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The Institute of
Chartered Accountants
of Pakistan

2013

INTRODUCTION TO ACCOUNTING

QUESTION BANK

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Question Bank

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Introduction to accounting

The Institute of Chartered Accountants of Pakistan

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CHAPTER 1 – INTRODUCTION TO BUSINESS AND ACCOUNTING

1.1 What are the components of a set of financial statements? (05)

1.2 Different user groups are interested in an entity's financial statements for different reasons.

Identify any four potential user groups and briefly describe the information which they may be interested in. (08)

1.3 (a) Explain the following and give one example in each case:

(i) Capital and revenue expenditure

(ii) Accrued and unearned revenue (06)

CHAPTER 2 – ACCOUNTING CONCEPTS AND TERMINOLOGY

2.1 (a) Explain the meaning of following accounting concepts/terms with reference to financial statements:

(i) Consistency

(ii) True and fair view

(iii) Completeness

(iv) Materiality

(v) Going concern

(vi) Substance over form

(vii) Prudence (14)

2.2 Identify whether the following statements are true or false and give brief reasons to support your conclusion:

(i) The concept of separate entity is not applicable to a partnership.

(ii) Closing inventory does not appear in the pre-closing trial balance but appears in the post-closing trial balance.

(iii) The concept of going concern supposes that the life of business entity will be more than 15 years.

(iv) When the allowance for bad debts is based on age analysis, the opening balance of allowance for doubtful debts is not taken into consideration.

(v) Net realizable value of inventories is equal to selling price.

(vi) The 'prudence' concept allows a business to build substantially higher reserves/allowances than are actually required. (6)

2.3 (a) Fill in the blanks with appropriate word(s) to complete the following sentences. Do not write the whole sentence.

(i) A bank overdraft is indicated by a ________ balance in the bank statement.

(ii) Cheques issued but not presented, cause the bank statement balance to be ________than the cash book balance.

(iii) The withdrawal of inventory by the owner for his own use should appear in the trading account as a deduction from ________.

(iv) The balance of purchase ledger control account represents ________.

(v) If closing inventory is undervalued, then net profit would be ________.

(vi) The basic accounting equation is given by the formula:

Equity + Long term liabilities = _________+ Current assets – Current liabilities.

(vii) Economic resources owned by a business are called its ________.

(viii) According to the ________ concept, the business is regarded as separate from the personal affairs of its owners. (04)

2.4 Name the accounting concepts on which the following rules are based.

(i) Inventories are valued on the same basis in each accounting period.

(ii) Assets are valued assuming there will be no sudden stoppage in business.

(iii) Assets and liabilities are valued with due caution in times of uncertainty.

(iv) Personal transactions should be distinguished from business transactions.

(v) Cost of small calculators may be charged to expenses instead of being capitalized.

(vi) The financial statements must disclose all the relevant information.

(vii) Transactions are recorded in various periods assuming money has a constant value.

(viii) Income is not recognized when a fee is received but when a service is rendered.

(ix) Leased vehicles might be recorded as assets although these are not owned by the organisation.

(x) Income and all costs relating to earning such income are accounted for in the same accounting period. (10)

2.5 Differentiate between cash and accrual basis of accounting. Which method would you prefer and why? (05)

CHAPTER 3 – THE ACCOUNTING EQUATION

3.1 BOB

Bob inherited Rs.10,000,000 and decided to set himself up as a construction machinery distributor, starting to trade on 1 July.

During July he entered into the following transactions.

(1) Paid the Rs.10,000,000 into a business bank account

(2) Bought Machine 1 for Rs.1,000,000 cash

(3) Bought Machine 2 for Rs.2,500,000 cash

(4) Sold Machine 1 for Rs.1,500,000 cash

(5) Paid rent for his premises of Rs.300,000 cash.

(6) Bought office equipment for Rs.200,000 cash

(7) Bought Machine 3 for Rs.4,000,000 cash

(8) Sold Machine 2 for Rs.3,250,000 cash

(9) Drew Rs.400,000 in cash from the business

(Note: The word "cash" above is used to distinguish the transaction from credit transactions. All cash payments were made from the bank account.).

Required:

(a) Show the accounting equation which results from EACH of these transactions.

(Note: Each transaction follows on from the one before.)

(b) The following transactions were entered into during August:

(1) Bought Machine 4 for cash (Rs.3,000,000) and Machine 5 (Rs.2,500,000)

(2) Sold Machine 4 for Rs.4,500,000 cash

(3) Received a telephone bill for Rs.100,000 which he paid

(4) Sold Machine 5 for Rs.1,800,000 cash

(5) Drew Rs.600,000 in cash from the business

(6) Bought an Machine 6 for Rs.5,600,000 cash

Required:

Show the accounting equation at 31 August after ALL the above transactions.

(c) Prepare a statement of comprehensive income for the month ended 31 August and a statement of financial position as at that date for Bob's business.

CHAPTER 4 – DOUBLE ENTRY

4.1 STARTER

The following information is available for Starter's business for the year ended 31 December. He started his business on 1 January.

	Rs.(000)
Trade payables	6,400
Trade receivables	5,060
Purchases	16,100
Revenue	28,400
Motor van	1,700
Drawings	5,100
Insurance	174
General expenses	1,596
Rent and rates	2,130
Salaries	4,162
Inventory at 31 December	2,050
Sales returns	200
Cash at bank	2,628
Cash in hand	50
Capital introduced	4,100

Required:

Prepare a statement of comprehensive income for the year ended 31 December and a statement of financial position at that date.

4.2 MAY TRANSACTIONS

The following transactions in May 2013 are those of a new business entity, Home Oak Garden Traders.

May 2013	
Date	
1	Set up the entity with capital in cash: Rs.2,500,000.
2	Bought goods on credit from the following suppliers: The Bushes Company Rs.540,000, Flower City Rs.870,000, D Gibson Rs.250,000, Weedkill Rs.760,000, T Greenery Rs.640,000.
4	Sold goods on credit to: The Office Company Rs.430,000, V Cork Rs.640,000, Texas Chain Stores Rs.1,760,000.
6	Paid rent Rs.120,000.
9	The Office Company paid the Rs.430,000 that it owed.
10	Texas Chain Stores paid Rs.1,500,000.
12	The following payments were made: to D Gibson Rs.250,000 and to The Bushes Company Rs.540,000.
15	Advertising costs of Rs.230,000 were paid to the local newspaper publisher.
18	Bought goods on credit from the following suppliers: The Bushes Company Rs.430,000, Landscape Rs.1,100,000.
21	Sold goods on credit to Public Parks Rs.670,000
31	Paid rent Rs.180,000.

Required

(a) Use T accounts to show how these transactions should be recorded in the main ledger accounts of the entity. The accounting system maintains separate accounts for each individual payable and receivable in the main ledger.

(b) Prepare a trial balance as at 31 May 2013.

4.3 LEE

Enter the following transactions in the main ledger accounts of Lee, and extract a trial balance as at 31 March 2013.

Assume that all receipts and payments are by cheque unless told otherwise.

March 2013	
Date	
1	Started business with Rs.80,000 in the bank
2	Bought goods on credit from: KH Supplies Rs.7,600; Hatts Rs.2,700; Toby Traders Rs.5,600
5	Cash sales Rs.8,700. The cash was kept in a safe in Lee's office.
6	Paid wages Rs.1,400 by cheque.
7	Sold goods on credit to: Elliotts Rs.3,500; L. Lane Rs.4,200; Carton Leisure Rs.7,200
9	Bought goods for cash Rs.4,600 using cash from Lee's safe.
10	Bought goods on credit from: KH Supplies Rs.5,700; Toby Traders Rs.9,800
12	Paid wages Rs.1,400 by cheque.
13	Sold goods on credit to: L. Lane Rs.3,200; Carton Leisure Rs.2,300
15	Bought shop fixtures on credit from Beta Fittings Rs.5,000
17	Paid K H Supplies Rs.8,400
18	Goods returned to Toby Traders Rs.2,000
21	Paid Beta Fittings Rs.5,000
24	Payment received from Carton Leisure Rs.9,500
27	Goods returned to KH Supplies Rs.2,400
30	King Bank provides a loan of Rs.6,000
31	Bought a motor van, paying by cheque Rs.40,000

4.4 BLACK

Using the following information, prepare the statement of comprehensive income for Black for the year ended 31 December 2013 and a statement of financial position as at that date.

Black – Trial balance as at 31 December 2013

	Debit Rs.	Credit Rs.
Purchases	54,261	
Sales		135,650
Sales returns	50	
Purchase returns		61
Carriage inwards (delivery cost of purchases)	100	
Carriage outwards (cost of deliveries to customers)	150	
Inventory – 1 January 2013	7,500	
Wages and salaries	8,900	
Rent	4,500	
Telephone	560	
Heat and lighting	890	
Motor van running expenses	1,250	
Bank interest	534	
Land and buildings	60,000	
Motor van	5,000	
Payables		5,900
Bank overdraft		6,500
Receivables	8,700	
Cash in hand	150	
Drawings	15,000	
Capital		19,434
	167,545	167,545

Inventory at 31 December 2013 was Rs.9,500.

4.5 WORTH

The following is a trial balance for Worth after his first year's trading. You are required to prepare a statement of comprehensive income for the year ended 30 June 2013 and a statement of financial position as at that date.

Worth - Trial balance as at 30 June 2013

	DR Rs.(000)	CR Rs.(000)
Sales		28,794
Purchases	23,803	
Rent	854	
Lighting and heating expenses	422	
Salaries and wages	3,164	
Insurance	105	
Land and buildings	50,000	
Fixtures and fittings	1,000	
Receivables	3,166	
Sundry expenses	506	
Payables		1,206
Cash at bank	3,847	
Drawings	2,400	
Motor vans	5,500	
Motor running expenses	1,133	
Capital		65,900
	95,900	95,900

Inventory at 30 June 2013 was Rs.4,166,000.

CHAPTER 5 – SALES AND PURCHASES

5.1 MAY TRANSACTIONS REVISITED

The following transactions in May 2013 are those of a new business entity, Home Oak Garden Traders.

May 2013	
Date	
1	Set up the entity with capital in cash: Rs.2,500,000.
2	Bought goods on credit from the following suppliers: The Bushes Company Rs.540,000, Flower City Rs.870,000, D Gibson Rs.250,000, Weedkill Rs.760,000, T Greenery Rs.640,000. (Total Rs.3,060,000).
4	Sold goods on credit to: The Office Company Rs.430,000, V Cork Rs.640,000, Texas Chain Stores Rs.1,760,000. (Total Rs.2,830,000).
6	Paid rent Rs.120,000.
9	The Office Company paid the Rs.430,000 that it owed.
10	Texas Chain Stores paid Rs.1,500,000.
12	The following payments were made: to D Gibson Rs.250,000 and to The Bushes Company Rs.540,000. (Total Rs.790,000).
15	Advertising costs of Rs.230,000 were paid to the local newspaper publisher.
18	Bought goods on credit from the following suppliers: The Bushes Company Rs.430,000, Landscape Rs.1,100,000. (Total Rs.1,530,000).
21	Sold goods on credit to Public Parks Rs.670,000
31	Paid rent Rs.180,000.

Required

(a) Prepare extracts of the sales day book and purchase day book for the relevant transactions above.

(b) Use T accounts to show how these transactions should be recorded in the main ledger accounts of the entity. The accounting system contains a receivables ledger and a payables ledger for individual accounts, and there are control accounts (total accounts) for receivables and payables in the main ledger.

(c) Post the transactions to individuals' accounts in the receivables ledger and the payables ledger and extract a list of balances from these. (The total of each list should agree with the balance on the receivables control account and payables control account respectively).

(d) Prepare a trial balance as at 31 May 2013.

5.2 JUNE TRANSACTIONS

The following transactions in June 2013 are those of a new business entity, Parakeet.

June 2013	
Date	
1	Set up the entity with capital in cash of Rs.6,500,000 paid into a bank account.
2	Bought goods on credit from C Jones Rs.1,800,000
3	Credit sales: J Bird Rs.660,000, D Swann Rs.250,000, Swallow Company Rs.430,000. (Total Rs.1,340,000).
4	Purchased goods for cash (by cheque) Rs.230,000.
5	Bought second-hand motor van for Rs.2,560,000, paying by cheque.
7	Paid motor expenses Rs.120,000.
9	Credit sales: M Parrott Rs.240,000, Canary Company Rs.260,000, G Finch Rs.680,000. (Total Rs.1,180,000).
11	Purchased goods on credit: C Jones Rs.2,400,000, E Davies Rs.620,000, A Evans Rs.460,000. (Total Rs.3,480,000).
13	Purchases returned to C Jones Rs.250,000.
19	Sales returns from D Swann Rs.110,000.
20	Cash drawings taken by owner: Rs.440,000 by cheque.
21	Payments made to E Davies Rs.620,000, A Evans Rs.460,000. (Total Rs.1,080,000). All payments were made by cheque.
23	Received payment from J Bird: Rs.660,000 by cheque.
25	Received payment from Swallow Company: Rs.430,000 in cash which was kept in the office.
28	Purchases returned to C Jones: Rs.420,000.
29	Purchased stationery Rs.40,000 (record as a sundry expense) using cash.
30	Credit sales: D Swann Rs.420,000, Canary Company Rs.540,000. (Total Rs.960,000).

Required

(a) Prepare journal entries to show how the following transactions in June 2013 should be recorded in the main ledger accounts of Parakeet, a newly-established business entity.

The accounting system contains a receivables ledger and a payables ledger for individual accounts, and there are control accounts (total accounts) for receivables and payables in the main ledger.

You are not required to include any narrative in the journal entries.

(b) List the transactions that will be entered in the receivables ledger accounts for the month.

(c) List the transactions that will be entered in the payables ledger accounts for the month.

5.3 KWARK

The following are transactions of Kwark, a new business, during May 2013.

May 2013	
Transaction	
1	Started the business with capital of Rs.2,500,000, paid into a business bank account.
2	Bought goods on credit from the following entities: Ellis Rs.810,000; Mendez Trading Rs.1,305,000; Gibson Rs.375,000; Dynasty Rs.1,140,000; Liners Rs.960,000. (Total Rs.4,590,000).
3	Sold goods on credit to: Bailey Stores Rs.753,000; Fastshop Rs.1,120,000; Spencers Rs.3,080,000. (Total Rs.4,953,000).
4	Bailey Stores paid by cheque Rs.723,000. A discount of Rs.30,000 was allowed for early payment.
5	Spencers paid Rs.1,500,000 by cheque
6	The following payment was made: Ellis Rs.700,000
7	The following payment was made Gibson: Rs.350,000. A discount of Rs.25,000 was received for early payment.
8	Paid carriage outwards: Rs.345,000
9	Purchase returns to Dynasty Rs.400,000
10	Sales returns from Spencers: Rs.270,000
11	Purchases on credit from Mendez Trading Rs.753,000; Dynasty Rs.1,650,000. (Total Rs.2,403,000).
12	Sold goods on credit to Fastshop Rs.1,005,000.

Kwark maintains control accounts for receivables and payables in the main ledger, and accounts for individual customers and suppliers in a receivables ledger and a payables ledger respectively.

Required

(a) Use T accounts to show how the relevant transactions will be recorded in the receivables control account and the payables control account in the main ledger of Kwark in May. (You are not required to prepare T accounts for any of the other main ledger accounts.)

(b) Show the list of balances in the receivables ledger after recording the above transactions.

(c) Show the list of balances in the payables ledger after recording the above transactions.

CHAPTER 6 – DEPRECIATION

6.1 AUBREY

Aubrey purchased a van for Rs.800 cash. He estimates that in four years it will have a scrap value of Rs.104.

Required:

Calculate the annual depreciation charge on

(a) the straight line method

(b) the reducing instalment method (you will need to calculate the rate).

6.2 MATURIN

Maturin bought a machine for Rs.10,000 on 1 January 2012. He estimates a useful life of 8 years and a residual value of Rs.800. Depreciation is to be calculated on a straight line basis.

Required:

(a) Write up for 2012 and 2013 the

(i) Machinery account

(ii) Accumulated depreciation account

(iii) Depreciation expense account.

(b) Show how the machine would be presented in the statement of financial positions as at 31 December 2012 and 31 December 2013.

6.3 SOPHIE

Since he commenced business on 1 January 2010 Sophie has purchased for cash the following three machines.

	Date of purchase	Cost Rs.	Rate of depreciation
Machine 1	20 January 2010	4,200	25%
Machine 2	17 April 2011	5,000	30%
Machine 3	11 July 2012	3,500	35%

Sophie's policy is to charge a full year's depreciation in the year of purchase irrespective of the date of purchase. The reducing balance method is used to calculate depreciation.

Accounts are prepared to 31 December each year.

Required:

(a) Prepare the machinery account and accumulated depreciation account showing the charge to the depreciation account for each year.

(b) Show the relevant statement of financial position extracts for each year.

6.4 DIANA

Diana leases out German sports cars. She started business on 1 January 2010 and has decided to depreciate the cars on a straight line basis at 25% per annum on cost at the year-end. During the years 2010 to 2013 the following purchases took place.

2010	Acquired 20 Porsche 924 Turbos at a cost of Rs.18,600,000 each
2011	Purchased 6 Porsches for a total cost of Rs.108,600,000.
2012	Purchased a further two cars costing Rs.19,800,000 each.
2013	Purchased 15 cars for Rs.21,000,000 each.

Diana prepares accounts to 31 December each year.

Required:

Prepare a vehicle account, an accumulated depreciation account and a depreciation account for the years 2010 to 2013.

6.5 SUNDRY DEPRECIATION PROBLEMS

(a) The financial year of a company is 1st January to 31st December. A non-current asset was purchased on 1st May for Rs.60,000. Its expected useful life is five years and its expected residual value is zero. It is depreciated by the straight-line method.

Required:

Calculate the charge for depreciation in the year of acquisition if a proportion of a full year's depreciation is charged, according to the period for which the asset has been held.

(b) An office property cost Rs.5 million, of which the land value is Rs.2 million and the cost of the building is Rs.3 million. The building has an estimated life of 50 years.

Required:

Calculate the annual depreciation charge on the property, using the straight-line method?

6.6 TIME LIFE ENTERPRISES

The draft statement of financial position of Time Life Enterprises (TLE) as on December 31, 2013, depicts the following:

	Rupees
Plant and Machinery – Cost	12,387,060
Less: Accumulated Depreciation	4,792,540
	7,594,520

On reviewing the accounts of the business, its auditor found that the records have been correctly maintained except for the following events:

(i) On January 17, 2013 a contract was signed for the purchase of a machine from Makers Limited for Rs. 1,125,000 which is to be delivered on July 17, 2014. TLE paid an advance of Rs. 450,000 on the signing of the contract and the balance was to be paid on delivery of the machine. The advance was debited to plant and machinery account.

(ii) Installation of a machine was completed on January 21, 2013. The cost of machine of Rs. 2,700,000 was debited to plant and machinery account. The cost of installation amounting to Rs. 300,000 had been debited to Repairs Account.

Depreciation is charged on a reducing balance method at 10% per annum. Depreciation on new assets commences in the month in which the asset is acquired.

The depreciation expense for the year 2013 have been correctly calculated and recorded except for the impact of errors discussed above.

Required:

Determine the correct balances as at December 31, 2013 by recording appropriate adjustments in the following accounts:

(a) Plant and machinery

(b) Accumulated depreciation - plant and machinery (10)

6.7 ZIAKOT STEEL WORKS

Ziakot Steel Works, a sole proprietorship, recognises depreciation on plant and machinery at 20% per annum reducing balance.

On July 1, 2012 the balances on the plant and machinery and accumulated depreciation accounts were Rs. 712,000 and Rs. 240,000 respectively. Depreciation is recognised from the month of purchase.

During 2012-2013 it the auditors discovered that a repair which cost Rs. 25,000 and incurred on October 1, 2010 had been capitalised incorrectly. It was decided to correct this mistake while finalising the accounts for the year ended June 30, 2013.

Only one machine was purchased during the year ended June 30, 2013 costing Rs. 60,000. The machine was received in the factory on October 1, 2012 and was installed on January 1, 2013.

Required

Plant and machinery account and accumulated depreciation account for the year ended June 30, 2013. (Show all workings) (08)

CHAPTER 7 – BAD AND DOUBTFUL DEBTS

7.1 BELL

Bell is a sole trader making up his accounts to 31 July each year.

At 31 July Year 6 the balance on the allowance for doubtful debts account was Rs.1,420,000. During the following financial period ending 31 July Year 7, Bell suffered a number of bad debts amounting to Rs.723,000, which he wrote off to the bad debts account.

At 31 July Year 7 Bell listed out all his receivables balances, which totalled Rs.32,456,000. After reviewing the list Bell decided that three balances - namely Lee Rs.230,000, Bee Rs.562,000 and Yee Rs.56,000 - were all doubtful and had to be allowed for as doubtful debts. In addition, he considered that 2% of all the remaining balances were doubtful and had to be provided for.

Required

Show the ledger accounts reflecting the necessary adjustments, and the relevant extracts from the financial statements.

7.2 HUBBARD

The doubtful debts allowance brought forward on 1 January in the books of Hubbard was Rs.86,000. Trade receivables at 31 December amounted to Rs.2,840,000 and bad debts to be written off totalled Rs.115,000. Hubbard has estimated that the closing balance on the doubtful debts allowance account should be 5% of accounts receivable.

Required:

Write up the bad debts expense account and the doubtful debts allowance account.

7.3 APU

The financial records of Apu include an allowance for doubtful debts of Rs.206,000 brought forward on 1 January. Trade receivables at 31 December amount to Rs.2,440,000 and bad debts to be written off total Rs.55,000. An allowance for doubtful debts of 5% of receivables is to be carried forward.

Required:

Write up the bad debts expense account and the doubtful debts allowance account.

7.4 BARNEY

The following information is available for Barney:

Year 1

(1) 1 January: Doubtful debts allowance of Rs.860,000 standing on the books.

(2) 31 December: Trade receivables amount to Rs.15,000,000.

(3) Bad debts written off during the year amounted to Rs.1,000,000.

(4) An allowance for 7.5% of trade receivables is required.

Year 2

(1) 31 December: Trade receivables, before adjustments are Rs.13,700,000.

(2) Bad debts to be written off are Rs.1,100,000.

(3) A allowance for 7.5% of debts due is still considered necessary.

Required:

Show the journal entries to record the above and the relevant bad and doubtful debt allowance ledger accounts.

7.5 NELSON

Nelson makes allowance for doubtful debts at varying percentages based on statistical analysis and the level of outstanding trade receivables. The result of this policy for the last three years is as follows.

Year to December	**2010**	**2011**	**2012**
	Rs.(000)	Rs.(000)	Rs.(000)
Trade receivables at the year end (before adjusting for any bad debts)	196,860	151,020	216,020
Estimated bad debts (accounts in liquidation)	1,860	1,020	6,020
Doubtful debts allowance (%)	5%	6%	7.5%

The doubtful debts allowance at 1 January 2010 was Rs.10,000.

Required:

Write up the bad debts expense account and doubtful debts allowance account for each of the three years. Show the relevant extracts from the statement of financial position for each of the three years.

7.6 FLANDERS

At 30 June 2011 Flanders's receivables were Rs.50,000,000. He decided to establish a doubtful debts allowance balance based on 5% of account balances at the statement of financial position date. He made the first allowance at 30 June 2011.

The following relates to the years ended 30 June 2012 and 30 June 2013.

	Year ended 2012 Rs.(000)	30 June 2013 Rs.(000)
Credit sales	480,000	550,000
Cash received from customers	432,000	560,600
Bad debts written off	6,000	2,000

On 30 September 2012 cash was received in respect of a bad debt written off in the year ended 30 June 2012. The amount is included in the Rs.560,600 "cash received from customers" above.

Required:

Write up the receivables account, the bad debts expense account and doubtful debts allowance account.

7.7 HOMER

Homer commenced trading on 1 April 2010. He extracted the following list of balances from his sales ledger as at 31 March 2011:

	Rs.
Bart	200,000
Lisa	400,000
Others	6,300,000
	6,900,000

In the year to 31 March 2011:

(1) Bart emigrated leaving numerous debts.

(2) Lisa is disputing certain invoices, amounting to Rs.100,000, which have been outstanding for more than six months. Homer estimates that Lisa will eventually pay half the disputed amount.

In the year to 31 March 2012:

The sales ledger listing as at 31 March 2012 is as follows:

	Rs.
Maggie	240,000
Marge	400,000
Lisa	60,000
Others	6,600,000
	7,300,000

(1) Maggie has been declared bankrupt and her debt is to be written off.

(2) Marge is experiencing cash flow difficulties. Homer considers a 50% allowance to be appropriate.

(3) Homer is no longer supplying goods to Lisa. The balance, which is in respect of last year's disputed invoices, is to be written off.

In the year to 31 March 2013:

(1) Total receivables per the sales ledger listing are Rs.7,500,000 as at 31 March 2013.

(2) There are no debts requiring specific allowance.

(3) Rs.50,000 has been received from Maggie.

Required:

Assuming that Homer requires a general allowance for doubtful debts of 5%, write up the bad and doubtful debt expense and allowance accounts for the three years to 31 March 2013.

7.8 LOPEZ

In his first year of trading to 31 December 2011 Lopez made credit sales of Rs.200,000 and received Rs.150,000 from his credit customers.

At the end of the year he decided to write off Ludmila's debt of Rs.8,000, make a specific allowance for Jozef's debt totalling Rs.3,500 and create a general allowance of 5% of remaining trade receivables.

During his second year of trading he made sales on credit of Rs.300,000 and received cash of Rs.280,000 including Rs.4,000 from Ludmila. At 31 December 2012, he decided to write off Jozef's debt, and create a specific allowance against 50% of Chokin's total debt of Rs.6,000. He decided that his general allowance should now be 8% of remaining accounts receivable.

In the year to 31 December 2013 Lopez made credit sales of Rs.500,000 and received cash of Rs.400,000. Separate from this he also received a cheque from Chokin for Rs.6,000.

At the year end he decided to create a specific allowance against Paulo's debt of Rs.50,000 and maintain his general allowance at 8%.

Required:

For each of the above years show the trade receivables account, bad debt expense account and allowance for doubtful debts account, and the statement of financial position extract as at each year end. (6)

CHAPTER 8 – PREPAYMENTS AND ACCRUALS

8.1 KIRK

Kirk started a business on 1 January 2012.

Accounting year ended 31 December 2012:

A new warehouse was acquired on 31 March 2012. On 21 April 2012, Kirk received a water bill demand for Rs.1,000,000 for the 12 months to 31 March 2013. Payment was made, in full, on 30 April 2012.

Accounting year ended 31 December 2013:

An office extension was built. The water bill demand for the 12 months to 31 March 2014 was Rs.1,600,000. Kirk paid the full amount on 1 June 2013.

Required:

(a) Write up the water expense ledger account for 2012 and for 2013.

(b) Assuming now that payments were made annually in arrears (ie Rs.1,000,000 on 31 March 2013 and Rs.1,600,000 on 31 March 2014), write up the water expense ledger account for each of the two accounting years.

8.2 SPOCK

Spock owns a removal business and runs a small fleet of vans. He prepares his accounts to 31 December each year.

The following transactions occur in relation to insurance for the year 2013.

1 January	The amount prepaid for insurance was Rs.1,140,000.
1 April	He paid Rs.840,000 insurance for the year ended 31 March 2014 on six of the vans
1 May	He paid Rs.3,540,000 insurance for twenty vans for the year ended 30 April 2014
1 July	He paid Rs.560,000 insurance for the remaining vans for the year ended 30 June 2014

Required:

Write up the insurance account for the year ended 31 December 2013.

8.3 BONES

Bones owns various properties which he rents; some tenants pay in advance, some in arrears. Similarly with his various borrowings the interest is paid in arrears and in advance.

During 2013 rent collected was Rs.229,500 and interest charged to the statement of comprehensive income was Rs.52,500.

Rents receivable and paid in advance together with amounts of interest prepaid and payable at the statement of financial position dates were as follows.

	31 December	
	2012	2013
	Rs.	Rs.
Rents owed by tenants	34,200	40,500
Rents prepaid by tenants	20,700	15,300
Prepaid interest	3,500	5,600
Interest payable	9,800	7,000

Required:

Write up the rent receivable account and the interest payable account for the year ended 31 December 2013.

8.4 UHURA

The following is an extract from the trial balance of Uhura at 31 December 2013.

	Dr	Cr
	Rs.(000)	Rs.(000)
Stationery	560	
Rent	900	
Rates	380	
Lighting and heating	590	
Insurance	260	
Wages and salaries	2,970	

There was stationery still in hand at 31 December 2013 which had cost Rs.15,000.

