rs. 1,500.

(3) Death claim for policy in the name of A will be realised in full and the surrender values of the other two policies were Rs. 7,500 each.

The business will be continued by B and C, henceforth sharing profits and losses equally. The net balance due to A is transferred to a Loan Account, which will be paid off later.

Show the Capital Account, Revaluation Account and the new Balance Sheet of the firm.

[I.C.W.A. J 79]

[**Ans.** : Profit on Revluation Rs. 23,000 A's Executor's Loan A/c Rs. 49,500 ; Balance Sheet Total Rs. 1,33,500.]

[E 11] Petcr, Paul and Prince were partners sharing profits and losses in the ratio 2 : 1 : 1. It was provided in the partnership deed that in the event of retirement/death of a partner he/his legal representatives would be paid :—

(i) The balance in the Capital Account.

(ii) His share of Goodwill of the firm valued at two years purchase of normal average profits (after charging interest on fixed capital) for the last three years to 31st of December preceding the retirement or death.

(iii) His share of profits from the beginning of the accounting year to the date of retirement or death, which shall be taken on proportionate basis of profits of the previous year as increased by 25%.

(iv) Interest on Fixed Capital at 10% p.a. though payable to the partners will not be payable in the year of death or retirement.

(v) All the assets are to be revalued on the date of retirement or death and the profit or loss be debited.credited to the Capital Accounts in the profit sharing ratio.

Peter died on 30th September, 1993. The books of Account are closed on calendar year basis from 1st January to 31st December.

The balance in the Fixed Capital Accounts as on 1st January, 1993 were Peter Rs. 10,000, Paul Rs. 5,000 and Prince Rs. 5,000. The balance in the Current Accounts as on 1st January, 1993 were Peter Rs. 20,000, Paul Rs. 10,000 and Prince Rs. 7,000. Drawings of Peter till 30th September, 1993 were Rs. 10,000. The profits of the firm before charging interest on capital for the Calendar years 1990, 1991 and 1992 were Rs. 1,00,000, Rs. 1,20,000 and Rs. 1,50,000 respectively. The profits include the following abnormal items of credit :—

	1990	1991	1992
Profit on sale of Assets	5,000	7,000	10,000
Insurance claim received	3,000	—	12,000

The firm has taken out a joint Life Policy for Rs. 1,00,000. Besides the partners had severally insured their lives for Rs. 50,000 each, the premium in respect thereof being charged to the Profit & Loss Account. The surrender value of he Policies were 30% of the face value. On 30th June, 1993 the firm received notice from the insurance company that the insurance premium in respect of a fire policy had been undercharged to the extent of Rs. 6,000 in the year 1992 and the firm has to pay immediately.

The revaluation of the assets indicate an upward revision in value of assets to the extent of Rs. 20,000.

Prepare an account showing the amount due to Peter's legal representatives as on 30th September, 1993 alongwith necessary workings. **[C.A. Foundation J 94]**

Hints :

Peter's Capital A/c

	Rs.		Rs.
To Profit & Loss Adjustment A/c (Unrecorded Liability)	3,000	By Balance b/d	10,000
" Drawings A/c	10,000	" Current A/c	20,000
" Peter's Legal Representative A/c (Bal fig being amount due)	2,91,031	" Profit on Revaluation	10,000
		" Profit & Loss suspense A/c	67,031
		" Goodwill A/c	1,07,000
		" Insurance Policies A/c	90,000
	3,04,031		3,04,031

Workings :

1. **Goodwill**

Year	Profit before Interest (Rs)	Interest (Rs)	Profit after Interest (Rs)
1990	92,000	2,000	90,000
1991	1,13,000	2,000	1,11,000
1992	1,22,000	2,000	1,20,000
			3,21,000

$\therefore$ Average Annual Profit $= \frac{1}{3} \times 3{,}21{,}000$
$= \text{Rs. } 1{,}07{,}000$

$\therefore$ Goodwill $= 2 \times 1{,}07{,}000$
$= \text{Rs. } 2{,}14{,}000$

$\therefore$ Peter's share in Goodwill $= \frac{2}{4} \times 2{,}14{,}000$
$= \text{Rs. } 1{,}07{,}000$

2. **Insurance Policies**

	Rs.
Peter's	50,000
Paul & Prince ($\frac{30}{100} \times 1,00,000$)	30,000
	80,000
Joint Life Policy	1,00,000
	1,80,000

$\therefore$ Peter's Share in Insurance Policies = $\frac{2}{4} \times 1,80,000$ = Rs. 90,000

3. **Profit to the date of Peter's death**

	Rs.
Profit in 1992 (1,50,000 – 6,000 – 1,000)	1,43,000
Add : 25% in crease ($\frac{25}{100} \times 1,43,000$)	35,750
	1,78,750

$\therefore$ Profit for Imonths [(i.e 1.1.93—30.9.93)
=($\frac{9}{12} \times 1,78,750$)] = Rs. 1,34,062

$\therefore$ Peter's share of Profit up to the date
of his death $\frac{2}{4} \times$ Rs. 1,34,062 = Rs. 67,031

(F) Dissolution

[E 12] A, B and C carrying on business sharing profits and losses equally agreed to dissolve the partnership on December 31, 1978.

Balance Sheet of A, B, C
as on December 31, 1978

Liabilities		Rs.	*Assets*	Rs.
Capital Accounts :			Land and building	50,000
A	40,000		Plant & machinery	40,000
B	10,000		Furniture	10,000
C	50,000		Stock	35,000
		1,00,000	Sundry debtors	25,000
Loan from X		30,000	Cash in hand	15,000
Sundry Creditors		45,000		
		1,75,000		1,75,000

It was decided that A and B would take over the following assets at the following sums :

	Rs.
Land and Building	60,000
Plant & Machinery	30,000
Furniture	6,000

X agreed to take the entire stock in full settlement of his loan. Sundry Debtors were realised at Rs. 20,000 and Creditors were settled at Rs. 34,000.

A and B decided to form a partnership sharing profits and losses in the ratio of 3 : 1. It was agreed that the firm would require a total capital of Rs. 1,00,000 which A and B would bring, their capitals being in proportion to their profit sharing ratio.

Draw up the relevant accounts to close the books of A, B and C and prepare the opening Balance Sheet of A and B. **[I.C.W.A. D 79]**

[**Ans.** : Loss on Realisation Rs. 3,000 ; Amount brought in by A Rs. 36,000 Paid to C Rs. 49,000, Amount brought in by B Rs. 16,000.]

[E 13] A, B and C were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. They decided to dissolve the partnership on December 31, 1977, when the partnership assets and liabilities were as follows :

Balance Sheet as on December 31, 1977

Liabilities		Rs.	*Assets*	Rs.
Capital Accounts			Goodwill	45,630
A	42,000		Plant & machinery	60,750
B	22,500		Furniture	6,465
C	12,000		Stock	23,670
		76,500	Book debts	53,400
Loan—Mrs. A		15,000	Joint Life Policy	26,550
Sundry Creditors		56,700	Accrued agency commission	14,055
Bank Overdraft		60,645	Cash at Bank	4,875
Life Policy Fund		26,550		
		2,35,395		2,35,395

The following particulars are pertinent :

(1) The Life Policy was surrendered for Rs. 23,250.

(2) A took over goodwill and plant and machinery for Rs. 90,000.

(3) A also agreed to discharge Bank Overdraft and loan from Mrs. A.

(4) Furniture and stock were divided equally between A and B at an agreed valuation of Rs. 36,000.

(5) Book debts were assigned to firm's creditors in full satisfaction of their claim.

(6) The agency commission was received in time.

(7) A bill receivable discounted was returned dishonoured and subsequently proved valueless Rs. 3,075 (including Rs. 50 noting charges).

(8) A paid the expenses of dissolution Rs. 1,800.

(9) C agreed to receive Rs. 15,000 in full satisfaction of his rights, title and interest in the firm.

You are required to show the accounts relating to final dissolution of the firm.

[C.A. N 78]

[**Ans.** : Profit on realisation, Rs. 8,160 ; A receives Rs. 16,341 ; B receives Rs. 7,764 and C receives Rs. 15,000.]

[E 14] The following is the Balance Sheet of Sudhir and Romesh as on December 31, 1979.

Liabilities		Rs.	*Assets*		Rs.
Sundry Creditors		76,000	Cash at Bank		23,000
Loan from Lata, wife of Sudhir		20,000	Stock in trade		12,000
Loan from Romesh		30,000	Sundry debtors	40,000	
Reserve fund		10,000	*Less* : Provision	2,000	
Capital Accounts :					38,000
Sudhir	20,000		Furniture		8,000
Romesh	16,000		Plant		56,000
		36,000	Investments		20,000
			Profit & Loss A/c		15,000
		1,72,000			1,72,000

The firm was dissolved on December 31, 1979, and the following was the result :

(1) Sudhir took over investments at an agreed value of Rs. 16,000 and agreed to pay off the loan to Lata, the wife of Sudhir.

(2) The assets realised the following : Stock Rs. 10,000 ; Debtors Rs. 37,000 ; Furniture Rs. 9,000 ; Plant Rs. 50,000 ; the expenses were Rs. 2,200.

(3) The sundry creditors were paid off less $2\frac{1}{2}\%$ discount.

Sudhir and Romesh shared profits and losses in the ratio of 3 : 2.
Show the Realisation Account, the Bank Account and Partners' Capital Accounts.

[I.C.W.A. J 80]

[**Ans.:** Loss on realisation, Rs. 12,300 ; Sudhir receives Rs. 13,620 ; Romesh receives Rs. 9,080]

[E 15] A, B and C sharing profits in the ratio 3 : 1 : 1 agree upon dissolution. They decide to divide certain assets and liabilities and continue business separately.

Balance Sheet as on date of dissolution

Liabilities		Rs.	*Assets*		Rs.
Creditors		6,000	Cash		3,200
Loan		1,500	Sundry Assets		17,000
Capital Accounts :			Debtors	24,200	
A	27,500		*Less* : Bad Debts		
B	10,000		Provision	1,200	
C	7,000				23,000
		44,500	Stock		7,800
			Fixtures		1,000
		52,000			52,000

It is agreed that :

(1) Goodwill is to be ignored.

(2) A is to take over all the fixtures at Rs. 800 ; debtors amounting to Rs. 20,000 at Rs. 17,200. The creditors of Rs. 6,000 to be assumed by A at that figure.

(3) B is to take over all the stocks at Rs. 7,000 and certain of the sundry assets at Rs. 7,200 (being book values less 10%).

(4) C is to take over the remaining sundry assets at 90% of book values, less Rs. 100 allowances and assume responsibility for the discharge of the loan, together with the accruing interest of Rs. 30 which has not been recorded in the books of the firm.

(5) The expenses of dissolution were Rs. 270. The remaining debtors were sold to a debt collecting agency for 50% of book values.

Prepare the Dissolution Account, Partner's Capital Accounts and Cash Accounts.

[I.C.W.A. J 76]

[**Ans.** : Loss on realisation Rs. 6,800 ; B pays Rs. 4,030 ; C pays Rs. 2,360 ; A receives Rs. 11,420.]

[E 16] A, B and C are partners of a firm of Chartered Accountants having offices at Bombay, Hyderabad and Bhopal, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The statement of affairs of the firm as on March 31, 1978, is shown below :

	Rs.	Rs.
Capital Accounts :		
A		15,000
B		12,000
C		6,000
Current Accounts :		
A		7,550
B		2,575
C		1,115
Accounts payable		4,915
	Rs.	
Accounts receivable :		
Bombay	12,000	
Hyderabad	8,625	
Bhopal	9,875	
Goodwill	5,000	
Cash in hand	575	
Cash at Bank	5,700	

On March 31, 1978, A desires to retire from the firm due to old age and the other two partners agree. It is decided that B would take over the Bombay and Hyderabad offices and C would take over the Bhopal office with the respective assets and liabilities. You are given the following additional information :

(1) A's share of goodwill is valued at Rs. 15,000 and this will be brought by B and C in their profit sharing ratios.

(2) Accounts payable include rent of the Bhopal office for the months of February and March 1978 at the monthly rate of Rs. 250 and the balance represents outstanding expenses of Bombay and Hyderabad offices.

(3) Cash in hand to be utilised to pay A and other settlements *inter se* to take place before May 1, 1978.

(4) Accounts receivable to be discounted by 2%.

Draw up accounts necessary to give effect to the above and close the books of the firm.

[C.A. M 78]

[**Ans.** : Realisation profit Rs. 5,610 ; A is paid Rs. 34,745 ; B brings in Rs. 17,055 ; and C brings in Rs. 11415.]

[E 17]

Balance Sheet of P, Q and R
as on March 31, 1978

Liabilities	Rs.	*Assets*	Rs.
P's Capital A/c	25,000	Freehold property	10,000
R's Capital A/c	15,000	Furniture	5,000
P's Current A/c	1,000	Stock-in-trade	23,100
R's Current A/c	500	Debtors	30,000
Sundry creditors	30,000	Cash	2,500
Loan on mortgage of freehold property	4,000	Q's Current A/c	4,900
	75,500		75,500

The partners shared profits and losses in the proportion of 6 : 3 : 5. It was decided to dissolve the partnership as on the date of the Balance Sheet.

	Rs.
Freehold property	6,000
Furniture	2,000
Stock-in-trade	15,000
Debtors	20,000

The expenses on realisation amounted to Rs. 2,000. The sundry creditors agreed to take 75 paise in a rupee in full satisfaction. It was ascertained that Q was insolvent. A dividend of 60 paise in a rupee was received from the court receiver.

Write up the Realisation Account, the Bank Account, Capital and Current Accounts of the partners. Indicate the basis adopted for distributing the deficiency in the Capital Account.

[I.C.W.A. J 79]

[**Ans.** : Loss on Realisation Rs. 19,600 ; Paid to P Rs. 23,725, Paid to Q Rs. 14,135.]

[E 18] Ram, Indra, Triveni and Umesh were partners sharing profits and losses in the ratio of 3:3:2:2.

Balance Sheet as on March 31, 1983

Capital & Liabilities		Rs.	*Assets*		Rs.
Sundry creditors		46,500	Cash at Bank		6,000
Ram's loan		30,000	Sundry debtors	48,000	
Capital Accounts :			*Less* : Provision	1,500	46,500
Ram	60,000				
Indra	45,000		Stock		30,000
		1,05,000	Furniture & fixtures		12,000
			Trade marks		21,000
			Capital Accounts :		
			Triveni	48,000	
			Umesh	18,000	66,000
		1,81,500			1,81,500

On March 31, 1982, the firm was dissolved and Indra was appointed to realise the assets and to pay off the liabilities. He was entitled to receive 5% commission on the amount finally paid to other partners as capital. He was to bear the expenses of realisation.

The assets realised as follows : Sundry debtors Rs. 33,000 ; stock Rs. 24,000 ; furniture Rs. 3,000 ; trade marks Rs. 12,000.

