

Chapter 9

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

| | Rs. | | Rs. |
|----------------------|--------------------|----------------------|--------------------|
| To Opening stock | 9,15,000 | By Sales: Cash | |
| | | 1,10,70,000 | |
| To Purchases (W.N.5) | 1,27,02,750 | Credit (W.N.2) | 1,40,47,500 |
| | | <u>29,77,500</u> | |
| To Gross profit | <u>14,04,750</u> | By Closing stock | <u>9,75,000</u> |
| | <u>1,50,22,500</u> | | <u>1,50,22,500</u> |
| To Expenses (W.N.6) | 8,71,050 | By Gross profit | 14,04,750 |
| To Discount allowed | 54,000 | By Discount received | 42,000 |
| To Depreciation | 22,500 | | |
| To Net profit | <u>4,99,200</u> | | |
| | <u>14,46,750</u> | | <u>14,46,750</u> |

**Balance Sheet of Mr. Y
as on 31st March, 2007**

| | Rs. | | Rs. |
|----------------------|------------------|--------------------|------------------|
| <i>Liabilities</i> | | <i>Assets</i> | |
| Capital | | Fixed assets | 2,25,000 |
| 4,50,000 | | | |
| Add: Net profit | <u>4,99,200</u> | Less: Depreciation | <u>22,500</u> |
| | | Stock | 9,75,000 |
| 9,49,200 | | | |
| Less: Drawings | 5,89,200 | Debtors | 2,28,000 |
| <u>3,60,000</u> | | | |
| Bills payable | 2,10,000 | Bills receivable | 2,10,000 |
| Creditors | 10,02,750 | Prepaid insurance | 3,000 |
| Outstanding expenses | <u>7,500</u> | Cash on hand/bank | <u>1,90,950</u> |
| | <u>18,09,450</u> | | <u>18,09,450</u> |

Working Notes:

1.

Bills Receivable Account

| | | | | | |
|----|-------------|-----------------|----|----------------------------|-----------------|
| To | Balance b/f | 90,000 | By | Cash (Balancing figure) | 5,10,000 |
| To | Debtors | 6,52,500 | By | Creditors (Bills endorsed) | 22,500 |
| | | | By | Balance c/f | <u>2,10,000</u> |
| | | <u>7,42,500</u> | | | <u>7,42,500</u> |

2.

Debtors Account

| | | Rs. | | | Rs. |
|----|------------------------------------|------------------|----|------------------|------------------|
| To | Balance b/f | 2,22,000 | By | Cash/Bank | 22,65,000 |
| To | Credit Sales (Balancing figure) | 29,77,500 | By | Discount allowed | 54,000 |
| | | | By | Bills receivable | 6,52,500 |
| | | | By | Balance c/f | <u>2,28,000</u> |
| | | <u>31,99,500</u> | | | <u>31,99,500</u> |

3.

Bills Payable Account

| | | | | | |
|----|-------------|------------------|----|-----------------------------|------------------|
| To | Bank | 12,22,500 | By | Balance b/f | 1,87,500 |
| To | Balance c/f | <u>2,10,000</u> | By | Creditor (Balancing figure) | <u>12,45,000</u> |
| | | <u>14,32,500</u> | | | <u>14,32,500</u> |

4.

Creditors Account

| | | | | | |
|----|-----------------------------------|--------------------|----|-------------|--------------------|
| To | Cash/Bank | 1,12,60,500 | By | Balance b/f | 8,70,000 |
| To | Discount | 42,000 | By | Purchases | 1,27,02,750 |
| To | B/R endorsed | 22,500 | | | |
| To | B/P | 12,45,000 | | | |
| To | Balance c/f (Balancing figure) | <u>10,02,750</u> | | | |
| | | <u>1,35,72,750</u> | | | <u>1,35,72,750</u> |

5.

