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CMA – Inter
Financial Accounting

Marathon Batch Part - 1

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CMA Intermediate Financial Accounting

Marathon – Part 1

Charts Summary & Questions

Chart AS 1 "Disclosure of Accounting Policies"

1. Accounting Policies Means

Specific accounting principles & Methods of applying such principles adopted in preparation and presentation of financial statements.

Selection of accounting policies is the responsibility of the management.

In selection of accounting policies, management should consider the following:

Primary consideration

Financial statements should give True & Fair view after applying selected policies

Other Major consideration

Prudence

- It means management should be careful while selecting accounting policies.
- Management should apply knowledge i.e. nature of business, legal requirements, accounting standards, etc. in the selection of policies.

Substance over

- It is Reality over Legality.
- Management should select the accounting policies which help to present a accurate picture of financial statements rather than legality

Materiality

- Financial Statement should disclose all material Items i.e. those items which affect decision making of users

2. Fundamental Accounting Assumption in preparation of financial statements

Going concern

It is assumed that business would continue for foreseeable period.

Consistency

it is always assumed that same accounting policies would be followed every year.

Accrual Assumption

It is assumed that entity record all income & exp. on period basis. They are not recorded on payment basis

Practical Questions

Question No. 1

Mini Ltd. was making provision for non-moving stocks based on no issues for the last 12 months up to 31.3.2016.

The company wants to provide during the year ending 31.3.2016 based on technical evaluation:

Total value of stock	₹ 100 lakhs
Provision required based on 12 months issue	₹ 3.5 lakhs
Provision required based on technical evaluation	₹ 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

Question No. 2

A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full

price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March 2017, documentation and legal formalities are pending. The company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?

What accounting treatment should the buyer give in its financial statements?

Question No. 3

J Ltd. had made a rights issue of shares in 2016. In the offer document to its members, it had projected a surplus of ₹ 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided on the following:

(i) Value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹ 30 crores).

(ii) Provide for permanent fall in the value of investments - this fall had taken place over the past five years - the provision being ₹ 10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017.

Chart AS – 2 Valuation of Inventories (Chart)

Inventory is an asset held for sale in the ordinary course of business (Finished goods), which is used in the process of production (Raw Material) or consumed in the process of production (Consumables and Loose tools)

Valuation of Inventory

1. ***Inventory is valued at COST (or) NRV whichever is LOWER***

Let us understand ***"What Cost of Inventory Includes"***

Cost of Purchase

Particulars	₹
Purchase price i.e. Basic price of material	--
Add	
NON refundable taxes & duties	--
Carrying Cost i.e. inward freight cost	--
Inward Insurance cost	--
All other costs incurred directly related to acquisition and bringing it to warehouse.	--
Less	
Trade discounts Quantity discounts	--
Duty drawbacks & other similar items	--
	--
Cost of Purchase	--

Cost of Conversion

This includes the costs incurred to convert the raw materials into finished goods. (I.e. Factory Overheads)

Absorption of Factory Overheads

- ***Fixed OHs***
  - *Actual Capacity > Normal Capacity* → *Absorb based on Actual Capacity*
  - *Actual Capacity < Normal* → *Absorb based on Normal Capacity*
- ***Variable OHs***
  - *Absorb based on actual capacity utilisation*

Example

Other Cost

All other costs incurred to bring the inventory to the present location and condition. E.g. R & D cost, Packaging cost, Administration OHs in relation to production activities

Cost of inventory should be ascertained in following manner

1. If stock in hand is unique not similar to each other, use Specific Identification Method.
2. If stock in hand is similar to each other, then use following two methods of stock valuation FIFO Method, Weighted Average Method

Following Cost should be Excluded from Cost – 1) Abnormal Loss 2) Storage Cost (Unless those cost are necessary for production process) 3) Administrative selling & distribution cost 4) Borrowing cost (Interest)

2. Let us see "How to Calculate Net Realisable Value

Net Realisable Value of

- ***Finished Goods*** – *Expected SP - Selling cost*
- ***Work in Progress*** – *Expected SP of FG - Expected cost to complete - Selling Cost*
- ***Raw Material*** – *Strictly, No need to determine NRV*

3. Valuation of Raw Material

Its valuation is fully based on the valuation of Finished Goods

If finished goods is sold or expected to be sold at cost or above cost	*If finished goods is sold or expected to be sold below the cost*
Raw material should be valued at Cost	*Raw material should be valued at Replacement Cost*

Examples


Or


4. <u>*Disclosure Requirements –*</u>
<u>*The financial statement should disclosed*</u>

1. *The accounting policies adopted in measuring inventories, including the cost formula used. The accounting policies adopted in measuring inventories, including the cost formula used*
2. *The total carrying amount of inventories and its classification appropriate to the enterprise.*

Practical Questions

Question 1

X Co. Limited purchased goods at the cost of ₹ 40 lakhs in October, 2014. Till March, 2015, 75% of the stocks were sold. The company wants to disclose closing stock at ₹ 10 lakhs. The expected sale value is ₹ 11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct closing stock to be disclosed as at 31.3.2015.

Question 2

The company X Ltd., has to pay for delay in cotton clearing charges. The company up to 31.3.2014 has included such charges in the valuation of closing stock. This being in the nature of interest, X Ltd. decided to exclude such charges from closing stock for the year 2014-15. This would result in decrease in profit by ₹ 5 lakhs. Comment

Question 3

In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case?

Question 4

From the following information, ascertain the value of stock as on 31st March, 2012:

Particulars	**₹**
Stock as on 01-04-2011	28,500
Purchases	1,52,500
Manufacturing Expenses	30,000
Selling Expenses	12,100
Administration Expenses	6,000
Financial Expenses	4,300
Sales	2,49,000

At the time of valuing stock as on 31st March, 2011, a sum of ₹ 3,500 was written off on a particular item, which was originally purchased for ₹ 10,000 and was sold during the year for ₹ 9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales

Question 5

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

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

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

Question 6

Calculate the value of raw materials and closing stock based on the following information:

Raw material X Closing balance	500 units

	₹ Per unit
Cost price including excise duty	200
Excise duty (Cenvat credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150

Finished goods Y Closing Balance	1200 units

	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units. Calculate the value of the closing stock, when

(i) Net Realizable Value of the Finished Goods Y is ₹ 400.
(ii) Net Realizable Value of the Finished Goods Y is ₹ 300.

Question 7

Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2015. His factory produces Product X using Raw material A.

1) 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on 31-3-2015 is ₹ 90 per unit.
2) 500 units of partly finished goods in the process of producing X and cost incurred till date ₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit.
3) 1500 units of finished Product X and total cost incurred ₹ 320 per unit.

   Expected selling price of Product X is ₹ 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2015. Also calculate the value of total inventory as on 31-3-2015.

1 **Types of Construction Contract**

Fixed price contract

In these contracts contractor agrees for fixed price of the contract or a fixed rate per unit of output.

E.g. Contractor receives ₹ 5 crore after construction of building or he receives ₹ 5 crore per building constructed.

Cost plus contract

In these contracts, contractor is reimbursed all allowable/defined costs as defined plus fixed percentage of fee/profit.

Contractor receives amount spent for construction + 2 % of amount spent OR receives amount spent for construction + ₹ 5 lakh.

2 **Measurement of Contract Revenue on the Basis of**

- ***Completion of a physical proportion of the contract work***
- ***Percentage of work performed***
- ***Survey method***

Percentage of work performed =

$$\frac{\text{Contracts cost incurred till balance sheet date}}{\text{Estimated total contract cost}}$$

(Cost incurred + Expected Future cost)

Costs =
Direct costs + Allocable costs + Costs specifically chargeable to Contract.

Important Point:-

If Total costs > Contract Revenue Estimated loss can be recognized immediately Irrespective of

(i) *% of completion*
(ii) *Started work or not*
(iii) *Whether or not income from other contracts*

3 **Points to remember**

1. ***When the outcome of construction contract cannot be estimated reliably then revenue shall be recognised to the extent of cost incurred.***
2. ***Group of contract shall be treated as single contract if contracts are interrelated and all contracts are negotiated as single package otherwise segmenting (separation) is required.***

4. Calculation of Total Revenue

Initial Contract Amount	***XX***
Add: - Variations in contract work	*XX*
Add: - Incentives receipts received by contractor (If probable that performance standards will be met & reliable measurement is possible)	*XX*
Add/Less: - Increase/Decrease in Escalation	*XX*
Add: - Claims Amount, raised on customer for delay Caused, errors design, etc...	*XX*
Add: - Penalties due to delay caused by contractor	*XX*
Add: - Penalties due to delay caused by contractor	*XX*
Total Revenue	***XX***

5. Disclosures

1. *The amount of contract revenue recognised.*
2. *The methods used to determine the contract revenue; and the percentage of completion;*

An entity should disclose the following for contracts in progress at the balance sheet date:

(a) The total amount of costs incurred and recognised profits (less recognised losses) up to the balance sheet date;

(b) The amount of advances received; and the amount of retention money with the contractee.

Practical Questions

Question No. 1

From the following data, show Profit and Loss A/c (Extract) as would appear in the books of a contractor following Accounting Standard-7

Particulars	₹ In Lakhs
Contract price (fixed)	480.00
Cost incurred to date	300.00
Estimated cost to complete	200.00

Question 2

A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

Particulars	(Amount ₹ in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹ 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7.

AS 9 - Revenue Recognition

1. *As – 9 deals with the recognition (recording) of revenue in the profit and loss statement of an entity*

Revenue means Gross Inflow of cash, Receivables or other consideration arising in the course of ordinary activities of an enterprise.

This AS does not deal with revenue which dealt under other AS.

2. *This Standard discusses the following revenues*

Sale of goods

1. *Ownership of goods have been transferred*
2. *Risk and rewards has been transferred*
3. *There is no uncertainty regarding consideration (i.e. Cash or Receivables) at the time of recognition*

Rendering of services

Revenue from services is generally recognised as service is performed. The performance of service measured by two methods

Proportionate of completion Method

When performance involves more than one act

Recognise on significant completion Method

When performance consist of single act

Other Income

Interest

Interest is recognised on time proportion basis based on the outstanding amount and rate applicable

Royalty Income

Royalty is recognised on accrual basis in accordance with the terms of agreement.

Dividend Income

Dividend income is recognised when a right to receive dividend is established irrespective of the year it is relating to.

There should NOT be any significant uncertainty in ultimate collection at the time of recognition. If any uncertainty exists, recognition should be postponed till the time there is NO uncertainty.

