

Company Accounts and Analysis of Financial Statements Chapter 3

Financial Statements of a Company

Short answers/long answers : Solutions of Questions on Page Number : 181

Q1 :

What is public company?

Answer :

A public company is defined as a company that offers a part of its ownership in the form of shares, debentures, bonds, securities to the general public through stock market. There must be atleast seven members to form a public company. As per the section 3 (1) (iv) of Companies Act 1956, public company means a company which:

- a) is not a private company,
- b) has a minimum paid up capital of Rs 5,00,000 or such higher paid up capital, as may be prescribed,
- c) is a private company, being a subsidiary of a company which is not a private company.

A public company should not be mistakenly understood as a publicly-owned company, as the latter is exclusively owned and controlled by the government. A public company issues its share to general public without any restriction on maximum number of persons. A public company can be segmented into two types:

1. Listed Company- A Company whose shares are listed and traded in the stock exchange like, Tata Motors, Reliance, etc.

2. Unlisted Company- A Company whose shares are not listed in the stock exchange and thereby these shares cannot be traded in the stock exchange.

Q2 :

Explain the nature of the financial statements.

Answer :

The financial statements are the end-products of the accounting process. The financial statements not only reveal the true financial position of the company but also help various accounting users in decision making and policy designing process. The nature of the financial statements depends upon the following aspects like recorded facts, conventions, concepts, and personal judgment

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

2. **Conventions**- The preparation of financial statements is based on some accounting conventions like, Prudence Convention, Materiality Convention, Matching Concept, etc. The adherence to such accounting conventions makes financial statements easy to understand, comparable and reflects the true and fair financial position of the company.

3. **Accounting Assumptions** - These basic accounting assumptions like Going Concern Concept, Money Measurement Concept, Realisation Concept, etc are called as postulates. While preparing financial statements, certain postulates are adhered to. The nature of these postulates is reflected in the nature of the financial statements.

4. **Personal Judgments**- Personal value judgments play an important role in deciding the nature of the financial statements. Different judgments are attached to different practices of recording transactions in the financial statements. For example, recording stock either at market value or at the cost requires value judgment. Similarly, provision on various assets, method of charging depreciation, period related to writing off intangible assets depends on personal judgment. Thus, personal judgments determine the nature of the financial statements to a great extent.

Q3 :

What is private limited company?

Answer :

Private limited company is a company that is limited by shares or by guarantee by its members. A private company is defined as a company that has a minimum paid up share capital of Rs 1,00,000. As defined by the Section 3 (1) (iii) of Companies Act 1956, private limited company is defined by the following characteristics.

a) It restricts the right to transfer its shares.

- b) There must be atleast two and a maximum of 50 members (excluding current and former employees) to form a private company.
- c) It cannot invite application from the general public to subscribe its shares, or debentures.
- d) It cannot invite or accept deposits from persons other than its members, Directors and their relatives.

Unlike public company, a private company cannot issue its shares or debentures to general public at large as shares of these companies are not traded in the stock exchange, for example, Coca-Cola India Private limited, etc.

Q4 :

Explain in detail about the significance of the financial statements.

Answer :

The importance of financial statements is mentioned below.

1. ***Provides Information***- Financial statements provide information to various accounting users both internal as well as external users. It acts as a basic platform for different accounting users to derive information according to varying needs. For example, the financial statements on one hand help the shareholders and investors in assessing the viability and return on their investments, while on the other hand, the financial statements help the tax authorities in calculating the amount of tax liability of the company.
2. ***Cash Flow***- Financial statements provide information about the cash flows of the company. The financial statements help the creditors and other investors in determining solvency of company.
3. ***Effectiveness of Management***- The comparability feature of the financial statements enables management to undertake comparisons like inter-firm and intra-firm comparisons. This not only helps in assessing the viability and performance of the business but also helps in designing policies and drafting policies. The financial statements enhance the effectiveness and efficacy of the management.
4. ***Disclosure of Accounting Policies***- Financial statements provide information about the various policies, important changes in the methods, practices and process of accounting by the company. The disclosure of the accounting policies makes financial statements simple, true and enables different accounting users to understand without any ambiguity.

