

Unit - IIAccounting cycle - JournalDefinition of Accounting :-

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

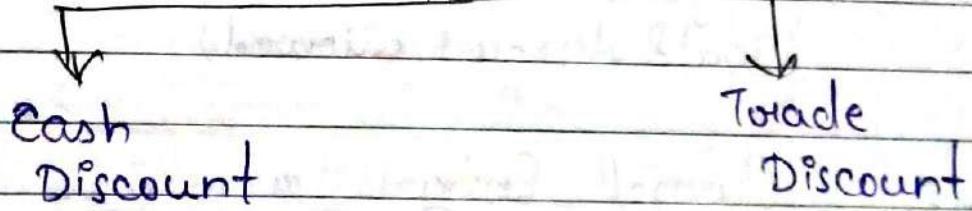
Q Journal Entry

- 2005
- Apr. 1 Ram started business with cash ₹7000.
 - 4 2 Purchase furniture for cash ₹9000
 - 4 3 Purchase good for cash ₹30000.
 - 4 4 Brought good from Naresh ₹25000
 - 4 6 Sold goods for cash ₹22000
 - 4 8 Sold goods to Ramlal for ₹15000.
 - 4 25 Received commission ₹250
 - 4 26 Paid wages in cash ₹3000
 - 4 27 Paid salary to Madan ₹1000
 - 4 29 Withdraw cash for personal use ₹2000
 - 4 30 Brought typewriter in cash ₹6000 & paid rent ₹800.

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

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Apr. 29	Drawings A/c To cash A/c (Being cash withdrawn for personal use)	Dr.	2000	2000
Apr. 30	Typewriter A/c To cash A/c (for Typewriter bought)	Dr.	6000	6000
Apr. 30	Rent A/c To cash A/c (Being Rent paid)	Dr.		

Discount



(f) Cash Discount %

Example: Received cash from Ramlal £ 980 & discount allowed £ 20

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

(for cash recd. & discount allowed).

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

Harilal A/c To Discount A/c To Cash A/c (Four cash Paid & Discount received).	Dr. 4000 100 3900
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(2) Trade Discount

→ Sold goods of ₹ 15000 ^{to Vinod} and 20% Trade discount allowed.

Cash A/c To Sales A/c (Four goods sold to Vinod & discount allowed)	Dr. 12000 12000
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Q7 Journal Entry + Journalise

2015

- Jan. 1 Ganesh started business ₹ 75000
- 4 2 Purchase furniture ₹ 7000
- 4 3 Brought Goods from Varun ₹ 25000
- 4 5 Sold Good to Raju ₹ 36000
- 4 10 Paid cash to Varun ₹ 8000
- 4 15 Received cash from Raju ₹ 20000

- Jan. 20 Brought Stationary £ 5000
 • 4.22 commission Recd. £ 1800
 4.28 Paid rent £ 2000
 4.29 Purchase food from Ram for cash £ 9000
 4.29 Brought machinery from Iohan £ 15000.
 4.29 Paid Salary £ 1500
 4.30 withdrew Cash for Personal use £ 5000.

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

Jan.15	cash	A/c	Dr.	20000	
	To Raju				20000
	(for cash received)				
Jan.20	Stationery	A/c	Dr.	5000	
	To cash A/c				5000
	(for Stationery 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)				

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Journal
Compound Entry

2018

- June 1 Ram started business with cash £16000, machinery £30000 & furniture £15000.
- 4 2 Purchase good for cash £28000
- 4 10 ~~Sold good to Rammath~~ ^{Received cash from} £8850 in full settlement of his account.
- 4 13 Sold good to Rammath of least price £15000 at trade discount 10%.
- 4 7 Rammath return goods worth £5000
- 4 12 Purchase goods from Surender of £10000 less 10% trade discount.
- 4 15 Return goods to Surender of £2000.
- 4 18 Clear the account of Surender by paying cash under discount 5%.
- 4 20 Paid fire insurance premium £200
- 4 21 Paid for Ram life insurance premium £825.
- 4 30 Paid Rent £600, Advertising Exp. £400 & salary £1200.

Total balance of Ramnath 13500
 Return 5000 $\times \frac{10}{100}$ 4500
 Paid in full settlement Date 9/6/2015
 Discount allowed \rightarrow Goods 8850
 150 discount

Journal Entry

Date	Particular	Dr.	Cr.
		L.F. Amount	Amount
2015			
June 1 st	Cash A/c Dr.	60000	
	Machinery A/c Dr.	30000	
	Furniture A/c Dr.	15000	
	To Capital A/c		
	To capital A/c (for business started)		10500
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	Swender Alc.	Dr.	1800	
	To purchases return Alc (for goods return to Swender)		2000	1800 2000
Jan 18.	cash Swender Alc	Dr.	7200	
	To cash Alc			6840
	To discount received Alc (for cash paid to Swender & discount received)			360
Jan 20	Fire insurance prem. Alc	Dr.	200	
	To cash Alc			200
	(for cash fire insurance prem. Paid)			
June 21	Drawings Alc	Dr.	825	
	To cash Alc			825
	Paid for life insurance Prem.			
June 30.	Rent Alc	Dr.	600	
	Advertising Exp. Alc	Dr.	400	
	Salary Alc	Dr.	1200	
	To cash Alc			2200
	(for paid Rent, Advertising Exp. and salary).			

Working notes

Total Balance	8000	9000	
Return	1800		7200
			360
Discount received	360		6840

Opening Entry

Building £ 50000,

furniture £ 20000

Debtors £ 10000

Creditors £ 8000

Bank Loan £ 4000

Capital £ 3000

Cash £ 5000

Machinery £ 10000

⇒ Building	Alc	Dr.	50000
furniture	Alc	Dr.	20000
Debtors	Alc	Dr.	10000
Cash	Alc	Dr.	5000
Machinery	Alc	Dr.	10000
	To Creditors	Alc	8000
	To Bank Loan	Alc	4000
	To Capital	Alc	83000

Note

If the credit side is more than the debit side then it will be added to debit side in suspense Alc and if debit side is more than the credit side then it will be added to credit side in capital Alc

Q1 cash £10000, Bank £15000, ~~discount~~
 Stock £25000, Debtors £49000,
 Creditor £22000, Capital £58000,
 Bank loan £20000.

sol

Cash	A/c	Dr. 10000
Bank	A/c	Dr. 15000
Stock	A/c	Dr. 25000
Debtors	A/c	Dr. 49000
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 it

chandan	A/c	Dr. 5000
To B.D. recovered A/c		5000

Q S.K & company become insolvent
a dividend of £ 40 paise in a
rupee is received and the bal
in their A/c was ~~reduced~~ £ 1200

→ Cash Dr. $12000 \times \frac{40}{140}$
 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).

* 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, less carriage
£ 500 and installation
charges £ 3000

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

Dr.

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

8 Paid £800 by cheque on the repair
 of office Computer.

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

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

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 19	Sales Return A/c	Dr.	5000
	To Gopal		5000
	(for goods return by Gopal)		
May 21	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)		

May 21	cash A/c To Bank A/c (for cash borrowed from bank)	Dr.	20000 20000
May 23	Purchases A/c To Discount recd. A/c (21. of 27000) To Bank A/c To cash A/c (27000 - 540)	Dr.	90000 540 63000 26460
	(for goods purchased & dis. recd. & 7% payment made).		
May 30.	machinery A/c To Bank A/c To cash A/c	Dr.	83000 80000 3000
	(for machinery purcha- sed and carriage and installation charged paid imm- ediately by cash)		

Working notes

Total amount paid by Gopal	₹ 30000
Amount recd. from Gopal	+ ₹ 24500
	5500
	<u> </u>

Illustration 3 Accounting cycle - Ledger

Date	Particulars	L.F	Dr.	Credit
2009				
April 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)			
April 2	Purchase A/c Dr. 9000			
	To Discount recd. A/c $(2\% \text{ of } \frac{6\%}{100} \times 9000)$ 108			
	To cash A/c (5400 - 108) 5292			
	To Sat Narain (9000 - 5400) 3600			
	(Your goods purchased & 60% amount paid & 2% cash discount received).			

