

NCERT Solutions for Class 12 Accountancy

Company Accounts and Analysis of Financial Statements Chapter 3

Financial Statements of a Company

Short answers/long answers : Solutions of Questions on Page Number : 181

Q1 :

What is public company?

Answer :

A public company is defined as a company that offers a part of its ownership in the form of shares, debentures, bonds, securities to the general public through stock market. There must be atleast seven members to form a public company. As per the section 3 (1) (iv) of Companies Act 1956, public company means a company which:

- a) is not a private company,
- b) has a minimum paid up capital of Rs 5,00,000 or such higher paid up capital, as may be prescribed,
- c) is a private company, being a subsidiary of a company which is not a private company.

A public company should not be mistakenly understood as a publicly-owned company, as the latter is exclusively owned and controlled by the government. A public company issues its share to general public without any restriction on maximum number of persons. A public company can be segmented into two types:

1. Listed Company- A Company whose shares are listed and traded in the stock exchange like, Tata Motors, Reliance, etc.

2. Unlisted Company- A Company whose shares are not listed in the stock exchange and thereby these shares cannot be traded in the stock exchange.

Q2 :

Explain the nature of the financial statements.

Answer :

The financial statements are the end-products of the accounting process. The financial statements not only reveal the true financial position of the company but also help various accounting users in decision making and policy designing process. The nature of the financial statements depends upon the following aspects like recorded facts, conventions, concepts, and personal judgment

1. **Recorded facts**- The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects.
2. **Conventions**- The preparation of financial statements is based on some accounting conventions like, Prudence Convention, Materiality Convention, Matching Concept, etc. The adherence to such accounting conventions makes financial statements easy to understand, comparable and reflects the true and fair financial position of the company.
3. **Accounting Assumptions** - These basic accounting assumptions like Going Concern Concept, Money Measurement Concept, Realisation Concept, etc are called as postulates. While preparing financial statements, certain postulates are adhered to. The nature of these postulates is reflected in the nature of the financial statements.
4. **Personal Judgments**- Personal value judgments play an important role in deciding the nature of the financial statements. Different judgments are attached to different practices of recording transactions in the financial statements. For example, recording stock either at market value or at the cost requires value judgment. Similarly, provision on various assets, method of charging depreciation, period related to writing off intangible assets depends on personal judgment. Thus, personal judgments determine the nature of the financial statements to a great extent.

Q3 :

What is private limited company?

Answer :

Private limited company is a company that is limited by shares or by guarantee by its members. A private company is defined as a company that has a minimum paid up share capital of Rs 1,00,000. As defined by the Section 3 (1) (iii) of Companies Act 1956, private limited company is defined by the following characteristics.

- a) It restricts the right to transfer its shares.

b) There must be atleast two and a maximum of 50 members (excluding current and former employees) to form a private company.

c) It cannot invite application from the general public to subscribe its shares, or debentures.

d) It cannot invite or accept deposits from persons other than its members, Directors and their relatives.

Unlike public company, a private company cannot issue its shares or debentures to general public at large as shares of these companies are not traded in the stock exchange, for example, Coca-Cola India Private limited, etc.

Q4 :

Explain in detail about the significance of the financial statements.

Answer :

The importance of financial statements is mentioned below.

1. ***Provides Information***- Financial statements provide information to various accounting users both internal as well as external users. It acts as a basic platform for different accounting users to derive information according to varying needs. For example, the financial statements on one hand help the shareholders and investors in assessing the viability and return on their investments, while on the other hand, the financial statements help the tax authorities in calculating the amount of tax liability of the company.

2. ***Cash Flow***- Financial statements provide information about the cash flows of the company. The financial statements help the creditors and other investors in determining solvency of company.

3. ***Effectiveness of Management***- The comparability feature of the financial statements enables management to undertake comparisons like inter-firm and intra-firm comparisons. This not only helps in assessing the viability and performance of the business but also helps in designing policies and drafting policies. The financial statements enhance the effectiveness and efficacy of the management.

4. ***Disclosure of Accounting Policies***- Financial statements provide information about the various policies, important changes in the methods, practices and process of accounting by the company. The disclosure of the accounting policies makes financial statements simple, true and enables different accounting users to understand without any ambiguity.

5. **Policy Formation by Government**- It needs information to determine national income, GDP, industrial growth, etc. The accounting information assist the government in the formulation of various policy measures and to address various economic problems like employment, poverty etc.

6. **Attracts Investors and Potential Investors**- They invest or plan to invest in the business. Hence, in order to assess the viability and prospectus of their investment, creditors need information about profitability and solvency of the business.

Q5 :

Define Government Company?

Answer :

As per the Section 617 of Company Act of 1956, a Government Company means any company in which not less than 51% of the paid up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company as thus defined.

Q6 :

Explain the limitations of financial statements.

Answer :

The following are the limitations of financial statements.