5. **Policy Formation by Government**- It needs information to determine national income, GDP, industrial growth, etc. The accounting information assist the government in the formulation of various policy measures and to address various economic problems like employment, poverty etc.

6. **Attracts Investors and Potential Investors**- They invest or plan to invest in the business. Hence, in order to assess the viability and prospectus of their investment, creditors need information about profitability and solvency of the business.

Q5 :

Define Government Company?

Answer :

As per the Section 617 of Company Act of 1956, a Government Company means any company in which not less than 51% of the paid up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company as thus defined.

Q6 :

Explain the limitations of financial statements.

Answer :

The following are the limitations of financial statements.

1. **Historical Data**- The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects.

2. **Ignorance of Qualitative Aspect**- Financial statements does not reveal the qualitative aspects of a transaction. The qualitative aspects like colour, size and brand position in the market, employee's qualities and capabilities are not disclosed by the financial statements.

3. **Biased**- Financial statements are based on the personal judgments regarding the use of methods of recording. For example, the choice of practice in the valuation of inventory, method

of depreciation, amount of provisions, etc. are based on the personal value judgments and may differ from person to person. Thus, the financial statements reflect the personal value judgments of the concerned accountants and clerks.

4. **Inter-firm Comparisons**- Usually, it is difficult to compare the financial statements of two companies because of the difference in the methods and practices followed by their respective accountants.

5. **Window dressing**- The possibility of window dressing is probable. This might be because of the motive of the company to overstate or understate the assets and liabilities to attract more investors or to reduce taxable profit. For example, Satyam showed high fixed deposits in the Assets side of its Balance Sheet for better liquidity that gave false and misleading signals to the investors.

6. **Difficulty in Forecasting**- Since the financial statements is based on historical data, so they fail to reflect the effect of inflation. This drawback makes forecasting difficult.

Q7 :

What do you mean by a listed company?

Answer :

Those public companies whose shares are listed and can be traded in a recognised stock exchange for public trading like, Tata Motors, Reliance, etc are called Listed Company. These companies are also called Quota Companies. The listing of securities (shares) helps the investor to determine the increase/decrease in value of their investment in a concerned listed company. This provides ample indication to the potential investors about the goodwill of the company and facilitates them to take various investment decisions and also to assess the viability of their investment in a company.

Q8 :

Prepare the format of income statement and explain its elements.

Answer :

Vertical Form of Income Statement

Particulars	Current Year	Previous Year	Absolute Change Increase or Decrease	% Change
Net Sales	****			
<i>Less:</i> Cost of Goods Sold	***			
Gross Profit	****			
<i>Less:</i> Operating Expenses	***			
Net Operating Profit	****			
<i>Add:</i> Non Operating Income	***			
<i>Less:</i> Non Operating Expenses	***			
Profit before Interest and Tax	****			
<i>Less:</i> Interest	***			
Profit before Tax	****			
<i>Less:</i> Provision for Tax/Tax Paid	***			
Net Profit	****			

Elements of Income Statement:-

1. **Net Sales**- Net Sales are derived as:

Cash Sales	***
<i>Add:</i> Credit Sales	***
Gross Sales	***
<i>Less:</i> Sales Return	***
Net Sales	***

2. **Cost of Goods Sold**- It is derived as:

Opening Stock	***
<i>Add:</i> Purchases	***
<i>Add:</i> Wages	***
<i>Add:</i> Manufacturing Expenses	***
<i>Add:</i> Any other direct Expenses	***
Closing Stocks	***
Cost of Goods sold	***

3. Operating Expenses- It is derived as:

Administrative Expenses	***
Add: Selling Expenses	***
Add: Distribution Expenses	***
Add: Depreciation	***

Q9 :

What are the uses of securities premium?

Answer :

As per the Section 78 of the Companies Act of 1956, the amount of securities premium can be used by the company for the following activities.

1. For paying up un issued shares of the company to be issued to members (shareholders) of the company as fully paid bonus share,
2. For writing off the preliminary expenses of the company,
3. For writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company,
4. For paying up the premium that is to be payable on redemption of preference shares or debentures of the company.
5. Further, as per the Section 77A, the securities premium amount can also be utilised by the company to Buy-back its own shares.

