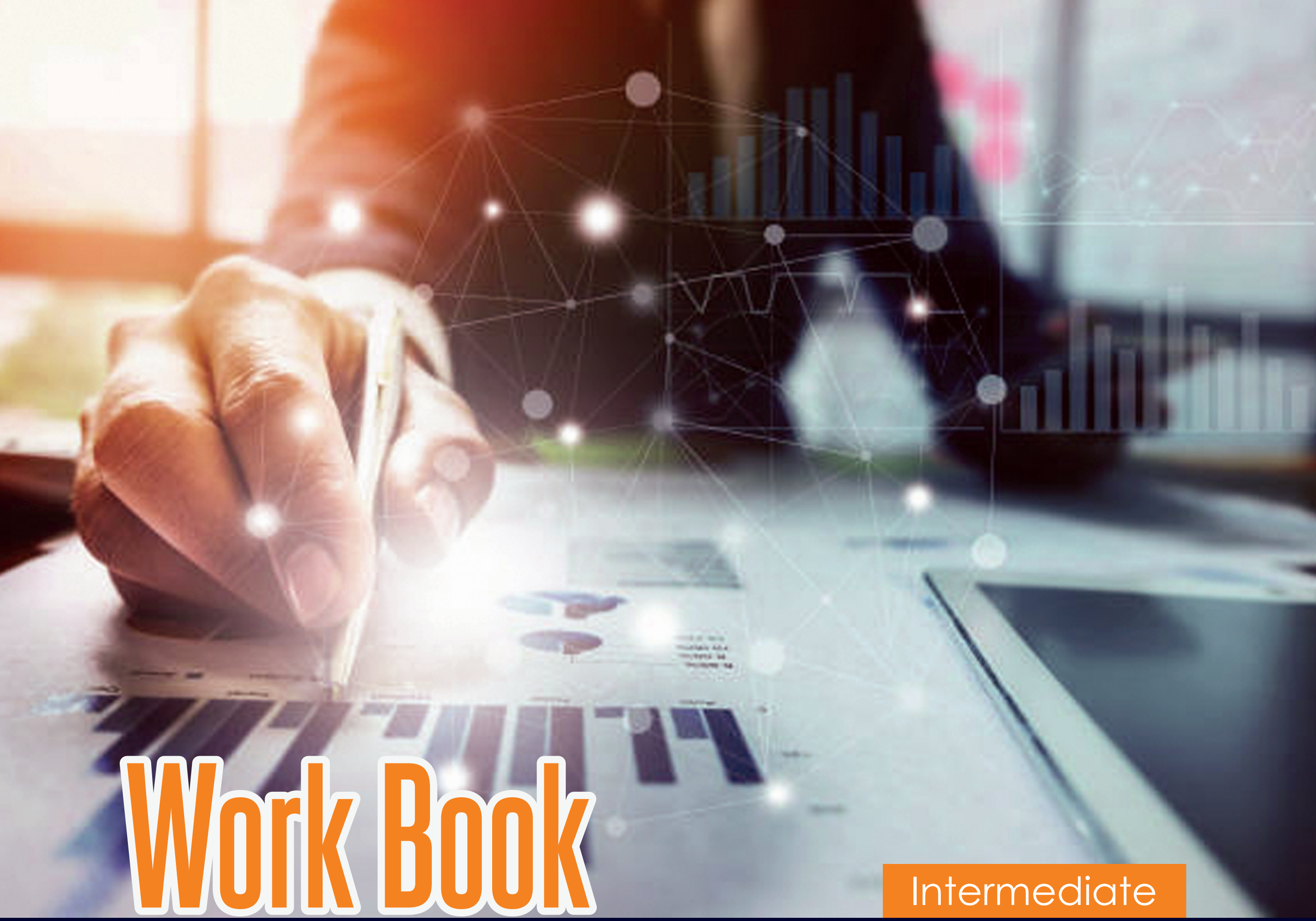

Work Book

Intermediate

Financial Accounting

Paper 6

The Institute of Cost Accountants of India

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WORKBOOK

Financial Accounting

INTERMEDIATE

Paper 6

SYLLABUS 2022

The Institute of Cost Accountants of India

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Preface

The landscape of professional education is undergoing a profound transformation, driven by the evolving demands of a globally integrated economy. In this dynamic environment, it is imperative to equip students not only with technical knowledge but also with the analytical skills and professional acumen essential for success.

Effective learning extends beyond theoretical understanding—it necessitates the development of strong conceptual foundations, critical thinking abilities, and disciplined study habits. These attributes are cultivated through continuous practice and engagement with thought-provoking academic material. To facilitate this process, the curriculum, instructional methods, and assessments must be designed to provide comprehensive, structured, and intellectually stimulating learning experiences.

Building on the success of the previous editions, we are pleased to present the new edition of our 'Workbook' in an e-distributed format. This edition has been meticulously developed to enhance students' comprehension and application of key concepts. Each chapter is structured to offer a seamless learning experience and integrating practical illustrations in a phased manner to align with the evolving regulatory framework.

We are confident that this new edition will continue to serve as a valuable academic resource, empowering students to achieve their professional aspirations with confidence and competence.
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1

Accounting Fundamentals
[Study Material - Module 1]

ILLUSTRATION 1 (CAPITAL AND REVENUE EXPENDITURE)

State with reasons the nature of expenditure or receipts in each of the following cases:

(a) Freight on new machine ₹ 8,000 and its installation cost ₹ 4,000.

(b) Old Furniture sold for ₹ 1400 (Cost ₹ 8,000 but written down value ₹ 1,800)

(c) ₹ 8,000 spent to double the production capacity of a machine.

(d) Compensation paid to a retrenched employee ₹ 4,000

(e) ₹ 2,00,000, spent for increasing the sitting capacity of a cinema hall and ₹ 10,000 paid for painting it.

Solution:

(a) Both ₹ 8,000 and ₹ 4,000 are capital expenditure because these are incidental to the acquisition and starting of operation of the machine, the earning capacity of the business will increase.

(b) The cost price need not be considered, the loss on sale ₹ 400 (₹ 1800 - ₹ 1400) is a revenue loss to be debited to the Profit/Loss Account. The sale price received ₹ 1400 is a capital receipt.

(c) It is a capital expenditure as it has resulted into a permanent improvement of the working potential of the machine.

(d) It is a revenue expenditure as it has been paid in lieu of salary for the period of notice before retrenchment. But its nature is special, it is not a regular expense. So it should be treated us a deferred revenue expenditure to be charged against profits of more than one year.

(e) Increase of sitting capacity is a permanent improvement of the cinema hall.it will help to increase the earning capacity. So it is a capital expenditure. Cost of painting is a normal and regular expense. It is a revenue expense.

ILLUSTRATION 2 (CAPITAL AND REVENUE EXPENDITURE)

State with reasons the nature of expenditure or receipts in each of the following cases:

(a) Employees State Insurance Premium ₹ 1600

(b) Expenses incurred in connection with obtaining licence, for starting the factory ₹ 20,000.

(c) Rings and Pistons of an Engine changed at a cost of ₹ 10,000 to get full efficiency.

(d) A factory shed was constructed at a cost of ₹ 4,00,000. ₹ 20,000 had been incurred to construct temporary huts for storing building materials.

(e) A firm of builders spent ₹ 8,00,000 for purchasing a plot of land erected its own office over 1/4th of the site. The remaining area was developed for sale to the public.

Solution:

(a) It is a regular or recurring payment – a periodical cost.it is a revenue expense.

(b) It is a capital expenditure. It will create a right to carry on the business over a number of years.

(c) The change of ring and pistons will not enhance the capacity of the engine. It will restore the lost efficiency as no additional benefit will be enjoyed, the cost related to the change is a revenue expense.

(d) Both ₹ 4,00,000 and ₹ 20,000 should be treated as capital expenditure. The first is paid to acquire an asset and the second is incidental to the acquisition.

(e) ¼ the of cost of land or ₹ 2,00,000 is a capital expenditure.it helps to acquire office premises, a fixed asset. The rest ₹ 6,00,000 is a revenue expenditure as the trading activities of the builders, firm include buying and selling of lands.

ILLUSTRATION 3 (DEPRECIATION)

A Purchased a machinery for ₹ 1,30,000 on 1st April, 2020 and paid ₹ 20,000 for freight & installation charges. On 1st October, 2022 another machine was purchased for ₹ 50,000 and sold old machinery for ₹ 1,00,000. The machine purchased on 1st October, 2022 was installed on 1st January, 2023.

Under existing practice, the company is charging depreciation @20% p.a. on the original cost. However, from 1st April, 2022 it decided to adopt WDV method and charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2020 to 31st March, 2023.

Solution:

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

Date	Particulars	Amount	Date	Particulars	Amount
1.4.2020	To Bank A/c (₹ 130000 + ₹ 20000)	1,50,000	31.3.2021 “	By Depreciation A/c By Balance c/d	30,000 1,20,000

Date	Particulars	Amount	Date	Particulars	Amount
	Total	1,50,000		Total	1,50,000
1.4.2021	To Balance b/d	1,20,000	31.3.2022 “	By Depreciation A/c By Balance c/d	30,000 90,000
	Total	1,20,000		Total	1,20,000
1.4.2022	To Balance b/d	90,000	1.10.2022	By Depreciation A/c	6,750
1.10.2022	To Profit & Loss A/c W.N.	16,750	1.10.2022	By Bank A/c (Sale of Machinery)	1,00,000
1.01.2023	To Bank A/c	50,000	31.3.2023	By Depreciation A/c By Balance c/d	1,875 48,125
	Total	1,56,750		Total	1,56,750

Working Notes:

I Machinery	Amount	II Machinery	Amount
1st April, 2020	1,50,000		
Less: Depreciation @20 on 31st March, 2021	(30,000)		
1st April 2021	1,20,000		
Less: Depreciation @20% on 31st March, 2022	(30,000)		
1st April 2022	90,000	1st Jan, 2023	50,000*
Less: Depreciation @15% on 1st October, 2022	(6,750)	Less: Depreciation @15% on 31st March, 2023	(1,875)
	₹ 83,250		
Less: Sold	1,00,000	Balance on 31st March, 2023	₹ 48,125
Profit on sale	₹ 16,750		

*Machinery purchased on 1st October, 2022 was put in use on 1st January, 2023 so depreciation has been charged from this date only.

ILLUSTRATION 4 (DEPRECIATION)

On 1St April, 2022 LMP Co. which depreciates its machinery @10% p.a. on diminishing balance method, had ₹ 9,72,000 to the debit of Machinery Amount. On 1st October, 2022, part of machinery purchased on 1st April, 2020 for ₹ 80,000 was sold for ₹ 45,000.

Also, a new machinery at a cost of ₹ 1,50,000 was purchased on 1st October, 2022 and installed on the same date and installation charges being ₹ 8,000.

The company changed the method of depreciation from diminishing balance method to straight line method with effect from 1st April, 2020 and adjusted the difference on 31st March, 2023. The rate of depreciation remains the same.

Show the Machinery Account and ascertain the amount chargeable to Profit and Loss Account as depreciation in 2022-23.

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

Date	Particulars	Amount	Date	Particulars	Amount
2022-23			2022-23		
April 1	To Balance b/d Old	9,72,000	Oct 1st	By Depreciation A/c	4,000
Oct 1st	To Bank A/c New [1,50,000+8,000]	1,58,000		By Bank A/c	45,000
				By Profit & Loss A/c (2)	15,000
				By Profit & Loss A/c (3)	12,000
				(Additional Depreciation)	
				By Depreciation A/c	
				Old – 1,12,000 New – 7,900	1,19,900
				By Balance c/d	
				Old – 7,84,000 New – 1,50,100	9,34,100
	Total	**11,30,000**		**Total**	**11,30,000**

Note: Above solution is based upon change of method with retrospective effect as per requirement of the question however at present in depreciation accounting change of method is allowed on the basis of prospective effect only as per AS10.

Working Notes:

1. Calculation of WDV as on 1 April, 2020

$$₹\ 9{,}72{,}000 \times \frac{100}{90} \times \frac{100}{90} = ₹\ 12{,}00{,}000$$

2. Calculation of profit & loss on Sale of Machinery

	(₹)
Cost of Machine as on 1st April 2020	80,000
Less: Depreciation @10% SLM	8,000
WDV as on 31st March, 2021	72,000
Less: Depreciation @10% SLM	8,000
WDV as on 31st March, 2022	64,000
Less: Depreciation for 6 months	4,000
WDV as on 1st Oct, 2022	60,000
Less: Sold	(45,000)
Loss on Sale of Machinery	15,000

3. Calculation of Depreciation for year 2022-23

(a) On Machines (Other than sold one) existing as on 1st April, 2022 @10 on (₹ 12,00,000 (1) – ₹ 80,000)	₹ 1,12,000
(b) On Machine purchased on 1st Oct, 2022 @10 on (₹ 1,58,000 for 6 months)	₹ 7,900
	₹ 1,19,900

ILLUSTRATION 5 (RECTIFICATION OF ERRORS)

Nitish closes his books on 31st December. In 2024, his books showed a difference which he transferred to the debit of his Capital Account and prepared the Profit and Loss account and Balance Sheet after doing so he found that the under mentioned errors had been committed in 2024.

(i) A machine, book value ₹ 8200 was sold on credit to Merchant for ₹ 7500. The amount was posted to the credit of Mehta.

(ii) A cheque for ₹ 2,100 was received from Kapoor and was correctly dealt with. It was, however, returned dishonored and was then posted to the debit of Trade Expenses A/c.

(iii) The closing stock sheets for 2024 were found to be totaled ₹ 10,000 in excess.

(iv) The income tax paid on behalf of the proprietor, ₹ 2370 was debited to Income Tax Account as ₹ 3720.

(v) A steel cupboard was purchased for ₹ 1,250, it was debited to General Expenses Account as ₹ 2150. Give journal entries to carry out the correction required. How much was the difference in the books on December 31, 2024?

Solution:

Effect already given in A/c			Correct effect			Rectification entry		
To Mehta A/c To Machinery A/c		7500 7500	Mehtani A/c Dr. To Machinery A/c	7500	7500	Mehtani A/c Dr. Mehta A/c Dr. To Suspense A/c	7500 7500	15000
Trade Expense A/c Dr. To bank A/c	2100	2100	Kapoor A/c Dr. To bank A/c	2100	2100	Kapoor A/c Dr. To P&L Adj. A/c	2100	2100
Stock A/c Dr. To Trading A/c	110000	110000	Stock A/c Dr. To Trading A/c	100000	100000	P& L Adj. A/c To Opening stock A/c	10000	10000
Gen. Exp. A/c Dr. To Cash A/c	2150	1250	Furniture A/c Dr. To Cash A/c	1250	1250	Furniture A/c Dr. Suspense A/c Dr. To P & L adj. A/c	1250 900	3720
Income Tax A/c Dr. To Cash A/c	3720	2370	Drawing A/c Dr. To Cash A/c	2370	2370	Drawing A/c Dr. Suspense A/c Dr. To P & L Adj. A/c	2370 1350	3720
Balance in Suspense A/c now credited to Capital A/c, because diff. in Trail balance was last year debited to Capital A/c, instead of Suspense A/c						Suspense A/c Dr. To Capital A/c	12750	12750

Effect already given in A/c	Correct effect	Rectification entry		
Balance in P& L adj. indicating that last year profit was shown excess now rectified by debiting to Capital A/c.		Capital A/c Dr. To P & L Adj. A/c	2030	 2030

Dr. **Suspense Account** **Cr.**

To P & L Adj. A/c	1350	By Sundry A/c	15000
To P & L Adj. A/c	900		
To Capital A/c (Bal. tr. To Capital A/c)	12750		
	15000		15000

Dr. **P & L Adjustment Account** **Cr.**

To Opening Stock A/c	10000	By Kapoor A/c	2100
		By Sundry A/c	3720
		By Sundry A/c	2150
		By Capital A/c	2030
	10000		10000

Comment:

- Last year difference in trial balance was transferred (debited) to Capital A/c. Hence suspense A/c does not have it as opening balance. Therefore after rectification instead of suspense A/c getting closed, it is showing balance ₹ 12,750 which is transferred (credited) to capital A/c so that last years debited to capital A/c gets nullified.
- The debit balance of Profit & Loss adjustment account indicates that in last year profit was shown excess by ₹ 2,030.
- (ii) & (iii) are double sided error, hence their rectification does not involve suspense A/c but (i), (iv) (v) are one sided error, hence their rectification involves suspense A/c.
- (iv) & (v) are Error of Principle as well as error of commission, and (i), (ii) & (iii) are Error of commission.

ILLUSTRATION 6 (RECTIFICATION OF ERRORS)

Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found:

(i) Purchase account was undercast by ₹ 8,000.

(ii) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.

(iii) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu ₹ 1.200.

(iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.

(v) Repair to Machinery was debited to Machinery Account ₹ 1,800.

(vi) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale

Suggest the necessary rectification entries.

Solution:

Journal Entries in the books of Miss Daisy

S. No.	Particulars	Dr. (₹)	Cr. (₹)
(i)	Profit & Loss Adjustment A/c To Suspense A/c (Purchase account under cast in the previous year; error now rectifies)	8,000	 8,000
(ii)	Rahim's A/c To Profit & Loss Adjustment A/c (Sales to Rahim omitted last year; now adjusted)	2,500	 2,500
(iii)	Anubu's A/c To Asok's A/c (Amount received from asok wrong posted to the account of Anbu; now rectifies)	1,200	 1,200
(iv)	Profit & Loss Adjustment A/c To Suspense A/c (Excess posting to sales account last year, ₹ 4,617 instead of ₹ 4,167 now adjusted)	450	 450

S. No.	Particulars	Dr. (₹)	Cr. (₹)
(v)	Profit & Loss Adjustment A/c To Machinery A/c (Repair to machinery was wrongly debited to machinery account, now rectifies)	1,800	 1,800
(vi)	Profit & Loss Adjustment A/c To Mr. Paul (Credited purchase of goods from Mr. Paul entered as sale last year, now rectifies)	6,000	 6,000
(vii)	Daisy's capital a/c To Profit and Loss Adjustment A/c (Being balance in P& L adjustment account transferred to Daisy's Capital A/c – Refer W.N.1)	13,750	 13,750
(viii)	Suspense A/c To Daisy's Capital A/c (Being balance of Suspense a/c transferred to Capital A/c – Refer W.N. 2)	8,450	 8,450

Considering that the difference was posted to Suspense account.

Working Notes:

1. Profit and Loss Adjustment Account

Particulars	₹	Particulars	₹
To Suspense A/c	8,000	By Rahim's A/c	2,500
To Suspense A/c	450	By Daisy's Capital A/c	13,750
To Machinery A/c	1,800	(Bal. Transfer)	
To Mr. Paul's A/c	6,000		
	16,250		16,250

2. Suspense Account

Particulars	₹	Particulars	₹
To Daisy's Capital A/c	8,450	By P & L A/c	8,000
(Balance Transfer)		By P & L A/c	450
	8,450		8,450

ILLUSTRATION 7 (RECTIFICATION OF ERRORS)

Before preparation of the trial Balance, the following errors were found in the book of Hare Rama & Sns. Give the necessary entries to correct them:

(i) Minor Repairs made to the building amount to ₹ 1,850 were debited to the Building account.

(ii) An amount of ₹ 3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal account of Shayam Lal.

(iii) Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.

(iv) Goods purchased from Ram Singh amounting to ₹ 8,000 have remained unrecorded so far.

(v) College Fees of proprietor's son, ₹ 15,000 debited to the Audit fees account.

(vi) Receipt of ₹ 4,500 from Meet Kumar credited to the Pinki Rani.

(vii) Goods amounting to ₹ 6,200 had been returned by a customer and were taken in to inventory, but no entry was made in the books.

(viii) ₹ 1500 paid for wages to workmen for making office furniture had been charged to wages account.

(ix) Salary paid to a clerk ₹ 12,000 has been debited to his personal Account.

(x) A Purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book.

Solution:

In the books of Hare Rama & Sons

Journal Entries

S. No	Particulars	L.F.	Amt. (Dr.)	Amt (Cr.)
(i)	Repairs A/c Dr. To Building A/c (Being repairs made to building wrongly debited to building A/c, now corrected)		1,850	 1,850
(ii)	Shyam Lal A/c Dr. To Bad debt Recovered A/c (Being bad debts recovered wrongly credited to Shyam Lal A/c, now corrected)		3,000	 3,000

S. No	Particulars	L.F.	Amt. (Dr.)	Amt (Cr.)
(iii)	Furniture A/c Dr. To Purchases A/c (Being furniture purchased wrongly recorded in purchases book, now corrected)		20,000	 20,00
(iv)	Purchases A/c Dr. To Ram Singh A/c (Being goods purchased from Ram Singh not recorded earlier, now recorded)		8,000	 8,000
(v)	Drawings A/c Dr. To Audit Fees A/c (Being college fees of proprietor's son wrongly debited to audit fees A/c, now corrected)		15,000	 15,000
(vi)	Pinki Rani A/c Dr. To Meet Kumar A/c (Being amount received from Meet Kumar wrongly credited to Pinki Rani A/c, now corrected)		4,500	 4,500
(vii)	Sales Return A/c Dr. To customer A/c (Being sales return from a customer not recorded earlier, now recorded)		6,200	 6,200
(viii)	Furniture A/c Dr. To Wages A/c (Being wages paid for furniture wrongly debited to wages A/c, now corrected)		1,500	 1,500
(ix)	Salary A/c Dr To Clerk Personal A/c (Being salary paid to clerk wrongly debited to his personal A/c, now corrected)		12,000	 12,000
(x)	Purchases A/c Dr. Sales A/c Dr. To Raghav A/c (Being purchase of goods wrongly recorded in sales book, now corrected)		20,000 20,000	 40,000

ILLUSTRATION 8 (RECTIFICATION OF ERRORS)

The trial Balance of Mr. Sarvesh Kumar as on 31st March, 2024 did not tally and the difference was posted to Suspense Account. On a scrutiny of the books, the following errors were detected:

(i) The total of Sales returns book for January 2024 has been casted short by ₹ 1,000.

(ii) Freight paid for installation of a Machine ₹ 6,500 was posted to the freight account as ₹ 5,600.

(iii) Goods of the value of ₹ 2,500 returned by a customer were entered in the Sales day Book and posted there from to the credit of his account.

(iv) ₹ 18,000 paid for purchase of old Motorcycle for personal use of Mr. Sarvesh Kumar was debited to conveyance account.

(v) A Purchase of ₹ 6,700 had been posted to creditor's account as ₹ 6,000.

(vi) Receipt of cash ₹ 5,000 from Mr. Avinash was posted to the debit of his account.

(vii) A cheque for ₹ 2,500 received from Mr. Alok had been dishonored and was posted to the debit of Mr. Ashok.

(viii) Sale of ₹ 8,500 to Mr. Deepak was recorded in the sales book correctly but while posting in ledger credited to his account.

(ix) The total of "Discount Allowed" column in the cash book for the month of December 2023 amounting to ₹ 3,800 was not posted.

(x) Sale of old office table for ₹ 2,200 treated as sale of goods.

You are required to pass necessary journal entries with narrations to rectify the above errors.

