Group-I

Paper V

Financial Accounting

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

www.icmai.in

SYLLABUS - 2016

WORK BOOK

FINANCIAL ACCOUNTING

INTERMEDIATE

GROUP – I

PAPER – 5

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Preface

Professional education systems around the world are experiencing great change brought about by the global demand. Towards this end, we feel, it is our duty to make our students fully aware about their curriculum and to make them more efficient.

Although it might be easy to think of the habits as a set of behaviours that we want students to have so that we can get on with the curriculum that we need to cover. It becomes apparent that we need to provide specific opportunities for students to practice the habits. Habits are formed only through continuous practice. And to practice the habits, our curriculum, instruction, and assessments must provide generative, rich, and provocative opportunities for using them.

The main purpose of this volume is to disseminate knowledge and motivate our students to perform better, as we are overwhelmed by their response after publication of the first edition. Thus, we are delighted to inform our students about the **e-distribution of the second edition of our 'Work book'.**

This book has been written to meet the needs of students as it offers the practising format that will appeal to the students to read smoothly. Each chapter includes unique features to aid in developing a deeper under-standing of the chapter contents for the readers. The unique features provide a consistent reading path throughout the book, making readers more efficient to reach their goal.

Discussing each chapter with illustrations integrate the key components of the subjects. In the second edition, we expanded the coverage in some areas and condensed others.

It is our hope and expectation that this second edition of work book will provide further an effective learning experience to the students like the first edition.

The Directorate of Studies,

The Institute of Cost Accountants of India

FINANCIAL ACCOUNTING

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INDEX

Suggested Marks Distribution from Examination Point of View

Only for Practice Purpose

		Paper-5/6/7/8/11	Paper-9/10/12
Total 100 Marks [3 Hours]	Objective	= 25 Marks	= 28 Marks
	Others	= 75 Marks	= 72 Marks

Objective Question

25 Marks/28 Marks (1 Mark each questions)	MCQ	1 mark
	Match	1 mark
	True/False	1 mark
	Fill in the Blanks	1 mark

Short Notes / Case Study

Minimum Marks for each Questions	4 Marks
Maximum Marks for each Questions	10 Marks

Practical Problem

Minimum Marks for each Questions	4 Marks
Maximum Marks for each Questions	15 Marks

Study Note – 1

FUNDAMENTALS OF ACCOUNTING

Learning Objective:

- *To be able to understand the concepts in regards methods of accounting, journal, ledger, day books, trial Balance, Financial statement and the accounting effect of each transaction.*
- *To demonstrate an appropriate mastery of the knowledge and skills of financial accounting principles*

ACCOUNTING - MEANING, SCOPE AND SIGNIFICANCE OF ACCOUNTING

1. Choose the correct alternative:

1. __________ an art of recoding, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of a financial character, and interpreting the results thereof.
(a) Management Accounting
(b) Financial Accounting
(c) Cost Accounting
(d) None of the above

2. Which of the following is/ are least likely to be true regarding accounting?
(a) Accounting is an art of recoding, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of a financial character
(b) Accounting provides financial information to stakeholders normally via financial statements.
(c) Accounting provides information only to the external users.
(d) All of the above

3. Which of the following is/ are regarding liabilities?
(a) It is an obligation of financial nature
(b) It has to be settled at a future date.
(c) It represents amount of money that an entity owes to the other parties.
(d) All of the above

4. The financial statement that reflects information about the financial performance of an entity is referred to as the ___________.
(a) Cash Flow Statement
(b) Income Statement
(c) Balance Sheet
(d) None of the above

5. Working capital is the excess of __________ over __________.
   (a) Fixed Assets, Current Assets
   (b) Current Assets , Current Liabilities
   (c) Non-Current Assets , Current Assets
   (d) Fixed Assets , Current Liabilities

Answer:

1 (b);	2 (c);	3(d);	4 (b);	5 (b)

2. Match the following:

	Column A		Column B
1.	Revenue expenditure	A	Excess of total assets over total liabilities
2.	Net worth	B	Expenditure incurred to earn revenue of the current period.
3.	Profit	C	Excess of Revenue Income over expense
4.	Internal liability	D	Reflects the ability of the enterprise to generate cash and cash equivalents
5.	Cash flow statement	E	Capital, Reserves, Undistributed Profits, etc.

Answer:

1- B;	2- A;	3- C;	4 - E;	5- D.

3. Fill in the blanks:

1. _________ is basically a record keeping function.
2. _________ is the second phase of accounting cycle.
3. _________ is a resource owned by the business with the purpose of using it for generating future profits.
4. The excess of expense over income is called ______.
5. A ________ liability represents a potential obligation that could be created depending on the outcome of an event.

Answer:

1- Book Keeping ;	2- Journalising;	3- Asset;	4 – Loss;	5 – Contingent

4. State whether the following statements are true or false:

1. Financial Accounting information is used within an organization (typically for decision-making) and is usually confidential and its access available only to a selected few.
2. The main objective of Accounting is to provide financial information to stakeholders.
3. Management Accounting Reports are not subject to statutory audit.
4. Government happens to be a stakeholder of accounting information.
5. Gross Working Capital which is a more realistic concept.

Answer:

1- False;	2- True;	3- True;	4 - True;	5 – False

ACCOUNTING PRINCIPLES, CONCEPTS & CONVENTIONS

5. Multiple choice questions:

Choose the correct alternative:

1. **Which of the following is a basic assumption?**
   (a) Conservatism concept
   (b) Matching concept
   (c) Historical cost concept
   (d) None of the above

2. **Which of the following is a Modifying Principle?**
   (a) Dual aspect concept
   (b) Business entity concept
   (c) Accounting period concept
   (d) Conservatism concept

3. **The insistence of the concept of ________ would result in avoidance of window dressing the results by choosing the accounting method by convenience and thereby either inflating or understating net income.**
   (a) Dual aspect
   (b) Consistency
   (c) Revenue Realisation
   (d) Matching

4. **______ is defined as a summarised record of transactions related to a person or a thing.**
   (a) Journal
   (b) Cash book
   (c) Account
   (d) Voucher

5. **The accounts related to expenses or losses and incomes or gains are called __________.**
   (a) Personal accounts
   (b) Representative Personal accounts
   (c) Nominal accounts
   (d) Real accounts

Answer:

1 (d);	2 (d);	3(b);	4 (c);	5 (c)

6. Match the following:

	Column A		Column B
1.	Business Entity Concept	A	A given event which has two effects – one on revenue and the other on expense, both must be recognized in the same accounting period.
2.	Matching Concept	B	An entity is assumed to exist for an indefinite period and is not established with the objective of closing it down.
3.	Historical Cost Concept	C	Transactions are always recorded at the actual cost at which they are actually undertaken.
4.	Full Disclosure Concept	D	Business is treated as distinct and separate from the individuals who own or manage it.
5.	Going Concern Concept	E	All significant information must be disclosed.

Answer:

1- D;	2- A;	3- C;	4 - E;	5- B.

7. Fill in the blanks:

1. _________ are basic guidelines that provide standards for scientific accounting practices and procedures.
2. As per the Accounting Equation, ______ = Liabilities + Capital.
3. All transactions are ________.
4. ______ vouchers are the documentary evidence of transactions that have happened.
5. _________ approach is the traditional approach for deciding when to write on the debit side of an account and when to write on the credit side of an account.

Answer:

1- Accounting principles;	2- Assets;	3- Events;	4 – Supporting;	5 –British

8. State whether the following statements are true or false:

1. Financial statements are meant to be used by different stakeholders, and as such it is necessary that the information contained therein is based on definite principles, concrete concepts and well accepted convention.
2. Cash receipt voucher indicates receipt of cheque or demand draft.
3. Materiality is more of a convention than a concept.
4. Inward invoices received from the creditors of goods are source documents for Sales Book.
5. All events are transactions, but all transactions are not events.

Answer:

1- True;	2- False;	3- True;	4 - False;	5 – False

PRACTICAL ILLUSTRATIONS:

9. **Recognise the accounting principle in the following cases:**
   - **(a) Transactions are recorded at their original cost.**
   - **(b) Inventories are valued at lower of its cost and realisable value.**
   - **(c) Accounting treatment once decided should not changed from one period to another.**
   - **(d) Unsold stock is deducted from the cost of goods available for sale to arrive at Cost of Goods Sold.**
   - **(e) A business is assumed to run for an indefinite period.**

Solution:

(a) Historical cost concept
(b) Prudence/ Conservatism concept
(c) Concept of Consistency
(d) Matching concept
(e) Going Concern concept

10. **Ascertain the debit and credit for the following particulars under the Modern Approach:**
   - **(a) Started business with cash.**
   - **(b) Purchased goods for cash.**
   - **(c) Purchased goods from Ms. B**
   - **(d) Paid wages to workers.**
   - **(e) Rent received from tenant.**
   - **(f) Sold goods on cash to Mr. A.**
   - **(g) Sold goods on credit to Mr. Z.**
   - **(h) Withdrew cash from business.**

Solution:

	Effect of Transaction	Account	To be Debited / Credited
(a)	Increase in cash Increase in capital	Cash A/c Capital A/c	Debit Credit
(b)	Increase in goods Decrease in cash	Purchases A/c Cash A/c	Debit Credit
(c)	Increase in goods Increase in liability	Purchases A/c Ms. B A/c	Debit Credit

(d)	Increase in expense Decrease in cash	Wages A/c Cash A/c	Debit Credit
(e)	Increase in cash Increase in income	Cash A/c Rent Received A/c	Debit Credit
(f)	Increase in cash Decrease in goods	Cash A/c Sales A/c	Debit Credit
(g)	Increase in asset Decrease in goods	Mr. Z A/c Sales A/c	Debit Credit
(h)	Decrease in liability Decrease in cash	Drawings A/c Cash A/c	Debit Credit

11. Ascertain the debit and credit for the following particulars under the British Approach:

(a) Started business with cash.
(b) Purchased goods for cash.
(c) Purchased goods from Ms. B
(d) Paid wages to workers.
(e) Rent received from tenant.
(f) Sold goods on cash to Mr. A.
(g) Sold goods on credit to Mr. Z.
(h) Withdrew cash from business.

Solution:

	Name of Account	Nature of Account	Rule	To be Debited / Credited
(a)	Cash A/c Capital A/c	Real Personal	Comes in Giver	Debit Credit
(b)	Purchases A/c Cash A/c	Nominal Real	Expense Goes out	Debit Credit
(c)	Purchases A/c Ms. B A/c	Nominal Personal	Expense Giver	Debit Credit
(d)	Wages A/c Cash A/c	Nominal Real	Expense Goes out	Debit Credit
(e)	Cash A/c Rent Received A/c	Real Nominal	Comes in Income	Debit Credit
(f)	Cash A/c Sales A/c	Real Nominal	Comes in Income	Debit Credit
(g)	Mr. Z A/c Sales A/c	Personal Nominal	Receiver Income	Debit Credit
(h)	Drawings A/c Cash A/c	Personal Real	Receiver Goes out	Debit Credit

12. The following transactions relate to Mr. J for the month of January, 2018. You are required to prepare an accounting equation from these transactions:

2018 January	
1	**Started business with cash ₹ 48,000.**
4	**Purchased goods in cash from D Bros. for ₹ 8,000.**
6	**Bought furniture worth ₹ 14,000 in cash.**
9	**Sold goods costing ₹ 2,500 to Mr. X for ₹ 4,000 in cash.**
12	**Purchased goods in credit from B & Sons. worth ₹ 28,000.**
16	**Sold goods costing ₹ 4,800 to Mr. Y for ₹ 6,000 on credit.**
20	**Paid ₹ 5,000 cash to B & Sons., the supplier.**
22	**Paid Salaries ₹ 1,600.**
27	**Received interest ₹ 1,400.**
31	**Collected ₹ 6,000 from his customer, Mr. Y**

Solution:

Date	Transaction	Assets =	Liabilities +	Capital
2018				
January	Started business with cash ₹ 48,000.	48,000 =	-	48,000
1	Purchased goods in cash from D Bros. for ₹8,000.		-	
4	**Revised Accounting Equation**	+ 8,000	-	--
	Bought furniture worth ₹ 14,000 in cash.	– 8,000	-	
6	**Revised Accounting Equation** Sold goods costing ₹	48,000 =	-	48,000
	2,500 to Mr. X for ₹ 4,000 in cash		-	
9	**Revised Accounting Equation**	+ 14,000	-	--
	Purchased goods in credit from B & Sons. Worth ₹	– 14,000	-	
	28,000.	48,000 =	-	48,000
12	**Revised Accounting Equation** Sold goods costing ₹		-	
	4,800 to Mr. Y for ₹ 6,000 on credit.	+ 4,000	-	1,500
16	**Revised Accounting Equation**	– 2,500	-	
	Paid ₹ 5,000 cash to B & Sons., the supplier.	49,500 =	-	49,500
20	**Revised Accounting Equation**		-	
	Paid Salaries ₹ 1,600.	+ 28,000	+ 28,000	--
22	**Revised Accounting Equation**	77,500 =	28,000 +	49,500
	Received interest ₹ 1,400.	+ 6,000	-	1,200
27	**Revised Accounting Equation**	– 4,800	-	
	Collected ₹ 8,000 from his customer, Mr. Y	78,700 =	28,000 +	50,700
31	**Revised Accounting Equation**			
		– 5,000	– 5,000	--

		73,700 =	23,000 +	50,700
		– 1,600	- -	– 1,600
		72,100 =	23,000 +	49,100
		+ 1,400	- -	+ 1,400
		73,500 =	23,000 +	50,500
		+ 6,000 – 6,000	- -	--
		73,500 =	23,000 +	50,500

13. **Chandra runs a stationery business. From the following information relating to his business prepare Income Statement under: (a) Cash Basis, (b) Accrual Basis, and (c) Hybrid Basis:**

	₹
Cash purchases	**82,000**
Credit purchases	**1,35,000**
Salaries paid	**17,000**
Rent paid	**17,500**
Insurance paid	**18,500**
Cash sales	**2,20,000**
Credit sales	**3,00,000**
Outstanding Expenses: Salaries	**5,000**
Rent	**2,800**
Prepaid insurance	**3,000**

Solution:

(a) Under Cash Basis

Income Statement

Particulars	Amount (₹)	Amount (₹)
Incomes:		
Cash sales		2,20,000
Less: Expenses		
Cash purchases	82,000	
Salaries paid	17,000	
Rent paid	17,500	
Insurance paid	18,500	1,35,000
Net Income		85,000

(b) Under Accrual Basis

Income Statement

Particulars	Amount (₹)	Amount (₹)
Incomes:		
Cash sales		2,20,000
Credit sales		3,00,000
		5,20,000
Less: Expenses		
Cash purchases	82,000	
Credit purchases	1,35,000	
Salaries paid 17,000		
Add: Outstanding 5,000	22,000	
Rent paid 17,500	20,300	
Add: Outstanding 2,800	15,500	2,74,800
Insurance paid 18,500		
Less: Prepaid 3,000		
∴ Net Income		2,45,200

(c) Under Hybrid Basis

Income Statement

Particulars	Amount (₹)	Amount (₹)
Incomes: Cash sales		2,20,000
Less: Expenses	82,000	
Cash purchases	1,35,000	
Credit purchases		
Salaries paid 17,000		
Add: Outstanding 5,000	22,000	
Rent paid 17,500		
Add: Outstanding 2,800	20,300	
Insurance paid 18,500		
Less: Pre paid 3,000	15,500	2,74,800
∴ Net Loss		54,800

CAPITAL & REVENUE TRANSACTIONS

14. Multiple choice questions:

Choose the correct alternative:

1. **The purpose of distinguishing transactions between capital and revenue are:**
   - (a) Ensuring proper accounting of transactions
   - (b) Determination of true operating result
   - (c) Proper disclosure of financial position
   - (d) All of the above

2. **Which of the following is/are capital expenditure?**
   - (a) Capital cost of fixed assets
   - (b) Installation and Erection charges
   - (c) Overhauling of machinery
   - (d) All of the above

3. **Which of the following accounting concept is related to capital and revenue transactions?**
   - (a) Entity concept
   - (b) Matching concept
   - (c) Periodicity concept
   - (d) Consistency concept

4. **Which of the following is/ are least likely to be true?**
   - (a) A journal is often referred to as Book of Final Entry.
   - (b) Return outward book records the transactions relating to goods that are returned by an entity to its creditors.
   - (c) Purchase Day Book records all credit purchase of goods.
   - (d) All of the above

5. **Capital Profit arises from _______:**
   - (a) Premium received on issue of shares
   - (b) Profit prior to incorporation
   - (c) Profit made on sale of a Fixed Asset
   - (d) All of the above

Answer:

1 (a);	2 (d);	3(d);	4 (a);	5 (d)

15. Match the following:

	Column A		Column B
1.	Errors of Omission	A	When wrong posting is made to a wrong account instead of a correct one although amount is correctly recorded
2.	Errors of Commission	B	Transaction is not at all recorded in the books of accounts
3.	Errors of Principle	C	When one error is compensated by another error(s)
4.	Errors of Misposting	D	Where there is any variation in figure/amount
5.	Compensating Errors	E	When transactions are mingled between capital and revenue

Answer:

1- B;	2- D;	3- E;	4 - A;	5- C.

16. Fill in the blanks:

1. A receipt of money is considered as ______ receipt when it is received from customers for goods supplied or fees received for services rendered in the ordinary course of business.
2. Bad debt is an example of revenue ________.
3. __________expenditure is recurring in nature.
4. When a profit arises out of a casual and non-recurring transaction, it is termed as__________.
5. The ledger where all transactions relating to incomes and expenses are recorded, is called ______ Ledger.

Answer:

1- Revenue ;	2- Loss;	3- Revenue;	4 – Capital profit ;	5 – Nominal

17. State whether the following statements are true or false:

1. Normally, revenue expenditure involves heavy cash outlay.
2. Revenue Expenditures are recognised as Expenses and Losses in the debit-side of the Income Statement.
3. The purpose is to establish arithmetical accuracy of the transactions recorded in the Books of Accounts.
4. An expenditure, the benefit from which can be enjoyed, consumed or used over multiple accounting periods is referred to as Capital Expenditure.
5. Revenue transactions relate to both current and future accounting periods.

Answer:

1- False;	2- True;	3- True;	4 - True;	5 – False

ILLUSTRATIONS:

18. Classify the following transactions between capital and revenue:

(a) A plant constructed for ₹ 10,50,000.

(b) Profit earned by sale of fixed assets ₹ 25,000.

(c) Amount received from customers for services rendered ₹ 2,00,000

(d) Regular repairs and maintenance incurred on old machine ₹ 24,000.

(e) Annual rates and taxes paid to local authority ₹ 2,000.

Solution:

S.L. No	Transaction	Explanation
(a)	Capital Expenditure	The plant constructed is a capital asset that is expected to provide benefits of enduring nature.
(b)	Capital Profit	It is incurred on disposal of an existing capital asset.
(c)	Revenue Receipt	It is a receipt arising from regular operations.
(d)	Revenue Expenditure	It is incurred for maintaining the working capacity of an existing capital asset.
(e)	Revenue Expenditure	It is usually an annual outflow i.e. recurring in nature.

19. State whether the following expenditures are capital or revenue in nature?

a. Office redecoration expenses incurred.

b. Materials used for construction of foremen's office.

c. Purchase of coffee making machine for staff canteen.

d. An extension of railway tracks within the factory premises.

Solution:

a. As it is expected to provide benefit over one accounting period, it is a considered as a Revenue expenditure.

b. Capital Expenditure as it will result in creation of a capital asset which in turn is expected to provide benefits of enduring nature.

c. Capital Expenditure because it results in the acquisition of an asset.

d. Capital Expenditure as it is expected to provide benefits of enduring nature.

20. Give a pair of examples of each of the following items when the following expenditures can be considered as capital expenditure and revenue expenditure:

a. Repairing Charges

b. Wages

Solution:

	Items	Example of Revenue Expenditure	Example of Capital Expenditure
(a)	Repairing Charges	Regular repairs incurred for maintenance of an existing capital asset.	Major repairing charges incurred for overhaul/ renovation of old assets.
(b)	Wages	Wages paid to workers engaged in regular operations (viz. manufacturing / production / service rendering).	Wages paid for installation of a new plant, machinery, equipment etc.

ACCOUNTING FOR DEPRECIATION

21. Multiple choice questions:

Choose the correct alternative:

1. Which of the following is/ are not objective(s) of providing depreciation?
- **(a) Determination of the true operating result**
- **(b) For maintenance of capital**
- **(c) Repayment of external liabilities**
- **(d) For disclosure of the true value of the asset**

2. Which of the following is/ are factor(s) that is considered for measurement of depreciation?
- **(a) Cost of asset**
- **(b) Life of asset**
- **(c) Scrap value**
- **(d) All of the above**

3. Which of the following is/ are feature(s) of depreciation?
- **(a) It gradual and continuous decline in the value of fixed asset.**
- **(b) It is a charge against profit.**
- **(c) It is a permanent decline.**
- **(d) All of the above**

4. Which of the following is an internal factor that causes the depreciation?
- **(a) Passage of time**
- **(b) Expiry of legal life of asset**
- **(c) Depletion**
- **(d) All of the above**

5. _______ method of ascertaining depreciation results in constant charge over the useful life of the asset.
   (a) Sinking Fund
   (b) Annuity
   (c) Reducing Balance
   (d) Straight Line

Answer:

1 (c);	2 (d);	3(d);	4 (c);	5 (d)

22. Match the following:

	Column A		Column B
1.	Obsolescence	A	'Usage base' approach of measuring depreciation
2.	Sinking Fund Method	B	A sudden loss in the value of an asset
3.	Mileage Method	C	Deterioration in the value of an intangible fixed assets
4.	Sum of Years' Digit Method	D	'Source of Fund' approach of measuring depreciation
5.	Amortisation	E	'Time base' approach of measuring depreciation

Answer:

1- B;	2- D;	3- A;	4 - E;	5- C.

23. Fill in the blanks:

1. ______ refers a state of deterioration of a building or property due to old age or long use.
2. Under the ________ method of accounting, original cost of fixed asset is directly reflected in Balance Sheet.
3. Under _______ method of ascertaining depreciation, lower amount of profit is set aside as depreciation, and a higher amount of fund is created for replacement of asset.
4. ___________ is specially suited to mines, oil wells, quarries, sandpits and similar assets of a wasting character.
5. Under the Asset-charge Method of accounting, Fixed Asset Account appears in the Balance Sheet at __________.

Answer:

1- Dilapidation;	2- Asset-provision;	3-Sinking Fund;	4 –Depletion;	5 – WDV

24. State whether the following statements are true or false:

1. **Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage value, if any over the estimated useful life of the asset(s) in a systematic and rational manner.**
2. **All fixed assets, except land are subject to depreciation.**
3. **Depreciation Account is by nature a real account.**
4. **Asset-provision method of accounting provides more information relating to an asset than Asset-charge method of accounting.**
5. **Depreciation has to be charged to comply with the relevant provisions of the Companies Act and Income Tax Act.**

Answer:

1- True;	2- True;	3- False;	4 - True;	5 – True

ILLUSTRATIONS:

25. Khalsa Transport Co. of Ludhiana purchased 4 Trucks at ₹ 12,50,000 each on July 1, 2015. On Jan. 1, 2018 one of the trucks met with a massive accident and as a result was completely destroyed. Insurance company paid ₹ 7,00,000 in full and final settlement of the claim. On the same day the company purchased a used truck for ₹ 8,70,000 and spent ₹ 1,30,000 on its overhauling. Prepare Trucks Account for three years ending on March 31, 2018 given that the company writes off depreciation @ 20% p.a. on straight line basis.

Solution:

Books of Khalsa Transport Co.
Ledger

Dr.			**Trucks A/c**		**Cr.**
Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
1.7.15	To Bank A/c [Purchase of 4 trucks: 12,50,000 X 4]	50,00,000	31.3.16	By Depreciation A/c [₹ 50,00,000 X 20% X 9/12]	7,50,000
			31.3.16	By Balance c/d	42,50,000
		50,00,000			50,00,000
1.4.16	To Balance b/d	42,50,000	31.3.17	By Depreciation A/c [₹ 50,00,000 X 20%]	10,00,000
			31.3.17	By Balance c/d	32,50,000
		42,50,000			42,50,000
1.4.17	To Balance b/d	32,50,000	1.1.18	By Depreciation A/c [WN: 1]	1,87,500
1.1.18	Gain on Truck A/c [WN: 1]	75,000	1.1.18	By Bank A/c	7,00,000

1.1.18	To Bank A/c [Purchase & Overhaul: 870,000 + 30,000]	10,00,000		[Insurance claim received]	
			31.3.18	By Depreciation A/c [WN: 2]	8,00,000
			31.3.18	By Balance c/f	26,37,500
		43,25,000			43,25,000

WORKINGS:

1. **Gain on Truck due to Accident**

	₹
Original cost on 1.7.15	12,50,000
Less: Depreciation from 1.7.15 to 31.3.17 i.e. 1 yr. 9 months [₹ 12,50,000 X 20% X 21/12]	4,37,500
∴ WDV on 1.4.17	8,12,500
Less: Depreciation @ 20% p.a. for 9 months [₹ 12,50,000 X 20% X 9/12]	1,87,500
∴ WDV on 1.1.18	6,25,000
Insurance Claim Received	7,00,000
∴ Gain on Truck	75,000

2. **Depreciation for 2017-18**

Depreciation on 31.3.2018 is to be calculated on trucks existing on 31.3.2018, as follows:

	₹
On 3 trucks purchased on 1.7.15 [₹ 12,50,000 X 20% X 3]	7,50,000
On the truck purchased on 1.1.18 [₹ 10,00,000 X 20% X 3/12]	50,000
∴ Depreciation for 2017-18	8,00,000

26. **Digjam Textiles Ltd. provides depreciation on Equipments at 20% p.a. on reducing balances. On Apr. 1, 2017, the balance of the Equipments Account was ₹ 36,00,000. It was discovered in 2017-2018 that:**

- **₹ 1,80,000 being repairs to Machinery incurred on June 30, 2015 had been capitalised.**
- **₹ 3,60,000 being the cost of a generator purchased on Oct. 1, 2014 has been written-off to Maintenance Account.**

The company Directors wants to rectify the mistakes while finalizing the accounts for the year ended Mar. 31, 2018. A plant that cost ₹ 2,88,000 on Sept. 30, 2016 was scrapped and replaced with a more sophisticated one on Dec. 31, 2017 by spending ₹ 4,32,000. Scrap realised ₹ 72,000. Prepare the Equipments Account as it would appear on Mar. 31, 2018 after providing depreciation for the year.

Solution:

Books of Digjam Textiles Ltd.					
Dr.	**Equipments A/c**				**Cr.**
Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
1.4.17	To Balance b/f	36,00,000	31.12.17	By Bank A/c (Sale of Plant)	72,000
31.12.17	To Bank A/c	4,32,000	31.12.17	By Depreciation A/c (on Plant sold)	38,880
	(New plant purchased)		31.12.17	By Loss on Sale of Plant A/c [WN:1]	1,48,320
31.3.18	To P/L A/c [Prior period items - Rectification of maintenance – WN: 3]	2,07,360	31.3.18	By P/L A/c [Prior period items - [Rectification for repairs – WN: 2]]	1,22,400
			31.3.18	By Depreciation A/c [WN: 4]	7,06,752
			31.3.18	By Balance c/f	31,51,008
		42,39,360			42,39,360

WORKINGS:

1. Sale of Plant on 31.12.16

	₹
Original cost on 30.9.16	288,000
Less: Depreciation @ 20% p.a. for 6 months [₹ 288,000 X 20% X 6/12]	28,800
∴ WDV on 1.4.17	259,200
Less: Depreciation @ 20% p.a. for 9 months [₹ 259,200 X 20% X 9/12]	38,880
∴ WDV on 31.12.17	220,320
Scrap realised	72,000
∴ Loss on sale: (₹ 220,320 – ₹ 72,000)	148,320

2. Prior period adjustment for repairs

Rectification entry	
Repairs A/c Dr.	180,000
To Plant & Machinery A/c	180,000

Repair costs were incurred on June 30, 2015, but depreciation was wrongly provided till Mar. 31, 2017 i.e. for 21 months. [Since, the directors want to rectify the error on Mar. 31, 2018, depreciation was not incorrectly calculated for 2017-18.

∴ excess depreciation to be written-back is calculated as under:

		₹
▪ For 2015-16	[₹ 180,000 X 20% X 9/12]	27,000
▪ For 2016-17	[(₹ 180,000 – 27,000) X 20%]	30,600
		57,600

Journal entry for writing back excess depreciation:

Plant & Machinery A/c	Dr.	57,600
To Depreciation A/c		57,600

Combining the above two rectification entries, we get:

P/L A/c (Prior period item)	Dr.	122,400
To Plant & Machinery A/c [₹ 180,000 – 57,600]		122,400

3. **Prior period adjustment of maintenance**

Rectification entry	
Plant & Machinery A/c Dr.	3,60,000
To Maintenance A/c	3,60,000

The Generator was purchased on Oct. 1, 2014 but depreciation was not provided till Mar. 31, 2017 i.e. for 30 months.

[Since, the directors want to rectify the error on Mar. 31, 2011, depreciation for 2017-18 will be correctly provided on 31.3.18.]

∴ additional depreciation to be provided is calculated as under:

		₹
▪ For 2014-15	[₹ 360,000 X 20% X 6/12]	36,000
▪ For 2015-16	[(₹ 360,000 – ₹ 36,000) X 20%]	64,800
▪ For 2016-17	[(₹ 324,000 – ₹ 64,800) X 20%]	51,840
		152,640

Journal entry for providing additional depreciation

Depreciation A/c	Dr.	152,640
To Plant & Machinery A/c		152,640

Combining the above two rectification entries, we get:

Plant & Machinery A/c	Dr.	207,360
To P/L (Prior period item) [₹ 360,000 – ₹ 152,640]		207,360

4. **Annual Depreciation for 2017-18**

Depreciation on 31.3.18 is to be calculated on machines existing on 31.3.18, as follows:

	₹
On existing Plant & Machinery [₹ 34,25,760 (WN: 5) X 20%]	685,152
On machine acquired on 31.12.17 [₹ 4,32,000 X 20% X 3/12]	21,600
∴ Depreciation for 2017-18	706,752

5. Existing Plant & Machinery

= Opening WDV – Prior period adjustment for repairs + Prior period adjustment for maintenance – WDV of plant sold

= ₹ 36,00,000 – ₹ 122,400 + ₹ 207,360 – ₹ 259,200

= ₹ 34,25,760

27. The following information relates to Z Ltd.:

	Opening Balance (₹)	Closing Balance (₹)
Fixed Assets	**4,00,000**	**5,50,000**
Accumulated Depreciation	**80,000**	**1,35,000**

Additional information:

A part of a machine costing ₹ 60,000 has been sold for ₹ 30,000, on which accumulated depreciation was ₹ 15,000.

You are required to prepare the Fixed Assets Account, Accumulated Depreciation Account and Asset Disposal Account.

Solution:

Books of Z Ltd.

Dr. Fixed Assets A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance b/f	4,00,000		By Asset Disposal A/c [Cost of machinery sold transferred]	60,000
	To Bank A/c [Fixed Assets acquired- B/Fig]	2,10,000		By Balance c/f	5,50,000
		6,10,000			6,10,000

Dr. Accumulated Depreciation A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Asset Disposal A/c [Accumulated depreciation on machinery sold –transferred]	15,000		By Balance b/f	80,000
	To Balance c/f	1,35,000		By Depreciation A/c [Annual Depreciation –B/Fig]	70,000
		1,50,000			1,50,000

Dr.		Asset Disposal A/c			Cr.
Date	Particulars	₹	Date	Particulars	₹
	To Fixed Assets A/c (Cost of machine sold)	60,000		By Accumulated Depreciation A/c [Accumulated Depreciation on machinery sold]	15,000
				By Bank A/c (sale proceeds)	30,000
				By Loss on sale of machine A/c [WN: 1]	15,000
		60,000			60,000

WORKINGS:

1. **Sale of machine**

	₹
Cost of machine sold	60,000
Less: Accumulated Depreciation on machine sold	15,000
∴ WDV of machine sold	45,000
Sale Proceeds	30,000
∴ Loss on sale of machine (₹ 30,000 – ₹ 15,000)	15,000

28. On Dec. 31, 2018 two machineries which were purchased on 01.10.2015 costing ₹ 50,000 and ₹ 20,000 respectively had to be discarded and replaced by two new machineries costing ₹ 50,000 and ₹ 25,000 respectively.

One of the discarded machineries was sold for ₹ 20,000 and other for ₹ 10,000. The balance of Machinery Account on April 1, 2018 was ₹ 3,00,000 against which the depreciation provision stood at ₹ 1,50,000. Depreciation was provided @10% on Reducing Balance method.

Prepare Machinery Account, Provision for Depreciation Account and Machinery Disposal Account.

Solution:

Books of Digjam Textiles Ltd.					
Dr.	Machinery A/c				Cr.
Date	Particulars	₹	Date	Particulars	₹
1.4.18	To Balance b/d	3,00,000	31.12.18	By Machinery Disposal A/c	70,000
31.12.18	To Bank A/c [Machines purchased – 50,000 + 25,000]	75,000		[Cost of machine discarded – 50,000 + 20,000]	
			31.03.19	By Balance c/d	3,05,000
		3,75,000			3,75,000

Dr.	Provision for Depreciation A/c				Cr.
Date	Particulars	₹	Date	Particulars	₹
1.4.18	To Machinery Disposal A/c [16,135 + 4,040]	20,175	1.4.18	By Balance b/d	1,50,000
31.3.19	To Balance c/d	1,41,314	31.3.19	By P/L A/c	11,489
		1,61,489			1,61,489

Dr.	Machinery Disposal A/c				Cr.
Date	Particulars	₹	Date	Particulars	₹
1.4.18	To Machinery A/c	70,000	31.12.18	By Provision for Depreciation A/c	1,50,000
	[Cost of machine discarded –			[Depreciation on discarded WN: 1]	
	50,000 + 20,000]		ʼʼ	By Provision for Depreciation A/c	4,040
				[Depreciation of 9 months – WN:2]	
			ʼʼ	By Bank A/c	30,000
			31.3.19	By P/L A/c [B/Fig.]	19,825
		70,000			70,000

WORKINGS:

1. Depreciation on two discarded machineries till 31.3.2018

	Machinery 1	Machinery 2	Total
Value of machinery on 1.10.2015	50,000	20,000	70,000
Less: Depreciation for 2015-16 @ 10% p.a. for 6 months	2,500	1,000	3,500
	47,500	19,000	66,500
Less: Depreciation for 2016-17 @ 10% p.a.	4,750	1,900	6,650
	42,750	17,100	59,850
Less: Depreciation for 2017-18 @ 10% p.a.	4,275	1,710	5,985
∴ WDV on 31.3.2018	38,475	15,390	53,865

2. Depreciation on two discarded machineries for 2018-19

	₹
Book Value of machinery on 1.4.2018 [WN: 1]	53,865
Less: Depreciation @ 10% p.a. for 9 months	4,040
[53,865 x 10% x 9/12]	
∴ Value of discarded machineries on 31.12.18	49,825

3. Depreciation on Machinery in use

		₹
Value of machinery on 1.4.2018		3,00,000
Less: Cost of discarded machinery		70,000
		2,30,000
Less: Provision for depreciation on 1.4.2018	1,50,000	
Less: Depreciation on discarded machineries on 1.4.2018	16,135	1,33,865
		96,135
Depreciation @ 10% on ₹ 96,135		9,614
Add: Depreciation for 3 months on ₹ 75,000 @ 10%		1,875
∴ Total Depreciation		11,489

RECTIFICATION OF ERRORS

29. Multiple choice questions:

Choose the correct alternative:

1. Opening entries are passed in:
- **(a) General Journal**
- **(b) Cash Book**
- **(c) Special Journal**
- **(d) None of the Above**

2. Rectification entries are also known as _______ entries.
- **(a) Opening**
- **(b) Closing**
- **(c) Correction**
- **(d) Adjustment**

3. Which account gets debited when Net Loss is transferred from Profit & Loss Account to Capital Account?
- **(a) Trading Account**
- **(b) Profit & Loss Account**
- **(c) Capital Account**
- **(d) Net Loss Account**

4. For closing Purchases Account and Wages Account which account is to be debited?
- **(a) Capital Account**
- **(b) Trading Account**
- **(c) Profit & Loss Account**

(d) Suspense Account

5. For rectifying a _______ error that is identified before the preparation of Trial Balance no journal entry is to be passed.
   (a) single-sided
   (b) double-sided
   (c) accounting
   (d) mathematical

Answer:

1 (a);	2 (c);	3(c);	4 (b);	5 (a)

30. Match the following:

	Column A		Column B
1.	Error of Omission	A	Error involving wrong amount
2.	Error of Principle	B	More than one error that set-of effect of each other
3.	Error of Commission	C	Entering revenue transaction as capital transaction and vice versa
4.	Single-sided Error	D	Suspense Account
5.	Compensating Error	E	Transaction forgotten to be entered in books

Answer:

1- E;	2- C;	3- A;	4 - D;	5- B.

31. Fill in the blanks:

1. Closing entries are passed for transferring the balances of ________ accounts
2. ______ entries are passed when errors and mistakes are discovered in accounting records.
3. In order to prepare final account, the difference appearing in trail balance, if any, is to be passed through _______ Account.
4. When Gross Loss is transferred from Trading Account to Profit & Loss Account _____ Account gets credited.
5. For closing Interest Received, Discount Received and other indirect income accounts _______ Account is to be credited.

Answer:

1- Nominal;	2-Rectification;	3- Suspense;	4 - Trading;	5 – Profit & Loss

32. State whether the following statements are true or false:

1. **The balances of assets, liabilities and owners' capital and equity accounts are only considered for such opening entries.**
2. **When Gross Profit is transferred from Trading to Profit & Loss Account, it is the Trading Account that gets credited.**
3. **All the expenses and gains or income related nominal accounts must be closed at the end of the year.**
4. **Preparation of Cash Book and Trial Balance happen to be cut-off points in the process of rectification of errors.**
5. **Trading Adjustment Account is involved for rectifying errors in nominal accounts after the final accounts have been drafted.**

Answer:

1- True;	2- False;	3- True;	4 - False;	5 – False

ILLUSTRATIONS:

33. The following errors were detected in the books of M/s Shiva Traders while preparing the Trial Balance. You are required to rectify the errors.

a. **Freight paid for bringing purchased goods wrongly debited to Machinery Account ₹ 72,600.**
b. **Equipments purchased worth ₹ 8,50,000 wrongly passed through Purchases A/c.**
c. **Returns Outward book was overcast by ₹ 54,000.**
d. **Goods purchased from Rohan worth ₹ 79,000 has been debited to his account.**
e. **An amount of rent outstanding ₹ 13,000 in the previous year, had not been brought forward as an opening balance in the current year.**
f. **Fresh cash introduced by the proprietor of ₹ 44,000 was not posted in ledger account**.

Solution:

Books of M/s Shiva Traders
Journal Proper

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
a.	Freight A/c Dr.		72,600	
	To Machinery A/c			72,600
	(Being freight paid for bringing purchased goods wrongly debited to Machinery Account, now rectified)			
b.	Equipments A/c Dr. To Purchases A/c (Being purchase of equipments wrongly recorded in Purchases A/c, now rectified)		8,50,000	8,50,000
c.	Returns Outwards A/c is to be debited by ₹ 54,000.			
d.	Rohan A/c is to be credited with ₹ 158,000.			
e.	Outstanding Rent is to be credited with ₹ 13,000.			

f.	Capital A/c is to be credited by ₹ 44,000.			

34. The Trial Balance of Zeeshan Co. was drafted by its accountant with its ledger balances. However, he could not tally the Trial Balance and the difference in books was placed in a Suspense Account for drafting the financial statements. Subsequently the internal auditor identified the following mistakes:

a. A machinery sold on credit to M/s Alam for ₹ 2,50,000 had been recorded in the Sales Day Book.

b. An amount of ₹ 62,000 due from Belal had been erroneously omitted from the schedule of sundry debtors.

c. Goods sold to Zaman, a customer, for ₹ 15,000 had been posted to the credit of his account as ₹ 51,000.

d. A dishonoured cheque for ₹ 50,000 received from a customer and returned by the Bank had been credited to the Bank Account and debited to Sundry Creditors Account.

Show the necessary Entries in the Journal proper with suitable narration to rectify these errors. Also show how the non-detection of these errors affected last year's Profit and Loss Account.

Solution:

Books of Zeeshan Co.

Journal Proper

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
a.	P/L Adjustment A/c Dr. To Machinery A/c (Being machinery sold on credit to M/s Alam wrongly recorded in the Sales Day Book, now rectified)		2,50,000	 2,50,000
b.	Sundry Debtors A/c Dr. To Suspense A/c (Being ₹ 62,000 due from Belal had been erroneously omitted from the schedule of sundry debtors, now rectified)		62,000	 62,000
c.	Zaman A/c Dr. To Suspense A/c (Being goods sold to Zaman for ₹ 15,000, wrongly posted to the credit of his account as ₹ 51,000, now rectified)		66,000	 66,000
d.	Sundry Debtors A/c Dr. To Sundry Creditors A/c (Being a dishonoured cheque for ₹ 50,000 received from a customer and returned by the Bank credited to the Bank Account but wrongly debited to Sundry Creditors Account, now rectified)		50,000	 50,000

Statement showing effect on last year's profit due to non detection of errors

	Particulars	Effect on Profit Increase (₹)	Effect on Profit Decrease (₹)
a	Sale of machinery incorrectly recorded	2,50,000	
b	Omission of customer from schedule of debtors	Nil	Nil
c	Incorrect recording of sale of goods	Nil	Nil
d	Incorrect recording of cheque dishonoured in Sundry Creditors Account	Nil	Nil
		2,50,000	
∴ Net increase in last year's Profit = ₹ 2,50,000			

35. The total of debit side of the Trial Balance of Sanjay Ltd. as at 31.3.2019 is ₹ 2,92,000 and that of the credit side is ₹ 1,80,800. After detailed checking, the following errors were identified:

Name of Accounts	Correct Figures (as it should be)	Figures as it appears in the Trial Balance
Opening stock	**12,000**	**8,000**
Salaries	**28,800**	**50,400**
Accounts Receivable	**83,200**	**1,26,400**
Trade Creditors	**64,800**	**14,400**

You are required to ascertain the correct total of the Trial Balance.

Solution:

Statement showing calculation of correct total of Trial Balance

Particulars	Dr. (₹)	Cr. (₹)
Total of Trial Balance (as given)	2,92,000	1,80,800
Add: Under-statement of Opening Stock	4,000	
Less: Over-statement of Salaries	(21,600)	
Less: Over-statement of Accounts Receivable	(43,200)	
Add: Under-statement of Trade Creditors		50,400
	2,31,200	2,31,200

36. The Trial Balance of Kohli Bros. had agreed but the auditor identified some mistakes after the preparation of the Final Accounts. These mistakes are:

a. Purchase Day Book was overcast by ₹ 82,000.

b. ₹ 34,000 received in respect of a Book Debt had been credited to Sales Account.

c. Rent paid ₹ 64,000 had been omitted to be recorded in the books.

d. Adjustment entry for prepaid wages was not passed for an amount of ₹ 12,000.

e. ₹ 26,000 paid for purchase of stationery has been debited to Purchases Account. However, such stationeries were consumed in the business.

What would be the effect of the above errors on the Gross Profit and Net Profit of the concern.

Solution:

Effect of Errors on Gross profit & Net Profit

Sl. No.	Errors	Impact on Profit		Effect on Profit (₹)	
		Gross Profit	Net Profit	Gross Profit	Net Profit
a.	Purchase Day Book was over-cast	Understated	Understated	(82,000)	(82,000)
b.	Amount received in respect of Book Debt had been credited to Sales Account	Overstated	Overstated	34,000	34,000
c.	Rent had been omitted to be recorded in the books.	No effect	Overstated	--	64,000
d.	No Adjustment entry was passed for an amount relating to Advance Salary.	Understated	Understated	(12,000)	(12,000)
e.	Purchase of Stationery has been debited to Purchases Account.	Understated	No effect	(26,000)	
	∴Net Effect			(86,000)	4,000

Therefore, the above errors would have resulted in understatement of Gross Profit by ₹ 86,000 and overstatement of Net Profit by ₹ 4,000 respectively.

Study Note – 2

ACCOUNTING FOR SPECIAL TRANSACTIONS

Learning Objective: *To be able to gather a comprehensive knowledge on Bills of Exchange, Consignment, Joint-venture and Insurance Claim and the relevant terms and accounting procedures of these special transactions.*

BILL OF EXCHANGE

1. Multiple choice questions:

Choose the correct alternative:

1. Bill of exchange is covered by Negotiable Instrument Act:
   (a) 1881
   (b) 1818
   (c) 1881
   (d) None of these

2. Features of bill of exchange:
   (a) It is an instrument in writing
   (b) It contains an unconditional order to pay
   (c) The parties must be certain
   (d) All of these

3. Bill of Exchange involves:
   (a) Drawer
   (b) Drawee
   (c) Payee
   (d) All of these

4. Types of Bill of Exchange:
   (a) On demand or At sight
   (b) After date
   (c) After sight
   (d) All of these

5. Noting is
   (a) Dishonour of bill
   (b) Authentication of dishonour
   (c) Renewal of bill
   (d) None of these

Answer:

1. (a)
2. (d)
3. (d)
4. (d)
5. (b)

2. Fill in the blanks:

1. A bill must be stamped as per …………..Act
2. Bill of exchange must be stamped except…………..bill
3. Drawer is the person who ……… the bill
4. Payee is the person to whom the………. is payable
5. Accommodation bill is also known as …………

Answer:

1. Indian Stamp
2. demand
3. draws
4. bill money
5. kite bill

3. State whether the following statements are true or false:

1. Bill of exchange is a negotiable instrument.
2. Cheque is a bill of exchange.
3. 'Days of grace' is not applicable for on demand bill.
4. If the maturity day of a bill turns out as a public holiday then the due date shall be the preceding working day.
5. 'Days of grace' is fully applicable for a cheque.

