DREAM STUDY

Smart Way of Easy Learning

Financial Accounting & Management

(FAM)

www.dreamstudy.tk

dreamstudy123@gmail.com

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Unit - II

Accounting cycle - Journal

Definition of Accounting :-

"Accounting is an art of systematic recording, classifying, summarising, analysing and interpretation about financial transactions" (monetary transactions).

Q Journal Entry

2005
Apr. 1 Ram started business with cash ₹70000
" 2 Purchase furniture for cash ₹ 9000
" 3 Purchase good for cash ₹ 30000.
" 4 Brought good from Naresh ₹25000
" 6 Sold goods for cash ₹ 22000
" 8 Sold goods to Ramlal for ₹15000.
" 25 Received commission ₹250
" 26 Paid wages in cash ₹ 3000
" 27 Paid Salary to madan ₹ 1000
" 29 withdrew cash for Personal use ₹2000
" 30 Brought Typewriter in cash ₹ 6000 & paid rent ₹ 800.

Date	Particular	L F	Dr. Amount	Cr. Amount
2005				
Apr. 1	cash A/c Dr.		70000	
	To capital A/c			70000
	(for business started)			
Apr. 2	furniture A/c Dr.		9000	
	To cash A/c			9000
	(for furniture purchased)			
Apr. 3	Purchase A/c Dr.		30000	
	To cash A/c			30000
	(for Goods Purchased)			
Apr. 4	Purchase A/c Dr.		25000	
	To Naresh			25000
	(for Goods Purchased from Naresh)			
Apr. 6	cash A/c Dr.		22000	
	To Sales A/c			22000
	(for Goods Sold for cash)			
Apr. 8	Ramlal Dr.		15000	
	To sales A/c			15000
	(for Goods sold to Ramlal)			
Apr. 25	Cash A/c Dr.		250	
	To commission A/c			250
	(for commission received)			
Apr. 26	wages A/c Dr.		3000	
	To cash A/c			3000
	(for wages paid)			

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Apr. 27	Salary A/c To Cash A/c (for salary Paid)	Dr.	1000	1000
Apr. 29	Drawings A/c To cash A/c (Being cash withdrew for personal use)	Dr.	2000	2000
Apr. 30	Typewriter A/c To cash A/c (for Typewriter brought)	Dr.	6000	6000
Apr. 30	Rent A/c To cash A/c (Being Rent Paid)	Dr.		

Discount

- Cash Discount
- Trade Discount

(I) **Cash Discount :-**

Example: Received cash from Ramlal ₹ 980 & discount allow ₹ 20

			Dr.	Cr.
(i)	cash A/c	Dr.	980	
	Discount Al. A/c	Dr.	20	
	To Ramlal			1000

(for cash recd. & Discount allowed).

(2) Paid to Harilal ₹3800 in full settlement of his account 4000

Harilal A/c Dr. 4000
To Discount A/c 100
To cash A/c 3900
(for cash Paid & Discount received).

(2) Trade Discount →

⇒ Sold goods of ₹ 15000 to vinod and 20% Trade discount allowed.

⇒ Dr. Cr.
cash A/c Dr. 12000
To sales A/c 12000
(for goods sold to vinod & discount allowed)

Q7 Journal Entry & Journalise &

2015
Jan. 1 Ganesh Started business ₹75000
" 2 Purchase furniture ₹7000
" 3 Brought Goods from varun ₹25000
" 5 Sold Good to Raju ₹36000
" 10 Paid cash to Varun ₹8000
" 15 Received cash from Raju ₹20000

Jan. 20 Brought Stationary ₹ 5000
" 22 commission Recd. ₹ 1800
" 28 Paid rent ₹ 2000
" 29 Purchase Good from Ram for cash ₹ 9000
" 29 Brought machinery from Sohan ₹ 15000.
" 29 Paid Salary ₹ 1500
" 30 withdrew cash for Personal use ₹ 5000.

Date	Particular	L F	Dr. Amount	Cr. Amount
2015				
Jan 1.	Cash A/c Dr.		75000	
	To capital A/c			75000
	(for business started)			
Jan. 2	Furniture A/c Dr.		7000	
	To cash A/c			7000
	(for Purchased furniture)			
Jan 3.	Purchase A/c Dr.		25000	
	To varun			25000
	(for brought goods)			
Jan 5.	Rafu Dr.		36000	
	To Sales A/c			36000
	(for sale goods)			
Jan. 10	Varun Dr.		8000	
	To cash A/c			8000
	(for Paid cash).			

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Jan.15	cash A/c Dr.	20000	
	To Raju		20000
	(for cash received)		
Jan.20	Stationary A/c Dr.	5000	
	To cash A/c		5000
	(for Stationary brought)		
Jan.22	cash A/c Dr.	1800	
	To commission A/c		1800
	(for commission received)		
Jan.28	Rent A/c Dr.	2000	
	To cash A/c		2000
	(~~B~~ for paid rent)		
Jan.29	Purchases A/c Dr.	9000	
	To cash A/c		9000
	(for purchase goods)		
Jan.29	Machinery A/c Dr.	15000	
	To sohan		15000
	(for brought machinery)		
Jan.29	Salary A/c Dr.	1500	
	To cash A/c		1500
	(for paid salary)		
Jan.30	Drawings A/c Dr.		
	To cash A/c		
	(for withdrawn personal use)		

Journal.

Compound Entry

2018

June 1 Ram started business with cash ₹60000, machinery ₹30000 & furniture ₹15000.

" 2 Purchase good for cash ₹ 28000

" 10 ~~Sold good to~~ Receive cash from Ramnath ₹ 8850 in full settlement of his account.

" 13 Sold good to Ramnath of least price ₹ 15000 at trade discount 10%.

" 17 Ramnath return goods worth ₹5000

" 12 Purchase goods from Surender of ₹ 10000 less 10% trade discount.

" 15 Return goods to Surender of ₹ 2000.

" 18 Clear the account of Surender by paying cash under discount 5%.

" 20 Paid fire insurance premium ₹200

" 21 Paid for Ram life insurance premium ₹ 825.

" 30 Paid Rent ₹ 600, Advertising Exp. ₹400 & salary ₹1200.

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Total balance of Ramnath 13500
Return 5000 10 TEN 4500
9000
Paid in full settlement 8850
Discount allowed → 150 Discount

Journal Entry

Date	Particular	L F	Dr. Amount	Cr. Amount
2015				
June 1st	Cash A/c Dr.		60000	
	Machinery A/c Dr.		30000	
	Furniture A/c Dr.		15000	
	~~To capital A/c~~			
	To capital A/c			105000
	(for business started)			
June 2	Purchase A/c Dr.		28000	
	To cash A/c			28000
	(for goods purchased)			
June 3	Ramnath Dr.		13500	
	To Sales A/c			13500
	(for goods sold to Ramnath)			
June 7	Sales return A/c Dr.		4500	
	To Ramnath			4500
	(for goods returned			
June 10	cash A/c Dr.		8850	
	Discount Allowed A/c Dr.		150	
	To Ramnath			9000
	(for cash recovered from Ramnath & discount allowed)			
June 12	Purchases A/c Dr.		9000	
	to Surender			9000
	(For Purchases goods and @ 10% Trade discount)			

Jan 15	Surrender A/c Dr.	1800	
	To Purchases return A/c		1800
	(For goods return to Surrender)		
Jan 18.	~~Cash~~ Surrender A/c Dr.	7200	
	To cash A/c		6840
	To Discount Received A/c		360
	(For cash paid to Surrender & discount received)		
Jan 20	Fire insurance Prem. A/c Dr.	200	
	to cash A/c		200
	(For ~~cas~~ fire insurance prem. Paid)		
June 21	Drawings A/c Dr.	825	
	to cash A/c		825
	(Paid for life insurance Prem.		
June 30.	Rent A/c Dr.	600	
	Advertising Exp. A/c Dr.	400	
	Salary A/c Dr.	1200	
	to cash A/c		2200
	(For paid Rent, Advertising Exp. and salary).		

Working notes

Total Balance : ~~8000~~ → 9000

Return → 1800

7200

Discount received → 360

→ 6840

7200 × 5/100 = 360

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Opening Entry

Building ₹ 50000,
furniture ₹ 20000
Debtors ₹ 10000
Creditors ₹ 8000
Bank loan ₹ 4000
capital ₹ 83000
cash ₹ 5000
machinery ₹ 10000

⇒

Building	A/c	Dr.	50000	
furniture	A/c	Dr.	20000	
Debtors	A/c	Dr.	10000	
cash	A/c	Dr.	5000	
Machinery	A/c	Dr.	10000	
To creditors A/c				8000
To Bank loan A/c				4000
To capital A/c				83000

Note
If the credit side is more than the debit side then it will be added to debit side in suspense A/c and if debit side is more than the credit side then it will be added to credit side in capital A/c

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Q1 cash ₹10000, Bank ₹15000, ~~Discount~~ Stock ₹25000, Debtors ₹42000, Creditor ₹22000, capital ₹58000, Bank loan ₹20000.

~~Q2~~

Sol

Cash	A/c	Dr. 10000	
Bank	A/c	Dr. 15000	
Stock	A/c	Dr. 25000	
Debtors	A/c	Dr. 42000	
Suspense	A/c	Dr. 8000	
To Bank Loan A/c			20000
To creditors A/c			22000
To capital A/c			58000

BAD DEBTS

Q Amount is due on chandan is ₹5000 and this amount could not be received

Bad debts A/c Dr. 5000
To chandan 5000

Bad debts recovered :-
chandan A/c Dr. 5000
To B.D. Recovered A/c 5000

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Q S.K & company become insolvent a divident of ₹ 40 paise in a rupee is received and the bal in their A/c was ~~rupees~~ ₹12000

→ ~~Cash~~ ~~A/c~~ $12000 \times \frac{40}{100}$

4800 → cash (recd.)

Amount not recovered 7200 → B.D

cash A/c Dr. 4800 /
Bad debts A/c Dr. 7200 /
To S.K. & company /12000

Depreciation

→ Depreciation A/c Dr.
To Assets A/c

Example charge depreciation on furniture @ 10%, amount of furniture ₹ 15000

Depreciation A/c Dr. 1500 /
To furniture A/c /1500
(for dep. charged on furniture).

