Example : The account balances of M/s XYZ as on 31.12.13 are as follows:

Purchases	1,62,505	Postage	4,226	Sales	2,52,600
Debtors	50,200	Power	1,350	Bad Debt Reserve	5,200
Opening Stock	26,725	Trade Expenses	5,831	Creditors	30,326
Wages	23,137	Bad debts	525	Bills Payable	3,950
Salaries	5,575	Cash	10,000	Outstanding wages	2,000
Furniture	7,250	Drawings	4,452	Outstanding salaries	700
				Capital	10,000

Loan to Ram @ 10% on 1.9.13 3,000

Prepare trading, P&L A/c and Balance Sheet considering the following:

1) Depreciation on furniture @ 10% p.a.
2) Bad debts ₹500 and provision for bad debt to be maintained is 5%.
3) Goods costing ₹1,500 destroyed by fire and insurance claim has been admitted for ₹1,000.
4) Closing stock as on 31.12.13 is ₹12,250.

Solution:

Trading and Profit &Loss Account

Dr. (for the year ending 31.12.2013) Cr.

Particular		₹	Particular	₹
To Opening Stock		26,725	By Sales	2,52,600
To Purchase	1,62,505		By Closing Stock	12,250
Less: Loss by Fire	1,500	1,61,005		
To Wages		23,137		
To Power		1,350		
To Gross Profit c/d		52,633		
		2,64,850		**2,64,850**
To Salary		5,575	By Gross Profit b/d	52,633
To Postage		4,226	By Bad Debts Reserve	5,200
To Trade Expenses		5,831	By Interest on Loan	100
To Bad Debts	525			
Add: New Bad Debts	500			
Add: Provision for Bad Debts	2,485	3,510		
To Depreciation on Furniture		725		
To Accidental Loss (1,500 – 1,000)		500		
To Net Profit		3,75,66		
		57,933		**57,933**

Balance Sheet

(as on 31st December 2013)

Liabilities		**₹**	**Assets**		**₹**
Capital	10,000		Cash		10,000
Add: Net Profit	3,75,66		Debtors	50,200	
			Less: Bad Debts	500	
	4,75,66			49,700	
Less: Drawing	4,452	43,114	**Less:** Provision for Bad Debts	2,485	47,215
Creditors		30,326	Furniture	7,250	
Bills Payable		3,950	**Less:** Depreciation @ 10%	725	
Outstanding Wages		2,000	Loan to Ram	3,000	6,525
Outstanding Salaries		700	**Add:** Accrued Interest (3,000 *10%*4/12)	100	3,100
			Closing Stock		12,250
			Insurance Claim		1,000
		80,090			**80,090**

Example 5: On 1.1.2010 a machine was purchased for ₹1,00,000. On 30.9.2012 a new machine was purchased for ₹20,000 installation expenses being ₹5,000.

Show the Machinery Account up to 31st Dec. 2013 assuming that the rate of depreciation was 10% on written down value method.

Solution:

In the books of ......

Machinery Account

Dr. | **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2010			2010		
1 Jan.	To Bank A/c	1,00,000	31 Dec.	By Depreciation A/c	10,000
				By Balance c/d	90,000
		1,00,000			**1,00,000**
2011			2011		
1 Jan.	To Balance b/d	90,000	31 Dec.	By Depreciation A/c	9,000
				By Balance c/d	81,000
		90,000			**90,000**
2012			2012		
1 Jan.	To Balance b/d	81,000	31 Dec.	By Depreciation A/c (8,100+ 625)	8,725
30 Sept.	To Bank A/c	20,000		By Balance c/d	97,275
	To Bank A/c (Installation expenses)	5,000			
		1,06,000			**1,06,000**
2013			2013		
1 Jan.	To Balance b/d	97,275	31 Dec.	By Depreciation A/c	9,728
				By Balance c/d	87,547
		97,275			**97,275**
2014					
1 Jan.	To Balance b/d	87,547			

Example 6: On 1st January 2012, X Ltd. purchased a second-hand machine for ₹58,000 and spent ₹2,000 on its erection. On 1st July 2014, this machine was sold for ₹28,600.

Required: Prepare the machinery account of the first 3 years according to the written down value taking the rate of depreciation at 10% p.a.

Illustration 9 :

From the following information, prepare a Stores Ledger under (a) Simple Average Method and (b) Weighted Average Method.

