

Chapter 3

Financial Statements of a Company

EXERCISE-3.1

1 Marks

- State whether the following statements are true or false.

(a) Financial statements are the end products of accounting process.

Answer True

(b) Financial statements are primarily directed towards the needs of owners.

Answer True

(c) Facts and figures presented in financial statements are not at all based on personal judgements.

Answer False

(d) Recorded facts are based on replacement cost.

Answer False

(e) Going Concern concept assumes that the enterprise continues for a long-period of time.

Answer True

- Fill in the blanks with appropriate word(s)

(a) Financial statements are the _____ of information to interested parties.

Answer Basic sources

(b) The owners of a company are called _____

Answer Shareholders

(c) For income measurement _____ basis of accounting is followed.

Answer Accrual . .

(d) The statement which shows the assets and liabilities of a company is known as _____.

Answer Balance sheet

(e) Profit and loss account is also called _____-statement.

Answer Income

TEST YOUR UNDERSTANDING II

1. What are the items shown under heading ‘Reserve and Surplus’?

Answer Capital Reserve, Capital Redemption Reserve, Securities Premium other reserves, profit and loss account.

2. What are the items shown under heading ‘Miscellaneous Expenditure’?

Answer Preliminary expenses, discount on Issue of share and debenture other deferred expenses and profit and loss account (debit balance).

Question 3. Match the following

- | | | |
|-----------------------|---|-----|
| (i) Gross profit | (a) The explanatory notes to financial statements | () |
| (ii) Operating profit | (b) Amounts receivable by the company | () |
| (iii) Sundry Debtors | (c) Amounts payable by the company | () |
| (iv) Sundry Creditors | (d) Sales – cost of goods sold | () |
| (v) Schedules | (e) Gross profit – Operating expenses | () |
| (vi) Net Profit | (f) Operating Profit – interest and tax | () |

Answer (i) (d), (ii) (e), (iii) (b), (iv) (c), (v) (a) and (vi) (f)

SHORT ANSWER TYPE S

1. State the nature of financial statements.

Answer Financial statements are the summarised reports of recorded-facts and are prepared following the accounting concepts, conventions and requirements of Law. The American Institute of Certified Public Accountants states the nature of financial statements as, “the statements prepared for the purpose of presenting a periodical review of report on progress by the management and deal with the status of investment in the business and the results achieved during the period under review.

The following points explain the nature of financial statements

(i) Recorded Facts : Financial statements are prepared on the basis of facts in the form of cost data recorded in accounting books. The original cost or historical cost is the basis of recording transactions. The figures of various accounts such as cash in hand, cash at bank, bills receivable, sundry debtors, fixed assets, etc are taken as per the figures recorded in the accounting books.

The assets purchased at different times and at different prices are put together and shown at costs. As these are not based on market prices, the financial statements do not show current financial condition of the concern.

(ii) Accounting Conventions: Certain accounting conventions are followed while preparing financial statements. The convention of valuing inventory at cost or market price, whichever is lower, is followed. The valuing of assets at cost less depreciation principle for balance sheet purposes is followed. •

The convention of materiality is followed in dealing with small items like pencils, pens, postage stamps, etc. In this way the use of accounting conventions makes financial statements comparable, simple and realistic.

(iii) Based on Concepts: Financial statements are prepared on certain basic assumptions (prerequisites) known as Concepts such as going concern concept, money measurement concept, realisation concept, etc. Going concern concept assumes that the enterprise is treated as a going concern and exists for a longer period of time. So the assets are shown on historical cost basis.

Money measurement concept assumes that the value of money will remain the same in different periods. While, preparing profit and loss account the revenue is included in the sales of the year in which the sale was undertaken even though the sale price may be received over a number of years. The assumption is known as realisation concept.

(iv) Personal Judgements: Under more than one circumstance, facts and figures presented through financial statements are based on personal opinion, estimates and judgements.

The depreciation is provided taking into consideration the useful economic life of fixed assets. Provisions for doubtful debts are made on estimates and personal judgments. In valuing inventory, cost or market value, whichever is less is being followed.

2. Briefly explain the importance of preparing financial statements.

Answer Significance of Financial Statement :The users of financial statements include Shareholders, Investors, Creditors, Lenders, Customers, Management, Government, etc. Financial statements help all the users in their decision-making process. They provide data about general purpose needs of these members.

The various uses and importance of financial statements are as follows

(i) Reporting to the Share Holders: Financial statements report the performance of the management to the shareholders. The gaps between the management performance and ownership expectations can be understood with the help of financial statements.

(ii) Basis for Fiscal Policies :The fiscal policies, particularly taxation policies of the government, are related with the financial performance of corporate undertakings. The financial statements provide basic input for industrial, taxation and other economic policies of the government.

(iii) Basis for Granting of Credit: Corporate undertakings have to borrow funds from banks and other financial institutions for different purposes. Credit granting institutions take decisions based on the financial performance of the undertakings. Thus, financial statements form the basis for granting of credit.

(iv) Basis for Prospective Investors : The investors include both short-term and long-term investors. Their prime considerations in their investment decisions are security and liquidity of their investment with reasonable profitability. Financial statements help the investors to assess long term and short-term solvency as well as the profitability of the concern.

(v) Aids Trade Associations in Helping their Members: Trade associations may analyse the financial statements for the purpose of providing service and protection to their members. They may develop standard ratios and design uniform system of accounts.

(vi) Helps Stock Exchanges: Financial statements help the stock exchanges to understand the extent of transparency in reporting on financial performance and enables them to call for required information to protect the interest of investors.

3. What are the limitations of financial statements?

Answer Financial statements are very useful to an organisation but still , they suffer from the following limitations

(i) Historical Data : Financial statements are prepared on the basis of historical cost. Since the purchasing power of money is changing, the values of assets and liabilities shown in financial statement do not reflect current market situation.

(ii) Assets May not Realise: Accounting is done on the basis of certain conventions. Some of the assets may not realise the stated values, if the liquidation is forced on the company. Assets shown in the balance sheet reflect merely unexpired or unamortised cost.

(iii) Bias: Financial statements are the outcome of recorded facts, accounting concepts and conventions used and personal judgments made in different situations by the accountants. Hence, bias may be observed in the results, and the financial position depicted in financial statements may not be realistic.

(iv) Aggregate Information: Financial statements show aggregate information but not detailed information. Hence, they may not help the users in decision-making much.

(v) Vital Information Missing: Balance sheet does not disclose information relating to loss of markets, and cessation of agreements, which have vital bearing on the enterprise.

(vi) No Qualitative Information: Financial statements contain only monetary information but not qualitative information like industrial relations, industrial

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climate, labour relations, quality of work, etc.

