

# 13. ACCOUNTS FROM INCOMPLETE RECORDS

## MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

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Model – 1 : Profit by Capital Comparison

Model – 2 : Preparation of Financial Statements

Model – 3 : Cash theft/ Cash defalcation

Model – 4 : Statement of affairs

Model – 5 : Theory

### THEORY

**Introduction:** Very often the small sole proprietorship and partnership business do not maintain double entry book keeping system. They keep record only of the cash & credit transactions. But at the end of the accounting period they want to know the performance and financial position of their business. In such a case accounts should be made from such incomplete records.

**Meaning:** Single entry does not mean (as the name goes) that there is one entry for each transaction i.e. only one account is given debit or credit for each transaction.

Single entry may consist of (i) Double entry for certain transactions such as cash received from debtors or cash paid to creditors, (ii) Single entry in respect of some transactions such as purchase of fixed assets, payment of expenses etc., and (iii) No entry in respect of some transactions such as bad debts, depreciation, loss of stock by fire etc.

From the above, it becomes clear that single entry is not any particular system of accounting but rather it is the double entry system in an incomplete form. So, this chapter is better to be called as accounts from incomplete records.

#### Features of Single Entry System:

1. It is an inaccurate, unscientific and unsystematic method of recording business transactions.
2. There is generally no record of real and personal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.
3. Cash book mixes up business and personal transactions of the owners.
4. There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.
5. Profit under this system is only an estimate and therefore true and correct profits cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.

#### Types of Single Entry System:

A scrutiny of many procedures adopted in maintaining records under single entry system brings forth the existence of following three types:

1. **Pure single entry:** In this, only personal accounts are maintained with the result that no information is available in respect of cash and bank balances, sales and purchases, etc.. In view of its failure to provide even the basic information regarding cash etc., this method exists only on paper and has no practical application.
2. **Simple single entry:** In this, only: (a) personal accounts, and (b) cash book are maintained. Although these accounts are kept on the basis of double entry system, postings from cash book are made only to personal accounts and no other account is to be found in the ledger. Cash received from debtors or cash paid to creditors is simply noted on the bills issued or received as the cash may be.
3. **Quasi single entry:** In this (a) personal accounts, (b) cash book, and (c) some subsidiary books are maintained. The main subsidiary books kept under this system are Sales book, Purchases book and Bills book. No separate record is maintained for discounts which are entered into the personal accounts. In addition, some scattered information is also available in respect of few important items of expenses like wages, rent, rates, etc.. In fact, this is the method which is generally adopted as a substitute for double entry system.

**Methods to ascertain profit from incomplete records:**

1. Capital Comparison method.
2. Conversion Method.

**Capital Comparison Method/Statement of Affairs Method/ Net worth Method:** When Used: While preparing accounts from incomplete records, if sufficient information is not available regarding expenses & incomes to ascertain the profit by preparing P & L A/c, it is better to follow the Capital Comparison Method to arrive at the profit figure as follows:

Particulars	Rs.
Capital at the end	XXX
Add: Drawings	XXX
Less: Fresh capital introduced	XXX
Less: Capital in the beginning	XXX
Profit for the period	XXX

**Note:**

1. Opening Capital and Closing Capital in the above table should be determined by preparing Statement of Affairs (which is similar to Balance Sheet) at two respective points of time.
2. Information regarding various assets & liabilities can be ascertained from the following sources.
  - a. Cash book for cash balance
  - b. Bank pass book for bank balance.
  - c. Personal ledger for debtors and creditors
  - d. Stock by actual counting and valuation.
  - e. As regards fixed assets, he prepares a list of them. The proprietor would help him by disclosing the original cost and date of purchase. After deducting reasonable amount of depreciation, the written down or depreciated value would be included in the Statement of Affairs.

**Difference between Statement of Affairs and Balance Sheet:**

Basis	Statement of affairs	Balance sheet
<b>Reliability</b>	It is prepared on the basis of transactions partly recorded on the basis of double entry book keeping and partly on the basis of single	It is based on transactions recorded strictly on the basis of double entry book keeping; each item in the balance sheet can be verified from

	basis. Most of the assets are recorded on the basis of estimates, assumptions, information gathered from memory rather than records.	the relevant subsidiary books and ledger. Hence the balance sheet is not only reliable, but also dependable.
<b>Capital</b>	In this statement, capital is merely a balancing figure being excess of assets over capital. Hence assets need not be equal to liabilities.	Capital is derived from the capital account in the ledger and therefore the total of assets side will always be equal to the total of liabilities side.
<b>Omission</b>	Since this statement is prepared on the basis of incomplete records, it is very difficult, to locate the assets and liabilities, if they are omitted from the books.	There is no possibility of omission of any item of asset and liability since all items are properly recorded. Moreover, it is easy to locate the missing items since the balance sheet will not agree.
<b>Basis of Valuation</b>	The valuation of assets is generally done in an arbitrary manner; therefore no method of valuation is disclosed.	The valuation of assets is done on scientific basis, that is original cost in the case of new assets and depreciated amount on the basis of cost minus depreciation to date for used assets. Any change in the method of valuation is properly disclosed.
<b>Objects</b>	The object of preparing this statement in the calculation of capital figures in the beginning and at the end of the accounting period respectively.	The object of preparing the balance sheet is to ascertain the financial position on a particular date.

### Conversion Method:

**When Used:** If the businessmen want to ascertain the profit in an informative manner i.e. how it has been earned and disposed off, it is better to follow the Conversion Method. It involves a more detailed analysis of accounts as follows:

- Step 1:** A statement of affairs at the beginning of the year should be prepared and posted from it all those accounts which have not been maintained already.
- Step 2:** The cash book should be gone through and entries relating to impersonal account should be posted to their respective accounts as these items were not posted to impersonal accounts under the single entry system.
- Step 3:** Similarly, totals of other subsidiary books as are not posted to the impersonal accounts should be posted to their respective accounts.
- Step 4:** Now, the personal accounts, which already been kept under the single entry system should be scrutinized in order to find out the items which have been made direct therein without passing through one of the subsidiary books. Ex: Bad debts, discounts, allowances etc.
- Step 5:** If a Petty cash is maintained the monthly analysis posted to the debit of the various accounts for expenses and the total credit to the petty cash account.
- Step 6:** After completing the double entry of all the transactions of the previous year, a trial balance should be prepared to test the arithmetical accuracy of the books.

After that the necessary adjustments like outstanding Expenses and Incomes, Depreciation, Provision for Bad debts, Trading & Profit and Loss A/c and Balance Sheet should be prepared in the usual manner.