Answer:

1. True
2. True
3. True
4. True
5. False

4. Match the following:

	Column - A		Column - B
1	Drawer	A	Debtor
2	Dishonour of bill	B	Dishonour
3	Retiring of bill	C	Nonpayment of bill
4	Drawee	D	Rebate
5	Noting	E	Creditor

Answer:

1. E
2. C
3. D
4. A
5. B

PROBLEMS AND SOLUTIONS

5. On 1.1.2018; X sold goods to Y valuing ₹ 30,000.On 4.1.2018 X received from Y 10000 and drew a bill payable 3 months after date for the balance. On the same time X endroses the accepted bill to Z for full settlement of a debt of ₹ 21000, on the due date the bill was dishonoured and y having become insolvent, met on 12.4.2018, 80% of his acceptance.

Solution:

In the books of X
Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1.1.2018	Y A/C Dr. To Sales A/c (Being the goods sold to Y on Credit)		30000	30000
4.1.2018	Cash A/c Dr. To Y A/C (Being the part payment of ₹ 10000 received from Y)		10000	10000
4.1.18	Bills Receivable A/c Dr. To Y A/C (Being a bill drawn on Rahim for 3 months for the amount due from him)		20000	20000
4.1.18	Z A/c Dr. To Bills Receivable A/c To Discount Received A/c (Being the bill endrosed in favour of Z in full settlement of a debt of ₹ 21000)		21000	 20000 1000
7.4.2018	Y A/C Dr. Discount Received A/c Dr. To Z A/c (Being the bill previously endrosed in favour of , now dishonoured)		20000 1000	 21000
12.4.2018	Bank A/c Dr. Bad Debt A/c Dr. To Y A/c (Being 80% of the amount due from Y , received)		16000 4000	 20000

In the books of Y

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1.1.18	Purchase A/c Dr. To X A/c (Being the Goods Purchased from Ram on Credit)		30000	30000
4.1.18	X A/c Dr. To Cash A/c (Being the part payment of ₹ 10000 made to X)		10000	10000
4.1.18	X A/C Dr. To Bills Payable A/c (Being the acceptance of a bill for 3 months for the amount due to him)		20000	20000
7.4.18	Bills payable A/C Dr. To X A/c (Being the bill dishonoured at maturity)		20000	20000
12.4.18	X A/c Dr. To Bank A/c To Deficiency A/c (Being the payment of 80% of dues)		20000	 16000 4000

6. Pass Journal Entries for the following transaction of X in the books.

1. **A renews his acceptance for ₹900 by paying ₹ 640 (₹ 40 being for interest) and by giving a bill for ₹ 400 for a further period of 2 months.**
2. **X's acceptance to c for 5000 was discharge by a cash payment of ₹. 3000 and an acceptance of a new bill for the balance plus ₹ 20 as interest.**
3. **D's acceptance of ₹ 3000 which had been discounted with the bank for ₹ 1700 has been returned by the bank unpaid. The bank has notified that ₹30 have been paid as noting charges.**
4. **X's acceptance to E for ₹ 6000 is discharged by Z's acceptance to X for a similar amount.**
5. **Y's retires a bill for ₹ 3000 drawn on him by X for ₹ 9 discount**

Solution:

In the books of X

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1	A A/c To Bills Receivable A/c (Being the bill previously drawn on A , now cancelled)		900	900
	A A/c To interest A/c (Being the interest charged to A for renewing the bill for a further period of 2 months)		40	40
	Cash A/c To A A/c (Being part payment received from A along with interest)		640	640

	Bills Receivable A/c To A A/c (Being a fresh bill drawn on A for the balance amount)		300	300
2	Bills Payable A/c To C A/c (Being the bill Previously drawn on us now cancelled)		5000	5000
	C A/c To Cash A/c (Being part payment made to c)		3000	3000
	Interest A/c To C A/c (Being the interest payable for renewing the bill)		20	20
	C A/c To Bills payable A/c (Being the acceptance of a fresh bill from C for the balance amount plus interest)		2020	2020
3	D A/c To Bank A/c (Being the bill previously discounted, now dishonourd, noting charges ₹30 paid by bank charged too)		3030	3030
4	Bills payable A/c To Bills Receivable (Being our Acceptance discharged by Z's Acceptance for the similar amount)		6000	6000
5	Bank A/c Discount Allowed A/c To Bills Receivable A/c (Being the bill previously drawn on Y , now retired, discount allowed to him ₹9)		2991 9	 3000

7. A sold goods to B for ₹ 20000 on 1.1.2018. On the same time A drew upon B a bill for the amount of bill at 2 months and B accepted the same. On 4th January 2018 A discounted the bill at his bank @12% p.a. on the due date B told A that he was not in a position to pay the full amount and requested A to accept ₹10000 in cash and to draw a fresh bill for the remaining amount for 2 months together with interest at 15% p.a. A agreed the second bill was duly met. Give Entries to record the above transactions in the book of A.

Solution:

In the books of A

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1.1.18	B A/c To Sales A/c (Being goods sold to B on credit)		20000	20000

1.1.18	Bills Receivable A/c To B A/c (Being a bill drawn on b for 2 months)		20000	20000
4.1.18	Bank A/c Discount On Bills A/c To Bills Receivable A/c (Being the bill discounted with the banker @12 p.a.)		19600 400	 20000
4.3.18	B A/c To Bank A/c (Being the bill previously discounted with the banker, now cancelled for renewal)		20000	20000
4.3.18	B A/c To Interest A/c (Being the interest charged to Ram on account of the bill to be drawn @15 % p.a. for 2 months)		250	250
4.3.18	Bank A/c Bills Receivable A/c To B A/c (Being part payment of ₹10000 received and a fresh bill drawn on B for the balance plus interest)		10000 10250	 20250

8. X bought goods from Y on 15th January, 2018 for ₹ 25000 for which he accepted a bill for 3 months drawn on him for ₹ 20000 and paid ₹ 5000 by cheque. On 21.112018 Y discounted the bill @15% p.a. X being unable to meet the bill at maturity requested Y to accept ₹10000 in cash and to draw another bill for 3 months for the balance sum plus interest at 16% p.a. and Y agreed. But before the maturity of the second bill, A became insolvent and a dividend of 50 paisa in the rupee was realized from his estate on 5th November 2018.

Pass the necessary journal entries.

Solution:

In the books of Y

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
15.1.18	X A/c To Sales A/c (Being goods sold on credit)		25000	25000
15.1.18	Bank A/c Bills Receivable A/c To X A/c (Being a cheque of ₹ 5000 and a bill of ₹ 20000 for 3 months received from X)		5000 20000	 25000
21.1.18	Bank A/c Discount ON Bills A/c To Bills Receivable A/c (Being the bill discounted with the banker @15% p.a.)		19285 715	 20000

18.4.18	X A/c To Bank A/c (Being the bill dishonoured at maturity)		20000	 20000
18.4.18	X A/c To Interest A/c (Being interest due on ₹ 1000 for 3 months)		400	 400
18.4.18	Bank A/c Bills Receivable A/c To X A/c (Being a part payment of ₹ 10000 accepted and a fresh bill drawn on for the balance plus interest)		10000 10400	 20400
21.7.18	X A/c To Bills Receivable A/c (Being the bill dishonoured at maturity)		10400	 10400
5.11.18	Bank A/c Bad Debt A/c To X A/c (Being the final dividend received from the estate of a @ 50 paisa in a rupee)		5200 5200	 10400

Working Note: Discount = (20000×15÷100×87÷365)

9. On 1st July, 2018 A drew a bill for ₹ 800000 for 3 months on B for mutual accommodation. He accepts the bill of exchange. He purchased goods worth ₹ from C on the same date. A endrosed B's acceptance to C in full settlement. On 1st September 2018 C purchased goods worth 90000 from B. C endrosed the bill of exchange received from A to B and paid 9000 in full settlement of the amount due to B.

On 1st October 2018 B purchased Goods worth ₹ 100000 from A. He paid the amount due to A by Cheque.

Pass necessary journal entries in the books of B.

Solution:

In the books of B

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1.7.18	A A/c To Bills payable A/c (Being the acceptance of a bill From A For mutual accommodation)		80000	 80000
1.9.18	C A/c To sales A/c (Being the goods sold on credit)		90000	 90000
1.9.18	Bills Receivable A/c Cash A/c Discount Allowed A/c To C A/c (Being a bill of ₹ 80000 and cash ₹ 9000 from c in full settlement)		80000 9000 1000	 90000

1.9.18	Bills payable A/c To Bills Receivable A/c (Being the mutual indebtedness cancelled)		80000	 80000
1.10.18	Purchase A/c To A A/c (Being goods purchased on credit from A)		100000	 100000
1.10.18	A A/c (100000-80000) To Bank A/c (Being the amount due to paid off)		20000	 20000

10. Mr. P.C. Nag draws a three months bill of exchange for ₹ 15000 on his debtors Sri Pronab Ghosh, who accepted it on 1st January, 1995. P.C. Nag discounts the bill on 4th January with his bank, the discount rate being 10% p.a. On the due date the bill was dishonoured by Pranab Ghosh, the noting charge being ₹. 50.

On 1st April, 1995 Pranab Ghosh makes an offer to P.C. Nag to pay him cash ₹ 5000 on account and to settle the balance by agreeing to accept one bill of exchange for ₹6000 at one moth and the other for the balance for 3 months, the latter including interest @12% p.a. for both the bills. P .C. Nag accepts the arrangements. The first bill met on due date but before maturity of the second bill Pranab Ghosh became insolvent and a dividend of ₹50 piese in the rupee is realized from his estate on 4th July, 1995.

Show the necessary journal entries in the books of P.C. Nag and Pranab Ghosh with narrations.

Solution:

In the Books of Mr P.C. Nag

Journal Entries

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1.1. 95	Bills receivable A/C Dr. To Pranab Ghosh A/C (Being a three months bill drawn on Pranab Ghosh and accepted by him)		15000	 15000
1.4	Bank A/C Dr. Discount on bill A/C (15000x10%x3/12) Dr. To Bills Receivable A/C (Being the above bill discounted @10% p.a. 3 months ahead of maturity)		14625 375	 15000
1.4	Pranab Ghosh A/C Dr. To Bank A/C (Being Pranab Ghosh's bill discounted but Dishonoured on maturity, noting charges being ₹50)		15050	 15050
1.4.	Cash A/C Dr. To Pranab Ghosh A/C (Being cash received from Pranab Ghosh in partial settlement of dues from him)		5000	 5000

1.4	Pranab Ghosh A/C Dr. To Interest A/C (Interest receivable from Pranab Ghosh @12% p.a.)		180	 180
1.4	Bills receivable A/C (10000+50+180) Dr. To Pranab Ghosh A/C (Being new bill drawn and accepted by ghosh)		10230	 10230
4.5	Bank A/C Dr. To Bills receivable A/C (Being the first one of the renewed bill's dishonoured on maturity)		6000	 6000
4.7	Pranab Ghosh A/C Dr. To Bills receivable A/C (Being the second one of renewed bills dishonoured on maturity)		4230	 4320
4.7	Bank A/C Dr. Bed Debt A/C Dr. To Pranab Ghosh A/C (Being 50%of the dues from Pranab Ghosh finally received and the balance treated as bed Debt)		2115 2115	 4230

In the Books of Pranab Ghosh

Journal Entries

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1.1. 95	P.C. Nag A/C Dr. To Bills Payable A/C (Being bills accepted for P.C Nag)		15000	 15000
1.4	Bills Payable A/C Dr. Noting charge A/C Dr. To P.C. nag A/C (Being the bill not met at maturity and noting due)		15000 50	 15050
1.4	Interest A/C Dr. To P.C. Nag A/C (Being Interest payable @12%)		180	 180
1.4.	P.C. Nag A/C Dr. To Cash A/C (Being cash paid in partial settlement of dues to P.C. nag)		5000	 5000
1.4	P.C. Nag A/C Dr. To Bills Payable A/C (Being new bill Accepted on renewal of dishonoured bill)		6000	 6000
1.4	P.C. Nag A/C Dr. To Bills Payable A/C (Being new bill accepted on renewal of dishonoured bill)		10230	 10230
4.5	Bills payable A/C Dr. To Bank A/C (Being own accepted honoured at maturity)		6000	 6000

4.7	Bills payable A/C Dr. To P.C. Nag A/C (Being own acceptance not met at maturity)		4230	 4320
4.7	P.C Nag A/C Dr. To Bank A/C To Deficiency A/C (Being 50% of dues paid)		4320	 2115 2115

Working:

Interest on ₹ 6000 @12% p.a. for one month	**60**
Interest on ₹ 4000 @ 12% p.a. for 3 months	**120**
Total	**180**
Due to P.C. Nag 15000+50+180-------------------------- 15230 (-) cash and amount of 1st bill (5000+6000)------------ 11000 Amount of 2nd bill	**4230**

11. **Goutam and Karun enter into an accommodation arrangement where under the proceeds are to be shared as 2/3 and 1/3 respectively. Goutam draws a bill for ₹45000 on Karun on 1.4.2005 at 3 months. Goutam gets it discounted for ₹44600 and on 5.4.05, remits Karun's share to him. On due date, Karun pays the bill, though Goutam fails to remit his share. On 18.7.05, Goutam accepts a bill for ₹63000 drawn on him by Karun at 3 months, which Karun discounted on 19.7.05 for ₹61650 and remits ₹11100 to Goutam. Before the maturity of the second bill Goutam becomes insolvent and only 40% was realized from his estate on 20.10.05.**

Pass the necessary journal entries in the books of Goutam.

Solution:

In the books of Goutam
Journal Entries

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
1.4.05	Bills Receivable A/C………………………… Dr. To Karun A/C (Being a 3 months bill drawn on Karun and accepted by him)		45000	 45000
	Bank A/C ………………………………………Dr. Discount on Bill A/C………………………… ...Dr. To Bills Receivable A/C (Being the acceptance discounted)		44600 400	 45000

5.4.05	Karun A/C (45000*1/3)……………………..……Dr. To Bank A/C (44600*1/3) To Discount on Bill (400*1/3) (Being 1/3 rd of the proceeds remitted to Karun)		15000	 14867 133
18.7	Karun A/C ……………………………………Dr. To Bills Payable A/C (Being a 3 months bill accepted for Karun)		63000	 63000
19.7	Bank A/C……………………………………Dr. Discount A/C (working note 1)……………......Dr. To Karun A/C (Being 2/3 rd of the proceeds of the new accepted received)		11100 900	 12000
20.10	Bills Payable A/C…………………………..Dr. To Karun A/C (Being own acceptance not met at maturity)		63000	 63000
	Karun A/C (working note 2)………………..Dr. To Bank A/C (40%) To Deficiency A/C (60%) (Being final dividend paid @40% of due to Karun)		42000	 16800 25200

Working Note-1

Proceeds of new acceptance in favour of Karun and discounted by him	₹
Proceeds of own acceptance (18.7.05) discounted by Karun (-) Payment by Karun of his acceptance	61,650 45,000
	16,650
2/3 of 16650= 11100. Discount shared = 2/3 of (63000-61650) = 900	

Working note-2:

Due to karun on the eve of own insolvency

Dr. **Karun Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
5.4	To Bank A/C	14867	1.4	By Bills Receivable A/C	45000
5.4	To Discount on Bill A/C To	133	19.7	By Bank A/C	11100
18.7	Bills Payable A/C	63000	19.7	By Discount A/C	900
20. 10	To Balance c/d	42000	20.10	By Bills Payable A/C	63000
		120000			**120000**

CONSIGNMENT

12. Multiple choice questions:

Choose the correct alternative:

1. In consignment business, the person who sends goods to its agents is referred to as __________.

(a) Borrower
(b) Consignee
(c) Consignor
(d) Drawer

2. Which of the following is/ are feature(s) of consignment form of business?
(a) It is a sales enhancement technique.
(b) The ownership of the goods that are lies with the consignor till they are sold.
(c) Revenue from consignment business is recognised by the consignor on sale of the goods sent by the consignee.
(d) All of the above.

3. Which of the following is true in respect of the proforma invoice?
(a) It is a document sent by the consignor to the consignee.
(b) Only the details of the goods returned are recorded in this document.
(c) It acts as an evidence of the remittance of money on consignment basis.
(d) None of the above

4. Del-credere commission is allowed by the consignor to the consignee for:
(a) making cash sales
(b) making credit sales
(c) bearing the risk attached to credit sale of the goods
(d) none of the above

5. Commission is due to the consignee from the consignor because of rendering of the regular activities of the consignment business is referred to as _________ commission.
(a) Del credere
(b) Special
(c) Ordinary
(d) Over riding

Answer:

1 (c);	2 (d);	3(a);	4 (c);	5 (c)

13. **Match the following:**

	Column A		Column B
1.	Consignor	A	Memorandum record
2.	Consignee	B	Principal
3.	Proforma invoice	C	Post-sales document
4.	Non-recurring expenditures	D	Unloading charges, Dock charges, Clearing charges etc.
5.	Account Sales	E	Agent

Answer:

1- B;	2- E;	3- A;	4 - D;	5- C.

14. **Fill in the blanks:**
    1. **When the consignor sends the goods to the consignee, he prepares only a ________.**
    2. **________ is additional commission payable to the consignee for taking over additional responsibility of collecting money from customers.**
    3. **For effecting sales at prices higher than the price fixed by the consignor, the Consignee is entitled to ________ Commission.**
    4. **The loss of goods which occurs other than due to the inherent nature of the goods involved is referred to as ________.**
    5. **The party who sells the goods on behalf of its principal in a consignment basis is referred to as the _________.**

Answer:

1- Proforma Invoice;	2- Del credere Commission;	3- Over-riding;	4 - Abnormal Loss;	5 – Consignee

15. **State whether the following statements are true or false:**
    1. **A consignment business stands on the principle of Debtor-Creditor relationship.**
    2. **The relationship of consignor and consignee is that of a buyer and seller.**
    3. **The ownership of goods remains with the consignor when goods are transferred to the consignee by the consignor.**
    4. **Del-credere commission is calculated on the value of aggregate sales made by the consignee.**
    5. **Consignment Debtors Account can be maintained in the books of either the consignor or the consignee.**

Answer:

1- False;	2- False;	3- True;	4 - True;	5 – True

PROBLEMS AND SOLUTIONS

16. **P of Pondicherry consigned goods costing ₹8,00,000 to H of Hampi. The terms of consignment were:**
    (a) Consignee to get a commission of 5% on cash sales and 4% on credit sales;
    (b) Any goods taken by the consignee himself or goods damaged through consignee's negligence shall be valued at cost plus 12.5% and no commission will be allowed on them.

The expenses incurred by the consignor were: Freight ₹ 33,600 and insurance of ₹ 17,200. The consignor received ₹2,50,000 as advance against the consignment. Account Sales together with a draft for the balance due was received by the consignor showing the following position:

Goods costing ₹ 6,40,000 were sold for cash at ₹ 7,00,000 and on credit at ₹ 5,40,000. Goods costing ₹40,000 were taken by H and goods costing ₹20,000 were lost through H's negligence. The expenses incurred by H were:

Insurance ₹ 1,800; Godown rent ₹ 6,800; Selling expenses ₹ 5,400.

Prepare Consignment Account and Consignment Debtors Account in the books of P.

Solution:

Books of P

Consignment to Hampi Account

Dr. **Cr.**

Particulars		₹	Particulars	₹
To Goods sent on Consignment A/c		8,00,000	By H A/c: Cash Sales	7,00,000
To Bank A/c [Expenses incurred]			Goods taken over (40,000+12.5%)	45,000
- Freight	33,600		Goods damaged (20,000+12.5%)	22,500
- Insurance	17,200	50,800	By Consignment Debtors A/c [Credit sales]	5,40,000
To H A/c			By Consignment Stock A/c [WN: 1]	1,06,350
- Insurance	1,800			
- Godown rent	6,800			
- Selling expenses	5,400	14,000		
To H A/c [Commission]				
- On cash sales: (7,00,000 × 5%)	35,000			
- On credit sales: (5,40,000 ×4%)	21,600	56,600		
By P/L A/c [Profit on consignment transferred]		4,92,450		
		14,13,850		14,13,850

Consignment Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Consignment A/c [Credit sales]	5,40,000	By Balance c/d	5,40,000

WORKINGS:

1. **Valuation of unsold stock**

	₹
Cost of goods sent	8,00,000
Add: Consignor's expenses (being, freight and insurance)	50,800
	8,50,800
Add: Non-recurring expenses incurred by consignee	Nil
	8,50,800
Cost of Unsold Stock = ₹ 8,00,000 – 6,40,000 – 40,000 – 20,000 = ₹ 1,00,000	
$\therefore$ Value of Unsold Stock = ₹ 8,50,800 x $\frac{1,00,000}{8,00,000}$.	₹ 1,06,350

17. **Hisar consigns to Jay of Jaipur 400 boxes of goods at a cost of ₹ 5,000 per case and incurs the following expenses in connection with the same – Carriage ₹ 9,400, Freight ₹. 34,800 and Insurance ₹**

1,25,000. On arrival of the goods at Jaipur, Jay pays clearing charges ₹ 31,200, cartage ₹ 9,600 and godown rent ₹ 2,000. On arrival of the goods at the godown, 60 boxes were found to be damaged and a sum of ₹ 3,00,000 was realized from the incubator company by way of compensation. 240 of the remaining boxes were sold at a total price of ₹ 22,00,000.

Jay is entitled to an ordinary commission of 5% and 2% del-credere commission on sales in addition to reimbursement of expenses incurred. He sends to Hari an Account Sales together with a bank draft for the balance due to Hari.

You are required to prepare Consignment Account in the books of Hari and pass journal entries in the books of Jay.

Solution:

Books of Hari

Consignment Account

Dr. **Cr.**

Particulars		A/c.	Particulars	A/c.
To Goods sent on Consignment A/c		20,00,000	By Goods Damaged A/c [WN: 1]	3,25,380
[400 X A/c. 5,000]			By Jay A/c [Sales]	22,00,000
To Bank A/c [Expenses incurred]				
- Carriage	9,400		By Consignment Stock A/c [WN: 1]	5,54,300
- Freight	34,800			
- Insurance	1,25,000	1,69,200		
To Jay A/c				
- Clearing Charges	31,200			
- Cartage	9,600			
- Godown Rent	2,000	42,800		
To Jay A/c				
- Ordinary commission: (22,00,000 X 5%)	1,10,000			
- Del credere commission (22,00,000 X 2%)	44,000	1,54,000		
By P/L A/c [Profit on consignment transferred]		7,13,680		
		30,79,680		30,79,680

Books of Jay

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
….	Hari A/c	Dr.	42,800	
	To Bank A/c [31,200 + 9,600 + 2,000]			42,800
	[Being expenses paid on receipt of the boxes]			
….	Bank A/c	Dr.	22,00,000	
	To Hari A/c			22,00,000
	[Being sales made on behalf of Hari]			
….	Hari A/c	Dr.	1,54,000	

	To Ordinary Commission A/c			1,10,000
	To Del credere Commission A/c			44,000
	[Being commission due from Hari]			
….	Hari A/c	Dr.	20,03,200	
	To Bank A/c			20,03,200
	[Being final balance paid to Hari]			

WORKINGS:

1. **Valuation of goods damaged and unsold stock**

	Boxes	₹
Cost of goods sent	400	20,00,000
Add: Consignor's expenses (being, carriage, freight and insurance)	-	1,69,200
	400	21,69,200
Less: Goods lost in transit [₹. 21,69,200 x 60 /400]	60	3,25,380
	340	18,43,820
Add: Non-recurring expenses incurred by consignee (being, Clearing charges and cartage)	-	40,800
	340	18,84,620
Unsold Stock = [400 – (60 + 240)] = 100 boxes	₹ 18,84,620 x $\frac{100}{340}$	
∴ Value of 100 boxes	= ₹ 5,54,300	

18. **Hyder of Mysore sent goods to Jalal of Agra on April 1, 2017. He lost all the documents that recorded the details of the goods sent on consignment. The only information available from his office is that the forwarding expenses incurred by of him for sending the goods to Agra was ₹ 12,000. Hyder gather the following information from Jalal, his agent at Agra:**

- **He incurred expenses to the tune of ₹ 25,000 out of which a sum of ₹ 9,000 is recurring in nature.**
- **The Jalal had remitted the balance due from him through Bank Draft after deducting the expenses, 5% commission on gross sales, bad debts ₹ 4,250 and a Bills payable accepted by him for ₹ 50,000.**
- **The value of unsold stock at original cost lying with the Jalal as on March 31, 2018 amounted to ₹ 2,50,000.**
- **Jalal sent an Account Sales reflecting the total sales effected by him during 2017-18 of ₹ 22,50,000. This included ₹ 15,62,500 for sales made at invoice price which is cost plus 25% and the balance at 10% above the invoice price.**

You are required to prepare the Consignment of Agra Account and the Jalal Account in the Books of the Consignor.

Solution:

Consignment of Agra Account

Dr. **Cr.**

Particulars		₹	Particulars	₹
To Goods sent on Consignment A/c [WN:1]		25,00,000	By Consignment Debtors A/c [Sale]	22,50,000
To Bank A/c [Expenses incurred]				
- Forwarding Expenses		12,000	By Goods sent on Consignment A/c [Load on goods sent – WN:1]	5,00,000
To Consignee A/c [Expenses paid by consignee]			By Consignment Stock A/c [WN: 2]	3,16,000
-Non-recurring Expense [25,000 – 9,000] -Recurring Expenses	16,000 9,000	25,000		
To Consignee A/c [Commission due: ₹ 22,50,000 X 5%]		1,12,500		
To Consignment Debtors A/c [Bad debt]		4,250		
To Stock Reserve A/c [Load on unsold stock – WN: 2]		62,500		
To P/L A/c [Profit on consignment transferred]		3,49,750		
		30,66,000		30,66,000

Jalal Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Consignment Debtors A/c	22,45,750	By Bills Receivable A/c	50,000
[Collection from debtors: 22,50,000 – 4,250]		By Consignment A/c [Expenses incurred]	25,000
		By Consignment A/c [Commission due]	1,12,500
		By Bank A/c [Final remittance - B/Fig.]	20,58,250
	22,45,750		22,45,750

WORKINGS

1. **Goods sent on consignment**

	₹
Total sales	22,50,000
Less: Sales made at invoice price	15,62,500
∴ Sales made at invoice price plus 10%	6,87,500
∴ Total sales at invoice price [₹ 15,62,500 + (₹ 6,87,500 X 100/110)]	21,87,500
Less: Loading on above [₹ 21,87,500 X 25/125]	4,37,500
∴Cost of Goods sold	17,50,000
Add: Unsold stock	2,50,000
∴Cost of goods sent on consignment	20,00,000
Add: Loading @ 25%	5,00,000
Goods sent on consignment [at IP]	25,00,000

2. **Value of unsold stock**

	₹
Original cost of unsold stock (given)	2,50,000
Add: Loading [₹ 50,000 X 25%]	62,500
	3,12,500
Add: Proportionate expenses of consignor [₹ 12,000X3,12,500/25,00,000]	1,500
Proportionate non-recurring expenses paid by consignee [₹ 16,000 X 3,12,500 / 25,00,000]	5,000
∴value of unsold stock	3,16,000

JOINT VENTURE ACCOUNTS

19. Multiple choice questions:

Choose the correct alternative:

1. The business activities for which Joint Ventures (JV) are formed could be:
(a) Construction of dams, bridges, roads etc
(b) Buying & selling of goods for a particular season
(c) Producing a film
(d) All of the above

2. When Expenses paid for the joint venture, the amount is debited to:
(a) Expenses Account
(b) Purchase Account
(c) Joint Venture Account
(d) Venturer's Capital Account

3. Joint Bank account is to be opened:
(a) When no separate set of books for the venture are maintained
(b) When separate set of books for the venture are maintained
(c) Under both situations
(d) Not under above any situation

4. In case of memorandum method when there are three Co-Venturers, each Co-Venturer opens in its books for the venture:
(a) One Account
(b) Two Accounts
(c) Three Accounts
(d) None Accounts

5. No entry is passed for goods supplied or expenses incurred on Joint Venture by the 'Other Co-venture' in case of:
(a) Memorandum Joint Venture Account
(b) Record maintained by one of the Co-ventures'
(c) Keeping separate set of books
(d) None of the above

Answer:

1. (d)
2. (c)
3. (b)
4. (a)
5. (a)

20. State whether the following statements are true or false:

1. Joint Venture has very long life.
2. Co-Ventures and Co-Partners are interchangeable terms.
3. Parties of joint venture are known as Co-Venturers
4. Joint Venture and Partnership are synonymous terms.
5. Co-Venturers work for commission.

Answer:

1. False
2. False
3. True
4. False
5. False

21. Distinguishes between joint venture and partnership business.

Answer:

There are some similarities between joint venture and partnership business but there are some basic differences between the two which are given below:

Sl. No	Joint Venture	Partnership Business
1	It is ended after completion of the event or work.	It is a continuous process in nature.
2	There is no need of firm's name.	A Partnership firm must have a name.
3	No separate set of books is needed to be maintained; the account can be maintained even in one of the Co-Venturer's books only.	Different set of books have to be maintained.
4	The Co-Venturers are free to carry on a similar business.	No partner can carry on a similar nature of business.
5	A Minor cannot be a Co-Venturer as he is not competent to enter into a contract.	A Minor can also be admitted to the benefits of the firm.

22. State the differences between Joint Venture and Consignment.

Answer:

The differences between Joint Venture and Consignment are given below:

Sl.	Joint Venture	Consignment

No.		
1	It is a partnership business in nature (though temporary) since Co-Venturers are partners.	Consignee is not necessarily to be a partner. So, it is not a partnership business.
2	Relationship between Co-Venturers is that of the Partners.	The Consignor is principal while the consignee is agent.
3	Funds are provided by every Co-Venturer.	Only Consignor provides the funds in the business.
4	Each Co-Venturer has full right to act as a partner in the business.	Consignee works as an agent and has to follow the instructions of the Consignor.
5	Co-Venturers are to share profit or loss in their predetermined ratios or equally.	The Consignee is only to receive commission and reimbursement of expenses incurred on behalf of the consignor.

PROBLEMS AND SOLUTIONS

23. A and B entered into a joint venture of underwriting the subscription of the entire share capital of the Copper Mines Ltd. consisting of 1,00,000 equity shares of ₹ 10 each and to pay all expenses upto allotment. The profits were to be shared by them in proportions of 3/5ths and 2/5ths. The consideration in return for this agreement was the allotment of 12,000 other shares of ₹10 each to be issued to them as fully paid. A provided funds for registration fees ₹ 12,000, advertising expenses of ₹ 11,000, for expenses on printing and distributing the prospectus amounting to ₹ 7,500 and other printing and stationery expenses of ₹2,000. B contributed towards payment of office rent ₹ 3,000, legal charges ₹ 13,750, salary to clerical staff ₹ 9,000 and other petty disbursements of ₹1,750. The prospectus was issued and applications fell short by 15,000 shares. A took over these on joint account and paid for the same in full. The venturers received the 12,000 fully paid shares as underwriting commission. They sold their entire holding at ₹ 12.50 less 50 paise brokerage per share. The net proceeds were received by A for 15,000 shares and B for 12,000 shares.

Required:

Write out the necessary accounts in the books of A showing the final adjustments.

SOLUTION:

In the books of A

Joint Venture Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c - Registration Fee	12,000	By Bank A/c - sale proceeds of	
- Advertising	11,000	15,000 shares ₹ 12.50 each less	
- Printing & Distribution of		50 paise brokerage	1,80,000
Prospectus	7,500		
- Printing & Stationery	2,000	By B - sale proceeds of 12,000	
		shares ₹ 12.50 each less	
To B - Office Rent	3,000	50 paise per share brokerage	1,44,000

- Legal Charges	13,750		
- Clerical Staff	9,000		
- Petty Payments	1,750		
To Bank - Cost of Shares	1,50,000		
To Net profit to:			
- P & L A/c [3/5]	68,400		
- B [2/5]	45,600		
	3,24,000		3,24,000

B's Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c - Sale proceeds of shares	1,44,000	By Joint Venture A/c	
		-Office Rent	3,000
		- Legal Charges	13,750
		- Clerical Staff	9,000
		- Petty Payments	1,750
		By Joint Venture A/c - share of profit	45,600
		By Bank	70,900
	1,44,000		1,44,000

24. R and P are carrying on a business as contractors. They jointly take up the work of constructing a building of Mr. Bose at an agreed price of 5,00,000 payable as 3,00,000 in cash and 2,00,000 in fully paid shares of a company. A bank account is opened in which R and P paid 3,00,000 and 75,000 respectively.

The following costs were incurred in completing the construction:

(a) Salary paid – 1,00,000;

(b) Materials purchased – 2,00,000;

(c) Materials supplied by R from the stock of his own business – 50,000;

(d) Engineer's fees paid by P – 10,000.

The contract price was duly received. The accounts of the venture were closed; R taking up all the shares at an agreed valuation of 1,70,000 and P taking up the unused stock of materials at 15,000.

Prepare necessary accounts in the Ledger of the Venture assuming that a separate set of books are maintained for this purpose and that the net result of the same is shared by R and P in the ratio of 3:2.

Solution:

In the Books of R and P

Dr. Joint Venture Account Cr.

Particulars	Amount	Particulars	Amount

To Joint Bank A/C		By Joint Bank A/C	
Salary	1,00,000	Contract price (cash)	3,00,000
Materials	2,00,000	By R A/C	
To R A/C		Shares taken over [Note 1]	1,70,000
Materials supplied	50,000	By P A/C	
To P A/C Engineer's Fees	10,000	Stock taken over	15,000
To Co-Venturer's Capital A/C Profit:			
R [3/5 X 1,25,000]	75,000		
P [2/5 X 1,25,000]	50,000		
	4,85,000		**4,85,000**

Dr. Joint Bank Account Cr.

Particulars	Amount	Particulars	Amount
To R A/C		By Joint Venture A/C	
Capital introduced	3,00,000	Salary	1,00,000
To P A/C		Materials	2,00,000
Capital introduced	75,000	By R A/C	
To Joint Venture A/C Contract price		Final settlement	2,55,000
(cash)	3,00,000	By P A/C	
		Final settlement	1,20,000
	6,75,000		6,75,000

Dr. Co-Venturer's Capital Account Cr.

Particulars	R	p	Particulars	R	P
To Joint Venture A/C			By Joint Bank A/C Capital		
Shares taken over	1,70,000	--	introduced	3,00,000	75,000
Stock taken over	--	15,000	By Joint Venture A/C		
To Joint Bank A/C Final			Materials Engineer's	50,000	--
settlement	2,55,000	1,20,000	Fees	--	10,000
			By Joint Venture A/C Profit	75,000	50,000
	4,25,000	1,35,000		4,25,000	1,35,000

Note: The loss on share (2,00,000 – 1,70,000) i.e. 30,000 can alternatively be adjusted through Shares account.

25. **Azad and Arjun entered into a Joint Venture and opened a Fast Food Shop in Durga Puja festival at Jadavpur. Their profit sharing ratio is 1:1. Azad delivers stock of 50,000. He also paid carriage charges amounting to 2,500. Arjun incurred expenses on carriage and electricity charges for 6,500 and receives cash for sales 30,000. Arjun taken over stock at an agreed value of 10,000 for his personal use. At the end of the venture, Azad has taken over the remaining stock which was valued at 11,000.**
You are required to prepare necessary ledger accounts in the books of Azad and Arjun.

Solution:

In the Books of Azad

Dr. **Joint Venture Account** **Cr.**

Particulars	Amount	Particulars	Amount
To Purchase A/C	50,000	By Arjun A/C	30,000
To Bank A/C Carriage	2,500	Sale proceeds goods taken over	10,000
To Arjun A/C		By Purchases A/C goods supplied	11,000
Carriage and electricity	6,500	By Arjun A/C loss on venture at 1:1	4,000
		By Profit and Loss A/C loss on venture at 1:1	4,000
	59,000		**59,000**

Dr. **Arjun Account** **Cr.**

Particulars	Amount	Particulars	Amount
To Joint Venture A/C		By Joint Venture A/C	
Sale proceeds Goods taken over	30,000	Carriage and electricity	6,500
To Joint Venture A/C	10,000	By Bank A/C	
loss on venture at 1:1	4,000	Final Settlement	37,500
	44,000		**44,000**

In the Books of Arjun

Dr. **Joint Venture Account** **Cr.**

Particulars	Amount	Particulars	Amount
To Azad A/C		By Bank A/C	
goods supplied	50,000	Sales proceeds	30,000
To Azad A/C Carriage	2,500	By Drawing A/C	
To Bank A/C		Goods taken over	10,000
Carriage and electricity	6,500	By Azad A/C	
		Stock taken over by Azad	11,000
		By Azad A/C	
		- loss on venture at 1:1	4,000
		By Profit and Loss A/C	
		- loss on venture at 1:1	4,000
	59,000		**59,000**

Dr. **Azad Account** **Cr.**

Particulars	Amount	Particulars	Amount
To Joint Venture A/C		By Joint Venture A/C	50,000
Stock taken over	11,000	Goods supplied Carriage	2,500
To Joint Venture A/C			
loss on venture	4,000		
To Bank A/C			
Final Settlement	37,500		
	52,500		**52,500**

26. Molu and Nilesh entered into a Joint Venture for purchase and sale of electronic goods, sharing

profit & loss in this ratio of 3:2. They also agreed to receive 5% commission on their individual sales and the following information was extracted from the records.

July 1. 2017: Molu purchased goods worth 1,90,000 financed to the extent of 90% out of his funds and balance by loan from his friend Kartik.

Aug. 1 2017: Molu sent goods costing 1,70,000 to Nilesh and paid 1,410 as freight. Nilesh paid 13,410 to Molu.

Oct. 1, 2017: Nilesh sold all the goods sent to him. Molu paid the loan taken from his uncle including interest of 350.

All sales by either party were made at as uniform profit of 40% after cost. On November 30, 2017, they decided to close the venture by transforming the balance of goods unsold lying with Molu at a cost of 9,000 to a wholesale dealer. They further disclosed that goods worth 4,000 were taken personally by Molu at an agreed price of 5,000.

You are required to prepare the Memorandum Joint Venture Account, Joint Venture with Molu in the books of Nilesh and Joint Venture with Nilesh in the books of Molu.

Solution:

Memorandum Joint Venture Account

Particulars	Amount	Particulars	Amount
To Molu A/C		By Nilesh A/C	
Purchase (Note) 1,90,000		- Sales (1,70,000 X 140%)	2,38,000
Freight 1,410		By Molu A/C	
Interest on loan 350	1,91,760	Sales (190000 – 170000 – 9000-4000) i.e.,7000 X 140%	9,800
To Nilesh A/C			
Commission (5% on 2,38,000)	11,900	Stock taken over	5,000
To Molu A/C		By Stock transferred to wholesale	
Commission(5% on 9800)	490	dealer	9,000
To Profit on Venture A/C			
Molu - (3 / 5) 34,590			
Nilesh - (2 / 5) 23,060	57,650		
	2,61,800		2,61,800

In the Books of Molu

Dr. Joint Venture with Nilesh Account Cr.

Particulars	Amount	Particulars	Amount
To Bank A/c		By Bank A/C	13,410
Cost of goods bought	1,90,000	By Drawing A/C	
To Bank A/c		stock taken over	5,000
Freight 1,410		By Stock transferred to	
Interest on loan 350	1,760	wholesale dealer A/C	9,000
To Commission A/C	490	By Bank A/C	
To P & L A/C		Sale proceeds	9,800
Share of Profit	34,590	By Bank A/C	
		Final settlement	1,89,630
	2,26,840		2,26,840

In the Books of Nilesh

Dr. Joint Venture with Molu Account Cr.

Particulars	Amount	Particulars	Amount
To Bank A/C	13,410	By Bank A/C Sale	2,38,000
To Commission A/C	11,900		
To P & L A/C			
Share of Profit	23,060		
To Bank A/C			
- Final settlement	1,89,630		
	2,26,840		**2,26,840**

Note:

1. Purchase includes goods for 19,000 (10% of total value of purchase) was bought by Loan.

INSURANCE CLAIM

27. Multiple choice questions:

Choose the correct alternative:

1. **Indemnity period means?**
   (a) **It is the period that begins from the date of occurrence of damage and ends on any date within 12 months from the former.**
   (b) **This period indicates the time-span during which the normal activities of the business are believed to be disrupted.**
   (c) **Both of these**
   (d) **None of these**

2. **Standing charges mean?**
   (a) Fixed charges
   (b) Variable charges
   (c) Both
   (d) None of these

3. **Gross profit means?**
   (a) Net profit plus insured standing charges
   (b) Net profit minus insured standing charges
   (c) Both of these
   (d) All of these

4. **Short sales mean?**
   (a) Standard sales exceeds actual sales
   (b) Actual sales exceeds standard sales
   (c) Both of these
   (d) None of these

5. **Standard turnover means?**
   - **(a) Turnover immediately preceding the date of damage**
   - **(b) Turnover during damage period**
   - **(c) Both of these**
   - **(d) None of these**

Answer:

1. (c)
2. (a)
3. (a)
4. (a)
5. (a)

28. Fill in the blanks:

1. **Annual turnover is the turnover during the 12 months immediately……….. the date of the damage.**
2. **Standard turnover corresponds with the…………...period.**
3. **Under insurance claim 'Standing charges' means…….. Standing charges only.**
4. **If the policy value is …………value of stock lost, is called over insurance.**
5. **Average clause arises in case of…………**

Answer:

1. preceding
2. indemnity
3. insured
4. more than
5. under insurance.

29. State whether the following statements are true or false:

1. **Increased cost of working means expenditure incurred during indemnity period.**
2. **Turnover means amount payable to the insured for his selling goods and services.**
3. **Salvage of stock means stock saved during accident.**
4. **Unusual item and defective item is separate under insurance claim**
5. **Defective items mean goods which cannot fetch the usual rate of gross profit.**

Answer:

1. True
2. True
3. True
4. False
5. True

30. Match the following:

	Column - A		Column - B

1	**Average clause**	**A**	**Policy value > value of stock lost**
2	**Over insurance**	**B**	**Loss of stock *Policy value** **Value of stock on the date of fire**
3	**Gross claim = net claim**	**C**	**Cannot fetch usual gross profit**
4	**Net claim in average clause**	**D**	**In case of over insurance**
5	**Defective items**	**E**	**Under insurance**

Answer:

1. E
2. A
3. D
4. B
5. C

PROBLEMS AND SOLUTIONS

31. Fire occurred in the premises of X & Co. on 1st September 2016 and stock of the value of 101000 was salvaged and the business books and records were saved.
The following information was obtained.

Particulars	Amount (₹)
Purchase for the year ended 31.3.2016	**700000**
Sales for the year ended 31.3.2016	**1100000**
Purchase from 1.3.2016 to 1.9.2016	**240000**
Sales from 1.3.2006 to 1.9.2016	**360000**
Stock on 31.3.2015	**300000**
Stock on 31.3.2016	**340000**

Further I formation is also given that the stock on 31.3.2016 was overvalued by 20000. Purchases and sales occur evenly over the months.
Calculate the amount of the claim to be presented to the insurance company in respect of losses. Rate of gross profit is to be based on the year ended 31.3.2016.

Solution:

In the books of X & Co.

Dr. Trading Account for the year ended 31.03.2016 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	3,00,000	By Sales	11,00,000
To Purchase	7,00,000	By Closing Stock (340000 - 20000)	3,20,000
To Gross profit	4,20,000		
	14,20,000		**14,20,000**

Rate of Gross profit for the year 2005-06: Gross profit/Sales*100= 420000/1100000*100 = 38.1818% (approx)

Dr. Estimated Trading Account for the period ended 1.09.2016 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	320000	By Sales (360000*5/6)	300000
To Purchase (240000*5/6)	200000	By Closing Stock	334545
To Gross profit (38.1818%*300000)	114545	(balancing Figure)	
	634545		**634545**

Statement of Claim for Loss of Stock

Particulars	Amount (₹)
Estimated value of stock on the date of fire	334545
(-) value of stock salvaged	101000
Claim for loss of stock	**233545**

From the following information, calculate the amount of claim for loss of stock with Insurance Company C Ltd:

Particulars	Amount (₹)
Purchase for the year 2014	**915000**
Sales for the year 2014	**1200000**
Purchase from 1.1.2015 to 30.6.2015	**800000**
Sales from 1.1.2005 to 30.6.2015	**990000**
Stock on 1.1.2014	**135000**
Stock on 1.1.2015	**150000**

You are informed that:

(i) In 2005 the purchase prices raised by 20% above the level prevailing in 2014.

(ii) In 2005 the selling prices hiked by 10% over the level prevailing in 2014.

(iii) Salvaged value of stock 20000.

(iv) Fire insurance policy for 148750 to cover the loss of stock by fire.

Solution:

In the books of C Ltd.

Dr. Trading Account for the year ended 31.12.2014 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	135000	By Sales	1200000
To Purchase	915000	By Closing Stock	150000
To Gross profit	300000		
	1420000		**1420000**

Dr. Estimated Trading Account for the period from 1.1.15 to 30.06.15 Cr.

Particulars	Actual	At last Year's rate	Particulars	Actual	At last Year's rate

To Opening Stock	150000	150000	By Sales	990000	900000
To Purchase	800000	666667	By Closing Stock	170000	141667
To Gross profit	210000	225000			
	1160000	**1041667**		**1160000**	**1041667**

Statement of Claim for Loss of Stock

Particulars	
Estimated value of stock on the date of fire on 30.06.05 (-) value of stock salvaged	170000
Actual stock lost by fire	20000
	150000

The Policy value of the insured stock is 148750

The claim to be made after applying Average Clause= Actual Loss*Sum Insured/Value of Stock = 150000*148750/170000 = 131250.

Workings:

1. Rate of Gross profit for the year 2004-05: 300000/1200000*100=25%. It is assumed that this rate has not changed in 2005 though purchase and selling price have risen.
2. Purchase in 2005 at the price level of 2004 = 800000*100/120 = 666667.
3. Sales in 2005 at the price level of 2004 = 990000*100/110 = 900000.
4. Gross profit between 1.1.05 and 30.6.05 at last year's rate = 25% of 900000 = 225000.
5. Closing stock for this period at last year's rate 141667 (balancing figure). Stock on that date at current price = 141667 + 20% thereof = 170000.