(vii) They are Only Interim Reports: Profit and loss account discloses the profit/loss for a specified period. It does not give an idea about the earning capacity over time similarly, the financial position reflected in balance sheet is true at that point of time, the likely change on a future date is not depicted.

4. Prepare the format of income statement and discuss its elements.

Answer Income statement may also be presented in vertical form with detailed data. This is considered more suitable for further analysis and providing necessary data for decision-making. The form and contents of vertical income statement is shown below (Vertical Form)

Income Statement of ... Company Limited
for the year ended...

Elements of Revenues and Expenses	Amt. (₹)	Amt. (₹)
Sales		
Cash sales	—	
Credit sales	—	
Total sales	—	
(–) Sale Returns	—	
Net Sales - (1)		—
(–) Cost of Goods Sold		
Opening Stock	—	
(+) Purchase including (incidental expenses and materials) + Wages + Manufacturing expenses + Any other direct expenses	—	
(–) Closing Stock	—	
Total of Cost of Goods Sold - (2)		—
Gross Profit -(3) (i.e., 1 – 2)		—
(–) Operating Expenses –(4)		
+ Salaries	—	
+ Administrative Expenses	—	
+ Selling Expenses	—	
+ Distribution Expenses	—	
+ Depreciation	—	—
Operating Profit - (5) (i.e., 3 – 4)		—
(+) Non-Operating Income, if any, such as commission, Profit on sale of Assets, Income from Investments, etc.		
(–) Non-Operating Expenses, if any, such as Loss by Fire		—

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Operating Profit - (5) (i.e., 3 – 4)		—
(+) Non-Operating Income, if any, such as commission, Profit on sale of Assets, Income from Investments, etc.		
(–) Non-Operating Expenses, if any, such as Loss by Fire		—
Net Profit before Interest and Taxes -(6)		—
(–) Interest Charges - (7)		—
Interest on Loans	—	
Interest on Debentures	—	—
Net Profit before Tax - (8) (i.e., 6 – 7)		—
(–) Provision for Tax - (9)		—
Net Profit -(10) (i.e., 8 – 9)		—
Profit after Tax		

5. Prepare the format of balance sheet and discuss its elements.

Answer The format of balance sheet is given below

Vertical Form of Balance Sheet

Balance Sheet of

as on.....

Particulars	Schedule Number	Figures as at the End of Current Year	Figures as at the End of Previous Financial Year
I. Source of Funds			
1. Shareholder's Funds			
(i) Share Capital		—	—
(ii) Reserves and Surplus		—	—
Net Worth or Shareholders Funds		—	—
2. Loan Funds			
(i) Secured Loans		—	—
(ii) Unsecured Loans		—	—
Total (Capital Employed)		—	—
II. Application of Funds			
1. Fixed Assets			
(i) Gross Block		—	—
(ii) (–) Depreciation		—	—
(iii) Net Block		—	—
(iv) Capital Work-in-Progress		—	—
		—	—

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2. Investments	-	-
3. Current Assets, Loans and Advances		
(i) Inventories	-	-
(ii) Sundry Debtors	-	-
(iii) Cash and Bank Balances	-	-
(iv) Other Current Assets	-	-
(v) Loans and Advances	-	-
(-) Current Liabilities and Provisions	-	-
(i) Current Liabilities	-	-
(ii) Provisions	-	-
Net Current Assets		
4. (i) Miscellaneous Expenditure to be extent not written-off or adjusted.	-	-
(ii) Profit and Loss Account (debit balance, if any)	-	-
Total	-	-

Elements of Balance Sheet: A brief description of various element of balance sheet is given below

Description of Elements at the Liabilities Side of Balance Sheet

(i) Share Capital : This is the first thing which is being shown in the liabilities side of balance sheet. It consists of the following items

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

(ii) Reserve and Surplus: As per the Schedule VI, it consists of the following items

- (a) Capital Reserve
- (b) Capital Redemption Reserve
- (c) Security Premium
- (d) Other Reserve less Debit Balance of Profit and Loss account
- (e) Surplus Credit Balance of Profit and Loss account
- (f) Proposed Additions
- (g) Sinking Fund

(iii) Secured Loans:

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

(iv) Unsecured Loans:

- (a) Fixed Deposits
- (b) Loan and Advances from subsidiaries

(v) Current Liabilities: Current Liabilities are those liabilities which are liable to pay within an operating cycle generally one year; e.g., bank overdraft creditors, bills payable, outstanding wages, short term loans, etc are called current liabilities.

Description of Elements at the Liabilities Side of Balance Sheet

- (i) **Fixed Assets:** These are those assets that are used for more than one year, like, Goodwill, Land and Building, Plant and Machinery, Motor Car, Patents, Trade Marks, Livestock etc.
- (ii) **Investments :** Under this head, various investments made such as investment in government securities or trust securities; investment in shares, debentures, and bonds of other companies, immovable properties, etc., are to be shown separately in the balance sheet.
- (iii) **Current Assets:** Assets which are converted into cash within an operating cycle is known as current assets. In other words current assets are required to run day to day business activities; e.g., cash, debtors, stock, etc.
- (iv) **Miscellaneous Expenditure:** The expenditure which has not been written off fully its balance is shown under this heading. These expenses include preliminary expenses, advertisement expenditure, discount on issue of shares and debentures, share issue expenses, etc.
- (v) **Profit and Loss Account:** When the Profit and Loss account shows a debit balance, i.e., loss which could not be adjusted against general reserves, the same is shown as a last item on the asset side.

EXERCISE-3.2

2 Marks

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

Answer The various parties interested in financial statements directly or indirectly can be categorised in two broad categories

(i) **Internal Parties:** The following are the internal parties directly related to the company and interested in financial statements.

(a) **Owner :**The owner/s is/are interested in the profit earned or loss incurred during an accounting period. They are interested in assessing the profitability and viability of the capital invested by them in the business.

(b) **Management:** Management interested in financial statements for drafting various policies measures, facilitating planning and decision making process.

(c) **Employees and Workers:** The employee and workers are interested in financial statement for knowing about the timely payment of wages and salaries, bonus and appropriate increment in their wages and salaries. Financial statement enables them to know about the figure of profit earned during the year.

(ii) **External Parties :**There are various external parties who are interested in financial statements for a number of reasons.

The following are the various external parties.

(a) **Creditors:** Creditors are always interested in financial statement to gather information about credit worthiness of the business.

(b) **Investors and Potential Investors:** Persons who are willing to invest in any organisation always wish to know about the profitability and solvency of the business concern. Hence, in order to assess the viability and prospectus of their investment, creditors need information about profitability and solvency of the business.

(c) **Consumers:** The survival and growth of any organisation largely depends upon the Goodwill earned in the heart of the customers. In this regards if the Business has transparent financial records it help in assisting the customers to know the correct cost of production and accordingly assess the degree of reasonability of the price charged by the business.

