CAP-I NEW, Fundamentals of Accounting, Dec 2013
Suggested Answer

Roll No……………. **Maximum Marks - 50**
Total No. of Questions - 3 **Total No. of Printed Pages -2**
Time Allowed - 2 Hours

Marks

Attempt all questions. Working notes should form part of the answer.

1. Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare his final accounts for the year ended December 31, 2012: **15**

	1.1.2012 Rs.	31.12.2012 Rs.
Debtors	1,02,500	–
Creditors	–	46,000
Stock	50,000	62,500
Bank Balance	–	50,000
Fixed Assets	7,500	9,000

Details of his bank transactions were as follows:

	Rs.
Received from debtors	3,40,000
Additional capital brought in	5,000
Sale of fixed assets (book value Rs. 2,500)	1,750
Paid to creditors	2,80,000
Expenses paid	49,250
Personal drawings	25,000
Purchase of fixed assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was Rs. 2,60,000.

Answer

Trading and Profit and Loss Account
for the year ended 31st December, 2012

		Amount Rs.			Amount Rs.
To	Opening stock	50,000	By	Sales (Rs. 2,60,000 × 125/100)	3,25,000
To	Purchases (balancing figure)	2,72,500	By	Closing stock	62,500
To	Gross profit c/d (Rs. 2,60,000 × 25/100)	65,000			
		3,87,500			3,87,500
To	Expenses	49,250	By	Gross profit b/d	65,000
To	Loss on sale of fixed assets	750			

To	Depreciation on fixed assets (W.N.1)	1,000	
To	Net profit	14,000	
		65,000	65,000

Balance Sheet as on 31st December, 2003

Liabilities		Amount Rs.	Assets	Amount Rs.
Capital (W.N. 5)	1,69,000		Fixed assets	9,000
Add: Additional capital	5,000		Debtors (W.N. 3)	87,500
Net profit	14,000		Stock	62,500
	1,88,000		Bank balance	50,000
Less: Drawings	25,000	1,63,000		
Creditors		46,000		
		2,09,000		2,09,000

Working Notes:

1. **Fixed assets account**

Dr. Cr.

		Rs.			Rs.
To	Balance b/d	7,500	By	Bank (sale)	1,750
To	Bank	5,000	By	Loss on sale of fixed asset	750
			By	Depreciation (balancing figure)	1,000
			By	Balance c/d	9,000
		12,500			12,500

2. **Bank account**

Dr. ***Cr.***

		Rs.			*Rs.*
To	Balance b/d (balancing figure)	62,500	By	Creditors	2,80,000
To	Debtors	3,40,000	By	Expenses	49,250
To	Capital	5,000	By	Drawings	25,000
To	Sale of fixed assets	1,750	By	Fixed assets	5,000
			By	Balance c/d	50,000
		4,09,250			4,09,250

3. **Debtors account**

Dr.		*Rs.*			*Cr.* *Rs.*
To	Balance b/d	1,02,500	By	Bank	3,40,000
To	Sales (Rs. 2,60,000 $\times \frac{125}{100}$)	3,25,000	By	Balance c/d (balancing figure)	87,500
		4,27,500			4,27,500

4. **Creditors account**

Dr.		*Rs.*			*Cr.* *Rs.*
To	Bank	2,80,000	By	Balance b/d (balancing figure)	53,500
To	Balance c/d	46,000	By	Purchases (from trading account)	2,72,500
		3,26,000			3,26,000

5. **Balance Sheet as on 1st January, 2012**

Liabilities	*Rs.*	*Assets*	*Rs.*
Creditors (W.N. 4)	53,500	Fixed assets	7,500
Capital (balancing figure)	1,69,000	Debtors	1,02,500
		Bank balance (W.N. 2)	50,000
		Stock	62,500
	2,22,500		2,22,500

2.

a) A and B were carrying on business in partnership since 2005 sharing profit/loss in the ratio of 3:2 respectively. They decided to admit C as a partner on the basis that he brings Rs. 3,000 into the firm of which Rs. 1,000 is to be premium on admission to a quarter shares, new profit sharing ratio between A and B is to be 2:1. On the other hand, C brings into the firm his own goodwill valued at Rs. 1,600 associated with a separate unit, the sharing ratio is 3:2:5 between A, B and C respectively. The firm has the policy to write off the goodwill immediately after necessary adjustments.

You are required to show: **(7+3=10)**

i) Entries necessary to give effect to the above arrangements.

ii) Statement showing effects in Partners' capital a/c.

b) Mr. Mohan gives you the following trial balance and some other information:

Trial Balance as on 31st March, 2011

Particulars	Dr. (Rs.)	Cr. (Rs.)