Stock Account

| | | | | | |
|----|---------------------------------|--------------------|----|-------------------------|--------------------|
| To | Balance b/f | 9,15,000 | By | Cost of goods sold | 1,26,42,750 |
| To | Purchases (Balancing figure) | <u>1,27,02,750</u> | | (Rs. 1,40,47,500 x 90%) | |
| | | <u>1,36,17,750</u> | By | Balance c/d | <u>9,75,000</u> |
| | | | | | <u>1,36,17,750</u> |

6. **Expenses for the year ended 31st March, 2007**

| | Rs. |
|---|--------------|
| Expenses paid during the year | 9,31,050 |
| Add: Outstanding expenses as on 31.3.2007 | <u>7,500</u> |

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

Question 2

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 | <u>40,000</u> |
| | 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

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)

Answer

| | | |
|---|---|--------------------|
| (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%)

Question 4

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)

Answer

| | | |
|--|---|---------------------|
| (ii) Debtors as on 31.3.2008 | = | Rs.1,40,000 |
| Credit period allowed | = | 2 months |
| i.e. Debtors as on 31.3.2008 is standing for credit sales of February and March 2008 | | |
| Credit sales per month | = | Rs.1,40,000/2 |
| | = | Rs.70,000 |
| Credit sales for the year 2007-2008 | = | Rs.70,000 × 12 |
| | = | Rs.8,40,000 |
| Add: Cash sales $8,40,000 \times \frac{25}{75}$ | = | <u>Rs.2,80,000</u> |
| Total sales of the company for the year ended 31.3.2008 | | <u>Rs.11,20,000</u> |
| (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 | Dr. | 12,000 | |
| To Provision for doubtful debts | | | 12,000 |
| (Being additional provision on doubtful debts maintained @ 10%) | | | |

Question 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 |
| Creditors | --- | 46,000 |

| | | |
|--------------|--------|--------|
| Stock | 50,000 | 62,500 |
| Fixed assets | 7,500 | 9,000 |

The following are the details of the bank transactions:

| | |
|--------------------------|----------|
| | Rs. |
| Receipt from customers | 3,40,000 |
| Payments to creditors | 2,80,000 |
| Capital brought in | 5,000 |
| Sale of fixed assets | 1,750 |
| Expenses paid | 49,250 |
| Drawings | 25,000 |
| Purchase of fixed assets | 5,000 |

Other information:

| | |
|---|-------------|
| (i) Cost of goods sold | Rs.2,60,000 |
| (ii) Gross profit 25% on cost of goods sold | |
| (iii) 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
for the year ended 31.12.2007**

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

Balance Sheet as at 31.12.2007

| <i>Liabilities</i> | <i>Rs.</i> | <i>Rs.</i> | <i>Assets</i> | <i>Rs.</i> |
|------------------------|---------------|-----------------|---------------|-----------------|
| Capital as on 1.1.2007 | 1,69,000 | | Fixed Assets | 9,000 |
| <i>Add:</i> Net profit | 14,000 | | Debtors | 87,500 |
| Additional capital | <u>5,000</u> | | Stock | 62,500 |
| | 1,88,000 | | Bank | 50,000 |
| <i>Less:</i> Drawings | <u>25,000</u> | 1,63,000 | | |
| Creditors | | <u>46,000</u> | | |
| | | <u>2,09,000</u> | | <u>2,09,000</u> |

Working Notes:

1.

Balance Sheet as at 1.1.2007

| <i>Liabilities</i> | <i>Rs.</i> | <i>Assets</i> | <i>Rs.</i> |
|---------------------|------------|---------------|-----------------|
| Capital (Bal. Fig.) | 1,69,000 | Fixed Assets | 7,500 |
| Creditors | 53,500 | Debtors | 1,02,500 |
| | | Stock | 50,000 |
| | | Bank Balance | <u>62,500</u> |
| | | | <u>2,22,500</u> |
| | | | <u>2,22,500</u> |

2.