(d) **Banks/Financial Institutions:** Banks and financial institutions provide finance in the form of loans and advances to various businesses. Thus, they need information regarding liquidity, creditworthiness, solvency and profitability to advance loans.

(e) **Tax Authorities:** They need information about sales, revenues, profit and

taxable income in order to determine and levy various types of tax on the business.

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

(g) **Researchers** :Various research institutes like NGOs and other independent research institutions undertake various research projects and the accounting information facilitates their research work.

2. Financial statements reflect a combination of recorded facts, accounting conventions and personal judgements. Discuss.

Answer The financial statements not only help in presenting the true and real financial position of the company but they also help in taking managerial decisions. The nature of the financial statements depends upon the following aspects like recorded facts, conventions, concepts and personal judgement.

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

(ii) **Accounting Conventions**: The preparation of financial statements is based on some accounting conventions like, Prudence Convention, Materiality Convention, Matching Concept, etc. The adherence to such accounting conventions makes financial statements easy to understand, comparable and reflects the true and fair financial position of the company. Besides the above while preparing financial statements, certain concepts are adhered to. The nature of these concepts is reflected in the nature of the financial statements.

(iii) **Personal Judgements**: The nature of financial statement largely depends upon the personal value judgements. Personal judgements are attached to different practices of recording transactions in the financial statements, e.g., recording stock either at market value or at the cost requires value judgement depending upon the personal judgement. Thus, personal judgements help in determining the nature of the financial statements.

3. Explain the process of preparing income statement and balance sheet.

Answer The process of preparing income statement is explained below

(i) First of all a Trial Balance is prepared on the basis of the balances of various accounts in the ledger.

(ii) After that trading account is prepared by recording Opening Stock, Purchases, Manufacturing Expenses and other direct expenses on the debit side.

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- (iii) On the other hand sales and closing stock is recorded on the credit side of the trading account.
- (iv) After that the balancing figure of trading account is determined by totalling both the sides, if the credit side exceeds the debit side, then the balancing figure is termed as gross profit, but if the debit side exceeds the credit side, then the balancing figure is termed as gross loss.
- (v) Carry forward the Gross Profit (Gross Loss) to the credit (debit) side of the Profit and Loss Account.
- (vi) After that all the operating and non-operating revenue expenditures with their relevant adjustments are recorded on the debit side of the profit and loss account. Record all current year's operating and non operating revenue incomes with their relevant adjustments on the credit side of the profit and loss account.
- (vii) Ascertain the balancing figure by totalling both the sides of the profit and loss* account. If the credit exceeds the debit side, then the balancing figure is termed as net profit, but if the debit side exceeds the credit side, then the balancing figure is termed as net loss.

The process of preparing Balance Sheet is given below

- (i) First of all match the total of both the side of trail balance. If there is any difference in the debit side of trail balance it will be posted in assets side of balance sheet and if there is any difference in credit side of balance sheet it will be posted in the liabilities side of the balance sheet.
- (ii) Record all the debit balances of real and personal accounts on the left hand side (i.e., Assets side) of the balance sheet after making all adjustments for provision and other related items.
- (iii) Record all the credit balances of real and personal accounts on the right hand side (i.e., Liabilities side) of the balance sheet after making all adjustments for interest and outstanding items.
- (iv) Add Net Profit to the opening capital and deduct Net Loss, if any from the opening capital.
- (v) Ascertain the total of two sides, which must be equal.

EXERCISE-3.3

4 Marks

1. The following is the trial balance on June 30, 2011 of the Modern Manufacturing Company Ltd.

Details	Amt. (₹)	Details	Amt.(₹)
Stock, 30th June, 2010	7,500	Dividend paid in, August, 2010	500
Sales	35,000	Interim Dividend paid in Feb., 2011	400
Purchases	24,500	Capital- 10,000 ₹ 1 shares full Paid	10,000
Productive wages	5,000	Debtors	3,750
Discounts (Dr)	700	Creditors	1,750
Discounts (Cr)	500	Plant and machinery	2,900
Salaries	750	Cash in Bank	1,620
Rent	495	Reserve	1,550
General expenses	1,705	Loan to Managing Director	325
Profit and loss account, 30th June 2010 (Cr)	1,503	Bad Debts	158

stock, on June 3, 2011 Rs. 8,200, you are required to make out the trading account, and profit and loss account for the year ended June 30, 2011 and the balance sheet as on the date, you are also to make provision in respect of the following:

(i) Depreciate , machinery @10% per annum; (ii) Reserve 5% for discount on debtors; (iii) One month rent Rs. 45 was due on 30th june; and (iv) six moth's

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insurance, included in general expenses, was unexpired at Rs.75.

Answer

Trading and Profit and Loss Account			
for the year ended June 30, 2011			
Dr			Cr
Expenses/Losses	Amt. (₹)	Revenues/Gains	Amt. (₹)
To Opening Stock	7,500	By Sales	35,000
To Purchase	24,500	By Closing Stock	8,200
To Productive Wages	5,000		
To Gross Profit c/d	6,200		
	43,200		43,200
To Salaries	750	By Gross Profit b/d	6,200
To Discount	700	By Discount	500
To Rent	495		
(+) Outstanding	45		
To General Expenses	1,705		
(-) Prepaid Insurance	(75)		
To Depreciation on Machinery	290		
To Bad Debts	158		
To Reserve for discount on Debtors	188		
To Net Profit c/d	2,444		
	6,700		6,700
To Dividend Paid in August	500	By Balance b/d	1,503
To Interim Dividend	400	By Net Profit for the Current Year	2,444
To Balance c/d	3,047		
	3,947		3,947

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Balance Sheet as on June 30, 2011

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Share Capital		Fixed Assets	
Authorised Capital		Plant and Machinery	2,900
... shares of ₹ ... each		(-) Depreciation	(290)
Issued and subscribed			2,610
10000 shares of ₹ 1 each	10,000	Current Assets, Loans and Advances	
Reserve and Surplus		Debtors	3,750
Reserve	1,550	(-) Reserve for Discount	(188)
Profit and Loss	3,047		3,562
Current Liabilities and Provision		Cash at Bank	1,620
Current Liabilities		Prepaid Insurance	75
Creditors	1,750	Stock	8,200
Rent Outstanding	45	Loan to Managing Director	325
	16,392		16,392

Note: Reserve for discount on debtors is rounded off to next rupee. The actual amount calculated was Rs. 187.50.

