

Principle of Accounting 438-2nd Autumn 2016

B.Com

Q No 1: From the following particulars prepare a three column cash book.

Date	Details
2015 December	
1.	Cash in hand Rs. 15,000 and at bank Rs. 70,000.
2.	Received from Rameez Rs. 9,900 discount allowed Rs. 100.
8.	Deposited into the bank Rs. 5,000.
15.	Purchased goods for Rs. 25,000 and paid by cheque.
18.	Sold goods to Amir on credit Rs. 7,000.
19.	Paid Saleem Rs. 9,800 by cheque, discount received Rs. 200.
20.	Paid telephone charges Rs. 1,600.
25.	Purchased goods for cash Rs. 4,000.
29.	Stationary purchased for cash Rs. 1,500.

Solution:

Date	Details	Cash	Bank	Dis	Date	Details	Cash	Bank	Dis
1.	Balance (b/d)	15,000	70,000		15.	Purchase A/c			
2.	Rameez A/c	9,900			19.	Saleem A/c		25,000	
8.	Bank A/c		5,000	100	20.	Telephone A/c		9,800	200
18.	Amir A/c	7,000			25.	Purchase A/c	1,600		
					29.	Stationary A/c	4,000		
						Balance (c/d)	1,500		
							24,800	40,200	
		31,900	75,000	100			31,900	75,000	200

Q No 2:

i) Define partnership. Explain kinds of partners in partnership business.

Answer (a): Partnership

A partnership is an arrangement in which two or more individuals share the profits and liabilities of a business venture. Various arrangements are possible: all partners might share liabilities and profits equally, or some partners may have limited liability. Not every partner is necessarily involved in the management and day-to-day operations of the venture. In some jurisdictions, partnerships enjoy favorable tax treatment relative to corporations.

Kinds of Partners

There are three types of partner in a firm which are given below:-

1. General partners.
2. Special partners.
3. Other partners.

1. General Partners: The liability of those partners in the business which are unlimited is called General partners. There are two types.

1. Active Partner
2. Sleeping Partner
- 1) **Active partner:** – The partner in the business who is taking practically part in the business affairs of management is called Active partner.
- 2) **Sleeping Partner:** – The partner who has contributed his capital in the business as well as shares every profit and loss but not interested in the business affairs of management of a firm is called as Sleeping partner.
- 3) **Special Partners:** The partner who has contributes his capital in the business but his liability is fixed to the extent of his capital is called as Special partner. They only exist in the limited partnership.
- 4) **Other Partners:** The other forms of partners in a business are as given below:-
 - Secret partner.
 - Nominal partner.
 - Minor partner
 - Partner in profit.

Secret Partner: – The partner who is unknown to the general public but practically taking part in management of the business is called Secret partner.

Nominal Partner: – The partner, who can neither contribute his capital nor taking interest in the business affairs of company, only lends his name for the goodwill and credit worthiness is called Nominal partner.

Minor Partner: – The partner who has contributed his capital in the business but his liability is fixed for a specific period to the extent of contribution is called as Minor partner.

Partner in Profit: – The partner who is receiving some part of earning profit but not liable for any losses is called partner in profit.

ii) Akber, Baber and Shan started business on 1st January 2015, with Rs. 300,000/-, Rs. 50,000/- and Rs. 600,000/- respectively. They made additional investment during the year Rs. 10,000/-, Rs. 4,000/- and Rs. 5,000/- respectively. During the year Akber withdrew Rs. 4,000/- and Shan Rs. 2,000/-. The firm earned profit of this year Rs. 21, 420/-.

Required: give the necessary journal entries, if profit is distributed.

