

Problem No. 4 with Solution

Illustration 7 :

The following is the trial balance of Bee Ltd. as on 31st March, 2007 :

Particulars	₹	Particulars	₹
Stock as on 1-4-2006	75,000	Purchase Returns	10,000
Purchases	2,45,000	Sales	3,40,000
Wages	30,000	Discount	3,000
Carriage	950	Profit & Loss Account	15,000
Furniture	17,000	Share Capital	1,00,000
Salaries	7,500	Creditors	17,500
Rent	4,000	General Reserve	15,500
Sundry Trade Expenses	7,050	Bills Payable	7,000
Dividend paid	9,000		
Debtors	27,500		
Plant and Machinery	29,000		
Cash at Bank	46,200		
Patents	4,800		
Bills Receivable	5,000		
	5,08,000		5,08,000

Prepare the Profit and Loss Account for the year ended 31st March, 2007 and a Balance Sheet as on that date after considering the following adjustments :

- Stock as on 31st March, 2007 : ₹. 88,000.
- Provision for income tax at 50%.
- Depreciate plant and machinery at 15% ; furniture at 10% and patents at 5%.
- On 31st March, 2003 outstanding rent amounted to ₹. 800 and salaries ₹. 900.
- The Board recommends payment of a dividend @ 15% per annum. Transfer to general reserve ₹. 1500.
- Provide ₹. 510 for doubtful debts.
- Provide for managerial remuneration at 10% on profit before tax and provision for doubtful debts.
- Provide corporate dividend tax @ 10%.

Solution :

Income Statement

for the year ended 31-3-2003

Particulars	₹	₹
Net Sales		3,40,000
Less : Cost of Goods Sold :		
Opening Stock	75,000	
Add : Purchase Less Return	2,35,000	
(2,45,000 – 10,000)	3,10,000	
Less : Closing Stock	88,000	
	2,22,000	
Wages	30,000	
Carriage	950	(2,52,950)
		87,050
Less : Cost of Expenses		
Salaries (7,500 + 900)	8,400	
Rent (4,000 + 800)	4,800	
Sundry Trade Expenses	7,050	
Depreciation	6,290	
Provision for Doubtful Debts	510	(27,050)
		60,000
		3,000
		63,000
		(6,351)
		56,649
		(28,325)
		28,324
Add : Discount		
Less : Managerial Remuneration		
$\left(\frac{10}{100} \times 63,510\right)$ before Tax & RDD		
Profit before tax		
Less : Tax at 50%		
Profit after tax		

Retained Earning Statement

Particulars	₹
Retained Earnings / Profit on 1-4-2002	15,000
Add : Profit after Tax	28,324
Total	43,324

Contd. on the next page

Less : Appropriations		
(a) Dividend paid	9,000	
(b) Proposed dividend		
$\left(10,000 \times \frac{15}{100} = 15,000 - 9,000\right)$	6,000	
(c) General Reserve	1,500	
(d) Corporate Dividend Tax	1,500	
(10% on 15,000)		(18,000)
Retained earnings on 31-3-2007		25,324

Balance sheet as on 31-3-2007

	Schedule No.	₹	At the end of year (₹)
(I) SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Capital	1		1,00,000
(b) Reserves and Surplus	2		42,324
2. Loans Funds			
(a) Secured loans	3		—
(b) Unsecured loans	4		—
Total			1,42,324
(II) APPLICATION OF FUNDS			
1. Fixed Assets			
(a) Gross block		50,800	
(b) Less Depreciation		6,290	
(c) Net Block		44,510	44,510
(d) Capital work-in-progress		—	
2. Investments			
	6		Nil
3. Current assets, loans and advances :			
(a) Inventories	7	88,000	
(b) Sundry debtors		26,990	
(c) Cash and Bank Balance		46,200	
(d) Bills Receivable		5,000	
Total		1,66,190	
Less : Current liabilities and provisions	8		
(a) Liabilities		32,551	
(b) Provisions		35,825	
Net current assets		68,376	97,814

Contd. on the next page

4. (a) Miscellaneous Expenditure	9		—
(b) Profit and Loss Account			—
Total			1,42,324

Schedule No. 1 : Capital

Particulars	₹
Authorised & Issued Capital :	
Equity shares of Rs. 10 each	1,00,000
Total	1,00,000

Schedule No. 2 : Reserve & Surplus

Particulars	₹
General reserve	15,500
Additions	1,500
Add : Retained Earning	25,324
Total	42,324

Schedule No. 5 : Fixed Assets

Particulars	Gross Block (₹)	Additions (₹)	Deletion (₹)	Depreciation charged (₹)	Net Block (₹)
Plant & Machinery	29,000	—	—	4,350	24,650
Furniture	17,000	—	—	1,700	15,300
Patents	4,800	—	—	240	4,560
	50,800			6,290	44,510

Schedule No. 7 : Current Assets loans & Advances

Particulars	₹
Inventories	88,000
S. Debtors	27,500
Less R.D.D.	510
Cash & Bank Balance	46,200
Bills Receivable	5,000
Total	1,66,190

Schedule No. 8 : Current Liabilities & Provisions

Particulars	₹	₹
Liabilities :		
Bills Payable	7,000	
Creditors	17,500	
Outstanding Salary	900	
Outstanding Rent	800	
Outstanding Managerial Remuneration	6,351	32,551
Provisions :		
Proposed Dividend	6,000	
Corporated Dividend	1,500	
Provision for Taxation	28,325	35,825
Total		68,376