It has been assured that the dividend paid, August 2005 of Rs. 500 has been declared and paid is the same accounting period.

as per Revised Schedule VI applicable from 2013 Board examinations, balance sheet will be prepared as given below

Modern Manufacturing Company Ltd Balance Sheet

as on June 30, 2010

	Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
I.	Equity and Liabilities		2010-2011	
	(1) Shareholder's Funds			
	(a) Share Capital	1	10,000	
	(b) Reserves and Surplus	2	4,597	
	(c) Money Received Against Share Warrants			
	(2) Share Application Money Pending Allotment			
	(3) Non-Current Liabilities			
	(a) Long Term Borrowings			
	(b) Deferred Tax Liabilities (Net)			
	(c) Other Long Term Liabilities			
	(d) Long Term Provisions			

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Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
(4) Current Liabilities			
(a) Short Term Borrowings			
(b) Trade Payables			
(c) Other Current Liabilities	3	1,750	
(d) Short Term Provisions	4	45	
Total		16,392	

II. Assets			
(1) Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	5	2,610	
(ii) Intangible Assets			
(iii) Capital Work in Progress			
(iv) Intangible Assets Under Development			
(b) Non-Current Investments			
(c) Deferred Tax Assets (Net)			
(d) Long Term Loans and Advances			
(e) Other Non-Current Assets			
(2) Current Assets			
(a) Current Investments			
(b) Inventories		8,200	
(c) Trade Receivables	6	3,562	
(d) Cash and Cash Equivalents		1,620	
(e) Short Term Loans and Advances	7	325	
(f) Other Current Assets	8	75	
Total		16,392	

Note to Accounts

Note No 2

Reserves and Surplus

Reserve	1,550
(+) Profit and Loss	<u>3,047</u>
	<u>4,597</u>

Accountancy Part 2

Note No 5

Fixed Tangible Assets	
Part and Machinery	2,900
(-) Depreciation	<u>(290)</u>
	<u>2,610</u>

Note No 6

Trade Receivables	
Debtors	3,780
(-) Reserve for Discount	<u>188</u>
	<u>3,562</u>

Note No 1

Share Capital	
Issued and Subscribed	
10,000 Shares of ₹1 each	<u>10,000</u>
	<u>10,000</u>

Note No 3

Trade Payables	
Creditors	<u>1,750</u>
	<u>1,750</u>

Note No 4

Short Term Provisions	
Rent Outstanding	<u>45</u>
	<u>45</u>

Note No 8

Other Current Assets	
Prepaid Insurance	<u>75</u>
	<u>75</u>

Accountancy Part 2

Note No 7

Short Term Loan and Advances

Loan to Managing Director	<u>325</u>
	<u>325</u>

2. The following is the trial balance of Alfa Ltd, for the year ended June 30, 2011

Details	Amt. (₹)	Details	Amt. (₹)
Land and Buildings	3,00,000	Sundry Creditors	40,000
Plant and Machinery	4,50,000	Bills Payable	20,000
Furniture and Fittings	40,000	General Reserve	2,00,000
Goodwill	60,000	Profit and Loss Account Balance (on 1.7.10)	90,000
Sundry Debtors	60,000	Sales	6,25,000
Bills Receivable	26,000	Purchase Returns	15,000
Investments (5% Government Securities)	30,000	Equity Share Capital	5,00,000
Cash in Hand	2,000	8% Preference Share Capital	2,00,000
Cash at Bank	55,000		
Preliminary Expenses	29,000		
Purchases	4,00,000		
Sales Return	10,000		
Stock on 1-7-10	85,000		
Wages	47,000		
Salaries	55,000		
Rent, rates and taxes	9,000		
Carriage Inwards	6,500		
Law Charges	2,500		
Trade Expenses	23,000		
	<u>16,90,000</u>		<u>16,90,000</u>

Prepare the profit and loss account and balance sheet of the company after taking the following particulars into consideration

(a) The original cost of land and building plant and machinery and furniture and fittings was Rs. 2,50,000, Rs. 6,00,000 and Rs. 60,000 respectively-

Additions during the year were building Rs. 50,000 and plant Rs. 20,000.

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

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

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

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

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(f) Provide Rs.34,800 for income tax.

Answer

Profit and Loss Account			
Dr		for the year ended June 30, 2011	Cr
Expenses/Losses	Amt. (₹)	Revenues/Gains	Amt. (₹)
To Opening Stock	85,000	By Sales	6,25,000
To Purchase	4,00,000	(–) Return	(10,000)
(–) Return	(15,000)	By Closing Stock	1,30,000
To Wages	47,000		
To Carriage Inwards	6,500		
To Gross Profit c/d	2,21,500		
	7,45,000		7,45,000
To Salaries	55,000	By Gross Profit b/d	2,21,500
To Rent, Rates and Taxes	9,000	By Accrued Interest on 5% Government Securities	1,500
To Law Charges	2,500		
To Trade Expenses	23,000		
To Depreciation on Plant and Machinery	60,000		
Furniture	6,000		
To Provision for Income Tax	34,800		
To Director's Commission	327		
To Net profit c/d	32,373		
	2,23,000		2,23,000
To Proposed Dividend on Preference Shares	16,000	By Balance b/d	90,000
To Balance c/d	1,06,373	By Net Profit for the current year	32,373
	1,22,373		1,22,373

Accountancy Part 2

Balance Sheet
as on June 30, 2011

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Share Capital		Fixed Assets	
Authorised Capital		Goodwill	60,000
.....shares of ₹ each		Land and Building	2,50,000
Issued and Subscribed		(+) Addition during the year	50,000
			3,00,000
Equity Shares Capital	5,00,000	Plant and Machinery	6,00,000
8% Preference Shares Capital	2,00,000	(+) Addition during the year	20,000
Reserves and Surplus			6,20,000
General Reserve	2,00,000	(-) Accumulated Depreciation	2,30,000
Profit and Loss account	1,06,376		3,90,000
Current Liabilities and Provisions		Furniture and Fittings	60,000
Current Liabilities		(-) Accumulated Depreciation	26,000
Sundry Creditors	40,000		34,000
Bills Payable	20,000	Investments	
Directors Commission	324	Investment (5% Government Securities)	30,000
		(+) Accrued Interest on 5% Government Securities	1,500
Provisions			31,500
Provision for Income Tax	34,800	Current Assets, Loan and Advances	
Proposed Dividend on Preference Shares	16,000	Sundry Debtors	
		Debtors Outstanding for the Period exceeding six months less than six months	50,000
			5,000
		Good	55,000
		Doubtful	5,000
			60,000
		Bill Receivable	26,000
		Stock in Hand	1,30,000
		Cash in Hand	2,000
		Cash at Bank	55,000
		Miscellaneous Expenditures	
		Preliminary Expenses	29,000
	11,17,500		11,17,500

Note The Trial Balance given in the question is of the last day of the year.

