

## CHAPTER 8

**Solutions to the alternate questions have been provided. You are required to work on the unsolved problems. This exercise will help you to gain holistic understanding of the concepts discussed in this chapter**

### Multiple Choice Questions

1. D
2. ....
3. B
4. ....
5. E
6. ....
7. D
8. Only information has been provided in this question
9. B
10. ....
11. A
12. ....
13. Only information has been provided in this question
14. A
15. ....
16. D
17. ....
18. B
19. ....
20. B
21. ....
22. C
23. Statement of Income for January

Inventory Method	FIFO	Average Cost	LIFO
Sales	15		15
Less Cost of Goods Sold	12		15
Trading Income	3		0

### **Balance Sheet (under FIFO)**

Cash	0	Owner's Eq.	29
Inventory	29		
Total Asset	29	Total Eq.	29

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**Balance Sheet (under Weighted Average)**

Cash	?	Owner's Eq.	?
Inventory	?		
Total Asset	?	Total Eq.	?

**Balance Sheet (under LIFO)**

Cash	0	Owner's Eq.	26
Inventory	26		
Total Asset	26	Total Eq.	26

**CHAPTER 8**  
**Exercise**

**1. Nachiket Limited**

*Straight Line Method:*

Machinery (No. 1) Account

Date	Particulars	Amount	Date	Particulars	Amount
1/4/X6	To Bank	1,50,000	31/3/X7	By Depreciation	14,000
				By Closing Balance	1,36,000
		1,50,000			1,50,000
1/4/X7	To Opening Balance	1,36,000	31/3/X8	By Depreciation	14,000
				By Closing Balance	1,22,000
		1,36,000			1,36,000
1/4/X8	To Opening Balance	1,22,000	31/3/X9	By Depreciation	14,000
				By Closing Balance	1,08,000
		1,22,000			1,22,000

Machinery (No. 2) Account

Date	Particulars	Amount	Date	Particulars	Amount
1/4/X6	To Bank	1,00,000	31/3/X7	By Depreciation	10,000
				By Closing Balance	90,000
		1,00,000			1,00,000

**Note:**

- In the case of Machinery 1 the depreciation has been calculated at Purchase value less Salvage Value i.e Rs 1,40,000 (Rs 1,50,000 – Rs 10,000).
- In the case of the other machinery, there is no salvage value. Therefore, the depreciation is calculated on Rs 1,00,000.

*Written Down Value Method*

Machinery (No. 1) Account

Date	Particulars	Amount	Date	Particulars	Amount
1/4/X6	To Bank	1,50,000	31/3/X7	By Depreciation	15,000
				By Closing Balance	1,35,000
		1,50,000			1,50,000
1/4/X7	To Opening Balance	1,35,000	31/3/X8	By Depreciation	13,500
				By Closing Balance	1,21,500
		1,35,000			1,35,000
1/4/X8	To Opening Balance	1,21,500	31/3/X9	By Depreciation	12,150
				By Closing Balance	1,09,350
		1,21,500			1,21,500

Machinery (No. 2) Account

Date	Particulars	Amount	Date	Particulars	Amount
1/4/X6	To Bank	1,00,000	31/3/X7	By Depreciation	10,000
				By Closing Balance	90,000
		1,00,000			1,00,000

*Block Depreciation Method:*

Machinery Account

Date	Particulars	Amount	Date	Particulars	Amount
1/4/X6	To Bank	1,50,000	31/3/X7	By Depreciation	15,000
				By Closing Balance	1,35,000
		1,50,000			1,50,000
1/4/X7	To Opening Balance	1,35,000	31/3/X8	By Depreciation	13,500
				By Closing Balance	1,21,500
		1,35,000			1,35,000
1/4/X8	To Opening Balance	1,21,500	31/3/X9	By Depreciation	22,150
	To Bank	1,00,000		By Closing Balance	1,99,350
		2,21,500			2,21,500

Note:

- We know that in the block depreciation method, all the fixed assets with the same rate of depreciation are placed under the same block. Accordingly, we place both the machineries under the same block.

### 3. Ansar Ahmed Collieries Limited

Here we will be using the depletion method to expense this natural resource. The amount of depletion charge per annum will be as follows:

<u>Years</u>	<u>Depreciation</u>
1 to 6	Rs 66,667 per annum
Year 7	Rs 33,333
8 and 9	Rs 25,000 per annum
Year 10	Rs 16,666

At the end of two years, the balance in the Coal Account (part of the firms fixed assets) shall be shown in the balance sheet at Rs 3,66,666. We are not providing the detail journal entries here in.

