CHAPTER 1

INTRODUCTION TO ACCOUNTING

Contents :

1.0 Aims and Objectives : In the present chapter we are going to discuss in brief about

- Meaning and definition of accounting
- Meaning and nature of book keeping
- Important of accounting in the modern world
- Various objectives and functions of accounting
- Classifications, methods and types of accounting
- Various groups interested in the accounting statement.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

LESSON 1

INTRODUCTION TO ACCOUNTING

1.1 Introduction :

The word "money" is so important to survive in the human society just like as blood in the human structure. It is well said that "Nothing is impossible when money is available and nothing is possible when the money is not available". The source of money is created by way of undertaking a job, engaging in agriculture, business or profession etc. The availability of money is depend upon the manner in which money is expended. This means if a person or business concern is careless in spending money; the day may come when he or it does not have a single rupee.

In other words, the availability of money is not merely depend upon the earning of income but very much depend upon the manner in which the earned income is expended. Thus the proper management of income and expenditures is quite important to survive as well as to grow. It requires preparing and maintaining proper records and books in the systematic manner. For this purpose, a technique or tool named as "accounting" has been in the use since the ancient period.

The paper titled as "Principles of Accountancy" is aimed at educating the students to maintain, prepare and analysis various records in different situations by using universally accepted methods and rules. The present chapter deals with meaning, need, objectives and scope of accounting.

1.2. Meaning of Accounting:

The modern system of accounting is based what is known as the Double Entry principle. Accounting is a science because it has some definite objects to be fulfilled and is an art as it prescribes the process through which the object can be achieved. Non- financial transactions cannot be recorded in accounting, i.e., only transactions of financial nature is the subject –matter of accounting. To be more clear, only those transactions which are expressed in terms of money are recorded. Accounting is an art of recording transactions according to size, nature and type of business transactions – cash transactions, credit transactions, frequent transactions etc. When the recording in journal or subsidiary books is done, they are to be classified by grouping the transactions or entries of one nature at place. This is done by opening accounts in a book called ledger. Then such ledgers are summarized in order to give useful information to the management or interested parties. This is done by preparing trading and profit and loss account and balance sheet of whole accounting record. Finally, it is an art of interpreting the result of the financial transactions and communicating the result thereof. The aspect of interpretation falls under management accounting.

1.3. Accounting and Book keeping:

Book keeping may be defined as the art and science of correctly and systematically recording in the books of account the business transactions of an individual or a concern in a way to show clearly the monetary effect of each such transactions. The work of book-keeping is usually entrusted to junior employees, who maintain various books of accounts, journal, subsidiary books, ledgers etc, can be called as book

–keepers. The books of original record, by themselves, do not give an idea of the company's financial position. When one has to make a judgment regarding the financial position of the firm, the information contained in these books has to be analysed and interpreted.

1.4. Need for Accounting:

It is common experience of all of us that money must be spent carefully. A firm receives money from certain sources like sale of goods, interest on bank deposits. It has to spend money on a number of items like salary, rent, electricity, water, advertisement. The firm should manage its affairs in such a way as will enable it to receive more than it spends. Otherwise, it will have to meet expenses from the original amount invested by the owner for starting the business.

1.5. Definition:

Accounting is defined as "the art of recording, classifying and summarising in terms of money transactions and events of a financial character and interpreting the results thereof."

1.6. Origin of Accounting:

Accounting originated to meet the requirements of exchange of goods and commodities. The need for accounting grew in order to serve the transactions of the business world. The origin of accounting cannot be exactly located. The value of money or the use of currency, that now we attach to the goods to-day, was unknown to the people of ancient times when barter system existed. Later, innovation of money facilitated to ease exchange of commodities. The credit transactions necessitated to maintain accounts, and accounting is as old as business itself. Accounting was practiced in India, from ancient time, as is clear from the book Arthahastra written by Kautilya, the Minister of King Chandra Gupta. In 1494, the system of book-keeping was first conceived on scientific line in Venice by Luca Paciolia Franciscan monk.

1.7. Development in Accounting:

Accounting is as old as money itself. In India, chanakya in his, "Arthashastra" has emphasised the existence and need of proper Accounting and Auditing. The modern system of accounting owes its origin to Pacioli who lives in Italy in the 15 th century. Accounting at its initial stage, tried to meet the need of historical and stewardship functions. The conventional accounting principles and practices prove to be insufficient. The advent of Industrial Revolution has resulted in large scale production, cut- throat competition and widening market. Today there is greater need for coordination and control. Accounting day cannot be the same as it used to be about half a century ago. It has becomes a very dynamic subject. At present some of the important specialized branches of accounting which are developed are: Cost Accounting, Management Accounting, Responsibility Accounting, Social Accounting or Macro Accounting, Government Accounting, Inflation Accounting, Mechanized Accounting, Human Resources Accounting etc. Needless to mention that some of the said techniques devised are Standard Costing, Marginal Costing, Budgetary Control, Statistical and Quantitative Techniques, Ratios Accounting, Fund and Cash Flow Analysis etc.

(1.8) Steps in Accounting :

Following are the various steps involved in accounting:

i. Recording : Each and every transaction is recorded as and when it occurs in chronological order. Every entry recorded has to be supported by reliable documentary evidence. The method of recording is adjusted according to the size, and nature of business and the type of transactions.

ii. Classification : The classification takes the form of accounts in a separate book called as Ledger. Separate ledger accounts are opened for each expenses , income, property and liability. It useful for the segregation of numerous business transactions into identifiable groups.

iii. Summarising : Summarising takes place in the form of trial balance, trading account, profit & loss account and balance sheet which are discussed in detail in the following chapters.

iv. Interpretation: It is usually done through flow statements. They are useful in evaluating past performance and providing guidance for future plans and activities.