Solution:

In the books of Mr. Sarvesh Kumar
Journal Entries

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
(i)	Sales Return A/c Dr. To Suspense A/c (Being sales return book casted short, now rectified)		1,000	 1,000
(ii)	Machinery A/c Dr. To Freight A/c To Suspense A/c (Being freight paid on machinery wrongly posted to freight account, now rectifies)		6,500	 5,600 900

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
(iii)	Sales A/c Dr. Sales Return A/c Dr. To suspense A/c (being sales return wrongly entered as sales and therefrom psted to credit of customer account, now rectified)		2,500 2,500	 5,000
(iv)	Drawing A/c Dr. To Conveyance A/c (Being motorcycle purchased for personal use debited to conveyance account, now rectified)		18,000	 18,000
(v)	Suspense A/c Dr. To creditors A/c (Being creditors account posted short, now rectified)		700	 700
(vi)	Suspense A/c Dr. To Avinash A/c (Being amount posted to wrong side, now rectified)		10,000	 10,000
(vii)	Alok A/c Dr. To Ashok A/c (Being amount debited to wrong account, now rectified)		2,500	 2,500
(viii)	Deepak A/c Dr. To Suspense A/c (Being sales wrongly posted to the credit of customer account, now rectified)		17,000	 17,000
(ix)	Discount A/c Dr. To Suspense A/c (Being total of discount allowed column not posted, now rectified)		3,800	 3,800
(x)	Sales A/c Dr. To Office Furniture A/c (Being sale of Furniture wrongly treated as sales, now rectified)		2,200	 2,200

ILLUSTRATION 9 (BANK RECONCILIATION STATEMENT)

The cash book of a firm showed an overdraft (Cr) of ₹ 60,000 on 31st March,2024. A Comparison of the entries in the cash book and passbook revealed that-

(i) On 22nd March,2024, cheques totaling ₹ 12,000 were sent to bankers for collection. Out of these, a cheque for ₹ 2,000 was wrongly recorded on the credit side of the cash book and cheques amounting to ₹ 600 could not be collected by bank before 1st April,2024.

(ii) A cheque for ₹ 8,000 was issued to a supplier on 28th March,2024. The cheque was presented to bank on 4th April,2024.

(iii) There were debits of ₹ 5,200 in the passbook for interest on overdraft and bank charges, but the same had not been recorded in the cash book.

(iv) A cheque for ₹ 2,000 was issued to a creditor on 27th March,2024 but by mistake the same was not recorded in the cash book. The cheque was, however, duly encashed by 31st March,2024.

(v) As per standing instructions, the banker collected dividend of ₹ 1,000 on behalf of the firm and credited the same to its account by 31st March,2024. The fact was , however intimated to the firm on 3rd April,2024.

You are required to prepare a bank reconciliation statement as on 31st March,2024.

Solution:

Bank Reconciliation Statement as on 31st March,2024

Particulars	₹	₹
Balance as per Cash Book (O.D)		60,000
Add: Cheque deposited but not realised	600	
Bank charges & interest charged by Bank	5,200	
Cheque issued but not recorded	2,000	7,800
		67,800
Less: Cheque deposited but wrongly credited in cash book	4,000	
Cheques issued but not yet paid	8,000	
Dividend directly collected by Bank	1,000	13,000
Balance as per Pass book (O.D)		54,800

ILLUSTRATION 10 (BANK RECONCILIATION STATEMENT)

Prepare a bank reconciliation statement from the following particulars as on 31st March 2024:

Particulars	₹
Debit balance as per bank column of the cash book	9,30,000
Cheque issued to creditors but not yet presented to the bank for payment	1,80,000
Dividend received by the bank but not entered in the cash book	1,25,000
Interest allowed by the Bank	3,125
Cheques deposited into bank for collection but not collected by bank up to this date	3,85,000
Bank charges not entered in Cash Book	500
A cheque deposited into bank was dishonoured, but no intimation received	80,000
Bank paid house tax on our behalf, but no intimation received from bank in this connection	87,500

Solution:

Bank Reconciliation Statement as on 31st March, 2024

Particulars		₹	₹
Debit balance as per cash Book			9,30,000
Add:	Cheque Issued but not yet presented	1,80,000	
	Dividend received by the Bank	1,25,000	
	Interest Allowed by the Bank	3,125	3,08,125
Less:	Cheques deposited but not collected	3,85,000	
	Bank charges not entered in cash book	500	
	Cheque deposited into bank but dishonoured	80,000	
	House Tax Paid By Bank	87,500	5,53,000
Credit Balance as per Pass Book			6,85,125

2 Accounting for Special Transactions [Study Material - Module 2]

ILLUSTRATION 01 (BILLS OF EXCHANGE)

Suresh draws a bill for ₹ 30,000 on Anup on 15th April,2024 for 3 months, which Anup returns to Suresh after accepting the same. Suresh gets it discounted with Bank ₹ 29,400 on 18th April,2024 and remit one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts a bill of ₹ 35,000 for 3 months, which Anup discounts for ₹ 34,200 and remits ₹ 5,650 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October,2024.

Pass necessary Journal entries for the above transactions in the books of Suresh.

Solution:

In the books of Suresh

Journal Entries

Date	Particulars		(₹)	(₹)
2024 15th April	Bills receivable A/c To Anup's A/c (Being accommodation bill drawn on Anup of ₹ 30,000)	Dr.	30,000	 30,000
18th April	Bank A/c Discount Charges A/c To Bills receivable A/c (Being bill discounted with bank)	Dr. Dr.	29,400 600	 30,000
18th April	Anup's A/c To Bank A/c To Discount Charges A/c (Being 1/3rd amount remitted to him)	Dr.	10,000	 9,800 200

Date	Particulars		(₹)	(₹)
18th July	Anup's A/c	Dr.	35,000	
	To Bills payable A/c			35,000
	(Being bill accepted in favour of Anup for 3 months)			
18th July	Bank A/c	Dr.	5,650	
	Discount Charges A/c(1)	Dr.	600	
	To Anup's A/c.			
	(Being amount received with discount charges from Anup)			6,250
21st Oct	Bills payable A/c	Dr.	35,000	
	To Anup's A/c			35,000
	(Being bills payable accepted earlier, now dishonoured)			
31st Oct	Anup A/c(2)	Dr.	26,250	
	To Bank A/c			13,125
	To Deficiency A/c			13,125
	(Being amount paid as full and final settlement)			

Working Note:

1. Share of Suresh in discounting charges of Second Bill = 800 × (20,000 + 5,650 /34,200) = ₹ 600

2. **Anup's A/c**

Date	Particulars	(₹)	Date	Particulars	(₹)
18 April	To Bank A/c	9,800	15 April	By Bills Receivable A/c	30,000
	To Discount charges	200	18 July	By Bank A/c	5,650
18 July	To Bills Payable A/c	35,000		By Discount charges A/c	600
31 Oct	To Bank A/c	13,125	21 Oct	By Bills Payable A/c	35,000
	To Deficiency A/c	13,125			
		71,250			**71,250**

ILLUSTRATION 2 (BILLS OF EXCHANGE)

Journalise the following transactions in the books of Rahul:

(i) Rahul accepted a bill to Sonu for ₹ 7,000 discharged by a cash payment of ₹ 3,000 and a new bill for the balance plus ₹ 150 for interest.

(ii) Gopal acceptance for ₹ 9,000 which was endorsed by Rahul to Mohan was dishonoured. Mohan paid ₹ 100 as noting charges. Bill was withdrawn against cheque.

(iii) Suresh retires a bill for ₹ 5,000 drawn on him by Rahul for ₹ 50 discount.

(iv) Rahul's acceptance to Prem for ₹ 13,000 discharged by Prem. Ashok's acceptance to Rahul for a similar amount.

Solution:

In the books of Rahul

Journal Entries

Date	Particulars		(₹)	(₹)
(i)	Bill Payable A/c To Sonu A/c (Being old bills payable dishonoured)	Dr.	7,000	7,000
	Sonu A/c To Cash A/c (Being part payment made)	Dr.	3,000	3,000
	Interest A/c To Sonu A/c (Being interest due to him)	Dr.	150	150
	Sonu A/c To Bills Payable A/c (Being new bill accepted to him)	Dr.	4,150	4,150
(ii)	Gopal A/c To Mohan A/c (Being Gopal's acceptance endorsed to Mohan earlier, now dishonoured)	Dr.	9,100	9,100
	Mohan A/c To Bank A/c (Being payment made to mohan)	Dr.	9,100	9,100

Date	Particulars		(₹)	(₹)
(iii)	Cash A/c	Dr.	4,950	
	Discount A/c	Dr.	50	
	To B/R A/c			5,000
	(Being payment received from Suresh, allowed him discount)			
(iv)	Bill Payable A/c	Dr.	13,000	
	To Bill receivable A/c			13,000
	(Being bills payable from Ashok endorsed to prem, in settlement of bills payable issued to him earlier)			

ILLUSTRATION 3 (CONSIGNMENT)

Ram of Kolkata sent goods costing ₹ 1,50,000 to Shyam of Mumbai on consignment basis. Ram paid ₹ 6,000 on various accounts for sending the goods. Shyam paid ₹ 3,600 as railway charges and ₹ 1,500 as godown rent. The consignee sent a bank draft for ₹ 90,000 as advance against the consignment. 4/5th of the goods were sold at ₹ 1,74,000. A customer who purchased goods for ₹ 1000 failed to pay for which the debt proved bad. The Account sales sent by the consignee showed that he charged 10% as ordinary commission and 2.5% as del Credere commission.

You are required to give in the books of Ram: (i) Consignment A/c (ii) Shyam Personal Account (iii) Advance against consignment Account.

Solution:

In the Books of Ram

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

Date	Particulars	(₹)	Date	Particulars	(₹)
	To Goods sent on consignment A/c	1,50,000		By Shyam A/c (Sale Proceeds)	1,74,000
	To Bank A/c - expenses	6,000		By Stock on Consignment A/c 1/5th of (₹ 1,50,000 + 6,000 + 3,600)	31,920
	To Shyam A/c - expenses				
	Railway charges	3,600			

Date	Particulars	(₹)	Date	Particulars	(₹)
	Godown rent	1,500			
	To Shyam A/c - commission				
	Ordinary @ 10%	17,400			
	Del Credere @ 2.5%	4,350			
	To Profit and Loss on Consignment A/c	23,070			
		2,05,920			**2,05,920**

Dr. **Shyam Account** **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
	To Consignment to Mumbai A/c	1,74,000		By consignment to Mumbai A/c (expenses)	5,100
				By Consignment to Mumbai A/c(comm.)	21,750
				By Advance Against Consignment A/c	90,000
				By Balance c/d (amount due)	57,150
		1,74,000			**1,74,000**

Advance Against Consignment Account

Date	Particulars	(₹)	Date	Particulars	(₹)
	To Shyam A/c	90,000		By Bank A/c	90,000

ILLUSTRATION 4 (CONSIGNMENT)

Usha Brothers sent 100 sewing machines on consignment basis to Rahul. The Cost of each machine was ₹ 600 but the consignor prepared the proforma invoice at 25% above cost. The company spent ₹ 1,600 on packing.

While talking, delivery of the goods, Rahul had to spend ₹ 1,900 as freight, octroi and cartage. By the end of the year, Rahul sold 80 Machines ₹ 820 per machine. He paid ₹ 2,200 as godown rent. He was entitled to a commission of 5% on sales.

Show Consignment Account, Consignment Stock Account and Consignment Stock Reserve Account in consignor's ledger.

Solution:

In the Books of Usha Brothers

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

Date	Particulars	(₹)	Date	Particulars	(₹)
	To Goods Sent on Consignment A/c (Note 1)	75,000		By Rahul A/c (Sales)	65,600
	To Cash A/c: Packing	1,600		By Goods Sent on Consignment A/c (Note:2)	15,000
	To Rahul A/c:			By Consignment StockA/c(Note:3)	
	Freight, octroi and cartage	1,900			
	Godown rent	2,200			
	Commission (5% of ₹ 65,600)	3,280			
	To Consignment Stock Reserve A/c (Note 4)	3,000			
	To Profit and Loss on Consignment A/c				
		86,980			**86,980**

Consignment Stock Account

Date	Particulars	(₹)	Date	Particulars	(₹)
	To Consignment A/c	15,700		By Balance c/d	15,700
		15,700			**15,700**

Consignment Stock Reserve Account

Date	Particulars	(₹)	Date	Particulars	(₹)
	To Balance c/d	3,000		By Consignment A/c	3,000
		3,000			**3,000**

Working Notes:

Particulars	(₹)
(1) Calculation of Invoice Price per Unit	600
Add: 25% Profit on Cost	150
	750
Invoice price of goods sent = 100 × ₹ 750	**75,000**
(2) Loading on Goods Sent = 100 × ₹ 150	**15,000**
(3) Valuation of Closing Stock (At Invoice Price)	
Invoice price of 20 sewing machines @ ₹ 750 each	15,000
Add: Proportionate non-recurring expenses of the consignor (1,600/100 × 20)	320
Add: Proportionate non-recurring expenses of the consignee (1,900/100 × 20)	380
	15,700
(4) Loading on Closing Stock = (20 × ₹ 150) = 3,000	

ILLUSTRATION 5 (CONSIGNMENT)

James of Calcutta consigned 100 packets of medicine, each costing ₹ 500, to his agent Md. Asif of Ahmedabad. He paid ₹ 100 towards freight and insurance. 10 packets were destroyed in transit and insurance company admitted a claim of ₹ 2,400. The consignee took the delivery of the remaining packets and spent ₹ 500 as godown rent, ₹ 2,000 as clearing charges and ₹ 500 s selling expenses. Md. Asif transferred 5 packets to Vikash of Mumbai, another consignee of James in the region. Vikash spent ₹ 150 s courier charges. The consignee sold 80 packets @₹ 600 each. He is entitled to a commission of 4% of the sales made by him.

You are required to make the necessary account in the books of James relating to consignment to Md. Asif of Ahmedabad.

Solution:

Ledger of James

Consignment to Ahmedabad A/c

Dr. Cr.

-	To Goods Sent on Consignment A/c	50,000	-	By Abnormal Loss A/c (1)	5,010
-	To Cash A/c	100	-	By Goods Sent on Consignment A/c	2,500
-	To Me. Arif A/c (Expenses)	3,000	-	By Me. Arif A/c	48,000
-	To Md. Arif A/c (Commission)	1,920	-	By Stock On Consignment A/c (2)	2,616
-	To Generl Profit & Loss A/c	3,106			
		58,126			58,126

Md. Asif A/c

Dr. Cr.

-	To Consignment A/c	48,000	-	By Consignment A/c	3,000
			-	By Consignment A/c	1,920
			-	By Bank A/c	43,080
		48,000			48,000

Goods Sent on Consignment A/c

Dr. Cr.

-	To Consignment A/c	2,500	-	By Consignment A/c	50,000
-	To Trading A/c	47,500			
		50,000			50,000

Abnormal Loss A/c

Dr. Cr.

-	To Consignment A/c	5,010	-	By Insurance Company A/c	2,400
			-	By General Profit & Loss A/c	2,610
		5,010			5,010

Working Notes:

1. Calculation of Abnormal Loss (10 units)

Basic Cost	= ₹	50,000
James's total expenses	= ₹	100
	= ₹	50,100

Cost of Abnormal Loss of 10 units = ₹ 50,100 × 10/100

= ₹ 5,010

2. Calculation of closing stock (5 units)

James's proportionate cost	= ₹ 50,100 × 5/100	= ₹	2,505
Asif's proportionate cost	= ₹ 2,000 × 5/9	= ₹	111
		= ₹	2,616

Note: that non-recurring expenses of Asif have been divided by 90 units i.e., units received by B to find out proportionate expenses. Also note that expenses incurred by Sanjay have been ignored because they represent expenses of consignment to Mumbai.

Ledger of Md. Asif

James A/c

Dr. **Cr.**

-	To Cash A/c	3,000	-	By Cash A/c	48,000
-	To Commission Earned A/c	1,920			
-	To Cash A/c	43,080			
		48,000			48,000

Commission Earned A/c

	To General Profit & Loss A/c	1,920		By Md. Arif A/c	1,920
		1,920			1,920

Note that no entry has been passed for goods transferred to Vikash as well as expenses incurred by him.

ILLUSTRATION 6 (CONSIGNMENT)

Sri Pandey of Mumbai consigns 1,000 cases of goods costing ₹ 100 each to Sri Sundar of Chennai. Sri Pandey pays the following expenses in connection with the consignment:

Carriage ₹ 1,000

Freight ₹ 3,000; and

Loading charges ₹ 1,000

Sri Sundar sells 700 cases at ₹ 140 per case and incurs the following expenses:

Clearing charges ₹ 850;

Warehousing and storage ₹ 1,700; and

Packing and Selling expenses ₹ 600.

It is found that 50 cases have been lost in transit and 100 cases are still in transit. Sri Sundar is entitled to a commission of 10% on gross sales. Draw up consignment Account and Sundar's Account in the book of Pandey.

Solution:

Consignment A/c

Date	Particulars	(₹)	Date	Particulars	(₹)
	To Goods Sent on Consignment A/c	1,00,000		By Sundar A/c	98,000
	To Cash A/c	5,000		By Abnormal Loss A/c(1)	5,250
	To Sundar A/c (Expenses)	3,150		By Stock in Transit A/c (2)	10,500
	To Sundar A/c (C0mmission)	9,800		By Stock on Consignment A/c (3)	15,900
	To Generl Profit & Loss A/c	11,700			
		1,29,650			**1,29,650**

Dr. **Sundar A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
-	To Consignment A/c	98,000	-	By Consignment A/c	3,150

Date	Particulars	₹	Date	Particulars	₹
				By Consignment A/c	9,800
				By Bank A/c	85,050
		98,000			98,000

Working Notes:

1. Calculation of value of goods lost in transit (50 units).

   Basic cost of goods sent on consignment = ₹ 1,00,000

   Expenses of Sri Pandey = ₹ 5,000

   = ₹ 1,05,000

   Value of goods lost in transit = ₹ 1,05,000 × 50/1000 = ₹ 5,250

2. Calculation of stock in transit (100 units).

   Total cost of consignment to the point of transit = ₹ 1,05,000

   Value of goods in transit = ₹ 1,05,000 × 100/1,000 = ₹ 10,500

3. Calculation of closing stock (150 units)

   Sri Pandey proportionate expenses = ₹ 15,750 (₹ 1,05,000 × 150/1,000)

   Sundar's proportionate expenses = ₹ 150 (₹ 850 × 150/850)

   = ₹ 15,900

ILLUSTRATION 07

T of Delhi appointed Q of Agra as its selling agent on the following terms:

(a) Goods to be sold at invoice price or over;

(b) A is entitled to a commission of 7.5% on the invoice price and 20% of any surplus price realized;

(c) The principals to draw on the agent a 30 days bill for 80% of the invoice price.

On 1 February, 2024, one thousand cycles were consigned to Q, each cycle costing ₹ 640 including freight and invoiced at ₹ 800.

Before 31 March, 2024 (when the principal's books are closed) A met his acceptance on the due date; sold off 820 cycles at an average price of ₹ 930 per cycle, the sale expenses being ₹ 12,500; and remitted the amount due by means of bank draft.

Twenty of the unsold cycles were shop spoiled and were to be valued at a depreciation of 50%.

Show by means of ledger accounts how these transactions would be recorded in the books of Q, and find out the value of the closing stock with A at which value T will account for the balance stock.

Solution:

T's A/c

Dr. **Cr.**

1-2-24	To Bills Payable A/c (80% of 8,00,000)	6,40,000	31-3-24	By Cash/Bank A/c	7,62,600
31-3-24	To Cash A/c (Expenses)	12,500			
	To Commission A/c	70,520			
	To Bank A/c	39,580			
		7,62,600			7,62,600

Bills Payable A/c

Dr. **Cr.**

31-3-24	To Cash Bank A/c	6,40,000	31-3-24	By T's A/c	6,40,000
		6,40,000			6,40,000

Value of the closing stock with Q

160 cycles @640 (cost price including freight)	1,02,400
20 cycles (ship-spoiled) @ 50% of the cost i.e., at ₹ 320 each	6,400
	1,08,800

Value of closing stock with Q i.e., the amount (net of the effect of the loading) at which T will account for in his books on 31 March, 2024 is ₹ 1,08,000.

Working Notes:

Calculation of commission

7.5% on the invoice price amount (820 × ₹ 800) ₹ 6,56,000	49,200
20% on the surplus price amount (820 × ₹ 130) ₹ 1,06,000	21,320
	70,520

ILLUSTRATION 8

M and N enter into a joint venture to take a building contract for ₹ 2,40,000. They provide the following information regarding the expenditure incurred by them:

	M (₹)	N (₹)
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 valued at ₹ 10,000 at the end of the contract and N agreed to take it at that value. Contract amount of ₹ 2,40,000 was received by M.

Show:

(i) Joint Venture Account and N's Account in the books of M and

(ii) Joint Venture Account and M's Account in the books of N.

Solution:

Books of M

Joint Venture Account

Dr. **Cr.**

To Bank:			By Bank	2,40,000
Material	68,000		By N's A/c (Plant)	10,000
Cement	13,000			

Architect Fee	10,000	91,000		
To N's A/c				
Material	50,000			
Cement	17,000			
Wages	27,000			
Licence Fees	5,000			
Plant	20,000	1,19,000		
To Net Profit to:				
N's A/c		20,000		
Profit & Loss A/c		20,000		
		2,50,000		2,50,000

N's Account

Dr. **Cr.**

To Joint Venture A/c (Plant)	10,000	By Joint Venture A/c	2,40,000
		By Joint Venture A/c (Profit)	20,000
To Balance c/d	1,29,000		
	1,39,000		1,39,000

Book of N

Joint Venture Account

Dr. **Cr.**

To M's Account			By M(Contract Amount)	2,40,000
Materials	68,000		By Plant A/c	10,000
Cement	13,000			
Architect's fee	10,000	91,000		
To Bank:				
Materials	50,000			
Cement	17,000			

Wages	27,000			
Licence Fees	5,000			
Plant	20,000	1,19,000		
To Net Profit to				
N's A/c		20,000		
Profit & Loss A/c		20,000		
		2,50,000		2,50,000

M's Account

Dr. **Cr.**

To Joint Venture A/c	2,40,000	By Joint Venture A/c	91,000
		By Joint Venture A/c (Profit)	20,000
		By Balance c/d	1,29,000
	2,40,000		2,40,000

ILLUSTRATION 9

X and Y entered into a joint venture of underwriting the subscription at par of the entries share capital of the Copper Mines Ltd., consisting of 1,00,000 equity shares of ₹ 10 each and to pay all expenses upto allotment. The Profits were to be shares by them in proportions of 3/5 and 2/5. The consideration in return for his agreement was the allotment of 12,000 other shares of ₹ 10 each to be issued to them as fully paid. X provided the funds for registration fees ₹ 12,000, advertising expenses of ₹ 11,000, for expenses on printing and distributing the prospectus amount to ₹ 7,500 and other printing and stationery expenses of ₹ 2,000. Y contributed towards payment of Office rent ₹ 3,000, Legal charges ₹ 13,750, Salary to Clerical staff ₹ 9,000 and other petty disbursements ₹ 1,750. The prospectus was issued and applications fell short of the issue by 15,000 shares. X took these over on joint account and paid for the same in full. The Ventures received the 12,000 fully paid shares as underwriting commission. They sold their entire holding at ₹ 12.50 less 50 paise brokerage per share. The net proceeds were received by X for 15,000 shares and Y for 12,000 shares. Write out the necessary accounts in the books of X showing the final adjustment.