32. A&Co. suffered a loss of stock due to fire on 31.3.2007. From the following information prepare a statement showing the claim for the loss to be submitted:

Particulars	Amount (₹)
Purchase for the year 2006	**320000**
Sales for the year 2006	**405200**
Purchase from 1.1.2007 to 31.3.2007	**108000**
Sales from 1.1.2007 to 31.3.2007	**122800**
Stock on 1.1.2006	**76800**
Stock on 1.1.2007	**63600**

An item of goods purchased in 2005 at a cost of 20000 was valued at 12000 on 31.12.05. Half of these goods were sold during 2006 for 5200 and the remaining stock was valued at 4800 on 31.12.06. ¼th of the original stock was sold for 2800 in February'07 and the remaining stock was valued at 60% of the original cost. With the exception of this item, the rate of gross profit remained fixed. The stock salvaged was estimated at 24000. The insurance policy value was for 300000.

Solution:

In the books of A& Co.

Dr. Trading Account for the year ended 31.12.2006 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock	76800		By Sales	405200	

(-) Value of Abnormal item	12000	64800	(-) Sale of Abnormal item	5200	400000
To Purchase		320000	By Closing Stock	63600	
To Gross profit		74000	(-) Value of Abnormal item	4800	58800
		1420000			1420000

Rate of gross profit for the year 2006: 74000/400000*100=18.5%.

Dr. Estimated Trading Account for the period from 1.1.07 to 31.3.07 Cr.

Particulars	Amount (₹)	**Particulars**	Amount (₹)	Amount (₹)
To Opening Stock	58800	By Sales	122800	
To Purchase	108000	(-) Sale of Abnormal Item	2800	120000
To Gross profit (120000*18.5%)	22200	By Closing Stock (balancing figure)		69000
	1041667		1160000	1041667

Statement showing Claim for Loss of Stock

Particulars	Amount (₹)
Estimated value of stock on the date of fire on 31.3.07	69000
(+) Estimated value of abnormal item of stock	3000
	72000
(1-1/2-1/4)= 1/4*20000= 5000*60% (-) value of stock salvaged	24000
Actual stock lost by fire	48000

The Policy value of the insured stock is 300000. There is over insurance. The amount of claim is 48000.

33. A fire occurred on 1st February, 2012, in the premises of Pioneer Ltd., a retail store and business was partially disorganized upto 30th June, 2012. The company was insured under a loss of profits for ₹1,25,000 with a six months period indemnity. From the following information, compute the amount of claim under the loss of profit policy.

	₹
Actual turnover from 1st February to 30th June, 2012	**80,000**
Turnover from 1st February to 30th June, 2011	**2,00,000**
Turnover from 1st February, 2011 to 31st January, 2012	**4,50,000**
Net Profit for last financial year	**70,000**
Insured standing charges for last financial year	**56,000**
Total standing charges for last financial year	**64,000**
Turnover for the last financial year	**4,20,000**

The company incurred additional expenses amounting to ₹ 6,700 which reduced the loss in turnover. There was also a saving during the indemnity period of ₹ 2,450 in the insured standing charges as a result of the fire.

There had been a considerable increase in trade since the date of the last annual accounts and it has been agreed that an adjustment of 15% be made in respect of the upward trend in turnover.

SOLUTION:

Computation of the amount of claim for the loss of profit

	₹
Reduction in turnover	
Turnover from 1st Feb. 2011 to 30th June, 2011	2,00,000
Add: 15% expected increase	30,000
	2,30,000
Less: Actual Turnover from 1st Feb., 2012 to 30th June, 2012	(80,000)
Short Sales	1,50,000
Gross Profit on reduction in turnover @ 30% on ₹ 1,50,000 (see working note 1)	45,000
Add: Additional Expenses Lower of	
(i) Actual = ₹6,700	
(ii) Additional Exp. X $\frac{\text{G.P.on Adjusted Annual Turnover}}{\text{G.P.as above +Uninsured Standing Charges}}$ = 6,700 x $\frac{1,55,250}{1,63,250}$ = 6,372	
(iii) G.P. on sales generated by additional expenses — not available	
Therefore, lower of above is	6,372
	51,372
Less: Saving in Insured Standing Charges	(2,450)
Amount of claim before Application of Average Clause	48,922
Application of Average Clause:	
$\frac{\text{Amount of Policy}}{\text{G.P.on Annual Turnover}}$ x Amount of Claim = $\frac{1,25,000}{1,55,250}$ x 48,922	39,390

Amount of claim under the policy = ₹ 39,390

Working Notes:

(i) Rate of Gross Profit for last Financial Year:

	₹
Gross Profit:	
Net Profit	70,000
Add: Insured Standing Charges	56,000
	1,26,000
Turnover for the last financial year	4,20,000

Rate of Gross Profit = $\frac{1,26,000}{4,20,000}$ x 100 = 30%

(ii) Annual Turnover (adjusted):

Turnover from 1st Feb., 2011 to 31st January, 2012	4,50,000
Add: 15% expected increase	67,500
	5,17,500
Gross Profit on ₹ 5,17,500 @ 30%	1,55,250
Standing charges not Insured (64,000 – 56,000)	8,000
Gross Profit plus non-insured standing charges	1,63,250

Study Note – 3

PREPARATION OF FINANCIAL STATEMENTS OF PROFIT ORIENTED ORGANIZATIONS

Learning Objective:

- *To be able to understand from where does this organization's money come? and where does it go?*
- *To be able to understand revenue generation capacity of the organisation by preparing trading A/c Profit and Loss A/c and the Balance Sheet.*
- *To be able to compute how much the profit/reserves the organization have to cover its obligations as they come due? In short to be able to ascertain the results of transactions and the financial position of the business.*

1. Multiple choice questions:

Choose the correct alternative:

1. ________ Account charges the COGS and other direct expenses and losses against the sales revenue to determine the gross operating result of the concern during a particular accounting period.
(a) Trading
(b) Profit & Loss
(c) Income & Expenditure
(d) Receipts & Payments

2. Among the financial statements, ___________ is/ are referred to as 'period statement'.
(a) Trading Account.
(b) Profit & Loss Account
(c) Both (a) and (b)
(d) Balance Sheet

3. The financial statements of an organisation are drafted using the ___________.
(a) Transactions
(b) Events
(c) Ledger balances
(d) None of the above.

4. The financial statement of a non-profit oriented organisation include:
(a) Profit & Loss Account
(b) Income & Expenditure Account
(c) Manufacturing Account
(d) None of the above

5. Given that values of opening inventory, purchases and Cost of Goods Sold for a particular accounting period are ₹ 1,00,000, ₹ 9,30,000 and ₹ 7,50,000, the closing inventory will be:
(a) ₹ 2,80,000
(b) ₹ 2,40,000
(c) ₹ 8,20,000
(d) ₹ 4,80,000

Answer:

1 (a);	2 (c);	3(c);	4 (b);	5 (a)

2. Match the following:

	Column A		Column B
1.	Profit & Loss A/c	A	Transfer to Reserve
2.	Trading A/c	B	Indirect incomes and expenses
3.	Profit & Loss Appropriation A/c	C	Assets & Liabilities
4.	Balance Sheet	D	Cost of Production
5.	Manufacturing A/c	E	Gross Profit/ Loss

Answer:

1- B;	2- E;	3- A;	4 - C;	5- D.

3. Fill in the blanks:

1. Manufacturing Account is required to be prepared a ________ concern.
2. Profit & Loss Account is drafted to determine the _________ of a concern.
3. Marshalling is required to be followed in the__________.
4. Distribution of profits is a/ an ________ item.
5. _________ is an account which is prepared by a merchandising concern which purchases goods and sells the same during a particular period.

Answer:

1- Manufacturing;	2- Net Profit/ Loss ;	3- Balance Sheet;	4 – appropriation;	5 – Trading A/c

4. State whether the following statements are true or false:

1. The preparation of Trading Account always starts with the Opening Stock of inventory.
2. Income & Expenditure Account is drafted by a trading concern.
3. Balance Sheet is prepared to show the operating results of an organisation on a specific date.
4. Final Accounts is prepared from the balances of ledger accounts.
5. Manufacturing A/c is required to be drafted by every type of organisation.

Answer:

1- False;	2- False;	3- False;	4 - True;	5 – False

PROBLEMS AND SOLUTIONS

5. **From the following Trial Balance of Shri Guptoo, prepare Trading and Profit & Loss Account for the year ended Mar. 31, 2018 and Balance Sheet as on that date after taking into consideration the adjustments (All figures in ₹ '000):**

Trial Balance as on 31.3.2018

	Dr. (₹)	Cr. (₹)
Cash in hand	2,000	
Stock	7,000	
Creditors		7,800
Debtors	38,400	
Drawings	10,260	
Sales		185,600
Purchases	162,400	
Wages	14,400	
Expenses	10,340	
Furniture	8,000	
Goodwill	6,000	
Capital		65,400
	258,800	258,800

Adjustments:

a) Stock on 31.12.2018 was valued at ₹ 9,000. In view of the constant fall in prices, it has been decided to value stock at 10% less.

b) Furniture (book value on 1.4.2017 ₹ 800) was sold on 30.9.2017 for ₹ 900 and it was passed through Sales Day Book.

c) Private purchases of the proprietor amounting to ₹ 200 had been booked thorugh Purchases Book.

d) Depreciate furniture at 10% p.a.

e) Sales Book was overcast by ₹ 100.

f) Wages outstanding ₹ 100, though included in Wages Account, was not included in the Trial Balance.

g) Provide for bad debts @ 5% on debtors and 2.5% for discount on debtors.

Solution:

Shri Guptoo

Trading and Profit and Loss A/c for the year ended 31.3.2018

Dr. Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		7,000	By Sales	185,600	
To Purchases	162,400		*Less* : Sale proceeds of Furniture	900	
Less: Private purchases of proprietor	200	162,200		184,700	
To Wages		14,400	*Less* : Sales Day Book overcast	100	184,600
			By Closing Stock	9,000	
To Gross Profit c/d		9,100	*Less* : Reduction in value (10%)	900	8,100
		192,700			192,700
To Expenses		10,340	By Gross Profit b/d		9,100
To Provision for B/Debts [(38,400 – 900) x 5%]		1,875	By Profit on sale of Furniture		140
To Provision for Discount on Debtors		891	[900 – (800 – 40)]		
[(37,500 – 1,875) x 2.5%]			By Capital A/c [Net Loss transfered]		4,626
To Depreciation on Furniture		760			
[{(8,000-800)x10%}+ {800x10%x6/12}]					
		13,866			13,866

Balance Sheet of Shri Guptoo

as on 31.3.2018

Liabilities	₹	₹	Assets	₹	₹
Capital	65,400		Goodwill		6,000
Less: Net Loss	4,626		Furniture	8,000	
	60,774		Less : Book value of assest sold	800	
Less: Drawings	10,260		Less : Depreciation [(8,000-800)x10%]	720	6,480
	50,514		Stock [9,000 - 900]		8,100
Less: Private purchases of proprietor	200	50,314	Debtors (as per Trial Balance)	38,400	
			Less: Debtors for furniture sold	900	

Creditors		7,800	*Less*: Provision for B/Debts	1,875	
Outstanding Wages		100	*Less*: Provision for Discount on Debtors	891	34,734
			Debtors for furniture sold		900
			Cash in hand		2,000
		58,214			58,214

6. From the following Trial Balance of prepared from the books of Shri Nagesh, you are required to prepare a Trading and Profit and Loss Account for the year ended March 31, 2018 and Balance Sheet as on that date, after making the necessary adjustments as mentioned here under:

Particulars	Dr. (₹)	Cr. (₹)
Nagesh 's Capital on 1.4.2017		**1,80,000**
Nagesh 's Drawings	**20,000**	
Machinery	**43,200**	
Depreciation on Machinery	**4,800**	
Insurance prepaid (1.4.2017)	**1,200**	
Stock on 1.4.2017	**57,000**	
Furniture	**6,000**	
Insurance paid	**12,000**	
Sales		**321,640**
Returns	**6,440**	**10,160**
Purchases	**269,800**	
Office expenses	**30,200**	
Bad debts	**5,240**	
Carriage outwards	**6,360**	
Freight inwards	**5,840**	
Salaries & Wages	**10,000**	
Creditors for expenses		**1,600**
Discount		**600**
Accounts Receivable	**44,280**	
Accounts Payable		**18,800**
Cash at bank	**10,440**	
	5,32,800	**5,32,800**

Adjustments:

(i) Stock-in-trade as on 31.3.2018 ₹ 40,000 (including stock of stationery ₹ 400)

(ii) Insurance prepaid ₹ 800.

(iii) Office expenses include stationery purchased ₹ 1,200

(iv) Freight inwards include carriage paid on purchase of furniture ₹ 240.

(v) Debtors include: (a) Amount due to Rahul ₹ 1,000 considered definitely bad, (b) Amount due to Dinesh ₹ 5,000 considered definitely good, and (c) Amount due to Jaspreet ₹ 4,000 considered very much doubtful.

(vi) Make provision for doubtful debts at 5%.

Solution:

Shri Nagesh
Trading and Profit & Loss Account
for the year ended 31.3.2018

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		57,000	By Sales	321,640	
To Purchases	269,800		Less: Returns	6,440	315,200
Less: Returns	10,160	259,640			
To Freight Inwards	5,840		By Closing Stock-in-trade	40,000	
Less: Carriage on furniture	240	5,600	Less: Stock of Stationery	400	39,600
To Gross Profit c/d		32,560			
		354,800			354,800
To Salaries & Wages		10,000	By Gross Profit b/d		32,560
To Office expenses	30,200		By Discount (Received)		600
Less: Purchase of stationery	1,200	29,000	By Capital A/c [Net Loss transfered]		42,154
To Stationery consumed [1,200 - 400]		800			
To Insurance [12,000 + 1,200 – 800]		12,400			
To Carriage outwards		6,360			
To Bad Debts	5,240				
Add: Further Bad Debts (Rahul)	1,000	6,240			
To Provision for Doubtful Debts		5,714			
[{(44,280 – 1,000 – 5,000 – 4,000) x 5%}+4,000]					
To Depreciation: on Machinery		4,800			
		75,314			75,314

Balance Sheet
as at 31.12.2018

Liabilities	₹	₹	Assets	₹	₹
Nagesh 's Capital on 1.4.2017	1,80,000		Machinery		43,200
Less: Net Loss	42,154		Furniture	6,000	
	1,37,846		Add: Carriage paid on furniture purchased	240	6,240
Less: Drawings	20,000	1,17,846	Stock-in-Trade		39,600
			Stock of Stationery		400
Accounts Payable		18,800	Accounts Receivable	44,280	

Creditors for Expenses		1,600	*Less*: Further Bad Debts (Rahul)	1,000	
				43,280	
			Less: Provision for Doubtful Debts	5,714	37,566
			Prepaid insurance		800
			Cash at Bank		10,440
		138,246			138,246

7. From the following ledger balances and additional information obtained from Mrs. Malala, prepare Trading and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as on that date:

Particulars	**Dr. (₹)**	**Cr. (₹)**
Stock-in-trade on 1.4.2017	**3,00,000**	
Purchases and Sales	**20,50,000**	**35,40,000**
Returns	**40,000**	**50,000**
Wages	**2,00,000**	
Carriage inwards	**50,000**	
Power & Light	**20,000**	
Discount	**10,000**	**20,000**
Miscellaneous Expenses	**1,50,000**	
Salaries	**1,00,000**	
Outstanding Salaries		**30,000**
Outstanding Rent		**10,000**
Depreciation	**1,50,000**	
Rent & Rates	**1,20,000**	
Prepaid Insurance	**10,000**	
Life insurance premium	**10,000**	
Insurance	**20,000**	
Income Tax paid	**30,000**	
Freehold Premises	**10,00,000**	
Furniture	**2,00,000**	
Debtors & Creditors	**4,50,000**	**5,00,000**
Bills Receivable and Payable	**1,00,000**	**90,000**
Drawings and Capital	**50,000**	**20,00,000**
Cash and Bank	**6,80,000**	
Plant	**5,00,000**	
	62,40,000	**62,40,000**

Additional Information:

(a) Closing stock on 31.3.2018 ₹ 4,00,000.

(b) Stock destroyed by fire was ₹ 20,000 and the insurance company accepted the claim partly for ₹ 15,000.

(c) Goods purchased on credit worth ₹ 30,000 on March 30, 2018 was omitted to be recorded in the books.

(d) **Purchases include goods valued ₹ 10,000 purchased for private purposes.**

(e) **Bills Receivable and cheques from customers dishonoured ₹ 20,000 and ₹ 10,000 respectively, but no entries were made in the books of accounts.**

Solution:

Mrs. Malala

Trading and Profit & Loss Account for the year ended 31.3.2018

Dr. **Cr.**

Particulars	₹	₹	**Particulars**	₹	₹
To Opening Stock		3,00,000	By Sales	35,40,000	
To Purchases	20,50,000		*Less*: Returns	40,000	35,00,000
Add: Purchases omitted to be recorded	30,000		By Stock destroyed by fire		20,000
	20,80,000		By Closing Stock		4,00,000
Less: Returns	50,000				
	20,30,000				
Less: Purchases for private purpose	10,000	20,20,000			
To Carriage inwards		50,000			
To Wages		2,00,000			
To Power & Light		20,000			
To Gross Profit c/d		13,30,000			
		39,20,000			39,20,000
To Salaries		1,00,000	By Gross Profit b/d		13,30,000
To Miscellaneous Expenses		1,50,000	By Discount (Received)		20,000
To Rent & Rates		1,20,000			
To Insurance		20,000			
To Discount (Allowed)		10,000			
To Depreciation		1,50,000			
To Net Loss of goods by fire (20,000 – 15,000)		5,000			
To Capital A/c [Net Profit transferred]		7,95,000			
		13,50,000			13,50,000

Balance Sheet

as on 31.3.2018

Liabilities		₹	₹	**Assets**	₹	₹
Capital Account		20,00,000		Freehold Premises		10,00 ,000
Add: Net Profit		7,95,000		Plant		5,00,000
		27,95,000		Furniture		2,00,000
Less: Drawings	50,000			Stock		4,00,000
Private purchases	10,000			Debtors	4,50,000	
Life insurance premium	10,000			*Add*: B/R dishonoured	20,000	

Income tax paid 30,000	1,00,000	26,95,000		4,70,000	
Creditors	5,00,000		*Add*: Cheques dishonoured	10,000	4,80,000
Add: Credit purchase omitted	30,000		Amount receivable from Insurance		
	5,30,000		Company		15,000
Less: Creditors for private purchase	10,000	5,20,000	Bills Receivable	1,00,000	
Bills Payable		90,000	*Less*: B/R dishonoured	20,000	80,000
Outstanding Salaries		30,000	Cash and Bank	6,80,000	
Outstanding Rent		10,000	*Less*: Cheque dishonoured	10,000	6,70,000
		33,45,000			33,45,000

Study Note – 4

PREPARATION OF FINANCIAL STATEMENTS OF NOT-FOR PROFIT ORGANIZATIONS

Learning Objective:

- *To be able to account for the Incomes and Expenditures, Receipts and Payment of the non-profit organisation and prepare the Balance Sheet.*
- *To be able to compute the surplus or deficit of the non-profit organisation, accounting of donations, subscriptions and other related receipts and their expending procedure.*
- *In short to be able to ascertain the results of Incomes and Expenditures, Receipts and Payment of the organisation.*

1. **Multiple choice questions**

Choose the correct alternative:

1. The surplus/ deficit of a non-profit institution is adjusted against __________.
(a) Non-Current Assets
(b) Capital Fund
(c) Long-term Loans
(d) None of the above

2. Which of the following is/ are not feature(s) of Receipts & Payments A/c?
(a) It is a double entry account.
(b) It is prepared under cash basis.
(c) It records transactions, of both capital and revenue nature.
(d) None of the above

3. Which of the following is/ are feature(s) of Income & Expenditure A/c?
(a) It is by nature a nominal account.
(b) It is prepared under accrual basis.
(c) It records only revenue natured transactions.
(d) All of the above

4. Income & Expenditure A/c shows subscriptions ₹ 8,20,000; Subscriptions accrued in the beginning of the year and at the end of the year were ₹ 74,000 and subscription received in advance at the end of the year was ₹ 96,000. The figure of subscription received that would appear in Receipts & Payments A/c will be:
(a) ₹ 798,000
(b) ₹ 6,50,000
(c) ₹ 9,50,000
(d) ₹ 8,42,000

5. Receipts & Payments A/c shows subscriptions collected ₹ 7,64,000; Subscriptions due at the beginning and at the end of the year were ₹ 32,800 and ₹ 12,600 respectively; Advance subscription received at the beginning of the preceding year was ₹ 5,200. The figure of subscription received that would appear in Income & Expenditure A/c will be:
(a) ₹ 7,49,000
(b) ₹ 7,89,400
(c) ₹ 7,38,600
(d) None of the above

Answer:

1 (b);	2 (a);	3(d);	4 (c);	5 (a)

2. **Match the following:**

	Column A		Column B
1.	Receipts & Payments A/c	A	Will made by a deceased person
2.	Income & Expenditure A/c	B	Double Entry Account
3.	Subscriptions	C	Capital Fund
4.	Accumulated Fund	D	Cash and Bank transactions
5.	Legacy	E	Annual receipts

Answer:

1- D;	2- B;	3- E;	4 - C;	5- A.

3. **Fill in the blanks:**

1. A non-profit organisation prepares the _____________ Account to determine the operating results.
2. Advance subscription is reflected in the __________-side of the Balance Sheet.
3. The excess of expenditure over incomes and gains of a non-profit organisation is called ________.
4. In Receipts & Payments Account, all receipts (whether, capital or revenue) are recorded on the _____-hand side of this account, while all payments (whether, capital or revenue) are recorded on the ______-hand side of this account.
5. In Income & Expenditure Account, all incomes and expenditures of _____ nature are excluded.

Answer:

1- Income & Expenditure;	2- Liabilities;	3- Deficit;	4 – left, right;	5 – capital

4. **State whether the following statements are true or false:**
   1. **Receipts & Payments A/c begins with the cash & bank balance at the beginning of the accounting period.**
   2. **Income & Expenditure A/c is a summarised form of the Cash Book.**
   3. **Endowments received by a non-profit organisation are to be treated as revenue receipts.**
   4. **Subscriptions are annual receipts and therefore taken as revenue receipts.**
   5. **Income & Expenditure A/c determines the 'Surplus' or 'Deficit' of the accounting period by matching expenses/ losses against incomes and gains.**

Answer:

1- True;	2- False;	3- False;	4 - True;	5 – True

PROBLEMS AND SOLUTIONS

5. **The following is the Receipts and Payments Account of All Star Women's Football Club for the year ended December 31, 2018:**

Receipts	₹	Payments	₹
To Balance b/d:		By Ground Maintenance	5,250
Cash at bank	8,500	By Salaries	9,000
Cash in hand	3,000	By Gym Equipments	25,000
To Subscriptions	61,250	By Sports Expenses	11,750
To Life Membership Fees	7,500	By Coaches' Remuneration	10,000
		By General Expenses	2,750
		By Travelling expenses	2,000
		By Balance c/d:	
		Cash at bank	10,250
		Cash in hand	4,250
	80,250		80,250

Additional information:

(a) Interest on savings bank account for ₹ 880 has not been entered in the Cash Book.

(b) 80% of the Life Membership Fees is to be capitalized.

(c) An old gym equipment (WDV ₹ 20,000) was exchanged at an agreed price of ₹ 12,500 for a new gym equipment costing ₹ 37,500.

(d) The balances of some accounts are as under:

	31.12.2018	31.12.2017
Outstanding Salaries	750	1,500
Arrear Subscriptions	8,000	5,250
Advance Subscriptions	6,750	3,500
Prepaid Ground maintenance	2,250	3,000
Gym Equipments	57,500	45,000

You are required to prepare the Income and Expenditure Account of the club for the year ended on December 31, 2018.

Solution:

All Star Women's Football Club
Income & Expenditure Account
for the year ended Dec. 31, 2018

Dr. Cr.

Expenditure	₹	Income	₹
To Ground Maintenance [WN : 1]	6,000	By Subscription [WN : 1]	60,750
To Salaries [WN : 2]	8,250	By Entrance Fees [7,500 x 20%]	1,500
To Sports Expenses	11,750	By Interest on Savings Bank	880
To Coach's Remuneration	10,000		
To General Expenses	2,750		
To Travelling expenses	2,000		
To Loss on Exchange of Gym Equipment [WN: 4]	7,500		
To Depreciation on Equipment [WN : 4]	5,000		
To Surplus	9,880		
	63,130		63,130

WORKINGS:

1. Subscriptions for 2018

Subscriptions Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Arrear Subscriptions A/c	5,250	By Advance Subscriptions A/c	3,500
To Income & Expenditure A/c (B/Fig.)	60,750	By Bank A/c	61,250
To Advance Subscriptions A/c	6,750	By Arrear Subscriptions A/c	8,000
	72,750		72,750

2. Ground Maintenance for 2018

Ground Maintenance Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/f	3,000	By Income & Expenditure A/c	6,000
To Bank A/c (paid for 2011)	5,250	By Balance c/f	2,250
	8,250		8,250

3. Salaries for 2018

Salaries Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Bank A/c	9,000	By Balance b/f	1,500
To Balance c/f	750	By Income & Expenditure A/c	8,250
	9,750		9,750

4. Loss on Exchange of Equipment

	₹
WDV of Equipment Exchanged (given)	20,000
Less: Agreed price of exchange	12,500
∴ Loss on exchange of Equipment	7,500

5. Depreciation on Gym Equipments

Gym Equipments Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/f	45,000	By Creditors for Equipment A/c	12,500
To Creditors for Equipment A/c	37,500	(Agreed Price of Equipment exchanged)	
(New equipment purchased)		By Loss on Exchange A/c	7,500
		By Depreciation A/c (B/fig)	5,000
		By Balance c/f	57,500
	82,500		82,500

6. The following is the Receipts & Payments Account of Citizen Sports Club for the year ended December 31,2018:

Receipts	₹	Payments	₹
To Balance (1.1.2018)	**2,40,000**	**By Upkeep of ground**	**2,10,000**
To Subscriptions	**8,70,000**	**By Secretary's Salary**	**3,60,000**
To Entrance Fees	**50,000**	**By Wages of groundsmen**	**2,40,000**
To Proceeds of Concerts	**1,50,000**	**By Ground rent**	**15,000**
To Interest on Investments	**50,000**	**By Printing & Stationery**	**20,000**
		By Sundry Expenses	**17,500**
		By Balance (31.12.2018)	**4,97,500**
	13,60,000		**13,60,000**

Additional Information:

(a) Subscriptions include arrear subscription brought over from previous year ₹ 50,000.

(b) Interest on Investments includes ₹ 10,000 in respect of interest accrued in the preceding period.

(c) Upkeep of ground and Wages of groundsmen include ₹ 30,000 and ₹ 15,000 respectively applicable to the preceding year.

(d) Other ledger balances at the commencement of the financial period were: Capital Fund ₹ 40,10,000; Surplus brought forward ₹ 8,90,000; Club Premises and Grounds (as per valuation) ₹ 30,00,000; Investments ₹ 10,00,000; Sports materials ₹ 2,45,000; Furniture ₹ 400,000.

(e) Entrance fees are to be capitalised.

(f) Outstanding liabilities on 31.12.2018: Wages of groundsmen ₹ 20,000; Printing ₹ 10,000.

(g) Interest accrued and outstanding on investments was ₹ 12,000.

(h) Depreciation to be provided on Club Premises by 2%, Furniture by 5% and Sports Equipments by 33.33%

Prepare the Income & Expenditure Account for the year ended December 31, 2018 and Balance Sheet as on that date.

Solution:

Citizen Sports Club
Income & Expenditure Account
for the year ended Dec. 31, 2018

Dr. Cr.

Expenditure		₹	₹	Income	₹	₹
To Upkeep of ground		2,10,000		By Subscriptions	8,70,000	
Less: Outstanding on 31.12.2017		30,000	1,80,000	*Less*: Arrear on 31.12.17	50,000	8,20,000
To Secretary's Salary			3,60,000	By Proceeds of Concerts		1,50,000
To Wages of groundsmen		2,40,000		By Interest on Investments	50,000	
Less: Outstanding on 31.12.2017		(15,000)		*Less*: Accrued on 31.12.17	10,000	
Add: Outstanding on 31.12.2018		20,000	2,45,000		40,000	
To Ground rent			15,000	*Add*: Accrued on 31.12.2018	12,000	52,000
To Printing & Stationery		20,000				
Add: Outstanding on 31.12.2018		10,000	30,000			
To Sundry Expenses			17,500			
To Depreciation:	Club Premises	60,000				
	Furniture	20,000				
	Sports Equipments	81,667	161,667			
To Surplus			12,833			
			10,22,000			10,22,000

Balance Sheet
as at Dec. 31, 2018

Expenditure	₹	₹	Income	₹	₹
Capital Fund as on 31.12.2017	40,10,000		Club Premises and Grounds	30,00,000	
Add: Entrance fees capitalised	50,000		*Less*: Depreciation	60,000	29,40,000
Add: Surplus of 2017	8,90,000		Furniture	4,00,000	
Add: Surplus of 2018	12,833	49,62,833	*Less*: Depreciation	20,000	3,80,000
Outstanding Liabilities:			Sports materials	2,45,000	
Wages of groundsmen	20,000		*Less*: Depreciation	81,667	1,63,333
Printing	10,000	30,000	Investments		10,00,000
			Outstanding interest on investments		12,000
			Cash & Bank		4,97,500
		49,92,833			49,92,833

7. **The secretary of Care Educational Society submitted the following Receipts & Payments Account and Income & Expenditure Account for the year ended March 31, 2018:**

Receipts & Payments Account for 2017-18

Receipts		₹	Payments	₹
To Balance b/d		90,000	By Printing & Stationery	15,000
To Interest:			By Advertising	28,200
2016-17	20,000		By Staff Salary	2,60,000
2017-18	30,000	50,000	By Furniture purchased	1,34,000
To Tuition Fees:			By Rent	1,04,000
2017-18	2,00,000		By Sundry Expenses	22,000
2018-19	20,000	2,20,000	By Balance c/d	2,74,800
To Entrance Fees: 2017-18		84,000		
To Membership Fees:				
2016-17	60,000			
2017-18	2,30,000			
2018-19	78,000	3,68,000		
To Miscellaneous Income		26,000		
		8,38,000		8,38,000

Income & Expenditure Account
for the year ended 31.12.2018

Dr. **Cr.**

Expenditure	₹	Income	₹
To Printing & Stationery	16,000	By Tuition Fees	2,20,000
To Advertisement	30,000	By Membership Fees	2,30,000
To Rent	1,20,000	By Miscellaneous Income	26,000
To Staff Salary	2,40,000	By Interest	32,000
To Sundry Expenses	22,000		
To Surplus	80,000		
	5,08,000		5,08,000

You are required to draft the Balance Sheets of Care Society as on March 31, 2017 and March 31, 2018 considering that the Society had the following assets on 31.3.2018: Library books ₹ 1,00,000; Furniture ₹ 2,00,000; Investments ₹ 8,00,000.

Solution:

Care Educational Society
Balance Sheet as at 31.3.2017

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	12,70,000	Furniture	2,00,000
		Library books	1,00,000
		Investments	8,00,000
		Accrued Membership Fee	60,000
		Accrued Interest	20,000
		Cash & Bank	90,000
	12,70,000		12,70,000

Balance Sheet
as at 31.3.2018

Liabilities		₹	Assets		₹
Capital Fund as on 1.1.2018	12,70,000		Furniture	2,00,000	
Add: Surplus	80,000		*Add*: Additions during the year	1,34,000	3,34,000
Add: Entrance Fees capitalised	84,000	14,34,000	Library books		1,00,000
			Investments		8,00,000
Advance Tuition Fess		20,000	Accrued Interest		2,000
Advance Membership Fees		78,000	Accrued Tuition Fees		20,000
Outstanding Printing & Stationery			Prepaid Staff Salary		20,000
(16,000 – 15,000)		1,000	(2,60,000 – 2,40,000)		
Outstanding Advertising (30,000–28,200)		1,800	Cash & Bank		2,74,800
Outstanding Rent (1,20,000 – 1,04,000)		16,000			
		15,50,800			15,50,800

8. The following is the Income and Expenditure Account of Star Club for the year ending 31st March, 2018:

Dr. **Cr.**

Expenditure		₹	Income		₹
To Provisions used:			**By Subscription**		**68,000**
Opening Stock	**20,000**		**By Sale of Provisions**		**3,26,000**
Add : Purchases	**2,80,000**				
	3,00,000				
Less : Closing Stock	**10,000**	**2,90,000**			
To Salaries & Wages		**36,000**			
To General Expenses		**10,000**			
To Depreciation on Equipments		**2,000**			
To Surplus		**56,000**			
		3,94,000			**3,94,000**

The following Balance Sheets are also provided:

Liabilities	31.3.17	31.3.18	Assets	31.3.17	31.3.18
Suppliers for provisions	**16,000**	**20,000**	**Equipment**		
Capital Fund	**94,000**	**1,50,000**	**(Cost *Less* Depreciation)**	**20,000**	**50,000**
			Stock of Provisions	**20,000**	**10,000**
			Arrear Subscription	**10,000**	**20,000**
			Cash at Bank & in hand	**60,000**	**90,000**
	1,10,000	**1,70,000**		**1,10,000**	**1,70,000**

From the above details prepare the Receipt and Payments Account for the year ended 31.3.2018 of the club.

Solution:

Star Club
Receipts & Payments Account
for the year ended Mar. 31, 2018

Receipts	₹	Payments	₹
To Balance b/f:		By Payment to Suppliers [WN: 2]	2,76,000
Cash at Bank & Cash in Hand (given)	60,000	By Salaries & Wages	36,000
To Subscriptions [WN: 4]	58,000	By General Expenses	10,000
To Sale of Provisions	3,26,000	By Equipments [WN: 3]	32,000
		By Balance c/f: Cash and Bank	90,000
	4,44,000		4,44,000

WORKINGS:

1. **Payment to Suppliers for Provisions**

Creditors for Provisions Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank A/c [B/Fig.]	2,76,000	By Balance b/f	16,000
To Balance c/f	20,000	By Provisions A/c [Purchase]	2,80,000
	2,96,000		2,96,000

2. **Equipments purchased during 2017-18**

Equipments Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/f	20,000	By Income & Expenditure A/c	2,000
To Bank A/c [B/Fig.]	32,000	By Balance c/f	50,000
	52,000		52,000

3. **Subscriptions received during 2017-18**

Subscribe Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Arrear Subscriptions A/c	10,000	By Bank A/c [B/Fig.]	58,000
To Income & Expenditure A/c	68,000	By Arrear Subscriptions A/c	20,000
	78,000		78,000

Study Note – 5

PREPARATION OF FINANCIAL STATEMENTS FROM INCOMPLETE RECORDS

Learning Objective:

- ***To gain a concept of the meaning of Single Entry System (or) Incomplete Records System.***
- ***To gain a concept of the features, advantages and disadvantages of Incomplete Records System.***
- ***To be able to know the methods of preparing Accounts.***
- ***To be able to compute profit/loss at different steps and stages.***

1. Multiple Choice Questions

Choose the correct alternative:

1. Which of the following is/ are feature(s) of Single Entry System?

(a) It is a casual, unscientific and unreliable approach of recording transactions.

(b) it is a mixture on no entry, single entry and double entry.

(c) Usually, only the cash and personal accounts are recorded.

(d) All of the above

2. Benefits of single entry system

(a) It's quick and easy to maintain.

(b) One doesn't require employing a qualified accountant.

(c) This is extremely useful for business run by individuals where the volume of activity is not large.

(d) All of the above

Answer:

1. (d) : 2. (d)

2. Fill in the blanks:

1. Under theory Net Worth Approach, the operating result of an entity is determined by comparing the ___________ of the entity at two different points of time.

Answer:

1. Net Worth or Capital

3. State whether the following statements are true or false:

1. Single entry system is a defective approach of recording transactions.

Answer:

1. True

PROBLEMS AND SOLUTIONS

4. **Mr. A keeps his books on Single Entry System. The following balances and some other information have been found from his books. You are required to prepare a Profit & Loss Statement for the year ended 31.12.2017.**

	31.12.2016	31.12.2017
Cash in hand	21,600	20,000
Bank Overdraft	20,000	15,000
Stock-in-Trade	11,200	22,800
Sundry Debtors	12,000	18,000
Sundry Creditors	12,000	9,000
Bills Receivable	7,000	9,000
Bills Payable	2,000	1,000
Land & Building	50,000	50,000
Furniture	5,000	5,000

Other information:

(a) During the year Mr. A had drawn 16,000 in cash and ₹, 4,000 in goods for his personal use.

(b) Depreciation is to be charged on Land & Building and on Furniture at 2% p.a. and 10% p.a. respectively.

(c) Provision for Bad Debt is to be made at 5% and provision on Bills Receivable at 2 ½ % is to be made.

Solution:

Mr. A

Statement of Profit & Loss for the year ended 31.12.2017

Particulars		Amount (₹)	Amount (₹)
Capital Balance on 31.12.17 [WN: 1]			99,800
Add: Drawings : Cash		16,000	
Goods		4,000	20,000
			1,19,800
Less: Capital Balance on 1.1.17 [WN: 1]			72,800
∴ Trading Profit			47,000
Less: Depreciation:			
on Land & Building [50,000 X 2%]	1,000		
on Furniture [5,000 X 10%]	500	1,500	
Less: Provision for Bad Debts [18,000 X 5%]	900		
Provision for Bills Receivable [9,000 X 2 ½ %]	225	1,125	2,625
∴ Net Profit			44,375

Working Notes:

1. **Capital Balance on 1.1.17 & 31.12.17**

Statement of Affairs

Liabilities	1.1.17	31.12.17	Assets	1.1.17	31.12.17
Capital [B/Fig.]	72,800	99,800	Land & Building	50,000	50,000
Sundry Creditors	12,000	9,000	Furniture	5,000	5,000
Bills Payable	2,000	1,000	Stock–in-Trade	11,200	22,800
Bank Overdraft	20,000	15,000	Sundry Debtors	12,000	18,000
			Bills Receivable	7,000	9,000
			Cash-in-hand	21,600	20,000
	1,06,800	1,24,800		1,06,800	1,24,800

5. **Kapil does not keep complete records of his business transactions. His statement of affairs as on 1st April, 2016 is given below:**

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	**16,500**	**Cash**	**7,450**
Outstanding Expenses	**3,500**	**Sundry Debtors**	**25,350**
Capital	**50,000**	**Stock**	**30,300**
		Furniture	**6,900**
	70,000		**70,000**

For the year ended 31st March, 2017, his drawings have been 15,000. Goods worth 600 have also been withdrawn by him for personal use. On 1st October, 2016, there was a transfer of his household furniture worth 2,100 to the business. On 31st March, 2017, his assets and liabilities were as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry creditors	**18,600**	**Cash**	**6,580**
Outstanding expenses	**4,300**	**Sundry debtors**	**36,900**
		Stock	**40,320**
		Furniture	**9,000**
		Prepaid Rent	**400**

Depreciate Furniture @ 10% per annum, create a Provision for Bad Debts on Sundry Debtors @ 5% and allow 5% Interest on Capital which was at the beginning. Ascertain the profit or loss for the year ended 31st March, 2017 and prepare the Statement of Affairs as on 31st March, 2017.

Solution:

Books of Kapil

Statement of Profit & Loss for the year ended 31.3.2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	18,600	Furniture	9,000
Outstanding Expenses	4,300	Stock	40,320
Capital balance (31.3.17) c/d	70,300	Sundry debtors	36,900
		Prepaid Rent	400
		Cash	6,580
	93,200		93,200

Capital Balance b/d (1.4.16)	50,000	Capital Balance b/d (31.3.17)	70,300
Fresh Capital introduced [as Furniture]	2,100	Drawings: Cash	15,000
Gross profit c/d	33,800	Goods	600
	85,900		85,900
Provision for Bad Debt [36,900 X 5%]	1,845	Gross profit b/d	33,800
Depreciation [WN: 1]	795		
Interest on Capital [50,000 X 5%]	2,500		
Net Profit [to be added with Capital]	28,660		
	33,800		33,800

Statement of Affairs as 31.3.2017

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	50,000		Furniture	9,000	
Add: Further Capital	2,100		Less: Depreciation [WN: 1]	795	8,205
Net profit	28,660		Stock		40,320
Interest on Capital	2,500		Sundry Debtors	36,900	
Less: Drawings [15,000 + 600]	83,260	67,660	Less: Provision for bad debts	1,845	35,055
			Prepaid Rent		400
Sundry Creditors		18,600	Cash		6,580
Outstanding Expenses	15,600	4,300			
		90,560			90,560

Working Notes:

1. **Depreciation on Furniture**

	Amount (₹)
On 6,900 @ 10% for full year	690
On 2,100 [9,000 – 6,900] @ 10% for 6 month	105
	795

6. **From the following information determine the cash and bank balance as on 30.11.2017**

Written down value of Land & Building	**32,000**
Accumulated Depreciation on Land & Building	**2,000**
Insurance Premium paid in advance	**900**
Creditors	**13,000**
Debtors	**5,000**
Furniture	**12,000**
Capital	**55,000**
Cash & Bank Balance	**?**

Solution:

Determination of Cash and Bank Balance

Statement of Affairs as on 30.11.2017

Liabilities	Amount	Assets	Amount	Amount
Capital	55,000	Land and Building [at Cost – 32,000 + 2,000]	32,000	
		Less: Accumulated Depreciation	2,000	34,000
		Furniture		12,000
Creditors	13,000	Debtors		5,000
		Prepaid Insurance		900
		Cash and Bank [B/Fig.]		18,100
	68,000			68,000

7. From the following particulars, ascertain Credit Sales and Credit Purchases during 2016-17:

Balance on 01.04.2016

Sundry Debtors	**56,000**
Sundry Creditors	**26,000**
Bills Receivable	**10,000**

Transactions during the year:	
Amount received from debtors	**1,90,000**
Amount paid to creditors	**1,10,000**
Amount received against maturity of bill	**49,200**
Discount allowed	**2,800**
Bad Debts	**2,700**
Return Inward	**6,200**
Return Outward	**1,000**

Balance on 31.3.2017:

Sundry Debtors	**37,800**
Sundry Creditors	**18,800**
Bills Receivable	**7,500**

Solution:

Computation of Credit Sales during 2016-17

Dr. **Sundry Debtors Accounts** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1.4.16	To Balance b/f	56,000	….	By Bank A/c [Collection] By	1,90,000
….	To Sales A/c		….	Discount Allowed A/c	2,800
	[Credit Sales: B/Fig.]	2,30,200	….	By Bad Debts A/c	2,700
			….	By Return Inward A/c	6,200
			….	By Bills Receivable A/c	46,700
				[Acceptances Received - WN: 1]	
			31.3.17	By Balance c/f	37,800
		2,86,200			2,86,200

Computation of Credit Purchases during 2016-17

Dr. **Sundry Creditors Accounts** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
....	To Bank A/c [Payment]	1,10,000	1.4.16	By Balance b/f	26,000
....	To Return Outward A/c	1,000	....	By Purchases A/c	1,03,800
31.3.17	To Balance c/f	18,800		[Credit Purchases: B/Fig.]	
		1,29,800			1,29,800

Working Notes:

1. **Acceptance received during 2016-17**

Dr. **Bills Receivable Accounts** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1.4.16	To Balance b/f	10,000	....	By Bank A/c [B/R matured]	49,200
....	To Sundry Debtors A/c [Acceptance received – B/Fig.]	46,700	31.3.17	By Balance c/f	7,500
		56,700			56,700

8. **X does not maintain proper books of account. From the following information, prepare Trading and Profit & Loss Account for the year ended December, 31, 2017 and a Balance Sheet as on that date:**

Assets and Liabilities	On 31. 12.2016	On 31. 12.2017
Sundry Debtors	**9,000**	**12,500**
Stock	**4,900**	**6,600**
Furniture	**500**	**750**
Sundry Creditors	**3,000**	**2,250**

Analyses of the other transactions are:

Cash collected from Debtors	**30,400**
Cash paid to Creditors	**22,000**
Salaries	**6,000**
Rent	**750**
Office Expenses	**900**
Drawings	**1,500**
Fresh Capital Introduced	**1,000**
Cash Sales	**750**
Cash Purchases	**2,500**
Discount Received	**350**
Discount Allowed	**150**
Return Inward	**500**
Return Outward	**400**
Bad Debts	**100**

He had 2,500 cash at the beginning of the year.

Solution:

Books of Mr. X

Dr. Trading and Profit and Loss Accounts for the year ended 31.12.2017 Cr.

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		4,900	By Sales	750	
To Purchases : Cash	2,500		Cash	34,650	
Credit [WN: 4]	22,000		Credit [WN: 3]	35,400	
	24,500		Less : Return Inward	500	34,900
Less : Return Outward	400	24,100	By Closing Stock		6,600
To Gross Profit c/d		12,500			
		41,500			41,500
To Salaries		6,000	By Gross Profit b/d		12,500
To Rent		750	By Discount Received		350
To Office Expenses To		900			
Discount Allowed To Bad		150			
debt		100			
To Capital A/c		4,950			
[Net Profit transferred]		12,850			12,850

Balance Sheet as at 31.12.17

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital [WN: 1]	13,900		Furniture		750
Add: Further capital	1,000		Stock-in-Trade		6,600
Net Profit	4,950		Sundry Debtors		12,500
	19,850		Cash [WN: 2]		750
	1,500				
Less: Drawings		18,350			
Sundry Creditors		2,250			
		20,600			20,600

Working Notes:

1. Balance of capital as on 1.1.17

Balance Sheet as at 1.1.17

Liabilities	Amount	Assets	Amount
Capital [B/Fig.]	13,900	Furniture	500
Sundry Creditors	3,000	Stock-in-Trade	4,900
		Sundry Debtors	9,000
		Cash	2,500
	16,900		16,900

2. **Cash balance as on 31.12.17**

Dr. Cash Book (Single column) Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Balance b/f	2,500		By Sundry Creditors A/c	22,000
	To Sundry Debtors A/c	30,400		By Salaries A/c	6,000
	To Sales A/c	750		By Rent A/c	750
	To Capital A/c	1,000		By Office Expenses A/c	900
				By Drawings A/c	1,500
				By Purchases A/c	2,500
				By Furniture A/c [750 -500]	250
				By Balance c/f [B/Fig.]	750
		34,650			34,650

3. **Credit sales during the year**

Dr. Sundry Debtors Accounts Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Balance b/f	9,000		By Cash A/c	30,400
	To Sales A/c [B/Fig.]	34,650		By Discount Allowed A/c	150
				By Return Inward A/c	500
				By Bad Debt A/c	100
				By Balance c/f	12,500
		43,650			43,650

4. **Credit purchases during the year**

Dr. Sundry Creditors Accounts Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Cash A/c	22,000		By Balance b/f	3,000
	To Discount Received A/c	350		By Purchases A/c [B/Fig.]	22,000
	To Return Outward A/c	400			
	To Balance c/f	2,250			
		25,000			25,000

9. Anand started business on 1.1.2016 with his own capital 20,000 and an interest free loan of 20,000 from a friend. His business makes toys, which are selling at 40 each. Anand, who has little knowledge of accountancy, produced the following information at the end of the first year's trading; Cash received: Sale proceeds of 2,000 toys 80,000. Cash paid: Wages 28,000; Raw Materials 13,600; Rent 8,000; General Expenses 4,800; Loan repaid 6,000.

