Fundamentals of Accounting
Suggested Answer

Roll No…………………

Maximum Marks - 50

Total No. of Questions - 3

Total No. of Printed Pages - 2

Time Allowed - 2 Hours

Attempt all questions. Working notes should form part of the answer.

1. From the following balances extracted from the books of Mr. Ashok Kharel, prepare trading and profit and loss account for the year ended 31.3.2015 and a balance sheet on that date:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases (bought on 31.3.2015)</td>
<td>18,380</td>
</tr>
<tr>
<td>Purchases</td>
<td>71,280</td>
</tr>
<tr>
<td>Computer at cost</td>
<td>18,380</td>
</tr>
<tr>
<td>Cash at Bank</td>
<td>4,000</td>
</tr>
<tr>
<td>Cash in Hand</td>
<td>2,836</td>
</tr>
<tr>
<td>Furniture and fittings at cost</td>
<td>1,540</td>
</tr>
<tr>
<td>Rent</td>
<td>12,540</td>
</tr>
<tr>
<td>Bills receivable</td>
<td>6,720</td>
</tr>
<tr>
<td>Trade Charges</td>
<td>920</td>
</tr>
<tr>
<td>Sundry debtors</td>
<td>34,156</td>
</tr>
<tr>
<td>Drawings</td>
<td>5,200</td>
</tr>
<tr>
<td>Discount</td>
<td>540</td>
</tr>
<tr>
<td>Wages</td>
<td>1,800</td>
</tr>
<tr>
<td>Salaries</td>
<td>16,780</td>
</tr>
<tr>
<td>Returns Inwards</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,77,692</td>
</tr>
</tbody>
</table>

Capital account: 60,000

Creditors: 13,000

Bills Payable: 10,220

Discount: 22,000

Sales: 60,720

Rent due: 320

Amounts:

a) Stock at the end at cost Rs. 25,600 (market-value Rs. 26,200).

b) Rs. 6,000 paid to Mrs. Red against Bills payable were debited by mistake to Mr. Green's account and included in the list of sundry debtors.

c) Traveling expenses paid to sales representatives Rs. 5,000 for the month of March 2015 were debited to his personal account and included in the list of sundry debtors.

d) Depreciation on furniture and fittings shall be provided at 10% p.a.

e) Provide for doubtful debts at 5% on sundry debtors.

f) Goods costing Rs. 1,500 were used by the proprietor.

g) Salaries included Rs. 12,000 paid to sales representative who is further entitled to a commission of 5% on net sales.

h) Stationery charges Rs. 1,200 due on 31.3.2015.

i) Purchases included opening stock valued at cost Rs. 7,000.

j) Sales representative further entitled to an extra commission of 5% on net profit after charging his extra commission.

k) No depreciation need to be provided on Computer purchased on last day of the Financial Year.
Answer:

Mr. Ashok Kharel
Trading and Profit and Loss Account
For the year ended on 31 March 2015

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Opening Stock</td>
<td>7,000</td>
<td>By sales</td>
<td>60,720</td>
</tr>
<tr>
<td>To Purchases</td>
<td>6,4280</td>
<td>Less: Returns</td>
<td>1,000</td>
</tr>
<tr>
<td>Less: Returns</td>
<td>11,432</td>
<td>By Closing Stock</td>
<td>25,600</td>
</tr>
<tr>
<td></td>
<td>52,848</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Drawings</td>
<td>1,500</td>
<td></td>
<td>51,348</td>
</tr>
<tr>
<td>Wages</td>
<td>1,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Profit C/d</td>
<td>25,172</td>
<td></td>
<td>85,320</td>
</tr>
<tr>
<td>To Salaries</td>
<td>16,780</td>
<td></td>
<td>25,172</td>
</tr>
<tr>
<td>To Travelling Expenses</td>
<td>5,000</td>
<td>By Gross Profit b/d</td>
<td>22,000</td>
</tr>
<tr>
<td>To Sales Commissions (5% of 59,720)</td>
<td>2,986</td>
<td>By Discount</td>
<td></td>
</tr>
<tr>
<td>To Stationary Charges</td>
<td>1,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Rent</td>
<td>12,540</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Discount</td>
<td>540</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Trade Charges</td>
<td>920</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Depreciation of Furniture and Fittings @ 10 %</td>
<td>154</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Provision for Doubtful Debts</td>
<td>1,158</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Extra Commission on Salesman (5/105*5,894)</td>
<td>281</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net Profit</td>
<td>5,613</td>
<td></td>
<td>47,172</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>47,172</td>
</tr>
</tbody>
</table>