Solution:

Joint Venture Account

Dr. **Cr.**

To Bank (Registration Fees)		12,000	By Bank (Sale Proceeds of 15,000 shares at ₹ 12.50 less 0.50 brokerage)	1,80,000
To Bank (Advertising)		11,000	By Y (Sale Proceeds of 12,000 shares at ₹ 12.50 less 0.50 brokerage)	1,44,000
To Bank (Printing and Dist. Of Prospectus)		7,500		
To Bank (Printing and Stationery)		2,000		
To Y (Office rent)		3,000		
To Y (Legal charges)		13,750		
To Y (Clerical Staff Salaries)		9,000		
To Y (Petty Payments)		1,750		
To Bank (shares) (15,000×10)		1,50,000		
To Net Profit transferred to :				
Profit and Loss A/c	68,400			
Y	45,600	1,14,000		
		3,24,000		3,24,000

Y's Account

Dr. **Cr.**

To Joint Venture A/c	1,44,000	By Joint Venture A/c	
		Office Rent	3,000
		Legal Charges	13,750
		Clerical Staff	9,000
		Petty Payments	1,750

		By Joint Venture A/c (Share of Profit)	45,600
		By Bank A/c	70,900
	1,44,000		1,44,000

ILLUSTRATION 10

Manubhai of Rajkot and Raman of Madras enter into a joint venture deciding to share profits and losses in the ratio of 3:2. Manubhai purchases 3,000 kg. of material A for ₹ 1,50,000 and sends it to Nana of Pune for processing. Manubhai pays the transport cost amounting to ₹ 6,000. Raman purchases 2,000kgs. of material B for ₹ 2,00,000 and sends it to Nana of Pune for processing. The transport cost amounting ₹ 10,000 paid by Raman. Nana does the processing work and manufactures 4,800 units of finished product C. Nana prepare a "Conversion cost' bill on the joint venture at ₹ 20 per unit. Manubhai pays this bill. The goods are sent to Banerjee of Calcutta, the transport cost amounting to ₹ 18,000 being paid by Manubhai. Banerjee sells 90% of the goods at ₹ 150 per unit. He takes over the balance goods at ₹ 120 per unit. After deducting his own commission @10% of sale proceeds, he remits the amount to Manubhai. The co-ventures agree to settle the account, after retaining 30% of the profits for taxation on the income of association of persons. You are required to show the ledger accounts in the books of Manubhai.

Solution:

Joint Venture Account

Dr. **Cr.**

To Bank A/c:			By Banerjee A/c (Sales) (4,320×150)	6,48,000
Purchases	1,50,000		By Banerjee A/c (Goods taken) (480×120)	57,600
Transportation cost	6,000			
Conversion cost	96,000			
Transportation cost (Calcutta)	18,000	2,70,000		
To Raman A/c:				
Purchases	2,00,000			
Transportation cost	10,000	2,10,000		

To Banerjee A/c (Commission)	64,800		
To Provision for Taxation A/c@30% of ₹ 1,60,000	48,240		
To P & L A/c (Share of profit)	67,536		
To Ramanan A/c (Share of profit)	45,024		
	7,05,600		7,05,600

Raman Account

Dr. **Cr.**

To Bank A/c (Balance sent)	2,55,024	By Joint Venture A/c:		
		Purchases	2,00,000	
		Transport	10,000	
		Sales of Profit	45,024	2,55,024
	2,55,024			2,55,054

Banerjee Account

Dr. **Cr.**

To Joint Venture A/c (Sales)	6,48,000	By Joint Venture A/c (Commission)	64,800
To Joint Venture A/c (Goods taken)	57,600	By Bank A/c (Final Payment)	6,40,800
	7,05,600		7,05,600

3 Preparation of Financial Statements [Study Material - Module 3]

ILLUSTRATION 1 (INCOMPLETE RECORDS)

The details of Assets and Liabilities of Mr. Rahul as on 31.03.2024 and 31.03.2025 are as follows:

Particulars	Amount (₹) 31.03.2024	Amount (₹) 31.03.2025
Assets:		
Furniture	25,000	
Building	50,000	
Stock	50,000	1,25,000
Sundry Debtors	30,000	55,000
Cash in hand	5,600	6,600
Cash at Bank	30,000	37,500
Liabilities:		
Loans	45,000	35,000
Sundry Creditors	25,000	40,000

Mr. Rahul decided to provide depreciation on building by 2.5% and furniture by 10% for the period ended on 31.03.2025.Mr. Rahul purchased jewellery for ₹ 12,000 for his daughter in December 2024.He sold his car on 31.03.2025 and the amount of ₹ 20,000 is retained in the business.

You are required to:

i. Prepare statement of affairs as on 31.03.2024 and 31.03.2025.

ii. Calculate the profit received by Rahul during the year ended 31.03.2025.

Solutions:

(i) **Statement of Affairs**

Liabilities	31.03.24	31.03.25	Assets	31.03.24	31.03.25
Loans	45,000	35,000	Furniture	25,000	22,500 (25,000 -2,500)
Creditors	25,000	40,000	Building	50,000	48,750
Capital A/c	1,20,600	2,20,350	Stock	50,000	1,25,000
			Debtors	30,000	55,000
			Cash in hand	5,600	6,600
			Cash at Bank	30,000	37,500
	1,90,600	**2,95,350**		**1,90,600**	**2,95,350**

(ii) **Computation of Profit**

Particulars	(₹)
Capital Balance as on 31.03.2025	2,20,350
Less: Fresh capital introduced (car sale proceeds)	(20,000)
Add: Drawings (Purchase of jewellary for daughter)	12,000
Adjusted Closing Capital	2,12,350
Less: Capital Balance as on 31.03.2024	(1,20,600)
Profit	91,750

ILLUSTRATION 02 (INCOMPLETE RECORDS)

Karim Carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹5,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Particulars	Amount (₹)	Amount (₹)
Assets and Liabilities	**01.04.2024**	**31.03.2025**
Cash in hand	5,000	5,000
Sundry Creditors	20,000	45,000
Cash at Bank	25,000(Cr.)	40,000(Cr.)

Particulars	Amount (₹)	Amount (₹)
Sundry Debtors	50,000	1,75,000
Stock in Trade	1,40,000	?
Karim's Capital	1,50,000	

Analysis of his bank pass book reveals the following information:

a. Payment to creditors ₹ 3,50,000

b. Payment for business expenses ₹ 60,000

c. Receipts from debtors ₹ 3,75,000

d. Loan from Rahim ₹ 50,000 taken on 1.10.2024 at 10% per annum

e. Cash deposited in the bank ₹ 50,000

He informs you that he paid creditors for goods ₹ 10,000 in cash and salaries ₹ 20,000 in cash. He has drawn ₹ 40,000 in cash for personal expenses. During the year Karim had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

You are required to prepare:

i. Trading and Profit and Loss Account for the year ended 31.03.2025

ii. Balance Sheet as at 31.03.2017.

Solution:

Trading and Profit and Loss A/c for the year ended 31st March,2025

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,40,000	By Sales: Cash	1,20,000
To Purchases	3,85,000	Credit	5,00,000
To Gross Profit @ 25%	1,55,000	By Closing stock (Bal.fig.)	60,000
	6,80,000		**6,80,000**
		By Gross Profit	1,55,000
To Salaries	20,000		
To Business expenses	60,000		

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on loan (10% of 50,000 × 6/12)	2,500		
To Net Profit			
	1,55,000		**1,55,000**

Balance Sheet as at 31st March,202

Liabilities	Amount (₹)	Assets	Amount (₹)
Karim's Capital:		Cash in hand	5,000
Opening 1,50,000		Cash at Bank	40,000
Add: Net Profit 72,500		Debtors	1,75,000
2,22,500		Stock in trade	60,000
Less: Drawings (40,000)			
	1,82,500		
Loan from Rahim (including interest due)	52,500		
Creditors	45,000		
	2,80,000		**2,80,000**

Working Notes:

I. Computation of Credit Sales:

Debtors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	50,000	By Bank A/c	3,75,000
To Credit sales (Bal.fig)	5,00,000	By Balance c/d	1,75,000
	5,50,000		**5,50,000**

II. Computation of Credit Purchases:

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	3,50,000	By Balance b/d	20,000

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash A/c	10,000	By Purchases(Bal.fig)	3,85,000
To Balance c/d	45,000		
	4,05,000		4,05,000

III. Cash and Bank A/c

Particulars	Cash (₹)	Bank (₹)	Particulars	Cash (₹)	Bank (₹)
To balance b/d	5,000		By Balance b/d		25,000
To Sales (bal.fig)	1,20,000		By Bank A/c (Contra)	50,000	
To Cash (Contra)		50,000	By Salaries	20,000	
To Debtors		3,75,000	By Creditors	10,000	3,50,000
To Rahim's Loan		50,000	By Drawings	40,000	
			By Business expenses		60,000
			By Balance c/d	5,000	40,000
	1,25,000	**4,75,000**		**1,25,000**	**4,75,000**

ILLUSTRATION 03 (INCOMPLETE RECORDS)

Mr.Aniket furnishes following information for his readymade garments business:

(i) Receipts and Payments during 2023-2024

Particulars	Amount (₹)	Particulars	Amount (₹)
Bank Balance as on 1.04.2023	8,125	Payment to sundry creditors	1,71,500
Received from sundry debtors	2,40,500	Salaries	37,500
Cash Sales	85,400	General Expenses	11,250
Capital brought in the Business during the year	25,000	Rent and Taxes	5,900
Interest on Investment Received	4,875	Drawings	48,000
		Cash Purchases	61,375

Particulars	Amount (₹)	Particulars	Amount (₹)
		Balance at Bank on 31-03-2024	18,300
		Cash in hand on 31-03-2024	10,075
	3,63,900		**3,63,900**

(ii) Particulars of other Assets and Liabilities are as follows:

Particulars	01.04.2023	31.03.2024
Machinery	42,500	42,500
Furniture	12,250	12,250
Trade Debtors	77,500	?
Trade Creditors	30,100	?
Stock	19,300	27,850
12% Investment	42,500	42,500
Outstanding Salaries	6,000	7,000

(iii) Additional information:

(1) 20% of Total sales and 20% of Total purchases are in cash.

(2) Of the Debtors, a sum of ₹3,600 should be written off as Bad debt and further a provision for doubtful debt is to be provided @ 2%

(3) Provide depreciation @ 10% p.a. on Machinery and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March,2024 and Balance Sheet as on that date.

Solution:

Trading and Profit and Loss A/c for the year ended 31st March,2024

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Inventory	19,300	By Sales	4,27,000
To Purchases	3,06,875	By Closing Inventory	27,850
To Gross profit c/d (b.f.)	1,28,675		
	4,54,850		4,54,850

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries (37,500 +7,000-6,000)	38,500	By Gross profit b/d	1,28,675
To Rent	5,900	By Interest on investment (4,875 + 225)	5,100
To General expenses	11,250		
To Depreciation:			
Machinery @10%	4,250		
Furniture@10%	1,225		
To Bad debts	3,600		
To Provision for doubtful debts	3,500		
To Balance being profit carried to Capital A/c	65,550		
	1,33,775		**1,33,775**

Balance Sheet as on 31st March,2024

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Aniket's Capital	1,66,075		Machinery	42,500	
Add: Fresh Capital	25,000		Less: Depreciation	(4,250)	38,250
Add: Profit the year	65,550		Furniture	12,250	
Less: Drawings	(48,000)	2,08,625	Less: Depreciation	(1,225)	11,025
			Inventory-in-trade		27,850
Sundry Creditors		1,04,100	Sundry debtors	1,78,600	
Outstanding expenses		7,000	Less: Provision for doubtful debts	(7,100)	1,71,500
			Investment(Including accrued interest ₹225)		42,725
			Cash at bank		18,300

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
			Cash in hand		10,075
		3,19,725			**3,19,725**

Working Notes:

I. Total Debtors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	77,500	By Cash A/c	2,40,500
To Credit sales (85,400/20 × 80)	3,41,600	By Bad debts	3,600
		By Balance c/d	1,75,000
	4,19,100		4,19,100

II. Total Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash	1,71,500	By Balance b/d	30,100
To Balance c/d (Bal.Fig)	1,04,100	By Credit Purchases (61,375/20 × 80)	2,45,500
	2,75,600		**2,75,600**

III. Balance Sheet as on 01-04-2023

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital (Bal.fig)	1,66,075	Machinery	42,500
Sundry Creditors	30,100	Furniture	12,250
Outstanding salaries	6,000	Inventory	19,300
		Sundry debtors	77,500
		Investments	42,500
		Bank balance (from Cash statement)	8,125
	2,02,175		**2,02,175**

ILLUSTRATION 4 (INCOMPLETE RECORDS)

The following is the Balance Sheet of the retail business of Sri Shyam as at 31st December, 2024:

Liabilities	Amount (₹)	Assets	Amount(₹)
Sri Hari ram's capital	50,000	Furniture	5,000
Liabilities for Goods	10,250	Stock	35,000
Rent	500	Debtors	12,500
		Cash at bank	7,250
		Cash in hand	1,000
	60,750		60,750

You are furnished with the following information:

I. Sri Shyam sells his goods at a profit of 20% on sales.

II. Goods are sold for cash and credit. Credit customers pay by cheques only.

III. Payments for purchases are always made by cheques.

IV. It is the practice of Sri Shyam to send to the bank every weekend the collections of the week after paying every week, salary of ₹150 to the clerk, Sundry expenses of ₹25 and personal expenses ₹50.

Analysis of the Bank Pass-Book for the 13 weeks period ending 31st March,2025 disclosed the following:

Particulars	(₹)
Payment to creditors	37,500
Payment of rent up to 31.03.2025	2,000
Amount deposited into the bank(include ₹15,000 received from debtors by cheques)	62,500

Particulars	(₹)
The following are the balances on 31st March,2025:	
Stock	20,000
Debtors	15,000
Creditors for goods	18,250

On the evening of 31st March,2025 the Cashier absconded with the available cash in the cash box.

There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March,2025 and a Balance sheet as on that date.

Solution:

Trading and Profit and Loss A/c for the year ended 31st March,2025

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening stock		35,000	By Sales:		
To Purchases (W.Note:I)		45,500	Cash (W.N.II and W.N.IV)	58,125	
To Gross Profit c/d		15,125	Credit (W.N.III)	17,500	75,625
			By Closing stock		20,000
		95,625			**95,625**
To Salaries (150×13)		1950	By Gross profit b/d		15,125
To Rent (₹2,000 -₹500)		1,500			
To Sundry Expenses (25 × 13)		325			
To Loss of cash by theft (See working note below)		8,700			
To Net Profit (B/Fig)		2,650			
		15,125			**15,125**

Working Note:

Statement showing computation of cash defalcated by the Cashier:

Particulars	Amount (₹)	Amount (₹)
Cash balance as on 1-1-2025	1,000	
Add: Cash sales (See Trading A/c)	58,125	59,125

Particulars	Amount (₹)	Amount (₹)
Less:Salary to clerk (₹150×13)	1,950	
Sundry expenses(₹25×13)	325	
Drawings of Sri Shyam (₹50×13)	650	
Deposit into bank (₹62,500 – 15,000)	47,500	(50,425)
Cash balance as on 31-3-2025 (defalcated by cashier)		8,700

Note: Alternatively, the amount defalcated by the cashier may be treated as recoverable from him. In that case, ₹ 8,700 may be shown as sundry advances on assets side in the Balance Sheet and net profit for the 13-week period ending 31st March,2025 would amount ₹ 11,350.

Balance Sheet as on 31st March,2025

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital as on 1.01.2025	50,000		Furniture		5,000
Add:Profit	2,650		Stock		20,000
Less:Drawings	(650)	52,000	Debtors		15,000
Liabilities for goods		18,250	Cash at Bank		30,250
		70,250			70,250

Working Note:

1. Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	37,500	By Balance b/d	10,250
To Balance c/d	18,250	By Purchases A/c (Bal.fig)	45,500
	55,750		55,750

2. Computation of Total Sales

Particulars	Amount (₹)
Opening Stock	35,000
Add: Purchases	45,500

Particulars	Amount (₹)
Less:Closing stock	(20,000)
Cost of Goods Sold	60,500
Add: Gross profit @25% on cost	15,125
Total Sales	75,625

3. Computation of Credit Sales

Debtors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	12,500	By Bank A/c	15,000
To Sales A/c (Bal.fig.)	17,500	By Balance c/d	15,000
	30,000		**30,000**

4. Computation of Cash Sales

Particulars	Amount (₹)
Total Sales	75,625
Less: Credit Sales	(17,500)
Cash Sales	58,125

5. Computation of Closing Bank balance

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	7,250	By Creditors A/c	37,500
To Debtors A/c	15,000	By Rent A/c	2,000
To Cash A/c	47,500	By Balance c/d (B/fig.)	30,250
	69,750		**69,750**

ILLUSTRATION 5 (FINAL ACCOUNTS)

From the following Trial Balance of Rahul and additional information prepare Trading and Profit & Loss Account for the year ended 31st March,2025 and a Balance sheet as on that date:

Trial Balance as at 31st March,2025

Particulars	Dr. (₹)	Cr. (₹)
Capital		50,000
Furniture	10,000	
Purchases	75,000	
Debtors	1,00,000	
Interest earned		2,000
Salaries	15,000	
Sales		1,60,500
Purchase Returns		2,500
Wages	10,000	
Rent	7,500	
Sales Return	5,000	
Bad debt written off	3,500	
Creditors		60,000
Drawings	12,000	
Provision for Bad Debts		3,000
Printing & Stationary	4,000	
Insurance	6,000	
Opening Stock	25,000	
Office Expenses	6,000	
Provision for Depreciation		1,000

Additional Information:

1. Depreciate Furniture by 10% on original cost;
2. A provision for Doubtful debts is to be created to the extent of 5% on Sundry Debtors;
3. Salaries for the month of March,2025 amounting to ₹ 1,500 were unpaid which must be provided for. However, salaries included ₹ 1,000 paid in advance;
4. Insurance amounting to ₹ 1,000 is prepaid;
5. Provide for outstanding office expenses ₹ 4,000;

6. Stock used for private purposes ₹ 3,000;

7. Closing Stock-in-Trade ₹ 30,000.

Solution:

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening stock		25,000	By Sales	1,60,500	
To Purchases	75,000		Less: Return	(5,000)	1,55,500
Less: Return	(2,550)	72,450	By Goods used		3,000
To Wages		10,000	By Closing stock		30,000
To Gross profit c/d		81,050			
		1,88,500			1,88,500
To Salaries	15,000		By Gross profit b/d		81,000
Add: Outstanding salary	1,500		By Interest		2,000
Less: Advance salary	(1,000)	15,500			
To Rent		7,500			
To Bad debts	3,500				
Add: Provisions	2,000	5,500			
To Printing and Stationary		4,000			
To Insurance	6,000				
Less: Prepaid	(1,000)	5,000			
To Office expenses	6,000				
Add: Outstanding	4,000	10,000			
To Depreciation		1,000			
To Net Profit transferred to Capital A/c		34,500			
		83,000			**83,000**

M/s Rahul

Balance Sheet as on 31st March,2025

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	50,000		Furniture	10,000	
Add: Net profit	34,500		Less: Dep.Provision: Bal.B/f:	(1,000)	
Less: Drawings	(12,000)		Current year dep:	(1,000)	8,000
Less: Goods taken	(3,000)	69,500	Stock		30,000
Creditors		60,000	Debtors	1,00,000	
Salary payable		1,500	Less: Provision: old b/f	(3,000)	
Expenses payable		4,000	Additional Provision	(2,000)	95,000
			Advance salary		1,000
			Prepaid insurance		1,000
		1,35,000			1,35,000

ILLUSTRATION 6 (FINAL ACCOUNTS)

From the following trial balance and information, prepare Trading and Profit and Loss Account of Mr.Rishikesh for the year ended 31st March,2025 and a Balance Sheet as on that date:

Particulars	Dr. (₹)	Cr. (₹)
Capital		50,000
Drawings	6,000	
Land and Buildings	45,000	
Plant and Machinery	10,000	
Furniture	2,500	
Sales		70,000
Returns Outward		2,000
Debtors	9,200	

Particulars	Dr. (₹)	Cr. (₹)
Loan from Varun on 1.07.2024 @ 6% p.a.		15,000
Purchases	40,000	
Returns Inward	2,500	
Carriage outward	5,000	
Sundry Expenses	300	
Printing and Stationary	250	
Insurance Expenses	500	
Provision for Bad and Doubtful debts		500
Provision for Discount on Debtors		190
Bad Debts	200	
Profit of Textile Deptt.		5,000
Stock of General Goods on 01.04.2024	10,650	
Salaries and Wages	9,250	
Creditors		6,000
Trade Expenses	400	
Stock of Textile Goods on 31.03.2025	4,000	
Cash at Bank	2,300	
Cash in Hand	640	
	1,48,690	1,48,690

Additional Information:

(i) Stock of General goods on 31.03.2025 valued at ₹ 13,650

(ii) Fire occurred on 23rd March,2025 and ₹ 5,000 worth of general goods were destroyed. The Insurance Company accepted claim for ₹ 3,000 only and paid the claim money on 10th April,2025.

(iii) Bad Debts amounting to ₹ 200 are to be written off. Provision for Bad and Doubtful debts is to be made at 5% and for discount at 2% on debtors Make a provision of 2% on creditors for discount.

(iv) Received ₹ 3,000 worth of goods on 27th March,2025 but the invoice of purchase was not recorded in Purchase Book.

(v) Rishikesh took away goods worth ₹ 1,000 for personal use but no record was made thereof.

(vi) Charge depreciation at 2% on Land and Buildings,20% on Plant and Machinery and 5% on Furniture.

(vii) Insurance prepaid amounts to ₹ 100.

