ILLUSTRATION 5 : M/s Khilona & Khilona

Trial Balance

(Amount in Rs.)

Particulars	Debit Amount	Credit Amount
Cash	86000	
Bank (refer assumption 4)	142800	
Accounts Receivable (refer note 4)	54000	
Lease Rent	62000	
Advance Lease Rent	62000	
Warehouse	72000	
Electricity expenses	15000	
Telephone bill (refer Assumption 3)	14400	
Depreciation (refer Note 2)	8000	
Interest on loan (refer Assumption 1)	15000	
Purchases	100000	
Loan Repayment (refer assumption 2)	30000	
Share Capital		280000
Bank Loan		150000
Accounts Payable (refer note 3)		50000
Outstanding telephone bill		1200
Sales		180000
Total Balances	661200	661200

Closing Stock = Rs. 25000

In the books of M/s Khilona & Khilona

Dr **Profit and Loss A/c** Cr

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Purchases	100000	By Sales	180000
To Gross Profit - balancing figure	105000	By Closing Stock	25000
	205000		205000
To lease rent	62000	By Gross Profit	105000
To interest paid	15000	By Net loss - balancing figure	9400
To electricity charges	15000		
To depreciation on warehouse	8000		
To telephone bill charges	14400		
	114400		114400

In the books of M/s Khilona & Khilona

Balance Sheet

Liabilities	Amount(Rs.)	Assets	Amount(Rs.)
Capital	280000	<u>Fixed Assets</u>	
		Warehouse	72000
<u>Non Current Liabilites</u>			
Bank Loan	120000	<u>Current Assets</u>	
		Inventory	25000
<u>Current Liabilites</u>		Accounts Payable	54000
Accounts Payable	50000	Cash	86000
Outstanding telephone bill	1200	Bank	142800
		Prepaid Expense (Advance lease)	62000
		Profit and Loss A/c (Debit balance)	9400
	451200		451200

<u>Assumptions :</u>

1. It has been assumed that the interest of Rs. 15000 (10% on the bank loan of Rs. 150000) has been paid.
2. It has been assumed that the first installment of the repayment of bank loan , that is Rs. 30000 (Rs. 150000/5) has been paid.
3. It has been assumed that the telephone bill for the first 11 months was Rs. 1200 per month (on an average) and has been paid.
4. It has been assumed that cash in excess of Rs. 86000 has been transferred to the bank account
5. Lease rent paid for the next year has been shown as an advance payment, thus a prepaid expense.

<u>Notes:</u>

1. Tax has been ignored , moreover , the entity is anyway into losses.
2. Depreciation Calculation is done using Straight Line Method
   Annual Depreciation = (Cost - Scrap value(if any))/ Estimated useful life
   Therefore, Depreciation = 80000/10 = Rs. 8000
3. Accounts Payable = 50 % of Purchases of Rs. 100000 = Rs. 50000
4. Accounts Receivable = 30% of Sales of Rs. 180000 = Rs. 54000

Dr **Cash and Bank A/c** Cr

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Capital	280000	By lease	62000
To Bank Loan	150000	By advance lease payment	62000
To Sales	126000	By Warehouse	80000
		By Creditors	50000
		By Telephone bill paid	13200
		By Electricity expenses	15000
		By Interest payment	15000
		By Bank Loan (repayment)	30000
		By Balance C/d	228800
	556000		556000

Answers to the multiple choice questions:

1.Calculation of Gross profit Margin:

[(Sales - Cost of Goods Sold)/sales] * 100. Where, gross profit = sales - Cost of goods sold

In the given Case,

Sales = Rs. 180000

Cost of goods sold = Rs. 75000

Thus gross profit = 180000 - 75000 = Rs. 105000

Gross Profit Margin = (105000/180000)*100 = 58.333%

Thus, the gross profit margin is positive and more than 50 %

Answer : Option (c)

2. . As per the above Calculations, refering to the Profit & Loss A/c, it can be clearly seen, that the net income of the firm is negative.

Thus, M/s Khilona & Khilona is into losses, with a **Net Loss of Rs. 9400**

Answer : Option (a)

3. Refering to the Balance Sheet, the biggest constituent of assets seem to be Cash and Bank Balance, thus **None of the above**.