1. **Historical Data**- The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects.
2. **Ignorance of Qualitative Aspect**- Financial statements does not reveal the qualitative aspects of a transaction. The qualitative aspects like colour, size and brand position in the market, employee's qualities and capabilities are not disclosed by the financial statements.
3. **Biased**- Financial statements are based on the personal judgments regarding the use of methods of recording. For example, the choice of practice in the valuation of inventory, method

of depreciation, amount of provisions, etc. are based on the personal value judgments and may differ from person to person. Thus, the financial statements reflect the personal value judgments of the concerned accountants and clerks.

4. **Inter-firm Comparisons**- Usually, it is difficult to compare the financial statements of two companies because of the difference in the methods and practices followed by their respective accountants.

5. **Window dressing**- The possibility of window dressing is probable. This might be because of the motive of the company to overstate or understate the assets and liabilities to attract more investors or to reduce taxable profit. For example, Satyam showed high fixed deposits in the Assets side of its Balance Sheet for better liquidity that gave false and misleading signals to the investors.

6. **Difficulty in Forecasting**- Since the financial statements is based on historical data, so they fail to reflect the effect of inflation. This drawback makes forecasting difficult.

Q7 :

What do you mean by a listed company?

Answer :

Those public companies whose shares are listed and can be traded in a recognised stock exchange for public trading like, Tata Motors, Reliance, etc are called Listed Company. These companies are also called Quota Companies. The listing of securities (shares) helps the investor to determine the increase/decrease in value of their investment in a concerned listed company. This provides ample indication to the potential investors about the goodwill of the company and facilitates them to take various investment decisions and also to assess the viability of their investment in a company.

Q8 :

Prepare the format of income statement and explain its elements.

Answer :

Vertical Form of Income Statement

| Particulars | Current Year | Previous Year | Absolute Change Increase or Decrease | % Change |
|---|--------------|---------------|--------------------------------------|----------|
| Net Sales | **** | | | |
| <i>Less: Cost of Goods Sold</i> | *** | | | |
| Gross Profit | **** | | | |
| <i>Less: Operating Expenses</i> | *** | | | |
| Net Operating Profit | **** | | | |
| <i>Add: Non Operating Income</i> | *** | | | |
| <i>Less: Non Operating Expenses</i> | *** | | | |
| Profit before Interest and Tax | **** | | | |
| <i>Less: Interest</i> | *** | | | |
| Profit before Tax | **** | | | |
| <i>Less: Provision for Tax/Tax Paid</i> | *** | | | |
| Net Profit | **** | | | |

Elements of Income Statement:-

1. **Net Sales**- Net Sales are derived as:

| | |
|---------------------------|-----|
| Cash Sales | *** |
| <i>Add: Credit Sales</i> | *** |
| Gross Sales | *** |
| <i>Less: Sales Return</i> | *** |
| Net Sales | *** |

2. **Cost of Goods Sold**- It is derived as:

| | |
|---------------------------------------|-----|
| Opening Stock | *** |
| <i>Add: Purchases</i> | *** |
| <i>Add: Wages</i> | *** |
| <i>Add: Manufacturing Expenses</i> | *** |
| <i>Add: Any other direct Expenses</i> | *** |
| Closing Stocks | *** |
| Cost of Goods sold | *** |

3. **Operating Expenses**- It is derived as:

| | |
|-----------------------------------|-----|
| Administrative Expenses | *** |
| <i>Add:</i> Selling Expenses | *** |
| <i>Add:</i> Distribution Expenses | *** |
| <i>Add:</i> Depreciation | *** |
| | *** |

Q9 :

What are the uses of securities premium?

Answer :

As per the Section 78 of the Companies Act of 1956, the amount of securities premium can be used by the company for the following activities.

1. For paying up un issued shares of the company to be issued to members (shareholders) of the company as fully paid bonus share,
2. For writing off the preliminary expenses of the company,
3. For writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company,
4. For paying up the premium that is to be payable on redemption of preference shares or debentures of the company.
5. Further, as per the Section 77A, the securities premium amount can also be utilised by the company to Buy-back its own shares.

Q10 :

Prepare the format of balance sheet and explain the various elements of balance sheet.

Answer :

Vertical Form of Balance Sheet

| Particulars | Schedule No. | Figure for the Current Year | Figure for the Previous Year |
|---|--------------|-----------------------------|------------------------------|
| I. Sources of Funds | | | |
| (1) Shareholder's Funds | | | |
| (a) Capital | | | |
| (b) Reserve and Surplus | | | |
| (2) Loan Funds | | | |
| (a) Secured Loan | | | |
| (b) Unsecured Loans | | | |
| II. Application of Funds | | | |
| (1) Fixed Assets | | | |
| (a) Gross Block | | | |
| (b) <i>Less:</i> Depreciation | | | |
| (c) Net Block | | | |
| (d) Capital Work in Progress | | | |
| (2) Investments | | | |
| (3) Current Assets, Loans and Advances | | | |
| (a) Inventories | | | |
| (b) Sundry Debtors | | | |
| (c) Cash and Bank Balance | | | |
| (d) Loan and Advances | | | |
| (e) Other Current Assets | | | |
| <i>Less:</i> Current Liabilities and Provisions | | | |
| (i) Liabilities | | - | |
| (ii) Provisions | | - | |
| Net Current Assets | | | |
| (4) (a) Miscellaneous Expenditures | | | |
| (to the extent not written off) | | | |
| (b) Profit and Loss Account | | | |
| Dr. Balance (Loss) | | | |
| Total | | | |