1.9. Objectives of Accounting:

Following are the objectives for which accounting is aimed at:

i. To provides the permanent record.
ii. To provides the most effective way to the management for fixing of objectives of the business.
iii. To provides the most vital information to the management to preparing budgets.
iv. To facilitates the business concern to know the profit or loss for a given period.
v. To facilitates to know the soundness of a business concern by providing balance sheet.
vi. To enables to prepare a list of customers and suppliers to ascertain amount to be received or paid.
vii. To gives opportunities to review the business policies in the light of the past records.
viii. To comply with provisions of Companies Act 1956, it is necessary to maintain accounting records.
ix. To be useful for business loss, provision of licenses, assessment of taxes etc.,

1.10. Functions of Accounting:

Accounting has the following functions:

i. Function of Book-keeping: The primary functions of accounting relates to recording, classification and summary of financial transactions – journalisation, posting and preparation of final statements. The purpose of this function is to report regularly to the interested parties by means of financial statements.

ii. Function of Language: Accounting is the language of business. Various transactions are communicated through accounting. There are many parties. Owners, Creditors, Government, Employees etc., who are interested in knowing the results of the firm and this can be communicated only through accounting. The accounting shows a real and true position of the firm on the business.

iii. Function of legality: Auditing is compulsory in case of registered firms. Auditing is not possible without accounting. Thus accounting becomes compulsory to comply with legal requirements. Accounting is a base and with its help various returns, documents, statements etc., are prepared.

iv. Function of management: Decision making programme is greatly assisted by accounting. The managerial function and decision making programmes, without accounting, may mislead. The day-today operations are compares with some pre- determined standard. The various of actual operations with pre – determined standards and their analysis is possible only with the help of accounting.

1.11. Classification of Accounting:

Accounting can be classified into the following categories :

i. Financial Accounting: The main purpose of this type of accounting is to record business transactions in the books of accounts in such a way that operating results for a particular period and financial condition on a particular date can be known for the information of the various persons.

ii. Cost Accounting : It relates to the collection, classification, ascertainment of cost and its accounting and cost control relating to the various elements of cost, that is, materials, labour and overheads.

iii. Management Accounting: It relates to the use of accounting data collected with the help of financial accounting and cost accounting for the purpose of policy formulation, planning, control and decision-making by the management. The accounting which is prepared exclusively for the use of management is called management accounting.

1.12. Methods of Accounting:

Following are the three methods of accounting:

i. Cash Basis of Accounting: Under this method, all incomes are considered to be earned when they are actually received in cash. Similarly, expenses are deemed to be incurred only when they are actually paid in cash. In other words, importance is attached to cash receipts and payments but non-cash items, such as outstanding, pre-paid expenses, accrued incomes or income received in advance are ignored. This method is adopted in those concerns where only cash transactions take place. Generally this system is followed by individuals like Doctors, Lawyers, Auditors, Engineers, Brokers, and Small Traders etc.

ii. Accrual Basis or Mercantile Basis of Accounting: This method is commonly adopted by business concerns. Incomes are recorded or credited to the period in which they are earned irrespective of the fact whether the same has actually been received or not. Similarly, expenses are charged to the period in which they relate irrespective of the fact that they have actually been paid or not. In other words, all items of incomes and expenditures, both cash items as well as non – cash items such as pre- paid expenses, accrued incomes or income received in advance etc, are taken into account.

iii. Hybrid or Mixed Basis of Accounting: Under this method, both cash basis and accrual basis are followed. Incomes are recorded on cash basis whereas expenses are taken on accrual basis. The net income is ascertained by matching expenses on accrual basis with income on cash basis. This is the most conservative basis of ascertaining income because all possible expenses relating to the period whether actually paid or not are considered whereas income only received in cash in taken into consideration. This system is followed by professional like Doctors, Lawyers, and Chartered Accountants etc.,

1.13. Types of Accounting:

There are two systems of accounting namely Single Entry System and Double Entry System.

1.13.1. Single Entry System: The single entry system is not a really a system because in some cases record may be one – sided; and in some other cases no record is maintained at all. It is more appropriate to call it an incomplete system of recording transactions. Double effect of every transaction is ignored and only the accounts relating to suppliers and customers an cash account are found. Thus, the system is incomplete, inaccurate and unscientific system of recording business transactions.

1.13.2. Double Entry System: The modern system of accounting is based on what is known
as double entry principle. It refers to that system of book keeping where each transaction is recorded in both of its aspects. viz.i. receiving of the benefit of the transaction and ii. giving away of the benefit of the transaction. For a complete record of transactions, it should be presented in both the accounts. Business transactions affect two aspects of the accounts in the opposite direction. If are account receives a benefit there must be another account to give the benefit. It is like the two sides of a coin. Thus, every transaction involves two accounts, one which gives the benefit of the transactions and another which receives the same.

1.14. Groups Interested in Accounting:

There are a number of parties who are interested in the accounting information relating to business. Because, accounting is the language employed to communicate financial information to the General public. The following are the groups who use the accounting statements:

i. Owners: The owners provide funds or capital for the organisation. They possess curiosity in knowing whether the business is being conducted on sound lines or not and whether the capital is being employed properly or not. Owners, being businessmen, always keep an eye on the returns from the investments. Comparing the accounts of various years helps in getting good pieces of information. Properly kept accounts are good proof in dispute. They determine the amount of goodwill and facilitate in assessing various taxes.

ii. Management: The management of the business is greatly interested in knowing the position of the firm. The accounts are the basis the management can study the merits and demerits of the business activity. Thus, the management is interested in financial accounting to find whether the business carried on is profitable or not. The financial accounting is the "eyes and ears of management and facilitates in drawing future course of action, further expansion etc.,

iii. Creditors: Creditors are the persons who supply goods on credit, or bankers or lenders of money. It is usual that these groups are interested to know the financial soundness before granting credit. The progress and prosperity of the firm, to which credits are extended, are largely watched by creditors from the point of view of security and further credit. Profit and Loss Account and Balance Sheet are nerves centers to know the soundness of the firm.

iv. Employees: Payment of bonus depends upon the size of profit earned by the firm. The more important point is that the worker expects regular income for the food. The demand for wage rise, bonus, better working conditions etc. depend upon the profitability of the firm and in turn depends upon financial position. For these reasons, this group is interested in accounting.

v. Investors: The prospective investors, who want to invest their money in a firm, of course wish to see the progress and prosperity of the firm, before investing their amount, by going through the financial statements of the firm. This is to safeguard the investments. For this, this group is eager to go through the accounting which enables them to know the safety of investments.

vi. Government: Government keeps a close watch on the firms which yield good amount of profits. The State and Central Governments interested in the financial statements to know the earnings for the purpose of taxation. To compile national accounts the accounting is essential.

vii. Consumers: These groups are interested in getting the goods at reduced price. Therefore, they wish to know the establishment of a proper accounting control, which in turn will reduce to cost of production, in turn less price to be paid by the consumers.

viii. Research Scholars: Accounting information, being a mirror of the financial performance of a business organisation, is of immense value to the research scholar who wants to make a study into the financial operations of a particular firm. To make a study into the financial operations of a particular firm, the research scholar needs detailed accounting information relating to purchase, sales, expenses, cost of materials used, current assets, current liabilities, fixed assets, long – term liabilities and share holders funds which is available in the accounting records maintained by the firm.