**Notes:**

1. If only personal accounts have been posted from the Cash Book, debits and credits pertaining to nominal accounts and real accounts that are not posted, should be posted into the ledger. If there are Discount Columns in the Cash Book, the totals of discounts paid and received should be posted to Discounts Allowed and Discounts Received Accounts respectively, for completing the double entry.
2. Purchase Day Book, Sales Day Book, Return Book and Bills Receivable and Payable, etc. should be totalled up and their totals posted into the ledger to the debit or credit of the appropriate nominal or real accounts, the personal aspect of the transactions having been posted already.
3. In the Cash Book, there might be entered several receipts which have no connection with the business but which belong to the proprietor, e.g., interest collected on his private investment, legacies received by him, amount contributed by the proprietor from his private resources, etc. All those amounts should be credited to his capital account. Also the Cash Book may contain entries in respect of payments for proprietor's purchases made by the business. All such items should be debited to his capital account.
4. Amounts belonging to the business after collection may have been directly utilised for acquiring business assets or for meeting certain expenses instead of being deposited into the Cash Book. On the other hand, the proprietor may have met some of the business expenses from his private resources. In that case, the appropriate asset or expense account should be debited and the source which had provided funds credited.
5. If cash is short, because the proprietor had withdrawn amount without any entry having been made in the cash book the proprietor's capital account should be debited. In fact, it will be necessary to debit or credit the proprietor's capital account in respect of all unidentified amounts which cannot be adjusted otherwise.
6. Where the benefit of an item or an expense is received both by the proprietor and business, then it should be allocated between them on some equitable basis eg. rent of premises when the proprietor lives in the premises, should be allocated on the basis of the area occupied by him for residence.

### PROBLEMS FOR CLASSROOM DISCUSSION

**Problem 1:** Preparation of statement of affairs: The details of Assets and Liabilities of Mr.'A' as on 31-3-2012 and 31-3-2013 are as follows:

Particulars	31.03.2012	31.03.2013
<b>ASSETS:</b>		
Furniture	50,000	
Building	1,00,000	
Stock	1,00,000	2,50,000
Sundry Debtors	60,000	1,10,000
Cash in hand	11,200	13,200
Cash at Bank	60,000	75,000
<b>LIABILITIES:</b>		
Loans	90,000	70,000
Sundry Creditors	50,000	80,000

Mr. 'A' decided to provide depreciation on building by 2.5% and furniture by 10% for the period ended on 31-3-2013. Mr. 'A' purchased jewellery for Rs. 24,000 for his daughter in December 2012. He sold his car on 30-3-2013 and the amount of Rs. 40,000 is retained in the business.

You are required to:

1. Prepare statement of affairs as on 31-3-2012 and 31-3-2013.
2. Calculate the profit received by 'A' during the year ended 31-3-2013. (PM)  
(Ans.: Profit & Loss A/c Bal. Fig. Rs.1,83,500, Statement of affairs total (31.03.2012) Rs.3,81,200, (31.03.2013) Rs.5,90,700)

(Solve Problem No: 1 of Assignment Problems as rework)

Note: \_\_\_\_\_

**Problem 2:** 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	Rs.
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.

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

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

(PM) (Ans.: Capital Rs. 1,07,712 as on 31.03.2014, Capital Rs. 2,70,112 as on 31.03.2010. Correct profit-3,28,900 Profit shown to income tax officer-2,59,965 Understatement of Income-68,935)

(Solve Problem No: 2 of Assignment Problems as rework)

Note: \_\_\_\_\_

**Problem 3: (PRINTED SOLUTION AVAILABLE)** Capital Comparison Method and determination of surplus or deficit profit: Suresh does not maintain his books of accounts under the double entry system but keeps slips of papers from which he makes up his annual accounts. He has borrowed money from a bank to whom he has to render figures of profits every year. He has given the bank the following profit figures:

Year ending 31 <sup>st</sup> December	Profits (Rs.)
2010	20,000
2011	32,000
2012	35,000
2013	48,000
2014	55,000

The bank appoints you to audit the statements and verify whether the figures of profits report are corrected or not; for this purpose, the following figures are made available to you:

- Position as on 31<sup>st</sup> December, 2009: Sundry debtors Rs.20,000; Stock in trade (at 95% of the cost) Rs.47,500; Cash in hand and at bank Rs.12,600; Trade creditors Rs.6,000; Expenses due Rs.1,600.
- He had borrowed Rs.5,000 from his wife on 30<sup>th</sup> September, 2009 on which he had agreed to pay simple interest at 12% p.a. The loan was repaid along with interest on 31<sup>st</sup> Dec., 2011.
- In, December, 2010, he had advanced Rs.8,000 to A for purchase of a vacant land. The property was registered in March, 2012 after payment of balance consideration of Rs.32,000. Cost of registration incurred for this were Rs.7,500.
- Suresh purchased jewellery for Rs.15,000 for his daughter in October, 2012 Marriage expenses incurred in January were Rs.24,000.
- A new VCR was purchased by him in March 2014 for Rs.18,000 and presented by him to his friend in Nov. 2014.
- His annual household expenses amounted to a minimum of Rs.24,000.
- The position of assets and liabilities as on 31<sup>st</sup> December 2014 was found to be Overdraft with bank (secured against property) Rs.12,000; Trade creditors Rs.10,000. Expenses payable Rs.600; Sundry debtors (including Rs.600 due from a peon declared insolvent by Court) Rs.28,800; Stock in trade (at 125% at cost of reflect market value) Rs.60,000 and Cash in hand Rs.250.

It is found that the rate of profit has been uniform throughout the period and the proportion of sales during the years of total sales for the period was in the ratio of 3:4:4:6:8.

Ascertain the annual profits and indicate difference, if any, with those reported by Suresh to the bank earlier. All workings are to form part of your answer. (SM)

(Ans.: Net profit Rs.2,08,500; Capital as on 31-12-2009 Rs. 69,850; Capital as on 31-12-2014 Rs. 53,850)

(Solve Problem No: 3 of Assignment Problems as rework)

Note: \_\_\_\_\_

**Problem 4: (PRINTED SOLUTION AVAILABLE)** A and B are in partnership having profit sharing ratio 2 : 1. The following information is available about their assets and liabilities:

Particulars	31.3.2014	31.3.2015
	Rs.	Rs.
Furniture	1,20,000	?
Advances	70,000	50,000
Creditors	32,000	30,000
Debtors	40,000	45,000

Stock	60,000	74,750
Loan	80,000	-
Cash at Bank	50,000	1,40,000

The partners are entitled to salary @ Rs.2,000 p.m. They contributed proportionate capital. Interest is paid @ 6% on capital and charged @ 10% on drawings.

#### Drawings of A and B

Date	A	B
	Rs.	Rs.
April 30	2,000	-
May 31	-	2,000
June 30	4,000	-
Sept. 30	-	6,000
Dec. 31	2,000	-
Feb. 28	-	8,000

On 30<sup>th</sup> June, they took C as 1/3<sup>rd</sup> partner who contributed Rs.75,000. C is entitled to share of 9 months profit. The new profit ratio becomes 1:1:1. A withdrew his proportionate share. Depreciate furniture @ 10% p.a., new purchases Rs.10,000 may be depreciated for 1/4<sup>th</sup> of a year.

Current account as on 31.3.2014: A Rs.5,000 (Cr.), B Rs.2,000 (Dr.)

Prepare Statement of Profit, Current Accounts of partners and Statement of Affairs as on 31.3.2015.