Rent of Rs.300,000 for the last three months of 2013 had not been paid and no entry has been made in the books at all for it.

Of the rates, Rs.280,000 was for the year ended 31 March 2014. The remaining Rs.100,000 was for the three months ended 31 March 2013.

Fuel had been delivered on 18 December 2013 at a cost of Rs.15,000 and had been consumed before the end of 2013. No invoice had been received for the Rs.15,000 fuel in 2013 and no entry has been made in the records of the business.

Rs.70,000 of the insurance paid was in respect of insurance cover for the year 2014.

Nothing was owing to employees for wages and salaries at the close of 2013.

Required:

Record the above information in the relevant accounts for the year ended 31 December 2012 and close the accounts.

8.5 SCOTTY

Scotty is in business as an antique dealer. The trial balance of his business at 1 January 2013 was as follows.

	Dr Rs.(000)	*Cr* Rs.(000)
Capital		5,000
Cash	4,200	
Motor van	600	
Trade payable – A		200
Trade receivable – B	300	
Rates prepaid	100	
	5,200	5,200

Cash transactions during the period to 31 March 2013 were

	Rs.(000)
Purchases	2,000
Revenue	3,000
Drawings	500
Motor running expenses	350
Rates	250

At 31 March inventory was Rs.700,000 and rates paid in advance amounted to Rs.150,000.

Required:

(a) Prepare the trial balance at 31 March 2013.

(b) Prepare the statement of comprehensive income for the period to 31 March 2013 and a statement of financial position at that date.

8.6 SULU

The following list of account balances was extracted from the books of Sulu at 30 April 2013.

	Dr Rs.(000)	Cr Rs.(000)
Revenue		18,955
Purchases	12,556	
Inventory 1 May 2012	3,776	
Salaries and wages	2,447	
Motor expenses	664	
Rent	456	
Rates	120	
Insurance	146	
Packing expenses	276	
Lighting and heating expenses	665	
Sundry expenses	115	
Motor vehicles	2,400	
Fixtures and fittings	600	
Trade receivables	4,577	
Trade payables		3,045
Cash at bank	3,876	
Cash in hand	120	
Drawings	2,050	
Capital		12,844
	34,844	34,844

Notes at 30 April

(1) Expenses which have been prepaid – Rates Rs.20,000; Insurance Rs.35,000.

(2) Expenses which are owing – Motor expenses Rs.56,000; Rent Rs.24,000; Sundry expenses Rs.26,000.

(3) Inventory Rs.4,998,000.

Required:

From the list of balances and the notes prepare Sulu's statement of comprehensive income for the year ended 30 April 2013 and a statement of financial position at that date.

8.7 CHEKOV

A hotel makes up its accounts to 30 April annually. The proprietor, Mr Chekov, informs you that he has paid the following amounts during the year to 30 April 2013:

	Rs.(000)
Wholesaler	3,945
Butcher	4,261
Building supplies (repairs)	814
Electricity	935
Gas	566
Wages	1,150

He also informs you that he has received Rs.37,550,000 in cash from guests, of which Rs.4,300,000 relates to deposits paid in advance for holidays to be taken after 1 May 2013.

You discover on further investigation that invoices for April 2013 from the butcher and wholesaler, amounting to Rs.431,000 and Rs.292,000, were received on 15 May. The electricity bill for the quarter ended 31 May 2013 totals Rs.220,000 and the chambermaids are paid a week in arrears at Rs.42,000 per week. Gas cylinders are purchased in advance at Rs.17,000 each and two remain unused at 30 April.

Required:

(a) Calculate the amounts to be included in the statement of comprehensive income for each of the above items for the year ended 30 April 2013.

(b) Calculate the relevant statement of financial position amounts at 30 April 2013.

CHAPTER 9 – INVENTORY

9.1 OGAY

Ogay started business on 1 January 2012. At the end of his first year of trading he had closing inventory of Rs.5,000. During 2013 he traded continuously and at 31 December 2013 he had inventory amounting to Rs.7,500.

Sales for 2012 and 2013 were Rs.120,000 and Rs.155,000 respectively and purchases were Rs.75,000 and Rs.110,000 respectively.

Required:

(a) Write up the inventory account, purchases account and revenue account for the two years. (4)

(b) Prepare the trading account for EACH of the two years. (4)

(8)

9.2 ALES

At 31 December 2013 Ales had the following items of inventory:

Product	*Quantity*	*Total cost* Rs.	*Realisable value* Rs.	*Estimated cost of realisation* Rs.
ABC	20	80	200	20
DEF	10	150	120	10
GHI	6	6	7	2
JKL	12	36	12	1

Required:

Calculate the value of inventory as it would appear in the statement of financial position of Ales at 31 December 2013. (4)

9.3 FAISAL

Faisal and partners carried out a physical count on 31 December 2012 and finds Rs.10,000 of inventory in its warehouse.

During the year ended 31 December 2013 the company makes Rs.70,000 of sales and buys Rs.58,000 of supplies.

The company carries out a physical count for the year ended 31 December 2013 on 7 January 2013 and finds Rs.15,000 worth of goods. In the six day intervening period there were sales of goods which had cost Rs.4,800 and deliveries inwards of goods costing Rs.8,000.

Required:

Record inventory in the relevant ledger accounts and prepare the trading account for inclusion in the statement of comprehensive income for the year ended 31 December 2013. (6)

9.4 DASKA RETAIL

On 1 January 2014, a company held 300 units of an item of finished goods inventory. These were valued at Rs. 22 each. During January 2014 three batches of finished goods were received into store from the production department, as follows:

Date	Units	Production cost per unit
	Received	Rupees
10-Jan	400	Rs. 23
20-Jan	400	Rs. 25
25-Jan	400	Rs. 26

Goods sold out of the inventory during January 2014 were as follows:

Date	Units sold	Sale price per unit
		Rupees
14-Jan	500	Rs. 31
21-Jan	500	Rs. 33
28-Jan	100	Rs. 32

Required:

Compute the cost of sales and inventory at 31 January 2014, applying the following basis of inventory valuation:

(i) FIFO

(ii) Weighted Average Cost (Average is updated after every transaction). (09)

CHAPTER 10 – CONTROL ACCOUNTS AND CONTROL ACCOUNT RECONCILIATIONS

10.1 CRAIS

The balance on the trade payables control account is Rs.79,500,000. This does not agree with the sum of the balances on the accounts in the payables ledger.

On investigation, you discover the following errors:

(1) Purchases of Rs.1,850,000 from Supplier A have been recorded in the payables control account, but not in the supplier's account in the payables ledger.

(2) A payment of Rs.2,000,000 to Supplier B has been correctly recorded in the bank account in the ledger, but not in Supplier B's account in the payables ledger.

(3) A discount received of Rs.300,000 from Supplier C has been recorded correctly in the payables control account, but not in Supplier C's account in the payables ledger.

(4) Purchase returns to Supplier D of Rs.1,500,000 have been correctly recorded in Supplier D's account in the payables ledger, but have not been recorded at all in the main ledger.

Required

Prepare journal entries to correct the errors. (Note: When the error is in the payables ledger, only one entry, a debit or a credit, is required as a journal entry.)

State the correct total balance for trade payables.

10.2 FAISAL ENTERPRISES

Faisal Enterprises uses a sales day book to record its sales. A receivables control account is maintained in the general ledger whereas a receivables ledger is maintained separately. On December 31, 2013, the total of the list of receivables amounting to Rs. 301,000 as per receivables ledger did not agree with the balance in the Receivables control account which showed a balance of Rs. 345,000. On checking, the following errors were discovered:

(i) The credit side of the subsidiary account of T has been under cast by Rs. 7,000.

(ii) Invoice number 23612 sent to Z amounting to Rs. 11,000 has been recorded twice in the sales day book but has not been recorded at all in the receivables ledger.

(iii) A debit balance of Rs. 9,300 and credit balances amounting to Rs. 4,600 had been omitted from the list of balances.

(iv) An account of Rs 1,800 owed by S had been written off as irrecoverable on March 31, 2013 and debited to bad debts, but no entry had been made in the Control Account.

(v) A debit balance of Rs. 2,000 in the Receivables ledger had been listed as a credit balance.

(vi) No entry had been made in the control account in respect of a transfer of Rs. 4,100 standing to the credit of G's Account in the Purchases Ledger to his account in the Sales Ledger.

(vii) The total of Sales Returns Book had been under cast by Rs. 12,000.

(viii) The list of balances had been overcast by Rs. 1,000.

(ix) B's account had been credited with Rs. 3,400 for goods returned by him but no other entry had been made in the books.

Required:

Prepare a statement reconciling the balance as per the list with the receivables control account clearly identifying the amount which shall be reported in the statement of financial position as 'Trade Debts'. (12)

10.3 ABID

Abid who was appointed at ABC & Company on January 1, 2009 had changed the method of recording receivables and payables, to save time. Under the new method, he made all entries related to receivables and payables in the subsidiary ledgers but did not maintain the related control accounts. Although the company's trial balance does agree but the management is not satisfied with the method adopted by Abid and wants you to draw the related control accounts.

On reviewing various records, you have extracted the following information:

	Rupees
Receivables as on December 31, 2012	2,600,000
Payables as on December 31, 2012	4,100,000
Cheques issued to suppliers in settlement of Rs. 23,600,000	23,350,000
Cash sales memos issued	14,360,000
Goods returned to suppliers	550,000
Cheques received from receivables in settlement of Rs. 32,000,000	31,650,000
Cheque received from suppliers against return of goods	180,000
Credit sales invoices issued	35,900,000
Returns by customers: from cash sales	320,000
from credit sales	980,000
Goods purchased on credit	27,700,000
Cash refund to a debtor who had paid the amount due twice	120,000
Cheque issued by a debtor on Dec. 28, 2012 was dishonoured on May 13, 2013	200,000
Increase in allowance for doubtful debts (from Rs. 1,750,000 to Rs. 2,250,000)	500,000
Bad debts written off	430,000
Contra settlement between payables and receivables accounts	1,660,000
Credit balances included in customers' accounts as on December 31, 2013	75,000
A supplier's invoice received on December 30, 2013 relating to goods supplied	
on December 28, 2013 has not been entered in the books	350,000

Required:

Prepare the receivables and payables control accounts from the above information for the year ended December 31, 2009. (11)

10.4 KAMRAN ASSOCIATES

The net sales ledger balances of Kamran Associates aggregated Rs. 319,000 as on December 31, 2013. However, the receivables control account showed balance of Rs. 350,410. On checking the following errors were identified.

(i) A credit balance amounting to Rs. 1,200 had been omitted from the list of balances.

(ii) The Sales Return Book had been undercast by Rs. 12,000.

(iii) A balance owed by Shahid amounting to Rs. 2,100 had been written off by debiting bad debts and crediting allowance for bad debts accounts.

(iv) A debit balance of Rs. 2,600 in the sales ledger had been listed as a credit balance.

(v) No entry had been made in the control account to record transfer of Rs. 3,600 standing to the credit of Ghani's account in the purchases ledger to his account in the sales ledger.

(vi) Goods returned by Baber amounting to Rs. 1,700 were credited to his account in the sales ledger but debited to purchase account in the general ledger.

(vii) A discount of Rs. 800 allowed to Waheed had been correctly recorded and posted in the books. This was subsequently disallowed. A corresponding amount was entered in Discounts Received column in the cash book and posted to Waheed's account in the purchases ledger.

(viii) A dishonoured bill of exchange from AB & Company for Rs. 1,800 was properly entered in sales ledger but was debited to miscellaneous expense account in general ledger.

(ix) Rs. 450 received from Shah & Co., a customer, were correctly posted in the control account but was debited in the customers ledger as Rs. 540.

(x) The trial balance included a credit balance of Rs. 18,000 in the suspense account. It was revealed that 60% of the amount represents posting errors in the receivables control account.

Required:

(a) The Receivables control account showing the necessary adjustments.

(b) A statement reconciling the receivables ledger balance with the corrected balance of the receivables control account. (11)

10.5 SHOWERS

Showers sells bathroom fittings on credit to most of its customers. In order to control its debt collection system, the company maintains a trade receivables ledger control account. In preparing the accounts for the year to 30 October 2013 the accountant discovers that the total of all the personal accounts in the trade receivables' ledger amounts to Rs.12,802, whereas the control account balance discloses a balance of Rs.12,550.

Upon investigation the following errors were discovered.

(1) Sales for the week ending 27 March 2013 amounting to Rs.850 had been omitted from the control account.

(2) An account balance of Rs.300 had not been included in the list of balances.

(3) Cash received of Rs.750 had been entered in a personal account as Rs.570.

(4) Discounts allowed totalling Rs.100 had not been entered in the control account.

(5) A personal account balance had been undercast by Rs.200.

(6) A contra item of Rs.400 with the trade payables ledger had not been entered in the control account.

(7) A bad debt of Rs.500 had not been entered in the control account.

(8) Cash received of Rs.250 had been debited to a personal account.

(9) Discounts received of Rs.50 had been debited to a customer's ledger account.

(10) Returns inwards valued at Rs.200 had not been included in the control account.

(11) Cash received of Rs.80 had been credited to a personal account as Rs.8.

(12) A cheque for Rs.300 received from a customer had been dishonoured by the bank, but no adjustment had been made in the control account.

Required:

(a) Prepare a corrected trade receivables control account, bringing down the amended balance at 31 October 2013.

(b) Prepare a statement showing the adjustments that are necessary to the list of personal account balances so that it reconciles with the amended control account balance. (15)

10.6 HUBERT

Hubert maintains his accounts on a fully integrated computerised accounting system which produces control accounts as an integral part of the double entry system. At the end of each month individual sales and purchase ledger balances are reconciled automatically to the respective control accounts as a pre-programmed control check.

Unfortunately Hubert was taken ill in the middle of August and his assistant, input a number of entries without the correct integration codes. Consequently the system has been unable to reconcile the control accounts at the end of that month. The assistant has manually extracted the individual ledger balances, and the net totals at 31 August are as follows.

Purchase ledger	Rs.3,556
Sales ledger	Rs.9,617

The assistant has also manually produced draft accounts for the six months to 31 August and provides you with the following abridged trial balance.

	Rs.	Rs.
Sales ledger control account	9,650	
Purchase ledger control account		7,496
Net profit per draft accounts		4,322
Sundry balances (net)	2,168	
	11,818	11,818

You have checked through the accounting records and discovered the following discrepancies.

(1) The total for the purchases day book input total for August has been incorrectly shown as Rs.6,241 following a manual override. The total should have been Rs.2,641.

(2) An old debit balance of Rs.28 in the purchase ledger had been written off during August as bad. You discover that no entry had been input other than in the individual supplier's ledger account.

(3) Discounts allowed for the month of August amounted to Rs.671. An uncoded entry of these had been made in the discount allowed column of the cash account but no other entry had been made.

(4) A payment of Rs.260 on 14 August relating to the payment of a July purchases invoice had been wrongly input in the cash account as wages.

(5) During the month of August there had been a mix-up over goods supplied to a customer, Dougal. The goods were invoiced for Rs.62, despatched to Dougal and correctly entered in the system on 5 August. Several items turned out to be defective and were returned by Dougal on 28 August. These goods, originally costing Rs.14, were included in the original invoice of Rs.62 at an amount of Rs.17. No entry was made in the books as a result of the return of the goods but they were manually input into the inventory account at Rs.17. Owing to their damaged state their net realisable value is estimated to be Rs.5.

(6) Hubert has received discounts during the month amounting to Rs.280. However, these have only been manually input to the individual suppliers' accounts.

(7) Certain discrepancies in the print-out of balances at 31 August have come to light, suggesting a software error might also have occurred. You discover that

(i) debit balances on the sales ledger of Rs.54 and Rs.69 respectively had been completely omitted from the listing

(ii) a credit balance on the purchase ledger of Rs.71 had been listed as a debit balance of Rs.17

(iii) the total of debit entries on Hoppo's account in the sales ledger had been overcast by Rs.90.

Required:

(a) Manually adjust the sales and purchase ledger control accounts and show the reconciliation of the closing balances with the aggregate of the individual balances extracted from the purchase and sales ledgers. (15)

(b) Compute a revised net profit for the six month period to 31 August. (7)

(22)

CHAPTER 11 – BANK RECONCILIATIONS

11.1 CONNOLLY

A company receives a bank statement showing a credit balance of Rs.7,400,000. On investigation, its accountant discovers that the bank statement does not show cheques received from customers for Rs.16,200,000 and banked, or cheque payments to suppliers for Rs.18,500,000. The bank statement also shows bank charges of Rs.250,000, which have not yet been recorded in the ledger.

Required

What is the current balance on the cash book? (This is the balance on the Bank account in the main ledger.)

11.2 SANDFORD

A company receives a bank statement. The balance on its cash book (= bank account in the main ledger) is a debit balance of Rs.1,600,000. In reconciling the cash book balance with the bank statement balance, the accountant discovers that the bank statement does not show cheques received from customers for Rs.8,200,000 and banked, or cheque payments to suppliers for Rs.4,700,000. The bank statement also shows bank charges of Rs.150,000, a direct debit payment of Rs.400,000 and a dishonoured cheque for Rs.300,000. None of these three items which has yet been recorded in the ledger.

Required

What is the balance on the bank statement?

What entries should be made in the company's ledger accounts when the cash book and the bank statement balances have been reconciled?

11.3 AL-MURTAZA COMPANY

Following information has been collected from the books of Al-Murtaza Company, as at August 31, 2013:

		Rupees
(a)	Balance as per bank book	272,178
(b)	Cash balance on bank statement	227,522

(c) Cheques outstanding on August 31 were as follows:

Cheque No.	Rupees
670	13,353
679	14,152
690	17,108
996	3,535
997	14,430
999	23,629

(d) The company made the following payments into the bank in the last week in August but these had not yet appeared on the bank statement.

Rupees
83,250
144,641

(e) The following matters have been discovered.

(i) Receipt of Rs. 15,000 was erroneously recorded on the credit side of the bank book.

(ii) A payment of Rs. 12,480 was erroneously recorded on the debit side of the bank book.

(iii) The credit side of the bank book has been over casted by Rs. 4,800.

(iv) The bank statement showed an amount collected by the bank but not shown in the cash book in the amount of Rs. 87,188.

Required:

Prepare the bank reconciliation as at 31 August.. (09)

11.4 ABC TEXTILES

While reconciling the bank statement with the cash/bank book of ABC Textiles for the year ended December 31, 2013, you noted the following:

		Rupees
(i)	Balance as per bank statement at December 31, 2013, overdrawn	806,436
(ii)	Cheques drawn but not presented till December 31, 2013	377,784
(iii)	Mark-up on overdraft charged by the bank on January 2, 2014 was recorded in the cash/bank book on December 31, 2013	118,686
(iv)	Collections made on December 30 and 31, 2013 were not lodged with the bank till January 3, 2014	250,600
(v)	A bill which was due on December 29, 2013 was sent to the bank for collection on December 28, 2013, and entered in the cash/bank book. However, the proceeds were credited by the bank on January 1, 2014	196,500
(vi)	Subscription for a magazine was paid by the bank, as per the auto-debit instructions, on December 1, 2013. This transaction has not been recorded in the cash/bank book so far	3,144
(vii)	A time-barred cheque was replaced with a new cheque on December 30, 2013 and entered in the cash/bank book without the previous cheque being cancelled / reversed. Both the cheques are included in (ii) above	5,000
(viii)	Discount allowed on prompt payment to customers has been included in the cash/bank book	10,500
(ix)	A cheque received on December 21 was erroneously recorded on the credit side of the cash/bank book	7,500
(x)	A cheque issued to a supplier was time-barred as of January 2, 2014	25,000
(xi)	A cheque for Rs. 125,000 drawn by the company to pay for a new item of plant had been mistakenly entered in the cash/bank book as	12,500
(xii)	A cheque issued by the company has been entered in the credit column of the bank statement	13,200

Required:

Prepare a bank reconciliation statement as at December 31, 2013 and identify the amount to be carried to the statement of financial position as “Cash at Bank”. (09)

11.5 MUBARAK & COMPANY

Mr. Mubarak is a sole trader and carries on business under the name "Mubarak & Company". The balance on his cash book at 31 December 2013 did not agree with the balance as per the bank statement which shows a credit balance of Rs. 367,500.

An examination of the cash book and bank statement disclosed the following:

(i) A deposit of Rs. 49,200 made on 29 December 2013 had been credited by the bank on 1 January 2014.

(ii) Bank charges of Rs. 1,700 have not been entered in the cash book.

(iii) A debit of Rs. 4,200 appeared on the bank statement for an unpaid cheque which has been returned marked "out of date". The cheque was re-dated by his customer and paid into the bank again on 3 January 2014.

(iv) A standing order for payment of an annual subscription amounting to Rs. 1,000 has not been entered in the cash book.

(v) On 26 December 2013, Mr. Mubarak had given the cashier a cheque for Rs. 10,000 to pay into his personal account at the bank. The cashier deposited it into the business account by mistake.

(vi) On 27 December 2013, a customer had made an online transfer of Rs. 49,900 in payment against goods supplied. The advice was received and recorded in the cash book on 2 January 2014.

(vii) On 30 September 2013, Mr. Mubarak entered into a hire purchase agreement and issued a standing order to the bank to pay a sum of Rs. 2,600 on the 10th day of each month, commencing from October 2013. No entries have been made in the cash book for these payments.

(viii) A cheque for Rs. 36,400 received from Mr. Bashir had been entered twice in the cash book.

(ix) Cheques issued amounting to Rs. 467,200 had not been presented to the bank for payment until after 31 December 2013.

(x) A customer who owed Rs. 20,000 and was entitled to a cash discount of 2½% paid a cheque for the net amount on 10 December 2013. The cashier erroneously recorded the gross amount in the bank column of the cash book.

(xi) Dividend collected by the bank amounting to Rs. 12,000 has not been recorded in the cash book.

(xii) A cheque of Rs. 243,000 received from Mr. Bilal was deposited in the bank but entered in the cash book as Rs. 234,000.

Required:

(a) Prepare a bank reconciliation statement as on 31 December 2013.

(b) Prepare necessary journal entries in the books of Mubarak & Company and determine the correct cash balance that should be reported in the statement of financial position. Also specify the situations in which no adjustment/entry is required. (13)

CHAPTER 12 – CORRECTION OF ERRORS

12.1 GRANT

The accountant of Grant Company has prepared a trial balance, but has found that the total of debit balances is Rs.864,600 and the total of credit balances is Rs.862,150.

On investigation, he discovers the following errors in the book-keeping:

(1) Total purchases in the period were recorded at Rs.100 below their correct value, although the total value of trade payables was correctly recorded.

(2) Total telephone expenses were recorded at Rs.1,000 above their correct amount, although the total value of the amounts payable was correctly recorded.

(3) Purchase returns of Rs.550 were recorded as a debit entry in the sales returns account, but the correct entry had been made in the trade payables control account.

(4) Equipment costing Rs.2,000 had been recorded as a debit entry in the repairs and maintenance account.

(5) Rental expenses of Rs.5,490 were entered incorrectly as Rs.5,940 in the expense account but were entered correctly in bank account in the ledger.

(6) Bank charges of Rs.200 have been omitted entirely from the ledger.

Required

Prepare journal entries for the correction of the errors.

Open a suspense account. Record the appropriate corrections in the suspense account, so that the balance on this account is eliminated.

12.2 CLAVELL

The trial balance of CLAVELL includes the following items:

	Rs.
Accounts receivable ledger control account	115,440
Accounts payable ledger control account	80,901
Suspense account (debit balance)	3,310

The following information is available.

(1) The total of debit balances in the accounts receivable ledger is Rs.116,374 and the total of credit balances is Rs.1,234.

(2) The total of credit balances in the accounts payable ledger is Rs.80,412 and the total of debit balances is Rs.1,111.

(3) The accounts receivable ledger includes a debit balance of Rs.700 for Entity C, and the accounts payable ledger includes a credit balance of Rs.800 relating to Entity C. Only the net amount will eventually be paid.

(4) Included in the credit balances in the accounts receivable ledger is a balance of Rs.600 in the name of P Quinn. This arose because a sales invoice for Rs.600 had earlier been posted in error from the sales day book to the debit of the account of M Quinn in the accounts payable ledger.

(5) An allowance of Rs.300 granted to a customer for some damaged goods had been omitted from the appropriate account in the accounts receivable ledger. This allowance had been included in the accounts receivable control account.

(6) An invoice for Rs.456 had been entered in the purchases day book as Rs.654.

(7) A cash receipt from a credit customer for Rs.345 had been entered in the cash book as Rs.245.

(8) The purchases day book had been overcast by Rs.1,000. (***Tutorial note***: 'Overcast' means that the total has been calculated incorrectly as more than it should be.)

(9) The bank balance of Rs.1,700 had been included in the trial balance, in error, as an overdraft.

(10) The debit balance on the insurance account in the nominal ledger of Rs.3,456 has been included in the trial balance as Rs.3,546.

Required

(a) Prepare a reconciliation of the accounts receivable ledger control account and the accounts receivable ledger balances

(b) Open a suspense account and post the entries required to clear this account

(c) Reconcile the accounts payable ledger control account and the accounts payable ledger balances.

12.3 EASTERN PRODUCTS

The trial balance of Eastern Products showed a short credit of Rs. 6,264 as at June 30, 2013. A suspense account was opened for the difference and the profit for the year was then calculated at Rs. 956,180.

The following errors and adjustments were discovered subsequently:

(i) An invoice of Rs. 3,700 was debited to purchases but the goods were received after year-end and were not included in the closing inventory.

(ii) Store equipment costing Rs. 8,100 and having a book value of Rs. 3,600 was sold for Rs. 2,500. Cash was debited and store equipment was credited. No other entries were made.

(iii) A cheque of Rs. 1,850 received from a customer was dishonoured on June 25, 2013 but no entry was made in the books. Cash there against was received after year-end.

(iv) Purchase of office equipment costing Rs. 15,200 was entered in the purchases account. Depreciation on office equipment is provided at the rate of 10%.

(v) A purchase invoice of Rs. 197 was debited to the supplier account as Rs. 917.

(vi) Purchase returns book was under-casted by Rs. 650.

(vii) The opening balance of furniture account was brought forward as Rs. 18,300 instead of Rs.13,800. Depreciation on furniture is provided at the rate of 10%.

(viii) A balance of Rs.730 in the sales ledger is to be offset against a balance of Rs. 880 in the purchase ledger.

Required:

(a) Prepare journal entries to adjust the above items.

(b) Recalculate the net profit for the year. (18)

12.4 AA ENTERPRISE

The trial balance prepared by A.A. Enterprise showed a difference of Rs. 47,090 which was put on the credit side of a suspense account. An investigation disclosed that:

(i) The total of purchase return day book amounting to Rs. 16,160 had not been posted to the ledger.

(ii) Discount received amounting to Rs. 11,320 had been debited to discount allowed account.

(iii) The sales account had been added short by Rs. 10,000.

(iv) An asset bought four years ago for Rs. 7,000 and depreciated to Rs. 1,200 had been sold for Rs. 1,500 at the beginning of the year. The receipt of cash has been posted in the bank book but corresponding entries have not been recorded.

(v) A credit sale of Rs. 1,470 had been credited to the customer's account as Rs. 1,740. A bad debt of Rs. 1,560 has to be written off. Allowance for doubtful debts is to be maintained at 10% of receivables. Receivables appearing in the trial balance are Rs. 23,390 and the allowance for bad debts account shows a credit balance of Rs. 2,320.

(vi) A sub-total of Rs. 29,830 on the list of closing inventory had been carried over as Rs. 29,380 and another sheet had been overcast by Rs. 1,000.

Required:

Pass rectification/adjustment entries to correct the above errors. (Narrations are not required) (11)

12.5 MR. FAWWAD

Mr. Fawwad owns a factory and closes his books on June 30. The trial balance prepared by him, contained a difference which he kept in a suspense account. On scrutinising the records, the following errors were detected:

(i) A cheque of Rs. 10,800 was paid to a creditor who allowed 10% cash discount. The payment was correctly entered in the bank book but was posted to purchase account as Rs. 1,080 only. No other entry was made.

(ii) Sundry receivables include an amount of Rs. 15,000 which had proved irrecoverable but was not written off. According to a consistent policy, a reserve for bad debt was created @ 5% on closing receivables;

(iii) Commission of Rs. 3,500 was paid but was debited twice, once in the party's account and again in the commission account;

(iv) Purchases of Rs. 4,500 were entered as sales in the Sales Day Book.

(v) In the salaries account, a sub-total of Rs. 12,600 was carried over to the next page as Rs. 1,260 on the wrong side.