Apr. 6	cash	Ac	Dr.	8000
	Bhushan	Dr.	Dr.	4600
	To sales Ac			12600
	(for goods sold to Bhushan).			
Apr. 10	Purchases	Ac	Dr.	3800
	To Laxmi Printers			3800
	(for goods purchased from Laxmi Printers)			
Apr. 16	Laxmi Printers	Ac	Dr.	3400
	To cash Ac			3400
	(for cash paid to Laxmi Printers)			
Apr. 18	cash	Ac	Dr.	1200
	To sales Ac			1200
	(for goods sold)			
Apr. 25	cash	Ac	Dr.	700
	Dis. allowed Ac	Dr.		100
	To Bhushan			7100
	(for cash received from Bhushan)			
Apr. 30	Salary	Ac	Dr.	1500
	To cash Ac			1500
	(for salary paid)			

Dr.

Cash A/c

Cr.

Date	Particular	Dr. ₹	Particular	Credit ₹
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 Printing	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 5000 (Bal. fig.)
	5000
	5000

Bhushan

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

Dinesh chandar

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

Furniture A/c

Date	Particular	1	2	Date	Particular	3
2009				2009		
Apr. 1	To balance b/d	<u>1600</u>		Apr. 30	By bal c/d	<u>1600</u>
					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. figs)	4000		Apr. 10	By purchases	3800
		<u>7400</u>				<u>7400</u>

Capital A/c

Date	Particular	1	2	Date	Particular	3
2009				2009		
Apr. 30	To bal c/d	<u>14500</u>		Apr. 1	By bal b/d	<u>14500</u>

Purchases A/c

Date	Particular	1	2	Date	Particular	3
2009				2009		
Apr. 2	To cash A/c	5292		Apr. 30	By Trading A/c (Bal figs)	<u>12800</u>
Apr. 2	To Discount A/c	108				
Apr. 2	To Smt Narayan	3600				
	To Laxmi Printers	<u>3800</u>				
		<u>12800</u>				<u>12800</u>

Discount A/c

Dr.

Cr.

Date	Particular	₹	Date	Particular	₹
2009			2009		
Apr. 25	To Bhushan	100	Apr. 2	By Purchases A/c	108
Apr. 30 th	To Pal A/c (Dr.)	8			
		<u>108</u>			<u>108</u>

Sat Narain

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

Sales A/c

Date	Particular	₹	Date	Particular	₹
2009			2009		
Apr. 30 th	To Trading A/c (Dr.)	13800	Apr. 6	By cash A/c	8000
			Apr. 6	By Bhushan	4600
			Apr. 18	By cash A/c	1200
		<u>13800</u>			<u>13800</u>

Salary A/c

Date	Particular	Dr	Cr	Date	Particular	Dr	Cr
2009 Abru. 30 th	To cash A/c	1500		2009 Apr 30 th	By P/L A/c (Tr.)		1500
		1500					1500

D+1Journal

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

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.P	₹	Date	Particulars	I.F	₹
2008			2008				
Jan. 1	To bal b/d	50000		Jan. 31	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	

Dr.			Furniture A/c			Cr.		
Date	Particular	T. F	£	Date	Particular	T. F	£	
2008	To bed H/c		30000	2008				
Jan 1st	To bal b/c/d		30000	Jan 31st	By bal c/d (Bal. fig)		30000	
			30000				30000	

Dr.			Sales A/c			Cr.		
Date	Particular	T. F	£	Date	Particular	T. F	£	
2008				2008	B			
Jan 31st	To Trading A/c		60000	Jan 7	By cash H/c		20000	
	To Bal c/d			Jan 24	By Amar		40000	
			60000				60000	

Dr.			Purchases A/c			Cr.		
Date	Particular	T. F	£	Date	Particular	T. F	£	
2008				2008				
Jan. 3	To cash A/c		15000	Jan 31st	By Trading A/c		45000	
Jan. 18	To Bank A/c		5000		By bed H/c (Bal fig)			
Jan. 21	To Ishwar		25000				45000	
			45000					

Dr.			Bank A/c			Cr.		
Date	Particular	T. F	£	Date	Particular	T. F	£	
2008				2008				
Jan. 9	To cash A/c		12000	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.

Date
2008
Jan 1stParticular
To bal b/c/d

capital A/c

F. F. date Particular
2008
80000 Jan 31st By bal c/c/dCr.
F
80000

Dr.

Jan 31st

To Bal c/c/d
(Bal fig)Ishwar A/c25000 Jan 21 By Purchases A/c
25000Cr.
25000
25000

Dr.

Jan. 15 To cash A/c

Machinery A/c

18000 Jan 31 By bal c/c/d

Cr.
18000

Dr.

Jan. 24 To Sales A/c

Amar A/c

40000 Jan 31 By bal c/c/d

Cr.
40000

Dr.

Jan. 31 To bal c/c/d

Bimal loan A/c

38000 Jan 29 By bank A/c

Cr.
38000

Dr.

Jan. 30 To bank A/c

Drawing A/c

15000 Jan 31 By bal c/c/d

Cr.
15000

Dr.

Jan 31

To bal c/c/d

Rent A/c

2500 Jan 31 By cash A/c

Cr.
2500

29 Jun 19

ch+6

Date _____
Page _____

Trial Balance

Illustr. 13

<u>Particular</u>	<u>Dr.</u>	<u>Cr.</u>
	<u>Amount</u>	<u>Amount</u>
Balance b/f		
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
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	238	-
Insurance Premium	1000	-
	37000	37000

IllustrationTrial Balance

Name of ledger accounts	Lf	£ (Dr.)	£ (Cr.)
Inventory on 1.4.2018		250,000	-
Purchases		650,000	-
Sales		-	1,000,000
Motor Vans		380,000	-
Sundry Debtors		150,000	-
Building		300,000	-
Shop fitting		20,000	-
Int. on Bank Overdraft		16,000	-
Purchase return		-	10,000
Sales return		20,000	-
Lighting and heating		18,000	-
Capital		-	500,000
Discount Received		-	2,000
Repairs		2500	-
Electricity charges		6500	-
Bank Overdraft		-	200,000
Rent from Subletting		-	15,000
B/R		8,000	-
Sundry creditors		-	94,000
		1,821,000	1,821,000

Q14

Journal Entries

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

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

Ledger accounts

Dr.	Cash A/c	Cr.			
Date	Particular		Date	Particular	
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 purchase 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

capital A/c

Dr.

Credit

Date	Particular	If	£	Date	Particular	If	£
2009 Apr. 1	To bal b/c/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 orient A/c		200
				Apr. 30	By bal b/c/d (Bal fig)		5800
			6000				6000

Purchases A/c

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

2009 Apr. 17	To cash A/c		990	2009 Apr. 5	By purchases A/c		1500
" To Dis. amt A/c	decr.		10				

Apr. 29 To purchases return

50

Apr. 30	To bal c/d (Bal fig)		450				1500
			1500				

K. Gupta

2009 Apr. 30	To sales A/c		650	2009 Apr. 25	By cash A/c		625
				"	By pre. allowed A/c		25
			650				650

Sales A/c

Date	Particular	T/F	£	Date	Particular	T/F	£
2009 Apr. 30th	To bal c/d (bad fig)		<u>650</u>	2009 Apr. 10	By K. Gupta		<u>600</u>
2009 Apr. 25	1/c Gupta to To cash A/c		<u>900</u>	2009 Apr. 17	By Mahabir		<u>100</u>
Apr. 30	To bal c/d (bad fig)		<u>10</u>	2009 Apr. 30	By bal c/d		<u>15</u>
			<u>10</u>				<u>100</u>
2009 Apr. 25	To K. Gupta		<u>650</u>	2009 Apr. 25	By cash A/c		<u>625</u>
			<u>650</u>	2009 Apr. 30	By bal c/d (bad fig)		<u>25</u>
			<u>650</u>				<u>650</u>
2009 Apr. 27	To cash A/c		<u>300</u>	2009 Apr. 30	By bal c/d (bad fig)		<u>300</u>
2009 Apr. 30	To bal c/d (bad fig)		<u>50</u>	2009 Apr. 29	By mahabir		<u>50</u>
2009 Apr. 30	To cash A/c		<u>300</u>	2009 Apr. 30	By bal c/d		<u>300</u>
2009 Apr. 30	To bank A/c		<u>200</u>	2009 Apr. 30	By bal c/d		<u>200</u>
2009 Apr. 30	To cash A/c		<u>600</u>	2009 Apr. 30	By bal c/d		<u>600</u>

Drawings A/c

2009 Apr. 30	By bal c/d	

Total Balance

Name of Ledger Accounts	L.F	₹ (Dr.)	₹ (Cr.)
Cash	2235		-
Capital	-		10000
Bank	5200		-
Purchases	2300		-
Stocks	-		450
Sales	-		650
Discount	15		-
Furniture	300		-
Purchase Returns	-		50
Salary	300		-
Rent	200		-
Drawings	600		-
	<u>11,150</u>		<u>11,150</u>

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)	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

(Carriage on sales, outward)
 carriage on purchases, inward)

Date _____
 Page _____

d=1 Pg. 7.21

Trading A/c

for the year ended 31st march 2009

Dr.