Bank account

| <i>Dr.</i> | <i>Rs.</i> | <i>Cr.</i> | <i>Rs.</i> |
|----------------------------|-----------------|-----------------------------|-----------------|
| To Balance b/d (Bal. Fig.) | 62,500 | By Creditors | 2,80,000 |
| To Debtors | 3,40,000 | By Expenses | 49,250 |
| To Capital | 5,000 | By Drawings | 25,000 |
| To Fixed Assets | 1,750 | By Fixed Assets (purchased) | 5,000 |
| | | By Balance c/d | <u>50,000</u> |
| | <u>4,09,250</u> | | <u>4,09,250</u> |

3.

Debtors account

| <i>Dr.</i> | <i>Rs.</i> | <i>Cr.</i> | <i>Rs.</i> |
|----------------------------|-----------------|----------------|-----------------|
| To Balance b/d (Bal. Fig.) | 1,02,500 | By Bank | 3,40,000 |
| To Sales (W.N.8) | <u>3,25,000</u> | By Balance c/d | <u>87,500</u> |
| | <u>4,27,500</u> | | <u>4,27,500</u> |

4. Creditors account

| Dr. | Rs. | By | Rs. | Cr. |
|----------------|-----------------|----------------------------|-----|-----------------|
| To Bank | 2,80,000 | By Balance b/d (Bal. Fig.) | | 53,500 |
| To Balance c/d | <u>46,000</u> | By Purchases (W.N.7) | | <u>2,72,500</u> |
| | <u>3,26,000</u> | | | <u>3,26,000</u> |

5. Fixed Assets account

| Dr. | Rs. | By | Rs. | Cr. |
|----------------|-----------------|---------------------------------------|-----|---------------|
| To Balance b/d | 7,500 | By Bank (Sale) | | 1,750 |
| To Bank | 5,000 | By Profit and Loss A/c (loss on sale) | | 750 |
| | | By Depreciation (Bal. Fig.) | | 1,000 |
| | <u> </u> | By Balance c/d | | <u>9,000</u> |
| | <u>12,500</u> | | | <u>12,500</u> |

6. Gross Profit = Rs.2,60,000 x 25% = Rs. 65,000.

7. Cost of goods sold = Opening stock + Purchases – Closing stock

$$\text{Rs. } 2,60,000 = \text{Rs. } 50,000 + \text{Purchases} - \text{Rs. } 62,500$$

$$\text{Purchases} = \text{Rs. } 2,72,500.$$

8. Sales = Cost of goods sold + gross profit

$$= \text{Rs. } 2,60,000 + \text{Rs. } 65,000$$

$$= \text{Rs. } 3,25,000.$$

Question 6

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

| 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. |
|----|--|------------------|----|------------------|------------------|
| To | Opening stock | 80,000 | By | Sales (W.N.2) | |
| To | Purchases (W.N.1) | 7,20,000 | | Cash | 3,60,000 |
| To | Gross profit | 10,80,000 | | Credit | 18,00,000 |
| | | | | <u>14,40,000</u> | |
| | | <u>18,80,000</u> | By | Closing stock | <u>80,000</u> |
| | | | | | <u>18,80,000</u> |
| To | Expenses | 5,00,000 | By | Gross profit | 10,80,000 |
| To | Loss of cash by fire | 20,000 | | | |
| To | Depreciation | 74,000 | | | |
| To | Net profit transferred 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

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

$$\begin{aligned}
 \text{Creditors} &= \text{Previous year creditors} + 20\% \text{ increase} \\
 &= 1,00,000 + 20,000 \\
 &= \text{Rs. } 1,20,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Credit purchases} &= \text{Creditors at the end} \times \frac{12}{2} \\
 &= 1,20,000 \times \frac{12}{2} = \text{Rs. } 7,20,000
 \end{aligned}$$