1.15. Let Us Sum Up : In this lesson we have discussed

- meaning and objectives of accounting
- described functions, types, classification, methods of accounting
- learnt about various persons interested in the accounting statement

1.16. Lesson End Activities :

1. What is meant by accounting ? Explain objectives and functions of accounting.
2. What are the three methods of accounting ?
3. What are the three types of accounting?
4. Who are the persons interested in the accounting statements.
5. Write short note on : i. Accounting and Book keeping ii. Cash basis and Merchantile basis iii. Single entry system and Double entry system.

1.17. Model Answers to Check your Progress :

Question No. 1. Refer para 1.2. 1.7. 1.8.
Question No. 2. Refer para 1.10.
Question No. 3. Refer para 1.12.
Question No. 4. Refer para (i) 1.2. 1.3. (ii) 1.10.1. 1.10.2. (iii) 1.11.1. 1.11.2.

1.8 References:

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers

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LESSON 2

CONCEPTS AND CONVENTIONS OF ACCOUNTING

Contents :

2.0. Aims and Objectives : In this lesson we are going to learn

- The meaning and various elements of accounting concepts
- Meaning and various elements accounting conventions .

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

2.1. Introduction:

Accounting is the language of business and information about business is communicated to outsiders through accounting statements. In order to make these statements easily understandable and meaningful, it is necessary that accounting should be based on certain unifrom scientifically laid down norms, which are called accounting principles. The accounting principles are rules of action or a body of doctrine universally adopted while recording the business transactions. Adopting uniform principles in recording the transactions will ensure uniformity, clarity and understanding. If accounting is to serve its purpose more effectively, it should be based on certain unifrom and scientifically laid down principles or postulates, also termed as accounting standards,. The accounting principles can be classified into two categories: 1. Accounting Concepts and 2. Accounting Conventions.

2.2. Meaning of Accounting Concepts :

There are some assumptions on which accounting is based. Accounting is the language of business. Business firms communicate their affairs and financial positions to the outsiders through the medium of accounting, which is the language of business in the form of financial statements,. To make the language convey the same meaning to all interested parties, accountants have agreed on a number of concepts which they try to follow. The meassages so communicated should easily understood by the people for whom it is intended. Accounting concepts can be described as something which signifies a general notion regarding accounting principle. The assumptions, so made, are most natural and are not forced ones. A concept is self-evident proposition i.e., something taken for granted. There is no authoritative list of these concepts.

2.2.1. Business Entity Concept :

Business is treated as separate from the proprietor. This concept is important and implies that a business is separate and distinct from the persons who supplied capital to the firm. All transactions of the business are recorded in the books of the firm. If business affairs and private affairs are mixed, the true picture of the business will not be available. The proprietor is treated as a creditor to the extent of his capital. Capital is thus a liability to the firm and the proprietor is the creditor of the business. The proprietor-sole trader, partners of a partnership firm etc.-may draw amount out of the business and this reduces the liabilty of the firm. Because of this concept, financial position of the business can be easily found out and earning capacity of the firm can be easily ascertained. It is important to note that transactions of the business affairs and private affairs are separated for recording only and in law, no such distinction is recognised except for an incorporated company.

2.2.2. Money Measurment Concept :

Only those transactions, which can be expressed in monetary terms, are recorded in accounting though their quantitative records may also be kept. All business transactions should be expressed only in money. Thus transactions, which cannot be expressed in money, will not be recorded in accounting books. Thus labour-management relations, sales pollicy, labour unrest, effectiveness of competition etc., which are of vital importance to business concept, do not find place in accounting. Another limitation of this concept makes the

assumption that the money value is constant. It is contrary to fact as there are fluctuations in the money value. For instance, a land, purchased for Rs 10,000 in 1980, may cost four or five times, in 2007. This because of fall in money value.

2.2.3.. Going Concern Concept:

This concept relates with the long life of the business. A business is intended to continue for an indefinitely long period. For all practical purposes, a business firm comes under going concern concept, when there is no evidence to the contrary. All firms that continue to operate on a profitable footing are treated as going concerns. Accordingly, continuity of activity is assumed, thus accounting reports are fashioned as a going concern, just as against liquidation. The current disposal value is irrelevant for a continuing business. Thus under this assumption fixed assets are recorded at original cost and are depreciated in a proper manner, In Balance Sheet market price of fixed assets not considered. While preparing final accounts, recored is made for outstanding expenses and pre-paid expenses with the assumption that the business will continue.

2.2.4. Accounting Period Concept:

Accounting is a continuous process in any business undertaking. Every businessman wants to know the result of his investment and efforts at frequent intervals. Accountants choose some shorter period to measure the result. Therefore, one year has been, generally, accepted as the accounting period. It may be 3 months or 2 years also. This period is called accounting period. Financial period chosen, in this regard, should be neither too long nor too short. Closing day of the accounting period is known as accounting date. At this date, accountant prepares income and position statements, shows the business operations, brings the changes of positions since the construction of last statements. The financial reports prepared facilitate to make good decison, corrective measures, expansion etc. One the basis of income and position statement, financial position and earning capacity of one year can be compared with another. Their comparison helps the business for expansion. The outsiders too draw various conclusions. One year accounting period is recognised by law and the taxation is assessed annually. Reports to the outsiders are provided on this accounting period.

2.2.5. Accrual Concept:

According to this concept the revenue is recognised on its realisation and not on its actual receipt. Similary, the costs are recognised when they are incurred and not when payment is made. This assumption makes it necessary to give certain adjustments in the preparation of income statement regarding revenues and costs. But under cash accounting system, the revenues and costs are recognised only when they are actually received or paid. Hence, the combination of both cash and accural system is preferable to get rid of the limitaions of each system.

2.2.6. Cost Concept:

Under this concept, fixed assets are recorded in the account books at the price at which they are acquired. This price paid to acquire the assets is termed as cost and this cost is the basis for all the subsequent accounting for the asset. When an asset is acquired for Rs 5,000, it is recorded in the account books at Rs 5,000 even though the market value may be different. But the asset is shown in balance sheet year after year, at cost price minus depreciation. This value is called book value. It the business pays nothing for an item it acquired, then this will not appear in the accounting records as an asset. Thus, all such events

are ignored which affect the business but have no cost, for example, a facourable location, a good reputation with its customers, market standing etc.