C.R.

Particular	£	Particular	£
To opening Stock	6000	By sales	48000
To purchases 11500	11500	Less: sales return (600)	47400
Less: purchases 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	600		
To coal, gas and water	800		
To Gross profit	32100		
transferred to P/L Account	32100		
	55400		55400

P/L Account

Dr.

C.R.

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

Ques
Solution

P/L A/C
for the year ended 31 march, 2009

Dr.

Credit

Particular	£	Particular	£
To General Expenses	800	By Gross profit b/d	32100
To charity	100	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 Net 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	<u>23650</u>		
	<u>33,690</u>		<u>33,690</u>

Illustrations

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 out.	(8009)
<u>Less: purchase return</u>	<u>(1500)</u>		<u>1,02000</u>
	64500	By closing stock	7000
To wages	2000		
To carriage inward	1000		
To Gross profit			
transfer to P/L A/c	34700		
	<u>109000</u>		<u>109000</u>
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	14000		
(Bal fig.)	36200		<u>36200</u>

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	Closing Stock	7000
	60500		60500

(8)

Trading A/c

Dr.

31st December 2008

Particular	₹	Particular	₹
To Purchases	185000	By Sales	255000
Less: Returns outward	3000	Less: R.I	(2500)
To Opening Stock	20000	By Closing Stock	22000
To Freight	10300		
To carriage inward	1000		
To Power	1200		
To Lighting	1000		
To Gross profit transfer to P/L A/c (Bal fig.)	62000		
	274500		

P/L A/c

Dr.

Cr.

Particular	£	Particular	£
To carriage outward	3.00	By Gross profit b/d	63000
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	700		
To Net Profit transfer to capital a/c	12600		
	<u>12600</u>		<u>63200</u>
	<u>63200</u>		<u>63200</u>

Dr.

Balance sheet

Cr.

Liabilities	£	Assets	£
Capital	50000	Cash at shop	29800
Less: Drawings	(3000)	Banks balance	10000
	47000	Debtors	40800
Add: Net Profit	12600	Freehold property	21000
Creditors	25000	Investment	10000
Bank balance	12000	Closing stock	22000
	<u>96600</u>		<u>96600</u>

9

Trading A/c

Particular	Dr	Particular	Credit
To Purchases	215300	By Sales	289600
Less: Return	(8000)	Less: Return	(10600)
To Freight & Octroi & carriage	207300	By closing stock	7000
To coal, gas & Power	16600		
To opening stock	5800		
To opening stock	76800		
To House & Office	1570		
To wages 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	0
To Postage & Telegram	380		
To Travelling	2310		
To Depreciation	640		
To General Expenses	7540		
To Interest on Loan	1200		
To loan on mortgage	24790		
To Net profit transferred to Capital A/c	42880		42380

Balance sheet

Dr.

Credit

Liabilities	£	Assets	£
Capital	110000	Bank	7000
<u>Less: Drawings</u>	(9000)	Sundry debtors	34800
	101000	Goodwill	5000
<u>Less: Income tax</u>	(2000)	Patents	11600
^{Add: Net profit} Bank Sundry creditors	^{99000 + 24790} 25100	Bills Receivable	870
Bills Payable	250	Business Premises	32000
Loan on mortgage	20000	Closing Stock	768.00
		Horses and carts	1570
	169140		169140

5/02/19

chapter 18 Final Accounts with Adjustments

Illustration 5

Dr

Trading & P/L A/C

Rs

Particular	₹	Particular	₹
To wages	3000	By sales	1,25000
To o/s wages	<u>500</u>	By closing stock	10000
To purchase	75000		
To Gross profit transfer to P/L A/C	51500		
	<u>1,35,000</u>		<u>1,35000</u>

To salaries 25000

By Gross profit b/d 51500

Less: Prepaid salary (5000) 20000

To Rent of building 13000

Less: Hospital rent (1000) 12000
(13000 ÷ 3)

To Dep. on furniture (1500 × 1/3) 1500

To Bad debts 4500

Add: further Bad debts 2500 7000

To Net Profit transfer to c.A

1100051500

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

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: o/s wages 300	900		
To Gross profit transf. to P/L Account 12900			
	12900		
	44000		44000

To Salaries	1200	By Gross Profit b/d	12900
To Discount	500	By Discount	
To Discount	500	By Discount	
To Dep. on Furniture	600	By Interest & acc'd.	500
To O/s Office Expenses	300		
To O/s Office Expenses	500		
To Dep. on Machinery	800		
To Dep. on Building	300		
To Travelling Expenses	400		
To Fire Insurance prem.	600		
Less: Unpaid 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	900	Unpaid 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 Buil. (300)	14700
	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

329

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

Balance sheet

Liabilities	₹	Assets	₹
Sundry creditors	2800	Bank balance	3000
o/s capital	90000	Sundry debtors	5400
<u>less: Net loss</u>	(4800)	Machinery	7000
	15200	<u>Less: Dep. (700)</u>	6300
<u>Less: Drawings</u>	(1800)	Closing stock	1200
o/s Rent & taxes	100	Prepaid wages	400
	16300		16300

Part 3

(A)

Trading & P/L A/c4560
91000

Particular	£	Particular	£
To purchases	32400	By sales	88200
(less: Purchase Return)	(2150)	Less: Sale 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	By Int- earned	390
To Travelling charges	700	Add: Unearned Int (100)	490
Less: Prepaid P-charges	(200)		
To Electricity charges	2100		
To Postage	200		
To Legal charges	480		
To Net Profit Transf. to Cap A/c	41360		
	45840		45840

Balance Sheet

Date:

Year:

<u>Liabilities</u>	₹	<u>Assets</u>	₹
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	Closing Stock	5100
<u>Statement</u>	<u>41360</u>	o/s int. earned	200
		Int. not recd. balance	200
	125100		125100

(B)

Trading & P/L A/c

Particular	₹	Particular	₹
To Purchases	42000	By sales	75000
Less: Returns outward	(1000)	Less: Sales Inward	(2000)
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		
To General Expenses	500		
To carriage on sales	1200		
To depreciation on mach.	1200		
@ 10%			
To Net Profit transf. to cap. Ac	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	2500
		Patents	3000
	62800	Debtors	10000
			62800

Ques 6)

Trading & P/L A/c

Particular	₹	Particular	₹
To Purchases	20000	By sales	31000
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 gross profit	5000
To office lighting	4000		
To prov. for Doubtful debts @ 10%	5000		
To Rent Paid	8000		
To Gnd. on cap.	5000		

To general expenses
To discount allowed
To postage & telegram
To Advertising
To N.P. transfer to cap. A/c

5000
7000
1000
9000
2400
£3000
£83000
£83000

Balance sheet

Liabilities	£	Assets	£
creditors	70000	Land & Building	30000
capital	100000	less: dep. on L&B	(3000)
Add: N.P.	24000		27000
	124000	cash	7000
Add: int. on cap	5000	Petty cash	1000
	129000	Debtors	50000
Less: Drawings	(30000)	less: prov. (5000)	45000
	99000	cash at bank	12000
		Closing stock	61000
		Bills receivable	16000
	169000		169000

Ques 8Trading & P/L Account32nd Mar
100

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 Accounts	9690		
	<u>18500</u>		<u>18500</u>
To Dep. on loose tools	1250	By Gross profit b/d	9690
To Dep. on furniture	64	By Interest recd.	
To depreciation on building	375	By commission recd.	375
To Bad debts	125		
Less: Bad debts write off (100)	25		
To Prov. on debts	210		
Add: Prov. for 100 120	<u>210</u>		
	<u>210</u>		
Less: old provision (200)	210		
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. Transfer to cap Ac 946			
	<u>10065</u>		
		600 325 225	
			<u>10065</u>
			10065

Balance Sheet

325

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 6250	5000
Creditors Bank overdraft 2850		Less: Tools 5000 1250	
Bonus stock	1000	Building 7500	
Capital 12500		Less: Dep. on building (375) 7125	
Add: N.P 946	13446	Sundry debtors 3800	
		Less: B.G w.off (100) 3515	
		Less: Prov. for b.o (185) 3510	
		Bank overdraft 2250	
		Closing Stock 3250	
		Cash in hand 650	
		Debtors 3515	
		Prepaid Insurance 100	
		20216	20216

17.