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**5) Champakali Sprit Oil Ltd.**

Take assumption, Selling Price @ Rs 10/L, so amount sold = 2, 50,000 L.

	<b>FIFO</b>	<b>Weighted Average</b>	<b>LIFO</b>
Sales	2500000	2500000	2500000
CoGS	1400000	1085000	1150000
Profit	1100000	1415000	1350000

The above table shows how profit figures are different for different methods of inventory valuation.

## 7. Sharandeep Singh:

### Zeenat Ltd. - Equity Shares

Date	Particulars	No.of shares	Amount	Date	Particulars	No.of shares	Amount
1.4.X6	To Balance	400	80,000	05.05.X6	By Bank (rights)		1,000
5.5.X6	To Bonus	80	-				
30.6.X6	To Bank (Purchase)	100	17,500	30.06.X6	By Bank	300	57,000
31.3.X7	To Investment Income	-	14,540	31.3.X7	By Balance c/d	280	54,040
		580	1,12,040			580	1,12,040

Note: We know that the cost price of bonus shares is NIL. Therefore the total sales value of Rs 15,200 (80 X Rs 190) is the profit on sale of investments. However, it has to be adjusted with the loss on sale of other 220 shares and the net figure of Rs 14,540 (Rs 15,200 – Rs 660) is shown in the Investments account.

The loss on sale of 220 shares is calculated in the following way:

Cost Price of 500 shares	97,500 [(400 X 200) + (100 X 175)]
Less : Amount from sale of rights	<u>1,000</u>
Net Cost	<u>96,500</u>
Cost Price of 220 shares (Average Basis)	42,460 (@ 193 per share)
Sale Price of 220 Shares	<u>41,800</u>
Loss on sale of 220 shares	<u>660</u>

The closing value of 280 shares on average basis comes to 54,040 (@ 193 per share)

**9) Dr Martin Stack and Rameshwar Limited:**

JOURNAL ENTRIES of Rameshwar

Date	Particulars	L.F	Debit	Credit
15-04-X6	Dr Martin Stack A/c To Sales (Being amount of goods sold to Dr Martin Stack on Credit)		1,00,000	1,00,000
	Bills Receivable Account To Dr Martin Stack A/c (Being Bills accepted from Dr Martin Stack against the credit sales)		1,00,000	1,00,000
15-05-X6	Cash A/c To Bills Receivable Account (Being 1 <sup>st</sup> Bill encashed)		20,000	20,000
30-05-X6	Cash A/c To Bills Receivable Account (Being 2 <sup>nd</sup> Bill encashed)		20,000	20,000
30-07-X6	Cash A/c Discount A/c To Bills Receivable Account (Being 3 <sup>rd</sup> Bill encashed after bank charges)		19,900 100	20,000
	Amar A/c To Bills Receivable Account (being last two bills endorsed in favour of Amar)		40,000	40,000



JOURNAL ENTRIES for Dr Martin Stack

Date	Particulars	L.F	Debit	Credit
15-04-X6	Purchases A/c To Rameshwar Ltd. (Being amount of goods purchased from Rameshwar Ltd. on Credit)		1,00,000	1,00,000
	Rameshwar Ltd. To Bills Payable A/c (Being Bills payable to Rameshwar Ltd. against the credit purchases)		1,00,000	1,00,000
15-05-X6	Bills Payable A/c To Cash (Being 1 <sup>st</sup> Bill Paid)		20,000	20,000
30-05-X6	Bills Payable A/c To Cash (Being 2 <sup>nd</sup> Bill Paid)		20,000	20,000
30-07-X6	Bills Payable A/c To Cash (Being 3 <sup>rd</sup> Bill Paid)		20,000	20,000
	Bills Payable A/c To Cash (Being 4 <sup>th</sup> Bill Paid)		20,000	20,000
	Bills Payable A/c To Cash (Being 5 <sup>th</sup> Bill Paid)		20,000	20,000

### 11) Satyaban Software Services:

Cash balance (as per bank statements) as on Nov. 30: Rs 15000

Cash balance as on company’s record: Rs 15250.00

Through reconciliation: Rs 15250 + Rs 1400 (outstanding cheque) – Rs 1650 (cheque under collection)  
= Rs 15000 (as bank statement figure).

Now for Dec. 31, we need to only consider the following transactions:

1. Bank debited service charge of Rs 600

2. Bank credited  $(12000 * 12\% * 3/12) = \text{Rs } 360$  as bill collection & interest

Please note that net effect of cheque dishonoring got cancelled through dr & cr entry.

So, cash balance as per bank Rs 18510 + Rs 600 – Rs 360 = Rs 18750 which is exactly equals to cash  
as per company’s record.