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★ Interest on Drawings :-

Drawings A/c Dr.
To Int. on Drawings A/c

Q Charge interest on drawing ₹300

Drawings A/c Dr. 300 /
To Int. on Drawings A/c / 300

★ Interest on capital :-

Int. on capital A/c Dr.
To capital A/c

Q Provide Int. on capital ₹ 960

Int. on capital A/c Dr. 960 /
To capital A/c / 960

★ Expenses on Assets :-

Q Purchase machinery ₹ 35000 and paid freight ₹ 1500, ~~cab~~ carrage ₹ 500 and installation charges ₹ 3000

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7 machinery A/c Dr. 35000
freight A/c Dr. 1500
carriage A/c Dr. 500
Installation charges A/c Dr. 3000 / 40000
to cash A/c

or

machinery A/c Dr. 40000 / 40000
to cash A/c

8 Paid ₹800 by cheque on the repair of office computer.

Repair A/c Dr. 800 / 800
To Bank A/c

Q 11)

Date	Particular	L.F	Dr.	Cr.
2008				
May 1	cash A/c Dr.		200000	
	To capital A/c			200000
	(for ~~purchase~~ business Started)			
May 1	Bank A/c Dr.		150000	
	To cash A/c			150000
	(for cash deposited in bank)			

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may 3	Gopal Dr.	30000	
	Bank A/c Dr.	50000	
	To Sales A/c		80000
	(for sales of goods to Gopal)		
may 6	Purchase A/c Dr.	90000	
	To Bank A/c		60000
	To Sohan		30000
	(for goods purchased from Sohan)		
~~may 9~~	~~Gopal A/c Dr.~~	~~4500~~	
	To Purchases Return A/c		~~4500~~
may 9	Sales Return A/c Dr	5000	
	To Gopal		5000
	(for goods return by Gopal)		
may 11	Bank A/c Dr.	24500	
	Discount allowed A/c Dr.	5500	
	To Gopal		30000
	(for cheque recd. from Gopal)		
may 13	Bank A/c Dr.	50000	
	To Gopal		50000
	(for cheque recd. from gopal deposited in to the bank)		
may 15	Drawings A/c Dr.	7000	
	To cash A/c		4000
	To Bank A/c		3000
	(for income tax & L.I.P paid)		
may 19	Gopal Dr.	24500	
	To Bank A/c		24500
	(for cheque deposited being dish)		

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May 21	cash A/c	Dr.	20000	
	To Bank A/c			20000
	(for cash borrowed from bank)			
May 23	Purchases A/c	Dr.	90000	
	To Discount recd. A/c (2% of 27000)			540
	To Bank A/c			63000
	To cash A/c (27000 - 540)			26460
	(for goods purchased & dis. recd. & 70% payment made).			
May 30.	machinery A/c	Dr.	83000	
	To Bank A/c			80000
	To cash A/c			3000
	(for machinery purchased and carriage and installation charged paid immediately by cash).			

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Working notes

Total Amount paid by Gopal = 30000
Amount recd. from Gopal + 24500
5500

Accounting cycle - Ledger

Illustration 3

Date	Particulars	L.F	Dr. ₹	Cr. ₹
2009				
Apr. 1	Cash A/c Dr		5800	
	Stock A/c Dr		5000	
	Bhushan Dr.		2500	
	Dinesh chander Dr.		3200	
	Furniture A/c Dr.		1600	
	To Laxmi Printers A/c			3600
	To capital A/c (Bal. fig)			14500
	(for business started)			
Apr. 2	Purchase A/c Dr.		9000	
	To Discount recd. A/c (2% of $\frac{60}{100}$ × 9000)			108
	To cash A/c (5400-108)			5292
	To Sat Narain (9000-5400)			3600
	(for goods purchased & 60% amount paid & 2% cash discount received).			

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Apr. 6	cash A/c Dr.	8000	
	Bhushan A/c Dr.	4600	
	To sales A/c		12600
	(for goods sold to Bhushan)		
Apr. 10	Purchases A/c Dr.	3800	
	To Laxmi Printers		3800
	(for goods purchased from Laxmi Printers)		
Apr. 16	Laxmi Printers A/c Dr.	3400	
	To cash A/c		3400
	(for cash paid to Laxmi printers)		
Apr. 18	cash A/c Dr.	1200	
	To sales A/c		1200
	(for goods sold)		
Apr. 25	cash A/c Dr.	7000	
	Dis. allowed A/c Dr.	100	
	To Bhushan		7100
	(for cash received from Bhushan)		
Apr. 30	Salary A/c Dr.	1500	
	To cash A/c		1500
	(for salary paid)		

Dr. Cash A/c Cr.

Date	Particular	L.F.	₹	Date	Particular	L.F.	₹
2009				2009			
Apr. 1	To balance b/d		5800	Apr. 12	By Purchase A/c		5292
Apr. 6	To sales A/c		8000	Apr. 16	By Laxmi Printers		3400
Apr. 18	To sales A/c		1200	Apr. 30	By salary A/c		1500
Apr. 25	To Bhushan		7000				
				Apr. 30	By bal c/d (Bal fig)		11808
			22000				22000

Stock A/c

2009				2009			
Apr. 1	To Balance b/d		5000	Apr. 30	To Trading A/c (Bal. fig.)		5000
			5000				5000

Bhushan

2009				2009			
Apr. 1	To balance b/d		2500	Apr. 25	By cash A/c		7000
Apr. 6	To sales A/c		4600	Apr. 25	By Discount A/c		100
			7100				7100

Dinesh chandar

2009				2009			
Apr. 1st	To balance b/d		3200	Apr. 30	By bal c/d (Bal fig)		3200
			3200				3200

Furniture A/c

Date	Particular	J.F.	₹	Date	Particular	J.F.	₹
2009				2009			
Apr 1	To balance b/d		1600	Apr. 30	By bal. c/d		1600

Laxmi Printers

2009				2009			
Apr. 16	To cash A/c		3400	Apr. 1	By bal b/d		3600
Apr. 30	To Bal c/d (Bal. fig)		4000	Apr. 10	By Purchases A/c		3800
			7400				7400

Capital A/c

2009				2009			
Apr. 30	To bal c/d		14500	Apr. 1	By bal b/d		14500

Purchases A/c

2009				2009			
Apr. 2	To cash A/c		5292	Apr 30	By Trading A/c (Bal fig)		12800
Apr. 2	To Discount A/c		108				
Apr. 2	To Sat Narain		3600				
	To Laxmi Printers		3800				
			12800				12800

Discount A/c

Dr. | Cr.

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009				2009			
Apr. 25	To Bhushan		100	Apr. 2	By Purchases A/c		108
Apr. 30th	To P&L A/c (Tr.)		8				
			108				108

Sat Narain

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009				2009			
Apr. 30	To bal c/d (Bal fig)		3600	Apr. 2	By Purchases A/c		3600
			3600				3600

Sales A/c

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009				2009			
Apr. 30th	To Trading A/c (Tr.		13800	Apr. 6	By cash A/c		8000
				Apr. 6	By Bhushan		4600
				Apr. 18	By cash A/c		1200
			13800				13800

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Salary A/c

Dr. Cr.

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009				2009			
Apr. 30th	To cash A/c		1500	Apr. 30th	By P/L A/c (Tr.)		1500
			1500				1500

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Q.1

Journal

Date	Particulars	L.F.	Dr (₹)	Cr (₹)
2008				
Jan 1	cash A/c Dr		50000	
	Furniture A/c Dr.		30000	
	To capital A/c			80000
	(for business started)			
Jan. 3	Purchases A/c Dr.		15000	
	To cash A/c			15000
Jan. 7	cash A/c Dr.		20000	
	To Sales A/c			20000
Jan. 9	Bank A/c Dr		12000	
	To cash A/c			12000
Jan. 15	machinery A/c Dr		18000	
	To cash A/c			18000
Jan. 18	Purchases A/c Dr.		5000	
	To Bank A/c			5000
Jan. 21	Purchases A/c Dr.		25000	
	To Ishwar			25000
Jan. 24	Amar Dr.		40000	
	To Sales A/c			40000

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Jan. 27	Salary A/c	Dr.	3000	
	To cash A/c			3000
Jan. 29	cash A/c	Dr.	38000	
	To Bimal Loan A/c			38000
	Bank A/c	Dr.	38000	
~~Jan. 30~~	To cash A/c			38000
	or			
	Bank A/c	Dr.	38000	
	To Bimal Loan A/c			38000
Jan. 30	Drawings A/c	Dr.	15000	
	To Bank A/c			15000
Jan. 31	cash A/c	Dr.	2500	
	To Rent A/c			2500

Dr. **Cash A/c** Cr.

Date	Particulars	L.F	₹	Date	Particulars	L.F	₹
2008				2008			
Jan 1	To bal b/d		50000	Jan. 3	By Purchase A/c		15000
Jan 7	To Sales A/c		20000	Jan. 9	By Bank A/c		12000
Jan 31	To Rent A/c		2500	Jan 15	By machinery A/c		18000
				Jan 27	By salary A/c		3000
				Jan 31	By bal c/d (Bal fig)		24500
			72500				72500

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Furniture A/c

Dr. | Cr.

Date	Particular	J.F.	₹	Date	Particular	J.F.	₹
2008	To ~~bal b/d~~		~~30000~~	2008			
Jan 1st	To bal b/d		30000	Jan 31st	By bal c/d (Bal. fig)		30000
			30000				30000

Sales A/c

Dr. | Cr.

Date	Particular	J.F.	₹	Date	Particular	J.F.	₹
2008				2008			
Jan 31st	To ~~Bal c/d~~ Trading A/c		60000	Jan 7	By cash A/c		20000
				Jan 24	By Amar		40000
			60000				60000

Purchases A/c

Dr. | Cr.

Date	Particular	J.F.	₹	Date	Particular	J.F.	₹
2008 Jan. 3	To cash A/c		15000	2008 Jan 31st	By ~~bal c/d~~ trading A/c (Bal fig)		45000
Jan. 18	To Bank A/c		5000				
Jan. 21	To Ishwar		25000				
			45000				45000

Bank A/c

Dr. | Cr.

Date	Particular	J.F.	₹	Date	Particular	J.F.	₹
2008 Jan. 9	To cash A/c		12000	2008 Jan. 18	By Purchases A/c		5000
Jan. 29	To Bimal loan A/c		38000	Jan. 30	By Drawings A/c		15000
				Jan 31	By bal c/d		30000
			50000				50000

Dr. **Capital A/c** Cr.

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2008 Jan 1st	To bal b/d		80000	2008 Jan 31st	By bal c/d		80000

Dr. **Ishwar A/c** Cr.

Jan 31st	To Bal c/d (Bal fig)		25000	Jan 21	By Purchases A/c		25000
			25000				25000

Dr. **Machinery A/c** Cr.

Jan. 15	To cash A/c		18000	Jan 31	By bal c/d		18000

Dr. **Amar A/c** Cr.

Jan. 24	To Sales A/c		40000	Jan. 31	By bal c/d		40000

Dr. **Bimal Loan A/c** Cr.

Jan. 31	To bal c/d		38000	Jan. 29	By bank A/c		38000

Dr. **Drawing A/c** Cr.

Jan. 30	To bank A/c		15000	Jan 31	By bal c/d		15000

Dr. **Rent A/c** Cr.

Jan 31	To bal c/d		2500	Jan 31	By cash A/c		2500

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29/Jan/19

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Trial Balance

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Particular	L.F	Dr. Amount	Cr. Amount
Balance ~~b/d~~			
opening stock		3460	–
purchases		5475	–
purchases return		–	125
capital		–	12500
Drawings		800	–
Salaries		2500	–
Debtors		3800	–
Bank overdraft		–	2850
motor Vehicle		6250	–
Building		7500	–
B/R		3640	–
B/P		–	3000 ~~15450~~
sales		–	15450
Sales return		200	–
Bad debts		125	–
Discount received		–	200
commission		–	375
Rent		782	–
Advertisement		450	–
wages		250	–
cash in hand		650	–
Creditors		–	2500
Int. on bank overdraft		718	–
Insurance Premium		1000	–
		37000	37000

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Trial Balance

Name of Ledger accounts	LF	₹ (Dr.)	₹ (Cr.)
Inventory on 1.4.2018		250000	–
Purchases		650000	–
Sales		–	1000000
Motor Vans		380000	–
Sundry Debtors		150000	–
Building		300000	–
Shop fitting		20000	–
Int. on Bank Overdraft		16000	–
Purchase return		–	10000
Sales return		20000	–
Lighting and heating		18000	–
capital		–	500000
Discount Received		–	2000
Repairs		2500	–
Electricity charges		6500	–
Bank overdraft		–	200000
Rent for Subletting		–	15000
B/R		8000	–
Sundry creditors		–	94000
		1,821,000	1,821000

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Journal Entries

Date	Particular	L.F	₹ (Dr.)	₹ (Cr.)
2009				
Apr. 1	Cash A/c Dr.		10000	
	To capital A/c			10000
	(for business started)			
Apr. 2	Bank A/c Dr.		6000	
	To cash A/c			6000
	(for cash deposited into State bank)			
Apr. 5	Purchases A/c Dr.		1500	
	To Mahabir			1500
	(for brought goods from mahabir)			
Apr. 10	K. Gupta Dr.		650	
	To Sales A/c			650
	(for goods sold)			
Apr. 12	Purchases A/c Dr.		800	
	To cash A/c			800
	(for goods purchased for cash)			
Apr. 17	Mahabir Dr.		1000	
	To cash A/c			990
	To Discount recd. A/c			10
	(for paid cash & Discount recd.)			
Apr. 25	Cash A/c Dr.		625	
	Discount allowed A/c Dr.		25	
	To K. Gupta			650
	(for cash recd. and discount allowed).			