Q10 :

Prepare the format of balance sheet and explain the various elements of balance sheet.

Answer :

Vertical Form of Balance Sheet

Particulars	Schedule No.	Figure for the Current Year	Figure for the Previous Year
I. Sources of Funds			
(1) Shareholder's Funds			
(a) Capital			
(b) Reserve and Surplus			
(2) Loan Funds			
(a) Secured Loan			
(b) Unsecured Loans			
II. Application of Funds			
(1) Fixed Assets			
(a) Gross Block			
(b) <i>Less:</i> Depreciation			
(c) Net Block			
(d) Capital Work in Progress			
(2) Investments			
(3) Current Assets, Loans and Advances			
(a) Inventories			
(b) Sundry Debtors			
(c) Cash and Bank Balance			
(d) Loan and Advances			
(e) Other Current Assets			
<i>Less:</i> Current Liabilities and Provisions			
(i) Liabilities			
(ii) Provisions			
Net Current Assets			
(4) (a) Miscellaneous Expenditures			
(to the extent not written off)			
(b) Profit and Loss Account			
Dr. Balance (Loss)			
Total			

Elements of Balance Sheet

1. Share Capital: It is the first item on the Liabilities side. It consists of the following items:

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

2. Reserve and Surplus: As per the Schedule VI, it consists of the following items:

- a) Capital Reserve
- b) Capital Redemption Reserve
- c) Security Premium
- d) Other Reserve *less* Debit balance of P & L A/c
- e) Surplus: Credit balance of P & L A/c
- f) Proposed Additions
- g) Sinking Fund

3. Secured Loans

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

4. Unsecured Loans

- a) Fixed Deposits
- b) Loan & Advances from subsidiaries

5. Fixed Assets: These are those assets that are used for more than one year, like:

- a) Goodwill
- b) Land
- c) Building
- d) Plant & Machinery
- e) Patents, Trade Marks
- f) Livestock
- g) Vehicles, etc.

6. Current Assets: Assets that can be easily converted into cash or cash equivalents are termed as current assets. These are required to run day to day business activities; for example, cash, debtors, stock, etc.

7. Current Liabilities: Those liabilities that are incurred with an intention to be paid or are payable within a year; for example, bank overdraft creditors, bills payable, outstanding wages, short-term loans, etc are called current liabilities.

Q11 :

What is buy-back of shares?

Answer :

Buy-back of shares means repurchasing of its own shares by a company from the market for reducing the number of shares in the open market. As per the Section 77A, 77AA and 77B of the Company Act of 1956, a company can Buy-back its own shares and debentures on the account of following reasons.

1. To improve EPS (Earnings Per Share)

2. To return surplus cash to the shareholders that is not required by the business
3. To support value of its shares
4. To facilitates capital restructuring of the company.
5. To prevent take-over bid.

Buy-back of shares may be done:

- a) By purchasing shares from existing share holders on a proportionate basis, or
- b) By purchasing shares from the open market, or
- c) By purchasing shares from odd lots, viz. where the lot of securities listed in the recognised stock market is smaller than such marketable lot, or
- d) By purchasing shares from the employees of the company

Sources for Buy-back of share:

1. Free Reserves,
2. Securities Premium Account,
3. Proceeds of any shares or other specified securities, provided that no Buy-back of any kind of shares or other specified securities shall be made out of the proceeds of the earlier issues of the similar kind of shares or similar kind of other specified securities.

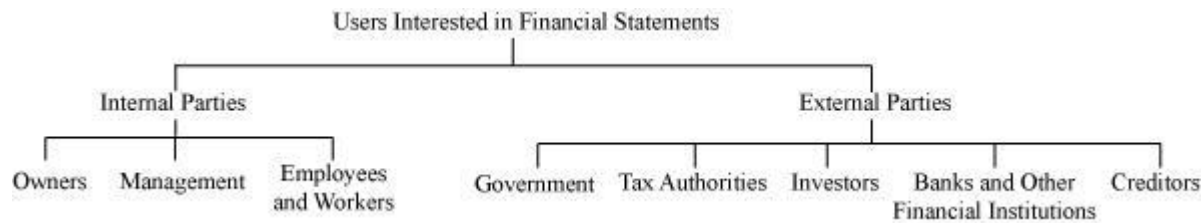
Q12 :

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

Answer :

The various parties that are directly or indirectly interested in the financial statements of a company can be categorized into the following two categories:

1. Internal parties
2. External parties



Internal Parties

The following are the various internal accounting users who are directly related to the company.