Creditors were paid off in full, and in addition, contingent liabilities for bills receivable discounted materialised to the extent of Rs. 7,500. There was also a Joint Life Policy for Rs. 90,000. This was surrendered for Rs. 9,000. Expenses of realisation amounted to Rs. 1,500. Triveni was insolvent, but Rs. 11,100 was recovered from his estate.

Write up the necessary accounts to close the books of the firm according to the Garner vs. Murray rule. **[C.A. M 82]**

[**Ans.** : Loss on realisation Rs. 36,000]

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Chapter 13

RECEIPTS AND PAYMENTS

[P 1] From the following Income and Expenditure Account and the Balance Sheet of a club, prepare its Receipts and Payments Account and Subscription Account for the year ended 31-3-83 :—

Income & Expenditure Account for the year 1982-83

	(Rs.)		(Rs.)
To Upkeep of Grounds	10,000	By Subscriptions	17,320
" Printing	1,000	" Sale of newspaper (old)	260
" Salaries	11,000	" Lectures	1,500
" Depreciation on Furniture	1,000	" Entrance fees	1,300
" Rent	600	" Misc. Income	400
		" Deficit	2,820
	23,600		23,600

Balance Sheet *as at 31-3-83*

Liabilities		(Rs.)	*Assets*	(Rs.)
Subscription in Advance (1983-84)		100	Furniture	9,000
Prize fund :			Grounds and Building	47,000
Opening Balance	25,000		Prize Fund Investment	20,000
+ interest	1,000		Cash in hand	2,300
	26,000		Subscriptions (1982-83)	700
- prizes	2,000	24,000		
General Fund :				
Opening Balance	56,420			
- Deficit	2,820			
	53,600			
+ Entrance Fees	1,300	54,900		
		79,000		79,000

The following adjustment have been made in the above accounts :

(a) Upkeep of ground Rs. 600 and Printing Rs. 240 relating to 1981-82 were paid in 1982-83.
(b) One-half of Entrance fee has been capitalised by transfer to General fund.
(c) Subscriptions outstanding in 1981-82 was Rs. 800 and for 1982-83 Rs. 700.
(d) Subscriptions received in advance in 1981-82 was Rs. 200 and in 1982-83 for 1983-84 Rs. 100.

[C.A. Entrance D 83]

Solution :

Dr. **Receipts & Payments A/c for the year ending 31st March, 1983** *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
To Balance b/d (Bal. Fig.)	4,660	By Upkeep of Ground (10,000 + 600)	10,600
" Subscription	17,320	" Printing (1,000 + 240)	1,240
" Interest on Prize Fund Investments	1,000	" Salaries	11,000
" Lectures	1,500	" Rent	600
" Entrance Fee	2,600	" Prizes	2,000
" Sale of News Papers (old)	260	" Balance c/d	2,300
" Misc. Income	400		
	27,740		27,740

Subscriptions A/c

Dr. Date			(Rs.)	Date			Cr. (Rs.)
1982				1982			
Apr. 1	To	Balance b/d (outstanding 81-82)	800	Apr. 1	By	Balance b/d (Advance 81-82)	200
1983				1983			
Mar. 31	"	Income & Expenditure A/c	17,320	Mar. 31	By	Receipts & Payments	17,320
"	"	Balance c/d (Advance 83-84)	100	Mar. 31	"	Balance c/d (Outstanding 82-83)	700
			18,220				18,220

[P 2] From the following Income and Expenditure Account of Victoria Club for the year ended 31st Dec. 1984 and Balance Sheet as on 31st Dec. 1983 and other information available as on 31st Dec. 1984, prepare Receipts and Payments Account for the year ended 31st Dec. 1984 and a Balance Sheet as at that date :—

Income & Expenditure Account for the year ended 31-12-84

	(Rs.)		(Rs.)
To Salaries	50,000	By Subscription	94,000
" Rent	11,000	" Entrance fees	6,000
" Travelling expenses	500	" Donation	10,000
" Printing & Stationery	1,000	" Interest	5,000
" General charges	1,500		
" Periodicals	500		
" Excess of Income over Expenditure	50,500		
	1,15,000		1,15,000

Balance Sheet *as on 31-12-83*

Liabilities	(Rs.)	*Assets*	(Rs.)
General fund	1,72,500	Furniture	40,000
Liabilities		Sports equipments	20,000
For Rent	1,000	Investments	1,00,000
For Salaries	6,500	Subscription receivable	5,000
		Interest receivable	1,000
		Bank Balance	14,000
	1,80,000		1,80,000

Other details
as on 31-12-84

	Rs.
Subscriptions receivable	8,000
Salaries outstanding	4,000
Rent outstanding	2,000

[C.A. Inter. M 85]

Solution :

In the Books of Victoria Club

Dr. **Receipts and Payments A/c for the year ended 31st December, 1984** *Cr.*

Receipts		(Rs.)	Payments		(Rs.)
To Balance b/d (Bank Balance on 31.12.83 i.e. 1.1.84)		14,000	By Salaries	50,000	
			Add : Outstanding on 31.12.83	6,500	
" Subscription	94,000			56,500	
Less : Receivable on 31.12.84	8,000		Less : Outstanding on 31.12.84	4,000	52,500
	86,000		" Rent	11,000	
Add : Receivable on 31.12.83	5,000	91,000	Add : Outstanding on 31.12.83	1,000	
" Entrance Fees		6,000		12,000	
" Donation		10,000	Less : Outstanding on 31.12.84	2,000	10,000
" Interest	5,000		" Travelling Expenses		500
Add : Receivable			" Printing & Stationery		1,000
on 31.12.83	1,000	6,000	" General charges		1,500
			" Periodicals		500
			" Balance c/d (Bank Balance on 31.12.84)		61,000
		1,27,000			1,27,000

Balance Sheet *as on December 31st 1984*

Liabilities		(Rs.)	*Assets*	(Rs.)
General fund	1,72,500		Furniture	40,000
Add : Excess of Income over			Sports Equipments	20,000
Expenditure Liabilities	50,500	2,23,000	Investments	1,00,000
For Rent		2,000	Subscription receivable	8,000
For Salaries		4,000	Bank Balance	61,000
		2,29,000		2,29,000

[P 3] The Income and Expenditure Account of the Bombay Club for the year 1987 is as follows :

Dr.	(Rs.)	*Cr.*	(Rs.)
To Salaries	1,20,000	By Subscription	1,70,000
" Printing and Stationery	6,000	" Entrance Fee	4,000
" Postage	500	" Contribution for Dinner	36,000
" Telephone	1,500		
" General Expenses	12,000		
" Interest and Bank Charges	5,500		
" Audit fees	2,500		
" Annual Dinner Expenses	25,000		
" Depreciation	7,000		
" Surplus	30,000		
	2,10,000		2,10,000

The account has been prepared after the following adjustments :—

	Rs.
Subscription outstanding on 31-12-86	16,000
Subscription outstanding on 31-12-87	18,000
Subscription received in advance on 31-12-86	13,000
Subscription received in advance on 31-12-87	8,400
Salaries outstanding on 31-12-86	6,000
Salaries outstanding on 31-12-87	8,000
Audit fees for 1986 paid during 1987	2,000
Audit fees for 1987 not paid	2,500
The club owned a building since 1986	1,90,000
The club had sports equipments on 31-12-86 valued at	52,000
At the end of the year after depreciation of Rs. 7,000, equipments amounted to	63,000
In 1986, the club had raised a bank loan which is still not paid	30,000
Cash in hand on 31-12-1987	28,500

Prepare the Receipts and Payments Account of the Club for 1987 and the Balance Sheet as on 31st December, 1987. All workings should form part of your answer. **[C.A. Inter. N 88]**

Solution :

In the books of Bombay Club

Dr. **Receipts & Payments A/c for the year ended 31st December, 1987** *Cr.*

	(Rs.)		(Rs.)
To Balance b/d (Bal. Fig.)	13,600	By Salaries (1,20,000 + 6,000 – 8,000)	1,18,000
" Subscription	1,63,400	" Printing & Stationery	6,000
" Entrance fees	4,000	" Postage	500
" Contribution for Annual Dinner	36,000	" Telephone	1,500
		" General Expenses	12,000
		" Audit Fees (2,500 – 2,500 + 2,000)	2,000
		" Annual Dinner expenses	25,000
		" Interest and Bank Charges	5,500
		" Sports Equipment (63,000 + 7,000 – 52,000)	18,000
		" Balance c/d	28,500
	2,17,000		2,17,000

Balance Sheet *as on 31st December, 1987*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Fund	2,20,600		Building		1,90,000
Add : Surplus for the year	30,000	2,50,600	Sports Equipment	52,000	
			Add : Purchased	18,000	
Bank Loan		30,000		70,000	
Salaries outstanding		8,000	Less : Depreciation	7,000	63,000
Audit Fee outstanding		2,500	Cash in Hand		28,500
Subscription received in advance		8,400	Subscription outstanding		18,000
		2,99,500			2,99,500

Workings :

Dr. **Subscription A/c** *Cr.*

	(Rs.)		(Rs.)
To Balance b/d Op. Outstanding	16,000	By Balance b/d Op. received in advance	13,000
" Income & Expenditure A/c	1,70,000	" Receipts & Payments A/c	1,63,400
" Balance c/d Clg Advance	8,400	" Balance c/d Clg Outstanding	18,000
	1,94,400		1,94,400

Balance Sheet *as on 31st December, 1986*

Liabilities		(Rs.)	*Assets*	(Rs.)
Capital Fund (Bal fig)		2,20,600	Building	1,90,000
			Sports Equipment	52,000
Bank Loan		30,000	Cash in Hand	13,600
Salaries Outstanding	6,000		Subscription Outstanding	16,000
Audit Fee Outstanding	2,000	8,000		
Subscription received in advance		13,000		
		2,71,600		2,71,600

[P 4] The Income & Expenditure Account of Delhi Club for the year 1988 is as follows :—

Income and Expenditure Account for the year ended 31.12.88

	(Rs.)		(Rs.)
To Salaries	47,500	By Subscription	75,000
" General expenses	5,000	" Entrance Fees	2,500
" Audit fees	2,500	" Contribution for Annual Dinner	10,000
" Secretary's honorarium	10,000	" Profit on Annual Sports	7,500
" Printing and Stationery	4,500		
" Annual Dinner Expenses	15,000		
" Interest on Bank Charges	1,500		
" Depreciation on Sports Equipments	3,000		
" Surplus	6,000		
	95,000		95,000

This account has been prepared after the following adjustments :—

	Rs.
Subscription outstanding at the end of 1987	6,000
Subscription received in advance on 31-12-87	4,500
Subscription received in advance on 31-12-88	2,700
Subscription outstanding on 31-12-88	7,500

The salaries outstanding at the begining of 1988 and at the end of 1988 were respectively Rs. 4,000 and Rs. 4,500, General Expenses includes insurance prepaid to the extend of Rs. 600, Audit Fees for 1988 is as yet unpaid. During 1988, Audit Fees for 1987 amounting Rs. 2,000 was paid.

The Club owned a freehold land of grounds valued at Rs. 1,00,000. The Club had Sports Equipments on 1-1-88 valued at Rs. 26,000. At the end of the year, after depreciation, the equipment amounted to Rs. 27,000. In 1987 the club had raised a Bank Loan of Rs. 20,000. This was outstanding through out 1988. On 31st December, 1988 Cash in hand amounted to Rs. 16,000.

Prepare Receipts and Payments account for 1988 and a Balance sheet at the end of the year.

[C.A. Inter. N 89]

Solution :

In the books of Delhi Club

Dr. **Receipts and Payments A/c for the year ended 31.12.1988** *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
To Balance b/d (Bal. fig. being Cash in hand on 1.1.88)	13,900	By Salaries (4,000 + 47,500 – 4,500)	47,000
" Subscription (6,000 + 75,000 + 2,700 – 4,500 – 7,500)	71,700	" General Expenses	5,600
		" Audit Fees	2,000
		" Sports Equipment	4,000
		" Secretary's honorarium	10,000
" Entrance Fees	2,500	" Printing and Stationery	4,500
" Contribution for Annual Dinner	10,000	" Annual Dinner Expenses	15,000
" Profit on Annual Sports	7,500	" Interest and Bank Charges	1,500
		" Balance c/d (Cash in Hand on 31.12.88)	16,000
	1,05,600		1,05,600

Balance Sheet *as on 31st December, 1987*

Liabilities		(Rs.)	*Assets*	(Rs.)
Capital Fund	1,15,000		Freehold Land	1,00,000
Add Surplus	6,000	1,21,400	Sports Equipment	27,000
Bank Loan		20,000	(26000 + 4000 – 3000)	
Subscription received in advance		2,700	Cash in hand	16,000
Salaries outstanding		4,500	Prepaid Insurance	600
Audit Fees outstanding		2,500	Subscriptions outstanding	7,500
		1,51,100		1,51,100

Workings :

Balance Sheet *as at 1.1.88*

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital Fund (Bal. Fig.)	1,15,400	Freehold Land	1,00,000
		Sports Equipment	26,000
Bank Loan	20,000	Cash in hand	13,900
Subscription received in advance	4,500	Subscriptions outstanding	6,000
Salaries outstanding	4,000		
Audit fees outstanding	2,000		
	1,45,900		1,45,900

[P 5] The Income & Expenditure Account of Madras City Sports Club for the year ended 31st March, 1992 is as follows :

Dr. *Cr.*

	(Rs.)		(Rs.)
To Salaries	60,000	By Subscription	80,000
" Printing and Stationery	3,000	" Entrance Fees	5,000
" Rent	6,000	" Contribution for Annual Dinner	10,000
" Repairs	5,000		
" Sundry Expenses	4,000	" Profit on Annual Sports Meet	10,000
" Annual Dinner Expenses	15,000		
" Interest to Bank	3,000		
" Depreciation on Sports equipments	3,000		
" Excess of Income over Expenditure	6,000		
	1,05,000		1,05,000

The account had been prepared after the following adjustments :

	Rs.
Subscription outstanding on 31-3-1991	6,000
Subscription received in advance on 31-3-1991	4,500
Subscription received in advance on 31-3-1992	2,700
Subscription outstanding on 31-3-1991	7,500

Salaries outstanding at the beginning and at the end of the financial year were Rs. 4,000 and Rs. 5,000 respectively. Sundry Expenses include insurance prepaid Rs. 600.

The Club owned a freehold ground valued Rs. 1,00,000. The Club has Sports equipments on 1-4-1991 valued at Rs. 26,000. At the end of the year after depreciation the Sports equipments amounted to Rs. 27,000. The Club raised a loan from Bank Rs. 20,000 on 1-1-1991 which was not paid on 31-3-1992. On 1st March, 1992, Cash in hand amounted to Rs. 16,000.