(vi) Rs. 600 collected from a party in respect of dues which had been written off as bad two years ago, was credited to the receivables control account.

(vii) Goods invoiced at Rs. 4,600 were returned by a debtor. These were entered in the purchase book and posted from there to debtor's account as Rs. 6,400.

(viii) The discount column in the sales day book was short casted by Rs. 1,500.

(ix) A cash sale of Rs. 7,300 to Mr. Anwar was correctly entered in the cash book but was posted to the credit of Mr. Anwar's account

(x) An amount of Rs. 17,400 was received in full and final settlement from a customer after he was allowed a discount of Rs. 2,600. However, while writing the books, the amount received was entered in the discount allowed column of the bank book and the discount allowed was entered in the bank column.

Required:

Pass rectification entries (without narration) to correct the above errors. (15)

12.6 BA ENTERPRISES

The accountant of BA Enterprises prepared a statement of comprehensive income for the year ended December 31, 2013 which showed gross profit of Rs. 1,050,000 and net profit of Rs. 650,000. The company sells goods at cost plus mark-up of 20%.

The following errors/omissions were found on a detailed review of the financial statements.

(a) Items not included in the statement of comprehensive income:

  (i) Free samples costing Rs. 25,000 were sent to potential and regular customers.

  (ii) Goods costing Rs. 10,000 were taken by the owner for personal use and goods having sales value of Rs. 2,500 were used for office repairs.

  (iii) Unpaid salaries and transportation (inward) expenses payable, amounting to Rs. 20,000 and Rs. 10,000 respectively.

(b) Old furniture items were sold for Rs. 3,000 and entered in the sales day book. The book value of these items was Rs. 2,000.

(c) Goods sent on sale or return basis and having a sales value of Rs. 18,000 were still held in inventory by the consignee. At the time of dispatch, these were recorded as sales.

(d) Rs. 24,500 were paid to a creditor as full and final settlement of an amount of Rs. 25,000 and debited to purchases.

(e) The sales day book was overcast by Rs. 30,000.

(f) An amount of Rs. 67,000 was carried forward in the purchase day book as Rs. 6,700.

(g) Goods sold on approval basis and having a sales value of Rs. 60,000 were destroyed by fire. The insurance claim was settled at 80% of the invoice value. The amount received from the insurance company was credited to purchases. The transfer of goods was recorded in a memorandum record and at year end the goods were included in closing inventory under the head goods with third parties.

Required:

Ascertain the correct amount of gross and net profit for the year. (13)

12.7 TRIAL BALANCE

A trial balance is merely a proof of arithmetical accuracy. Briefly explain the various types of errors which a trial balance fails to disclose. (05)

12.8 AYUB BROTHERS

The trial balance of Ayub Brothers did not agree as at 31 December 2013 and the difference was carried to a suspense account. On scrutinising the books of account, the following types of errors were detected:

(i) Receivables include Rs. 15,000 which are irrecoverable and need to be written off.

(ii) Goods invoiced at Rs. 4,600 were returned by a customer. It was entered in the purchase book and posted from there to a creditor's account as Rs. 6,400.

(iii) A cheque of Rs. 8,000 received from a customer was not posted to his ledger account. Moreover, the corresponding sales invoice for Rs. 12,000 was incorrectly passed through the sales day book as Rs. 2,000.

(iv) Sales include goods sold for cash amounting to Rs. 25,000 on behalf of Mr Yasir. Ayub Brothers were entitled to a commission of 10% on the sales plus selling expenses, for which no adjustment was made. The related selling expenses amounted to Rs. 1,500.

(v) An amount of Rs. 3,800 owed by Zahid & Company for goods supplied was to be adjusted against an amount of Rs. 8,500 owed to Zahid & Company. No entry has been made in this regard.

(vi) A purchase of Rs. 15,100 was entered in the purchase day book as Rs. 1,500 and posted to the supplier's account as Rs. 5,100.

(vii) Goods invoiced at Rs. 23,000 and returned by Hamid Khan, a debtor, were entered in the purchase day book and posted therefrom to Hammad Khan, a creditor, as Rs. 32,000.

(viii) A supplier's invoice for Rs. 12,300 had been entered in the purchase day book on 28 December 2013. However, the goods were received on 2 January 2014.

(ix) Some items of furniture which stood in the books at Rs. 24,000 on 1 January 2013 were disposed of on 30 June 2013 in exchange for new furniture costing Rs. 20,800. A net invoice of Rs. 9,200 was passed through the purchase day book. Depreciation on furniture is charged at 10% on written down value.

(x) Ayub Brothers maintains a allowance of 5% of the gross amount of receivables.

Required:

Prepare journal entries to rectify the errors identified above.

(Narrations are not required.) (21)

12.9 MR REHAN

While closing his books on 30 June 2013, Mr. Rehan identified a difference in the trial balance which he kept in a suspense account. He prepared his P & L account on the basis of this trial balance and arrived at a profit of Rs. 679,000. While trying to reconcile the trial balance he detected the following errors:

(i) A cheque of Rs. 25,000 received from the insurance company in respect of loss of inventory has been paid into the proprietor's personal bank account and has not been recorded in the books. No entry has been passed in respect of the loss.

(ii) Bill received from ABC Furnishings on 1 July 2013 for repairs to furniture Rs. 3,000 and for new furniture supplied Rs. 10,000 was entered in the purchase day book as Rs. 11,000. Depreciation on furniture is provided @ 10 % per annum.

(iii) Furniture which stood in the books at Rs. 5,000 was sold on 1 July 2013 for Rs. 2,750 in part exchange of new furniture costing Rs. 8,750 and the net invoice of Rs. 6,000 was passed through the purchase day book.

(iv) Sale of goods on approval amounting to Rs. 5,000 was included in sales account, cost of these goods being Rs. 4,200. Out of these, goods having invoice value of Rs. 3,000 were returned and taken into inventory at cost but no entry was made in the books.

(v) Goods worth Rs. 10,200 purchased from a creditor on 28 June 2013 had been entered in the Purchase Day Book and credited to him but were not delivered till 5 July 2013. However, the title of the goods had passed on 28 June 2013.

(vi) A computer bought originally for Rs. 70,000 four years ago and depreciated to Rs. 12,000 had been sold for Rs. 15,000 on the first day of the year. The amount deposited was entered in the bank book but no other entry was passed.

(vii) Goods valuing Rs. 13,000 were returned by Zahid. These were entered in the Purchase Day Book and posted to a supplier's account as Rs. 31,000.

(viii) Discount of Rs. 3,700 was allowed but posted to the credit of discount received a/c as Rs. 7,300.

(ix) A cheque of Rs. 10,800 was paid to a creditor who allowed 10% cash discount, but the payment was wrongly posted to purchase account as Rs. 1,080 only without any other entry.

Required:

(a) Pass rectification entries (without narration) to correct the above errors. (20)

(b) Recalculate the profits after taking into account the above corrections. (04)

12.10 SMETENA NEWSAGENTS

The bookkeeper has produced the following statement of financial position at 31 December for Smetena's Newsagents.

	Rs.	Rs.
Non-current assets		72,208
Current assets		
Inventory	18,826	
Trade receivables	26,216	
Drawings	8,260	
Suspense account	3,830	
Cash	700	
		57,832
		130,040
Capital account		50,224
Loan – L Franks 12%		20,000
Trade payables		26,782
Bank overdraft		14,634
Profit for year		18,400
		130,040

Jan Smetena, the proprietor, is unhappy with the statement of financial position and asks you to revise it. You discover the following.

(1) The suspense account balance represents the difference on the trial balance.

(2) The purchases day book total for October of Rs.4,130 was posted to the purchases account as Rs.4,310 although the correct entry was made to the payables ledger control account.

(3) Inventory sheets were overcast by Rs.2,000.

(4) Cash should be Rs.110.

(5) Fixtures and fittings account balance of Rs.4,600 has been omitted from the trial balance.

(6) Interest for a half year on the loan account has not been paid and no provision has been made for it.

Required:

(a) Show the journal entries to correct the above errors. (6)

(b) Write up the suspense account. (5)

(c) Draw up a revised statement of financial position at 31 December. Clearly show the adjustments to profit. (7)

(18)

12.11 CND

The bookkeeper has prepared a preliminary trial balance of CND for the year ended 31 December as follows.

	Rs.	Rs.
Capital account		110,000
Accumulated profit at 1 January		50,000
Bank loan		30,458
Trade receivables and payables	77,240	60,260
Cash in hand and bank overdraft	1,000	5,036
Inventories at 1 January	108,000	
Non-current assets at cost and accumulated depreciation at 31 December	161,879	60,943
Depreciation for the year	15,000	
Purchases and revenues	300,297	402,000
Returns	4,370	4,630
Discounts allowed and received	9,760	6,740
Wages and salaries	22,000	
Rent, rates and insurance	18,036	
Postage, telephone and stationery	3,009	
Repairs and maintenance	2,124	
Advertising	4,876	
Packing materials	924	
Motor expenses	2,000	
Sundry expenses	1,000	
Loan interest	4,000	
Accrued expenses		6,478
Suspense account	1,030	
	736,545	736,545

When the bookkeeper discovered that the preliminary trial balance did not balance he made it do so by opening a suspense account and entering the required amount on the appropriate side. A subsequent investigation shows the following mistakes have been made.

(1) A loan to the business of Rs.10,000 from the owner's brother, X, has been added to capital.

(2) Accrued interest on the bank loan of Rs.458 has been credited to the bank loan account instead of being treated as a current liability.

(3) Bank charges of Rs.1,000 have been completely omitted from the books.

(4) In addition to allowing discount of Rs.240 and receiving discount of Rs.260, various customers' and suppliers' accounts amounting to Rs.10,000 were set off by contra. No entries whatever have been made in respect of these items.

(5) Trade receivables amounting to Rs.2,000 are bad and need to be written off.

(6) A debt of Rs.1,000 written off as bad in a previous year has been recovered in full. The amount has been credited to the personal account and deducted from the trade receivables ledger control account.

(7) Goods returned from a customer of Rs.630 have been correctly entered into the personal account, but by mistake were entered in the returns outwards journal.

(8) A payment for stationery of Rs.234 was correctly entered in the cash book but debited in the ledger as Rs.243.

(9) A payment of Rs.76 for packing materials has been correctly entered in the cash book, but no other entry has been made.

(10) A payment of Rs.124 for advertising has been debited to repairs and maintenance.

(11) A cheque payment of Rs.26 for insurance has been recorded in all accounts as Rs.62.

(12) A page in the purchase account correctly totalled Rs.125,124 was carried forward to the top of the next page as Rs.125,421.

All entries other than those given above are to be assumed to have been made correctly.

Required:

(a) Show the correcting entries in journal form (i.e. showing accounts and amounts debited and credited but no supporting narrative is required) in respect of each of the mistakes mentioned above. (16)

(b) Show the trial balance of the company at 31 December after these corrections have been made. A working showing how the suspense account is cleared should be included. (10)

Note Control accounts are not maintained. (26)

CHAPTER 13 – PRESENTATION OF FINANCIAL STATEMENTS

13.1 SWAN

The following balances were extracted from the main ledger of SWAN at 31 December 2013.

	Rs.(000)
Capital	10,059
Inventory at 1 January 2013	2,720
Cash in hand	55
Bank overdraft	2,522
Sundry receivables	7,009
Sundry payables	6,735
Motor vans (Cost Rs.2,000)	1,500
Drawings in cash	2,459
Fixtures and fittings (Cost Rs.4,000)	3,800
Purchases	33,436
Allowance for doubtful debts	162
Sales	50,261
Purchases returns	120
Carriage inwards	546
Rent	626
Salaries and wages	5,226
Motor vehicle expenses	920
Interest on bank overdraft and bank charges	56
Carriage outwards	720
Discounts allowed	65
Discounts received	59
Returns inwards	240
Freehold land	10,300
Bad debts	240

You are given the following information:

(1) The inventory at 31 December 2013 was Rs.4,270,000.

(2) Wages and salaries payable at 31 December 2013 were Rs.426,000.

(3) Rent paid in advance at 31 December 2013 amounted to Rs.100,000.

(4) The allowance for doubtful debts is to be increased to Rs.260,000.

(5) Depreciation is to be charged as follows: motor vans at 25% per year on cost, fixtures and fittings 5% per year on cost.

(6) During 2013, the owner of SWAN withdrew goods valued at Rs.180,000 for his own use. No entry has been made in the accounts for the withdrawal of these goods.

(7) One quarter of the motor vehicle expenses is the cost of the owner's private motoring, as distinct from expenses for business purposes.

Required

Prepare a statement of comprehensive income for the year ending on 31 December 2013 and a statement of financial position as at that date.

13.2 STEVEN CHEE

The following trial balance was extracted from the main ledger of Steven Chee, a sole trader, as at 31 May 2013 – the end of his financial year.

Steven Chee: Trial balance as at 31 May 2013

	DR Rs.(000)	CR Rs.(000)
Land and buildings at cost	120,000	
Equipment at cost	80,000	
Accumulated depreciation (as at 1 June 2012)		
On land and buildings		20,000
On equipment		38,000
Purchases	250,000	
Sales		402,200
Inventory as at 1 June 2012	50,000	
Discounts allowed	18,000	
Discounts received		4,800
Returns outwards		15,000
Wages and salaries	61,800	
Bad debts	4,600	
Loan interest	2,100	
Other operating expenses	17,700	
Trade payables		36,000
Trade receivables	38,000	
Cash in hand	300	
Bank	1,300	
Drawings	24,000	
Allowance for doubtful debts		500
7% long-term loan		30,000
Capital as at 1 June 2012		121,300
	667,800	667,800

The following additional information is available:

(a) Inventory as at 31 May 2013 has been valued at cost at Rs.42,000,000.

(b) There are accrued wages and salaries of Rs.800,000.

(c) Other operating expenses are prepaid by Rs.300,000.

(d) The allowance for doubtful debts is to be adjusted so that it is 2% of trade receivables.

(e) Depreciation for the year ended 31 May 2013 should be provided for as follows:

- Land and buildings – 1.5% per annum on cost, using the straight-line method.
- Equipment – 25% per annum, using the reducing balance method.

Required

Prepare Steven Chee's statement of comprehensive income for the year ended 31 May 2013 and his statement of financial position as at that date.

13.3 HERBERT

The following trial balance has been extracted from the ledger of Herbert, a sole trader, as at 31 May 2013, the end of his most recent financial year.

Herbert: Trial balance as at 31 May 2013

	DR Rs.(000)	CR Rs.(000)
Land and buildings at cost	90,000	
Equipment at cost	57,500	
Accumulated depreciation (as at 1 June 2012)		
On land and buildings		12,500
On equipment		32,500
Inventory as at 1 June 2012	27,400	
Sales		405,000
Purchases	259,600	
Discounts allowed	3,370	
Discounts received		4,420
Wages and salaries	52,360	
Bad debts	1,720	
Loan interest	1,560	
Other operating expenses	38,800	
Trade receivables	46,200	
Trade payables		33,600
Allowance for doubtful debts		280
Cash in hand	151	
Bank overdraft		14,500
Carriage out	5,310	
Drawings	28,930	
10% loan		15,600
Capital as at 1 June 2012		94,501
	612,901	612,901

The following additional information as at 31 May 2013 is available:

(a) Inventory as at 31 May 2013 was valued at Rs.25,900,000.

(b) Depreciation for the year ended 31 May 2013 has yet to be provided as follows:

- Property – 1% using the straight-line method;
- Equipment – 15% using the straight-line method.

(c) There are accrued wages and salaries of Rs.140,000.

(d) Other operating expenses include some prepaid expenses of Rs.500,000 and some accrued expenses of Rs.200,000.

(e) The allowance for doubtful debts should be adjusted to 5% of trade receivables as at 31 May 2013.

(f) The amount for purchases includes goods valued at Rs.1,040,000 which were withdrawn by Herbert for his own personal use.

Required

Prepare Herbert's statement of comprehensive income for the year ended 31 May 2013 and his statement of financial position as at that date.

13.4 BRADBURY AND CO

The following trial balance has been extracted from the ledger of Bradbury and Co, as at 31 December 2013, the end of its most recent financial year.

Bradbury and Co: Trial balance as at 31 December 2013

	DR Rs.	CR Rs.
Plant and machinery at cost	920,000	
Allowance for depreciation (as at 1 January 2013)		215,000
Inventory as at 1 January 2013	39,000	
Sales		1,292,000
Purchases	550,000	
Capital		173,000
Distribution expenses	116,000	
Administrative expenses	241,000	
Bad debts	23,500	
Loan (charging interest at 6%)		400,000
Receivables control account	200,000	
Payables control account		73,500
Allowance for doubtful debts		6,000
Interest paid on bonds	12,000	
Bank	58,000	
	2,159,500	2,159,500

The following additional information as at 31 December 2013 is available:

(a) Inventory as at 31 December 2013 was valued at Rs.35,000.

(b) Depreciation on plant and machinery for the year ended 31 December 2013 is to be provided at the rate of 10% of cost.

(c) There are accrued distribution expenses of Rs.7,500 and prepaid administrative expenses of Rs.4,000.

(d) The allowance for doubtful debts should be adjusted to 2% of trade receivables as at 31 December 2013

(e) No interest has been accrued on the loan.

Required

Prepare the statement of comprehensive income of Bradbury and Co for the year ended 31 December 2013 and its statement of financial position as at that date in a format suitable for publication.

13.5 DANISH

Danish does not keep proper books of account due to his lack of knowledge of double entry system of accounting. He has supplied you the following information with respect to the year ended 31 December 2013 from the records kept in his diary:

(i) Transactions during the year:

	Rupees
Cash received from customers	80,000
Discount allowed to customers	1,400
Bad debts written off	1,800
Cash paid to suppliers	63,000
Discount allowed by suppliers	1,000
Sales returns	3,000
Purchases returns	2,000
Expenses paid	6,000
Drawings	5,000
Rent paid	2,500

(ii) Opening balances as on 1 January 2013:

Assets and liabilities	**Rupees**
Receivables	45,000
Payables	24,000
Cash	4,500
Furniture and fixtures	15,000
Inventory	25,000
Motor van	16,000

(iii) Receivables and payables as on 31 December 2013 amounted to Rs. 48,600 and Rs. 27,000 respectively.

(iv) Outstanding expenses as on 31 December 2013 amounted to Rs. 1,200.

(v) Depreciation is charged on furniture and fixtures at the rate of 10% and on motor van at 20%.

(vi) Danish sells goods at cost plus 40% and follows a policy of maintaining a allowance of 5% of the outstanding receivables.

Required:

(a) Statement of comprehensive income for the year ended 31 December 2013.

(b) Statement of financial position as at 31 December 2013. (21)

13.6 MARIA

The following information relates to the business of Maria for the year ended 31 December 2012.

	Rs.	Rs.
Capital account, 1 January 2012		13,640
Freehold properties at cost	7,500	
Furniture and fittings at cost	2,000	
Motor cars at cost	6,300	
Accumulated depreciation to 1 January		
Freehold properties		450
Furniture and fittings		800
Motor cars		2,370
Inventory 1 January	6,740	
Purchases	54,520	
Sales		79,060
Salaries	8,760	
Rates	1,170	
Office expenses	3,950	
Motor expenses	3,790	
Drawings	4,800	
Allowance for doubtful debts 1 January		600
Loan		4,000
Trade receivables	9,240	
Trade payables		10,040
Bank balance	2,190	
	110,960	110,960

You are also supplied with the following information.

(1) Inventory at 31 December 2012 was Rs.7,330.

(2) Rates paid in advance at 31 December 2012 amounted to Rs.250.

(3) Allowance for doubtful debts is to be made equal to 5% of accounts receivable at 31 December 2012.

(4) Depreciation is to be provided for the year at the following annual rates calculated on cost at the year end

Freehold properties	1%
Furniture and fittings	10%
Motor cars	20%

(5) Interest on the loan at 5% per annum is to be provided.

Required:

Prepare a statement of comprehensive income for the year ended 31 December 2012 and a statement of financial position at that date. (20)

13.7 FEDEROV

The following is the trial balance extracted from the books of Federov at 31 December 2012.

	Rs.	Rs.
Capital		20,000
Loan account		2,000
Drawings	1,750	
Freehold premises	8,000	
Furniture and fittings – cost and accumulated depreciation at 1 January	700	200
Plant and machinery – cost and accumulated depreciation at 1 January	8,000	2,500
Inventory at 1 January	8,000	
Cash at bank	650	
Allowance for doubtful debts		740
Purchases	86,046	
Revenue		124,450
Bad debts	256	
Bad debts recovered		45
Trade receivables	20,280	
Trade payables		10,056
Bank charges	120	
Rent	2,000	
Returns inwards	186	
Returns outwards		135
Salaries	3,500	
Wages	8,250	
Travelling expenses	1,040	
Carriage inwards	156	
Discounts allowed	48	
Discounts received		138
General expenses	2,056	
Gas, electricity and water	2,560	
Carriage outwards	546	
Travellers' salaries and commission	5,480	
Printing and stationery	640	
	160,264	160,264

The following matters should be taken into account.

(1) Inventory at 31 December 2012 was Rs.7,550.

(2) Federov's son works in the business, receiving a salary of Rs.500 pa, which had been included in the drawings.

(3) Interest on the loan at 5% pa had not been paid at 31 December 2012.

(4) Rent includes Rs.250 for premises paid in advance for the half year to 31 March next.

(5) Depreciation is to be provided at the following rates on the reducing balance basis.

Plant and equipment by 10% pa

Furniture and fittings by 5% pa

(6) The allowance for doubtful debts is to be maintained at 3% of trade accounts receivable.

Required:

Prepare the statement of comprehensive income for the year ended 31 December 2012 and the statement of financial position at that date. (20)

13.8 STEWART

Stewart is a sole trader, supplying building materials to local builders. He prepares his accounts to 30 June each year. At June 30 2013, his trial balance was as follows:

	Dr	Cr
	Rs.	Rs.
Capital at 1 July 2012		55,550
Purchases and sales	324,500	625,000
Returns	2,300	1,700
Discounts	1,500	2,500
Building materials at 1 July 2012	98,200	
Packing materials purchased	12,900	
Distribution costs	17,000	
Rent, rates and insurance	5,100	
Telephone	3,200	
Car expenses	2,400	
Wages	71,700	
Allowance for doubtful debts at 1 July 2012		1,000
Heat and light	1,850	
Sundry expenses	6,700	
Delivery vehicles – cost	112,500	
Delivery vehicles – depreciation at 1 July 2012		35,000
Equipment – cost	15,000	
Equipment – depreciation at 1 July 2012		5,000
Trade receivables and payables	95,000	82,000
Loan		10,000
Loan repayments	6,400	
Bank deposit account	15,000	
Bank current account	26,500	
	817,750	817,750

The following additional information at 30 June 2013 is available:

(i) Inventory of building materials Rs.75,300

Inventory of packing materials Rs.700

There was also an unpaid invoice of Rs.200 for packing materials received and consumed during the year.

(ii) Prepayments:

– rent, rates and insurance Rs.450

(iii) Accrued expenses:

– heat and light Rs.400

– telephone Rs.500

(iv) Wages include Rs.23,800 cash withdrawn by Stewart.

(v) Trade receivables have been analysed as follows:

	Rs.
Current month	60,000
30 to 60 days	20,000
60 to 90 days	12,000
over 90 days	3,000

Allowance is to be made for doubtful debts as follows:

30 to 60 days	1%	
60 to 90 days	2.5%	
over 90 days	5%	(after writing off Rs.600)

(vi) Sundry expenses includes Rs.3,500 for Stewart's personal tax bill.

(vii) The loan was taken out some years ago, the final payment is due on 31 March 2014. The figure shown in the trial balance for "loan repayments" includes interest of Rs.800 for the year.

(viii) The bank deposit account was opened on 1 January 2013 as a short-term investment; interest is credited at 31 December annually; the average rate of interest since opening the account has been 6% per annum.

(ix) At 1 July 2012, Stewart decided to bring one of his family cars, valued at Rs.8,000, into the business. No entries have been made in the business books for its introduction.

(x) Depreciation is to be provided as follows:

– 20% on cost for delivery vehicles

– 25% on the reducing balance for the car

– 25% on the reducing balance for the equipment

Required:

(a) Prepare a statement of comprehensive income for the year ended 30 June 2013. (12)

(b) Prepare a statement of financial position at 30 June 2013. (8)

(20)

13.9 BOWIE

Mr Bowie is a sole trader and prepares his accounts to 30 September each year. At 30 September 2013, his trial balance is as follows:

	Dr Rs.	Cr Rs.
Plant and machinery		
– cost	125,000	
– depreciation at 1 October 2012		28,000
Office equipment		
– cost	45,000	
– depreciation at 1 October 2012		15,000
Inventory at 1 October 2012	31,000	
Purchases and sales	123,000	194,000
Selling expenses	12,000	
Heat and light	8,000	
Wages and salaries	19,000	
Printing and stationery	6,000	
Telephone and fax	6,000	
Rent, rates and insurances	4,000	
Trade receivables and payables	35,000	33,000
Allowance for doubtful debts at 1 October 2012		4,000
Bank	3,000	
Petty cash	1,000	
Drawings	22,000	
Capital at 1 October 2012		169,000
Suspense account	3,000	
	443,000	443,000

The following additional information at 30 September 2013 is available:

(i) Closing Inventory goods for resale Rs.53,000

(ii) Prepayments:

– telephone and fax rental Rs.1,000

– rates and insurance Rs.1,000

(iii) Accruals:

– wages and salaries Rs.5,000

(iv) Specific bad debts to be written off amount to Rs.3,000.

(v) Allowance for doubtful debts to be amended to 5% of debtors, after adjusting for bad debts written off.

(vi) The following book-keeping errors are discovered:

– the purchase of an item of inventory has been debited to the office equipment account, cost Rs.1,200.

– the payment of Rs.1,300 to a trade payable has been recorded by debiting the bank account and crediting the trade payable's account

– a payment of rent of Rs.1,500 has been credited to the bank and credited to the rent account.

(vii) The figure in the trial balance for the bank balance is the balance appearing in the cash book, prior to the reconciliation with the bank statement. Upon reconciliation, it is discovered that:

- unpresented cheques amount to Rs.3,000; and
- bank charges not entered in the ledgers amount to Rs.4,000.

(viii) Depreciation of non-current assets is to be provided as follows:

–	plant and machinery	10% on cost
–	office equipment	331/3 % on the reducing balance at the end of the year.

Required:

(a) Show the journal entries and suspense account to correct the bookkeeping errors identified in note (vi). (Narrative descriptions are not required) (5)

(b) Prepare a statement of comprehensive income for the year ended 30 September 2013. (12)

(c) Prepare a statement of financial position at 30 September 2013. (8)

(25)

13. 10 GULSHAN CRICKET CLUB

The following balances have been obtained from the books of Gulshan Cricket Club:

	June 30, 2012	June 30, 2013
Cash	1,204,800	1,586,500

The following information is also available in respect of the year ended June 30, 2013:

Payments during the year

	Rs.
Building	753,000
Sports Equipment	442,800
Investments	436,000

There were also a series of general expenses paid.

Membership

The club had 600 members on June 30, 2013. No fresh members were admitted during the year but 10 members left the club on January 1, 2013. Subscription per member is Rs. 500 per month.

Some members pay subscriptions in advance but others pay late sometimes. The amounts paid in advance and amounts in arrears at each year end were as follows:

	June 30, 2012	June 30, 2013
Advance subscription	86,000	92,000
Subscriptions receivable	326,000	357,000

Required:

Calculate the total subscriptions due from the members for the year ending June 30 2013.

Use a T account (subscriptions account) to calculate the cash received from members and then complete a receipts and payments account identifying the cash paid as general expenses as a balancing figure.. (10)

CHAPTER 14 – PARTNERSHIP ACCOUNTS

14.1 A AND B

A and B are partners who share profits and losses in the ratio of 3:2. Their statement of financial position as on June 30, 2013 is as follows:

	Rupees
Assets	
Non-current assets	2,625,000
Investments	437,500
Long term receivables	875,000
Current assets	1,750,000
	5,687,500
Capital and liabilities	
Capital account:	
A	1,050,000
B	700,000
Long term loans	1,750,000
Current liabilities	2,187,500
	5,687,500

They agree to admit C as a new partner with effect from July 1, 2013 on the following terms and conditions:

(i) The goodwill of the firm is to be valued at 2 years' purchase of the average profits of the firm for the last three years. (This means that the average annual profit over the last three years is to be multiplied by 2).

The profits over the last three years are as follows:

	Rupees
Year ended June 30, 2011	675,000
Year ended June 30, 2012	(700,000)
Year ended June 30, 2013	1,000,000

(ii) Goodwill will not appear in the books of the firm.