Capital		6,50,000
Sales		9,70,000
Purchases	4,30,000	
Opening Stock	1,10,000	
Freights Inward	40,000	
Salaries	2,10,000	
Rent	30,000	
Other Administration Expenses	1,20,000	
Furniture	3,50,000	
Debtors and Creditors	2,10,000	1,90,000
Returns	20,000	12,000
Discounts	19,000	9,000
Bad Debts	5,000	
Cash in Hand and Cash at Bank	1,87,000	
Investments in Government Securities	1,00,000	
Total	**18,31,000**	**18,31,000**

Other Information**:**

Closing stock was Rs. 1,80,000;
Depreciate Furniture @ 10% p.a.
Provision for Doubtful debts 5% on Debtors
Accrual Salaries not provided for Rs. 30,000
Prepaid Rent Rs. 6,000 included in above.

You are required to prepare Trading and Profit and Loss Account for the year ended on 31st March, 2011 and Balance Sheet of Mr. Mohan as on that date. **10**

Answer:

a) This is the case of admission of a partner where both firms are having goodwill. As per settlement, the new profit sharing ratio for sharing the profits of two businesses is as follows:

Goodwill of the firm A and B	**Profit sharing Ratio**
Old partners are A and B	3:2
New partners are A, B and C where 1/4th to C	
Remaining (1-1/4th)= 3/4th to A and B in the ratio of 2:1	
Therefore, new ratio of A, B and C is	2:1:1.

Total goodwill of this firm which is (Rs. 1000*4)= Rs. 4000 is to be raised in the old ratio, between the old partners and is to be written off in the new partners new ratio.

i) **Entries necessary to give effect to the adjustments are:**

1.	Goodwill a/c	Dr.	4,000	
	To A's capital a/c			2,400
	To B's capital a/c			1,600
	(Being goodwill raised in the ratio of 3:2)			
2.	A's capital a/c	Dr.	2,000	
	B's capital a/c	Dr.	1,000	
	C's capital a/c	Dr.	1,000	
	To Goodwill a/c			4,000
	(Being goodwill written off in the ratio of 2:1:1)			

3.	Cash a/c	Dr.	3,000	
	To C's capital a/c			3,000
	(Being cash invested by C in the business)			
4.	Goodwill a/c	Dr.	1,600	
	To C's capital a/c			1,600
	(Being goodwill brought by C credited to his capital a/c)			
5.	A's capital a/c	Dr.	480	
	B's capital a/c	Dr.	320	
	C's capital a/c	Dr.	800	
	To Goodwill a/c			1,600
	(Being goodwill written off in the ratio of 3:2:5)			

ii) **Statement showing Net effect in Partner's capital a/c :**

S.N.	**Particulars**	**A's capital a/c**		**B's capital a/c**		**C's capital a/c**	
		Dr. (Rs)	**Cr. (Rs.)**	**Dr. (Rs.)**	**Cr. (Rs.)**	**Dr. (Rs.)**	**Cr. (Rs.)**
1.	Goodwill raised of A & B		2,400		1,600		
2	Goodwill written off A,B & C	2,000		1,000		1,000	
3	Goodwill raised of business C						1,600
4	Goodwill written off of the business of C among A, B & C	480		320		800	
5	Total	2,480	2,400	1,320	1,600	1,800	1,600
6.	**Balance (Net Effect)**	**80 (Dr.)**		**280 (Cr.)**		**200 (Dr.)**	

b)

In the Books of Mohan

Trading Account

For the Year Ended March 31, 2011

Particulars		Dr Amount Rs.	Particulars		Cr Amount Rs.
To Opening Stock		1,10,000	By sales	9,70,000	
To Purchases	4,30,000		Less: returns	(20,000)	9,50,000
Less: returns	(12,000)	4,18,000			
To Freights Inward		40,000	By Closing stock		1,80,000
To Gross Profit		5,62,000			
		11,30,000			**11,30,000**

Profit and Loss Account For the Year Ended March 31, 2011			
Particulars	**Dr Amount Rs.**	**Particulars**	**Cr Amount Rs.**

To Depreciation		35,000	By Gross Profit		5,62,000
To Salaries Add: Accured	2,10,000 30,000	240,000	By Discount received	9,000	
To Administration Expenses		1,20,000			
To Rent Less: prepaid	30,000 6,000	24,000			
To Discount Allowed		19,000			
To Provision for Doubtful debt		10,500			
To bad Debts		5,000			
To Net Profit		1,17,500			
		5,71,000			**5,71,000**

Balance Sheet					
As on March 31, 2011					
Liabilities		**Amount Rs.**	**Assets**		**Amount Rs.**
Capital	6,50,000		Furniture	3,50,000	
Add: Net Profit	1,17,500	767,500	Less: Depreciation	(35,000)	3,15,000
			Closing Stock		1,80,000
Creditors		1,90,000	Debtors Less: Provision for Doubtful Debt	2,10,000 10,500	1,99,500
Accrued Salary		30,000	Investments in Govt. Securities		1,00,000
			Cash in Hand and Cash at Bank		1,87,000
			Prepaid Rent		6,000
		9,87,500			**9,87,500**

3.

a) Shri Mehta of Birgunj consigns 1,000 cases of goods costing Rs. 100 each to Shri Sundar of Kathmandu. Shri Mehta pays the following expenses in connection with consignment:

	Rs.
Carriage	1,000
Freight	3,000
Loading charges	1,000

Shri Sundar sells 700 cases at Rs. 140 per case and incurs the following expenses:

	Rs.
Clearing charges paid to transporter	850
Warehousing and storage	1,700
Packing and selling expenses	600

It is found that 50 cases have been lost in transit and 100 cases are still in transit. Shri Sundar is entitled to a commission of 10% on gross sales.

