Selected Examination Questions From ICAI Related To ICAP Module B Financial Accounting Syllabus

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Accounts from Incomplete Records

Question 1

Mr. Y keeps his books under single entry system. On 31st March, 2006 his Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Capital of Mr. Y	4,50,000	Fixed assets	2,25,000
Creditors	8,70,000	Stock	9,15,000
Bills payable	1,87,500	Debtors	2,22,000
Expenses outstanding	67,500	Bills receivable	90,000
		Prepaid insurance	3,000
		Cash / Bank balance	<u>1,20,000</u>
	<u>15,75,000</u>		<u>15,75,000</u>

(i) Following are the summary of cash and bank transactions for the year ended 31st March, 2007:

		Rs.
	Cash sales	1,10,70,000
	Collection from debtors	22,65,000
	Payments to creditors	1,12,60,500
	Paid for bills payable	12,22,500
	Sundry expenses paid	9,31,050
	Drawings for domestic expenses by Mr. Y	3,60,000
	Cash and bank balance as on 31.3.2007	1,90,950
(ii)	Following further details are furnished:	
	Gross profit on sales @ 10%	
	Bills receivable from debtors during the year	6,52,500
	Discount allowed to debtors	54,000
	Discount received from creditors	42,000
	Bills receivable endorsed to creditors	22,500
	Annual fire insurance premium paid	
	(This is paid on 1 st August every year)	9,000
	Depreciate fixed assets @ 10%	

(iii) Balances as on 31.3.2007 are given below:

	Rs.
Stock in hand	9,75,000
Debtors	2,28,000
Bills receivable	2,10,000
Bills payable	2,10,000
Outstanding expenses	7,500

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2007 and Balance Sheet on that date. (16 Marks) (May, 2007)

Answer

Trading and Profit and Loss Account of Mr. Y for the year 31.3.2007	
Ba	

		Rs.				Rs.
То	Opening stock	9,15,000	Ву	Sales: Cash 1,10,70,000		
То	Purchases (W.N.5)	1,27,02,750		Credit (W.I <u>29,77,500</u>	N.2)	1,40,47,500
То	Gross profit	14,04,750	Ву	Closing stock		9,75,000
		<u>1,50,22,500</u>				<u>1,50,22,500</u>
То	Expenses (W.N.6)	8,71,050	Ву	Gross profit		14,04,750
То	Discount allowed	54,000	Ву	Discount received		42,000
То	Depreciation	22,500				
То	Net profit	4,99,200				
		14,46,750				<u>14,46,750</u>
		Balan	ce She	eet of Mr. Y		
		as on	31 st M	larch, 2007		
Liabi	lities		Rs.	Assets		Rs.
Capi 4,50,	tal 000			Fixed assets	2,25,000	
Add:	Net profit <u>4,99,20</u>	<u>00</u>		Less: Depreciation	22,500	2,02,500
				Stock		9,75,000
	9,49,200					
Less <u>3,60</u> ,	: Drawings <u>000</u>	5,8	9,200	Debtors		2,28,000
Bills	payable	2,1	0,000	Bills receivable		2,10,000
Cred	itors	10,0	2,750	Prepaid insurance		3,000
Outs	tanding expenses		7,500	Cash on hand/bank		1,90,950
		<u>18,0</u>	9,450			<u>18,09,450</u>

Working Notes:

1.	. Bills Receivable Account					
То	Balance b/f	90,00)O E	Зу	Cash (Balancing figure)	5,10,000
То	Debtors	6,52,50)O E	Зу	Creditors (Bills endorsed)	22,500
			_ E	Зу	Balance c/f	<u>2,10,000</u>
		<u>7,42,50</u>	0			<u>7,42,500</u>
2.		D	ebto	rs Ace	count	
			Rs.			Rs.
То	Balance b/f	2,22	2,000	Ву	Cash/Bank	22,65,000
То	Credit Sales (Balancing figure)	29,77	,500	Ву	Discount allowed	54,000
				Ву	Bills receivable	6,52,500
				Ву	Balance c/f	2,28,000
		<u>31,99</u>	<u>,500</u>			<u>31,99,500</u>
3.		В	ills P	ayabl	e Account	
То	Bank	12,22,500	Ву	Bala	ance b/f	1,87,500
То	Balance c/f	2,10,000	Ву	Cre	ditor (Balancing figure)	<u>12,45,000</u>
		14,32,500				<u>14,32,500</u>
4.		С	redit	ors Ac	count	
То	Cash/Bank	1,12,60,	500	Ву	Balance b/f	8,70,000
То	Discount	42,	000	Ву	Purchases	1,27,02,750
То	B/R endorsed	22,	500			
То	B/P	12,45,	000			
То	Balance c/f (Balancing figure)	_10,02,	750			
	,	<u>1,35,72,</u>	750			1,35,72,750
5.		S	tock	Ассо	unt	
То	Balance b/f	9,15,	000	By	Cost of goods sold	1,26,42,750
То	Purchases				(Rs.1,40,47,500 x 90%)	
	(Balancing figure)	<u>1,27,02,</u>	<u>750</u>	Ву	Balance c/d	<u>9,75,000</u>
		<u>1,36,17,</u>	<u>750</u>			<u>1,36,17,750</u>
6.	Expenses for the second	he year end	ed 31	st Mar	ch, 2007	
						Rs.
	Expenses paid dur	ing the year				9,31,050
	Add: Outstandi	ng expenses	as o	n 31.3	.2007	<u>7,500</u>

		9,38,550
Less: Ou	utstanding expenses as on 1.4.2006	<u>67,500</u>
		8,71,050
Add:	Prepaid Insurance as on 1.4.2006	3,000
		8,74,050
Less: Pr	epaid Insurance as on 31.3.2007 (9,000 x 4/12)	3,000
Expenses shown in the profit and loss account for the year ended 31.3.2007		<u>8,71,050</u>

The closing capital of Mr. A on 31.3.2007 was Rs. 1,50,000. On 1.4.2006 his capital was Rs. 60,000. During the year he had drawn Rs. 40,000 for domestic expenses. He introduced Rs. 25,000 as additional capital in February, 2007. Find out his net profit for the year.

(2 Marks) (November, 2007)

Answer	
Statement showing calculation of profit for the year 31.3.2007	Rs.
Capital as on 31.3.2007	1,50,000
Add: Drawings during the year	40,000
	1,90,000
Less: Additional capital introduced in February 2002	<u>(25,000)</u>
	1,65,000
Less: Capital as on 1.4.2006	<u>(60,000)</u>
Net profit for the year	<u>1,05,000</u>

Question 3

Answer

In a concern, the opening provision for doubtful debts is Rs.51,000. During the year a sum of Rs.10,000 was written off as bad debt. The closing balance of sundry debtors amounts to Rs.6,30,000. It was decided that 10% of the debtors is to be maintained as provision. Calculate the closing balance towards provision for doubtful debts and pass journal entry for giving effect to the provision maintained.

(2 Marks) (May, 2008)

(iii) Closing balance of Sundry Debtors	=	<u>Rs.6,30,000</u>	
Closing provision for doubtful debts to be maintained @ 10)% =	Rs.63,000	
Less: Opening Provision for doubtful debts	=	<u>Rs.51,000</u>	
Additional provision to be maintained	=	<u>Rs.12,000</u>	
Journal Entry			
Profit and Loss A/c		12,000	
Dr.			
To Provision for doubtful debts			12,000

(Being additional provision on doubtful debts maintained @ 10%)

Answer

Creditors

A company sold 25% of the goods on cash basis and the balance on credit basis. Debtors are allowed 2 months credit and their balance as on 31.3.2008 is Rs.1,40,000. Assume that the sale is uniform through out the year. Calculate the total sales of the company for the year ended 31.3.2008.

(2 Marks) (May, 2008)

46,000

(ii)	Debtors as on 31.3.2008	=	Rs.1,40,00	0
	Credit period allowed	=	2 month	IS
	i.e. Debtors as on 31.3.2008 is standing for cred	it sales of Februa	ary and March 2008	1
	Credit sales per month	=	Rs.1,40,000/	2
		=	Rs.70,00	0
	Credit sales for the year 2007-2008	=	Rs.70,000 × 1	2
		=	Rs.8,40,00	0
	<i>Add:</i> Cash sales 8,40,000× $\frac{25}{75}$	=	<u>Rs.2,80,00</u>	<u>0</u>
	Total sales of the company for the year ended 31.3.2008		<u>Rs.11,20,00</u>	<u>0</u>
(iii)	Closing balance of Sundry Debtors	=	<u>Rs.6,30,00</u>	0
	Closing provision for doubtful debts to be maintained @ 10%	=	Rs.63,00	0
	Less: Opening Provision for doubtful debts	=	<u>Rs.51,00</u>	0
	Additional provision to be maintained	=	<u>Rs.12,00</u>	<u>0</u>
	Journal E	Entry		
	Profit and Loss A/c	Dr.	12,000	
	To Provision for doubtful debts			12,000
	(Being additional provision on doubtful debts mai	ntained @ 10%)		
Que	stion 5			
The	books of Mr. Z showed the following information:			
	1	.1.2007 (Rs.)	31.12.2007 (Rs.)	
	Bank balance		50,000	
	Debtors		87,500	