(iii) C will bring in cash amounting to Rs. 1,460,000 which includes his share of goodwill in the firm.

(iv) Assets of the firm were agreed to be revalued as follows:

	Rupees
Non-current assets (net of depreciation)	3,100,000
Long term receivables	875,000
Current assets	1,575,000

Investments will be taken over equally by A and B at their fair market value of Rs. 400,000.

(v) The new profit sharing ratio is to be 7: 5: 8.

Required:

(a) Prepare the following ledger accounts:

- Revaluation Account
- Partners' Capital Accounts

(b) Prepare the opening statement of financial position of the new firm as on July 1, 2013. (18)

14.2 P, Q AND R

P, Q and R are partners sharing profit in the ratio of their capitals. Their statement of financial position at June 30, 2013 was as follows:

Statement of financial position as at June 30, 2013

		Rupees
Land and building		450,000
Motor cars		350,000
Equipment		95,000
Inventories		500,000
Receivables	400,000	
Less: Allowance	60,000	
		340,000
Investments		300,000
Cash in hand		65,000
Cash at bank		450,000
		2,550,000
Capital:		
P	640,000	
Q	320,000	
R	480,000	
		1,440,000
Payables and accrued expenses		485,000
Loan from Q		625,000
		2,550,000

On July 1, 2013 R retired. His share of the net assets of the partnership was ascertained after taking into account the following adjustments:

(i) The allowance against receivables was to be adjusted to 10% of the book value of the receivables.

(ii) Inventories were to be written down by 5%.

(iii) The investments were revalued to their market value which was Rs. 435,000.

(iv) Investments with a market value of Rs. 160,000 were taken over by R.

(v) A motor car having a book value of Rs. 150,000 was taken over by R for Rs. 200,000.

(v) R's share of goodwill was agreed at Rs. 216,000.

S was admitted as a partner on the same day that R retired and on the basis of the adjusted statement of financial position.

He was given one-fourth share in the profits and he bought a proportionate share of capital and goodwill by paying cash into the business. The basis of valuation of goodwill for the purpose of admission of S as a partner was the same as at the time of R's retirement.

P and Q have decided that the cash paid in by S in respect of goodwill will be taken out of the business by them in their profit sharing ratio.

Required:

Prepare capital accounts of the partners in columnar form and the statement of financial position of the firm as at July 1, 2013 after the admission of S, assuming that goodwill is not retained in the books of account. (18)

14.3 X Y AND Z

A summarized statement of financial position of XYZ and Company as on January 31, 2013 is given below:

Debit	Rupees	Credit	Rupees
Non-current assets	1,700,000	Current liabilities	1,900,000
Current assets	4,700,000	X, Capital	1,000,000
		Y, Capital	1,500,000
		Z, Capital	2,000,000
	6,400,000		6,400,000

X, Y and Z share profits in the ratio of their capital in the partnership.

On January 31, 2013 X retired from the partnership. For the purposes of his retirement, goodwill of the partnership was estimated at Rs. 1.89 million. It was agreed that X would take cash from the business equal to the value of his closing capital after the goodwill adjustment.

On February 1, 2013 A was admitted to the partnership. The new profit sharing ratio was agreed at 3:4:2 for Y, Z and A respectively. A agreed to bring in cash equivalent to his share of assets (excluding goodwill) in the new partnership plus an additional amount of Rs. 0.5 million for goodwill.

Required:

Prepare journal entries to record the above transactions under each of the following assumptions:

(a) Goodwill is not recorded in the books of account.

(b) Goodwill is recorded in the books of account. (09)

14.4 AQUEEL AND BARKAT

Aqueel and Barkat were in partnership and shared profits and losses in the ratio of 3:2 respectively. The balances on the partners' capital accounts at July 1, 2012 were: Aqueel Rs. 250,000, Barkat Rs. 400,000.

Due to expansion of business, Shahid was admitted as a partner on October 1, 2012 under the following arrangements:

(i) Assets were revalued upwards by Rs. 200,000 but the revaluation was not recorded in the books.

(ii) Goodwill of the firm was assessed at Rs. 300,000 and was retained in the books.

(iii) Shahid invested Rs. 500,000 as capital.

(iv) Shahid was allowed a monthly salary of Rs. 20,000 whereas Aqueel and Barkat continued to receive salaries of Rs. 28,000 and Rs. 25,000 per month respectively, as in the past.

(v) The balance profit was to be shared: Aqueel 35%; Barkat 35% and Shahid 30%.

(vi) Mr. Saleem was hired as manager from October 1, 2012 at a salary equal to 5% of the profit remaining after deducting such salary but before charging partners' salaries.

The profit for the year ended June 30, 2013 amounted to Rs. 486,000 after:

(i) Making allowance for a debt of Rs. 48,000 incurred prior to July 2012; and

(ii) providing for the partners' salaries.

In addition to salaries, the partners withdrew the following amounts:

Aqueel Rs. 150,000; Barkat Rs. 120,000; and Shahid Rs. 90,000

Required:

Partners' capital accounts for the year ended June 30, 2013. (20)

14.5 ALPHA AND BETA

Alpha and Beta are partners in a firm sharing profits and losses in the ratio of 3:2. The Statement of financial position of the firm as on 31 March 2013 was as under:

Assets	**Rupees**
Furniture and fixture	600,000
Office equipment	300,000
Motor car	375,000
Inventory	250,000
Sundry receivables	190,000
Cash at bank	118,000
	1,833,000
Partners' capital accounts	
Alpha	1,042,200
Beta	494,800
	1,537,000
Sundry payables	296,000
	1,833,000

Due to expansion in the business, Gamma was admitted as a partner with effect from 1 April 2013. Gamma brought furniture worth Rs. 120,000 and inventory costing Rs. 80,000. He also contributed cash of Rs. 150,000 plus his proportionate share of goodwill valued at two years' purchase of the average profits of the last three years.

Following adjustments were considered necessary, at the time of admission:

(i) On 1 April 2011, new furniture costing Rs. 8,000 was purchased but wrongly debited to revenue account. The firm charges depreciation on furniture @ 10% on straight line basis.

(ii) An invoice dated 1 October 2012 for purchase of goods amounting to Rs. 24,000 has not been recorded.

(iii) Value of the sundry receivables on 31 March 2013 is to be reduced by 6%.

The profits of the last three years, before the above adjustments were:

	Rupees
2012 – 11	352,100
2011 – 10	232,000
2013 – 09	128,000

It was decided that the future profits of the firm would be shared among Alpha, Beta and Gamma in the ratio of 5:3:2 respectively.

Required:

Prepare the capital accounts of the partners and the statement of financial position of the firm on Gamma's admission as a partner. (17)

14.6 L & N

L & N carried on business in partnership sharing profits and losses in the ratio of 3:2. They agreed to amalgamate on the 31st December 2013 with S & M who shared profits and losses in the ratio of 2:1

Statement of financial positions of the firms as on 31 December 2013 were as follows:

	L & N Rs.	*S & M* Rs.
Non-current assets		
Freehold premises	80,000	
Plant, equipment and motor vehicles	34,000	26,000
Current assets		
Inventory	140,000	92,000
Receivables	82,000	52,000
Bank	34,000	-
Current liabilities		
Bank overdraft		(40,000)
Trade payables	(120,000)	(50,000)
	250,000	80,000
Capital accounts		
L	150,000	
N	100,000	
S		60,000
M		20,000
	250,000	80,000

The terms on which the business amalgamated were as follows:

1 M was to retire on 31 December 2013, any balances due to him being left on loan with the new firm.

2 Profit was to be shared L one-half, N one-quarter and S one-quarter.

3 The values of goodwill were agreed at Rs.80,000 for L & N and Rs.60,000 for S & M.

4 M was to take over a motor vehicle at a valuation of Rs.6,000. This was in the old books at a NBV of Rs.3,600.

The new firm was to take over all the remaining assets and liabilities of the old firms.

For this purpose the assets were to be revalued as follows:

	L & N	S & M
Freehold premises	120,000	-
Plant, equipment and motor vehicles	28,000	29,990
Inventory	120,000	86,000
Receivables	85,000	47,500

5 The capital of the new firm was to be contributed by the partners in their profit sharing ratio, any surplus or deficiency being transferred to current accounts

6 No goodwill account was to be maintained in the new partnership.

Required

(a) Prepare in columnar form, the partners' capital accounts in the books of the old and the new firms recording the above transactions

(b) Prepare the opening statement of financial position of the new firm. (22)

14.7 W, Y AND A

W, Y and A are in partnership they share profits and losses 3:3:2. They agree to dissolve their partnership on 31.12.2013 when their statement of financial position is as follows:

		Rs.
Non-current assets		
Premises		520,000
Plant and machinery		80,000
Vehicles (3 cars)		60,000
		660,000
Current assets		
Inventory	90,000	
Receivables	70,000	
Cash	40,000	
	200,000	
Current liabilities	(20,000)	
		180,000
		840,000
Capital accounts		
W		300,000
Y		200,000
A		200,000
		700,000
Current accounts		
W	20,000	
Y	12,000	
A	8,000	40,000
		740,000
Loan - Y		100,000
		840,000

Various assets are sold for cash as follows:

	Rs.
Premises	600,000
Plant and machinery	50,000
Inventory	7,500

The vehicles are taken over by the partners at the following agreed values:

	Rs.
Car 1 - W	25,000
Car 2 - Y	30,000
Car 3 - A	15,000

The receivables pay Rs.67,000 in settlement.

The payables are paid Rs.18,000 in settlement.

Disolution expenses amount to Rs.20,000.

Required

Prepare the realisation account, cash account and capital accounts to close off the partnership books.

A

Answer bank

CHAPTER 1 – INTRODUCTION TO BUSINESS AND ACCOUNTING

1.1 A complete set of financial statements comprises of:

(i) a statement of financial position as at the end of the period;

(ii) a statement of comprehensive income for the period;

(iii) a statement of changes in equity for the period;

(iv) a statement of cash flows for the period;

(v) notes, comprising a summary of significant accounting policies and other explanatory information.

1.2 (a) **User Groups**

Management needs detailed information in order to control their business and plan for the future. Financial results allow the management to compare actual results with its plans (budgets) to assess its performance. Information is also needed about the profitability of individual departments, products and locations etc.

Investors require information to assess risk and the ability of an entity to earn profits and to pay dividends. Principally, they need to decide whether to buy, hold or sell shares.

Employees and their representative groups (e.g. trade unions), require information to assess the ability of an entity to provide remuneration, retirement benefits and employment opportunities.

Lenders are interested in information that enable them to determine whether their loans and interest entitlements will be paid when due.

Suppliers require information which will enable them to assess whether the entity has the ability <u>in the short term to pay amounts</u> owed when they fall due.

Customers are interested in assessing the continuance of an entity where they have a <u>long-term involvement</u> with them and/or are <u>dependent on them</u> for supplies.

Government and their agencies require information for a variety of purposes.

These include resource allocation decisions (e.g. government grants), to assess taxable capacity and for regional and national planning purposes.

Public is interested in variety of ways which include employment potential, patronage of local suppliers, and for environment assessment purposes.

1.3 (a) (i) **Capital expenditure:**

Capital expenditure consists of expenditure resulting in the acquisition or improvement of an asset or increase in the earning capacity of a business. Usually it includes expenditure, the benefit of which is spread over several accounting periods.

Examples:

Purchase of new plant and its installation, purchase of motor vehicles, furniture etc.

Revenue expenditure:

Revenue expenditure means the day to day expenditure which is necessary for running the business including the upkeep of non-current assets and the costs involved in selling and administration and also includes the cost of goods and services of the business.

Examples:

Repairs and maintenance, utilities, rent, salaries, interest etc.

(ii) **Accrued Income/Revenue:**

Accrued income means income which has been earned but not received at the statement of financial position date. Such income is shown as a current asset, on the statement of financial position.

Examples:

Interest on securities accrued but not received, rent accrued but not received etc.

Unearned Income/Revenue:

Unearned income means amount received/collected in advance for services to be rendered in the next period. It appears as a current liability on the statement of financial position.

Examples:

Insurance premium, subscriptions, rents etc. received in advance of the period they pertain to.

CHAPTER 2 – ACCOUNTING CONCEPTS AND TERMINOLOGY

2.1 (a) (i) **Consistency**:

The presentation and classification of items in the financial statements should be similar from one period to the next unless:

- It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies or
- A Standard or an Interpretation requires a change in presentation.

(ii) **True and Fair view:**

The application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that show a true and fair view.

(iii) **Completeness:**

To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

(iv) **Materiality:**

Information is material if its omission or misstatement could influence the economic decisions taken by the users on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement and the circumstances related thereto.

(v) **Going concern**: Going concern means that the entity will continue in operation for the foreseeable future and that it has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

(vi) **Substance over form**

It means that the transactions are accounted for and presented in the financial statements in accordance with their substance and economic reality and not merely their legal form.

(vii) **Prudence**

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because in that case, the financial statements would not give a true and fair view.

2.2 (i) **False:** In accounting, business is considered to be a separate entity from the proprietor and the concept is applicable to all forms of business organizations.

(ii) **True:** closing inventory appears outside the trial balance in pre-closing trial balance but after passing the closing entries when opening inventory and other revenue accounts are closed, only statement of financial position items including closing inventories form part of the post closing trial balance.

(iii) **False:** No specific period has been specified. The concept of going concern supposes that the business is going to continue for the foreseeable future.

(iv) **False:** the allowance is required to arrive at net receivables (as would appear in the statement of financial position) is calculated by age analysis. However, opening balance has to be considered for making the adjusting entry.

(v) **False:** net realizable value is equal to selling price less the estimated cost of completion and the costs necessary to make the sale.

(vi) **False:** The prudence concept does not allow a business to build excessive reserves/allowances. However, prudence means the exercise of a degree of caution such that assets or income are not overstated and liabilities and expenses are not understated.

2.3 (a)

(i) Debit

(ii) more/higher/greater

(iii) purchases

(iv) Total payables/creditors

(v) understated/reduced

(vi) Non-current assets

(vii) Assets

(viii) Entity

2.4

(i)	Consistency	(ii)	Going concern
(iii)	Prudence	(iv)	Entity / Separate entity
(v)	Materiality	(vi)	Full disclosure / completeness
(vii)	Stable currency unit	(viii)	Accrual / realization basis
(ix)	Substance over form	(x)	Matching concept

2.5 **Cash basis:**

Under the cash basis, revenue is recognized when cash is received and expenses are recognized when cash payments are made.

Accrual basis

Under the accrual accounting, revenue is recognized when it is earned and expenses are recognized in the period in which they contribute to the generation of revenue, irrespective of the date of payment/receipt.

The accrual basis gives a better measurement of profitability than does the cash basis, because the accrual basis associates the determination of income to the Matching Principle.

CHAPTER 3 – THE ACCOUNTING EQUATION

3.1 BOB

(a) July transactions

(1) Introduction of capital

	Assets	=		Equity	+	Liabilities
	Rs. 000			Rs. 000		Rs. 000
Cash	10,000		Capital	10,000		
	10,000	=		**10,000**	+	

(2) Purchase of Machine 1

	Assets	=		Equity	+	Liabilities
	Rs. 000			Rs. 000		Rs. 000
Cash	9,000		Capital	10,000		
Inventory	1,000					
	10,000	=		**10,000**	+	

(3) Purchase of Machine 2

	Assets	=		Equity	+	Liabilities
	Rs. 000			Rs. 000		Rs. 000
Cash	6,500		Capital	10,000		
Inventory	3,500					
	10,000	=		**10,000**	+	

(4) Sale of Machine 1

	Assets	=		Equity	+	Liabilities
	Rs. 000			Rs. 000		Rs. 000
Cash	8,000		Capital:			
Inventory	2,500		Original	10,000		
			Profit	500		
				10,500		
	10,500	=		**10,500**	+	

(5) Rent payment

	Assets	=		Equity	+	Liabilities
	Rs. 000			Rs. 000		Rs. 000
Cash	7,700		Capital:			
Inventory	2,500		Original	10,000		
			Profit	200		
				10,200		
	10,200	=		**10,200**	+	

(6) Purchase of desk

	Assets	=		Equity	+	Liabilities
	Rs. 000			Rs. 000		Rs. 000
Office equipment	200		Capital:			
Cash	7,500		Original	10,000		
Inventory	2,500		Profit	200		
				10,200		
	10,200	=		**10,200**	+	

(7) Purchase of Machine 3

	Assets	=		Equity	+	Liabilities
	Rs. 000			Rs. 000		Rs. 000
Office equipment	200		Capital:			
Cash	3,500		Original	10,000		
Inventory	6,500		Profit	200		
				10,200		
	10,200	=		**10,200**	+	

(8) Sale of Machine 2

	Assets	=		Equity	+	Liabilities
	Rs. 000			Rs. 000		Rs. 000
Office equipment	200		Capital:			
Cash	6,750		Original	10,000		
Inventory	4,000		Profit	950		
				10,950		
	10,950	=		**10,950**	+	

(9) Drawings

	Assets	=		Equity	+	Liabilities
	Rs. 000			Rs. 000		Rs. 000
Office equipment	200		Capital:			
Cash	6,350		Original	10,000		
Inventory	4,000		Profit	950		
			Drawings	(400)		
				10,550		
	10,550	=		**10,550**	+	

(b) Accounting equation at 31 August

There are no liabilities so the accounting equation becomes assets = equity.

	Assets Rs.(000)		**Equity** Rs.(000)
Non-current assets	**200**	Capital	10,000
Inventory	*4,000*	Profit (July)	950
(1)	*5,500*		
(2)	*(3,000)*		10,950
(4)	*(2,500)*	Less Drawings (July)	(400)
(6)	*5,600*		
		Capital (end of July)	**10,550**
	9,600		
Cash	*6,350*	Profit (August)	
(1)	*(5,500)*	*(3)*	*(100)*
(2)	*4,500*	*(2)*	*1,500*
(3)	*(100)*	*(4)*	*(700)*
(4)	*1,800*		
(5)	*(600)*		**700**
(6)	*(5,600)*	Drawings:	
		(5)	**(600)**
	850		
	10,650		10,650

(c) Statement of comprehensive income for the month ended 31 August

	Rs.(000)	Rs.(000)
Revenue (4,500 + 1,800)		6,300
Opening inventory	4,000	
Purchases (5,500 + 5,600)	11,100	
	15,100	
Less Closing inventory	(9,600)	
		(5,500)
Gross profit		800
Less Telephone expense		(100)
Net profit		700

Statement of financial position at 31 August

	Rs.(000)	Rs.(000)
Tangible non-current assets		200
Current assets		
Inventory	9,600	
Cash	850	
		10,450
Total assets		10,650
Capital account		
Capital at 1 May		10,550
Add Profit for the period		700
		11,250
Less Drawings		(600)
Total capital		10,650

CHAPTER 4 – DOUBLE ENTRY

4.1 STARTER

Statement of comprehensive income for the year ended 31 December

	Rs.(000)	Rs.(000)
Revenue		28,400
Less Returns		(200)
		28,200
Purchases	16,100	
Less Closing inventory	(2,050)	
		(14,050)
Gross profit		14,150
Less Expenses		
Salaries	4,162	
Rent and rates	2,130	
Insurance	174	
General expenses	1,596	
		(8,062)
Net profit		6,088

Statement of financial position at 31 December

	Rs.(000)	Rs.(000)
Tangible non-current assets		
Motor van		1,700
Current assets		
Inventory	2,050	
Trade receivables	5,060	
Cash at bank	2,628	
Cash in hand	50	
		9,788
Total assets		11,488
Capital account		
Capital introduced		4,100
Profit for the year		6,088
		10,188
Less Drawings		(5,100)
		5,088
Current liabilities		
Trade payables		6,400
		11,488

4.2 MAY TRANSACTIONS

(a) Accounts in the main ledger

Capital

31	Balance c/f	2,500,000	1	Bank	2,500,000
		2,500,000			2,500,000
			1 June	Balance b/f	2,500,000

Cash at bank

1	Capital	2,500,000	6	Rent	120,000
9	The Office Company	430,000	12	D Gibson	250,000
10	Texas Chain Stores	1,500,000	12	The Bushes Company	540,000
			15	Advertising	230,000
			31	Rent	180,000
			31	Balance c/f	3,110,000
		4,430,000			4,430,000
1 June	Balance b/f	3,110,000			

Purchases

2	The Bushes Company	540,000			
	Flower City	870,000			
	D Gibson	250,000			
	Weedkill	760,000			
	Greenery	640,000			
18	The Bushes Company	430,000			
	Landscape	1,100,000	31	Balance c/f	4,590,000
		4,590,000			4,590,000
1 June	Balance b/f	4,590,000			

Sales

			4	The Office Company	430,000
				V Cork	640,000
				Texas Chain Stores	1,760,000
31	Balance c/f	3,500,000	21	Public Parks	670,000
		3,500,000			3,500,000
			1 June	Balance b/f	3,500,000

Payables – The Bushes Company

12	Cash at bank	540,000	2	Purchases	540,000
31	Balance c/f	430,000	18	Purchases	430,000
		970,000			970,000
			1 June	Balance b/f	430,000

Payables – Flower City

31	Balance c/f	870,000	2	Purchases	870,000
		870,000			870,000
			1 June	Balance b/f	870,000

Payables – D Gibson

12	Cash at bank	250,000	2	Purchases	250,000
		250,000			250,000

Payables – Weedkill

31	Balance c/f	760,000	2	Purchases	760,000
		760,000			760,000
			1 June	Balance b/f	760,000

Payables – T Greenery

31	Balance c/f	640,000	2	Purchases	640,000
		640,000			640,000
			1 June	Balance b/f	640,000

Payables – Landscape

31	Balance c/f	1,100,000	18	Purchases	1,100,000
		1,100,000			1,100,000
			1 June	Balance b/f	1,100,000

Receivables – The Office Company

4	Sales	430,000	9	Cash at bank	430,000
		430,000			430,000

Receivables – V Cork

4	Sales	640,000		Balance c/f	640,000
		640,000			640,000
1 June	Balance b/f	640,000			

Receivables – Texas Chain Stores

4	Sales	1,760,000	10	Cash at bank	1,500,000
				Balance c/f	260,000
		1,760,000			1,760,000
1 June	Balance b/f	260,000			

Receivables – Public Parks

21	Sales	670,000		Balance c/f	670,000
		670,000			670,000
1 June	Balance b/f	670,000			

Rent (expense)

6	Bank	120,000			
31	Bank	180,000	31	Balance c/f	300,000
		300,000			300,000
1 June	Balance b/f	300,000			

Advertising expenses

15	Bank	230,000	31	Balance c/f	230,000
		230,000			230,000
1 June	Balance b/f	230,000			

(b) Trial Balance as at 31 May 2013

Home Oak Garden Traders: Trial balance as at 31 May

	Debit Rs.	Credit Rs.
Capital		2,500,000
Bank	3,110,000	
Purchases	4,590,000	
Sales		3,500,000
Payables:		
The Bushes Company		430,000
Flower City		870,000
Weedkill		760,000
T Greenery		640,000
Landscape		1,100,000
Receivables:		
V Cork	640,000	
Texas Chain Store	260,000	
Public Parks	670,000	
Rent	300,000	
Advertising	230,000	
	9,800,000	9,800,000

4.3 LEE

Capital

Date		Rs.	**Date**		Rs.
	Balance c/d	80,000	1	Bank	80,000
		80,000			80,000
				Balance b/d	80,000

Bank

Date		Rs.	**Date**		Rs.
1	Capital	80,000	6	Wages	1,400
24	Carton Leisure	9,500	12	Wages	1,400
30	Loan	6,000	17	KH Supplies	8,400
			21	Beta Fittings	5,000
			31	Motor van	40,000
				Balance c/d	39,300
		95,500			95,500
	Balance b/d	39,300			

Cash in hand

Date		Rs.	**Date**		Rs.
5	Sales	8,700	9	Purchases	4,600
				Balance c/d	4,100
		8,700			8,700
	Balance b/d	4,100			

Purchases

Date		Rs.	**Date**		Rs.
2	KH Supplies	7,600			
	Hatts	2,700			
	Toby Traders	5,600			
9	Cash in hand	4,600			
10	KH Supplies	5,700			
	Toby Traders	9,800	31	Balance c/d	36,000
		36,000			36,000
	Balance b/d	36,000			

Payables – KH Supplies

Date		Rs.	**Date**		Rs.
17	Bank	8,400	2	Purchases	7,600
27	Purchase returns	2,400	10	Purchases	5,700
31	Balance c/d	2,500			
		13,300			13,300
				Balance b/d	2,500

Payables - Hatts

Date		Rs.	Date		Rs.
31	Balance c/d	2,700	2	Purchases	2,700
		2,700			2,700
				Balance b/d	2,700

Payables – Toby Traders

Date		Rs.	Date		Rs.
18	Purchase returns	2,000	2	Purchases	5,600
31	Balance c/d	13,400	10	Credit Purchases	9,800
		15,400			15,400
				Balance b/d	13,400

Payables – Beta Fittings

Date		Rs.	Date		Rs.
21	Bank	5,000	15	Fixtures	5,000
		5,000			5,000

Sales

		Rs.	Date		Rs.
			5	Cash in hand	8,700
			7	Elliots	3,500
				L. Lane	4,200
				Carton Leisure	7,200
			13	L. Lane	3,200
31	Balance c/d	29,100		Carton Leisure	2,300
		29,100			29,100
				Balance b/d	29,100

Receivables – Elliots

Date		Rs.	Date		Rs.
7	Sales	3,500	31	Balance c/d	3,500
		3,500			3,500
	Balance b/d	3,500			

Receivables – L Lane

Date		Rs.	Date		Rs.
7	Sales	4,200			
13	Sales	3,200	31	Balance c/d	7,400
		7,400			7,400
	Balance b/d	7,400			

Receivables – Carton Leisure

Date		Rs.	Date		Rs.
7	Sales	7,200	24	Bank	9,500
13	Sales	2,300			
		9,500			9,500

Wages

Date		Rs.	Date		Rs.
6	Bank	1,400			
12	Bank	1,400		Balance c/d	2,800
		2,800			2,800
	Balance b/d	2,800			

Motor van

Date		Rs.			Rs.
31	Bank	40,000		Balance c/d	40,000
		40,000			40,000
	Balance b/d	40,000			

Fixtures and fittings

		Rs.		Rs.
15	Other payables	5,000	Balance c/d	5,000
		5,000		5,000
	Balance b/d	5,000		

Purchase returns

	Rs.	Date		Rs.
		18	Toby Trader	2,000
Balance c/d	4,400	27	KH Supplies	2,400
	4,400			4,400
			Balance b/d	4,400

Loan

	Rs.	Date		Rs.
Balance c/d	6,000	30	Bank	6,000
	6,000			6,000
			Balance b/d	6,000

Lee: Trial balance at 31 March 2013

	Debit Rs.	Credit Rs.
Capital		80,000
Bank	39,300	
Cash	4,100	
Purchases	36,000	
Payables:		
KH Supplies		2,500
Hatts		2,700
Toby Traders		13,400
Sales		29,100
Receivables:		
Elliots	3,500	
L. Lane	7,400	
Wages	2,800	
Motor van	40,000	
Fixtures and fittings	5,000	
Purchase returns		4,400
Loan		6,000
	138,100	138,100

4.4 BLACK

Black: Statement of comprehensive income for the year ended 31 December 2013

	Rs.	Rs.
Sales less returns (135,650 – 50)		135,600
Opening inventory at 1 January	7,500	
Purchases less returns (54,261 – 61)	54,200	
	61,700	
Carriage inwards	100	
	61,800	
Less: Closing inventory at 31 December	(9,500)	
Cost of sales		(52,300)
Gross profit		83,300
Wages and salaries	8,900	
Rent	4,500	
Telephone	560	
Heat and lighting	890	
Motor van running expenses	1,250	
Carriage outwards	150	
Bank interest	534	
		(16,784)
Net profit		66,516

Black: Statement of financial position as at 31 December 2013

	Rs.	Rs.
Non-current assets:		
Land and buildings		60,000
Motor van		5,000
		65,000
Current assets:		
Inventory	9,500	
Receivables	8,700	
Cash in hand	150	
		18,350
Total assets		83,350
Capital		
At 1 January		19,434
Net profit for the year		66,516
		85,950
Drawings		(15,000)
At 31 December		70,950
Current liabilities		
Bank overdraft	6,500	
Payables	5,900	
		12,400
Total capital and liabilities		83,350