Prepare the Receipts and Payments Accounts of the Club for the year ended 31st March, 1992 and Balance Sheet as on 31st March, 1992. **[C.A. Inter. N 92]**

Solution :

In the Books of Madras City Sports Club

Dr. **Receipts & Payments A/c for the year ended 31st March, 1992** *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
To Balance b/d (Bal. Fig.)	13,900	By Salaries (60,000 + 4,000 – 5,000)	59,000
" Subscription (80,000 + 6,000 + 2,700 – 7,500 – 4,500)	76,700	" Printing and Stationery	3,000
		" Rent	6,000
		" Repairs	5,000
" Entrance Fees	5,000	" Sundry Expenses	4,600
" Contribution for Annual Dinner	10,000	" Annual Dinner Expenses	15,000
" Excess of Annual Sports Meet	10,000	" Interest to Bank	3,000
		" Sports Equipment (27,000 + 3000 – 26,000)	4,000
		" Balance c/d	16,000
	1,15,600		1,15,600

Balance Sheet *as on 31st March, 1992*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Fund (Ref. Workings)	1,17,400		Freehold Ground		1,00,000
Add : Excess of Income over Expenditure	6,000	1,23,400	Sports Equipment	26,000	
			Add : Purchased	4,000	
Loan from Bank		20,000		30,000	
Outstanding Salaries		5,000	Less : Depreciation	3,000	27,000
Subscription received in advance		2,700	Outstanding Subscription		7,500
			Insurance prepaid		600
			Cash in hand		16,000
		1,51,100			1,51,100

Workings :

Balance Sheet *as on 31st March, 1991*

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital Fund (Bal. Fig.)	1,17,400	Freehold Ground	1,00,000
		Sports Equipment	26,000
Loan from Bank	20,000	Subscription outstanding	6,000
Salaries outstanding	4,000	Cash in hand	13,900
Subscriptions received in advance	4,500		
	1,45,900		1,45,900

[P 6] Rock City Sports Club gives you the following information :

Income & Expenditure Account for the year ended 31st March, 1990

Expenditure	Dr. (Rs.)	Income		Cr. (Rs.)
To Coach remuneration	9,000	By Subscription		50,000
" Staff Salaries	12,000	" Bar Receipts	12,000	
" Rent for ground	6,000	" Less Expenses	10,000	2,000
" Repairs	6,500	" Sale of used kits		2,000
" Sundry Expenses	3,500	" Rent of Hall		6,000
" Ground Maintenance	9,000			
" Depreciation on furniture	1,500			
" Excess of Income over Expenditure	12,500			
	60,000			60,000

Balance Sheet *as at 31-3-89 and 31-3-90*

1989 Rs.	*Liabilities*	1990 Rs.	1989 Rs.	*Assets*	1989 Rs.
44,000	Capital Fund	62,500	21,000	Furniture	19,500
4,000	Subscription received in advance	3,000	6,000	Outstanding Subscriptions	8,000
1,500	Sundry Expenses	1,000	5,000	Cash in Hand	4,000
2,000	Staff Salaries	3,000	22,500	Fixed deposit	30,000
3,000	Rent of ground	2,000		Cash at Bank	10,000
54,500		71,500	54,500		71,500

Staff Salaries, Sundry Expenses and Ground Rent due in March 1989 had been paid during the year ended 31-3-90. Subscription received in advance is in respect of subsequent year. Subscription due in March 1989 received in full before March 1990.

The increase in Capital fund was due to receipt of entrance fee of Rs. 6,000 during the year ended 31-3-90 in addition to the surplus earned.

Prepare the Receipts and Payments account of Rock City Sports Club for the year ended 31st March, 1990. **[C.A. Inter. M 91]**

Solution :

In the Books of Rock City Sports Club

Dr. **Receipts & Payments A/c for the year ended 31st March, 1990** *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
1.4.89			
To Balance b/d Cash in hand	5,000	By Sundry Expenses (1,500 + 3,500 – 1,000)	4,000
" Entrance Fee	6,000	" Staff Salaries (2,000 + 12,000 – 3,000)	11,000
" Subscription Fee (Working)	47,000	" Ground Rent (3,000 + 6,000 – 2,000)	7,000
" Sale of Kits	2,000	" Fixed Deposit	7,500
" Hall Rent	6,000	" Coach remuneration	9,000
" Bar Receipts	12,000	" Repairs	6,500
		" Ground Maintenance	9,000
		" Bar expenses	10,000
		" Balance c/d	
		" Cash in hand	4,000
		" Cash at Bank	10,000
	78,000		78,000

Working :

Subscription Fee A/c

	(Rs.)		(Rs.)
Opening Outstanding	6,000	Opening Received in advance	4,000
Income & Expenditure	50,000	Receipts & Payments (Bal fig.)	47,000
Closing Received in advance	3,000	Closing Outstanding	8,000
	59,000		59,000

[P 7] The following balances have been extracted from the books of XYZ Club for the ended 31st March, 1986 :

	Rs.
Furniture as at 31st March, 1985	8,400
Additions to Furniture during the year	5,400
Billiard Table and other accessories as on 31st March 1985	8,900
China Glass Cutlery and Linen as on 31st March 1985	2,500
Restaurant receipts during the year	3,61,600
Restaurant stock as on 31st March 1985	3,900
Receipts from Billiard room during the year	25,600
Subscriptions received during the year	31,500
Interest on deposit received during the year	1,500
Secretary's Honorarium	30,000
Purchases for restaurant	2,07,800
Rent and Rates	34,900
Wages (restaurant Rs. 50,000)	92,300
Repairs and Renewals	17,900
Fuel	17,700
Lighting	2,200
Sundry Expenses	13,400
Cash in Hand as on 31st March 1985	1,350
Bank Balances as on 31st March 1985	9,150
Bank Deposit at 10% as on 31st March 1985	30,000
Capital Fund as on 31st March 1985	66,000

The payment for purchases includes Rs. 3,000 for the year ended 31st March 1985. Restaurant stocks on March 31st 1986 were Rs. 4,500. Included in the subscriptions received were Rs. 4,800 for previous year and Rs. 1,200 for the year ended 31st March 1987. Subscriptions outstanding on March 31st 1986 were Rs. 5,000. Depreciation should be provided as follows :

China Glass and Cultery at 20%, Furniture 10% and Billiard Table and Accessiories 15%. The cost of the boarding expenses of the staff is estimated at Rs. 27,500 of which Rs. 20,000 is to be charged to restaurant.

Prepare the Receipts and Payments Account, Income & Expenditure Account and the Balance Sheet showing the working of the restaurant separately. Cash in hand on March 31, 1986 was Rs. 2,600.

All workings should form part of your answers. **[C.A. Inter. M 87]**

Solution :

In the books of X Y Z Club

Dr. **Receipts & Payments A/c for the year ending 31st March, 1986** *Cr.*

	(Rs.)		(Rs.)
To Balance b/d		By Furniture	5,400
Cash in hand	1,350	" Purchase for restaurant	2,07,800
Cash at Bank	9,150	" Rent & Rates	34,900
" Bank Deposit	30,000	" Wages	92,300
" Restaurant Receipt	3,61,600	" Repair & Renewals	17,900
" Billiard receipts	25,600	" Fuel	17,700
" Subscriptions	31,500	" Lighting	2,200
" Interest on Deposit	1,500	" Sundry Expenses	13,400
		" Secretary's Honorarium	30,000
		" Balance c/d	
		Cash in hand	2,600
		Cash at bank (Bal. fig)	6,500
		Bank Deposit	30,000
	4,60,700		4,60,700

Restaurant Trading A/c for the year ended 31st March, 1986

Dr.		(Rs.)			Cr. (Rs.)
To Opening stock		3,900	By Restaurants receipt		3,61,600
" Purchases	2,07,800		" Cost of boarding (Restaurant Income).		27,500
" Less for Previous year	3,000	2,04,800	" Closing stock		4,500
" Wages		50,000			
" Boarding Expenses (Restaurant staff)		20,000			
" Fuel		17,700			
" Depreciation of China glass cutlery		500			
" Surplus transferred to Income & Expenditure Account		96,700			
		3,93,600			3,93,600

Income & Expenditure A/c for the year ended 31st March, 1986

Dr. Expenses		(Rs.)	Cr. Income		(Rs.)
To Wages	92,300		By Subscription	31,500	
Less : for Restaurant	50,000	42,300	*Less* : Recd. for 84-85	4,800	
" Secretary's Honorarium		30,000		26,700	
" Rent& Rates		34,900	*Less* : Recd.for86-87	1,200	
" Repairs & Renewals		17,900			
" Lighting		2,200		25,500	
" Boarding Expenses (other staff)		7,500	*Add* : Outstanding for 85-86	5,000	30,500
" Sundry Expenses		13,400			
Depreciation			" Billiard Receipts		25,600
Furniture	1,380		" Interest	1,500	
Billiard Table	1,335	2,715	*Add*:Outstanding	1,500	3,000
" Excess of Income over Expenditure (transferred to Capital Fund)		4,885	" Profit from Restaurent		96,700
		1,55,800			1,55,800

Balance Sheet of XYZ Club *as on 31st March, 1986*

Liabilities		(Rs.)	*Assets*		(Rs.)
Subscription received in advance		1,200	Cash in hand		2,600
			Cash at Bank		6,500
Capital Fund	66,000		Bank Deposit		30,000
Add : Excess of Income over			Interest Accrued		1,500
Expenditure	4,885	70,885	Subscription receivable		5,000
			Restaurant Stock		4,500
			Furniture	8,400	
			Add : Purchased	5,400	
				13,800	
			Less : Depreciation	1,380	12,420
			Billiard Table	8,900	
			Less : Depreciation	1,335	7,565
			China Glass etc.	2500	
			Less : Depreciation	500	2,000
		72,085			72,085

[P 8] The following is the Receipts and Payments Account of the Calcutta Club for the year ending 31-12-1984 :—

Dr. *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
To Opening Balances		By Salaries	6,000
" Cash	1,025	" Sports Expenses	6,900
" Stamps	50	" Electricity	1,000
" Bank F.D.	10,000	" Telephone	1,200
" S.B. A/c	4,200	" Postage Expenses	200
" Current A/c	2,100	" General Body Expenses	700
" Subscription :		" Printing & Stationery	850
" 1983	1,010	" Building Purchase A/c	12,000
1984	18,900	" Repairs	400
1985	900	" Closing Balances :	
Donations	7,000	" Cash	1,740
Bank Interest received	1,340	" Stamps	25
Receipts from Sports	2,600	" Bank F. D.	11,000
Telephone Recoveries	900	" S. B. A/c	4,310
		" Current A/c	3,700
	50,025		50,025

A building costing one lac of rupees was purchased during the last year and Rs. 88,000 was paid for it.

Subscription outstanding for 1984 Rs. 1,100
Salaries outstanding Rs. 200
Interest accrued on Bank deposits but not received Rs. 200

From the above, prepare Income and Expenditure A/c for the year 1984 and also the Balance Sheet as on 31-3-84 of the Calcutta Club. **[C.A. Entrance J 85]**

Solution :

Dr. **Income & Expenditure A/c for the year ending 31st Dec. 1984** *Cr.*

Expenditure		(Rs.)	Income		(Rs.)
To Salaries	6,000		By Subscription	18,900	
" Add : Outstanding	200	6,200	Add : Outstanding	1,100	20,000
" Sports Expenses		6,900	" Bank Interest	1,340	
" Electricity		1,000	" Add : Accrued	200	1,540
" Telephone		1,200	" Donations		7,000
" Postage :			" Sports Receipts		2,600
Cash	175		" Telephone Recoveries		900
Stamps	25	200			
" General Body Expenses		700			
" Printing & Stationery		850			
" Repairs		400			
" Excess of Income over Expenditure		14,590			
		32,040			32,040

Balance Sheet *as on 31st Dec, 1984*

Liabilities		(Rs.)	*Assets*	(Rs.)
Capital Fund A/c	1,06,385		Building (cost)	1,00,000
(refer workings)			Fixed Deposit	11,000
Add : Excess of Income			Savings Bank	4,310
over Expenditure	14,590	1,20,975	Current A/c	3,700
Prepaid Subscription		900	Stamp	25
Outstanding Salaries		200	Cash	1,740
			Outstanding Subscription	1,100
			Accrued Bank Interest	200
		1,22,075		1,22,075

Workings :

Balance Sheet *as on 31st Dec, 1984*

Liabilities	(Rs.)	*Assets*	(Rs.)
Opening Capital Fund (Balancing Figure)	1,06,385	Building (cost)	1,00,000
		Fixed Deposit	10,000
Loan	12,000	Saving Bank A/c	4,200
		Current A/c	2,100
		Stamp	50
		Cash	1,025
		Outstanding Subscription	1,010
	1,18,385		1,18,385

[P 9] The following is the Receipts and Payments Account of Silver Streak Cricket Club for the year ended 31-12-1983. You prepare the Income and Expenditure Account for 1983 and Balance Sheet as at 31-12-1983 of the Club :—

Dr. *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
To Opening Balance :		By New Building constructed	75,000
Cash	290	" Souvenir	2,000
Bank	3,710	" Salaries	6,000
" Subscription	12,000	" Postage	500
" Donations	13,000	" Telephone	500
" Activities Collection	6,900	" Electricity	600
" Sale of old Newspaper	300	" Maintenance expenses	12,000
" Souvenir Advertisement	5,800	" Newspapers	500
" Endowment Income	3,000	Closing Balance :	
" Sale Proceeds of Old Building		Cash	300
at Book value	60,000	Bank	11,600
" Income from Investments @ 10%	4,000		
	1,09,000		1,09,000

	Rs.
Subscriptions :	
For 1982 (due as at 31-12-82, 1,500) Recd.	1,000
For 1984 Advance	1,200
Due for 1983	800
Expenses Outstanding :	
Salary	1,200
Electricity	100
Telephone	100
Postage	100
Provide depreciation on Buildings @ 5%	**[C.A. Entrance D 85]**

Solution :

In the books of Silver Streak Cricket Club
Income & Expenditure A/c for the year ending 31st December, 1983

		(Rs.)			(Rs.)
To Souvenir		2,000	By Subscription	12,000	
" Salaries	6,000		Add : Outstanding for 1983	800	
" Add : Outstanding	1,200	7,200		12,800	
" Postage	500		*Less :* Received for 1982	1,000	
" Add Outstanding	100	600		11.800	
" Telephone	500		Less : Received for 1984	1,200	10,600
" Add Outstanding	100	600	" Donations		13,000
" Electricity	600		" Activities Collection		6,900
Add : Outstanding	100	700	" Sale of old Newspapers		300
" Maintenance expenses		12,000	" Souvenir Advertisement		5,800
" Newspaper		500	" Endowment Income		3,000
" Depreciation on Building (5/100 × 75,000)		3,750	" Income from Investments		4,000
" Excess of Income over Expenditure (transferred to Capital Fund)		16,250			
		43,600			43,600

Balance Sheet *as at December 31, 1983*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Fund (Workings)	1,05,500		Building	75,000	
Add : Excess of Income over Expenditure	16,250	1,21,750	Less Depreciation (5/100 × 75,000)	3,750	71,250
			Investment		40,000
Subscription Received in Advance (for 1984)		1,200	Outstanding Subscription for 1982 (1,500 – 1,000)	500	
Outstanding Expenses		1,500	for 1983	800	1,300
			Cash		300
			Bank		11,600
		1,24,450			1,24,450

Workings :

Balance Sheet *as at December 31, 1982*

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital Fund (Bal. fig.)	1,05,500	Building	60,000
		Investments $(4,000 \times \frac{100}{10})$	40,000
		Bank	3,710
		Cash	290
		Outstanding Subscription for 1982	1,500
	1,05,500		1,05,500

[P 10] Excellent Library Society showed the following position on 31st December, 1985.

