Fundamentals of Accounting
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. From the following balances extracted from the books of Mr. Ashok Kharel, prepare trading and profit and loss account for the year ended 31.3.2015 and a balance sheet on that date: **15**

Purchases	71,280	Capital account	60,000
Computer at cost		Creditors	13,000
(bought on 31.3.2015)	18,380	Bills Payable	10,220
Cash at Bank	4,000	Discount	22,000
Cash in Hand	2,836	Sales	60,720
Furniture and fittings at cost	1,540	Returns outwards	11,432
Rent	12,540	Rent due	320
Bills receivable	6,720		
Trade Charges	920		
Sundry debtors	34,156		
Drawings	5,200		
Discount	540		
Wages	1,800		
Salaries	16,780		
Returns Inwards	1,000		
	1,77,692		**1,77,692**

Adjustments:

a) Stock at the end at cost Rs. 25,600 (market-value Rs. 26,200).
b) Rs. 6,000 paid to Mrs. Red against Bills payable were debited by mistake to Mr. Green's account and included in the list of sundry debtors.
c) Traveling expenses paid to sales representatives Rs. 5,000 for the month of March 2015 were debited to his personal account and included in the list of sundry debtors.
d) Depreciation on furniture and fittings shall be provided at 10% p.a.
e) Provide for doubtful debts at 5% on sundry debtors.
f) Goods costing Rs. 1,500 were used by the proprietor.
g) Salaries included Rs. 12,000 paid to sales representative who is further entitled to a commission of 5% on net sales.
h) Stationery charges Rs. 1,200 due on 31.3.2015.
i) Purchases included opening stock valued at cost Rs. 7,000.
j) Sales representative further entitled to an extra commission of 5% on net profit after charging his extra commission.
k) No depreciation need to be provided on Computer purchased on last day of the Financial Year.

Answer:

Mr. Ashok Kharel
Trading and Profit and Loss Account
For the year ended on 31 March 2015

Particulars	Amount (Rs.)	Particulars	Amount(Rs.)
To Opening Stock	7,000	By sales 60,720	
To Purchases 6,4280		Less: Returns 1,000	59,720
Less; Returns 11,432		By Closing Stock	25,600
52,848			
Less: Drawings 1,500	51,348		
Wages	1,800		
Gross Profit C/d	25,172		
	85320		85,320
To Salaries	16,780		25,172
To Travelling Expenses	5,000	By Gross Profit b/d	22,000
To Sales Commissions (5% of 59,720)	2,986	By Discount	
To Stationary Charges	1,200		
To Rent	12,540		
To Discount	540		
To Trade Charges	920		
To Depreciation of Furniture and Fittings @ 10 %	154		
To Provision for Doubtful Debts	1,158		
To Extra Commission on Salesman (5/105*5,894)	281		
To Net Profit	5,613		
	47,172		**47,172**

Balance Sheet of Mr. Ashok Kharel
As on 31 March 2015

Liabilities	Amount (Rs.)	Assets	Amount(Rs.)
Capital Account 60,000		Computer	18,380
Less: Drawings 6,700		Furniture and Fittings	1,386
53,300		Stock in Trade	25,600
Add Net Profit 5,613	58,913	Bills Receivable	6,720
Sundry Creditors	13,000	Sundry Debtors 23,156	21,998
Bills Payable	4,220	Less: Provision for	
Expenses Due:		Doubtful Debts 1,158	
Commission to Salesman	3,267	Cash in Hand	2,836
Rent	320	Cash at Bank	4,000
Stationary	1,200		
	80,920		**80,920**

Working Notes:

1. Sundry Debtors

Sundry Debtors as per Trial Balance	34,156
Less: Wrong Debit given to Green	6,000
Less: Travelling Expenses wrongly Debited to Personal Accounts	5,000

Adjusted Debtor Balance 23,156

2. Net Profit before charging extra commission Rs. 47,172-41,278=Rs 5,894

2.