2.2.7. Reliasation Concept :

This concept revolves around the determination of the point of time when revcenues are earned. A business firm invests money to purchase or manufacture goods for sale. To earn profit, sales have to be made. There can be no profit without realisation of sale proceeds. According to realisation concept, which is also known as the “revenue recognition concept”, revenue is considered as being earned on the date on which is realised i.e., the date on which goods and services are transferred to customers either for cash or for credit. Credit transactions create debtors and the promise of debtors to make payment is sufficient for the purpose of realising revenue. The realisation concept is important in ascertaining the exact profit earned during a period in business concern. This concept is very important as it prevents firms from inflating profits by recording sales and incomes that are likely to accrue.

2.2.8. Dual Aspect Concept :

This concept signifies that every business transaction involves a two-fold aspect a. the yielding of beneift and b. the giving of the beneift. For an exchange of value, two parties are required-a giver and a receiver. Thus, a firm sells goods worth Rs 100, the two simultaneous implications on the seller are i. forgoing goods worth Rs 100 and ii. receipt of cash Rs 100. And those on the purchaser would be i. receipt of goods worth Rs 100 ii. forgoing of cash Rs 100. Every transaction affects two accounts and entials two-fold simultaneous effect on each transaction affects receiving account and giving account equally. Technically speaking, "for every debit, there is a credit". Therefore, we can say that every debit must have a corresponding credit and vice versa. This is the only system of modern account keeping. The underlying principle of Double Entry is very simple but wonderfully effective. "Double Entry book-keeping is a system of accounting by which receiving and giving aspects of each transaction are recorded at a time". As such transaction affects giving account and receiving account equally, the assets of a business entity will always be equal to its liabilities i.e.,

Total Assets = Total Liabilities

Total Assets = Capital + Outsiders' liabilities

Capital = Total Assets - Outsiders'liabilities.

2.2.9. Matching Concept :

According to this concept, it is necessary to match the expenses incurred during the accounting period with the revenues recognised during the same period. Since profit is an excess of revenue over expenses, it becomes necessary to bring together all revenues and expenses pertaining to a particular period. In other words, expenses incurred in an acounting year should be matched with the revenues recognised in that year. Again, only such expenses as incurred in generating revenues during the period should be deducted from those revenues for deriving the amount of income or profit during the period. The object of accounting is that accounting record the made in such a manner that cost may be compared with revenue. If the accounting method does not facilitae the comparison, then accounting method is considered unsatisfactory. Neither receipt of cash for revenue nor payment of cash for expenses is necessary. What is necessary is that they must accrue in the current year so that the incurred expenses are mathched against the realised revenue. American Institute of Certified Public

Accountants' Committee on Accounting Procedue states that "it is plainly desirable to provide, by charging in the current income statement, properly classified, for the foreseeable costs and losses applicable against current revenues, to the extent they can be measured and allocated to fiscal preiod with reasonable approxiamation". All costs incurred during the period are taken. Similarly, expenses paid in advance are exculded from the total costs incurred to arrive at the expired costs. By application of this concept, proprietor can easily know about the profit or loss and he can make effort to increase earning capacity.

2.2.10. Objectivity Concept:

This concept implies that all accounting transactions should be evidenced and supported by business documents i.e., invoices, vochers etc. The evidence substantiating the business transactions should be objective free from the is of the accountant or others. These supporting documents form the basis for record of entries and of audit. Accounting record is based on documentary evidence is readily and objectively verifiable and therefore universally acceptable.

2.3. Meaning of Accounting Convention:

An accounting convention is a common practice which is universally followed in recording and presenting accounting informations of business. They are like customs that are followed in a society. As a society develops its own customs for its day to day work, conventions are devloped by business to facilitate its recording of business transactions in the books of accounts.Conventions help in comparison of accounting data of different business units or of the same unit for different periods. The object is to make accounting data more useful. Following are the accounting conventions in the use:

2.3.1. Convention of Disclosure:

The convention requries that accounting statements should be honesty prepared and all significant information should be disclosed therein. That is, while making accountancy records, care should be taken to disclose all material information. Here the emphasis is only on material information and not on immaterial information. This conention assumes greater importance in respect of corporate organisations, where the management is divorced from ownership. That is why forms of Balance sheet and Profit and Loss accounts are prescribed in Schedule VI of the Companies Act, 1956; so that significant information may not be left out to be disclosed. The purpose of this convention is to communicate all material and relevant facts of the financial position and the results of operations, which have material interests to properietor, creditors and investors. Sometimes, there may be time gap between the prearation of Balance Sheet and its publication and if there are material events- bad debts, destruction of plant or machinery etc., which occured in the time gap, may also be known to users- proprietors, creditors etc. In short, full disclosure of all relevent facts in accounts is a necessity in order to make accounting record useful. Therefore, full disclosure is a very healthy convention, and is important.

2.3.2. Convention of Conservatism :

"Anticipate no profit and provide for all possible lossess" is the essence of this convention. Future is uncertain. Fluctuations and uncertainties are not uncommon. Conversatism refers to the policy of choosing the procedure the leads to under-statement as against overstatement of resources and income. The consequences of an error of

understatement are likely to be less serious that of an error of overstatement. For example, closing stock is valued at cost or market price whichever is lower. This is a convention of caution or playing safe and is adhered to while preparing financial statements. Showing a position better than what it is, is not permitted. More ever, it is not proper to show a position substantialy worse than what it is. Following are the examples:

(a) The value of an asset should not be overestimated.

(b) The value of a liability should not be underestimated.

(c) The profit should not be overestimated.

(d) The loss should not be underestimated.

2.3.3. Convention of Materiality :

American Accounting Association defines the term materiality as "an item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of informed investor." It refers to the relative importance of an item or event.

Materiality of an item depends on its amount and its nature. Theoretically, all items, large or small, should be treated alike. Materiality convention implies that the economic significance of an item will to some extent affect its accounting treatment. Materiality in its essence is of relative significance. In the sense that some of the unimportant items are either left out or included with other items. For instance, acquisition of items like fountain pen, stapler, pin cushion, punching machine ect, can be treated as part of assets, when considering their durability and span of life. But, it is not necesary to maintain seperate ledgers. Such low cost items can be treated as expense for the period. Therefore, unimportant items are either left out or merged with other items. The reason for this different treatment lies in the magnitude of their amount. The dividing line between material and immaterial varies accroding to the company, the circumstances of the transaction and economic significance. It should also noted that an item considered to be material in a year may not be material in the subsequent years. Similarly, most of the companies publish their financial statements in whole ruees-round figures, by ignoring paise. Omission of paise is immaterial i.e., in significant when figures appear in lakhs. In short, all material information should be disclosed that it is necessary to make the financial statements clear and understandable.