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Apr. 27	Furniture A/c Dr.		300	
	To cash A/c			300
	(for furniture purchased)			
Apr. 29	Mahabir Dr.		50	
	To Purchase return			50
	(for Goods returned)			
Apr. 30	Salary A/c Dr.		300	
	To cash A/c			300
	(for salary paid)			
Apr. 30	Rent A/c Dr.		200	
	To Bank A/c			200
	(for paid rent)			
Apr. 30	Drawings A/c Dr.		600	
	To cash A/c			600
	(for drew cash for personal use).			

Ledger Accounts

Dr. **Cash A/c** Cr.

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009				2009			
Apr. 1	To bal b/d		10000	Apr. 2	By bank A/c		6000
Apr. 25	To K. Gupta		625	Apr. 12	By Purchases A/c		800
				Apr. 17	By Mahabir		990
				Apr. 27	By furniture A/c		300
				Apr. 30	By Salary A/c		300
				Apr. 30	By Drawings		600
				Apr. 30	By bal c/d (Bal fig)		1635
			10625				10625

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capital A/c

Dr. | Cr.

Date	Particular	L.F	₹	Date	Particular	L.F	₹
2009 Apr. 1	To bal b/d		10000	2009 Apr. 30	By bal c/d		10000

Bank A/c

2009 Apr. 2	To cash A/c		6000	2009 Apr. 30	By rent A/c		200
				Apr. 30	By bal c/d (Bal fig)		5800
			6000				6000

Purchases A/c

2009 Apr. 5	To mahabir		1500	2009 Apr. 30	By balance c/d (Bal fig)		2300
Apr. 12	To cash A/c		800				
			2300				2300

mahabir

2009 Apr. 17	To cash A/c		990	2009 Apr. 5	By purchases A/c		1500
"	To Dis. recd. A/c		10				
Apr. 29	To purchase return A/c		50				
Apr. 30	To bal c/d (Bal fig)		450				
			1500				1500

K. Gupta

2009 Apr. 10	To sales A/c		650	2009 Apr. 25	By cash A/c		625
				"	By dis. allowed A/c		25
			650				650

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Sales A/c

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009 Apr. 30th	To bal c/d (~~bal fig~~)		650	2009 Apr. 10	By K. Gupta		600
							10
2009 Apr. 25	To ~~cash A/c~~		25	2009 Apr. 17	By mahabir		15
~~Apr. 30~~	~~To bal c/d (Bal fig)~~			Apr. 30	By bal c/d		
			25				

Discount ~~recd A/c~~

Date	Particular	J.F	₹	Date	Particular	J.F	₹

~~Discount allowed A/c~~

Date	Particular	J.F	₹	Date	Particular	J.F	₹
~~2009 Apr. 25~~	~~To K. Gupta~~		~~650~~	~~Apr. 25~~	~~By cash A/c~~		~~625~~
				~~Apr. 30~~	~~By bal c/d (Bal fig)~~		~~25~~
			~~650~~				~~650~~

Furniture A/c

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009 Apr. 27	To cash A/c		300	2009 Apr. 30	By bal c/d (~~bal fig~~)		300

Purchase return A/c

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009 Apr. 30	To bal c/d (~~bal fig~~)		50	2009 Apr. 29	By mahabir		50

Salary A/c

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009 Apr. 30	To cash A/c		300	2009 Apr. 30	By bal c/d		300

Rent A/c

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009 Apr. 30	To bank A/c		200	2009 Apr. 30	By bal c/d		200

Drawings A/c

Date	Particular	J.F	₹	Date	Particular	J.F	₹
2009 Apr. 30	To cash A/c		600	2009 Apr. 30	By bal c/d		600

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Page

Trial Balance

Name of Ledger Accounts	L.f	₹ (Dr.)	₹ (Cr.)
Cash		2235	–
Capital		–	10000
Bank		5200	–
Purchases		2300	–
Mahabir		–	450
Sales		–	650
Discount		15	–
Furniture		300	–
Purchase Returns		–	50
Salary		300	–
Rent		200	–
Drawings		600	–
		11,150	11,150

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Chapter 7 Accounting cycle - Final Accounts

Illustration 1

Trading A/c
for the year ended 31st march, 2009

Dr. | Cr.

Particulars		₹	Particulars		₹
To opening stock		20000	By sales	160,000	
To Purchase	80000		Less: Sales return	(2000)	158000
Less: (Purchase Return)	(1000)	79000	By closing stock		28000
To wages		9000			
To carriage on purchases		2400			
To manufacturing Expenses		20,500			
To factory rent		1800			
To custom duty		1500			
To Gas, fuel and power		2000			
To Dock. charges		600			
To Gross profit transfer to P/L Account		49,200			
		186000			186000

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(carriage on sales → outward
carriage on purchases → inward)

Date
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Q=(1) Pg. 7.21

Trading A/c
for the year ended 31st march 2009

Dr. | Cr.

Particular	₹	Particular	₹
To opening Stock	6000	By sales 48000	
To Purchases 11500		Less: sales return (600)	47400
Less: Purchase ret. (500)	11000	By Stock at the end	8000
To freight & octroi	500	~~By carriage on sales~~	~~2400~~
To carriage on Purchases	1000		
To factory lighting	600		
To wages	2500		
To Import duty	900		
~~To office~~			
To coal, gas and water	800		
To Gross profit transferred to P/L Account	32100		
	55400		55400

P/L Account

Dr. | Cr.

Particular	₹	Particular	₹
To carriage on sales	2400	By Gross Profit b/d	32100
To office rent	1720		
To Net Profit transferred to capital A/c	27980		
	32100		32100

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Q-12

Solution

P/L A/C

for the year ended 31 march, 2009

Dr.

Particular	₹	Particular	₹
To General Expenses	800	By Gross profit b/d	32100
To charity	200	By sundry receipts	500
To Electric charges	75	By Int. on Investment	600
To Law charges	180	By Discount recd.	490
To Advertisement	420		
To Bank charges	20		
To commission	870		
To rent, rates & taxes	1800		
~~To Int~~ To Indirect Expenses	140		
To printing & stationery	65		
To carriage on sales	900		
To office Expenses	650		
To fire insurance premium	1200		
To Telephone Expenses	600		
To Sales Tax	800		
To Establishment Expenses	700		
To Miscellaneous Expenses	150		
To Traveller's salary	300		
To Repairs	270		
To Net Profit Transferred to capital Account	23650		
	33,690		33,690

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Illustration 4

Trading & P/L Account
for the year ending 31st march, 2003

Dr. | Cr.

Particular	₹	Particular	₹
To opening stock	6800	By sales 110000	
To Purchase 66000		Less: sales ret. (8000)	1,02000
Less: Purchase return (1500)	64500	By closing stock	7000
To wages	2000		
To carriage Inward	1000		
To Gross profit transfer to P/L A/c	34700		
	109000		109000
To Interest on loan	300	By Gross profit b/d	34700
To Bad debts	500	By Discount	500
To Advertising	3500	By miscellaneous Income	700
To carriage outward	2500	By Rent Received	300
To salaries	9000		
To Rent & Insurance	3000		
To General Expenses	3400		
To Net Profit transfer to capital A/c (Bal fig.)	14000		
	36200		36200

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Balance sheet
as on 31 march, 2003

Liabilities		₹	Assets	₹
Bills Payable		2000	cash in hand	2000
Sundry creditors		10000	cash at Bank	3500
Loan		9500	Bills Receivable	6000
capital	30000		Sundry debtors	20000
Less: Drawing	(5000)		Land and Building	12000
	25000		motor Vehicles	10000
Add: Net Profit	14000	39000	closing stock	7000
		60500		60500

(8)

Trading A/c
31st December 2008

Dr. Cr.

Particular		₹	Particular		₹
To Purchases	185000		By sales	255000	
Less: Return outward	5000	180000	Less: R.I	(2500)	252500
To opening Stock		20000	By closing stock		22000
To freight		10300			
To carriage inwards		1000			
To Power		1200			
To Lighting		1000			
To Gross profit transfer to P/L A/C (Bal fig.)		62000			
		274500			274500

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P/L A/c

Dr. | Cr.

Particular	₹	Particular	₹
To carriage outward	300	By Gross profit b/d	62000
To Rent, taxes & insurance	13600	By Interest	1200
To commission	2500		
To Sundry Expenses	8500		
To Salaries & wages	24000		
To Audit fee	700		
~~To Interest~~	~~1200~~		
To Net Profit transfer to capital A/c	12600		
	~~63200~~		~~63200~~
	63200		63200

Balance sheet

Dr. | Cr.

Liabilities		₹	Assets	₹
capital	50000		cash at shop	~~12~~800
Less: Drawings	(3000)		~~Bank balance~~	~~12000~~
	47000		Debtors	40800
Add: Net Profit	12600	59600	Freehold property	21000
Creditors		25000	Investment	10000
Bank balance		12000	closing stock	22000
		96600		96600

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(9)

Trading A/c

Dr.

Particular		₹	Particular		Cr. ₹
To Purchases	215300		By Sales	289600	
Less: Return	(8000)	207300	Less: Return	(10600)	279000
To freight octroi & carriage		16600	~~By closing stock~~		~~7680~~
To coal, gas & Power		58 00			
~~To opening stock~~		~~76800~~			
~~To opening stock~~		~~76800~~			
~~To Horses and carts~~		~~1570~~			
To wage and salaries		9200			
To Gross profit transfer to P/L Account		40100			
		279000			279000
To fire Ins. premium		720	By Gross profit b/d		40100
~~To Business premises~~		~~32000~~	By Rent received		2280
To Printing & Stationery		4800	~~By Loan on mortgage~~		~~2000~~
To Postage & Telegram		380			
To Travelling		2310			
To Depreciation		640			
To General expenses		7540			
To Interest on Loan		1200			
~~To Loan on mortgage~~					
To Net Profit transfer to capital A/c		24790			
		42380			42380

42380, 12590

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Balance sheet

Dr. Cr.

Liabilities		₹	Assets	₹
capital	110000		Bank	7000
Less: Drawings	(9000)		Sundry debtors	34300
	101000	123790	Goodwill	5000
Less: Income tax	(2000)	~~99000~~	Patents	11600
Add: Net Profit	99000+24790	25100	Bills Recivable	870
~~Bank~~ Sundry creditors		~~1000~~	Business premises	32000
Bills Payable		250	Closing stock	7680.00
Loan on mortgage		20000	Horses and carts	1570
		169140		169140

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Chapter 18
Final Accounts with Adjustments

Illustration 5

Dr. Trading & P/L A/C Cr.