Solution:

M/s Rishikesh

Trading and Profit and Loss A/c for the year ended 31st March, 2025

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening stock A/c		10,650	By Sales A/c	70,000	
To Purchases A/c	40,000		(-) Returns	2500	67,500
(-) Returns	2,000		By Closing stock A/c		13,650
(+) Unrecorded purchase	3,000	41,000	By Goods lost A/c		5,000
To Gross profit c/d			By Goods used A/c		1,000
		87,150			**87,150**
To Carriage A/c (outward)		5,000	By Gross profit b/d		35,500
To Sundry expenses A/c		300	By Profit on textile department		5,000
To Printing and Stationary A/c		250	By Excess discount provision cancelled		19
To Interest A/c (15,000 × 6% × 9/12)		675	By Discount on Creditors A/c		180
To Insurance expenses A/c	500				
(-) Prepaid	100	400			
To Bad debts A/c	200				

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
(+) Further bad debts	200				
(-) Excess provision cancelled	50	350			
To Salaries and wages A/c		9,250			
To Trade expenses A/c		400			
To Loss by fire A/c	5,000				
(-) Claim	(3,000)	2,000			
To Depreciation A/c (900 + 2,000 + 125)		3,025			
To Net profit		19,049			
		40,699			40,699

M/s Rishikesh

Balance Sheet as on 31st March,2025

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	50,000		Land and building	45,000	
(+) Net profit	19,049		(-) Depreciation	(900)	44,100
(-) Drawings	6,000		Plant and Machinery	10,000	
(-) Goods taken	1,000	62,049	(-) Depreciation	(2,000)	8,000
Loan		15,000	Furniture	2,500	
Creditors	6,000		(-) Depreciation	(125)	2,375
(+)Unrecorded purchases	3,000		Debtors	9,200	
(-) Reserve for discount Interest outstanding	180	8,820	(-) Bad debt	(200)	

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Interest outstanding		675	Provision old 500		
			(-) Excess provision cancelled (50)	(450)	
			Provision for discount 190		
			(-) Excess provision Cancelled (19)	(171)	8,379
			Stock (textile)	4,000	
			Stock (general goods)	13,650	17,650
			Cash at Bank		2,300
			Cash in hand		640
			Claim receivable		3,000
			Prepaid insurance		100
		86,544			**86,544**

ILLUSTRATION 7 (FINAL ACCOUNTS)

The following is the schedule of balances as on 31-03-25 extracted from the books of M/s CM & Co.

Particulars	Dr. (₹)	Cr. (₹)
Bank charges	12,000	
Buildings	4,50,000	
Capital A/c		9,74,000
Carriage Outwards	15,000	
Cash at bank	19,500	
Cash in hand	10,500	
Discount allowed	18,000	
Discount received		12,000

Particulars	Dr. (₹)	Cr. (₹)
Drawings	90,000	
Electricity Charges	16,500	
Freight on purchases	9,000	
Furniture & Fixtures	1,60,500	
General office expenses	22,500	
Insurance Premium	41,250	
Interest on loan	17,500	
Loan		3,00,000
Printing and Stationary	13,500	
Purchase Returns		19,500
Purchases	10,65,000	
Rent for Godown	41,250	
Salaries	82,500	
Sales		17,75,000
Sales Returns	31,500	
Stock on 1-4-2024	4,65,000	
Sundry Creditors		3,22,500
Sundry Debtors	6,45,000	
Vehicles	1,50,000	
Vehicles running expenses	27,000	
Total	**34,03,000**	**34,03,000**

Prepare Trading and Profit & Loss Account for the year ended 31st March 2025 and the Balance Sheet as at that date after making provision for the following:

(i) Value of stock as on 31-03-2025 is ₹ 2,05,000. This includes goods returned by customers on 31st March,2025 to the value of ₹ 11,000 for which no entry has been passed in the books.

(ii) Purchases include furniture purchased on 1-10-2024 for ₹ 15,000.

(iii) Depreciate:

a. Building by 5%

b. Furniture and Fixtures by 10%

c. Vehicles by 20%

(iv) Sundry debtors include ₹ 17,500 due from Goku and Sundry creditors include ₹ 12,500 due to him.

(v) Provision for bad debts is to be maintained at 4% of Sundry Debtors.

(vi) Insurance premium includes ₹ 21,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1-05-2024 to 30-04-2025.

Solution:

Trading and Profit and Loss A/c for the year ended 31st March,2025

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening stock		4,65,000	By Sales	17,75,000	
To Purchases	10,65,000		Less: Sales returns	(31,500)	
Less: Returns	(19,500)		Less: Not recorded	(11,000)	17,32,500
Less: Purchase of Furniture	(15,000)	10,30,500	By Closing Stock		2,05,000
To Freight on Purchases		9,000			
To Gross Profit c/d		4,33,000			
		19,37,500			19,37,500
To Bank Charges		12,000	By Gross profit b/d		4,33,000
To Carriage outwards		15,000	By Discount Received		12,000
To Discount allowed		18,000			
To Electric charges		16,500			
To General office expenses		22,500			
To Insurance premium	41,250				
Less: Drawings LIC	(21,000)				

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
Less: Prepaid	(1687)	18,563			
To Interest on Loan		17,500			
To Printing		13,500			
To Rent of Godown		41,250			
To Salaries		82,500			
To Vehicle Running Expenses		27,000			
To Depreciation:-					
On building	22,500				
On furniture & fix.	16,800				
On vehicles	30,000	69,300			
To Provision for bad debts		24,860			
To Net profit		66,527			
		4,45,000			**4,45,000**

Balance Sheet as on 31st March,2025

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	9,74,000		Building	4,50,000	
Less: Drawings	(90,000)		Less: Depreciation	(22,500)	4,27,500
Less: LIC payment	(21,000)		Cash at Bank		19,500
Add: Net Profit	66,527	9,29,527	Cash in hand		10,500
Loan		3,00,000	Furniture & Fixture	1,60,500	
Creditors	3,22,500		Add: Purchase of Furniture	15,000	
Less: Due from Goku	(12,500)	3,10,000	Less: Depreciation	(16,800)	1,58,700
			Debtors	6,45,000	

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
			Less: returns not recorded	(11,000)	
			Less: Due to Goku	(12,500)	
			Less: Prov.for bad debts	(24,860)	5,96,640
			Vehicles	1,50,000	
			Less: Depreciation	(30,000)	1,20,000
			Closing Stock		2,05,000
			Prepaid insurance		1,687
		15,39,527			**15,39,527**

ILLUSTRATION 8 (NPO)

From the following Receipts and Payments of Kolkata Club, Prepare Income and Expenditure Account for the year ended 31.12.2024 and its Balance Sheet as on that date:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in Hand (Opening)	2,000	Salary	1,000
Cash at Bank (Opening)	5,000	Repair Expenses	250
Donations	2,500	Purchase of Furniture	3,000
Subscriptions	6,000	Miscellaneous Expenses	250
Entrance Fees	500	Purchase of Investments	3,000
Interest on Investments	50	Insurance Premium	100
Interest Received from Bank	200	Billiards Table	4,000
Sale of Old Newspaper	75	Paper, Ink etc.	75
Sale of Drama Tickets	525	Drama Expenses	250
		Cash in Hand (Closing)	1,325
		Cash at Bank (Closing)	3,600
Total	**16,850**	**Total**	**16,850**

Information:

I. Subscriptions in Arrear for 2024 ₹ 450 and Subscriptions in Advance for 2025 ₹ 175

II. Insurance Premium Outstanding ₹ 20, Miscellaneous expenses Prepaid ₹ 45.

III. 50% of Donation is to be capitalized.

IV. Entrance fees are to be treated as Revenue Income.

V. 8% Interest has Accrued on Investments for 5 months.

VI. Billiards Table costing ₹ 15,000 were purchased during the last year and ₹ 11,000 were paid for it.

Solution:

Income and Expenditure Account for the year ended 31st December 2024

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salary		1,000	By Donation (50% of 2,500)		1,250
To Repair Expenses		250	By Subscriptions (WN:2)		6,275
To Misc. Expenses (250 – Prepaid 45)		205	By Entrance Fees		500
To Insurance Premium (100 + O/s 20)		120	By Interest on Investment [8% on ₹3,000 × 5/12]		100
To Paper, Ink etc.		75	By Interest Received from Bank		200
			By Sale of Old Newspapers		75
			By Drama:		
			Tickets Sale	525	
			Less: Expenses	(250)	275
To Surplus – Excess of Income over Exp. (Balancing figure)		7,025			
		8,675			**8,675**

Balance Sheet as on 31st December 2024

Capital and Liabilities	(₹)	(₹)	Properties and Assets	(₹)	(₹)
Capital Fund:			Non-Current Assets: (i) **Fixed Assets:** Billiards Table		15,000
Opening Balance (WN:1)	18,000		Furniture		3,000
Add: Surplus	7,025		**(ii) Investments**		3,000
Add: Donations (50% of 2,500)	1,250	26,275	**Current Assets:** Interest Receivable (Accrued 100 – Received 50)		50
Current Liabilities:			Subscriptions Receivable		450
Insurance Premium Payable		20	Cash in Hand		1,325
Subscription received in Advance		175	Cash at Bank		3,600
			Prepaid Expenses		45
		26,470			**26,470**

Working Notes: 1

Balance Sheet as on 31st December 2024 (To find Opening Balance of Capital Fund)

Capital and Liabilities	(₹)	Properties and Assets	(₹)
Capital Fund (Balancing figure)	18,000	Billiards Table	15,000
Creditors for Billiards Table (15,000 – 11,000)	4,000	Cash in Hand	2,000
		Cash at Bank	5,000
	22,000		**22,000**

Working Notes: 2

Subscription Account (To find out Subscription Income recognized for the Year)

Particulars	(₹)	Particulars	(₹)
To balance b/d (Op. Bal of Subs.Rec'ble)	Nil	By balance b/d (Op. Bal of Subs.Recd in Adv.)	Nil
To Income and expenditure A/c – Subs.Income recognized during the year (balancing figure)	6,275	By Cash/Bank –Subs.Received during the year	6,000
To balance c/d (closing Bal of Subs.Recd in Adv.)	175	By balance c/d (Cl. Bal of Subs. Rec'ble)	450
	6,450		**6,450**

ILLUSTRATION 9 (NPO)

The following information were obtained from the books of Chennai Club as on 31.03.2025 at the end of the first year of the club. You are required to prepare Receipts and Payments Account for the year ended 31.03.2025:

i. Donations received for Building and Library Room ₹ 1,00,000.

ii. Other revenue receipts:

Particulars	Actual Receipts
Entrance Fees	8,500
Subscription	9,500
Locker Rents	300
Sundry Income	530
Refreshment Account	8,000

iii. Other actual payments:

Particulars	Actual Payments
Land (Cost ₹5,000)	5,000

Particulars	Actual Payments
Furniture (Cost ₹73,000)	65,000
Salaries	2,400
Maintenance of Playgrounds	500
Rent	4,000
Refreshment Account	4,000

Donations to the extent of ₹ 12,500 were utilized for the purchase of Library Books, balance was still unutilized. In order to keep it safe, 9% Govt.Bonds of ₹ 80,000 were purchased on 31.03.2025. Remaining amount was put in the bank on 31.03.2025 under the term deposit.

Solution:

Chennai Club

Receipts and Payments A/c for the year ended 31st March 2025

Receipts	(₹)	(₹)	Payments	(₹)	(₹)
To Building and library fund A/c		1,00,000	By Library book A/c	12,500	
To Entrance fees A/c		8,500	By Bond 9% Govt.A/c	80,000	
To Subscription A/c		9,500	By Fixed deposit A/c (Bal.fig)	7,500	1,00,000
To Locker rent A/c		300	By Land A/c		5,000
To Sundry Income A/c		530	By Furniture A/c		65,000
To Refreshment A/c		8,000	By Salaries A/c		2,400
To Closing balance (Overdraft balance-Bal.fig)		54,070	By Maintenance of playgrounds A/c		500
			By Rent A/c		4,000
			By Refreshment A/c		4,000
		1,80,900			1,80,900

ILLUSTRATION 10 (NPO)

The following is the receipts and payments account of Ayurveda Charitable Hospital for the year ended 31st March,2025:

Receipts	₹	Payments	₹
To Balance b/d	70,000	By Payment for medicines	3,00,000
To Subscriptions	5,00,000	By Honorarium to doctor	1,00,000
To Donations	1,45,000	By Salaries	2,75,000
To Interest on investments @7% per annum for the year	70,000	By Sundry expenses	5,000
		By Equipment's purchased	1,50,000
		By Charity Show expenses	10,000
		By Balance c/d	45,000
	8,85,000		**8,85,000**

Additional information:

Particulars	On 1.4.2024	On 31.03.2025
Subscriptions due	5,000	10,000
Subscriptions received in advance	10,000	5,000
Stock of medicines	1,00,000	1,50,000
Creditors for medicines	80,000	1,20,000
Equipment's	2,10,000	3,00,000
Buildings	4,00,000	3,80,000

You are required to prepare income and expenditure account for the year ended 31st March,2025 and balance sheet as at that date.

Solution:

Income & Expenditure A/c [P&L A/c]

Expenditure	(₹)	Income	(₹)
To Honorarium to Doctors A/c	1,00,000	By Donation A/c	1,45,000
To Salary A/c	2,75,000	By Interest A/c	70,000

Expenditure	(₹)	Income	(₹)
To Sundry Expenses A/c	5,000	By Charity Show:	
To Medicine A/c	2,90,000	Income 1,00,000	
To Depreciation on Equipment A/c	60,000	Less: Expenses (10,000)	90,000
To Depreciation on Building A/c	20,000	By Subscription A/c	5,10,000
To Surplus A/c	65,000		
	8,15,000		8,15,000

Balance Sheet as on 31.03.2025

Liability	(₹)	Asset	(₹)
Trust Fund 16,95,000		Investment	10,00,000
Add: Surplus 65,000	17,60,000	Subscription Outstanding	10,000
Advance Subscription	5,000	Medicine stock	1,50,000
Creditors for medicine	1,20,000	Building	3,80,000
		Equipment	3,00,000
		Cash / Bank	45,000
	18,85,000		**18,85,000**

Working Notes:

Important Points: By preparing these accounts we get missing information which may be a transaction (complete the double entry of same) or a balance of that account. Complete accounting for whatever information is available in the question. Then by balancing the account you will get information as a balancing information.

Subscription A/c

Particulars	(₹)	Particulars	(₹)
To Opening Outstanding	5,000	By Opening Advance	10,000
To Income & Expenditure A/c	5,10,000	By Cash/Bank A/c (received)	5,00,000
To Closing Balance (advance)	5,000	By Closing outstanding balance	10,000
	5,20,000		**5,20,000**

Medicine A/c

Particulars	(₹)	Particulars	(₹)
To Opening Balance (Op.Stock)	1,00,000	By Income & Expenditure A/c (Consumed)	2,90,000
To Creditors A/c (Purchase)	3,40,000	By Closing Stock A/c	1,50,000
	4,40,000		**4,40,000**

Creditors for Medicine A/c

Particulars	(₹)	Particulars	(₹)
To Opening Balance (Op.Stock)	1,00,000	By Income & Expenditure A/c (Consumed)	2,90,000
To Creditors A/c (Purchase)	3,40,000	By Closing Stock A/c	1,50,000
	4,40,000		**4,40,000**

Equipment A/c

Particulars	(₹)	Particulars	(₹)
To Opening Balance	2,10,000	By Depreciation A/c (balancing fig.)	60,000
To Cash / Bank A/c (Purchase)	1,50,000	By Closing Balance	3,00,000
	3,60,000		**3,60,000**

Building A/c

Particulars	(₹)	Particulars	(₹)
To Opening Balance	4,00,000	By Depreciation A/c (Balancing fig.)	20,000
		By Closing Balance	3,80,000
	4,00,000		**4,00,000**

Balance Sheet as on 31.03.2025

Liability	(₹)	Asset	(₹)
Advance Subscription	10,000	Cash/Bank	70,000

Liability	(₹)	Asset	(₹)
Creditor for Medicine	80,000	Investment***	10,00,000
Trust Fund (Balancing figure)	16,95,000	Subscription Outstanding	5,000
		Stock of Medicine	1,00,000
		Equipment	2,10,000
		Building	4,00,000
	17,85,000		**17,85,000**

*** Investment is calculated from interest Investment = 70,000 /7 × 100 = ₹10,00,000.

4 Partnership Accounting [Study Material - Module 4]

ILLUSTRATION 01

X, Y, Z were partners in a firm sharing profit in the ratio 5:3:2. They distributed their profits of ₹ 60,000 of the year in equal ratio. Give necessary entry for the effect.

Solution:

Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)
Wrong Distribution (1:1:1)	20,000	20,000	20,000	**60,000**
Correction Distribution (5:3:2)	30,000	18,000	12,000	**60,000**
	10,000 (short)	**2,000 (excess)**	**8,000 (excess)**	

Rectified Entry: -

	Dr.	Cr.
Y's Capital A/c	2,000	
Z's Capital A/c	8,000	
To X's Capital A/c		10,000

(Being the adjustment made for profit divided in wrong ratio)

ILLUSTRATION 02

X and Y were in partnership sharing profits and losses in the ratio of 3:2. In appreciation of the services of their clerk Z. Who was in receipt of a salary of ₹4,800 p.a. and a commission of 5% on the net profit after charging such salary and commission. They took him into partnership as from 1st April 2024, giving him one-eight share of profits. The agreement provided that any excess over his former remuneration to which, Z becomes entitled will be born by X and Y in the ratio of 2:3. The profit for the year ended 31st March, 2025, amounted to ₹88,800. Prepare statement showing the distribution of the profit amongst all the partners.

Solution:

(i) Share of 'Z' as partner 88,800 × 1/8 = 11,100

(ii) Z's remuneration as clerk

Profit	88,800
(-) Salary to clerk	4,800
Profit before commission	84,000
(-) Commission 84000 × 5/105	4,000
Profit after Salary & comm.	80,000

Total remuneration to 'Z' 4,800 + 4,000 = 8,800

(iii) Excess to 'Z' (i)- (ii) = 11,100 - 8,800 = 2,300 to be borne by X &Yas follows:

X: 2/5 × 2300 =	920
Y: 3/5 × 2300 =	1380
	2300

Summary:

Partner	Share	Adjustment	Total
X (80,000 × 3/5)	48,000	-920	47,080
Y (80,000 × 2/5)	32,000	-1380	30,620
	80,000		
Z	8,800	+2,300	11,100
	88,800		88,800

ILLUSTRATION 03

Partners X & Y are sharing in the ratio of 3:2 (i.e. 3/5 & 2/5). They admit Z. Calculate new ratio in the following alternative cases.

Solution:

(1) 'Z' is admitted with 1/6th share.

C's share is 1/6th of the total profit.

i.e. Balance profit left for X & Y = 1-1/6 = 5/6.

Because nothing is specified we will assume that X & Y will share balance in old ratio.

i.e. X's share = 5/6 × 3/5 = 15/30 = 3/6 & Y's share = 5/6 × 2/5 = 10/30 = 2/6

Thus the new ratio of X, Y & Z will be 3/6, 2/6 & 1/6 or 3:2:1

(2) 'Z' is admitted with 1/6th share & 'X' & 'Y' decided to share equally in future.

'Z' share = 1/6 i.e. Balance is 5/6

which will be shared equally by X & Y.

i.e. X's share = $\frac{5}{6} \times \frac{1}{2} = \frac{2.5}{6} = \frac{5}{12}$ and Y's share = $\frac{5}{6} \times \frac{1}{2} = \frac{2.5}{6} = \frac{5}{12}$

Thus the New Ratio of X.Y & Z = 5/12, 5/12, 2/12 OR 5:5:2

(3) 'Z' is admitted with 1/6th share, which he purchased from Y.

Z's share=1/6 which will come from Y

i.e. Z's New share = 2/5 - 1/6 = 12/30 - 5/30 = 7/30.

i.e. X's New share will remain as the old share i.e. 3/5 = 18/30.

Thus, the New Ratio of X, Y & Z will be 3/5, 7/30 & 1/6. i.e. 18/30, 7/30, 5/30 i.e. 18:7:5

(4) 'Z' is admitted with 1/6th share which he bought from X & Y in 2:3 ratio.

Z's share is 1/6

Purchased from 'X' 1/6 × 2/5 = 2/30

Purchased from 'Y' 1/6 × 3/5 = 3/30

i.e. X's share 3/5 - 2/30 = 18/30 - 2/30 = 16/30 & Y's share 2/5 - 3/30 = 12/30 - 3/30 = 9/30

Thus, the New Ratio of X, Y, Z will be 16/30, 9/30 & 5/30 i.e. 16:9:5

(5) 'Z' is admitted. He purchased 1/3rd of X's share & 2/3rd of Y's share.

Z's share = Purchased from X+ Purchased from Y

Purchased from X = 3/5 × 1/3 = 1/5 i.e. 3/15

Purchased from Y = 2/5 × 2/3 = 4/15

I.e.X's share = 3/5-1/5 = 2/5 = 6/15

Y's share=2/5-4/15 = 6/15 - 4/15 = 2/15

Z's share=1/5+4/15 = 3/15 + 4/15 = 7/15

Thus, the New Ratio of X, Y, Z will be 6/15, 2/15 & 7/15 i.e. 6:2:7.

(1)	When we say new partner is purchasing share that means old partners are selling their share. Similarly in case of death/retirement, outgoing partners will sell his share and other will purchase it.
(2)	Similarly ratios will be worked out in case of Retirement/Death. In such cases wording may be like outgoing partners sells his share or other partner purchases share from the outgoing partner. When nothing is specified, it can be assumed that the remaining partner will continue to share in their old ratio.

ILLUSTRATION 04

A, B and C were sharing profits and losses in the ratio of 1/2: 1/3: 1/6 respectively. The firm had insured the partner's lives severally. The surrender values of the life policies appearing in the balance sheet as at 31st March, 2025 were-A for ₹ 10,000, B for 8,000 and C for ₹6,000. The surrender values represents 50% of the sum assured in each case. B and C decide to share equally in future. Give the necessary journal entries assuming (a) If A retires on 31-3-2025 (b) If A dies on 31-3-2025.

Solution:

Date	Particulars	L.F.	Dr.	Dr.
31.03.2025	**Case (a)** No entry is to be passed since policies appear at surrender value and its real value is also surrender value, hence no unaccounted/ undivided profit.			
31.03.2025	**Case (b)** Insurance Company's A/c To A's Life Policy A/c (Being the claim due on X's death recorded by crediting X's Life Policy A/c)		10,000	 10,000
	A's Life Policy A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being the transfer of balance in X's life policy A/c being profit)		5,000	 2,500 1,667 833

ILLUSTRATION 05

X and Y were partners in a firm. They admit Z for 1/5th share. Z introduced ₹ 80,000 as his Capital. On the date following balances appeared in the books of the firm:

X's Capital A/c	94,000
Y's Capital A/c	64,000
Loss on Revaluation	2,000
General Reserve	6,000
Investment Fluctuation fund	40,000

On the date Investment of the firm of ₹ 1,00,000 was valued at ₹ 84,000. Give necessary accounting treatment regarding Goodwill.

Solution:

Particulars	X (₹)	Y (₹)
Balance in Capital A/c	94,000	64,000
-Loss on Revaluation	1,000	1,000
+ General Reserve	3,000	3,000
+Investment Fluctuation Fund (40,000 - 16,000) [1:1]	12,000	12,000
	1,08,000	**78,000**

Calculation of Hidden Goodwill:-

I. Total Capital of the Firm on the basis of Z's share (80,000 × 5)	=	₹4,00,000
II. Capital of X, Y & Z (1,08,000 + 78,000 + 80,000)	=	₹2,66,000
Hidden Goodwill of the firm (I - II)	=	₹1,34,000
i.e.Z's Share of Goodwill (1,34,000 × 1/5)	=	₹26,800

Journal Entry:-

Particulars	Dr. ₹	Cr. ₹
Z's Current A/c	26,800	
To X's Capital A/c		13,400
To Y's Capital A/c		13,400

(Being incoming partner's current account debited for his shares of goodwill and credited to old partners in their sacrificing ratio)

ILLUSTRATION 06

Mr. Rahul gives the following particulars in respect of business carried on by him:

Particulars	Amount (₹)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business.	3%
Remuneration per annum from alternative employment of proprietor if he was not engaged in business	36,000

The business earned profits of ₹2,40,000, ₹2,16,000 and ₹3,00,000 in the years 2021, 2022 and 2024 respectively but made a loss of ₹ 36,000 in the year 2023.

Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years.

Solution:

Calculation of Goodwill by Super Profit Method

a. Calculation of Average profit

$$\text{Average profit} = \frac{\textit{Total Profit}}{\textit{No. of Years}}$$

$$= \frac{2{,}40{,}000 + 2{,}16{,}000 + 3{,}00{,}000 - 36{,}000}{4}$$

$$= ₹1{,}80{,}000$$

Less: Annual Remuneration = (36,000)

Average profits = 1,44,000

b. Normal Profit = Capital Invested × $\frac{\textit{Rate of return}}{100}$

$$= 9{,}00{,}000 \times \frac{11}{100}$$

$$= ₹99{,}000$$

c. Super Profit = Average Profit - Normal Profit

= ₹ 1,44,000 – ₹99,000 = ₹45,000

d. Goodwill Super Profit × No. of years Purchase

= ₹45,000 × ₹6 = ₹2,70,000

ILLUSTRATION 07

Following is the Balance Sheet of X and Y as at 31.3.2020 who are partners in a firm sharing profits and losses in the ratio of 2:1 respectively:

Liabilities	(₹)	Assets	(₹)
Capital: X Y	46,000 34,000	Land and Building	30,000
Creditors	20,000	Plant and Machinery	35,000
		Stock	12,000
		Debtors	11,400
		Investments	3,600
		Bank	8,000
	1,00,000		1,00,000

Z is admitted as a new partner on 1.4.2024 for 1/3rd share on the following terms –

(1) Z is to bring in ₹ 20,000 as capital;

(2) An amount of ₹ 2,000 included in debtors is to be written-off as no longer receivable ;

(3) Investments are taken over by Bat their market value of ₹ 3,000 ;

(4) Stock is to be increased by ₹ 3,100; and ,

(5) Plant and machinery is to be decreased by 10%.

You are required to prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.

Solution

In the books of the Firm

Dr. **Revaluation Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Debtors A/c (Bad debts)	2,000	By Stock A/c	3,100

Particulars	(₹)	Particulars	(₹)
To Investments A/c (Note 1)	600	By Partners' Capital A/cs: Loss on revaluation (X – ₹ 2,000; Y – ₹ 1,000)	3,000
To Plant and Machinery A/c	3,500		
	6,100		**6,100**

Partners' Capital Accounts

Dr. **Cr.**

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Investments A/c	-	3,000	-	By Balance b/d	46,000	34,000	-
To Revaluation A/c (Loss)	2,000	1,000	-	By Bank A/c	-	-	20,000
To Balance c/d	44,000	30,000	20,000				
	46,000	34,000	20,000		46,000	34,000	20,000

Balance Sheet of the New Firm as at 1st April, 2024

Liabilities		(₹)	Assets	(₹)
Capital Accounts:	X	44,000	Land and Buildings	30,000
	Y	30,000		
	Z	20,000		
Creditors		20,000	Plant and Machinery (₹ 35,000 – 3,500)	31,500
			Stock (₹ 12,000 + 3,100)	15100
			Debtors (₹ 11,400 – 2,000)	9,400
			Bank (₹ 8,000 + 20,000)	28,000
		1,14,000		**1,14,000**

Working Note: (1) Book value of investments is ₹ 3,600. But, it is taken over by Y at ₹ 3,000. Therefore, ₹ 600 will be treated as a loss and is to be debited to revaluation Account. The journal entry for investment taken over by Y will be as follows:

Y Capital Account	Dr. ₹ 3,000	
Revaluation Account	Dr. ₹ 600	
To Investments Account		₹ 3,600

ILLUSTRATION 08

X and Y are in partnership sharing profits and losses in the proportion of three-fourths and one – fourths respectively. Their Balance Sheet on 31st March, 2024 was as follows: Cash ₹ 1,000; Sundry Debtors ₹ 25,000; Stock ₹ 22,000; Plant and Machinery ₹ 4,000; Sundry Creditors ₹ 12,000; Bank Overdraft ₹ 15,000; X's Capital ₹ 15,000; Y's Capital ₹ 10,000.

On 1st April 2024, they admitted C into partnership on the following terms:

(a) Z is to purchase one-third of the Goodwill for ₹ 2,000 and provide ₹ 10,000 as Capital. Goodwill not to appear in the books.

(b) Future profits and losses are to be shared by X, Y and Z equally.

(c) Plant and machinery is to be reduced by 10% and ₹ 500 is to be provided for estimated bad debts. Stock is to be taken at a valuation of ₹ 24,940.

(d) By bringing in or withdrawing cash, the capitals of X and Y are to be made proportionate to that of Z on their profit sharing basis.

(i) Set out entries to the above arrangements in the firm's journal

(ii) Show Partners' Capital accounts and opening Balance Sheet of the new firm.

Solution:

In the books of the firm

Journal

Dr. **Cr.**

Date	Particulars	L.F.	(₹)	(₹)
2024 April 1	Cash A/c Dr.		12,000	
	To Premium for Goodwill A/c			2,000
	To Capital A/c			10,000
	(Being the premium for goodwill and capital brought in by Z)			

Date	Particulars		L.F.	(₹)	(₹)
	Premium for Goodwill A/c	Dr.		2,000	
	Y Capital A/c (Note 1)	Dr.		500	
	To X Capital A/c				2,500
	(Being the adjustment in regard to the premium for goodwill)				
	Revaluation A/c	Dr.		900	
	To Plant and Machinery A/c				400
	To Provision for Bad Debts A/c				500
	(Being the downward revaluation of Plant and Machinery and a creation of provision of bad debts)				
	Stock A/c	Dr.		2,940	
	To Revaluation A/c				2,940
	(Being the upward revaluation of stock)				
	Revaluation A/c (₹ 2,940 – ₹ 900)	Dr.		2,040	
	To X Capital A/c				1,530
	To Y Capital A/c				510
	(Being the profit on revaluation transferred to old Partners' Capital Accounts in the old profit sharing ratio)				
	X Capital A/c	Dr.		9,030	
	Y Capital A/c	Dr.		10	
	To Cash A/c				9,040
	(Being the excess capital withdrawn)				

Partners' Capital Accounts

Dr. **Cr.**

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To X Capital A/c	-	500	-	By Balance b/d	15,000	10,000	-
To Cash A/c (Bal. figure)	9,030	10	-	By Premium for Goodwill A/c	2,000	-	
To Balance c/d	10,000	10,000	10,000	By Y Capital A/c (Goodwill)	500	-	-

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
				By Revaluation A/c	1,530	510	-
				By Cash A/c	-	-	10,000
	19,030	10,510	10,000		19,030	10,510	10,000

Balance Sheet (after Z's admission) as at 1st April, 2024

Liabilities	(₹)	Assets	(₹)
Capital Accounts: X	10,000	Plant and Machinery (₹ 4,000 – ₹ 400)	3,600
Y	10,000	Stock	24,940
Z	10,000	Sundry Debtors 25,000	
Sundry Creditors	12,000	Less: Provision for Bad Debts 500	24,500
Bank Overdraft	15,000	Cash (₹1,000 + 12,000 – 9,030 – 10)	3,960
	57,000		57,000

Working Note: (1) Adjustment of Premium for Goodwill Z brings in ₹ 2,000 as premium for goodwill.

Therefore, the value of the goodwill is ₹ 2,000 × 3/1 = ₹ 6,000

Particulars	X (₹)	Y (₹)	Z (₹)
Right of goodwill before admission (3:1)	4,500	1,500	-
Right of goodwill after admission (1:1:1)	2,000	2,000	2,000
Sacrifice (-) / Gain (+)	(-)2,500	(+) 500	(+) 2,000

(2) Calculate of the Amount of Capital to be Withdrawn or Introduced

Step 1: Total capital of the firm $= \dfrac{\textit{Capital of the new Partner}}{\textit{Share of Profit of the new Partner}}$

= ₹ 10,000 × 3/1 = ₹ 30,000.

Step 2: Calculation of Proportionate Capital of the Old Partners on the basis of the New Profit Sharing Ratio:

X's Capital = ₹ 30,000 × 1/3 = ₹ 10,000

Y's Capital = ₹ 30,000 × 1/3 = ₹ 10,000

Step 3: Present Capital of the Old Partners

X: ₹ (15,000 + 2,000 + 500 + 1,530) = ₹ 19,030.

Y: ₹ (10,000 + 510 – 500) = ₹ 10,010.

Step 4: Cash to be withdrawn

X = ₹ 19,030 – ₹ 10,000 = ₹ 9,030

Y = ₹ 10,010 – ₹ 10,000 = ₹ 10

ILLUSTRATION 09

A, B and C were in partnership sharing profits and losses in the ratio of 3:2:1 respectively. The draft Balance Sheet as on 31.3.2024 was as follows:

Liabilities			(₹)	Assets		(₹)
Capital Account:	A	24,000		Buildings		12,000
	B	12,000		Plant and Equipment		18,800
	C	6,000	42,000	Stock		9,200
Current Accounts:	A	1,920		Debtors	12,400	
	B	1,680		Less: Provision for Doubtful Debts	1,200	11,200
	C	1,120	4,720	Balance at Bank		16,120
Loan – A			5,000			
Creditors			15,600			
			67,320			67,320

A retired on 31.3.2024 and B and C continued in partnership sharing profits and losses in the ratio of 2:1.

A's loan was repaid on 1.4.2024 and it was agreed that the remaining balance due to him, other than that of the Current Account, should remain as loan to the partnership.

For the purpose of A's retirement, it was agreed that -

(i) Building be revalued at ₹ 24,000 and the plant and equipment at ₹ 15,800

(ii) The provision for doubtful debts was to be increased by ₹ 400

(iii) A provision of ₹ 500 included in creditors was no longer required.

(iv) ₹ 1,200 was to be written-off the stock in respect of damaged items included therein.

(v) A Provision of ₹ 4,240 be made in respect of outstanding legal charges.

(vi) The goodwill of the firm to be valued at ₹ 14,400. Both the partners decided that goodwill should not appear in the books of account of the firm.

You are required to prepare:

(a) Revaluation Account

(b) Capital and Current Accounts of the Partners;

(c) Balance Sheet of B and C as on 1.4.2024.

Solution

In the books of the Firm

Revaluation Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Plant and Equipment A/c	3,000	By Buildings A/c	12,000
To Provision for Doubtful Debts A/c	400	By Creditors A/c	500
To Stock A/c	1,200		
To Provision for Legal Charges A/c	4,240		
To Partner's Capital A/cs: (A – ₹ 1,830; B – ₹ 1,220; C – ₹ 610)	3,660		
	12,500		12,500

Partners' Capital Accounts

Dr. **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To A Loan A/c	33,030	-	-	By Balance b/d	24,000	12,000,	6,000
To Goodwill A/c	-	9,600	4,800	By Revaluation A/c (Note 1)	1,830	1,220	610
To Balance c/d	-	8,420	4,210	By Goodwill A/c	7,200	4,800	2,400
	33,030	18,020	9,010		33,030	18,020	9,010

Partners' Current Accounts

Dr. **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Bank A/c	1,920	-	-	By Balance b/d	1,920	1,680	1,120
To Balance c/d	-	1,680	1,120				
	1,920	1,680	1,120		1,920	1,680	1,120

Balance Sheet of B and C as on 1st April,2024

Liabilities		(₹)	Assets		(₹)
Capital Account: B	8,420		Building		24,000
C	4,210	12,630	Plant and Equipment		15,800
Current Account: B	1,680		Stock		8,000
C	1,120	2,800	Debtors	12,400	
A's Loan		33,030	Less: Provision for Doubtful Debts	1,600	10,800
Creditors (₹ 15,600 – 500)		15,100	Bank (₹ 16,120 – 5,000 – 1,920)		9,200
Provision for Legal Charges		4,240			
		67,800			67,800

ILLUSTRATION 10

X, Y and Z were partners in a firm sharing profits and losses in the ratio of 5:3:2 respectively. X died on 29th February, 2024. The Balance Sheet on that date was as follows:

Liabilities		(₹)	Assets	(₹)
Capital A/cs:			Goodwill	6,000
X	12,000		Machinery	35,000
Y	16,000		Furniture	6,000
Z	12,000	40,000	Stock	9,000
General Reserve		12,000	Debtors	15,000
Creditors		22,000	Cash	3,000
		74,000		74,000

The firm has a joint life policy in the names of all the partners, for insured value of ₹ 60,000. The premium paid on the policy was debited to Profit and Loss Account. The partnership deed provided that on the death of a partner the assets and liabilities are to be revalued.

The assets and liabilities were revalued as follows on X's death:

(i) Machinery ₹ 45,000 and Furniture ₹ 7,000.

(ii) A Provision of 10% was created for doubtful debts.

(iii) A provision of ₹ 15,000 was made for taxation.

(iv) The goodwill of the firm was valued at ₹ 21,000 on X's death. It was decided by Y and Z not to show goodwill in the Balance Sheet of the firm.

(v) Death claim for policy was realized in full.

The amount payable to X was transferred to his Executors Account.

You are required to prepare

(i) Revaluation Account;

(ii) Capital Accounts of the Partners; and

(iii) Balance Sheet of Y and Z.

Solution

In the books of the Firm

Dr. (i) Revaluation Account Cr.

Particulars	₹	Particulars	₹
To Provision for Doubtful Debts A/c	1,500	By Machinery A/c	10,000
To Provision for taxation A/c	15,000	By Furniture A/c	1,000
		By Partners' Capital A/cs	
		X	2,750
		Y	1,650
		Z	1,100
	16,500		16,500

(ii) Partners' Capital Accounts

Dr. Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Revaluation A/c	2,750	1,650	1,100	By Balance b/d	12,000	16,000	12,000
To X's Executors A/c	52,750	-	-	By General Reserve A/c	6,000	3,600	2,400
To Goodwill A/c (Note 3)	-	12,600	8,400	By Goodwill A/c (Note 1)	7,500	4,500	3,000
To Balance c/d	-	27,850	19,900	By Bank A/c (Note 2)	30,000	18,000	12,000
	55,500	42,100	29,400		55,500	42,100	29,400

(iii) Balance Sheet of Y and Z as on 31st March, 2024

Liabilities		(₹)	Assets	(₹)
Capital A/cs			Machinery	45,000
Y	27,850		Furniture	7,000

Liabilities		(₹)	Assets		(₹)
Z	19,900	47,750	Stock		9,000
X's Executors Account		52,750	Debtors	15,000	
Creditors		22,000	Less: Provision for doubtful debts	1,500	13,500
Provision for Taxation		15,000	Bank (joint life policy)		60,000
			Cash		3,000
		1,37,500			1,37,500

Working Notes:

(1) Revised value of goodwill is ₹ 21,000. Goodwill already appearing in the Balance Sheet at ₹ 6,000.

Therefore, the balance (₹ 21,000 – ₹ 6,000) ₹ 15,000 is to be raised in the books of account by crediting all partners in the ratio of 5:3:2.

(2) Amount realized from joint life policy will be shared by all the partners in the profit-sharing ratio i.e. 5:3:2.

(3) Goodwill is to be written-off in the ratio 3:2.

5 Lease Accounting [Study Material - Module 5]

ILLUSTRATION 01

An Equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair market value of the equipment are ₹ 6,00,000. The amount will be paid in 3 instalments and at the termination of lease lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 80,000. The (Internal Rate of Return) IRR of the investment is 10%. The present value of annuity factor of ₹. 1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of ₹. 1 due at the end of 3rd year at 10% rate of interest is 0.7513.

(i) State with reason whether the lease constitute finance lease

(ii) Calculate unearned finance income.

Solution:

As per the question, IRR of the investment is 10%. Investment in lease is ₹ 6,00,000.

If IRR is 10% that means P.V. of Minimum Lease Payment (MLP) from lessor point of view plus unguaranteed residual value is equal to ₹ 6,00,000.

P.V. of unguaranteed residual value	(80,000 × 0.7513) =	₹60,104
P.V. of M.L.P. should be	(6,00,000 – 60,104) =	₹5,39,896

As at the beginning of lease period the P.V. of MLP cover substantially the initial fair value i.e., 5,39,896 / 6,00,000 = 90% approx.

Moreover, lease period covers major part of the lease of the asset

Hence, it is a finance lease.

Calculation of annual lease payment to the lessor -	5,39,896 / 2.4868 =	₹2,17,104
Gross investment in lease -	2,17,104 × 3 =	₹6,51,312
Unguaranteed residual value -		₹80,000
		7,31,312

Less P.V. of Gross investment in lease		6,00,000
Unearned finance income		1,31,312

ILLUSTRATION 02

On 1 October 2023 Omega sold a property it owned for ₹ 1800 lacs and leased it back on a 10 year operating lease for rentals of ₹ 160 lacs per annum, payable on 30 September in arrears. The carrying value of the property in the financial statement of Omega at 1 October was ₹ 1100 lacs and its market value on that date was ₹ 1400 lacs.

Compute the amount that will be shown in the statement of profit & loss for the year ended 30 September 2024 and in the statement of financial position at 30 September 2024 in respect of the sale and leaseback.

Solution:

Since the lease is an operating lease the property will be removed from the financial statements. A profit on sale of ₹ 300 lacs (₹ 1400 lacs-1100 lacs) will be shown as other income in the statement of profit & loss.

The rental expense of ₹ 160lacs will be shown as an operating cost in the statement of profit & loss. The difference of ₹ 400 lacs between the disposal proceeds (₹ 1800lacs) and the market value of the asset (₹ 1400 lacs) will be shown as deferred income and released to the statement of profit & loss over the lease term of 10year. Therefore ₹ 40 lacs (₹ 400 lacs × 1/ 10) will be credited to the statement of profit & loss in the year ended 30September 2024, probably as a reduction in operating costs.

The remaining deferred income balance of ₹ 360 lacs (₹ 400 lacs -40 lacs) will be included as a liability in the statement of financial position. ₹ 40 lacs of this will be a current liability and ₹ 320 lacs (₹ 360 lacs- 40lacs) will be non-current.

ILLUSTRATION 03

X Ltd sold JCB having WDV of ₹40 lakhs to Y Ltd for ₹48 lakhs and the same JCB was leased back by Y Ltd. to X Ltd. The lease is operating lease. In context of AS-19 'Leases' explain the accounting treatment of profit or loss in the books of X Ltd if:

(i) Sale price of ₹ 48 lakhs is equal to fair value.

(ii) Fair value is ₹ 40 lakhs and sale price is ₹ 48 lakhs

(iii) Fair value is ₹ 44 lakhs and sale price is ₹ 50 lakhs

(iv) Fair value is ₹ 50 lakhs and sale price is ₹ 36 lakhs

(v) Fair value is ₹ 36 lakhs and sale price is ₹ 38 lakhs

Solution:

(i) X Ltd. should immediately recognise the profit of ₹ 8 lakhs in its books.

(ii) Profit of ₹ 8 lakhs is to be amortised over the lease period.

(iii) Profit of ₹ 4 lakhs (44-40) to be immediately by X Ltd and Profit of ₹ 6 lakhs (50-44) should be amortized over the lease period.

(iv) Loss of ₹ 4 lakhs should be immediately recognised in the books by X Ltd. provided loss is not compensated by future lease payment.

(v) Loss of ₹ 4 lakhs (40-36) should be immediately recognized by X Ltd and profit of ₹ 2 lakhs (40-38) should be amortized over the lease period.

ILLUSTRATION 04

Raya Ltd. took a machine on lease from Deluxe Ltd., the fair value being ₹ 23,00,000. Economic life of the machine as well as lease term is 4 years. At the end of each year, lessee pays ₹ 7,00,000 to lessor. Raya Ltd. has guaranteed a residual value of ₹ 1,40,000 on expiry of the lease to Deluxe Ltd., however Deluxe Ltd. estimates that residual value will be only ₹ 50,000. The implicit rate of return is 10% p.a. and present value factors at 10% are:0.909,0.826,0.751 and 0.683at the end of 1st,2nd, 3rd and 4th year respectively.

Calculate the value of machinery to be considered by Jaya Ltd. and the value of the lease liability as per AS-19.

Solution:

According to Para 11of AS -19 "Lease", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.

In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment (₹)	Internal rate of return (Discount rate @10%)	Present value (₹)
1	7,00,000	0.909	6,36,300
2	7,00,000	0.826	5,78,200
3	7,00,000	0.751	5,25,700

Year	Minimum Lease Payment (₹)	Internal rate of return (Discount rate @10%)	Present value (₹)
4	8,40,000'	0.683	5,73,720
Total	29,40,000		23,13,920

*Minimum Lease Payment of 4th year includes guaranteed residual value amounting i.e. 7,00,000 + 1,40,000 = 8,40,000.

Present value of minimum lease payments ₹ 23,13,920 is more than fair value at the inception of lease i.e.₹ 23,00,000, therefore, the lease liability and machinery should be recognized in the books at ₹ 23,00,000 as per AS-19.

ILLUSTRATION 05

A Ltd. sold machinery having WDV of ₹ 600 lakhs to B Ltd for ₹ 800 lakhs and the same machinery was leased back by B Ltd.to A Ltd. The lease back arrangement is operating lease. Give your comments in the following situations:

(i) Sale price of ₹ 800 lakhs is equal to fair value.

(ii) Fair value is ₹ 900 lakhs

(iii) Fair value is ₹ 700 lakhs and the sale price is ₹ 500 lakhs

(iv) Fair value is ₹ 600lakhs and sale price is ₹ 800 lakhs.

(v) Fair value is ₹ 500 lakhs and sale price is ₹ 580 lakhs.

Solution:

Following will be the treatment in the given cases:

(i) When sale price of ₹ 800 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹ 200 lakhs (i.e. 800 - 600) in its books.

(ii) When fair value is ₹ 900 lakhs then also profit of ₹ 100 lakhs should be immediately recognised by A Ltd.

(iii) When fair value of leased machinery is ₹ 700 lakhs & sales price is ₹ 500lakhs, then loss of ₹ 100 lakhs (600- 500) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(iv) When fair value is ₹ 600 lakhs & sales price is ₹ 800 lakhs then, profit of ₹ 200 lakhs is to be deferred and amortised over the lease period.

(v) When fair value is ₹ 500 lakhs & sales price is ₹ 580 lakhs, then the loss of ₹ 100 lakhs (600-500) to be immediately recognised by A Ltd. in its books and profit of ₹ 80 lakhs (580-500) should be amortised/deferred over lease period.