4.5 WORTH

Worth: Statement of comprehensive income for the year ended 30 June 2013

	Rs.(000)	Rs.(000)
Sales		28,794
Opening inventory	0	
Purchases	23,803	
	23,803	
Less: Closing inventory	(4,166)	
Cost of sales		(19,637)
Gross profit		9,157
Salaries and wages	3,164	
Rent	854	
Insurance	105	
Lighting and heating expenses	422	
Sundry expenses	506	
Motor running expenses	1,133	
		(6,184)
Net profit		2,973

Worth: Statement of financial position as at 30 June 2013

	Rs.(000)	Rs.(000)
Non-current assets:		
Land and buildings		50,000
Motor vans		5,500
Fixtures and fittings		1,000
		56,500
Current assets:		
Inventory	4,166	
Receivables	3,166	
Cash at bank	3,847	
		11,179
Total assets		67,679
Capital		
Initial capital at 1 July 2009		65,900
Net profit for the year		2,973
		68,873
Drawings		(2,400)
At 30 June 2013		66,473
Current liabilities		
Payables		1,206
Total capital and liabilities		67,679

CHAPTER 5 – SALES AND PURCHASES

5.1 MAY TRANSACTIONS REVISITED

(a) **Day books**

Purchases day book

Date	**Supplier**	**Rs.**
2 May	The Bushes Company	540,000
	Flower City	870,000
	D Gibson	250,000
	Weedkill	760,000
	T Greenery	640,000
		3,060,000

Date	**Supplier**	**Rs.**
18 May	The Bushes Company	430,000
	Landscape	1,100,000
		1,530,000

Sales day book

Date	**Customer**	**Rs.**
4 May	The Office Company	430,000
	V Cork	640,000
	Texas Chain Stores	1,760,000
		2,830,000

Date	**Customer**	**Rs.**
21 May	Public Parks	670,000
		670,000

(b) **Accounts in the main ledger**

Capital

31	Balance c/f	2,500,000	1	Bank	2,500,000
		2,500,000			2,500,000
			1 June	Balance b/f	2,500,000

Cash at bank

1	Capital	2,500,000	6	Rent	120,000
9	The Office Company	430,000	12	D Gibson	250,000
10	Texas Chain Stores	1,500,000	12	The Bushes Company	540,000
			15	Advertising	230,000
			31	Rent	180,000
			31	Balance c/f	3,110,000
		4,430,000			4,430,000
1 June	Balance b/f	3,110,000			

Purchases

2	Payables	3,060,000			
18	Payables	1,530,000	31	Balance c/f	4,590,000
		4,590,000			4,590,000
1 June	Balance b/f	4,590,000			

Sales

			4	Receivables	2,830,000
31	Balance c/f	3,500,000	21	Receivables	670,000
		3,500,000			3,500,000
			1 June	Balance b/f	3,500,000

Payables control account

12	Cash at bank	790,000	2	Purchases	3,060,000
31	Balance c/f	3,800,000	18	Purchases	1,530,000
		4,590,000			4,590,000
			1 June	Balance b/f	3,800,000

Receivables control account

4	Sales	2,830,000	9	Cash at bank	430,000
21	Sales	670,000	10	Cash at bank	1,500,000
			31	Balance c/f	1,570,000
		3,500,000			3,500,000
1 June	Balance b/f	1,570,000			

Rent (expense)

6	Bank	120,000			
31	Bank	180,000	31	Balance c/f	300,000
		300,000			300,000
1 June	Balance b/f	300,000			

Advertising expenses

15	Bank	230,000	31	Balance c/f	230,000
		230,000			230,000
1 June	Balance b/f	230,000			

(c) **Accounts in receivables and payables ledgers**

Payables ledger

Payables – The Bushes Company

12	Cash at bank	540,000	2	Purchases	540,000
31	Balance c/f	430,000	18	Purchases	430,000
		970,000			970,000
			1 June	Balance b/f	430,000

Payables – Flower City

31	Balance c/f	870,000	2	Purchases	870,000
		870,000			870,000
			1 June	Balance b/f	870,000

Payables – D Gibson

12	Cash at bank	250,000	2	Purchases	250,000
		250,000			250,000

Payables – Weedkill

31	Balance c/f	760,000	2	Purchases	760,000
		760,000			760,000
			1 June	Balance b/f	760,000

Payables – T Greenery

31	Balance c/f	640,000	2	Purchases	640,000
		640,000			640,000
			1 June	Balance b/f	640,000

Payables – Landscape

31	Balance c/f	1,100,000	18	Purchases	1,100,000
		1,100,000			1,100,000
			1 June	Balance b/f	1,100,000

List of balances in the payables ledger

	Rs.
The Bushes Company	430,000
Flower City	870,000
D Gibson	nil
Weedkill	760,000
T Greenery	640,000
Landscape	1,100,000
	3,800,000

Receivables ledger

Receivables – The Office Company

4	Sales	430,000	9	Cash at bank	430,000
		430,000			430,000

Receivables – V Cork

4	Sales	640,000		Balance c/f	640,000
		640,000			640,000
1 June	Balance b/f	640,000			

Receivables – Texas Chain Stores

4	Sales	1,760,000	10	Cash at bank	1,500,000
				Balance c/f	260,000
		1,760,000			1,760,000
1 June	Balance b/f	260,000			

Receivables – Public Parks

21	Sales	670,000		Balance c/f	670,000
		670,000			670,000
1 June	Balance b/f	670,000			

List of balances in the receivables ledger:

	Rs.
The Office Company	nil
V Cork	640,000
Texas Chain Stores	260,000
Public Parks	670,000
	1,570,000

(d) **Trial Balance as at 31 May 2013**

Home Oak Garden Traders: Trial balance as at 31 May

	Debit Rs.	Credit Rs.
Capital		2,500,000
Bank	3,110,000	
Purchases	4,590,000	
Sales		3,500,000
Payables conrol account		3,800,000
Receivables control account	1,570,000	
Rent	300,000	
Advertising	230,000	
	9,800,000	9,800,000

5.2 JUNE TRANSACTIONS

(a) Main ledger transactions

Date		Debit	Credit
June		Rs.(000)	Rs.(000)
1	Bank	6,500	
	Capital		6,500
2	Purchases	1,800	
	Payables control account		1,800
3	Receivables control account	1,340	
	Sales		1,340
4	Purchases	230	
	Bank		230
5	Motor van (asset account)	2,560	
	Bank		2,560
7	Motor expenses	120	
	Bank		120
9	Receivables control account	1,180	
	Sales		1,180
11	Purchases	3,480	
	Payables control account		3,480
13	Payables control account	250	
	Purchase returns		250
19	Sales returns	110	
	Receivables control account		110
20	Drawings	440	
	Bank		440
21	Payables control account	1,080	
	Bank		1,080
23	Bank	660	
	Receivables control account		660
25	Cash in hand	430	
	Receivables control account		430
28	Payables control account	420	
	Purchase returns		420
29	Sundry expenses	40	
	Cash in hand		40
30	Receivables control account	960	
	Sales		960

(b) Receivables ledger entries

Date		Debit	Credit
June		Rs.(000)	Rs.(000)
3	J Bird	660	
3	D Swann	250	
3	Swallow Company	430	
9	M Parrott	240	
9	Canary Company	260	
9	G Finch	680	
19	D Swann		110
23	J Bird		660
25	Swallow Company		430
30	D Swann	420	
	Canary Company	540	

(c) Payables ledger entries

Date		Debit	Credit
June		Rs.(000)	Rs.(000)
2	C Jones		1,800
11	C Jones		2,400
	E Davies		620
	A Evans		460
13	C Jones	250	
21	E Davies	620	
	A Evans	460	
28	C Jones	420	

5.3 KWARK

(a)

Payables control account

		Rs.(000)			Rs.(000)
6	Bank	700	2	Purchases	4,590
7	Bank	350	9	Purchases	2,403
7	Discount received	25			
9	Purchase returns	400			
	Balance c/d	5,518			
		6,993			6,993
				Balance b/d	5,518

Receivables control account

		Rs.(000)			Rs.(000)
3	Sales	4,953	4	Bank	723
12	Sales	1,005	4	Discounts allowed	30
			5	Bank	1,500
			10	Sales returns	270
				Balance c/d	3,435
		5,958			5,958
	Balance b/d	3,435			

(b)

Receivables ledger balances at 31 May	Rs.(000)
Bailey Stores (753 – 723 – 30)	0
Fastshop (1,120 + 1,005)	2,125
Spencers (3,080 – 1,500 – 270)	1,310
Total balances	3,435
= Receivables control account balance: main ledger	

(c)

Payables ledger balances at 31 May	Rs.(000)
Ellis (810 – 700)	110
Mendez Trading (1,305 + 753)	2,058
Gibson (375 – 350 – 25)	0
Dynasty (1,140 + 1,650 – 400)	2,390
Liners	960
Total balances	5,518
= Trade payables control account balance: main ledger	

CHAPTER 6 – DEPRECIATION

6.1 AUBREY

(a) **Straight line method**

$$\text{Depreciation charge per annum} = \frac{\text{Cost of asset - Scrap value}}{\text{Estimated useful life}}$$

$$= \frac{800 - 104}{4}$$

= Rs.174

(b) **Reducing balance method**

$$x = \sqrt[n]{\frac{\text{Residual value}}{\text{Cost}}} - 1 = \sqrt[4]{\frac{104}{800}} - 1 = 0.3995 \text{ or } 40.0\%$$

Depreciation charge is:

		Rs.
Year 1	Rs.800 x 40%	320
Year 2	Rs.(800 – 320) x 40%	192
Year 3	Rs.(800 – (320 + 192)) x 40%	115
Year 4	Rs.(800 – (320 + 192 + 115)) x 40%	69

Proof	Rs.
Cost	800
Less depreciation over 4 years	
320 + 192 + 115 + 69	(696)
Residual value	104

6.2 MATURIN

(a) (i) **Machinery a/c**

		Rs.			Rs.
1.1.12	Cash (or creditor)	10,000	31.12.12	Balance c/d	10,000
		10,000			10,000
1.1.13	Balance b/d	10,000	31.12.13	Balance c/d	10,000
		10,000			10,000
1.1.14	Balance b/d	10,000			

(ii) **Accumulated depreciation a/c**

		Rs.			Rs.
31.12.12	Balance c/d	1,150	(W1)	Depreciation exp.	1,150
		1,150			1,150
			1.1.13	Balance b/d	1,150
31.12.13	Balance c/d	2,300	(W1)	Depreciation exp.	1,150
		2,300			2,300
			1.1.14	Balance b/d	2,300

(iii) **Depreciation expense a/c**

	Rs.			Rs.
Accumulated depreciation a/c	1,150	31.12 12	To P & L a/c	1,150
Accumulated depreciation a/c	1,150	31.12 13	To P & L a/c	1,150

Working

Rs.[10,000 – 800] ÷ 8 = Rs.1,150

(b) Statement of financial position Presentation

Balance Sheet date	*Cost* Rs.	*Depreciation* Rs.	*Net book value (NBV)* Rs.
31.12.12	10,000	(1,150)	8,850
31.12.13	10,000	(2,300)	7,700

6.3 SOPHIE

(a) **Machinery a/c**

2010		Rs.	*2010*		Rs.
20 Jan	Cash a/c	4,200	31 Dec	Balance c/d	4,200
2011			*2011*		
1 Jan	Balance b/d	4,200			
17 Apr	Cash a/c	5,000	31 Dec	Balance c/d	9,200
		9,200			9,200
2012			*2012*		
1 Jan	Balance b/d	9,200			
11 Jul	Cash a/c	3,500	31 Dec	Balance c/d	12,700
		12,700			12,700
2013					
1 Jan	Balance b/d	12,700			

Accumulated depreciation a/c

		Rs.			Rs.
2010		Rs.	*2010*		Rs.
31 Dec	Balance c/d	1,050	31 Dec	Depreciation expense a/c (W1)	1,050
2011			*2011*		
			1 Jan	Balance b/d	1,050
31 Dec	Balance c/d	3,337	31 Dec	Depreciation expense a/c (W2)	2,287
		3,337			3,337
2012			*2012*		
			1 Jan	Balance b/d	3,337
31 Dec	Balance c/d	6,203	31 Dec	Depreciation expense a/c (W3)	2,866
		6,203			6,203
			2013		
			1 Jan	Balance b/d	6,203

(b) **Statement of financial position at 31 December (extract)**

Tangible non-current assets

	Cost Rs.	*Dep'n* Rs.	*NBV* Rs.
2010 – Machinery	4,200	1,050	3,150
2011 – Machinery	9,200	3,337	5,863
2012 – Machinery	12,700	6,203	6,497

WORKING: ANNUAL DEPRECIATION CHARGES

Year	**Asset**	**Cost Rs. 000**	**Calculation**	**2010 Rs. 000**	**2011 Rs. 000**	**2012 Rs. 000**
2010	Machine 1	4,200	25% x 4,200	1,050		
			25% x (4,200 – 1,050)		787	
			25% x (4,200 – 1,050 – 787)			591
2011	Machine 2	5,000	30% x 5,000		1,500	
			30% x (5,000 – 1,500)			1,050
2012	Machine 3	3,500	35% x 3,500			1,225
				1,050	2,287	2,866

6.4 DIANA

Vehicle a/c

2010	Rs.(000)	*2010*	Rs.(000)
Cash	372,000	Balance c/d	372,000
2011		*2011*	
Balance b/d	372,000		
Cash	108,600	Balance c/d	480,600
	480,600		480,600
2012		*2012*	
Balance b/d	480,600		
Cash	39,600	Balance c/d	520,200
	520,200		520,200
2013		*2013*	
Balance b/d	520,200		
Cash	315,000	Balance c/d	835,200
	835,200		835,200
2014			
Balance b/d	835,200		

Accumulated depreciation a/c

2010	Rs.(000)	*2010*	Rs.(000)
Balance c/d	93,000	Depreciation($25\% \times 372{,}000$)	93,000
2011		*2011*	
		Balance b/d	93,000
Balance c/d	213,150	Depreciation a/c ($25\% \times 480{,}600$)	120,150
	213,150		213,150
2012		*2012*	
		Balance b/d	213,150
Balance c/d	343,200	Depreciation a/c ($25\% \times 520{,}200$)	130,050
	343,200		343,200
2013		*2013*	
		Balance b/d	343,200
Balance c/d	552,000	Depreciation a/c ($25\% \times 835{,}200$)	208,800
	552,000		552,000
		2014	
		Balance b/d	552,000

Depreciation a/c

	Rs.(000)		Rs.(000)
2010		*2010*	
Accumulated depreciation	93,000	P&L a/c	93,000
2011		*2011*	
Accumulated depreciation	120,150	P&L a/c	120,150
2012		*2012*	
Accumulated depreciation	130,050	P&L a/c	130,050
2013		*2013*	
Accumulated depreciation	208,800	P&L a/c	208,800

WORKING: ANNUAL DEPRECIATION CHARGES

		Cost		2010	2011	2012	2013
Year	**Asset**	**Rs. 000**	**Calculation:**	**Rs. 000**	**Rs. 000**	**Rs. 000**	**Rs. 000**
2010	Porsche 924	372,000	(372,000 x 25%)	93,000	93,000	93,000	93,000
2011	Porsches	108,600	(108,600 x 25%)		27,150	27,150	27,150
2012	Two Cars	39,600	(39,600 x 25%)			9,900	9,900
2013	15 Cars	315,000	(315,000 x 25%)				78,750
				93,000	120,150	130,050	208,800

6.5 SUNDRY DEPRECIATION PROBLEMS

(a) Annual depreciation = Rs.(60,000 – 0)/5 years = Rs.12,000.

Depreciation charge in the year of acquisition

= Rs.12,000 x (8 months/12 months) = Rs.8,000.

(b) Annual depreciation = Rs.(3,000,000 – 0)/50 years = Rs.60,000.

6.6 TIME LIFE ENTERPRISES

Plant & Machinery

2013			**2013**		
	Balance before adjustment	**12,387,060**			
Jan. 21	Cost of installation	**300,000**	Jan. 17	Reversal of Advance against contract for future delivery of plant	**450,000**
				Balance c/d: Plant & Machinery	12,237,060
		12,687,060			12,687,060

Accumulated Depreciation - Plant & Machinery

2013			**2013**		
			Jan. 1	Balance before adjustment	4,792,540
	Removal of depreciation wrongly charged on advance (450,000 @ 10%)	45,000		Extra depreciation on 300,000 @10%	30,000
	Balance c/d	4,777,540			
		4,822,540			4,822,540

6.7 ZIAKOT STEEL WORKS

Plant and Machinery A/c

Dr.		**Cr.**	
Balance b/d	712,000	Repairs wrongly capitalized	25,000
New machine purchased	60,000	Balance c/d	747,000
	772,000		772,000

Accumulated Depreciation A/c

Repairs wrongly capitalized **(W1)**	8,000	Balance b/d	240,000
		Depreciation for the year **(W3)**	97,000
Balance c/d	329,000		
	337,000		337,000

Working Notes:		**Rs.**
1	Repair wrongly capitalised on 1-Oct-10	25,000
	Less: Depreciation from 1-Oct-10 to 30-Jun-11 (25,000 × 25% × $^{9}/_{12}$)	3,750
	Carrying amount on 1-Jul-11	21,250
	Less: Depreciation for 01-Jul-11 to 30-Jun-12	4,250
	Carrying amount on 1-Jul-12	17,000
	Amount of depreciation incorrectly charged by the start of the year (3,750 + 4,250)	8,000
2	Calculation of depreciation for 2012-13	**Rs.**
	Opening carrying amount before corrections: (712,000 – 240,000)	472,000
	Adjustment for prior year – repairs wrongly capitalized **(W1)**	(17,000)
	Opening carrying amount as corrected	455,000
3	Depreciation for the year ended 30-06-2013:	
	Depreciation for full year on Rs.455,000 × 0.20	91,000
	Depreciation on machine purchase during the year (60,000 × 0.20 × $^{6}/_{12}$)	6,000
		97,000

CHAPTER 7 – BAD AND DOUBTFUL DEBTS

7.1 BELL

Workings

Allowance for doubtful debts at 31 July Year 7:

	Rs.(000)
Specific allowances to be made (230 + 562 + 56)	848
General allowance: 2% x (32,456 - 848)	632
Total allowance at 31 July Year 7	1,480

Allowance for doubtful debts account

Date		Rs.(000)	Date		Rs.(000)
			1.8.Yr6	Balance b/d	1,420
31.7.Yr7	Balance c/d (see workings)	1,480	31.7.Yr7	Statement of comprehensive income (increase in allowance)	60
		1,480			1,480
			1.8.Yr7	Balance b/d	1,480

Bad debts account

Date		Rs.(000)	Date		Rs.(000)
	Accounts receivable	723	31.7.Yr7	Statement of comprehensive income (bad debts written off)	723
		723			723

Extracts from financial statements

Statement of comprehensive income	Rs.(000)
Bad debts written off	723
Increase in allowance for doubtful debts	60

Statement of financial position (current assets):	Rs.(000)
Trade receivables	32,456
Less: allowance for doubtful debts	(1,480)
	30,976

7.2 HUBBARD

(a) **Bad debts expense a/c**

		Rs.(000)			Rs.(000)
31 Dec	Trade receivables a/c	115	31 Dec	P&L	165
31 Dec	Doubtful debts all.	50			
		165			165

(b) **Doubtful debts allowance a/c**

		Rs.(000)			Rs.(000)
31 Dec	Balance c/d		1 Jan	Balance b/d	86
	2,725 (W) × 5%	136	31 Dec	Bad debts expense a/c	50
		136			136

Working

Trade receivables a/c

		Rs.(000)			Rs.(000)
31 Dec	Balance c/d	2,840	31 Dec	Bad debt expense	115
			31 Dec	Balance c/d	2,725
		2,840			2,840
1 Jan	Balance b/d	2,725			

7.3 APU

(a) **Bad debts expense a/c**

		Rs.(000)			Rs.(000)
31 Dec	Trade receivables a/c	55	31 Dec	Doubtful debts a/c	87
31 Dec	P&L	32			
		87			87

(b) **Doubtful debts allowance a/c**

		Rs.(000)			Rs.(000)
31 Dec	Bad debts expense a/c	87	1 Jan	Balance b/d	206
31 Dec	Balance c/d				
	(2,440 – 55) × 5%	119			
		206			206

7.4 BARNEY

Journal

Year 1	*Dr* Rs.(000)	*Cr* Rs.(000)
Bad debts expense a/c	1,000	
Trade receivables a/c		1,000
Bad debts written off during the year		
Bad debts expense a/c	265	
Doubtful debts allowance a/c		265
Increase in allowance (to 7.5% of Rs.(000)15,000)		
P&L a/c	1,265	
Bad debts expense a/c		1,265
Write off of bad debts expense		
Year 2		
Bad debts expense a/c	1,100	
Trade receivables a/c		1,100
Bad debts written off at 31 December		
Doubtful debts allowance a/c	180	
Bad debts expense a/c		180
Reduction in allowance (to 7.5% of Rs.(000)12,600)		
P&L a/c	920	
Bad debts expense a/c		920
Debts written off to P&L		

Bad debts expense a/c

Year 1		Rs.(000)			Rs.(000)
	Debts written off	1,000	31 Dec	P&L a/c (βal)	1,265
31 Dec	Doubtful debts allowance	265			
		1,265			1,265
Year 2					
31 Dec	Trade receivables a/c	1,100	31 Dec	Doubtful debts allowance	180
			31 Dec	P&L a/c (βal)	920
		1,100			1,100

Doubtful debts allowance a/c

Year 1		Rs.(000)			Rs.(000)
			1 Jan	Balance b/d	860
31 Dec	Balance c/d 15,000 x 7.5%	1,125	31 Dec	Bad debts expense a/c (Bal)	265
		1,125			1,125
Year 2					
31 Dec	Bad debts expense a/c (Bal)	180	1 Jan	Balance b/d	1,125
31 Dec	Balance c/d (13,700 – 1,100) x 7.5%	945			
		1,125			1,125

7.5 NELSON

(a) **Doubtful debts allowance a/c**

2010		Rs.(000)	*2010*		Rs.(000)
31 Dec	Bad debts expense (Bal)	250	1 Jan	Balance b/d	10,000
	Balance c/d	9,750			
		10,000			10,000
2011			*2011*		
31 Dec	Bad debts expense	750	1 Jan	Balance b/d	9,750
	Balance c/d	9,000			
		9,750			9,750
2012			*2012*		
			1 Jan	Balance b/d	9,000
31 Dec	Balance c/d	15,750	31 Dec	Bad debts expense	6,750
		15,750			15,750
			2013		
			1 Jan	Balance b/d	15,750

Bad debts expense a/c

2010		Rs.(000)	*2010*		Rs.(000)
31 Dec	Trade receivables a/c	1,860	31 Dec	Doubtful debts	250
				P&L a/c (Bal)	1,610
		1,860			1,860
2011			*2011*		
31 Dec	Trade receivables a/c	1,020	31 Dec	Doubtful debts	750
				P&L a/c (Bal)	270
		1,020			1,020
2012			*2012*		
31 Dec	Trade receivables a/c	6,020			
	Doubtful debts	6,750	31 Dec	P&L a/c (Bal)	12,770
		12,770			12,770

(b) **Statement of financial position at 31 December (extracts) – All figures in Rs.(000)**

	2010	*2011*	*2012*
Current assets			
Trade receivables	195,000	150,000	210,000
Less Doubtful debts allowance	9,750	9,000	15,750
	185,250	141,000	194,250

7.6 FLANDERS

(a) **Trade receivables a/c**

		Rs.(000)			Rs.(000)
1 Jul 2011	Balance b/d	50,000		Cash	432,000
	Sales	480,000		Bad debts	6,000
			30 Jun 2012	Balance c/d	92,000
		530,000			530,000
1 Jul 2012	Balance b/d	92,000		Cash	560,600
	Sales	550,000		Bad debts	2,000
30 Sep 2012	Debt “reinstated”	600	30 Jun 2013	Balance c/d	80,000
		642,600			642,600
1 Jul 2013	Balance b/d	80,000			

(b) **Doubtful debts allowance a/c**

		Rs.(000)			Rs.(000)
			1 Jul 2011	Balance b/d (W1)	2,500
30 Jun 2012	Balance c/d (W2)	4,600	30 Jun 2012	Bad debts (Bal)	2,100
		4,600			4,600
30 Jun 2013	Bad debts (Bal)	600	1 Jul 2012	Balance b/d	4,600
30 Jun 2013	Balance c/d (W3)	4,000			
		4,600			4,600
			1 Jul 2013	Balance b/d	4,000

(c) **Bad debts expense a/c**

		Rs.(000)			Rs.(000)
	Trade receivables (write off)	6,000	30 Jun 2012	P&L a/c	8,100
30 Jun 2012	Increase in doubtful debts a/c	2,100			
		8,100			8,100
	Trade receivables (write off)	2,000	30 Sep 2012	Trade receivables recovery	600
			30 Jun 2013	Decrease in doubtful debts a/c	600
			30 Jun 2013	P&L a/c	800
		2,000			2,000

Workings

(1) Allowance at 30 June 2011 = 5% × Rs.50,000,000 = Rs.2,500,000

(2) Allowance at 30 June 2012 = 5% × Rs.92,000,000 = Rs.4,600,000

(3) Allowance at 30 June 2013 = 5% × Rs.80,000,000 = Rs.4,000,000

7.7 HOMER

Doubtful debts allowance a/c

		Rs.(000)			Rs.(000)
31.3.11	Balance c/d (W1)	365	(2)	Bad debts expense	365 (β)
		365			365
			1.4.11	Balance b/d	365
31.3.12	Balance c/d (W2)	530	(2)	Bad debts expense	165 (β)
		530			530
(2)	Bad debt expense	155	1.4.12	Balance b/d	530
31.3.13	Balance c/d (W3)	375			
		530			530
			1.4.13	Balance b/d	375

Bad debt expense a/c

		Rs.(000)			Rs.(000)
(1)	Write off – Bart	200	31.3.11	To P&L a/c	565
(2)	Allowance a/c	365			
		565			565
(1)	Write off – Maggie	240			
(3)	Write off – Lisa	60			
(2)	Allowance a/c	165	31.3.12	To P&L a/c	465
		465			465
			(3)	Maggie (CB receipt)	50
31.3.13	To P&L a/c	205	(2)	Allowance a/c	155
		205			205

Tutorial note: When Homer receives Rs.50,000 from Maggie there will be no balance on Maggie' a/c against which to allocate it so it has been credited to the expense a/c. Alternatively, if Homer credited the Rs.50,000 to the trade receivables a/c the debt would have to be reinstated ie

Dr Trade receivables

Cr Bad debt expense

Workings

(1) Allowance required 31.3.11

			Rs.(000)
Specific Allowance (Lisa):	½ × 100,000	=	50
General Allowance:	5% × 6,300,000	=	315
			365

(2) Allowance required 31.3.12

			Rs.(000)
Specific Allowance (Marge)	½ × 400,000	=	200
General Allowance:	5% × 6,600,000	=	330
			530

(3) Allowance required 31.3.13

			Rs.(000)
General Allowance:	5% × 7,500,000	=	375

7.8 LOPEZ

Trade receivables

		Rs.			Rs.
2011			*2011*		
Sales revenue		200,000	Cash receipts		150,000
			Bad debt expense (w/o)		8,000
			31.12.99	Balance c/d	42,000
		200,000			200,000
2012			*2012*		
1.1.01	Balance b/d	42,000	Cash receipts		280,000
	Sales revenue	300,000	Bad debt expense (w/o)		3,500 (2)
	Bad debt expense (Ludmila)	4,000	31.12.01	Balance c/d	62,500
		346,000			346,000
2013			*2013*		
1.1.02	Balance b/d	62,500	Cash receipts		400,000
	Sales revenue	500,000	Cash (Chokin)		6,000 (3)
			31.12.02	Balance c/d	156,500
		562,500			562,500
2014					
1.1.03	Balance b/d	156,500			

Tutorial notes

(1) If the receipt from Ludmila was not included in the 280,000 but had been recognised as a receipt from a customer with whom Lopez is no longer trading, it could have been credited directly to the bad debt expense a/c (as a recovery).

(2) It is unnecessary to adjust the write-off of Jozef's balance against the allowance a/c just because it had previously been provided for. The allowance previously made is effectively "released" to the expense a/c because it is no longer required.

(3) Because Chokin's debt has only been provided against but not written off it would be wrong top make a "reinstatement" adjustment.