Elements of Balance Sheet

1. Share Capital: It is the first item on the Liabilities side. It consists of the following items:

- a) Authorised Capital
- b) Issued Capital: Equity share and preference share.
- c) Subscribed Capital *less* Call in Arrears *add* Forfeited Shares

2. Reserve and Surplus: As per the Schedule VI, it consists of the following items:

- a) Capital Reserve
- b) Capital Redemption Reserve
- c) Security Premium
- d) Other Reserve *less* Debit balance of P & L A/c
- e) Surplus: Credit balance of P & L A/c
- f) Proposed Additions
- g) Sinking Fund

3. Secured Loans

- a) Debentures
- b) Loan and advances from bank etc.

4. Unsecured Loans

- a) Fixed Deposits
- b) Loan & Advances from subsidiaries

5. Fixed Assets: These are those assets that are used for more than one year, like:

- a) Goodwill
- b) Land
- c) Building
- d) Plant & Machinery
- e) Patents, Trade Marks
- f) Livestock
- g) Vehicles, etc.

6. Current Assets: Assets that can be easily converted into cash or cash equivalents are termed as current assets. These are required to run day to day business activities; for example, cash, debtors, stock, etc.

7. Current Liabilities: Those liabilities that are incurred with an intention to be paid or are payable within a year; for example, bank overdraft creditors, bills payable, outstanding wages, short-term loans, etc are called current liabilities.

Q11 :

What is buy-back of shares?

Answer :

Buy-back of shares means repurchasing of its own shares by a company from the market for reducing the number of shares in the open market. As per the Section 77A, 77AA and 77B of the Company Act of 1956, a company can Buy-back its own shares and debentures on the account of following reasons.

1. To improve EPS (Earnings Per Share)

2. To return surplus cash to the shareholders that is not required by the business
3. To support value of its shares
4. To facilitates capital restructuring of the company.
5. To prevent take-over bid.

Buy-back of shares may be done:

- a) By purchasing shares from existing share holders on a proportionate basis, or
- b) By purchasing shares from the open market, or
- c) By purchasing shares from odd lots, *viz.* where the lot of securities listed in the recognised stock market is smaller than such marketable lot, or
- d) By purchasing shares from the employees of the company

Sources for Buy-back of share:

1. Free Reserves,
2. Securities Premium Account,
3. Proceeds of any shares or other specified securities, provided that no Buy-back of any kind of shares or other specified securities shall be made out of the proceeds of the earlier issues of the similar kind of shares or similar kind of other specified securities.

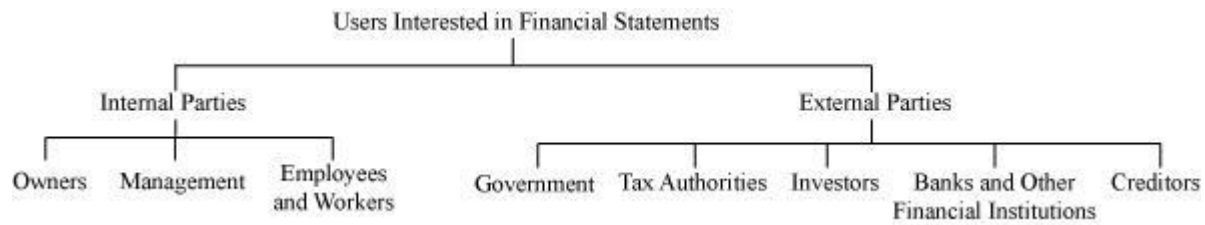
Q12 :

Explain how financial statements are useful to the various parties who are interested in the affairs of an undertaking?

Answer :

The various parties that are directly or indirectly interested in the financial statements of a company can be categorized into the following two categories:

1. Internal parties
2. External parties



Internal Parties

The following are the various internal accounting users who are directly related to the company.

- 1. Owner-** The owner/s is/are interested in the profit earned or loss incurred during an accounting period. They are interested in assessing the profitability and viability of the capital invested by them in the business.
- 2. Management-** The financial statements help the management in drafting various policies measures, facilitating planning and decision making process. The financial statements also enable management to exercise various cost controlling measures and to remove inefficiencies.
- 3. Employees and workers-** They are interested in the timely payment of wages and salaries, bonus and appropriate increment in their wages and salaries. With the help of the financial statements they can know the amount of profit earned by the company and can demand reasonable hike in their wages and salaries.

External Parties

There are various external users of accounting who need accounting information for decision making, investment planning and to assess the financial position of the business. The various external users are given below.

- 1. Banks and other financial institutions-** Banks provide finance in the form of loans and advances to various businesses. Thus, they need information regarding liquidity, creditworthiness, solvency and profitability to advance loans.
- 2. Creditors-** These are those individuals and organisations to whom a business owes money on account of credit purchases of goods and receiving services; hence, the creditors require information about credit worthiness of the business.
- 3. Investors and potential investors-** They invest or plan to invest in the business. Hence, in order to assess the viability and prospectus of their investment, creditors need information about profitability and solvency of the business.
- 4. Tax authorities-** They need information about sales, revenues, profit and taxable income in order to determine the levy various types of tax on the business.