Particular	₹	Particular	₹
To wages 8000		By sales	1,25000
To o/s wages 500	8500	By closing stock	10000
To Purchase	75000		
To Gross profit transfer to P/L A/C	51500		
	1,35,000		1,35000
To Salaries 25000		By Gross profit b/d	51500
Less: Prepaid salary (5000)	20000		
To Rent of building 13000			
Less: Prepaid rent (1000) (13000÷13)	12000		
To Dep. on furniture (15000×10%)	1500		
To Bad debts 4500			
Add: Further Bad debts 2500	7000		
To Net Profit transf. to C.A	11000		
	51500		51500

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Balance sheet

Liabilities	₹	Assets	₹
~~Capital 22000~~			
O/S wages	500	Prepaid salary	5000
Creditors	15000	cash	1000
capital 22000		Bank	5000
Add: Net Profit 11000	33000	Debtors 15500	
		Less: Further B.D (2500)	13000
		Furniture 15000	
		Less: Dep. on fur. (1500)	13500
		Prepaid rent	2000
		closing stock	10000
	48500		48500

~~Illustration 9~~ Ques 12 (a)

Trading & P/L A/c

Particular	₹	Particular	₹
To opening stock	8000	By Sales 36000	
To Purchases 22000		Less: Sales Return (1000)	35000
Less: Purchase return (600)	21400	By closing stock	9000
To carriage on purchases	800		
	~~800~~		
	~~44000~~		~~44000~~
To wages 600			
~~less~~ To O/S wages 300	900		
To Gross Profit transf. to P/L Account	12900		
	44000		44000

To Salaries	1200	By Gross Profit b/d	12900
To Discount	200		
~~To Discount~~	~~200~~	~~By discount~~	
To Dep. on furniture	600	By Interest accrd.	500
To Office Expenses 300			
To O/s office Expenses 200	500		
To Dep. on machinery	800		
To Dep. on Building	300		
To Travelling Expenses	400		
To fire Insurance Prem. 600			
Less: Prepaid Insurance (100)	500		
To commission	600		
To Rent & Taxes	2400		
To Net Profit transfer to capital A/c	5300		
	13400		13400

Balance sheet

Liabilities		₹	Assets		₹
O/s office Expenses		200	Prepaid Insurance		100
O/s wages		300	Closing stock		9000
Creditors		8000	cash in hand		1400
capital	25000		Buildings	15000	
Add: Net Profit	5300		Less: Dep. on Bu.	(300)	14700
	30300	30300	Furniture	3000	
			Less: Dep. on fur.	(600)	2400
			machinery	8000	
			Less: Dep. on mac.	(800)	7200
			Debtors		4000
		38800			38800

(B)

Trading & P/L A/c

Particular		₹	Particular	₹
To opening stock		4000	By sales	29000
To wages	10000		By closing stock	1200
Less: To Prepaid wages	(400)	9600	By Gross Loss Trans to P/L A/c	2700
To Purchases		19000		
To carriage charges		300		
		32900		32900
To Gross Loss b/d		2700	By Net loss transf. To capital A/c	4800
To Rent & taxes	900			
Add: To o/s Rent & taxes	100	1000		
To salaries		400		
To Dep. on machinery		700		
		4800		4800

Balance sheet

Liabilities		₹	Assets		₹
Sundry creditors		2800	Bank Balance		3000
~~Fre~~ capital	20000		Sundry debtors		5400
Less: Net loss	(4800)		machinery	7000	
	15200		Less: Dep.	(700)	6300
Less: Drawings	(1800)	13400	closing stock		1200
O/s Rent & Taxes		100	Prepaid wages		400
		16300			16300

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Ques 3

(A) Trading & P/L A/c

Dr. Cr.

Particular		₹	Particular		₹
To Purchases	32400		By sales	88200	
Less: Purchase Return	(2150)	30250	Less: Sales Ret.	(2300)	85900
To carriage		1500	By closing stock		5100
To water and gas		3400			
To opening stock		7300			
To wages & salaries	2500				
Add: o/s wages	700	3200			
To Gross Profit Transf. to P/L Account		45350			
		91000			91000
To Rent	900		By Gross Profit b/d		45350
Add: o/s Rent	300	1200	By Int. earned	390	
To Printing charges	700		~~Add: unearned~~ Int.	(100)	490
Less: Prepaid P. charges	(200)	500			
To Electricity charges		2100			
To Postage		200			
To Legal charges		480			
To Net Profit Transf to cap A/c		41360			
		45840			45840

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Balance sheet

Dr. Cr.

Liabilities		₹	Assets	₹
O/s Rent		300	Cash at Bank	5600
~~capital~~ o/s wages		700	Furniture	19100
capital	86140		Machinery	60000
Less: Drawings	(3400)		Building	35000
	82740		Prepaid Charges	200
Add: Net Profit	41360	124100	closing stock	5100
~~Unearned Interest~~		~~200~~	~~Int. not recd but earned~~ o/s int. earned	100
		125100		125100

(B) Trading & P/L A/c

Particular		₹	Particular		₹
To Purchases	42000		By sales	75000	
Less: Return outward	(1000)	41000	Less: sales Inward	(2000)	73000
To wages		1800	By closing stock		7500
To opening stock		6000			
To Gross Profit Transfer to ~~cap~~ P/L Account		31700			
		80500			80500
To salaries	2500		By Gross Profit b/d		31700
Add: o/s salaries	500	3000			
To General Expenses		500			
To carriage on sales		1200			
To depreciation on mach. @ 10%		1200			
To Net Profit transf. to cap. A/c		25800			
		31700			31700

Balance sheet

Liabilities		₹	Assets	₹
O/s salaries		500	cash in hand	1000
capital	33500		cash at Bank	5000
Less: Drawings	(4000)		closing stock	7500
	29500		machinery 12000	
Add: Net Profit	25800	55300	Less: Dep. on mach. (1200)	10800
creditors		6500	Building	25000
			Patents	3000
			Debtors	10000
		62300		62300

Ques 16)

Trading & P/L A/c

Particular	₹	Particular	₹
To Purchases	200000	By sales	810000
To opening stock	40000	By closing stock	61000
To wages	40000		
~~To office lighting~~	~~4000~~		
To Power	8000		
To Gross profit transf. to P/L A/c	83000		
	371000		371000
To Salaries	12000	By Gross profit b/d	83000
To Dep. on Land & Building	3000	~~By Net loss c/d~~	~~5000~~
To office lighting	4000		
To Prov. for Doubtful Debts @ 10%	5000		
To Rent Paid	8000		
To Int. on cap.	5000		

To General Expenses	5000		
To discount allowed	7000		
To postage & telegram	1000		
To Advertising	9000		
To N.P transf to cap A/c	24000		
	83000		83000

Balance sheet

Liabilities		₹	Assets		₹
creditors		70000	Land & Building	30000	
capital	100000		less: Dep. on L&B	(3000)	27000
Add. N.P	24000		cash		7000
	124000		Petty cash		1000
Add: Int on cap	5000		Debtors	50000	
	129000		less: Prov.	(5000)	45000
Less: Drawings	(30000)	99000	cash at bank		12000
			closing stock		61000
			Bills Recivable		16000
		169000			169000

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Ques 8

Trading & P/L Account

Dr. | Cr.

Particular		₹	Particular		₹
To opening stock		3460	By sales	15450	
To Purchases	5475		Less: sales Ret.	(200)	15250
Less: Purchase Return	(125)	5350	By closing stock		3250
To Gross Profit transfer to P/L Account		9690			
		18500			18500
To Dep. on Loose Tools		1250			
To Dep. on furniture		64	By Gross profit b/d		9690
To depreciation on building		375	~~By Interest recd.~~		
~~To Bad debts~~	~~125~~		By commission recd.		375
~~Add: Bad debts write off~~	~~(100)~~				
	~~225~~				
To Prov. on debtors		210			
~~Add: Prov. for bad debt~~	~~180~~				
	~~915~~				
~~Less: old provision~~	~~(200)~~	~~215~~			
To Advertising		450			
To Interest		118			
To Taxes & Insurance	1250				
Add: o/s taxes	120				
	1370				
Less: Prepaid Insurance	(100)	1270			
To General Expenses		182			
To salaries	3300				
Add: o/s salary	300	3600			
To Bonus fund to staff		1000			
To N.P Transf to cap A/c		946			
		10065			10065

600
375
225

10065

Balance Sheet

Dr. Cr.

Liabilities		₹	Assets		₹
Sundry creditors		2500	Furniture	640	
O/S Taxes		120	Less: Dep. on fur	(64)	576
O/S Salaries		300	Loose Tools		5000
~~Creditors~~ Bank overdraft		2850	~~Add: Revaluat~~	~~5000~~	~~11250~~
Bonus staff		1000	Building	7500	
Capital	12500		Less: Dep. on building	(375)	7125
Add: N.P	946	13446	Sundry debtors	3800	
			Less: B.D w.off	(100)	3515
			Less: Prov. for b.d	(185)	~~3510~~
			~~Bank overdraft~~		~~2850~~
			Closing Stock		3250
			cash in hand		650
			~~Debtors~~		~~3515~~
			Prepaid Insurance		100
		20216			20216

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(17) Trading & P/L Account

Particular	₹	Particular	₹
To Purchases	11400	By sales	14800
To opening stock	2200	By closing stock	15000
To Freight & charges	140		
To Gross Profit			
Transfer to Profit & Loss Account	16060		
	29800		29800
To Dep. on furniture	100	By Gross Profit b/d	16060
To General Expenses	800	By comm. received	550
To Insurance & Tax 500		By Interest recd.	110
Add: o/s Insurance 150		By rent received	200
650		By Accrued Interest	100
Less: Prepaid Tax (500)	150		
To Bad debts 300	860		
Add: Prov. for Bad debts 60	~~809~~		
To Discount Paid	210		
To Salaries 500			
Add: o/s salary 100	600		
To Net Profit transf. to cap A/c	14800		
	17020		17020

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Balance Sheet

Liabilities		₹	Assets		₹
Creditors		1440	cash in hand		320
B/P		~~900~~ 350	cash at bank		1900
O/S Insurance		150	closing stock		15000
O/S salaries		100	Debtors	2000	1940
capital	9000		Less: Prov. for BD	(60)	~~1991~~
Add: Net Profit	14800		Land & Building		3820
	23800		Furniture	1000	
Less: Drawings	(460)	23340	Less: Dep. on fur.	(100)	900
			B/R		300
			Prepaid tax		500
			Accrued Interest		100
		25380			25380

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Unit III

RATIO ANALYSIS

(1) Liquidity Ratio:

(a) current ratio = $\frac{\text{current Assets}}{\text{current Liabilities}}$ ← ideal ratio = 2:1

(b) Liquid ratio / Quick ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$ ← ideal ratio = 1:1

Liquid Assets = All C.A − closing stock − Prepaid Expenses.

Illustration: 1

Solution → current Assets = Stock + Debtors + B/R + short term Investments + Bank + Prepaid Expenses.

→ 150000 + 80000 + 70000 + 80000 + 20000 + 10000

⇒ 410000

→ current Liabilities = Sundry creditors + B/P + O/S Expenses + Provision for taxation + Proposed dividend.

→ 100000 + 40000 + 10000 + 10000 + 15000

→ 175000

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Page

410000
150000
260000

current ratio = $\frac{\text{current Assets}}{\text{current Liabilities}}$

$\Rightarrow \frac{410000}{175000} = \boxed{2.34 : 1}$

⇒ Liquid Assets ⇒ All C.A − closing stock − Prepaid Expenses.

⇒ 410000 − 150000 − 10000

⇒ 250000

Liquid ratio = $\frac{\text{Liquid Assets}}{\text{current Liabilities}}$

$\Rightarrow \frac{250000}{175000} \Rightarrow \frac{10}{7} = \boxed{1.42 : 1}$

Ans

Quest 1 (a)

Sol: current assets = ~~Investment~~ Stock + Debtors + B/R + Prepaid Expenses + Preliminary Expenses + marketable Securities

⇒ 100000 + 40000 + 30000 + 5000 + 25000

⇒ 200000

current Liabilities = Bank overdraft + Sundry Creditors + O/S Expenses + Provision for tax + Proposed dividend.