Date	Units	Price
Receipts :		₹
2.3.11	200	2.00
10.3.11	300	2.40
18.3.11	250	2.60
Issues :		
15.3.11	250	
20.3.11	300	

(a) Simple Average Method

Date	*Receipts*			*Issues*			*Balance*	
	Quantity	*Unit cost*	*Total cost*	*Quantity*	*Unit cost*	*Total cost*	*Quantity*	*Total cost*
		₹	₹		₹	₹		₹
March 2	200	2.00	400	–	–	–	200	400
March 10	300	2.40	720	–	–	–	500	1,120
March 15	–	–	–	250	2.20	550	250	570
March 18	250	2.60	650	–	–	–	500	1,220
March 20	–	–	–	300	2.50	750	200	470

March 15th :Issue price : (2 + 2.40)/2 = ₹ 2.20

March 20 th Issue price : (2.40 + 2.60)/2 = ₹ 2.50

b) Weighted Average Method

Date	*Receipts*			*Issues*			*Balance*		
	Quantity	*Unit cost*	*Total cost*	*Quantity*	*Unit cost*	*Total cost*	*Quantity*	*Unit cost*	*Total cost*
		₹	₹		₹	₹		₹	₹
March 2	200	2.00	400	–	–	–	200	2.00	400
March 10	300	2.40	720	–	–	–	500	2.24	1,120
March 15	–	–	–	250	2.24	560	250	2.24	560
March 18	250	2.60	650	–	–	–	500	2.42	1,210
March 20	–	–	–	300	2.42	726	200	2.42	484

Dr | | | Cr

Particulars	Amount	Particulars	Amount
To opening stock	40,000	By sales	2,00,000
To purchases	1,00,000	By closing stock	20,000
To gross profit	80,000		
Total	2,20,000		2,20,000
To Administrative Expenses	15,000	By gross profit	80,000
To selling Expenses	20,000		
To Financial Expenses	5,000		
To Non-operating Expenses	10,000		
To Net profit	30,000		
Total	80,000		80,000

calculate i) gross profit Ratio.

ii) Net profit Ratio.

iii) operating Ratio.

iv) Operating profit Ratio.

v) cost of goods sold Ratio

vi) Administrative Expenses Ratio.

vii) Financial Ratio.

1. Gross profit Ratio $= \frac{\text{Gross profit}}{\text{Net sales}} \times 100.$

$= \frac{80,000}{2,0,00,00} \times 100$

$= 40\%.$

2. Net profit Ratio $= \frac{\text{Net profit}}{\text{Net sales}} \times 100$

$= \frac{30,000}{2,00,000} \times 100$

$= 15\%$

3. Operating Ratio $= \frac{\text{cost of goods sold} + \text{operating Expenses}}{\text{Net sales}} \times 100.$

$= \frac{2,00,000 - 80,000 = 12,0000 + 15,000 + 20,000 + 5,000}{200000} \times 100$

$= 80\%.$

4. operating profit Ratio $= \frac{\text{O.P}}{\text{Net sales}} \times 100.$

O.P.R = Net sales − cost of goods sold + Admin. Exp + selling and distribution + Financial Expenses.

$= 200000 - 120000 + 15,000 + 20,000 + 5000$

$= 200000 - 160000$

$= 40,000.$

$= \frac{40,000}{2,00000} \times 100$

$= 20\%$

O.P.R = 100 − operating Ratio.

$= 100 - 80$

$= 20\%$

5) cost of good sold Ratio = $\frac{\text{cost good sold Ratio}}{\text{Net sales}} \times 100.$

$= \frac{2,00,000 - 80,000}{2,00,000}$

$= \frac{1,20,000}{2,00,000} \times 100$

$= 60\%$

6) Administrative Expenses Ratio

$= \frac{\text{A.d Expenses}}{\text{Net sales}} \times 100.$

$= \frac{15000}{200000} \times 100$

$= 7.5\%$

7) Financial Ratio = $\frac{\text{Financial Expenses}}{\text{Net sales}} \times 100.$

$= \frac{5000}{200000} \times 100$

Selling Expenses Ratio $= \frac{\text{Selling Expenses}}{\text{Net sales}} \times 100$

$= \frac{20000}{200000} \times 100$

$= 10\%.$

2) P, Q, R corporation has Earnings before Interest and tax. Rs 10,00,000, total Assests Rs 45,00,000 and current liabilities of Rs 1,00,000. calculate Return on capital Employed.

Returns on capital Employed =

$$\frac{\text{Net Income before Interest and tax}}{\text{capital Employed.}}$$

capital Employed = G.C − current liabilities.

= 45,00,000 − 1,00,000

= 44,00,000.