(Nov 2013 similar problem, SM)

(Ans.: Totals Amount of statement affairs for year 31.03.2014 is Rs. 3,42,000, 31.03.2015 is Rs. 4,27,500)

Note: \_\_\_\_\_

**Problem 5:** A sole trader requests you to prepare his Trading and Profit & Loss Account for the year ended 31st March, 2013 and Balance Sheet as at that date. He provides you the following information:

#### Statement of Affairs as at 31st March, 2012

Liabilities	Rs.	Assets	Rs.
Bank Overdraft	4,270	Furniture	96,000
Outstanding Expenses		Computer	24,300
Salaries 8,000		Mobile Phone	8,000
Rent 6,000	14,000	Stock	89,500
Bills Payable	22,500	Trade Debtors	55,000
Trade Creditors	52,500	Bills Receivable	15,000
Capital (balancing figure)	1,97,430	Unexpired Insurance	2,400
		Stock of Stationery	200
		Cash in Hand	300
<b>Total</b>	<b>2,90,700</b>	<b>Total</b>	<b>2,90,700</b>

He informs you that there has been no addition to or sale of Furniture, Computer and Mobile Phone during the accounting year 2012-13. The other assets and liabilities on 31st March, 2013 are as follows:

Particulars	Rs.
Stock	95,400
Trade Debtors	65,000
Bills Receivable	20,000
Unexpired Insurance	2,500
Stock of Stationery	250
Cash at Bank	18,000
Cash in Hand	7,230
Salaries Outstanding	8,300

Rent Outstanding	6,000
Bills Payable	26,500
Trade Creditors	76,000

He also provides you the following summary of his cash transactions:

Receipts	Rs.	Payments	Rs.
Cash Sales	5,09,800	Trade Creditors	3,06,000
Trade Debtors	1,51,900	Bills Payable	80,000
Bills Receivable	65,000	Salaries	99,000
		Rent	72,000
		Insurance Premium	10,000
		Stationery	1,500
		Mobile Phone Expenses	9,000
		Drawings	1,20,000

It is found prudent to depreciate Furniture @ 5%, Computer @ 10% and Mobile Phone @ 25%. A provision for bad debts @ 5% on Trade Debtors is also considered desirable. (PM)

(Ans: Net profit Rs. 1,29,970; Total of Balance sheet Rs. 3,24,200 Credit sales-2,31,900 Cash sales-5,09,800  
Gross profit-3,34,100 Cash deposited into Bank-(4,270+18,000))

(Solve Problem No:4 of Assignment Problems as rework)

Note: \_\_\_\_\_

**Problem 6:** The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2011 and a Balance Sheet as on that date:

(a)	Particulars	Balance as on 31 <sup>st</sup> March, 2010 (Rs.)	Balance as on 31 <sup>st</sup> March, 2011 (Rs.)
	Building	3,20,000	3,60,000
	Furniture	60,000	68,000
	Motorcar	80,000	80,000
	Stocks	-	40,000
	Bills payable	28,000	16,000
	Cash and Bank balances	1,80,000	1,04,000
	Sundry Debtors	1,60,000	-
	Bills receivable	32,000	28,000
	Sundry Creditors	1,20,000	-

(b) Cash transactions during the year included the following besides certain other items:

Particulars	Rs.	Particulars	Rs.
Sale of old papers and miscellaneous income	20,000	Cash purchases	48,000
Miscellaneous Trade expenses (Including salaries etc.)	80,000	Payment to creditors	1,84,000
Collection from debtors	2,00,000	Cash sales	80,000

(c) Other information:

1. Bills receivable drawn during the year amount to Rs.20,000 and Bills payable accepted Rs.16,000.
2. Some items of old furniture, whose written down value on 31<sup>st</sup> March, 2010 was Rs.20,000 was sold on 30<sup>th</sup> September, 2010 for Rs.8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.

3. Of the Debtors, a sum of Rs.8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.
4. Mr. Shiv Kumar has been maintaining a steady gross profit rate of 30% on turnover.
5. Outstanding salary on 31<sup>st</sup> March, 2010 was Rs.8,000 and on 31<sup>st</sup> March, 2011 was Rs.10,000. On 31<sup>st</sup> March, 2010, Profit and Loss Account had a credit balance of Rs.40,000.
6. 20% of total sales and total purchases are to be treated as for cash.
7. Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts. **(Nov, 2003, PM, SM)**  
(Ans.: Net Loss – Rs. 25,840; Total of Balance sheet as on 31-03-2011 Rs. 8,68,160 Opng stock-80,000  
Opng cap-7,16,000 Gross profit-1,20,000 Additions to furniture-28,000)  
**(Solve Problem No: 5 of Assignment Problems as rework)**

Note: \_\_\_\_\_

**Problem 7:** Ms. Rashmi furnishes you with the following information relating to her business:

1. **Assets and liabilities as on:**

Particulars	1.1.2014 (Rs.)	31.12.2014 (Rs.)
Furniture (W.D.V)	12,000	12,700
Inventory at cost	16,000	14,000
Sundry Debtors	32,000	?
Sundry Creditors	22,000	30,000
Prepaid expenses	1,200	1,400
Unpaid expenses	4,000	3,600
Cash in hand and at bank	2,400	1,250

2. **Receipts and payments during 2014:**

Collections from debtors, after allowing discount of Rs. 3,000 amounted to Rs. 1,17,000.

Collections on discounting of bills of exchange, after deduction of discount of Rs. 250 by the bank, totalled to Rs. 12,250.

Creditors of Rs. 80,000 were paid Rs. 78,400 in full settlement of their dues.

Payment for freight inwards Rs. 6,000.

Amount withdrawn for personal use Rs. 14,000.

Payment for office furniture Rs. 2,000.

Investment carrying annual interest of 4% were purchased at Rs. 192 (face value Rs. 200) on 1st July, 2014 and payment made there for.

Expenses including salaries paid Rs. 29,000.

Miscellaneous receipts Rs. 1,000.

3. Bills of exchange drawn on and accepted by customers during the year amounted to Rs.20,000. Of these, bills of exchange of Rs. 4,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 800 was dishonoured.
4. Goods costing Rs. 1,800 were used as advertising materials.
5. Goods are invariably sold to show a gross profit of 33-1/3% on sales.
6. Difference in cash book, if any, is to be treated as further drawing or introduction of capital by Ms. Rashmi.
7. Provide at 2.5% for doubtful debts on closing debtors.

Rashmi asks you to prepare trading and profit and loss account for the year ended 31<sup>st</sup> December, 2014 and the balance sheet as on that date.

(SM) (Ans: Net Profit Rs. 15,582; Total of Balance sheet Rs.70,974)

(Solve Problem No: 6 of Assignment Problems as rework)

Note: \_\_\_\_\_

**Problem 8: (PRINTED SOLUTION AVAILABLE)** K. Azad, who is in business as a wholesaler in sunflower oil, is a client of your accounting firm. You are required to draw up his final accounts for the year ended 31.3.2011.