3. Situations and guidance on recognition of revenue under each situation.

Situation	Guidance on recognition
Installation fees	*Recognise only when installation is completed and accepted by the customer;*
Advertisement income	*Recognise the revenue when the related advertisement appears before the public.*
Insurance agency commission	*Recognise on the effective commencement or renewal dates of the related insurance policies.*
Admission fees on artistic performances, banquets or any special programs.	- *Recognise revenue when event takes place.* - *When a subscription received is for number of events, the fee received should be allocated to each event on a systematic and rational basis.*
Tuition fees	*Recognise over the period of instruction on SLM basis.*
Entrance fees	*Revenue recognition depends on the nature of the services being provided.*
Financial service commissions	*Recognition of Revenue depends upon:* 1. *Whether the service has been provided "once for all" or on a "continuing" basis;* 2. *The incidence of costs relating to service;* 3. *When the payment for the service will be received.*

4. *Disclosure*

4. *Revenue recognition policy*
5. *Change in policy if any*
6. *Disclose if revenue recognition is postponed*
7. *Gross turnover, Excise duty and net turnover - Disclose Separately*

Practical Questions

Question 1

Arjun Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2015, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at Rs. 9 lakhs. Decide, whether the income by way of interest from dealers is eligible for recognition as per AS 9?

Question 2

The Board of Directors of X Ltd. decided on 31.3.2015 to increase sale price of certain items of goods sold retrospectively from 1st January, 2015. As a result of this decision the company has to receive Rs. 5 lakhs from its customers in respect of sales made from 1.1.2015 to 31.3.2015. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.

Question 3

A Ltd. entered into a contract with B Ltd. to despatch goods valuing Rs. 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of Rs. 1,00,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth Rs. 50,000 ready for despatch. A Ltd. accounted Rs. 50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.

Question 4

Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received Rs. 2,40,000 on 10.3.2014 and Rs. 60,000 on 10.4.2014 for the March 2014 issue. Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014 ?

Question 5

Given the following information of M/s. Paper Products Ltd.

1) Goods of Rs. 60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.
2) On 15-1-2015 goods of Rs. 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.
3) Rs. 1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval received for the remaining goods till 31-3-2015.
4) Apart from the above, the company has made cash sales of Rs. 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

Chart - AS 10 – PROPERTY, PLANT AND EQUIPMENT (PPE)

1.

Let us see "What is PPE"

It is Tangible Assets

Expected to be used during more than a period of 12 months

Held for use in

Producing Goods

Providing Services

Rental to others

For Administration Purpose

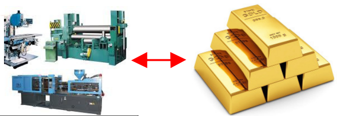
Recognition of Plant, Property and Equipments

2.

How entity should do "Recognition of PPE" i.e. (Recording of PPE in the books of account)

Initial Recognisation & Measurement

Asset is acquired by



Payment of Cash/Credit

Asset is recognised at Purchase Price + Expenses incurred on asset to make asset ready to use

Purchase price	xx
+Freight	xx
+Non refundable taxes	xx
+PV of restoration	xx
+All direct exp Inc till ready to use	xx
+ 16- Borrowing cost	xx
-Discount	xx
-Govt. Grants	xx
	xx

Self construction

Asset is recognised at Cost of Construction + Expenses Borrowing cost incurred before asset is ready to use.
(Avoid internal profits on stores used and abnormal loss of material and labour)

Exchange with another assets & by issue of securities

1. Asset received is recognised at Fair value of either
(a) Asset given up
(b) Asset acquired.

2. If it is reliable measurement of fair value of asset given up or Asset received is not possible then new asset received is to be recorded at Carrying amount of Asset given up.

Subsequent Recognisation & Measurement

Does subsequent expenditure (including spare parts) increase the future economic benefits? In other words it is PPE if it satisfies the recognition criteria

Yes → Capitalise along with PPE

&

No → Charge to P&L Statement

It is recognised as PPE if it is expected to generate Future economic benefit to Entity

3. Important Points

1. *Major assets replacement & overhauling should be capitalised and depreciated over its useful life, if it satisfies PPE recognition criteria.*
2. *If deferred credit terms are involved, it should be recognised at present value and it would be unwinded over the period. PPE should be recognised at cash price (Present Value) on the date of Recognisation.* ***Interest = Total Payment – Cash Price should be debited to P& L unless asset is qualifying asset as per AS -16***
3. *Useful life, Residual value & depreciation method should be reviewed every year end.*
4. *Any change in price. Life, Realisable Value & method of depreciation - Account prospectively.*
5. *Select Cost or revaluation model for the entire class of items. Select and apply consistently.*
6. *If any major components is replaced then component to be recognised separately by removing old component from book and depreciation on new component to be charged on component basis.*

4. Retirement of PPE

1. ***PPE is retired from active use and it is held for disposal - such PPE should be stated in balance sheet Carrying amount (Net book value); or Net realisable value (NRV) Whichever is LOWER***

Replaced By

2. ***Disclose such items separately in the financial statements. Any expected loss should be recognised immediately in the profit and loss statement.***

5. Accounting disposal

COST Model

Profit/loss on disposal should be transferred to P & L

Revaluation Model & Revaluation surplus exist

Profit/Loss on disposal should be transferred to P&L;

After disposal, if any Revaluation surplus exists - transfer to General reserve (Revenue reserves)

After disposal of a PPE, it should be completely eliminated from the financial statements i.e. gross value and accumulated depreciation related to the asset:

Practical Questions

Question 1

Obtained PPE fair value is 5,00,000 through exchange of gold. (Book value of gold is ₹ 4,00,000) journalise.

Question - 2

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

Particulars	₹
Materials (including excise duty of ₹ 50,000, CENVAT credit is available for 50% of the duty paid)	16,00,000
Direct Expenses	3,00,000
Total Labour charges (200 out of the total of 600 men hours worked, on installation work)	6,00,000
Spare parts and tools consumed in installation	60,000
Total salary of supervisor (time spent for installation was 25 % of the total time worked.)	24,000
Test run and experimental production expenses	23,000
Consultancy changes to architect for plant set up	9,000
Total Office & Administrative Expenses (4 % is chargeable to the construction)	9,00,000
Depreciation on other assets used for the construction of this asset	15,000

The machine was ready for use on 15-1-2015 but was used from 1-2-2015. Due to this delay further expenses of ₹ 19,000 were incurred. Calculate the value at which the plant should be capitalized.

Question 3

During the current year 2014-15, X Limited made the following expenditure relating to its plant building:

Particulars	₹ in lakhs
Routine Repairs	.4
Major Overhaul expenses incurred once in 3 years	1
Partial replacement of roof tiles (useful life is 4 years)	2.5
Substantial improvements to the electrical wiring system which will increase efficiency	10

What amount should be capitalized?

Question :- 4

Indigo Airline purchase one aircraft for ₹ 600 Cr. Components are - Engine ₹ 400 Cr., Aircraft Body ₹ 200Cr. Life of Engine is 10 years And of body 20 years Show accounting treatment for recognition and Depreciation.

Question 5

A computer costing ₹ 60,000 is depreciated on straight line basis, assuming 10 years working life and 2000 residual value, for three years The estimate of remaining useful life after third year was reassessed at 5 years Calculate depreciation as per the provisions of Accounting Standard 10 "Depreciation Accounting".

Question 6

During the year 2014-15, P Limited incurred the following expenses on machinery: ₹ 2.50 lacs as routine repairs and ₹ 75,000 on partial replacement of a part. ₹ 7 lacs on replacement of part of a machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

Question 7

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

Insurance claim for loss of Stock & Loss of Profit

This chapter covers

1. Loss of Asset (Building, Machinery, Furniture)
2. Loss of Stock
3. Loss of Profit

Loss of Asset

Let's calculate Claim

Particulars	₹
Original Cost of Asset	xxx
– Opening Balance of provision for depreciation	xxx
(-) Depreciation for current upto date of fire	xxx
W.D.V. On the date of fire	xxx
(Less) salvage value	xxx
claim	xxx

Claim for loss of stock

Claim for loss of stock =

Find out cost of goods available in shop / godown on the date of fire.

(Prepare trading A/c to find out cost of closing stock & and not for Gross Profit & not for accounting purpose)

Step 1 -

Prepare Trading Account for current year upto the date of fire to find out Closing Stock.

- But if Gross Profit is missing then find out G.P. of last year by preparing Trading Account of last year & make adjustment in last year G.P. (If adjustment given in problem)

Step 2.

Calculation of Loss

Particulars	₹
Loss of stock	xxx
(-) Salvage value	xxx
(-) Fire fighting Expenses	xxx
Loss	xxx

Step 3.

Calculation of Claim Amount

Claim

In case of under insurance

$$\text{Total Loss} \times \frac{\text{Insured value}}{\text{Insurable value}}$$

In case of Full insurance

Loss or policy amount whichever is less

Note – Insurable value is value of stock in godown on the date of fire.

Adjustment in items of current year's Trading Account.

1 Adjustment in purchase of current year

a) Goods purchased & received but not recorded – Added in Purchase

b) Machinery / Capital item included in purchase (Wrongly) – Deducted from purchase.

c) Drawing & Goods distributed as free sample – Deducted from purchase At cost price (Sometime value of drawing & free sample is given at sale price then convert it to cost price).

d) Purchase are undervalued (Example – valued at 90% of cost) – Convert It to original value (100%).

2 Adjustment in Wages -

Wages includes wages paid for installation of asset – Deduct it from wages.

3 Adjustment in current years sale -

a) Sale includes goods sold but not sent – deduct it from sales

b) Sale includes goods sold on approval basis – Deduct sale value of goods not approved from sales A/c & show it separately on credit side of trading A/c at cost price.

* Goods sent to consignee shall be credited to trading A/c at cost price

c) If there is misappropriation of unrecorded sales then such unrecorded sales shall be added to sales.

4 Separation between Normal & Abnormal Items -

(i) If in the problem, it is given that last year closing balance is written down (To bring at market price) then we shall add back the amount which was written down to bring last year's closing stock at cost price.

(ii) Last year closing stock is opening stock of current year

(iii) Opening stock shall be separated between normal & abnormal item (poor selling or slow moving items or stock which is expected to be sold at loss)

(iv) Sale includes sale of goods for loss therefore sale shall be separated in Normal & Abnormal loss and sale of Abnormal item shall be credited to trading A/c (In abnormal column). G.P. shall be calculated on only normal sale.