5. Government- It needs information to determine national income, GDP, industrial growth, etc. The accounting information assist the government in the formulation of various policies measures and to address various economic problems like employment, poverty etc.

6. Researchers- Various research institutes like NGOs and other independent research institutions like CRISIL, stock exchanges, etc. undertake various research projects and the accounting information facilitates their research work.

7. Consumers- Every business tries to build up reputation in the eyes of consumers, which can be created by the supply of better quality products and post-sale services at reasonable and affordable prices. Business that has transparent financial records, assists the customers to know the correct cost of production and accordingly assess the degree of reasonability of the price charged by the business for its products and ,thus, helps in repo building of the business.

8. Public- Public is keenly interested to know the proportion of the profit that the business spends on various public welfare schemes; for example, charitable hospitals, funding schools, etc. This information is also revealed by the profit and loss account and balance sheet of the business.

Q13 :

Write a brief note on 'Minimum Subscription'.

Answer :

When shares are issued to the general public, the minimum amount that must be subscribed by the public so that the company can allot shares to the applicants is termed as Minimum Subscription. As per the Company Act of 1956, the Minimum Subscription of share cannot be less than 90% of the issued amount. If the Minimum Subscription is not received, the company cannot allot shares to its applicants and it shall immediately refund the entire application amount received to the public.

Q14 :

'Financial statements reflect a combination of recorded facts, accounting conventions and personal judgments' discuss.

Answer :

The financial statements are the end-products of the accounting process. The financial statements not only reveal the true financial position of the company but also help various accounting users in decision making and policy designing process. The nature of the financial statements depends upon the following aspects like recorded facts, conventions, concepts, and personal judgment

1. Recorded facts- The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects.

2. Conventions- The preparation of financial statements is based on some accounting conventions like, Prudence Convention, Materiality Convention, Matching Concept, etc. The adherence to such accounting conventions makes financial statements easy to understand, comparable and reflects the true and fair financial position of the company.

3. Accounting Assumptions - These basic accounting assumptions like Going Concern Concept, Money Measurement Concept, Realisation Concept, etc are called as postulates. While preparing financial statements, certain postulates are adhered to. The nature of these postulates is reflected in the nature of the financial statements.

4. Personal Judgments- Personal value judgments play an important role in deciding the nature of the financial statements. Different judgments are attached to different practices of recording transactions in the financial statements. For example, recording stock either at market value or at the cost requires value judgment. Similarly, provision on various assets, method of charging depreciation, period related to writing off intangible assets depends on personal judgment. Thus, personal judgments determine the nature of the financial statements to a great extent.

Q15 :

Explain the process of preparing income statement and balance sheet.

Answer :

The process of preparing Horizontal Form of Income Statement is explained below in a chronological order.

1. Prepare a Trial Balance on the basis of the balances of various accounts in the ledger.
2. Record Opening Stock, Purchases, Manufacturing Expenses and other direct expenses on the debit side of Trading Account
3. Record Sales and Closing Stock on the credit side of the Trading Account.

4. Ascertain the balancing figure by totaling both the sides of the Trading Account. If the credit side exceeds the debit side, then the balancing figure is termed as Gross Profit, but if the debit side exceeds the credit side, then the balancing figure is termed as Gross Loss.
5. Carry forward the Gross Profit (Gross Loss) to the credit (debit) side of the Profit and Loss Account.
6. Record all current year's operating and non-operating revenue expenditures with their relevant adjustments on the debit side of the Profit and Loss Account.
7. Record all current year's operating and non operating revenue incomes with their relevant adjustments on the credit side of the Profit and Loss Account.
8. Ascertain the balancing figure by totaling both the sides of the Profit and Loss Account. If the credit exceeds the debit side, then the balancing figure is termed as Net Profit, but if the debit side exceeds the credit side, then the balancing figure is termed as Net Loss.

The process of preparing Horizontal Form of Balance Sheet is explained below in a chronological order.

1. Prepare a Trial Balance on the basis of the balances of various accounts in the ledger.
2. Record all the debit balances of Real and Personal Accounts on the left hand side (i.e. Assets side) of the Balance Sheet after making all adjustments for provision and other related items.
3. Record all the credit balances of Real and Personal Accounts on the right hand side (i.e. Liabilities side) of the Balance Sheet after making all adjustments for interest and outstanding items.
4. Add Net Profit to the Opening Capital and deduct Net Loss, if any from the Opening Capital
5. Ascertain the total of two sides, which must be equal.