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

2. Management- The financial statements help the management in drafting various policies measures, facilitating planning and decision making process. The financial statements also enable management to exercise various cost controlling measures and to remove inefficiencies.

3. Employees and workers- They are interested in the timely payment of wages and salaries, bonus and appropriate increment in their wages and salaries. With the help of the financial statements they can know the amount of profit earned by the company and can demand reasonable hike in their wages and salaries.

External Parties

There are various external users of accounting who need accounting information for decision making, investment planning and to assess the financial position of the business. The various external users are given below.

1. Banks and other financial institutions- Banks provide finance in the form of loans and advances to various businesses. Thus, they need information regarding liquidity, creditworthiness, solvency and profitability to advance loans.

2. Creditors- These are those individuals and organisations to whom a business owes money on account of credit purchases of goods and receiving services; hence, the creditors require information about credit worthiness of the business.

3. Investors and potential investors- They invest or plan to invest in the business. Hence, in order to assess the viability and prospectus of their investment, creditors need information about profitability and solvency of the business.

4. Tax authorities- They need information about sales, revenues, profit and taxable income in order to determine the levy various types of tax on the business.

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

6. Researchers- Various research institutes like NGOs and other independent research institutions like CRISIL, stock exchanges, etc. undertake various research projects and the accounting information facilitates their research work.

7. Consumers- Every business tries to build up reputation in the eyes of consumers, which can be created by the supply of better quality products and post-sale services at reasonable and affordable prices. Business that has transparent financial records, assists the customers to know the correct cost of production and accordingly assess the degree of reasonability of the price charged by the business for its products and ,thus, helps in repo building of the business.

8. Public- Public is keenly interested to know the proportion of the profit that the business spends on various public welfare schemes; for example, charitable hospitals, funding schools, etc. This information is also revealed by the profit and loss account and balance sheet of the business.

Q13 :

Write a brief note on 'Minimum Subscription'.

Answer :

When shares are issued to the general public, the minimum amount that must be subscribed by the public so that the company can allot shares to the applicants is termed as Minimum Subscription. As per the Company Act of 1956, the Minimum Subscription of share cannot be less than 90% of the issued amount. If the Minimum Subscription is not received, the company cannot allot shares to its applicants and it shall immediately refund the entire application amount received to the public.

Q14 :

'Financial statements reflect a combination of recorded facts, accounting conventions and personal judgments' discuss.

Answer :

The financial statements are the end-products of the accounting process. The financial statements not only reveal the true financial position of the company but also help various accounting users in decision making and policy designing process. The nature of the financial statements depends upon the following aspects like recorded facts, conventions, concepts, and personal judgment

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

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3. Accounting Assumptions - These basic accounting assumptions like Going Concern Concept, Money Measurement Concept, Realisation Concept, etc are called as postulates. While preparing financial statements, certain postulates are adhered to. The nature of these postulates is reflected in the nature of the financial statements.

4. Personal Judgments- Personal value judgments play an important role in deciding the nature of the financial statements. Different judgments are attached to different practices of recording transactions in the financial statements. For example, recording stock either at market value or at the cost requires value judgment. Similarly, provision on various assets, method of charging depreciation, period related to writing off intangible assets depends on personal judgment. Thus, personal judgments determine the nature of the financial statements to a great extent.

Q15 :

Explain the process of preparing income statement and balance sheet.

Answer :

The process of preparing Horizontal Form of Income Statement is explained below in a chronological order.

1. Prepare a Trial Balance on the basis of the balances of various accounts in the ledger.
2. Record Opening Stock, Purchases, Manufacturing Expenses and other direct expenses on the debit side of Trading Account
3. Record Sales and Closing Stock on the credit side of the Trading Account.

