

Kendriya Vidyalaya No1 Gwalior

Summer Vacation Homework/ Project work in Accountancy

Class 12C

Rakesh and Mukesh were brothers. Rakesh was too much interested in computers. His keen interest in the computers prompted him to pursue the computer software for his degree course. His father Mr. Ravi purchased a computer for him to be used at home. Mukesh was interested in his father's business of electrical goods and was helping his father Mr. Ravi in that business.

Mr. Ravi thought of starting a common business for both of his sons. Due to the grooming IT industry he decided to start a computer business for his sons, Rakesh and Mukesh. Both Rakesh and Mukesh drafted a common proposal and came up with the following ideas:

1. Their shop was located at a place surrounded by middle income group people with many of them having no computer at their home. So they decided that their shop will provide the following services:
2. Computer classes for different age group.
3. Computer using facilities on payment of hourly basis.
4. Printing of documents from computer from computer at market rate.
5. Providing internet facility at the market rates by entering into contact with 'Airtel'.
6. Computer games corner for children.

Rakesh wanted to purchase 10 computers initially and start with first two areas mentioned above and expand the area of business gradually when things go well.

Their father's electrical goods shop which was at a market place was having a single storey building. Their father offered to build the first floor and give it to them for their computer business. Mr. Ravi (their father) spent ₹ 1,00,000 for the construction of the building and provided them ₹ 2,50,000 for his son's computer business. Rakesh and Mukesh put their business proposal to the bank and managed to get a loan to the extent of 75% of cost of computers (the cost of computers being ₹4,00,000 with printers). The bank sanctioned a loan of ₹3,00,000 (75% of the cost of computers) with interest payable in three instalments. The total amount (principal + interest) to be repaid will be ₹3,60,000 in three annual instalments as follows:

- End of 1st year = ₹1,30,000 (Principal ₹1,00,000 + Interest ₹30,000)
- End of 2nd year = ₹1,20,000 (Principal 1,00,000 + Interest ₹20,000)
- End of 3rd year = ₹1,10,000 (Principal 1,00,000+ Interest ₹10,000)

Rakesh and Mukesh started their business on 1st April, 2016 and deposited ₹240,000 in the bank. They gave ₹1,00,000 to computer company (25% of cost of computers purchased i.e. 25% of ₹4,00,000) and the remaining balance ₹3,00,000 out of bank loan availed from bank. They

deposited ₹1,000 for electric connection with the electricity office. They made a security deposit of ₹1,00,000 with 'Airtel' for the internet connection. There were two phone connections at their father's electrical goods shop and one of the connection was used for the computer business. The computer cafe was furnished by paying ₹25,000. The pamphlets were printed and distributed at a cost of 4,500 in the surrounding colonies/areas.

All the payments were to be made through cheques and all the receipts will be in cash which is to be deposited into the bank on the same day. The fees charged from the students per month for the three months computer classes was ₹500 per month.

They received ₹10,000 per month in the first quarter on an average on account from internet subscribers. They also decided to purchase and sale the computer stationery such as floppy, cd's, discs. e.t.c. as a part of their business expansion plan.

At the end of the years they achieved the following results.

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• Total Revenue (including sale of computer stationery) 4,98,000	
• Purchase of computer stationery	55,000
• Electric charges outstanding i.e., yet to be paid 1,24,000	
• Telephone expenses	34,000
• Maintenance expenses 10,000	
• Petty expenses 12,000	
• Entertainment expenses	10,000

They also employed a helper to clean the computer cafe, clean the office and to serve the water to the visitors and for this purpose he was paid 500 per month. They withdrew 3,000 each by cheque for their private expenses each month. They paid the bank loan instalments regularly.

On the basis of the above mentioned information:

- a. Pass the necessary journal entries, post them into ledger accounts and prepare a trial balance.
- b. Prepare trading account, Profit and loss account and balance sheet.
- c. Charge depreciation on computers @25%, on furniture @ 10% and on buildings @ 5%.
- d. Calculate the profitability ratios.

- e. They want further loan from the bank and bank wants the accounts relating to financial position of business before granting the loan. So calculate the ratio which bank requires i.e., current ratio, quick ratio and debt-equity ratio.
- f. Comment on the result of the business taking into the consideration if gross profit ratio and net profit ratio in similar type of business concerns are 50% and 20% respectively.