2.3.4. Convention of Consistency :

Rules and practices of accouting should be continuously observed and applied. In order to enable the management to draw conclusions about the operation of a company over a number of years, it is essential that the practices and methods of accounting remain unchanged from one period to another. Comparisons are possible only if a consistent policy of accounting is followed. Comparison of accounting period with that in the past is possible only when the convention of consistency is adhered to. According to Anthony, “ The consistency requires that once a company had decided on one method, it will treat all subsequent events of the same character in the same fashion unless it has a sound reason to do otherwise.” This convention plays its role particularly when alternative accounting practice is equally acceptable. More ever, consistency serves to eliminate personal bias. But if a change becomes desirable, the change and its effect should be clearly stated in the financial statements. Accounts should lend themselves easily to comparisons and contrasts. This convention increases accuracy and comparability of accounting information for prediction or decision making. This convention does not prohibit changes. If there is any change, its effect should be clearly stated in the financial statements.

2.4. Let Us Sum Up : In this lesson we have learnt meaning of accounting concept various elements of accounting concepts, meaning of accounting convention various elements of accounting convention.

2.5. Lesson End Activities :

1. What do you mean by accounting concepts ? Explain any four accounting concepts.
2. Briefly explain various accounting concepts which form the backbone of accounting.
3. What are accounting conventions ? Name and explain them in detail.
4. Write short note on
   i. Business entity concept.
   ii. Going concern concept
5. Write short note on

i. Convention of conservatism.

ii. Convention of Consistency

2.6. Model Answers to Check your Progress :

Question No. 1. Refer para 2.2.

Question No. 2. Refer para 2.2.1. to 2.2.10.

Question No. 3. Refer para 2.3.1. to 2.3.4.

Question No. 4. Refer para (i) 2.2.1. (ii) 2.2.3.

Question No. 5. Refer para (i) 2.3.2. (ii) 2.3.4.

2.7 References:

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers

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LESSON 3

ACCOUNTING PROCEDURE

Contents :

3.0. Aims and Objectives : In this lesson we are going to discuss

- meaning, rules and steps of journal
- meaning and process of ledger
- relationship between journal and ledger
- meaning, elements and advantages of subsidiary books
- meaning and rules of trial balance
- practical Illustrations of journal entries
- practical Illustrations of ledger accounts
- practical Illustrations for trial balance.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

3.1. Introduction :

In the previous two chapters we have discussed basic elements, concepts and conventions of accounting . In the present chapter we are going to discuss the various procedures involved in the process of accounting starting with journal and ending with trial balance .

3.2. Journal :

3.2.1. Meaning : Journal is the day-by-day of the business, wherein both the aspects of all business transaction are recorded in chronological order i.e. date – wise. The journal is, thus , a Book of Prime Entry. It is otherwise known as the Book of Original Entry. These entries are then posted from the journal into the ledger. As such, the ledger is known as the Principal Book or the Main Book. The journal merely helps the posting of entries from the journal into the ledger. Hence, journal is known as Sunsidiary Record or Subsidiary Book. Journalising is an act of recording the debit and credit aspects of a business transaction in journal together with an explanation of the transaction, known as Narration.

3.2.2. Rules of Journals :

The act of recording the transaction in journal is called journalising. This recording is made according to certain rules and these rules, are called rules of journalising. The business must enter into transactions with a number of persons or firms, possess some property, for example , cash, furniture, machinery etc., to carry on the business, pay certain expenses for example, rent salaries, wages etc., and receice certain incomes , for example, interest, commission etc. The following accounts are required to be maintained. Rules for Debit and Credit are

i. Personal Accounts
   Debit the Receiver
   Credit the Giver
ii. Real Accounts
   Debit what comes in
   Credit what goes out
iii. Nominal Accounts
   Debit all losses and expenses
   Credit all gains and incomes.

3.2.3. Compound Journal :

When many transactions of the same nature occur on a particular day, such transactions can be entered in the journal by means of combined Composite. journal entries, known as Compound Journal Entry. Make sure that the amount in the debit column equals to the amount in the credit column, based on the double entry system of book- keeping. One amount in the debit column must be equal to two or more amounts in the credit column or one amount in the credit column equals to two or more amounts in the debit column or under compound entry, a few debits it will be equal to a few credits. The rule for jounalising is the same as that of simple journal.

3.2.4. Steps in Journalising: The following are the steps in journalising:

i) Determine the two accounts which are involved in the transactions.
ii) Clasify the above two accounts under Persaonal, Real or Nominal.
iii) Find out the rules of debit and credit for the above two accounts.
iv) Identify which accounts are to be debited and which account is to be credited.
v) Record the date of transaction in the date column. The years and month are written once, till they change, the sequence of the dates and months should be strictly maintained.
vi) Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation Dr. in the same line against this, the amount to be debited is written in the debit amount, column in the same line.
vii) Write the name of the account to be credited in the second line starts with the word 'To' a few space away from the margin in the partculars column. Against this, the amount to be credited is written in the credit amount column in the same line.
viii) Write the narration within brackets in the next line in the particulars column.
ix). Draw a line across the entire particular column to seperate one journal entry from the other.

3.2.5.Advantages: The main advantages of the journal are: i. It reduces the possibility of errors ii. It provides an explanation of the transactions iii. It provides a chronological record of all transactions.

3.2.6. Limitations: The limitations of the journal are:i. It will be too long if all transactions re recorded here ii. It is difficult to ascertain the balance of each account.

3.3. Ledger

3.3.1..Meaning: As we know that first, all business transactions are recorded in the journal, separately and date-wise. The transactions relating to person, assets, expenses and income are journalized chronologically, i.e. date- wise. But one cannot find similar transactions at one place in the journal. Therefore, to have a consolidated view, we have to prepare different accounts in the ledger. No transaction gets into the ledger unless it appears first in the journal. The source of information for the ledger is the journal. Thus, journal is subsidiary to the ledger and the ledger is the principal or main book of account. The method of writing from journal to the ledger is called posting or ledger posting. It contains accounts related to business transactions. Ledger is a register, having a number of pages, which are numbered consecutively. One page in the ledger is usually allotted to one account. An index to various accounts in the ledger is given at the beginning of the ledger for easy reference.