4. Ascertain the balancing figure by totaling both the sides of the Trading Account. If the credit side exceeds the debit side, then the balancing figure is termed as Gross Profit, but if the debit side exceeds the credit side, then the balancing figure is termed as Gross Loss.
5. Carry forward the Gross Profit (Gross Loss) to the credit (debit) side of the Profit and Loss Account.
6. Record all current year's operating and non-operating revenue expenditures with their relevant adjustments on the debit side of the Profit and Loss Account.
7. Record all current year's operating and non operating revenue incomes with their relevant adjustments on the credit side of the Profit and Loss Account.
8. Ascertain the balancing figure by totaling both the sides of the Profit and Loss Account. If the credit exceeds the debit side, then the balancing figure is termed as Net Profit, but if the debit side exceeds the credit side, then the balancing figure is termed as Net Loss.

The process of preparing Horizontal Form of Balance Sheet is explained below in a chronological order.

1. Prepare a Trial Balance on the basis of the balances of various accounts in the ledger.
2. Record all the debit balances of Real and Personal Accounts on the left hand side (i.e. Assets side) of the Balance Sheet after making all adjustments for provision and other related items.
3. Record all the credit balances of Real and Personal Accounts on the right hand side (i.e. Liabilities side) of the Balance Sheet after making all adjustments for interest and outstanding items.
4. Add Net Profit to the Opening Capital and deduct Net Loss, if any from the Opening Capital
5. Ascertain the total of two sides, which must be equal.

Numerical questions : Solutions of Questions on Page Number : 182

Q1 :

The following is the trial balance on June 30, 2006 of the Modern Manufacturing Company Ltd.

Details	Amount	Details	Amount
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	Rs		Rs
Stock, 30th June, 2005	7,500	Dividend paid in, August, 2005	500
Sales	35,000	Interim Dividend paid in Feb., 2006	400
Purchases	24,500	Capital- 10,000 Rs 1 shares full Paid	10,000
Productive wages	5,000	Debtors	3,750
Discounts (Dr.)	700	Creditors	1,750
Discounts (Cr.)	500	Plant and machinery	2,900
Salaries	750	Cash in Bank	1,620
Rent	495	Reserve	1,550
General expenses	1,705	Loan to Managing Director	325
Profit and loss account, 30th June 2005 (Cr.)	1,503	Bad Debts	158

Stock, on June 30, 2006 Rs 8,200. You are required to make out the trading account, and profit and loss account for the year ended June 30, 2006 and the balance sheet as on the date. You are also to make provision in respect of the following: (i) Depreciate machinery @ 10% per annum; (ii) Reserve 5% for discount on debtors; (iii) One month rent Rs 45 was due on 30th June; and (iv) Six month's insurance, included in general expenses, was unexpired at Rs 75.

Answer :

Modern Manufacturing Company Ltd.

Trading and Profit and Loss Account for the year ended June 30, 2006

Dr.

	Amount		Amount
Expenses/Losses	Rs	Revenues/Gains	Rs
Opening Stock	7,500	Sales	35,000
Purchases	24,500	Closing Stock	8,200
Productive Wages	5,000		
Gross Profit c/d	6,200		
	43,200		43,200
Salaries	750	Gross Profit b/d	6,200
Discount	700	Discount	500
Rent 495			

Add: Outstanding	45	540		
General Expenses	1,705			
Less: Prepaid Insurance	(75)	1,630		
Depreciation on Machinery		290		
Bad Debts		158		
Reserve for discount on Debtors		187.5		
Net Profit c/d		2,444.5		
		6,700		6,700
Dividend paid in Aug.		500	Balance b/d	1,500
Interim Dividend		400	Net Profit for the Current year	2,444.5
Balance c/d		3,047.5		
		3,947.5		3,947.5