Trading & P/L Account300x3
12
29800
16920
17020

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 debt HS	300		
Add: Prov. for Bad debts	60		
To Discount paid	210		
To Salaries	500		
Add: o/s salary	100		
To Net Profit transferred to cap. A/c	14800		
	17020		17020

Balance Sheet

Liabilities	£	Assets	£
Creditors	1440	cash in hand	320
B/P	350 900	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)	1940
Add: Net Profit	14800	Land & Building	3820
	23800	Furniture 1000	
Less: Drawings	(460) 23340	Less: Dep. on fix. (100)	900
		B/R 500	
		Prepaid tax 500	
		Accrued Interest 100	
	25380		25380

5/02/2019

RATIO ANALYSIS

(1) Liquidity Ratio:

↑ ideal ratio = [2:1]

$$(a) \text{ current ratio} = \frac{\text{current Assets}}{\text{current Liabilities}}$$

$$(b) \text{ Liquid ratio/Dubke ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

↑ ideal ratio = [3:1]

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

Illustration :-

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

$$\begin{aligned} & \rightarrow 150000 + 80000 + 70000 + 80000 + 20000 + \\ & \quad 10000 \\ & \Rightarrow 410000 \end{aligned}$$

↑ current Liabilities = Sundry creditors +
B/P + O/S Expenses + provision for
vatation + Proposed dividend.

$$\begin{aligned} & \rightarrow 100000 + 40000 + 10000 + 10000 + 15000 \\ & \rightarrow 175000 \end{aligned}$$

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

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

⇒ Liquid Assets + All c.A - closing stock -
Prepaid Expenses.

$$\Rightarrow 410000 - 150000 - 10000 \\ \Rightarrow 250000$$

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

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

Ans

Quest 1 (a)

Sol: current assets = Investment + Stock +
Debtors + B/R + Prepaid Expenses +
Preliminary Expenses + marketable securities
 $\Rightarrow 100000 + 40000 + 35000 + 5000 +$
 25000
 $\Rightarrow 200000$

current liabilities = Bank overdraft + sundry
creditors + O/S expenses + Provision for tax
+ proposed dividend.

$$\Rightarrow 20000 + 45000 + 4000 + 20000 + 10000 \\ \Rightarrow 100000 99000$$

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

$$\Rightarrow \frac{200000}{99000} \Rightarrow [2.02:1]$$

Ans

\Rightarrow Liquid Assets + All C.A - closing stock
- Prepaid Expenses

$$\Rightarrow 200000 - 100000 - 5000$$

$$\Rightarrow 95000$$

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

$$\Rightarrow \frac{95000}{99000} \Rightarrow [0.95:1]$$

Ans

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

$$\Rightarrow 15000 + 66000 + 24000 + 24000 + 125000$$

$$\Rightarrow 254000$$

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

$$\Rightarrow 7000 + 22000 + 8000 + 6000 + 2500$$

$$\Rightarrow 131000$$

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

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

$$\text{Liquid Ratio} \Rightarrow 0.80 : 1$$

Ans

(2) Solvency Ratio

(i) Debt Equity Ratio $\Rightarrow \frac{\text{Debt over Long term loans}}{\text{Equity over Shareholder's fund}}$
 ideal ratio = 2:1 over Net worth

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

Example :Sol

Interest coverage ratio = Net Profit before int'd.
fixed interest charges

$$\Rightarrow \frac{33,000}{3,000} = 11 \text{ Times}$$

gms

(iii) Total Assets To Debt Ratio,

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

fictitious Assets \rightarrow Preliminary expenses,
 Share issue expenses, discount on issue
 of share or debentures, underwriting
 commission etc.

Long term debts \rightarrow Long term loans, Debenture,
 mortgage loan, bank loan, loan
 from financial institution, bonds,
 public deposit etc.

(iv)

Proprietary Ratio

Proprietor's fund / shareholder's fund
- deb'ts fund / Net worth

Total Assets - fictitious assets

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

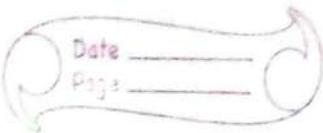


Illustration : 2

(i) Debt Equity Ratio :

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

$$\Rightarrow 200000 + 100000 + 70000$$

$$\Rightarrow 370000$$

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

$$\Rightarrow 300000 + 100000 + 60000 + 50000
- (20000 + 10000)$$

$$\Rightarrow 510000 - (30000)$$

$$\Rightarrow 480000$$

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

$$\Rightarrow \frac{370000}{480000} \Rightarrow [0.77:1] \text{ Ans}$$

(ii) Total Assets to Debt Ratio :

Total Assets =

$$\text{Long term debts} \Rightarrow 870000$$

Total Assets \Rightarrow Fixed Assets + Investments +

current Assets - (Preliminary Expenses)

$$\begin{aligned} &= 600000 + 100000 + 210000 - (20000) \\ &= 970000 - 20000 \\ &= 950000 \end{aligned}$$

(iii) Promoter's Ratio: Shareholder's fund
fixed Assets - fictitious Assets

$$\begin{aligned} &\frac{480000}{970000} \\ &\approx 0.49 : 1 \quad \text{Ans} \end{aligned}$$

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

$$\Rightarrow \frac{250000}{310000} \Rightarrow 0.67 : 1$$

$$\begin{aligned} \text{Debt} &\Rightarrow \text{Mortgage Loan} + \text{Bank loan} \\ &\Rightarrow 150000 + 100000 \\ &\Rightarrow 250000 \end{aligned}$$

Equity \Rightarrow Eq. sh. cap. + Fr. sh. cap + R&S - (Prel. Ex)
+ Sh. disc)

$$\begin{aligned} &\Rightarrow 200000 + 100000 + 100000 - (10000 - 2000) \\ &\Rightarrow 400000 - 30000 \end{aligned}$$

$$\text{Equity} \Rightarrow \text{£} 370000$$

(iii) Proprietary Ratio = $\frac{\text{Shareholder's Fund}}{\text{Total Assets} - \text{Fictitious Assets}}$

$$\rightarrow \frac{370000}{\text{Fixed Assets} + \text{Current Assets} + \text{Advances}}$$

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

$$\rightarrow \frac{310000}{770000}$$

$$\rightarrow [0.48 : 1]$$

(iii) Total Assets to Debt Ratio $\rightarrow \frac{\text{T.A} - \text{Fictitious Assets}}{\text{Debt}}$

(iv) Capital Gearing Ratio :

fixed cost bearing fund over funds bearing fixed financial payment
variable cost bearing fund over Eq. Shareholder's fund

fixed cost bearing funds, 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

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

Illustration 3

Capital Gearing Ratio = $\frac{\text{fixed cost bearing fund}}{\text{variable cost bearing fund}}$

$$\frac{1 \frac{20}{100000}}{1 \frac{65000}{65000}} \Rightarrow 1.54 : 1$$

fixed cost bearing fund = 12% for sh. cap. + 15% Deb
 $= 30000 + 70000 = 100000$

Variable cost bearing fund = Eq. sh. cap + cap. Res.
 $+ P/L A/C$

$$\frac{1}{50000 + 5000 + 10000} \\ \Rightarrow 1 \frac{65000}{65000}$$

(ii) Quick Ratio = $\frac{\text{Liquid Assets}}{\text{current liabilities}}$

$$\frac{1}{30000 - 25000} \Rightarrow 1.2 : 1$$

Liquid Assets = Debtors + Bank $\Rightarrow 16000 + 14000$
 $\Rightarrow 30000$

Current Liabilities = Creditors + Bank overdraft +
 Unpaid dividend
 $\Rightarrow 12000 + 8000 + 5000$
 $\Rightarrow ₹ 25000$

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

$$\frac{70000}{10000 + 95000} + \frac{70000}{765000}$$

$$\Rightarrow [0.42 : 1]$$

* Profitability Ratio or Income Ratio:

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

G.P \Rightarrow Net sales - cost of sales
 Net sales \Rightarrow Sales - Sales return

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

Net sales \Rightarrow Sales - Sales Return
 N.P \Rightarrow G.P - office expenses

(iii) Operating Profit Ratio = Operating Profit / Net Sales %

⇒ O.P = G.P - Administrative Expenses
 - (Office financial) Expenses - Selling and
 distribution exp.