- a) Beginning capital ratio
- b) Ending capital ratio

Solution (b):

Akber's contribution:

Capital	= Rs. 300,000	
Additional investment		= <u>Rs. 10,000</u>
= Rs. 310,000		
Less: Drawing		= <u>Rs. 4,000</u>
= Rs. 306,000		

Baber's contribution:

Capital	= Rs. 50,000	
Additional investment		= <u>Rs. 4,000</u>
= Rs. 54,000		

Shan's contribution:

Capital	= Rs. 600,000
Additional investment	= <u>Rs. 5,000</u>
= Rs. 605,000	
Less: Drawing	= <u>Rs. 2,000</u>
	= Rs. 603,000

a) Beginning Capital Ratio:

Capital ratio between Akber, Baber and Shan will be

300,000	:	50,000	:	600,000
30	:	5	:	60
6	:	1	:	12

b) Ending Capital Ratio:

Capital ratio between Akber, Baber and Shan will be

306,000	:	54,000	:	603,000
306	:	54	:	603
6	:	1	:	12

Journal

Sr.No.	Details	Rs.	Rs.
	Profit & Loss A/c	21,420	
	Akber's capital A/c		6,764
	Baber's capital A/c		1,127
	Shan's capital A/c		13,529
	(Being profit transferred to Akber's, Baber's and Shan's capital A/c in the capital ratio.)		

Q No 3: State with reasons whether the following items should be classified as "capital or revenue "expenditure:

1. Preliminary expenses paid in the formation of a company.
2. Heavy advertisement expenses paid to introduce a new product in the market.
3. Carriage paid on the purchase of machinery.
4. Cost of overhauling and painting a second-hand truck newly purchased.
5. Research and experimental expenses to introduce a new product.

Solution:

Sr. No.	Details	Reasons
1.	Capital Expenditure	It is a capital expenditure because it can pay on the formation of company.
2.	Revenue Expenditure	It is revenue expenditure because advertising is introduce the product in market and earn income.
3.	Capital Expenditure	It is capital expenditure because carriage paid on the machinery. It can increase the value of capital.
4.	Capital expenditure	It is a capital expenditure because overhauling can increase the value of truck.
5.	Revenue Expenditure	It is a revenue expenditure because it can be earn income.

- Q No 4:** a) The sales book has been under-cast Rs. 800/-.
 b) A cheque drawn for wages for Rs. 2040/- was wrongly posted to wages A/c as Rs. 2004/-
 c) Furniture purchased for Rs. 1040/- has been debited to purchases A/c Rs. 1640/-.
 d) Rs. 1100/- received from Ali debited to his account.
 e) Discount received Rs. 200/- was posted to the wrong side of Discount A/c.

Required: Give the journal entries to rectify these errors.

Solution:

Sr.No.	Details	Rs.	Rs.
a)	Suspense A/c Sales A/c (being under casting of sales book, now rectified)	800	800
b)	Suspense A/c Wages A/c (Being wrong debit to wages A/c now rectified.)	36	36
c)	Furniture A/c Suspense A/c Purchase A/c (Being wrong debit to purchase A/c, now rectified.)	1,040 600	1,640
d)	Suspense A/c Ali A/c (Being wrong posting to Ali A/c, now rectified.)	2,200	2,200
e)	Suspense A/c Discount A/c (Being wrong posting to discount A/c, now rectified.)	400	400

Q No 5: Prepare a Bank Reconciliation Statement under double balance method from the following particulars as on 30.6.2015:

1. Bank balance as per the bank statement Rs. (Dr) Rs. 30,000/-.
2. Overdraft as per Cash Book Rs. 37,000/-.
3. Cheques deposited into the bank but not yet collected Rs. 9,700/-.
4. Cheques issued but not yet presented Rs. 16,000/-.
5. The bank charged Rs. 300/- for commission.
6. Dividend collected by Bank Rs. 1,000/-

Required: Prepare the bank reconciliation statement.

Solution:

**Bank Reconciliation Statement
As on 30.6.2015**

	Rs.	Rs.
Overdraft balance as per Cash Book (Cr.)		37,000
Add:		
Uncollected Cheque	9,700	
Bank charges	300	
Dividend collected	1,000	11,000
		48,000
Less:		
Unpresented Cheques	16,000	16,000
Bank overdraft as per passbook (Dr.)		32,000

www.aiouinfo.com