Balance Sheet *as at 31st December 1985*

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital Fund	79,300	Electrical fittings	15,000
Expenses due	700	Furniture	5,000
		Books	40,000
		Investments in Securities	15,000
		Cash at Bank	2,500
		Cash in hand	2,500
	80,000		80,000

The Receipts & Payments A/c for the year ending on 31st December, 1986 is given below :—

Dr. *Cr.*

Liabilities		(Rs.)	*Assets*	(Rs.)
To Balance b/d			By Electric charges	720
Cash at Bank	2,500		" Postage & Stationery	500
Cash in hand	2,500	5,000	" Telephone charges	500
" Entrance fees		3,000	" Books purchased (on 1-1-86)	6,000
" Membership subscription		20,000	" Outstanding Expenses paid	700
" Sale proceeds of old papers		150	" Rent A/c	8,800
" Hire of lecture hall		2,000	" Investments on Securities	4,000
" Interest on securities		800	" Salaries A/c	6,600
			" Balance c/d	
			Cash at Bank	2,000
			Cash in hand	1,130
		30,950		30,950

You are required to prepare an Income & Expenditure Account for the year ending 31-12-86 and a Balance Sheet as on that date after making the following adjustments :—

(a) Membership Subscription included Rs. 1,000 received in advance.

(b) Provide for outstanding Rent Rs. 400 and Salaries Rs. 300.

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

(d) 75% of the Entrance fees to be capitalised.

(e) Interest on Securities is to be calculated @ 5% p.a. including purchases of investments made on 1-7-86 for Rs. 4,000. **[C.A. Entrance M 87]**

Solution :

In the books of Excellent Library Society

Dr. **Income & Expenditure A/c for the year ended 31st Dec. 1986** *Cr.*

Expenditure		(Rs.)	Income		(Rs.)
To Electric charges		720	By Entrance Fees		750
" Postage & Stationary		500	" Membership		
" Telephone charges		500	Subscription	20,000	
" Rent	8,800		Less : Received in		
Add : Outstanding	400	9,200	advance	1,000	19,000
" Salaries	6,600		" Sale proceeds of		
Add : Outstanding	300	6,900	Old papers		150
" Depreciation :			" Hire of Lecture Hall		2,000
Electrical Fittings (10%)	1,500		" Interest on Securities	800	
Furniture (10%)	500		Add : Accrued	50	850
Books (10%)	4,600	6,600	$[(\frac{5}{100}\times 15{,}000)+(\frac{5}{100}\times\frac{6}{12}\times 4{,}000)]$		
			= 850		
			" Excess of Expenditure over Income		1,670
		24,420			24,420

Balance Sheet *as at 31st December, 1986*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Fund	79,300		Electrical Fittings	15,000	
Add : Entrance Fees Capitalised	2,250		Less : Depreciation	1,500	13,500
	81,550		$\left(\frac{10}{100} \times 15{,}000\right)$		
Less : Excess of Expenditure			Furniture	5,000	
over Income	1,670	79,880	Less : Depreciation	500	4,500
Outstanding Expenses			$\left(\frac{10}{100} \times 5{,}000\right)$		
Rent	400		Books	40,000	
Salaries	300	700	Additions	6,000	
Membership Subscription				46,000	
received in advance		1,000	Less : Depreciation	4,600	41,400
			$\left(\frac{10}{100} \times 46{,}000\right)$		
			Investments	15,000	
			Add : Additions	4,000	19,000
			Accrued Interest on		
			securities		50
			Cash at Bank		2,000
			Cash in hand		1,130
		81,580			81,580

[P 11] The following is the Receipts and Payments Account of Delhi Football Association for the first year ending 31st December, 1987 :—

Dr. **Receipts & Payments A/c** *Cr.*

		(Rs.)			(Rs.)
To	Donation	50,000	By	Pavilion office (constructed)	40,000
"	Reserve Fund (Life member fees and entrance fees received)	4,000	"	Expenses in connection with matches	900
"	Receipts from football matches	8,000	"	Funiture	2,100
"	Revenue receipts :		"	Investment at cost	16,000
	Subscriptions	5,200	"	Revenue Payments :	
	Locker Rents	50		Salaries	1,800
	Interest on Securities	240		Wages	600
	Sundries	350		Insurance	350
				Telephone	250
				Electricity	110
				Sundry Expenses	210
				Balance in hand	5,520
		67,840			67,840

(i) Subscriptions outstanding for 1987 are Rs. 250
(ii) Salaries unpaid for 1987 are Rs. 170
(iii) Wages unpaid for 1987 are Rs. 90
(iv) Outstanding Billls for Sundry expenses are Rs. 40.
(v) Donations Received have to be capitalized

Prepare from the details given above, an Income and Expenditure Account for the year ended 31-12--87 and the balance Sheet of the Association as on 31st December 1987. **[C.A. Entrance N 88]**

Solution :

In the books of Delhi Football Association

Dr. **Income & Expenditure Account for the year ending 31st December 1987** *Cr.*

		(Rs.)			(Rs.)
To Salaries	1,800		By Subscription	5,200	
Add : Outstanding for 1987	170	1,970	Add: Outstanding for 1987	250	5,450
" Wages	600		" Locker Rents		50
Add : Outstanding for 1987	90	690	" Interest on Securities		240
" Insurance		350	" Sundries		350
" Telephone		250			
" Electricity		110			
Sundry Expenses	210				
Add : Outstanding for 1987	40	250			
" Excess of Income over expenditure (transferred to capital fund)		2,470			
		6.090			6,090

Balance Sheet *as on 31st December, 1987*

Liabilities		(Rs.)	*Assets*	(Rs.)
Capital Fund			Pavilion Offices	40,000
Donations	50,000		Furniture	2,100
Add : Excess of Income			Investments	16,000
over expenditure	2,470	52,470	Cash in hand	5,520
Reserve Fund		4,000	Subscription Receivable for 1987	250
Football Match Fund				
Receipts	8,000			
Less : Payments	900	7,100		
Outstanding Expenss				
Salaries	170			
Wages	90			
Sundry Expenses	40	300		
		63,870		63,870

[P 12] The Receipts and Payments Account of Navkar Football Club for the year ended 31st March, 1991 was as under :

Dr. *Cr.*

	(Rs.)		(Rs.)
To Balance b/d 1-4-90	48,000	By Purchase of Balls	80,000
" Subscriptions received	2,46,000	" Tournament Fees	10,000
" Interest	2,000	" Affiliation Fees	2,000
" Sale of Furniture	10,000	" Rent of Play ground	5,000
" Donations for Club building	60,000	" Refreshment Expenses	4,000
		" Travelling Expenses	30,000
		" Investments purchased at face value	1,00,000
		" Salary	12,000
		" Miscellaneous expenses	8,000
		" Balance c/d 31-3-91	1,15,000
	3,66,000		3,66,000

Prepare the Club's Income and Expenditure Account for the year ended 31st March, 1991 and the Balance Sheet as on that date, after taking the following information into account :—

(a) The subscriptions received include Rs. 10,000 outstanding subscription of the year 1989-90. Subscription for the year 1990-91 amounting to Rs. 16,000 is still outstanding from members. Some members have paid subscription for the year 1991-92 amounting to Rs. 8,000 which is included in the subscriptions received.

(b) Interest accrued but not received Rs. 500.

(c) The book value of the furniture sold was Rs. 14,000.

(d) The rent of the play ground Rs. 6,000 and salary Rs. 5,000 of the year 1990-91 are still outstanding and rent of play ground of the year 1989-90 Rs. 1,000 has been paid during this year.

(e) There is a stock of balls with the club Rs. 4,000 on 31st March, 1991. **[C.A. Entrance N 91]**

Solution :

NavkarFootball Club

Dr. **Income and Expenditure A/c for the year ended 31st March, 1991** *Cr.*

		(Rs.)			(Rs.)
To Balls Consumed			By Subscription	2,46,000	
" Purchased	80,000		Add : Outstanding		
Less : Closing Stock	4,000	76,000	(this year, i.e. 90-91)	16,000	
" Tournament Fees		10,000		2,62,000	
" Affiliation Fees		2,000	Less : Outstanding		
" Rent of Playground	5,000		(last year, i.e. 90-91)	10,000	
(Add : Outstanding (90-91)	6,000			2,52,000	
	11,000		Less : Received in		
Less : Received for			advance (next year,		
(89-90)	1,000	10,000	i.e., 91.92)	8,000	2,44,000
" Refreshment Expenses		4,000	" Interest	2,000	
" Travelling expenses		30,000	Add : Accrued but		
" Salary	12,000		not received	500	2,500
Add : Outstanding (90-91)	5,000	17,000			
" Office expenses		8,000			
" Loss on sale of Furniture (14,000 – 10,000)		4,000			
" Excess of Income over Expenditure (transferred to Capital Fund)		85,500			
		2,46,500			2,46,500

Balance Sheet *as on 31st March, 1991*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Fund	71,000		Investments		1,00,000
Add : Excess of Income			Closing Stock of Balls		4,000
over Expenditure	85,500	1,56,500	Cash		1,15,000
Building Fund		60,000	Accrued Interest		500
Subscription received			Outstanding Subscription		16,000
in advance		8,000			
Outstanding Expenses					
Salary	5,000				
Rent	6,000	11,000			
		2,35,500			2,35,500

Balance Sheet *as on 1st April, 1990*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Fund (Bal. fig.)		71,000	Furniture		14,000
			Cash		48,000
Outstanding Rent		1,000	Outstanding Subscription (89-90)		10,000
		72,000			72,000

[P 13] The balances from the books of Neo Club on 31-3-1990 were extracted as follows :

	Rs.
Furniture on 31-3-1989	840
Furniture additions from 1-4-89 to 31-3-90	542
Fixture and fittings on 31-3-89	292
Billiards table and accessories on 31-3-89	890
China Glass, cutlery and linen on 31.3.89	200
Stock in Restaurant on 31-3-89	357
Stock in bar on 31-3-89	30
Restaurant takings	16,168
Bar takings	13,050
Billiards and Sundry receipts	2,566
Subscription from members	3,150
Interest on deposit	87
Purchases for Restaurant	10,787
Purchases for Bar	8,224
Rent and Rates	3,490
Wages	6,234
Postage and Telegram Expenses	1,799
Electricity Charges	1,758
Sundry Expenses	1,349
Cash in Hand on 31-3-90	136
Cash at Bank on 31-3-90	920
Bank Deposit	2,833
Sundry Debtors	749
Sundry Creditors	1,785
Capital Fund on 31-3-89	4,624

You are required to prepare separate Trading Accounts for Restaurant and Bar and the Income and Expenditure Account for the year ended 31-3-1990 together with the Balance Sheet on that date, after making adjustments for the following :—

(a) Cost of food etc. to staff is estimated at Rs. 5,500 of which Rs. 5,000 is to be credited to Restaurant and Rs. 500 to Bar.

(b) Depreciation shall be provided at 10% for furniture, Fixtures and fittings, Billiards Table and accessories to the nearest multiple of a rupee.

(c) Subscriptions due on 31-3-1990 were Rs. 500 and Sundry Expenses of Rs. 500 were outstanding on the same adate.

(e) One half of China glass, cutlery and linen on 31-3-89 shall be written off during the year ending on 31-3-1990. **[C.A. Inter. N 90]**

Solution :

In the Books of Neo Club

Dr. **Restaurant Trading A/c for the year ended 31.3.90** *Cr.*

	(Rs.)		(Rs.)
To Opening stock	357	By Takings	16,168
" Purchases	10,787	" Cost of Food etc, to staff	5,000
" Gross Profit (transferred to Income & Expenditure A/c	10,047	" Closing Stock	23
	21,191		21,191

Bar Trading A/c for the year ended 31.3.90

Dr.	(Rs.)	Cr.	(Rs.)
To Opening Stock	30	By Takings	13,050
" Purchases	8,224	" Cost of food etc. to Staff	500
" Gross profit (transferred to Income & Expenditure A/c)	5,591	" Closing stock	295
	13,845		13,845

Income and Expenditure A/c for the year ended 31.3.1990

Dr. Expenditure		(Rs.)	Cr. Income		(Rs.)
To Rent and Rates		3,490	By Gross profit		
" Wages		6,234	Restaurant		10,047
" Postage & Telegram		1,799	Bar		5,591
" Electricity charges		1,758	" Subscription	3,150	
" Sundry expenses	1,349		Add Dues	500	3,650
Add : Outstanding	500	1,849	" Billiards and		
" Cost of Food etc. to staff		5,500	Billiards and Sundry receipts		2,566
" Depreciation on :			Interest on Deposit		87
Furniture (10/100 × (840 + 542)	138				
Billards Table 10/100 × 890	89				
Fixtures 10/100 × 292	29				
China glass etc. 50/100 200	100	356			
" Excess of Income over expenditure (transferred to Capital Fund)		955			
		21,941			21,941

Balance Sheet *as on 31st March, 1991*

Liabilities		(Rs.)	Assets		(Rs.)
Capital Fund	4,624		Furniture	840	
Add : Excess of Income			Add : Addition	542	
over Expenditure	955	5,579		1,382	
Outstanding Sundry Expenses		500	Less : Depreciation	138	1,244
Sundry Creditors		1,785	Billiards Table	890	
			Less : Depreciation	89	801
			Fixtures & Fittings	292	
			Less : Depreciation	29	263
			China Glass	200	
			Less : Written off	100	100
			Cash in hand		136
			Cash at Bank		920
			Bank Deposit		2,833
			Sundry Debtors		749
			Closing stock		
			Restaurant	23	
			Bar	295	318
			Subscription due		500
		7,864			7,864

[P 14] From the following Income and Expenditure Account of the Calcutta City Club for the year ended 31st March, 1989 and the Balance Sheet as on the date, your are required to prepare Receipts and Payments Account for the year ended 31st March, 1989.