Bad debt expense a/c

	Rs.		Rs.
2011		*2011*	
Trade receivables (Ludmila)	8,000		
Allowance for doubtful debts	5,425	31.12.99 I&E a/c	13,425
	13,425		13,425
2012		*2012*	
Trade receivables (Jozef)	3,500	Trade receivables (Ludmila)	4,000
Allowance for doubtful debts	2,095	31.12.01 I&E a/c	1,595
	5,595		5,595
2013		*2013*	
Allowance for doubtful debts	51,000	31.12.02 I&E a/c	51,000

Allowance for doubtful debts a/c

	Rs.		Rs.
2011		*2011*	
31.12.99 Balance c/d (W1)	5,425	Bad debt expense	5,425
2012		*2012*	
31.12.01 Balance c/d (W2)	7,520	1.1.01 Balance b/d	5,425
		Bad debt expense	2,095
	7,520		7,520
2013		*2013*	
		1.1.02 Balance b/d	7,520
31.12.02 Balance c/d (W3)	58,520	Bad debt expense	51,000
	58,520		58,520

Workings

		Rs.
(1)	Allowances year 1	
	Specific (Jozef)	3,500
	General 5% × Rs.(42,000 – 3,500)	1,925
		5,425
(2)	Allowances year 2	
	Specific (Chokin) (50% × 6,000)	3,000
	General 8% × Rs.(62,500 – 6,000)	4,520
		7,520

(3) Allowances year 3

Specific (Paulo)	50,000
General 8% × (Rs.156,500 – 50,000)	8,520
	58,520

Statement of financial position extracts

	31 December		
	2011	*2012*	*2013*
	Rs.	Rs.	Rs.
Trade receivables	42,000	62,500	156,500
Less Allowance for doubtful debts	(5,425)	(7,520)	(58,520)
	36,575	54,980	97,980

CHAPTER 8 – PREPAYMENTS AND ACCRUALS

8.1 KIRK

(a) **Water expense a/c**

		Rs.(000)			Rs.(000)
30.4.12	Cash	1,000		P&L a/c (W1)	750
			31.12.12	Balance c/d	250 β
		1,000			1,000
1.1.13	Balance b/d	250		P&L a/c	1450 β
1.6.13	Cash	1,600	31.1.13	Balance c/d (W2)	400
		1,850			1,850
1.1.11	Balance b/d	400			

β denotes balancing figure.

Workings

(1) Expense for period 1.4.12 – 31.12.12: $^{9}/_{12} \times$ Rs.1,000,000 = Rs.750,000

(2) 3 months prepaid: $^{3}/_{12} \times$ Rs.1,600,000 = Rs.400,000

(b) **Water expense a/c**

		Rs.(000)			Rs.(000)
31.12.12	Balance c/d	750 β		P&L a/c	750 †
		750			750
31.4.13	Cash	1,000	1.1.13	Balance b/d	750
31.12.13	Balance c/d	1,200		P&L a/c	1,450 †
		2,200			2,200
			1.1.14	Balance b/d	1,200

† Tutorial note: The P&L a/c charges must be the same as determined in (a)!

8.2 SPOCK

Insurance a/c

2013		Rs.(000)	2013		Rs.(000)	
1 Jan	Balance b/d	1,140		P&L a/c	4,410	(βal)
1 Apr	Bank a/c	840	31 Dec	Balance c/d (W1)	1,670	
1 May	Bank a/c	3,540				
1 Jul	Bank a/c	560				
		6,080			6,080	
2013						
1 Jan	Balance b/d	1,670				

Prepayment a/c *

2013		Rs.(000)	2013		Rs.(000)
31 Dec	Insurance	1,670	31 Dec	Balance c/d	1,670
1 Jan	Balance b/d	1,670	1 Jan	Insurance (reversal)	1,670

Workings

(1) **Prepayment at the end of the year**

	Rs.(000)
Insurance on six vans paid 1 April 2013 $^{3}/_{12} \times$ Rs.840,000	210
Insurance of twenty vans paid 1 May 2013 $^{4}/_{12} \times$ Rs.3,540,000	1,180
Insurance on remaining vans paid 1 July 2013 $^{6}/_{12} \times$ Rs.560,000	280
	1,670

PROOF

Charge for the year

	Rs.(000)
Prepayment	1,140
Insurance $^{9}/_{12} \times$ Rs.840,000	630
Insurance $^{8}/_{12} \times$ Rs.3,540,000	2,360
Insurance $^{6}/_{12} \times$ Rs.560,000	280
	4,410

8.3 BONES

a **Rent receivable**

2013		Rs.			Rs.
1 Jan	Accrued income reversal	34,200	1 Jan	Deferred income reversal	20,700
	Statement of comprehensive income (calculated as a balancing figure)	241,200		Cash	229,500
31 Dec	Deferred income	15,300	31 Dec	Accrued income	40,500
		290,700			290,700
1 Jan	Accrued income reversal	40,500	1 Jan	Deferred income reversal	15,300

b **Interest payable**

2013		Rs.			Rs.
1 Jan	Prepayment reversal	3,500	1 Jan	Accrual reversal	9,800
	Bank (calculated as a balancing figure)	57,400		Statement of comprehensive income	52,500
31 Dec	Accrual	7,000	31 Dec	Prepayment	5,600
		67,900			67,900
1 Jan	Prepayment reversal	5,600	1 Jan	Deferred income reversal	7,000

8.4 UHURA

Stationery a/c

		Rs.(000)			Rs.(000)
31 Dec	Balance per TB	560	31 Dec	P&L a/c	545
			31 Dec	Balance c/d	15
		560			560
1 Jan	Balance b/d		15		

Rent a/c

		Rs.(000)			Rs.(000)
31 Dec	Balance per TB	900	31 Dec	P&L a/c	1,200
31 Dec	Balance c/d	300			
		1,200			1,200
			1 Jan	Balance b/d	300

Rates a/c

		Rs.(000)			Rs.(000)
31 Dec	Balance per TB	380	31 Dec	P&L a/c	310
			31 Dec	Balance c/d	70
		380			380
1 Jan	Balance b/d	70			

Lighting and heating a/c

		Rs.(000)			Rs.(000)
31 Dec	Balance per TB	590	31 Dec	P&L a/c	605
31 Dec	Balance c/d	15			
		605			605
			1 Jan	Balance b/d	15

Insurance a/c

		Rs.(000)			Rs.(000)
31 Dec	Balance per TB	260	31 Dec	P&L a/c	190
			31 Dec	Balance c/d	70
		260			260
1 Jan	Balance b/d	70			

Wages and salaries a/c

		Rs.(000)			Rs.(000)
31 Dec	Balance per TB	2,970	31 Dec	P&L a/c	2,970

Prepayments a/c

		Rs.(000)			Rs.(000)
31 Dec	Stationery	15			
31 Dec	Rates	70			
31 Dec	Insurance	70	31 Dec	Balance c/d	155
		155			155
1 Jan	Balance b/d	155			

Accrued expenses a/c

		Rs.(000)			Rs.(000)
			31 Dec	Rent	300
31 Dec	Balance c/d	315	31 Dec	Light and heat	15
		315			315
			1 Jan	Balance b/d	315

8.5 SCOTTY

(a) Trial balance at 31 March 2013

	Dr Rs.(000)	Cr Rs.(000)
Capital		5,000
Cash at bank (W)	4,100	
Motor van	600	
Trade payable A		200
Trade receivable B	300	
Rates	350	
Purchases	2,000	
Revenue		3,000
Drawings	500	
Motor running expenses	350	
	8,200	8,200

WORKING

Bank a/c

	Rs.(000)		Rs.(000)
Balance b/d	4,200	Purchases a/c	2,000
Revenue a/c	3,000	Drawings a/c	500
		Motor running expenses a/c	350
		Rates a/c	250
		Balance c/d	4,100
	7,200		7,200

(b) Statement of comprehensive income for the three months ended 31 March 2013

	Rs.(000)	Rs.(000)
Revenue		3,000
Purchases	2,000	
Less Closing inventory	(700)	
		(1,300)
Gross profit		1,700
Less Expenses		
Motor running expenses	350	
Rates (350 – 150)	200	
		(550)
Net profit		1,150

Statement of financial position at 31 March 2013

	Rs.(000)	Rs.(000)
Non-current assets		
Motor van		600
Current assets		
Inventory	700	
Trade receivables	300	
Prepayment	150	
Cash	4,100	
		5,250
Total assets		5,850
Capital account		
At 1 January		5,000
Add Net profit for the period		1,150
		6,150
Less Drawings		(500)
		5,650
Current liabilities		
Trade payables		200
Total capital and liabilities		5,850

8.6 SULU

Statement of comprehensive income for the year ended 30 April 2013

	Rs.(000)	Rs.(000)
Revenue		18,955
Opening inventory	3,776	
Purchases	12,556	
	16,332	
Less Closing inventory	(4,998)	
Cost of sales		(11,334)
Gross profit		7,621
Less Expenses		
Insurance (146 – 35)	111	
Lighting and heating	665	
Motor expenses (664 + 56)	720	
Packing expenses	276	
Rates (120 – 20)	100	
Rent (456 + 24)	480	
Salaries	2,447	
Sundry expenses (115 + 26)	141	
		(4,940)
Net profit		2,681

Statement of financial position at 30 April 2013

	Rs.(000)	Rs.(000)
Non-current assets		
Fixtures and fittings		600
Motor vehicles		2,400
		3,000
Current assets		
Inventory	4,998	
Trade receivables	4,577	
Prepayments (Rs.(000)20 + Rs.(000)35)	55	
Bank	3,876	
Cash	120	
		13,626
Total assets		16,626

Capital account		Rs.(000)
Opening capital		12,844
Add Profit for year		2,681
		15,525
Less Drawings		(2,050)
		13,475
Current liabilities		
Trade payables	3,045	
Accrued expenses (56,000 +24,000 + 26,000)	106	
		3,151
Total capital and liabilities		16,626

8.7 CHEKOV

			Statement of comprehensive income		
			SofFP		
			Prepaid expense	*Accrued expense*	*Deferred income*
(All amounts in Rs. (000))					
Income Per question	37,550				
Less Received in advance	(4,300)				4,300
		33,250			
Expenses					
Wholesaler					
Per question	3,945				
Add Accrual	292			292	
		4,237			
Butcher					
Per question	4,261				
Add Accrual	431			431	
		4,692			
Building supplier					
Per question		814			
Electricity					
Per question	935				
Add Accrual ($^2/_3 \times 220$)	147			147	
		1,082			
Gas					
Per question	566				
Less Prepayment	(34)		34		
		532			
Wages					
Per question	1,150				
Add Accrual	42			42	
		1,192			
		12,549	34	912	4,300

CHAPTER 9 – INVENTORY

9.1 OGAY

(a) **Inventory a/c**

2012		Rs.	*2012*		Rs.
31 Dec	Trading a/c	5,000	31 Dec	Balance c/d	5,000
2013			*2013*		
1 Jan	Balance b/d	5,000	31 Dec	Trading a/c	5,000
31 Dec	Trading a/c	7,500	31 Dec	Balance c/d	7,500
		12,500			12,500
2013					
1 Jan	Balance b/d	7,500			

Purchases a/c

2012		Rs.	*2012*		Rs.
	Cash/Payables	75,000	31 Dec	Trading a/c	75,000
2013			*2013*		
	Cash/Payables	110,000	31 Dec	Trading a/c	110,000

Revenue a/c

2012		Rs.	*2012*		Rs.
31 Dec	Trading a/c	120,000		Cash/receivables	120,000
2013			*2013*		
31 Dec	Trading a/c	155,000		Cash/receivables	155,000

(b) **Trading accounts for the year ended**

	31 December 2012		*31 December 2013*	
	Rs.	Rs.	Rs.	Rs.
Revenue		120,000		155,000
Opening inventory	–		5,000	
Purchases	75,000		110,000	
	75,000		115,000	
Less: Closing inventory	(5,000)		(7,500)	
Cost of goods sold		70,000		107,500
		50,000		47,500

9.2 ALES

Inventory valuation at 31 December 2013

All items must be valued at the lower of cost or net realisable value (NRV).

	Rs.
ABC (at cost)	80
DEF (at NRV)	110
GHI (at NRV)	5
JKL (at NRV)	11
Statement of financial position value at 31 December 2013	206

9.3 FAISAL

Inventory a/c

		Rs.			Rs.
1.1.13	Balance b/d	10,000		To trading a/c	10,000
31.12.13	From trading a/c	11,800	31.12.13	Balance c/d (W)	11,800
		21,800			21,800
1.1.13	Balance b/d	11,800			

Trading (and income and expenditure) a/c

	Rs.		Rs.
Opening inventory	10,000	Sales	x
Purchases	x	Closing inventory	11,800

Trading account for the year ended 31 December 2013

	Rs.	Rs.
Revenue		70,000
Cost of sales		
Opening inventory	10,000	
Purchases	58,000	
Closing inventory (W)	(11,800)	
		(56,200)
Gross profit		13,800

WORKING

	Rs.
Inventory at 7 January 2013	15,000
Less Deliveries	(8,000)
Add back Sales at cost	4,800
	11,800

9.4 DASKA RETAIL

(i) **FIFO**

Date	Cost of sales - issue Units	Unit cost	Total	Cost of sales	Closing inventory
			Rupees		
14-Jan	300	22	6,600		
	200	23	4,600	11,200	
21-Jan	200	23	4,600		
	300	25	7,500	12,100	
28-Jan	100	25	2,500	2,500	
Closing inventory	400	26	10,400		10,400
				25,800	10,400

OR

Particulars	Units	Per unit cost	Total
Opening inventory	300	22	6,600
Purchases	1,200		29,600
Closing inventory (Rate of last purchases)	(400)	26	(10,400)
Cost of sales	1,100		25,800

(ii) **Weighted average cost**

Date	Particulars	Cost of sales - issue Units	Unit cost	Total	Cost of sales	Closing inventory
				Rupees		
1-Jan	Opening inventory	300	22.000	6,600		
10-Jan	Purchases	400	23.000	9,200		
		700	22.571	15,800		
14-Jan	Sales	500	22.571	11,286	11,286	
		200	22.570	4,514		
20-Jan	Purchases	400	25.000	10,000		
	-	600	24.192	14,514		
21-Jan	Sales	500	24.192	12,096	12,096	
		100	24.190	2,418		
25-Jan	Purchases	400	26.000	10,400		
		500	25.638	12,818		
28-Jan	Sales	100	25.638	2,564	2,564	
31-Jan		400	25.638	10,254	25,946	10,255

CHAPTER 10 – CONTROL ACCOUNTS AND CONTROL ACCOUNT RECONCILIATIONS

10.1 CRAIS

Error		Debit	Credit
		Rs.(000)	Rs.(000)
1	Supplier A account (purchases ledger)		1,850
	Omission of a purchase on credit from the supplier's account.		
2	Supplier B account (purchases ledger)	2,000	
	Omission of a payment in the supplier's account.		
3	Supplier C account (purchases ledger)	300	
	Omission of a discount received from the supplier's account.		
4	Trade payables	1,500	
	Purchase returns		1,500
	Omission of a transaction from the main ledger.		

	Rs.(000)
Initial balance on the trade payables control account	79,500
Adjust for omission of purchase returns	1,500
Adjusted (= correct) balance on the account	78,000

10.2 FAISAL ENTERPRISES

(i) Statement showing adjustments to the Receivables ledger (List of balances):

	Rs.	Rs.
Net Balance as per receivables ledger		301,000
Add: Invoice 23612 omitted from receivables ledger		11,000
Omission of debit balance		9,300
Debit balance written as credit balance (2000 x 2)		4,000
		325,300
Less: Undercasting of T account	7,000	
Omission of credit balances	4,600	
Overcasting of the list of balances	1,000	(12,600)
Adjusted balance in receivables ledger		312,700

(ii)

Receivables control account			
	Dr. Rs.		Cr.
Balance on 31.12.17 (before adjustment)	345,000	Reversal of invoice 23612 recorded twice	11,000
		By sales return account (undercasting)	12,000
		By Bad Debts Account	1,800
		By purchase Ledger Control Account (transfer)	4,100
		By Sales Return Account (Omission rectified)	3,400
		Balance c/d	312,700*
	345,000		345,000

* Rs. 312,700 is to be reported as Trade Debts.

10.3 ABID

Receivables control account

	Rs.'000'		Rs.'000'
Balance b/d	2,600	Cash received from customers	31,650
Credit sales	35,900	Discount allowed	350
Bank – refund to customer	120	Returns	980
Cheque dishonoured	200	Bad debts written off	430
Credit balances c/d	75	Payables control account-contra	1,660
		Balance c/d	3,825
	38,895		38,895

Payables control account

	Rs.'000'		Rs.'000'
Bank – payment to suppliers	23,350	Balance b/d	4,100
Discount received	250	Purchases	27,700
Purchases returns	550	Purchases – not recorded	350
Receivables control account-contra	1,660	Cheque received against return of goods	180
Balance c/d	6,520		
	32,330		32,330

10.4 KAMRAN ASSOCIATES

(a)

Receivables control account

	Rupees		Rupees
Balance b/d	350,410	Sales return account (under-casting) **(ii)**	12,000
Discount (disallowed) **(vii)**	800	Write off of Shahid's balance **(iii)**	2,100
AB & Company **(viii)**	1,800	Purchase ledger control account (transfer) **(v)**	3,600
		Goods returned by Babar not recorded **(vi)**	1,700
		Posting errors 60% of 18,000 **(x)**	10,800
		Balance c/d	322,810
	353,010		353,010

(b) **Reconciliation of subsidiary sales ledger balance with receivables control account**

	Rs.	Rs.
Net balance as per sales ledger		319,000
Add: Debit balance written as credit balance (2,600 + 2,600) **(iv)**		5,200
Omission of entry for discounts disallowed in the sales ledger **(vii)**		800
		325,000
Less: Omission of credit balance **(i)**	1,200	
Cash received from Shah and Company wrongly debited (540+450)**(ix)**	990	(2,190)
Corrected balance in sales ledger/receivables control account		322,810

10.5 SHOWERS

(a) **Trade receivables ledger control a/c**

2013	Rs.	*2013*	Rs.
31 Oct		31 Oct	
Balance as originally extracted	12,550	Omission of discounts allowed (4)	100
Omission of sales (1)	850	Contra with payables ledger (6)	400
Cheque dishonoured (12)	300	Bad debt (7)	500
		Returns inwards omitted (10)	200
		Balance c/f	12,500
	13,700		13,700
1 Nov Balance b/f	12,500		

(b) **Trade receivables ledger – Balances at 31 October 2013**

		Rs.	Rs.
Total as originally extracted			12,802
Add	Balance omitted (2)	300	
	Undercasting of balance (5)	200	
			500
			13,302
Less	Cash received – correction of transposition (3)	180	
	Cash received – incorrectly debited (x 2) (8)	500	
	Discounts received – entered in a customer's account (9)	50	
	Error in crediting cash received Rs.(80 – 8)	72	
			(802)
Amended trade receivables ledger account balance at 31 October 2013			12,500

10.6 HUBERT

(a)

Sales ledger control a/c

	Rs.		Rs.
Balance per trial balance	9,650	(3) Discount allowed	671
		(5) Credit note outstanding	17
		Corrected balance c/d	8,962
	9,650		9,650

Purchase ledger control a/c

	Rs.		Rs.
(1) Overstatement of purchases day book input total	3,600	Balances per trial balance	7,496
(4) Payment mis-input	260	(2) Debit balance written off	28
(6) Discounts received	280		
Corrected balance c/d	3,384		
	7,524		7,524

List out of individual ledger balances

		Sales ledger		*Purchase ledger*	
		Rs.	Rs.	Rs.	Rs.
		–	+	–	+
Balances as originally extracted			9,617		3,556
(3)	Discount allowed	671			
(4)	Payment mis-classified			260	
(5)	Credit note outstanding	17			
(7i)	Balance omitted		54		
(7i)	Balance omitted		69		
(7ii)	Balance wrongly extracted				88
(7iii)	Overcast on Hoppo's a/c	90			
		778	9,740	260	3,644
			(778)		(260)
Totals as amended (agreeing with control accounts)			8,962		3,384

(b) **Amendments to net profit for the six months to 31 August**

		Rs. –	Rs. +
Net profit (per manual draft accounts)			4,322
(1)	Overstatement of PDB total		3,600
(2)	Debit balance written off	28	
(3)	Discount allowed – August	671	
(4)	Payment mis-classified		260
(5)	Credit note due	17	
(5)	Write-down of inventory	12	
(6)	Discount received		280
		728	8,462
			(728)
Net profit as revised			7,734

Tutorial note: Adjustment to profit statements are covered in detail in the session on suspense a/cs.

CHAPTER 11 – BANK RECONCILIATIONS

11.1 CONNOLLY

	Rs.(000)
Bank balance in the bank statement	7,400
Items recorded in the cash book, but not yet in the bank statement	
Cheques received from customers and banked	16,200
Cheques paid but not yet presented for payment	(18,500)
	5,100
Items in the bank statement, not in the cash book	
Bank charges	250
Balance in the cash book	5,350

The bank charges should be recorded in the ledger:

Debit Bank charges account (expense), Credit Cash book (= Bank)

11.2 SANDFORD

(a)

	Rs.(000)
Bank balance in the cash book	1,600
Items in the bank statement, not in the cash book	
Bank charges	(150)
Direct debit payment	(400)
Dishonoured cheque	(300)
	(850)
Adjusted balance in the cash book	750
Balance in the bank statement (= overdraft balance found as a balancing figure)	(2,750)
Items recorded in the cash book, but not yet in the bank statement	
Cheques received from customers and banked	(8,200)
Cheques paid but not yet presented for payment	4,700
	(3,500)
Bank statement balance as adjusted	750

Or

	Rs.(000)	Rs.(000)
Bank balance in the cash book		1,600
Items recorded in the cash book, but not yet in the bank statement		
Cheques received from customers and banked		(8,200)
Cheques paid but not yet presented for payment		4,700
		(1,900)

Items in the bank statement, not in the cash book		
Bank charges	(150)	
Direct debit payment	(400)	
Dishonoured cheque	(300)	
		(850)
Balance in the bank statement (= overdraft balance)		(2,750)

(b) The ledger accounts should be updated as follows:

	Debit Rs.(000)	Credit Rs.(000)
Bank charges (expense account)	150	
Expense account to which the direct debit payment relates	400	
Receivables (dishonoured cheque) or bad debts expense	300	
Bank (cash book)		850

11.3 AL-MURTAZA COMPANY

Al-Murtaza Company
Bank reconciliation statement (correct) as at August 31, 2013

	Rupees
Balance as per bank statement	227,522
Add undeposited receipts (83,250 + 144,641)	227,891
Less unpresented cheques	(86,207)
Adjusted balance as per bank statement	369,206
Balance as per cash book	272,178
Errors in the cash book	
Receipt of Rs. 15,000 entered as payment	30,000
Payment of Rs. 12,480 entered on the receipt side	(24,960)
Error in casting on the credit side	4,800
	9,840
	282,018
Collection of bill receivable by the bank	87,188
Adjusted balance as per cash book	369,206

11.4 ABC TEXTILES

Bank reconciliation statement
As at 31st December 2013

Cash Book corrections - (Increase)/decrease in overdraft:		
Bank balance as per cash book (overdraft) (before above adjustments/corrections)		(771,062)
Bank mark-up wrongly entered in cash book	118,686	
1st time-barred cheque reversed	5,000	
Discount allowed wrongly entered in cash column	(10,500)	
Error in recording of cheque (125,000 – 12,500)	(112,500)	
Subscription to magazines now entered	(3,144)	
Cheque received wrongly entered in bank book (7,500+7,500)	15,000	12,542
Adjusted balance per bank / cash book (overdraft) to be carried to statement of financial position		(758,520)

Balance overdrawn as per bank statement	(806,436)
(Increase)/decrease in over draft	
Cheques drawn not presented (377,784 – 5,000)	(372,784)
Cheque issued wrongly credited in bank statement (13,200 + 13,200)	(26,400)
Collection received not banked	250,600
Bill not credited	196,500
Bank statement balance as adjusted	(758,520)

11.5 MUBARAK & COMPANY

Mubarak & Company
Bank Reconciliation Statement as at 31 December, 2013

Adjustment in cash book (Note: "Add" = increase bank overdraft and "less" = decrease bank overdraft)

Balance as per bank book – (OD) – **Balancing figure (Step 3)**			(79,800)
2	Add:	Bank charges	(1,700)
3	Add:	Cheque returned and re-deposited after re-dating	(4,200)
4	Annual subscription		(1,000)
5	Less:	Mr. Mubarak's cheque wrongly deposited	10,000
6	Less:	Debtor's A/c (direct deposits)	49,900
7	Add:	Hire purchase vendor	(7,800)
8	Add:	Mr. Bashir - Cheque entered twice now adjusted	(36,400)
10	Add:	Discount allowed	(500)
11	Less:	Dividend A/c	12,000
12	Less:	Error - cheque short booked	9,000
Adjusted balance as per bank statement – Overdraft **(Step 2)**			(50,500)

		Rs.
Balance as per bank statement - in favour of Mubarak & Company		367,500
9	Less : Cheques issued but not presented	(467,200)
1	Add: Amount deposited but not credited by bank	49,200
Adjusted balance as per bank statement – Overdraft **(Step 1)**		(50,500)

Journal entries		**Debit**	**Credit**
2	Bank charges	1,700	
	Bank account		1,700
3	Debtor's A/c	4,200	
	Bank account		4,200
4	Subscription	1,000	
	Bank account		1,000
5	Bank account	10,000	
	Mr. Mubarak		10,000
6	Bank account	49,900	
	Debtor's A/c (direct deposits)		49,900
7	Hire purchase vendor	7,800	
	Bank account		7,800
8	Mr. Bashir - Cheque entered twice	36,400	
	Bank account		36,400
10	Discount allowed	500	
	Bank account		500
11	Bank account	12,000	
	Dividend a/c		12,000
12	Bank Account	9,000	
	Debtors Account		9,000

Corrected cash book balance:
(79,800) + 29,300 (net favourable balance of above transactions)
Overdraft 50,500

CHAPTER 12 – CORRECTION OF ERRORS

12.1 GRANT

Transaction		Debit	Credit
		Rs.	Rs.
1	Purchases	100	
	Suspense account		100
Correction of error: purchases under-stated by Rs.100.			
2	Suspense account	1,000	
	Telephone expenses		1,000
Correction of error: telephone expenses over-stated by Rs.1,000.			
3	Suspense account	1,100	
	Purchase returns		550
	Sales returns		550
Correction of error. Purchase returns of Rs.550 incorrectly recorded as a debit entry in sales returns.			
4	Equipment	2,000	
	Repairs and maintenance		2,000
Correction of error. Equipment purchase costs incorrectly recorded as repairs and maintenance expenses			
5	Suspense account	450	
	Rent expenses		450
Correction of error: rent expenses over-stated by Rs.450.			
6	Interest expense	200	
	Bank account		200
Transaction omitted from the ledger.			

Suspense account

	Rs.		Rs.
Telephone expenses	1,000	Opening balance (864,600 – 862,150)	2,450
Purchase returns	550		
Sales returns	550	Purchases	100
Rent expenses	450		
	2,550		2,550

Tutorial notes

(1) In the trial balance, total debits exceed total credits by Rs.2,450. A suspense account is therefore opened with a credit balance of Rs.2,450, to make the total debits and credits equal.

(2) It helps to think about the ledger account that needs correcting first, and then make the suspense account entry as the matching debit or credit. For example, since purchases were under-stated in the purchases account, the correction must be to increase the debit side of the purchases account by Rs.100. The matching double entry is a credit in the suspense account.

(3) You also need to recognise that one of the errors and the omission can be corrected without using a suspense account, because the error/omission has not made the total debits and credits unequal.