You ascertain the following additional information:

1. **A further 300 toys sold in 2016, but not received for the year end.**
2. **3,600 of raw materials received in the year, but not paid for.**
3. **The only stock at 31.12.2016 was 1,600 raw materials.**
4. **The rent covered the period from 1.1.2016 to 31.3.2017.**
5. **Expenses included 800 withdrawn by Anand for his own use.**
6. **The initial capital and loan of 40,000 was used to buy Machinery [with 4-year life and an**

anticipated residual value of 8,000].

7. **The Wages figure included 10,000 for installing the machinery.**
8. **The Machinery is to be depreciated under reducing balance method @ 25% p.a. for the whole year.**

Prepare a Trading and Profit & Loss Account for the year ended 31.12.2016 and a Balance Sheet as on the date.

Solution:

Books of Anand

Dr. Trading and Profit & Loss Accounts for the year ended 31.12.17 Cr.

Particulars	Amount	Amount	Particulars	Amount	Amount
To Purchases:			By Sales:		
Cash	13,600		Cash	80,000	
Credit	3,600	7,200	Credit [300 X 40]	12,000	92,000
To Wages	28,000				
Less: Installation Charges of Machinery	10,000	18,000	By Closing Stock		1,600
To Gross Profit c/d	8,000				
To Rent	1,600	58,400			
Less: Prepaid [WN: 2]		93,600			93,600
To General Expenses	4,800	6,400			
Less: Expenses of Proprietor	800	4,000			
To Depreciation on Machinery		12,500			
[WN: 3]		35,500	By Gross Profit b/d		58,400
To Capital A/c [Net Profit transferred]		58,400			58,400

Balance Sheet as on 31.12.17

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	20,000		Machinery	40,000	
Add: Net Profit	35,500		Add: Installation Charges	10,000	
	55,500			50,000	
Less: Drawings	800	54,700	Less: Depreciation [WN: 3]	12,500	37,500
Loan from friend [20,000 – 6,000]		14,000	Stock-in-Trade		1,600
			Debtors		
Creditors [Problem Note]		3,600	[Problem Note: 300 × 40]		12,000
			Prepaid Rent [WN: 2]		1,600
			Cash [WN: 1]		19,600
		72,300			72,300

Working Notes:

1. **Cash balance on 31.12.17**

Dr. **Cash Accounts** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Capital A/c	20,000		By Machinery A/c	40,000
	To Loan A/c [Loan taken from friend]	20,000		By Wages A/c	28,000
	To Sales A/c [Sale proceeds]	80,000		By Purchases A/c [Purchase of Raw Materials]	13,600
				By Rent A/c	8,000
				By General Expenses A/c	4,800
				By Loan Repaid A/c	6,000
				By Balance c/f [Closing Balance: B/Fig.]	19,600
		1,20,000			1,20,000

2. **Prepaid Rent**

Rent has been paid for 15 months. It covers the period from 1.1.2016 to 31.3.2017. So, 3 month's Rent (from 1.1.12 to 31.3.12)

Has been paid in advance by the proprietor. So, Prepaid Rent = 8,000 × 3/15 =1,600

3. **Depreciation on Machinery**

Depreciation Machinery = [Purchase Cost + Installation Charges] X 25% = (40,000 + 10,000) X 25% = 12,500

The residual value of Machinery is not to be considered as rate of depreciation is mentioned in the problem.

10. Raja, a sole trader furnishes you with the following bank summary for the year ended December 31, 2017

Balance on December 31, 2016		**11,000**	
Add: Deposits:			
Cash [out of cash sales]		**1,25,000**	
Collection from Credit Customers		**3,50,000**	
Income from Personal Investment		**36,000**	
			5,11,000
			5,22,000
Deduct:			
Cash Withdrawn from:			
Personal Drawings	**20,000**		
Shop Expenses	**40,000**		
			60,000

Cheques issued to Suppliers of:

Goods	**3,50,000**		
Services	**40,000**	**3,90,000**	
Cheques issued for Personal Purposes		**55,000**	
Bank Charges		**500**	**5,05,500**
Balance on December 31, 2017			**16,500**

Raja informs you that he had the following Assets and Liabilities in addition to the Bank Balances described on December 31:

Asset & Liabilities	2017	2016
Assets:		
Cash Balance	7,000	4,000
Amounts due from Customers	37,000	27,500
Unsold Inventory at Cost	13,000	10,000
Prepaid Expenses	3,000	2,000
	60,000	43,500
Liabilities:		
Creditors for:		
Goods	23,000	28,000
Services	2,500	1,500
	25,500	29,500

He also informs you that:

(a) He uses 75% of cash sale proceeds for making cash purchases; the remaining balance being deposited in Bank.

(b) He had allowed cash discount of 5,000 to his credit customers for prompt payment; he was allowed cash discount 7,000 by his suppliers of goods for prompt payment.

(c) Collections from credit customers and payments to suppliers of goods are invariable by crossed cheques.

Raja ask you to show his capital account and prepare:

(i) Receipt and payment account for the year ended December 31, 2017

(ii) Trading and Profit & Loss account for the year ended December 31, 2017

(iii) Balance Sheet as on December 31, 2017

Solution:

Books of Raja

Receipt and Payment Accounts for the year ended Dec. 31, 2017

Receipts	Amount	Payments	Amount
To Opening Balance		By Cash Purchases [WN:6]	3,75,000
Cash	4,000	By Payment to Suppliers	3,50,000
Bank	11,000	By Payments for Services:	
To Cash Sales [WN:6]	5,00,000	Cash	37,000
To Collection from Customers	3,50,000	Cheques	40,000
Capital Introduces:		By Bank Charges	500
Income from Personal Investment	36,000	By Drawings [20,000 + 55,000]	75,000
		By Closing Balance:	
		Cash	7,000
		Bank	16,500
	9,01,000		9,01,000

Dr. **Trading and Profit & Loss Accounts for the year ended Dec. 31, 2017** Cr.

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		10,000	By Sales:		
To Purchases:			Cash [WN:6]	5,00,000	
Cash [WN:6]	3,75,000		Credit [WN:3]	3,64,500	8,64,500
Credit [WN:4]	3,52,000	7,27,000	By Closing Stock at Cost		13,000
To Gross Profit c/d		1,40,500			
		8,77,500			8,77,500
		77,000	By Gross Profit b/d		1,40,500
To Expenses [WN:5]		500	By Discount Received		7,000
To Bank Charges		5,000			
To Discount Allowed		65,000			
To Capital A/c [Net Profit transferred]					
		1,47,500			1,47,500

Balance Sheet as on Dec. 31, 2017

Liabilities	Amount	Amount	Liabilities	Amount	Amount
Capital:	25,000		Inventory		13,000
Opening Capital [WN:1]	65,000		Customers		37,000
Add: Net Profit	36,000		Prepaid Expenses		3,000
Further Capital	1,26,000		Bank		16,500
[income from personal investment]	75,000	51,000	Cash		7,000
Less: Drawings [20,000 + 55,000]		23,000			
Creditors for: Goods Services		2,500			
		76,500			76,500

Working Notes:

1. **Capital balance on 1.1.2017**

Balance Sheet as on 1.1.2017

Liabilities	Amount	Amount	Liabilities	Amount	Amount
Capital [Opening Capital: B/Fig.]		25,000	Inventory		10,000
			Customers Prepaid		27,500
Creditors for: Goods Services		28,000	Expenses Bank		2,000
		1,500	Cash		11,000
					4,000
		54,500			54,500

2. **Expenses Paid during 2017**

Dr. **Cash Accounts** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Balance b/f	4,000		By Purchases A/c [WN:6]	3,75,000
	To Sales A/c [WN:6]	5,00,000		By Bank A/c [Amount deposited]	1,25,000
	To Bank A/c [Withdrawn from bank for shop expenses]	40,000		By Expenses A/c [Expenses paid: B/Fig.]	37,000
				By Balance c/f	7,000
		5,44,000			5,44,000

3. **Credit Sales during 2017**

Dr. Customers Accounts Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Balance b/f	27,500		By Bank A/c	3,50,000
	To Sales A/c [Credit Sales: B/Fig.]	3,64,500		By Discount Allowed A/c	5,000
				By Balance c/f	37,000
		3,92,000			3,92,000

4. **Credit Purchases during 2017**

Dr. Creditors Accounts Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Bank A/c	3,50,000		By Balance b/f	28,000
	To Discount Received A/c	7,000		By Purchases A/c [Credit purchases: B/Fig.]	3,52,000
	To Balance c/f	23,000			
		3,80,000			3,80,000

5. **Expenses to be transferred to Profit & Loss Accounts**

Expenses Paid: Cash [WN:2]	37,000
Cheque	40,000
	77,000
Add: Prepaid Expenses on 31.12.10	2,000
Outstanding Expenses on 31.12.2017	2,500
	81,500
Less: Prepaid Expenses on 31.12.2017	3,000
	78,500
Less: Outstanding Expenses on 31.12.2016	1,500
∴ Expenses to be debited to Profit & Loss A/c	77,000

6. **Cash Sales & Cash Purchases during 2017**

75% of Cash Sale proceeds are used for Cash Purchases

∴ 25% Amount of Cash Sale proceeds deposited into Bank

∴ Cash Sales = Cash deposited X 100/25 = 1,25,000 X 100/25 = 5,00,000

∴ Cash Purchases = 75% of Cash Sale proceeds = 5,00,000 X 75% = 3,75,000

11. **On 1st April 2012, Sneha started a beauty Parlour. She acquired a shop for ₹12,00,000 and paid ₹2,00,000 for interior fittings. She put ₹ 4,00,000 into business bank A/c. She carried on till 31st March 2013, when she wanted to know what the parlour has earned over the period. She has approached you to find out the business results with following information as on 31-03- 2013: In addition to the shop and fitting she had following possessions: Stock ₹ 6,00,000, Motor car (purchased on 30-09-2012) ₹ 5,50,000, Cash at bank ₹2,50,000. Based on her limited knowledge she has told you to charge depreciation of 2% p.a. on shop, 5% p.a. on fittings and 20% on car. On 31-3-2013, ₹1,40,000 was payable to creditors, and ₹ 1,00,000 to a friend for money borrowed for business. She had withdrawn ₹ 2,000 per month from the business.**

Prepare her statement of profit or loss for the year.

Solution:

Statement of Affairs as on 01-04-2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital (balancing figure)	18,00,000	Shop	12,00,000
		Fittings	2,00,000
		Bank	4,00,000
	18,00,000		18,00,000

Statement of Affairs as on 31-3-2013

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,40,000	Shop (12,00,000 Less 2% of 12,00,000)	11,76,000
Loan from Friend	1,00,000	Fittings (2,00,000 Less 5% of 2,00,000)	1,90,000
Capital (balancing figure)	1,00,000	Cash at Bank	2,50,000
		Motor car [5,50,000 × 20% × ½]	4,95,000
		Stock in trade	6,00,000
	27,11,000		27,11,000

Statement of profit or loss for the year ended 31.03.2013

Particulars	**Amount (₹)**
Closing Capital as per statement of affairs as on 31-3-2013	24,71,000
Less: Opening Capital as per statement of affairs as on 31-3-2012	(18,00,000)
Increase or (decrease) in capital	6,71,000
Add: drawings (2000*12)	24,000
	24,000
Note: **Depreciation calculation** Shop @ 2% for 1 year on ₹ 1,200,000 Fittings @ 5% for 1 year on ₹ 200,000 Car @20% for 6 months on ₹ 550,000	 24,000 10,000 55,000

Alternative method: Conversion of single entry to double entry:

It may be possible to prepare the P&L A/c and Balance Sheet for such organizations by converting the records into double entry method. In this method, various ledger accounts are prepared e.g. sales, purchases, debtors, creditors, Trading A/c, cash book. As full information is not available the balancing figure in each of these accounts needs to be correctly interpreted. For example, if we know opening & closing balances in Debtors' A/c and the cash received from debtors; then the balancing figure will obviously indicate sales figures. Also, if we know opening and closing balances of creditors & credit purchases figures; then the balancing figure will certainly mean cash paid to creditors.

Once these figures are calculated, it's easy to prepare the financial statements in regular formats.

Study Note – 6

PARTNERSHIP

Learning Objective:

- *To be able to understand the meaning and essential elements of partnership,*
- *Learn the need and contents of various forms of partnership business,*
- *Understand the methods of maintaining books and records under different situations in partnership business viz; Admission, Retirement, Death, Insolvency and Dissolution of a partnership firm,*
- *Amalgamation of firms and Conversion of a partnership firm to a company are also discussed in the chapter.*

1. Multiple Choice Questions

Choose the correct alternative

1. Any change in the relationship of existing agreement and enforces making of a new agreement is called
   a) Revaluation of partnership b) Reconstitution of partnership
   c) Realization of partnership d) None of the above

2. The excess amount which the firm can get on selling its assets over and above the saleable value of its assets is called
   a) Surplus b) Super profits
   c) Reserve d) Goodwill

3. When a firm is dissolved, the amount realized from an unrecorded asset is credited to
   a) Cash A/C b) Bank A/C
   c) Revaluation A/C d) Realisation A/C

4. The Sacrifice ratio is used at the time of
   a) Admission of a partner b) Retirement of a partner
   c) Death of a partner d) Dissolution of a partner

5. The Balance of Joint Life Policy (JLP) Account as shown in the Balance Sheet represents:
   a) Annual premium of JLP
   b) Total premium paid by the partners
   c) Amount receivable at maturity
   d) Surrender value of the policy

Answer:

1 – b) , 2 – d) , 3 – d) , 4 – a), 5 – d)

2. Match the following pairs:

	Column A		Column B
1.	Goodwill	A.	Nominal Account
2.	Super Profit	B.	Average Profit Method
3.	Revaluation Account	C.	Average Profit – Normal Profit
4.	Capital Employed	D.	Intangible
5.	Valuation of Goodwill	E.	Tangible Trading Assets – Trading Liabilities

Answer:

1 – D, 2 – C, 3 – A, 4 – E, 5 - B

3. Fill in the blanks:

a. The amount due to deceased partner is paid to his/ her…………………..

b. Surplus capital method is suitable when all partners are ………………..

c. If there is any change in profit sharing ratio of the partners, the old partnership will be …………………

d. Profit or loss on revaluation of assets and liabilities is shared by the………………

e. At the time of admission of a partner, General Reserve is distributed among the partners in……………….sharing ratio.

Answer:

a. – Executors, b. - Solvent, c. – Terminated, d. - Old Partners, e. – Old Profit.

4. State whether the following statements are true or false:

a. It is necessary to revalue of assets and liabilities at the time of admission of a new partner.

b. After the death of a partner, the combined shares of continuing partners decrease.

c. Changes in profit sharing ratio among the existing partners may occur at any time during the financial year.

d. Loss on Realisation should be distributed according to capital ratio.

e. The surrender value of Joint Life Policy is distributed among all partners in their old ratio upon retirement.

Answer:

True: a, c, e; False: b, d

Theoretical Questions:

5. Define partnership and state its features

Two or more persons when agreed to carry on a business and share profit or losses of the business, this is known as partnership. The Indian partnership Act, 1932, defines Partnership as follows: Partnership is the relation between persons and who have agreed to share the profits of a business carried on by all or any of them acting for all.

The main features of Partnership are:

i) Two or more persons: It is an association of two or more persons for a common interest.
ii) Agreement: The Partnership is an agreement. It may be either oral or in writing.
iii) Lawful Business: Partnership is formed to carry on a business; so it must follow the law.
iv) Profit Sharing: Profit or loss of the firm is to share by the partners in an agreed ratio and equally where the ratio is not agreed.

6. State four rules which are applicable in the absence of Partnership Deed.

(i) Profit sharing ratio will be equal
(ii) No Interest on Capital and Drawings
(iii) No Remuneration or Salary to the partners.
(iv) Interest on Loan advanced by the partner @6% p.a.

PROBLEMS AND SOLUTIONS

7. A firm earned the following net profits during the last 4 years

Year	Amount (₹)
2015	**90,000**
2016	**1,20,000**
2017	**1,60,000**
2018	**1,80,000**

Capital employed in the firm is ₹10,00,000. The normal rate of profit is 10%. Calculate the value of the goodwill on the basis of 4 year purchase.

Solution:

Total profit of 4 years = ₹ (90,000 + 1,20,000 + 1,60,000 + 1,80,000) = ₹5,50,000
Average Annual Profit = ₹5,50,000/4 = ₹.1,37,500
Normal Profit = ₹10% of ₹10,00,000 = ₹10,00,000 = ₹1,00,000
Super profit = ₹ 1,37,500 – ₹ 1,00,000 = ₹37,500
Therefore, value of goodwill at 4 years' purchase = ₹ 37,500 × 4 = ₹ 1,50,000

8. A and B are partners sharing profit and losses in the ratio of 3 : 2. C is coming as a new partner for 1/5th share of future profit. Calculate new profit sharing and sacrificing ratio.

Solution:

Calculation of new profit sharing ratio and sacrificing ratio:
Let total Profit = 1
New partner's share = 1/5
Therefore, Remaining share = 1 – 1/5 = 4/5
A's new share = 3/5 of 4/5 i.e. 12/25
B's new share = 2/5 of 4/5 i.e. 8/25
C's Share = 1/5

The new profit sharing ratio of A, B and C is :

= 12/25 : 8/25 : 1/5 x 5/5

= 12/25 : 8/25 : 5/25

= 12 : 8 : 5

The Sacrificing ratio of the existing old partners:

A's Sacrifice = 3/5 – 12/25 = 15 – 12/25 = 3/25

B's Sacrifice = 2/5 – 8/25 = 10 – 8/25 = 2/25

Therefore, Sacrificing Ratio = **3 : 2**

9. The profit sharing ratio of Arvind and Gobind is 5:3. Dipak was admitted as a new partner. Arvind sacrificed 1/5th of his share and Gobind 1/3rd of his share for Dipak. Calculate the new profit sharing and sacrificing ratio.

Solution:

Calculation of new profit sharing ratio and sacrificing ratio:

Arvind sacrificed 1/5th of his share = 1/5 of 5/8 = 5/40 i.e., 1/8

Gobind sacrificed 1/3rd of his share = 1/3 of 3/8 =3/24 i.e., 1/8

Therefore, sacrificing ratio of Arvind and Gobind is 1/8 : 1/8 i.e., **1 : 1**

Arvind's new share = 5/8 – 1/8 = 4/8

Gobind's new share = 3/8 – 1/8 = 2/8

Dipak's new share = 1/8 + 1/8 = 2/8

Therefore, New Profit Sharing ratio of Arvind, Gobind and Dipak is

= 4/8 : 2/8 : 2/8 = **2 : 1 : 1**

10. Arun and Barun are partner sharing profit and losses in the ratio of 7: 3. The Balance Sheet of the firm on 31st March, 2017 was as follows:

Balance Sheet as on 31.03.2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		**Goodwill**	**20,000**
Arun 88,000		**Plant and Machinery**	**45,000**
Barun 64,000		**Land and Building**	**40,000**
Sundry Creditors	**1,52,000**	**Furniture**	**13,600**
Reserve Fund	**70,000**	**Sundry Debtors**	**45,000**
	18,000	**Bills Receivable**	**29,400**
		Stock	**35,000**
		Bank	**12,000**
	2,40,000		**2,40,000**

Karan joined the partnership as a new partner for 1/6th share of future profits and losses of the firm on the following terms:

i. Stock is revalued at ₹39,000; one unrecorded assets for ₹2,000 to be recorded for

unexpired Rent.

ii. **Depreciation to be charged for Plant and Machinery ₹6,000, Land and Building ₹ 4,400 and Furniture are depreciated by 10%.**

iii. **Karan brought ₹40,000 as his capital and ₹ 12,000 for his share of goodwill.**

iv. **Capital of the partners shall be proportionate to their profit sharing ratio. Adjustment of Capitals to be made by Cash.**

Prepare Revaluation Account, Partners Capital Account, Cash Account and Balance Sheet of the new firm.

Solution:

In the books of Arun, Barun and Karan

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars		Amount (₹)
To Plant and Machinery A/C	6,000	By Stock A/C		4,000
To Land and Building A/C	4,400	By Unexpired Rent A/C		2,000
To Furniture A/C	1,360	By Partners Capital A/C		
		- Arun's Capital	4,032	
		- Barun's Capital	1,728	5,760
	11,760	(loss on revaluation)		11,760

Dr. Partner's Capital Accounts Cr.

Particulars	Arun (₹)	Barun (₹)	Karan (₹)	Particulars	Arun (₹)	Barun (₹)	Karan (₹)
To Goodwill A/C	14,000	6,000	-	By Balance b/d	88,000	64,000	-
To Revaluation A/C - loss.	4,032	1,728	-	By Reserve Fund A/C	12,600	5,400	-
To Bank A/C - Excess capital withdrew [bal. fig.]				By Premium for Goodwill A/C	8,400	3,600	-
				By Bank A/C - Capital brought in	-	-	40,000
To Balance c/d [Note:2]	-	5,272	-	By Bank A/C - Further capital [bal. fig.]	49,032	-	-
	1,40,000	60,000	40,000				
	1,58,032	73,000	90,000		1,58,032	73,000	90,000

Dr. Bank Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	12,000	By Barun's Capital A/C - Excess capital withdrew	5,272
To Arun's Capital A/C - Further capital	49,032		
To Premium for Goodwill A/C	12,000		
To Karan's Capital A/C	40,000	By Balance c/d	1,07,760
	1,13,032		1,13,032

Balance Sheet as on 31.03.2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals A/C:		Bank	1,07,760
Arun 1,40,000		Bills Receivable	29,400
Barun 60,000		Sundry Debtors	45,000
Karan <u>40,000</u>	2,40,000	Stock	39,000
Sundry Creditors	70,000	Furniture	12,240
		Unexpired Rent	2,000
		Land and Building	35,600
		Plant and Machinery	39,000
	3,10,000		3,10,000

Working Note:

1. Calculation of New profit Sharing Ratio:
   Karan's share of profit = 1/6th
   Therefore, Remaining Profit (i.e., 1 – 1/6) or 5/6th to be shared by Arun and Barun according to their existing profit sharing ratio.
   Arun's share = 5/6 x7/10 = 7/12
   Barun's shares = 5/6 x 3/10 = 3/12
   Karan's share = 1/6 x 2/2 = 2/12
   New profit sharing ratio of Arun, Barun and Karan = 7/12 : 3/12 : 2/12 = 7 : 3 : 2.

2. Adjustment of Capital of partners in their profit sharing ratio:
   Karan brought capital for 1/6 share = ₹ 40,000
   Total Capital of the firm = ₹ 40,000 × 6/1 = ₹ 2,40,000
   Therefore, new capital of the partners are:
   Arun's Capital = ₹ 2,40,000 × 7/12 = ₹ 1,40,000
   Barun's Capital = ₹ 2,40,000 × 3/12 = ₹ 60,000
   Karan's Capital = ₹ 2,40,000 × 2/12 = ₹ 40,000

11. Amal, Bimal and Kamal were the partners in a firm sharing profits and losses in the ratio of 3 : 2 : The Balance Sheet of the firm as on.31.12.2018 was as follows:

Balance Sheet as at 31.12.18

Liabilities	Amount (₹)	Assets	Amount (₹)
Amal 45,000		**Plant**	**40,000**
Bimal 35,000		**Buildings**	**50,000**
Kamal <u>25,000</u>	**1,05,000**	**Furniture**	**4,000**
Reserve Fund	**15,000**	**Debtors**	**30,000**
Profit and Loss A/C	**12,000**	**Stock**	**25,000**
Creditors	**20,500**	**Bank**	**3,500**

	1,52,000		1,52,000

Kamal retired on that date subject to the following conditions:

i) Goodwill of the firm to be valued at ₹ 36,000;

ii) Building is to be appreciated by 20%;

iii) Plant and Furniture are to be depreciated by 10% and 15% respectively;

iv) Provision to be made for doubtful debts @ 5%.

Amal and Bimal are to bring in cash, if necessary, in their profit sharing ratio to pay off Kamal's dues on retirement and leave a sum of ₹ 10,000 as working capital.

Prepare Revaluation Account, Partners' Capital Account and Balance Sheet of the new firm as on 31.12.18.

Solution:

In the books of Amal, Bimal and Kamal

Dr. Revaluation Account Cr.

Particulars		**Amount (₹)**	Particulars	**Amount (₹)**
To Provision for Doubtful Debts A/C		1,500	By Goodwill A/C	36,000
To Depreciation on Plant A/C		4,000	By Building A/C	10,000
To Depreciation on Furniture A/C		600		
To Partner's Capital A/C				
- Amal's Capital	19,950			
- Bimal's Capital	13,300			
- Kamal's Capital	6,650	39,900		
		46,000		46,000

Dr. Partner's Capital Accounts Cr.

Particulars	Amal ₹.	Bimal ₹.	Kamal ₹.	Particulars	Amal ₹.	Bimal ₹.	Kamal ₹.
To Bank A/C	-	-	36,150	By Balance b/d	45,000	35,000	25,000
- Dues paid off				By Reserve Fund A/C	7,500	5,000	2,500
				By Revaluation A/C	19,950	13,300	6,650
To Balance c/d	1,04,040	74,360	-	- profit			
				By Profit & Loss A/C	6,000	4,000	2,000
				By Bank A/C (Def.)	25,590	17,060	-
				By Balance b/d			
	1,04,040	74,360	36,150		1,04,040	74,360	36,150
					1,04,040	74,360	-

Balance Sheet as at 31.12.18

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital A/C			Goodwill		36,000
Amal	1,04,040		Buildings		60,000
Bimal	74,360	1,78,400	Plant		36,000
			Furniture		3,400
Creditors		20,000	Debtors	30,000	
			Less: Provision	1,500	28,500
			Stock		25,000
			Bank [Note 1]		10,000
		1,98,900			1,98,900

Working Note:

Additional amount to be brought in by Amal and Bimal:

	₹
Amount paid to Kamal	36,150
Add, required working capital to be maintained	10,000
	46,150
Less, Cash at Bank as per existing balance Sheet	3,500
Amount to be brought in	42,650

12. Amir, Boby and Chetan were the partners in a firm sharing profits and losses equally. The Balance Sheet of the firm as on 31.12.2017 was as follows:

Balance Sheet as at 31.12.17

Liabilities		Amount (₹)	Assets		Amount (₹)
Amir	**30,000**		**Goodwill**		**18,000**
Boby	**30,000**		**Land and Building**		**60,000**
Chetan	**25,000**		**Machinery**		**40,000**
Reserve Fund		**85,000**	**Debtors**	**48,000**	
8% Mortgage Loan		**38,000**	**Less: Provision**	**3,000**	
Creditors		**60,000**	**Stock**		**45,000**
Bills payable		**20,000**	**Bank**		**22,000**
		20,000			**38,000**
		2,23,000			**2,23,000**

Chetan has decided to retire from partnership and remaining partners will continue the business. The following adjustment to be considered at his retirement:

a. Create provision for discount on Creditors of ₹1,600; the Provision for Doubtful Debt to be raised by ₹ 1,000; the value of Land and Building to be appreciated by 15%; Depreciate Machinery by 10%; the amount for ₹ 4,000 of Bills Payable was not likely to be claimed.

b. Goodwill to be valued on 3 years' purchase of average profit of last 4 years which were 2014 : ₹ 56,000 (loss); 2015 : ₹ 22,000; 2016: ₹ 54,200; 2017 : ₹ 24,800.

c. **Amir and Boby have decided to show the firm's total capital at ₹ 1,00,000 which would be according to their new profit sharing ratio at 2:3. The adjustments to be made in cash.**

Prepare Revaluation Account, Partners' Capital Account and Balance Sheet of the new partners as on 31.12.17.

Solution:

In the books of Amir, Boby and Chetan

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for Doubtful Debts A/C	1,000	By Land and Building A/C	9,000
To Depreciation on Machinery A/C	4,000	By Provision for discount on Creditors A/C	1,600
To Partner's Capital A/C		By Bills Payable A/C	4,000
- Amir's Capital 3,200			
- Boby's Capital 3,200			
- Chetan's Capital 3,200	9,600		
	14,600		14,600

Dr. Partner's Capital Accounts Cr.

Particulars	Amir (₹)	Boby (₹)	Chetan (₹)	Particulars	Amir (₹)	Boby (₹)	Chetan (₹)
To Goodwill A/C	6,000	6,000	6,000	By Balance b/d	30,000	30,000	25,000
To Chetan's Capital A/C	2,250	9,000	-	By Reserve	12,667	12,667	12,666
				By Revaluation A/C - profit	3,200	3,200	3,200
To Chetan's Loan A/C	-	-	46,116				
To Balance c/d	40,000	60,000	-	By Amir's Capital A/C	-	-	2,250
				By Boby's Capital A/C			
				By Bank A/C (Def.)	-	-	9,000
				By Balance b/d	2,383	29,133	-
	48,250	75,000	52,116		48,250	75,000	52,116
					40,000	60,000	-

Balance Sheet as at 31.12.17

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/C		Land & Buildings	69,000
Amir's 40000		Machinery	36,000
Boby's 60000	1,00,000	Debtors 48,000	
Bills Payable	16,000	Less: Provision 4,000	
Creditors	18,400	Stock	44,000
8% Mortgage Loan	60,000	Bank	22,000
Chetan's Loan	46,116		69,516
	2,40,516		2,40,516

Working Note:

The value of Goodwill is 3 years' purchase of average profit of last 4 years

= ₹ (- 56,000 (loss) + 22,000 + 54,200 + 24,800) / 4 X 3

= ₹ 33,750. The value of Goodwill is adjusted against partners' capital accounts.

13. Rahul, Ranjit and Rakes are the partners of a firm sharing profits and losses in the ratio of 5:3:2. The Balance sheet of the firm as on 31st December 2017 is:

Balance Sheet as on 31st December 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		**Plant**	**50,000**
Rahul 40,000		**Land and Building**	**40,000**
Ranjit 35,000		**Furniture & Fixture**	**24,000**
Rakes 25,000	**1,00,000**	**Debtors**	**8,000**
Reserve Fund	**10,000**	**Stock**	**15,000**
Creditors	**28,000**	**Bank**	**13,000**
Outstanding Expenses	**12,000**		
	1,50,000		**1,50,000**

Rahul has died on 1st July 2018 on the following terms-

i) Plant to be valued at ₹ 48,000.

ii) Land and Building revalued at ₹ 50,000.

iii) Furniture & Fixture are to be increased by ₹ 2,000.

iv) Interest on Capital is to be charged at 10% p.a.

v) Profit for the year 2018 has been accrued on the same scale as it was in 2017.

vi) Goodwill of the firm is valued at 2 years' purchase of the average profits of the last five years which were: 2013 – ₹ 15,000; 2014 – ₹ 13000; 2015 – ₹ 12,000; 2016 – ₹ 15,000 and 2017 – ₹ 20,000

vii) ₹ 12,000 of the due to Rahul is to be paid in cash to Rahul's Executor and the balance is to transfer to his loan account.

Prepare Revaluation Account, Rahul's Capital Account and Rahul's Executors Account.

Solution:

In the books of Rahul, Ranjit and Rakes

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Plant A/C	2,000	By Furniture & Fixture A/C	2,000
To Capital Accounts A/C		By Land and Buildings A/C	10,000
Rahul	5,000		
Ranjit	3,000		

Rakes	2,000		
	12,000		12,000

Dr. Rahul's Capital Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Rahul's Executors A/C	72,000	By Balance b/d	40,000
- Transferred.		By Reserve fund A/C	5,000
		[₹ 10,000 X 5/10]	
		By Interest on capital A/C By	2,000
		Revaluation A/C	5,000
		By Ranjit's Capital A/C	9,000
		By Rakes's Capital A/C	6,000
	72,000		72,000

Dr. Rahul's Executor's Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/C	12,000	By Rahul's Capital A/C	72,000
To Rahul's Executor's Loan A/C	60,000		
	72,000		72,000

Working Note :

a) Interest on Rahul's Capital = ₹ 40,000 X 10/100 X 6/12 = ₹ 2,000

b) Since, profit for the year 2018 has been accrued on the same scale as it was in 2017, therefore, profit for 6 months upto June 2018 is ₹ 20000 X 6/12 = ₹ 10,000.
And, Rahul's Share of profits = ₹ 10,000 X 5/10 = ₹ 5000.

c) Total Goodwill of the firm =
Average profits for last 5 years = ₹ 75000/5 = ₹ 15000
Therefore, Goodwill = ₹ 15000 × 2 years = ₹ 30,000

Rahul's share of Goodwill = ₹ 30,000 × 5/10 = ₹ 15000 (to be adjusted against capital accounts of partners in Gaining Ratio 3:2)

14. P, Q and R are the partners in sharing profits and losses at 5: 3 : 2. The Balance Sheet as on 31.12.2018 is given below:

Balance Sheet as on 31st December 2018

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital Accounts:			**Machinery**	**50,000**
P	**10,000**		**Car**	**10,000**
Q	**40,000**		**Debtors**	**45,000**
R	**<u>20,000</u>**	**70,000**	**Stock**	**60,000**
Creditors		**1,00,000**	**Bank**	**5,000**

	1,70,000		1,70,000

Machinery and stock are sold for ₹ 25,000 and ₹ 18,000 respectively. Car is taken by Q for ₹ 12,000. Debtors realized ₹ 20,000. Deficiency of any partner in Capital account is to be met by other partners in profit sharing ratio. P is insolvent; R can bring in ₹ 5,000 only.

You are required to prepare Realisation Account, Bank Account and Partners Capital Account.

Solution:

In the books of P, Q and R

Dr. Realisation Account Cr.

Particulars	**Amount (₹)**	Particulars		**Amount (₹)**
To Machinery A/C	50,000	By Bank A/C		
To Car A/C	10,000	(assets realised)		
To Debtors A/C	45,000	- Machinery	25,000	
To Stock A/C	60,000	- Stock	18,000	
		- Debtors	20,000	63,000
		By Q's Capital A/C		12,000
		- Car taken over.		
		By Partners Capital A/C		
		- P [90,000 X 5/10]	45,000	
		- Q [90,000 X 3/10]	27,000	
		- R [90,000 X 2/10]	18,000	90,000
	1,65,000			1,65,000

Dr. Bank Account Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Balance b/d	5,000	By Creditors A/C	1,00,000
To Realisation A/C	63,000	- Direct payment met	
- assets realised			
To R's Capital Accounts A/C	5,000		
To Q's Capital Accounts A/C	27,000		
	1,00,000		1,00,000

Dr. Partner's Capital Accounts Cr.

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Realisation A/C				By Balance b/d	10,000	40,000	20,000
- Car taken over	-	12,000	-	By Bank A/C			
To Realisation A/C				- Cash brought in	-	27,000	-
- Loss	45,000	27,000	18,000	against loss			
To P's Capital A/C				- Cash brought in	-	-	5,000
[Note: 1]	-	21,000	14,000	against deficiency			
To R's Capital A/C				By Q's Capital A/C &			
- Deficiency borne	-	7,000	-	R's Capital A/C	35,000	-	-

				[Note: 1] By Q's Capital A/C -deficiency	-	-	7,000
	45,000	67,000	32,000		45,000	67,000	32,000

Working Note:

1. P is insolvent. His entire deficiency ₹ 35,000 is borne by Q and R in the ratio of 3 : 2.

15. P, Q and R are the partners in Bosco Engineering Works sharing profits and losses at 6: 3: 5. The Balance Sheet as on 31.12.2017 is given below:

Balance Sheet as on 31st December 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		**Land and Building**	**10,000**
P 25,000		**Furniture & Fixture**	**5,000**
R <u>15,000</u>	**40,000**	**Debtors**	**30,000**
Current Accounts:		**Stock**	**23,100**
P 1,000		**Bank**	**2,500**
R <u>500</u>	**1,500**	**Q's Current Accounts**	**4,900**
Reserve	**1,400**		
Creditors	**28,600**		
Mortgage Loan	**4,000**		
	75,500		**75,500**

It was decided by the partners to dissolve the partnership on 31.12.2017. The following amount has been realized:

Furniture & Fixture ₹ 2,000; Land and Building ₹ 6,000; Debtors ₹ 20,000 and Stock ₹ 15,000. Creditors are agreed to forgo 25% in full settlement of their total dues. The full amount of Mortgage Loan has been paid. Realisation expenses paid for ₹ 1,650. It was ascertained that Q had become insolvent. Q's estate had contributed only 50 paise in a rupee.

You are required to prepare Realisation Account, Bank Account and Partners Capital Account following the rule given in Garner Vs. Murray.

Solution:

In the books of Bosco Engineering Works

Dr. Realisation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)

To Land and Building A/C	10,000	By Creditors A/C	28,600
To Furniture & Fixture A/C	5,000	By Mortgage Loan A/C	4,000
To Debtors A/C	30,000	By Bank A/C (assets realised)	
To Stock A/C To Bank A/C	23,100	- Land and Building 6,000	
(payment of liabilities)		- Furniture & Fixture 2,000	
- Creditors 21,450		- Debtors 20,000	
- Mortgage Loan 1,650		- Stock 15,000	43,000
- Realisation Expenses 4,000	27,100	By Partners Capital A/C	
		- P [19,600 X 6/14] 8,400	
		- Q [19,600 X 3/14] 4,200	
		- R [19,600 X 5/14] 7,000	19,600
	95,200		95,200

Dr. **Bank Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,500	By Realisation A/C	27,100
To Realisation A/C	43,000	By P's Capital Accounts A/C By	23,850
To P's Capital Accounts A/C To	8,400	R's Capital Accounts A/C	14,350
R's Capital Accounts A/C To	7,000		
Q's Capital Accounts A/C	4,400		
	65,300		65,300

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Current A/C	-	4,900	-	By Balance b/d	25,000	-	15,000
To Realisation A/C				By Current A/C	1,000	-	500
- Loss	8,400	4,200	7,000	By Reserve A/C	600	300	500
To Q's Capital A/C	2,750	-	1,650	By Bank A/C			
[Note: 1]				- Cash brought in	8,400	-	7,000
To Bank A/C				against loss	-		-
-Balance paid off.	23,850	-	14,350	By Bank A/C			
				-[(9,100 – 300) x 50%] By	-	4,400	-
				P's Capital A/C & R's			
				Capital A/C			
				[Note: 1]		4,400	
	35,000	9,100	23,000		35,000	9,100	23,000

Working Note:

1. Q's total deficiency of ₹ [(9,100 – 300) x 50%] or ₹ 4,400 to be shared by P and R in their Fixed Capital Ratio i.e., 25,000 : 15,000 or 5 : 3.

16. Multiple Choice Questions

Choose the correct alternative

1. When the books of amalgamation of firms are being closed then assets and liabilities are transferred to:

(a) Capital account
(b) Revaluation account
(c) Realization account
(d) None of these

2. Profit on realization is transferred to partners capital account in:

(a) Equally
(b) Capital ratio
(c) Profit sharing ratio
(d) None of these

3. The basis of computation of purchase consideration is:

(a) Capital
(b) Liabilities taken over
(c) Net assets
(d) None of these

4. When realization account is opened then:

(a) The assets are not in the hands of same firm
(b) The assets are in the same firm
(c) Both of these
(d) None of these

5. When revaluation account is opened then:

(a) Assets are sold in the open market
(b) Assets are remained in the same firm
(c) Assets are not in the hands of the same firm
(d) None of these

Answer:

1 - (c); 2 - (c); 3 - (c); 4 - (a); 5 - (b)

17. Fill in the blanks:

1. **Amalgamation of the firm is used to be done to avoid…………**
2. **Amalgamation of the firm is used to be done to ……profit**
3. **When two or more firms carrying on business of same nature, decided to amalgamate is called…………….**
4. **Amalgamation of firms indicates………..of two or more existing firms.**
5. **Amalgamations of firms secure internal & external……….of large scale production.**

Answer:

1. competition
2. maximize
3. amalgamation of firms
4. winding up
5. economies

18. Rajesh & Co. and Taj & co. are two partnership firm, carrying on business. They decided to amalgamate into a new firm Amal & Co. with effect from 1st January 2019. Their respective Balance Sheets are as follows:

Balance Sheet of Rajesh & Co.
as on 31st December, 2018

Liabilities	₹	Assets	₹
Mr B's Capital Accounts	19,000	Plant & Machinery	10,000
Sundry Creditors	10,000	Stock -in -trade	20,000
Bank Overdraft	15,000	Sundry debtors	10,000
		Mr. A's Capital Account	4,000
	44,000		44,000

A and B share profits and losses in the proportion of 1: 2.

Balance Sheet of Taj & co.
as on 31 December, 2018

Liabilities	₹	Assets	₹
Mr. X's Capital A/c	10000	Investment	5000
Mr. Y's Capital A/c	2000	Stock-in-trade	5000
Sundry Creditors	9500	Sundry Debtors	10000
		Cash in hand	1500
	21500		21500

X and Y share profit and losses equally. The following further information is given:

(i) All fixed assets are to be devalued by 20%.

(ii) All stock in trade is to be appreciated by 50%.

(iii) Rajesh & Co. owes ₹ 5000 to Taj & co. as on 31 December, 2018. This debit is settled at ₹ 2000

(iv) Investment is to be ignored for the purpose of amalgamation, being valueless.

(v) The fixed capital accounts in the new firm are to be: Mr A ₹ 2000; Mr B ₹ 3000 ; Mr X ₹ 1000; Mr Y ₹ 4000.

(vi) Mr B takes over bank overdraft of Rajesh & Co. and gifts to Mr A the account of money to be brought in by Mr A to make up his capital contribution.

(vii) Mr X is paid off in cash from Taj & co. and Mr Y brings in sufficient cash to make up his required capital contribution.

Pass necessary Journal Entries to close the books of both the firms as on 31 December, 2018.

Solution:

In the books of Rajesh & Co.

Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
2018	Realization A/c Dr.	40,000	
Dce.31	To Plant and Machinery A/c		10,000
	To Stock-in-trade A/c		20,000
	To Sundry Debtors A/c		10,000
	(Being the different assets transferred to Realisation Account)		
	Sundry Creditors A/c Dr.	10000	
	To Realization A/c		10000
	(Being sundry creditors transferred to Realisation Account)		
	Bank Overdraft A/c Dr.		
	To B Capital A/c	15000	
	(Being overdraft taken by B)		15000
	Amal & Co. A/c (Note 1) Dr		
	To Realization A/c	41000	
	(Being purchase consideration due from Amal & Co.)		41000
	Realization A/c (Note 2) Dr		
	To A Capital A/c	11000	
	To B Capital A/c		3667
	(Being profit on realization)		7333
	B Capital A/c (Note5) Dr		
	To A Capital A/c	2333	
	(Being deficit in A's Capital made good by B)		2333
	A Capital A/c Dr		
	B Capital A/c (See Note) Dr.	2000	
	To Amal & Co. A/c	39000	

	(Being the capital accounts to the partners closed by transfer to Amal & Co.)		41000

Note : It should be noted that the credit balance in B's capital account in ₹ 39000. His agreed capital in Amal & Co. is ₹ 3000 only. Since there is no liquid assets in Rajesh & Co. from which B can be repaid, the excess amount of ₹ 36000 should be taken over by Amal & Co. as loan from B.

In the books of Taj & Co.
Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
2018	Realization A/c Dr	20000	
Dce.31	To Plant and Machinery A/c		5000
	To Stock-in-trade A/c		5000
	To Sundry Debtors A/c		10000
	(Being the different assets transferred to Realisation A/c)		
	Sundry Creditors A/c Dr		
	To Realization A/c	9500	
	(Being sundry creditors transferred to Realisation Account)		9500
	Amal & Co. A/c (Note 1) Dr	5000	
	To Realisation A/c		5000
	(Being purchase consideration due from Amal & Co.)		
	X Capital A/c Dr	2750	
	Y Capital A/c Dr	2750	
	To Realisation A/c		5500
	(Being loss on realization transferred to Partner's Capital Accounts equally)		
	Cash A/c Dr	4750	
	To Capital A/c		4750
	(Being the necessary amount brought in by to make up his required capital contribution)		
	X Capital A/c Dr	6250	
	To Cash A/c		6250
	(Being the excess capital paid by cash)		
	X Capital A/c Dr	1000	
	Y Capital A/c Dr	4000	
	To Amal & Co. A/c		5000
	(Being the capital accounts of the partners closed by transfer to Amal & Co.)		

Working Notes:

(1) Calculations of Purchase Consideration

Assets taken over :	Rajesh & Co.	Taj & Co.

Plant and Machinery	8000	-
Stock-in-trade	30000	7500
Sundry Debtors	10000	7000
	48000	14500
Less, Liabilities taken over :		
Sundry creditors	7000	9500
Purchase consideration	41000	5000

Dr. Realisation Account Cr.

Particulars	Rajesh & Co.	Taj & Co.	Particulars	Rajesh & Co.	Taj & Co.
To Investment A/c	-	5000	By Sundry creditors A/c	10000	9500
To Plant and Machinery A/c	10000	-	By Amal & Co. A/c	41000	5000
To Stock-in-trade A/c	20000	5000	By X Capital A/c (Loss)	-	2750
To Sundry Debtors A/c	10000	10000	By Y Capital A/c (Loss)	-	2750
To A Capital A/c	3667	-			
To B Capital A/c	7333	-			
	51,000	20,000		51,000	20,000

Dr. Partners' Capital Account Cr.