Loss of Profit

Step 1 -

Calculation of Gross Profit Ratio

$$= \frac{\text{Net Profit + Insured standing Charges}}{\text{Turnover of last Year}} \times 100$$

We can calculate G.P. by other way - G.P. - Uninsured standing charges

(+)/(-) Adjustment in G.P. (If specified in problem)

Step 2 -

Calculation of short sale

Sale for corresponding period of last year	xxx	
(+)/(-) Adjustment in sale (Increase / Decrease)	xxx	
Estimated Sales	xxx	
(-) Actual Sale (In the period of disturbance)	xxx	
Short sale	xxx	

Step 3

Calculation of loss of profit

Short sales x G.P. Ratio = Claim for loss of profit

Step 4

Claim for Increase in cost of working (Additional Expenses)

Least of the following

(i)	Actual Expenses	xxx	
(ii)	Actual Exp. $\times \frac{\text{G.P. ON Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured standing charges}}$	xxx	

(iii) $\text{Sale generated in period of disturbance due to additional expenses} \times \text{Gross Profit Ratio}$ — xxx

(Whichever is Less of above 3)

Step 5

Calculation of total Loss

Loss of profit	xxx
(+) Increase in cost of working (as per step 4)	xxx
	xxx
(-) Saving in expenses (Insured standing Expenses)	xxx
Total Loss	xxx

Step 6

Claim for consequential loss policy

$$\text{Total Loss} \times \frac{\text{Insured Value (Policy Amount)}}{\text{Insurable value (Gross profit on adjusted annual turnover)}}$$

- Loss of profit policy shall be taken for Gross Profit on adjusted annual turnover (for coming year) + estimated increase in standing charges in coming year.

Question 1

The premises of XY Limited were partially destroyed by fire on 1st March, 20X2 and as a result, the business was practically disorganised upto 31st August, 20X2. The company is insured under a loss of profits policy for ₹1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:

Particulars	Rs.
Actual turnover during the period of dislocation (1-3-20X2 to 31-8-20X2)	80,000
Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire (1-3-20X1 to 31-8-20X1)	2,40,000
Turnover for the 12 months immediately preceding the fire (1-3-20X1 to 28-2-20X2)	6,00,000
Net profit for the last financial year	90,000
Insured standing charges for the last financial year	60,000
Uninsured standing charges	5,000
Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to the time of the fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to ₹9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹55,000. There was also a saving during the indemnity period of ₹2,700 in insured standing charges as a result of the fire.

Answer

Computation of loss of profit Insurance claim

		₹
(1)	Rate of gross profit:	
	Net profit for the last financial year	90,000
	Add: Insured standing charges	60,000
		1,50,000
	Turnover for the last financial year	5,00,000
	Rate of gross profit =₹ 1,50,000/₹ 5,00,000 × 100 = 30%	
(2)	Short sales:	
	Standard Turnover	2,40,000
	Add: 10% increasing trend	24,000
		2,64,000
	Less: Turnover during the dislocation period (which is at par with the indemnity period of 6 months)	(80,000)
		1,84,000
(3)	Annual (Adjusted) Turnover:	
	Annual Turnover (1-3-20X1 to 23-2-20X2)	6,00,000
	Add: 10% increasing trend	60,000
		6,60,000

Note: Assumed that trend adjustment is required on total amount of annual turnover. However, part of the annual turnover represents trend adjusted figure. Alternatively, the students may ignore trend and take simply annual turnover. The claim would be ₹ 55,000 which is more than the claim computed in Para (5). So the Insurance Company would insist on trend adjusted on annual turnover.

(4) Additional Expenses:	₹
(i) Actual Expenses	9,300
(ii) Gross profit on sales generated by additional expenses	
= 30/100× (₹ 80,000 - ₹ 55,000)	7,500

(i) $\dfrac{\text{Gross Profit on Annual (Adjusted) Turnover}}{\text{Gross Profit shown in the numerator + Uninsured standing charges}} \times \text{Additional Expenses}$

$\dfrac{30\% \text{ on ₹ } 6{,}60{,}000}{30\% \text{ on ₹ } 6{,}60{,}000 + \text{₹ } 5{,}000} \times$ ₹ 9,300 = 9,071

Least of the above three figures, *i.e.* ₹ 7,500 allowable.

(5) Claim*:*

Loss of profit on short sales (30% on ₹ 1,84,000)		55,200
Add: Allowable additional expenses		7,500
		62,700
Less: Savings in insured standing charges		(2,700)
		60,000
Application of average clause	60,000 x 1,65,000 / 1,98,000	50,000

Master Problem

Question 2

On 19th May, 2011, the premises of Mr. Gyan were destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained:

Particulars	Amount is Rs.
Stock at cost on 1.1.2010	36,750
Value of Stock on 31.12.2010	39,800
Purchases less returns during 2010	1,99,000
Sales less return during 2010	2,43,500
Purchases less returns during 1.1.2011 to 19.5.2011 (Valued at 90% of Cost Price)	81,000
Sales less returns during 1.1.2011 to 19.5.2011	1,55,600
Wages from 1.1.2011 to 19.5.2011	30,000

In valuing the stock for the balance Sheet as at 31st December, 2010, Rs. 1,150 had been written off on certain stock which was a poor selling line having the cost Rs. 3,450. A portion of these goods were sold in March, 2011 at a loss of Rs. 125 on original cost of Rs 1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was Rs 2,900. Policy is taken for Rs. 30,000

Additional Information:

1. Sales Upto 19th May, 2011 includes Rs. 4,000 for which goods had not been dispatched.
2. Purchases Upto 19th May, 2011 did not include Rs. 10,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown.
3. Purchases includes purchase of machinery costing Rs. 3000.
4. Wages includes wages Rs. 2,000 for installation of machinery.
5. Sales of 1.1.2011 to 19.5.2011 include goods sold on approval basis amounting to Rs. 40,000. No approval has been received in respect of 3/4th of the goods sold on approval.
6. Sale value of goods drawn by partners Rs. 10,000
7. Cost of goods sent to consignee on 15th April, 2011 lying unsold withthem Rs. 7,000
8. Cost of goods distributed as free samples Rs. 1,500
9. The insurance company also admitted firefighting expenses of 4000.
10. Selling Expenses – Rs. 5000, Administration Expenses – Rs. 8800, Financial Exp. - Rs. 3200.
11. Gross profit of current year shows 5% increasing trend on sales.

Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from 1-1-2011to 19-5-2011 for normal and abnormal items.

Solution

Trading Account
(For the Period 1-1-2011 to 19-5-2011)

			Dr.				Cr.
Particulars	**Normal**	**Abnormal**	**Total**	**Particulars**	**Normal**	**Abnormal**	**Total**
To Opening Stock	37,500	3,450	40,950	By Sales less returns (W.N. 4)	1,20,000	1600	1,21,600
To Purchase (W.N. 1)	88,000	-	88,000	By Loss on Sale	-	125	125
To wages (W.N. 2)	28,000	-	28,000	By Goods with Consignee	7000	-	7000
To Gross Profit (Normal Sales x 25%) (W.N.3)	30,000	-	30,000	By Goods with Customer (W.N. 5)	22,500	-	22,500
				By Closing Stock (Bal. Figure)	34,000	1725	35,725
	183500	**3450**	**186950**		**183500**	**3450**	**186950**

Trading A/c for the year ended 31st December 2010

Particulars	**Amount (₹)**	**Particulars**		**Amount (₹)**
To opening stock	36.750	By sales return		2,43,500

To purchase	1,99,000			
To G.P.	48,700	By closing stock (+) Amt written off to restore at cost	39800 1150	40,950
	2,84,450			**2,84,450**

Calculation of claim for loss of stock

Particulars	**Amount (₹)**
Stock lost due to fire	35,725
(-) salvaged value	(2,900)
(+) fire fighting expenses	4000
	36,825

Average clause = loss x Insured Value/Insurable Value

= 36,825 x 30000/35,725

= 30,924

Note: - As policy amount is 30,000 & loss is 30,924. Maximum claim can be 30,000 only

Working Notes

1. Adjusted Purchases:

Cost Price of Purchase: 81,000 = 90% (Stock shown at 90% of Cost)
? = 100%

81000/90 x 100 = **90,000**

Particulars	**Amount**
Cost Price	90,000
(+) Unrecorded Purchase	10,000
(-) Purchase of Machinery (it was included in Purchase by mistake)	3000
(-) Drawings at Cost (10,000 – 25%)	7,500
(-) Free Sample	1,500
Total	**88,000**

2. Wages:

Particulars	**Amount**
Wages (as given) Less: Wages for installation	30,000 2,000
Wages to be debited to trading A/c	**28,000**

3. Percentage of Gross Profit (on the Basis of last year's trading Account)

Percentage of Gross Profit	= G.P./ Sales x 100 = 48,700/2,43,500 x 100 = 20 = 20% + 5 % Increase in G.P in current year (Given)
Total % of Gross profit	**= 25 %**

4. Sales

Particulars	**Amount (₹)**
Sales given	1,55,600
(-) goods not dispatched	4,000
(-) sales on approval (40000 x 3/4) (Approval not received)	30,000
	1,21,600

5. Cost price of goods with customer

Particulars	**Amount (₹)**
Sales on approval – Gross Profit (30,000 - 25%)	22,500

6. Selling Expenses of ₹ 5000, Administration expenses of ₹ 8800, Financial expenses of ₹ 3200 is excluded as these expenses are part of Profit and Loss Account.

Hire Purchase & Installment Purchase System

Hire Purchase	Installment Purchase
① **Transfer of ownership** Ownership is transferred after making payment of last Installment (After fully Payment)	Ownership is transferred to buyer immediately at the time of agreement and payment will be received after the agreement
② **Parties** :- i) Hire Purchaser (Hirer) ii) Hire Vendor	i) Buyer ii) seller
③ **Option to cancel** Hire purchaser has option to cancel Hire Purchase & can return the goods.	Right to cancel & return goods not available
④ **Default in Payment** :- Vendor can repossess the Goods	* Repossession of goods is not possible

Main intention of both system is common
(To sale Goods)

∴ Substance over form is applicable for Hire Purchase
(Consider reality over its legal form)

* & Hire Purchase transactions are recorded assuming that it is sale So Entries for Both system Shall be similar except entries for repossession in case of Hire purchase is not applicable in Installment system / sale.