Working Note Calculation of Book Value of Plant and Machinery

Book Value of Plant and Machinery = 4,50,000 – 60,000

(Depreciation 10% on original cost)

= 3,90,000

Accumulated Depreciation = Original cost + Purchase – Book value

= 6,00,000 + 20,000 – 3,90,000 = ₹ 2,30,000

Accountancy Part 2

Calculation of Book Value of Furniture and Fittings

Book Value = 40,000 – 6,000 (Depreciation 10% on Original Cost) = ₹ 34,000

Accumulated Depreciation = 60,000 – 34,000 = ₹ 26,000

As per Revised Schedule VI applicable from 2013 Board examinations, balance sheet will be prepared as given below

Alfa Ltd Balance Sheet as on June 30, 2011

	Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
I.	Equity and Liabilities		2010-2011	
	1. Shareholders' Funds			
	(a) Share Capital	1	7,00,000	
	(b) Reserves and Surplus	2	2,77,376	
	(c) Money Received Against Share Warrants			
	2. Share Application Money Pending Allotment			
	3. Non-Current Liabilities			
	(a) Long Term Borrowings			
	(b) Deferred Tax Liabilities (Net)			
	(c) Other Long Term Liabilities			
	(d) Long Term Provisions			
	4. Current Liabilities			
	(a) Short Term Borrowings			
	(b) Trade Payables	3	60,000	
	(c) Other Current Liabilities	4	324	
	(d) Short Term Provisions	5	50,800	
	Total		10,88,500	

Accountancy Part 2

	Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
II.	Assets			
	1. Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible Assets	6	7,24,000	
	(ii) Intangible Assets	7	60,000	
	(iii) Capital Work in Progress			
	(iv) Intangible Assets Under Development			
	(b) Non-Current Investments	8	30,000	
	(c) Deferred Tax Assets (Net)			
	(d) Long Term Loans and Advances			
	(e) Other Non-Current Assets	9	1,500	
	2. Current Assets			
	(a) Current Investments			
	(b) Inventories		1,30,000	
	(c) Trade Receivables	10	86,000	
	(d) Cash and Cash Equivalents	11	57,000	
	(e) Short Term Loans and Advances			
	(f) Other Current Assets			
	Total		10,88,500	

Note to Accounts

Note No 1

Share Capital

Equity Share Capital	5,00,000
(+) 8% Preference Share Capital	<u>2,00,000</u>
	<u>7,00,000</u>

Note No 2

Reserves and Surplus

General Reserve	2,00,000
(+) Profit and Loss Account	<u>1,06,376</u>
	<u>3,06,376</u>
(-) Preliminary Expenses	<u>29,000</u>
	<u>2,77,376</u>

Accountancy Part 2

Note No 3

Trade Payables

Sundry Creditors	40,000
(+) Bills Payable	<u>20,000</u>
	<u>60,000</u>

Note No 5

Short Term Provisions

Provisions for Income Tax	34,800
(+) Proposed Dividend on Preference Shares	<u>16,000</u>
	<u>50,800</u>

Note No 6

Tangible Fixed Assets

Land and Buildings	2,50,000	
(+) Addition during the year	<u>50,000</u>	3,00,000
Plant and Machinery	6,00,000	
(+) Addition during the year	<u>20,000</u>	
	6,20,000	
(-) Accumulated Depreciation	<u>(2,30,000)</u>	3,90,000
Furniture and Fittings	60,000	
(-) Accumulated Depreciation	<u>26,000</u>	<u>34,000</u>
		<u>7,24,000</u>

Note No 10

Trade Receivables

Sundry Debtors

Debtors Outstanding for the period exceeding six months

	5,000	
Less than Six Months Good	<u>50,000</u>	
	55,000	
Doubtful	<u>5,000</u>	60,000
(+) Bills Receivable		<u>26,000</u>
		<u>86,000</u>

Accountancy Part 2

Note No 4

Other Current Liabilities	
Director's Commission	<u>324</u>
	<u>324</u>

Note No 7

Intangible Fixed Assets	
Goodwill	<u>60,000</u>
	60,000
Non-Current Investments	
Investment (5% Government Securities)	<u>30,000</u>
	<u>30,000</u>

Note No 9

Other Non-Current Assets	
Accrued Interest on 5% Government Securities	<u>1,500</u>
	<u>1,500</u>

Note No 11

Cash and Cash Equivalents	
Cash in Hand	2,000
(+) Cash at Bank	<u>55,000</u>
	<u>57,000</u>

Accountancy Part 2

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

Details	Amt. (₹)	Details	Amt. (₹)
Stock of Wheat	9,500	Furniture	5,100
Stock of Flour	16,000	Vehicles	5,100
Wheat Purchase	4,05,000	Stores and Spare Parts	18,300
Manufacturing Expenses	90,000	Advances	24,500
Flour Sales	5,55,000	Book Debts	51,700
Salaries and Wages	13,000	Investments	4,000
Establishment	4,700	Share Capital	72,000
Interest (Cr)	500	Pension Fund	23,000
Rent Received	800	Dividend Equalisation fund	10,000
Profit and Loss Account (Cr)	15,000	Taxation Provision	8,500
Director's Fees	1,200	Unclaimed Dividends	900
Dividend for 2004	9,000	Deposits (Cr)	1,600
Land	12,000	Trade Creditors	1,24,000
Buildings	50,500	Cash in Hand	1,200
Plants and Machinery	50,500	Cash at Bank	40,000

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

(a) Stock on December 31, 2005 were: Wheat at cost, Rs. 14,900; Flour at market price, Rs. 21,700; (b) Outstanding expenses: Manufacturing expenses, Rs. 23,500; and salaries and wages, Rs. 1,200; (c) Provide depreciation : Building at 2% ; Plant and machinery at 10%: Furniture at 10% ; and Vehicle 20%. (d) Interest accrued on Government Securities, Rs.100: (e) A tax provision of Rs. 8,000 is considered necessary. (f) The directors propose a dividend of 20%. (g) The authorised capital consists of 12,000 equity shares of

Accountancy Part 2

Rs. 10 each of which 7,200 shares were issued and fully paid up.