Particulars	A	B	Particulars	A	B
To Balance b/d	4000	-	By Balance b/d	-	19000
To A Capital A/c	-	2333	By Realisation A/c (profit)	3667	7333
To Amal & Co. A/c	2000	39000	By B Capital A/c	2333	-
			By Bank Overdraft A/c	-	15000
	6000	41333		6000	41333

Dr. Partners' Capital Account Cr.

Particulars	X	Y	Particulars	X	Y
To Realisation A/c	2750	2750	By Balance b/d	10000	2000
To Amal & Co. A/c	1000	4000	By Cash A/c	-	4750
To Cash A/c	6250	-			
	6000	41333		6000	41333

19. The Balance sheet of two partnership firms AB and XY as on 31.12.2018 are as below:

Liabilities	AB (₹)	XY (₹)	Assets	AB (₹)	XY (₹)
Capital: A BXY	**60000**	**-**	**Furniture**	**8000**	**6000**
Bank loan	**30000**	**-**	**Investments**	**-**	**18000**
Bills payable	**-**	**36000**	**Machinery**	**60000**	**20000**
	-	**24000**	**Stock**	**32000**	**24000**
	10000	**-**	**Debtors**	**18000**	**30000**
	30000	**40000**	**Cash**	**12000**	**2000**
	130000	**100000**		**130000**	**100000**

AB absorbed XY on 01.01.2019 on the following terms:

(a) That the investment of XY to be sold out and the investment realized ₹ 24000;

(b) That the stock of XY be reduced to ₹ 22000;

(c) That the machinery of XY will be increased by 40% ; (d) That the furniture of XY will be reduced by 10% ;

It was further decided that for AB, following are the adjustments to made:

i. Assets are to be revalued as following stock: ₹40000; Machinery: ₹84000; Furniture: ₹ 7200; and

ii. Bank loan is to be repaid

You are required to show necessary Leger Accounts to close the books of XY to prepare necessary Journal Entries and Balance Sheet of AB after absorption.

Solution:

Working Notes:

Calculation of Purchase Consideration

Assets taken over :	₹
Machinery	28000
Furniture	5400
Stock	22000
Debtors	30000
Cash (24000+2000)	26000
	111400
Less : **Liability taken over**- Bills payable	40000
Purchase Consideration	**71400**

In the books of XY

Dr Realisation Account Cr

Particulars		₹	**Particulars**	₹
To Machinery A/c		20000	By Bills Payable A/c	40000
To Furniture A/c		6000	By AB A/c	71400
To Stock A/c		24000		
To Debtors A/c		30000		
To Cash A/c		26000		
To Partners' Capital A/c :				
X-	2700			
Y-	2700	5400		
		1,11,400		1,11,400

Dr **AB Account** Cr

Particulars	₹	Particulars	₹
To Realisation A/c	71400	BY Capital in AB A/c	71400
	71400		71400

Dr **Cash Account** Cr

Particulars	₹	Particulars	₹
To balance b/d	2000	By Realisation A/c	26000
To Investment A/c	24000		
	26000		26000

Dr **Partner's Capital Account** Cr

Particulars	X	Y	Particulars	X	Y
To Capital in AB A/c	41700	29700	By balance b/d	36000	24000
			By Profit on sale of Investment A/c	3000	3000
			By Realisation A/c	2700	2700
	41700	29700		41700	29700

In the books of AB

Journal Entries

Dr Cr

Date	Particulars	₹	₹
2019 Jan.1	Bank Loan A/c Dr	10000	
	To Cash A/c		10000
	(Being the bank loan repaid)		
	Stock A/c Dr	8000	
	Machinery A/c Dr	24000	
	To Revaluation A/c		32000
	(Being the increase in value of assets)		
	Revaluation A/c Dr	800	
	To Furniture A/c		800
	(Being the decrease in value of furniture)		
	Revaluation A/c Dr	312000	
	To A Capital A/c		15600
	To B Capital A/c		15600
	(Being the profit and on revaluation transferred to Partners' Capital A/cs in profit-sharing ratio)		

	Machinery A/c Dr		28000	
	Furniture A/c Dr		5400	
	Stock A/c Dr		22000	
	Debtors A/c Dr		30000	
	Cash A/c Dr		26000	
	To Bills Payable A/c			40000
	To X Capital A/c			41700
	To Y Capital A/c			29700
	(Being the introduction of capital by X & Y)			

Dr **Partner's Capital Account** **Cr**

Particulars	A	B	Particulars	A	B
To Balance c/d	75600	45600	By Balance b/d	6000	30000
			By Revaluation A/c (profit)	15600	15600
	75600	45600		75600	45600

Balance Sheet

as on 1st January, 2019

Liabilities	₹	Assets	₹
Capital Accounts:		Machinery	112000
A	75600	Furniture	12600
B	45600	Stock	62000
X	41700	Debtors	48000
Y	29700	Cash	28000
Bills payable	70000		
	2,62,600		**2,62,600**

20. Ajit and Bimal are partners of AB & Co. sharing profits and losses at 3 : 1 and Bimal and Chetan are partners of BC & Co. sharing profits and losses at 2 : 1. On 31st March 2018, they decided to amalgamate and form a new firm Anand & Co. The future profit sharing ratio among the partners would be 3 : 2 : 1.

The Balance Sheet of two firms as on 31st March, 2018 are as under:

Liabilities	AB & Co (₹)	BC & Co (₹)	Assets	AB & Co (₹)	BC & Co (₹)
Capital Accounts:			**Machinery**	**60,000**	**64,000**
Ajit	**96,000**	**-**	**Land and Building**	**20,000**	**-**
Bimal	**64,000**	**80,000**	**Furniture & Fixture**	**8,000**	**2,400**
Chetan	**-**	**40,000**	**Debtors**	**64,000**	**80,000**
Reserve Fund	**20,000**	**60,000**	**Stock**	**48,000**	**56,000**
Creditors	**48,000**	**46,400**	**Cash**	**20,000**	**40,000**
Due to AB & Co Bank Loan	**-**	**40,000**	**Due from BC & Co.**	**40,000**	**-**
	32,000	**-**	**Advances**	**-**	**24,000**
	2,60,000	**2,66,400**		**2,60,000**	**2,66,400**

The amalgamated new firm Anand & Co. took over the business on the following terms:

a) Land and Building of AB & Co. was valued at ₹ 40,000.

b) **Machinery of AB & Co. was valued at ₹ 90,000 and that of BC & Co. ₹ 80,000.**

c) **Goodwill of AB & Co. was valued at ₹ 20,000 and that of BC & Co. at ₹ 16,400 but no goodwill account was to appear in the books of Anand & Co.**

d) **Partners of the new firm will bring necessary cash to pay other partners to adjust their capital according to the profit sharing ratio.**

Show journal entries and prepare Balance Sheet as on 31st March, 2018 in the books of Anand & Co.

Solution:

In the books of Anand & Co.
Journal Entries

Date	Particulars	LF	Debit Amount(₹)	Credit Amount(₹)
	Land and Building A/c Dr.		40,000	
	Machinery A/c Dr.		1,70,000	
	Furniture and Fixture A/c Dr.		10,400	
	Stock A/c Dr.		1,04,000	
	Debtors A/c Dr.		1,44,000	
	Cash A/c Dr.		60,000	
	Due from BC & Co. A/c Dr.		40,000	
	Advance A/c Dr.		24,000	
	Goodwill A/c Dr.		36,400	
	To Creditors A/c			94,400
	To Due from AB & Co. A/c			40,000
	To Bank Loan A/c			32,000
	To Ajit's Capital A/c			1,63,500
	To Bimal's Capital A/c			2,28,100
	To Chetan's Capital A/c			70,800
	(Assets and liabilities of AB & Co. and BC & Co. transfer to Anand & Co with adjusted capital)			
	Ajit's Capital A/c Dr.		18,200	
	Bimal's Capital A/c Dr.		12,133	
	Chetan's Capital A/c Dr.		6,057	
	To Goodwill A/c			36,400
	(Goodwill written off at 3:2:1)			
	Due to AB & Co. A/c Dr.		40,000	40,000
	To Due to BC & Co. A/c			
	(Inter business debts set off)			
	Cash A/c Dr.		73,967	
	To Ajit's Capital A/c			67,700
	To Chetan's Capital A/c			6,267
	(Deficit capital introduced by Ajit and Chetan) [Note : C]			
	Bimal's Capital A/c Dr.		73,967	73,967
	To Cash A/c			
	(Surplus capital withdrawal by Bimal) [Note: C]			

Balance Sheet of Anand & Co. as on 31st March 2018

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**

Capital Accounts:		Machinery	1,70,000
Ajit	2,13,000	Land and Building	40,000
Bimal	1,42,000	Furniture & Fixture	10,400
Chetan	71,000	Debtors	1,44,000
Creditors	94,400	Stock	1,04,000
Bank Loan	32,000	Cash	60,000
		Advances	24,000
	5,52,400		5,52,400

Working Notes:

a) Adjusted Capital of AB & Co. transfer to Anand & Co.:

Particulars	Ajit (₹.)	Bimal (₹.)
Partners' Capital	96,000	64,000
Add, Share of Reserve Fund at 3:1	15,000	5,000
Add, Share of Goodwill at 3:1	15,000	5,000
Add, Share of Revaluation Profit:		
Increased value of Land & Building ₹ 20,000		
Increased value of Machinery ₹ 30,000	37,500	12,500
50,000		
Capital of partners transfer to Anand & Co.	**1,63,500**	**86,500**

b) Adjusted Capital of BC & Co. transfer to Anand & Co.:

Particulars	Bimal (₹)	Chetan (₹)
Partners' Capital	80,000	40,000
Add, Share of Reserve Fund at 2:1	40,000	20,000
Add, Share of Goodwill at 2:1	10,933	5,467
Add, Share of Revaluation Profit on Machinery	10,667	5,333
Capital of partners transfer to Anand & Co.	**1,41,600**	**70,800**

c) Surplus capital withdrawn and deficit capital introduced by partners:

Particulars	Total (₹)	Ajit (₹)	Bimal (₹)	Chetan (₹)
Capital transferred to Anand & Co	4,62,400	1,63,500	2,28,100	70,800
Less, Goodwill written off at 3:2:1	36,400	18,200	12,133	6,067
Actual Capital of partners	**4,26,000**	**1,45,300**	**2,15,967**	**64,733**
Adjusted Capital of partners at 3:2:1	4,26,000	2,13,000	1,42,000	71,000
Deficit and Surplus capital of partners	-	**(67,700)**	**73,967**	**(6,267)**

21. M/s A and Co., having A and B as equal partners, decided to amalgamate with C and Co., having C and D as equal partners on the following terms and condition:

(i) The new firm AC and Co. to pay ₹ 12,000 to each firm for Goodwill.

(ii) The new firm to take over investments at 10% depreciation, land at ₹ 66,800, premises at ₹ 53,000, machinery at ₹ 9,000 and only the trade liabilities of both the firms. The Debtors being taken over at given value.

(iii) Type writers (written off) worth ₹ 800, belonging to C & Co., and not appearing in the balance sheet was also not taken over by the new firm.

(iv) Bills Payable pertains to trade transaction only.

(v) All the four partners in the new firm to bring in ₹ 1, 60,000 as capital in equal shares.

The following were the Balance Sheets of both firms on the date of amalgamation:

Liabilities	A & Co.	C & Co.	Assets		A & Co.	C & Co.
Trade Creditors	20,000	10,000	Cash		15,000	12,000
Bills Payable	5,000	-	Investments		10,000	8,000
Bank Overdraft	2,000	10,000	Debtors	₹ 10,000		
A's Loan Capitals :			Less:	₹ 1,000	9,000	4,000
A	6,000	-	Furniture		12,000	6,000
B	35,000	-	Premises		30,000	-
C	22,000	-	Land		-	50,000
D	-	36,000	Machinery		15,000	-
General Reserve	-	20,000	Goodwill (Purchased)		9,000	-
Investment Fluctuation	8,000	3,000				
Fund	2,000	1,000				
	1,00,000	80,000			1,00,000	80,000

Assuming immediate discharge of bank overdraft, pass necessary Journal Entries to close the books of A & Co. and C & Co. Also pass Journal entries in the books and prepare the Balance Sheet of the New Firm.

Solution:

In the books of A & Co.

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank Overdraft A/c	Dr.	2,000	
	To Cash A/c			2,000
	(Being the payment of overdraft.)			
	Realization A/c	Dr.	99,000	
	To Cash A/c			13,000
	To Investment A/c			10,000
	To Debtors A/c			10,000
	To Furniture A/c			12,000
	To Premises A/c			30,000
	To Machinery A/c			15,000
	To Goodwill A/c			9,000
	(Being the transfer of different assets to Realization account)			

	Provision for Bad Debts A/c	Dr.		
	Trade Creditors A/c	Dr.	1,000	
	Bills Payable A/c	Dr.	20,000	
	To Realisation A/c		5,000	
	(Being the different liabilities and provisions transferred to			26,000
	Realisation Account)			
	M/s AC & Co. (new firm) A/c	Dr.	80,000	
	To Realisation A/c (Note 1)			80,000
	(Being the purchase consideration due from the new firm)			
	A Capital A/c (Note 6)	Dr.	6,000	
	B Capital A/c	Dr.	6,000	
	To Realisation A/c			12,000
	(Being furniture taken by the partners equally)			
	General Reserve A/c	Dr.	8,000	
	Investment Fluctuation Fund A/c	Dr.	2,000	
	To A Capital A/c			5,000
	To B Capital A/c			5,000
	(Being the reserve and Surplus distributed between the partners			
	equally)			
	Realisation A/c (Note 2)	Dr.	19,000	
	To A Capital A/c			9,500
	To B Capital A/c			9,500
	(Being the profit on realisation transferred to the partners' Capital			
	Accounts equally)			
	A's Loan A/c	Dr.	6,000	
	To A Capital A/c			6,000
	(Being A's loan transferred to his Capital Account)		9,500	
	Cash A/c	Dr.		9,500
	To B Capital A/c			
	(Being cash brought in by B to raise capital equal to ₹40,000)		80,000	
	A & B Capital in M/s AC &Co A/c	Dr.		80,000
	To M/s Ac & Co A/c			
	(Being the settlement of purchase consideration)			
	A Capital A/c	Dr.	49,500	
	B Capital A/c	Dr.	40,000	
	To A Capital in AC & Co A/c			40,000
	To B Capital in AC & Co A/c			49,000
	(Being the final adjustment to close the books of account)			

In the books of C & Company

Journal

Dr. **Cr.**

Date	Particulars		₹	₹
	Bank Overdraft A/c	Dr.	10,0000	
	To Cash A/c			10,000

	(Being the payment of overdraft)		
	Office Equipment (Typewriters) A/c Dr.	800	
	To C Capital A/c		400
	To D Capital A/c		400
	(Being recording of typewriters previously written-off)		
	Realization A/c Dr.	68,800	
	To Investment A/c		8,000
	To Debtors A/c		4,000
	To Furniture A/c		6,000
	To Land A/c		50,000
	To Office Equipment A/c		800
	(Being the transfer of different assets to Realisation Account)		
	Trade Creditors A/c Dr.	10,000	
	To Realisation A/c		
	(Being the liability transferred to Realisation Account)		10,000
	M/s AC & Co. (New firm) A/c Dr.	80,000	
	To Realisation A/c (Note 1)		80,000
	(Being purchase consideration due from the new firm)		
	C Capital A/c Dr.	3,400	
	D Capital A/c Dr.	3,400	
	To Realisation A/c		6,800
	(Being furniture and typewriter taken over by the partners equally)		
	General Reserve A/c Dr.		
	Investment Fluctuation Fund A/c Dr.	3,000	
	To C Capital A/c	1,000	
	To D Capiatl A/c		2,000
	(Being the reserve and surplus distributed among the partners equally)		2,000
	Realisation A/c Dr.	28,000	
	To C Capital A/c		14,000
	To D Capiatl A/c		14,000
	(Being the profit on realization transferred to the Partner's Capital Accounts equally)		
	Cash A/c Dr.	7,000	
	To D Capital A/c		7,000
	(Being cash brought in by D raised his capital to ₹ 40,0000)		
	C and D Capital in A & Co. A/c Dr.	80,000	
	To M/s AC & Co. A/c		80,000
	(Being the settlement of purchase consideration)		
		49,000	
	C Capital A/c Dr.	40,000	
	D Capital A/c Dr.		
	To C Capital in AC & Co. A/c		40,000
	To D Capital in AC & Co. A/c		40,000
	To Cash A/c		9,000
	(Being the final adjustment to close the books of account)		

In the books of AC & Co.

Journal

Dr. **Cr.**

Date	Particulars		₹	₹
	Goodwill A/c	Dr.	12,000	
	Cash A/c	Dr.	13,000	
	Investment A/c	Dr.	9,000	
	Debtors A/c	Dr.	10,000	
	Premise A/c	Dr.	53,000	
	Machinery A/c	Dr.	9,000	
	To Provision for Bad Debts A/c			1,000
	To Trade Creditors A/c			20,000
	To Bills Payable A/c			5,000
	To A Capital A/c			40,000
	To B Capital A/c			40,000
	(Being the assets and liabilities taken over by the new firm)			
	Goodwill A/c	Dr.	12,000	
	Investment A/c	Dr.	7,200	
	Debtors A/c	Dr.	4,000	
	Land A/c	Dr.	66,800	
	To Trade Creditors A/c			10,000
	To C Capital A/c			40,000
	To D Capital A/c			40,000
	(Being the assets and liabilities taken over by the new firm)			

Balance Sheet of AC & Co.
as at…….

Liabilities	₹	Assets	₹
Partner's Capitals:		Goodwill	24,000
A	40,000	Land Premise	66,800
B	40,000	Machinery	53,000
C	40,000	Investments	9,000
D	40,000	Debtors	16,200
Creditors	30,000	Less: Provision (14,000 - 1,000)	13,000
Bills Payable	5,000	cash	13,000
	1,95,000		**1,95,000**

Working Notes:

(1) Calculation of Purchase Consideration

Assets taken over:	A & Co.	C & Co.

Cash(see tutorial note below)	13,000	-
Investment	9,000	7,200
Debtors	9,000	4,000
Premises	53,000	-
Machinery	9,000	-
Land	-	66,800
Goodwill	12,000	12,000
	1,05,000	90,000
Liabilities taken over:		
Trade Creditors	20,000	10,000
Bills Payable	5,000	-
	25,000	10,000
Purchase Consideration	80,000	80,000

CONVERSION AND SALE OF PARTNERSHIP FIRM TO LIMITED COMPANY

22. Multiple choice questions:

Choose the correct alternative

1. Which of the following is called acquisition of business?
- **(a) Conversion of a partnership**
- **(b) Conversion of a sole proprietorship**
- **(c) Both**
- **(d) None of these**

2. Unpaid balance must be paid in:
- **(a) Debenture**
- **(b) Preference share**
- **(c) Equity share**
- **(d) Cash**

3. Computation of purchase consideration under net asset basis:
- **(a) Total assets**
- **(b) Total liabilities**
- **(c) Fixed assets plus current assets minus current liabilities taken over**
- **(d) None of these**

4. When the total of assets taken over is higher than total of current liabilities taken over, then:
- **(a) Capital reserve**
- **(b) Goodwill**
- **(c) Revaluation reserve**
- **(d) None of these**

5. Which of the following is/are payment basis of discharging purchase consideration?
- **(a) Cash**
- **(b) Share**

(c) Both
(d) Debenture

Answer:

1. (c); 2. (d); 3. (c); 4. (b); 5. (c)

23. **Fill in the blanks:**

1. Capital reserve arises when payment is…….than net assets taken over.
2. Nest assets = total assets taken over…….current liabilities taken over
3. Goodwill = payments…….net assets taken over
4. Conversion of a firm indicates……….. existing firms.
5. Unrecorded liability is transferred to……………. account.

Answer:

1. less; 2. Minus; 3. greater than; 4. winding up; 5. realization

Comprehensive Practical Problem

24. Ram, Manas and Param are equal partners of M/S. Zindal & Co. The Balance Sheet of the firm as on 31.12.2018 was as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital Account:			Fixed Assets:		
Ram	50000		Land	50000	
Manas	100000		Building	70000	
Param	(30000)	120000	Plant & Machinery	200000	320000
Loan from bank		500000	Current Assets:		
Creditors		100000	Stock	300000	
			Debtors	100000	400000
		720000			720000

On the date, it is decided to convert the partnership into limited company called Handal limited on the following items

a. Land to be revalued at ₹ 150000
b. Plant and machinery is to be revalued at ₹ 250000.
c. Depreciation amounting ₹ 20000 is to be written off on building.
d. A provision of 10% books valued to be mate of obsolete stock.
e. Provision of doubtful debts made at 10% of debtors.
f. A discount of 6% would be earned on creditors when paid out.
g. The new company issue ₹ 12000 equity shares 10 each credited as full paid up, such share capital being valued at ₹ 150000 and the balance payable is to be discharge by issue of 10% debentures of ₹ 100 each.

Show the necessary ledger Accounts to close the books of Zindal &co. and show the opening balance sheet of the new company. All partners are solvent and have sufficient cash resource as may be necessary to settle the respective accounts, Shares and debentures are divided equal

among the partner.

Solution:

In the books of Zindal & Co

Dr. Realisation Account Cr

Particulars	₹	Particulars	₹
To Land A/c	50000	By loan from bank A/c,	500000
To Building A/c	70000	By creditors A/c,	100000
To Plant and machinery A/c To	200000	By new company A/c, (purchase	216000
Stock A/c	300000	confederation)	
To Debtors A/c	100000		
To Partners' Capital A/c			
Ram	32000		
Manas	32000		
Param	32000		
	816000		816000

Dr. Partners' Capital Account Cr.

Particulars	Ram	Manas	Param	Particulars	Ram	Manas	Param
To Balance B/d.	-	-	30000	By Balance B/d	50000	100000	-
To Equity sh. In new				By Realisation A/c	32000	32000	32000
company	50000	50000	50000	(profit)			
To 10% debenture in				By Bank A/c (Cash	-	-	70000
new co.	20000	22000	22000	brought in)			
To Bank A/c	10000	60000	-				
	82000	**132000**	**102000**		**82000**	**132000**	**102000**

Dr. Bank Account Cr.

Particulars	₹	Particulars	₹
To, partners' capital A/c	70000	By Ram A/c	10000
		By Manas A/c	60000
	70000		**70000**

Zindal limited

Balance sheet as at 31st December, 2018

Particulars	Note No.	Figure as at the End of the current reporting period (₹)
(1)	(2)	(3)
1. EQUITY AND LIABILITIES		

(1) Share holders' Fund :	(1)	
(a) share capital		120000
(b) reserves and surplus		30000
(c) money received against share warrants		-
(2) Share application money pending Allotment:	(2)	
(3) Non-current liabilities :	(3)	-
(a) long term borrowings		566000
(b) deferred Tax liabilities (net)		-
(c) Other long term liabilities		-
(d) long –term provisions		-
(4) Current liabilities:	(4)	
(a) short term borrowings		-
(b) trade payables		94000
(c) other current liabilities		-
(d) long term provisions		-
TOTAL		810000
II. ASSETS		450000
(1) Non-current assets		-
(a) fixed assets		-
(i)Tangible assets		-
(ii) Intangible assets		-
(iii)Capital working progress		-
(b) noncurrent investments		-
(c) deferred Tax assets (Net)		-
(d) long term loan and advance		-
(f) other non-current assets		270000
(2) Current assets:		90000
(a) current investments		-
(b) inventories		-
(c) trade receivable		-
(d) cash and cash equivalent		
(e) short term loan and advance		
(f) other current assets		
TOTAL		810000

Notes of accounts:

(1) Share capital **(2) Reserve and Surplus**

Particulars	₹	Particulars	₹
Authorized share capital. ....EQUITY SHARE OF ₹.......each Issued and subscribed capital	....	Securities premium **(4) Fixed assets**	30000
12000 Equity shares of ₹10 each	120000	Tangible assets Land Building	150000 50000

(3) long-term borrowing	₹	Building	50000
(i) Secured loan	66000	Plant and machinery	250000
10%debentures	500000		450000
(ii) unsecured bank loans			
	566000		

Working notes:

(1) Calculation of Purchase Consideration

Particulars	₹	₹
Assets take over by new company		
Land	150000	
Building (₹70000-20000)	50000	
Plant and machinery Stock	250000	
Debtors(₹1,00000-10000)	270000	
	90000	
Liabilities taken Over by the new company	500000	
Loan from bank	94000	810000
Creditors (₹ 100000-6000)		594000
Total purchase considerations		216000

(2) Discharge of Purchase Consideration

Particulars	₹
Equity shares (12000 of ₹10 each issued at a premium of ₹2.50 each)	150000
10% Debenture of ₹100 each (balancing figure)	66000
	216000

24. A, B and C were in business sharing profit and losses in the ratio of 2:1:1. Their Balance Sheet as at 31.03.2018 is as follows:

Balance Sheet as at 31.03.2018

Liabilities	Amount(₹)	Assets	Amount (₹)

Fixed Capital:		**Fixed Assets Investments Current**	**3,00,000**
A 2,00,000		**Assets:**	**50,000**
B 1,00,000		**Stock 1,00,000**	
C 1,00,000	**4,00,000**	**Debtors 60,000**	
Current Accounts:		**Cash & Bank 1,50,000**	**3,10,000**
A 40,000			
B 20,000	**60,000**		
Unsecured Loans	**2,00,000**		
	6,60,000		**6,60,000**

On 1.04.2018, it is agreed among the partners that BC (P) Ltd. A newly formed company with B and C having each taken up 100 shares of ₹10 each will take over the firm as a going concern including goodwill but excluding cash and bank balance. The following points also agreed upon:

(a) Goodwill will be valued at 3 years purchase of super profits.

(b) The actual profit for the purpose of goodwill valuation will be ₹1,00,000.

(c) Normal rate of return will be 15% on fixed capital.

(d) All other assets and liabilities will be taken over at book values.

(e) The purchase consideration will be payable partly in shares of ₹10 each and partly in cash. Payment in cash being to meet the requirement to discharge A, who has agreed to retire.

(f) B and C are to acquire capital interest in the new company.

(g) Expenses of liquidation ₹ 40,000.

You are required to prepare the necessary Ledger Accounts.

Solution:

In the books of the firm

Dr. Realization account Cr.

Particulars	**₹**	**Particulars**	**₹**
To fixed assets A/C	300000	By unsecured loan A/C	200000
To investment A/C	50000	By BC (P) ltd.	430000
To stock A/C	100000	By Partners capital A/C s	
To debtors A/C	60000	A 20000	
To goodwill A/C (note 1 and 3) To	120000	B 10000	
bank A/C	40000	C 10000	40000
	670000		670000

Dr. Partners' Capital Account Cr.

Particulars	**A**	**B**	**C**	**Particulars**	**C**	**B**	**C**

To realization A/C To cash A/C	280000 280000	10000 -	10000 -	By balance b/d	200000	100000	10000
				By current A/C	40000	20000	-
To Cash A/C (note6)	-	-	-	By goodwill A/C (note3)	60000	30000	30000
To share in BC (P) Ltd. A/C	-	130000	130000	By cash A/C (note 6)	-	-	10000
	300000	150000	140000		300000	150000	140000

Dr. BC (P) LTD. Account Cr.

Particulars	₹	Particulars	₹
To realisation A/C (purchase consideration)	430000	By cash A/c (note 4)	170000
		By shares in BC (p) Ltd. A/C	260000
	430000		430000

Dr. Cash and Bank Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	150000	By Realisation A/C (expenses)	40000
To C Capital A/C (note 6)	10000	By B Capital A/C (note 6)	10000
To BC (P) Ltd. (note 4)	170000	By A Capital A/C	280000
	330000		330000

Working notes:

(1) Calculation of goodwill ₹ **(2) Calculation of purchase ₹**

Capital employed (Fixed)	400000	Goodwill (note1)	120000
Actual profit	100000	Fixed assets	300000
Less : normal profit @15% on capital employed	60000	Investments	50000
		Stock	100000
Super profit	40000	Debtors	60000
Good will = ₹. 40000 X 3	120000		630000
		Less : unsecured loan	200000
			430000

(3) Goodwill has been recorded in the books by debiting goodwill account and crediting Partners capital accounts in the profit Sharing ratio of 2:1:1. After recording goodwill in the books, it is transferred to Realisation Account by debiting realization account and crediting goodwill account.

(4) Amount payable to A ₹ 280000. After meeting realisation expenses cash in hand is ₹ 110000.

Therefore, ₹ 170000 must be received from BC (p) Ltd. to discharge A in full.

(5) Purchase consideration is agreed at ₹ 430000. ₹ 170000 (note 4) was paid to cash and balance ₹ 260000 will be paid in share in BC (P) ltd.

B's share in BC (P) Ltd. will be ₹ 130000 and C's share in BC (P) LTD. Will be also ₹ 130000.

(6) C's capital account of their firm is showing balance of BC ₹120000 (₹ 100000+ ₹30000- ₹10000). Therefore, he will bring ₹10000 in cash to make up the deficit. B's capital account of the farm is showing a balance of ₹140000 (₹100000 + ₹20000 + ₹ 30000 - ₹10000). Therefore B will take away ₹ 1000 from the firm.

25. Raju, Jyoti and Bhola carry on business in partnership under the style of M/s R & Co sharing profits and losses in the ratio of 5:3:2. They have floated R Pvt. Ltd for the purpose of takeover of their business. The following is the Balance Sheet of the firm as on 31st December, 2018:

Liabilities	₹	Assets		₹
Capital Account:		Cash		6000
Raju	101000	Bank		14000
Jyoti	151000	Debtors	60000 (-)	
Bhola	133000	Provision	2000	58000
		Stock		42000
		Fixed Assets at WDV		300000
Creditors	50000	Expenditure related to R. Pvt. Ltd:		
		Formation Expenses	12000	
		Bank Account (note-1)	3000	15000
	435000			435000

Note-1: (In the name of R. Pvt. Ltd.) Deposit of par value of 300 equity shares of ₹ 10 each, subscribed equally by the partners as subscribers to the memorandum and article of association. On that day R Pvt. Ltd took over the business for a total consideration of ₹5,00,000 (excluding 300 shares allotted as subscribers of memorandum). The purchase consideration was to be discharge by the allotment of equity shares of ₹10 each at par in the profit- sharing ratio and 15% debenture of ₹100 each at par for surplus capital. The directors of R Pvt Ltd revalued fixed assets of R & Co. as ₹ 4,00,000.

You are asked to: (a) State the number of equity shares and debenture allotted by R. Pvt Ltd to Raju, Jyoti & Bhola. (b) Show the journal entries in connection with the above transaction in the books of R. Pvt Ltd. Show your workings.

Solution:

Statement showing distribution of purchase consideration among the partners

Particulars	Raju	Jyoti	Bhola
Balance of capital accounts	101000	151000	133000
Add: profit on realization (note-2)	59000	35400	23600
Final Balance of capital accounts	160000	186000	156600
(A) Profit sharing ratio	5	3	2
(B) Capital per profit sharing ratio (A/B)	32000	62133	78300
Capital in profit sharing ratio (taking Raju's capital as basis)	160000	96000	64000
Total equity shares to be issued including initial allotment of ₹ 3000 (C)	160000	96000	64000
Less: initial allotment	1000	1000	1000
Further issue of shares	159000	95000	64000
Allotment of debentures for the balance (A-C)	-	90400	92600
No. of equity shares issued	16000	9600	6400
No. of debentures issued	-	904	926

In the books of R (Pvt.) Ltd

Journal Entries

Date	Particulars	₹ Dr.	₹ Cr.
	Bank A/c Dr	3000	
	To equity share capital A/c		3000
	(Being the allotment of 300 Eq.sh of ₹ 10 each for Raju, Jyoti, Roger as subscribers to Memorandum)		
	Goodwill A/c (balancing figure) Dr	18,000	
	Fixed assets A/c Dr	4,00,000	
	Stock A/c Dr	42,000	
	Sundry debtors A/c Dr	60,000	
	Bank A/c Dr	14,000	
	cash A/c Dr	6,000	
	Preliminary expenses A/c Dr	12,000	
	To sundry creditors A/c		50,000
	To Provision for bad debt A/c		2000
	To equity share capital A/c		3,18,000
	To debenture A/c		1,82,000
	(Being the various assets and liabilities taken over and the issue of 31,800 equity shares and 1820 debentures in settlement of purchase consideration.)		

(1) Realization Accounts

Dr. **Cr.**

Particulars	₹	Particulars	₹
To cash a/c	6000	By provision for doubtful debt a/c	2000
To banks a/c	14000		
To debtors a/s	60000	By creditors	50000
To stock a/c	42000	By R Pvt Ltd.	500000
To fixed assets a/c	300000		
To formation expenses a/c	12000		
To partners capital a/c (Profit): Raju- ₹ 59000 Jyoti- ₹ 35400 Bhola- ₹ 23600	118000		
	552000		552000

(1) Formation expenses is an asset to the R Pvt Ltd. And it is to be taken over by the company.

(2) In the books of the firm, the firm, the bank account (Deposit for shares in R Pvt Ltd) to be closed by passing following entry:

Shares in R Pvt Ltd A/c Dr. ₹ 3000

To, bank account (Deposit for shares) ₹ 3000

26. S Ltd. Agreed to purchase the business of a firm consisting of two brothers, K. Som and D. Som as on 31st March, 2018. The Balance Sheet of that date was as follows:

Liabilities	₹	Assets	₹
Capital Accounts		Land and Buildings	47,000
K Som	76,000	Plant and Machinery	28,000
D Som	58,000	Furniture and fixture	7,000
General Reserve Sundry Creditors	30,000	Stock in trade	62,000
Outstanding Expenses	37,000	Sundry Debtors	55,000
	3,000	Cash	5,000
	2,04,000		2,04,000

The company agreed to take over the liabilities and the assets with exception of cash, the agreed purchases price being ₹ 1, 80,000 to be satisfied as to ¼ in cash and ¾ by the issue of fully paid equity shares of ₹ 10 each at an agreed value of ₹12.50 per share. The company made the following revaluations of the asset taken over when bringing them into books: Land and Building ₹62,000; Plant and Machinery ₹ 25,000; Furniture and Fixtures ₹ 5,000; Stock-in-Trade ₹ 58,000; Sundry Debtor ₹ 50,000.

Give the entries necessary to record the acquisition of the business in the book of the company.

Solution:

In the books of the S Ltd.
Journals

Date	Particulars		Dr. (₹)	Cr. (₹)
1.4.12	Goodwill A/c (Note 1)	Dr.	20,000	
	Land and Building A/c	Dr.	62,000	
	Plant and Machinery A/c	Dr.	25000	
	Furniture and Fixtures A/c	Dr.	5000	
	Stock-in-trade A/c	Dr.	58000	
	Sundry Debtors A/c	Dr.	50000	
	To Sundry Creditor A/c			37000
	To Outstanding Expenses A/c			3000
	To Business Purchase A/c			1,80,000
	(Being different assets and liabilities of the firm taken over at agreed Value. The difference between purchase consideration and net Assets has been transferred to Goodwill Account)			
	Business Purchase Account	Dr.	180000	
	To Cash A/C			45000
	To Equity Share Capital A/C			108000
	To Securities Premium A/C			27000
	(Being the purchase consideration paid off by issuing 10800 equity shares of ₹10 each at a premium of ₹2.50 as per Board's Resolution No….Dated…….			

Working Note:
Calculation of Goodwill / Capital Reserve:

Asset Taken over (at agreed value)	₹
Land and Building	62,000
Plant and Machinery	25,000
Furniture and Fixtures	5,000
Stock-in-Trade	28,000
Sundry Debtors	50000
Total	2,00,000
Less, Liabilities Taken over (at agreed value)	
Sundry Creditor	(37,000)
Outstanding Expenses	(3000)
(A) Net Asset Taken over	1,60,000
(B) Purchase Consideration Paid	1,80,000
Goodwill (B-A)	**20,000**

27. A and B were carrying on business sharing profit and loss equally. The firm's balance sheet as at 31.12.2017 Was:

Liability		₹	Assets		₹
Sundry creditors		**60000**	**Stock**		**60000**
Bank overdraft		**35000**	**Machinery**		**150000**
Capital A/Cs :			**Debtors**		**70000**
A	**140000**		**Joint life policy**		**9000**
B	**130000**	**270000**	**Lease hold premises**		**34000**
			Profit and loss A/C		**26000**
			Drawings Account:		
			A	**10000**	
			B	**6000**	**16000**
		365000			**365000**

The business was carried on till 30.6.18. The partners withdrew in equal amounts half the amount of profit made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by ₹10000 and bank overdraft by ₹15000.

On 30.6.2018, stock was valued at ₹75000 and debtors at ₹60000; the joint policy had been surrendered for ₹9000 before 30.6.2018 and other item remain same as at 31.12.2017.

On 30.06.2018, the firm sold the business to a limited company. The value of goodwill was fixed at ₹100000 and the rest of assets were valued on the basic of balance sheet as at 30.6.2018. The company paid the purchase consideration in equity share of ₹ 10 each.

You are required to prepare:

(a) Balance sheet of the farm as at 30.6.2018

(b) The realisation account; and

(c) Partners' capital account shoeing the final settlement between them.

Solution:

Workings:

(1) Ascertainment of profit for the months ended 30th June, 2018

	₹	₹
Closingassets:		
Stock sundry debtors		75000
Machinery less depreciation		6000
Lease hold property less written off		142500
Less:closingliabilities		
Sundry creditors		32300
Bank overdraft		309800
Closing net assets	50000	
Combined capital:	20000	7000
A- ₹(140000-13000-10000)	117000	239800
B- ₹ (130000-13000-6000)	111000	228000
Profit before adjusting the drawings		11800
Add; combined drawings during the 6 months (equal to 6 months)		11800
Profit for 6 months		**23600**

(2) Ascertainment of purchase confederation:

Closing net assets (as above) ₹ 239800 + Goodwill ₹100000 = ₹339800

Balance Sheet as on 30.06.2018

Liabilities	₹	₹	Assets	₹	₹
Capital Account: A-			Machinery	150000	
Balance as on 1.1.12	117000		less depreciation	7500	142000
Add: profit for 6 months	11800				
	128800		lease hold premises	34000	
Less: drawings for 6months	5900		Less: written off @5% p.a.	1700	32300
B-balance as on1.1.2012	111000	122900			
Add: profit for 6 months	11800		Stock		
Less: Drawings for 6	122800	116900	Sundry debtors		75000
months	5900	50000			60000
Sundry creditors		20000			
Bank over draft		309800			309800

Realisation account

Dr. Particulars	₹	Particulars	Cr. ₹
To Machinery A/C	142500	By Sundry creditors A/C	50000
To lease hold premises A/C	32300	By Bank A/C	
To stock A/C	75000	By Purchase company A/C	20000
To Sundry debtors A/C	60000	(Purchase confederation)	
To A capital A/C	50000		339800
To B capital A/C	50000		
	409800		409800

Partners' capital Account

Dr. Date	Particulars	A	B	Date	Particulars	A	Cr. B
1.1.18	To, profit and loss A/C	13000	13000	1.1.18	By Balance b/d	140000	130000
	To drawings A/C	10000	6000	30.6.18	By profit and loss appropriation A/C	11800	11800
	To drawings A/C	5900	5900				
30.6.18	To share in purchasing co. A/C	172900	166900		By Realisation A/C	50000	50000
		201800	191800			201800	191800

28. **P and Q were in partnership sharing profits in the proportion 3:2. On 31st march 2018, they accepted an offer from S. Ltd to acquire at that date their fixed assets and stock at an agreed price of ₹7,20,000. Debtors, creditors and bank overdraft would be collected and discharged by the partnership.**

The purchase consideration of ₹7,20,000 consisted of cash ₹3,60,000, debenture in S Ltd. (at par) ₹1,80,000 and 12,000 equity share of ₹10 each in S. Ltd. P will be employed in X Ltd. but, since Q was retiring, P agreed to allow him ₹30,000 in compensation, to be adjusted through their capital accounts. Q was to receive 1800 share in S. Ltd and the balance due to him in cash.

The sale of the assets to X Ltd. took place as agreed; the debtors realised ₹60,000 and creditors were settled for ₹1,71,000. The partnership then ceased business.

Liabilities	₹	Assets	₹
P capital account	**1,20,000**	**Fixed assets Stock Debtors**	**4,80,000**
Loan: P	**2,10,000**	**Q capital Account**	**45,000**
Bank overdraft creditors	**1,50,000**		**75,000**
	1,80,000		**60,000**
	6,60,000		**6,60,000**

You are required to pass necessary journal entries and show (a) Relation account (b) bank account (c) partner's capital accounts, in columnar form showing the final settlement.

In the books of the firm

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
31/03/12	Realisation A/c Dr	600000	
	To, Fixed assets A/c		480000
	To, stock A/c		45000
	To, debtors A/c		75000
	(Being different assets transferred to realisation account)		
	Creditors A/c Dr	180000	
	To, Realisation/c		180000
	(Being creditors accounts transferred to realisation account)		
	P Loan A/c Dr	210000	
	To, P capital A/c		210000
	(Being P's loan transferred to his capital account.)		
	S. Ltd A/c Dr	720000	
	To, realisation A/c		720000
	(Being purchase consideration due from S. Ltd)		
	Bank A/c Dr	360000	
	Debentures in S. Ltd A/c Dr	180000	
	Shares in S. Ltd A/c Dr	180000	
	To, S. Ltd A/c		
	(Being purchase consideration received)		720000
	Bank A/c Dr	60000	
	To, Realisation A/c		60000
	(Being realisation of debtors)		
	Realisation A/c Dr	171000	
	To bank A/c		171000
	(Being payment to creditors)		
	Realisation A/c Dr	189000	
	To, P capital A/c		113400
	To, Q capital A/c		75600
	(Being the profit on realisation transferred to partners' capital account in the ratio 3:2)		
	P Capital A/c Dr	30000	
	To, Q Capital A/c		30000
	(Being adjustment for compensation)		
	P capital A/c Dr	413400	
	To, Shares in S. Ltd A/c		153000
	To, Debentures in S. Ltd A/c		180000
	To, Bank A/c		80400
	(Being the final settlement of accounts)		
	Q capital A/c Dr	45600	
	To, shares in S. Ltd A/c		27000
	To, bank A/c		18600
	(Being the final settlement of accounts)		

Realisation Account

Dr **Cr**

Particulars	₹	Particulars	₹
To fixed assets	480000	By creditors	180000
To stocks	45000	By bank a/c (debtors realisation)	60000
To debtors	75000	By S Ltd.	
To bank a/c (payment to creditors)	171000	Cash	360000
To P Capital (profit)	113400	Debentures	180000
To Q Capital (profit)	75600	Shares in S Ltd.	180000
	960000		960000

Bank Account

Dr **Cr**

To Realisation	60000	By Balance b/d	150000
To S Ltd	360000	By Realisation	171000
		By P Capital A/c	80400
		By Q Capital A/c	18600
	420000		420000

Partners' Capital Account

Dr **Cr**

Particulars	P	Q	Particulars	P	Q
To balance b/d	-	60000	By Balance b/d	120000	-
To Q Capital A/c	30000	-	By Loan	210000	-
To Shares in S Ltd	153000	27000	By Realisation	113400	
To Debentures in S Ltd	180000	-	By P Capital A/c	-	75600
To Bank A/c (Final payment)	80400	18600			30000
	443400	105600		443400	105600

Note: The ₹ 10 equity shares in S Ltd have a value of ₹ 15 each placed upon them.

29. Aparna and Nandita were partners in a firm sharing profits and losses at 3: 2. The following is the Balance Sheet of the firm as on 31st December 2018

Balance Sheet as on 31st December 2018

Liabilities		₹	Assets	₹
Partners capital a/c:			**Goodwill**	**30000**
Aparna	**240000**		**Land and Building**	**100000**
Nandita	**218000**	**458000**	**Plant and Machinery**	**210000**
Bills Payable		**35000**	**Furniture and Fittings**	**100000**
Creditors for goods		**25000**	**Stock**	**65000**
Creditors for expenses		**40000**	**Debtors**	**25000**
			Cash at Bank	**28000**
		5,58,000		**5,58,000**

On 1st January 2019 a new company, Anjana Ltd. was formed to take over the business of the firm

on the following terms:

a) The company would not take over creditors for expenses to the extent of ₹ 17,000

b) Assets are to be valued as follows:
Goodwill ₹ 50000; Land & Building ₹ 188000; Plant & Machinery ₹ 50000 above book value; Furniture & Fittings to be depreciated by 10%; ₹ 5000 of Debtors to be treated as bad debts and of the balance 5% is to be treated as doubtful of recovery. Cash at Bank balance is to be taken over by the company.

c) The purchase consideration is to be satisfied by issuing 20,000 equity shares of ₹ 10 each at a premium of 20%, ₹ 1,50,000 by issuing 8% Preference shares of ₹ 100 each at par and the balance in the form of 6% debentures issued at 5% discount.

Pass necessary journal entries in the books of the Company and prepare the Balance Sheet after acquisition.