Illustration 4

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

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

Gross profit = 185000
 Net sales → 300000

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

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

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

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

O.P = G.P - Administrative Exp - S.E - dis - B.D.

$$\Rightarrow 185000 - 6000 - 5000 - 2000 - 1000$$

$$\Rightarrow 185000 - 14000 = 171000 \text{ ans.}$$

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

$\Rightarrow \text{COGS} = \text{obj. stock} + \text{net purchases} + \text{Direct Exp.}$
 (wage, carriage etc) - c/d. stock.

$$\Rightarrow \text{COGS} = \text{Net Sales} - \text{G&P}$$

\Rightarrow Operating Exp + office or financial Exp + Administrative Exp + selling and distribution Exp + discount + B.D + Interest on short term loans.

(iv) Opr Ratio $\Rightarrow \frac{\text{COGS} + \text{obj. exp.}}{\text{Net sales}} \times 100$

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

$$\text{COGS} \# \text{Net sales} - \text{G&P}$$

$$\Rightarrow 300000 - 185000$$

$$\Rightarrow 115000$$

Obj. Exp. \Rightarrow Administrative Exp + selling Exp + selling Exp + discount + B.D

$$\Rightarrow 6000 + 5000 + 2000 + 1000$$

$$\Rightarrow 14000$$

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

$$\Rightarrow \frac{200,000}{500,000} \times 100 = 40\%$$

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

$$\Rightarrow \frac{16,000}{500,000} \times 100 = 3.2\%$$

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

$$\Rightarrow \frac{80,000}{500,000} \times 100 = 16\%$$

Operating Profit = $G.P - (Adm. Exp. + Financial Exp. + Selling and dist. Exp.)$

$$\Rightarrow 200,000 - [10,000 + 7,000 + 12,000]$$

$$\Rightarrow 200,000 - 30,000$$

$$\Rightarrow \underline{\underline{\mathcal{E} 170,000}}$$

Ans

(iv) ~~Operating~~

(5) Return on Investment (ROI) :

Profit before Interest, tax & dividend $\times 100$
Capital Employed

Capital Employed = Long. 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 \Rightarrow W.C.

Illustration 5

Profit before Interest & Tax = 80000 (Net Profit
 after debentures interest but before tax)
 + 40000 (10% on Debentures : 400000)
 $\Rightarrow 120000$

C.E. = ₹ 400000 (Equity) + ₹ 100000 (Long.) +
 ₹ 89000 (Reserves) + ₹ 400000 (Debenture) -
 ₹ 5000 (Div. on sh.) = ₹ 1084000

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

Activity on Turnover Ratio

(1) Stock or Inventory Turnover Ratio:

$$\Rightarrow \frac{\text{cost of goods sold}}{\text{Average stock}}$$

$\text{COGS} \Rightarrow \text{o.s} + \text{net purchases} + \text{Direct Expenses}$
 $- \text{closing stock.}$

$$\text{Average stock} \Rightarrow \frac{\text{o.s} + \text{c.s}}{2}$$

(2) Debtors Turnover Ratio,

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

$\text{Net credit sales} \Rightarrow \text{Total sales} - \text{cash sales} -$
 Sales return.

$\text{Average account receivable.}$

$$\Rightarrow \frac{\text{d. Debtors} + \text{B/R} + \text{cd. Debtors} + \text{B/R}}{2}$$

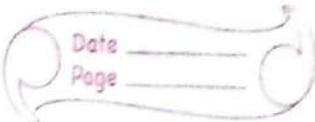


Illustration 9

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D.T.R \Rightarrow Net credit sales
Average Account Receivable (Debtors + B/R)

Net credit Sales \Rightarrow Total sales - (cash sales + sales return)

$$\Rightarrow 1100000 - (230000 + 60000)$$

$$\Rightarrow 1100000 - 290000$$

$$\Rightarrow 810000$$

Average Account Receivable

$$\Rightarrow \frac{(\text{Opening Debtors} + \text{B/R}) + (\text{Ccl. Debtors} + \text{B/R})}{2}$$

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

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

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

D.T.R \Rightarrow $\frac{810000}{90000}$ \Rightarrow [9 Times] *Ans.*

(3) Creditors Turnover Ratio

Net credit purchases

Average Account Payables (Creditors + B/P)

Net credit Purchases

$$\Rightarrow \text{Total purchases} - \text{cash pur.} - \text{pur. return}$$

Q16calculate:

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

COGS \Rightarrow opening stock + (purchases - purchases sold) + wages - closing stock

$$\Rightarrow 18000 + (45000 + 4000) + 14000 - 22000$$

$$\Rightarrow 18000 + 49000 + 14000 - 22000$$

$$\Rightarrow 82000 - 22000$$

$$\Rightarrow 60000$$

$$\text{Average stock} \Rightarrow \frac{\text{Op. Stock} + \text{Cl. Stock}}{2}$$

$$\Rightarrow \frac{18000 + 22000}{2}$$

$$\Rightarrow \frac{40000}{2} \Rightarrow 20000$$

$$\text{Stock turnover ratio} \Rightarrow \frac{60000}{20000} \Rightarrow 3 \text{ times}$$

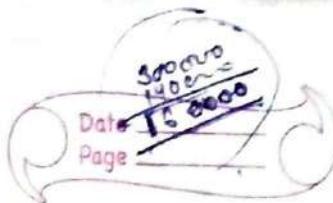
Q7Stock Turnover Ratio:

COGS \Rightarrow opening stock + purchases + carriage & freight + ~~gross profit~~ - closing stock

$$\Rightarrow 15000 + 180000 + 5000 - 40000$$

$$\Rightarrow 34000 + 180000 + 5000 - 40000$$

$$\Rightarrow 200000 \quad 160000$$



Average stock $\Rightarrow \frac{\text{Opening stock} + \text{Closing stock}}{2}$

$$\begin{aligned} &\Rightarrow \frac{15000 + 40000}{2} \\ &\Rightarrow \frac{27500}{2} \\ &\Rightarrow \frac{55000}{2} \Rightarrow 27500 \end{aligned}$$

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

$$\begin{aligned} &\Rightarrow \frac{120}{600} \\ &\Rightarrow \frac{300000}{27500} \Rightarrow 11 \quad \text{Ans} \\ &\Rightarrow \frac{64}{320} \\ &\Rightarrow \frac{160000}{27500} \Rightarrow \frac{64}{11} \Rightarrow \boxed{5.82 \text{ Times}} \end{aligned}$$

Q (i) Gross Profit Ratio:

Gross Profit $\Rightarrow \text{Sales} - \text{COGS}$

COGS $\Rightarrow \text{Purchases} + \text{Op. stock} - \text{Cl. stock}$

$$\Rightarrow 169000 + 35500 - 44500$$

$$\Rightarrow 204500 - 44500 \Rightarrow 160000$$

$$\text{G.P} \Rightarrow 200000 - 160000 \Rightarrow 40000$$

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

$$\begin{aligned} &\Rightarrow \frac{40000}{200000} \times 100 \Rightarrow \boxed{20\%} \quad \text{Ans} \end{aligned}$$

(ii) Stock Turnover Ratio:

$$\text{COGS} \rightarrow \text{Purchases} + \text{opening stock} - \text{closing stock}$$

$$\rightarrow 169000 + 35500 - 44500$$

$$\rightarrow 204500 - 44500$$

$$\rightarrow \boxed{160000}$$

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

$$\rightarrow \frac{35500 + 44500}{2}$$

$$\rightarrow \frac{80000}{2} \rightarrow \boxed{40000}$$

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

$$\rightarrow \frac{160000}{40000} \rightarrow \boxed{4 \text{ Times}}$$

(9) (a) Debtors Turnover Ratio:

Net credit sales \rightarrow Sales - Sales Returns

$$\rightarrow 900000 - 100000 \rightarrow 800000$$

Average account receivables (Debtors + B/R)

$$\rightarrow \frac{\text{op. Debtors} + \text{closing Debtors}}{2}$$

$$\rightarrow \frac{83000 + 117000}{2}$$

$$\rightarrow \frac{200000}{2} \rightarrow \boxed{100000}$$

Debtors Turnover Ratio = Net credit sales
Average Account Receivable

$$\Rightarrow \frac{800000}{100000} \Rightarrow \boxed{8 \text{ Times}}$$

Ans

(b) (i) Gross Profit Ratio:

Gross Profit \Rightarrow Sales - cohS

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

~~Net~~

Gross Profit \Rightarrow ~~Net~~ Gross Profit $\times 100$
Net sales

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

$$\Rightarrow \boxed{20\%} \text{ Ans}$$

(ii) Stock Turnover Ratio:

Average stock \Rightarrow Op. stock + Cl. stock
 $\frac{2}{2}$

$$\Rightarrow \frac{27000 + 83000}{2} \Rightarrow \frac{60000}{2}$$

$$\Rightarrow 30000$$

Stock Turnover Ratio \Rightarrow $\frac{\text{COGS}}{\text{A.S.}} \Rightarrow \frac{120000}{30000} = \boxed{4 \text{ Times}}$

$$\Rightarrow \boxed{4 \text{ Times}}$$

(iii) Debtors Turnover Ratio:

Net credit sales \Rightarrow 150000

Average Account receivables
 \Leftrightarrow Debtors + B/R

$$\frac{1}{2} \cdot 14000 + 6000$$

$$\frac{1}{2} \cdot 20000$$

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

$$\frac{1}{2} \cdot \frac{150000}{20000} = \frac{+57.5}{2}, \boxed{7.5 \text{ Times}}$$

Ans

(5) Fixed Assets Turnover Ratio:

fixed assets turnover ratio = $\frac{\text{COGS}}{\text{Net fixed Assets}}$

$$\text{N.F.A} \Rightarrow \text{Fixed Assets} - \text{Depreciation}$$

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

Capital Employed = Eq. sh. cap. + Lref. sh. cap.
 $+ \text{All reserves} - \text{Fictitious Assets} +$
 Long term loan.

$$\text{C.E} \Rightarrow \text{Fixed Assets} + \text{W.C.}$$

Illustration 14

(i) capital Turnover Ratio:

Capital Employed = St. cap + Reserves & Surplus
 + Long term loans + ~~Debtors~~ + 14.1. Deb.
 + Profit & Loss A/c

$$\Rightarrow 32000 + 4000 + 12000 + 16000 + 12000 \\ \Rightarrow 76000$$

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

$$\frac{120}{140} \Rightarrow \frac{120}{76} = 1.57 \Rightarrow 1.57 \text{ Times}$$

$$\frac{38}{19}$$

(ii) working capital Turnover Ratio:

Working Capital = Current Assets - Current Liab.

C.A \Rightarrow Stock + Debtors + B/R + Cash at Bank +
 Cash in hand

$$\Rightarrow 9000 + 12600 + 4000 + 10500 + 3900 \\ \Rightarrow 40000$$

~~working capital Turnover Ratio $\Rightarrow \frac{\text{Net Sales}}{\text{working capital}}$~~

$$\Rightarrow \frac{120}{40000} \Rightarrow 12$$

Current Liab + Sundry acc + B/P + o/s exp. +
 Tax payable + Int. payable
 $\Rightarrow 6800 + 2000 + 3200 + 10000 + 2000$
 $\Rightarrow 24000$

W.C + C.A - e.l.
 $\Rightarrow 40000 - 24000$
 $\Rightarrow 16000$

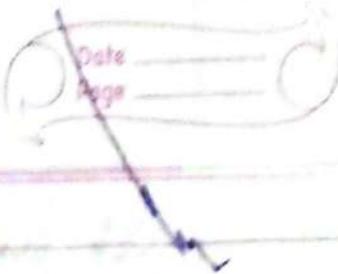
W.C.T.R \rightarrow \frac{\text{Net sales}}{\text{working capital}}

$\Rightarrow \frac{480000}{16000} \Rightarrow 30 \text{ Times}$

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

Net fixed assets + Land & Building + P/f m + furniture
 $\Rightarrow 24000 + 27000 + 9000$
 $\Rightarrow 60000$

F.A.T.R \rightarrow \frac{8}{\frac{480000}{60000}} \Rightarrow 8 \text{ Times}



Q11. Creditors Turnover Ratio:

Average Account Payables:-
 abt. stock.

$$\frac{(\text{Op. conditions} + \text{B/P}) + (\text{C/d. conditions} + \text{B/P})}{2}$$

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

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

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

Net credit purchases $\rightarrow 480000$

Creditors turnover ratio $\rightarrow \frac{\text{Net credit purchases}}{\text{Average account payables}}$

$$\Rightarrow \frac{480000}{120000} \rightarrow \boxed{4 \text{ Times}}$$

Q12 (a) Creditors Turnover Ratio:

Average account payables:

$$\Rightarrow \frac{\text{Op. cor.} + \text{C/d. cor.}}{2} = \frac{50000 + 60000}{2}$$

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

Creditors turnover ratio $\rightarrow \frac{\text{N.C.P.}}{\text{A-AP}} = \frac{400000}{55000}$

~~Net purchases \rightarrow Tot. purchases - Cash paid to cr.~~

$$\Rightarrow \frac{400000 - 260000}{2} = \boxed{140000}$$

Net credit Purchases :-

Total purchases - cash paid to cr. - ~~Adv Dis.~~

$$\begin{aligned} & 400000 - 260000 + 5000 \\ \Rightarrow & 145000 \end{aligned}$$

Cir. Turn. Ratio $\Rightarrow \frac{\text{N.C.P}}{\text{A.A.P}}$

$$\begin{aligned} & 29 \\ \Rightarrow & \frac{145000}{55000} \end{aligned}$$

$$\begin{aligned} & 2 \frac{29}{11} \Rightarrow 2.63 \text{ Times} \end{aligned}$$

Ans

(B) (i) working capital ratio:

Working Capital \Rightarrow Current Assets - Current Liab.

Current Assets \Rightarrow Cash + Debtors + Stock ~~+ Bank~~

$$\begin{aligned} & 25000 + 12000 + 8000 + 2000 \\ \Rightarrow & 47000 \end{aligned}$$

Current Liab \Rightarrow Creditors + B/P ~~+ Bank~~

$$\begin{aligned} & 12000 + 3000 \\ \Rightarrow & 15000 \end{aligned}$$

$$\text{W.C.R} = \frac{47000}{15000} \Rightarrow 3.13$$

$$\text{W.C.R} \Rightarrow \frac{\frac{53000}{32000}}{\frac{53000}{32000}} \cdot \frac{1.65}{1.65} \cdot \frac{\text{C.A}}{\text{C.L}} = \frac{47000}{15600}$$

$\Rightarrow \boxed{3.13:1}$

(ii) Liquid Ratio: $\frac{\text{Liquid Assets}}{\text{Current Liab.}}$

Liquid Assets \Rightarrow Current assets - (P.P.Expt +
Cst Stock)

$$\Rightarrow 47000 - (2000 + 8000)$$

$$\Rightarrow 47000 - 10000$$

$$\Rightarrow 37000$$

$$\text{Liquid Ratio} \Rightarrow \frac{\frac{37000}{15000}}{1} \Rightarrow \boxed{2.47:1}$$

(iii) Stock Turnover Ratio $\Rightarrow \frac{\text{COGS}}{\text{A.S}}$

COGS \Rightarrow Sales - (Purchase + Pur. Return)

$$\Rightarrow 53000 - 34000 + 750$$

$$\Rightarrow 53000 - 34750$$

$$\Rightarrow \frac{18250}{19150} = 1.9150$$

$$\text{S.T.R} \Rightarrow \frac{\frac{19150}{8000}}{\frac{19150}{8000}} + \boxed{2.46 \text{ Times}}$$

180
32

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

N.C.P \Rightarrow Purchase - Purch. Rat.

$$\Rightarrow 34000 - 750$$

$$\Rightarrow 33250$$

A.A.P \Rightarrow Creditors + B/P

$$\Rightarrow 12000 + 3000$$

$$\Rightarrow 15000$$

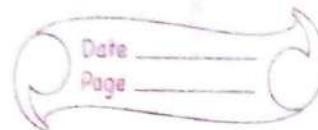
$$\begin{array}{r} 133 \\ \text{C.T.R} \Rightarrow \frac{665}{\frac{33250}{15000}} + \frac{133}{60} \Rightarrow 2.21 \text{ Times} \\ \hline 15000 \\ 300 \\ 60 \end{array}$$

(e) Average Payment Period \Rightarrow

$$\underline{\text{A.A.P} \times 365}$$

N.C.P

$$\begin{array}{r} 60 \\ \text{A.A.P} \times 365 \Rightarrow \frac{21900}{133} \\ \hline 15000 \\ 33250 \\ 665 \\ 133 \end{array}$$