Answer

Trading and Profit and Loss Account			
for the year ended December 31, 2011			
Dr			Cr
Expenses/Losses	Amt. (₹)	Revenues/Gains	Amt. (₹)
To Opening Stock		By Sales (Flour)	5,35,000
To Wheat 9,500		By Closing Stock	
To Flour 16,000	25,500	Wheat (at cost) 14,900	
To Purchase (Wheat)	4,05,000	Flour (at market price) 21,700	36,600
To Manufacturing Expenses 90,000			
(+) Outstanding 23,500	1,13,500		
To Gross Profit c/d	47,600		
	5,91,600		5,91,600
To Salaries and Wages 13,000		By Gross Profit b/d	47,600
(+) Outstanding 1,200	14,200	By Interest 500	
To Establishment	4,700	(+) Accrued 100	600
To Director's Fees	1,200	By Rent Received	800
To Depreciation		By Taxation Provision	500
Building 1,010		(8,500 – 8,000)	
Plant and Machinery 5,050			
Furniture 510			
Vehicle 1,020	7,590		
To Net Profit c/d	21,810		
	49,500		49,500
To Dividend for 2004	9,000	By Balance b/d	15,000
To Proposed Dividend	14,400	By Net Profit for the current year	21,810
To Balance c/d	13,410		
	36,810		36,810

Accountancy Part 2

Balance Sheet as on December 31, 2011

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Share Capital		Fixed Assets	
Authorised Capital		Land	12,000
12,000 shares of ₹ 10 each	1,20,000	Buildings	50,500
		(-) Depreciation	(1,010)
Issued and Subscribed and Paid up 7,200 share of ₹ 10 each	72,000	Plants and Machinery	50,500
Reserves and Surplus		(-) Depreciation	(5,050)
Pension Fund	23,000	Furniture	5,100
Dividend Equalisation Fund	10,000	(-) Depreciation	(510)
Profit and Loss	13,410	Vehicles	5,100
Secured Loans	—	(-) Depreciation	(510)
Unsecured Loans		Investments	
Deposits	1,600	Investments	4,000
Current Liabilities and Provisions		(+) Accrued	100
A. Current Liabilities		Current Assets, Loan and Advances	
Trade Creditors	1,24,000	A. Current Assets	
Unclaimed Dividends	900	Book Debts	51,700
Outstanding Manufacturing Expenses	23,500	Stores and Spare Parts	18,300
Outstanding Salaries and Wages	1,200	Closing Stock	
B. Provisions		Wheat (at Cost)	14,900
Proposed Dividend	14,400	Flour (at market Price)	21,700
Provision for Taxation	8,000	Cash in Hand	1,200
		Cash at Bank	40,000
		B. Loan and Advances	
		Advances	24,500
	2,92,010		2,92,010

Note : Pension fund is assumed to be created out of profits. Dividend ₹ 9,000 is considered as declared and paid in same year.

As per Revised Schedule VI applicable from 2013 Board examinations, balance

Accountancy Part 2

sheet will be prepared as given below.

Balance Sheet as on December 31, 2011

	Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
I.	Equity and Liabilities		2010-2011	
	1. Shareholder's Funds			
	(a) Share Capital	1	72,000	
	(b) Reserves and Surplus	2	46,410	
	(c) Money Received Against Share Warrants			
	2. Share Applications Money Pending Allotment			
	3. Non-Current Liabilities			
	(a) Long Term Borrowings	3	1,600	
	(b) Deferred Tax Liabilities (Net)			
	(c) Other Long Term Liabilities			
	(d) Long Term Provisions			
	4. Current Liabilities			
	(a) Short Term Borrowings			
	(b) Trade Payables	4	W	
	(c) Other Current Liabilities	5	25,600	
	(d) Short Term Provisions	6	22,400	
	Total		2,92,010	

II	Assets			
	1. Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible Assets	7	1,15,610	
	(ii) Intangible Assets			
	(iii) Capital Work in Progress			
	(iv) Intangible Assets Under Development			
	(b) Non-Current Investments	8	4,000	
	(c) Deferred Tax Assets (Net)			
	(d) Long Term Loans and Advances			
	(e) Other Non-Current Assets	9	100	

Accountancy Part 2

	Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
2.	Current Assets			
	(a) Current Investments			
	(b) Inventories	10	54,900	
	(c) Trade Receivables	11	51,700	
	(d) Cash and Cash Equivalents	12	41,200	
	(e) Short Term Loans and Advances		24,500	
	(f) Other Current Assets			
	Total		2,92,010	

Note to Accounts

Note No 1

Share Capital

Authorised Capital

12,000 shares of 10 each 1,20,000

Issued and Subscribed and Paid up

72,000 shares of 10 each 72,000

72,000

Note No 2

Reserves and Surplus

Pension Fund 23,000

(+) Dividend Equalisation Fund 10,000

(+) Profit and Loss 13,410

46,410

Note No 5

Other Current Liabilities

Unclaimed Dividends 900

(+) Outstanding Manufacturing Expenses 23,500

(+) Outstanding Salaries and Wages 1,200

25,600

Accountancy Part 2

Note No 3

Long Term Borrowings	
Deposits	<u>1,600</u>
	<u>1600</u>

Note No 6

Short Term Provisions	
Proposed Dividend	14,400
(+) Provisions for Taxation	<u>8,000</u>
	<u>22,400</u>

Note No 7

Tangible Fixed Assets	
Land	12,000
Buildings	50,500
(-) Depreciation	<u>(1,010)</u>
Plants and Machinery	50,500
(-) Depreciation	<u>5,050</u>
Furniture	5,100
(-) Depreciation	<u>510</u>
Vehicles	5,100
(-) Depreciation	<u>1,020</u>
	<u>1,15,610</u>

Note No 10

Inventories	
Closing Stock	
Wheat (at cost)	14,900
(+) Flour (at market price)	21,700
(+) Stores and Space Parts	<u>18,300</u>
	<u>54,900</u>

Accountancy Part 2

Note No 12

Cash and Cash Equivalents

Cash in Hand 1,200

(+) Cash at Bank 40,000

41,200

Note No 4

Trade Payables

Trade Creditors 1,24,000

1,24,000

Note No 8

Long Term Borrowing

Investment 4,000

4,000

Note No 9

Other Non-Current Assets

Accrued Interest on Investment 100

100

Note No 11

Trade Receivables

Book Debts 51,700

51,700

Accountancy Part 2

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

Details	Amt. (₹)	Details	Amt. (₹)
Depreciation on Machinery	33,000	Authorised Capital: 60,000 shares of ₹ 10 each	6,00,000
Calls in Arrear	7,500	Subscribed Capital	4,00,000
Land and Buildings	3,00,000	6% Debentures	3,00,000
Machinery	2,97,000	Profit and Loss Account (Cr)	13,625
Interim dividend paid	37,500	Sundry Debtors	87,000
Stock on 1-1-2011	75,000	Sales	4,15,000
Sundry Creditors	40,000	Sinking Fund	75,000
Bills Payable	38,000	Preliminary Expenses	5,000
Furniture	7,200		
Bank Balance	39,900		
Purchase	1,85,000		
Provision for Bad Debts	4,375		
Investments	75,000		
Salary and Wages	99,300		
Repairs	4,300		
Fuel	2,500		
Rates and Taxes	1,800		