Numerical questions : Solutions of Questions on Page Number : 182

Q1 :

The following is the trial balance on June 30, 2006 of the Modern Manufacturing Company Ltd.

| Details | Amount | Details | Amount |
|---------|--------|---------|--------|
|---------|--------|---------|--------|

| | Rs | | Rs |
|--|--------|---------------------------------------|--------|
| Stock, 30th June, 2005 | 7,500 | Dividend paid in, August, 2005 | 500 |
| Sales | 35,000 | Interim Dividend paid in Feb., 2006 | 400 |
| Purchases | 24,500 | Capital- 10,000 Rs 1 shares full Paid | 10,000 |
| Productive wages | 5,000 | Debtors | 3,750 |
| Discounts (Dr.) | 700 | Creditors | 1,750 |
| Discounts (Cr.) | 500 | Plant and machinery | 2,900 |
| Salaries | 750 | Cash in Bank | 1,620 |
| Rent | 495 | Reserve | 1,550 |
| General expenses | 1,705 | Loan to Managing Director | 325 |
| Profit and loss account, 30th June 2005 (Cr.) | 1,503 | Bad Debts | 158 |

Stock, on June 30, 2006 Rs 8,200. You are required to make out the trading account, and profit and loss account for the year ended June 30, 2006 and the balance sheet as on the date. You are also to make provision in respect of the following: (i) Depreciate machinery @ 10% per annum; (ii) Reserve 5% for discount on debtors; (iii) One month rent Rs 45 was due on 30th June; and (iv) Six month's insurance, included in general expenses, was unexpired at Rs 75.

Answer :

Modern Manufacturing Company Ltd.

Trading and Profit and Loss Account for the year ended June 30, 2006

Dr.

| Expenses/Losses | Amount Rs | Revenues/Gains | Amount Rs |
|------------------|---------------|------------------|---------------|
| Opening Stock | 7,500 | Sales | 35,000 |
| Purchases | 24,500 | Closing Stock | 8,200 |
| Productive Wages | 5,000 | | |
| Gross Profit c/d | 6,200 | | |
| | <u>43,200</u> | | <u>43,200</u> |
| Salaries | 750 | Gross Profit b/d | 6,200 |
| Discount | 700 | Discount | 500 |
| Rent | 495 | | |

| | | | |
|---------------------------------|-------|---------|--|
| <i>Add:</i> Outstanding | 45 | 540 | |
| General Expenses | 1,705 | | |
| <i>Less:</i> Prepaid Insurance | (75) | 1,630 | |
| Depreciation on Machinery | | 290 | |
| Bad Debts | | 158 | |
| Reserve for discount on Debtors | | 187.5 | |
| Net Profit c/d | | 2,444.5 | |
| | | 6,700 | 6,700 |
| Dividend paid in Aug. | | 500 | Balance b/d 1,500 |
| Interim Dividend | | 400 | Net Profit for the Current year 2,444. |
| Balance c/d | | 3,047.5 | |
| | | 3,947.5 | 3,947. |

Balance Sheet as on June 30, 2006

| Liabilities | Amount Rs | Assets | Amount Rs |
|--|--------------|---|--------------|
| Share Capital | | Fixed Assets | |
| <i>Authorised Capital:</i> | | Plant and Machinery | 2,900 |
|shares of Rs each | | <i>Less:</i> Depreciation | 290 |
| <i>Issued and Subscribed:</i> | | | 2,610 |
| 10,000 shares of Rs 1 each | 10,000 | Current Assets, Loans and Advances | |
| Reserves and Surplus | | Debtors | 3,750 |
| Reserve | 1,550 | <i>Less:</i> Reserve for Discount | 187.5 |
| Profit and Loss | 3,047.5 | Cash at Bank | 1,600 |
| Current Liabilities and Provision | | Prepaid Insurance | |
| Current Liabilities: | | Stock | 8,200 |
| Creditors | 1,750 | Loan to Managing Director | 300 |
| Rent Outstanding | 45 | | |
| | 16,392.5 | | 16,392.5 |

Note: It has been assumed that the Dividend Paid, August, 2005 of Rs 500 has been declared and paid in the same accounting period.

Q2 :

The following is the trial balance of Alfa Ltd., for the year ended June 30, 2005

| Details | Amount Rs | Details |
|-----------------------------------|--------------|---|
| Land and Buildings | 3,00,000 | Sundry Creditors |
| Plant and Machinery | 4,50,000 | Bills Payable |
| Furniture and Fittings | 40,000 | General Reserve |
| Goodwill | 60,000 | Profit and Loss Account Balance (on 1.7.04) |
| Sundry Debtors | 60,000 | Sales |
| Bills Receivable | 26,000 | Purchase Returns |
| Investments (5% Govt. Securities) | 30,000 | Equity Share Capital |
| Cash in Hand | 2,000 | 8% Preference Share Capital |
| Cash at Bank | 55,000 | |
| Preliminary Expenses | 29,000 | |
| Purchases | 4,00,000 | |
| Sales Return | 10,000 | |
| Stock on 1-7-04 | 85,000 | |
| Wages | 47,000 | |
| Salaries | 55,000 | |
| Rent, rates and taxes | 9,000 | |
| Carriage Inwards | 6,500 | |
| Law Charges | 2,500 | |
| Trade Expenses | 23,000 | |
| | 16,90,000 | |

Prepare the Profit and Loss Account and Balance Sheet of the company after taking the following particulars into consideration:

a) The original cost of land and building plant and machinery and furniture and fittings was Rs 2,50,000, Rs 6,00,000 and Rs 60,000 respectively. Additions during the year were: Building Rs 50,000 and Plant Rs 20,000.

b) Depreciation is to be charged on plant and machinery and furniture and fitting at 10 per cent on original cost.

c) Of the sundry debtors, Rs 10,000 is outstanding for a period exceeding 6 months, Rs 5,000 are considered doubtful, while the others are considered good.

d) The directors are entitled to a commission at 1 percent of the net profits before charging such commission.

e) Stock on 30th June, 2005 is Rs 1,30,000.

f) Provide Rs 34,800 for income tax

Answer :

Alfa Ltd.