a) Ram and Laxman were operating a Partnership firm sharing profits and losses in the ratio of 5:3 respectively. The balance sheet of the firm as on 31st March 2015 was as follows:

Liabilities	Rs.	Assets	Rs.
Ram's Capital	205,000	Land and Building	190,000
Laxman's Capital	165,000	Plant and Machinery	85,000
P/L Appropriation A/C	56,000	Furniture	54,740
Trade Creditors	27,400	Stock	72,630
		Debtors	30,000
		Bank Balance	21,030
Total	**453,400**	**Total**	**453,400**

On 31st march 2015, Bharat was admitted on the following terms:

1) Bharat would get 1/5th share in the profits.
2) He would pay Rs.120,000 as capital and Rs. 16,000 for his share of goodwill.
3) In Bharat's admission, machinery would be depreciated by 10% and building would be appreciated by 30%. A provision for bad debts @5% on debtors would be created. An unrecorded liability amounting to Rs.3,000 for repairs to building would be recorded in the books of account.
4) Immediately after Bharat's admission, goodwill would be written off.
5) The capital accounts of the old partners would be adjusted through the necessary bank account in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation Account, Capital Accounts and the opening Balance Sheet of the new firm. **(3+4+3=10)**

b) From the following information, prepare Branch Account showing the profit or loss of the branch for the year ending 31.3.2072. **10**

Opening stock at the branch	130,000	Expenses met by the Head office	
Goods sent to branch	220,000	Salaries	9,000
Cash sales	300,000	Other expenses	5,000

Closing stock could not be ascertained, but it is known that the branch sells at cost plus 20%. The branch management entitled to a commission of 5% on the profit before charging such commission.

Answer:

a)

Revaluation Account

To Plant and Machinery	8,500		
To Provision for Bad Debts	1,500	By Land and Building	57,000
To Outstanding Repair Expenses	3,000		
To Ram's Capital A/C (5/8th Share)	27,500		
To Laxman's Capital A/c (3/8th Share)	16,500		
	57,000		**57,000**

Capital Accounts of the Partners

Particulars	**Ram**	**Laxman**	**Bharat**	**Particulars**	**Ram**	**Laxman**	**Bharat**
To Ram's Cap.	-	-	10,000	By Balance b/d	205,000	165,000	-
To Laxman's Cap	-	-	6,000	By P/L Appropriation	35,000	21,000	-
To Bank A/C	-	28,500	-	By Rev. A/c	27,500	16,500	-
To Balance c/d	300,000	180,000	120,000	By Bank A/C	-	-	136,000
				By Bharat's Cap. A/C	10,000	6,000	-
				By Bank A/c	22,500		
Total	**300,000**	**208,500**	**136,000**	**Total**	**300,000**	**208,500**	**136,000**

Balance Sheet

Liabilities	**Amount**	**Assets**	**Amount**
Ram's Capital A/c	300,000	Land and Building	247,000
Laxman's Capital A/c	180,000	Plant and Machinery	76,500
Bharat's Capital A/C	120,000	Furniture	54,740
Trade Creditors	27,400	Stock	72,630
Outstanding Repairs	3,000	Debtors	28,500
		Bank Balance	151,030
Total	**630,400**		**630,400**

Working Notes:

1. Profit Sharing Ratio

   Bharat's Share = 1/5

   Remaining Share = 1-1/5 = 4/5

   Ram's share = 4/5*5/8 = ½

   Laxman's share = 4/5*3/8 = 3/10

New Profit Sharing Ratio = 5:3:2

2. Distribution of Goodwill:

   Sacrificing Ratio

   Ram = $\frac{5}{8} - \frac{1}{2} = \frac{5-4}{8} = \frac{1}{8} = \frac{5}{40}$

   Laxman = $\frac{3}{8} - \frac{3}{10} = \frac{15-12}{40} = \frac{3}{40}$

   Sacrifing Ratio of Ram and Laxman = 5:3

   Ram = 16,000 $\times \frac{5}{8}$ = 10,000

   Laxman = 16,000 $\times \frac{3}{8}$ = 6,000

3. New Capital Required:

   Bharat's Capital = 120,000, therefore total capital of the firm = Rs.120,000*10/2 = Rs. 600,000