From the files, you pick up his Balance Sheet as at 31.3.2010 reading as below:

**Balance Sheet as at 31.3.2010**

Particulars	Amount	Amount
<b>LIABILITIES:</b>		
K. Azad's Capital		1,50,000
Creditors for Oil Purchases		2,00,000
12% Security Deposit from Customers		50,000
<b>Creditors for Expenses:</b>		
Rent		6,000
Salaries		4,000
Commission		20,000
		<b>4,30,000</b>
<b>ASSETS:</b>		
Cash and Bank Balances		75,000
Debtors		1,60,000
Stock of Oil (125 tins)		1,25,000
Furniture	30,000	
Less : Depreciation	(3,000)	27,000
Rent Advance		12,000
Electricity Deposit		1,000
3-Wheeler Tempo Van	40,000	
Less : Depreciation	(10,000)	30,000
		<b>4,30,000</b>

A Summary of the rough Cash Book of K. Azad for the year ended 31.3.2011 is as below:

**Cash and Bank Summary**

Particulars	Amount
<b>Receipts</b>	
Cash Sales	5,26,500
Collections from Debtors	26,73,500
<b>Payments</b>	
To Landlord	79,000
Salaries	48,000
Miscellaneous Office Expenses	12,000
Commission	20,000
Personal Income-tax	50,000
Transfer on 1.10.2010 to 12% Fixed Deposit	6,00,000
To Creditors for Oil Supplies	24,00,000

A scrutiny of the other records gives you the following information:

1. During the year oil was purchased at 250 tins per month basis at a unit cost of Rs. 1,000. 5 tins were damaged in transit in respect of which insurance claim has been preferred. The surveyors have since approved the claim at 80%. The damaged ones were sold for Rs. 1,500 which is included in the cash sales. One tin has been used up for personal consumption. Total number of tins sold during the year was 3,000 at a unit price of Rs. 1,750.
2. Rent until 30.9.2010 was Rs. 6,000 per month and was increased thereafter by Rs. 1,000 per month.  
Additional advance rent of Rs. 2,000 was paid and this is included in the figure of payments to landlord.
3. Provide depreciation at 10% and 25% of WDV on furniture and tempo van respectively.
4. It is further noticed that a customer has paid Rs. 10,000 on 31.3.2011 as security deposit by cash.

One of the staff has defalcated. The claim against the Insurance Company is pending.

You are requested to prepare final accounts for the year ended 31.3.2011. (PM)

(Ans.: Gross Profit Rs.22,50,000, Net Profit Rs.21,26,300, Total of Balance sheet Rs.30,98,300 Cash sales - 5,25,000 Credit sales-47,25,000 Abnormal loss - 5,000 Gain - 500, Interest accrued on FD - 36,000 Interest accrued on Sec.deposit - 6,000 Closing stock - 1,19,000 Closing bal creditors - 8,00,000 Closing bal of debtors - 22,11,500 O/s rent-7,000)

(Solve Problem No: 7 of Assignment Problems as rework)

Note: \_\_\_\_\_

**Problem 9: (PRINTED SOLUTION AVAILABLE)** Conversion Method and accounting treatment of salary to self: AVL is an unemployed science graduate with typewriting qualification. Being unable to get employment for more than Rs.500 p.m. he decided to start his own typewriting institute. He approached U.B.C. Bank which sanctioned him a loan of Rs.20,000 on 1.1.2014. His father gifted him Rs.5,000 on 1.1.2014. He purchased 6 typewriters worth Rs.24,000.

Unable to understand the accounts properly, he seeks your help in preparing a Profit and Loss Account and Balance Sheet relating to the year ending 31.12.2014. His pass book reveals the following:

S. No.	Particulars	Rs.
a.	Expenses of the institute	8,400
b.	Salary to self	4,000
c.	Monthly fees collected	32,700
d.	Examination fees collected	4,200

The following are the additional details available:

1. During the year AVL purchased a second - hand cycle costing Rs.400 from a student who owed monthly fees of Rs.100. The balance was paid. The cycle is used for the institute only.
2. AVL helped a friend by encashing a cheque for Rs.1,000 which was dishonoured. The friend has so far repaid only Rs.400.
3. AVL has taken 600 per month for personal expenses in addition to his salary.
4. AVL runs the institute from his house for which a rent of Rs.600 p.m. is paid. 50% may reasonably be allocated for his own living
5. The following are outstanding as at end of 31.12.2014

S. No.	Particulars	Rs.
a.	Fees receivable	2,200
b.	Expenses payable	1,000

c.	Salary of self for Nov. and Dec.	
d.	Stock of stationery on hand	200

6. Provide depreciation 20% on typewriters and cycle
7. The loan from bank is repayable at Rs.500 p.m. from the beginning of July onwards. Interest is payable at 12% per annum in addition to instalments for principal.

Assume that all transactions are routed through bank and no cash is handled. (SM)  
(Ans.: Net Profit Rs.19,225; Total of Balance sheet Rs. 27,425)

Note: \_\_\_\_\_

**Problem 10: Conversion Method and Preparation of Debtors A/c, Creditors A/c, Bills Receivable A/c, Bills Payable A/c.** Mr.Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

Particulars	31.12.2009	31.12.2010
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Stock	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

**Summary of cash transactions during 2009-2010:**

- Deposited in to bank after payment of shop expenses @ Rs.600 p.m., wages @ Rs.9,200 p.m. and personal expenses @ Rs.1,400 p.m. Rs.7,62,750.
- Withdrawals Rs.1,21,000
- Cash payment to suppliers Rs.77,200 for supplies and Rs.25,000 for furniture
- Cheques collected from customers but dishonoured Rs.5,700
- Bills accepted by customers Rs.40,000
- Bills endorsed Rs.10,000
- Bills discounted (gross) Rs.20,000, discount Rs.750
- Bills matured and duly collected Rs.16,000
- Bills accepted Rs.24,000
- Paid suppliers by cheque Rs.3,20,000
- Received Rs.20,000 on maturity of one LIC policy of the proprietor by cheque
- Rent received Rs.14,000 by cheque
- A building was purchased on 30.11.2010 for opening a branch for Rs.3,50,000 and some expenses were incurred details of which are not maintained
- Electricity and telephone bills paid by cash Rs.18,700, due Rs.2,200

**Other transactions:**

- Claim against the firm for damage Rs.1,55,000 is under legal dispute. Legal expenses Rs.17,000. The firm anticipates defeat in the suit
- Goods returned to suppliers Rs.4,200

3. Goods returned by customers Rs.1,200
4. Discount offered by suppliers Rs.2,700
5. Discount offered to customers Rs.2,400
6. The business is carried on at the premises owned by the proprietor. 50% of the ground floor space is used for business and remaining 50% is let out for an annual rent of Rs.20,000.

Prepare Trading and Profit & Loss A/c of Mr. Anup for the year ended 31.12.2010 and Balance Sheet as on that date. **(SM)** (Ans.: Net Profit Rs.2,57,700)

Note: \_\_\_\_\_

**Problem 11:** The following is the Balance sheet of M/s. Care Traders as on 1 - 4 - 2014:

Particulars	Rs.
<b>Sources of Funds:</b>	
Share Capital	10,00,000
Profit and Loss	1,47,800
Unsecured loan @ 10%	1,75,000
Trade Payables	45,800
	<b>13,68,600</b>

Particulars	Rs.
<b>Application of Funds:</b>	
Machinery	8,25,500
Furniture	1,28,700
Inventory	1,72,000
Trade Receivables	2,29,600
Bank Balance	12,800
	<b>13,68,600</b>

A fire broke out in the premises on 31-3-2015 and destroyed the books of account. The accountant could however provide the following information:

1. Sales for the year ended 31-3-2014 was Rs.18,60,000. Sales for the current year was 20% higher than the last year.
2. 25% sales were made in cash and the balance was on credit.
3. Gross profit on sales is 30%.
4. Terms of credit

**Debtors: 2 Months; Creditors: 1 Month**

All creditors are paid by cheque and all credit sales are collected in cheque.