Details	Amt. (₹)	Details	Amt. (₹)
Travelling Expenses	2,000		
Discounts	6,400		
Director's Fees	5,700		
Bad Debts	2,100		
Debenture Interest	9,000		
Carriage	1,800		
Freight	8,900		
Sundry Expenses	2,350		
Public deposits	10,000		
	12,95,625		12,95,625

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

Accountancy Part 2

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

Note: Rectified trial balance need not be prepared

Answer

Profit and Loss Account				
Dr		for the year ended December 31, 2011		Cr
Expenses/Losses		Amt. (₹)	Revenues/Gains	Amt. (₹)
To Opening Stock		75,000	By Sales	4,15,000
To Purchase		1,85,000	By Closing Stock	95,000
To Fuel		2,500		
To Carriage		1,800		
To Freight		8,900		
To Gross Profit c/d		2,36,800		
		5,10,000		5,10,000
To Salary and Wages		99,300	By Gross Profit b/d	2,36,800
To Repair		4,300		
To Rates and Taxes		1,800		
To Travelling Expenses		2,000		
To Discounts		6,400		
To Director's Fee		5,700		
To Bad Debts		2,100		
To Debenture Interest		9,000		
(+) Outstanding		9,000		
To Sundry Expenses		2,350		

Expenses/Losses	Amt. (₹)	Revenues/Gains	Amt. (₹)
To Depreciation on Machinery	33,000		
To Preliminary Expenses Written off	5,000		
To Net Profit c/d	56,850		
	2,36,800		2,36,800
To Interim Dividend Paid	37,500	By Balance b/d	13,625
To Balance c/d	32,975	By Net Profit of the Current Year	56,850
	70,475		70,475

Accountancy Part 2

Balance Sheet as on December 31, 2011

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Share Capital		Fixed Assets	
Authorised Capital		Land and Buildings	3,00,000
60,000 shares of ₹ 10 each	6,00,000	Machinery	3,30,000
		(-) Depreciation	(33,000)
		Furniture	7,200
Issued and Subscribed		Investments	
4,000 shares of ₹ 10 each		Investments	75,000
Fully Called up	4,00,000	Current Assets, Loan and	
(-) Calls in Arrear	(7,500)	Advances	
Reserve and Surplus	3,92,500	Current Assets:	
Sinking Fund	75,000	Sundry Debtors	87,000
Profit and Loss	32,975	(-) Provision for Bad debt	82,625
Secured Loans			(4,375)
6% Debentures	3,00,000	Stock	95,000
Unsecured Loans		Bank Balance	39,900
Public Deposits	10,000	Suspense A/c (Difference of the Trial Balance)	750
Current Liabilities and Provisions			
A. Currents			
Liabilities			
Sundry Creditors	40,000		
Bills Payable	38,000		
Outstanding Debenture Interest	9,000		
B. Provisions			
	8,97,475		8,97,475

As per Revised Schedule VI applicable from 2013 Board examinations, balance

Accountancy Part 2

sheet will be prepared as given below

Bang Vikas Ltd Balance Sheet as on December 31, 2011

	Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
I.	Equity and Liabilities		2010-2011	
	1. Shareholder's Funds			
	(a) Share Capital	1	3,92,500	
	(b) Reserves and Surplus	2	1,07,975	
	(c) Money Received Against Share Warrants			
	2. Share Application Money Pending Allotment			
	3. Non-current liabilities			
	(a) Long Term Borrowings	3	3,10,000	
	(b) Deferred Tax Liabilities (Net)			
	(c) Other Long Term Liabilities			
	(d) Long Term Provisions			
	4. Current liabilities			
	(a) Short Term Borrowings			
	(b) Trade Payables	4	78,000	
	(c) Other Current Liabilities	5	9000	
	(d) Short Term Provisions			
	Total		8,97,476	
II	Assets			
	1. Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible Assets	6	6,04,200	
	(ii) Intangible Assets			
	(iii) Capital Work in Progress			
	(iv) Intangible Assets Under Development			
	(b) Non-Current Investments		75,000	
	(c) Deferred Tax Assets (Net)			

Accountancy Part 2

	Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
	(d) Long Term Loans and Advances			
	(e) Other Non-Current Assets			
2.	Current Assets			
	(a) Current Investments			
	(b) Inventories	7	95,000	
	(c) Trade Receivables		82,625	
	(d) Cash and Cash Equivalents		39,900	
	(e) Short Term Loans and Advances			
	(f) Other Current Assets			
	(g) Suspense Account		750	
	Total		8,97,475	

Note to Accounts

Note No 1

Share Capital

Authorised Capital

60,000 shares of 10 each 6,00,000

Issued and Subscribed Capital

4,000 shares of 10 each Fully paid up 4,00,000

(-) Calls-in-arrears 17,500 3,92,500

Note No 2

3,92,500

Reserve and Surplus

Sinking Fund 75,000

(+) Profit and Loss 32,975

1,07,975

Note No 6

Tangible Fixed Assets

Land and Buildings 3,00,000

Machinery 3,30,000

(-) Depreciation 33,000 2,47,000

Furniture 7,200

6,04,200

Accountancy Part 2

Note No 4

Trade Payables

Sundry Creditors	40,000
(+) Bills Payable	38,000
	<u>78,000</u>

Note No 3

Long Term Borrowings

6% Debentures	3,00,000
(+) Public Deposits	10,000
	<u>3,10,000</u>

Note No 5

Other Current Liabilities

Outstanding Debenture Interest	9,000
	<u>9,000</u>

Note No 7

Trade Receivables

Sundry Debtors	8,7000
(-) Provision for Bad Debts	4,375
	<u>82,625</u>

Working Note

Rectified Trial Balance

Particulars	LF	Amt. (Dr)	Amt. (Cr)
Subscribed Capital			4,00,000
6% Debentures			3,00,000
Profit and Loss (Cr)			13,625
Sales			4,15,000
Sinking Fund			75,000
Depreciation on Machinery		33,000	
Sundry Creditors			40,000
Bills Payable			38,000
Provision for Bad Debts			4,375
Preliminary Expenses		5,000	
Sundry Debtors		87,000	
Call in Arrear		7,500	
Land and Building		3,00,000	
Machinery		2,97,000	

Accountancy Part 2

Particulars	LF	Amt. (Dr)	Amt. (Cr)
Interim Dividend Paid		37,500	
Stock on 1-1-2005		75,000	
Furniture		7,200	
Bank Balance		39,900	
Purchase		1,85,000	
Investments		75,000	
Salary and Wages		99,300	
Repair		4,300	
Fuel		2,500	
Rates and Tax		1,800	
Travelling Expenses		2,000	
Discounts		6,400	
Director's Fees		5,700	
Bad debts		2,100	
Debenture Interest		9,000	
Carriage		1,800	
Freight		8,900	
Sundry Expenses		2,350	
Public Deposit			10,000
Total		12,95,250	12,96,000
Difference of the Trial Balance		750	
		12,96,000	12,96,000

Working Note: Firstly the rectified trial balance will be made then the final accounts will be prepared.