1 Cash Price :→ Price at which goods may be purchase on immediate cash payment.

2 Hire Purchase Price :→ Total amount payable by purchase under agreement

H.P. Price = Cash Price + Interest

* INTEREST CALCULATION *

1 If Cash Price & Interest rate is given in Problem

↓

Missing

→ Installments

Cash Price	xxx
(-) Down Payment	xxx
Opening o/s	xxx
(+) Interest on opening o/s	xx
Total o/s	xx
(-) Installment	xx
Closing Bal.	xx

* Closing Bal. of this year will be opening of next year. Interest on opening o/s calculated every year & installments are deducted [Follow Horizontal format of above]

* No interest on Down Payment.

2 If Installment & Interest rate is given in problem

↓

Missing

→ Cash Price

(Reverse calculation of situation 1, start from last year)

Closing Balance	xxx
(+) Installment	xxx
Total o/s	xxx
(-) Interest (Int. portion included in total o/s)	xxx
Opening O/s	xxx

Opening o/s of last year will be closing balance of previous year.

Follow same process & find out opening o/s of 1st year.

Opening o/s + Down Payment = Cash Price

[Follow Horizontal format]

3 If Hire purchase price & Installment & cash price is given in problem

↓

Missing

→ Interest Rate

→ Calculate Total Interest
→ H.P. Price (-) Cash Price

→ Find out proportion of H.P. price o/s every year.

H.P. Price	xxx	
(-) Down	xxx	
o/s 1st year	xxx	→ 1
(-) Installment 1	xxx	
o/s 2nd year	xxx	→ 2
(-) Installment 2	xxx	
o/s 3rd year	xxx	→ 3
(-) Installment 3	xxx	

Find out Proportion of these 3 amou[nts]

→ Distribute total interest in proportion to o/s amounts as calculated above.

If any Installment is not received then interest due till that date shall be recorded before repossession.

Journal Entries

In the Books of Hire Vendor

1) When goods are given on H.P.
Hire Purchaser A/c — Dr xxx
To H.P. Sale A/c xxx

In the Books of Hire Purchaser

HP Asset A/c — Dr. xxx
To Hire Vendor A/c xxx

2) Down Payment
Cash A/c — Dr xxx
To Hire Purchaser A/c xxx

Hire Vendor A/c — Dr xxx
To Cash A/c xxx

3) Interest Due [Every year]
Hire Purchaser A/c — Dr xxx
To Interest A/c xxx

Interest A/c — Dr xxx
To Hire Vendor A/c xxx

4) Installment received [Every Year]
Cash A/c — Dr xxx
To Hire Purchaser A/c xxx

Hire Vendor A/c — Dr xxx
To Cash A/c xxx

5) Depreciation :→ [Every year]
No depreciation is applicable for seller of goods on Goods sold.

Depreciation A/c — Dr xxx
To Asset A/c xxx

6) Goods Repossession [If installment not received]
Goods Repossessed A/c — Dr. xxx
To Hire Purchaser A/c xxx

Hire Vendor A/c — Dr xxx
To Asset A/c xxx

[At price specified in problem & if price is not specified the separate depreciation rate for goods repossessed may be available in problem apply such rate on original cost/cost price of asset upto the date of repossession]

7) Expenses Incurred on Goods Repossessed :-
Goods repossessed A/c — Dr xxx
To Cash / Bank A/c xxx

No Entry.

8) Resale of Goods Repossessed
Cash / Bank A/c — Dr.
To Goods repossessed A/c

No Entry

Any Balance in Goods repossessed A/c is transferred to P&L A/c as well as Balance in Hire purchaser A/c is debited to P&L A/c if not recoverable

Balance in H.P. Asset A/c & Hire vendor A/c is transferred to P&L A/c.

Interest Suspense Method :-

Under this method, Total interest is recorded in interest suspense A/c in the beginning then current years interest is transferred to interest A/c from interest suspence A/c at the year end when interest becomes due.

In the Books of Hire Vendor

Hire Purchaser A/c - Dr xxx
To HP sale A/c xxx
To Interest suspence A/c xxx
(with total interest)
[Entry at beginning when goods transferred]

In the Books of Hire Purchaser

Asset A/c - Dr xxx
Interest suspense A/c - Dr xxx
To Hire Vendor A/c xxx

At year end [Interest becomes due every year]

Interest Suspence A/c - Dr xx
To Interest A/c xx

Interest A/c - Dr xx
To Interest suspence A/c xx

Others entries of Down payment, Instalment etc are Same as cash price method.
(Balance of interest suspense A/c is reversed if Goods are repossessed)

Question No. 1

A Ltd. purchases a plant on hire purchase basis for ₹ 1,00,000 (cash price ₹ 86,000) and makes the payment in the following order:

Down payment	₹ 20,000,
1st instalment after one year	₹ 40,000;
2nd instalment after two years	₹ 20,000;

Last instalment after three years.

You are required to calculate: (i) total interest and (ii) interest included in each instalment.

(b) Shyam purchased from Rang Ltd. a colour T.V set on 1st October, 2011 on the hire purchase system. The cash price of the T.V set was ₹ 15,000. Terms of payment were ₹ 1,150 down payment and half yearly instalments of ₹ 4,000 each, over two years. The first instalment was to be paid on 31st March, 2012. Rate of interest was 12% p.a. Shyam could not pay the second instalment due on 30th September, 2012 and as a consequence, Rang Ltd. repossessed the T.V set after fulfilling legal formalities. Prepare Shyam's Account and Goods Repossessed Account in Rang Ltd.'s books. Assume that the estimated value of the T.V set at the time of repossession was ₹ 12,000 and after an expenditure of ₹ 850 on repairs and repacking, the company resold it on 6th December, 2012 for cash to one of its employees at a special discount of 10 percent on cash price i.e. for ₹ 13,500. Rang Ltd. closes its books of accounts every year on 31st March.

Answer

a) (i) Total interest = Hire Purchase price - Cash price = ₹ 1,00,000 - ₹ 86,000 =₹ 14,000

(ii) Hire purchase price outstanding at the beginning of each year

		₹
(a)	Hire purchase price	1,00,000
	Less: Down payment	(20,000)
(b)	Hire Purchase Price outstanding at the beginning of the 1st year	80,000
(c)	*Less*: 1st instalment	(40,000)
	Hire Purchase price outstanding at the beginning of the 2nd year	40,000
	Less: 2nd instalment	(20,000)
	Hire Purchase Price outstanding at the beginning of the 3rd year	20,000
	Less: 3rd instalment	(20,000)
		Nil

Ratio of (a): (b): (c) = 80:40:20 or 4:2:1

Amount of interest included in instalments:

1st instalment	4/7 x ₹ 14,000	₹ 8,000
2nd instalment	2/7 x ₹ 14,000	₹ 4,000
3rd instalment	1/7 x ₹ 14,000	₹ 2,000

(b) Shyam's Account in the books of Rang Ltd.

		₹			₹
2011 Oct. 1	To Sales Account - Cash price	15,000	2011 Oct. 1	By Bank - down payment	1,150
2012 Mar. 31	To Interest A/c - on ₹ 13,850 @ 12% p.a. for six months	831	2012 Mar. 31	By Bank – First instalment	4,000
				By Balance c/	10,681
		15,831			**15,831**
2012 Apr. 1	To Balance b/d	10,681	2012 Sept. 30	By Goods Repossessed /c: estimated value of T.V. set on repossession	12,000
Sept. 30	To Interest A/c - on ₹ 10,681 @ 12% p.a. for six months	641			
Sept. 30	To Profit & Loss A/c - Profit on repossession of T.V. set	678			
		12,000			**12,000**

Goods Repossessed Account

		₹			₹
2012 Sept. 30	To Shyam Restaurant - Estimated value of T.V. set on repossession	12,000	2012 Dec. 6	By Cash – Sale proceeds	13,500
Dec. 6	To Bank expenses on repairs, repacking etc.	850			
	To Profit & Loss Account - Profit on resale	650			
		13,500			**13,500**

Question No. 2

(a) On 1.1.2011 Shaan Ltd. purchased a machine on hire purchase basis. The terms of agreement provided for 40% as cash down payment and the balance in three instalments of ₹ 1,63,000 on 31.12.2012, ₹ 1,20,000 on 31.12.2013 and ₹ 1,10,000 on 31.12.2014. The rate of interest charged by the vendor is 10% p.a. compound annually. You are required to calculate the cash Price and periodic interest charged by higher vendor.

(b) On 1.1.2011 Beeta Ltd. purchased a machine from Yama Ltd. on hire purchase basis. The terms of agreement provided for 40% as cash down payment and the balance in three instalment of ₹ 1,30,000 on 31.12.2011, ₹ 1,42,000 on 31.12.2013 and ₹ 1,10,000 on 31.12.2014. The rate of interest charged by the vendor is 10% p.a. compounded annually. You are required to calculate the cash price when 2nd instalment is payable after two years.

Answer

(a) Statement Showing the Computation of Cash Price and Periodic Interest

A Instalment	*B Balance due at the end after the payment of instalment*	*C Instalment Amount*	*D=B+C Total Amount Due at the end before the payment of instalment*	*E = Interest Dx10/110*	*F=D-E Balance Due at the Beginning*
III	NIL	1,10,000	1,10,000	10,000	1,00,000
II	1,00,000	1,20,000	2,20,000	20,000	2,00,000
I	2,00,000	1,63,000	3,63,000	33,000	3,30,000
	3,30,000	-	3,30,000	30,000	3,00,000

Let Cash Price be *X*

X = ₹ 3,00,000 + 40% of X

0.6 X = ₹ 3,00,000

X = ₹ 3,00,000/0.6 = ₹ 5,00,000, cash price = ₹ 5,00,000

(b) Statement Showing the Computation of Cash Price and Periodic Interest

A	**B Balance Due at the end After the Payment of Instalment**	**C Instalment**	**D = B +C Total Amount Due at the end Before the payment of instalment**	**E =Dx10/110 interest**	**F=D-E Balance Due at the Beginning**
III	Nil	1,10,000	1,10,000	10,000	1,00,000
II	1,00,000	1,42,000	2,42,000	22,000	2,20,000
	2,20,000	-	2,20,000	20,000	2,00,000
I	2,00,000	1,30,000	3,30,000	30,000	3,00,000

Let Cash Price be *X*

X = ₹ 3,00,000 + 40% of X

0.6 X = ₹ 3,00,000

X = ₹ 3,00,000/0.6 = ₹ 5,00,000, cash price = ₹ 5,00,000

Question No. 3

Lucky bought 2 tractors from Happy on 1-10-2011 on the following terms:

Particulars	Rs.
Down payment	5,00,000
1st installment at the end of first year	2,65,000
2nd installment at the end of 2nd year	2,45,000
3rd installment at the end of 3rd year	2,75,000

Interest is charged at 10% p.a.