   Ram's required capital = Rs.600,000*1/2 = Rs. 300,000

   Laxman's required capital = Rs. 600,000*3/10 = Rs.180,000

   Bank Balance = Rs. 136,000+21030+22500-28500 = Rs. 151,030

b)

In the books of Head Office

Branch Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2008	To, Balance b/d		2008	By, Bank A/c	
Jan 1	Stock	130,000	Dec.	Cash sales	300,000
Dec	To, Goods sent to branch A/c	220,000	31	By, Balance c/d	
31	To, Bank A/c			Stock	100,000
	Salaries	9,000		(as per working note 1)	
	Other expenses	5,000			
	To, Managers's commission	1,800			
	(as per working note 2)				
	To, General profit and loss A/c	34,200			
		400,000			400,000

1. Working Note: 1 Calculation of closing stock

Opening Stock	130,000
Goods sent to branch	220,000
Goods available for sale	350,000
Less: cost of goods sold	
(Rs. 300,000×100/120)	250,000
Closing Stock	100,000

2. Calculation of manager's commission

Total Rs.	400,000

Less, Total cost before commission (Rs. 350,000+9000+5000)	364,000
Profit before Commission	36,000
Commission @ 5%	1,800

3.

a) Hanuman Das Traders of Kathmandu purchased 10,000 pieces of Sarees @ Rs. 100 per Saree. Out of these Sarees, 6,000 Sarees were sent on consignment to Shrestha Traders of Nuwakot at the selling price of Rs. 120 per Saree. The consignors paid Rs. 3,000 for packaging and frieght. Shrestha Traders sold 5,000 Sarees at Rs. 125 per Saree and incurred Rs. 1,000 for selling expenses and remitted Rs. 5,00,000 to Kathmandu on account. They are entitled to a commission of 5% on total sales plus a further 20% commission on any surplus price realised over Rs. 120 per Saree.

Owing to fall in market price, the value of stock of Sarees in hand is to be reduced by 10%.

Prepare the Consignment Account in the books of Hanuman Das Traders. **5**

b) Differentiate between: **(2×5=10)**

i) Meaning of shortworkings and their recoupment

ii) Del-credere Commission

Answer:

a) In the Books of Hanuman Das Traders

Consignment Account

	Rs.	**Amount Rs.**		Rs.	**Amount Rs.**
To Goods Sent on Consignment (6000*120)		7,20,000	By Shrestha Traders (sales) (5000*125)		6,25,000
To Bank (expenses)		3,000			
To Shrestha Traders		37,250	By Consignment Loading (6000*20)		1,20,000
Selling Expenses	1,000				
Commission (5% of 625000, and 20% of (5*5000))	36,250		By stock on consignment ((1000*120) + (3000/6000*1000))*0.9		1,08,450
To stock reserve (1000*20*0.90)		18,000			
To Net Profit		75,200			
		8,53,450			8,53,450

b)

i) Meaning of shortworkings and their recoupment

The excess of minimum rent over actual royalties earned by the landlord is known as shortworkings. If the minimum rent, for instance, is Rs.100,000 per annum and royalty is Rs.10 per ton, then 10,000 tons must be produced for minimum rent to be covered. In case the production happens to be only 5,000 tons, the shortworkings would be Rs. 50,000.

In order to be just with the lessee, it is usually provided in a contract of royalty that the lessee will be entitled to recover the shortworkings from the landlord during periods when the actual royalty exceeds the minimum rent. Such right of recoupment may be a fixed or fluctuating.

ii)**Del-credere Commission**

To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. This additional commission when provided to the consignee gives a protection to the consignor against the bad debts. In other words, after providing the del-credere commission, bad debts. are no more the loss of consignor. Bad debt will be borne by the consignee. It is calculated on total sales unless there is any agreement between the consignor and the consignee to provide it on credit sales only.