Note: When the trial balance does not tally, it should be balanced by writing the difference amount on either side as required and then show it in balance sheet

5. The Silver Ore Co. Ltd. was formed on April 1, 2005 with an authorised capital of Rs.6,00,000 in shares of Rs. 10 each. Of these 52,000 shares had been issued and subscribed but there were calls in arrear on 100 shares @ Rs. 2.50. From the following trial balance as on March 31, 2006 prepare the trading and profit and loss account and the balance sheet:

Accountancy Part 2

Particulars	Amt. (₹)	Particulars	Amt. (₹)
Cash at Bank	1,05,500	Advertising	5,000
Share Capital	5,19,750	Cartage on Plant	1,800
Plant	40,000	Furniture and Buildings	20,900
Sale of Silver	1,79,500	Administrative Expenses	28,000
Mines	2,20,000	Repairs of Plant	900
Promotion Expenses	6,000	Coal and Oil	6,500
Interest of FD up to Dec 31, 2011	3,900	Cash	530
Dividend on Investment	3,200	Investments-share of tin mines	80,000
Royalties Paid	10,000	Brokerage on above	1,000
Railway track and Wagons	17,000	6% FD in Syndicate Bank	89,000
Wages of Mines	74,220		

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

Answer

Profit and Loss Account

Dr for the year ended March 31, 2012 Cr

Expenses/Losses	Amt. (₹)	Revenues/Gains	Amt. (₹)
To Coal and Oil	6,500	By Sale	1,79,500
To Wages	74,220	By Closing Stock	15,000
To Royalties	10,000		
To Gross Profit c/d	1,03,780		
	1,94,500		1,94,500
To Promotion Expenses Written off	2,000	By Gross Profit b/d	1,03,780
To Advertising	5,000	By Interest on FD	3,900
To Administrative Expenses	28,000	(+) Accrued Interest	1,440
			5,340

Accountancy Part 2

Expenses/Losses	Amt. (₹)	Revenues/Gains	Amt. (₹)
To Repair of Plant	900	By Dividend on Investment	3,200
To Depreciation			
Railways Track and Wagons	1,700		
Furniture and Building	1,045		
To Net Profit c/d	73,675		
	1,12,320		1,12,320

Balance Sheet as on March 31, 2012

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Share Capital		Fixed Assets	
Authorised Capital		Plant	40,000
60,000 shares of ₹ 10 each	6,00,000	(+) Cartage on Plant	1,800
Issued and Subscribed		Mines	2,20,000
51,900		Furniture and Buildings	20,900
51,900 Shares of 10 each		(-) Depreciation	(1,045)
(+) Share	750	Railways Track & Wagons	17,000
Forfeiture		(-) Depreciation	(1,700)
Reserves and Surplus		Investments	
Profit and Loss	73,675	Investment Shares of Tin Mines	80,000
		Add: Brokerage	1,000
		6% FD in Syndicate Bank	89,000
		Current Assets, Loan and Advances	
		A. Current Assets	
		Interest on FD in Syndicate Bank	1,440
		Cash at Bank	1,05,500
		Cash in Hand	530
		Stock in Hand	15,000
		B. Loans and Advances	
		Miscellaneous Expenditure	
		Promotion Expenses	4,000
	5,93,425		5,93,425

Accountancy Part 2

As Per Revised Schedule VI applicable from 2013 Board examinations, balance sheet will be prepared as given below

Silver Ore Co Ltd
Balance Sheet
as on March 31, 2012

	Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
I.	Equity and Liabilities		2011-2012	
	1. Shareholder's Funds			
	(a) Share Capital	1	5,19,750	
	(b) Reserves and Surplus	2	69,675	
	(c) Money Received Against Share Warrants			
	2. Share Application Money Pending Allotment			
	3. Non-Current Liabilities			
	(a) Long Term Borrowings			
	(b) Deferred Tax Liabilities (Net)			
	(c) Other Long Term Liabilities			
	(d) Long Term Provisions			
	4. Current Liabilities			
	(a) Short Term Borrowings			
	(b) Trade Payables			
	(c) Other Current Liabilities			
	(d) Short Term Provisions			
	Total		5,89,425	
II	Assets			
	1. Non-Current Assets			
	(a) Fixed assets			
	(i) Tangible Assets	3	2,96,955	
	(ii) Intangible Assets			
	(iii) Capital Work in Progress			
	(iv) Intangible Assets Under Development			
	(b) Non-Current Investments	4	1,70,000	
	(c) Deferred Tax Assets (Net)			
	(d) Long term Loans and Advances			
	(e) Other Non-Current Assets			

Accountancy Part 2

	Particulars	Note No	Figures as at the End of Current Reporting Period	Figures as at the End of Previous Reporting Period
2.	Current Assets			
	(a) Current Investments			
	(b) Inventories		15,000	
	(c) Trade Receivables			
	(d) Cash and Cash Equivalents	5	1,06,030	
	(e) Short Term Loans and Advances			
	(f) Other Current Assets	6	1,440	
	Total		5,89,425	

Note to Accounts

Note No 1

Share Capital

Authorised Capital

60,000 shares of 10 each 6,00,000

Issued and Subscribed Capital

51,900 shares of 10 each 5,19,000

(+) Share Forfeiture 750 5,19,750
5,19,750

Note No 3

Tangible Fixed Assets

Plant	40,000	
(+) Cartage on Plant	<u>1,800</u>	4,800
Mines		2,20,000
Furniture and Buildings	20,900	
(-) Depreciation	<u>1,045</u>	19,855
Railway Tracks and Wagons	17,000	
(-) Depreciation	<u>1,700</u>	<u>15,300</u>
		<u>2,96,955</u>

Accountancy Part 2

Note No 5

Cash and Cash Equivalents	
Cash in Hand	530
(+) Cash at Bank	<u>1,05,500</u>
	<u>1,06,030</u>

Note No 2

Reserve and Surplus	
Profit and Loss	<u>73,675</u>
(–) Promotion Expenses	<u>4,000</u>
	<u>69,675</u>

Note No 4

Non-Current Investment	
Investment Shares of Tin Mines 80,000	
(+) Brokerage	<u>1,000</u> 81,000
6% Fixed Deposit in Syndicate Bank	<u>89,000</u>
	<u>1,70,000</u>

Note No 6

Other Current Assets	
Interest on FD in Syndicate Bank	<u>1,440</u>
	<u>1,440</u>