Lucky provides depreciation @ 20% on the diminishing balances.

On 30-9-2014 Lucky failed to pay the 3rd installment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @ 18% p.a.

You are required to:

(1) Calculate the cash price of the tractors and the interest paid with each installment.

(2) Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee.

Answer

(i) Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
[1]	[2]	[3]	[4]= 2 +3	[5]= 4 x 10/110	[6]= 4-5
3rd	-	2,75,000	2,75,000	25,000	2,50,000
2nd	2,50,000	2,45,000	4,95,000	45,000	4,50,000
1st	4,50,000	2,65,000	7,15,000	65,000	6,50,000

Total cash price = ₹ 6,50,000+5,00,000 (down payment) = ₹ 11,50,000.

In the books of Lucky
Tractors Account

Date	Particulars	₹	Date	Particulars	₹
1.10.2011	To Happy a/c	11,50,000	30.9.2012	By Depreciation A/c	2,30,000
				Balance old	9,20,000
		11,50,000			**11,50,000**
1.10.2012	To Balance b/d	9,20,000	30.9.2013	By Depreciation A/c	1,84,000
				Balance c/d	7,36,000
		9,20,000			**9,20,000**
1.10.2013	To Balance bld	7,36,000	30.9.2014	By Depreciation A/c	1,47,200
				By Happy a/c (Value of 1 Tractor taken over after depreciation for 3 years @30% p.a.) {5,75,000-(1,72,500+ 1,20,750+84,525)}	1,97225
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,94,400-1,97,225)	97,175
				By Balance c/d 1/2 (7,36,000 -1,47,200 = 5,88,800)	2,94,400
		7,36,000			**7,36,000**

Happy Account

Date	Particulars	₹	Date	Particulars	₹
1.10.11	To Bank (down payment)	5,00,000	1.10.11	By Tractors a/c	11,50,000
30.9.12	To Bank (1st Installment)	2,65,000	30.9.12	By Interest a/c	65,000
	To Balance cld	4,50,000			
		12 ,15,000			**12 ,15,000**
30.9.13	To Bank (2nd Installment)	2,45,000	1.10.12	By Balance b/d	4,50,000
	To Balance c/d	2,50,000	30.9.13	By Interest a/c	45,000
		4,95,000			**4,95,000**

30.9.14	To Tractor a/c	1,97,225	1.10.13	By Balance b/d	2,50,000
	To Balance cld	77,775	30.9.14	By Interest a/c	25,000
		2,75,000			**2,75,000**
31.12.14	To Bank (Amount settled after 3 months)	81,275	1.10.14	By Balance bid	77,775
			31.12.14	By Interest a/c (@18% on bal.) (77,775 x 3112 x 18/100)	3,500
		81,275			**81,275**

Departmental Accounting

Departments are divisions of business. Such division is made to achieve better control & to find out results of each department separately.

General types of departments

Ⓐ Assembly line / Production Departments

Dept. A → Dept. B → Dept. C

↓

manufacture Goods → Processing Goods → Processing Goods / sale

↓

Departments sale price is not possible to trace as one dept. transfers goods to other dept.

↓

∴ It is difficult to find out result of each department

↓

Solution to above problem :→

Transfer goods from one Dept. A to Dept. B or B to C at market price or at a cost + profit price.

(If Goods sent from one Dept. to another M.P. then only it is possible to know result of each department.)

Ⓑ Retail Departments

↓

Reliance Mart, Easy day, D-Mart, Big Bazaar

→ Department purchase price & sale price can be identified

↓

As sale price of goods of each Dept. is known it is easy to find out department result compared to assembly departments.

* Departmental Trading & P&L A/c shall be prepared to find out result of each department.

Dr Departmental Trading & P&L A/c [format] Cr

Particulars	A	B	C	Particulars	A	B	C
To op. stock	xx	xx	xx				
To Purchases	xx	xx	xx	By sale (every dept. may sell in retail Dept)	—	—	xx
To Wages	xx	xx	xx				
To Internal transfers (May or may not be there)	—	xx	xx	By Internal transfer (May or may not be there)	xx	xx	—
To G.P.	xx	xx	xx	By Closing stock	xx	xx	xx
	xx	xx	xx		xx	xx	xx
(Common exp.) to be distributed on suitable basis to each Dept.	xx	xx	xx	By G.P.	xx	xx	xx
To Rent / Repairs / Insurance of Building (Basis - area occupied otherwise time basis)	xx	xx	xx	By Discount Received (on the basis of Purchase of each Dept.)	xx	xx	xx
To Electricity (Basis - consumption by each dept.)	xx	xx	xx				
To selling exp* (Basis sale of each Dept.)	xx	xx	xx				
To Carriage inward (Purchase Basis)	xx	xx	xx				
To Dep. / Repairs of machine (Basis - Value of Asset)	xx	xx	xx				
To Administrative exp (Basis - Time or equally)	xx	xx	xx				
To labour welfare exp (Basis - No. of employees)	xx	xx	xx				
To PF Contribution (Basis - wages / salary)	xx	xx	xx				
To Net Profit	xx	xx	xx				

General P&L A/c

Dr. | | | Cr.
Particulars	₹	Particulars	₹
To Expence (Not allocated which have to each Dept.)	xxx	By Profit	
		Dept. A	xxx
		Dept. B	xxx
		Dept. C	xxx
To Stock Reserves (on closing stock)	xxx	By Opening stock Reserve	xxx
To Net Profit	xxx		
	xxx		xxx

* Inter Departmental Transfers.

Basis of Inter Departmental Transfers ⇒

1. At cost → No unrealised profit / stock Reserve
2. At current Market Price
3. Cost + Agreed % of Profit

Elimination of unrealised profit required from (Stock Reserve) → ① Inventory ② P&L A/c

* Only on Goods unsold / closing stock

Rule- Record inventory at cost or sale Price / Market Price whichever is less

→ Joulnal Entries

A- Elimination of Unrealised profit (Creation of Stock Reserve)

Profit & loss A/c – Dr.
To Stock Reserve A/c
(Provision made for unrealised profit included in closing stock)

B- In the beginning of next accounting year, above entry will be reversed.

Stock Reserve A/c - Dr
To P&L A/c

In Balance sheet stock reserve of current year shall be deducted from Inventory & Inventory at cost price shown in Bal. sheet

Points to Remember for stock Reserve.

(4)

* closing stock with Dept. B includes profit % charged by Department A & closing stock with Dept. C includes profit % charged by Dept. B.

* Stock Reserve / unrealised profit on closing stock shall be reversed to find out Actual profit of organication. (organisation receives / generates profit only if goods are sold to outsiders ∴ if goods are unsold with any department then profit portion in that goods is not realised by organisation)

Question No. 1

Mis P and Co., had four departments A,B,C and D. Each department being managed by manager whose commission was 10% of the respective departmental profit, subject to a minimum of ₹ 6,000 in each case. Interdepartmental transfers took place at a 'loaded' price as follows:

From Department	A to Department	B 10% above cost
From Department	A to Department	D 20% above cost
From Department	C to Department	D 20% above cost
From Department	C to Department	B 20% above cost

For the year ending on 31st March, 2014 the firm had already prepared and closed the departmental Trading and Profit and Loss Account. Subsequently, it was discovered that the closing stocks of departments had included interdepartmentally transferred goods at loaded price instead of cost price. From the following information prepare a statement recomputing the departmental profit or loss:

	Dept. A	*Dept. B*	*Dept. C*	*Dept D*
	₹	₹	₹	₹
Final Profit (Loss)	(38,000)	50,400	72,000	1,08,000
Inter departmental transfers included at loaded price in the departmental stock		(₹ 22,000 from and ₹ 48,000 from Dept. C		(₹ 3,600 from Dept. C and ₹ 1,200 from Dept. A)

Answer

Statement showing the re-computation of Departmental Profit or Loss

Particulars	**A**	**B**	**C**	**D**
	₹	**₹**	**₹**	**₹**
A Final Profit/(Loss) (Computed earlier)	(38,000)	50,400	72,000	1,08,000
B *Add:* Departmental Manager's Commission @ 10% of Deptt. Profit subject to a minimum of ₹ 6,000 [Working Note (i)]	6,000	6,000	8,000	12,000
C Profit before Deptt. Manager's commission (A+B)	(32,000)	56,400	80,000	1,20,000
D. *Less:* Profit earned through transfer of goods at loaded price remaining in stock at transfer department (W.N. 2)	(2,200)		(8,600)	
E. Correct Departmental Profit (before manager's Commission) (C-D)	(34,200)	56,400	71,400	1,20,000
F. *Less:* Manager's commission @ 10% of profit subject to a minimum of ₹ 6,000	6,000	(6,000)	(6,000)	(7,140)
G. Departmental Profit after Manager's commission (E-F)	(40,200)	50,400	64,260	1,08,000

Working Note:

1. Manager's Commission:

	Deptt. Profit/Loss	Commission	
A	(-) 38,000	6,000	
B	50,400	6,000	i.e. (50,400 x 1/9 = ₹ 5,600 less than ₹ 6,000)
C	72,000	8,000	i.e. (72,000 x 1/9 = ₹ 8,000)
D	1,08,000	12,000	i.e. (1,08,000 x 119 = ₹ 12,000)

2. Unrealised Profit on stock transfer:

Dept. A:	22,000 to Deptt. B @ 110%, Profit thereon 22,000 x 10/110	2,000
	₹ 1,200 to Deptt. D @ 120% Profit thereon 1,200 x 20/120	200
		2,200
Dept. C	₹ 48,000 to Deptt. B 120% Profit thereon 48,000 x 20/120	8,000
	₹ 3,600 to Deptt. D @ 120 % Profit thereon 3,600 x 20/120	600
		8,600

Question No. 2

If Ltd. has three departments and submits the following information for the year ending on 31st March, 2014:

	L	M	N	Total (₹)
Purchases (units)	12,000	24,000	28,800	
Purchases (Amount)				12,00,000
Sales (Units)	12,240	23,040	29,952	
Selling Price (₹per unit)	40	45	50	
Closing Stock (Units)	1,200	1,920	72	

You are required to prepare departmental trading account of If Ltd., assuming that the rate of profit on sales is uniform in each case.