Balance Sheet as on June 30, 2006

Liabilities	Amount Rs	Assets	Amount Rs
Share Capital		Fixed Assets	
<i>Authorised Capital:</i>		Plant and Machinery	2,900
....shares of Rs each		Less: Depreciation	290
<i>Issued and Subscribed:</i>			
10,000 shares of Rs 1 each	10,000	Current Assets, Loans and Advances	
Reserves and Surplus		Debtors	3,750
Reserve	1,550	Less: Reserve for Discount	187.5
Profit and Loss	3,047.5	Cash at Bank	1,600
Current Liabilities and Provision		Prepaid Insurance	8,200
Current Liabilities:		Stock	3,000
Creditors	1,750	Loan to Managing Director	
Rent Outstanding	45		
	16,392.5		16,392.5

Note: It has been assumed that the Dividend Paid, August, 2005 of Rs 500 has been declared and paid in the same accounting period.

Q2 :

The following is the trial balance of Alfa Ltd., for the year ended June 30, 2005

Details	Amount Rs	Details	
Land and Buildings	3,00,000	Sundry Creditors	
Plant and Machinery	4,50,000	Bills Payable	
Furniture and Fittings	40,000	General Reserve	
Goodwill	60,000	Profit and Loss Account Balance (on 1.7.04)	
Sundry Debtors	60,000	Sales	
Bills Receivable	26,000	Purchase Returns	
Investments (5% Govt. Securities)	30,000	Equity Share Capital	
Cash in Hand	2,000	8% Preference Share Capital	
Cash at Bank	55,000		
Preliminary Expenses	29,000		
Purchases	4,00,000		
Sales Return	10,000		
Stock on 1-7-04	85,000		
Wages	47,000		
Salaries	55,000		
Rent, rates and taxes	9,000		
Carriage Inwards	6,500		
Law Charges	2,500		
Trade Expenses	23,000		
	16,90,000		1

Prepare the Profit and Loss Account and Balance Sheet of the company after taking the following particulars into consideration:

a) The original cost of land and building plant and machinery and furniture and fittings was Rs 2,50,000, Rs 6,00,000 and Rs 60,000 respectively. Additions during the year were: Building Rs 50,000 and Plant Rs 20,000.

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

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

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

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

f) Provide Rs 34,800 for income tax

Answer :

Alfa Ltd.

Profit and Loss Account for the year ended June 30, 2005

Dr.

	Amount		Amount
Expenses/Losses	Rs	Revenues/Gains	Rs
Opening Stock	85,000	Sales	6,25,000
Purchases	4,00,000	Less: Return	(10,000)
Less: Return	(15,000)	Closing Stock	1,30,000
Wages	47,000		
Carriage Inwards	6,500		
Gross Profit c/d	2,21,500		
	7,41,500		7,45,000
Salaries	55,000	Gross Profit b/d	2,21,500
Rent, Rates and Taxes	9,000	Accrued Interest on 5% Govt. Securities	1,500
Law Charges	2,500		
Trade Expenses	23,000		
Depreciation on:			

Plant and Machinery	60,000			
Furniture	6,000	66,000		
Provision for Income Tax		34,800		
Directors' Commission		324		
Net profit c/d		32,376		
		2,23,000		2,23,000
Proposed Dividend on Preference Shares		16,000	Balance b/d	90,000
Balance c/d		1,06,376	Net Profit for the current year	32,376
		1,22,376		1,22,376

Balance Sheet as on June 30, 2005

	Amount		Amount
Liabilities	Rs	Assets	Rs
Share Capital			
<i>Authorised Capital:</i>			

Q3 :

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

Details	Rs	Details	Rs
Stock of wheat	9,500	Furniture	5,100
Stock of flour	16,000	Vehicles	5,100
Wheat Purchases	4,05,000	Stores and spare parts	18,300
Manufacturing Expenses	90,000	Advances	24,500
Flour Sales	5,55,000	Book Debts	51,700
Salaries and Wages	13,000	Investments	4,000
Establishment	4,700	Share Capital	72,000
Interest (Cr.)	500	Pension Fund	23,000
Rent Received	800	Dividend Equalisation fund	10,000
Profit and Loss Account (Cr.)	15,000	Taxation Provision	8,500
Director's Fees	1,200	Unclaimed Dividends	900