**Problem:** The Bank Pass Book has the following details (other than payment to creditors and collection from debtors)

Particulars	Rs.
Machinery purchased	1,14,000
Rent Paid	1,32,000
Advertisement expenses	80,000
Travelling expenses	78,400
Repairs	36,500
Sales of furniture	9,500
Cash withdrawn for petty expenses	28,300
Interest paid on unsecured loan	8,750

5. Machinery was purchased on 1-10-2014.
6. Rent was paid for 11 months only and 25% of the advertisement expenses relates to the next year.
7. Travelling expenses of Rs.7,800 for which cheques were issued but not presented in bank.
8. Furniture was sold on 1 – 4 - 2014 at a loss of Rs.2,900 on book value.
9. Physical verification as on 31-3-2015 ascertained the stock position at Rs.1,81,000 and petty cash balance at nil.
10. There was no change in unsecured loan during year.
11. Depreciation is to be provided at 10% on machinery and 20% on furniture.

Prepare Bank Account, Trading and Profit and Loss Account for the year ended 31-3-2015 in the books of M/s. Care Traders and a Balance Sheet as on that date. Make necessary assumptions wherever necessary. (May – 15 - Q.No.4)

(Ans: Net profit Rs.1,82,690; Total of Balance sheet Rs.16,57,190)  
(Solve Problem No: 8, 9 & 10 of Assignment Problems as rework)

Note: \_\_\_\_\_

**Problem 12: Conversion Method – Completion of Trading and P & L A/c and Balance Sheet on the basis of various ratios:** Following incomplete information of X Ltd. are given below:

Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2011

Particulars	Rs. '000	Particulars	Rs. '000
To Opening stock	700	By Sales	?
To Purchases	?	By Closing stock	?
To Direct expenses	175		
To Gross profit c/d	?		
<b>Total</b>	<b>?</b>	<b>Total</b>	<b>?</b>
To Establishment expenses	740	By Gross profit b/d	?
To Interest on loan	60	By Commission	100
To Provision for taxation	?		
To Net profit c/d	?		
<b>Total</b>	<b>?</b>	<b>Total</b>	<b>?</b>
To Proposed dividends	?	By Balance b/f	140
To Transfer to general reserve	?	By Net profit b/d	?
To Balance transferred to Balance sheet	?		
<b>Total</b>	<b>?</b>	<b>Total</b>	<b>?</b>

Balance Sheet as at 31<sup>st</sup> March, 2011

Liabilities	Amount (Rs. '000)	Assets	Amount (Rs. '000)
Paid-up capital	1,000	Fixed assets:	
General reserve:		Plant & machinery	1,400
Balance at the beginning of the year	?	Other fixed assets	?
Proposed addition	?	Current assets:	
Profit and loss account	?	Stock	?
10% Loan account	?	Sundry debtors	?
Current liabilities	?	Cash at bank	125
<b>Total</b>	<b>?</b>	<b>Total</b>	<b>?</b>

**Other information:**

1. Current ratio is 2:1.
2. Closing stock is 25% of sales.
3. Proposed dividends to paid-up capital ratio is 2:3.
4. Gross profit ratio is 60% of turnover.
5. Loan is half of current liabilities.
6. Transfer to general reserves to proposed dividends ratio is 1:1.
7. Profit carried forward is 10% of proposed dividends.
8. Provision for taxation is equal to the amount of net profit of the year.
9. Balance to credit of general reserve at the beginning of the year is twice the amount transferred to that account from the current year's profits.

All working notes should be part of your answer. You are required to complete:

1. Trading and Profit and Loss account for the year ended 31<sup>st</sup> March, 2011 and
  2. The Balance Sheet as on the date. (Nov. 2012)
- (Solve Problem No: 11 of Assignment Problems as rework)

Note: \_\_\_\_\_

**Problem 13:** Conversion Method and computation of sales and purchases by debtors velocity ratio and creditors velocity ratio and computation of cash at bank by current ratio: The following is the Balance Sheet of Sanjay, a small trader as on 31.3.2002:

<i>Figures in Rs.'000</i>			
<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital	200	Fixed Assets	145
Creditors	50	Stock	40
		Debtors	50
		Cash in Hand	5
		Cash at Bank	10
	<b>250</b>		<b>250</b>

A fire destroyed the accounting records as well as the closing cash of the trader on 31.3.2003. However, the following information was available:

- a. Debtors and creditors on 31.3.2003 showed an increase of 20% as compared to 31.3.2002.
- b. Credit Period: Debtors - 1 month    Creditors - 2 months. All purchases were for credit only. Cash sales constituted 20% of total sales.
- c. Stock was maintained at the same level throughout the year.
- d. Current ratio as on 31.3.2003 was exactly 2.
- e. Total expenses excluding depreciation of 10% for the year amounted to Rs.2,50,000.
- f. Bank and cash transactions:
  - ▶ Payment to creditors included Rs.50,000 by cash.
  - ▶ Receipts from debtors included Rs.5,90,000 by way of cheques.
  - ▶ Cash deposited into the bank Rs.1,20,000
  - ▶ Personal drawings from bank Rs.50,000
  - ▶ Fixed assets purchased and paid by cheques Rs.2,25,000.

For your exercise, assume cash destroyed by fire is written off in the Profit & Loss A/c.

You are required to prepare (a) The Trading and Profit & Loss A/c of Sanjay for the year ended 31.3.2003 and (b) A Balance Sheet on that date. *(Ans.: Net Profit Rs.2,43,000)*

Note: \_\_\_\_\_

**Problem 14: (PRINTED SOLUTION AVAILABLE) Conversion Method and Determination of cash defalcation:** Following is the Balance Sheet of retail business of Sri Srinivas as at 31-12 - 2010:

Liabilities	Rs.	Assets	Rs.
Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash at Bank	14,500
		Cash in hand	2,000
	<b>1,21,500</b>		<b>1,21,500</b>

You are furnished with the following information:

- Sri Srinivas sells his goods at a profit of 20% on sales.
- Goods are sold for cash and credit. Credit customers pay by cheques only.
- Payments for purchases are always made by cheques.
- It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of Rs.300 to the clerk, Sundry expenses of Rs.50 and personal expenses Rs.100.