(13) (i) Current Ratio $\Rightarrow \frac{C.A}{C.L}$

$$C.A \Rightarrow L.A + stock$$

$$\Rightarrow 200000 + 50000$$

$$\Rightarrow 250000$$

$$C.R \Rightarrow \frac{250000}{90000} \Rightarrow \frac{25}{9}^{2.78}$$

$$\Rightarrow [2.78 : 1] ans$$

(ii) Liquid ~~assets~~^{Ratio} of Liquid Assets
 $\frac{C.L}{C.L}$

$$\Rightarrow \frac{200000}{90000} \Rightarrow \frac{20}{9}^{2.22}$$

$$\Rightarrow [2.22 : 1] ans$$

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

$$\Rightarrow \frac{100000}{100000}$$

$$\text{working capital} \Rightarrow C.A - C.L$$

$$\Rightarrow 250000 - 90000$$

$$\Rightarrow 160000$$

$$100000 \times \frac{2}{100}$$

$$W.C \Rightarrow \frac{100000}{160000} \Rightarrow \frac{100}{16}$$

$$COGS \Rightarrow \text{Sales} - G.P$$

$$\Rightarrow 1000000 - 200000$$

$$\Rightarrow 800000$$

$$\text{W.C.I.R} \Rightarrow \frac{800000}{160000} \Rightarrow \frac{80}{16} \Rightarrow 5 \text{ Times}$$

Ans

(14) (a) ROI \Rightarrow Profit before int., tax & dividend
capital employed

$$\text{Profit b. int. & D} \Rightarrow 47000$$

capital Employed + Fixed Assets + C.A - C.L

$$\Rightarrow 40000 + (90000 + 86000 + 7000)$$

- 76000

$$\Rightarrow 40000 + (223000 - 76000)$$

$$\Rightarrow 40000 + 147000$$

$$\Rightarrow 187000$$

\Rightarrow Eq. sh. cap + profit + reserves

$$\Rightarrow 147000$$

$$\Rightarrow \frac{31.97}{\frac{47000}{147000}} \times 100 \Rightarrow 31.97\%$$

Ans

(b) capital Turnover Ratio

$\Rightarrow \frac{\text{Net Sales}}{\text{capital employed}}$

$$\Rightarrow \frac{2.38}{\frac{350000}{147000}} \Rightarrow 2.38 \text{ Times}$$

Ans

B (ii) capital turnover ratio

$$\text{capital Employed} \Rightarrow f.A + c.A - c.L$$

$$\Rightarrow 200000 + (55000 - 30000)$$

$$\Rightarrow 200000 + 25000$$

$$\Rightarrow 225000$$

$$C.T.R = \frac{\text{Net sales}}{c.f}$$

Net sales \Rightarrow sales - c.p on sales

$$\Rightarrow 100000 - 25000$$

$$= \frac{100000}{225000} \Rightarrow 175000$$

$$\text{capital Employed} \Rightarrow f.A + c.A - c.L$$

$$\Rightarrow 200000 + (50000 + 10000 + 5000)$$

$$- 30000$$

$$\Rightarrow 200000 + (65000 - 30000)$$

$$\Rightarrow 200000 + 35000$$

$$\Rightarrow 235000$$

$$C.T.R \Rightarrow \frac{\text{Net sales}}{\text{capital Employed}}$$

$$\Rightarrow \frac{75000}{235000} \rightarrow [0.319 \text{ Times}]$$

Ans

i) current Ratio $\Rightarrow + \frac{c.A}{c.L}$

$$= \frac{65000}{30000} = \frac{65}{30.1} \Rightarrow [2.17:1]$$

Ans

(iii) Debtors Turnover Ratio

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

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

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

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

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

$$\text{C.D. T.R.} \Rightarrow \frac{75000}{57500} = \frac{10000}{50000} \Rightarrow 2 \text{ times}$$

Ans

Additional Practical Questions

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

COGS \Rightarrow Purchases + Op. stock + carriage inward + office exp - ~~stock inst. exp~~ - cl. stock

$$\begin{array}{r}
 \text{Net profit} & 100000 \\
 \text{Add: Inv. for taxation} & 160000 \\
 \text{Add: Transf. to Gen. Res} & 14000 \\
 \hline
 & 274000
 \end{array}$$

27/03/19

Chapter 13

Fund Flow Statement

Illustration: 8.2.

Schedule of changes in working capital

	Previous year	Current year	Working Capital	
			Increase	Decrease
A. Current Assets:				
Stock	9000	3000	-	6000
Debtors	16500	19500	3000	-
Cash at Bank	4000	9000	5000	-
Total A.	<u>29500</u>	<u>35500</u>		
B. Current Liabilities				
Creditors	9000	5000	4000	-
Total B	9000	5000	12000	2000
	98500	38500		
Working Capital (A-B)		20500	20500	
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
Issue of share capital	5000	Increase in w.c. (Bal figure)	10000
Raising from mortgage loan	5000		20000
	<u>20000</u>		

Q 2
Soln

Schedule of changes in working capital:

	Previous Year	Current Year	Working Capital Increase	Working Capital Decrease
A. Current Assets:				
Recieptables	90000	98000	8000	-
Bills Payable	125000	87000	-	38000
Inventory (stock)	70000	25000	-	45000
cash	285000	210000		
Total (A)				
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.	10000
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

Date _____
Page _____

18 Calculation of funds from operations:

	₹	₹
Net Income		165000
<u>Add:</u>		
Rent received	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	817000
<u>Less:</u>		
Profit on sale of vehicle		(3000)
Refund of tax		(2000)
Dividend received		(10000)
Funds from operations		367000

Illustration: 9

Schedule of changes in working capital

A. Current Assets:

	Prev. Year	Current Year	Increase/Decrease	Beginning
Sundry debtors	180000	259200	79200	-
Stock	204000	187200	-16800	
Bank cash	10200	17200	7000	-
cash Bank	30600	16800	19400	7200
<u>Total A</u>	<u>494800</u>	<u>513600</u>		

B. Current Liabilities:

Sundry creditors	70000	100000	-	30000
B/P	14000	27200	-	13200
O/S salary	19200	14400	4800	-
<u>Total B</u>	<u>103200</u>	<u>141600</u>	<u>110400</u>	<u>60000</u>

working capital (A-B) 391600 372000

Net increase in working capital 50400

Calculation of Fund from operations

Net Profit	21600
Less: Proposed dividend (c.v.)	93600
Transfer to General Reserve	24000
Provision for taxation	76800
Discount written off	24000
Preliminary Expenses amortised	1200
Fund from operations	247200

Fund flow Statement

Sources of funds	Applications of funds
Issues of share capital	240000
Redemption of pref. sh.	120000 @ 13.51.0
Fund from operations	247200
Sale of factory Building	120000
	Purchase of Machinery
	242400
	Fixed Deposits in bank
	60000
	Proposed dividend
	67200
	Discount payment
	67200
	Taxation payment
	50400
	Increase in w.c.
	607200

Illustration : 14

Schedule of changes in working capital

Particular	Previous Year	Current Year	Increase/Decrease
<u>A+B.C.A,</u>			
Stock	22000	26000	4000
Debtors	36000	39000	3000
Bank	4000	5000	1000
Total (A)	62000	70000	
<u>B+C.L</u>			
Creditors	37400	42000	4600
Total (B)	37400	42000	4600
W.C. = A-B	24600	28000	3400
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 f/g.	189400	By closing bal c/d	189400

computation of fund from operations

	₹	₹
Net profit (30000 - 2000)		10000
<u>Add: Non fund items:</u>		
Transfer to Gen reserve	5000	
Depreciation of f.A	23400	
Preliminary Exp. written off	1000	
Dividend Paid	<u>20000</u>	<u>49400</u>
<u>fund from operations</u>		<u>59400</u>

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



Illustration Obj 12

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Trading & P/L A/c

Particular	at	Particular	at
To Opening stock	carriage	800	Sales
To purchases:	87200	15000	120000
Less: Return inward	(1000)		(2000)
	86200		118000
Less: Stock burnt by fire	(5000)		Opening stock
	81200		118000
Less: Goods sent as freights	(1500)		2500
	79700		
Less: from Drawing (Per. use)	(1200)		
	78500		
Less: Goods given as charity	(800)		
	77700		
To Freight & duty	2000		26700
To Gross Profit trans to P/L A/c	47500		143000
To Special Rebates	800	By G.P. Bal	47500
To carriage outward	200	By VAT collected	0000
To Vehicle Expenses	400	By Special Rebates	1200
To Lighting	500	By Rent 1000	1000
To Salaries	21300	Add: Rent Recd. 200	1200
To Bank loan Int 900	10000		
Add: O/S Int. 300	1200		
To Free Samples	1500		
To Charity	800		
To Net Profit transferred	23200		
Capital A/c (Bal fig.)	99900		49900

Balance sheet

Liabilities	\$	Assets	£
VAT collected 10000		Closing stock 25000	
(ex) 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	93200	Cash 15800	
(less) Life Insurance (800)		Pdrawn & mach. 25000	
Profit(Draw.) 92400			
(less) Drawing of goods (1200)	91200		
	115200		115200

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.