12.2 CLAVELL

Item number		Ledger affected
3	This indicates that a contra entry is required, to reduce the balance on the accounts for Entity C in both the receivables ledger and the payables ledger. Entity C owes Clavell Rs.700 but is owed Rs.800. The contra entry will reduce the balance on both accounts by Rs.700, so that Entity C is owed Rs.100 (the net amount). A contra entry is required in the control accounts for receivables and payables.	Receivables control and payables control accounts in the main ledger. Entity C account in the receivables ledger. Entity C account in the payables ledger.
4	The account of P Quinn in the receivables ledger should not be in credit by Rs.600. The balance should be zero on this account. The account of M Quinn in the payables ledger should not have been debited with Rs.600. The balance should be Rs.600 higher (credit)	P Quinn account in the receivables ledger. M Quinn account in the payables ledger. It appears that the control account entries in the main ledger are correct.
5	A credit entry for sales returns has been omitted from a customer account in the receivables ledger.	Receivables ledger error.
6	Purchases have been over-stated by Rs.108 (Rs.654 - Rs.456). Since the error applies to an individual invoice in the day book, both the payables control account (main ledger) and the individual supplier account are incorrect	Payables ledger error. Payables control account error.
7	Cash receipts have been under-stated by Rs.100 in the cash book. Since the error relates to an individual cash receipt in the cash book (book of prime entry), both the receivables control account (main ledger) and the individual customer account are incorrect	Receivables ledger error. Receivables control account error.
8	The total has been added up incorrectly by Rs.1,000. This affects the posting to the control account in the main ledger, but not the postings to the individual accounts in the payables ledger.	Payables control account error.
9	A debit balance has been listed in the trial balance as a credit balance (overdraft). This will give rise to a suspense account balance, since total debits and credits will not be equal.	Main ledger error – suspense account
10	A debit balance has been listed in the trial balance at Rs.90 less than it should be. This will give rise to a suspense account balance, since total debits and credits will not be equal.	Main ledger error – suspense account

(a)

Accounts receivable ledger control account

	Rs.		Rs.
Balance b/d	115,440	Contra: accounts payable ledger control – item (3)	700
		Cash book posting error – item (7): (345 – 245)	100
		Corrected balance c/d	114,640
	115,440		115,440
Corrected balance b/d	114,640		

Reconciliation of accounts receivable ledger control account with the total of balances in the accounts receivable ledger

Item		Rs.
1	Accounts receivable ledger debit balances	116,374
1	Accounts receivable ledger credit balances	(1,234)
		115,140
3	Contra entry: enter in the receivables ledger	(700)
4	Correction of sales invoice posting: debit the account of P Quinn	600
5	Credit customer account for the allowance for damaged goods	(300)
7	Credit customer account for error in cash book (345 – 245)	(100)
Adjusted total balances in the accounts receivable ledger		114,640
This equals:		
Adjusted balance, accounts receivable control account		114,640

(b)

Suspense account

	Rs.		Rs.
Balance b/d	3,310	Bank balance error: should be debit, not credit – item (9) (2 x 1,700)	3,400
Insurance account: (3,546 – 3,456) – item (10)	90		
	3,400		3,400

(c)

Accounts payable ledger control account

	Rs.		Rs.
Accounts receivable ledger control: contra for C – item (3)	700	Balance b/d	80,901
Correction of invoice: reduce balance by (654 – 456) – item (6)	198		
Correction of over-addition of purchases: reduce balance – item (8)	1,000		
Corrected balance c/d	79,003		
	80,901		80,901
		Corrected balance b/d	79,003

Reconciliation of accounts payable ledger control account with the total of balances in the accounts payable ledger

Item		Rs.
2	Accounts payable ledger credit balances	80,412
2	Accounts payable ledger debit balances	(1,111)
		79,301
3	Contra: debit the account of C with the amount of the contra	(700)
4	Correction of sales invoice posting: credit the account of M Quinn	600
6	Correction of day book error: reduce supplier's balance by (654 – 456)	(198)
Adjusted total balances in the accounts payable ledger		79,003
This equals:		
Adjusted balance, accounts payable control account		79,003

12.3 EASTERN PRODUCTS

(a)

		Debit	Credit
1	Supplier/Creditor account /goods in transit	3,700	
	Purchases		3,700
2	Accumulated Depreciation	4,500	
	Loss on sale of store equipment	1,100	
	Store equipment a/c		5,600
3	Customer / debtors a/c	1,850	
	Bank		1,850
4	Office Equipment	15,200	
	Purchases		15,200
	Depreciation expense	1,520	
	Accumulated depreciation – office equipment		1,520
5	Suspense a/c	1,114	
	Supplier a/c (197 + 917)		1,114
6	Suspense a/c	650	
	Purchase Returns		650
7	Suspense a/c	4,500	
	Furniture a/c		4,500
	Accumulated Depreciation	450	
	Depreciation expenses		450
8	Payables a/c	730	
	Debtors a/c		730

(b) **Recalculation of net profit for the year**

Net profit as per question	956,180
Add: Reversal of purchases / goods in transit / increase in closing inventory	3,700
Equipment wrongly debited to purchases	15,200
Purchase returns	650
Reversal of depreciation on furniture	450
	976,180
Less: loss on sale of store equipment	(1,100)
Depreciation on office equipment	(1,520)
Adjusted net-profit	973,560

12.4 AA ENTERPRISE

AA Enterprises – General Journal

		Dr. Rs.	Cr. Rs.
i	Suspense A/c	16,160	
	Purchase returns		16,160
ii	Suspense A/c	22,640	
	Discount Allowed A/c		11,320
	Discount Received A/c		11,320
iii	Suspense A/c	10,000	
	Sales		10,000
iv	Accumulated depreciation – non-current assets	5,800	
	Suspense A/c	1,500	
	Non-current assets A/c		7,000
	Profit on Sale of non-current assets A/c		300
v	(a) Customer A/c (1,740+1,470)	3,210	
	Suspense A/c		3,210
	(b) Allowance for Doubtful Debts A/c	1,560	
	Sundry Debtors A/c		1,560
	(c) Profit and Loss A/c	1,744	
	Allowance for Doubtful Debts A/c **(W 1 &**		1,744
vi	Trading Account	550	
	Closing inventory		550

Working 1:

Debtors A/c

D	Rs.	Cr.	Rs.
Balance b/d	23,390	Allowance for doubtful debts A/c	1,560
Suspense A/c [see entry v(a)]	3,210	Balance c/d	25,040
	26,600		26,600

Working 2:

Allowance for Doubtful Debts A/c

D	Rs.	Cr.	Rs.
Debtors A/c	1,560	Balance b/d	2,320
Balance c/d (10% of Rs.25,040)	2,504	Profit and loss – bad debts (balancing figure)	1,744
	4,064		4,064

12.5 MR. FAWWAD

Journal Entries

		Debit Rs.	Credit Rs.
1.	Creditor A/c (10,800+1,200)	12,000	
	Purchases A/c		1,080
	Suspense A/c		9,720
	Discount received		1,200
2.	Bad Debts expenses	15,000	
	Debtors A/c		15,000
	Allowance for doubtful debts A/c – B/S	750	
	Allowance for doubtful debts – P & L		750
3.	Suspense A/c	3,500	
	Parties A/c		3,500
4.	Sales A/c	4,500	
	Debtors A/c		4,500
	Purchase A/c	4,500	
	Payables A/c		4,500
5.	***Salary account total will be increased by Rs. 13,860 and suspense account balance will be reduced by the same amount.***		
6.	Debtors (receivables control account)	600	
	Other income or bad debt expense A/c		600
7.	Sales return A/c	4,600	
	Purchase A/c		4,600
	Debtors A/c	1,800	
	Suspense A/c		1,800
8.	Discount allowed	1,500	
	Suspense account		1,500
9.	Mr. Anwar	7,300	
	Cash sales		7,300
10.	Cash (17,400 – 2,600)	14,800	
	Discount allowed		14,800

12.6 BA ENTERPRISES

Statement for ascertaining correct gross and net profit

			Gross Profit	Net Profit
Profit as given Add / (Less)			1,050,000	650,000
(a)	(i)	Cost of Goods distributed as free samples	25,000	-
	(ii)	Goods taken by owner for personal use Goods used for office repair (2,500*100/120)	10,000 2,083	10,000 -
	(iii)	Outstanding expenses		
		Salaries	-	(20,000)
		Transportation-in	(10,000)	(10,000)
(b)	Sale of old furniture items posted as sale		(3,000)	(2,000)
(c)	Sale on return basis [18,000 - (18,000 ×100/120)]		(3,000)	(3,000)
(d)	Payment to creditor wrongly debited to purchases Purchase discount		24,500 500	24,500 500
(e)	Over-casting of sales day book		(30,000)	(30,000)
(f)	Error in Carrying forward of purchases (67,000 – 6,700)		(60,300)	(60,300)
(g)	Goods wrongly included in closing inventory (60,000 × 100 / 120)		(50,000)	(50,000)
	insurance claim short received (60,000 × 80% – 50,000)		(2,000)	(2,000)
Corrected figures			953,783	507,700

12.7 TRIAL BALANCE

Errors not disclosed by the trial balance

(i) ***Errors of commission***

If a transaction is recorded on the correct side of a wrong account, it will not cause a disagreement in the trial balance.

(ii) ***Errors of omission***

If a particular transaction is omitted altogether from the books of original entry (or recorded twice), it will not disturb the agreement of the trial balance.

(iii) ***Errors of principle***

These errors arise because of an incorrect application of the principles of accounting; for instance, failure to differentiate between capital and revenue expenditure.

(iv) ***Compensating errors***

These errors are of a neutralizing nature, i.e. one error is compensated by another error(s) or by errors of an opposite nature.

(v) ***Recording wrong amount in the books of original entry***

If a transaction is wrongly recorded in the books of original entry and is subsequently posted through the ledgers, it will not cause disagreement in the trial balance.

12.8 AYUB BROTHERS

		Dr.	Cr.
1.	Bad debts accounts	15,000	
	Debtors A/c		15,000
2.	Sales return A/c	4,600	
	Payables	6,400	
	Purchase A/c		4,600
	Suspense A/c		1,800
	Debtors A/c		4,600
3.	Suspense A/c	8,000	
	Debtor A/c		8,000
	Debtor A/c	10,000	
	Sales		10,000
4.	Sales	25,000	
	Commission income		2,500
	Selling expense		1,500
	Mr. Yasir		21,000
5.	Payables A/c – Zahid & Co.	3,800	
	Debtors A/c – Zahid & Co.		3,800
6.	Purchases A/c (15,100-1,500)	13,600	
	Payables A/c (15,100-5,100)		10,000
	Suspense A/c		3,600
7.	Returns Inwards/Sales returns	23,000	
	Payables A/c	32,000	
	Purchase A/c		23,000
	Debtors A/c		23,000
	Suspense A/c		9,000
8.	Goods-in-transit A/c – B/S	12,300	
	Trading Account		12,300
9.	Furniture account	20,800	
	Loss on disposal	12,400	
	Purchases A/c		9,200
	Furniture A/c		24,000
	Furniture A/c	160	
	Depreciation Expense		160
	5% of Rs. 3,200 (24,000 - 20,800)		
10.	Allowance for doubtful debts - B/S	2,220	
	Bad Debt Expenses		2,220
	(-15,000-4,600+2,000-3,800-23,000)= -44,400 × 5%		

12.9 MR REHAN

(a)

S. No.	Particulars	Debit (Rs.)	Credit (Rs.)
(i)	Drawings A/c	25,000	
	Trading Account /Purchases		25,000
(ii)	Repairs	3,000	
	Furniture and Fittings	10,000	
	Purchases		11,000
	ABC Furnishings		2,000
	Depreciation	1,000	
	Acc. dep. on furniture		1,000
(iii)	Furniture	8,750	
	Loss on sale of furniture	2,250	
	Purchases		6,000
	Furniture		5,000
	Depreciation (8,750 – 5,000) × 10%	375	
	Acc. dep. on furniture		375
(iv)	Sales	3,000	
	Debtors		3,000
	(Assuming that remaining goods on sale or approval are sold)		
(v)	Goods-in-transit	10,200	
	Trading Account /Purchases		10,200
(vi)	Suspense Account	15,000	
	Accumulated depreciation - computers	58,000	
	Non-current assets		70,000
	Gain on disposal of computers		3,000
	Accumulated depreciation - computers	7,000	
	Depreciation expense		7,000
(vii)	Returns Inward	13,000	
	Payables	31,000	
	Purchases		13,000
	Debtors		13,000
	Suspense Account		18,000
	(On the assumption that purchase is recorded as Rs. 13,000 and creditor as Rs. 31,000)		
(viii)	Discount Allowed	3,700	
	Discount Received	7,300	
	Suspense Account		11,000

(ix)	Creditor A/c	12,000	
	Purchases		1,080
	Discount received		1,200
	Suspense Account		9,720

Amount in Rupees

(b) **Recalculation of Profit and Loss**

(ii)	Repair exp	3,000		Unadjusted profit	679,000
(ii)	Dep. on furniture 10% of 10,000	1,000	(i)	Drawings a/c (receipt from ins co.)	25,000
(iii)	Loss on exchange of furniture	2,250	(ii)	Purchases	11,000
(iii)	Depreciation on furniture 10% of (8,750 – 5,000)	375	(iii)	Purchases	6,000
			(v)	Goods-in-transit	10,200
(iv)	Sales	3,000	(vi)	Gain on sale of asset	3,000
(vii)	Return inwards	13,000	(vi)	Depreciation expense	7,000
(viii)	Discount allowed/received	11,000	(vii)	Purchases	13,000
	Adjusted profit for the year	722,855	(ix)	Purchases	1,080
			(ix)	Discount received	1,200
		756,480			756,480

12.10 Smetena Newsagents

(a) **Journal entries**

	Dr Rs.	*Cr* Rs.
Suspense a/c	180	
Purchases a/c		180

(2) Correction of amount posted to purchases a/c arising from transposition error

Income & expenditure a/c (closing inventory)	2,000	
Inventory per statement of financial position		2,000

(3) Correction of overcasting of inventory-sheets

Suspense a/c	590	
Cash a/c		590

(4) Correction of overstatement of cash in hand

Fixtures and fittings a/c	4,600	
Suspense a/c		4,600

(5) Correction of omission from the trial balance of fixtures and fittings

Interest a/c (I& E)	1,200	
Accrued expenses a/c		1,200

(6) Provision for interest due on loan not yet provided for

(b) **Suspense a/c**

	Rs.		Rs.
Difference in TB	3,830	Fixtures and fittings omitted from TB (5)	4,600
Purchases (2)	180		
Cash in TB (4)	590		
	4,600		4,600

(c) **Statement of financial position at 31 December**

	Rs.	Rs.	Rs.
Non-current assets			76,808
Current assets			
Inventory		16,826	
Trade receivables		26,216	
Cash		110	
			43,152
Total assets			119,960
Opening capital			50,224
Add Net profit (W)			15,380
			65,604
Less Drawings			(8,260)
			57,344
Non-current liabilities			
Loan – L Franks			20,000
Current liabilities			
Bank overdraft		14,634	
Trade payables		26,782	
Accrued expenses		1,200	
			42,616
Total capital and liabilities			119,960

WORKING

Adjustment to profit

	Rs. +	Rs. –	Rs.
Profit per draft statement of financial position			18,400
Less Overstated closing inventory (3)		2,000	
Interest on loan a/c (6)		1,200	
		3,200	
Add Overstated purchases (2)	180		
			(3,020)
			15,380

12.11 CND

(a) **Correcting entries**

		Dr Rs.	*Cr* Rs.
(1)	Capital a/c	10,000	
	Loan a/c X		10,000
(2)	Bank loan a/c	458	
	Accrued expenses a/c		458
(3)	Bank charges a/c	1,000	
	Bank overdraft a/c		1,000
(4)	Trade payables a/c	10,260	
	Discounts allowed a/c	240	
	Trade receivables a/c		10,240
	Discount received a/c		260
(5)	Bad debts a/c	2,000	
	Trade receivables a/c		2,000
(6)	Trade receivables a/c		1,000
	Bad debts recovered a/c		1,000
(7)	Sales returns a/c	630	
	Purchases returns a/c		630
	Suspense a/c		1,260
(8)	Suspense a/c	9	
	Postage, telephone and stationery a/c		9
(9)	Packing materials a/c		76
	Suspense a/c		76
(10)	Advertising a/c	124	
	Repairs and maintenance a/c		124
(11)	Bank overdraft a/c	36	
	Insurance a/c		36
(12)	Suspense a/c	297	
	Purchases a/c		297

(b) **Trial balance at 31 December**

	Dr Rs.	*Cr* Rs.
Capital account Rs.(110 – 10)		100,000
Accumulated profits at 1 January		50,000
Bank loan Rs.(30,458 – 458)		30,000
Loan account – X		10,000
Trade receivablesRs. (77,240 – 10,240 – 2,000 + 1,000)	66,000	
Trade payables Rs.(60,260 – 10,260)		50,000
Cash in hand	1,000	
Bank overdraft Rs.(5,036 + 1,000 – 36)		6,000
Inventories at 1 January	108,000	
Non-current assets at cost	161,879	
Accumulated depreciation at 31 December		60,943
Depreciation for the year	15,000	
Purchases Rs.(300,297 – 297)	300,000	
Revenues		402,000
Returns	5,000	4,000
Discounts allowed Rs.(9,760 + 240)	10,000	
Discounts received Rs.(6,740 + 260)		7,000
Wages and salaries	22,000	
Rent, rates and insurance Rs.(18,036 – 36)	18,000	
Postage, telephone and stationery Rs.(3,009 – 9)	3,000	
Repairs and maintenance Rs.(2,124 – 124)	2,000	
Advertising Rs.(4,876 + 124)	5,000	
Packing materials Rs.(924 + 76)	1,000	
Motor expenses	2,000	
Sundry expenses	1,000	
Debenture interest	4,000	
Bank charges	1,000	
Bad debts	2,000	
Bad debts recovered		1,000
Accrued expenses Rs.(6,478 + 458)		6,936
	727,879	727,879

Working

Suspense a/c

	Rs.		Rs.
Original balance	1,030	(7) Goods returned misposting	1,260
(8) Stationery transposition error	9	(10) Materials payment omitted	76
(12) Purchases transposition error	297		
	1,336		1,336

CHAPTER 13 – PRESENTATION OF FINANCIAL STATEMENTS

13.1 SWAN

SWAN: Statement of financial position as at 31 December 2013

	Rs.(000)	Rs.(000)
Non-current assets:		
Freehold land at cost		10,300
Motor vans at cost	2,000	
Less accumulated depreciation (500 + 500)	(1,000)	
Net book value (carrying amount)		1,000
Fixtures and fittings at cost	4,000	
Less accumulated depreciation (200 + 200)	(400)	
Net book value (carrying amount)		3,600
		14,900
Current assets:		
Inventory	4,270	
Receivables (7,009 – allowance 260)	6,749	
Prepayment (rent)	100	
Cash at bank	55	
		11,174
Total assets		26,074
Capital		
At 1 January 2013		10,059
Net profit for the year		9,201
		19,260
Drawings (see working 3)		(2,869)
At 31 December 2013		16,391
Current liabilities		
Bank overdraft	2,522	
Payables	6,735	
Accrued wages and salaries	426	
		9,683
Total capital and liabilities		26,074

SWAN: Statement of comprehensive income for the year ended 31 December 2013

	Rs.(000)	Rs.(000)
Sales		50,261
Less: Returns inwards		(240)
		50,021
Opening inventory at 1 January 2013	2,720	
Purchases less returns (see working 1)	33,136	
	35,856	
Carriage inwards	546	
	36,402	
Less: Closing inventory at 31 December	(4,270)	
Cost of sales		(32,132)
Gross profit		17,889
Other income:		
Discounts received		59
Less expenses:		
Salaries and wages (5,226 + 426)	5,652	
Rent (626 – 100)	526	
Depreciation, motor vans: (25% x Rs.2,000,000)	500	
Depreciation, fixtures and fittings: (5% x Rs.4,000,000)	200	
Motor vehicle expenses (see working 2)	690	
Carriage outwards	720	
Discounts allowed	65	
Interest on bank overdraft and bank charges	56	
Bad debts	240	
Increase in allowance for doubtful debts (260 – 162)	98	
		(8,747)
Net profit		9,201

Workings

W1 Purchases less returns

	Rs.(000)
Purchases in the trial balance	33,436
Less: goods taken by the owner for his own use	(180)
	33,256
Less: purchase returns	(120)
	33,136

W2 Motor vehicle expenses

	Rs.(000)
Expenses in the trial balance	920
Less: cost of private motoring: (25%)	(230)
Business expense – statement of comprehensive income	690

W3 Drawings

	Rs.(000)
Drawings in cash (trial balance)	2,459
Goods taken for private use	180
Cost of private motoring: (25% of 920)	230
Total drawings	2,869

13.2 STEVEN CHEE

Steven Chee: Statement of comprehensive income for the year ended 31 May 2013

	Rs.(000)	Rs.(000)
Sales		402,200
Opening inventory at 1 June 2009	50,000	
Purchases less returns (250,000 – 15,000)	235,000	
	285,000	
Less: Closing inventory at 31 May 2013	(42,000)	
Cost of sales		(243,000)
Gross profit		159,200
Wages and salaries (61,800 + accrual 800)	62,600	
Other operating expenses (17,700 – prepayment 300)	17,400	
Depreciation, land and buildings: (1.5% x 120,000,000)	1,800	
Depreciation, equipment: (25% x (80,000 – 38,000))	10,500	
Discounts allowed	18,000	
Discounts received	(4,800)	
Loan interest	2,100	
Bad debts	4,600	
Increase in allowance for doubtful debts (see working)	260	
		(112,460)
Net profit		46,740

Working:	Rs.(000)
Allowance for doubtful debts at 31 May 2013: (2% x 38,000)	760
Allowance for doubtful debts at 1 June 2009	500
Increase in allowance	260

Steven Chee: Statement of financial position as at 31 May 2013

Non-current assets	**Cost**	**Accumulated depreciation**	
	Rs.(000)	Rs.(000)	Rs.(000)
Land and buildings	120,000	21,800	98,200
Equipment	80,000	48,500	31,500
	200,000	70,300	129,700
Current assets:			
Inventory		42,000	
Trade receivables	38,000		
Less allowance for doubtful debts	(760)		
		37,240	
Prepayment (operating expenses)		300	
Bank		1,300	
Cash in hand		300	
			81,140
Total assets			210,840
Capital			
At 1 June 2012			121,300
Net profit for the year			46,740
			168,040
Drawings			(24,000)
At 31 May 2013			144,040
Non-current liabilities			
7% long-term loan			30,000
Current liabilities			
Trade payables		36,000	
Accrued wages and salaries		800	
			36,800
Total capital and liabilities			210,840

13.3 HERBERT

Herbert: Statement of comprehensive income for the year ended 31 May 2013

	Rs.(000)	Rs.(000)
Sales		405,000
Opening inventory at 1 June 2012	27,400	
Purchases (see working 1)	258,560	
	285,960	
Less: Closing inventory at 31 May 2013	(25,900)	
Cost of sales		(260,060)
Gross profit		144,940
Wages and salaries (52,360 + accrual 140)	52,500	
Other operating expenses (see working 2)	38,500	
Depreciation, land and buildings: (1% x Rs.(000)90,000)	900	
Depreciation, equipment: (15% x Rs.57,500,000)	8,625	
Carriage out	5,310	
Discounts allowed	3,370	
Discounts received	(4,420)	
Loan interest	1,560	
Bad debts	1,720	
Increase in allowance for doubtful debts (see working 3)	2,030	
		(110,095)
Net profit		34,845

Workings

W1 Purchases

	Rs.(000)
Purchases in the trial balance	259,600
Less: goods taken by the owner for his own use	(1,040)
	258,560

W2 Other operating expenses

	Rs.(000)
Expenses in the trial balance	38,800
Add: accrual	200
Less: prepayment	(500)
Expenses in the statement of comprehensive income	38,500

W3 Change in allowance for doubtful debts

	Rs.(000)
Allowance for doubtful debts at 31 May 2013: (5% x 46,200,000)	2,310
Allowance for doubtful debts at 1 June 2012	280
Increase in allowance	2,030

Herbert: Statement of financial position as at 31 May 2013

	Cost	Accumulated depreciation	
Non-current assets:			
	Rs.(000)	Rs.(000)	Rs.(000)
Land and buildings	90,000	13,400	76,600
Equipment	57,500	41,125	16,375
	147,500	54,525	92,975
Current assets:			
Inventory		25,900	
Trade receivables (46,200 – 2,310)		43,890	
Prepayment (operating expenses)		500	
Cash in hand		151	
			70,441
Total assets			163,416
Capital			
At 1 June 2012			94,501
Net profit for the year			34,845
			129,346
Drawings (28,930 + 1,040)			(29,970)
At 31 May 2013			99,376
Non-current liabilities:			
10% loan			15,600
Current liabilities			
Bank overdraft		14,500	
Trade payables		33,600	
Accruals (140 wages + 200 operating expenses)		340	
			48,440
Total capital and liabilities			163,416

13.4 BRADBURY AND CO

Bradbury and Co: Statement of comprehensive income for the year ended 31 December 2013

	Rs.	Rs.
Sales		1,292,000
Opening inventory at 1 January 2013	39,000	
Purchases	550,000	
	589,000	
Less: Closing inventory at 31 December 2013	(35,000)	
Cost of sales		(554,000)
Gross profit		738,000
Administrative expenses (241,000 – 4,000 prepayment)	237,000	
Distribution expenses (116,000 + 7,500 accrual)	123,500	
Depreciation, land and buildings: (10% x Rs.920,000)	92,000	
Bad and doubtful debts (see working 1)	21,500	
Bond interest (6% x Rs.400,000)	24,000	
		(498,000)
Profit		240,000

Bradbury Limited: Statement of financial position as at 31 December 2013

Non-current assets:	Rs.	Rs.
Plant and machinery at cost		920,000
Accumulated depreciation (Rs.215,000 + Rs.92,000)		(307,000)
		613,000
Current assets:		
Inventory	35,000	
Receivables (200,000 – 4,000 allowance)	196,000	
Prepayment	4,000	
Bank	58,000	
		293,000
Total assets		906,000
Equity and liabilities		
Capital (see working 2)		413,000
Non-current laibilities		
Loan		400,000
Current liabilities		
Payables		73,500
Accruals		19,500
Total capital and liabilities		906,000

Workings

W1 Bad and doubtful debts

	Rs.
Allowance for doubtful debts at 31 December 2013: (2% x Rs.200,000)	4,000
Allowance for doubtful debts at 1 January 2013	6,000
Reduction in allowance	(2,000)
Bad debts written off	23,500
Bad and doubtful debts expense	21,500

W2 Capital

	Rs.
Capital at 1 January 2013	173,000
Profit for the year	240,000
Capital at 31 December 2013	413,000

W3 Current liabilities

	Rs.
Accrued interest (24,000 – 12,000 paid)	12,000
Accrued distribution expenses	7,500
Total payables and accruals	19,500

13.5 DANISH

Danish
Statement of comprehensive income
for the year ended 31 December 2013

		Rupees			Rupees
Opening inventory		25,000	Sales **(W - 1)**	89,800	
Purchases **(W - 2)**	69,000		less: Returns	(3,000)	86,800
Less returns	(2,000)	67,000	Closing Inventory **(W - 5)**		30,000
Gross profit c/d		24,800			
		116,800			**116,800**
Discount allowed		1,400	Gross profit b/d		24,800
Bad debts*		4,230	Discount received		1,000
Expenses (6,000+1,200)		7,200			
Rent		2,500			
Depreciation					
Furniture		1,500			
Motor Van		3,200			
Net profit		**5,770**			
		25,800			**25,800**

1800+(48,600 × 5%)

Danish
Statement of financial position as at 31 December 2013

		Rupees			Rupees
Liabilities and Capital			**Assets**		
Capital **(W - 1)**	81,500		Motor Van	16,000	
Less: drawings	(5,000)		Less: Depreciation	(3,200)	12,800
Add: net profit	5,770	82,270	Furniture and fixtures	15,000	
			Less: Depreciation	(1,500)	13,500
			Closing Inventory		30,000
Payables **(W-2)**		27,000	Receivables **(W-3)**	48,600	
Accrued expenses		1,200	Less: allowance	(2,430)	46,170
			Cash **(W - 4)**		8,000
		110,470			**110,470**

W-1	**Opening Capital**	**Rupees**
	Assets	
	Motor Van	16,000
	Furniture and fixture	15,000
	Inventory	25,000
	Receivables	45,000
	Cash	4,500
		105,500
	Liabilities	
	Payables	(24,000)
	Opening Capital	**81,500**

W -2 **Payables control account**

	Rupees		Rupees
Cash paid	63,000	Balance b/d	24,000
Discount received	1,000	Purchases (bal. fig)	69,000
Purchases return	2,000		
Balance c/d	27,000		
	93,000		**93,000**

W-3 **Receivables control account**

	Rupees		Rupees
Balance b/d	45,000	Cash received	80,000
Sales (bal fig)	89,800	Discount allowed	1,400
		Bad debts	1,800
		Sales return	3,000
		Balance c/d	48,600
	134,800		**134,800**

W-4 **Cash**

	Rupees		Rupees
Balance b/d	4,500	Payments to suppliers	63,000
Receipts from customers	80,000	Expenses paid	6,000
		Drawings	5,000
		Rent paid	2,500
		Balance c/d	8,000
	84,500		**84,500**

W-5 **Calculation of closing inventory**

Net Sales	86,800
Net purchases	67,000
Opening Inventory	25,000
	92,000
Less cost of goods sold (100/140 of net sales)	62,000
Closing Inventory	**30,000**