(2) Calculation of Debtors as 31.3.2009 and Cash and Credit Sales for 2008-2009

$$\begin{aligned}
 \text{Debtors on 31.3.2009} &= \text{Debtors on 31.3.2008} + 20\% \text{ Increase} \\
 &= 1,00,000 + 20,000 \\
 &= \text{Rs. } 1,20,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Credit sales for 2008-2009} &= \text{Debtors at the end (i.e. one month credit)} \times 12 \\
 &= \text{Rs. } 1,20,000 \times 12 = \text{Rs. } 14,40,000
 \end{aligned}$$

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

$$\begin{aligned}
 \text{Cash sales} &= \text{Total sales} - \text{Credit sales} \\
 &= \text{Rs. } 18,00,000 - \text{Rs. } 14,40,000 \\
 &= \text{Rs. } 3,60,000
 \end{aligned}$$

(3) Cash and Bank Balance as on 31.3.2009

$$\text{Current ratio} = 2$$

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

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. |
|------------------------|-----------------|----------------------------|-----------------|
| To Balance b/d | 10,000 | By Creditors A/c | 1,00,000 |
| To Sales A/c | 3,60,000 | By Bank A/c | 2,40,000 |
| To Debtors A/c (W.N.6) | 2,40,000 | By Expenses A/c | 2,50,000 |
| | | (5,00,000 – 2,50,000) | |
| | | By Loss by fire (Bal.fig.) | <u>20,000</u> |
| | <u>6,10,000</u> | | <u>6,10,000</u> |

(5) **Bank Account**

| | Rs. | | Rs. |
|----------------|------------------|--------------------------|------------------|
| To Balance b/d | 20,000 | By Creditors A/c (W.N.7) | 6,00,000 |
| To Debtors A/c | 11,80,000 | By Fixed assets A/c | 4,50,000 |
| To Cash A/c | 2,40,000 | By Drawings | 1,00,000 |
| | | By Expenses (Bal. fig.) | 2,50,000 |
| | | By Balance c/d | <u>40,000</u> |
| | <u>14,40,000</u> | | <u>14,40,000</u> |

(6) **Debtors Account**

| | Rs. | | Rs. |
|----------------|------------------|---------------------|-----------------------------|
| To Balance b/d | 1,00,000 | By Bank | 11,80,000 |
| To Sales | 14,40,000 | By Cash (Bal. Fig.) | 2,40,000 |
| | | By Balance c/d | <u>1,20,000¹</u> |
| | <u>15,40,000</u> | | <u>15,40,000</u> |

(7) **Creditors Account**

| | Rs. | | Rs. |
|---------------------|-----------------------------|------------------|-------------------|
| To Cash A/c | 1,00,000 | By Balance b/d | 1,00,000 |
| To Bank (Bal. fig.) | 6,00,000 | By Purchases A/c | 7,20,000 |
| To Balance c/d | <u>1,20,000²</u> | | <u> </u> |

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

8,20,000

8,20,000

Question 7

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. |
|---|--------------------|
| Capital at the end of the year | 25,00,000 |
| Add: Drawings | <u>2,00,000</u> |
| | 27,00,000 |
| Less: Additional capital introduced during the year | <u>(1,00,000)</u> |
| | 26,00,000 |
| Less: Capital at the beginning of the year | <u>(20,00,000)</u> |
| Profit earned during the year | <u>6,00,000</u> |

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:

$$\begin{aligned}\text{Cost of goods sold} &= \text{Sales} - \text{Gross Profit} \\ &= \text{Rs.2,10,000} - \left(\text{Rs.2,10,000} \times \frac{25}{125} \right) \\ &= \text{Rs.1,68,000} \\ \text{Closing stock} &= \text{Opening Stock} + \text{Purchases} - \text{Cost of goods sold} \\ &= \text{Rs.30,000} + \text{Rs.1,70,000} - \text{Rs.1,68,000} \\ &= \text{Rs.32,000}\end{aligned}$$