Balance Sheet of Mr. Ashok Kharel
As on 31 March 2015

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount (Rs.)</th>
<th>Assets</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Account</td>
<td>60,000</td>
<td>Computer</td>
<td>18,380</td>
</tr>
<tr>
<td>Less: Drawings</td>
<td>6,700</td>
<td>Furniture and Fittings</td>
<td>1,386</td>
</tr>
<tr>
<td></td>
<td>53,300</td>
<td>Stock in Trade</td>
<td>25,600</td>
</tr>
<tr>
<td>Add Net Profit</td>
<td>5,613</td>
<td>Bills Receivable</td>
<td>6,720</td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>13,000</td>
<td>Sundry Debtors</td>
<td>23,156</td>
</tr>
<tr>
<td>Bills Payable</td>
<td>4,220</td>
<td>Less: Provision for Doubtful Debts</td>
<td>1,158</td>
</tr>
<tr>
<td>Expenses Due:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission to Salesman</td>
<td>3,267</td>
<td>Cash in Hand</td>
<td>2,836</td>
</tr>
<tr>
<td>Rent</td>
<td>320</td>
<td>Cash at Bank</td>
<td>4,000</td>
</tr>
<tr>
<td>Stationary</td>
<td>1,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>80,920</td>
</tr>
</tbody>
</table>

Working Notes:
1. Sundry Debtors
   Sundry Debtors as per Trial Balance    34,156
   Less: Wrong Debit given to Green      6,000
   Less: Travelling Expenses wrongly Debited to Personal Accounts 5,000

CKQ
2. Net Profit before charging extra commission Rs. 47,172-41,278=Rs 5,894

2.

a) Ram and Laxman were operating a Partnership firm sharing profits and losses in the ratio of 5:3 respectively. The balance sheet of the firm as on 31st March 2015 was as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ram's Capital</td>
<td>205,000</td>
<td>Land and Building</td>
<td>190,000</td>
</tr>
<tr>
<td>Laxman's Capital</td>
<td>165,000</td>
<td>Plant and Machinery</td>
<td>85,000</td>
</tr>
<tr>
<td>P/L Appropriation A/C</td>
<td>56,000</td>
<td>Furniture</td>
<td>54,740</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>27,400</td>
<td>Stock</td>
<td>72,630</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Debtors</td>
<td>30,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank Balance</td>
<td>21,030</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>453,400</strong></td>
<td><strong>Total</strong></td>
<td><strong>453,400</strong></td>
</tr>
</tbody>
</table>

On 31st March 2015, Bharat was admitted on the following terms:
1) Bharat would get 1/5th share in the profits.
2) He would pay Rs.120,000 as capital and Rs. 16,000 for his share of goodwill.
3) In Bharat's admission, machinery would be depreciated by 10% and building would be appreciated by 30%. A provision for bad debts @5% on debtors would be created. An unrecorded liability amounting to Rs.3,000 for repairs to building would be recorded in the books of account.
4) Immediately after Bharat's admission, goodwill would be written off.
5) The capital accounts of the old partners would be adjusted through the necessary bank account in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation Account, Capital Accounts and the opening Balance Sheet of the new firm.

b) From the following information, prepare Branch Account showing the profit or loss of the branch for the year ending 31.3.2072.