⇒ 20000 + 45000 + 4000 + 20000 + 10000

⇒ ~~100000~~ 99000

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Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

$\Rightarrow \frac{200000}{99000} \Rightarrow \boxed{2.02:1}$

Ans

⇒ Liquid Assets ⇒ All C.A − closing stock − Prepaid Expenses.

⇒ 200000 − 100000 − 5000

⇒ 95000

⇒ Liquid Ratio ⇒ $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$\Rightarrow \frac{95000}{99000} \Rightarrow \boxed{0.95:1}$

Ans

1(b) current Assets ⇒ cash in hand + Bank + Sundry Debtors + S.T.I + Prepaid Expenses + + Stock

⇒ 15000 + 66000 + 24000 + 24000 + 125000

⇒ 254000

Current Liab ⇒ S.C + B/P + Bank overdraft + O/S Exp. + Dividend Payable

⇒ 70000 + 22000 + 8000 + 6000 + 25000

⇒ 131000

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Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$.

$\Rightarrow \frac{254000}{131000}$

$\Rightarrow$ 1.938 : 1 $\Rightarrow$ 1.94 : 1 Ans

Liquid Assets = C.A − Stock − Prepaid Exp.

$\Rightarrow$ 254000 − 125000 − 24000

$\Rightarrow$ 254000 − 149000

$\Rightarrow$ ₹ 105000

Liquid Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$\Rightarrow \frac{105000}{131000}$

Liquid Ratio $\Rightarrow$ 0.80 : 1 Ans.

(2) Solvency Ratio

(i) Debt Equity Ratio $\Rightarrow$ $\frac{\text{Debt}}{\text{Equity}}$ or $\frac{\text{Long term loans}}{\text{Shareholder's fund or Net worth}}$

Ideal ratio = 2 : 1

(ii) Interest coverage Ratio $\Rightarrow$ $\frac{\text{Net Profit before Interest \& Tax}}{\text{Fixed Interest charges}}$

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Example :

Sol Interest coverag ratio = $\frac{\text{Net Profit before int \& tax}}{\text{Fixed Interest charges}}$

$\Rightarrow \frac{330000}{30000} = \boxed{11 \text{ Times}}$

(iii) Total Assets To Debt Ratio,

$\Rightarrow \frac{\text{Total Assets - fictitious Assets}}{\text{Long term debts}}$

Fictitious Assets → Preliminary Expenses, Share issue expenses, discount on issue of share or debentures, underwriting commission etc.

Long term Debts → Long term loans, Debentures, mortgage loan, bank loan, loan from financial Institution, bonds, public deposit etc.

(iv) Proprietary Ratio → $\frac{\text{Proprietor's fund/Shareholder's fund/Networth}}{\text{Total Assets - fictitious Assets}}$

Proprietor's fund : Eq. sh. capital, Preference share cap, Reserves whether Revenue or cap

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Illustration : 2

(i) **Debt Equity Ratio :**

Debt/Long term Loans → 10% Debentures + Public Deposits + Bank loans

→ 200000 + 100000 + 70000

→ 370000

Equity / Shareholder's fund → Equity sh. cap. + Preference share cap + Reserves + Profit & loss A/c − (Preliminary Expenses + Share Issue Expenses).

→ 300000 + 100000 + 60000 + 50000 − (20000 + 10000)

→ 510000 − (30000)

→ 480000

$$\text{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

$$\rightarrow \frac{\cancel{370000}\ 0.77}{\cancel{480000}\ 1} \rightarrow \boxed{0.77:1}$$

Ans

(ii) **Total Assets to Debt Ratio :**

~~Total Assets =~~

Long term Debts → 370000

Total Assets → Fixed Assets + Investments +

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current Assets - (Preliminary Expenses)

$\Rightarrow$ 600000 + 100000 + 270000 - (20000)

$\Rightarrow$ 970000 - 20000

$\Rightarrow$ 950000

(iii) Proprietary Ratio :) $\frac{\text{Shareholder's fund}}{\text{Fixed Assets - fictitious Assets}}$

$\Rightarrow \frac{48\cancel{0000}}{97\cancel{0000}}$

$\Rightarrow$ 0.49 : 1 Ans

Q12 (i) Debt - Equity Ratio $\Rightarrow \frac{\text{Debt}}{\text{Equity}}$

$\Rightarrow \frac{25\cancel{0000}}{37\cancel{0000}} \Rightarrow$ 0.67 : 1

Debt $\Rightarrow$ mortgage Loan + Bank loan

$\Rightarrow$ 150000 + 100000

$\Rightarrow$ 250000

Equity $\Rightarrow$ Eq. sh. cap. + Pr. sh. cap + R&S - (Preli. Ex + sh. disc)

$\Rightarrow$ 200000 + 100000 + 100000 - (10000 - 20000)

$\Rightarrow$ 400000 - 30000

Equity $\Rightarrow$ ₹ 370000.

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(ii) Proprietary Ratio = $\frac{\text{Shareholder's fund}}{\text{Total Assets - fictitious Assets}}$

$= \frac{370000}{\text{Fixed Assets + current Assets \& Advances}}$

$= \frac{370000}{500000+270000}$

$= \frac{31\cancel{000}}{77\cancel{000}}$

$= \boxed{0.48:1}$ Ans

(iii) Total Assets to Debt Ratio = $\frac{\text{T.A - fictitious Assets}}{\text{Debts}}$

(V) Capital Gearing Ratio :-

$\frac{\text{fixed cost bearing fund or funds bearing fixed financial payment}}{\text{Variable cost bearing fund or Eq. Shareholders fund}}$

Fixed cost bearing fund → Preference sh. capital and long-term loans are included because dividend and interest are paid at fixed cost.

Variable Cost bearing fund → Equity sh. capital and

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Reserves and Surplus are included but fictitious assets such as preliminary expenses, underwriting commission, share issue expenses, ~~underwriting commission, share~~ discount on issue, debit balance of P/L a/c should be deducted.

Illustration 13

Capital Gearing Ratio = $\frac{\text{Fixed cost bearing fund}}{\text{Variable cost bearing fund}}$

$= \frac{\cancel{100000}^{20}}{\cancel{65000}_{13}} = \boxed{1.54:1}$ Ans

Fixed cost bearing fund = 12% Pref. sh. cap. + 15% Deb
= 30000 + 70000 = 100000

Variable cost bearing fund = Eq. sh. cap + cap. Res. + P/L A/c
= 50000 + 5000 + 10000
= ₹65000 Ans

(ii) Quick Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$= \frac{30000}{25000} = \boxed{1.2:1}$

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Liquid Assets = Debtors + Bank = 16000 + 14000
= 30000

Current Liabilities = Creditors + Bank overdraft + Proposed dividend
= 12000 + 8000 + 5000
= ₹ 25000

(iii) Solvency Ratio = $\frac{\text{Debt}}{\text{Debt + Equity}}$ = $\frac{\text{Long term loan}}{\text{Sh. fund + long term loans}}$

= $\frac{70000}{70000 + 95000}$ = $\frac{70000}{165000}$

= $\boxed{0.42:1}$

★ <u>Profitability Ratio or Income Ratio :-</u>

(i) Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Net sales}} \times 100$

G.P = Net sales - cost of Sales
Net sales = Sales - Sales return

(ii) Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Net sales}} \times 100$

Net Sales = Sales - Sales Return
N.P = G.P - office Expenses

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(iii) Operating Profit Ratio = $\frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$

→ O.P = G.P - Administrative Expenses - office(financial) Expenses - Selling and distribution Exp.

Illustration 4,

(i) G.P Ratio = $\frac{\text{G.P}}{\text{Net Sales}} \times 100$

$= \frac{185000}{300000} \times 100 = 61.67\%$

Gross profit = 185000
Net Sales → 300000

(ii) Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$

$= \frac{167000}{300000} \times 100 = 55.6\%$

(iii) Operating Profit Ratio = $\frac{\text{O.P}}{\text{Net Sales}} \times 100$

$= \frac{171000}{300000} \times 100 = 57\%$

O.P = G.P - Administrative Exp - S.E - dis - B.D.
= 185000 - 6000 - 5000 - 2000 - 1000
= 185000 - 14000 = 171000 Ans.

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(4) Operating Ratio = $\frac{\text{COGS + operating Exp}}{\text{Net sales}} \times 100$

⇒ COGS = op. stock + Net Purchases + Direct Exp. (wage, carriage etc) - cl. stock.

or

⇒ COGS = Net Sales - GP

⇒ Operating Exp = office or financial Exp. + Administrative Exp. + selling and Distribution Exp. + Discount + B.D + Interest on short term loans.

(iv) Op. Ratio = $\frac{\text{COGS + op. Exp.}}{\text{Net sales}} \times 100$

$= \frac{115000 + 14000}{300000} \times 100 = \frac{129000}{300000} = \boxed{43\%}$

COGS = Net sales - G.P

= 300000 - 185000

= 115000

Op. Exp. = Administrative Exp + selling Exp. + selling Exp + discount + B.D

= 6000 + 5000 + 2000 + 1000

= 14000.

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Q.4 (i) G.P Ratio = $\frac{G.P}{Net\ Sales} \times 100$

$= \frac{2000000}{5000000} \times 100 = \boxed{40\%}$

(ii) Net Profit Ratio = $\frac{Net\ Profit}{Net\ Sales} \times 100$

$= \frac{840000}{5000000} \times 100 = \boxed{16.8\%}$ Ans

(iii) Operating Profit Ratio = $\frac{Operating\ Profit}{Net\ Sales} \times 100$

$= \frac{800000}{5000000} \times 100 = \boxed{16\%}$

Operating Profit = G.P − (Adm. Exp. + Financial Exp + Selling and dis. exp)

$= 200000 - [101000 + 7000 + 12000]$

$= 200000 - 120000$

$= \boxed{₹\ 80000}$

Ans

~~(iv) Operating~~

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(5) **Return on Investment (ROI) :-**

$$\frac{\text{Profit before Interest, tax \& dividend}}{\text{capital Employed}} \times 100$$

capital Employed = Pref. sh. capital + Eq. sh. capital + Reserve & other undistributed profit + debenture + long term loan − fictitious Assets.

or

capital Employed = fixed Assets + current Assets − current liabilities.

or

C.E. = fixed Assets − working capital

current Assets − current liab = W.C.

Illustration: 5

Profit before Interest & Tax = 80000 (Net Profit after debentures interest but before tax) + 40000 (10% on Debentures : 400000)

= 120000

C.E = ₹400000 (Equity) + ₹100000 (Pref.) + 189000 (Reserves) + 400000 (Debentures) − 5000 (Div. on sh.) = 1084000

$$ROI = \frac{120000}{1084000} \times 100 = \boxed{11.07\%}$$

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Activity or Turnover Ratio

(1) Stock or Inventory Turnover Ratio :-

$$\Rightarrow \frac{\text{Cost of Goods Sold}}{\text{Average stock.}}$$

COGS ⇒ O.S + Net Purchases + Direct Expenses − Closing stock.

$$\text{Average stock} \Rightarrow \frac{O.S + C.S}{2}$$

(2) Debtors Turnover Ratio,

$$\frac{\text{Net credit Sales}}{\text{Average Account Receivable (Debtors + B/R)}}$$

Net credit Sales ⇒ Total sales − cash sales − Sales return.