Draw up Consignment Account and Shri Sundar's Account in the books of Shri Mehta. **(3+2=5)**

b) Write short notes on ANY TWO of the following: **(2×5=10)**

i) Bank Reconciliation Statement
ii) Accommodation Bills
iii) Provision & Contingent liability

Answer

a)

In the books of Shri Mehta
Consignment of Kathmandu Account

	Dr.			Cr.
	Rs.			Rs.
To Goods sent on Consignment	1,00,000	By Shri Sundar (Sales)		98,000
To Bank (Expenses)	5,000	By Loss in Transit 50 cases @ Rs. 105 each		5,250
To Shri Sundar (Expenses)	3,150			
To Shri Sundar (Commission)	9,800	By Consignment Stock		
To Profit on Consignment to Profit & Loss A/c	11,700	In hand 150 @ Rs. 106 each	15,900	
		In transit 100 @ Rs. 105 each	10,500	26,400
	1,29,650			**1,29,650**

Sundar's Account

	Rs.		Rs.
To Consignment to Kathmandu A/c	98,000	By Consignment A/c (Expenses)	3,150
		By Consignment A/c (Commission)	9,800
		By Balance c/d	85,050
	98,000		**98,000**

Working Notes:

i) Consignor's expenses on 1,000 cases amounts to Rs. 5,000; it comes to Rs. 5 per case. The cost of cases lost will be computed at Rs. 105 per case.

ii) Sundar has incurred Rs. 850 on clearing 850 cases, i.e., Rs. 1 per case; while valuing closing stock with the agent Rs. 1 per case has been added to cases in hand with the agent. i.e. 106 each.

i) Bank Reconciliation Statement

It is a statement which explains the difference between the balances in pass book (bank statement) and cash book (bank account in ledger), analyzed into various causes and the extent to which each contributes to such difference. It is prepared on periodic basis. It helps in finding out the actual position of the bank balance. It usually detects the difference in cash book and pass book balances due to some of the reasons such as:

a) Cheques issued but not presented for payment.
b) Cheques paid into bank but not yet cleared.
c) Interest allowed by bank
d) Expenses charged by bank
e) Direct payment into bank by a customer
f) Dishonour of bills discounted with bank

Beyond this, difference may also arise due to errors in recording entries. The reconciliation will bring out any errors that may have been committed either in cash book or in the pass book. It is a very important tool for internal control of cash flow. It also helps in detecting frauds and irregularities occurred, if any, at the time of passing entries in the cash book or pass book whether intentionally or unintentionally.

ii) Accommodation Bills

Bills of exchange are usually drawn to facilitate trade transaction i.e. bills are meant to finance actual purchase and sale of goods. But in some cases in order to oblige friends, bills are drawn, accepted and endorsed without any consideration. Such bill drawn without consideration is known as accommodation bills. By accepting such a bill the acceptor is able to lend his name and the other party (drawer) taking advantage of the reputation of the acceptor get it discounted with his banker. After meeting his needs with this temporary finance, he (drawer) sends back money to the acceptor thus making it possible for him to meet the bills on the due date. Since such bills are accepted without any consideration, there is no liability of the acceptor to the drawer. However, the acceptor cannot escape his liability to third parties. In dealing with entries in accommodation bills along with normal entries following additional points is to be noted :

a) The bills are drawn and accepted without any consideration. Therefore, when the ledger account are opened, there is no balance brought down.
b) When accommodation bill is discounted and the proceeds are shared, the loss due to discount must also be shared by the parties in the same ratio in which they have shared the proceeds.

iii) Provision and contingent liability

Provision is a liability of uncertain timing or amount. A liability exists if there is present obligation as a result of past events and settlement is expected to result in an outflow of resources (payment).

Contingent liability is a possible obligation depending on whether some uncertain future events occur or a present obligation but payment is not probable and the amount cannot be measured reliably.

Hence provision are made for known or specified liabilities which may occur in future whereas contingent liabilities is made for unknown liabilities which may or may not occur in future. Provision is accrued in the financial statement whereas contingent liabilities are disclosed but not accrued.

Examples of provision are provision for doubtful debts, provision for taxation etc.

Examples of contingent liabilities are claims against firm not acknowledged as debts, possible liabilities on account of guarantee given etc.