

Shri J. H. Bhalodia Women's College – Rajkot

B.Com. Sem.- II

Accounting & Finance - 2

Accounts of Professional Persons

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Introduction : “Professional Persons are the persons who sell their talent, skills, knowledge, art or their special personal specialties. They do not sell any physical products or articles.”

Accounting System of Professionals :

- ✚ The professional persons as discussed above have main source of income in the form of collection of fees against the services, skill they provide. For providing services they have to do some expenses. The excess of income over expenditure is their net earnings.
- ✚ To know this figure, they prepare Profit & Loss Account and also prepare Balance Sheet to know their true financial position on particular day.
- ✚ When professional persons prepare their books on actual income received and actual expenses incurred. **This system is known as cash basis.** This method is very simple.
- ✚ **Another method is known as mercantile system** of maintaining accounts. This method considers the actual Income + Expenditure of the year [actual and outstanding]. This method reveals the true profit or income of the year. This method is showing the true picture of the financial position of the professionals.

Preparation of Accounts on mercantile basis is compulsory. When...

- 1) Major changes in constitutions of partnership firm.
- 2) Changes in Profit and Loss sharing ratio.
- 3) At the time, when new partner is admitted.
- 4) Retirement of an existing partner.
- 5) Any changes in status of existing partner / partners.
- 6) On occasion of valuation of goodwill of the firm.

1. Shri Bhatt and Shri Sejpal are solicitors and partners sharing profit-losses in ratio of 3 : 2. Following is their trial balance as on dt 31-3-2004.

Balances	Dr. Rs.	Cr. Rs.
Capital and Drawing of Bhatt	80,000	4,00,000
Capital and Drawing of Sejpal	60,000	3,60,000
Office expenses	42,400	--
Building	4,00,000	--

Stationary expenses	16,800	--
Outstanding office expenses	--	20,000
Depreciation on building	24,000	--
Furniture	2,24,000	--
Reserve against fees not collected (Dt. 1-4-2003)	--	2,00,000
Bills prepared for fees	--	8,80,000
Clients' Advances	--	1,40,000
Clients' ledger Account of Misc. Expenses	1,60,000	--
Insurance Premium for Sejpal	20,000	--
Other fixed assets	4,80,000	--
Debtors for fees (including bill not prepared)	3,20,000	--
Bank balance (Client)	1,08,000	--
Bank balance (Office)	64,800	--
	20,00,000	20,00,000

Adjustments :

- Office expenses include Rs. 2,400 for client's expenses.
 - Client's advances include Rs. 8,000 received from a client for his miscellaneous expense.
 - Provide depreciation by 20 % on other fixed asset.
 - Write off 75 % of Rs. 80,000 regarding bill sent.
 - Bill not prepared Rs. 1,60,000 but not sent to client.
- Prepared final accounts.

2. Mehta, Patel and Shah are partners sharing profit and loss in the ratio of 2 : 2 : 1 in a solicitor firm. Their balance as at 31st March 2004 were as under:

Debit Balance	Rs.	Credit Balance	Rs.
Accounts of Clients	70,000	Total capital of Partners	5,60,000
Salaries	40,000	Total Fees	4,10,000
Library books	35,000	Accounts of clients	10,000
Debtors	1,13,000	Creditors	70,000
Stationery	7,500	Sundry exp. Ledger of client	7,500
Bank	45,000		
Electricity charges	2,000		
Office building	5,00,000		
Motor car	1,00,000		
Office exp.	18,000		
Magazine subscription	4,000		
Postage	3,000		
Furniture	1,20,000		
Total	10,57,000		10,57,000

- Capital of Shah is 50 % of Patel and Capital of Patel is 50 % of Mehta. Prepare annual accounts of firm for the year ending on 31-3-2004 from following details:
- Rs. 1,000 paid for clients are included in office expense.
 - Rs. 5,000 received from a client for sundry exp. are credited in advance account of client.
 - Provide 10 % depreciation on Building, Motorcar, Furniture and Library books.

- 4) Fees to be received Rs. 30,000.
- 5) Allow 10 % interest on capital.
- 6) Unfinished work Rs. 15,000 at the end of year.
 - a. Prepare annual accounts on cash basis for the year ending on Dt. 31-3-2004.
 - b. Find out the profit of the firm if ratio of profit sharing is changed to 5 : 3 : 2 from 1-4-2004.

[S.U. March 2008]

3. Parekh, Shah and Mehta are partners of a C. A. firm sharing Profit and Loss in proportion of 5 : 3 : 2. The Trial Balance of the firm on 31-3-2008 is as under.