Average Account Receivable.

$$\Rightarrow \frac{\text{Op Debtors \& B/R} + \text{Cl. Debtors \& B/R}}{2}$$

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Illustration 19

D.T.R = $\frac{\text{Net credit sales}}{\text{Average Account Receivable (Debtors + B/R)}}$

Net credit Sales = Total sales − (cash sales + sales return)

= 1100000 − (230000 + 60000)

= 1100000 − 290000

= 810000

Average Account Receivable

= $\frac{(\text{Opening Debtors \& B/R}) + (\text{Cl. Debtors \& B/R})}{2}$

= $\frac{(69000 + 19000) + (76000 + 16000)}{2}$

= $\frac{88000 + 92000}{2}$

= $\frac{180000}{2}$ = 90000

D.T.R = $\frac{810000}{90000}$ = **9 Times** Ans.

(3) Creditors Turnover Ratio

= $\frac{\text{Net credit Purchases}}{\text{Average Account Payables (Creditors + B/P)}}$

Net credit Purchases

= Total Purchases − cash pur. − Purch. return

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Q16

calculate:

Stock turnover ratio = $\frac{\text{COGS}}{\text{Average stock}}$

COGS ⇒ opening stock + (Purchases − purchase ret) + wages − closing stock

⇒ 18000 + (46000 + 4000) + 14000 − 22000

⇒ 18000 + ~~42000~~ 50000 + 14000 − 22000

⇒ 82000 ~~+ 14000~~ − 22000

⇒ 60000

Average stock ⇒ $\frac{\text{op. stock} + \text{cl. stock}}{2}$

⇒ $\frac{18000 + 22000}{2}$

⇒ $\frac{40000}{2}$ ⇒ 20000

Stock Turnover Ratio ⇒ $\frac{60000}{20000}$ ⇒ 3 Times

Q7 Stock Turnover Ratio:

COGS ⇒ opening stock + Purchases + carriage & freights ~~+ Gross profit~~ − closing stock

⇒ 15000 + 180000 + 5000 ~~+ 14000~~ − 40000

⇒ ~~340000 − 40000~~ 200000 − 40000

⇒ ~~300000~~ 160000

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NS - G.P

Average stock = $\frac{\text{opening stock + closing stock}}{2}$

= $\frac{15000 + 40000}{2}$

= $\frac{55000}{2}$ = 27500

Stock Turnover Ratio = $\frac{\text{COGS}}{\text{A.S}}$

= $\frac{3200000}{275000}$ = $\frac{320}{11}$

= $\frac{1600000}{275000}$ = $\frac{64}{11}$ = 5.82

= 5.82 Times

Ans

8 (i) Gross Profit Ratio:

Gross Profit = Sales - COGS

COGS = Purchases + op. stock - cl. stock

= 169000 + 35500 - 44500

= 204500 - 44500 = 160000

G.P = 200000 - 160000 = 40000

G.P Ratio = $\frac{\text{G.P}}{\text{Net sales}} \times 100$

= $\frac{40000}{200000} \times 100$ = 20%

Ans

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(ii) Stock Turnover Ratio:

COGS = Purchases + opening stock - closing stock
= 169000 + 35500 - 44500
= 204500 - 44500
= 160000

Average stock = $\frac{\text{opening stock + closing stock}}{2}$
= $\frac{35500 + 44500}{2}$
= $\frac{80000}{2}$ = 40000

Stock Turnover Ratio = $\frac{\text{COGS}}{\text{A.S}}$
= $\frac{160000}{40000}$ = 4 Times

Ans

(9) (a) Debtors Turnover Ratio:

Net credit Sales = G. Sales - Sales Returns
= 900000 - 100000 = 800000

Average Account Receivables (Debtors + B/R)
= $\frac{\text{op. Debtors + closing Debtors}}{2}$
= $\frac{83000 + 117000}{2}$
= $\frac{200000}{2}$ = 100000

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Debtors Turnover Ratio = $\frac{\text{Net credit sales}}{\text{Average Account Receivable}}$

$= \frac{800000}{100000} = \boxed{8 \text{ Times}}$ Ans

(b) (i) Gross Profit Ratio:

Gross Profit = Sales − COGS

$= 150000 - 120000 = \boxed{30000}$

Gross Profit = $\frac{\text{Gross Profit}}{\text{Net sales}} \times 100$

$= \frac{30000}{150000} \times 100$

$= \boxed{20\%}$ Ans

(ii) Stock Turnover Ratio:

Average stock = $\frac{\text{op. stock} + \text{cl. stock}}{2}$

$= \frac{27000 + 33000}{2} = \frac{60000}{2}$

$= 30000$

Stock Turnover Ratio = $\frac{\text{COGS}}{\text{A.S}} = \frac{120000}{30000}$

$= \boxed{4 \text{ Times}}$ Ans

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(iii) Debtors Turnover Ratio:

Net credit Sales = 150000
Average Account Receivables =
Debtors + B/R
= 14000 + 6000
= 20000

Debtors Turnover Ratio = $\frac{\text{Net credit sales}}{\text{Average A/c Receivables}}$

= $\frac{150000}{20000}$ = 7.5 = **7.5 Times**

(5) Fixed Assets Turnover Ratio:

Fixed Assets Tur. Ratio = $\frac{\text{COGS}}{\text{Net fixed Assets}}$

N.F.A = Fixed Assets - Depreciation.

(6) capital Turnover Ratio = $\frac{\text{COGS or sales}}{\text{capital Employed}}$

capital Employed = Eq. sh. cap. + Pref. sh. cap + All reserves - fictitious Assets + Long term loan.

C.E = Fixed Assets + W.C.

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Illustration 14

(i) capital Turnover Ratio:

capital Employed = Sh. cap + Reserved Surplus + Long term loan ~~+ 14% Debent~~ + 14% Deb. + Profit & Loss A/c

= 32000 + 4000 + 12000 + 16000 + 12000

= 76000

C.T.R = $\frac{\text{Net Sales}}{\text{Capital Employed}}$

= $\frac{480000}{76000}$ = $\frac{120}{19}$ = 6.32 Times

(ii) working capital Turnover Ratio:

working capital = current Assets − current liab.

C.A = Stock + Debtors + B/R + cash at Bank + cash in hand

= 9000 + 12600 + 4000 + 10500 + 3900

= 40000

~~working capital Turnover Ratio = $\frac{\text{Net sales}}{\text{working capital}}$~~

~~= $\frac{480000}{40000}$ = 12~~

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Current Liab = Sundry cre + B/P + O/S Exp. + Tax Payable + Int. Payable

= 6800 + 2000 + 3200 + 10000 + 2000

= 24000

W.C = C.A - C.L

= 40000 - 24000

= 16000

W.C.T.R = $\frac{\text{Net sales}}{\text{working capital}}$

= $\frac{\cancel{480000}^{30}}{\cancel{16000}}$ = **30 Times**

Ans

(iii) Fixed Assets Turnover Ratio = $\frac{\text{Net sales}}{\text{Net Fix. Assets}}$

Net fixed Assets = Land & Building + P&M + furniture

= 24000 + 27000 + 9000

= 60000

F.A.T.R = $\frac{\cancel{480000}^{8}}{\cancel{60000}_{1}}$ = **8 Times**

Ans

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Q11. Creditors Turnover Ratio:

Average Account Payables:-

~~op stock~~

$$\frac{(\text{op. creditors} + B/P) + (\text{cl. creditors} + B/P)}{2}$$

$$= \frac{(80000 + 15000) + (120000 + 25000)}{2}$$

$$= \frac{95000 + 145000}{2}$$

$$= \frac{240000}{2} = 120000$$

Net credit Purchases = 480000

$$\text{Creditors turnover ratio} = \frac{\text{Net credit Purchases}}{\text{Average Account Payables}}$$

$$= \frac{480000}{120000} = \boxed{4 \text{ Times}}$$

Ans

Q12 (a) Creditors Turnover Ratio:

Average Account payables:

$$= \frac{\text{op. cor.} + \text{cl cor.}}{2} = \frac{50000 + 60000}{2}$$

$$= \frac{110000}{2} = 55000$$

~~Creditors Turnover Ratio = N.Cr / AAP = 400000 / 55000~~

~~Net Purchases = Tot. Purchases − Cash paid to cr.~~

~~= 400000 − 260000 = 140000~~

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Net credit Purchases :-

Total Purchases - cash Paid to cr. - ~~B/R~~ Dis.

$= 400000 - 260000 + 5000$

$= 145000$

Cr. Turn. Ratio $= \frac{N.C.P}{A.A.P}$

$= \frac{\cancel{145000}^{29}}{\cancel{55000}_{11}}$

$= \frac{29}{11} = \boxed{2.63 \text{ Times}}$

Ans

(B) (i) working capital Ratio:

working capital = current Assets - current liab.

current Assets = cash + Debtors + Stock + ~~B/R~~

$= 25000 + 12000 + 8000 + 2000$

$= \cancel{47000}$ 47000

Current Liab = creditors + B/P

$= 12000 + 3000$

$= 15000$

~~W.C = 47000 - 15000 = 32000~~

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W.C.R ⇒ ~~53000~~ / ~~32000~~ ~~53000~~ / ~~32000~~ 1.65 C.A / C.L = ~~47000~~ / ~~15000~~ 3.13:1

⇒ ~~1.65 Times~~ ⇒ 3.13:1

Ans

(ii) Liquid Ratio :- Liquid Assets / current Liab.

Liquid Assets ⇒ Current Assets − (P.P Exp + Cl stock)

⇒ 47000 − (2000 + 8000)

⇒ 47000 − 10000

⇒ 37000

Liquid Ratio ⇒ ~~37000~~ / ~~15000~~ 2.47 / 1 ⇒ 2.47:1

Ans

(iii) Stock Turnover Ratio ⇒ COGS / A.S

COGS ⇒ Sales − (Purchase + Purc. Return)

⇒ 53000 − 34000 + 750

⇒ 53000 − 34750

⇒ ~~87750~~ ~~18250~~ 19750

S.T.R ⇒ ~~19750~~ / ~~8000~~ ~~160~~ 79 ~~395~~ 32 ⇒ 2.46 Times

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(iv) Credit Turnover Ratio ⇒ $\frac{\text{Net cr. Purch.}}{\text{Average Account Payable}}$

N.C.P ⇒ Purchase − Purch. Ret.