6 Branch (including Foreign Branch) and Departmental Accounts [Study Material - Module 6]

ILLUSTRATION 01 (FOREIGN BRANCH – TRADING AND P&L A/C OF BRANCH AND HO)

Shreyas Ltd. has a branch in New York, USA, which is an integral Foreign Operation of the Company. At the end of 31st March, the following Ledger Balances have been extracted from the books of Delhi Office and New York Office:

(Amt in ₹/$ 000's)

Particulars	Delhi (₹)		New York $	
	Dr.	Cr.	Dr.	Cr.
Share Capital	-	1,250	-	-
Reserve & Surplus	-	640	-	-
Land	475	-	-	-
Building (Cost)	1,000	-	-	-
Building Depreciation Reserve	-	200	-	-
Plant & Machinery (Cost)	2,000	-	100	-
Plant & Machinery Depreciation Reserve	-	500	-	20
Trade Receivables / Payables	500	270	60	20
Opening Stock (1st April, i.e. period beginning)	250	-	25	-
Branch Stock Reserve	-	65	-	-
Cash & Bank Balances	125	-	4	-
Purchases / Sales	275	600	25	125
Goods Sent to branch	-	1,500	30	-
Managing Director's Salary	50	-	-	-
Wages & Salaries	100	-	18	-

Particulars	Delhi (₹)		New York $	
	Dr.	Cr.	Dr.	Cr.
Rent	-	-	6	-
Office Expenses	25	-	12	-
Commission Receipts	-	275	-	100
Branch/HO Current A/c	800	-	-	15
Total	5,600	5,600	280	280

The following information is also available:

1. Stock as at 31st March (year-end): (a) Delhi – ₹ 2,00,000, New York - $10 (All stock received from Delhi)
2. Head Office always sends Goods to the Branch at Cost Plus 25%
3. Provision is to be made for Doubtful Debts at 5%
4. Depreciation is to be provided on Buildings t 10% and on Plant and Machinery at 20% on Written Down Values.

You are required:

1. To convert the Branch Trial Balance into Rupees using the following rates of exchange:

   Opening Rate 1$ = ₹ 50, Closing Rate 1$ = ₹ 55, Average Rate 1$ = ₹ 52, for Fixed Assets 1$ = ₹ 45.
2. To prepare the Trading and Profit & Loss A/c for the year ended 31st March, showing to the extent possible, Head Office results and Branch results separately.

Solution:

1. Conversion of New York Branch Trial balance in Rupees (₹ In 000s)

Particulars	Dr.$	Cr.$	1$ = ₹.	Dr.	Cr.
Plant & Machinery (Cost)	100		₹ 45	4,500	
Plant & Machinery Depreciation Reserve		20	₹ 45		900
Debtors / Creditors	60	20	₹ 55	3,300	1,100
Stock (1st April)	25		₹ 50	1,250	
Cash & Bank Balances	4		₹ 55	220	

Particulars	Dr.$	Cr.$	1$ = ₹.	Dr.	Cr.
Purchases / Sales	25	125	₹ 52	1,300	6,500
Goods received from H.O (As Given)	30		-	1,500	
Wages & Salaries	18		₹ 52	936	
Rent	6		₹ 52	312	
Office Expenses	12		₹ 52	624	
Commission Receipts		100	₹ 52		5,200
HO Current A/c		15			800
Exchange Loss (Balance figure)				558	
Net Total	280	280		14,500	14,500

Closing Stock = $10 = 10 × ₹. 55 = ₹ 550 (or) 0.55 (in ₹ 000's)

2. Trading and Profit & Loss Account for the year ended 31st March (₹. In 000's)

Particulars	HO	Branch	Particulars	HO	Branch
To Opening Stock	250	1,250	By Sales	600	6,500
To Purchases	275	1,300	By Goods sent to Branch	1,500	
To Goods recd. From HO		1,500	By Closing Stock	200	0.55
To Gross Profit c/d (b/fig)	1,775	2,450.55			
Total	2,300	6,500.55	Total	2,300	6,500.55
To Wages & Salaries	100	936	By Gross Profit b/d	1,775	2,450.55
To Rent	-	312	By Commission Receipts	275	5,200
To Office Expenses	25		624		
To Provision for Doubtful Debts at 5%	(5% of 500) = 25	(5% of 3,300) = 165			
To Depreciation (WN 1)	380	720			
To Profits c/d	1,520	4,893.55			

Particulars	HO	Branch	Particulars	HO	Branch
Total	2,050	7,650.55	Total	2,050	7,650.55
To Exchange Loss (From Trial Balance)		55	By Net Profits b/d - HO 1250 - Branch 4,893.55		6,413.55
To Managing Director's Salary		50			
To Net Profits (Carried to Balance Sheet)		5,870.44	By Branch Stock Reserve (WN2)		64.89
Total		6,478.44	Total		6,478.44

Note: In case of a Company, Schedule III Requirements are applicable for Statement of Profit and Loss.

W.N.1 Computation of Depreciation (₹.in 000's)

Particulars	Rate of Deprn.	Cost	Depn. Res.	Net Block	Depn.
Building – Head Office	10%	1,000	200	800	80
Plant & Machinery at Head Office	20%	1,000	500	1,500	300
Sub – Total Depreciation for HO		3,000	700	2,300	380
Plant & Machinery at Branch Office	20%	4,500	900	3,600	720
Total					1,100

Note: Of the above, Depreciation for HO = 80 + 380 = 460, and Depreciation for branch = 252.

W.N.2 Computation of Branch Stock Reserve

Particulars	₹. 000's
Closing Stock (10 × 55)	0.55
Reserve on Closing Stock $\left(0.55\times\frac{25}{125}\right)$	0.11
Less: Opening branch Stock Reserve (as on 1st April)	(65.00)
Reversal of Stock Reserve	**(*64.89)**

ILLUSTRATION 02 (STOCK AND DEBTORS METHOD)

Shiv Ltd. is a Company in the Retail Trade. Business had been concentrated in the past on the Shopping Premises in the T. Nagar area, but it has now been decided to open a Branch at Spencer Towers. The branch was opened on 1st January, Goods were charged out to the Branch at Selling Price of 10% above Cost. The branch sells to its Customers at such Invoice Price.

The following information were extracted from the Head Office records relating to the branch at the end of the year, i.e. 31st December. All the Amounts shown are at Invoice Price.

Particulars	(₹)	Particulars	(₹)
Goods sent to branch (including goods invoice at ₹. 2,200 to Branch, but not received by Branch till 31st December)	48,400	Authorized reduction in Selling Price	788
Credit Sales	25,920	Discount allowed to Customers	160
Cash Sales	18,480	Cash remitted by Branch HO	36,460
Goods returned to branch by Customers	2,200	Stock at branch at 31st December	1,540
Goods returned to Head Office by Branch	968	Cash at Branch at 31st December	1000
Goods returned to Head Office by Customers	880	Branch Expenses paid by Branch	100
Bad Debts	320	Branch Expenses paid by HO	1560

Certain Stocks were lost by fire, the value of which was not yet known. Prepare the necessary Ledger Accounts in the books of the Head Office.

Solution:

1. Branch Stock Accounts

Particulars	(₹)	Particulars	(₹)
To Goods sent to Branch A/c	48,400	By Branch Debtors A/c – Credit Sales	25,920
To Branch Debtors A/c – Goods returned by Customers to Branch	2,200	By Branch Cash A/c – Cash Sales	18,480
		By Goods Sent to Branch A/c – Goods returned to HO	968

Particulars	(₹)	Particulars	(₹)
		By Branch Stock Adjustment A/c – Reduction in Sale Price	788
		By Abnormal Loss A/c (balancing figure)	704
		By Goods in Transit	2,200
		By balance c/d	1540
Total	**50,600**	**Total**	**50,600**

2. Branch Debtors Account

Particulars	(₹)	Particulars	(₹)
To Branch Stock A/c	25,920	By Branch Stock A/c	2,200
		By Goods sent to Branch A/c	880
		By Branch Profit & Loss A/c:	
		Bad Debts	320
		Discount Allowed	160
		By Branch Cash A/c (Cash received)	19,080
		By balance c/d (balancing figure)	3,280
Total	**25,920**	**Total**	**25,920**

3. Goods sent to Branch Account

Particulars	(₹)	Particulars	(₹)
To Branch Stock A/c (Goods returned to HO)	968	By Branch Stock A/c - Goods sent	48,400
To Branch Debtors (Goods returned directly to HO)	880		
To Branch Stock Adjustment A/c – (Note)	4,232		
To Purchase A/c – tfr (balancing figure)	42,320		
Total	**48,400**	**Total**	**48,400**

4. Branch Cash Account

Particulars	(₹)	Particulars	(₹)
To Branch Stock A/c	18,480	By cash A/c (Remittance To HO)	36,460
To Branch Debtors A/c (Cash received)	19,080	By Branch Expenses	100
		By balance c/d	1000
Total	**37,560**	**Total**	**37,560**

5. Abnormal Loss Account

Particulars	(₹)	Particulars	(₹)
To Branch Stock A/c	704	By Branch Stock Adjustment A/c (Loading)	64
		By Branch Profit & Loss A/c	640
Total	**704**	**Total**	**704**

6. Branch Adjustment Account

Particulars	(₹)	Particulars	(₹)
To Branch Stock – Selling Price Reduction	788	By Goods Sent to Branch A/c	4,232
To Abnormal Loss A/c	64		
To branch P & L A/c – Gross Profit trfd (bal.fig)	3,040		
To Stock Reserve – Loading on Stock in Hand and Goods in Transit) (Note)	340		
Total	**4,232**	**Total**	**4,232**

Note: Loading on Stock in Hand and Goods in Transit = (2,200 + 1,540) × = ₹ 340.

ILLUSTRATION 3 (STOCK AND DEBTORS METHOD)

Mahavir Ltd, Calcutta, started a Branch in Hosur on 1st April, to which goods were sent at 20% above Cost. The Branch makes both Credit and Cash Sales. Branch expenses are met from Branch Cash and balance money remitted to HO. The Branch does not maintain double entry books of account and necessary accounts relating to Branch are maintained in H.O. Following further details are given for the year ended on 31st March -

Particulars	(₹)
Cost of Goods sent to Branch	1,00,000
Goods received by Branch till 31st March at Invoice Price	1,08,000
Credit Sales for the year	1,16,000
Debtors as on 31st March	41,600
Bad Debts and Discount written off	400
Cash remitted to HO	86,000
Cash in Hand at Branch on 31st March	4,000
Cash remitted by HO to Branch during the year	6,000
Closing Stock at Branch at Invoice Price	12,000
Expenses incurred at Branch	24,000

Show the necessary Ledger Accounts according to Stock and Debtors System, in the books of the Head Office and determine the Profit or Loss of the Branch for the year ended on 31st March.

Solution:

1. Branch Stock Account

Particulars	(₹)	Particulars	(₹)
To Goods sent to Branch A/c	1,20,000	By Branch Debtors A/c	1,16,000
To Branch Adjustment A/c (balancing figure)	54,000	By Branch Bank A/c (from WN4)	34,000
		By balance c/d	
		Stock in transit [(1,00,000×120%) – 1,08,000]	12,000
		Stock at Branch	12,000
Total	**1,74,000**	**Total**	**1,74,000**

2. Branch Debtors Account

Particulars	(₹)	Particulars	(₹)
To Branch Stock A/c	1,16,000	By Branch Bank A/c – Colln from Debtors (b/f)	74,000

Particulars	(₹)	Particulars	(₹)
		By Branch P & L A/c (Bad Debts)	400
		By balance c/d	41,600
Total	**1,16,000**	**Total**	**1,16,000**

3. Goods sent to Branch Account

Particulars	(₹)	Particulars	(₹)
To Branch Adjustment A/c (Loading on Goods Sent = $1,20,000 \times \frac{20}{120}$)	20,000	By Branch Stock Account	1,20,000
To Purchases	1,00,000		
Total	**1,20,000**	**Total**	**1,20,000**

4. Branch Bank Account

Particulars	(₹)	Particulars	(₹)
To Bank A/c – Receipt from HO	6,000	By Branch Expenses A/c	24,000
To Branch Debtors A/c – Collection (WN 2)	74,000	By Bank A/c – Remittance to HO	86,000
To Branch Stock A/c – Branch Cash Sales	34,000	By balance c/d	4,000
Total	**1,14,000**	**Total**	**1,14,000**

5. Branch Adjustment Account

Particulars	(₹)	Particulars	(₹)
To Branch P & L A/c – Gross Profit (bal.fig)	70,000	By Goods Sent to Branch – Loading	20,000
To Stock Reserve on Clg Stk ($24,000 \times \frac{20}{120}$)	4,000	By Branch Sales A/c	54,000
Total	**74,000**	**Total**	**74,000**

6. Branch Profit and Loss Account

Particulars	(₹)	Particulars	(₹)
To Branch Debtors A/c (Bad Debts)	400	By Branch Adjustment A/c (Gross Profit)	70,000
To Branch Expenses A/c	24,000		
To Net Profit (balancing figure)	45,600		
Total	**70,000**	**Total**	**70,000**

ILLUSTRATION 4 (DEBTORS METHOD – BRANCH ACCOUNT)

Ramesh Ltd invoices goods to its Branch at cost plus 20%. The branch sells goods for cash as well as on credit. The Branch meets its expenses out of cash collected from its Debtors and Cash Sales, and remits the balance of Cash to Head Office after withholding ₹ 10,000 necessary for meeting immediate requirements of cash. On 1st April, the Assets at the branch were as follows: (in ₹ 000's)

Cash in Hand	20	Stock at Invoice Price	2,160
Trade Debtors	768	Furniture and Fittings	1,000

During the accounting year ended 31st March, the Invoice Price of goods dispatched by the Head Office to the Branch amounted to ₹ 264 Lakhs. Out of the goods received by it, the Branch sent back to Head Office goods invoiced at ₹ 1,44,000. Other transactions at the Branch during the year were as follows:

Particulars	₹. 000's	Particualrs	₹. 000's
Cash Sales	19,400	Cash Discount allowed to Debtors	116
Credit Sales	6,280	Returns by Customers	204
Cash Collected by the Branch from customers	5,684	Bad Debts written off	74
		Expenses paid by the Branch	1,684

On 1st January, the branch Purchased new furniture for ₹ 2 Lakh, for which payment was made by Head Office through a cheque. On 31st March (year-end), Branch Expenses amounting to ₹ 12,000 were outstanding, and Cash on Hand was ₹ 20,000.Furniture is subject to Depreciation at 16% p.a. on WDV Method.

Prepare Branch Accounts in the books of Head Office for the year-ended 31st March.

Solution:

Branch Account in the books of Head Office

Particulars	₹.000's	Particulars	₹.000's
To balance b/d		By Stock Reserve on Opg Stk (2,160 × $\frac{1}{6}$)	360
Cash	20	By goods Sent to branch-Returns to HO	144
Debtors	768	By Remittance (19,400 + 5,684 – 1684)	23,400
Stock in Trade	2,160	By Goods Sent to Branch (Loading removal) [(26,400 – 144) × $\frac{1}{6}$)	4,376
Furniture and Fittings	1000		
To Goods Sent to branch	26,400		
To Bank A/c (Purchase of Furniture)	200	By balance c/d	
To Stock Reserve on Clg Stk (1,470 × $\frac{1}{6}$)	490	Cash	20
		Debtors	970
To balance c/d (Outstanding Expenses)	12	Stock-in-Trade	2,940
To Net Profit (balancing figure)	2,192	Furniture & Fittings (note)	1,032
Total	**33,242**	**Total**	**33,242**

Working notes:

1. Memorandum Branch Stock Account (To ascertain Closing Stock)

Particulars	₹. 000's	Particulars	₹. 000's
To balance b/d	2,160	By Goods Sent to branch (Returns to HO)	144

Particulars	₹. 000's	Particulars	₹. 000's
To Goods Sent to Branch	26,400	By Branch Cash (Cash Sales)	19,400
To Branch Debtors (Stock Returns)	204	By Branch Debtors (Credit Sales)	6,280
		By balance c/d (balancing figure)	2,940
Total	**28,764**	**Total**	**28,764**

2. Memorandum Branch Debtors Account (To Ascertain Closing Debtors)

Particulars	₹. 000's	Particulars	₹. 000's
To balance b/d	768	By Branch Cash (Collection)	5,684
To Credit Sales	6,280	By Brach Expenses (Discount Allowed)	116
		By Branch Stock (Stock Returns)	204
		By branch Expenses (Bad Debt w/off)	74
		By balance c/d (balancing figure)	970
Total	**7,048**	**Total**	**7,048**

3. Memorandum Branch Cash Account (To Ascertain Remittance HO)

Particulars	₹. 000's	Particulars	₹. 000's
To balance b/d	20	By branch Expenses	1684
To Branch Stock (Cash Sales)	19,400	By HO A/c – Remittance (balancing figure)	23,400
To Branch Debtors (Collection)	5,684	By balance c/d	20
Total	**25,104**	**Total**	**25,104**

4. Computation of Depreciation and WDV of Furniture

Particulars	Computation	(₹)
Depreciation on Old Furniture	₹.10,00,000 × 16%	1,60,000
Depreciation on Newly purchased Furniture	₹.2,00,000 × 16%	8,000
Total Depreciation		1,68,000

Particulars	Computation	(₹)
WDV of Furniture as on 31st March (year – end)	(10,00,000 + 2,00,000) – 1,68,000	10,32,000

ILLUSTRATION 5 (DEBTORS METHOD - BRANCH ACCOUNT)

Sri Ram Company is having its Branch at Kolkata. Goods are invoiced to the branch at 20% Profit on Sale. Branch has been instructed to send all cash daily to Head Office. All expenses are paid by Head Office except Petty Expenses which are met by the Branch Manager. From the following particulars, prepare branch account in the books of Head Office.

Particulars	(₹)	Particulars	(₹)
Stock on 1st April 2024 (Invoice Price)	60,000	Credit Sales	1,20,000
Sundry Debtors on 1st April 2024	36,000	Discount allowed to Debtors	320
Cash in Hand on 1st April 2024	1600	Expenses paid by the Head Office	
Office Furniture on 1st April 2024	6,000	Rent	3,600
Goods invoiced from the Head Office (Invoice Price)	3,20,000	Salary	6,400
Goods returned to Head Office	4,000	Stationery and Printing	1600
Goods returned by Debtors	1,920	Petty Expenses paid by the Branch	1,200
Cash received from Debtors	1,20,000	Stock on 31st March 2025 (Invoice Price)	56,000
Cash Sales	2,00,000	Deprn to be provided on Branch Furniture at	10% p.a

Solution:

Notes:

1. Depreciation on Furniture is not debited as a separate item in the Branch account since the Furniture (Closing Balance) at the end is shown at the Depreciated Value.
2. Sales Returns and Discount are accounted for automatically since Opening and Closing balances of Debtors are stated in the Branch Account.

Branch Account in the books of Head Office

Particulars		(₹)	Particulars		(₹)
To balance b/d			By Stock Reserve on Opg Stk (₹. 60,000 × 20%)		12,000
Stock	60,000		By Bank A/c		
Debtors	36,000		Cash Sales	2,00,000	
Furniture	6,000		Received from Debtors	1,20,000	3,20,000
Petty Cash	1,600	1,03,600	By Goods Sent to branch A/c (Returns)		4,000
To Goods sent to Branch A/c		3,20,000			
To Goods sent to Branch A/c (Loading on returns ₹. 4,000 × 20%)		800	By Goods sent to Branch A/c (Loading Removal = ₹. 3,20,000 × 20%)		64,000
To Bank A/c			By balance c/d		
Rent	3,600		Stock	56,000	
Salary	6,400		Debtors (WN2)	33,760	
Stationery and Printing	1600	11,600	Furniture (3,000-300)	5,400	
To StockReserve on Clg Stk (₹. 56,000 × 20%)		11,200	Petty Cash (800-600)	400	95,560
To P & L A/c – Profit tfr (balancing figure)		48,360			
Total		**4,95,560**	**Total**		**4,95,560**

Working Notes:

1. Goods Sent to branch Account

Particulars	(₹)	Particulars	(₹)
To Branch A/c (Loading)	64,000	By branch A/c	3,20,000
To Branch A/c (Returns from Branch)	4,000	By Branch A/c (Loading)	800
To Purchases A/c (balancing figure)	2,52,800		
Total	**3,20,800**	**Total**	**3,20,800**

2. Branch Debtors Account (To ascertain Closing Debtors)

Particulars	(₹)	Particulars	(₹)
To balance b/d	36,000	By Cash(Collections)	1,20,000
To Credit Sales	1,20,000	By Sales Returns	1920
		By Discount Allowed	320
		By balance c/d (balancing figure)	33,760
Total	**1,56,000**	**Total**	**1,56,000**

ILLUSTRATION 06 (DEPARTMENT ACCOUNTING)

P. Bose & Co. has two departments P and Q. Department P sells goods to Department Q at normal selling Price. From the following particulars prepare the Departmental Trading and Profit and Loss Account for the year ended 31.3.2024 and also ascertain the net profit to be transferred to Balance Sheet.

	Dept. P	Dept. Q
Opening Stock	2,50,000	Nil
Purchases	14,00,000	1,50,000
Goods from P	-	4,00,000
Wages	1,75,000	1,00,000
Travelling Expenses	10,000	80,000
Closing Stock at cost to the Department	4,00,000	1,04,500
Sales	15,00,000	10,00,000
Printing and Stationery	15,000	12,500

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

(a) Salaries ₹ 1,65,000;

(b) Advertisement Expenses ₹ 60,000;

(c) General Expenses ₹ 2,50,000;

(d) Depreciation is to be charges @30% on the machinery value of ₹ 48,000.

The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and Depreciation in the ratio of 2:1 and 1:3 respectively. General Expenses are to be apportioned in the ratio of 3:1.

Solution:

P.Bose & Co

Departmental Trading and Profit & Loss account for the year ended 31.3.2024

Dr. **Cr.**

Particulars	Deptt. P	Deptt. Q	Particulars	Deptt. P	Deptt. Q
To Opening Stock	2,50,000	-	By Sales	15,00,000	10,00,000
To Purchase	14,00,000	1,50,000	By Transfer to Q Deptt.	4,00,000	-
To Goods from P Deptt.	-	4,00,000	By Closing Stock	4,00,000	1,04,500
To Wages	1,75,000	1,00,000			
To Gross Profit c/d	4,75,000	4,54,500			
	23,00,000	11,04,500		23,00,000	11,04,500
To Travelling Expenses	10,000	80,000	By Gross Profit b/d	4,75,000	4,54,500
To Printing & Stationery	15,000	12,500			
To Salaries [2:1]	1,10,000	55,000			
To Depreciation [30% on 48,000 as 1:3]	3,600	10,800			
To General expenses [3:1]	1,87,500	62,500			
To Advertisement Expenses [3:2]	36,000	24,000			
To General Profit & Loss A/c (Departmental Net Profit trans.)	1,12,900	2,09,700			
	4,75,000	**4,54,500**		**4,75,000**	**4,54,500**

General Profit & Loss Account for the year ended 31.3.2024

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Provision on Stock (Working Note)	16,077	By Departmental Profit & Loss A/c:	
		P 1,12,900	
To Net Profit	3,06,523	Q 2,09,700	3,22,600
	3,22,600		3,22,600

Working Note:

1. Rate of Gross Profit of P department made on Sales (including transfer)

$$= \frac{₹\ 4{,}75{,}000}{₹\ 15{,}00{,}000 + 4{,}00{,}000} \times 100 = 25\%$$

2. Portion of Goods from P department included in Stock of Q department

$$= \frac{₹\ 4{,}00{,}000}{₹\ 4{,}00{,}000 + ₹\ 1{,}50{,}000 + ₹\ 1{,}00{,}000} \times 1{,}04{,}500 = ₹\ 64{,}307.50$$

∴ Unrealized Profit included = 25% of 64,307.50 = ₹. 16,076.875

There is no opening stock of Q department. So, there is no provision on its Opening Stock.