Answer

Departmental Trading Account for the year ended on 31st March, 2014

Particulars	**L**	**M**	**N**	**Particulars**	**L**	**M**	**N**
	₹	₹	₹		₹	₹	₹
To Opening Stock	23,040	17,280	24,480	By Sales	4,89,600	10,36,800	14,97,600
To Purchases	1,92,000	4,32,000	5,76,000	By Closing Stock	19,200	34,560	1,440
To Gross Profit	2,93,760	6,22,080	8,98,560				
	5,08,800	1,07,1360	14,99,040		5,08,800	10,71,360	14,99,040

Working Notes:

(1) Profit Margin Ratio

	₹
Selling price of unit purchased:	
Department L (12,000 x 40)	4,80,000
Department M (24,000 x 45)	10,80,000
Department N (28,800 x 50)	14,40,000
Total Selling Price	30,00,000
Less: Purchase (Cost) Value	12,00,000
Gross Profit	18,00,000
Profit Margin Ratio = (18,00,000/ 30,00,000) x 100 = 60%	

(2) Statement showing department-wise per unit Cost and Purchase Cost

	L	**M**	**N**
Selling Price (Per unit) (₹)	40	45	50
Less: Profit Margin @ 60% (₹)	24	27	30
Purchase price per unit (₹)	16	18	20
Number of units purchased	12,000	24,00 0	28,80 0
Purchases (cost per unit x Units	1,92,00		

(3) Statement showing calculation of department-wise Opening Stock (in Units)

	L	**M**	**N**
Sales (Units)	12,24 0	23,040	29,95 2
Add: Closing Stock (Units)	1,200	1,920	72
	13,440	24,960	30,02 4
Less: Purchases (units)	12,000	24,000	
Opening Stock (Units)		960	

(4) Statement showing department-wise cost of Opening Stock and Closing Stock

	L	**M**	**N**
Cost of Opening Stock (₹)	(1,440 x 16)	(960 x 18)	(1,224 x 20)
₹	23,040	17,280	24,480
Cost of Closing Stock	(1,200 x 16)	(1,920 x 18)	(72 x 20)
₹	19,200	34,560	1,440

Question No. 3

The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2016 after adjusting the unrealized department profits if any.

	Deptt. A ₹	Deptt. B ₹
Opening Stock Purchases Sales	50,000 6,50,000 10,00,000	40,000 9,10,000 15,00,000

General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information:
(a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department A.
(b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B.
(c) Opening stock of Department A and Department B include goods of the value of ₹ 10,000 and ₹ 15,000 taken from Department B and Department A respectively at cost to transferee departments.
(d) The rate of gross profit is uniform from year to year.

Answer

Departmental Trading and Loss Account of M/s Division

For the year ended 31st December, 2016

	Deptt. A	Deptt. B		Deptt. A	Deptt. B
	₹	₹		₹	₹
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	₹		₹
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (₹ 20,000 - ₹ 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (₹ 30,000 - ₹ 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%

2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

BRANCH ACCOUNTS

Distinction between Branch Accounts & Departmental Accounts

Branch Accounts	Departmental Accounts
→ Branch accounts may be maintained either at a branch or Head office	Departmental accounts are maintained at one place only
→ Expences of each branch can be identified separately therefore no allocation problem.	→ Common expences are allotted to each departments on suitable basis.
→ Reconciliation of H.O. & Branch A/cs is necessary in case branches maintaining independent accounting records.	→ No such problem arises in Departmental Accounts

Types of Branch

Dependent Branch	Independent Branch
→ H.O. maintains record of transactions by Branch ↓ Methods Debtors Method Stock-Debtor Method Trading & P&L A/c Method	→ Branch maintains complete record of transactions on its own. ① Branch maintains A/cs under double entry system. ② Branch opens H.O. A/c in its Book & H.O. maintains Branch A/c to record transactions betn H.O. & Branch. ③ Branch prepares Trial Balance & Trading & P&L A/c & sends it to H.O. ④ H.O. will pass entries to incorporate branch Trial Balance in its Book.

Independent Branch

Journal Entries [Similar to Regular entries]

Transaction	H.O. Books	Branch Books
① Dispatch of Goods by H.O. to branch	Branch A/c — Dr To Goods sent to Branch A/c	Goods recd. from H.O. A/c - Dr To H.O. A/c
② Goods returned by Branch	Goods sent to Br. A/c — Dr To Branch A/c	H.O. A/c — Dr To Goods recd. from H.O. A/c
③ Branch exp paid by Branch	No Entry	Expenses A/c — Dr To Bank A/c
④ Branch exp paid by H.O.	Branch A/c — Dr To Cash / Bank A/c	Expenses A/c — Dr To H.O. A/c
⑤ Purchase by Branch from outside	No entry	Purchase A/c — Dr. To Bank/creditors A/c
⑥ Sale effected by Branch	No Entry	Cash / Debtor A/c — Dr To Sales A/c
⑦ Collection from Debtors of Branch Recd. by H.O.	Cash A/c — Dr To Branch A/c	H.O. A/c — Dr To Debtors A/c
⑧ Payment by H.O. for Purchase made by Branch	Branch A/c — Dr To Bank A/c	Purchase / Creditors — Dr To H.O. A/c
⑨ Asset purchased by the branch but asset A/c retained at H.O. Books	Branch Asset A/c — Dr To Branch A/c	H.O. A/c — Dr. To Bank/ liability
⑩ Depreciation on above assets	Branch A/c — Dr To Branch Asset A/c	Depreciation A/c — Dr To H.O. A/c
⑪ Remittance of fund to Branch by H.O.	Branch A/c — Dr To Bank A/c	Bank A/c — Dr To H.O. A/c
⑫ Remittance by Branch to H.O.	Reverse of above entry	Reverse of above entry

Transfer of Goods from one Branch to other.	(Recipient) Branch A/c - Dr To (Supplying) Branch A/c	Supplying Branch :- H.O. A/c - Dr. To Goods received from H.O. A/c Recipient Branch Goods Recd. from H.O. - Dr To H.O. A/c.

* Adjustment & Reconciliation of Branch & H.O. A/c.

Reasons of Dis-agreement	H.O. Accounts	Branch A/cs
① Goods dispatched by H.O. but not recd. by Branch (Goods in Transit)	No Entry (Entry already done)	Goods in Transit A/c - Dr To H.O. A/c
② Cash in Transit (Not recd. by H.O.)	Cash in Transit A/c - Dr To Branch A/c	No Entry
③ Direct collection by H.O. on behalf of Branch	(Entry already Done)	H.O. A/c - Dr To Debtors A/c
④ Direct Payment by Branch on behalf of H.O	Sundry Creditors A/c - Dr To Branch A/c	(Entry already done)
⑤ Expenses allocated to Branch	(Entry already done)	Branch Exp. A/c - Dr To H.O A/c.

DEPENDENT BRANCHES

↓

Methods

Debtors Method

↓

Only transactions betn H.O. & Branch is recorded assuming that Branch is debtor of H.O.

↓

H.O. wont record transactions by branch with customer or any other person & only transactions with H.O will be recorded

(Method is similar to Consignment Accounting - Branch Account prepared in by H.O. is similar to Consignment A/c)

↓

(But if any figure is missing then we need to prepare Branch stock, Branch debtors A/c)

Stock Debtor Method

(To exercise reasonable control)

↓

In this method, H.O will record all transactions with ~~and~~ by branch with outsiders.

↓

A/cs required :→

1. Branch Stock A/c
2. Branch Cash A/c
3. Branch Asset A/c
4. Branch Debtors A/c
5. Branch expenses A/c.
6. Goods sent to Branch A/c
7. Branch Adjustment A/c (only if Goods are sent sent by H.O. to branch at Invoice price)

Balance of Branch Adj. A/c will be transferred to Branch P&L A/C.

↓

Branch P&L A/c (Dr. all exp.)

Result is Profit or loss.

Trading & P&L A/c

(similar to Departmental Trading & P&L A/c)

Debtor Method

In the Books of H.O.

Branch Account

Dr. | | | Cr.

Particulars	₹	Particulars	₹
To Balance c/d		By Balance b/d	
Cash in Hand	xx	Stock Reserve	xx
Trade Debtors	xx	By Goods sent to Branch A/c (Returns to H.O.)	xx
Stock	xx	By Goods sent to Branch A/c (Loading on net goods sent to Branch)	xx
Assets (Furniture)	xx	By Bank A/c (Remittance from Branch to H.O.)	xx
To Goods sent to Branch A/c	xx	By Balance c/d	
To Bank A/c (Payment by H.O. on behalf of Branch)	xx	Cash in Hand	
To Balance c/d		Trade Debtors	
Stock Reserve	xx	Stock	
O/s expenses	xx	Assets (Furniture)	
To P&L A/c (Net Profit)			
	xx		xx

→ If any amount is missing then A/c shall be prepared to find out Amt. as Bal. figure. [A/cs are similar to A/cs prepared in stock debtor method]

Stock-Debtor Method

Branch Adjustment A/c

Dr. | | | Cr.

Particulars	₹	Particulars	₹
To Branch Stock A/c (loading of loss)	xx	By Stock Reserve A/c (on opening stock)	xx
To Stock Reserve (on closing stock)	xx	By Goods sent to Branch A/c (loading on Goods sent)	xx
To Gross Profit *	xx		

Dr. BRANCH P&L A/c Cr.

Particulars	₹	Particulars	₹
To Branch stock A/c (Close of stock if any)	xx	By Gross Profit (from adjustment A/c)	xx
To Branch expenses A/c (exp., Bad debts, Disc allowed)	xx		
To Net Profit* (Transferred to General P&L A/c)			
	xx		xx

* Other Accounts in stock debtor system shall be maintained by following double entry system principles

* Branch stock A/c is maintained at Invoice price if Goods are sent at I.P by H.O. to Branch.

* In Branch Adjustment A/c loading on opening stock, Goods sent, Goods lost, Goods in transit & closing stock is adjusted but no adjustment to be made for loading related to goods sold as loading portion in goods sent represents realised profit ∴ it shall not be reversed.

* Balancing figure in Branch stock A/c :-

→ If Bal. figure on Dr. side :- represents excess profit over normal & it is transferred / credited to Br. Adjustment A/c

→ If Bal. figure is on Cr. side :- It may be treated as Stock shortage & cost to be transferred / Dr. to P&L A/c & loading portion to .

Question No. 1

Using the Stock and Debtors system, find out the profit or loss made at the Kolkata Branch in 2014.