Solution:

In the books of Anjana Ltd.
Journal Entries

Date	Particulars		LF	Debit Amount(₹)	Credit Amount(₹)
2019 Jan. 1	Goodwill A/c	Dr.		50,000	
	Land and Building A/c	Dr.		1,88,000	
	Plant & Machinery A/c	Dr.		2,60,000	
	Furniture and Fittings A/c	Dr.		90,000	
	Stock A/c	Dr.		65,000	
	Debtors A/c	Dr.		20,000	
	Bank A/c	Dr.		28,000	
	To Provision for Bad Debts A/c				1,000
	To Creditors A/c				25,000
	To Bills Payable A/c				35,000
	To Creditors for Expenses A/c				23,000
	To Liquidator of firm A/c				6,17,000
	(Assets and liabilities of firm taken over)				
	Liquidator of firm A/c	Dr.		6,17,000	
	Discount on Issue of Debentures A/c	Dr.		11,947	
	To Equity Share Capital A/c				2,00,000
	To 8% Preference Share Capital A/c				1,50,000
	To 6% Debentures A/c				2,38,947
	To Securities Premium A/c				40,000
	(20,000 equity shares of ₹ 10 each issued at a premium of ₹ 2 each, 1,500 numbers of 8% preference shares of ₹ 100 each issued at par and balance 6% Debentures issued at a discount of 5% against purchase consideration.)				
	Securities Premium A/c	Dr.		11,947	
	To Discount on Issue of Debentures A/c				11,947
	(Discount on issue of debentures written off against securities premium)				

Balance Sheet of Anjana Ltd. as on 1st January 2019

Particulars	Note No.	Amount (₹)
(1)	(2)	(3)
1. EQUITY AND LIABILITIES		
(1) Share holders' Fund :		
(a) Share capital	(1)	3,50,000
(b) Reserves and surplus		28,053
(c) Money received against share warrants		-
(2) Share application money pending Allotment:	(2)	
(3) Non-current liabilities :	(3)	
(a) long term borrowings		2,38,947
(b) deferred Tax liabilities (net)		-
(c) Other long term liabilities		-
(d) long –term provisions		-
(4) Current liabilities:		
(a) short term borrowings		-
(b) trade payables		60,000
(c) other current liabilities(creditors for expenses)		23,000
(d) long term provisions		-
TOTAL		**7,00,000**
II. ASSETS		
(1) Non-current assets		
(a) fixed assets		
(i)Tangible assets	(4)	5,38,000
(ii) Intangible assets (Goodwill)		50,000
(iii)Capital working progress		-
(b) noncurrent investments		-
(c) deferred Tax assets (Net)		-
(d) long term loan and advance	(5)	-
(f) other non-current assets		-
(2) Current assets:		65,000
(a) current investments		19,000
(b) inventories		28,000
(c) trade receivable		-
(d) cash and cash equivalent (Cash at Bank)		-
(e) short term loan and advance		
(f) other current assets		
TOTAL		**7,00,000**

Notes to Accounts:

Note No.	Particulars	Amount (₹)	Amount (₹)
1.	**Share Capital:**		
	(a) Authorised Capital		2,00,000
	(b) Issued and Paid up Capital:		1,50,000
	Equity share capital (20,000 shares of ₹ 10 each)		
	8% Pref. share Capital (1500 Shares of ₹ 100 each)		
	Total		**3,50,000**
2.	**Reserve and Surplus:**		
		40,000	

	Securities Premium	(11,947)	
	Less, Discount on Debenture set off		
3.	**Total**		**28,053**
	Trade Payables:		
	(a) Creditors for Goods		25,000
	(b) Bills Payable		35,000
4.	**Total**		**60,000**
	Fixed Assets (Tangible):		
	(a) Land and Building		1,88,000
	(b) Plant and Machinery		2,60,000
	(c) Furniture		90,000
5.	**Total**		**5,38,000**
	Trade Receivable:		
	Debtors	20,000	
	Less, Provision for Doubtful debts 5%	(1,000)	
	Total		**19,000**

Working Note:

Purchase Consideration (Net Assets Method)

	Amount (₹)	
Goodwill	50,000	
Land and Building	1,88,000	
Plant & Machinery (210000 + 50000)	2,60,000	
Furniture and Fittings (100000 – 10% thereof)	90,000	
Stock	65,000	
Debtors (25,000 – 5000 – 5% of 20000)	19,000	
Cash at Bank	28,000	
Total Assets taken		**7,00,000**
Less, Liabilities taken:		
Creditors for goods	25,000	
Bills Payable	35,000	
Creditors for Expenses (40,000 – 17,000)	23,000	83,000
Purchase Consideration		6,17,000

Mode of Payment of purchase consideration:

i)	Equity Share Issued (20,000 shares of ₹ 10 at ₹ 12 per share)	₹ 2,40,000
ii)	8% Pref. Shares issued (1,500 shares of ₹ 100 each)	₹ 1,50,000
iii)	Value of Debenture issued (Balancing figure)	₹ 2,27,000
	Total Payment	**₹ 6,17,000**

As Debentures are issued at 5% discount, so ₹ 2,27,000 payable as consideration is 95% value.

Therefore, Face Value of Debentures issued = 2,27,000/95×100 = ₹ 2,38,947.

And Discount on issue of Debentures = ₹ 2,38,947 – 2,27,000 = ₹ 11,947.

Study Note – 7

SELF BALANCING LEDGER

Learning Objective:

- *To gather knowledge of the significance of self-balancing ledger system and sectional balancing system.*
- *To be familiar with the ledgers maintained in a self-balancing ledger system and understand that in self balancing system total debtors and total creditors accounts kept in the general ledger are called sales ledger adjustment account and bought ledger adjustment account respectively.*
- *To be able to account for the techniques of recording transactions relating to transfer from one ledger to another ledger.*

1. Choose the correct alternative:

   1. Which of the following transactions will not appear under Control/Adjustments Accounts under self-balancing system?
      a) Credit sales
      b) Amount paid to creditors
      c) Provision for doubtful debt
      d) B/R dishonoured

   2. Which of the following transactions will appear under Control/Adjustments Accounts under self-balancing system?
      a) Cash sales
      b) B/R as endorsed dishonoured
      c) Bad debt recovery
      d) B/R discounted

   3. Total Debtor Account and Total Creditors Account are maintained under
      a) Self-balancing system
      b) Sectional balancing system
      c) Both the system
      d) None of the above

   4. Which of the following is true?
      a) Under self-balancing system all the ledger are self-balanced.
      b) Under self-balancing system only General Ledger is self-balanced.
      c) Under Sectional Balancing system only Debtors' Ledger is self-balanced.
      d) Under Sectional Balancing system only Creditors' Ledger is self-balanced.

   5. Which of the following is true?
      a) Self-balancing system is based on double entry system of book keeping.
      b) Self-balancing system is not based on double entry system of book keeping.
      c) Sectional balancing system is based on double entry system of book keeping.
      d) Sectional balancing system is not based on double entry system of book keeping.

6. **Which of the following transactions will not appear under Control/Adjustments Accounts under self-balancing system?**
   a) **Cash collected from debtors**
   b) **Credit purchase**
   c) **Bills discounted**
   d) **Bills Receivable as endorsed dishonoured**

7. **Noting charges on bills receivable dishonoured will appear on the __________side of General Ledger Adjustment Account under __________ Ledger.**
   a) **Debit side, Debtors' Ledger**
   b) **Credit side, Debtors' Ledger**
   c) **Debit side, Creditors' Ledger**
   d) **Credit side, Creditors' Ledger**

8. **Bills receivable dishonoured will appear on the __________side of General Ledger Adjustment Account under __________ Ledger.**
   a) **Debit side, Debtors' Ledger**
   b) **Credit side, Debtors' Ledger**
   c) **Debit side, Creditors' Ledger**
   d) **Credit side, Creditors' Ledger**

9. **Discount received will appear on the __________side of General Ledger Adjustment Account under __________ Ledger.**
   a) **Debit side, Debtors' Ledger**
   b) **Credit side, Debtors' Ledger**
   c) **Debit side, Creditors' Ledger**
   d) **Credit side, Creditors' Ledger**

10. **Rebate allowed will appear on the __________side of General Ledger Adjustment Account under __________ Ledger.**
    a) **Debit side, Debtors' Ledger**
    b) **Credit side, Debtors' Ledger**
    c) **Debit side, Creditors' Ledger**
    d) **Credit side, Creditors' Ledger**

Solution:

1.(c); 2 .(b); 3.(b); 4.(a); 5.(a); 6. (c); 7. (b); 8. (b); 9. (d); 10. (a).

2. **State True and False.**
   1. **All debtors' related transactions are recorded in General Ledger Adjustment Account under Debtors Ledger.**
   2. **All creditors' related transactions are recorded in General Ledger Adjustment Account under Creditors Ledger.**
   3. **All debtors' related transactions are recorded in Creditors Ledger Adjustment Account under General Ledger.**
   4. **All creditors' related transactions are recorded in Debtors Ledger Adjustment Account under General Ledger.**

5. **Under Self Balancing Ledger system trial balance can be prepared for each individual ledger.**
6. **Under Sectional Balancing Ledger system trial balance can be prepared only for General ledger.**
7. **Cash sales will appear on the debit side of General Ledger Adjustment Account under Debtors' Ledger.**
8. **Bad debt recovery will not appear in self balancing ledger system.**
9. **Discount allowed will appear on the debit side of General Ledger Adjustment Account under Debtors' Ledger.**
10. **Credit purchase will appear on the debit side of General Ledger Adjustment Account under Creditors' Ledger.**

Solution:

(1) True; (2)True; (3) False; (4)False; (5)True; (6) True; (7)False; (8) True; (9) True; (10) True.

3. Match the following:

1	Sales Ledger Adjustment A/c is kept in	A	Purchase Ledger
2	Purchase Ledger Adjustment A/c is kept in	B	General Ledger
3	General Ledger Adjustment A/c (for creditors) is kept in	C	Sales Ledger
4	General Ledger Adjustment A/c (for debtors) is kept in	D	General Ledger

Solution:

1.B/D; 2.D/B; 3.A; 4.C.

THEORETICAL QUESTIONS:

4. What are the advantages of Self Balancing System?

Solution:

The advantages of Self-Balancing System are:

(i) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.

(ii) This system helps to prepare interim account and draft final accounts as a complete trial balance can be prepared before the obstruction of individual personal ledger balances.

(iii) Various works can be done quickly as this system provides sub-division of work among the different employees.

(iv) This system is particularly useful -.
- where there are a large number of customers or suppliers and
- where it is desired to prepare periodical accounts.

(v) Committing fraud is minimized as different ledgers are prepared by different clerks.

(vi) Internal check system con be strengthened as it becomes possible to check the accuracy of each ledger independently.

5. Distinguish between Self Balancing System and Sectional Balancing System.

Solution:

Sr. No.	Self-Balancing System	Sectional Balancing System
1.	Here all the three ledgers i.e. Sales/ Debtors Ledger, Purchase/ Creditors Ledger and General Ledger are made separately self-balanced.	Under this system only the General Ledger is made self-balanced.
2.	Separate trial balance can be prepared at the end of each separate edger.	Here, trial balance can be prepared only in the General Ledger.
3.	Here adjustment accounts are prepared on complete double entry principle.	Here list of debtors and creditors are prepared at the end of Debtors and Creditors ledger.
4.	It is actually an extension of sectional balancing system.	It is not an extension of self-balancing system.

6. **What is Adverse Balance of debtors ledger/creditors ledger in the context of Self Balancing Ledger?**

Solution:

Sometimes it may happen that debtors ledger shows a credit balance and creditor ledger shows a debit balance i.e., the adverse balance of debtors ledger and creditors ledger. Usually, credit balance in debtors' ledger may happen on account of advance taken from debtors or allowances given to customers for different products after closing the accounts. Similarly, debit balance in creditors ledger may appear on account of excess payment made or goods returned to creditors after closing the accounts etc. Thus, these contra transactions are to be adjusted. But, one must remember that credit balance in one ledger must not be set off against debit balance of another ledger. These should separately be treated.

PROBLEMS AND SOLUTIONS:

Simple Problem on Preparation of Debtors Ledger Adjustment Account in General Ledger

7. **The following information is available from the books of the trader for the period 1st January to 31st March 2017.**
   a) **Total sales amounted to ₹76000 including the sale of old furniture for ₹10000 (book value is ₹12300). The total cash sales were 80% less than total credit sales.**
   b) **Cash collection from Debtors amounted to 60% of the aggregate of the opening Debtors and Credit safes for the period. Discount allowed to them amounted to ₹ 2,600**
   c) **Bills receivable drawn during the period totaled ₹ 7,000 of which bills amounting to ₹ 3,000 were endorsed in favour of suppliers. Out of these endorsed bills, a Bill receivable for ₹1,500 was dishonoured for non-payment, as the party became insolvent and his estate realized nothing.**
   d) **Cheques received from customer of ₹ 5,000 were dishonoured; a sum of ₹500 is irrecoverable.**
   e) **Bad Debts written-off in the earlier year realized ₹2,500.**
   f) **Sundry debtors on 1st January stood at ₹40,000.**

   You are required to show the Debtors' Ledger Adjustment Account in the General Ledger.

Solution:

In the General Ledger

Dr. Debtors' Ledger Adjustment Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.01.17	To balance b/d	40000	31.03.17	By General Ledger Adjustment A/c (In Debtors Ledger)	
31.03.17	To General Ledger Adjustment A/c (In Debtors Ledger)			Cash collected	57000
	Sales	55000		Discount allowed	2600
	B/R dishonoured	1500		B/R received	7000
	Chequedishonoured	5000		Bad debts	2000
			31.03.17	By balance c/d	32900
		101500			101500

Workings:

1. Computation of credit sales:
   Cash sales were 80% less than credit sales. So, if credit sales are ₹ 100 cash sales are ₹20. So, total sales are ₹120. Here, total sales = ₹(76000-10000) = ₹66000.
   Amount of credit sales = ₹66000×100/120 = ₹55000.

2. Cash received:
   Cash received is 60% of opening debtors plus credit sales i.e. ₹(40000+55000) =₹95000.
   So, cash received = ₹95000×60/100 = ₹57000.

<u>**A Comprehensive Problem on Preparation of Sales and Purchase Ledger Adjustment Account**</u>

8. Prepare a Sales Ledger Adjustment Account and a Purchase Ledger adjustment accounting In the General Ledger, for the year ended 31st March, 2013 from the following information:

Particulars	₹	Particulars	₹
Customers' Account debit balance as on 01.04.2012	**2,300**	**Goods returns by debtors**	**2,000**
Customers' Account credit balance as on 01.04.2012	**200**	**Cash discount allowed to debtors**	**600**
Suppliers' Account credit balance as on 01.04.2012	**4,000**	**Cash discount received from creditors**	**130**
Suppliers' Account debit balance as on 01.04.2012	**540**	**Trade discount received from the suppliers**	**8,000**
Credit sales during the year	**29,400**	**Bad debts written- off during the year**	**400**
Credit purchases during the year	**27,800**	**Bad debts recovered during the year**	**80**
Cash sales during the year	**22,600**	**Transfer from creditors ledger to debtors ledger**	**240**
Cash Purchases during the year	**5,800**	**Bills receivable dishonoured**	**320**
Cheques received from credit customers	**18,000**	**Bills payable dishonoured**	**180**
Cash received from credit customers	**2,000**	**Cheqes received from debtors returned dishnoured**	**750**

Cheques issued to the creditors during the year	**21,000**	**Cheqes issued to creditors returned dishnoured**	**290**
Gods returned to the creditors	**1,400**	**Customers' Account credit balance as on 31.03.2013**	**310**
Bills payable accepted during the year	**1,800**	**Supplier's Account debt balance as on 31.03.2013**	**420**
Bills received during the year	**1,500**		

Solution:

In the books of...........

In General Ledger

Sales Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.04.12	To Balance b/d	2,300	01.04.12	By Balance b/d	200
31.03.13	To General Ledger Adjustment A/c:		31.03.13	By General Ledger	
	Credit sales	29,400		Adjustment A/c:	
	Bills receivable (dishonoured)	320		Cheque received	1 8,000
	Cheque dishonoured	750		Cash received	2,000
				Bill receivable	1,500
				Sales return	2,000
31.03.13	To Balance c/d	310		Discount allowed	600
				Bad debts	400
				Transfer	240
			31.03.13	By Balance c/d	8,140
		33,080			33,080

Purchases Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.04.12	To Balance b/d	540	01.04.12	By Balance b/d	4,000
31.03.13	To General Ledger Adjustment A/c:		31.03.13	By General Ledger	
				Adjustment A/c:	
	Cheque issued	21,000		Credit purchases	27,800
	Bills payable accepted	1,800		Bills payable	
	Discount received	130		dishonored	180
	Goods returned	1,400	31.03.13	Cheque issued	
	Transfer	240		dishonoured	290
31.03.13	To Balance c/d	7,580			
				By Balance c/d	420
		32,690			32,690

A Comprehensive Problem on Preparation of General Ledger Adjustment Accounts in Debtors' and Creditors' Ledger

9. **From the following particulars prepare the General Ledger Adjustment Accounts in Debtors' and Creditors' Ledger:**

Particulars	Debtors' Ledger (₹)	Creditors' Ledger (₹)
Debit balance on Jan. 1, 2017	1,50,000	13,500
Creditors balance as on Jan. 1, 2017	10,000	1,25,000
Credit sales and purchases	5,80,000	4,00,000
Cheques received and issued	4,80,000	3,50,000
Advance paid to creditors	—	20,000
Returns	4,300	2,800
Discounts allowed and received	2,900	3,600
Bill of exchange issued and accepted	54,200	26,900
Bad Debts	2,000	----
Provision for bad debt	-----	3,000
Reserve for discounts	10,000	5,000
Transfer from Debtors Ledger to Creditors Ledger	10,000	10,000
Debit balance on Dec. 31, 2017	?	12,850
Credit balance on Dec. 31,2017	7,280	?

Solution:

In the Books of...........
In Debtors Ledger
General Ledger Adjustment A/c

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.1.17	To Balance b/f	10,000	1.1.17	By Balance b/f	1,50,000
31.12.17	To Debtors Ledger Adjustment A/c:		31.12.17	By Debtors Ledger Adjustment A/c:	
	Cheque received	4,80,000		Credit Sales	5,80,000
	Return Inward	4,300	31.12.17	By Balance c/f	7,280
	Discount Allowed	2,900			
	Bills Receivable drawn	54,200			
	Bad debt	2,000			
	Transfer from debtors ledger to				
	Creditors Ledger	10,000			
31.12.17	To Balance c/f[B/Fig.]	1,73,880			
		7,37,280			7,37,280

In Creditors Ledger

General Ledger Adjustment A/c

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.1.14	To Balance b/f	1,25,000	1.1.14	By Balance b/f	13,500
31.12.14	To Creditors Ledger Adjustment A/c:		31.12.14	By Creditors Ledger Adjustment A/c:	
	Credit Purchases	4,00,000		Cheque issued	3,50,000
31.12.14	To Balance c/f	12,850		Advance given	20,000
				Return Outward	2,800
				Discount Received	3,600
				Bills Payable accepted	26,900
				Transfer from Debtors Ledger to Creditors Ledger	10,000
			31.12.14	By Balance c/f [B/Fig.]	1,11,050
		5,37,850			5,37,850

WORKINGS:

1. **Provision for Bad Debt & Reserve for Discounts on Debtors and Creditors:** No entry is required to be passed for these transactions under Self-Balancing system as they do not involve Debtors or Creditors A/c.

<u>A Comprehensive Problem on Preparation of General Ledger Adjustment Accounts in Creditors' Ledger and Debtors' Ledger Adjustment Account in General Ledger</u>

10. From the following particulars, which have been extracted from the book of A & Co., for the year ended 31.01.2012, prepare General Ledger Adjustment Account in the Creditors Ledger and Debtors Ledger Adjustment Account in the General Ledger:

Particulars	Amount ₹	Particulars	Amount ₹
Debtors Balance (01 .01 .2012) Dr.	20,000	Bills Receivable received	3,000
Debtors Balance (01 .01 .2012) Cr.	300	Bills Receivable endorsed	800
Creditors Balance (01.01.2012) Dr.	200	Bills Receivable as endorsed discounted	300
Creditors Balance (01.01.2012) Cr.	15,000	Bills Receivable discounted	1,400
Purchases (including Cash ₹4,000)	12,000	Bills Receivable dishonoured	400
Sales (including Cash ₹6,000)	25,000	Interest charged on dishonoured bills	30
Cash paid to suppliers in full settlement of claims for ₹9,000	8,500	Transfer from one ledger to another	600
Cash received from customers in full settlement of claims of ₹15,000	14,100	Returns (Cr.)	700
Bills Payable accepted (including renewals)	2,000	Debtors Balance (31.12.2012) Cr.	450
Bills Payable withdrawn upon renewals	500	Creditors Balance (31.12.2012) Dr.	10,870

Solution:

In the Creditors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012			2012		
Jan 1	To, Balance b/d	15,000	Jan 1	By, Balance b/d	200
Dec. 31	To, Creditors Ledger Adjustment A/c:		Dec. 31	By, Creditors Ledger Adjustment A/c:	
	Purchases	8,000		Cash	8,500
"	Bills Payable Withdrawn	500		Discount Received (9,000-8,500)	500
	Bills Receivable Dishonoured	300		Returns Outward	700
	(as endorsed)			Bills Payable	2,000
				Bills Receivable (endorsed)	800
				Transfer	600
	To, Balance c/d	170		By, Balance c/d	1 0,870
		23,970			23,970
2013	To, Balance b/d	10,870	2013	By, Balance c/d	170
Jan. 1			Jan. 1		

In the General Ledger
Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012	To, Balance b/d	20,000	2012	By, Balance b/	300
Jan. 1			Jan. 1		
Dec. 31	To, General Ledger Adjustment A/c:		Dec. 31	By, General Ledger Adjustment A/c:	
	Sales	19,000		Cash	14,100
	Bills Receivable as endorsed dishonoured	300		Discount Allowed (15,000-14,100)	900
	Bills Dishonoured	400		Bills Receivable	3,000
				transfer	600
	To, Balance c/d	450		By, Balance c/d	21,250
		40,150			40,150
2013			2013		
Jan. 1	To, Balance b/d	21,250	Jan. 1	By, Balance b/d	450

Debtors' Ledger Maintained in Two Separate Volumes

11. A Ltd. divides its Debtor Ledger into two sections: A-L and M-Z each being self-balancing. The following details have been extracted from the books of the company for the month of March 2017.

Particulars	A-L(₹)	M-Z(₹)
Ledger balances as on 01.03.2017 (Dr.)	2500	3000
Ledger balances as on 01.03.2017 (Cr.)	500	200
Credit Sales for the month	25000	20000
Cash received	10000	14000
Discount allowed	1000	500
Returns inwards	2000	2000
Bad Debt written off	500	600
Bills receivable	4000	5000
Bad debt recovery	200	800
Bills dishonoured	2000	3000

During the month some goods amounting to ₹2000 were sold to Mr. J was wrongly posted to Mr. G Account. Cash received from Mr. Ishan ₹3000 was wrongly posted to Mr. Shaan Account.

Prepare General Ledger Adjustment Account in Debtors Ledger.

Solution:

In Debtors' Ledger
General Ledger Adjustment Account

Dr. Cr.

Date	Particulars	A-L Amount (₹)	M-Z Amount (₹)	Date	Particulars	A-L Amount (₹)	M-Z Amount (₹)
01.03.17	To Balance b/f	500	200	01.03.17	By Balance b/f	2500	3000
31.03.17	To Debtors Led. Adj. A/C (In General Ledger)	10000	14000	31.03.17	By Debtors Led. Adj. A/C (In General Ledger)	25000	20000
	Cash received	1000	500		Credit sales	2000	3000
	Discount allowed	2000	2000		B/R dishonoured	3000	Nil
					Correction		
	Returns inward	500	600				
	Bad Debt	4000	5000				
	B/R received	3000	Nil				
	Correction						
31.03.17	To Balance c/f	11500	3700				
		32500	26000			32500	26000

Note: 1. No entry is required for bad debt recovery.

Note: 2. No entry is required under self-balancing system for incorrect posting of sales, as it involves corrections within individual accounts in the same ledger.

Account-wise Details Given for Debtors' Ledger

12. The summarized analysis of the accounts of the outstanding debtors of a firm at the date of the annual closing of account is as under:

Debtors	Credit Sales(₹)	Cash Received(₹)	Returns Inward(₹)	Bills Received(₹)	Discount Allowed(₹)	Bad Debt(₹)
A	6000	4000	0	0	500	0
B	4000	2000	1000	0	0	0
C	10000	6000	0	0	0	0
D	20000	12000	2000	2000	1000	500
E	24000	16000	3000	2000	1000	1000

Debtors' balance at the beginning of the year was ₹14500. Out of the above receipts of a bill for ₹1700 given by S was dishonoured, noting charges amounting to ₹20. Prepare Debtors Ledger Adjustment Account in General Ledger and General Ledger Adjustment Account in Debtors Ledger.

Solution:

Calculation of total of different transactions

Debtors	Credit Sales(₹)	Cash Received(₹)	Returns Inward(₹)	Bills Received(₹)	Discount Allowed(₹)	Bad Debt(₹)
A	6000	4000	0	0	500	0
B	4000	2000	1000	0	0	0
C	10000	6000	0	0	0	0
D	20000	12000	2000	2000	1000	500
E	24000	16000	3000	2000	1000	1000
Total	64000	40000	6000	4000	2500	1500

In General Ledger

Debtors' Ledger Adjustment Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/f	14500	By Genera Led. Adjustment A/C	
To General Led. Adjustment A/C		(in Debtors' Ledger)	
(in Debtors' Ledger)		- Returns Inward	6000
- Credit Sales	64000	- Cash Received	40000
- B/R Dishonoured	1700	- B/R received	4000
- Noting charges	20	- Discount Allowed	2500
		- Bad Debt	1500
		By Balance c/f	26220
	80220		80220

In Debtors' Ledger

General Ledger Adjustment Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Debtors Led. Adjustment A/C		By Balance b/f	14500
(In General Ledger)		By Debtors Led. Adjustment A/C	
- Returns Inward	6000	(In General Ledger)	
- Cash Received	40000	- Credit Sales	64000
- B/R received	4000	- B/R Dishonoured	1700
- Discount Allowed	2500	- Noting charges	20
- Bad Debt	1500		
To Balance c/f	26220		
	80220		80220

Rectification Entry under Self Balancing System

13. The following errors were detected on 31.12.2017 after preparation of Trial Balance but before preparation of Final Accounts.

(i) Purchases day book was undercast by ₹5000

(ii) Sales day book was overcast by ₹2000

(iii) A cheque of ₹20000 issued to Mr. M was recorded as having been issued to Mr. K

(iv) Goods worth ₹3000 were returned by Mr. D, recorded in the Day Book as ₹30000

Prepare necessary Journal entries assuming that the ledgers are kept under self-balancing system.

Solution:

Journal Entries

Date	Particulars	Amount (₹)	Amount (₹)
i	Purchase A/C	5000	
	To Suspense A/C		5000
	General Ledger Adjustment A/C(in Creditors Ledger)	5000	
	To Creditors Ledger Adjustment A/C(in Gen. Ledger)		5000
ii	Suspense A/C	2000	
	To Sales A/C		2000
	Debtors Ledger Adjustment A/C(in General Ledger)	2000	
	To General Led. Adjustment A/C(in Debtors Ledger)		2000
iii	Mr. M A/C	20000	
	To Mr. K A/C		20000
iv	Mr. D A/C	27000	
	To Returns Inward A/C		27000
	Debtors Ledger Adjustment A/C(in General Ledger)	27000	
	To General Led. Adjustment A/C(in Debtors Ledger)		27000

Note: the adjustment in (iii) is a transaction within Creditors Ledger. So no rectification entry is required to be passed in Self Balancing System.

14. **The balance on the Sales Ledger Control Account of Q Ltd, on Sept, 30, 2012 amounted to ₹9,600 which did not agree with the net total of the list of Sales Ledger Balance on that date. Errors were found and the appropriation adjustments when made balanced the books. The errors were:**

(i) Debit balance in the sales ledger amounting to ₹306 had been omitted from the list of balances.

(ii) A Bad Debt amounting to ₹750 had been written-off in the sales ledger, but had not been posted to the Bad Debts Account, or entered in Control Account.

(iii) An item of goods sold to Amar for ₹400 had been entered once in the Day Book but posted to his account twice.

(iv) ₹70 Discount Allowed to Manoj had been correctly recorded and posted in the books. This sum had been subsequently disallowed, debited to Manoj's account, and entered in the discount received column of the Cash Book.

(v) No entry had been made in the Control Account in respect of the transfer of a debit of 7260 from Kumar's Account in the Sales Ledger to his account in the purchase ledger.

(vi) The Discount Allowed column in the Cash Book had been under cast by ₹280.

You are required to give the journal entries, where necessary, to rectify these errors, indicating whether or not any control accounts is affected, and to make necessary adjustments in the Sales Ledger Control Account bringing down the balance.

Solution:

In the books of ……

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
2012 Sept. 30	₹306 should be added to Sales Ledger Balances and it will not affect Control Account			
	Bad Debts A/c Dr. To, Sales Ledger Control A/c (Bad Debts written-off without recording in general ledger, now rectified.)		750	 750
	Amar's Account should be credited by ₹400. It will not affect Control Account.			
	Discount Received A/c Dr. To, Purchases Ledger Control A/c Sales Ledger Control A/c Dr. To, Discount Allowed A/c (Discount previously allowed cancelled, which was wrongly treated as discount received, now rectified.)		70 70	 70 70
	Purchase Ledger Control A/c Dr. To, Sales Ledger Control A/c (Transfer of debit of Kumar's Account to Purchase Ledger, not recorded, now rectified.)		260	 260
	Discount Allowed A/c Dr. To, Sales Ledger Control A/c (Discount allowed account undercast, now rectified.)		280	 280

Preparation of Total Debtors Account and Total creditors Account under Sectional Balancing System

15. **Prepare Total Debtors Account (or Debtors Control Account) and Total Creditors Account (or Creditors Control Account) from the following particulars as on 31.03.2013.**

Particulars	Amount ₹	Particulars	Amount ₹
Debtors balance (01.04.2012) Dr.	20,000	Discount Allowed to Debtors	6,000
Debtors balance (01.04.2012) Cr.	6,000	Credit Purchase	80,000
Creditors balance (01.04.2012) Dr.	16,000	Cash paid to Creditors	5,000
Creditors balance (01.04.2012) Cr.	2,000	Discount Received	6,000
Sales (including Cash Sales ₹16,000)	1 ,36,000	Returns Outward	4,000
Returns Inward	10,000	Bills Payable Accepted	10,000
Cash Received from Customer	70,000	Transfer from bought ledger to sale ledger	12,000
Bad Debts	6,000		
(Cash Received from Debtors ₹6,000 against a debt previously written off)		Credit balance in sold ledger on 31.03.13	8,000
Bills Receivable received	12,000	Debit balance in bought ledger on 31.03.13	6,000
Bills Receivable dishonoured	4,000	Noting Charges charged from Debtors	200
Bills Receivable endorsed to creditors	2,000	Provision made for Discount on Creditors	2,000
Endorsed bill dishonoured	1,000		
Provision made for Bad Debts	8,000		
Provision made for Discount on Debtors	2,000		

Solution:

In the books of....................

Total Debtors or Debtors Control Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012			2012		
April 1	To, Balance b/d	20,000	April 1	By Balance b/d	6,000
	To, Sales (₹1,36,000-₹16,000)	1 ,20,000		Return Outwards	1 0,000
	To, B/R Dishonoured	4,000		By, Cash Received	70,000
	To, Total Creditors A/c (Endorsed B/R Dishonoured)	1,000		By, Bad Debts	6,000
	To, Noting Charges	200		By, B/R Received	1 2,000
2C013 Mar.31	To, Balance c/d	8,000	2013 Mar.31	By, Discount Allowed	6,000
				By, Transfer	12,000
				By, Balance c/d	31,200
		1,53,200			1 ,53,200
April 1	To, Balance b/d	31,200	April 1	By, Balance b/d	8,000

Note: Recovery of Bad Debts, provision for Bad Debts, Provisions for Discount on Debtors, Provision for discount on Creditors, Cash Sales etc. will not appear in Total Debtors or Debtors Control Account.

Study Note – 8

ROYALTIES

Learning Objective:

- *To gain knowledge of royalty and its related terms like minimum rent, ground rent, short workings, Recoupment of Short workings etc.*
- *To be able to maintain accounts of royalty transactions in the books of Lessee and Lessor.*

1. Multiple Choice Questions

Choose the correct alternative:

1. Which of the following is the type of royalty?
   (a) Copyright
   (b) Mining royalty
   (c) Patent royalty
   (d) All of these

2. What is minimum rent?
   (a) Assured and mutually agreed periodical minimum amount
   (b) Minimum periodical amount
   (c) Amount paid by lessee to landlord
   (d) None of these

3. Royalty is
   (a) A contract
   (b) Landlord to lessee
   (c) Use of asset
   (d) All of these

4. Short working
   (a) Shortage of royalty
   (b) Minimum rent exceeds the actual royalty
   (c) Shortage of actual rent
   (d) None o these

5. Dead rent is
   (a) Minimum rent
   (b) Short working
   (c) Surface rent
   (d) None of these

Answer:

1. (d)
2. (a)
3. (d)
4. (b)
5. (a)

2. Fill in the blanks:

1. Short working is alternatively termed as ……….

2. Redeemable dead rent is the amount by which minimum rent……the actual royalty

3. Excess working is the amount by which the actual royalty ……… the minimum rent.

4. Ground rent refers to the fixed yearly or half yearly rent payable by the lessee in addition to the……………….

5. Surface rent is also termed as ………….

Answer:

1. redeemable dead rent
2. exceeds
3. exceeds
4. minimum rent
5. Ground rent.

3. State whether the following statements are true or false:

1. Minimum rent is also called fixed rent or certain rent.

2. Recoupment of short working is done through excess working.

3. Fixed right does not deal with short working.

4. Dead rent is irrecoverable rent.

5. Ground rent refers to the fixed yearly or half yearly rent payable by the lessee to the landlord in addition to the minimum rent.

Answer:

1. True
2. True
3. False
4. False
5. True.

4. Match the following:

	Column – A		Column – B
1	Fixed right	A	Landlord to lessee
2	Ground rent	B	Surface rent
3	Dead rent	C	Strike and lockout
4	Royalty	D	Recoup short working within a certain period
5	Proportionately reduction in minimum rent	E	Fixed rent

Answer:

1. D
2. B
3. E
4. A
5. C

PROBLEMS AND SOLUTIONS:

5. X Ltd. Holds a lease of coal mine from Y Ltd at a royalty of ₹ 2 per ton of coal produced a minimum rent of ₹ 4000 p.a., the short workings being recoverable out of the royalties of the next two years.

After working the mine for two years X Ltd sublets part of a mine to A Ltd at a royalty of ₹ 2.5 per ton with a minimum rent of ₹ 2000 p.a. A Ltd has right to recover short workings during the first three years of sub-lease.

Annual production (in tons)

	2014	2015	2016	2017	2018
X Ltd.	1200	1400	1900	2000	2000
A Ltd.	-	-	700	800	900

Give necessary journal entries and prepare necessary accounts in the books of X Ltd for the period from 2014 to 2018.

Solution:

Working note:

(1) analysis of royalties payable

Year	Total output (tons)	Actual royalties	Minimum rent	Excess workings	short workings				Amount payable
					suffered	Recouped	Written off	C/F	
2014	1200	2400	4000	-	1600	-	-	1600	4000
2015	1400	2800	4000	-	1200	-	-	2800	4000
2016	2600	5200	4000	1200	-	1200	400	1200	4000
2017	2800	5600	4000	1600	-	1200	-	-	4400
2018	2900	5800	4000	1800	-	-	-	-	5800

(2) Analysis of Royalties Receivable

Year	Output of sub-lessee (tons)	Actual royalties	Minimum rent	Excess workings	Royalty suspense				Amount receivable
					occurred	adjusted	Credited to P/L	C/F	
2016	700	1750	2000	-	250	-	-	250	2000
2017	800	2000	2000	-	-	-	-	250	2000
2018	900	2250	2000	250	-	250	-	-	2000

In the books of X Ltd

Journal

Date	particulars	Debit (₹)	Credit (₹)
31/12/14	Royalties payable a/c Dr. Short working recoupable a/c Dr. To Y Ltd a/c (being royalties payable @ ₹ 2 per ton on 1200 tons subject to a minimum rent of ₹ 4000)	2400 1600	 4000
	Y Ltd a/c Dr To bank a/c (Being the amount paid in respect of royalties)	4000	 4000
	Profit and loss a/c Dr To Royalties payable a/c (Being the transfer of royalties payable account to profit and loss account)	2400	 2400
31/12/15	Royalties payable a/c Dr Short working recoupable a/c Dr To Y Ltd a/c (being royalties payable @ ₹ 2 per ton on 1400 tons subject to a minimum rent of ₹ 4000)	2800 1200	 4000
	Y Ltd a/c Dr To bank a/c (Being the amount paid in respect of royalties)	4000	 4000
	Profit and loss a/c Dr To Royalties payable a/c (Being the transfer of royalties payable account to profit and loss account)	2800	 2800
31/12/16	Royalties payable a/c Dr To Y Ltd a/c (Being royalties payable @₹ 2 per ton on 2600 tons)	5200	 5200
	Y Ltd a/c Dr To short workings recoupable a/c (Being ₹ 1200 recovered against short workings 2013)	1200	 1200
	Y Ltd a/c Dr To Bank a/c (Being the amount paid in respect of royalties)	4000	 4000
	Profit and loss a/c Dr To short workings recoupable a/c (Being the short workings lapsed for 2013 for written off)	400	 400
	A Ltd a/c Dr To royalties payable a/c To royalties suspense a/c (Being royalties receivable @₹ 2.5 per ton on 700 tons subject	2000	 1750 250

	to a minimum rent of ₹ 2000)		
	Bank a/c Dr To A Ltd a/c (Being the amount received in respect of royalties)	2000	 2000
	Royalties receivable a/c Dr To Royalties payable a/c To profit and loss a/c (Being the adjustment of royalties paid on sub-lessee's production @₹ 2 per ton 700 tons. Profit on sub-lease @₹ 0.5 per ton on 700 tons credited to profit and loss account.)	1750	 1400 350

Date	Particular	Debit (₹)	Credit (₹)
	Profit and loss a/c Dr To royalties payable a/c (Being royalties paid on own production @ ₹ 2 per ton on 1900 tons debited to profit and loss account)	3800	 3800
31/12/17	Royalties payable a/c Dr To Y Ltd a/c (Being royalties payable @₹ 2 per ton on 2800 tons)	5600	 5600
	Y Ltd a/c Dr To short working recoupable a/c (Being ₹ 1200 recovered against short workings of 2014)	1200	 1200
	Y Ltd a/c Dr To bank a/c (Being the amount paid in respect of royalties)	4400	 4400
	A Ltd a/c Dr To royalties receivable a/c (Being the royalties receivable @ ₹ 2.5 per ton on 800 tons)	2000	 2000
	Royalties receivable a/c Dr To royalties payable a/c To profit and loss a/c (Being the adjustment of royalties paid on sub-lessee's production @₹ 2 per ton on 800 tons. Profit on sub-lease @₹ 0.5 per ton on 800 tons credited to profit and loss account)	2000	 1600 400
	Bank a/c Dr To A Ltd a/c (Being the amount received from A Ltd)	2000	 2000
	Profit and loss a/c Dr To royalties payable a/c (Being royalties paid on own production @₹ 2 per ton on 2000 tons debited to profit and loss account)	4000	 4000
31/12/18	Royalties payable a/c Dr To, Y Ltd a/c (Being the royalties payable @₹ 2 per ton on 2900 tons)	5800	 5800

Date	Particulars	Debit (₹)	Credit (₹)
	Y Ltd a/c Dr To bank a/c (Being the amount paid in respect of royalties)	5800	 5800
	A Ltd a/c Dr To royalties receivable a/c (Being royalties receivable @ ₹ 2.5 per ton on 900 tons)	2250	 2250
	Royalties receivable a/c Dr To royalties payable a/c To profit and loss a/c (Being the adjustment of royalties paid on sub-lessee's production @ ₹ 2 per ton on 900 tons. Profit on Sub-lease @ ₹ 0.5 per ton on 900 tons credited to profit and loss account)	2250	 1800 450
	Royalty suspense a/c Dr To A Ltd a/c (Being the short workings recouped by the sub lessee)	250	 250
	Bank a/c Dr To A Ltd a/c (Being the amount received from A Ltd.)	2000	 2000
	Profit and loss a/c Dr To royalties payable a/c (Being royalties paid on own production @₹ 2 per ton on 2000 tons debited to profit and loss account)	4000	 4000

Ledger of X Ltd

Royalties payable account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31/12/14	To, Y Ltd a/c	2400	31/12/14	By, profit and loss a/c	2400
31/12/15	To, Y Ltd a/c	2800	31/12/15	By, profit and loss a/c	2800
31/12/16	To, Y Ltd a/c	5200	31/12/16	By, royalty receivable a/c(₹2 x 700)	1400
			31/12/16	By, profit and loss a/c	3800
		5200			5200
31/12/17	To, Y Ltd a/c	5600	31/12/17	By, royalty receivable a/c (₹2 x 800)	1600
			31/12/17	By, profit and loss a/c	4000
		5600			5600
31/12/18	To, Y Ltd a/c	5800	31/12/18	By, royalty receivable a/c(₹2 x 900)	1800
			31/12/18	By, profit and loss a/c	4000
		5800			5800

Short workings recoupable account

Dr **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31/12/2014	To, Y Ltd a/c	1600	31/12/2014	By, balance c/d	1600
1/1/2015	To, balance b/d	1600	31/12/2015	By, balance c/d	2800
31/12/2015	To, Y Ltd a/c	1200			
		2800			2800
1/1/2016	To, balance b/d	2800	31/12/2016	By, Y Ltd a/c	1200
			31/12/2016	By, P/L a/c (lapsed)	400
			31/12/16	By, balance c/d	1200
		2800			2800
1/1/2017	To, balance b/d	1200	31/12/2017	By, Y Ltd a/c	1200

Y Ltd account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31/12/14	To, bank a/c	4000	31/12/14	By, royalty payable a/c	2400
			31/12/14	By, short working recoupable a/c	1600
		4000			4000
31/12/15	To, bank a/c	4000	31/12/15	By, royalty payable a/c	2800
			31/12/15	By, short working recoupable a/c	1200
		4000			4000
31/12/16	To, short workings recoupable a/c	1200	31/12/16	By, royalty payable a/c	5200
31/12/16	To, bank a/c	4000			
		5200			5200
31/12/17	To, short workings recoupable a/c	1200	31/12/17	By, royalty payable a/c	5600
31/12/17	To, bank a/c	4400			
		5600			5600
31/12/18	To, bank a/c	5800	31/12/18	By, royalty payable a/c	5800

6. **Mr. Mukunda took a lease of mines from Mr. Amar, with effect from January 1, 2008, for a period of 20 years. The terms of agreement provided for the payment of Royalty @ Re. 0.60 per ton raised, subject to a minimum rent of Re. 12,000 per annum, with a right to recoup shortworkings, within a period of 3 years immediately succeeding the year in which the shortworking arises. It was further agreed that the minimum rent should be reduced proportionately, in case of strikes or lock-outs in any year.**

You are furnished with the following details:

Year	Tons raised
2012	**23,000**
2013	**18,700**
2014	**15,400**
There was a strike period of 3 months, from October to December	
2015	**19,000**
2016	**20,600**
2017	**22,600**

The balance in Short working Account, as on January 1, 2012, was 4,900, of which 2,200 arose in 2009 and the balance in 2010.

You are required to show the Royalty A/C, Short working A/C and Mr. Amar's A/C in the books of Mr. Mukunda for all the above 6 years.

Solution:

Workings:

Analysis of Royalty

Year	Output (Tons)	Actual Royalty	Minimum Rent	Short-working	Short- working Recouped	Payment	Short- working lapsed	Short-working c/f
2012	23,000	13,800	12,000		1,800	12,000	4001	2,7002
2013	18,700	11,220	12,000	780		12,000	2,7002	780
2014	15,400	9,240	9,0003		240	9,000		540
2015	19,000	11,400	12,000	600		12,000		1,140
2016	20,600	12,360	12,000		360	12,000	180	600
2017	22,600	13,560	12,000		600	12,960		

Notes:

1. Out of the shortworking of 2,200 arising in 2009 1,800 is recouped in 2012 and the balance (2,200-1,800) or 400 lapses in 2012.
2. Shortworking of 2010 (4,900-2,200) or 2700 is carried forward in 2012 because the period of recoupment of this expires in 1985.
3. Minimum Rent for 2014 is 9/12of 12,000 or 9,000.

In the Books of Mr. Mukunda

Dr. **Royalty Account** **Cr.**

2012 Dec.31	To Amar a/c	13,800	2012 Dec.31	By production a/c	13,800
2013 Dec.31	To Amar a/c	11,220	2013 Dec.31	By production a/c	11,220
2014 Dec.31	To Amar a/c	9,240	2014 Dec.31	By production a/c	9,240
2015 Dec. 31	To Amar a/c	11,400	2015 Dec. 31	By production a/c	11,400
2016 Dec.31	To Amar a/c	12,360	2016 Dec.31	By production a/c	12,360
2017 Dec.31	To Amar a/c	13,560	2017 Dec.31	By production a/c	13,560

Dr. Short-workings Account Cr.

2012 Jan.1	To balance b/d	4,900	2012 Dec.31	By Amar A/c By profit & loss A/c By balance c/d	1,800 400 2,700
		4,900			4,900
2013 Jan.1 Dec.31	To balance b/d To Amar A/c	2,700 780	2013 Dec.31	By Profit &loss A/c By balance C/d	2,700 780
		3,480			3,480
2014 Jan.1	To balance b/d	780	2014 Dec.31	By Amar A/c By balance c/d	240 540
		780			780
2015 Jan.1 Dec.31	By balance b/d To Amar A/c	540 600	2015 Dec.31	By balance c/d	1,140
		1,140			1,140
2016 Jan.1	To balance b/d	1,140	2016 Dec.31	By Amar A/c By Profit & loss A/c By balance c/d	360 180 600
		1,140			1,140
2017 Jan.1	To balance b/d	600	2017 Dec.31	By Amar A/c	600

Dr. Amar Account Cr.

2012 Dec. 31	To Shortworking A/c To Bank	1,800 12,000	2012 Dec. 31	By Royalty A/c	13,800
		13,800			13,800
2013 Dec.31	To Bank	12,000	2013 Dec.31	By Royalty A/c By Shortworking A/c	11,220 780
		12,000			12,000
2014 Dec.31	To Shortworking A/c To Bank	240 9,000	2014 Dec.31	By Royalty A/c	9,240
		9,240			9,240
2015 Dec.31	To Bank	12,000	2015 Dec.31	By Royalty A/c By Shortworking A/c	11,400 600
		12,000			12,000
2016 Dec.31	To Shortworking A/c To Bank	360 12,000	2016 Dec.31	By Royalty A/c	12,360
		12,360			12,360
2017 Dec.31	To Shortworking A/c To Bank	600 12,960	2017 Dec.31	By Royalty A/c	13,560
		13,560			13,560

6. **Vendor Ltd. leased out three machines for manufacturing burners to Singur Stove Manufacturers in three successive years. The terms of lease for the machines were as follows:**

   i. **The lessee would pay a royalty of 50 paise for every 10 burners produced subject to a minimum payment of 500 per annum for every machine.**

   ii. **The lessee could recoup any shortworking arising in the first year of the leased machine in the second year only, but not afterwards.**

Details of the three machines on lease are given bellow:

Machine No.	1	2	3
Date of commencement of lease	1.1.2014	1.1.2015	1.1.2016
Production of burners for the Year ended 31st December (numbers):			
2014	8,000	-----	-----
2015	15,000	10,000	-----
2016	17,400	9,600	8,000
2017	18,000	12,400	7,400

You are requested to show the Ledger Accounts giving effect to the above tramsactions in the books of Singur Stove Manufacturers.