Dr. Expenditure	(Rs.)	Income	(Rs.) *Cr.*
To Salaries	4,200	By Subscriptions	5,500
" Stationery	680	" Surplus on Sports-Meet	2,400
" Rates	1,240	" Dividends	2,700
" Telephone	270		
" Sundry Expenses	1,710		
" Depreciation on Building	1,000		
" Excess of Income over Expenditure	1,500		
	10,600		10,600

Balance Sheet *as on 31st March, 1989*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Fund	61,440		Building : 1.4.88	20,000	
Add : Income	1,500	62,940	Less : Depreciation	1,000	19,000
Subscription in advance		630	Investments : 1.4.88	40,000	
Telephone Bill Outstanding		70	Add : Additions during the year	2,500	42,500
			Stock of stationery		300
			Rates prepaid		300
			Subscriptions outstanding		180
			Cash in hand		1,360
		63,640			63,640

[C.A. Entrance N 89]

Additional Information :

(a) Subscription of Rs. 100 was in arrear on 1.4.1988
(b) On 1.4.1988 Stock of Stationery was worth Rs. 100.
(c) On 1.4.1988 Sundry expenses outstanding were Rs. 190.
(d) On 1.4.1988 rates prepaid were Rs. 300.

Solution :

Calcutta City Club
Receipts and Payments A/c for year ended March 31,1989

Dr. Receipts	(Rs.)	Payments	(Rs.) *Cr.*
To Balance b/d (Bal. Fig.)	1,130	By Salaries	4,200
" Subscriptions	5,930	" Stationary	760
" Surplus on Sports Meet	2,400	" Rates	1,240
" Dividends	2,700	" Telephone	200
		" Sundry Expenses	1,900
		" Investments	2,500
		" Balance c/d	1,360
	12,160		12,160

Workings :

Subscriptions A/c

Dr.	(Rs.)		(Rs.) *Cr.*
To Balance b/d (Outstanding on 1.4.88)	100	By Receipts & Payments A/c (Bal. Fig.)	5,930
" Income & Exependiture A/c	5,500	" Balance c/d (Outstanding on 31.3.89)	300
" Balance c/d (Received in advance balance on 31.3.89)	630		
	6,230		6,230

Stationery A/c

Dr.	(Rs.)		Cr. (Rs.)
To Balance b/d	100	By Income & Expenditure A/c	680
" Receipts & Payments A/c (Bal. Fig.)	760	" Balance c/d	180
	860		860

Rates A/c

Dr.	(Rs.)		Cr. (Rs.)
To Balance b/d (Prepaid Balance on 1.4.88)	300	By Income & Expenditure A/c	1,240
" Receipts & Payments A/c (Bal.Fig.)	1,240	" Balance c/d (Prepaid balance on 31.3.89)	300
	1,540		1,540

Telephone A/c

Dr.	(Rs.)		Cr. (Rs.)
To Receipts & Payments A/c (Bal. Fig.)	200	By Income & Expenditure A/c	270
" Balance c/d (Outstanding balance on 31.3.89)	70		
	270		270

Sundry Expenses A/c

Dr.	(Rs.)		Cr. (Rs.)
To Receipts & Payments (Bal. Fig.)	1,900	By Balance b/d (Outstanding on 1.4.88)	190
		" Income & Expenditure A/c	1,710
	1,900		1,900

[P 15] Given below is the Receipts and Payments Account of the National Club for the year ended 31st March, 1990 :—

Dr.	(Rs.)		Cr. (Rs.)
To Balance b/d	1,025	By Salaries	600
" Subscriptions		" General Expenses	80
1988-89	40	Entertainment Programme	
1989-90	2,050	Expenses	450
1990-91	60	Newspapers	150
Donations	540	Municipal taxes	50
Proceeds of Entertainment		Charity	350
Programme	950	Investment (Govt. Bonds)	2,000
Sale of Waste paper	45	Electricity Charges	140
		Balance c/d	890
	4,710		4,710

Prepare the Club's Income and Expenditure Account for the year ended 31st March, 1990 and the Balance Sheet as on that date, after taking the following information into account :—

(a) There are 500 members each paying an annual subscription of Rs. 5, and Rs. 50 is still in arrear for 1988-89.

(b) Municipal taxes amounting to Rs. 40 per annum have been paid up to 30th June, 1990 and Rs. 50 for salaries is outstanding.

(c) Building stand in the books at Rs. 5,000 and it is required to write off depreciation at 5 per cent per annum.

(d) 6 per cent per annum interest is accrued on Government bonds for 5 months.

[C.A. Entrance N 90]

Solution :

In the Books of National Club

Dr. **Income & Expenditure Account for the year ended 31st March, 1990** *Cr.*

Expenditure		(Rs.)	Income		(Rs.)
To Salaries	600		By Subscription	2,050	
Add : Outstanding	50	650	" Add : Outstanding	450	2,500
" General Expenses		80	" Donations		540
" News Papers		150	" Surplus from entertainment Programme		
" Municipal Taxes	50		Proceeds	950	
Less : Prepaid	10	40			
" Charity		350	Less : Expenses	450	500
" Electricity Charges		140	" Sale of Waste paper		45
" Depreciation on Building		250	" Interest on Govt. Bonds		50
" Excess of Income over Expenditure		1,975			
		3,635			3,635

Balance Sheet *as at 31st March, 1990*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Fund	6,115		Building	5,000	
Add : Excess of Income over			Less : Depreciation	250	4,750
Expenditure	1,975	8,090	Investment in Govt. Bonds		2,000
Subscription received in advance (for 90-91)		60	Interest Receivable		50
Outstanding Expenses		50	Outstanding Subscription		
			1989-90	450	
			1988-89	50	500
			Prepaid taxes		10
			Cash in hand		890
		8,200			8,200

Workings :

Balance Sheet *as at 31.3.90*

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital Fund	6,115	Buildings	5,000
(Bal. fig.)		Cash in hand	1,025
		Outstanding Subscription (40 + 50)	90
	6,115		6,115

[P 16] The following is the Receipts and Payments Account of Sydney Club for the year ended 31st March, 1992 :

Dr. *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
Opening Balance		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing & Stationery	70,000
Subscription Received	2,02,750	Postage	40,000
Entrance Donation	1,00,000	Telephones & Telex	52,000
Interest Received	58,000	Repairs & Maintenance	48,000
Sale of Assets	8,000	Glass & Table Linen	12,000
Miscellaneous Income	9,000	Cockery & Cutlery	14,000
Receipts at		Garden Upkeep	8,000
Coffee Room	10,70,000	Membership Fees	4,000
Wines & Spirits	5,10,000	Insurance	5,000
Swimming Pool	80,000	Electricity	28,000
Tennis Court	1,02,000	Closing Balance	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The Assets and Liabilities as on 01.4.1991 were as follows :

	Rs.
Fixed Assets (Net)	5,00,000
Stock	3,80,000
Investment in 12% Government Securities	5,00,000
Outstanding Subscription	12,000
Prepaid Insurance	1,000
Sundry Creditors	1,12,000
Subscription received in advance	15,000
Entrance Donation Received Pending Membership	1,00,000
Gratuity Fund	1,50,000

The following adjustments are to be made while drawing up the Accounts :—

(i) Subscription received in advance as on 31st March, 1992 was Rs. 18,000.

(ii) Outstanding Subscription as on 31st March, 1992 was Rs. 7,000.

(iii) Outstanding Expenses are Salaries Rs. 8,000 and Electricity Rs. 15,000.

(iv) 50% of the Entrance Donation was to be capitalised. There was no pending membership as on 31st March, 1992.

(v) The cost of assets sold net as on 01.4.91 was Rs. 10,000.

(vi) Depreciation is to be provided at the rate of 10% on assets.

(vii) A sum of Rs. 20,000 received in October 1991 as Entrance Donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 03.6.1992.

(viii) Purchases made during the year amounted to Rs. 15,00,000.

(ix) The Club as a matter of policy charges off to Income and Expenditure Account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 1992 and the Balance Sheet as on 31st March, 1992 along with necessary workings.

[C.A.Foundation J 93]

Solution :

Workings : **Balance Sheet** *as at 1st April 1991*

Liabilities	(Rs.)	*Assets*	(Rs.)
Capital Fund (Bal. fig.)	10,29,850	Fixed Assets (net)	5,00,000
Gratuity Fund	1,50,000	Investments in 12% Government Securities	5,00,000
Entrance Donation Received pending Membership	1,00,000	Stock	3,80,000
		Cash	10,000
Sundry Creditors	1,12,000	Bank	3,850
Subscription received in advance	15,000	Outstanding Subscription	12,000
		Prepaid Insurance	1,000
	14,06,850		14,06,850

In the Books of Sydney Club

Dr **Income & Expenditure A/c for the year ended 31.3.1992** *Cr.*

Expenditure		(Rs.)	Income		(Rs.)
To Salaries		1,28,000	By Subscription		1,90,750
(1,20,000 + 8,000)			[(15,000 + 2,02,750		
" Printing & Stationery		70,000	+ 7,000) – (12,000 +		
" Postage		40,000	4,000 + 18,000)]		
" Telegraph & Telex		52,000	" Entrance Donation		90,000
" Repairs and Maintenance		48,000	[50/100 (1,00,000 –		
" Glass and Table Linen		12,000	20,000 + 1,00,000)]		
" Crockery and Cutlery		14,000	" Interest from 12%		
" Garden Upkeep		8,000	Govt. Securities		60,000
" Insurance		6,000	(accrued = 12/100 ×		
(1,000 + 5,000)			5,00,000)		
" Electricity		43,000	" Receipts at :		
(28,000 + 15,000)			" Swimming Pool	80,000	
" Loss from sale of			Tennis Court	1,02,000	1,82,000
Coffee, Wines and			" Miscellaneous		
Spirits Purchase	15,00,000		Income		9,000
Add : Opening Stock	3,80,000		" Deficit (Bal. Fig.)		30,250
	18,80,000				
Less : Coffee					
Room receipts	10,70,000				
	8,10,000				
Less : Wines and					
Spirits receipts	5,10,000				
	3,00,000				
Less : Closing Stock	2,10,000	90,000			
" Loss on sale of assets		2,000			
(10,00 – 8,000)					
" Depreciation on					
fixed assets		49,000			
		5,62,000			5,62,000

Balance Sheet *as at 31.3.92*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital Fund	10,29,850		Fixed Assets	5,00,000	
Add : Entrance Donation			Less : Sold	10,000	
capitalised	90,000			4,90,000	
[50/100 × (1,00,000 –			Less : Depreciation	49,000	4,41,000
20,000 + 1,00,000)]	11,19,850		(10/100 × 4,90,000)		
Less : Deficit	30,250	10,89,600	Investmentsin 12%		
			Government Securities		5,00,000
Gratuity Fund		1,50,000	Stock		2,10,000
Sundry Creditors		92,000	Cash		8,000
(1,12,000 + 15,00,000 –			Bank		2,24,600
15,20,000)			Outstanding		
Subscription received			Subscription		7,000
in advance		18,000	Interest accrued from		
Outstanding Exps. :			12% Government		
Salaries	8,000		Securities	60,000	
Electricity	15,000	23,000	(12/100 × 5,00,000)		
Entrance Donation		20,000	Less : Received	58,000	2,000
(to be refunded)					
		13,92,600			13,92,600

Exercise

Receipts & Payments and Income & Expenditure Account

[E 1] Given below is the receipts and payments account of the Amusement Club for the year ended 31.12.75.

Dr. *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
To Balance b/d		By Salary of Secretary	3,600
Cash	60	" Honorarium	450
Bank	3,000	" Wages	2,400
" Subscriptions (including		" Charities	2,000
Rs. 150 for 1974)	9,000	" Printing & Stationery	300
" Sale of old furniture on 1.1.1975	750	" Postage	100
" Sale of old Newspapers	50	" Rent & Taxes	1,200
" Legacies	3,000	" Upkeep of land	500
" Interest on Investment	1,200	" Sports Materials	2,500
(Cost of Investment Rs. 20,000)		" Balance c/d	14,850
' Endowment Fund	10,000		
" Proceeds of Concerts	800		
" Advertisement in the year book	40		
	27,900		27,900

Current Assets and Liabilities as on 31.12.74 and 31.12.75 are as follows :

	31.12.74 Rs.	31.12.75 Rs.
Subscription in arrears	200	450
Subscription in advance	300	600
Furniture	2,000	1,080

Depreciation was 10% on the furniture left after selling a part of it. It was decided that half of legacies my be capitalised.

Preparation income and expenditure account for the year ending 31.12.75 and a Balance Sheet as on that date. **[C.S. Preli. D 77]**

(**Ans.** Excess of expenditure over income Rs. 630 ; Loss on sale of furniture Rs. 50 ; Opening capital Fund Rs. 24,960)

[E 2] The following is the summary of receipts and payments of Prabha Nursing Society for the year ended December 31, 1978.

Dr. *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
To Balance on 1.1.78		By Salaries	7,150
(a) Deposit on building fund		" Medicines	2,100
account	19,000	" Rent, Rates & Taxes	900
(b) Current account	1,260	Electricity	600
" Members' Subscription	12,900	" Telephone, Postage etc.	400
" Fees from non-members	1,200	" General Expenses	1,700
" Grant from local authority	2,500	" Car expenses	350
' Donations for building fund	5,000	" Cost of second-hand car	3,800
" Interest on deposit on		Balance at Bank on 31.12.78	
Building fund account	1,140	(a) Deposit on building	
		fund account	25,140
		(b) Current account	800
	43,000		43,000

Taking the following information into account, prepare the Income & Expenditure Account of the Society for the year ended December 31,1978, and the Balance Sheet as at that date.

1. In 1976 the Society purchased a plot costing Rs. 8,000.
2. Fees from non-members include Rs.50 for the year 1979.
3. Rent Rs. 50 for January 1979 was paid on 15.12.78.
4. Salaries of Rs. 650 for December 1978 are yet to be paid.
5. Members' subscription included Rs. 200 as subscription due in 1977.

[C.S. Preli D 79]

(**Ans.** Opening Capital Fund Rs. 28,460 ; Excess of income over expenditure Rs. 8,690 ; Balance Sheet Total Rs. 37,850)

[E 3] The following is the Receipts and Payments Account of the Jolly Makers Club in respect of the year ending March 31,1981 :

Dr. *Cr.*

Receipts		(Rs.)	Payments	(Rs.)
To Balance b/d 1.4.80		2,050	March 31,1981	
March 31, 1981			By Salaries	4,160
" Subscription			" Rates and Taxes	1,200
1979-80	80		" Stationery	800
1980-81	4,220		" Telephone	200
1981-82	160	4,460	" Investments in Govt.	
" Profit on sports meeting		2,850	Securities	2,500
" Interest on Investment		2,000	" Sundry expenses	1,850
" Sundry receipts		250	" Balance c/d	900
		11,610		11,610

The following additional facts are ascertained :

1. Stock of stationery on April 1, 1980, was Rs. 100 and on March 31, 1981, Rs. 180.
2. Rates and taxes were prepaid to the extent of Rs. 400.
3. Telephone charges outstanding amounts to Rs. 75.
4. In 1979-80 subscription received in advance amounting to Rs. 200 for current year and Rs. 180 were due on March 31, 1981 for 1980-81.
5. On March 31, 1980, the Building stood in the books at Rs. 20,000 and it is required to write off depreciation at 5%.Investment at March 31, 1980, were Rs. 40,000.

You are required to prepare Income and Expenditure Account for the year ended March 31, 1981 and a Balance Sheet as at that date.