An account is a summary of business transactions affecting a person or property or an income or an expense. An account is a brief history of financial dealings of a particular man or particular item. An account has two sides- Debit and Credit. The left side is known as Debit and the right side is known as Credit. Double entry book-keeping, means recording of both the receiving and giving aspects of every transaction. When an account receives a benefit, the account is debited. When an account gives a benefit, the account is credited. These two aspects are denoted by the symbols Debtor Dr. and Creditor Cr. respectively.

3.3.2. Relationship between Journal and ledger:

i. Transactions are entered first in the journal and then these entries are posted to appropriate accounts in the ledger.
ii. The journal is subsidiary book, while the ledger is the main book of accounts.

iii. The journal shows the transactions in chronological order, that is, journal is a daily record. Posting from the journal is done periodically, may be weekly or fortnightly etc.,
iv. Entering the transactions in the journal is called journalising and the act of recording in the ledger is called posting.
v. Journal is the book of prime entry, while ledger is the book of final entry.

3.3.3. Posting Process: The following procedure are followed for posting :

i) Left hand side of the Account :

a. Locate in the ledger , the first Account named in the journal.
b. Write the date of the transaction, in the date column, in debit- side of that account.
c. Enter in the debit – side of the ledger, in particulars column, the name of the Account credited with prefix ' To'
d. Write in folio column on the debit-side of the account, the page number of journal from which the entry is being posted.
e. Enter the amount, on the debit column of the ledger as per journal.
f. Similarly, write the ledger page number inthe folio column of the journal.

ii) Right hand side of the Account :

a. Locate in the ledger, the second Accounta named inthejournal.
b. Write the date of the transaction, in the date column on credit side of that Account.
c. Enter in the credit-side of the ledger, in particulars column, the name of the Account debited with prefix "By".
d. Write inthe folio column of the ledger, the page number of the journal from which the entry is being posted.
e. Enter the amount on the credit side of the ledger as per the journal.
f. Similarly, write the ledger page number in the folio column of the journal.

3.3.4. Balancing of an Account :

Debit side of the journal entry is posted to the debit side of the account and credit side of the journal entry is posted to the credit side of the account. After the ledger posting, accounts are closed and their balances are found out. There are three possibilities while striking the balance in an account i. the two sides of the account are equal ii. the debit total is greater than the credit total iii. The credit total is greater than the debit total.

If the two sides of an account are equal, it indicates the equality of benefitds received and given by that account. The account can be closed as there is no balance in that account. If debit side total of an account is greater than the credit total, then that account indicates a "Credit Balance". The proceedure to balance an account is:

(a) Total both the sides of the account , on rough sheet of paper.
b. Find out the difference between the total i.e. credit side and debit side. The difference is called balance.
c. Enter write. the differences balance. in the lesser side as Balnce c/d carried down. as the last item, and on the last date of the month.
d. Now, bith the sides are equal in total. Write the totals which are equal and close the account. The balance is afterwards taken to the opposite side and entered as balance b/d brought down. on the first day of the next month.

3.4. Subsidiary Books :

3.4.1. Meaning : Maintaining a single ' journal book' in which journal entries are written for each transaction and posting them to ledger is practicable in small business where a single accountant can maintain accounts or the owner himself can do the accounts work. In bigger business, transactions are so numerous and varied that a single journal book is absolutely inadequate and cumbersome. Several accounts assistants may have to do accounts work as a team and share the burden. It may be necessary to group similar transactions even at journal stage in the shape of ' Special journals' to minimise and facilitate ledger work. Thus, the system of Subsidiary Books as an alternative for single journal was developed.

3.4.2. Purchase Book : Purchase book is also known as ' bought book' 'Purchase day book', invoice book'; and 'purchase journal'. All credit purchase of goods are recorded in this book. Periodical total of this book provided total credit purchase of goods made by the firm.

3.4.3. Purchase Return Book : It is also called 'Returns outward book' and ' Purchase returns journal'. Goods returned to suppliers which were originally purchased on credit are recorded in this book. Periodically totals of this book provide data on purchase returns by the firm.

3.4.4. Sales Book : Sales book is also known as 'Day book', Sales day book', ' Sold book', Sales journal', etc.All credit sales of goods are recorded in this book. Periodical totals of this book provide the total credit sales of goods by the firm.

3.4.5. Sales Returns Book : This book is also called ' Returns Inward Book' and Sales Returns Journal'.Goods returned by customers which were originally sold on credit are recorded in this book. Monthly totals of this book provide data on sales returns. Credit notes sent to the customers after receiving the goods returned by them form the basis for entries in this book.

3.4.6. Debit Note: When goods are retuned to suppliers, a statement is sent to them information about the debit given to their account. This statement is called Debit Note. It is so called Debit Note., because of the Debit given to the concerned Party's account.

3.4.7. Credit Note : Our customers may return goods to us. On receipt of the goods returned by the customers, a credit note is sent to them, by us, intimating the credit given to their account.This statement is called Credit Note.

3.4.8. Cash Book : One of the most important books maintained in any business concern is the cash book. The cash book records transactions connected with cash. The object of cash book is to keep a daily record of transactions relating to receipts and payments of cash. When the business is large, the number of transactions relating to cash are also usually large. Since, cash transaction form the major portion of the transactions of a business, it is necessary to keep a seperate book for cash transactions. If every transaction is entered in the jouranl, it will be tremendous job. Thus, it becomes necessary to have a cash book to record only the cash transactions.The following are the different types of cash book maintained in business firms :

i. Simple Cash Book
ii. Cash Book with Discount and Cash Columns.
iii.Cash Book with Discount, Cash and Bank Columns.
iv. Analytical Petty Cash Book.

3.4.9. Journal Proper : There are certain transactions, which cannot be entered in through any subsidiary books and such transactions are entered in the form of journal, called Journal Proper. From this journal proper, further their postings are made as usual. Examples of such transactions are: i. Opening entries ii. Transfer entries iii. Adjusting entries iv. Closing entries v. Rectification journal entries.vi. Credit Purchase or Sales of assets. vii. Bad debts.viii. Other entries not made in any other subsidiary books

3.4.10. Advantages of Subsidiary Books :

The advantages of maintaining sunsidiary books are as follows :

i. Division of labour : The division of journal resulting in division of work, ensures more clerks working independently in recording original entries in the subsidiary books.

ii. Efficiency : the division of labour also helps the reduction in work laod, saving in time and stationery. It alsogives advantages of sopecialisation leading to efficiency.

iii.Prevents Errors and Frauds : The accounting work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurance of errors and frauds may be avoided.

iv.Easy References : It facilitates easy references to any particular item. For instance total credit sales for a month can be easily obtained from the sale book.

v. Easy Postings : Postings from the subsidiary books are made at convienient intervals depending upon the nature of the business.