<table>
<thead>
<tr>
<th></th>
<th>Opening stock at the branch</th>
<th>Goods sent to branch</th>
<th>Cash sales</th>
<th>Expenses met by the Head office</th>
<th>Salaries</th>
<th>Other expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>130,000</td>
<td>220,000</td>
<td>300,000</td>
<td></td>
<td>9,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Closing stock could not be ascertained, but it is known that the branch sells at cost plus 20%. The branch management entitled to a commission of 5% on the profit before charging such commission.
Answer:

a)  

### Revaluation Account

<table>
<thead>
<tr>
<th>To Plant and Machinery</th>
<th>8,500</th>
<th>By Land and Building</th>
<th>57,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Provision for Bad Debts</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Outstanding Repair Expenses</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Ram's Capital A/C (5/8&lt;sup&gt;th&lt;/sup&gt; Share)</td>
<td>27,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Laxman's Capital A/c (3/8&lt;sup&gt;th&lt;/sup&gt; Share)</td>
<td>16,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>57,000</strong></td>
<td><strong>57,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Capital Accounts of the Partners

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Ram</th>
<th>Laxman</th>
<th>Bharat</th>
<th>Particulars</th>
<th>Ram</th>
<th>Laxman</th>
<th>Bharat</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Ram's Cap.</td>
<td>-</td>
<td>-</td>
<td>10,000</td>
<td>By Balance b/d</td>
<td>205,000</td>
<td>165,000</td>
<td>-</td>
</tr>
<tr>
<td>To Laxman's Cap</td>
<td>-</td>
<td>-</td>
<td>6,000</td>
<td>By P/L Appropriation</td>
<td>35,000</td>
<td>21,000</td>
<td>-</td>
</tr>
<tr>
<td>To Bank A/C</td>
<td>-</td>
<td>28,500</td>
<td>-</td>
<td>By Rev. A/c</td>
<td>27,500</td>
<td>16,500</td>
<td>-</td>
</tr>
<tr>
<td>To Balance c/d</td>
<td>300,000</td>
<td>180,000</td>
<td>120,000</td>
<td>By Bank A/C</td>
<td>-</td>
<td>-</td>
<td>136,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>By Bharat's Cap. A/C</td>
<td>10,000</td>
<td>6,000</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>By Bank A/c</td>
<td>22,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>300,000</td>
<td>208,500</td>
<td>136,000</td>
<td><strong>Total</strong></td>
<td>300,000</td>
<td>208,500</td>
<td>136,000</td>
</tr>
</tbody>
</table>

### Balance Sheet

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount</th>
<th>Assets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ram's Capital A/c</td>
<td>300,000</td>
<td>Land and Building</td>
<td>247,000</td>
</tr>
<tr>
<td>Laxman's Capital A/c</td>
<td>180,000</td>
<td>Plant and Machinery</td>
<td>76,500</td>
</tr>
<tr>
<td>Bharat's Capital A/C</td>
<td>120,000</td>
<td>Furniture</td>
<td>54,740</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>27,400</td>
<td>Stock</td>
<td>72,630</td>
</tr>
<tr>
<td>Outstanding Repairs</td>
<td>3,000</td>
<td>Debtors</td>
<td>28,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank Balance</td>
<td>151,030</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>630,400</strong></td>
<td></td>
<td><strong>630,400</strong></td>
</tr>
</tbody>
</table>

**Working Notes:**

1. **Profit Sharing Ratio**
   - Bharat's Share = 1/5
   - Remaining Share = 1 - 1/5 = 4/5
   - Ram's share = 4/5 * 5/8 = ½
   - Laxman's share = 4/5 * 3/8 = 3/10

CKQ
New Profit Sharing Ratio = 5:3:2

2. Distribution of Goodwill:

Sacrificing Ratio

\[
\text{Ram} = \frac{5}{8} - \frac{1}{2} = \frac{5-4}{8} = \frac{1}{8} = \frac{5}{40}
\]

\[
\text{Laxman} = \frac{3}{8} - \frac{3}{10} = \frac{15-12}{40} = \frac{3}{40}
\]

Sacrificing Ratio of Ram and Laxman = 5:3

Ram = \(16,000 \times \frac{5}{8} = 10,000\)

Laxman = \(16,000 \times \frac{3}{8} = 6,000\)

3. New Capital Required:

Bharat's Capital = 120,000, therefore total capital of the firm = Rs.120,000*10/2 = Rs. 600,000

Ram's required capital = Rs.600,000*1/2 = Rs. 300,000

Laxman's required capital = Rs. 600,000*3/10 = Rs.180,000

Bank Balance = Rs. 136,000+21030+22500-28500 = Rs. 151,030

b)