Ste	ock	50,000	62,500
Fix	red assets	7,500	9,000
The following	are the details of the bank transactions:		
			Rs.
Rec	eipt from customers		3,40,000
Pay	ments to creditors		2,80,000
Сар	ital brought in		5,000
Sale	e of fixed assets		1,750
Exp	enses paid		49,250
Dra	wings		25,000
Pure	chase of fixed assets		5,000
Other inform	ation:		
(i) (ii)	Cost of goods sold		Rs.2,60,000
(11) (111)	Book value of assets sold		Rs.2,500

Prepare Trading, Profit and Loss account for the year ended 31.12.2007 and Balance Sheet as at 31.12.2007. (8 Marks) (November, 2008)

Answer

Trading and Profit & Loss Account

Dr.					Cr.
		Rs.			Rs.
То	Opening stock	50,000	Ву	Sales (W.N.8)	3,25,000
То	Purchases (W.N.7)	2,72,500	Ву	Closing stock	62,500
То	Gross profit (W.N.6)	<u>65,000</u>			
		<u>3,87,500</u>			<u>3,87,500</u>
То	Expenses	49,250	Ву	Gross profit	65,000
То	Loss on sale of fixed asset	750			
То	Depreciation on fixed assets	1,000			
То	Net Profit	<u>14,000</u>			
		<u>65,000</u>			<u>65,000</u>

Balance Sheet as at 31.12.2007

Liabili	ties	Rs.	ŀ	Rs	Assets	Rs.
Capita	al as on 1.1.2007	1,69,000			Fixed Assets	9,000
Add:	Net profit	14,000			Debtors	87,500
	Additional capital	<u>5,000</u>			Stock	62,500
		1,88,000			Bank	50,000
Less:	Drawings	<u>25,000</u>	1,63,0	000		
Credit	ors		<u>46,(</u>	000		
			<u>2,09,0</u>	000		<u>2,09,000</u>
Worki	ing Notes:					
1.		Balance She	et as a	nt 1.1.	.2007	
Liabili	ties	Rs.	Asse	ets		Rs.
Capita	al (Bal. Fig.)	1,69,000	Fixe	d Ass	ets	7,500
Credit	ors	53,500	Deb	ors		1,02,500
			Stoc	k		50,000
			Banl	k Bala	ance	<u>62,500</u>
		<u>2,22,500</u>				<u>2,22,500</u>
2.		Ban	k acco	unt		
Dr.						Cr.
		Rs.				Rs.
То	Balance b/d (Bal. Fig.)	62,500	Ву	Crea	litors	2,80,000
То	Debtors	3,40,000	Ву	Expe	enses	49,250
То	Capital	5,000	Ву	Drav	vings	25,000
То	Fixed Assets	1,750	Ву	Fixe	d Assets (purchased)	5,000
			Ву	Bala	nce c/d	<u>50,000</u>
		<u>4,09,250</u>				<u>4,09,250</u>
3.		Deb	tors a	cour	nt	
Dr.						Cr.
		Rs.				Rs.
То	Balance b/d (Bal. Fig.)	1,02,500	Ву	Banl	K	3,40,000
То	Sales (W.N.8)	<u>3,25,000</u>	Ву	Bala	nce c/d	<u>87,500</u>
		<u>4,27,500</u>				<u>4,27,500</u>