[C.S. Preli. J 81]

(**Ans.** Opening Capital Fund Rs. 62,030 ; Balance Sheet Total Rs. 63,160 Excess of Income over Expenditure Rs. 895)

[E 4] The following is the Receipts and Payments Accounts of Apollo Club in respect of the year to March 31, 1983 :

Dr. Receipts and Payments Account for the year ended March 31, 1983 *Cr.*

Receipts				(Rs.)	Payments			(Rs.)
1.4.82	To	Balance b/d			31.3.83	By	Salaries	3,000
		Cash in hand		2,000	"	"	Stationery	1,000
31.3.83	"	Subscriptions :			"	"	Rates & Taxes	300
		1981-82	3,000		"	"	Telephone charges	1,500
		1982-83	4,000		"	"	8% Securities at par	5,000
		1983-84	1,000	8,000	"	"	Sundry Expenses	200
"	"	Profits on sports		3,000	"	"	Balance c/d	
"	"	Interest on 8% Securities		1,000			Cash in hand	3,000
				14,000				14,000

The following additional facts are ascertained :

(a) There are 500 members, each paying an annual subscription of Rs. 10. Rs. 3,500 being in arrears for 1981-82 at the beiginning of 1982-83. During 1981-82 subscriptions were paid in advance by 30 members for 1982-83.

(b) Stock of stationery at March 31, 1982, was Rs. 400 and at March 31, 1983, Rs. 500.

(c) At March 31, 1983, the rates and taxes were prepaid to the following January 31, the yearly charge being Rs. 300.

(d) A quarter's charge for telephone is outstanding, the amount accrued being Rs. 300. The charge for each quarter is same for both1981-82 and 1982-83.

(e) Sundry Expenses accruing at March 31, 1982, were Rs. 50 and at March 31, 1983, Rs. 60.

(f) At March 31, 1982, Building stood in the books at Rs. 30,000 and it is required to write off depreciation at 10% p.a.

(g) Value of 8% Securities at March 31, 1982, was Rs. 15,000 which was purchased at that date at par. Additional Securities worth Rs. 5,000 are purchased on March 31,1983.

You are required to prepare :

(1) An Income and Expenditure Account for the year ended March 31, 1983, and

(2) A Balance Sheet as at that date.

(I.C.W.A. Inter. D 83)

(**Ans.** Opening Capital Fund Rs. 50,200 ; Excess of Income over Expenditure Rs. 590 ; Balance Sheet Total Rs. 52,150.)

[E 5] From the following particulars, prepare an Income and Expenditure Account and balance Sheet of the Cosmopolitan Gymkhana for the year ended on Dec. 31,1980.

Dr. *Cr.*

Receipts		(Rs.)	Payments		(Rs.)
To Life Members' Fees		4,000	By Land and Buildings		24,500
" Donations		25,000	" Tournament Expenses		1,100
" Entrance Fees		5,000	" Furniture		1,500
" Tournament Fund		1,500	" Purchase of Sports Materials		1,200
" Subscriptions	2,200		" Salaries	1,200	
" Bar Receipts	1,300		" Printing & Stationery	125	
" Interest on Securities	300		" Telephone	200	
" Cricket Fees	500		" Gardening	130	
" Tennis Fees	450		" Cricket	250	
" Billiards Fees	300		" Insurance	120	
" Sundries	275	5,325	" Tennis	400	
			" Billiards	480	
			" Sundries	100	
			" Bar Expenses including Purchases	1,500	4,505
			" Investments		6,000
			" Bank Balance		1,800
			" Cash in hand		220
		40,825			40,825

Subscription fees outstanding for the year 1980 and unpaid amounted to Rs. 450 and included in the receipts : and amount of Rs. 125 represented subscriptions for 1981 received in advance. Salaries unpaid for 1980 amounted to Rs. 175 and insurance prepaid to Rs. 30. One-half of the Entrance Fees received was to be credited to Revenue and Donations and Life Members' Fees were to be capitalised. Interest accrued and not received amounted to Rs. 120. The sports materials were valued at Rs. 750 and the Bar stock at Rs. 400 at the end of the year. Depreciate Furniture by 5% and Land and Buildings by $2^1/_2$%.

[C.S. Preli. D 82]

(**Ans.** Excess of Income over Expenditure Rs. 2,882.50 ; Balance Sheet Total Rs. 35,082.50)

[E 6] The following is the statement of Assets and Liabilities of the American International Library as at 31.3.83 :

Dr. *Cr.*

Liabilities	(Rs.)	*Assets*		(Rs.)
Outstanding for expenses	650	Cash		3,200
Capital Fund :		Furniture		4,850
Accumulated excess of		Debtors :		
Income over expenditure	44,350	Subscription		
		Outstanding	750	
		For use of		
		Lecture hall	350	1,100
		Books accounts		16,850
		Investments		5,000
		Buildings		14,000
	45,000			45,000

Receipts and Payments Accounts and Income and Expenditure Account.

The following were the cash transactions for the year :

Dr. *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
To Balance	3,200	By Salaries	2,400
" Entrance fees	2,600	" Municipal taxes	700
" Subscriptions	8,500	" Insurance on building	500
" Amount received on Sale of :		" Addition to library	1,250
old furniture	600	" Outstanding creditors of	
old newspapers	60	last year paid	650
" Rent of Library Hall	1,040	" Repairs	250
" Proceeds from lectures and		" Electric installation expenses	4,500
entertainments	3,000	" Printing and stationery	400
		" Postages	50
		" Sundry expenses	150
		" Balance	8,150
	19,000		19,000

It was ascertained that Rs. 1,100 was outstanding by way of subscriptions and Rs. 375 for use of library hall. Insurance on building was prepaid to the extent of Rs. 175. There were creditors outstanding for expenses to the extent of Rs. 800.

You are required to prepare an Income and Expenditure Account and a Balance Sheet at 31.3.83 after providing for depreciation on buildings @ $2^1/_2$% and writing down investments by 5% and Library books by 10%.

(C.S. Preli. J 1983)

(**Ans.** Excess of Income over Expenditure Rs. 8,090;
Balance Sheet Total : Rs. 53,240)

[E 7] The following Income and Expenditure Account of Joyous Club is given for the year ended on December 31, 1974.

Dr.	(Rs.)	*Cr.*	(Rs.)
To Opening Stock of Provisions	10,000	By Subscriptions	26,000
" Purchases of Provisions	30,000	" Donations	30,000
" Salaries	10,000	" Entrance Fees	8,000
" Printing and Stationery	5,000	" Sale of Provisions	28,000
" General Expenses	3,000	" Closing Stock of Provisions	5,000
" Depreciation on Equipment	1,000		
" Excess of Income over Expenditure	38,000		
	97,000		97,000

The following further information is given :

Balance Sheet of the Club as on Dec. 31, 1973

	(Rs.)		(Rs.)
Creditors for Provisions	8,000	Equipment at written down value	10,000
General Fund	37,000	Stock of Provisions	10,000
		Cash in hand and Bank	20,000
		Subscriptions Receivable	5,000
	45,000		45,000

Balance Sheet of the Club as on Dec. 31, 1974

	(Rs.)		(Rs.)
Creditors for Provisions	10,000	Equipment at written down value	15,000
General Fund	75,000	Stock of Provisions	5,000
		Cash in hand and Bank	45,000
		Subscriptions Receivable	20,000
	85,000		85,000

Prepare a Receipts and Payments Account of the Club for the year ended on December 31, 1974, from the above information.

(C. A. Inter. N 75)

(**Ans.** Receipts and Payments Total Rs. 97,000)

[E 8] The Income and Expenditure Account of the Old Bull Club for the year 1981 is as follows :

	(Rs.)		(Rs.)
To Salaries	47,500	By Subscriptions	75,000
" General Expenses	5,000	" Entrance fees	2,500
" Audit fee	2,500	" Contribution for annual dinner	10,000
" Secretrary's Honorarium	10,000	" Profit on annual sports meet	7,500
" Stationery and Printing	4,500		
" Annual dinner expenses	15,000		
" Interest & Bank charges	1,500		
" Depreciation on sports equipment	3,000		
" Surplus	6,000		
	95,000		95,000

This account had been prepared after the following adjustments :

	Rs.
Subcription outstanding at the end of 1980	6,000
Subscriptions received in advance on 31.12.79	4,500
Subscriptions received in advance on 31.12.79	2,700
Subscriptions outstanding on 31.12.81	7,500

Salaries outstanding at the beginning of 1981 and at the end of 1981 were respectively Rs. 4,000 and Rs. 4,500. General expenses include insurance prepaid to the extent of Rs. 600. Audit fees for 1981 are as yet unpaid. During 1981 audit fees for 1980 amounting to Rs. 2,000 were paid.

The Club owned a freehold ground valued at Rs. 1,00,000. The Club has sports equipments on 1.1.81 valued at Rs. 26,000. At the end of the year after depreciation, this equipment amounted to Rs.27,000. In 1980 the Club had raised a bank loan of Rs. 20,000. This was outstanding through 1981. On 31.12.81 Cash in hand amounted toRs.16,000.

Prepare theReceipts andPayments A/c of the Club for1981 and the Balance Sheet as at 31.12.81. **(C. A. Inter M 83)**

(**Ans.** Opening Capital Fund Rs. 1,15,400; Balance Sheet Total Rs. 51,100)

[E 9] Receipts and Payments Account of the New Club, Bombay, for the year ended 31.3.1970.

	Receipts		(Rs.)		Payments	(Rs.)
To	Balance b/d (1.4.69)		4,200	By	Secretary's Salary	1,000
"	Entrance Fees		11,000	"	Printing & Stationery	2,600
"	Subscription			"	Advertising	1,600
	1968-69	600		"	Fire Insurance	1,200
	1969-70	15,000		"	$5\frac{1}{2}$% Govt. Bonds	20,000
	1970-71	400	16,000	"	Balance c/d (31.3.70)	7,800
"	Rent Received		3,000			
			34,200			34,200

Income and Expenditure of the New Club, Bombay, for the year 31.3.1970

	Expenditure		(Rs.)		Income	(Rs.)
To	Secretary's Salary		1,500	By	Entrance Fees	11,000
"	Printing & Stationery		2,600	"	Subscription	15,600
"	Advertising		1,600	"	Rent	4,000
"	Audit Fees		500			
"	Fire Insurance		1,000			
"	Sports equipment	9000				
"	Furniture	400	9,400			
"	Excess of Income over Expenditure		14,000			
			30,600			30,600

The Club's assets as on 1.4.69 were as under :

Club's Grounds and Pavilion	Rs. 44,000
Sports equipments	Rs. 25,000
Furniture and fixtures	Rs. 4,000

There were no liabilities outstanding on 1.4.69. The $5\frac{1}{2}$% Govt. bonds had been purchased on 30.3.70 and hence interest earned need not be provided for. You are required to draw the balance sheets of the New Club, Bombay, as at 31.3.69 and as at 31.3.70. **[C.S. Preli. J 1977]**

[E 10] The accountant of City Club gave the following information about the receipts and paymens of the Club for the year ended 31st March, 1994 :—

Receipts	*(Rs.)*
Subscriptions	62,130
Fair Receipts	7,200
Variety Show Receipts (net)	12,810
Interest	690
Bar Collections	22,350
Payments :	
Premises	30,000
Rent	2,400
Rates and Taxes	3,780
Printing and Stationery	1,410
Sundry Expenses	5,350
Wages	2,520
Fair Expenses	7,170
Honorarium to Secretary	11,000
Bar Purchases (Payments)	17,310
Repairs	960
New Car (less proceeds of old car Rs. 9,000)	37,800

The following additional information could be obtained :—

	1.4.*1993* Rs.	*31.3.1994* Rs.
Cash in hand	450	Nil
Bank Balance as per Cash-book	24,420	10,350
Cheque issued for Sundry Expenses not presented to the bank (entry has been duly made in the cash-book)	270	90
Subscriptions Due	3,600	2,940
Premises—at cost	87,000	1,17,000
Provision for Depreciation on Premises	56,400	
Car—at cost	36,570	
Accumulated Depreciation on Car	30,870	
Bar Stock	2,130	
Creditors for Bar Purchases	1,770	1,290

Annual Honorarium to Secretary is Rs. 12,000 Depreciation on Premises is to be provided at 5% on written down value. Depreciation on new Car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended 31.3.1994. **[C.A. Foundation J 94]**

Hints :

In the books of City Club
Receipts and Payments A/c

Dr. *Cr.*

Receipts	(Rs.)	Payments	(Rs.)
To Balance b/d		By Premises	30,000
Cash in hand	450	" Rent	2,400
Cash at Bank	24,420	" Rates and Taxes	3,780
" Subscription	62,130	" Printing and Stationery	1,410
" Fair Receipts	7,200	" Sundry Expenses	5,350
" Variety Show Receipts	12,810	" Wages	2,520
" Interest	690	" Fair Expenses	7,170
" Bar Collections	22,350	" Honorarium to Secretary	11,000
		" Bar Purchases	17,310
		" Repairs	960
		" Payments for New Car	37,800
		" Balance c/d	
		Cash in hand	—
		Cash at Bank	10,350
	1,30,050		1,30,050

Income and Expenditure A/c

Dr. *Cr.*

Expenditure	(Rs.)	(Rs.)	Income	(Rs.)	(Rs.)
To Rent		2,400	By Subscriptions	62,130	
" Rates and Taxes		3,780	Add : Closing Due	2,940	
" Printing and Stationary		1,410		65,070	
" Sundry Expenses		5,350	Less : Opening Due	3,600	61,470
" Wages		2,520	By Surplus from Variety		
" Honorarium to Secretary		12,000	Show		12,810
" Repairs		960	" Surplus from Fair		30
" Depreciation on Premises		3,030	(7,200 – 7,170)		
[5/00 × (87,000 – 56,400)			" Interest		690
+ 5/100 × 30,000)]			" Profit from Bar		6,000
" Depreciation on Car		9,360	[(22,350 + 2,610		
(20/100 × 46,800)			2,130) – (17,300 +		
" Surplus		43,490	1,290 – 1770)]		
(transferred to Capital			" Profit from Sale of Car		3,300
Fund)			(9,000 – 5,700)		
		84,300			84,300

Chapter 14

ACCOUNTS OF PROFESSIONAL CONCERNS

[P 1] A, B and C are three doctors who are running a Polyclinic D, E, F and G were then taken in on payment of Rs. 10,000 by each of them as goodwill and also Rs. 40,000 to be brought in by each of them as capital. Goodwill is shared by the existing partners equally. Each of the original partners also contributed Rs. 40,000 by way of capital. The terms of sharing profits or losses were as follows :

(i) 60% of the visiting fee is to go to the specialist concerned.

(ii) 40% of the chamber fee will be payable to the individual specialist.

(iii) 50% of the operation fees and fees for pathological reports, X – rays and ECG will accrue in favour of the doctor concerned.

(iv) Balance of profit or loss is shared equally.

(v) The proportion of fees and charges accruing in favour of individual doctors are to be withdrawn then and there.