In the books of Head Office

Branch Account

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Rs.</th>
<th>Date</th>
<th>Particulars</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>To, Balance b/d Stock</td>
<td>130,000</td>
<td>2008</td>
<td>By, Bank A/c Cash sales</td>
<td>300,000</td>
</tr>
<tr>
<td>Jan 1</td>
<td></td>
<td></td>
<td>Dec. 31</td>
<td>By, Balance c/d Stock (as per working note 1)</td>
<td>100,000</td>
</tr>
<tr>
<td>Dec 31</td>
<td>To, Goods sent to branch A/c</td>
<td>220,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To, Bank A/c Salaries</td>
<td>9,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other expenses</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To, Managers’s commission</td>
<td>1,800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(as per working note 2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To, General profit and loss A/c</td>
<td>34,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>400,000</td>
<td></td>
<td></td>
<td>400,000</td>
</tr>
</tbody>
</table>

1. Working Note: 1 Calculation of closing stock

Opening Stock 130,000
Goods sent to branch 220,000
Goods available for sale 350,000
Less: cost of goods sold (Rs. 300,000*100/120) 250,000
Closing Stock 100,000

2. Calculation of manager’s commission

Total Rs. 400,000
Less, Total cost before commission
(Rs. 350,000+9000+5000) 364,000
Profit before Commission 36,000
Commission @ 5% 1,800

3.

a) Hanuman Das Traders of Kathmandu purchased 10,000 pieces of Sarees @ Rs. 100 per Saree. Out of these Sarees, 6,000 Sarees were sent on consignment to Shrestha Traders of Nuwakot at the selling price of Rs. 120 per Saree. The consignors paid Rs. 3,000 for packaging and freight. Shrestha Traders sold 5,000 Sarees at Rs. 125 per Saree and incurred Rs. 1,000 for selling expenses and remitted Rs. 5,00,000 to Kathmandu on account. They are entitled to a commission of 5% on total sales plus a further 20% commission on any surplus price realised over Rs. 120 per Saree.

Owing to fall in market price, the value of stock of Sarees in hand is to be reduced by 10%.

Prepare the Consignment Account in the books of Hanuman Das Traders.

b) Differentiate between:

i) Meaning of shortworkings and their recoupment

ii) Del-credere Commission

Answer:

a) In the Books of Hanuman Das Traders

<table>
<thead>
<tr>
<th>Consignment Account</th>
<th>Rs.</th>
<th>Amount Rs.</th>
<th>R s.</th>
<th>Amount Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Goods Sent on Consignment (6000*120)</td>
<td></td>
<td>7,20,000</td>
<td>By Shrestha Traders (sales) (5000*125)</td>
<td>6,25,000</td>
</tr>
<tr>
<td>To Bank (expenses)</td>
<td></td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Shrestha Traders</td>
<td></td>
<td></td>
<td>By Consignment Loading (6000*20)</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Selling Expenses</td>
<td>1,000</td>
<td>37,250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission (5% of 625000, and 20% of (5*5000))</td>
<td>36,250</td>
<td>By stock on consignment ((1000<em>120) + (3000/6000</em>1000))*0.9</td>
<td>1,08,450</td>
<td></td>
</tr>
<tr>
<td>To stock reserve (1000<em>20</em>0.90)</td>
<td></td>
<td>18,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net Profit</td>
<td>75,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8,53,450</td>
<td></td>
<td></td>
<td>8,53,450</td>
</tr>
</tbody>
</table>
b)  

i) **Meaning of shortworkings and their recoupment**

The excess of minimum rent over actual royalties earned by the landlord is known as shortworkings. If the minimum rent, for instance, is Rs.100,000 per annum and royalty is Rs.10 per ton, then 10,000 tons must be produced for minimum rent to be covered. In case the production happens to be only 5,000 tons, the shortworkings would be Rs. 50,000.

In order to be just with the lessee, it is usually provided in a contract of royalty that the lessee will be entitled to recover the shortworkings from the landlord during periods when the actual royalty exceeds the minimum rent. Such right of recoupment may be a fixed or fluctuating.

ii) **Del-credere Commission**

To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. This additional commission when provided to the consignee gives a protection to the consignor against the bad debts. In other words, after providing the del-credere commission, bad debts are no more the loss of consignor. Bad debt will be borne by the consignee. It is calculated on total sales unless there is any agreement between the consignor and the consignee to provide it on credit sales only.