3.5. Trial Balance :

3.5.1. Meaning : Books of accounts of a firm are closed at the end of the year, but they may be closed at any time according to the requirements of the proprietor. When ever books are closed, balances are found out in various accounts and then , these balances are recorded in a statement which has four columns. viz Particulars, L.F, Debit Balances and Credit Balances and this statement is called Trial Balance. Thus, Trial Balance is a statement in which the debit and credit balances of all accounts are recorded with a view two ascertain the arithmetical accuracy of the books of accounts. The only condition is the accounts must be balance in order to draw a Trial Balance. Trial Balance is not a part of journal or ledger. It is only a list or statement. No posting can ever be made to a Trial Balance. Although it’s agreement always signals the presence of an error, this does not assured a conculsive proof as to the obsolute accuracy of the books in some cases.

3.5.2. Objectives : The objects of the preparation of the Trial Balance are as follows :

i. A Trial Balance provides a good check on the accuracy of the work done in preparing ledger accounts. When the total of the debit balances agree with total of credit balances, it is quite a good proof that the ledger acounts have been correctly written up. If the Trial balance totals do not agree, then it shows that there are some errors which must be detected and rectified, before final accounts are prepared.

ii. It brings together the balances of all the accounts at one place and thus facilitates the preparing the trading accounts and profit and loos acccounts, which is the results of the business; and the balance sheet to ascertain the financial position of the firm. In short, Trial Balance is the basic to prepare the final accounts.

iii. The balance of any accounts can be easily and convinently known by the trail balance.

iv. It serves as a summary of what is contained in the ledger.

3.5.3. Rules for Preparation of Trial Balance :

From the available balances of various ledger accounts, the trial balance shall be prepared on the basis of following rules.

Debit All Expenses and Assets .
Credit All Incomes and Liabilities.

3.6. Fundamental Journal Entries:

Following are the Journal entries for the important transactions usually take place in a business. The students are advised to use these entries to familiar with passing of journal entries.

1 For Capital Introduced
Cash A/c Dr
To Capital A/c

2 For Drawings Made
Drawings A/c Dr
To Cash A/c

3 For Deposit into Bank
Bank A/c Dr
To Cash A/c

4 For Withdrawl from the Bank
Cash A/c Dr
To Bank A/c

5 For Income Received
Cash A/c Dr
To Income

6 For Expenses paid
Expenses A/c Dr
To Cash A/c

7 For Purchases of Asset for Cash
Asset A/c Dr
To Cash A/c

8 For Purchases of Asset on Credit
Asset A/c Dr
To Seller A/c

9 For Purchases of Goods for Cash
Purchases A/c Dr
To Cash A/c

10 Purchases of Goods on Credit
Purchases A/c Dr
To Creditor A/c

11 For Sale of Asset for Cash
Cash A/c Dr
To Asset A/c

12 For Sale of Asset on Credit
Buyer A/c Dr
To Asset A/c

13 For Sale of Goods for Cash
Cash A/c Dr
To Sales

14 For Sale of Goods on Credit
Debtors A/c Dr
To Sales A/c

15 For Collection from Debtors
Cash A/c Dr
To Debtors A/c

16 For Payment to Creditors
CreditorsA/c Dr
To Cash A/c

17 For Purchase Returns
Creditors A/c Dr
To Purchase ReturnsA/c

18 For Sales Returns
Sales Returns A/c Dr
To Debtors

3.7. ILLUSTRATIONS

3.7.1. Passing of Journal Entries

Illustration: 1. Jouranlis the following transactions in the books of Miss Amudha.

		Rs.
01.01.2007	Amudha commenced business with cash	50,000
02.01.2007	Purchased goods for cash	10,000
05.01.2007	Purchased goods from Mohan on credit	6,000
07.01.2007	Paid into Bank	5,000
10.01.2007	Purchased furniture	2,000
20.01.2007	Sold goods to Suresh on credit	5,000
25.01.2007	Cash sales	3,500
26.01.2007	Paid to Mohan on account	3,000
31.01.2007	Paid salaries	2,800

Solution : Journal Entries in the books of Amudha

Date	Particulars		Debit Rs.	Credit Rs.
Jan 1	Cash A/c To Amudha's Capital A/c Started business with capital.	Dr	50,000	50,000
Jan 2	Purchase A/c To Cash A/c Cash purchases.	Dr	10,000	10,000
Jan 5	Purchase A/c To Mohan A/c Credit purchase.	Dr	6,000	6,000
Jan 7	Bank A/c To Cash A/c Cash paid into bank.	Dr	5,000	5,000
Jan 10	Furniture A/c To Cash A/c Furniture purchased.	Dr	2,000	2,000
Jan 20	Suresh A/c To Sales A/c Credit sales.	Dr	5,000	5,000
Jan 25	Cash A/c To Sales A/c Cash sales.	Dr	3,500	3,500
Jan 26	Mohan A/c To Cash A/c Cash paid to Mohan.	Dr	3,000	3,000
Jan 31	Salaries A/c To Cash A/c Salaries paid.	Dr	2,800	2,800

Illustration:2. Journalise the following transactions of Miss. Banu for the year 2007.

			Rs.
Jan	1	Banu commenced business with cash	30,000
Jan	2	Paid into bank	21,000
Jan	3	Purchased goods by cheque	15,000
Jan	7	Drew cash from bank for office use	3,000
Jan	15	Purchased goods from Siva	15,000
Jan	20	Cash sales	30,000
Jan	25	Paid to Siva	14,000
”		Discount Received	250
Jan	31	Paid rent	500
”		Paid Salaries	2,000

Solution:

Date	Particulars		Debit Rs.	Credit Rs.
2007	Cash A/c	Dr	30,000	
Jan 1	To Banu Capital A/c			30,000
	Banu started business with cash.			
2	Bank A/c	Dr	21,000	
	To Cash A/c			21,000
	Cash paid into bank.			
3	Purchase A/c	Dr	15,000	
	To Bank A/c			15,000
	Purchase through cheque.			
7	Cash A/c	Dr	3,000	
	To Bank A/c			3,000
	Cash withdrawn from bank.			
15	Purchase A/c	Dr	15,000	
	To Siva A/c			15,000
	Credit purchases.			
20	Cash A/c	Dr	30,000	
	To Sales A/c			
	Cash sales.			30,000

25	Siva A/c	Dr	15,000	
	To Cash A/c			14,750
	To Discount A/c			250
	Cash paid to siva and discount received.			
31	Rent A/c	Dr	500	
	Salaries A/c	Dr	2,000	
	To Cash A/c			2,500
	Rent, Salaries etc paid.			