R.O.C.E $= \frac{1,0,00000}{44,00,000} \times 100$

$= 22.72\%.$

3) calculate Return on share holders Funds.

particulars	Amount
I A) Net profit after Interest and tax	4,40,000.
B) less: preference divident $(1,00,000 \times \frac{18}{100})$	(−) 18,000
	4,22,000

Illustration 5 :

Prepare a Funds Flow Statement from the following information.

Comparative Balance Sheet

	31-03-08 ₹	31-03-09 ₹		31-03-08 ₹	31-03-09 ₹
Capital	80,000	1,00,000			
Reserves	30,000	45,000	Fixed Assets:		
Accumulated Depreciation on Machinery	10,000	15,000	Machinery	60,000	70,000
			Furniture	40,000	40,000
Current Liabilities:			Current Assets:		
Creditors	25,000	30,000	Stocks	20,000	30,000
Bills Payable	10,000	2,000	Debtors	15,000	25,000
Expenses Payable	20,000	8,000	Cash	40,000	35,000
	1,75,000	2,00,000		1,75,000	2,00,000

Net profit for the year ₹ 15,000.

Solution :

Schedule of Changes in Working Capital

	31-03-08 ₹	31-03-09 ₹	*Changes in Working Capital* Increase (₹)	Decrease (₹)
Current Assets:				
Stocks	20,000	30,000	10,000	----
Debtors	15,000	25,000	10,000	----
Cash	40,000	35,000	----	5,000
Current liabilities:				
Creditors	25,000	30,000	----	5,000
Bills Payable	10,000	2,000	8,000	----
Expenses Payable	20,000	8,000	12,000	----
			40,000	10,000
Increase in Working Capital			—	30,000
			40,000	40,000

Accumulated Depreciation Account

Dr.	₹		Cr. ₹
To Balance c/d	15,000	By Balance b/d	10,000
		By Depreciation Charged (Balancing Figure)	5,000
	15,000		15,000

Machinery Account

Dr.	₹		Cr. ₹
To Balance b/d	60,000	By Balance c/d	70,000
To Cash Purchases (Balancing Figure)	10,000		
	70,000		70,000

Share Capital Account

Dr.	₹		Cr. ₹
To Balance c/d	1,00,000	By Balance b/d	80,000
		By Cash (Balancing Figure)	20,000
	1,00,000		1,00,000

Reserves Account

Dr.	₹		Cr. ₹
To Balance c/d	45,000	By Balance b/d	30,000
		By Net Profit	15,000
	45,000		45,000

Funds from Operations

	₹
Net Profit	15,000
Add: Depreciation Charged	5,000
Funds from Operations	20,000

Funds Flow Statement for the year ended 31-03-2009

	₹
A. Sources :	
Funds from Operations	20,000
Issue of Share Capital	20,000
	40,000
B. Applications :	
Purchase of Machinery	10,000
Increase in Working Capital	30,000
	40,000

Illustration 7 :

From the following Balance Sheets, prepare Funds Flow Statement.

Comparative Balance Sheet

	31-03-08 ₹	31-03-09 ₹		31-03-08 ₹	31-03-09 ₹
Share capital	90,000	1,10,000	Land	80,000	1,00,000
Profit and Loss A/c	80,000	95,000	Plant and Machinery	40,000	66,000
General Reserve	40,000	50,000	**Current Assets :**		
Current Liabilities :			Stocks	40,000	60,000
Creditors	51,000	25,000	Debtors	40,000	35,000
Provision for Doubtful			Cash	50,000	20,000
Debts	4,000	2,000	Preliminary Expenses	25,000	15,000
Bills Payable	20,000	18,000	Discount on Issue of Shares	10,000	4,000
	2,85,000	3,00,000		2,85,000	3,00,000

Solution :

Schedule of Changes in Working Capital

	31-03-08 ₹	31-03-09 ₹	Changes in Working Capital Increase (₹)	Decrease (₹)
Current Assets:				
Stocks	40,000	60,000	20,000	--
Debtors	40,000	35,000	--	5,000
Cash	50,000	20,000	--	30,000
Current Liabilities:				
Creditors	51,000	25,000	26,000	--
Provision for Doubtful Debts	4,000	2,000	2,000	--
Bills Payable	20,000	18,000	2,000	--
			50,000	35,000
Increase in Working Capital			--	15,000
			50,000	50,000

Dr. Land Account Cr.

	₹		₹
To Balance b/d	80,000	By Balance c/d	1,00,000
To Bank (Balancing Figure)	20,000		
	1,00,000		1,00,000