(vi) The receipts for the year after the admission of new partners are :

	Visiting fees (Rs.)	Chamber fees (Rs.)	Fees for reports Operation, etc. (Rs.)
General Practitioner	60,000	80,000	—
Gynaecologist	10,000	70,000	40,000
Cardiologist	—	40,000	30,000
Child Specialist	40,000	60,000	—
Pathologist	—	—	40,000
Radiologist	—	16,000	80,000
Dentist	—	10,000	60,000

(vii) Expenses for the year are as follows :

		Rs.
Rent		31,000
Light		5,000
Nurses salary		12,000
Attendants' Wages		6,000
Telephones		8,200
Printing and Stationery		2,000
Medicines, band aids, Injections etc.		4,000
Depreciation :		
Furniture	2,000	
X-Ray Machine	10,000	
ECG Equipments	4,000	
Dentist Chairs	2,000	
Surgical Equipments	2,000	20,000

Prepare the Profit and Loss account of the Polyclinic, also showing the final distribution of profit or loss among the partners.

All workings should form part of your answer. **[C.A. Inter. M 87]**

Solution :

Dr. **Profit & Loss Account of the Polyclinic for the year ended ....** *Cr.*

			(Rs.)				(Rs.)
To	Nurses Salary		12,000	By	Fees & Charges :		
"	Attendants' Wages		6,000	"	Visiting fees	1,10,000	
"	Rent		31,000	"	Chamber fees	2,76,000	
"	Light		5,000	"	Fees for Reports operations etc.	2,50,000	6,36,000
"	Printing & Stationery		2,000				
"	Telephone		8,200				
"	Medicines, Band Aids, Injections etc.		4,000				
"	Depreciation :						
	Furniture	2000					
	X-Ray Machine	10,000					
	E. C. G. Equipment	4,000					
	Dentist Chair	2,000					
	Surgical Equipment	2,000	20,000				
To	Net Surplus c/d		5,47,800				
			6,36,000				6,36,000
	Share of Net Profit						
	General Practitioner (68,000 + 35,200)		1,03,200	By	Net Surplus b/d		5,47,800
	Gynaecologist (54,000 + 35,200)		89,200				
	Cardiologist (31,000 + 35,200)		66,200				
	Child Specialist (48,000 + 35,200)		83,200				
	Pathologist (20,000 + 35,200)		55,200				
	Radiologist (46,400 + 35,200)		81,600				
	Dentist 34,000 + 35,200) [As per workings]		69,200				
			5,47,800				5,47,800

Workings

Statement showing sharing of Fees

Specialist/Doctor	Visiting Fees	Chamber Fees	Fees for report Operation etc.	Share of Fees percentage Sharing basis
	(Rs.) (60%)	(Rs.) (40%)	(Rs.) (50%)	(Rs.)
General Practioner	36,000	32,000	—	68,000
Gynaecologist	6,000	28,000	20,000	54,000
Cardiologist	—	16,000	15,000	31,000
Child Specialist	24,000	24,000	—	48,000
Pathologist	—	—	20,000	20,000
Radiologist	—	6,400	40,000	46,400
Dentist	—	4,000	30,000	34,000
	66,000	1,10,400	1,25,000	3,01,400

		Rs.
Total	Net Profit available to the Specialists/Doctors = (as per P/L A/c)	5,47,800
Less :	Fees on Percentage sharing basis	3,01,400
		2,46,400

Amount to be shared Equally
Each Specialist/Doctor's share = $1/7 \times 2,46,400$ = Rs. 35,200

[P 2] A and B are Chartered Accountants, practising independently at Madras and Bangalore respectively and decide to, with effect from 01/04/1990, to form a partnership in which each of them will have an equal share in profit and losses. They decide to bring into the firm all their assets and liabilities of their proprietory practices except the outstandings due on Government audit work done prior to 31st March, 1990 which will be to the benefit of the individuals concerned. It was also decided that a sum of goodwill, equivalent to $1\frac{1}{2}$ times the value of net assets taken over will be credited to the partner 's account. Details of assets and liabilities as on 31st March, 1990 were as under :—

	A (Rs.)	B (Rs.)
Cash in hand /at Bank	16,000	12,000
Fixed Deposits (out of professional receipts)	40,000	26,000
Amounts billed and receivable	38,000	32,000
Bills still to be raised (including Rs. 24,000 due to A on Government audit work)	1,60,000	82,000
Office furniture, Fixtures, Telephone lines, etc.	31,000	18,000
Amounts due to articled and audit cleark towards stipends	8,400	12,000
Rent deposit	18,000	18,000
Rent due	1,500	1,500
Office salaries due	6,000	4,500
Expenses to be paid	800	—

For the year 1990-91, the analysis of Bank/Cash account revealed the following :

Gross fees received (including Rs. 18,000 due to A on Government audit work)	4,42,000
Office expenses	18,800
Rent	36,000
Printing and Stationery	40,000
Stipends paid	60,000
Salaries to Staff	82,000
Interest on Fixed deposits credited	6,600
Drawings :	
A	50,000
B	36,000
Other information : as on 31/03/1991	
Bills due by clients	1,44,000
Bill still to be raised on clients	60,000
Salaries due	9,600

There were no outstanding bills for collection as on 31/03/91 that related to earlier years.
The partners decided that from 1st April 1990, they will adopt the mercantile system of accounts for all items except professional receipts which will be accounted on cash basis. Interest on fixed deposits is to be shared in the ratio of holdings at the time of formation of the firm depreciate Furniture, Fixture at 10%.
You are required to prepare the Profit and Loss Account of the firm for the year ended 31st March, 1991 and also a Balance Sheet as at that date.
All workings are to form part of your answer. **[C.A. Inter. M 92]**

Solution :

In the books of M/s. A & B
Profit and Loss A/c for the year endeed 31st march, 1991

Dr. *Cr.*

		(Rs.)			(Rs.)
To Office expenses	18,800		By Fees	4,42,000	
Less : Outstanding on 31-3-90	800	18,000	Less : Fees received for A's Government Audit	18,000	4,24,000
" Rent	36,000				
31-3-90	3,000	33,000			
" Printing & stationery		40,000			
" Stipends	60,000				
Less : Outstanding on 31-3-90	20,400	39,600			
" Salaries to staff	82,000				
Less : Outstanding On 31-3-90 (6000 + 4500)	10,500				
	71,500				
Add : Outstanding on 31-3-90	9,600	81,100			
" Depreciation on Furniture and Fittings $\left[\frac{10}{100} \times (31{,}000 + 18{,}000)\right]$		4,900			
" Net Profit :					
A (1/2)	1,03,700				
B (1/2)	1,03,700	2,07,400			
		4,24,000			4,24,000

Balance Sheet as at 31.3.91

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital A/c :			Goodwill		6,48,450
A		5,87,450	(Workings 1)		
B		3,51,300	Furniture, Fixture		
(Workings 3)			& Telephone	49,000	
Salaries Due		9,600	(31,000 + 18,000)		
(outstanding)			Less : Depreciation	4,900	44,100
			(10/100 × 49,000)		
			Fixed Deposits		66,000
			(40,000 + 26,000)		
			Rent Deposits		36,000
			(18,000 + 18,000)		
			Cash in hand/at Bank		1,53.800
			(workings 2)		
		9,48,350			9,48,350

Working :

(1) Value of Goodwill :

Assets :		A	B
		Rs.	Rs.
Cash in hand/at Bank		16,000	12,000
Fixed Deposits		40,000	26,000
Bills raised and receivable		38,000	32,000
Bills still to be raised excluding Govt. audit		1,36,000	82,000
Rent Deposits		18,000	18,000
Furniture, Fixture & Telephone		31,000	18,000
	(m)	2,79,000	1,88,000
Liabilities :			
Stipend		8,400	12,000
Salaries		6,000	4,500
Rent		1,500	1,500
Expenses		800	—
	(n)	16,700	18,000
Net Assets	(m – n)	2,62,300	1,70,000
Goodwill $1^1/_2$ times of Net Assets Taken Over		3,93,450	2,55,000

Therefore, Total Goodwill = 3,93,450+2,55,000=6,48,450

Dr **(2) Cash /Bank A/c** Cr.

		(Rs.)			(Rs.)
To Balance B/f		28,000	By Office expenses		18,800
" Fees		4,42,000	" Rent		36,000
" Interest on Fixed Deposits		6,600	" Printing & Stationery		40,000
			" Stipends		60,000
			" Salaries		82,000
			" Drawings :		
			A		50,000
			B		36,000
			" Balance c/d		1,53,800
		4,76,600			4,76,600

(3) Capital A/c

	A	B
	Rs.	Rs.
Net Assets Taken Over (Workings 1)	2,62,300	1,70,000
Add : Goodwill (" ")	3,93,450	2,55,000
	6,55,750	4,25,000
Less : Sundry Debtors	1,44,000	1,44,000
	5,11,750	2,81,000

Dr. **(4) Partner's Capital A/c** Cr.

	A	B		A	B
	Rs.	Rs.		Rs.	Rs.
To Drawings	50,000	36,000	By Balance b/d	5,11,750	2,81,000
" Balance c/d	5,87,450	3,51,300	" Fees	18,000	—
			" Interest on Fixed Deposit	4,000	2,600
			" P/L A/c	1,03,700	1,03,700
	6,37,450	3,87,300		6,37,450	3,87,300

Exercise

Professional Concern

[E 1] The Association of Veterinary physicians had the following Balance Sheet as on December 31. 1990 :

BALANCE SHEET

as on 31st December, 1990

Liabilities	(Rs.)	*Assets*	(Rs.)
Sundry Creditors		Cash in hand	100
(for purchase of stationery)	700	Bank Balance	9,200
Salaries outstanding	600	Fixed deposit with Bank	10,000
Capital fund	18,900	Miscellaneous Advances	250
		Interest receivable on F.D.	250
		Subsciptions receivable	400
	20,200		20,200

The Association consists of 200 members and the annual subscription is Rs. 100 per member. All payments are through cheques except petty cash payments. The following is the summary of the Petty Cash Book for the year 1991.

PETTY CASH SUMMARY

		(Rs.)			(Rs.)
To	Balance (1-1-1991)	100	By	Miscellancous expenses	5,900
To	Receipts from Bank	6,000	By	Balance (31-12-1991)	200
		6,100			6,100

Analysis of the Bank Statements for 1991 shows the following payments :

	(Rs.)
Sundry Creditors (for purchase of stationery)	1,800
Salaries	7,700
Subscriptions to periodicals	1,200
Withdrawals for Petty Cash	6,000
Miscellaneous expenses	600
Towards additional Fixed Deposit (1-7-91)	5,000

With reference to the above, you are to prepare :

(a) Receipts and payments Account for the year 1991 ;

(b) Income and expenditure Account for the year ended December 31, 1991 ;

(c) Balance Sheet as on December 31, 1991

Take into account the following additional information :

(i) Fixed Deposits are for long term and carry interest at 10 per cent per annum. During the year, interest received totalled Rs. 1,000

(ii) On 31st December 1991, the following were outstanding :
Salaries Rs. 700 ; for purchase of stationery Rs. 200.

(iii) Subscriptions receivable as at 31st December 1991, Rs. 500.

[C. A. Entrance Adapted]

(**Answer :** Excess of Income over Expenditure Rs. 4,450 ; Balance Sheet Total Rs. 24,250)

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APPENDIX -1

C.A. FOUNDATION, NOVEMBER, 1994

1. From the following particulars extracted from the books of Ganguli. Prepare Trading and Profit & Loss Account and Balance Sheet as at 31st March, 1994 after making the necessary adjustments :

	(Rs.)		(Rs.)
Ganguli's Capital Account (Cr.)	54,050	Interest Received	725
Stock on 1.4.1993	23,400	Cash with Traders Bank Ltd.	4,000
Sales	1,44,800	Discount Received	1,495
Sales Returns	4,300	Investments (at 5%) as on 1.4.1993	2,500
Purchases	1,21,550	Furniture as on 1.4.1993	900
Purchases Returns	2,900	Discounts Allowed	3,770
Carriage Inwards	9,300	General Expenses	1,960
Rent	2,850	Audit Fees	350
Salaries	4,650	Fire insurance Premium	300
Sundry Debtors	12,000	Travelling Expenses	1,165
Sundry Creditors	7,400	Postage and Telegrams	435
Loan from Dena Bank Ltd. (at 12%)	10,000	Cash on Hand	190
Interest Paid	450	Deposits at 10% as on 1.4.1993 (Dr.)	15,000
Printing and Stationery	1,700	Drawings	5,000
Advertisement	5,600		

Adjustments

(1) Value of stock as on 31st March, 1994 is Rs. 39,300. This includes goods returned by customers on 31st March, 1994 to the value of Rs. 1,500 for which no entry has been passed in the books.

(2) Purchass include furniture purchased on 1st January, 1994 for Rs. 1,000.

(3) Depreciation should be provided on furniture at 10% per annum.

(4) The loan account from Dena Bank in the books of Ganguli appears as follows :

	Rs.		Rs.
31.3.1994 To Balance c/d	10,000	1.4.1993 By Balance b/d	5,000
		31.3.1994 By Bank	5,000
	10,000		10,000

(5) Sundry Debtors include Rs. 2,00 due from Robert and Sundry Creditors include Rs. 1,000 due to him.

(6) Interest paid include Rs. 300 paid to Dena Bank.

(7) Interest received represent Rs. 100 from the Sundry Debtors and the balance on investments and deposits.

(8) Provide for interest payable to Dena Bank and for interest receivable on investments and deposits.

(9) Make a provision for doubtful debts at 5% on the balance under "Sundry Debtors" No such provision need be made for the deposits.