Profit and Loss Account for the year ended June 30, 2005

Dr.

| Expenses/Losses | | Amount Rs | Revenues/Gains | | Amount Rs |
|-----------------------|-----------------|-----------------|---|----------|-----------------|
| Opening Stock | | 85,000 | Sales | 6,25,000 | |
| Purchases | 4,00,000 | | Less: Return | (10,000) | 6,15,000 |
| Less: Return | <u>(15,000)</u> | 3,85,000 | Closing Stock | | 1,30,000 |
| Wages | | 47,000 | | | |
| Carriage Inwards | | 6,500 | | | |
| Gross Profit c/d | | 2,21,500 | | | |
| | | <u>7,41,500</u> | | | <u>7,45,000</u> |
| Salaries | | 55,000 | Gross Profit b/d | | 2,21,500 |
| Rent, Rates and Taxes | | 9,000 | Accrued Interest on 5% Govt. Securities | | 1,500 |
| Law Charges | | 2,500 | | | |
| Trade Expenses | | 23,000 | | | |
| Depreciation on: | | | | | |

| | | | | |
|--|--------|----------|---------------------------------|----------|
| Plant and Machinery | 60,000 | | | |
| Furniture | 6,000 | 66,000 | | |
| Provision for Income Tax | | 34,800 | | |
| Directors' Commission | | 324 | | |
| Net profit c/d | | 32,376 | | |
| | | 2,23,000 | | 2,23,000 |
| Proposed Dividend on Preference Shares | | 16,000 | Balance b/d | 90,000 |
| Balance c/d | | 1,06,376 | Net Profit for the current year | 32,376 |
| | | 1,22,376 | | 1,22,376 |

Balance Sheet as on June 30, 2005

| Liabilities | Amount Rs | Assets | Amount Rs |
|----------------------------|--------------|--------|--------------|
| Share Capital | | | |
| <i>Authorised Capital:</i> | | | |

Q3 :

The following balances appeared in the books of Parasuram Flour Mills Ltd., as on December 31, 2005 :

| Details | Rs | Details | Rs |
|-------------------------------|----------|----------------------------|--------|
| Stock of wheat | 9,500 | Furniture | 5,100 |
| Stock of flour | 16,000 | Vehicles | 5,100 |
| Wheat Purchases | 4,05,000 | Stores and spare parts | 18,300 |
| Manufacturing Expenses | 90,000 | Advances | 24,500 |
| Flour Sales | 5,55,000 | Book Debts | 51,700 |
| Salaries and Wages | 13,000 | Investments | 4,000 |
| Establishment | 4,700 | Share Capital | 72,000 |
| Interest (Cr.) | 500 | Pension Fund | 23,000 |
| Rent Received | 800 | Dividend Equalisation fund | 10,000 |
| Profit and Loss Account (Cr.) | 15,000 | Taxation Provision | 8,500 |
| Director's Fees | 1,200 | Unclaimed Dividends | 900 |

| | | | |
|----------------------|--------|-----------------|----------|
| Dividend for 2004 | 9,000 | Deposits (Cr.) | 1,600 |
| Land | 12,000 | Trade Creditors | 1,24,000 |
| Buildings | 50,500 | Cash in Hand | 1,200 |
| Plants and Machinery | 50,500 | Cash at Bank | 40,000 |

Prepare the company's trading and profit and loss account for the year and balance sheet as on December 31, 2005 after taking the following adjustments into account:

(a) Stock on December 31, 2005 were: Wheat at cost, Rs 14,900; Flour at market price, Rs 21,700; (b) Outstanding expenses: Manufacturing expenses, Rs 23,500; and salaries and wages, Rs 1,200; (c) Provide depreciation : Building at 2% ; Plant and machinery at 10%: Furniture at 10% ; and Vehicle 20%. (d) Interest accrued on Government Securities, Rs100; (e) A tax provision of Rs 8,000 is considered necessary. (f) The directors propose a dividend of 20%. (g) The authorised capital consists of 12,000 equity shares of Rs 10 each of which 7,200 shares were issued and fully paid up.

Answer :

Parasuram Flour Mills Ltd.