Cost of Debts

(2) cost of Irredeemable Debts.

(i) Before tax

$$k_d = \frac{\text{Rate of Interest}}{\text{Net Proceeds}} \times 100$$

(N.P)

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 Re redeemable Debts

(i) Before tax

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

I = Interest
 MV = Maturity Value

n = no. of years

NP = Net Proceeds

(ii) after tax

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

- 1) Liquidity Ratios
- 2) Solvency Ratios
- 3) Profitability Ratio
- 4) Activity or Turnover Ratio

① Liquidity Ratio

(a) Current Ratio

(b) Liquid Ratio

$$\text{Liquid Assets} = \cancel{\text{opening stock}} - ($$

$$\text{All current Assets} - (\cancel{\text{closing stock}} + \cancel{\text{Prepaid Expenses}})$$

② Solvency Ratio

(a) Debt to Equity Ratio

(b) Int. coverage ratio $\Rightarrow \frac{\text{N.P before Int+tax}}{\text{fixed Int charged}}$

(c) Total Assets to debt ratio

(d) Proprietary Ratio $\frac{\text{Shareholder's fund}}{\text{Total assets}}$

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

(3) Profitability Ratio

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

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

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

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

(e) $\downarrow \text{ROI}$ = $\frac{\text{Profit before Int, Tax & Dividend}}{\text{Investor or Govt. Capital Employed}} \times 100$

(4) Activity or Turnover Ratio

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

(b) Debtors = $\frac{\text{Net Cr. Sales}}{\text{Average Trade Receivables (D.O's + B/R)}}$

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

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

(e) Capital = $\frac{\text{COGS}}{\text{Cap. Employed}}$

$\text{COGS} = \text{Op. Stock} + \text{Net Purchase} + \text{Direct Exp.} - \text{Wk. Stock}$

(f) Working cap = $\frac{\text{Net Sales}}{\text{Working Capital}}$

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 mgmt.

(*) 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.

Chapter 14 Cash Flow Statement

(4)

cash flow from operating activities:

Net Profit before tax & Extraordinary items	100000	274000
Adjustment of: Non cash & non-operating items		
Add: Depreciation on F.A	200000	
write off Previ. Exp	10000	
Loss on sale of furniture	1000	31000
Less:		
Profit on sale of mach.	(6000)	
operating profit before working cap. changes	525000	299000
Add:		
Decrease in c.A and Inc. in c.L:		
Creditors & B/R	13000	13000
Less:		
Inc. in c.A and Dec. in c.L		312000
Debtors	6000	
B/P	4000	
PP Exp	200	(10200)
		11800
Cash flow from operating activities		301800

(5) calculation of cash flow from operating activities:

Net Profit before int, tax & dividend
(Proposed dividend + Retained profit)

22000

Adjustment of non-cashed 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

Less: Inc in c.A & Dec. in c.L

Stock
Cash

(40000)
(15000)

265000

Creditors

(15000)

(55000)
70000

:

(30000)

30000
235000

Cash flow from operating activities.

210000

Illustration : 9

Dr.

Patents A/c

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

Dr.

Machinery A/c

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

10. Long term Investment A/c

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

calculation of Cash flow from Investing Activities

Purchases of Goodwill	(200000)
Purchases of machinery	(440000)
Purchase of 10% long term Inv.	(180000) (82000)
Sales of Patents	100000
Sales of 9% long term Invest.	100000
Sales of machinery	50000
Interest on Investment at @10%.	16000
Dividend received (10% on 100000)	10000
Rent received	30000
cash used in Investing Activities	(524000)

Q16 Cash

Plant & Machinery A/c

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

Prov. for Depreciation A/c

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

~~c calculate cash flow from Investing Activities.~~

Purchases of Plant and Machines	(2000)
cash used in Investing Activities	<u>(2000)</u>

7

computer A/c

To op. bal b/c	60000	By Dep. on computer	6000
		By cash A/c (sales)	4000
		(Bal fig.)	
		By cl. bal c/c	50000
	<u>60000</u>		<u>60000</u>

calculation of cash flow from Investing Activity

Sale of computer	4000
cash flow from Investing Activities	<u>4000</u>

8

Investment A/c

To op. bal b/c	400000	By cash A/c (sales)	100000
To profit on Inv.	40000	(bal fig.)	
		By cl. bal c/c	340000
	<u>440000</u>		<u>440000</u>

calculation of cash flow from Investing activities

Sales of Investment	100000
cash flow from Investing Activities	<u>100000</u>

9 cash flow from (used in) Investing Activity

Purchase of Building	(100000)
Purchase of Investment	(200000)
Purchase of Goodwill	(100000)
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 plot of land	20000
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
Red. of 12.1. long. sh. cap @ 10% prem.	(200000)
Issue of 10% debentures at discount	190000
Dividend paid on odd. long. sh.	(48000)
Interest paid on odd. long. deb.	(30000)
Underwriting comm. Paid on Eq. sh.	(12500) 209500
Net cash flows from financing activity	0

Illustration: 13

calculation of net profit before tax and Extraordinary Items:

Retained Earnings (35000 - 25000)	= 10000
Add: General Reserve ^{Want to}	5000
N.P =	15000

Cash Flow Statement

- A. cash flow from operating activities:
Net Profit before tax & Ex. ord. Items 15000 ~~15000~~

Adjustment of Non-cash & Non-operating Items:

Add: Goodwill written off	10000
Interest on g.t. loan	4500
operating profit before w.c. changes.	29500

Add: dec in c.a & inc in c.l	4000
creditors	3500
o/s expenses	37000

Cess: inc in c.a + dec in c.l	(15000)
Inventories (stock)	(14000)
debtors	(6000)
B/R:	

Net cash flow from operating act. 2000 2000

B. cash flows from (used in) investing act.	(45000)
Purchase of fixed assets	(45000)
Net cash used in investing activities	45000

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)

Add: opening cash & cash Equivalents
(S.T.I + cash + Bank)

2500
5000

closing cash & cash Equivalents

7500

Illustration: 16

working notes:

calculation of net profit before tax & Extraordinary Items:

100000
65000
35000

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

Fixed Assets A/c

To op. bal b/d	600000	By Depreciation A/c	50000
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 ad. bal c/c	90000
	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

Miscellaneous 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) —

10
100
1000

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 > c.v.

Net Profit before tax & ext. items 7200

100000
30000
70000
55000
7500

Machinery A/c

To opening bal b/d
To ~~recd~~ cash A/c
(Purchases)
(Bal fig).

32000	By sales cash A/c (sale of mach)	5500
23000	By loss on sale of mach.	1500
	By depreciation on machinery	7000
	By closing bal cl d	41000
55000		55000

1960
3000 1000
1000

Cash Flow Statement
for the year ended 31 Dec 2009 1500 X 9
1350

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

Less on sale of machinery 1500

Goodwill amortised 2000

~~Less: Interest on 9% Debentures~~ 2250
~~Interest on 10% Investments~~ (300)
 operating profit before w.c changes 1650

19650

Add: Decrease in c.A & Inc. in c.L:

O/S Rent 500

Sundry creditors 3500

23650

less: Increase in current Assets:

Sundry debtors (1000)

Stock in Trade (1500)

cash generated from operating activities 14150

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) 23

C. cash flow from/(used in) financing activities:

Issue of share capital	5000	
Issue of q.v. Debentures	10000	
Interest on q.v. Debentures Paid	(2250)	
net cash flow from financing act.	(2750)	12750 A

D. Net ~~or~~ increase in cash & cash

Equivalents (A+B+C)

Add: opening cash & cash Equivalents ~~1000~~ ~~12000~~ ~~13000~~

closing cash & cash Equivalents ~~1000~~ ~~12000~~ ~~13000~~