ILLUSTRATION 07 (DEPARTMENT – WISE TRADING A/C)

X Ltd has three departments A, B and C. from the particulars given below, compute - (a) Values of Stock as on 31st December, and (b) Department Results.

Particulars	A	B	C
Stock (at year beginning)	₹ 12,000	₹ 18,000	₹ 6,000
Purchases	₹ 73,000	₹ 62,000	₹ 24,000
Actual Sales	₹ 86,250	₹ 79,700	₹ 37,300
Gross Profit on Normal Selling Price	20%	25%	$33\frac{1}{3}\%$

During the year, certain items were sold at discount and these discounts were reflected in the value of Sales shown above. The items sold at discount were –

Particulars	A	B	C
Sales at Normal Price	₹ 5,000	₹ 1,500	₹ 500
Sales at Actual Price	₹ 3,750	₹ 1,200	₹ 300

Solution:

1. Computation of Cost of Goods Sold

Particulars	A		B		C	
Sales at Actual Price		86,250		79,700		37,300
Less: Sales at Discounted Price		(3,750)		(1,200)		(300)
Net Sales at Normal Price		82,500		78,500		37,000
Add: Normal Value of Discounted Sales		5,000		1,500		500
Total Sales at Normal Selling Price	100%	87,500	100%	80,000	100%	37,500
Less: GP on Normal Selling Price	20%	17,500	25%	20,000	33.33%	12,500
Total Cost of Goods Sold	**80%**	**70,000**	**75%**	**60,000**	**66.67%**	**25,000**

2. Computation of Value of Closing Stock

Particulars	A	B	C
Opening Stock	12,000	18,000	6,000
Add: Purchases	73,000	62,000	24,000
Less: Cost of Goods Sold	85,000	80,000	30,000
Closing Stock	(70,000)	(60,000)	(25,000)
Closing Stock	15,000	20,000	5,000

3. Departmental Trading and Profit and Loss A/c for the year ending 31st December (in ₹.)

Particulars	A	B	C	Particulars	A	B	C
To Opening Stock	12,000	18,000	6,000	By Sales	86,250	79,700	37,300

Particulars	A	B	C	Particulars	A	B	C
To Purchases	73,000	62,000	24,000	By Closing Stock (WN 2)	15,000	20,000	5,000
To Gross Profit	16,250	19,700	12,300				
Total	**1,01,250**	**99,700**	**42,300**	**Total**	**1,01,250**	**99,700**	**42,300**

Note: The gross Profit as per above Trading A/c can also be reconciled with GP as per WN 1 as under –

GP as per WN1 (less) Difference between Normal Value and Discounted Price of Special Items as per Qn = Trading GP

For example, for Department A: 17,500 (-) [5,000 – 3,750] = 16,250 as per Trading A/c.

7 Insurance Claim for Loss of Stock and Loss of Profit [Study Material - Module 7]

ILLUSTRATION 01 (LOSS OF STOCK)

On 1st April 2024, the Stock of Mr. Ramprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Stock at Cost 1 January 2023	1,47,000
Stock at Cost 31 December 2023	1,59,200
Purchases year ended 31 December 2023	7,96,000
Sales year ended 31 December 2023	9,74,000
Purchases 01.01.2024 to 31.03.2024	3,24,000
Sales 01.01.2024 to 31.03.2024	4,62,400

In valuing the stock for the Balance Sheet at 31st December 2023, ₹ 4,600 had been written off on certain stock which was a poor selling line having cost of ₹ 13,800. A portion of these goods were sold in March 2024 at a loss of ₹ 500 on original cost of ₹ 6,900. The remainder of this Stock was now estimated to be worth its original cost. Subject to the above exception, Gross Profit had remained at a uniform rate throughout the year.

The value of stock salvaged was ₹ 11,600. The policy was for ₹ 1,00,000 and was subject to Average Clause.

Work out the amount of the claim of los by fire.

Solution:

1. Trading Account for the year ended 31st December 2023 (to compute Normal GP Rate)

Particulars	Normal	Abnml	Total	Particulars	Normal	Abnml	Total
To Opening Stock	1,47,000	-	1,47,000	By Sales	9,74,000	-	9,74,000

Particulars	Normal	Abnml	Total	Particulars	Normal	Abnml	Total
To Purchases	(b/f) 7,82,200	13,800	7,96,000	By Closing Stock	(b/f) 1,50,000	9,200	1,59,200
To GP (b/f)	1,94,800	-	1,94,800	By Abn Item w/off	-	4,600	4,600
Total	11,24,000	13,800	11,37,800	Total	11,24,000	13,800	11,37,800

Normal Gross Profit Ratio = $\frac{\textit{Gross Profit}}{\textit{Sales}} = \frac{₹\ 1{,}94{,}800}{₹\ 9{,}74{,}000}$ = 20%

Note:

- Normal value of Purchases, and Normal Value of Closing Stock are derived as balancing figures from respective Rows.
- Normal GP and amt written off on Abnormal Item are derived as balancing figure from the respective Columns.

2. Memorandum trading Account (1st Jan 2024 to 31st Mar 2024)

Dr. **Cr.**

Particulars		(₹)	Particulars		(₹)
To Opening Stock Less: Abnormal Item	1,59,200 (9,200)	1,52,000	By Sales Less: Abnormal Item (6,900 – 500)	4,62,400 (6,400)	4,56,000
To Purchases		3,24,000	By Stock on the date of fire (balancing figure)		1,09,200
To gross Profit = 20% on Sales		91,200			
Total		**5,65,200**			**5,65,200**

3. Statement of Insurance Claim

Partiulars	(₹)
Value of Normal Stock (WN 2)	1,09,200
Add Value of Abnormal Stock (at Original cost as given) [13,800 – 6,900]	6,900
Total value of Stock on 1st Apr 2024	1,16,100
Less: Salvaged Stock	(11,600)

Partiulars	(₹)
Net Loss of Stock	1,04,500
Admissible Claim $= \text{Net Claim } \dfrac{\textit{Policy Amount}}{\textit{Value of Stock Lost}} = 1{,}04{,}500 \times \dfrac{₹\ 1{,}00{,}000}{₹\ 1{,}16{,}100}$	90,009

ILLUSTRATION 02 (CLAIM FOR LOSS OF PROFITS)

On account of a Fire on 15th June, in the business house of a Company, the working remained disturbed upto 15th December as a result of which it was not possible to effect any Sales. The Company had taken out an Insurance Policy with an average Clause against consequential Losses for ₹ 1,40,000, and a period of 7 months has been agreed upon as Indemnity Period. An increases of 25% was marked in the current year's Sales as compared to the last year. The company incurred an additional expenditure of ₹ 12,000 to make Sales possible an made a saving of ₹ 2,000 in the Insured Standing Charges. The following further details are available –

	Amount in (₹.)
Actual Sales from 15th June to 15th Dec	70,000
Sales from 15th June to 15th Dec (i.e. during the preceding year corresponding to the Indemnity Period)	2,40,000
Net Profit for the Last financial Year	80,000
Insured Standing Charges for the Last Financial Year	70,000
Total Standing Charges for the Last Financial Year	1,20,000
Turnover for the Last financial Year	6,00,000
Turnover for one year: 16th June to 15th June	5,60,000

Ascertain the Claim for Loss of Profits.

Solution:

1. Period of Indemnity

Policy Period: = 7 months

whichever is lower

Actual Dislocation: 15th Jun to 15th Dec = 6 months

Result: 6 months

2. Computation of GP Rate

GP Rate for Claim Purposes = $\frac{\textit{Net Profit + InsuredS Tan Ding Charges}}{\textit{Sales}} = \frac{80{,}000 + 70{,}000}{6{,}00{,}000}$	25%

3. Computation of Insurable Amount

Particulars	(₹)
Annual turnover, i.e. Turnover for 12 months preceding the dte of Fire	5,60,000
Add: Adjustment for Increased in Turnover (25% of ₹ 5,60,000)	1,40,000
Adjusted Annual Turnover	7,00,000
GP on Adjusted annual Turnover at 25% on ₹ 7,00,000 = Insurable Amount	1,75,000

4. Computation of Short Sales

Particulars	(₹)
Std Turnover from 15th June to 15th December (Prev. year corresponding to Indemnity Period)	2,40,000
Add: Adjustment for Increase in Turnover (₹ 2,40,000 × 25%)	60,000
Adjusted / Expected Turnover during Indemnity Period	3,00,000
Less: Actual Turnover during Indemnity Period	(70,000)
Short Sales	2,30,000

5. Computation of Allowable Additional expenses

Particulars	(₹)
(a) Actual additional expenses	12,000
(b) GP on Sales generated by Additional Expenses (₹.70,000 × 25%)	17,500
(c) Additional Expenses × $\frac{\textit{GPon Adjusted Annual Turnover}}{\textit{GPon Adjusted Annual Turnover + UninsurredS Tan Ding Charges}}$ $= ₹.\ 12000 \times \frac{25\% \times 7{,}00{,}000}{(25\% \times 7{,}00{,}000) + 50{,}000} = ₹.12{,}000 \times \frac{1{,}75{,}000}{2{,}25{,}000} =$	9,333
Allowable Additional Expenses = Least of the above	9,333

6. Computation of Claim

Loss of Profit = Gross Profit on Short Sales = 25% on ₹ 2,30,000	57,500
Add: Allowable additional expenses (WN 5)	9,333
Less: Saving in Insured Standing Charges (Given)	(2,000)
Net Claim for Loss of Profit	64,833
Admissible Claim (based on Average Clause) = Net Claim × $\frac{\textit{Policy Amount}}{\textit{Insurable Amount}}$ = ₹ 64,833 × $\frac{1,40,000}{1,75,000}$	51,866

ILLUSTRATION 03 (CLAIM FOR LOSS OF PROFITS)

A fire occurred on 1st February 2024, in the premises of Gama Ltd., a Retail Store, and business was partially disorganized upto 30th June 2024. The Company was insured under a Loss of Profits Policy for ₹ 1,25,000 with a six months Indemnity Period.

From the following information, compute the amount of claim under the Loss of Profit Policy.

Particulars	(₹)
Actual Turnover from 1st February to 30th June 2024	80,000
Turnover from 1st February to 30th June 2024	2,00,000
Turnover from 1st February 2023 to 31st January 2024	4,50,000
Net Profit for last Financial Year	70,000
Insured Standing Charges for last Financial Year	56,000
Total Standing Charges for last Financial Year	64,000
Turnover for the last Financial Year	4,20,000

The Company incurred Additional expenses amount to ₹ 6,700 which reduced the loss in Turnover. There was also a saving during the Indemnity Period of ₹ 2,450 in the Insured Standing Charges as a result of the fire.

There had been a considerable increase in trade since the date of the Last Annual Accounts and it has been agreed that an adjustment of 15% be made in respect of the upward trend in Turnover.

Solution:

1. **Period of Indemnity**

Policy Period: = 6 months

Actual Dislocation 1st Feb 2024 to 30th June 2024 = 5 months

(whichever is lower)

Result: 5 months

2. **Computation of GP Rate**

GP Rate for Claim purposes $= \dfrac{\textit{Net Profit + InsuredS Tan Ding Charges}}{\textit{Sales}}$ $= \dfrac{80,000 + 70,000}{6,00,000}$	30%

3. **Computation of Insurable Amount**

Particulars	(₹)
Annual Turnover, i.e. Turnover for 12 months preceding the date of fire	4,50,000
Add: Adjustment for Increase in Turnover (15% of ₹ 4,50,000)	67,500
Adjustment Annual Turnover	5,17,500
GP on Adjusted Annual Turnover at 30% on ₹ 5,17,500 = Insurable Amount	1,55,250

4. **Computation of Short Sales**

Particulars	(₹)
Std Turnover from 01.02.2023 to 30.06.2023 (Previous year corresponding to Indemnity Period)	2,00,000
Add: Adjustment for Increase in Turnover (₹ 2,00,000 × 15%)	30,000
Adjusted / Expected Turnover during Indemnity Period	2,30,000
Less: Actual Turnover during Indemnity Period, i.e. from 01.02.2024 to 30.06.2024	(80,000)
Short Sales	1,50,000

5. Computation of Allowable Additional expenses

Particulars	(₹)
(a) Actual Additional Expenses	6,700
(b) GP on Sales generated by Additional Expenses (₹ 80,000 × 30%)	24,000
(c) Additional Expenses × $\frac{\textit{GPon Adjusted Annual Turnover}}{\textit{GPon Adjusted Annual Turnover + UninsurredS Tan Ding Charges}}$ $= ₹.\ 6{,}700 \times \frac{30\% \times 5{,}17{,}500}{(30\% \times 5{,}17{,}500) + 8{,}000} = ₹.\ 6{,}700 \times \frac{1{,}55{,}250}{1{,}63{,}250} =$	6,372
Allowable additional expenses = Least of the above	6,372

Note: Uninsured Standing Charges = Total Standing Charges – Insured Standing Charges = 64,000 – 56,000 = ₹ 8,000

6. Computation of Claim

Particulars	(₹)
Loss of Profit = Gross Profit on Short Sales = 30% on ₹ 1,50,000	45,000
Add: Allowable additional Expenses (WN 5)	6,372
Less: Saving in Insured Standing Charges	(2,450)
Net Claim for Loss of Profit	48,922
Admissible Claim (based on average clause) $= \text{Net Claim} \times \frac{\textit{Policy Amount}}{\textit{Insurable Amount}}$ $= ₹\ 48{,}922 \times \frac{1{,}25{,}000}{1{,}55{,}000}$	39,390

ILLUSTRATION 04 (LOSS OF STOCK)

On 20th July 2024, the Godown and Business Premises of Raj were affected by fire, and from the accounting records salvaged, the following information is made available to you:

Stock of goods at cost on 1st April 2023	₹ 1,00,000
Stock of Goods at 10% lower than Cost as on 31st March 2024	₹ 1,08,000
For the year from 1st April 2023 to 31st March 2024 Purchase Goods	₹ 4,20,000

	Sales	₹ 6,00,000
For the period from 1st April 2024 to 20th July 2024	Purchases less Returns	₹ 1,40,000
	Sales less Returns	₹ 3,10,000

Sales upto 20th July 2024 included ₹ 40,000 for which goods had not been despatched. Further, purchases upto 20th July 2024 did not include ₹ 20,000 for which purchase Invoices had not been received for Suppliers, though goods have been received at the Godown.

Goods salvaged from the accident were worth ₹ 12,000 and these were handed over to the Insurer.

Ascertain the value of the claim for loss of Goods / Stock.

Solution:

1. Trading Account for the year ended 31st Mar 2024 (to compute GP Rate)

Particulars	(₹)	Particulars	(₹)
To Opening Stock	1,00,000	By Sales	6,00,000
To Purchases	4,20,000	By Closing Stock (1,08,000÷90%)	1,20,000
To Gross Profit (balancing figure)	2,00,000		
Total	**7,20,000**	**Total**	**7,20,000**

Gross Profit Ratio = $\frac{\textit{Gross Profit}}{\textit{Sales}} = \frac{2,00,000}{6,00,000} = 33.33\%$

2. Memorandum Trading Account (1st April 2024 to 20th Jul 2024)

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Opening Stock	1,20,000	By Sales (3,10,000 – 40,000)	2,70,000
To Purchases (1,40,000 + 20,000)	1,60,000	By Stock on the date of fire (balancing figure)	1,00,000
To gross Profit = 1/3rd of Sales (from WN1)	90,000		
Total	**3,70,000**	**Total**	**3,70,000**

3. **Statement of Insurance Claim**

Particulars	(₹)
Value of Stock Lost on date of Fire (WN 2)	1,00,000
Less: Salvaged Stock	(12,000)
Net Claim	88,000

Note: Since Policy Amount is not given, the issue of Average Clause is not considered.

ILLUSTRATION 5 (LOSS OF STOCK)

From the following information ascertain the value of Stock as on 31st March 2024.

Particulars	(₹)
Stock as on 01.04.2023	28,500
Purchases	1,52,500
Manufacturing Expenses	30,000
Selling Expenses	12,100
Administration Expenses	6,000
Financial Expenses	4,300
Sales	2,49,000

At the time of valuing stock as on 31st March 2023, a sum of ₹ 3,500 was written off on a particular item, which was originally purchases for ₹ 10,000 and was sold during the year of ₹ 9,000. Barring the transaction relating to this item, the gross Profit earned during the year was 20% on Sales.

Solution:

Trading Account for the year ended 31st March 2024

Particulars	Normal	Abnml	Total	Particulars	Normal	Abnml	Total
To Opening Stock	22,000	6,500	28,500	By Sales	2,40,000	9,000	2,49,000
To Purchases	1,52,500	-	1,52,500	By Closing Stock	(b/f) 12,500	-	12,500
To Mfg Exps	30,000	-	30,000				
To Gross Profit (20% on 2,40,000)	48,000	2,500	50,500				
Total	**2,52,500**	**9,000**	**2,61,500**	**Total**	**2,52,500**	**9,000**	**2,61,500**

8 Hire Purchase and Installment Sale Transactions [Study Material - Module 8]

ILLUSTRATION 01 – (REPOSSESSION IN PART)

Rajesh Transporters Ltd purchased from Mumbai Motors 3 Tempos costing ₹ 50,000 each on the Hire Purchase System on 01.01.2022. Payment was to be made ₹ 30,000 down and the remainder in 3 equal annual instalments payable on 31.12.2022, 31.12.2023 and 31.12.2024 together with interest at 9% p.a. Rajesh Transporters Ltd writes off depreciation at 20% on the diminishing balance. It paid the instalment due at the end of the first year i.e.31.12.2022 but could not pay the next on 31.12.2023. Mumbai Motors agreed to leave one Tempo with the purchaser on 01.01.2024 adjusting the value of other 2 Tempos against the amount due on 01.01.2024. The Tempos were valued on the basis of 30% depreciation annually.

Show the necessary accounts in the books of Rajesh transporters Ltd for the year 2022, 2023 and 2024.

Solution:

Books of Rajesh Transporters Ltd

Tempo A/c

Date	Particulars	(₹)	Date	Particulars	(₹)
01.01.22	To Delhi Motors A/c	1,50,000	31.12.22	By Depreciation (1,50,000 × 20%)	30,000
			31.12.22	By balance c/d	1,20,000
	Total	1,50,000		Total	1,50,000
01.01.23	To balance b/d	1,20,000	31.12.23	By Depreciation (1,20,000 × 20%)	24,000
			31.12.23	By balance c/d	96,000
	Total	**1,20,000**		**Total**	**1,20,000**

Date	Particulars	(₹)	Date	Particulars	(₹)
01.01.24	To balance b/d	96,000	01.01.24	By Delhi Motors (taken back by Vendor) (WN2)	49,000
			01.01.24	By Loss of takeover	15,000
			01.01.24	By Depreciation (96,000 – 6,400) ×20%	6,400
			31.12.24	By balance c/d	25,600
	Total	**96,000**		**Total**	**96,000**

Mumbai Motors A/c

Date	Particulars	(₹)	Date	Particulars	(₹)
01.01.22	To Bank A/c	30,000	01.01.22	By Tempos A/c	1,50,000
31.12.22	To Bank (40,000 + 10,800)	50,800	31.12.22	By Interest (1,50,000 – 30,000) × 9%	10,800
31.12.22	To Balance c/d (bal. fig)	80,000			
	Total	**1,60,800**		**Total**	**1,60,800**
31.12.23	To Balance c/d	87,200	01.01.23	By Balance b/d	80,000
			31.12.23	By Interest (80,000 × 9%)	7,200
		87,200			87,200
01.11.24	To Tempos A/c (take over)	49,000	01.01.24	By Balance b/d	87,200
31.12.24	To Bank A/c (Assumed to be paid) (bal.fig)	41,638	31.12.24	By Interest (87,200-49,000) × 9%	3,438
	Total	**90,638**		**Total**	**90,638**

1. Valuation of Tempos

Working Notes:

Particulars	Value as per Purchaser	Value as per Vendor
Depreciation Rate	20% p.a on Cash Price	20% p.a on Cash Price
Value of Tempos on 01.01.22 (50,000 × 3)	1,50,000	1,50,000
Less: Depreciation for 2022	(30,000)	(45,000)
Value of Tempos on 01.01.2023	1,20,000	1,05,000
Less: Depreciation for 2023	(24,000)	(31,500)
Value of Tempos on 01.01.2024	96,000	73,500
Less: Book value of Tempos takeover (2/3)	(64,000)	
Net Book Value of Tempos held (1/3)	32,000	
Less: Depreciation	6,400	
Value of Tempos on 31.12.2024	25,600	

2. Takeover Value of Tempos repossessed 2 / 3 × 73,500 = 49,000

3. Loss on Takeover = Book Value of Tempos repossessed = ₹. 96,00 × $\frac{2}{3}$ Less Takeover Value 49,000 = Net 15,000

ILLUSTRATION 02 (CALCULATION ON INTEREST)

A machinery is sold on HP. The terms of purchasers is 4 Annual Instalments of ₹ 6,000 at the end of each year commencing from the date of agreement. Interest is charged @20% and is included in the annual payment of ₹ 6,000.

Show Machinery A/c and Hire Vendor A/c in the books of the Hire Purchaser who defaulted in the payment of the 3rd yearly payment whereupon the Vendor repossessed the Machinery. The Hire Purchaser provides Depreciation on M/c at 10% p.a.

Solution:

1. Computation of Cash Price & Interest for the Hire Purchaser

End of Instalment	Balance due after Instalment	Instalment Amount	Cumulative Amount	Interest at 20% p.a	Paid for Principal
(1)	(2)	(3)	(4) = (2) + (3)	(5) = (4) × $\frac{20}{120}$	(6) = (3) – (5)
1	Nil	6,000	6,000	1,000	5,000
2	0 + 5,000 = 5,000	6,000	11,000	1,833	4,167
3	5,000 + 4,167 = 9,167	6,000	15,167	2,528	3,472
4	9,167 + 3,472 = 12,639	6,000	18,639	3,107	2,893

2. Machinery Account

Year	Particulars	(₹)	Year	Particulars	(₹)
1st yr.	To hire Vendor (M/c Price)	15,532	1st yr.	By Depreciation at 10%	1,553
	Total	15,532		Total	13,979
2nd Yr.	To balance b/d	13,979	2nd Yr.	By Depreciation at 10%	1,398
	Total	13,979		Total	13,979
3rd Yr.	To balance bid	12,581	3rd Yr.	By Depreciation at 10%	1,258
				By hire Vendor (Tfr of Balance in Vendor A/c)	11,000
				By P & L a/c (balancing figure)	323
	Total	12,581		Total	12,581

3. **Hire Vendor Account**

Year	Particulars	(₹)	Year	Particulars	(₹)
1st yr.	To Bank	6,000	1st yr.	By Machinery (from WN)	15,532
	To Balance c/d	12,638		By Interest (from WN)	3,106
	Total	18,538		Total	18,638
2nd Yr.	To Bank	6,000	2nd Yr.	By balance b/d	12,638
	To balance c/d	9,166		By Interest	2,528
	Total	15,166		Total	15,166
3rd Yr.	To Machinery A/c – transfer	11,000		By balance b/d	9,166
				By Interest	1,834
	Total	11,000		Total	11,000

ILLUSTRATION 03 (REPOSSESSION)

Varun kumar bought 2 cars from Ray Motors Pvt Ltd on 01.04.2021 on the following terms:

Down Payment	₹ 6,00,000
1st Installment at the end of First Year	₹ 4,20,000
2nd Installment at the end of 2nd Year	₹ 4,90,000
3rd Installment at the end of 3rd Year	₹ 5,50,000

Interest is charged at 10% p.a. Varun Kumar provide Depreciation @25% on the diminishing balances.