Answer: Option (d)

4. Since the firm is running into losses, and has a loss of Rs. 9400 this year, it cannot pay a dividend as of now.

Answer : Option (d)

5.Condition : Rs. 14000 worth of Accounts Receivables found to be bad debt
Now, Accounts Receivable (AR) = Rs. 54000 - Rs. 14000 = Rs. 40000
Accounts Payable (AP) = Rs. 50000
Prepaid Rent (PR) = Rs. 62000
Inventory (I)= Rs. 25000
Evalutating all the options:

Option (a) LHS = AR= Rs. 40000 RHS= AP = Rs. 50000	FALSE
Option (b) LHS = AR + PR = Rs. 102000 RHS = AP = Rs. 50000	FALSE
Otpion (c) LHS = AR+ PR+ I = Rs. 127000 RHS = AP = Rs. 50000	FALSE

Thus, by elimination of the above options, none of the above is the answer

Answer : Option (d)

ILLUSTRATION 6.

Tanmoy Chatterjee's Coconut Business

Answers to the multiple choice questions:

1 Since it is a new Company, Opening Stock = Nil
Purchases = Rs. 82500 (as per Trial Balance)
Sales = Rs. 75800 (as per Trial Balance)
Closing Stock = Rs. 135000 (given)

It can be noticed that the Closing stock is more than the purchase of stock; therefore this is an ambiguous situation, without any clear explanation for the same.
Either the information is insufficient and the Company must have purchased more stock, and the same has not been recorded in the books, or there has been a mistake in calculation of the Closing stock.

Thus, the answer could be either option (c) or option (d).
However, it is better to have "**none of the above**" as an answer, as there might be other reasons for the anomaly and the excess of closing stock over puchases.

Answer: Option (d)

2. Due to the lack of sufficient data and the huge amount of ambiguity and uncertainty surrounding the information provided, the net profit/ loss cannot be arrived at.

And thus the Capital Account balance cannot be reached.
Thus, "**Insufficient Information**" is the best answer here.

Answer: Option (d)

3 Calculation of Sundry Debtors

	Rs.
Sundry Debtors (From trial Balance)	143000

Less : Goods sent on approval basis (not yet acknowledged)	(Rs. 2200)
	Rs.
Sundry Debtors	140800
Sundry Creditors	Rs. 27000

Thus, Clearly, Options (a), (b) and (c) do not hold true.

Answer: Option (d)

4 Calculation of Depreciation on Furniture till 30.06.2010

Date of purchase	March 5, 2010
Useful Life	4 years
	Rs.
Cost	20000
Scrap Value	Nil
Days of use	117

The straight line method of depreciation calculation has been used, and proportionate depreciation should be allotted as per matching concept

Depreciation = (20000/4) * (117/365) **1602.7397**

Net fixed Asset = Rs. 20000 - Rs. 1602.7397 **18397.26**

The first instalment of Mrs. Chatterjee's Loan is assumed to be falling for payment on July 1, 2010 (not 2009, as per the information as the Company started business in 2010)

Therefore, **Mrs. Chatterjee's Loan Balance** remains Rs. **160000**

Clearly, Net Fixed Assets < Mrs. Chatterjee's Loan Balance

Answer : Option (c)

5 Cash (as per trial balance) 4000

Net Fixed Assets 18397.26

Clearly, Net Fixed Assets > Cash Balance

Answer : Option (b)

List of Non Cash Items in the Profit & loss A/c of Birla Shloka

1 **Depreciation and Amortisation Expense of Rs. 69,603,099**

Comments:

(i) The presence of such a high value of depreciation is due to the huge number of assets, both tangible and intangible, commensurate with the high scale of operations of the Company.

(ii) Depreciation on Tangible Assets is provided on the Written down Value Method

(iii) Intangible assets are amortized over their respective individual estimated useful lives on the basis of Future Economic Benefits

(iv) Depreciation doesn't involve any outflow of cash. Keeping the matching concept in mind, the depreciation amount is distributed among the years of use.

2 **Deferred Tax of Rs. 474,342**

(i) Deferred tax is the balance between the tax calculated as per Income Tax Act and the tax calculated as per Companies Act.
(ii) Thus, deferred tax accounts for the difference in the tax calculations and the same is subsequently adjusted.
(iii) It's just a provision and no outflow of cash takes place here.

3 **Loss on Assets written off**

Loss on assets are non- cash expenses , which are written off in the Profit & Loss A/c., due to either changes in the market value or permanent diminution in the value of the asset.