	₹
Stock (1st January) invoice price	24,000
Branch Debtors (1st January)	12,400
Goods sent to the Branch (invoice price)	70,000
Goods returned by the Branch (invoice price)	2,000
Sales:	
Credit	42,000
Cash	40,000
Goods returned by customers	1,200
Cash received from debtors	39,600
Discount allowed to them	600
Cash sent for expenses at the Branch	12,200
Shortage of goods at the Branch (invoice price)	800

Goods are invoiced to the Branch at the selling price so as to show a profit of 30% on invoice price.

Answer

Branch Stock Account

Particulars	₹	Particulars	₹
To Balance b/d	24,000	By Cash A/c (Cash sales)	40,000
To Goods sent to Branch A/c	70,000	By Branch Debtors (credit sales)	42,000
To Branch Debtors (Sales Returns)	1,200	By Goods sent to Branch A/c (Returns)	2,000
		By Shortage of goods	800
		By Balance c/d (Bal. fig.)	10,400
	95,200		95,200

Branch Debtors Account

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	12,400	By Branch stock A/c (Sales Returns)	1,200
To Branch Stock (Credit sales)	42,000	By Cash A/c	39,600
		By Discount A/c	600
		By Balance c/d (Bal. fig.)	13,000
	54,400		54,400

Branch Expenses Account

Particulars	**₹**	**Particulars**	**₹**
To Cash A/c	12,200	By Branch P&L A/c (Bal. fig.)	12,800
To Discount A/c	600		
	12,800		12,800

Goods Sent to Branch Account			
Particulars	**₹**	**Particulars**	**₹**
To Branch Stock A/c (Returns)	2,000	By Branch Stock A/c	70,000
To Branch Adjustment A/c (Loading) (70,000× 30%)	21,000	By Branch Adj. A/c (Loading) (2,000 × 30%)	600
To Trading A/c (Bal. fig.)	47,600		
	70,600		70,600

Branch Adjustment Account			
Particulars	**₹**	**Particulars**	**₹**
To Shortage of goods (Loading) (800 × 30%)	240	By Branch Stock Reserve (24,000 × 30%)	7,200
To Branch Stock Reserve A/c (10,400 × 30%)	3,120	By Goods sent to Branch (Net loading) (21,000 - 600)	20,400
To P&L A/c (Bal. fig.)	24,240		
	27,600		27,600

Branch Profit and Loss Account			
Particulars	**₹**	**Particulars**	**₹**
To Branch Expenses A/c	12,800	By Branch Adjustment A/c	24,240
To Shortage of Goods (cost) (800 × 70%)	560		
To Net Profit	10,880		
	24,240		24,240

Question No. 2

M/s X has a branch at Delhi and the goods are invoiced to branch at a profit of 20% on invoice price. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the branch. Branch expenses directly paid by M/s X on behalf of Delhi branch amounted to ₹ 20,000. Following information is available of the transactions at Delhi branch for the year ended 31st December, 2012:

	As on 1.1.2012	**As on 31.12.2012**
	₹	**₹**
Stock, at invoice price	80,000	1,00,000
Debtors	24,000	22,000
Petty cash	3,000	5,000

Transactions during the year ended 31st December, 2012:	₹
Goods sent to branch, at invoice price	8,40,000
Goods returned by branch to head office, at invoice price	30,000
Cash sales	3,10,000
Credit sales	3,60,000
Cash sent for petty expenses	12,000
Bad debts at Delhi branch	2,000
Goods returned by debtors	2,000

You are required to prepare Delhi Branch account (on cost basis) in the books of M/s X under Debtors System.

Answer

In the Books of M/s X
Delhi Branch Account

2012		₹	₹	2012		₹	₹
Jan. 1	To Balance b/d			Dec. 31	By Bank		
	Stock	64,000			Cash Sales	3,10,000	
	Debtors	24,000			Cash from Sundry Debtors (W.N.1)	3,58,000	6,68,000
	Petty cash	3,000	91,000				
Dec. 31	To Goods sent to Branch A/c		6,72,000		By Goods sent to Branch A/c - Returns to H.O.		24,000
	To Bank: Sundry Expenses		20,000				
	To Petty Expenses (W.N. 2)		10,000		By Balance c/d		
					Stock	80,000	
					Debtors	22,000	
					Petty Cash	5,000	1,07,000
	To Balance being Profit carried to (H.O.) P&L A/c		6,000				
			7,99,000				7,99,000
Jan. 1, 2013	To Balance b/d		1,07,000				

Working Notes:

1. **Cash Collected from debtors**

	₹
Debtors as on 1.1.12	24,000
Add: Credit sales	3,60,000
	3,84,000
Less :Bad debts and sales returns (2,000 + 2,000)	(4,000)
Closing balance of debtors	(22,000)
Cash collected during the year	3,58,000

2. **Petty expenses**

	₹
Petty cash as on 1.1.12	3,000
Add: Cash received from H.O	12,000
	15,000
Less: Petty cash as on 31.12.12	(5,000)
Expenses during the year	10,000

Accounts from Incomplete Records
[Single Entry]

कितना Incomplete हो सकता है
1. One effect is pending.
2. Both effects are pending.

→ Rules to be understood

1. If information is separately given as adjustment then complete its 2 effects
2. If information is given through any A/c then one effect is already completed & only 2nd effect is pending. [cash/Bank A/c may be given]
3. from one A/c, we can find out only one missing figure

example :- If credit sale is missing & debtors closing balance ~~is in~~ both are missing then Debtors A/c can be used to find out closing balance & we need to find out credit sale separately

→ let us know Basics

Real & Personal A/cs

Dr. Assets A/c Cr

↑ | ↓

Always Dr. Bal (opening)

Personal A/cs

Dr. Liabilities A/c Cr.

↓ | ↑

Always Cr. Balance

Nominal A/c

Dr. Expenses Cr

↑ | ↓

always Dr. Balance

Nominal A/c

Dr. Income Cr

↓ | ↑

Always credit Balance

→ Understanding About provision :-

Following Items are normally missing & can be calculated in following ways. (2)

(1) Sales

- Prepare Debtors A/c
  ↓
  find out credit sales + Cash sales = Total sales
  (opening, closing Balance & collection shall be given in Problem)

- Find out C.O.G.S.

opening	xxx
+ Purchase	xxx
(-) closing	xxx
COGS	xxx
(+) G.P.	xxx
Sales	xxx

- Refer instructions given in problem
  (1) May be last year sale is given & increase in current year is given
  or
  (2) Ratio's / turnover pattern is given

- Prepare Cash A/c to find out Cash Sales

(2) Purchases

- Prepare Creditors A/c
  ↓
  To find out credit Purchase

Credit Purchase	xxx
(+) Cash Purchase	xxx
Total Purchase	xxx

  ↓
  (opening, closing Balance & payment to creditors shall be given in problem)

- Reverse COGS

COGS -	xxx
(+) closing stock	xxx
(-) opening stock	xxx
Purchase	xxx

  or
  Prepare Trading A/c (B.F.)

- Refer instructions given in Problem
  (1). May be last years sale is given & Increase in current year is given
  (2) Ratio's / creditors turnover is given

- Prepare Cash A/c to find out Cash Purchase

(3) Depreciation / sale or Purchase of fixed Assets

→ Prepare fixed Asset A/c
or
→ Refer instructions.

(4) Opening or closing Balances of Cash A/c, Bank A/c, Debtors A/c or creditors A/c is missing :

→ Prepare respective A/cs

or

→ In case of Debtors & creditors, opening or closing Balance can be calculated using ratio's, if given in problem.

(5) Opening Capital Balance is missing :-

Prepare opening Balance sheet & Balancing figure is treated as opening capital.

(6) Gross Profit is missing :-

→ Refer instructions or,

→ Balancing figure to trading A/c.

(7) Expenses or Income related to current year is missing [Exp./Income not given on Accrual basis)

Total expenses paid (as given in info or given cash book)	xxx
(+) Outstanding of current year	xxx
(+) Prepaid expenses of last year	xxx
(-) Outstanding expences of last year	xxx
(-) Prepaid exp in current year	xxx

Expenses to be debited to P&L A/c

(Same format applicable for Income)

→ If Debtors turnover is given then we can find out ~~sales~~ (4)
Credit sales as = $\text{Debtors} \times \frac{12 \text{ months}}{\text{Debtors turnover}}$

→ In above case we can find out Debtors (if credit sale is available)

$$\text{Debtors} = \text{Credit sale} \times \frac{\text{Debtors turnover}}{12 \text{ months}}$$

→ If Creditors turnover is given then we can find out credit purchase as = $\text{creditors} \times \frac{12}{\text{creditors turnover}}$.

In above case we can find out creditors (if credit purchase is available)

$$\text{Creditors} = \text{credit purchase} \times \frac{\text{creditors turnover}}{12}$$

→ If Bills Receivable & Debtors A/c given in Balance sheet.

Trade Debtors A/c

To Balance b/d	xxx	By Cash / Bank A/c	xxx
To Credit sales A/c (B.f.)	xxx	By Discount allowed	xxx
		By Bills Receivable A/c	xxx
		By Bad debts	xxx
		By Balance c/d	xxx

Bills Receivable A/c

To Balance b/d	xxx	By Cash	xxx
To Trade Debtors (B.F.)	xxx	By Trade creditors (Bills endorsed)	xxx
		By Balance c/d	xxx

Main Components of Debtors A/c

① Opening Balance ② Closing Balance ③ Collection from debtors ④ Credit sales (one may be missing)

Other :→ Bad debts, discount allowed, sales return, Cheque or B/R dishonoured, Bills receivable.

Dr. Debtors A/c Cr
↑ ↓

→ If Bills Payable & Creditors A/c given in Balance sheet

Dr Trade Creditors A/c Cr.

Dr		Cr	
To Cash / Bank A/c	xxx	By Balance b/d	xxx
To Discount received	xxx	By Purchase	xxx
To Bills Receivable	xxx		
To Bills Payables	xxx		
To Balance c/d	xxx		

Dr Bills Payable A/c Cr

Dr	Cr
To Cash / Bank	By Balance b/d
To Balance c/d	By creditors* (Balancing figure)

→ Main Components of creditors A/c :→

① Opening Balance ② Closing Balance

③ Payment to creditors ④ credit purchase

*(one of above may be missing

→ Other Components :→

Discount recd, B.R. endorsed, Bills Payable accepted. Cheque or B.R. endorsed is now dishonoured

Dr Creditors A/c Cr

Dr	Cr
↓	↑

Question No. 1

The following is the Balance Sheet of Manish and Suresh as on 1st April, 2016:

Liabilities	₹	Assets	₹
Capital:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

(i) Creditors' Velocity* 1.5 month & Debtors' Velocity* 2 months.
(ii) Stock level is maintained uniformly in value throughout all over the year.
(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.
(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.
(v) Rate of gross profit remains the same.
(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.
(vii) Closing stock is to be valued on LIFO Basis.
(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

Prepare Trading, Profit and Loss Account, Trade Debtors A/c and Trade Creditors A/c for the year ending 31.03.2017.