4.			Cre	ditors	account		
Dr.						Cr.	
			Rs.			Rs.	
То	Bank	2,8	0,000	Ву	Balance b/d (Bal. Fig.)	53,500	
То	Balance c/d	4	6,000	Ву	Purchases (W.N.7)	<u>2,72,500</u>	
		<u>3,2</u>	6,000			<u>3,26,000</u>	
5.			Fixe	ed As	sets account		
Dr.							Cr.
		Rs.					Rs.
То	Balance b/d	7,500	Ву	Banl	(Sale)		1,750
То	Bank	5,000	Ву	Profi	t and Loss A/c (loss on sale)		750
			Ву	Depi	reciation (Bal. Fig.)		1,000
			Ву	Bala	nce c/d		<u>9,000</u>
		<u>12,500</u>					<u>12,500</u>
6.	Gross Profit = Rs.	2,60,000 x 25%	6 = Rs.	65,00	0.		
7.	Cost of goods sold	d = Opening sto	ock + P	urcha	ses – Closing stock		
	Rs.2,60,000 = Rs.	50,000 + Purch	nases -	Rs.62	2,500		
	Purchases = Rs. 2	2,72,500.					
8.	Sales = Cost of go	oods sold + gro	ss profi	it			
	= Rs.2,60),000 + Rs.65,(000				

Following is the Balance Sheet of Mr. Ram, a small trader, as on 31st March, 2008:

= Rs.3,25,000.

Liabilities	Rs.	Assets	Rs.
Creditors	1,00,000	Cash	10,000
Capital	4,00,000	Bank	20,000
		Stock	80,000
		Debtors	1,00,000
		Fixed Assets	<u>2,90,000</u>
	<u>5,00,000</u>		<u>5,00,000</u>

A fire occurred on the night of 31st March, 2009, destroying the accounting records as well as the closing cash of the trader. However, the following information was available:

(i) Debtors and creditors as on 31st March, 2009 showed an increase of 20% as compared to 31st March, 2008.

(ii) Credit period:

Debtors	: 1 month
Creditors	: 2 months

(iii) Stock was maintained at the same level throughout the year.

(iv) Cash sales constituted at 20% of the total sales.

(v) All purchases were on credit basis only.

(vi) Current ratio on 31st March, 2009 was exactly 2.

(vii) Total expenses excluding depreciation for the year amounted to Rs.5,00,000.

(viii) Depreciation was provided @ 10% on the closing book value of fixed assets.

(ix) Bank and cash transactions for the financial year 2008-09 were as under:

(a) Payment to creditors included Rs.1,00,000 by cash.

(b) Received from debtors included Rs.11,80,000 by way of cheques.

(c) Cash deposited into the Bank Rs.2,40,000.

(d) Personal drawings from Bank Rs.1,00,000.

(e) Fixed assets purchased and paid by cheques Rs.4,50,000.

(f) Assume that cash destroyed by fire is written off in the Profit and Loss account.

You are required to prepare:

(i) Trading and Profit and Loss account of Shri Ram for the year ended 31st March, 2009.

(ii) A Balance Sheet as at that date.

(8 Marks)(June,2009)

Answer

Trading and Profit and Loss Account

for the year ended 31.3.2009

	Particulars	Rs.		Particulars	Rs.
То	Opening stock	80,000	Ву	Sales (W.N.2)	
То	Purchases (W.N.1)	7,20,000		Cash 3,60,000	
То	Gross profit	10,80,000		Credit <u>14,40,000</u>	18,00,000
			Ву	Closing stock	80,000
		<u>18,80,000</u>			<u>18,80,000</u>
То	Expenses	5,00,000	Ву	Gross profit	10,80,000
То	Loss of cash by fire	20,000			
То	Depreciation	74,000			
То	Net profit transfered to				
	Capital A/c	<u>4,86,000</u>			
		<u>10,80,000</u>			<u>10,80,000</u>

Balance Sheet as on 31.3.2009

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Creditors		1,20,000	Cash at bank (W.N.3)		40,000
Capital	4,00,000		Debtors		1,20,000
Add: Net profit			Stock		80,000
during the year	<u>4,86,000</u>				
	8,86,000		Fixed assets	2,90,000	
Less: Drawings	<u>1,00,000</u>	7,86,000	During the year	<u>4,50,000</u>	
				7,40,000	
			Less: Depreciation	74,000	<u>6,66,000</u>
		<u>9,06,000</u>			<u>9,06,000</u>

Working Notes:

(1) Calculation of creditors as on 31.3.2009 and credit purchase for 2008-2009

Creditors	=	Previous year creditors + 20% increase
	=	1,00,000 + 20,000
	=	Rs.1,20,000
Credit purchas	ses =	Creditors at the end $\times \frac{12}{2}$
		= 1,20,000 $\times \frac{12}{2}$ = Rs.7,20,000