Analysis of the Bank Pass-book for 13 weeks period ending 31.3.2011 disclosed the following:

Particulars	Rs.
Payments to creditors	75,000
Payments of rent up to 31.3.2011	4,000
Amounts deposited into the bank (Include Rs.30,000 received from debtors by cheques)	1,25,000

The following are the balances on 31<sup>st</sup> March 2011:

Particulars	Rs.
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31<sup>st</sup> March, 2011 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit & Loss A/c for the period ended 31<sup>st</sup> March, 2011 and a Balance Sheet as on that date. **(PM)**

*(Ans.: Cash defalcated Rs.17,400, Net Profit Rs.5,300; Total of Balance sheet Rs.1,40,500)*

**(Solve Problem No: 12 of Assignment Problems as rework)**

Note: \_\_\_\_\_

**Problem 15:** 'A' and 'B' are in partnership sharing profits and losses equally. They keep their books by single entry system. The following balances are available from their books as on 31.3.2010 and 31.3.2011.

Particulars	31.3.2010 (Rs.)	31.3.2011 (Rs.)
Building at cost	1,50,000	1,50,000
Equipments at cost	2,40,000	2,72,000
Furniture at cost	25,000	25,000
Debtors	?	1,00,000
Creditors	65,000	?
Stock	?	70,000
Bank loan	45,000	35,000
Cash	60,000	?

The transactions during the year ended 31.3.2011 were the following:

Particulars	Rs.
Collection from debtors	3,80,000
Payment to creditors	2,50,000
Cash purchases	65,000
Expenses paid	40,000
Drawings by 'A'	30,000

On 1.4.2010 an equipment of book value Rs.20,000 was sold for Rs.15,000. On 1.10.2010, some equipments were purchased.

Cash sales amounted to 10% of sales

Credit sales amounted to Rs.4,50,000

Credit purchases were 80% of total purchases

The firm sells goods at cost plus 25%

Discount allowed Rs.5,500 during the year

Discount earned Rs.4,800 during the year

Outstanding expenses Rs.3,000 as on 31.3.2011

Capital of 'A' as on 31.3.2010 was Rs.15,000 more than the capital of 'B', equipments and furniture to be depreciated at 10% p.a. and building @ 2% p.a.

You are required to prepare:

1. Trading and Profit and Loss Account for the year ended 31.3.2011 and

2. The Balance Sheet as on that date.

(M14, Similar Problem, PM)

(Ans.: Net Profit Transfer to A Capital Account – Rs.10,600, B Capital Account – Rs.10,600; Total of Balance sheet Rs.6,44,900)

(Solve Problem No: 13 of Assignment Problems as rework)

Note: \_\_\_\_\_

**Problem 16:** Mr. X runs a retail business. Suddenly he finds on 31.3.2011 that his Cash and Bank balances have reduced considerably. He provides you the following information:

	Balances	31.3.2010	31.3.2011
		Rs.	Rs.
	Sundry Debtors	35,400	58,800
	Sundry Creditors	84,400	22,400
	Cash at Bank	1,08,400	2,500

1.	Cash in Hand	10,400	500
	Rent (Outstanding for one month)	2,400	3,000
	Stock	11,400	20,000
	Electricity and Telephone bills-outstanding	--	6,400
2.	<b>Bank Pass-book reveals the following</b>		<b>Rs.</b>
	Total Deposits		10,34,000
	Withdrawals:		
	Creditors		8,90,000
	Professional charges		34,000
	Furnitures and Fixtures (acquired on 1.10.10)		54,000
Proprietor's drawings		1,61,900	

3. Rent has been increased from January, 2011.
  4. Mr. X deposited all cash sales and collections from debtors after meeting wages, shop expenses, rent, electricity and telephone charges.
  5. Mr. X made all purchases on credit.
  6. His credit sales during the year amounts to Rs.9,00,000.
  7. He incurred Rs.6,500 per month towards wages.
  8. He incurred following expenses:
    - a. Electricity and telephone charges Rs.24,000 (paid)
    - b. Shop expenses Rs.18,000 (paid).
  9. Charge depreciation on furniture and fixtures @ 10% p.a.
- Finalise the accounts of Mr. X and compute his profit for the year ended 31.3.2011. Prepare his statement of affairs and reconcile the profit and capital balance.

(Hint: shop wages treated as indirect expenses)

(May, 2006, PM)(Ans.: Net Profit Rs. 1,84,400)

Note: \_\_\_\_\_

## ASSIGNMENT PROBLEMS

**Problem 1:** Mr. Hemant had Rs. 1,65,000 in the bank account on 1.1.2013 when he started his business. He closed his accounts on 31st March, 2014. His single entry books (in which he did not maintain any account for the bank) showed his position as follows:

<i>Particulars</i>	<i>31.3.2013 Rs.</i>	<i>31.3.2014 Rs.</i>
Cash in hand	1,100	1,650
Inventory in trade	10,450	15,950
Debtors	550	1,100
Creditors	2,750	1,650

On and from 1.2.2013, he began drawings Rs. 385 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

<i>Particulars</i>	<i>Deposits Rs.</i>	<i>Withdrawals Rs.</i>
1.1.2013	1,65,000	-
1.1.2013 to 31.3.2013	-	1,22,650
1.4.2013 to 31.3.2014	1,26,500	1,48,500

The above withdrawals included payment by cheque of Rs. 1,10,000 and Rs. 33,000 respectively during the period from 1.1.2013 to 31.3.2013 and from 1.4.2013 to 31.3.2014 respectively for the purchase of machineries for the business. The deposits after 1.1.2013 consisted wholly of sale price received from the customers by cheques.

Draw up Mr. Hemant's statement of affairs as at 31.3.2013 and 31.3.2014 respectively and work out his profit or loss for the year ended 31.3.2014. **(May 2014 - RTP)**

(Ans.: Net Profit Rs.23,320, Statement of affairs total (31.03.2013) Rs.1,64,450, (31.03.2014) Rs.1,82,050)

**Problem 2:** The income tax officer, assuming the income of Shri Moti for the financial year 2013-2014 and 2014-2015 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti on 1<sup>st</sup> April 2013 and 1<sup>st</sup> April, 2015.

<b>1.4.2013</b>	<b>Assets</b>	Cash in hand	25,000
		Stock	56,000
		Sundry debtors	41,500
		Land and building	1,98,000
		Wife's jewellery	75,000
		<b>Liabilities</b>	Owing to Moti's brother
	Sundry creditors	35,000	
<b>1.4.2015</b>	<b>Assets</b>	Cash in hand	16,000
		Stock	91,500
		Sundry debtors	52,500
		Land and building	1,90,000
		Motor car	1,25,000
		Wife's jewellery	1,25,000
		Loan to Moti's brother	20,000
		<b>Liabilities</b>	Sundry creditors

During the two years the domestic expenditure was Rs.4,000 p.m. The declared income of the financial years were Rs.1,05,000 for 2013-2014 and Rs.1,23,000 for 2014-2015 respectively.

State whether the income-tax officer's contention is correct. Explain by giving your workings

**(SM)** (Ans.: Suppressed Income = Rs. 1,20,000)

**Problem 3:** Viole carries on business as dressmaker. She does not keep any accounts but wants to ascertain her profit or loss for the year 2002. She gives you her idea of the assets and liabilities as on 31.12.2001 and 31.12.2002 which is as follows:

<i>Particulars</i>	<i>31.12.2001</i>	<i>31.12.2002</i>
Cash in hand	470	430
Bank balance as per pass book	6,230	8,170
Book debts	3,100	2,900
Stock in trade	15,000	18,000
Investment in DCM debentures	8,000	3,000
Equipment at Cost	6,000	10,000
Owing for supplies	5,000	6,000

**On enquiry, you find the following:**

- Certain Cheques for payment of taxes amounting to Rs.2,500 issued on 28.12.2001 but had not been presented; these were paid in January 2002.