Solution:

Analysis of Royalty

Year	Machine No.	Output	Actual Royalty	Minimum Rent	Short Working	Short Working Recouped	Payment	Short Working Lapsed	Short Working c/f
		Units							
2014	1	8,000	400	500	100	------	500	------	100
2015	1	15,000	750	500	------	100	650	------	-------
	2	10,000	500	500	------	------	500	------	-------
2016	1	17,400	870	500	------	------	870	------	-------
	2	9,600	480	500	20	------	500	20	-------
	3	8,000	400	500	100	------	500	------	100
2017	1	18,000	900	500	------	-------	900	------	-------
	2	12,400	620	500	------	-------	620	------	-------
	3	7,400	370	500	130	-------	500	230	-------

Books of Singur Stove Manufactures

Royalty Account

Dr. **Cr.**

2014 Dec. 31	To Vendor Ltd. A/c	400	2014 Dec.31	By Manufacturing A/c	400
2015 Dec. 31	To Vendor Ltd. A/c	1,250	2015 Dec. 31	By Manufacturing A/c	1,250
2016 Dec. 31	To Vendor Ltd. A/c	1,750	2016 Dec. 31	By Manufacturing A/c	1,750
2017 Dec. 31	To Vendor Ltd. A/c	1,890	2017 Dec. 31	By Manufacturing A/c	1,890

Shortworking Account

Dr. Cr.

2014 Dec. 31	To Vendor Ltd. A/c	100	2014 Dec. 31	By Balance c/d	100
2015 Jan. 1	To Balance b/d	100	2015 Dec. 31	By Vendor Ltd. A/c	100
2016 Dec. 31	To Vendor Ltd. A/c	120	2016 Dec. 31	By Profit & Loss A/c	20
				By Balance c/d	100
		120			120
2017 Jan. 1	To Balance b/d	100	2017 Dec. 31	By Profit & Loss A/c	230
Dec. 31	To Vendor Ltd. A/c	130			
		230			230

Vendor Ltd. Account

Dr. Cr.

2014 Dec. 31	To Bank	500	2014 Dec. 31	By Royalty A/c	400
				By Shortworking A/c	100
		500			500
2015 Dec. 31	To shrtworking A/c	100	2015 Dec. 31	By Royalty A/c	1,250
	To Bank	1,150			
		1,250			1,250
2016 Dec. 31	To Bank	1,870	2016 Dec. 31	By Royalty A/c	1,750
				By Shortworking A/c	120
		1,870			1,870
2017 Dec. 31	To Bank	2,020	2017 Dec. 31	By Royalty A/c	1,890
				By Shortworking A/c	130
		2,020			2,020

Royalty receivable account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
31/12/16	To, royalty payable a/c	1400	31/12/16	By, A Ltd a/c	1750
31/12/16	To, profit and loss a/c	350			
		1750			1750
31/12/17	To, royalty payable a/c	1600	31/12/17	By, A Ltd a/c	2000
31/12/17	To, profit and loss a/c	400			
		2000			2000
31/12/18	To, royalty payable a/c	1800	31/12/18	By, A Ltd a/c	2250
31/12/18	To, profit and loss a/c	450			
		2250			2250

Royalty suspense account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
31/12/16	To, balance c/d	250	31/12/16	By, A Ltd a/c	250
31/12/17	To, balance c/d	250	31/12/17	By, balance b/d	250
31/12/18	To, balance c/d	250	31/12/18	By, balance b/d	250

A Ltd account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31/12/16	To, royalty receivable a/c	1750	31/12/16	By, bank a/c	2000
31/12/16	To, royalty suspense a/c	250			
		2000			2000
31/12/17	To, royalty receivable a/c	2000	31/12/17	By, bank a/c	2000
31/12/18	To, royalty receivable a/c	2250	31/12/18	By, royalty suspense a/c	250
			31/12/18	By, bank a/c	2000
		2250			2250

Working Note:

A Ltd is a limited company. Therefore, royalty on own production should be charged to profit and loss account (production account section). The royalty on sub-lessee's production is adjusted against the royalty receivable account.

Study Note – 9

HIRE – PURCHASE AND INSTALLMENT SYSTEM

Learning Objective:

- *To gain knowledge of Hire-Purchase System, other terms associated with it and the salient features.*
- *To be able to understand the components of Hire-Purchase Price and the process of calculation.*
- *To be able to know the accounting treatments and methods of accounting.*
- *To know the situation of default and repossession and their accounting treatment.*

1. **Multiple choice questions:**

Choose the correct alternative

1. Under Hire-Purchase agreement ownership is transferred:
   (a) As soon as the first installment is paid
   (b) Until the last installment is paid
   (c) Both the cases
   (d) None of these

2. Full cash price of the asset is forfeited under:
   (a) Asset accrual method
   (b) Credit purchase with interest method
   (c) Both the methods
   (d) None of these

3. Under installment system, the seller treats the transaction as a
   (a) Credit sale
   (b) Cash sale
   (c) Mix sale
   (d) None of these

4. Interest is charged on the amount
   (a) Paid amount
   (b) Outstanding amount
   (c) Hire-Purchase price
   (d) None of these

5. Assets are generally repossessed at a mutual agreed
   (a) value
   (b) current price
   (c) Installments due
   (d) None of these

6. **Assets are generally repossessed at a mutual agreed**
   (a) value
   (b) current price
   (c) Instalments due
   (d) None of these

7. **The hire-purchaser, during that period of possession of goods, cannot __________ such goods.**
   (a) damage
   (b) destroy
   (c) pledge or sell
   (d) All of the above

8. **In case of __________ repossession the hire vendor takes back the possession of all the goods.**
   (a) complete
   (b) full
   (c) complete or full
   (d) complete and full

Answer:

1. (b)
2. (b)
3. (a)
4. (b)
5. (a)
6. (a)
7. (d)
8. (c)

2. Fill in the blanks:

1. **Selling price under Hire-purchase basis is…than selling price under cash basis.**
2. **The act of revival of custody of the asset is called………**
3. **The buyer gets possession and ownership of the asset under………system right from signing the contract.**
4. **Under Hire- purchase system ownership of the asset is transferred as soon as…….. installment is paid.**
5. **Every installment paid under Hire-purchase system consists of partly …….. and partly interest charge.**

Answer:

1. more
2. repossession
3. installment
4. last
5. capital payment.

3. State whether the following statements are true or false:

1. The buyer gets immediate possession but not ownership of the asset under installment payment system on signing of contract.

2. The possession and ownership of the asset is immediately transferred to the buyer under Hire- purchase system on signing the contract.

3. Down payment plus installments including interest is termed as cash price

4. The Hire-purchaser records the asset at Hire-purchase price

5. Repossession of the asset is done by Hire-vendor due to non-payment of installments in due time.

Answer:

1. False
2. False
3. False
4. False
5. True

4. Match the following:

	Column - A		Column - B
1	Hire-Purchaser can record the asset at its	A	Cash price + interest
2	Hire-Purchase price	B	Interest
3	Installment payment system-Ownership transferred	C	Capital expenditure
4	Excess of Hire-purchase price over cash price	D	When first installment is paid
5	Payment towards cash price under Hire-purchase system	E	Cash down price

Answer:

1. E
2. A
3. D
4. B
5. C

QUESTIONS AND NUMERICAL EXAMPLES

5. State the differences between Hire Purchase and Instalment Payment System.

Solution:

Hire-Purchase V/s Installment Payment

Sl. No.	Hire-Purchase (HP)	Installment Payment
1	It is Hiring-cum-purchase contract	It is outright sale contract
2	Hire-Purchase Act 1972 controls the HP	Installment payment transaction is

	transactions	not controlled by any such Act
3	Ownership of the goods is transferred after payment of last installment	Ownership is transferred immediately after sale
4	HP agreement can be cancelled before payment of last installment by Hire-purchaser	The purchase has no such right
5	Hire-Vendor has the right to repossess the goods if default is made	Seller has no right t repossess the goods but can file a suit for damages.
6	Hire-purchaser cannot sell the goods since he does not possess the ownership of the goods	Purchaser can sell the goods as he owns the title of the goods

6. State the differences between Ordinary Purchase and Hire Purchase

Solution:

Ordinary Purchase V/S Hire- Purchase

Sl. No.	Ordinary Purchase	Hire-Purchase (HP)
1	Ownership of the goods is transferred immediately after purchase	Ownership of the goods is transferred after payment of last installment
2	The purchaser can resale the goods any time	Hire-purchaser cannot sell the goods since he does not possess the ownership of the goods
3	Seller cannot repossess the goods	Seller can repossess the goods due to non-payment of installments
4	The purchaser is not the bailee of the goods	The purchaser is the bailee of the goods
5	The purchaser has no option to return the goods	The purchaser has option to return the goods to its actual owner

7. A Ltd. had purchased a machinery on 1.1.2013 on hire purchase system from B Ltd. The terms are that A Ltd. would pay 20,000 down on signing of the agreement on that date and four annual installments of 1000 each. A Ltd charged depreciation @10% per annum on cost under diminishing balance system. B Ltd charged interest @10% per annum in their contract.
Prepare machinery account and account of B Ltd. in the books of A Ltd.

Working notes:

Particulars	Amount
Last installment [4th]	11,000
Less : interest included [$\frac{10}{110}$ of 11,000]	1,000
	10,000
Add : installment [3rd]	11,000

	21,000
Less : interest included [$\frac{10}{110}$ of 11,000]	1,909
	19,019
Add : installment [2nd]	11,000
	30,019
Less : interest included [$\frac{10}{110}$ of 11,000]	2,735
	27,356
Add : installment [1st]	11,000
	38,356
Less : interest included [$\frac{10}{110}$ of 11,000]	3,486
	34,870
	20,000
Add : down payment	**54,870**
Cash Price	

In the Books of A Ltd.

Dr. **Machinery account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1.1.13	To B Ltd. A/c	54,870	31.12.13	By depreciation A/c	5,487
				By balance c/d	49,383
		54,870			54,870
1.1.14	To Balance b/d	49,383	31.12.14	By depreciation A/c	4,938
				By balance c/d	44,445
		49,383			49,383
1.1.15	To Balance b/d	44,445	31.12.15	By depreciation A/c	4,445
				By balance c/d	40,000
		44,445			44,445
1.1.16	To Balance b/d	40,000	31.12.16	By depreciation A/c	4,000
				By balance c/d	36,000
		40,000			40,000
1.1.17	To Balance b/d	36,000			

Dr. **B Ltd. Account** **Cr.**

Date	particulars	Amount	Date	particulars	Amount
1.1.13	To bank A/c	20,000	1.1.13	By motor car A/c	54,870
31.12.13	To bank A/c	11,000	31.12.13	By interest A/c	3,486
	To balance c/d	27,356			
		58,356			58,356
31.12.14	To bank A/c	11,000	1.1.14	By balance b/d	27,356
	To balance c/d	19,091	31.12.14	By interest A/c	2,735
		30,091			30,091
31.12.15	To bank A/c	11,000	1.1.15	By balance b/d	19,091

	To balance c/d	10,000	31.12.15	By interest A/c	1,909
		21,000			21,000
31.12.16	To bank A/c	11,000	1.1.16	By balance b/d	10,000
			31.12.16	By interest A/c	1,000
		11,000			11,000

Note: The dates of payments of installments have been assumed to be 31st December every year.

8. On 1.1.14 Mr. Sen purchased a machine under higher purchased from Mr Das. The cash price of the machine was 15500.The payments for the purchased were agreed to be made as follows:
On signing the agreement on 1.1.14 3000, at the time of year ending – first year 5,000, second year 5,000, and third year 5,000.
Make necessary ledger accounts in the books of Gupta assuming depreciation was charged annually @10% on the diminishing balance method.

Workings notes:

Apportionment of Annual interests

Hire purchase price=Total payments = [3,000+5,000*3]	18,000
Cash price	15,500
Total interest	**2,500**

It should be apportioned among the three years in the diminishing ratio of 3:2:1. Because the outstanding amounts to the vendor will decrease accordingly. Thus annual interests would be -

2014 = $\frac{3}{6}$

2015 = $\frac{2}{6}$

of 2,500 = 1,250
of 2,500 = 833 and

2016 = $\frac{1}{6}$ of 2,500 = 417

In the books of Books of Sen

Dr Das Account Cr

Date	Particulars	Amount	Date	Particulars	Amount
1.1.14	To bank A/c	3,000	1.1.14	By machinery A/c	15,500
31.12.14	To bank A/c	5,000	31.12.14	By interest A/c	1,250
	To balance b/d	8,750			
		16,750			16,750
31.12.15	To bank A/c	5,000	1.1.15	By balance b/d	8,750
	To balance b/d	4,583	31.12.15	By interest A/c	833
		9,583			9,583
31.12.16	To bank A/c	5,000	1.1.16	By balance b/d	4,583
			31.12.16	By interest A/c	417
		5,000			5,000

Dr Interest Account Cr.

Date	Particulars	Amount	date	Particulars	Amount
31.12.14	To Das A/c And so on…….	1,250	31.12.14	By profit & loss A/c	1.250
		1250			**1250**

Dr Depreciation Account Cr.

Date	Particulars	Amount	date	Particulars	Amount
31.12.14	To Machinery A/c And so on…….	1,550	31.12.14	By profit & loss A/c	1.550
		1550			**1550**

Dr Machinery Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1.1.14	To Das A/c	15,500	31.12.14	By depreciation A/c	1,550
				By balance c/d	13,950
		15,500			15,500
1.1.15	To balance b/d	13,950	31.12.15	By depreciation A/c	1,395
				By balance c/d	12,555
		13,950			13,950
1.1.16	To balance b/d	12,555	31.12.16	By depreciation A/c	1,255
				By balance c/d	11,300
		12,555			12,555

9. X Ltd. Purchased a scooter van on hire purchase from Y Ltd. On 1.1.2016.The terms of payment was 10,000 on delivery, 10,400 at the end of first year, 9600 at the end of the second year, and 8800 at the end of the third year, inclusive of finance charges.

X Ltd. provided depreciation at 10% per annum on the original cost. Show the accounts in the books of Y Ltd.

Working note:

Calculation of cash price and interests

The amounts of the annual installments are changing because the annual interests are different over year. It is assumed that the payment for principal amount is the same every year and it is P. The interests will decrease in the ratio of 3:2:1.Let interests be detonated by i.

Payment in 2016 = P+i = 8.800 ……………………………………(i)

Payment in 2015 = P+2i = 9,600……………………………………(ii)

And Payment in 2014 = P+3i = 10,400……………………………………(iii)

If (i) and (ii) are added, 2P+3i = 18,400

Again P+3i = 10,400……………[as per (iii) above] P = 8,000

Interests included in installments are

2014 = 10,400 - 8,000 =2,400, 2015 = 9,600 - 8,000 =1,600,

and 2016 = 8,800 - 8,000 = 800

And cash price =10,000 +3 * 8,000 = 34,000

In the Books of Y Ltd.

Dr. **X Ltd. Account** **Cr.**

	Particulars	Amount	Date	Particulars	Amount
1.1.14	To H.P sales A/c	34,000	1.1.14	By bank A/c	10,000
31.12.14	To interest A/c	2,400	31.12.14	By bank A/c	10,400
				By balance c/d	16,000
		36,400			36,400
1.1.15	To balance b/d	16,000	31.12.15	By bank A/c	9,600
31.12.15	To interest A/c	1,600		By balance c/d	8,000
		17,600			17,600
1.1.16	To balance b/d	8,000	31.12.16	By bank A/c	8,800
31.12.16	To interest A/c	800			
		8,800			8,800

Dr. **Interest Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31.12.14	To profit & loss A/c	2,400	31.12.14	By X Ltd. a/c	2,400
31.12.15	To profit & loss A/c		31.12.15	By X Ltd. a/c	
31.12.16	To profit & loss A/c	1,600	31.12.16	By X Ltd. a/c	1,600
		800			800

10. Kundu Transporter purchases a truck on hire purchase from Koley Motor for 56,000. Payment to be made as 15,000 down cash and 3 installments of 15,000 each at the end of each year. Rate of interest is charged at 5% p.a. Buyer depreciates assets at 10% p.a. on written down value method. Because of financial difficulties Modern Transporter after having paid the down cash and the first installment at the end of the first year could not pay the second installment and Koley motors took possession of the Truck.

Prepare (a) The Truck Account (b) Seller' Account in the books of the buyer assuming that year ends on 31st December.

Working Note: Calculation of Interests

	Amount
Opening date (First year)	56,000
Cash price	15,000
Same date Less :	41,000 2,050
Down Payment	43,050 15,000
Add: Interest for the first year[5%of 41,000]	28,050
Less: Installment	
Add: Interest [5%of 28,050]	1,403
Surrendered Asset	29,453

In the Books of Kundu Transporter

Dr. Truck Company Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1st yr. Op.Dt	To Koley Motor	56,000	At yr. end	By Depreciation A/c @10%	5,600
				By Balance c/d	50,400
		56,000			56,000
2nd yr. Op. dt.	To Balance B/d	50,400		By Depreciation	5,040
				By Koley Motor (surrender)	29,453
				By Profit &Loss A/c	15,907
		50,400			50,400

Dr. Koley Motor Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1st yr Op. dt	To Bank A/c	15,000	1st yr Op.dt.	By Truck A/c	56,000
Cl.dt.	To Bank A/c	15,000			
	To Balance B/d	28,050		By Interest A/c	2,050
		58,050			58,050
Cl.dt.	To Machinery A/c (Balance transferred)	29,453	Op.dt. 2nd yr.	By Balance B/d	28,050
			Cl.dt.	By Interest	1,403
		29,453			29,453

11. Laxman purchased 7 Trucks on hire-purchase on 1st July 2014. The Cash Price of each Truck was 50,000. He was to pay 20% of Cash Price at the time of delivery and the balance of five half-yearly installments starting from 31.12.2014 with interest at 5% per annum. On Laxman's failure to pay the installment due on 30th June, 2015, it was agreed that Laxman would return 3 Trucks to the Vendor and the remaining 4 would be retained by him. The returning price of 3 trucks was 40,500. Laxman charges depreciation @ 20% per annum. Vendor after spending 1,000 on repairs sold away all the three trucks for 40,000.

Show Trucks Account and Vendor's Account in the books of Laxman and Laxman's Account and Goods Repossessed Account in the books of the Vendor assuming that their books are closed on 30th June each year.

Answer:

In the Books of Laxman

Dr. Trucks Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount

1.07.14	To Hire Vendor A/c (Cash price of 7 Trucks @ 50,000 each)	3,50,000	3.06.15	By Depreciation A/c [20% of 3,50,000]	70,000
				By Hire Vendor A/c (Adjustment for 3 Trucks at a agreed value)	40,500
				By Profit & Loss Account (Loss on Surrender)	79,500
				By Balance c/f [4/7 of (3,50,000-70,000]	1,60,000
		3,50,000			**3,50,000**

Dr. **Hire Vendor Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1.07.14	To Bank A/c [Down Payment @20% of 3,50,000]	70,000	1.07.14	By Trucks A/c	3,50,000
				By Interest A/c [5%of (3,50,000 – 70,000) for ½ year]	7,000
31.12.14	To Bank A/c [Working Note]	63,000	31.12.14		
30.06.15	To Trucks A/c (Adjustment for 3 Trucks at agreed value)	40,500	30.6.15	By Interest A/c [working Note]	5,600
	Balance c/f	1,89,100			
		3,62,600			**3,62,600**

In the Books of Hire Vendor

Dr. **Laxman Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
1.07.14	To Hire Purchase Sales A/c [Down Payment @ 20% of 3,50,000]	3,50,000	1.7.14	By Bank A/c [20% of 3,50,000]	70,000
			31.12.14	By Bank A/c	63,000
31.12.14	To Interest A/c	7,000	30.6.15	By Goods Repossessed A/c [Agreed value]	40,500
30.6.15	To Interest A/c [Working Note]	5,600		By Balance c/f	1,89,100
		3,62,600			**3,62,600**

Dr. **Goods Repossessed Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
30.06.15	To Laxman A/c	40,500	30.06.15	By Bank A/c (Sale Proceeds)	40,000
	To Bank A/c (cost of repairs)	1,000		By Profit & Loss A/c (Loss on Sale)	1,500
		41,500			41,500

Working Notes:

1. Value of each Bare Installment [i.e. exclusive of interest]
   = Amount Payable by Installments/ No. of Installments
   = 80% of 3,50,000/5
   = 56,000

2. **Calculation of Interest**

		Amount
1.7.2014	Cash Price	3,50,000
	Less: Down Payment	70,000
		2,80,000
31.12.2014	Add: Interest @ 5% p.a. [5/100*2,80,000*6/12]	7,000
		2,87,000
	Less: Half Yearly Installment [56,000+7,000]	63,000
		2,24,000
30.06.2015	Add: Interest [2,24,000*5/100*6/12]	5,600
	Loss on Surrender & Value of Trucks Retained	
	Trucks Retained [4]	Trucks Retained [3]

Value on 1.7.14	4*50,000 = 2,00,000	3*50,000=1,50,000
Depreciation on 30.06.15 @ 20%	40,000	30,000
W.D. Value on 30.06.15	1,60,000	1,20,000
Agreed Value		40,500
Loss on Surrender		79,500

Special Note: The question does not state that although Laxman retained 4 trucks, whether he paid the proportionate Amount of inst6alment on those 4 trucks on 30.6.15. It is assumed that he did not pay anything. So the entire balance is due from him.

12. Ekart Logistics acquired a delivery van on hire purchase on 01.04.2018 from Mahavir Enterprises. The terms were as follows:

Particulars	**Amount (₹)**
Hire Purchase Price	**180,000**
Down Payment	**30,000**
1st installment payable after 1 year	**50,000**
2nd installment after 2 years	**50,000**
3rd installment after 3 years	**30,000**
4th installment after 4 years	**20,000**

Cash price of van ₹1,50,000. You are required to calculate Total Interest and Interest included in each instalment.

Solution:

Calculation of total Interest and Interest included in each installment
Hire Purchase Price (HPP) = Down Payment + instalments
= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000
Total Interest = 1,80,000 – 1,50,000 = 30,000

Computation of IRR (considering two guessed rates of 6% and 12%)

Year	Cash Flow	DF @6%	PV	DF @12%	PV
0	30,000	1.00	30,000	1.00	30,000
1	50,000	0.94	47,000	0.89	44,500
2	50,000	0.89	44,500	0.80	40,000
3	30,000	0.84	25,200	0.71	21,300
4	20,000	0.79	15,800	0.64	12,800
		NPV	1,62,500	NPV	1,48,600

Interest rate implicit on lease is computed below by interpolation:

Interest rate implicit on lease = 6% $+\frac{1,62,500-1,50,000}{1,62,500-1,48,600}$ x (12-6) = 11.39%.

Thus, repayment schedule and interest would be as under:

Installment no.	Principal at beginning	Interest included in each installment	Gross amount	Installment	Principal at end
Cash down	1,50,000		1,50,000	30,000	1,20,000
1	1,20,000	13,668	1,33,668	50,000	83,668
2	83,668	9,530	93,198	50,000	43,198
3	43,198	4,920	48,118	30,000	18,118
4	18,118	2,064	20,182	20,000	182*
		30,182*			
1. * the difference is on account of approximations.					

Study Note – 10

BRANCH AND DEPARTMENTAL ACCOUNTS

Learning Objective:

- *To be able to understand concept of branches and their classification from accounting point of view, the accounting treatments of dependent branches and independent branches.*
- *To be able to do the accounting applying various methods of charging goods to branches and when goods are sent to branch at wholesale price.*
- *To gain the concept of Departmental Accounting and calculation of Departmental Profits.*
- *To be able to compare the results of a particular department with previous year and also with the other departments.*

1. Choose the correct alternative.

(i) Adjustment for unrealized profit on stock arises when
 a) There is no inter-departmental transfer of goods.
 b) Goods are transferred by the transferor department at cost.
 c) Goods are transferred by the transferor department at cost plus profit.
 d) None of the above.

(ii) In Departmental Accounting, Lighting and Heating expenses are apportioned between departments in the ratio of
 a) Sales
 b) Purchase
 c) No. of light points
 d) Production orders

(iii) In which of the following methods of Branch accounting abnormal loss does not require any separate treatment?
 a) Debtors System
 b) Stock and Debtors System
 c) Branch Trading and Profit &Loss Account System
 d) All of the above

(iv) Which account is used for transactions concerned with head office supplying resources to the branch?
 a) Capital account
 b) Current account
 c) Branch account
 d) Joint venture account

(v) Branches not keeping full system of accounting are called --------------

a) Independent branches
b) Partial branches
c) Dependent branches
d) None of these

(vi) The head office prepares branch account to find out ------------------- earned by branch

a) Dividend
b) Revenue
c) Capital
d) Profit

(vii) While treating the abnormal loss under Stock and Debtors system of maintaining Branch accounts, loading on abnormal loss is transferred to _________________

a) Branch Stock Account
b) Branch Debtors Account
c) Branch Stock Adjustment Account
d) Branch Profit and Loss Account

(viii) -------------------- account is a practical means of controlling the stock at branch.

a) Bank Account
b) Branch account
c) Branch Stock Account
d) Branch Stock Adjustment Account

(ix) Under Debtors System of maintaining branch accounts, which of the following does not appear in Branch Account?

a) Collection from debtors
b) Payment to creditors
c) Goods sent to branch
d) Credit sales

(x) Under Debtors System of maintaining branch accounts, which of the following appears in Branch Account?

a) Credit purchase
b) Goods returned by debtors to branch
c) Goods returned by debtors to H.O
d) Goods sent to branch

Solution:

i.(c); ii.(c); iii.(a); iv.(c); v.(a); vi.(d); vii.(c); viii. (c); ix. (d); x. (b).

2. **Match the expenses on left with their allocation bases on the right.**

	Expenses		Allocation Bases
I	Discount Allowed	A	No. of employees
II	Canteen expenses	B	Floor space
III	Rent	C	Value of Machinery
IV	Insurance on Machinery	D	Sales

Solution:

I. D; II. A; III. B; IV. C.

3. **Match the expenses on left with their allocation bases on the right.**

	Expenses		Allocation Bases
I	Discount Received	A	No. of employees
II	Staff welfare expenses	B	Value of machinery
III	Depreciation on machinery	C	Floor space
IV	Insurance on building	D	Purchase

Solution:

I. D; II. A; III. B; IV. C.

4. **State True or False.**
   - **(i)** **Insurance on Stock should be apportioned based on Average Value of Stock ratio.**
   - **(ii)** **In the final Balance Sheet closing stock of a department receiving goods from another department at cost plus 10% profit, should be shown at the cost to the receiving department.**
   - **(iii)** **For apparent profit or loss (i.e. difference between sales price and invoice price), journal entry is passed involving Branch Stock A/c and Branch Stock Adjustment A/c.**
   - **(iv)** **Under Stock Debtors System of Branch accounting Branch Stock A/C is maintained at cost price.**
   - **(v)** **The objective of keeping Branch Stock A/c at invoice price under Stock Debtors System is to ensure control over stock.**
   - **(vi)** **Branch Stock Adjustment A/C is used to record the loading on stock and on goods sent and to record the apparent profit or loss.**
   - **(vii)** **Under Final Accounts method, profit or loss of any branch is ascertained by preparing Branch Profit and Loss Account in place of Branch Account.**
   - **(viii)** **Under Debtors System of maintaining branch accounts, depreciation does not appear in Branch Account.**
   - **(ix)** **Stock debtors system of maintaining branch account is used for independent branch.**
   - **(x)** **For independent branch, incorporation of branch trial balance is required.**

Solution:

i. True; ii. False; iii. True; iv. False; v. True; vi. True; vii. True; viii. True; ix. False; x. True.

PROBLEMS AND SOLUTIONS

Accounting for Branch – Debtors Method

5. From the following details regarding the Kolkata Branch of X and Co., prepare a Branch Account in respect of the year 2017: (all figures in ₹)

Stock on 1.1.2017	**24000**	**Returns to head office**	**9600**
Stock on 31.12.2017	**19200**	**Bad debts**	**1200**
Debtors on 1.1.2017	**20000**	**Discounts allowed**	**620**
Debtors on 31.12.2017	**23000**	**Returns to from customers**	**6000**
Goods sent to branch during 2017	**84000**	**Expenses paid by the head office:**	
Cash sales	**51600**	**Salaries and wages**	**16800**
Credit sales	**72000**	**Rent (from 1.1.2017 to 31.3.2018)**	**10500**
Normal loss	**4000**	**Sundry expenses**	**7200**

Solution:

In the books of X and Co.

Dr. Kolkata Branch Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2017 Jan.1	To Balance b/d		2017 Dec. 31	By Goods Sent to Branch A/c (Returns)	9,600
	Sock	24,000		By Bank A/c:	
	Debtors	20,000		Cash sales	51600
Dec. 31	To Goods Sent to Branch A/c	84,000		Collection from debtors (Note 2)	61,180
	To Bank A/C:			By Balance c/d:	
	Salaries & wages	16,800		Stock	19,200
	Rent	10,500		Debtors	23,000
	Sundry expenses	7,200		Prepaid Rent (Note 3)	2,100
	To General Profit &Loss A/c	4,180			
		166,680			166,680

Notes:

(1) Under this method, normal loss, credit sales, sales returns, bad debts, discount allowed to debtors, etc., are to be ignored.

(2) The amount of cash received from debtors is not given. It has been found out by preparing Memorandum Debtors Account as follows:

Dr. Memorandum Branch Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	20000	By Bad Debts	1200
To Sales (credit)	72000	By Discount allowed	620
		By Returns inward	6000
		By Bank (Balancing figure)	61180
		By Balance c/d	23000
	92000		92000

(3) Pre-paid rent = 10500/15×3 = ₹ 2100

6. **ABC Company is having its branch at Mumbai. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, prepare Branch Account in the books of Head Office.**

Particulars	₹	Particulars	₹
Stock on 1st April, 2016 (Invoice Price)	30,000	Discount Allowed to Debtors	160
Sundry Debtors on 1st April, 2016	18,000	Expenses Paid by Head Office:	
Cash in Hand as on 1st April, 2016	800	Rent	1,800
Office Furniture on 1st April, 2016	3,000	Salary	3,200
Goods Invoiced from the Head Office		Stationery and Printing	800
(Invoice Price)	1,60,000	Petty Expenses Paid by the Branch	600
Goods Return to Head Office	2,000	Depreciation to be Provided on	
Goods Return by Debtors	960	Branch Furniture at 10% p.a.	
Cash Received from Debtors	60,000	Stock on 31st March, 2017	28,000
Cash Sales	1,00,000	(at Invoice Price)	
Credit Sales	60,000		

Solution:

In the books of ABC Company

Dr. Mumbai Branch Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2016	To Balance b/d :		2017	By Stock Reserve A/c (Note 1)	6,000
April 1	Stock	30,000	March	By Bank A/c (Remittances)	1,60,000
	Sundry Debtors	18,000	31	By Goods Sent to Branch A/c	
	Cash in Hand	800		(Returned to H.O.)	2,000
	Office Furniture	3,000		By Goods Sent to Branch A/c	
2017	To Goods Sent to Branch	1,60,000		(Note 2)	31,600
March	A/c			By Balance c/d :	
31	To BankA/c:			Stock	28,000
	Rent	1,800		Sundry Debtors (Note 4}	16,880
	Salary	3,200		Cash (Note 4) (800 -600)	200
	Stationery & Printing	800		Furniture (3,000 -300)	2,700
	To Stock Reserve A/c	5,600			
	(Note 3)				
	To General Profit and Loss				
	A/c	24,180			
		2,47,380			247380

Working Notes:

(1) Loading on opening stock = 20% of ₹ 30,000 = ₹ 6,000.

(2) Loading on goods sent = 20% (₹1,60,000-2,000) = ₹ 31,600.

(3) Loading on closing stock = 20% of ₹ 28,000 = ₹ 5,600.

Dr. (4) Memorandum Debtors Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.2010	To Balance b/d	18,000	31.3.2011	By Discount Allowed A/c	160
31.3.2011	To Sates A/c	60,000		By Sales Return A/c	960
				By Bank A/c	60,000
				By Balance c/d (Balancing figure)	16,880
		78,000			78,000

7. From the following particulars relating to Kanpur Branch for the year ending 31.12.2012, prepare Branch Account in the books of head office.

	₹		₹
Balances on 1.1.2012:		**Cash paid by debtors direct to head office**	**22000**
Stock	**40000**	**Discount allowed**	**1100**
Debtors	**14000**	**Cash sent to branch for expenses:**	
Petty cash	**1500**	**Rent: ₹12,000; Salaries; ₹5,400; Petty cash: ₹4,000**	
Furniture	**12000**	**Insurance (from 1.4.2012 to 31.3.2013)**	**1600**
Prepaid fire insurance	**1150**	**Goods returned by the branch**	**4000**
Outstanding salaries	**2100**	**Goods returned by the debtors**	**7000**
Goods sent to branch	**280000**	**Stock on 31.12.2012**	**38000**
Cash sales	**330000**	**Petty expenses paid by the branch**	**2850**
Credit sales	**183000**	**Provide depreciation on furniture @ 10% p.a.**	
Cash received from debtors	**135000**	**Loss of stock by fire**	**4800**

Solution:

In the books of the Head Office

Dr. Kanpur Branch Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Jan.1	To Balance b/d:		2012 Jan. 1	By Balance b/d:	
	Stock	40,000		Outstanding salaries	2:100
	Debtors	14,000	Dec. 31	By Bank A/c:	
	Petty cash	1,500		Cash sales	3,30,000
	Furniture	12,000		Collection from Debtors	1,35,000
	Prepaid fire insurance	1,150		Direct payment to H.O.	22,000
Dec. 31	To Goods Sent to Branch A/c	2,80,000		By Goods sent to Branch (Returns)	4,000
	To Bank A/c:			By Loss of stock by fire (Note5)	4,800
	Rent	12,000		By Balance c/d:	
	Salaries	5,400		Stock	38,000
	Petty Cash	4000		Debtors	31900
	Insurance	1600		Furniture	10800
	To General P/L A/c	210000		Petty Cash	2650
				Prepaid fire insurance	400
		581650			581650

Working Notes:

(1) Memorandum Branch Debtors A/C

Dr. Cr.

Particulars	₹	Particulars	₹
To balance b/d	14000	By Bank (135000+22000)	157000
To Sales	183000	By Discount Allowed	1100
		By Returns	7000
		By Balance c/d	31900
	197000		197000

(2) Branch Petty Cash A/C

Dr. Cr.

Particulars	₹	Particulars	₹
To balance b/d	1500	By Petty Exp.	2850
To Bank	4000	By Balance C/d	2650
	5500		5500

(3) Value of Furniture after depreciation = 12000-1200 = 10800

(4) Prepaid insurance = 1600*3/12 = 400

(5) Abnormal loss i.e. goods lost by fire will not appear in Branch Account.

Accounting for Branch – Stock and Debtors Method

8. K Ltd. Of Kanpur has a branch at Kolkata. Goods sent to branch are invoiced at selling price i.e. cost plus $33\frac{1}{3}$%. From the following particulars, you are required to prepare Branch Stock Account and Branch Adjustment Account as they would appear in the head office books.

Particulars	**₹**
Stock on 01.04.2016 at invoice price	**15000**
Stock on 01.04.2016 at invoice price	**12000**
Goods sent to Kolkata during the year at invoice price	**100000**
Sales at branch:	
On credit	**32000**
For cash	**75000**
Returns to head office at invoice price	**5000**
Invoice value of goods lost by fire not covered by insurance	**1000**

Solution:

In the books of K Ltd.

Dr. Kolkata Branch Stock Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.16	To balance b/d	15000	31.03.17	By Goods Sent to Branch A/c (returns)	5000
31.03.17	To Goods Sent to Branch A/c	100000		By Cash A/c (Cash sales)	75000
	To Branch Adjustment A/c (Surplus)	10000		By Branch Debtors A/c (Credit Sales)	32000
				By Goods lost by Fire A/c (Note4)	1000
				By Balance c/d	12000
		125000			125000

Dr. Kolkata Branch Adjustment Account Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.17	To Goods Sent to Branch A/c (Note 3)	1250	01.04.17	By Stock Reserve A/c (Note 1)	3750
	By Goods lost by Fire A/c (Note4)	250	31.03.17	By Goods Sent to Branch A/c (Note 2))	25000
	To Stock Reserve A/c (Loading on cl. stock)	3000		By Branch Stock A/c (Surplus)	10000
	To General P/L A/c (Note 5)	34250			
		38750			38750

Workings:

(1) Goods are sent at cost plus $33\frac{1}{3}$%. Therefore the loading is 25% of invoice price. Loading on opening stock = 25% of ₹15000 = ₹3750

(2) Loading on goods sent = 25% of ₹100000 = ₹25000

(3) Loading on goods returned = 25% of ₹5000 = ₹1250

(4) Loading on goods lost by fire = 25% of ₹1000 = ₹250

(5) Cost of goods lost by fire (₹1000 – 250) =₹750 should not be charged to Branch as it is an Abnormal Loss.

Stock and Debtors Method - A Comprehensive Problem

9. Mr. X, a cloth trader of Kolkata opened a Branch at Kanpur on 1-4-2012. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 25% of the cost price of Head Office. The following are the particulars relating to the transactions of the Kanpur Branch:

Particulars	₹
Goods sent to Branch (at cost to H.O.)	**450000**
Sales — Cash	**210000**
— Credit	**320000**
Cash collected from Debtors	**285000**

Return from Debtors	**10000**
Discount Allowed	**8500**
Cash sent to Branch -	
for Freight	**30000**
for Salaries	**8000**
for other expenses	**12000**
Spoiled clothes written off at invoice price	**10000**
Normal loss estimated at	**15000**

Prepare Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the Branch.

Solution:

In the books of Mr. X

Dr. **Branch Stock Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To, Goods Sent to Branch A/c (₹ 4,50,000+25% of ₹ 4,50,000)	5,62,500		By, Cash Sales A/c	2,10,000
	To, Branch Debtors A/c	10,000		By, Branch Debtors (Cr. Sales)	3,20,000
				By, Branch adjustment A/c (Normal Loss)	1 5,000
				By, Branch adjustment A/c (Spoiled)	2,000
				By, Profit & Loss A/c (Spoiled)	8,000
				By, Stock Shortage	17,500
		5,72,500			5,72,500

Dr. **Branch Debtors Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To, Goods sent to Branch	3,20,000		By, Cash A/c	2,85,000
				By, Discount A/c	8,500
				By, Branch stock (return)	10,000
				By, Balance c/d	1 6,500
		3,20,000			3,20,000

Dr. **Branch Adjustment Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To, Branch A/c (Spoilage)	2,000		By, Stock Reserve A/c	1,12,500
	To, Stock Shortage (of ₹17,500)	3,500			
	To Normal Loss	15000			
	To Gross Profit c/d	92000			
		112500			112500

Dr. Branch Profit and Loss Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To, Freight	30,000		By, Gross Profit b/d	92,000
	To, Salaries	8,000			
	To, Other expenses	1 2,000			
	To, Spoilage	8,000			
	To, Stock shortage	14,000			
	To, Net Profit c/d	20,000			
		92,000			92,000

10. **P& Co. with their head office at Kolkata, invoiced goods to their Bangalore branch at 20% less than list price, which is cost plus 100%, with instruction that cash sales are made at invoice price and credit sales at list price.**

From the following particulars, prepare branch stock account, branch adjustment account, branch profit and loss account and branch debtors account for the year ended 31.12.14 :

	₹		₹
Stock on 1.1.14 (at invoice price)	**24000**	**Cash received from debtors**	**171268**
Debtors 1.1.14	**20000**	**Expenses at branch**	**34732**
Goods received from head office (at invoice price)	**264000**	**Remittance to head office**	**240000**
Goods returned to head office (at invoice price)	**2000**	**Debtors 31.12.14**	**48732**
Sales		**Stock on 31.12.14 (at invoice price)**	**30800**
— cash	**92000**		
— credit	**200000**		

Solution:

In the books of P & Co,

Dr. Branch Stock Account Cr.

1.1.14	₹	31.12.14	₹
To Balance b/f	24,000	By Bank (cash sales)	92,000
31.12.14		" Branch debtors (credit sales)	2,00,000
To Goods Sent to Branch A/c	2,64,000	" Goods Sent to Branch A/c	2,000
" Branch Adjustment A/c	40,000	(returns from branch)	
(apparent gross profit)		" Stock Shortage A/c (see Note 2)	3,200
		" Balance c/f	30,800
	3,28,000		3,28,000

Dr. Branch Stock Adjustment Account Cr.

31.12.14	₹	1.1.14	₹
To Goods Sent to Branch A/c		By Balance b/f	
(load on returns from branch) :		(load on opening stock) :	
60/160 * ₹2000	750	60/160 x ₹ 24,000	9,000
" Stock Shortage A/c		31.12.14	
(load on stock shortage) :		By Goods Sent to Branch A/c	
60/160 * 3,200	1,200	(load on goods sent) :	
" Branch Profit and Loss A/c	1,34,500	60/160 * 2,64,000	99,000
(gross profit transferred)		" Branch Stock A/c	40,000
(balancing figure)		(apparent gross profit)	
" Balance c/f			
(load on closing stock) :			
60/160 *30800	11,550		
	1,48,000		1,48,000

Dr. Branch Profit and Loss Account Cr.

31.12.14	₹	31.12.14	₹
To Branch Expenses A/c	34,732	By Branch Stock Adjustment A/c	1,34,500
" Stock Shortage A/c : 100/160 x3,200	2,000	(gross profit)	
" General Profit and Loss A/c	97,768		
(branch net profit transferred)			
	1,34,500		1,34,500

Dr. Branch Debtors Account Cr.

1.1.14	₹	31.12.14	₹
To Balance b/f	20,000	By Bank	1,71,268
31.12.14		" Balance c/f	48,732
To Branch Stock A/c (credit sales)	2,00,000		
	2,20,000		2,20,000

Working Notes:

(1) When cost price is ₹ 100, list price is ₹ 200 (i.e., cost price plus 100%), and invoice price is ₹ 160 (i.e., list price minus 20%).

(2) Calculation of stock shortage:

	₹	₹
Stock on 1.1.14 at invoice price		24000
Goods from head office at invoice price		264000
		288000
Less : Returns to head office at invoice price		2000
		286000
Less : Cash sales	92000	
Invoice value of credit sales: 160/200* 2,00,000	160000	
		252000
Stock that should have been on 31.12.14 at invoice price 34,000		34000
Less ; Actual stock on 31.12.14 at invoice price		30800
Stock shortage at invoice price		3200

Accounting for Branch - Final Accounts Method

11. A Mumbai merchant has a branch at Delhi to which he charges out the goods at cost plus 25%. The Delhi branch keeps its own sales ledger and transmits all cash received to the head office every day. All expenses are paid from the head office. The transactions for the Branch were as follows: (all figures in ₹)

Stock on 1.1.2017	**22000**	**Allowances to customers**	**500**
Debtors on 1.1.2017	**200**	**Returns inward**	**1000**
Petty cash on 1.1.2017	**200**	**Cheques sent to branch:**	
Cash sales	**5300**	**Rent: ₹ 1,200; Wages: ₹ 400: Salaries : ₹ 1800**	
Goods sent to branch	**40000**	**Stock on 31. 12.2017**	**26000**
Collections on ledger accounts	**42000**	**Debtors on 31. 12.2017**	**4000**
Goods returned to head office	**600**	**Petty cash on 31.12.2017 (including**	**250**
Bad debts	**600**	**miscellaneous income not remitted ₹ 50)**	

Prepare the Branch Trading and Profit and Loss Account for the year ending 31.12.2017 in the head office books.

Solution:

Delhi Branch Trading and Profit & Loss Account
For the year ended 31st December, 2017

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock (22,000 - 4,400) To	17,600	By Sales:	
Goods sent to		Cash 5,300	
Branch (Cost) 32,000		Credit 47,900	
Less: Returns to H.O. (Cost) 480		53200	
	31,520	Less: Returns Inward 1000	52,200
To Wages	400		
To Gross Profit c/d	23,480	By Closing Stock (26,000 - 5,200)	20,800
	73000		73000
To Rent	1,200	By Gross Profit b/d	23480
To Salaries	1,800	By Miscellaneous Income	50
To Bad Debts	600		
To Allowances to Customers	500		
To General Profit & Loss A/c	19,430		
	23,530		25530

Tutorial Note: At the time of preparing Branch Trading and Profit and Loss Account, all figures should be converted into cost.

Working Notes:

(1) 25 / 125 × ₹22,000 = ₹ 4,400.

(2) 25 /*125* × ₹ (40,000 -600) = ₹ 7,880.

Problem on Wholesale and Retail Profit at Branch

12. **P.K. Co. Ltd. with their head office at Kolkata, invoiced goods to their Mumbai branch at invoice price. The invoice price is 20% *less* than list price, which is cost *plus* 100% with instruction that sales are made at list price.**

From the following particulars ascertain the profit earned by the head office and branch:

	Kolkata H.O.(₹)	Mumbai Branch(₹)
Opening stock	**40,000**	**32,000**
Purchases	**2,00,000**	**---**
Goods sent to branch at cost price	**62,500**	**—**
Goods received from head office at invoice price	**—**	**96,000**
Sales	**1,70,000**	**80,000**
Trade expenses	**14,000**	**8,000**

Stock at head office is valued at cost price but those of branch are valued at invoice price.

Solution:

Dr. Trading and Profit and Loss Account Cr.

For the year ended...........