Balances	Dr. Rs.	Cr. Rs.
Capital and Drawings	33,000	1,20,000
Furniture	25,000	--
Motorcar	80,000	--
Books	10,000	--
Debtors for fees	43,000	--
Cash and Bank Balance	12,000	--
Advance recd. From clients towards sundry expenses	--	14,000
Bill for fees	--	1,08,000
Motorcar Exp.	10,000	--
Salary	18,000	--
Rent	12,000	--
Telephone expenses	5,000	--
Stationary	3,000	--
Office expenses	15,000	--
Articled clerk's premium	--	4,000
Reserve for fees [1-4-2007]	--	20,000
	2,66,000	2,66,000

Additional information :

- 1) Articled clerk's premium was recd. On 1-4-2006 for three years.
 - 2) Rs. 3,000 spent for a client was, by mistake, included in office expenses.
 - 3) Depreciation : Motor car at 20 %, Books at 15% and Furniture at 10%.
 - 4) Mehta's Capital is 75 % of Shah's Capital and Shah's Capital is 80 % of Parekh's Capital.
 - 5) Amount of Mehta's drawing is 50 % of Shah's drawing while Shah's drawing is 80 % of Parekh's drawing.
 - 6) From 1-4-2008 partners agree to change their profit sharing ratio and this proportion will be equal among all the partners.
- Prepare Final Accounts for the year ended on 31-3-2008.

4. Mr. Manubhai Patel is practicing as doctor and runs a clinic. His trail balance as on 31-12-2007 is as below:

Debit Balance	Amount (Rs.)	Credit Balance	Amount (Rs.)
Purchase of medicines	10,600	Capital	1,05,000
Expenses of clinic	2,400	Interest on fixed Depo.	11,250
Share investment	15,000	Bank interest	300

Furniture and Equip.	30,000	Share Dividend	1,800
Refrigerator	5,000	Professional fee recd.	
Scooter	10,000	From patients	1,28,300
Fixed Deposits in Bank	75,000		
Cash on hand	8,000		
Bank Balance	15,000		
Rent (for 11 months)	11,000		
Compounder's salary (for 13 months)	26,000		
Servant's salary	6,000		
Scooter maintenance	1,200		
Drawing	24,000		
Misc. Expenses	4,800		
Telephone charges	1,500		
Professional Tax	250		
Stationary & Printing	500		
Membership fee of IMA	400		
	2,46,650		2,46,650

Following additional informations are given.

- 1) Fee accrued but not received Rs. 10,700
- 2) One month rent is outstanding
- 3) Compounder's salary for one month is paid in advance.
- 4) Purchase of medicine for Rs. 4,400 from Ramanbhai is not received in above accounts. This bill is yet unpaid.
- 5) Closing stock of medicine is Rs. 2,000
- 6) Charge depreciation on furniture and equipment, Refrigerator and Scooter at 10 %, 20 % and 15 % respectively.

[G.U. Uni. June 1987]

- 5.** Solicitors Asha and Nirasha are partners sharing profit and loss in ratio of 4 : 1. 1
Their trail Balance as on 31-12-2003 is as under :

Particulars	Debit (Rs.)	Credit (Rs.)
Cash and Bank (firm)	27,500	--
Cash and Bank (clients)	22,500	--
Amount outstanding from clients	1,37,500	--
Advance recd. From clients	--	1,22,500
Reserve for fees (1-1-2003)	--	87,500
Premium from Article clerk (from 1-1-2001, for four year)	--	17,000
General Expense	43,750	--
Salary	15,000	--
Bills for fees	--	2,56,250
Debtors for fees	90,000	--
Office expenses	16,250	--
Books	1,93,750	--

Capital and drawings : Asha	12,500	75,000
Nirasha	10,000	75,000
Debtors and Creditors	1,25,000	60,500
	6,93,750	6,93,750

Adjustments :

- 1) An amount of Rs. 10,000 paid on behalf of clients for expenses is include in general expenses.
- 2) Amount Rs. 6,250 received against expenses incurred for client has been included in "Advance recd. From clients" by mistake.
- 3) 80 % amount of bills sent to client of Rs. 18,750 is to be written off.
- 4) Bills yet not prepared amounted to Rs. 40,000.
- 5) On 1-7-2003, books worth Rs. 40,000 were purchased. Charge depreciation at 10 % on books.
- 6) Prepare Final Accounts. [S.U. April 1996]

6. [A] Following trail balance and additional informations is furnished by solicitor Miss Anita. Prepare Final Accounts:

Trial Balance of Miss Anita as on 31-3-2004

Debit Balance	Amount Rs.	Credit Balance	Amount Rs.
Library Books	42,000	Capital	20,000
Office equipments	25,000	Reserve for fees (1-4-2003)	11,000
Building	80,000	Fees	1,93,000
Office expenses	20,000	Apprentice premium	10,000
Salary and Allowances	30,000	Outstanding salary	3,000
Bank (office)	10,000		
Bank (clients)	8,000		
Cash on hand	5,000		
Debtors for fees	15,000		
Sundry expenses for clients	2,000		
	2,37,000		2,37,000

Adjustments :

- 1) Calculate depreciation at 10% on books, office equipments and building.
- 2) Office expense of Rs. 500 is included in clients' sundry expenses by mistake.
- 3) Calculate interest on capital at 20 %.
- 4) ½ of the apprentice premium is for this accounting year.
- 5) Rs. 3,000 received as advance fee, has been included in bills for fees.

[B] If Anita decide to admit Sunita as partner from next year and if bills of Incomplete work are for Rs. 15,000, then what will be the profit of this year ?

[S.U. april 1999]

7. Solicitor **Shri Dhiraj** provides following data for the year ended on 31-12-2003.

Particulars	Amount (Rs.)
Capital A/c	45,000
Office expenses	60,000
Office expenses outstanding	3,000
Reserve for fees (1-1-2003)	22,500
Cash received from clients	1,05,000
Fees	1,24,500
Advance from clients	22,500
Bank balance o 31-12-2007 : Clients	6,000
Office	9,000
Fixed Assets	90,000
Depreciation on Fixed assets	7,500
Apprentice premium	9,000
Clients' sundry expenses ledger	12,000
Discount allowed to clients	7,500

✚ **Prepare Final Accounts considering following adjustment entries :**

- 1) Expenses of Rs. 3,000 were paid on behalf of clients but by error were included in office expenses.
- 2) Apprentice premium recd. on 1-1-2003 for four years.
- 3) If **Dhiraj** desires to admit **Dhiren** as partner from 1-1-2004 what will be the change in profit ?

[Sau. Uni. April-2004]

8. **Shri Bamnji** submit to you the following information for his financial year ending 31-3-2006.

Particulars	Amt. Rs.
Capital account	1,25,000
Reserve for fees (1/4/2005)	35,000
Office expenses	35,000
Total fees	2,15,000
Cash received from clients	1,96,500
Outstanding salary expenses	5,000
Advance from clients	30,000
Building	80,000
Discount allowed to clients	11,500
Apprentice premium	15,000
Depreciation on Building	15,500
Clients disbursement ledger	25,000
Bank (office)	41,000
Bank (clients)	30,000
Cash on hand	5,000
Debtors for fees	42,000
Books	30,000
Furniture	45,000
Motorcar	65,000

Other informations :

- 1) Write off depreciation at 10 % on motorcar and Furniture.
- 2) Rs. 10,000 fee received in advance from clients is wrongly included in bill of fees.
- 3) Rs. 8,000 received from clients for sundry expenses are credited in advance account of clients.
- 4) Stationary stock was Rs. 5,000.
- 5) Incomplete work is Rs. 25,000 at the end of year.
- 6) The apprentice was enrolled on 1-4-2004 for three years.

Prepare Annual accounts on cash basis.

[S.U., March -2006]

9. Trial Balance of Shayamn on 31-3-2009 is as under :

Debit Balance	Amount Rs.	Credit Balance	Amount Rs.
Laptop	30,000	Capital	35,000
Books	12,000	Reserve for fees(1/4/2008)	21,000
Furniture	20,000	Bills for fee	1,64,000
Building	85,000	Salary unpaid	5,000
Office expenses	30,000	Outstanding office expense	5,000
Employee's salary	20,000	Advance received from clients	18,000
Bank Balance :		Apprentice Premium	2,000
Client	2,000		
Office	16,000		
Cash Balance	8,000		
Debtors for fees	25,000		
Clients' Sundry Exp.			
Ledger Balance	21,000		
	2,50,000		2,50,000

Additional Information :

- 1) Provide depreciation at 10 % on Laptop, at 15 % on Books and at 5 % on building.
- 2) Office exp. of Rs. 1,000 is included in client's sundry expense ledger A/c by mistake.
- 3) 50 % of apprentice premium is for next year.
- 4) Calculate interest on capital at 10 %.
- 5) Incomplete work at the end of the year is Rs. 5,000.

Prepare Final Accounts of Solicitor **Sanyamn** on cash basis.

[Sau. Uni. T. Y.B.Com. March,2010]