On 31.03.2024, Varun Kumar failed to pay the 3rd installment upon which Ray Motors Pvt Ltd re-possessed 1 Car. Varun Kumar agreed to leave one car with Ray Motors Pvt Ltd and adjusted the value of the Car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written-down basis. The balance amount remaining in the Vendor's Account after the above adjustment was paid by Varun Kumar after 3 months with Interest @20%.

You are required to:

(a) Calculate the Cash Price of the Cars and the interest paid with each installment.

(b) Prepare Car Account and Ray Motors Pvt Ltd Account in the books of Varun Kumar, assuming books are closed on 31st March every year. Figures may be rounded off to the nearest rupee.

Solution:

1. Computation of Cash Price & Interest for Varun Kumar (Amount in ₹)

End of Instalment	Balance due after Instalment	Inst. Amt	Cum. Amount	Int. at 10%p.a	Principal
(1)	**(2)**	**(3)**	**(4) = (2) + (3)**	**(5) = (4) × 10/110**	**(6) = (3) – (5)**
3	Nil	5,50,000	5,50,000	50,000	5,00,000
2	Nil + 5,00,000 = 5,00,000	4,90,000	9,90,000	90,000	4,00,000
1	5,00,000 + 4,00,000 = 9,00,000	4,20,000	13,20,000	1,20,000	3,00,000

Note: Total Cost the Cars = ₹ 12,00,000 + ₹ 6,00,000 (Down Payment) = ₹ 18,00,000. (i.e. ₹ 9,00,000 per Car)

2. Valuation of car (Amount in ₹.)

Particulars	Value as per Purchaser	Value as per Vendor
Depreciation Rate	25% p.a on cash Price	40% p.a on Cash Price
Value of Car on 01.04.2021	18,00,000	18,00,000
Less: Depreciation for 2021-2022	(4,50,000)	(7,20,000)
Value of Car on 01.04.2022	13,50,000	10,80,000
Less: Depreciation for 2022-2023	(3,37,500)	(4,32,000)
Value of car on 01.04.2023	10,12,500	6,48,000
Less: Depreciation for 2023-2024	(2,53,125)	(2,59,200)
Value of 2 Cars on 31.03.2024	7,59,375	3,88,800
Less Value of 1 Car taken over	3,79,688	1,94,400
Value of Car after repossession	3,79,687	1,94,400

3. Car A/c (in the Books of Varunkumar)

Date	Particulars	(₹)	Date	Particulars	(₹)
01.04.2021	To Fair Value Motors A/c	18,00,000	31.03.2022	By Depreciation (18,00,000 × 25%)	4,50,000
			31.03.2022	By balance c/d	13,50,000
	Total	18,00,000		Total	18,00,000
01.04.2022	To balance b/d	13,50,000	31.03.2023	By Depreciation (13,50,000 × 25%)	3,37,500
			31.03.2023	By balance c/d	10,12,500
	Total	10,12,500		Total	10,12,500
01.04.2023	To balance b/d	10,12,500	31.03.2024	By Depreciation (10,12,500 × 25%)	2,53,125
			31.03.2024	By Fair Value Motors A/c (takeover)	1,94,400
			31.03.2024	By Loss on Takeover (3,79,688 – 1,94,400)	1,85,288
			31.03.2024	By balance c/d	3,79,687
	Total	10,12,500		Total	10,12,500

4. Ray Motors A/c

Date	Particulars	(₹)	Date	Particulars	(₹)
01.04.2021	To Bank A/c (Down pymt)	6,00,000	01.04.2021	By Car A/c	18,00,000
31.03.2022	To Bank (Instalment)	4,20,000	31.03.2022	By Interest (18,00,000-6,00,000)×10%	1,20,000

Date	Particulars	(₹)	Date	Particulars	(₹)
31.03.2022	To balance c/d (bal. fig)	9,00,000			
	Total	19,20,000		Total	19,20,000
3103.2023	To Bank	4,90,000	01.04.2022	By balance b/d	9,00,000
	To balance c/d (bal.fig)	5,00,000	31.03.2023	By Interest (9,00,000×10%)	90,000
		9,90,000			9,90,000
31.03.2024	To Car A/c (take over)	1,94,400	01.04.2023	By balance bid	5,00,000
31.03.2024	To balance c/d (bal.fig)	3,55,600	31.03.2024	By Interest 5,00,000 × 10%	50,000
	Total	5,50,000		Total	5,50,000
30.06.2024	To Bank	3,73,380	01.04.2024	By balance b/d	3,55,600
			30.06.2024	By Interest 3,55,600×20%×3/12	17,780
	Total	3,73,380		Total	3,73,380

ILLUSTRATION 4

Om Ltd purchased a Machine on Hire Purchase basis from Kumar Machinery Company Ltd on the following terms –

(a) Cash Price ₹ 80,000

(b) Down Payment at the time of signing the agreement ₹ 21,622.

(c) 5 Annual Installments of ₹ 15,400, the first to commence at the end of twelve months from the date of Down Payment.

(d) Rate of Interest is at 10% p.a.

You are required to calculate the Total Interest and Interest included in Cash Installment.

Solution:

Statement of Cash Price of the Asset acquired on HP

End of Instal. No.	Balance due after Instalment	Instalment Amount	Cumulative Amount	Interest at 10% p.a	Paid for Principal
(1)	(2)	(3)	(4) = (2) + (3)	(5) = (4) × $\frac{10}{110}$	(6) = (3) – (5)
5	Nil	15,400	15,400	1,400	14,000
4	0 + 14,000 = 14,000	15,400	29,400	2,672	12,728
3	14,000 + 12,728 = 26,728	15,400	42,128	3,830	11,570
2	26,728 + 11,570 = 38,298	15,400	53,698	4,882	10,518
1	38,298 + 10,518 = 48,816	15,400	64,216	5,838	9,562
0	48,816 + 9,562 = 58,378	21,622	73,778	(Down Payment) Nil	21,622
		98,622		18,622	80,000

Note: In this question, the Cash Price is already given as ₹. 80,000 and is confirmed by the above computation.

ILLUSTRATION 5 (REPOSSESSION)

Rahul transport Ltd. purchased from NCR Motors, 3Electric Rickshaws costing ₹ 60,000 each on the hire purchase system on 01.01.2022. Payment was to be made ₹ 30,000 down and the remainder in 3 equal instalments payable on 31.12.2022, 31.12.2023 and 31.12.2024 together with interest @10% p.a. Rahul Transport Ltd. writes off Depreciation 0% p.a on the Reducing Balance. It paid the instalment due at the end of 1st year, i.e. 31.12.2022 but could not pay next on 31.12.2023. NCR Motors agreed to leave one e-rickshaw with the purchaser on 31.12.2023 adjusting the value of the other two e-rickshaws against the amount due on 31.12.2023. the e-rickshaws were valued on the basis of 30% Depreciation annually on WDV basis.

Show the necessary Ledger Accounts in the books of Rahul transport Ltd for the year 2022, 2023 and 2024.

Solution:

Ledger Accounts in the Books of Girish Transport Ltd are as under –

1. Rickshaw A/c

Date	Particulars	(₹)	Date	Particulars	(₹)
01.01.22	To NCR Motors A/c	1,80,000	31.12.22	By Depreciation (1,80,000×20%)	36,000
			31.12.22	By balance c/d	1,44,000
01.01.16	Total	1,80,000		Total	1,80,000
	To balance b/d		31.12.23	By Depreciation (1,44,000×20%)	28,800
			31.12.23	By NCR Motors (WN 2)	58,800
			31.12.23	By Loss on Takeover (EN 3)	18,000
		1,44,000	31.12.23	By balance c/d (b/f)al	38,400
	Total	1,44,000		Total	1,44,000
01.01.24	To balance b/d	38,400	31.01.24	By Depreciation (38,400×20%)	7,680
			31.01.24	By balance c/d (b/f)	30,720
	Total	38,400		Total	38,400

2. NCR Motors A/c

Date	Particulars	(₹)	Date	Particulars	(₹)
01.01.22	To Bank A/c	30,000	01.01.22	By Rickshaw A/c	1,80,000
31.12.22	To Bank A/c [50,000 + 15,000]	65,000	31.12.22	By Interest A/c [1,80,000 – 30,000]	15,000
31.12.22	To balance cid (b/f)	1,00,000			
	Total	1,95,000		Total	1,95,000
31.12.23	To Rickshaw A/c	58,800	01.01.23	By balance b/d	1,00,000

Date	Particulars	(₹)	Date	Particulars	(₹)
31.12.23	To balance cid	51,200	31.12.23	By Interest A/c [1,00,000 ×10%]	10,000
		1,10,000			1,10,000
31.12.24	To Bank A/c (Note)	56,320	01.01.24	By balance b/d	51,200
			31.12.24	By Interest A/c[51,200×10%]	5,120
	Total	56,320		Total	56,320

Note: It is assumed that the balance amount is settled along with interest, on 31.12.2024.

Working Notes:

1. Valuation of Rickshaw

Particulars	Value as per Purchaser	Value as per Vendor
Depreciation Rate	20% WDV	30% WDV
Value of Rickshaw [60,000×3]	1,80,000	1,80,000
Less: Depreciation for the year 2022	(36,000)	(54,000)
Value of Rickshaw as on 31.12.2022	1,44,000	1,26,000
Less: Depreciation for the year 2023	(28,800)	(37,800)
Value of Rickshaw as on 31.12.2023	1,15,200	88,200
Less: Value of Rickshaws repossessed [1,15,200 ×2/3]	(76,800)	
Price of the Remaining Rickshaw [1,15,200×1/3]	38,400	
Less: Depreciation for the year 2024	(7,680)	
Value of Rickshaw as on 31.12.2024	30,720	

2. Takeover Value of Rickshaws repossessed: 2/3 × ₹ 88,200 = ₹ 58,800

3. Loss on Takeover = Book Value of Rickshaws Repossessed ₹ 76,800 (-) Takeover Value ₹ 58,800 = ₹ 18,000.

9 Accounting Standards [Study Material - Module 9]

ILLUSTRATION 1 (AS:1)

In the Books of M/s Jay Ltd., Closing stock as on 31st March,2025 amounts to ₹ 62,000 (on the basis of FIFO method). The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2024-2025. On the basis of weighted average method, closing stock as on 31st March, 2025 amounts to ₹ 57,500. Realizable value of the inventory as on 31st March,2025 amounts to ₹ 77,000.

Discuss Disclosure Requirements of change in accounting policy in above cases as per AS 1.

Solution:

Changing the method of valuation of cost of inventory from FIFO to weighted average method is a change in accounting policy. As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy having material effect should be disclosed in the financial statement. The amount by which any item in the financial statement is affected by such change should also be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus, in the given case, the company must disclose the change in the method of valuation of cost of inventory and its effect in the financial statements.

The company may disclose the change in accounting policy in the following manner: - "The inventory is measured at lower of cost and net realizable value. Since the net realizable value of the inventory was more than the cost, the inventory has been carried as its cost. In the current year, the company has adopted weighted average cost method for measuring the cost of inventory as compared to FIFO method adopted in earlier years as it better reflects the consumption pattern of inventory. The change has resulted in reduction in current year profit and value of inventory by ₹ 4,500.

ILLUSTRATION 02 (AS:10)

On December 1,2024, Arjun Co. purchased ₹ 2,00,000 worth of land for a factory site. Arjun razed an old building on the property and sold the materials it salvaged from the demolition. Arjun incurred additional costs and realized salvage proceeds during December 2024 as follows:

Particulars	Amount (₹)
Demolition of old building	₹ 25,000
Legal fees for purchase contract and recording ownership	₹ 5,000
Title guarantee insurance	₹ 6,000
Proceeds from sale of salvaged materials	₹ 4,000

In its December 31,2024 Balance Sheet, Arjun Co. Should report a balance in the land account.

Solution:

As per AS-10, the cost of land should include all expenditure incurred preparing it for its ultimate (such as factory size) is considered part of the cost of land. Before the land can be used as a building site, it must be purchased (involving costs such as purchase price, legal fees, and title insurance) and the old building must be razed (cost of demolition less proceeds from sale of scarp). The total balance in the land account should be ₹ 2,32,000.

Particulars	Amount (₹)
Purchase price	2,00,000
Legal fees	5,000
Title Insurance	6,000
Net cost of demolition (₹ 25,000 - ₹ 4,000)	21,000
	2,32,000

ILLUSTRATION 03 (AS:10)

A company has scrapped a semi-automatic part of a machine (not written-off) and replaced with a more expensive fully automatic part, which has doubled the output of the machine. At the same time the machine was moved to more suitable place in the factory, which involved the building of new foundation in addition to the cost of dismantling and re-erection. The company wants to charge the whole expenditure to revenue. As an auditor, what would you do in this situation?

Solution:

If the subsequent expenditure increases the expected future benefits from the asset beyond its pre-assessed standard of performance then as per AS-10, it should be capitalized. Otherwise it should be expensed. In this case, the replacement of semi-automatic part with a fully automatic part has doubled the output of the machine thus, it has increased future benefits beyond the machines pre-assessed standard performance, and hence this expenditure should be capitalized as part of cost of the machine. However, the expenses for shifting the machine and building of a new foundation in addition to the cost of dismantling and erection do not contribute to any new future benefits from the existing asset. They only serve to maintain performance of the machine. Hence, this cost should be charged to revenue.

ILLUSTRATION 04(AS:11)

(i) XYZ Ltd., an Indian Company obtained long-term loan from ASM private Ltd., a US company amounting to ₹ 60 Lakhs. It was recorded at US $1 = ₹ 60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2025) was US $1 = ₹ 62.00

(ii) Trade receivable includes amount receivable from Siksha Ltd. ₹ 20 lakhs recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $ 1 = ₹ 59.00. The exchange rate on the balance sheet date (31.03.2025) was US $1 = ₹ 62.00.

You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two case as per AS-11 in the books of XYZ Ltd.

Solution:

(i) Exchange difference on account of restatement of loan US $ 1,00,000 (60,00,000 / 60) on the date of balance sheet 31.03.2025 = (1,00,000 × 62) – (1,00,000 × 60) = ₹ 2,00,000 (loss).

This difference of ₹ 2,00,000 (loss) should be charged to the statement of profit and loss as per AS-11, as it is arising because a loan of US $ 1,00,000 is being reported at a rate different from the rate at which it was initially recorded.

(ii) Exchange difference on account of restatement of trade receivable of US $33,898.30 @ ₹ 62 on the Balance Sheet = (33,898.30 × 59) – (33,898.30 × 62) = ₹ 1,01,694 (gain)

This difference of ₹ 1,01,694 (gain) arising on account of restatement of receivables should be credited to Statement of Profit and Loss.

ILLUSTRATION 05 (AS:11)

Particulars	Exchange Rate per $
Goods purchased on 1.1.20X1 for US $ 30,000	₹ 75
Exchange rate on 31.3.20X1	₹ 74
Date of actual payment 7.7.20X1	₹ 73

You are required to ascertain the loss/gain to be recognized for financial years ended 31st March,20X1 and 31st March,20X2 as per AS 11.

Solution:

As per AS:11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.20X1 and Corresponding creditors would be recorded at ₹ 22,50,000 (i.e. $30,000 × ₹ 75)

According to the standard, at the balance sheet date all monetary transactions should be reported using closing rate. Thus, creditors of US $30,000 on 31.03.20X1 will be reported at ₹ 22,20,000 (i.e.$30,000 × ₹ 74) and exchange profit of ₹ 30,000 (i.e. ₹ 22,50,000 - ₹ 22,20,000) should be credited to Profit & Loss account in the year ended 31st march,20X1.

On 7.7.20X1, creditors of $30,000 is paid at the rate of ₹ 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore ₹ 30,000 (i.e. ₹ 22,20,000 - ₹ 21,90,000) will be credited to Profit and Loss account in the year ended 31st March,20X2.

ILLUSTRATION 6 (AS:12)

Lokesh Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment, for which no repayment was ordinarily expected. Moreover, there was no condition that the company should purchase any specific assets for this subsidy. Having fulfilled all the conditions under the scheme, the company on its investment of ₹ 100 crores in capital assets received ₹ 20 crores from the Government in January,20X2(accounting period being 20X1-20X2). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March,20X2.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not.

Solution:

As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are of the nature of promoter's contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus, it is inappropriate to recognize government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to capital reserve. Therefore, the accounting treatment desired by the company is not proper.

ILLUSTRATION 7 (AS:12)

Krishna Limited purchased a Machinery on 1st April,2021 for ₹ 260 Lakhs (Useful life is 4 Years). Government grant received is ₹ 80 lakhs for the purchase of above Machinery. Salvage value at the end of useful life is estimated at ₹ 120 lakhs. Krishna Ltd. decides to treat the grant as deferred income.

You are required to calculate the amount of depreciation and grant to be recognized in profit & loss account for the year ending 31st March,2022, 31st March,2023, 31st March,2024 & 31st March, 2025.Krishna Ltd. follows straight line method for charging depreciation.

Solution:

As per AS 12 "Accounting for government grants", grants related to depreciable assets are recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset, if it is treated as deferred income.

Amount of depreciation and grant to be recognized in the profit and loss account:

Particulars	₹ in lakhs
Depreciation per year:	
Cost of the Asset	260
Less: Salvage value	(120)
	140

Depreciation per year (140 Lakhs / 4) = ₹ 35 Lakhs

₹ 35 Lakhs depreciation will be recognized for the year ending 31st March,2022,31st March,2023, 31st March,2024 and 31st March,2025.

Amount of grant recognized in Profit and Loss account each year:

80 Lakhs/4 years = ₹ 20 Lakhs for the year ending 31st March,2022,31st March,2023, 31st March,2024 and 31st March,2025.

ILLUSTRATION 8 (AS:16)

SDF Limited obtained a loan from a bank for ₹ 100 lakhs on 30-04-2024. It was utilized as follows:

Particulars	₹ in lakhs
Construction of a shed	100
Purchase of a machinery	80

Particulars	₹ in lakhs
Working Capital	40
Advance for purchase of truck	20

Construction of Shed was completed in March 2025. The machinery was installed on the date of acquisition. Delivery of truck was not received. Total interest charged by the bank for the year ending 31-03-2025 was ₹ 36 lakhs. Show the treatment of interest.

Solution:

Qualifying Asset as per AS 16 = ₹ 100 Lakhs (construction of a shed)

Borrowing cost to be capitalized = 36 × 100/240 = ₹ 15 lakhs

Interest to be debited to Profit or Loss account = ₹ (36 – 15) lakhs = ₹ 21 lakhs.

ILLUSTRATION 09 (AS:16)

Given below are some relevant data as regards a construction contract

Particulars	₹ In Lacs
Expenditure incurred till 31.03.2023	900
Interest cost capitalized for the year 2022-2023 @12% p.a.	48
Amount specifically borrowed till 31.03.2023	400
Assets transferred borrowed till 31.03.2023	200
Cash payment received	156
Progress payment received	600
New borrowing during 2023-24 @12%	400

The company intends to capitalize total borrowing cost of ₹ 96 lacs. Is it possible to do that as per AS-16 ?

Solution:

Nuances in a construction contract

Particulars	Amount ₹ lacs	Amount ₹ lacs
1. Opening capital works in progress 01.04.2023		

Particulars			Amount ₹ lacs	Amount ₹ lacs
	a.	Expenditure incurred	900.00	
	b.	borrowing cost capitalized	48.00	948.00
2.	Current year expenditure			
	a.	Asset transferred to construction	200.00	
	b.	Cash payment	156.00	
	c.	Expenditure resulting in interest bearing liability	Nil	356.00
3.	Sub-total capital expenditure incurred			1304.00
4.	Less:	i. Progress payments received	600.00	
		ii. Grants	Nil	600.00
5.	Total amount borrowed			704.00
6.	Total amount borrowed		(400 + 400)	800.00
7.	Borrowing cost incurred		12% given	96.00
8.	Borrowing cost to be capitalized being 12 % of 704.00		Pro-rata restricted to expenditure incurred	84.48

ILLUSTRATION 10 (AS:22)

Suresh Ltd. has provided the following information:

Particulars	Amount (₹)
Depreciation as per accounting records	5,00,000
Depreciation as per tax records	11,00,000
Unamortized preliminary expenses as per tax record	80,000

There is adequate evidence of future profit sufficiency. How much deferred tax/ liability should be recognized as transition adjustment when the tax rate is 50%.

Solution:

As per AS-22 deferred tax should be recognized for all timing differences, in the instant case the timing difference i.e., difference between taxable income and accounting income is:

Excess depreciation as per Tax (11,00,000 – 5,00,000)	6,00,000
Less: Expenses to be provided in taxable income	(80,000)
Timing difference	5,20,000

As per expenses is more than the current tax due to timing difference of ₹ 5,20,000, therefore deferred tax liability ₹ 2,60,000 (5,20,000 × 50%) shall be credited in the accounts and corresponding debit to Revenue Reserve.

ILLUSTRATION 11 (AS:22)

Compute the DTA / DTL with the following information, if Tax Rate is 40%.

Profit before Tax as per books		₹ 200 Lakhs
Add back:	Contribution to unapproved Gratuity Fund	₹ 10 Lakhs
	Depreciation as per books	₹ 40 Lakhs
Less:	Depreciation under Income Tax Act	₹ (170) Lakhs
	Taxable Income as per Income Tax Act	₹ 80 Lakhs

Solution:

Description	(₹)	Net Amount	Nature of Diff	Treatment	DTA/DTL at 40% of diff.
Profit before Tax as per Books	200.00				
Add: Contribution to Unapproved Gratuity Fund	10.00	10.00	Permanent Difference	Ignore.	NA.
Add: Depreciation as per Books	40.00				
Less: Depreciation under IT Rules	(170.00)	(130.00)	Timing Difference	Create DTL	130 × 40% = 52.00
Total Income	80.00				
Tax on Total Income (80.00 × 40%) = Current Tax	32.00				

Note: In the absence of specific information, it is assumed that there are no opening Timing Differences brought forward from previous years. Therefore, Net Difference for the year = Cumulative Timing Differences at the end of year.

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