Dividend for 2004	9,000	Deposits (Cr.)	1,600
Land	12,000	Trade Creditors	1,24,000
Buildings	50,500	Cash in Hand	1,200
Plants and Machinery	50,500	Cash at Bank	40,000

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

(a) Stock on December 31, 2005 were: Wheat at cost, Rs 14,900; Flour at market price, Rs 21,700; (b) Outstanding expenses: Manufacturing expenses, Rs 23,500; and salaries and wages, Rs 1,200; (c) Provide depreciation : Building at 2% ; Plant and machinery at 10%: Furniture at 10% ; and Vehicle 20%. (d) Interest accrued on Government Securities, Rs100: (e) A tax provision of Rs 8,000 is considered necessary. (f) The directors propose a dividend of 20%. (g) The authorised capital consists of 12,000 equity shares of Rs 10 each of which 7,200 shares were issued and fully paid up.

Answer :

Parasuram Flour Mills Ltd.

Profit and Loss Account for the year ended December 31, 2005

Dr.

		Amount			Amount
Expenses/Losses		Rs	Revenues/Gains		Rs
Opening Stock:			Sales (Flour)		5,55,000
Wheat	9,500		Closing Stock		
Flour	16,000	25,500	Wheat (at cost)	14,900	
Purchases (wheat)		4,05,000	Flour (at market price)	21,700	36,600
Manufacturing Expenses	90,000				
Add: Outstanding	23,500	1,13,500			
Gross Profit c/d		47,600			
		5,91,600			5,91,600
Salaries and Wages	13,000		Gross Profit b/d		47,600
Add: Outstanding	1,200	14,200	Interest	500	
Establishment		4,700	Add: Accrued	100	600
Director's Fees		1,200	Rent Received		800

Depreciation:			Taxation Provision	50
Building	1,010		(8,500 â€“ 8,000)	
Plant and Machinery	5,050			
Furniture	510			
Vehicle	1,020	7,590		
Net Profit c/d		21,810		
		49,500		49,500
Dividend for 2004		9,000	Balance b/d	15,000
Proposed Dividend		14,400	Net Profit for the current year	21,810
Balance c/d		13,410		
		36,810		36,810

Balance Sheet as on December 31, 2005

	Amount		Amount
Liabilities	Rs	Assets	Rs
Share Capital		Fixed Assets	
<i>Authorised Capital:</i>		Land	12,000
12,000 shares of Rs 10 each	1,20,000	Buildings	50,500
		Less: Depreciation	(1,010)
<i>Issued and Subscribed and Paid up</i>			49,490
7,200 shares of Rs 10 each	72,000	Plants and Machinery	50,500
		Less: Depreciation	(5,050)
Reserves and Surplus			45,450
Pension Fund	23,000	Furniture	5,100
Dividend Equalisation Fund	10,000	Less: Depreciation	(510)
Profit and Loss	13,410		4,590
Secured Loans	â€“	Vehicles	5,100
Unsecured Loans		Less: Depreciation	(1,020)
Deposits	1,600		4,080
Current Liabilities and Provisions		Investments	
A. Current Liabilities:		Investments	4,000
Trade Creditors	1,24,000	Add: Accrued	100
Unclaimed Dividends	900	Current Assets, Loan and Advances	
		A. Current Assets:	

Q4 :

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

Details	Rs	Details	Rs
Depreciation on machinery	33,000	Authorised Capital: 60,000 shares of Rs 10 each	6,00,000
Calls in Arrear	7,500	Subscribed Capital	4,00,000
Land and Buildings	3,00,000	6% Debentures	3,00,000
Machinery	2,97,000	Profit and Loss Account (Cr.)	13,625
Interim dividend paid	37,500	Sundry Debtors	87,000
Stock on 1-1-2005	75,000	Sales	4,15,000
Sundry Creditors	40,000	Sinking Fund	75,000
Bills Payable	38,000	Preliminary Expenses	5,000
Furniture	7,200		
Bank Balance	39,900		
Purchases	1,85,000		
Provision for Bad Debts	4,375		
Investments	75,000		
Salary and Wages	99,300		
Repairs	4,300		
Fuel	2,500		
Rates and Taxes	1,800		
Travelling Expenses	2,000		
Discounts	6,400		
Director's Fees	5,700		
Bad Debts	2,100		
Debenture interest	9,000		
Carriage	1,800		
Freight	8,900		
Sundry Expenses	2,350		
Public Deposits	10,000		
	12,95,625		12,95,625

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

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

Answer :

Bang Vikas Ltd

Profit and Loss Account for the year ended December 31, 2005

Dr.