⇒ 34000 − 750

⇒ 33250

A.A.C ⇒ Creditors + B/P

⇒ 12000 + 3000

⇒ 15000

C.T.R ⇒ $\frac{33250}{15000}$ ⇒ $\frac{133}{60}$ ⇒ 2.21 Times

(e) Average Payment Period ⇒

$$\frac{A.A.P \times 365}{N.C.P}$$

⇒ $\frac{15000 \times 365}{33250}$ ⇒ $\frac{21900}{133}$

⇒ 133

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(13) (i) current Ratio = $\frac{CA}{C.L}$

C.A = L.A + stock

= 200000 + 50000

= 250000

C.R = $\frac{\cancel{250000}}{\cancel{90000}}$ = $\frac{\cancel{25}\ 2.78}{\cancel{9}\ 1}$

= $\boxed{2.78:1}$ Ans

(ii) Liquid ~~Assets~~ Ratio = $\frac{\text{Liquid Assets}}{C.L}$

= $\frac{200000}{90000}$ = $\frac{\cancel{20}\ 2.22}{\cancel{9}\ 1}$

= $\boxed{2.22:1}$ Ans

(iii) W.C.T.R = $\frac{\text{Net sales or COGS}}{\text{working capital}}$

~~= 1000000~~

working capital = C.A - C.L

= 250000 - 90000

= 160000

$100000 \times \frac{20}{100}$

~~W.C~~ = $\frac{\cancel{1000000}}{\cancel{160000}}$ = $\frac{\cancel{100}}{\cancel{16}}$

COGS = Sales - G.P

= 1000000 - 200000

= 800000

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W.C.TR ⇒ $\frac{800000}{160000}$ ⇒ $\frac{80}{16}$ 5 ⇒ **5 Times**

Ans

(14) (a) ROI ⇒ $\frac{\text{Profit before int., tax \& dividend}}{\text{capital Employed}}$ X100

Profit b. int, t & D ⇒ 47000

capital Employed ⇒ Fixed Assets + C.A − C.L

⇒ 40000 + (90000 + 86000 + 7000) − 76000

⇒ 40000 + (223000 − 76000)

⇒ 40000 + 147000

⇒ 187000

⇒ Eq. sh. cap + Profit + Reserves

⇒ 147000

⇒ $\frac{47000}{147000}$ X100 ⇒ **31.97%**

31.97

Ans

(b) capital Turnover Ratio

⇒ $\frac{\text{Net Sales}}{\text{capital Employed}}$

⇒ $\frac{350000}{147000}$ ⇒ **2.38 Times**

2.38

Ans

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(B) (ii) Capital Turnover Ratio

~~Capital Employed = F.A + C.A - C.L~~
~~= 200000 + (55000 - 30000)~~
~~= 200000 + 25000~~
~~= 225000~~

~~C.T.R = Net Sales / C.E~~ Net sales = Sales - G.P on sales
= 100000 - 25000
= 75000

~~= 100000 / 225000~~

Capital Employed = F.A + C.A - C.L
= 200000 + ((50000 + 10000 + 5000) - 30000)
= 200000 + (65000 - 30000)
= 200000 + 35000
= 235000

C.T.R = Net sales / Capital Employed
= 75000 / 235000 = 0.319 Times

Ans

(i) Current Ratio = C.A / C.L

= 65000 / 30000 = 65/30 = 2.1 = 2.17:1

Ans

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(iii) Debtors Turnover Ratio

$$= \frac{\text{Net Sales}}{\text{Average Trade Receivables}}$$

$$\text{Average T.R} \Rightarrow \frac{(\text{Debtors} + \text{op. stock}) + (\text{Deb.} + \text{cl. stock})}{2}$$

$$\Rightarrow \frac{(50000 + 5000) + (50000 + 10000)}{2}$$

$$\Rightarrow \frac{55000 + 60000}{2}$$

$$\Rightarrow \frac{115000}{2} \Rightarrow 57500$$

$$\text{C.D. T.R} \Rightarrow \frac{75000}{57500} \quad \frac{100000}{50000} \Rightarrow \boxed{2 \text{ Times}}$$

Ans

Additional Practical Questions

16. (i) Stock Turnover Ratio $\Rightarrow \frac{\text{Cost of Goods Sold}}{\text{Average Stock}}$

COGS $\Rightarrow$ Purchases + op. stock + Carriage Inward + ~~Office Exp. + Sell & Dist. Exp.~~ − cl. stock

$\Rightarrow$

Net Profit	100000
Add: Prov. for taxation	160000
Add: Transf. to Gen. Res	14000
	274000

27/03/19

Chapter 13
Fund Flow Statements

Illustration : 8 :

Schedule of changes in working capital

	Previous year	current year	working capital	
			Increase	Decrease
A. Current Assets:				
Stock	9000	7000	—	2000
Debtors	16500	19500	3000	—
cash at Bank	4000	9000	5000	—
Total A.	29 500	35500		
B. current Liabilities	~~9000~~	-		
Creditors	9000	5000	4000	—
Total B	9000	5000	12000	2000
	~~38500~~	~~38500~~		
working capital (A-B)	20500	30500		
Net Increase in working cap.			10000	

Fund flow Statement

Sources of Funds	₹	Application of funds	₹
fund from operations (24500-14500)	10000	Purchase of Plant & mach.	10000
		Increase in w.c (Bal figure)	10000
Issue of share capital	5000		
Raising from Mortgage loan	5000		
	20000		20000

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Q (2) Solⁿ

Schedule of changes in working capital:

	Previous Year	current Year	working capital Increase	decrease
A. current Assets:				
Bills ~~Payable~~ Receivables	90000	98000	8000	–
Inventory (stock)	125000	87000	–	38000
cash	70000	25000	–	45000
Total (A)	285000	210000		
B. current Liabilities:				
Bills Payable	40000	50000	–	10000
creditors	35000	20000	15000	–
Total (B)	75000	70000	23000	93000
~~Net decrease in~~ working cap. (A-B)	210000	140000		~~70000~~
Net decrease in working cap.				70000

(3) calculation of fund from operations :-

Net Profit		246000
Add: ~~operating exp.~~	~~1~~	
Depreciation	50000	
Loss on sale of Land	8000	
Preliminary Exp. written off	5000	
Goodwill written off	15000	
Discount written off	2000	+80000
		326000
Less: Profit on sale of furniture		(23000)
Interest received		(3000)
Funds from operations		300000

18 Calculation of funds from operations:

	₹	₹
Net Income		165000
Add:		
~~Rent paid~~	~~25000~~	
~~Salaries paid~~	~~15000~~	
Provision for depreciation	50000	
~~Commission paid~~	~~5000~~	
Provision for Taxation	150000	
Loss on sale of Investment	10000	
cost of Issue of shares written off	2000	
Provision for legal damages	5000	217000
		382000
Less:		
Profit on sale of vehicle		(3000)
Refund of tax		(2000)
dividend received		(10000)
Funds from operations		367000

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Illustration: 9

Schedule of changes in working capital

	Prev. Year	Current Year	Increase	Decrease
A. Current Assets:				
Sundry debtors	180000	259200	79200	—
Stock	204000	187200	—	16800
~~Bank~~ cash	10200	17200	7000	—
~~cash~~ Bank	30600	50000 ~~15800~~	19400	~~7200~~ —
Total A	424800	513600		
B. Current Liabilities:				
Sundry creditors	70000	100000	—	30000
B/P	14000	27200	—	13200
O/s salary	19200	14400	4800	—
Total B	103200	141600	110400	60000
	~~528000~~			
Working capital (A-B)	321600	372000		
Net Increase in working capital			50400	

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Calculation of fund from operations

Net Profit		21600
Add: Proposed dividend (c.y)	93600 ~~26400~~	
Transfer to General Reserve	24000	
Provision for taxation	76800	
Discount written off	24000	
Preliminary Expenses Amortised	~~7~~200	225600
Fund from operations		247200

Fund flow Statement

Sources of funds	₹	Applications of fund	₹
~~Issues~~			
Issues of share capital	240000	Redemption of Pref. sh. @13.5%	120000
Fund from operations	247200		
Sale of factory Building	120000	Purchase of machinery	242400
		Fixed Deposits in bank	60000
		Proposed dividend Payment	67200
		~~Discount of~~ Taxation Payment	67200
		Increase in w.c	50400
	607200		607200

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Illustration : 14

Schedule of changes in working capital

Particular	Previous Year	Current Year	Increase	Decrease
A) C.A.				
Stock	22000	26000	4000	-
Debtors	36000	39000	3000	-
Bank	4000	5000	1000	-
Total (A)	62000	70000		
B) C.L				
Creditors	37400	42000	-	4600
Total (B)	37400	42000		
W.C = A-B	24600	28000		
Net Increase in W.C			3400	

Fixed Assets A/c

To op. bal b/d	93400	By Depreciation A/c	23400
To cash A/c (Purchases)	96000		
Bal fig.		By closing bal c/d	166000
	189400		189400

Computation of fund from operations

	₹	₹
Net profit (30000-20000)		10000
Add: Non fund items:		
Transfer to Gen reserve	5000	
Depreciation of F.A	~~2300~~ 23400	
Preliminary Exp. written off	1000	
Dividend Paid	20000	49400
fund from operations		59400

Fund flow Statement

Sources	₹	Application	₹
fund from operations	59400	Dividend Paid	20000
Issue of shares	40000	Purchase of F.A	96000
Issue of debentures	20000	Net Increase in w.c changes	3400
	119400		119400

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★ Illustration 12

Trading & P/L A/c

Particular		₹	Particular		₹
		carriage 800			
To Opening stock		15000	By Sales	120000	
To Purchases:	87200		Less: Return Inw.	(2000)	118000
Less: Return outward	(1000)		By closing stock	~~118000~~	25000
	86200				
Less: Stock burnt by fire	(5000)				
	81200				
Less: Goods dist as free sample	(1500)				
	79700				
Less: ~~for~~ Drawing (Per. use)	(1200)				
	78500				
Less: Goods give as charity	(800)				
	77700	77700		26700	
To Freight & duty		2000			
To Gross Profit trans to P/L A/c		47500			
		143000			143000
To Special Rebates		800	By G.P B/d		47500
To carriage outward		200	~~By van collected~~		~~1000~~
To Trade Expenses		400	By Special rebates		1200
To Lighting		500	By Rent ~~Rec~~	1000	
To Salaries		21300	Add: Rent Recd.	200	1200
To Bank loan Int	900	~~10000~~			
Add: O/S ~~Rent~~ Int.	300	1200			
To free Samples		1500			
To Charity		800			
To Net Profit transfer to capital A/c (bal fig)		23200			
		49900			49900

Balance sheet

Liabilities		£	Assets	£
VAT collected	10000		Closing stock	25000
Less: VAT Paid	(6000)	4000	Sundry debtors	15000
Sundry creditors		9700	Furniture	9200
12% Bank loan	10000		Freehold Property	20000
Add: o/s Int	300	10300	Rent Receivable	200
capital:	70000		Insurance comp.	5000
Add: Net profit	23200		cash	15800
	93200		Plant & mach.	25000
Less: Life Insurance Prem. (Drawn)	(800)			
	92400			
Less: Drawing of goods	(1200)	91200		
		115200		115200

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National Accounting Standards

AS-1 → Disclosure of Accounting Policies
AS-3 → Cash flow Statements.
AS-6 → Depreciation Accounting
AS-10 → Accounting for fixed Assets
AS-13 → Accounting for Investments
AS-20 → EPS
AS-28 → Loss of Assets.

AS ↑ ↓ AJ

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Cost of Debts

(1) Cost of Irredemable Debts.

(i) Before tax

$$k_d = \frac{\text{Rate of Interest}}{\text{Net Proceeds (N.P)}} \times 100$$

k_d = cost of debts.