Profit and Loss Account for the year ended December 31, 2005

Dr.

| Expenses/Losses | | Amount Rs | Revenues/Gains | | Amount Rs |
|------------------------|--------|--------------|-------------------------|--------|--------------|
| Opening Stock: | | | Sales (Flour) | | 5,55,000 |
| Wheat | 9,500 | | Closing Stock | | |
| Flour | 16,000 | 25,500 | Wheat (at cost) | 14,900 | |
| Purchases (wheat) | | 4,05,000 | Flour (at market price) | 21,700 | 36,600 |
| Manufacturing Expenses | 90,000 | | | | |
| Add: Outstanding | 23,500 | 1,13,500 | | | |
| Gross Profit c/d | | 47,600 | | | |
| | | 5,91,600 | | | 5,91,600 |
| Salaries and Wages | 13,000 | | Gross Profit b/d | | 47,600 |
| Add: Outstanding | 1,200 | 14,200 | Interest | 500 | |
| Establishment | | 4,700 | Add: Accrued | 100 | 600 |
| Director's Fees | | 1,200 | Rent Received | | 800 |

| | | | | |
|---------------------|-------|--------|---------------------------------|--------|
| Depreciation: | | | Taxation Provision | 50 |
| Building | 1,010 | | (8,500 – 8,000) | |
| Plant and Machinery | 5,050 | | | |
| Furniture | 510 | | | |
| Vehicle | 1,020 | 7,590 | | |
| Net Profit c/d | | 21,810 | | |
| | | 49,500 | | 49,500 |
| Dividend for 2004 | | 9,000 | Balance b/d | 15,000 |
| Proposed Dividend | | 14,400 | Net Profit for the current year | 21,810 |
| Balance c/d | | 13,410 | | |
| | | 36,810 | | 36,810 |

Balance Sheet as on December 31, 2005

| Liabilities | Amount Rs | Assets | Amount Rs |
|---|--------------|--|----------------|
| Share Capital | | Fixed Assets | |
| <i>Authorised Capital:</i> | | Land | 12,000 |
| 12,000 shares of Rs 10 each | 1,20,000 | Buildings | 50,500 |
| | | <i>Less: Depreciation</i> | <u>(1,010)</u> |
| <i>Issued and Subscribed and Paid up</i> | | | 49,490 |
| 7,200 shares of Rs 10 each | 72,000 | Plants and Machinery | 50,500 |
| | | <i>Less: Depreciation</i> | <u>(5,050)</u> |
| Reserves and Surplus | | | 45,450 |
| Pension Fund | 23,000 | Furniture | 5,100 |
| Dividend Equalisation Fund | 10,000 | <i>Less: Depreciation</i> | <u>(510)</u> |
| Profit and Loss | 13,410 | | 4,590 |
| Secured Loans | â€“ | Vehicles | 5,100 |
| Unsecured Loans | | <i>Less: Depreciation</i> | <u>(1,020)</u> |
| Deposits | 1,600 | | 4,080 |
| Current Liabilities and Provisions | | Investments | |
| A. Current Liabilities: | | Investments | 4,000 |
| Trade Creditors | 1,24,000 | <i>Add: Accrued</i> | <u>100</u> |
| Unclaimed Dividends | 900 | | 4,100 |
| | | Current Assets, Loan and Advances | |
| | | A. Current Assets: | |

Q4 :

An unexperienced accountant prepared the following trial balance of Bang Vikas Ltd., for the year ending 31.12.2005. The cash in hand on 31.12.2005 was Rs 750.

| Details | Rs | Details | Rs |
|---------------------------|-----------|---|-----------|
| Depreciation on machinery | 33,000 | Authorised Capital: 60,000 shares of Rs 10 each | 6,00,000 |
| Calls in Arrear | 7,500 | Subscribed Capital | 4,00,000 |
| Land and Buildings | 3,00,000 | 6% Debentures | 3,00,000 |
| Machinery | 2,97,000 | Profit and Loss Account (Cr.) | 13,625 |
| Interim dividend paid | 37,500 | Sundry Debtors | 87,000 |
| Stock on 1-1-2005 | 75,000 | Sales | 4,15,000 |
| Sundry Creditors | 40,000 | Sinking Fund | 75,000 |
| Bills Payable | 38,000 | Preliminary Expenses | 5,000 |
| Furniture | 7,200 | | |
| Bank Balance | 39,900 | | |
| Purchases | 1,85,000 | | |
| Provision for Bad Debts | 4,375 | | |
| Investments | 75,000 | | |
| Salary and Wages | 99,300 | | |
| Repairs | 4,300 | | |
| Fuel | 2,500 | | |
| Rates and Taxes | 1,800 | | |
| Travelling Expenses | 2,000 | | |
| Discounts | 6,400 | | |
| Director's Fees | 5,700 | | |
| Bad Debts | 2,100 | | |
| Debenture interest | 9,000 | | |
| Carriage | 1,800 | | |
| Freight | 8,900 | | |
| Sundry Expenses | 2,350 | | |
| Public Deposits | 10,000 | | |
| | 12,95,625 | | 12,95,625 |

After locating the mistakes and making the following adjustments prepare trading and profit and loss account and balance sheet in the prescribed form.

Adjustments: (i) Stock on 31.12.2005 Rs 95,000 and (ii) Write-off preliminary expenses.

Answer :

Bang Vikas Ltd

Profit and Loss Account for the year ended December 31, 2005

Dr.