(2) Calculation of Debtors as 31.3.2009 and Cash and Credit Sales for 2008-2009 Debtors on 31.3.2009 = Debtors on 31.3.2008 + 20% Increase

Credit sales for 2008-2009 = Debtors at the end (i.e. one month credit) x 12 = Rs. 1,20,000 x 12 = Rs.14,40,000

Total sales = Rs.14,40,000
$$\times \frac{100}{80}$$
 = Rs.18,00,000

Cash sales = Total sales - Credit sales = Rs. 18,00,000 - Rs.14,40,000 = Rs. 3,60,000

(3) Cash and Bank Balance as on 31.3.2009

Current ratio = 2

Current ratio =
$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2}{1}$$

Current assets = Current liabilities x 2 Current assets = 1,20,000 x 2 = 2,40,000 Cash and bank balance = Current assets – (Debtors + Stock) Cash and bank balance = 2,40,000 - (1,20,000 + 80,000) Cash and bank balance = 2,40,000 - 2,00,000 = Rs.40,000

(4)		Cash Account				
			Rs.			Rs.
	То	Balance b/d	10,000	Ву	Creditors A/c	1,00,000
	То	Sales A/c	3,60,000	Ву	Bank A/c	2,40,000
	То	Debtors A/c (W.N.6)	2,40,000	Ву	Expenses A/c	2,50,000
				-	(5,00,000 - 2,50,000)	
			0.40.000	Ву	Loss by fire (Bal.fig.)	20,000
			<u>6,10,000</u>			<u>6,10,000</u>
(5)			Bank A	ccour	of	
(0)			Rs			Rs
	То	Balance b/d	20.000	Bv	Creditors A/c (W.N.7)	6.00.000
	То	Debtors A/c	11,80,000	By	Fixed assets A/c	4,50,000
	То	Cash A/c	2,40,000	By	Drawings	1,00,000
				By	Expenses (Bal. fig.)	2,50,000
				By	Balance c/d	40,000
			14,40,000			14,40,000
(6)			Debtors	Αссοι	unt	
()			Rs.			Rs.
	То	Balance b/d	1,00,000	Ву	Bank	11,80,000
	То	Sales	14,40,000	Ву	Cash (Bal. Fig.)	2,40,000
				Ву	Balance c/d	<u>1,20,000¹</u>
			<u>15,40,000</u>			<u>15,40,000</u>
(7)			Creditors	Acco	ount	
			R	s.		Rs.
	То	Cash A/c	1,00,00	00 By	y Balance b/d	1,00,000
	То	Bank (Bal. fig.)	6,00,00	00 By	y Purchases A/c	7,20,000
	То	Balance c/d	<u>1,20,000</u>	<u>)</u> 2		

¹ Debtors on 31.3.2009 = Debtors on 31.3.2008 x 120% i.e. 1,00,000 x 120% = Rs. 1,20,000 2 Creditors on 31.3.2009 = Creditors on 31.3.2008 x 120% i.e. 1,00,000 x 120% = Rs. 1,20,000

Find out the profit of Mr. A from the following information:

Capital at the beginning of the year	Rs.20,00,000
Drawings made by Mr. A	Rs.2,00,000
Capital at the end of the year	Rs.25,00,000
Additional capital introduced during the year	Rs.1,00,000
	(2 Marks) (November, 2009)

Answer

Statement showing profit earned by Mr. A during the year

		Rs.
Ca	ital at the end of the year	25,00,000
Ad	: Drawings	2,00,000
		27,00,000
Les	s: Additional capital introduced during the year	(1,00,000)
		26,00,000
Les	s: Capital at the beginning of the year	(20,00,000)
Pro	it earned during the year	6,00,000

Question 8

A trader purchased goods for Rs.1,70,000. The opening stock of inventory prior to the said purchase was Rs.30,000. His sales was Rs.2,10,000. Find out the closing stock of inventory if the Gross profit margin is 25% on cost.

(2 Marks) (November, 2009)

Answer

Calculation of closing stock:

Cost of goods sold	=	Sales – Gross Profit
	=	Rs.2,10,000 – (Rs. 2,10,000 × $\frac{25}{125}$)
	=	Rs.1,68,000
Closing stock	=	Opening Stock + Purchases – Cost of goods sold
	=	Rs.30,000 + Rs.1,70,000 - Rs.1,68,000
	=	Rs.32,000