- b. Stock in trade is valued at selling price. The mark-up in 2001 was 25% on selling price but during 2002 it was 25% on cost.
- c. Book debts on 31.12.2002 include Rs.1,000 for goods sent on sale or return basis, the customer still having the right to return the goods.
- d. The investments are shown at face value, the purchase having been made at 95%.
- e. Half the equipment as on 31.12.2001 was purchased in 2000 and the remaining in 2001 depreciation @ 10% p.a. on original cost is considered fair.
- f. A cheque for Rs.500 was returned by the bank dishonoured on 30<sup>th</sup> December 2002 and a customer has deposited Rs.700 direct into the bank on the same date. Viole did not know of these as yet.
- g. Her drawings during 2002 have been at the rate of Rs.500 p.m.
- h. A cheque issued for Rs.3,100 for her income tax was not presented as on 31.12.2002

You are requested to ascertain the profit earned or loss suffered by Viole in 2002.

(Ans.: Capital (Bal.Fi) Rs.27,850, Profit Rs.10,400)

**Problem 4:** A trader keeps his books of account under single entry system. On 31<sup>st</sup> March, 2010 his statement of affairs stood as follows:

Liabilities	Rs.	Assets	Rs.
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
	<b>10,00,000</b>		<b>10,00,000</b>

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

Receipts	Rs.	Payments	Rs.
Cash in hand and at bank on 1 <sup>st</sup> 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 31 <sup>st</sup> March, 2011	1,27,300
	<b>93,10,000</b>		<b>93,10,000</b>

Discount allowed to trade debtors and received from trade creditors amounted to Rs.36,000 and Rs.28,000 respectively. Bills endorsed amounted to Rs.15,000. Annual fire insurance premium of Rs.6,000 was paid every year on 1<sup>st</sup> 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 31<sup>st</sup> March, 2011:

Particulars	Rs.
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 31<sup>st</sup> March, 2011 and Balance Sheet as at that date.

(May, 2001), (May 2013 – Similar, PM)

(Ans.: Net Profit Rs. 3,26,300)

**Problem 5:** From the following data, you are required to prepare a Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2015 and a Balance Sheet as at that date. All workings should form part of your answer.

Assets and liabilities	As on 1 <sup>st</sup> April 2014 (Rs.)	As on 31 <sup>st</sup> March 2015 (Rs.)
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry assets	11,610	12,040
Stock in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors		17,870
Details relating to transactions in the year:		
Cash and discount credited to debtors		64,000
Sales return		1,450
Bad debts		420
Sales (cash and credit)		71,810
Discount allowed by trade creditors		700
Purchase returns		400
Additional capital-paid into bank		8,500
Realizations from debtors-paid into bank		62,500
Cash purchases		1,030
Cash expenses		9,570
Paid by cheque for machinery purchased		430
Household expenses drawn from bank		3,180
Cash paid into bank		5,000
Cash drawn from bank		9,240
Cash in hand on 31.3.2015		1,200
Cheques issued to trade creditors		60,270

(SM) (Ans.: Net Profit Rs. 4,290; Total of Balance sheet Rs.49,110)

**Problem 6:** Rashid furnishes you with the following information relating to his business:

Particulars	01.01.2002	31.12.2002
Furniture (w.d.v.)	6,000	6,350
Stock at cost	8,000	7,000
Sundry debtors	16,000	?
Sundry creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand & at bank	1,200	625

**Receipts & payments during 2002:**

- Collections from debtors, after allowing discount of Rs.1,500 amounted to Rs.58,500. Collections on discounting of bills of exchange, after deduction of discount of Rs.125, total Rs.6,125.
- Creditors of Rs.40,000 were paid Rs.39,200 in full settlement of their dues.
- Payment for freight inwards Rs.3,000.
- Amounts withdrawn for personal use Rs.7,000.
- Payment for office furniture Rs.1,000.
- Investments carrying annual interest of 4% were purchased at Rs.96 on 1st July, 2002 and payment was made.
- Expenses including salaries paid Rs.14,500.
- Miscellaneous receipts Rs.500.

**Other details:**

- Bills of exchange drawn on and accepted by customers during the year amounted to Rs.10,000. Of these, bills of exchange of Rs.2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs.400 was dishonoured.
- Goods costing Rs.900 were used as advertising materials.
- Goods are invariably sold to show a gross profit of 33 1/3 % on sales.
- Difference in cash book, if any, is to be treated as further drawing/introduction by Rashid.
- Provide at 2.5% for doubtful debts on closing debtors.

Rashid asks you to prepare trading and profit and loss a/c for the year ended 31<sup>st</sup> December, 2002 and the balance sheet as on that date. (Ans.: Net Profit Rs. 7,791)

**Problem 7:** Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs.10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you-

Assets and Liabilities	As on 1.4.2010	As on 31.3.2011
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?

Analysis of his bank pass book reveals the following information:

- Payment to creditors Rs.7,00,000
- Payment for business expenses Rs.1,20,000
- Receipts from debtors Rs.7,50,000
- Loan from Laxman Rs.1,00,000 taken on 1.10.2010 at 10% per annum
- Cash deposited in the bank Rs.1,00,000

He informs you that he paid creditors for goods Rs.20,000 in cash and salaries Rs.40,000 in cash. He has drawn Rs.80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

Prepare:

- Trading and Profit and Loss Account for the year ended 31.3.2011.
- Balance Sheet as at 31<sup>st</sup> March, 2011. (Nov, 2008 – Similar Problem, PM)

(Ans.: Net Profit – Rs.1,45,000)

**Problem 8: Conversion Method and Determination of amount defalcated by cashier:**  
The following is the Balance Sheet of Mr. Rama as on 30-6-2002

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
Rama's capital	96,000	Buildings	60,000
General reserve	30,500	Furniture	12,000
Sundry creditors	62,000	Motor Car	18,000
		Stock	40,000
		Sundry debtors	34,000
		Cash in hand	7,500
		Cash at Bank	17,000
	<b>1,88,500</b>		<b>1,88,500</b>

A fire occurred in the evening on 30-6-2003 in the premises of the trader destroying all books & records. The cashier absconded with the available cash. Mr. Ramah gives you the following information.

- His sales for the year 20% higher than the previous year's. He sells goods at cost plus 25%. 20% of the total sales were for cash. There were no cash purchases.
- From 1-7-2002 the stock level was raised to Rs.50,000 and maintained at that level all through out the year.
- Collection from debtors amounted to Rs.2,60,000 of which Rs.60,000 was received in cash. Business expenses amounted to Rs.42,000 of which Rs.10,000 was outstanding on 30-6-2003 and Rs.12,000 was paid by cheque. Creditors were paid by cheque only.
- Analysis of the pass book revealed the following:**

Payments to creditors	2,75,000	Cash deposited into Bank	1,33,700
Personal drawings	15,000	Cash withdrawn from bank for office use	24,000

- Gross profit as per last year's audited accounts was Rs.60,000. Provide depreciation on building and furniture at 5% and Motor car at 20%.