(ii) After tax

$$k_d = \frac{\text{Rate of Int}}{\text{Net Proceeds}} \times 100 (1 - \text{Tax rate})$$

(2) Cost of Redemmable Debts

I = Interest
MV = Maturity Value
n = no. of years
NP = Net Proceeds

(i) Before tax

$$k_d = \frac{I + \frac{MV - NP}{n}}{\frac{MV + NP}{2}} \times 100$$

(ii) after tax

$$k_d = \frac{I + \frac{MV - NP}{n}}{\frac{MV + NP}{2}} \times 100 (1 - \text{Tax rate}).$$

- Liquidity Ratios
- Solvency Ratios
- Profitability Ratio
- Activity or turnover Ratio

① Liquidity Ratio →

(a) current Ratio
(b) Liquid Ratio

Liquid Assets = ~~opening stock - (~~
All current Assets - (closing stock + Prepaid Expenses)

② Solvency ratio

(a) Debt to Equity Ratio
(b) Int. coverage ratio → $\frac{\text{N.P before Int. \& tax}}{\text{Fixed Int. charges}}$
(c) Total Assets to debt ratio
(d) Proprietary Ratio → $\frac{\text{Shareholder's fund}}{\text{Total Assets}}$

(e) capital Gearing ratio = $\frac{\text{fixed cost bearing fund}}{\text{Variable cost bearing fund}}$

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(3) Profitability Ratio

(a) Net Profit ratio = $\frac{\text{Net Profit}}{\text{Net sales}} \times 100$

(b) Gross Profit = $\frac{G.P}{N.S} \times 100$

(c) op. profit ratio = $\frac{O.P}{N.S} \times 100$

(d) operating ratio = $\frac{\text{COGS} + \text{op. Exp}}{\text{Net Sales}} \times 100$

(e) ROI ~~[illegible]~~ = $\frac{\text{profit before Int, tax \& dividend}}{\text{Capital Employed}} \times 100$

return on investment

(4) Activity or Turnover Ratio

(a) Inventory = $\frac{\text{COGS}}{\text{AS}}$

(b) Debtors = $\frac{\text{Net cr. sales}}{\text{Average Trade Receivables (Dr's + B/R)}}$

(c) Creditors = $\frac{\text{Net cr. Purchases}}{\text{A.T.P (Cr. + B/P)}}$

(d) Fixed Assets T.R = $\frac{\text{COGS}}{\text{Net fixed Assets}}$

(e) capital = $\frac{\text{COGS}}{\text{cap. Employed}}$

COGS = op stock + Net Purchase + Direct Exp − cl stock

(f) working cap. = $\frac{\text{Net Sales}}{\text{working capital}}$

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Objectives of Account Receivables:

(i) Promoting sales
(ii) Increasing profits
(iii) meeting competitions

Objectives of Inventory mgt

(i) Ensuring continuous supply of material
(ii) Controlling production level.
(iii) minimizing the wastages
(iv) Efficient service to customers
(v) minimizing the carrying costs.

~~Objectives of cash Mgt.~~

factors determining the size of the Investment in Receivables:

(i) Volume of sales
(ii) Terms of sales
(iii) Credit policy
(iv) Period of credit
(v) cash discount
(vi) facility of discounting Bills.

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Page

274000
25000
299000

Chapter 14 Cash flow Statement

(4) cash flow from operating Activities:

Net Profit before tax & Extraordinary items	~~100000~~	274000 ~~100000~~
Adjustment of: Non-cash & Non-operating items		
Add: Depreciation on F.A	~~20~~ 20000	
write off Prel. Exp	10000	
Loss on sale of furniture	1000	31000
Less:		
Profit on sale of mach.		(6000)
operating Profit before working cap. changes		~~325000~~ 299000
~~Add~~		
Add: Dec in C.A and Inc in C.L:		
creditors & B/R	13000	13000
		~~338000~~ 312000
Less: Inc in C.A and Dec. in C.L		
Debtors	6000	
B/P	4000	
PP Exp	200	(10200)
		~~328000~~
cash flow from operating Activities		301800

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(5) Calculation of cash flow from operating activities:

Net Profit before int, tax & dividend (Proposed dividend + Retained Profit)		220000
Adjustment of non-cash & non-operating Items:		
Add: Depreciation	12000	12000
Operating Profit before working cap. changes		232000
Add: Dec. in C.A & Inc. in C.L		
Debtors ~~8000~~	8000	
Bills payables	25000	
	~~33000~~	33000
		265000
Less: Inc in C.A & Dec. in C.L		
Stock	(40000)	
~~Cash~~	~~(15000)~~	
Creditors	(15000)	(55000)
	~~(30000)~~	~~3000~~
		~~235000~~
Cash flow from operating Activities.		210000

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Illustration : 9

Patents A/c

Dr.		Cr.	
To opening balance	280000	By Depreciation A/c	40000
To profit on sale of patent	20000	By cash A/c (Sales) (Bal fig.)	100000
		By balance c/d	160000
	300000		300000

Machinery A/c

Dr.		Cr.	
To opening bal b/d	1020000	By cash A/c (sales)	50000
To cash A/c (Purchases) (Bal fig.)	440000	By Depreciation A/c	140000
		By loss on sale of machinery	30000
		By closing bal c/d	1240000
	1460000		1460000 ~~1430000~~

10% Long term Investment A/c

To opening bal b/d	60000	By cash A/c (sales) (Bal fig)	100000
To cash A/c (Purchases)	180000		
To Profit on sold of Inv.	40000		
		By closing bal c/d	180000
	280000		280000

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Calculation of Cash flow from Investing Activities

Purchases of Goodwill	(200000)	
Purchases of Machinery	(440000)	
Purchase of 10% long term Inv.	(180000)	(820000)
Sales of Patents	100000	
Sales of 10% long term Invest.	100000	
Sales of Machinery	50000	
Interest on Investment @10%	6000	
Dividend received (10% on 100000)	10000	
Rent received	30000	296000
Cash used in Investing Activities		(524000)

Q.16 ~~Calc~~

Plant & Machinery A/c

To opening balance b/d	30000	By cl. bal c/d	32000
To cash A/c (Purchases) (Bal fig.)	2000		
	32000		32000

Prov. for Depreciation A/c

To Bal c/d (cl.)	15000	By opbal b/d	12000
		By Dep. A/c (Bal fig.)	3000
	15000		15000

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calculation Cash flow from Investing Activities:

Purchases of Plant and Machinery	(2000)
Cash used in Investing Activities	(2000)

7 Computer A/c

To op. bal b/d	60000	By Dep. on comp A/c	6000
		By cash A/c (sales) (Bal fig)	4000
		By cl. bal c/d	50000
	60000		60000

calculation of cash flow from Investing Activity

Sale of computer	4000	
cash flow from Investing Activity		4000

8 Investment A/c

To op. bal b/d	400000	By cash A/c (sales)	100000
To profit on sales of Inv.	40000	(Bal fig.)	
		By cl. bal c/d	340000
	440000		440000

calculation of cash flow from Investing activities

Sales of Investment	100000
cash flow from Investing Activities	100000

9 cash flow from (used in) Investing Activity

Purchase of Building	(400000)	
Purchase of Investment	(200000)	
Purchase of Goodwill	(100000)	(700000)
Sold of Building	200000	
Sold of Investment	300000	
Sales of Trade marks	150000	
Interest received on Investment	10000	
Dividend recd. on Investment	5000	
rent received on ~~land~~ plot of land	20000	685000
Net cash used in Investing Activity		(15000)

10 ~~Net~~ calculation of cash flow from financing Activities:

Proceed from Issue of Eq. sh. cap. + 10% Prem.	220000 ~~200000~~	
Red. of 12% Pref. sh. cap @ 10% Prem.	(110000)	
Issue of 10% debentures at discount	190000 ~~200000~~	
Dividend Paid on old. Pref. sh.	(48000)	
Interest Paid on old. deb.	(30000)	
underwriting comm. Paid on Eq. sh.	(12500)	209500
Net cash flow from financing Activity		209500

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Illustration : 13

Calculation of Net Profit before tax and Extraordinary Items:

Retained Earnings (35000-25000)	= 10000	
Add: Transfer to General Reserve	5000	
N.P =	15000	

Cash flow Statement

A. Cash flow from operating activities:		
Net Profit before tax & Ex. or. Items	15000	15000
Adjustment of Non-cash & Non-operating Items:		
Add: Goodwill written off	10000	
Interest on 9% loan	4500	
operating Profit before wc. changes.	29500	
Add: Dec in C.A & Inc in C.L		
Creditors	4000	
O/S Expenses	3500	
	37000	
Less: Inc. in C.A & Dec. in C.L		
Inventories (Stock)	(15000)	
Debtors	(14000)	
B/R:	(6000)	
Net cash flow from operating Act.	2000	2000
B. Cash flow from/(used in) Investing Act:		
Purchase of fixed Assets	(45000)	
Net cash used in Investing Activities	(45000)	45000

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C. Cash flow from/(used in) financing Activities:		
Issue of shares	25000	
Proceeds from 9% Loan	25000	
Interest Paid	(4500)	
	45500	45500
D. Net Increase in cash & cash equivalents (A+B+C)		2500
Add: opening cash & cash Equivalents (S.T.I + cash + Bank)		5000
closing cash & cash Equivalents		7500

Illustration: 16

Working notes:

calculation of Net Profit before tax & Extraordinary Items:

Profit as per P/L Account	100000
Add: Proposed Dividend	100000
N.P before tax & Extraordinary items	200000

Fixed Assets A/c

To op. bal b/d	600000	By Depreciation A/c	20000
To Cash A/c (Purchases)		By cash A/c (Sales)	5000
(Bal. figure)	356000	By P/L A/c (loss on sale of mach.)	1000
		By cl. bal c/d	900000
	956000		956000

cash flow Statement
for the year ended 31-12-2008

A.	cash flow from/(used in) operating Activities:	
	Net Profit before tax & Extraordinary Items	200000
	Adjustment of Non-cash & Non-operating Items:	
	Add: Depreciation on fixed Assets	50000
	loss on sale of machinery	1000
	misellaneous Exp. written off	50000
	operating profit before w.c changes	301000
	Add: Dec in C.A and Inc in C.L:	
	current liabilities	50000
		351000
	Less: Inc in C.A and Dec in C.L:	
	current Assets	(200000)
	cash flow from operating Activities	151000 151000
B.	cash flow from/(used in) Investing Activities:	
	Sales of fixed Assets	5000
	Purchases of fixed Assets	(356000)
	cash used in Investing Activities	(351000) (351000)
C.	cash flow from/(used in) financing Act:	
	Issue of share capital	250000
	dividend paid	(50000)
	cash flow from financing Activities	200000 200000
D.	Net cash flow (A+B+C)	

5600
1500
800

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Working notes

calculation of Net Profit before tax & Extraordinary Items:

Profit as per P/L Account	800
Add: Transfer to General Reserve	5000
Provision for taxation	1400
Net Profit before tax & ext. items	7200

10000
3000
7000
5500
1500

Machinery A/c

To opening bal b/d	32000	By ~~sales~~ cash A/c (sale of mach)	5500
To ~~Pur~~ cash A/c (Purchases) (Bal fig).	23000	By loss on sale of mach.	1500
		By depreciation on machinery	7000
		By closing bal c/d	41000
	55000		55000

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Cash Flow Statement

for the year ended 31 Dec 2009

A. Cash flow from/(used in) operating Activities:		
Net Profit before tax & Extraordinary items	7200	
Adjustment of non-cash & Non-operating Items:		
Add: Depreciation on machinery	7000	
loss on sale of machinery	1500	
Goodwill Amortised of	2000	
Interest on 9% Debentures	2250	2250
Less: Interest on 10% Investments	(300)	(300)
operating Profit before w.c changes	19650	
Add: Dec in C.A & Inc. in C.L:		
O/S Rent	500	
Sundry creditors.	3500	
	23650	
less: Increase in current Assets:		
Sundry debtors	(11000)	
Stock in Trade	(1500)	
cash generated from operating Activities	11150	
less: Payment of tax (Prev year)	(1200)	
cash flow from operating Activities	9950	9950
B. cash flow from/(used in) Investing Activity:		
Purchase of machinery	(23000)	
Sale of machinery	5500	
Purchase of 10% Investments	(5000)	
Interest on Investment	300	
Underwriting commission	500	

cash used in Investing Activities	(21700)	(21700)
C. cash flow from/(used in) financing Activities:		
Issue of share capital	5000	
Issue of 9% Debentures	10000	
Interest on 9% Debentures Paid	(2250)	
net cash flow from financing Act.	12750	12750 A
D. Net ~~ca~~ Increase in cash & cash Equivalents (A+B+C)	~~1000~~	1000
Add: opening cash & cash Equivalents	~~12000~~	12000
	~~13000~~	
closing cash & cash Equivalents		13000

END

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