Solution :

In the books of Ganguli

Trading and Profit & Loss A/c for the year ended 31.3.1994

Dr. *Cr.*

			(Rs.)				(Rs.)
To	Opening Stock		23,400	By	Sales	1,44,800	
"	Purchases	1,21,550			Less : Returns	5,800	1,39,000
	Less : Returns	2,900			(4,300 + 1,500)		
		1,18,650		"	Closing Stock		39,300
	Less : Furniture purchased wrongly included in Purchases	1,000	1,17,650				
"	Carriage Inward		9,300				
"	Gross Profit c/d		27,950				
			1,78,300				1,78,300

19A

		(Rs.)			(Rs.)
To Rent		2,850	By Gross Profit b/d		27,950
" Salaries		4,650	" Discount Received		1,495
" Interest	450		" Interest	725	
Add : Outstanding	300	750	Add : Accrued but		
$[(\frac{12}{100} \times 5,000) - 300]$			not yet received	1,000	1,725
" Printing and Stationery		1,700	$[(\frac{5}{100} \times 2,500) +$		
" Advertisement		5,600	$(\frac{10}{100} \times 5,000)$		
" Discount Allowed		3,770	$- (725 - 100)]$		
" General Expenses		1,960			
" Audit Fees		350			
" Fire Insurance Premium		300			
" Travelling Expenses		1,165			
" Postage and Telegrams		435			
" Dep. on Furniture		115			
" Provision for D/Debts		475			
" Net Profit (transferred (to Capital A/c)		7,050			
		31,170			31,170

Balance Sheet *as at 31.3.1994*

Liabilities		(Rs.)	*Assets*		(Rs.)
Capital	54,050		Furniture	900	
Less : Drawings	5,000		Add : Wrongly included in Purchases	1,000	
	49,050			1,900	
Add : Net Profit	7,050	56,100	Less : Depreciation	115	1,785
Loan from Dena Bank (at 12%)		10,000	$[(\frac{10}{100} \times 900) +$		
Interest Payable to Dena Bank		300	$(\frac{10}{100} \times \frac{3}{12} \times 1,000)]$		
Sundry Creditors	7,400		Investments (at 5%)		2,500
Less : Mutual Debt	1,000	6,400	Deposit at 10%		15,000
			Closing Stock		39,300
			Sundry Debtors	12,000	
			Less : Returns	1,500	
				10,500	
			Less : Mutual Debt	1,000	
				9,500	
			Less : Provision for Doubtful Debts	475	9,025
			$(\frac{15}{100} \times 9,500)$		
			Cash with Traders Bank Ltd.		4,000
			Interest Accrued on Investments and Deposits		1,000
		72,800			72,800

DEPRECIATION

(9) ABC Ltd. purchased on 1st January, 1988 second hand Plant for Rs. 30,000 and immediately spent Rs. 20,000 in overhauling it. On 1st July, 1988 additional machinery of a cost of Rs. 25,000 was purchased. On 1st July, 1990, the plant purchased on 1st January, 1988 became obsolcte and was sold for Rs. 10,000. On that date new machinery was purchased at a cost of Rs. 60,000.

Depreciation was provided for annually on 31st December, at 10% per annum on the original cost of the asset. In 1991, however, the company changed this method of providing for depreciation and adopted the method of writing off 15% on the diminishing value.

Show the Plant & Machinery Account as it would appear in the books of the company for the years 1988 to 1993.

Solution :

In the books of M/s ABC Ltd

Plant & Mchinery A/c

Dr. *Cr.*

Date	Particulars		(Rs.)	Date	Particulars		(Rs.)
1988				1988			
Jan. 1.	To Bank A/c		30,000	Dec. 31.	By Depreciation A/c		
Jan. 1.	" Bank A/c		20,000		Mc I ($\frac{10}{100} \times 50,000$)	5,000	
	(Mc I purchased				Mc II	1,250	6,250
	and over hanled)				($\frac{10}{100} \times \frac{6}{12} \times 50,000$)		
Jul. 1.	" Bank A/c (Mc II purchased		25,000	Dec. 31.	" Balance c/d		
					Mc I (50,000 – 5,000)	45,000	
					MC II (25,000 – 1,250)	23,750	68,750
			75,000				75,000
1989				1989			
Jan. 1.	" Balance b/d			Dec. 31.	" Depreciation A/c		
	Mc I	45,000			Mc I ($\frac{10}{100} \times 50,000$)	5,000	
	Mc II	23,750	68,750		Mc II ($\frac{10}{100} \times 25,000$)	2,500	7,500
				Dec. 31.	" Balance c/d		
					Mc I (45,000 – 5,000)	40,000	
					Mc II (23,750 – 2,500)	21,250	61,250
			68,750				68,750
1990				1990			
Jan. 1.	" Balance b/d Mc I	40,000		Jul. 1.	" Depreciation A/c Mc I		2,500
	Mc II	21,250	61,250		($\frac{10}{100} \times \frac{6}{12} \times 50,000$)		
Jul. 1.	" Bank A/c (Mc II purchased)		60,000	Jul. 1.	" Bank A/c (Sales proceeds of Mc I)		10,000
				Jul. 1.	" P/L A/c (Coss on sale = 40,000 – 2,500 – 10,000)		27,500
				Dec. 31	" Depreciation A/c		
					Mc II ($\frac{10}{100} \times 25,000$)	2,500	
					Mc III ($\frac{10}{100} \times \frac{6}{12} \times 60,000$)	3,000	5,500
				Dec. 31	" Balance c/d		
					Mc II (21,500 – 2,500)	18,750	
					Mc III (60,000 –3 ,000)	57,000	75,750
			1,21,250				1,21,250

Date	Particulars	(Rs.)	(Rs.)	Date	Particulars	(Rs.)	(Rs.)
1991 Jan. 1	" Balance b/d			1991 Dec. 31	" Depreciation A/c		
	Mc II	18,750			Mc II ($\frac{15}{100}$×18,750)	2,812.50	
	Mc III	57,000	75,750		Mc III ($\frac{15}{100}$×57,000)	8,550.00	11,362.50
				Dec. 31	" Balance c/d Mc II (18,750 – 2812.50)	15,937.50	
					Mc III (57,000 – 8,550)	48,450.00	64,387.50
			75,750.00				75,750.00
1992 Jan. 1	" Balance b/d Mc II	15,937.50		1992 Dec. 31	" Depreciation A/c Mc II		
	Mc III	48,450.00	64,387.50		($\frac{15}{100}$×15,937.50)	2390.63	
					Mc III ($\frac{15}{100}$×48,450)	7267.50	9,658.13
				Dec. 31	" Balance c/d Mc II (15,937.50 – 2,390.63)	13546.87	
					Mc III (48,450.00 – 7,267.50)	41182.50	54,729.37
			64,387.50				64,387.50
1993 Jan 1	" Balance b/d Mc II	13,546.87		1993 Dec. 31	" Depreciation A/c Mc II		
					($\frac{15}{100}$×13,546.87)	2032.03	
	Mc III	41,182.50	54,729.37		Mc III		
					($\frac{15}{100}$×41,182.50)	6177.37	8209.40
				Dec 31	" Balance c/d Mc II (13546.87 – 2032.03)	11514.84	
					Mc III (41182.50 – 6177.37)	35005.13	46,519.97
			54,729.37				54,729.37
1994 Jan. 1	" Balance b/d Mc II	11,514.84					
	Mc III	35,005.13	46,519.97				

JOINT VENTURE

(3) A and B decided to work a joint venture for the sale of electric motors. On 21st May, 1993. A purchased 200 electric motors at Rs. 175 each and dispatched 150 electric motors to B incurring Rs. 1.000 as freight and insurance charges. 10 electric motors were damaged in transit. On 1st February, 1994 Rs. 500 was received by A from insurance Company in full settlement of claim. On 15th March, 1994. A sold 50 electric motors at Rs. 225 each. he received Rs. 15,000 from B on 1st April, 1994.

On 25th May, 1993 B took delivery of electric motors and incurred the following expenses :

	Rs.
Clearing Charges	125
Repair Charges for Motors Damaged in Transit	300
Godown Rent	600

B Sold the electric motors as below :

On 1.2.1994 10 damaged motors at Rs. 170 each
On 15.3.1994 40 motors at Rs. 200 each.
On 1.4.1994 20 motors at Rs. 315 each.
On 3.4.1994 80 motors at Rs. 250 each.

It is agreed that they are entitled commission at 10% on the repective sales effected by them and that the profits and losses shall be shared by A and B in the ratio of 2 : 1.

B remits to A the balance of money due on 30th April, 1994.

Prepare :

(1) Joint Venture Account in the Books of A, and
(2) Memorandum Joint Venture Account.

Solution :

In the books of A and B

Dr. **Memorandum Joint Venture A/c** *Cr.*

		(Rs.)			(Rs.)
To A			By A		
Cost of Motors (200 × 175)	35,000		" Insurance Claim	500	
			Sales (50 ×225)	11,250	11,750
Freight and insurance charges	1,000				
Commission ($\frac{10}{100}$ ×11,250)	1,125	37,125			
" B			" B		
Clearing Charges	125		Sales		
Repair Charges for Motors Damaged in Transit	300		10 ×170	1,700	
			40 ×200	8,000	
			20 ×315	6,300	
Godown Rent	600		80 ×250	20,000	36,000
Commission ($\frac{10}{100}$ ×36,000)	3,600	4,625			
" Profit on Venture					
A ($\frac{2}{3}$ ×6,000)	4,000				
B ($\frac{1}{3}$ ×6,000)	2,000	6,000			
		47,750			47,750

In the books of A

Dr. **Joint Venture A/c** *Cr.*

		(Rs.)			(Rs.)
To Bank			By Bank		
Cost of Motors	35,000		" Insurance Claim	500	
Freight and Insurance Charges	1,000	36,000	Sales	11,250	11,750
" Commission		1,125	" Bank (Remittance from B)		15,000
" Profit & Loss A/c (Share of Profit)		4,000	" Bank (Bal fig. being final remittance from B)		14,375
		41,125			41,125

BILLS

(4) On 1st January, 1994 Vinod drew and Pramod accepted a bill at three months for Rs. 2,000. On 4th January, 1994 Vinod discounted the bill at his bank at 15% p.a. and remitted half the proceeds to Pramod. On 1st February, 1994 Pramod drew and Vinod accepted a bill at four months for Rs. 1,500. On 4th February, 1994 Pramod discounted the bill at 15% p.a. with his bank and remitted half the proceeds to Vinod. They both agreed to share the discount equally.

At maturity Vinod met his acceptance, but Pramod dishonoured his and Vinod had to pay the bill. Vinod drew and Pramod accepted a new bill at three months for the original bill plus interest at 18% p.a. On 1st July, 1994 Pramod became insolvent and only 50 paise in the rupee was received from him.

Record the above transactions in Vinod's Journal.

Solution :

Vinod Journal

Date 1994	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
Jan 1	Bills Receivable A/c Dr. To Pramod A/c (Being Bill drawn on Pramod for 3 months and acceptance received).		2,000	 2,000
" 4	Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivable A/c (Being the bill discounted with Bank at 15% p.a.).		1,925 75	 2,000
" 4	Pramod A/c Dr. To Bank A/c To Discounting Charges A/c (Being half of the proceeds remitted to Pramod, discounting charges shared equally).		1,000	 962.50 37.50
Feb. 1	Pramod A/c Dr. To Bills Payable A/c (Being Acceptance given to Pramod).		1,500	 1,500
" 4	Bank A/c Dr. Discounting Charges A/c Dr. To PramodA/c (Being half of the proceeds received from Pramod, discounting charges shared equally).		712.50 37.50	 750
April 4	Pramod A/c Dr. To Bank A/c (Being the dishonoured bill taken over from Bank for Pramod).		2,000	 2,000
" 4	Pramod A/c Dr. To Interest A/c (Being Interest charged @ 18% p.a. on the dishonoured bill for 3 months, i.e. the fresh bill period $(\frac{3}{12} \times \frac{18}{100} \times 2{,}000)$		90	 90
" 4	Bills Receivable A/c Dr. To PramodA/c (Being fresh bill drawn for original bill amount plus interest and acceptance received).		2,090	 2,090

Vinod Journal (Contd.)

Date 1994	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
June 4	Bills Payable A/c Dr. To Bank A/c (Being Acceptance given honoured).		1,500	 1,500
July 7	Pramod A/c Dr. To Bills Receivable A/c (Being the fresh bill dishonoured by Pramod).		2,090	 2,090
" 7	Bank A/c Dr. Bad Debts A/c Dr. To PramodA/c (Being half of the dues received, the other half proved to be bad debts due to Pramod's insolvency). [(1,000 + 1,500 + 2,000 + 90 + 2,090) – (2000 + 750 + 2090) = 1840]		920 920	 1,840

PARTNERSHIP—CHANGE IN TERMS

(5) A B and C are partners in a firm sharing profits and losses as 8 : 5 : 3. Their Balance Sheet as at 31st December, 1993 was as follows :

	(Rs.)		(Rs.)
Sundry Creditors	15,000	Cash	40,000
General Reserve	80,000	Bills Receivable	50,000
Partners' Loan Accounts		Sundry Debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed Assets	2,80,000
Partners' Capital Accoutns :			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		5,50,000

From 1st January, 1994 they agreed to alter their profit-sharing ratio as 5 : 6 : 5. It is also decided that :

(a) the fixed assets should be valued at Rs. 3,31,000;

(b) a provision of 5% on sundry debtors be made for doubtful debts;

(c) the goodwill of the firm at this date be valued at three years purchase of the average net profits of the last five years before charing insurance premiium ; and

(d) the Stock be reduced to Rs. 1,12.,000.

There is a joint life insurance policy for Rs. 2,00,000 for which an annual premium of Rs. 10,000 is paid, the premium being charged to Profit and Loss Account. The surrender value of the policy on 31st December, 1993 was Rs. 78,000.

The net profits of the firm for the last five years were Rs. 14,000 Rs. 17,000 Rs. 20,000, Rs. 22,000 and Rs. 27,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft Journal Entries necessary to adjust the capital accounts of the partners and prepare the revised Balance Sheet.

Solution :

In the books of A, B and C
Journal

Date 1994	Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
Jan 1	Fixed Assets	Dr.		51,000	
	To BProvision for Doubtful Debts				3,000
	To Stock				8,000
	To Revaluation				40,000
	(Being the Assets revalued as per decision).				
Jan 1	Revaluation	Dr.		40,000	
	To A's Capital				20,000
	To B' s Capital				12,500
	To C's Capital				7,500
	(Being Profit on Revaluation Shared by the partners in their P. S. R.).				
Jan 1	B's Capital	Dr.		11,000	
	C]s Capital	Dr.		20,000	
	To A's Capital				31,000
	(Being Capital adjusted for Goodwill and Joint Life Insurance Policy).				

(Revised) **Balance Sheet** *as at 1.1.1994*

Liabilities		(Rs.)	*Assets*		(Rs.)
Sundry Creditors		1,50,000	Cash		40,000
General Reserve		80,000	Bills Receivable		50,000
Partners' Loan A/cs			Sundry Debtors	60,000	
A		40,000	Less : Provision for		
B		30,000	Doubtful Debts	3,000	57,000
Partners' Capital A/cs			Stock		1,12,000
A (1,00,000 + 20,000 + 31,000)		1,51,000	Fixed Assets		3,31,000
B (80,000 + 12,500 – 11,000)		81,500			
C (70,000 + 7,500 – 20,000)		57,500			
		5,90,000			5,90,000

Workings :

Average Profit of last 5 years

$$= \frac{14{,}000 + 17{,}000 + 20{,}000 + 22{,}000 + 27{,}000}{5}$$

= Rs. 20,000

Insurance Premium = Rs. 10,000

∴ Average Annual Profit before charging Insurance Premium = 20,000 + 10,000 = Rs. 30,000

∴ Goodwill = 3 x 30,000 = Rs. 90,000

Joint Life Policy = Rs. 78,000

∴ Capital A/cs to be adjusted for = Rs. 1,68,000

	A (Rs.)	B (Rs.)	C (Rs.)
Cr. in Old ratio	+ 84,000	+ 52,500	+ 31,500
Dr. in New ratio	– 52,500	– 63,000	– 52,500
	+ 31,500	– 10,500	– 21,000