You are required to ascertain the amount defalcated by the cashier and prepare a Trading and Profit and loss account for the year ended 30-6-2003.

**(Ans.: Cash defalcated Rs.9,800, Gross Profit Rs.72,000, Net Profit Rs.13,000)**

**Problem 9: Preparation of Cash Book, Trading and P & L A/c and Balance Sheet:** Shri Kisan, a farmer, maintains a cash book, through which the records all receipts and payments and a dairy in which he records other relevant information. On 31<sup>st</sup> March, 2010 he had cash in hand Rs.1,000 and balance of Rs.500 with local Grameen Bank. He also owed Rs.600 to Beej bhandar for seeds purchased by that date.

During the year ended 31<sup>st</sup> March, 2011, he realized:

<i>Particulars</i>	<i>Rs.</i>
Sale proceeds of crops	59,100
Sale proceeds of cattle and cattle products	12,500
Sale proceeds of wood and grass	3,000
Sale of cowdung	5,000
Receipt on account from Babu (a credit customer)	12,000
Grant from Zilla Parishad for installing tubewell - cheque	10,000
During the year ended 31 <sup>st</sup> March, 2011 he paid:	
Wages	65,000

Beej Bhandar	600
Seeds, feeds and fertilizer	3,000
Power	5,000
Land revenue	2,000
Tools purchased	2,500
Household expenses	10,000

During the year ended 31<sup>st</sup> March, 2011 his other transactions were:

<i>Particulars</i>	<i>Rs.</i>
i. Sale of crop to Babu on credit	20,000
ii. Purchased on 25 <sup>th</sup> March, 2011 from Beej Bhandar on credit of one month seeds of	2,000
iii. Efforts put in by self and family members on the farm were conservatively valued at	60,000
iv. Value of crop used for consumption by :	
Self and family	30,000
Agriculture labourers	40,000

On 31<sup>st</sup> March, 2011 his cash in hand was only Rs.2,500

The rest was banked. He did not have any stock of seeds

The tubewell for which he grant cheque was realized in the last week of March, 2011 is to be installed in April, 2011.

Shri Kisan asks you to prepare his cash and income summaries for the year ended 31<sup>st</sup> March, 2011 and his statement of financial position as on that date. (Ans.: Loss Rs.7,400)

**Problem 10:** The following is the Balance Sheet of Sri Agni Dev as on 31st March, 2010:

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Capital a/c	2,52,500	Machinery	1,20,000
Creditors for purchases	45,000	Furniture	20,000
		Stock	33,000
		Debtors	1,00,000
		Cash in hand	8,000
		Cash at bank	16,500
	<b>2,97,500</b>		<b>2,97,500</b>

Riots occurred and fire broke out on the evening of 31st March, 2011, destroying the books of account and Furniture. The cashier was grievously hurt and the cash available in the cash box was stolen.

The trader gives you the following information:

- i) Sales are effected as 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2011 were 20% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).
- ii) Terms of credit  
Debtors- 2 Months      Creditors- 1 Month
- iii) Stock level was maintained at Rs. 33,000 all throughout the year.
- iv) A steady Gross Profit rate of 25% on the turnover was maintained throughout. Creditors are paid by cheque only, except for cash purchase of Rs. 50,000.
- v) His private records and the Bank Pass-book disclosed the following transactions for the year.

Miscellaneous Business expenses Rs. 1,57,500 (including Rs. 5,000 paid by cheque and Rs. 7,500 was outstanding as on 31<sup>st</sup> Mar,2011)

- i) Repairs Rs. 3,500 (paid by cash)
- ii) Addition to Machinery Rs. 60,000 (paid by cheque)
- iii) Private drawings Rs. 30,000 (paid by cash)
- iv) Travelling expenses Rs. 18,000 (paid by cash)
- v) Introduction of additional capital  
by depositing in to the Bank Rs. 5,000
- vi) Collection from debtors were all through cheques.
- vii) Depreciation on Machinery is to be provided @ 15% on the Closing Book Value.
- viii) The Cash stolen is to be charged to the Profit and Loss Account.
- ix) Loss of furniture is to be adjusted from the Capital Account.

Prepare Trading, Profit and Loss Account for the year ended 31<sup>st</sup> March, 2011 and a Balance Sheet as on that date. Make appropriate assumptions whenever necessary. All workings should form part of your answer. (PM) (Ans.: Net Profit Rs.32,500 Cash lost by theft - 1,500)

**Problem 11:** The following is the Balance Sheet of a concern on 31<sup>st</sup> March, 2010:

Liabilities	Rs.	Assets	Rs.
Capital	10,00,000	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	<b>12,00,000</b>		<b>12,00,000</b>

The management estimates the purchases and sales for the year ended 31<sup>st</sup> March, 2011 as under:

Particulars	Upto 28.2.2011 (Rs.)	March 2011 (Rs.)
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest Rs.1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31<sup>st</sup> March, 2011 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances. (PM) (Ans.: Net Profit Rs.3,74,000)

**Problem 12: Conversion Method and Determination of cash defalcation:** Mr. A runs a business of readymade garments. He closes the books of accounts on 31<sup>st</sup> March. The Balance Sheet as on 31<sup>st</sup> March, 2011 was as follows:

Liabilities	Rs.	Assets	Rs.
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	<b>4,86,000</b>		<b>4,86,000</b>

You are furnished with the following information:

1. His sales, for the year ended 31st March, 2012 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.  
Total sales during the year 2010-11 were Rs. 5,00,000.
2. Payments for all the purchases were made by cheques only.
3. Goods were sold for cash and credit both. Credit customers pay by cheques only.
4. Depreciation on furniture is to be charged 10% p.a.
5. Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of Rs. 2,000 to the clerk, office expenses Rs. 1,200 and personal expenses Rs.500.

Analysis of bank pass book for the year ending 31st March 2012 disclosed the following:

Particulars	Rs.
Payment to creditors	3,00,000
Payment of rent up to 31st March, 2012	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2012:

Particulars	Rs.
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2012, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2012 and Balance Sheet as on that date. All the workings should form part of the answer. (PM)  
(Ans: Net profit Rs.1,16,000; Total of Balance sheet Rs.5,78,000)

**Problem 13:** 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 2011:

Particulars	1.1.2011 (Rs.)	31.12.2011 (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:

Particulars	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. (PM)(Ans: Net profit Rs.14,000; Total of balance sheet Rs.2,09,000)

**ABC ANALYSIS**

	A Category	B Category	C Category
Class Room Problems	2, 3, 4, 6, 9, 12, 13	1, 7, 11	5, 8, 10, 14, 15, 16
Assignment Problems	1, 3, 4, 6, 8, 9, 11,12	2, 5, 7, 10	13

Verified by: Hari Narayana Sir,  
GSR Sir,

Executed by: Rajasekhar Sir

**THE END****MASTER MINDS**