13.6 MARIA

Statement of comprehensive income for the year to 31 December 2012

	Rs.	Rs.	Rs.
Revenue			79,060
Cost of sales			
Opening inventory		6,740	
Purchases		54,520	
		61,260	
Closing inventory		(7,330)	
			(53,930)
Gross profit			25,130
Less Expenses			
Salaries		8,760	
Rates Rs.(1,170 – 250)		920	
Office expenses		3,950	
Motor expenses		3,790	
Doubtful debt allowance written back (W)		(138)	
Loan interest (5% x Rs.4,000)		200	
Depreciation			
Freehold properties	75		
Fixtures and fittings	200		
Motor vans	1,260		
		1,535	
			(19,017)
Net profit			6,113

Statement of financial position at 31 December 2012

	Cost Rs.	*Depn* Rs.	Rs.
Tangible non-current assets			
Freehold properties	7,500	525	6,975
Furniture and fittings	2,000	1,000	1,000
Motor vans	6,300	3,630	2,670
	15,800	5,155	10,645
Current assets			
Inventory		7,330	
Trade receivables	9,240		
Less Allowance for doubtful debts (W)	(462)		
		8,778	
Prepayments		250	
Bank balance		2,190	
			18,548
			29,193

Capital account		
Capital at 1 January 2012		13,640
Add Profit for year		6,113
		19,753
Less Drawings		(4,800)
		14,953
Non-current liabilities: Loan		4,000
Current liabilities		
Trade payables	10,040	
Accrued expenses	200	
		10,240
		29,193

Working

Allowance for doubtful debts a/c

	Rs.		Rs.
SOCI (allowance no longer required)	138	Balance b/d	600
Balance c/d (5% × Rs.9,240)	462		
	600		600

SOCI = Statement of comprehensive income

13.7 FEDEROV

Statement of comprehensive income for the year ended 31 December 2012

	Rs.	Rs.	Rs.	Rs.
Revenue Rs.(124,450 – 186)				124,264
Cost of goods sold				
Opening inventory			8,000	
Purchases Rs.(86,046 – 135)			85,911	
			93,911	
Carriage inwards			156	
			94,067	
Less Closing inventory			7,550	
				(86,517)
Gross profit				37,747
Less Expenses				
Establishment costs				
Rent (W1)		1,875		
Gas, electricity and water		2,560		
Depreciation				
Plant and equipment 10% × Rs.(8,000 – 2,500)	550			
Furniture and fittings 5% × Rs.(700 – 200)	25			
		575		
			5,010	
Administration and general costs				
Salaries (W2)		4,000		
Wages		8,250		
Printing and stationery		640		
General expenses		2,056		
			14,946	
Selling and distribution expenses				
Travellers' salaries and commission		5,480		
Travellers' expenses		1,040		
Carriage outwards		546		
			7,066	
Finance costs				
Bank charges		120		
Loan interest (W4)		100		
Bad and doubtful debts (W6)		79		
Discounts (net) Rs.(48 – 138)		(90)		
			209	
				(27,231)
Net profit				10,516

Statement of financial position at 31 December 2012

	Cost Rs.	*Dep'n* Rs.	Rs.
Non-current assets			
Freehold premises	8,000	–	8,000
Plant and equipment	8,000	3,050	4,950
Fixtures and fittings	700	225	475
	16,700	3,275	13,425

	Rs.	
Current assets		
Inventory	7,550	
Trade receivables (net)		
Rs.(20,280 – 608) (W5)	19,672	
Prepayments	125	
Cash at bank	650	
		27,997
Total assets		41,422
Capital account		
Capital at 1 January 2012		20,000
Add Profit for the year		10,516
		30,516
Less Drawings (W3)		(1,250)
		29,266
Non-current liabilities		
Loan		2,000
Current liabilities		
Trade payables	10,056	
Loan interest/accrued expenses	100	
		10,156
Total capital and liabilities		41,422

Workings

(1) **Rent a/c**

	Rs.		Rs.
Per TB	2,000	SOCI	1,875
		Balance c/d ($^{3}/_{6} \times$ Rs.250)	125
	2,000		2,000

(2) **Salaries a/c**

	Rs.		Rs.
Per TB	3,500	SOCI	4,000
Drawings a/c (transfer)	500		
	4,000		4,000

(3) **Drawings a/c**

	Rs.		Rs.
Per TB	1,750	Salaries a/c (transfer)	500
		Balance c/d	1,250
	1,750		1,750

(4) **Loan interest a/c**

	Rs.		Rs.
Balance c/d (5% $\times$ Rs.2,000)	100	SOCI	100

(5) **Allowance for doubtful debts**

	Rs.		Rs.
Bad debt expense	132	Balance b/d	740
Balance c/d (3% $\times$ Rs.20,280)	608		
	740		740

(SOCI = Statement of comprehensive income)

(6) **Bad debts expense**

	Rs.		Rs.
Written off (receivables)	256	Recovered	45
		Decrease in allowance	132
		SOCI	79
	256		256

13.8 STEWART

(a) Stewart statement of comprehensive income for the year ended 30 June 2013

	Rs.	Rs.
Revenue (625,000 – 2,300)		622,700
Opening inventory	98,200	
Purchases (324,500 –1,700)	322,800	
Closing inventory	(75,300)	
Cost of sales		(345,700)
Gross profit		277,000
Discount received		2,500
Bank interest (15,000 × 6% × 6/12)		450
		279,950
Packing materials (12,900 – 700 + 200)	12,400	
Discount allowed	1,500	
Distribution costs	17,000	
Rents, rates and insurances (5100 – 450)	4,650	
Telephone (3,200 + 500)	3,700	
Car expenses	2,400	
Wages (71,700 – 23,800)	47,900	
Heat and light (1,850 + 400)	2,250	
Sundry expenses (6,700 – 3,500)	3,200	
Bad debt	600	
Decrease in allowance for bad debts (W1)	(380)	
Loan interest	800	
Depreciation		
– Delivery vehicle (112,500 × 20%)	22,500	
– Car (8,000 × 25%)	2,000	
– Equipment (15,000 – 5,000) × 25%	2,500	(123,020)
Net profit		156,930

Working

Allowance for bad debts

Age	*Amount*	*%*	*Allowance*
30 – 60	20,000	1	200
60 – 90	12,000	2.5	300
90 +	3,000 – 600	5	120
Closing allowance			620
Opening allowance			1,000
Decrease in allowance			380

(b) **Stewart statement of financial position as at 30 June 2013**

	Rs.	Rs.	Rs.
Non – current assets			
Delivery vehicles	112,500	57,500	55,000
Car	8,000	2,000	6,000
Equipment	15,000	7,500	7,500
	135,500	67,000	68,500
Current assets			
Inventory		75,300	
Packing materials		700	
Trade receivables (94,400 – 620)		93,780	
Prepayments		450	
Interest receivable		450	
Bank deposit		15,000	
Bank current		26,500	212,180
			280,680
Opening capital		55,550	
Capital introduced		8,000	
Profit for year		156,930	
Drawings (23,800 + 3,500)		(27,300)	
Closing capital			193,180
Current liabilities			
Trade payables		82,000	
Accruals (400 + 500 + 200)		1,100	
Loan		4,400	87,500
			280,680

13.9 BOWIE

(a) **Journal entries**

		Dr	*Cr*
(i)	Purchases	1,200	
	Office equipment		1,200
(ii)	Trade payable	2,600	
	Bank		2,600
(iii)	Rent	3,000	
	Suspense		3,000

Suspense a/c

	Rs.		Rs.
Bal b/d	3,000	Rent	3,000

(b) **Bowie statement of comprehensive income for the year ended 30 September 2013**

	Rs.	Rs.
Revenue		194,000
Opening inventory	31,000	
Purchases (123,000 + 1,200)	124,200	
	155,200	
Closing inventory	(53,000)	
Cost of sales		(102,200)
Gross profit		91,800
Selling expenses	12,000	
Heat and light	8,000	
Wages and salaries (19,000 + 5,000)	24,000	
Printing and stationary	6,000	
Telephone and fax (6,000 – 1,000)	5,000	
Rents, rates and insurances (4,000 + 3,000 – 1,000)	6,000	
Bad debt	3,000	
Decrease in allowance for bad debts (4,000 – (32,000 × 5%))	(2,400)	
Bank charges	4,000	
Depreciation		
– Plant and machinery (125,000 × 10%)	12,500	
– Office equipment (45,000 – 1,200 – 15,000) × $^{1}/_{3}$	9,600	(87,700)
Net profit		4,100

(c) **Bowie statement of financial position as at 30 September 2013**

	Rs.	Rs.	Rs.
Non current assets			
Plant and machinery	125,000	40,500	84,500
Office equipment	43,800	24,600	19,200
	168,800	65,100	103,700
Current Assets			
Inventory		53,000	
Trade receivables [(35,000 – 3,000) – 1,600]		30,400	
Prepayments		2,000	
Cash		1,000	86,400
			190,100
Opening capital		169,000	
Profit for year		4,100	
Drawings		(22,000)	
Closing capital			151,100
Current liabilities			
Trade payables (33,000 – 2,600)		30,400	
Accruals		5,000	
Bank overdraft (3,000 – 2,600 – 4,000)		3,600	39,000
			190,100

13. 10 GULSHAN CRICKET CLUB

Note that the subscriptions for 2013 can be calculated as follows:

	Rs.
600 members for the whole year	
600 × 12 months × Rs. 500 per month	3,600,000
10 members for the first 6 months only	
10 × 6 months × Rs. 500 per month	30,000
	3,630,000

Subscription Account

Receipts	Rupees	Payments	Rupees
Receivables - Balance b/d (subscriptions in arrears)	326,000	Payables – Balance b/d (subscriptions paid in advance)	86,000
Subscriptions for 2013	3,630,000	Cash received	**3,605,000**
Subscriptions paid in advance c/d	92,000	Subscriptions in arrears c/d	357,000
	4,048,000		4,048,000

Receipt & Payment Account for the year ended June 30, 2013

Receipts	Rupees	Payments	Rupees
Balance b/d	1,204,800	Addition to:	
		Building	753,000
Subscription received	3,605,000	Sports Equipment	442,800
		Investments made	436,000
		General expenses (Balancing figure)	**1,591,500**
		Balance c/d	1,586,500
	4,809,800		4,809,800

CHAPTER 14 – PARTNERSHIP ACCOUNTS

14.1 A AND B

(a) **Revaluation Account of the Firm**

Non-current assets	2,625,000		
Investments	437,500	Non-current assets	3,100,000
Current assets	1,750,000	Investment	400,000
Profit on revaluation transferred to:		Current assets	1,575,000
- A (3/5)	157,500		
- B (2/5)	105,000		
	262,500		
	5,075,000		5,075,000

Profit / (Loss), as given in the question (1,000,000 - 700,000 + 675,000) =	975,000
Average profit per year	325,000
Goodwill of the firm (×2)	650,000
Goodwill in original profit sharing ratio:	
Share of A in firm's goodwill: 60% ($^3/_5$)	390,000
Share of B in firm's goodwill: 40% ($^2/_5$)	260,000
Goodwill in new profit sharing ratio:	
Share of A in firm's goodwill: 35% ($^7/_{7+5+8}$)	227,500
Share of B in firm's goodwill: 25% ($^5/_{7+5+8}$)	162,500
Share of C in firm's goodwill: 40% ($^8/_{7+5+8}$)	260,000

Partners' Capital Account (Rs. 000

	A	B	C		A	B	
Investment taken over	200	200		Balance b/d	1,050	700	
Goodwill written off	227.5	162.5	260	Cash paid by C			1,460
				Goodwill 3/5 of 650	390		
				2/5 of 650		260	
Balance c/d	1,170	702.5	1,200	Revaluation A/c.	157.5	105	
	1,597.5	1,065	1,460		1,597.5	1,065	1,460

(b)

A, B & C

Statement of financial position as at 1st July 2013

	Rupees
Assets	
Non-current assets	3,100,000
Long term receivables	875,000
Current assets (1,575,000 + 1,460,000)	3,035,000
	7,010,000
Liabilities	
Capital Account:	
A	1,170,000
B	702,500
C	1,200,000
	3,072,500
Long term loans	1,750,000
Current liabilities	2,187,500
	7,010,000

14.2 P, Q AND R

There are two events, a retirement and an admission of a new partner. Each must be dealt with separately.

Retirement of R

The profit sharing ratio before retirement is as follows:

	P	Q	R	Total
	640,000	320,000	480,000	1.440.000
Simplifying	64	32	48	144
Using 16 as a common denominator	4	2	3	9

Note that R owns $^{3}/_{9}$ or $^{1}/_{3}$ of the business.

If R's share of goodwill is Rs. 216,000 and R owns $^{1}/_{3}$ of the business it follows that the total goodwill is Rs.216,000 x 3 = Rs.648,000.

The profit sharing ratio after retirement but before admitting S is as follows

	P	Q	Total
	640,000	320,000	960,000
Simplifying	64	32	96
Using 32 as a common denominator	2	1	3

Revaluation Account

		Rs.		Rs'
Write down of inventory		25,000	Motor car	50,000
Profit transferred to:			Allowance – receivables	20,000
P	80,000		Investments	135,000
Q	40,000			
R	60,000			
		180,000		
		205,000		205,000

Partners' capital – P Q R (Rs. 000)

	P	Q	R		P	Q	R
				Balance b/d	640	320	480
				Revaluation	80	40	60
Goodwill (2 :1)	432	216		Goodwill (4: 2: 3)	288	144	216
Assets taken:							
Motor car			200				
Investments			160				
Bank			396				
Balance c/d	576	288	–				
	720	360	756		1008	504	756

Admission of new partner

The goodwill is the same as before (Rs.648,000). This is shared between P and Q in their profit sharing ratio (2 to 1) and then removed by charging it to P, Q and S in the new profit sharing ratio.

S is to receive ¼ of the profits. Therefore P and Q share ¾. P and Q share in the ratio of 2 to 1 so this means that P will receive $^2/_4$ and Q will receive ¼.

The new profit sharing ratio is 2:1:1.

S must introduce cash to cover his share of the goodwill and to pay into the capital. The amount of capital is to be the same as that of Q which is Rs. 288,000.

Partners' capital – P Q S (Rs. 000)

	P	Q	S		P	Q	S
				Balance b/d	576	288	–
Goodwill (2: 1: 1)	324	162	162	Goodwill (2: 1)	432	216	
				Cash for:			
				goodwill			162
Cash (162 in the ratio 2:1)	108	54		other assets			288
Balance c/d	576	288	288				
	1008	504	450		1,008	504	450

Statement of financial position as July 1, 2013

	Rupees
Land and building	450,000
Motor cars (350,000 – 150,000)	200,000
Equipment	95,000
Inventories (500,000 less 5%)	475,000
Receivables	400,000
Less: Allowance	40,000
	360,000
Investments	275,000
Cash in hand	65,000
Cash at bank (450 – 396 + 288 + 162 – (108 + 54))	342,000
	2,262,000
Capital:	
P	576,000
Q	288,000
S	288,000
	1,152,000
Payables and accrued expenses	485,000
Loan from Q	625,000
	2,262,000

14.2 X Y AND Z

There are two events, a retirement and an admission of a new partner. Each must be dealt with separately.

(i) **When goodwill is not recorded in the books:**

Retirement of X:	**Dr (Rs.)**	**Cr (Rs.)**
Journal 1: Recognise goodwill in old profit sharing ratio (W1)		
Goodwill	1,890,000	
X's capital account (2)		420,000
Y's capital account (3)		630,000
Z's capital account (4)		840,000
Journal 2: Remove goodwill in new profit sharing ratio (W1)		
Y's capital account (3)	810,000	
Z's capital account (4)	1,080,000	
Goodwill account		1,890,000

Alternative to journals 1 and 2		
Y's capital account	180,000	
Z's capital account	240,000	
X's capital account		420,000

Journal 3: Withdrawal of X's interest in the partnership (W2)		
X's capital account	1,420,000	
Current assets (cash/bank)		1,420,000

Admission of A:		
Journal 4: Recognise goodwill in old profit sharing ratio (W1)		
Goodwill **(W3)**	2,250,000	
Y's capital account (3)		964,286
Z's capital account (4)		1,285,714
Journal 5: Remove goodwill in new profit sharing ratio (W1)		
Y's capital account (3)	750,000	
Z's capital account (4)	1,000,000	
A's capital account (2)	500,000	
Goodwill account		2,250,000

Alternative to journals 4 and 5		
A's capital account	500,000	
Y's capital account		214,286
Z's capital account		285,714

Journal 6: Payment of cash into the partnership by A		
Cash **(W4)**	1,380,000	
A's capital account		1,380,000

(ii) **When goodwill is recorded in the books:**

<u>Retirement of X:</u>	**Dr (Rs.)**	**Cr (Rs.)**
Journal 1: Recognise goodwill in old profit sharing ratio (W1)		
Goodwill	1,890,000	
X's capital account (2)		420,000
Y's capital account (3)		630,000
Z's capital account (4)		840,000
Journal 2: Withdrawal of X's interest in the partnership (W2)		
X's capital account	1,420,000	
Current assets (cash/bank)		1,420,000
<u>Admission of A:</u>		
Journal 3: Recognise additional goodwill (W3) in old profit sharing ratio (W1)		
Goodwill	360,000	
Y's capital account (3)		154,286
Z's capital account (4)		205,714
Journal 4: Payment of cash into the partnership by A		
Cash **(W4)**	1,380,000	
A's capital account		1,380,000

WORKINGS

W1 Profit sharing ratios

The profit sharing ratio before retirement is as follows:

	X	**Y**	**Z**	**Total**
Capital	1,000,000	1,500,000	2,000,000	1.440.000
Profit sharing ratio before retirement of X (using 500,000 as a common denominator)	2	3	4	9
Profit sharing ratio after X leaves (but before A joins)		3	4	7
Profit sharing ratio after A joins (given in question)	2	3	4	9

W2 Cash taken by X on retirement

X's capital on retirement:	**Rs.**
Capital before allocation of goodwill	1,000,000
Share of goodwill	420,000
	1,420,000

W3 Goodwill on admission of A

A's share of the goodwill is Rs. 500,000.

A owns $^{2}/_{9}$ of the business therefore Rs. 500,000 is $^{2}/_{9}$ of the agreed amount of goodwill on A's admission.

Therefore the total goodwill = Rs. 500,000 × $^{9}/_{2}$ = Rs. 2,250,000

This section is only relevant to part (ii)

If goodwill is retained the books Rs. 1,890,000 has already been recognised. Therefore an additional amount of goodwill must be recognised on admission of A.

This is Rs. 2,250,000 – Rs. 1,890,000 = Rs. 360,000.

W4 Cash introduced by A on admission

When A joins he must introduce capital in proportion to his profit share (i.e. $^{2}/_{3}$ of that of Y or $^{2}/_{4}$ of that of Z – see working 1).

The capital of Y or Z before A's admission is their capital after X's retirement.

The capital balances of Y and Z may be calculated as follows (only one is needed but both are given here for completeness).

Capital before admission of A:	**Y (Rs.)**	**Y (Rs.)**
Capital before allocation of goodwill	1,500,000	2,000,000
Share of goodwill recognised (see journal 1)	630,000	840,000
Share of goodwill removed (see journal 2)	(810,000)	(1,080,000)
	1,320,000	1,760,000

Therefore, A must pay in cash as follows

	Rs.
Share of capital ($^{2}/_{3}$ of 1.320,000 or $^{2}/_{4}$ of 1,760,000)	880,000
Share of goodwill	500,000
	1,380,000

14.4 AQUEEL AND BARKAT

Calculating the profit before periodic allocation

	Rs.
Net profit as per question	486,000
Add: allowance for bad debts	48,000
Partners' salaries	
▪ Aqueel (12 × 28,000)	336,000
▪ Barkat (12 × 25,000)	300,000
▪ Shahid (9 × 20,000)	180,000
Net profit before partners' salaries	1,350,000

Statement of profit reconciliation

	Period to Sept. 30 (3 months)	Period to June 30 (9 months)
Net profit (1,350,000 split 3:9)	337,500	1,012,500
Less: Bad debts	48,000	-
Less: Share of profit of manager (1,012,500×5/105)	-	48,214
	289,500	964,286

Profit share:

First 3 months	**Total**	**A**	**B**
Salaries:			
3 × 28,000	84,000	84,000	
3 × 25,000	75,000		75,000
	159,000		
A's share ($^3/_5$ of 130,500)	78,300	78,300	
B's share ($^2/_5$ of 130,500)	52,200		52,200
Residual profit	130,500		
Profit for the first 3 months	289,500	162,300	127,200

Profit share:

Last 9 months	**Total**	**A**	**B**	**S**
Salaries:				
9 × 28,000	252,000	252,000		
9 × 25,000	225,000		225,000	
9 × 20,000	180,000			180,000
	657,000			
A's share (35% of 307,286)	107,550	107,550		
B's share (35% of 307,286)	107,550		107,550	
S's share (30% of 307,286)	92,186			92,186
Residual profit	307,286			
Profit for the first 3 months	964,286	359,550	332,550	272,186

Partners' Capital Accounts for the year to June 30, 2013

	Aqueel Rs.	Barkat Rs.	Shahid Rs.		Aqueel Rs.	Barkat Rs.	Shahid Rs.
				Balance b/f	250,000	400,000	-
				Goodwill	180,000	120,000	
Revaluation	70,000	70,000	60,000	Revaluation	120,000	80,000	-
				Bank			500,000
				Share of profit:			
Drawings:				*First 3m*			
Salaries	84,000	75,000		Salaries	84,000	75,000	
				Profits	78,300	52,200	
				Last 9m			
	252,000	225,000	180,000	Salaries	252,000	225,000	180,000
	336,000	300,000	180,000	Profits	107,550	107,550	92,186
Cash	150,000	120,000	90,000				
Balance c/f	515,850	569,750	442,186				
Total	1,071,850	1,059,750	772,186		1,071,850	1,059,750	772,186

14.5 ALPHA AND BETA

Capital Accounts

	Alpha Rs.	Beta Rs.	Gamma Rs.		Alpha Rs.	Beta Rs.	Gamma Rs.
Profit adjustments	17,400	11,600	-	Balance b/d	1,042,200	494,800	-
Goodwill in new PSR (W2)	227,700	136,620	91,080	Goodwill in old PSR (W2)	273,240	182,160	-
				Furniture	-	-	120,000
				Inventory	-	-	80,000
Balance c/d	1,070,340	528,740	350,000	Bank (W4)	-	-	241,080
	1,315,440	676,960	441,080		1,315,440	676,960	441,080

Alpha, Beta and Gamma Statement of financial position as on 1st April, 2013

Assets	**Rs.**	**Rs.**
Non-current assets:		
Furniture & fittings	600,000	
Add: brought by Gamma	120,000	
	720,000	
Add: as per adjustment	6,400	
	726,400	
Office equipment	300,000	
Motor car	375,000	
		1,401,400
Current assets:		
Inventory	250,000	
Add: brought by Gamma	80,000	
	330,000	
Sundry receivables	190,000	
Less: allowance for bad debts	11,400	
	178,600	
Cash at bank (118,000+150,000+91,080)	359,080	
		867,680
		2,269,080
Capital and liabilities		
Capital accounts		
Alpha	1,070,340	
Beta	528,740	
Gamma	350,000	1,949,080
Sundry payables (296,000+24,000)		320,000
		2,269,080

Workings:

1 Profit sharing ratios

Profit sharing ratios	Alpha	Beta	Gamma
Old sharing ratio	60	40	-
New sharing ratio	50	30	20

2 Computation of Goodwill

		Rs.
Profit for the last three years before adjustments		712,100
Add: furniture wrongly written off to revenue	8,000	
Less: depreciation on furniture for two years	(1,600)	
	6,400	
Purchase invoice omitted	(24,000)	
Allowance for doubtful debts (6% × 190,000)	(11,400)	
		(29,000)
Adjusted total profits for last three years		683,100
		÷ 3
Average annual profit over the last three years		227,700
Number of years purchase		×2
Goodwill		455,400
Share of goodwill in old profit sharing ratio		
Alpha (60% × 455,400)		273,240
Beta (40% × 455,400)		182,160
		455,400
Share of goodwill in old profit sharing ratio		
Alpha (50% × 455,400)		227,700
Beta (30% × 455,400)		136,620
Gamma (20% × 455,400)		91,080
		455,400

3 Profit adjustments

Alpha and Beta have already shared in a profit figure that included the errors discovered.

The total adjustments to profit due to these errors must be shared between the original partners in the old profit sharing ratio.

The complete journals are as follows (note that these were not required but are given for completeness).

	Dr (Rs.)	Cr (Rs.)
Furniture	6,400	
Alpha's capital (60%)		3,840
Beta's capital (40%)		2,560
Alpha's capital (60%)	14,400	
Beta's capital (40%)	9,600	
Payables		24,000
Alpha's capital (60%)	6,840	
Beta's capital (40%)	4,560	
Allowance for doubtful debts		11,400

Net impact on each partner	**Alpha**	**Beta**
Credit	(3,840)	(2,560)
Debit	14,400	9,600
Debit	6,840	4,560
Net debit	17,400	11,600

4 Cash introduced by Gamma

	Rs.
Goodwill purchase (W2)	91,080
Agreed amount (given in question)	150,000
	241,080

14.6 L & N

Capital Accounts

		L	N
		Rs.	Rs.
Bal b/d		150,000	100,000
Goodwill - Revaluation old PSR (3:2)		48,000	32,000
Revaluation of other assets:			
L & B	40,000		
P & E	(6,000)		
Inventory	(20,000)		
Receivables	3,000		
Old PSR (3:2)	17,000	10,200	6,800
Balance c/d into new partnership		208,200	138,800

Old Books - S & M

		S	M
		Rs.	Rs.
Bal b/d		60,000	20,000
Goodwill - Revaluation old PSR (2:1)		40,000	20,000
Motor car taken over			(6,000)
Profit on car taken over - old PSR (2:1)		1,600	800
Revaluation of other assets:			
P&E (29,990 - (26,000 - 3,600)	7,590		
Inventory	(6,000)		
Receivables	(4,500)		
Old PSR (2:1)	(2,910)	(1,940)	(970)
Balance c/d into new partnership		99,660	33,830

New books - L, N and S (showing M's retirement)

	L Rs.	N Rs.	S Rs.	M Rs.
Transferred from old books	208,200	138,800	99,660	33,830
Loan a/c - transfer on retirement				33,830
Goodwill not to be recorded therefore reversed in new PSR (80,000 + 60,000= 140,000 in PSR 2:1:1)	(70,000)	(35,000)	(35,000)	
	138,200	103,800	64,660	
This total of Rs.306,660 to be contributed in PSR of 2:1:1	(153,330)	(76,665)	(76,665)	
Difference to be transferred to current account	(15,130)	27,135	(12,005)	
Bal b/d	153,330	76,665	76,665	nil

Statement of financial position after amalgamation

	Rs.	Rs.	Rs.
Non-current assets			
Freehold premises			120,000
Plant, equipment and motor vehicle			57,990
			177,990
Current assets			
Inventory	206,000		
Receivables	132,500		
Bank	34,000		
		372,500	
Current liabilities			
Overdraft	40,000		
Payables	170,000		
		(210,000)	162,500
			340,490
	Current	Capital	
L	(15,130)	153,330	138,200
N	27,135	76,665	103,800
S	(12,005)	76,665	64,660
	–	306,660	306,660
Loan account (M)			33,830
			340,490

14.7 W, Y AND A

Realisation accounts

	Rs.	Rs.		Rs.
Assets at carrying amount:			Cash - proceeds of sale:	
Premises		520,000	Premises	600,000
Plant and machinery		80,000	Plant	50,000
Vehicles		60,000	Inventory	75,000
Inventory		90,000	Receivables	67,000
Receivables		70,000	Discount received	2,000
Dissolution costs		20,000	Capitals accounts - cars taken over	
Partners capital accounts - Profit on realisation in PSR			W	25,000
W	9,000		Y	30,000
Y	9,000		A	15,000
A	6,000			
		24,000		
		864,000		864,000

Cash Account

	Rs.			Rs.
Bal b/d	40,000	Payables		18,000
Realisation a/c - proceeds				
Receivables	67,000	Costs		20,000
Premises	600,000	Loan - Y		100,000
Plant and Machinery	50,000	Capital a/c	W	304,000
		to close	Y	191,000
Inventory	75,000	off	A	199,000
	832,000			832,000

Capital accounts

	W	Y	A		W	Y	A
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
				B/d	300,000	200,000	200,000
Cars	25,000	30,000	15,000	Current	20,000	12,000	8,000
Cash	304,000	191,000	199,000	Profit	9,000	9,000	6,000
	329,000	221,000	214,000		329,000	221,000	214,000

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