	H.O.	Branch		H.O.	Branch
To Opening stock	40,000	32,000	By Sales	1,70,000	80,000
" Purchases	2,00,000	—	" Goods to branch	1,00,000	—
" Goods from head office	—	1,00,000	" Closing stock :		
" Gross profit c/d	1,22,500	16,000	in hand	92,500	64,000
			in transit	—	4,000
	3,62,500	1,48,000		3,62,500	1,48,000
To Trade expenses	14,000	8,000	By Gross profit b/d	1,22,500	16,000
" Provision for unrealised profit	13,500	—			
" Net profit	95,000	8,000			
	1,22,500	16,000		1,22,500	16,000

Working Note:

When cost price is ₹100, list price is 200 (cost price + 100%) and invoice price ₹ 160 (list price - 20%).

Closing stock of head office:

	₹	₹
Opening stock		40000
Purchases		200000
		2400000
Less : Cost of goods sold : 100/200 * ₹1,70,000	8500	
Less : Cost of goods transferred to branch	62500	
		147500
Closing stock		92500

Closing stock of branch:

	₹
Opening stock {at invoice price)	32000
Invoice price of goods sent by head office : 160/1oo *62500	100000
	132000
Less : Invoice price of goods sold : 160/2oo *80000	64000
Closing stock (at invoice price)	68000
Stock-in-transit: ₹(1,00,000 - 96,000)	4000
Stock at branch	64000
	68000

Treatment of Inter-branch Transfer in H.O Books

13. A Kolkata head office passes an entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in April, 2014, make the entry in the books of Kolkata head office:

(a) Delhi branch:

- **(i) Received goods from Nagpur branch ₹9,000 and Ahmedabad branch RS.6,000.**
- **(ii) Sent goods to Ahmedabad branch ₹15,000 and Nagpur branch ₹12,000.**
- **(iii) Received bills receivable from Ahmedabad branch ₹9,000.**
- **(iv) Sent acceptances to Nagpur branch ₹6,000 and Ahmedabad branch ₹3,000.**

(b) Kanpur branch [apart from (a) above:

- **(i) Received goods from Nagpur branch ₹15,000 and Delhi branch ₹6,000.**
- **(ii) Cash sent to Nagpur branch ₹3,000 and Delhi branch ₹6,000.**

(c) Nagpur branch [apart from (a) and (b) above]:

- **(i) Sent goods to Ahmedabad branch ₹9,000.**
- **(ii) Received bills receivable from Ahmedabad branch ₹9,000.**
- **(iii) Received cash from Ahmedabad ₹5,000.**

Solution:

Statement showing net effect of Inter-branch Transactions

	Delhi ₹	Kanpur ₹	Nagpur ₹	Ahmedabad ₹
(a) Delhi Branch:				
(i)	(-) 15,000		(+) 9,000	(+) 6,000
(ii)	(+) 27,000		(-) 12,000	(-) 15,000
(iii)	(-) 9,000			(+) 9,000
(iv)	(+) 9,000		(-) 6,000	(-) 3,000
(b) Kanpur Branch :				

(i)	(+) 6,000	(-) 21,000	(+) 15,000	
(ii)	(-) 6,000	(+) 9,000	(-) 3,000	
(c) Nagpur Branch :				
(i)			(+} 9,000	(-) 9,000
(ii)			(-) 9,000	(+) 9,000
(iii))			(-) 5,000	(+) 5,000
Net Adjustment	(+) 12,000	(-) 12,000	(-) 2,000	(+) 2,000

Note:
Values received by a branch are to be debited to it and have been indicated by (-) sign. Similarly, values given by a branch are to be credited to it and have been, indicated by (+) sign.

In the books of Head Office
Journal

Date	Particulars		Dr. (₹)	Cr.(₹)
2014 Apr. 30	Kanpur Branch A/c . Dr.		12,000	
	Nagpur Branch A/c Dr.		2,000	
	To Delhi Branch A/c			12,000
	" Ahmedabad Branch A/c			2,000
	(Adjustment for inter-branch transactions during April, 2014)			

DEPARTMENTAL ACCOUNTING

Preparation of Departmental Trading and Profit & Loss Account and Balance Sheet

14. **From the following Trial Balance, prepare Departmental Trading and Profit and Loss Account for the year ended 31.12.2017 and a Balance Sheet as on that dale in the books of S & Co. (all figures in rupees):**

Particulars		**Dr.**	**Cr**
Stock on 1.1. 2017	**Dept A**	**10800**	
	Dept B	**9800**	
Purchases	**Dept A**	**19600**	
	Dept B	**14700**	
Sales	**Dept A**		**33800**
	Dept B		**27040**
Wages	**Dept A**	**2680**	
	Dept B	**480**	
Rent		**3740**	
Salaries		**2640**	
Lighting and Healing		**840**	
Discount allowed		**882**	

Discount received		**266**
Advertising	**1476**	
Carriage inwards	**938**	
Furniture and fittings	**1200**	
Plant and Machinery	**8400**	
Sundry Debtors	**3640**	
Sundry Creditors		**7474**
Capital		**19060**
Drawings	**1800**	
Cash In hand	**64**	
Cash at bank	**3960**	
Total	**87640**	**87640**

The following information is also provided:

(a) **Rent, lighting and heating, salaries and depreciation are to be apportioned to A and B Departments as 2 : 1.**

(b) **Other expenses and incomes are to be apportioned to A und B Departments on suitable basis.**

(c) **The following adjustments are to be made:**
Rent pre-paid ₹740; Lighting and heating outstanding ₹360; and Depreciation on Furniture & Fittings and Plant & Machinery @ 10% p. a.

(d) **The stock at 31.12.2017: Department A — ₹ 5496; Department B — ₹4802.**

Solution:

In the books of S & Co.
Departmental Trading and Profit & Loss Account
Dr. For the year ended 31st December, 2017 Cr.

Particulars	Dept A	Dept B	Particulars	Dept A	Dept B
To Opening Stock	10800	9800	By Sales	33800	27040
To Purchases	19600	14700	By Closing Stock	5496	4802
To Carnage Inwards (Note 1)	536	402			
To Wages	2680	480			
To Gross Profit b/d	5680	6460			
	39296	31842		39296	31842
To Rent	2000	1000	By Gross Profit b/d	5680	6460
To Salaries	1760	880	By Discount received (Note 1)	152	114
To Lighting and healing	800	400			
To Discount allowed	490	196	By Net Loss - transferred to Capital	678	-----
To Advertisement	820	656			
To Depreciation	640	320			
To Net Profit - transferred to Capital	------	2926			
	6510	6574		6510	6574

Balance Sheet of S& Co. as at 31st December, 2017

Liabilities	₹	₹	Assets	₹	₹
Capital (opening)	19060		Plant and Machinery	8400	
Add Profit from Dept. B	2926		Less: Depreciation	840	7560
Less- Loss from Dept. A	21986		Furniture and Fittings	1200	
Less: Drawings	678	19508	Less: Depreciation	120	1080
Outstanding exp. for	21308	360	Sundry Debtors		3640
lighting and heating	1800		Stock in trade		10298
Sundry Creditors		7474	Cash at bank		3960
			Cash in hand		64
			Prepaid rent		740
		27342			27342

Working Note:

(1) Carriage inwards and discount received are apportioned in the purchase ratio and discount allowed and advertisement in the sales ratio.

(2) Rent net of prepaid rent and Lighting including outstanding lighting expenses have been distributed in 2:1.

15. Mr. Y is the proprietor of a retail business which has two main departments which sell respectively Computers and Printers. On 31.12.2017, the balances in the books of the business were as follows:

Particulars	Dr. (₹)	Cr.(₹)
Capital		**71,000**
Sales — Computers		**59,000**
Printers		**29,500**
Purchases — Computers	**20,000**	
Printers	**10,000**	
Stock on 1.1.2017 — Computers	**2,320**	
Printers	**2,136**	
Salaries — Computers	**20.560**	
Printers	**15,440**	
Advertising	**615**	
Discount allowed — Computers	**400**	
Printers	**200**	
Drawings	**3,000**	
Buildings (Cost)	**43.000**	
Equipment at W.D.V. — Computers	**18,000**	
Printers	**7,000**	
Debtors and Creditors	**10,200**	**5,319**
Bank	**5,600**	
Rent and Rates	**1.580**	
Canteen Charges	**875**	
Heating and Lighting	**880**	
Insurance of Stock	**940**	
General Administrative Expenses	**2,073**	
Total	**1,64.819**	**1,64,819**

Additional information —

(i) At 31.12.2017, the following amounts were outstanding:
Salaries— Computers ₹250; Printers ₹170; Heating and Lighting ₹20.

(ii) The general administrative expenses and the rent and rates included prepayments of ₹33 and ₹80 respectively.

(iii) Stocks at 31.12.2017 were: Computers₹2,800; Printers ₹2,450.

(iv) Depreciation is to be provided on equipment at 10% on W.D.V.

(v) The managers of the Computers and Printers departments are to be paid a commission of 5% of the net profit (prior to the commission payment) of the respective departments.

(vi) In apportioning the various expenses between the two departments due regard is to be given to the following information:

	Number of Workers	Average Stock Levels (₹)	Floor Area (sq.mt)
Hardware	18	5,000	8,000
Electrical	12	4,400	4,000

(vii) The general administrative expenses are primarily incurred in relation to the processing of purchases and sales invoices.

Prepare a Departmental Trading and Profit and Loss Account and the Balance Sheet.

Solution:

In the Books of Mr. Y

Dr. Departmental Trading and Profit and Loss Account Cr.

For the year ended 31st December, 2017

Particulars	Computer (₹)	Printers (₹)	Particulars	Computer (₹)	Printers (₹)
To Opening Stock	2,320	2,136	By Sales	59,000	29,500
To Purchase	20,000	10,000	By Closing Stock	2,800	2,450
To Gross Profit	39,480	19,314			
	61,800	31,950		61,800	31,950
To Salaries (Plus Outstanding)	20,810	15,610	By Gross Profit	39,480	19,814
To Advertising (Note1)	410	205			
To Discount Allowed	400	200			
To Rent and Rates (Note 1)	1,000	500			
To Canteen Charges (Note 1)	525	350			
To Healing and Lighting (Note 1)	600	300			
To Insurance of Stock (Note 1)	500	440			
To General Administrative Expenses (Note 1)	1,360	680			
To Depreciation on Equipment	1,800	700			
To Managers' Commission	604	41			
To Net Profit (transferred to Capital)	11,471	788			
	39,480	19,814		39,480	19,814

Balance Sheet as on 31.12.2017

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital (Opening)	71,000		Building (Cost)		43,000
Add. Profit from Computer	11,471		Equipment at w.d.v		
Add. Profit from Printer	788		(18000+7000)	25000	
	83,259		Less. Depreciation		
Less. Drawings	3,000	80,259	(1800+700)	2500	22,500
Creditors		5,319	Stock (2800+2450)		5,250
Outstanding salaries (250+170)		420	Debtors		10,200
Outstanding Heating and lighting		20	Bank		5,600
Outstanding Commission (604+41)		645	Prepaid Gen. Adm. Expenses		33
			Prepaid Rent and Rates		80
		86,663			86,663

Note:

(1) Rent and rates (1580 - 80 prepaid) = ₹1500 is apportioned in floor area ratio; Lighting and heating (880+20outstanding) = 900 is apportioned in floor area ratio; General administrative expenses (2073-33 prepaid) = ₹2040 is apportioned in the ratio of total of sales and purchases; Advertising is distributed in sales ratio and insurance is distributed in average stock level.

Problem on calculation of cost price

16. X Limited has three departments and submits the following information for the year ending on 31st March, 2017

Particulars	A	B	C	Total (₹)
Purchases (units)	**5,000**	**10,000**	**15,000**	**-----**
Purchases(Amount)	**------**	**-----**	**-----**	**8,40,000**
Sales (units)	**5,200**	**9,800**	**15,300**	**------**
Selling price (₹ per unit)	**40**	**45**	**50**	
Closing stock (units)	**400**	**600**	**700**	

You are required to prepare Departmental Trading Account of X Limited assuming that the rate of profit on sales uniform in each case.

Solution:

In the books of X Ltd.

Dr. Departmental Trading Account for the year ended 31.12.2017 Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Opening Stock (Note 4)	14400	10800	30000	By Sales (Note 6)	206000	441000	765000
To Purchases				By Closing Stock	9600	16200	21000
(Note 2)	120000	270000	450000	(Note 5)			
To Gross Profit	83200	176400	306000				
	217600	457200	786000		217600	457200	786000

Working Notes:

(1) Calculation of Profit Margin Rate

Particulars		₹
Department A (5,000 units @ ₹ 40)	2,00,000	
Department B (10,000 units @ ₹ 45)	4.50,000	
Department C (15.000 units @ ₹ 50)	7,50,000	
Total Sales Value		14,00,000
Less: Purchases (given)		8,40,000
Gross Profit		5,60,000

Gross Profit Rate = (560000/1400000) x 100 = 40%

(2) Calculation of Purchase Price and Total Purchases etc.

Sr. No.	Particulars	A	B	C
1.	Closing Stock (units)	400	600	700
2.	Purchases (units)	5000	10000	15000
3.	Sales (units)	5200	9800	15300
4.	Opening Stock (units) = (1+3-2)	600	400	1000
5.	Selling price per unit (₹)	40	45	50
6.	G.P @ 40%	16	18	20
7.	Cost per unit (₹) = (5-6)	24	27	30
8.	Purchases (Rs) = (2*7)	120000	270000	450000
9.	Opening Stock (₹) = (4*7)	14400	10800	30000
10.	Closing Stock (₹)	9600	16200	21000
11.	Sales (₹) = (3*5)	208000	441000	765000

<u>Inter-departmental Transfer at cost plus profit – gross profit rate given</u>

17. Excel Manufacturers carried on business with two departments: Raw Materials and Manufacturing. The finished goods are produced by the Manufacturing Department with raw materials supplied from Raw Materials Department at selling price.

Prepare Departmental Trading and Profit and Loss Account for the year ending on31st December, 2017 after allocation of expenses on reasonable basis between the two departments. Necessary particulars are furnished below:

Particulars	**Raw Materials Department(₹)**	**Manufacturing Department(₹)**
Opening Stock	**60000**	**10000**
Purchases	**400000**	**3000**
Raw materials transferred to Manufacturing Department	**60000**	**-----**
Sales	**440000**	**90000**
Manufacturing Expenses	**------**	**12000**
Selling Expenses	**800**	**400**
Closing Stock	**40000**	**12000**

It is estimated that the cost of closing stock in the hands of Manufacturing Department consists of 80% for raw materials and 20% for manufacturing expenses. The rate of gross profit earned during the preceding year by the Raw Materials Department was 10%. Other administrative expenses are as follows:(i) Salaries ₹ 2,500; (ii) Insurance premium ₹ 800.

Solution:

In the books of Excel Manufacturers

Dr. Departmental Trading and Profit and Loss Account Cr.

For the year ended 31st December, 2017

Particulars	R.M. Dept (₹)	Mfg. Dept (₹)	Total (₹)	Particulars	R.M. Dept (₹)	Mfg. Dept (₹)	Total (₹)
To Opening Stock	60,000	10,000	70,000	By Sales	4,40,000	90,000	5,30,000
To Purchases	4,00,000	3,000	4,03,000	By Raw Materials transferred to Manufacturing Dept.	60,000	-----	----
To Manufacturing Expenses	----	12,000	12,000				
To Raw Materials from Mfg. Dept.	-----	60,000	----	By Closing Stock			
To Gross Profit c/d	80,000	17,000	97,000		40,000	12,000	52,000
	5.40.000	1,02.000	5,82,000		5,40,000	1,02,000	5,82,000
To Selling Expenses	800	400	1,200	By Gross Profit b/d	80,000	17,000	97,000
To Salaries (Note 3)	2,119	381	2,500				
To Insurance Premium (Note 4)	656	144	800				
To Net Profit c/d	76,425	16,075	92,500				
	80,000	17,000	97,000		80,000	17,000	97,000
To Provision to Unrealized Profit on Closing Stock (Note 1)			1,536	By Net Profit b/d			92,500
				By Provision for Unrealized Profit on Opening Stock			800
To Capital A/c (Net Profit transferred)			91,764				
			93,300				93,300

Working Moles:

(1) Gross Profit Ratio of Raw Materials Department = $\frac{80000}{440000+60000}\times 100$ = 16%.

(2) Provision for Unrealized Profit on Opening Stock = (10000 x 80%) x 10% = ₹800. Provision for Unrealized Profit on Closing Stock = (12000 x 80%) x 16% = ₹1,536.

(3) Salaries can be shared by the R.M. Dept. and Mfg. Dept. in the ratio of Sales of each department. The ratio will be:(4,40,000 + 60,000) : 90,000or 5,00,000 :90,000or 50 :9.

(a) Raw materials department's share =2,500 /59x 50=₹2.119

(b) Manufacturing department's share = 2,500/59x 9 = ₹381.

(4) Insurance premium can be shared by R.M. Dept. and Mfg. Dept. in the ratio of average stock of each department. The ratio will be: (60000+40000)/2 : (10000+12000)/2 i.e. 50:11.

(a) Raw materials department's share=800/6l x 50 = ₹656

(b) Mfg. department's share = 800/ 61 x 11 =₹144.

Inter-departmental Transfer at cost plus profit – gross profit rate to be calculated

18. **A Ltd. has two departments P and Q. Department P sells goods to department Q at normal selling price. From the following particulars prepare Departmental Trading and Profit and Loss Account for the year ended on 31.12.2017 and also ascertain the net profit to be included in the Balance Sheet.**

Particulars	Dept. P (₹)	Dept. Q (₹)
Opening stock	5,00,000	Nil
Purchases	28,00,000	3,00,000
Goods from department P	—	8,00,000
Wages	3,50,000	2,00,000
Travelling expenses	20,000	1,60,000
Closing stock at cost to the department	8,00,000	2,09,000
Sales	30,00,000	20,00,000
Printing and stationery	30,000	25,000

The following expenses incurred for both the departments were not apportioned between the departments:

(a) Salaries ₹3,30,000.

(b) Advertisement expenses ₹1,20,000.

(c) General expenses ₹5,00,000.

(d) Depreciation is to be charged @ 30% on the machinery value of ₹96,000.

The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and depreciation apportioned in the ratio of 2:1 and 1:3 respectively. General expenses are to be apportioned in the ratio of 3:1.

Solution:

In the books of A Ltd.

Departmental Trading and Profit and Loss Account

Dr. For the year ended 31.12.2017 Cr.

	Dept. P ₹	Dept. Q ₹		Dept. P ₹	Dept. Q ₹
To Opening stock	5,00,000	-------	By Sales	30,00,000	20,00,000
" Purchases	28,00,000	3,00,000	" Department Q (transfer of goods)	8,00,000	------
" Department P (transfer of goods)	------	8,00,000			
			" Closing stock	8,00,000	2,09,000
" Wages	3,50,000	2,00,000			
" Gross profit c/d	9,50,000	9,09,000			
	46,00,000	22,09,000		46,00,000	22,09,000

To Salaries (2:1)	2,20,000	1,10,000	By Gross profit b/d	9,50,000	9,09,000
" Travelling expenses	20,000	1,60,000			
" Printing and stationery	30,000	25,000			
" Advertisement expenses (3 : 2)	72,000	48,000			
" General expenses (3:1)	3,75,000	1,25,000			
" Depreciation on machinery (1:3)	7,200	21,600			
" Departmental profit	2,25,800	4,19,400			
	9,50,000	9,09,000		9,50,000	9,09,000

Dr. General Profit and Loss Account Cr.

For the Year ended 31.12.2017

Particulars	₹	Particulars	₹
To Provision for unrealised profit on stock	38,000	By Departmental profit:	
" Net profit	6,07,200	Department P	2,25,800
		Department Q	4,19,400
	6,45,200		6,45,200

Working Notes:

(1) Advertisement expenses have been apportioned in the ratio of sales to outsiders (i.e., 3: 2). No advertisement is needed for inter-departmental sales.

(2) Provision for unrealised profit on stock:

Rate of gross profit in department P: (950000/3800000)×100 = 25%

Proportion of goods from department P in the stock of department Q

₹ 8,00,000/ ₹(3,00,000 + 8,00,000) ×209000 = ₹1,52,000.

Unrealised profit = 25% of ₹1,52,000 = ₹38,000.

<u>Inter-departmental Transfer at cost plus profit – transfer at less than normal sale price.</u>

19. X & Co. has three operating departments. The details of operations of each department during 2014 had been as follows:

Particulars	**Dept. I ₹**	**Dept. II ₹**	**Dept. III ₹**
Sales to customers	**4,00,000**	**6,00,000**	**8,00,000**
Purchases from outsiders	**3,00,000**	**4,00,000**	**5,00,000**
Opening stock (out of local purchase)	**80,000**	**1,00,000**	**1,20,000**
Transfer to department III	**1,35,000**	**----**	**-----**
Closing stock	**50,000**	**50,000**	**1,00,000**
Common expenses:			
Selling commission		**36,000**	
Depreciation		**45,000**	
Administration expenses -		**1,60,000**	
Interest on capital		**90,000**	
Stock of department III includes 20% transfers from department I.			

Prepare departmental profit and loss account and ascertain the net profit of the company after considering the following details:

Particulars	Dept. I	Dept. II	Dept. III
Fixed assets installed (₹)	**360000**	**200000**	**160000**
Capital employed (₹)	**200000**	**300000**	**300000**
Administration expenses to be shared	**4/10**	**3/10**	**3/10**

Department I transfers supplies to department III at normal selling price *less* 10%.

Solution:

In the books of X & Co.

Dr. Departmental Profit and Loss Account Cr.

For the year ended 31st December, 2014

	Deptt. I	Deptt. 11	Deptt. III	Total		Deptt. I	Deptt. 11	Deptt. III	Total
To Opening stock	80,000	1,00,000	1,20,000	3,00,000	By Sales	4,00,000	6,00,000	8,00,000	18,00,000
" Purchases	3,00,000	4,00,000	5,00,000	12,00,000	» Department III	1,35,000	-	-	1,35,000
" Department I	-	-	1,35,000	1,35,000	(transfer of				
(transfer of					goods)				
goods)					" Closing stock	50,000	50,000	1,00,000	2,00,000
" Gross									
profit c/d	2,05,000	1,50,000	1,45,000	5,00,000					
	5,85,000	6,50,000	9,00,000	21,35,000		5,85,000	6,50,000	9,00,000	21,35,000
To Administration					By Gross				
expenses					profit b/d	2,05,000	1,50,000	1,45,000	5,00,000
(4:3:3)	64,000	48,000	48,000	1,60,000					
" Depreciation									
(36:20:16)	22,500	12,500	10,000	45,000					
" Selling									
commission (4:6:8)	8,000	12,000	16,000	36,000					

" Interest on capital									
(2:3:3)	22,500	33,750	33,750	90,000					
" Departmental									
profit c/d	88,000	43,750	37,250	1,69,000					
	2,05,000	1,50,000	1,45,000	5,00,000		2,05,000	1,50,000	1,45,000	5,00,000
To Provision for unrealised profit on stock				6,667	By Departmental profit b/d				1,69,000
" Net profit				1,62,333					
				1,69,000					1,69,000

Working Note:

Provision for unrealised profit on stock :	
Sales to customers by department I	400000
Normal sales price of goods transferred to department III: (100/90 * ₹ 1,35,000)	150000
Total sales of department I (at normal selling price)	550000
Less: Cost of goods sold : ₹(80,000 + 3,00,000 - 50,000)	330000
Normal gross profit of department I.	220000

Rate of gross profit of department I: (220000/550000)*100 = 40%
When normal selling price is ₹100, transfer price to department III is ₹90 (i.e., ₹100 *less* 10%), cost price is₹60 i.e., ₹ (100 - 40) and profit on transfer is ₹ 30 i.e., ₹(90 - 60).
Goods from department I in the stock of department III = 20% of ₹1,00,000 = ₹20,000.
Unrealised profit = 30/90 * ₹ 20,000 = ₹6,667.

Inter-departmental Transfer at cost plus profit – unrealized profit on op. stock

20. The firm AB & Co. has two departments — cloth and tailoring. Tailoring department gets all its requirements of cloth from the cloth department at the usual selling price. From the following particulars prepare departmental trading and profit and loss account for the year ended 31st March, 2017:

Particulars	**Cloth Department(₹)**	**Tailoring Department(₹)**
Opening Stock	**60000**	**8000**
Purchases	**340000**	**5000**
Raw materials transferred to Manufacturing Department	**50000**	**-----**
Sales	**400000**	**80000**
Manufacturing Expenses	**------**	**12000**
Selling Expenses	**5000**	**2000**
Closing Stock	**100000**	**15000**

The stock in tailoring department may be assumed to consist 80% cloth and 20% other expenses. General expenses of the business for the year came to ₹23,000. In 2016-17 the cloth department earned a gross profit of30% on sales.

Solution:

In the books of ....

Dr. Departmental Trading and Profit and Loss Account Cr.

For the year ended 31st March, 2015

	Cloth ₹	Tailoring ₹	Total ₹		Cloth ₹	Tailoring ₹	Total ₹
To Opening stock	60,000	8,000	68,000	By Sales A/c	4,00,000	80,000	4,80,000
" Purchases	3,40,000	5,000	3,45,000	" Tailoring department (transfer)	50,000	--	----
" Cloth department (transfer)	----	50,000	----	" Closing stock	1,00,000	15,000	1,15,000
" Manufacturing expenses	-----	12,000	12,000				
" Gross profit c/d	1,50,000	20,000	1,70,000				
	5,50,000	95,000	5,95,000		5,50,000	95,000	5,95,000
To Selling expenses	5,000	2,000	7,000	By Gross profit b/d	1,50,000	20,000	1,70,000
" Departmental profit c/d	1,45,000	18,000	1,63,000				
	1,50,000	20,000	1,70,000		1,50,000	20,000	1,70,000
To General expenses			23,000	By Departmental profit b/d			1,63,000
" Provision for unrealised profit on stock			2,080				
" Net profit			1,37,920				
			1,63,000				1,63,000

Working Notes:

(1) Calculation of provision for unrealised profit on stock:

Rate of gross profit in cloth department: 150000/450000 ×100 = $33\frac{1}{3}$ %

Element of cloth:

in opening stock of tailoring department: 80% of ₹8,000 = ₹6,400

in closing stock of tailoring department: 80% of ₹ 15,000 = ₹ 12,000

Provision required on closing stock: $33^1/3$% of ₹ 12,000 = ₹ 4000

Less : Provision already existing on opening stock : 30% of ₹6,400 1920

Additional provision to be made 2080

(2) Total opening and closing stocks could be shown at cost price and increase in provision for unrealised profit could be debited to transferor department's profit and loss account.

Inter-departmental transfer at cost plus profit – managers' commission, correction of profit

21. Department X sells goods to department Y at a profit of 25% on cost and to department Z at 10% profit on cost. Department Y sells goods to X and Z at a profit of 15% and 20% on sales, respectively. Department Z charges 20% and 25% profit on cost to department X and *Y* respectively.

Department managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging manager's commission, but before adjustment of unrealised profit are as under:

	₹
Department X	**36000**
Department Y	**27000**
Department Z	**18000**

Stock lying at different departments at the end of the year are as under:

	Dept. X	Dept. Y	Dept. Z
	₹	₹	₹
Transfer from Department X	**----**	**15000**	**11000**
Transfer from Department Y	**14000**	**----**	**12000**
Transfer from Department Z	**6000**	**5000**	**---**

Find out the correct departmental profit after charging manager's commission.

Solution:

Statement Showing Correct Departmental Profits

Particulars	Deptt. X.	Deptt. Y	Deptt. Z
	₹	₹	₹
Profits after charging managers' commission	36,000	27,000	18,000
(but before adjusting unrealised profits)			
Add back : Managers' commission (10/9o)	4,000	3,000	2,000
	40,000	30,00	20,000
Less : Unrealised profit on stock (see *Note)*	4,000	4,500	2,000
Profits before charging managers' commission	36,000	25,500	18,000
Less : Managers' commission @ 10%	3,600	2,550	1,800
Correct departmental profits	3X400	22,950	16,200

Working Note:

Unrealised profit on stock :	₹
Profit of department X :	
on stock held by department Y : 25/125 × ₹15,000	3000
on stock held by department Z : 1o/110 × ₹ 11,000	1000
	4000
Profit of department Y :	
on stock held by department X : 15/100 × 14,000	2100
on stock held by department Z : 20/100 × ₹12,000	2400
	4500
Profit of department Z :	
on stock held by department X : 20/120 × Rs 6,000	1000
on stock held by department Y : 25/125 × ₹ 5,000	1000
	2000

Transfer of purchased goods as well as finished goods

22. **S&Co. has two departments A and B. From the following particulars prepare departmental trading account and consolidated trading account for the year ending December 31, 2017:**

	Dept A (₹)	Dept. B (₹)
Opening stock (at cost)	20000	12000
Purchases	92000	68000
Carriage	2000	2000
Wages	12000	8000
Sales	140000	112000
Purchased goods transferred		
by B to A	10000	
by A to B		8000
Finished goods transferred :		
by B to A	35000	
by A to B		40000
Return of finished goods :		
by B to A	10000	
by A to B		7000
Closing stock :		
(i) Purchased goods	4500	6000
(ii) Finished goods	24000	14000

You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

Solution:

In the books of S & Co.

Dr. Departmental Trading Account Cr.

For the year ended December 31, 2017

	A (₹)	B (₹)		A (₹)	B (₹)
To Opening stock	20,000	12,000	By Sales	1,40,000	1,12,000
" Purchases	92,000	68,000	" Transfer :		
" Transfer :			Purchased good	8,000	10,000
Purchased goods	10,000	8,000	Finished goods	40,000	35,000
Finished goods	35,000	40,000	" Returns :		
" Returns :			Finished goods	7,000	10,000
Finished goods	10,000	7,000	" Closing stock :		
" Carriage	2,000	2,000	Purchased goods	4,500	6,000
" Wages	12,000	8,000	Finished goods	24,000	14,000
" Gross profit	42,500	42,000			
	2,23,500	1,87,000		2,23,500	1,87,000

Dr. Consolidated Trading Account Cr.

For the year ended December 31, 2017

	₹		₹
To Opening stock	32,000	By Sales	2,52,000
" Purchases	1,60,000	"Closing stock :	
" Carriage	4,000	Purchased goods	10,500
" Wages	20,000	Finished goods (see *Note)*	35,860
" Gross profit	82,360		
	2,98,360		2,98,360

Working Note:

Calculation of closing stock of finished goods after eliminating unrealised profit :		
	Deptt. A(₹)	Deptt. B(₹)
Sales	1,40,000	1,12,000
Add : Transfer of finished goods to other department	40,000	35,000
	1,80,000	1,47,000
Less : Return of finished goods from other department	10,000	7,000
Net sales	1,70,000	1,40,000
Gross profit	42,500	42,000
Rate of gross profit = (Gross Profit/Net Sales)*100	25%	30%
Finished goods from other department included in closing stock	(20% of 24,000)	(20% of 14,000)
	or ₹4,800	or ₹2,800
Unrealised profit included in closing stock	(30% on 4,800)	(25% on 2,800)
	or ₹1,440	Or ₹700
Closing stock of finished goods: ₹(24,000 + 14,000)		38,000
Less: Unrealised profit : ₹(1,440 + 700)		2,140
Adjusted closing stock of finished goods		35,860

Study Note – 11

COMPUTARISED ACCOUNTING SYSTEM

Learning Objective: ***To be able to acquire and apply the knowledge of business concepts and office skills to meet the demands of today's business environment through the application of computerized accounting system.***

1. Multiple choice questions:

Choose the correct alternative

1. Which of the following is/are computerized accounting system?
(a) Processing of any information
(b) Involving computer(s)
(c) Operated by entity or third party
(d) All of these

2. Threat to Computerized accounting system are-
(a) Control
(b) Security
(c) Integrity
(d) All of these

3. Hacking into the computer server deals with-
(a) Unauthorized access to data
(b) Threat to computer usage
(c) Security
(d) All of these

4. Which of the following is code accounting software?
(a) More convenient
(b) Less complex
(c) Less risky
(d) None of these

5. Codification needs
(a) Complexity
(b) Spelling
(c) Systematic grouping
(d) None of these

Answer:

1. (d)
2. (d)
3. (d)
4. (a)
5. (c)

2. **Fill in the blanks:**
   1. **Coding accounting system is more convenient as complexity is……**
   2. **Computer data hacking concerns with ……… system of the software.**
   3. **Computerized accounting system means …….. through computer.**
   4. **Computer software includes ……….. that performs a desired function.**
   5. **Computer software for accounting system may be acquired or……… specifically for the business.**

Answer:

1. High
2. Security
3. Data processing
4. Programme
5. Developed.

3. **State whether the following statements are true or false:**
   1. **The acquired software may consist of a spread sheet package.**
   2. **The data hacking is a question against security system.**
   3. **Computerized accounting system delays the accounting function.**
   4. **Data processing is done though software.**
   5. **Non coded accounting system is more convenient system.**

Answer:

1. True
2. True
3. False
4. True
5. False.

4. **Match the following:**

	Column - A		**Column - B**
1.	**Grouping of accounts**	**A**	**Specific requirement**
2	**Coded accounting system**	**B**	**Software**
3	**Customized accounting software**	**C**	**Assets, liabilities, receipt & expenditure**
4	**Software development**	**D**	**High complexity**
5	**Accounting programme**	**E**	**Need to conduct feasibility study**

Answer:

1. C 2. D. 3. A. 4. E 5. B

QUESTIONS AND ANSWERS:

5. What is Computerized Accounting System?

Answer:

Computerized Accounting System refers to the processing of information with the help of computers and accounting software. The computer receives the data as its inputs and processes it as per the accounting rules and generates various types of information as the organization need.

6. State the Features of Computerized Accounting System

Answer:

The features of Computerized Accounting System are as follows:

a. Computerized accounting system is designed to automate and integrate all the business operations like sales, purchase, and manufacturing. In computerized accounting, accurate, up-to-date business information is available at any time.
b. Computerized accounting has user friendly templates which provides fast, accurate data entry of the transactions; thereafter all documents and reports can b e generated automatically, at the press of a button.
c. The system can cope easily with the increase in the volume of business. It requires only additional data operators for storing additional vouchers
d. It is capable of offering quick and quality reporting because of its speed and accuracy.
e. This system is highly secure and the information can be kept confidential in comparison to manual accounting system.
f. This system generates real-time, comprehensive MIS reports and ensures access to complete and critical information, immediately.
g. It makes sure that the critical financial information is accurate, controlled and safe from data corruption.

7. Discuss the significance of Computerized Accounting System

Answer:

Following are the significances of computerized accounting system.

a. The speed with which accounts can be maintained is several olds higher.
b. It helps in automatically correcting the balances of ledger accounts.
c. It helps in automatic tallied trial balances unless some mistake is made while recording the opening balance.
d. It automatically generates income statement.
e. It automatically generates balance sheet.

8. Discuss the Advantages of Computerized Accounting System

Answer:

Computerized accounting system has the following advantages

1. It can generate reports and information in desired format as and when need.
2. Any kind of alterations in transactions could be done are easily and gives changed outcome immediately.
3. It ensures effective control over the system.
4. It is economical in the accounting data processing.
5. It maintains data privacy.

9. Discuss the Disadvantages of Computerized Accounting System

Answer:

Computerized accounting system has the disadvantages

1. More investment is required in a shorter period of time due to quicker obsolescence of technology.
2. Power interruption may cause the data corruption or loss.
3. There is a possibility of data hacking.
4. Unspecific reports cannot be generated.

10. What is Pre-Packaged Accounting Software: Answer:

There are several user friendly, inexpensive and reliable pre-package accounting software are available in the market for the extensive use in small and medium organizations. The installations of this software are very simple through an installation diskette or CD which is provided with the software. A network version of the software is also generally available which needs to be installed on the server and work can be performed from the various workstations or nodes connected to the server. Along with the software a user's manual is provided which guides the user on how to use the software. The version of the software should be latest. It should take regular updates to take care of the changes of law as well as add features to the existing software. This software normally has a section which provides for the creation of a company. The name, address, phone numbers and other details of the company like VAT registration number, PAN and TAN numbers are fed into the system. The accounting period has to be set by inserting the first and the last day of the financial year.

11. Mention the Advantages of Pre-Packaged Accounting Software

Answer:

Pre-package accounting software has the following advantages

a. Pre-package accounting software is very easy to install through CD drive.
b. These packages are relatively less expensive
c. These software are very easy to use
d. Back up procedure is very simple in hard disk
e. Some software provides a certain flexibility in report formats
f. These packages are very effective for small and medium size organization.

12. State the Disadvantages of Pre-Packaged Accounting Software

Answer:

Pre-package accounting software has the following disadvantages

a. A standard package may not be able to take care of all the complexities of a business.

b. These packages may not cover all the functional areas of the business operations. Customization of the accounting package is not always possible as per the requirement of the customer.

c. All kinds of reports requirements of management may not be available in a standard package.

d. Security is generally missing in a pre-packaged accounting package.

e. Certain bug may remain in the software that takes long time to rectify by the vendor which is very common in the initial years of the software.

13. State the Factors of Consideration for Selection of Pre-Packaged Accounting Software

Answer:

For the selection of a pre-package accounting software, the following factors to be considered

a. The buyer of the software should be ensured that the package is fulfilling the business requirements

b. The buyer should be ensured that the package can produce all reports completely.

c. The software should be user friendly or easy to use

d. The installation and running cost of the software should be low e. It should be ensured that the vendor has a good reputation

f. It should be ensured whether the vendor is prepared to give updates regularly

14. What is Customized Accounting Software?

Answer:

Customized accounting software is one which is developed on the basis of specific requirements of the organization. A feasibility study is first made before the decision to develop software is made. The life cycle of a customized accounting software begins with the organization providing the user requirements. Based on these user requirements the system analyst prepares a requirement specification which is given for approval by the user management. Once the requirement Specification is approved, the designing process begins. Development, testing and implementation are the other components of the system development life cycle.

15. Mention the Advantages of Customized Accounting Software

Answer:

The customized accounting software has the following advantages

a. The functional areas which are not covered in pre-packaged software gets computerized.
b. The input screens can be tailor made to match the input documents for ease of data entry.
c. It provides many MIS reports as per the specification of the organization.
d. It facilitates the use of Bar-code scanners as input devices suitable for the specific needs of an individual organization.
e. It can suitably match with the organizational structure of the company.

16. Mention the Disadvantages of Customized Accounting Software

Answer:

The customized accounting software has the following disadvantages

a. Partial or unclear prerequisite provisions may results in a defective or incomplete system.
b. Bugs may remain in the software because of poor testing.
c. Certification may not complete.
d. Regular change made to the system with scarce change management practice may result in system negotiation.
e. The vendor may not be reluctant to give the support of the software due to other commitments.
f. Its control measures may be insufficient.
g. There may be hindrance in completion of the software due to problems with the vendor or inadequate project management.

Study Note – 12

ACCOUNTING STANDARDS

Learning Objective:

- *To gain knowledge of AS 1: Disclosure of Accounting Policies.*
- *To gain knowledge of AS 2: the term inventories in various circumstances and valuation of Inventories.*
- *To understand the procedure of accounting for Construction Contracts i.e. AS 7.*
- *To understand the different context of Revenue Recognition and their account as per AS 9.*
- *To get a fair concept of accounting treatment and classification of Property, Plant and Equipment as per AS 10.*

Accounting Standards

(AS-1, AS-2, AS-7, AS-9, AS-6 and AS-10 has been replaced by revised AS-10)

1. Multiple choice questions

Choose the correct alternative

1. AS-7 is related to
(A) Revenue Recognition
(B) Property, Plant and Equipment
(C) Construction Contracts
(D) Valuation of Inventories

2. An amount spent in connection with obtaining a License for starting the factory is
(A) Revenue Expenditure
(B) Capital Expenditure
(C) Pre-paid Expenditure
(D) None of the above

3. Which of the following is not considered as inventories as per Accounting Standard-2
(A) Held for sale in the ordinary course of business (finished goods)
(B) In the process of production of such sale (raw material and work-in-progress)
(C) Financial Instrument held as stock-in-trade (Shares, Debentures, Bonds etc.)
(D) In the form of materials or supplies to be consumed in production process or in the rendering of services (stores, spares, raw material, consumables).

4. Which of the following item cannot be recognised as Revenue under AS 9?
(A) Revenue arising from Sale of goods
(B) Revenue arising from rendering services
(C)Revenue by using of enterprises resources by others yielding interest, dividend and royalties
(D) Revenue arising from hire-purchase, lease agreements

5. __________________is the amount by which the carrying amount of an asset exceeds its recoverable amount.
   (A) Depreciation
   (B) Revaluation Loss
   (C) Impairment loss
   (D) Amortisation

Answer:

1. C 2. B, 3. C 4. D 5. C

Write the following questions:

2. Briefly discuss about the advantages of Accounting Standard

Answer:

Advantages of Accounting Standard

a. It provides the accountancy profession with useful working rules.
b. It assists in improving quality of work performed by accountant.
c. It strengthens the accountant's resistance against the pressure from directors to use accounting policy which may be suspected in that situation in which they perform their work.
d. It ensures the various users of financial statements to get complete crystal information on more consistent basis from period to period.
e. It helps the users compare the financial statements of two or more organisaitons engaged in same type of business operation.

3. Define the term Bearer plant as per AS – 10.

Answer:

Bearer plant is a plant that

(a) is used in the production or supply of agricultural produce;
(b) is expected to bear produce for more than a period of twelve months; and
(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The followings are not bearer plants:

(i) plants cultivated to be harvested as agricultural produce ;
(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales;
(iii) annual crops.

When bearer plants are no longer used to bear produce they might be cut down and sold as scrap.

4. What do you understand by the term 'Substance over form'?

Answer:

It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form. Like in hire purchaser if the assets are purchased on hire purchase by the hire purchaser the assets are shown in the books of hire purchaser in spite of the fact that the hire purchaser is not the legal owner of the assets purchased. Under the purchase the purchaser, becomes the owner only on the payment of last installment. Therefore the legal form of the transaction is ignored and the transaction is accounted as per as substance.

The following particulars are presented by X Ltd. as on 31.3.2017:
Compute the value of stock as per AS 2.
Stock held by X Ltd.
(Cost Price) 9500
(Net Realisable Value) 9400

The details of such stocks were:

	Cost Price	Net Realisable Value
Shirt	1200	1350
Trouser	1800	1750
Suit	6500	6300
	9500	9400

Answer:

Valuation of Stock as per AS 2
As per AS 2, para 21, inventories are usually valued at lower of cost and net realisable value on an item-by-item basis:

	Cost Price	Net Realisable	Value of Closing Stock
Shirt	1200	1350	1200
Trouser	1800	1750	1750
Suit	6500	6300	6300
	9500	9400	9250

Hence, value of stock will be considered for 9250 as per AS 2.

5. On 31.12.2016, Atul Construction Company Ltd. undertook a contract to construct a building for ₹ 15 crores. On 31.03.2017, the company found that it had already spent ₹ 6.7 crores on the construction. Prudent estimate of the additional cost for completion was ₹ 8.7.

What is the additional provision for foreseeable loss which must be made in the final accounts for the year ended 31.03.17 As per provisions AS 7 on "Accounting for construction contract?"

Answer:

As per AS 7, 'Construction Contract', when it is probable that total contract costs will exceed total revenue, the expected loss should be immediately recognized as an expense. The amount of such a loss is determined irrespective of (a) Whether or not work has commenced on the contract,(b) the stage of completion of contract activity as per AS 7, (c) the amount of profit expected to arise on other contracts which are not treated as a single contract.

In this case the anticipated losses are calculated as follows:

Anticipated or Foreseeable Loss

Particulars	₹ in crores
Cost incurred	6.7
Add: Additional cost for computation	8.7
	15.4
Less: Contract Price	15
Anticipated / Foreseeable loss	0.4

Thus, as per AS 7, the whole amount of anticipated loss i.e. ₹ 40 lakhs should be recognized and to be adjusted accordingly against the profit of the current year.

6. As per AS 9 - Revenue Recognition, when Revenue from Sale of Goods is recognised?

Answer:

Revenue is recognized when all the following conditions are fulfilled:

- Seller has transferred the ownership of goods to buyer for a price. Or,
- All significant risks and rewards of ownership have been transferred to buyer
- Seller does not retain any effective control of ownership on the transferred goods
- There is no significant uncertainty in collection of the amount of consideration (i.e. cash, receivables etc.)

If delivery is delayed at buyer's request and buyer takes title and accept billing, then the revenue should be recognized immediately but goods must be in hand of seller, identified and ready for delivery at the time of recognition of revenue.

7. What are the elements of cost for an item of property, plant and equipment as per AS – 10?

Answer:

The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non –refundable purchase taxes,, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as 'decommissioning, restoration and similar liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

8. **The H Co. acquired a new industrial machine, the list price of which was ₹ 1,52,000. The supplier allowed a trade discount of ₹ 14,000 off the list price. On delivery, the cost of installing the machine in its desired location was ₹ 21,000. Costs of testing whether the machine functioning properly was ₹ 15,000; whether proceed from sample produced when testing was ₹ 2000. Cost of staff training was ₹ 25000 and Initial operating loss was ₹ 5000. According to Ind AS 16 - 'Property, Plant and Equipment', what should be the initial cost of the machine?**

Answer:

Calculation for the initial cost of the machine

List price of the machine	1,52,000
Less: Trade discount	14,000
	1,38,000
cost of installing the machine	21,000
Cost of testing	15,000
Proceed from sample produced	2,000
	13,000
Initial cost of the machine	1,72,000

Cost of staff training and operating cost are not recognised as the cost of the machine.

9. **Whether the cost of spare parts can be recognised as cost of the PPE?**

Answer:

The cost of an item of property, plant and equipment should be recognised as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the enterprise; and
- the cost of the item can be measured reliably.

Items such as spare parts are usually treated as inventory and to be recognized in the Profit and Loss Account as and when consumed.

Major spare parts are treated as property, plant and equipment when they are expected to be used over more than one period. They are included in non-current assets from the date the cost is incurred.

Items which can be used exclusively with an item of Property, Plant and Equipment are accounted for as Property, Plant and Equipment.

This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to specific circumstances of an enterprise. Any type of expenditure that meets these recognition criteria must be accounted for as an asset. As per this standard individually insignificant items can be aggregated. An enterprise may decide to expense an item which could otherwise have been included as property, plant and equipment, because the amount of the expenditure is not material.

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