(* Velocity indicates the no. of times the creditors and debtors are turned over a year.)

Answer

Trading and Profit and Loss account for the year ending 31st March, 2017

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	4,31,250
To Purchases (Working Note)	3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)	86,250		
	4,71,250		4,71,250
To Business Expenses	50,000	By Gross Profit b/d	86,250
To Depreciation on:			
Machinery 6,500			
Building 5,000	11,500		
To Net profit	24,750		
	86,250		86,250

Trade Debtors Account

Particulars	₹	*Particulars*	₹
To Balance b/d	50,000	By Bank (bal.fig.)	4,09,375
To Sales	4,31,250	By Balance c/d (1/6 of 4,31,250)	71,875
	4,81,250		4,81,250

Trade Creditors Account

Particulars	₹	Particulars	₹
To Bank (Balancing figure)	3,31,875	By Balancing b/d	30,000
To Balance c/d/ (1/8 of ₹ 3,45,000)	43,125	By Purchases	3,45,000
	3,75,000		3,75,000

Working Note:

		₹
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year (₹ 50,000 x 12/2)	3,00,000
B	Purchases (₹ 30,000 x 12/1.5)	2,40,000
C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 - ₹ 40,000)	2,40,000
D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit ₹ 60,000/₹ 3,00,000 x 100	20%
	Calculation of sales and Purchases during current year	₹
(ii)		
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 25 %	60,000
		3,00,000
C	Add: Increase in cost @ 15%	45,000
D	Cost of Goods Sold during Current Year	3,45,000
E	Add: Gross profit @ 25% on cost (20% on sales)	86,250
F	Sales for current year [D+E]	4,31,250

Question 2

A trader keeps his books of account under single entry system. On 31st March, 2010 his statement of affairs stood as follows:

Liabilities	₹	Assets	₹
Trade Creditors	5,80,000	Furniture, Fixtures and Fittings	1,00,000
Bills Payable	1,25,000	Stock	6,10,000
Outstanding Expenses	45,000	Trade Debtors	1,48,000
Capital Account	2,50,000	Bills Receivable	60,000
		Unexpired Insurance	2,000
		Cash in Hand and at Bank	80,000
	10,00,000		**10,00,000**

The following was the summary of Cash-book for the year ended 31st March, 2011:

Receipts	**₹**	**Payments**	**₹**
Cash in Hand and at Bank on 1st April, 2011	80,000	Payments to Trade Creditors	75,07,000
Cash Sales	73,80,000	Payments for Bills payable	8,15,000
Receipts from Trade Debtors	15,10,000	Sundry Expenses paid	6,20,700
Receipts for Bills Receivable	3,40,000	Drawings	2,40,000
		Cash in Hand and at Bank on 31st March, 2011	1,27,300
	93,10,000		93,10,000

Discount allowed to trade debtors and received from trade creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire Insurance premium of ₹ 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balances method.

You are also informed about the following balances as on 31st March, 2011:

	₹
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000

The trader maintains a steady gross profit ratio of 10% on sales.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2011 and Balance Sheet as at that date.

Answer

Trading and Profit and Loss Account for the year ended 31st March, 2011

Particulars	₹	Particulars	₹	₹
To Opening Stock	6,10,000	By Sales		
To Purchases (W.N. 3)	84,10,000	Cash	73,80,000	
To Gross profit c/d	9,30,000	Credit (W.N. 2)	19,20,000	93,00,000
(10% of 93,00,000)		By Closing stock		6,50,000
	99,50,000			99,50,000
To Sundry expenses (W.N. 6)	5,80,700	By Gross profit b/d		9,30,000
To Discount allowed	36,000	By Discount received		28,000
To Depreciation	15,000			
(15% ₹ 1,00,000)				
To Net Profit	3,26,300			
	9,58,000			

Balance Sheet as at 31st March, 2011

Liabilities	Amount	Amount	Assets	Amount
	₹	₹		₹
Capital			Furniture & Fittings 1,00,000	
Opening balance	2,50,000		*Less :* Depreciation (15,000)	85,000
Less : Drawing	(2,40,000)		Stock	6,50,000
	10,000		Trade Debtors	1,52,000
Add : Net profit for the years	3,26,300	3,36,300	Bills receivable	75,000
Bills payable		1,40,000	Unexpired insurance	2,000
Trade creditors		6,10,000	Cash in hand & at bank	1,27,300
Outstanding expenses		5,000		
		10,91,300		**10,91,300**

Working Notes :

1. Bills Receivable Account

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Cash	3,40,000
To Trade debtors	3,70,000	By Trade creditors (Bills endorsed)	15,000
		By Balance c/d	75,000
	4,30,000		**4,30,000**

2. Trade Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,48,000	By Cash/Bank	15,10,000
To Credit sales (Bal. fig.)	19,20,000	By Discount allowed	36,000
		By Bills receivable	3,70,000
		By Balance c/d	1,52,000
	20,68,000		**20,68,000**

3. Memorandum Trading Account

Particulars	₹	Particulars	₹
To Opening stock	6,10,000	By Sales	93,00,000
To Purchases (Balancing figure)	84,10,000	By Closing stock	6,50,000
To Gross Profit (10% on sales)	9,30,000		
	99,50,000		99,50,000

4. Bills Payable Account

Particulars	₹	Particulars	₹
To Cash/Bank	8,15,000	By Balance b/d	1,25,000
To Balance c/d	1,40,000	By Creditors (balancing figure)	8,30,000
	9,55,000		**9,55,000**

5. Trade Creditors Account

Particulars	₹	Particulars	₹
To Cash/Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases	84,10,000
To Bills receivable	15,000	(as calculated in W.N. 3)	
To Bills payable	8,30,000		
To Balance c/d (bal. figure)	6,10,000		
	89,90,000		**89,90,000**

6. Computation of sundry expenses to be charged to Profit & Loss A/c

Particulars	₹
Sundry expenses paid (as per cash book)	6,20,700
Add : Prepaid expenses as on 31–3–2010	2,000
	6,22,700
Less : Outstanding expenses as on 31–3–2010	(45,000)
	5,77,700
Add : Outstanding expenses as on 31–3–2011	5,000
	5,82,700
Less : Prepaid expenses as on 31–3–2011 (Insurance paid till July, 2011)	(2,000)
	5,80,700

Question No. 3

Lokesh, who keeps books by single entry, had submitted his Income-tax returns to Income-tax authorities showing his incomes to be as follows:

Particulars	₹
Year ending March 31, 2005	33,075
Year ending March 31, 2006	33,300
Year ending March 31, 2007	35,415
Year ending March 31, 2008	61,875
Year ending March 31, 2009	54,630
Year ending March 31, 2010	41,670

The Income-tax officer is not satisfied as to the accuracy of the incomes returned. You are appointed as a consultant to assist in establishing correctness of the incomes returned and for that purpose you are given the following information:

a) Business liabilities and assets at March 31, 2004 were:
b) Creditors: ₹ 32,940, Furniture & Fittings: ₹ 22,500, Stock : ₹ 24,390 (at selling pricewhich is 25% above cost), Debtors: ₹ 11,025, Cash at Bank and in hand ₹ 15,615.
c) Lokesh owned his brother ₹ 18,000 on March 31, 2004. On February 15, 2007 he repaid this amount and on April 1, 2009, he lent his brother ₹ 13,500.
d) Lokesh owns a house which he purchased in 1999 for ₹ 90,000 and a car which he purchased in October, 2005 for ₹ 33,750. In January, 2009, he bought debentures in X Ltd. having face value of ₹ 40,000 for ₹ 33,750.
e) In May, 2009 a sum of ₹ 13,500 was stolen from his house.
f) Lokesh estimates that his living expenses have been 2004-05 - ₹ 13,500; 2005-06 -₹ 18,000; 2006-07 - ₹ 27,000; 2007-08, 2008-09 and 2009-10 - ₹ 31,500 p.a. exclusive of the amount stolen.
g) On March 31, 2010 business liabilities and assets were: Creditors ₹ 37,800, Furniture, Fixtures and Fittings ₹ 40,500, Stock ₹ 54,330 (at selling price with a gross profit of 25%), Debtors ₹ 26,640, Cash-in-Hand and at Bank ₹ 29,025.

From the information submitted, prepare statements showing whether or not the incomes declared by Lokesh are correct.

Answer

Statement of Affairs of 'Lokesh' as on March 31, 2004

Liabilities	₹	Assets	₹
Creditors	32,940	Furniture, Fixtures & Fittings	22,500
Loan from brother	18,000	Stock (24,390 x 100/125)	19,512
Capital (Bal. fig.)	1,07,712	Debtors	11,025
		Cash-in-Hand and at Bank	15,615
		Building (House)	90,000
	1,58,652		**1,58,652**

Statement of Affairs of 'Lokesh' as on March 31, 2010

Liabilities	₹	Assets	₹
Creditors	37,800	Furniture, Fixtures & Fittings	40,500
Capital (Bal. fig.)	2,70,112	Stock (54,330 x 75%)	40,747
		Debtors	26,640
		Cash-in-Hand and at Bank	29,025
		Loan to Brother	13,500
		Building (House)	90,000
		Car	33,750
		Debentures in 'X Ltd.'	33,750
	3,07,912		**3,07,912**

Statement of Profit:

Particulars	₹	₹	₹
Capital as on March 31, 2010			2,70,112
Add: Drawings			
2004-05	13,500		
2005-06	18,000		
2006-07	27,000		
2007-08	31,500		
2008-09	31,500		
2009-10	31,500		1,53,000
			4,23,112
Add: Amount stolen in May, 2009			13,500
			4,36,612
Less: Opening Capital as on March 31, 2004			(1,07,712)
			3,28,900
Less: Profit as shown by I.T.O.			
For the year ending March 31, 2005		33,075	
For the year ending March 31, 2006		33,300	
For the year ending March 31, 2007		35,415	
For the year ending march 31, 2008		61,875	
For the year ending March 31, 2009		54,630	
For the year ending March 31, 2010		41,670	(2,59,965)
Understatement of Income			68,935

Note: In the absence of the information regarding depreciation in the question, no depreciation has been provided on Building (house) and Car. The candidates may assume any appropriate rate of depreciation and can provide depreciation.