Cr.

	Amount		Amount
Expenses/Losses	Rs	Revenues/Gains	Rs
Opening Stock	75,000	Sales	4,15,000
Purchases	1,85,000	Closing Stock	95,000
Fuel	2,500		
Carriage	1,800		
Freight	8,900		
Gross Profit c/d	2,36,800		
	5,10,000		5,10,000
Salary and Wages	99,300	Gross Profit b/d	2,36,800
Repairs	4,300		
Rates and Taxes	1,800		
Travelling Expenses	2,000		
Discounts	6,400		
Director's Fee	5,700		
Bad Debts	2,100		
Debenture Interest	9,000		
Add: Outstanding	9,000		
Sundry Expenses	2,350		
Depreciation on Machinery	33,000		
Preliminary Expenses written off	5,000		
Net Profit c/d	56,850		
	2,36,800		2,36,800
Interim Dividend Paid	37,500	Balance b/d	13,625
Balance c/d	32,975	Net Profit of the Current year	56,850
	70,475		70,475

Q5 :

The Silver Ore Co. Ltd. was formed on April 1, 2005 with an authorised capital of Rs6,00,000 in shares of Rs 10 each. Of these 52,000 shares had been issued and subscribed but there were calls in arrear on 100 shares @ Rs 2.50. From the following trial balance as on March 31, 2006 prepare the trading and profit and loss account and the balance sheet:

	Rs		Rs
Cash at Bank	1,05,500	Advertising	5,000
Share Capital	5,19,750	Cartage on Plant	1,800
Plant	40,000	Furniture and Buildings	20,900
Sale of Silver	1,79,500	Administrative Expenses	28,000
Mines	2,20,000	Repairs of Plant	900
Promotion Expenses	6,000	Coal and Oil	6,500
Interest of F.D. up to Dec.31,2005	3,900	Cash	530
Dividend on Investment	3,200	Investments-share of tin mines	80,000
Royalties Paid	10,000	Brokerage on above	1,000
Railway track and wagons	17,000	6% F.D. in Syndicate Bank	89,000
Wages of Mines	74,220		

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

Answer :

Silver Ore Co. Ltd.

Profit and Loss Account for the year ended March 31, 2006

Dr.

	Amount		Amount
Expenses/Losses	Rs	Revenues/Gains	Rs
Coal and Oil	6,500	Sale	1,79,500
Wages	74,220	Closing Stock	15,000

Royalties		10,000		
Gross Profit c/d		1,03,780		
		1,94,500		1,94,500
Promotion Expenses Written off		2,000	Gross Profit b/d	1,03,780
Advertising		5,000	Interest on FD	3,900
			Add: Accrued Interest	1,440
Administrative Expenses		28,000	Dividend on Investment	3,200
Repairs of Plant		900		
Depreciation:				
Railways Track and Wagons	1,700			
Furniture and Building	1,045	2,745		
Net Profit c/d		73,675		
		1,12,320		1,12,320

Balance Sheet as on March 31, 2006

Liabilities	Amount Rs	Assets	Amount Rs
Share Capital		Fixed Assets	
<i>Authorised Capital:</i>		Plant 40,000	
60,000 shares of Rs 10 each	6,00,000	Add: 1,800	41,800
		Cartage on Plant	
<i>Issued and Subscribed:</i>		Mines	2,20,000
51,900 shares of Rs 10 each	5,19,000	Furniture and Buildings	20,900
Add: 750	5,19,750	Less: (1,045)	19,855
Share Forfeiture		Depreciation	
Reserves and Surplus		Railways Track and Wagons	17,000
Profit and Loss	73,675	Less: (1,700)	15,300
		Depreciation	