Cr.

| | Amount | | Amount |
|----------------------------------|---------------|--------------------------------|---------------|
| Expenses/Losses | Rs | Revenues/Gains | Rs |
| Opening Stock | 75,000 | Sales | 4,15,000 |
| Purchases | 1,85,000 | Closing Stock | 95,000 |
| Fuel | 2,500 | | |
| Carriage | 1,800 | | |
| Freight | 8,900 | | |
| Gross Profit c/d | 2,36,800 | | |
| | 5,10,000 | | 5,10,000 |
| Salary and Wages | 99,300 | Gross Profit b/d | 2,36,800 |
| Repairs | 4,300 | | |
| Rates and Taxes | 1,800 | | |
| Travelling Expenses | 2,000 | | |
| Discounts | 6,400 | | |
| Director's Fee | 5,700 | | |
| Bad Debts | 2,100 | | |
| Debenture Interest | 9,000 | | |
| <i>Add: Outstanding</i> | 9,000 | | |
| Sundry Expenses | 2,350 | | |
| Depreciation on Machinery | 33,000 | | |
| Preliminary Expenses written off | 5,000 | | |
| Net Profit c/d | 56,850 | | |
| | 2,36,800 | | 2,36,800 |
| Interim Dividend Paid | 37,500 | Balance b/d | 13,625 |
| Balance c/d | 32,975 | Net Profit of the Current year | 56,850 |
| | 70,475 | | 70,475 |

Q5 :

The Silver Ore Co. Ltd. was formed on April 1, 2005 with an authorised capital of Rs6,00,000 in shares of Rs 10 each. Of these 52,000 shares had been issued and subscribed but there were calls in arrear on 100 shares @ Rs 2.50. From the following trial balance as on March 31, 2006 prepare the trading and profit and loss account and the balance sheet:

| | Rs | | Rs |
|------------------------------------|-----------|--------------------------------|-----------|
| Cash at Bank | 1,05,500 | Advertising | 5,000 |
| Share Capital | 5,19,750 | Cartage on Plant | 1,800 |
| Plant | 40,000 | Furniture and Buildings | 20,900 |
| Sale of Silver | 1,79,500 | Administrative Expenses | 28,000 |
| Mines | 2,20,000 | Repairs of Plant | 900 |
| Promotion Expenses | 6,000 | Coal and Oil | 6,500 |
| Interest of F.D. up to Dec.31,2005 | 3,900 | Cash | 530 |
| Dividend on Investment | 3,200 | Investments-share of tin mines | 80,000 |
| Royalties Paid | 10,000 | Brokerage on above | 1,000 |
| Railway track and wagons | 17,000 | 6% F.D. in Syndicate Bank | 89,000 |
| Wages of Mines | 74,220 | | |

(i) Depreciate plant and railways by 10%; furniture and building by 5%; (ii) Write off a third of the promotion expenses; (iii) Value of silver ore on March 31, 1969 Rs 15,000, The directors forfeited on December 20, 1968, 100 shares on which only Rs 7.50 had been paid.

Answer :

Silver Ore Co. Ltd.

Profit and Loss Account for the year ended March 31, 2006

Dr.

| | Amount | | Amount |
|------------------------|---------------|-----------------------|---------------|
| Expenses/Losses | Rs | Revenues/Gains | Rs |
| Coal and Oil | 6,500 | Sale | 1,79,500 |
| Wages | 74,220 | Closing Stock | 15,000 |

| | | | | |
|--------------------------------|--------------|-----------------|------------------------------|-----------------|
| Royalties | | 10,000 | | |
| Gross Profit c/d | | 1,03,780 | | |
| | | <u>1,94,500</u> | | <u>1,94,500</u> |
| Promotion Expenses Written off | | 2,000 | Gross Profit b/d | 1,03,780 |
| Advertising | | 5,000 | Interest on FD | 3,900 |
| | | | <i>Add: Accrued Interest</i> | <u>1,440</u> |
| Administrative Expenses | | 28,000 | Dividend on Investment | 3,200 |
| Repairs of Plant | | 900 | | |
| Depreciation: | | | | |
| Railways Track and Wagons | 1,700 | | | |
| Furniture and Building | <u>1,045</u> | 2,745 | | |
| Net Profit c/d | | 73,675 | | |
| | | <u>1,12,320</u> | | <u>1,12,320</u> |

Balance Sheet as on March 31, 2006

| Liabilities | Amount Rs | Assets | Amount Rs |
|-------------------------------|--------------|---------------------------|--------------|
| Share Capital | | Fixed Assets | |
| <i>Authorised Capital:</i> | | Plant | 40,000 |
| 60,000 shares of Rs 10 each | 6,00,000 | <i>Add:</i> | 1,800 |
| | | Cartage on Plant | |
| <i>Issued and Subscribed:</i> | | Mines | 2,20,000 |
| 51,900 shares of Rs 10 each | 5,19,000 | Furniture and Buildings | 20,900 |
| <i>Add:</i> Share Forfeiture | 750 | <i>Less:</i> Depreciation | (1,045) |
| | 5,19,750 | | 19,855 |
| Reserves and Surplus | | Railways Track and Wagons | 17,000 |
| Profit and Loss | 73,675 | <i>Less:</i> Depreciation | (1,700) |
| | | | 15,300 |