3.7.2. Preparation of Ledger Accounts :

Illustration :3. Journalise the folllowing transactions of Miss. Chitra and post them in the ledger and balance the same relating to June 2007.

1 Chitra invested Rs. 5,00,00 cash in the business.

3 Paid into Bank Rs. 80,000

5 Purchased building for Rs. 3,00,000

7 Purchased goods for Rs. 70,000

10 Sold goods for Rs. 80,000

15 Withdrew cash from bank Rs. 10,000

25 Electricity Charges Rs. 3,000

31 Salaries Rs. 15,000

Solution :

Journal Entries in the Books of Miss Chitra

Date	Particulars		Debit Rs.	Credit Rs.
Jun 1	Cash A/c	Dr	5,00,000	
	To Chitra capital A/c			5,00,000
	Started business with cash.			
3	Bank A/c	Dr	80,000	
	To Cash A/c			80,000
	Cash paid into bank.			
5	Building A/c	Dr	3,00,000	
	To Cash A/c			3,00,000
	Building purchased.			

7	Purchase A/c To Cash Cash purchase.	Dr	70,000	70,000
10	Cash A/c To Sales A/c Cash sales.	Dr	80,000	80,000
15	Cash A/c To Bank A/c Cash withdrawn from Bank.	Dr	10,000	10,000
25	Electric Charges A/c To Sales A/c Electri charge paid.	Dr	3,000	3,000
30	Salary A/c To Cash A/c Salary paid.	Dr	15,000	15,000

Ledger Accounts in the books of Miss.Chitra

Capital Account

Date	Particulars	Rs.	Date	Particulars	Rs.
30.6.07	To Balance c/d	**5,00,000**	1.6.07	By Cash A/c	5,00,000
		5,00,000			5,00,000
			1.7.07	By Balance b/d	**5,00,000**

Cash Account

Date	Particulars	Rs.	Date	Particulars	Rs.
Jun 1	To Chitra capital A/c	5,00,000	June 3	By Bank A/c	80,000
10	To Salaries A/c	80,000	5	By Building A/c	3,00,000
15	To Bank A/c	10,000	7	By Purchase A/c	70,000
			25	By Electricity A/c	3,000
			30	By Salary A/c	15,000
				By Balance c/d	**1,22,000**
		5,90,000			5,90,000
	To Balance b/d	**1,22,000**			

Bank Account

Date	Particulars	Rs.	Date	Particulars	Rs.
03.6.07	To Cash	80,000	15.6.07	By Cash A/c	10,000
			30.6.07	By Balance c/d	**70,000**
		80,000			80,000
01.7.07	To Balance b/d	**70,000**			

Building Account

Date	Particulars	Rs.	Date	Particulars	Rs.
5.6.07	To Cash A/c	3,00,000	30.6.07	By Balance c/d	**3,00,000**
		3,00,000			3,00,000
1.7.07	To Balance b/d	**3,00,000**			

Purchases Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.6.07	To Cash A/c	70,000	30.6.07	By Balance c/d	**70,000**
		70,000			70,000
1.7.07	To Balance b/d	**70,000**			

Sales Account

Date	Particulars	Rs.	Date	Particulars	Rs.
30.6.07	To Balance c/d	**80,000**	10.6.07	By Cash A/c	80,000
		80,000			80,000
			1.7.07	By Balance b/d	**80,000**

Electricity charges Account

Date	Particulars	Rs.	Date	Particulars	Rs.
25.6.07	To Cash A/c	3,000	30.6.07	By Balance c/d	**3,000**
		3,000			3,000
1.7.07	To Balance b/d	**3,000**			

Salary Account

Date	Particulars	Rs.	Date	Particulars	Rs.
30.6.07	To Cash A/c	15,000	30.6.07	By Balance c/d	**15,000**
		15,000			15,000
1.7.07	To Balance b/d	**15,000**			

3.7.3. PreparationTrial Balance:

Illustration :4. The following balances are extracted from the books of Miss.Dhivya. Prepare trial balance as on 30.12.2007.

Particulars	Rs.
Capital	4,70,000
Cash in hand	6,000
Building	3,20,000
Stock	33,000
Sundry creditors	26,000
Commission paid	750
Rent & Taxes	6,300
Purchases	1,65,000
Salaries	70,600
Discount allowed	650
Drawings	5,000
Bad debts	1,350
Machinery	1,58,800
Sundry Debtors	48,000
Repairs	5,400
Insurance premium	3,300
Sales	2,90,000

Telephone charge	6,450
Furniture	11,000
Discount earned	1,100
Loan from Mohammed	51,000
Reserve fund	5,900
Bills receivable	8,600
Bills payable	6,000

Solution :

Trial Balance of Miss. Divya as on 31.12.2007

Particulars	Dr.	Cr.
Capital		4, 70,200
Cash in hand	6,000	
Building	3,20,000	
Stock	33,000	
Sundry creditors		26,000
Commission paid	750	
Rent & Taxes	6,300	
Machinery	1,58,800	
Sundry Debtors	48,000	
Rapairs	5,400	
Insurance premium	3,300	
Sales		2,90,000
Telephone charges	6,450	
Furniture	11,000	
Discount allowed	650	
Purchases	1,65,000	
Salaries	70,000	
Drawings	5,000	
Bad debts	1,350	51,000
Loan from Mohammed		1,100
Discount earned		5,900
Reserve fund		
Bills receivable	8,600	
Bills payable		6,000
Total	**8,50,200**	**8,50,200**

Illustration :5. Miss. Eswari provides the following particulars as on 31.12.2007, prepare Trial Balance as on the above date.

	Rs.
Commenced business capital	5,00,000
Purchases Furniture for	20,000
Purchases goods	1,00,000
Purchases goods on credit form Guna	2,00,000
Cash sales	1,50,000
Credit sales	2,00,000
Salarise paid	10,000
Interest Received	5,000

Solution :

Journals Entries in the Books of Miss. Eswari for the year ended 31.12.2007

Particulars		Dr.	Cr.
Cash A/c	Dr	5,00,000	
To Capital A/c			5,00,000
Being Capital Introduced.			
Furniture A/c	Dr	20,000	
To Cash A/c			20,000
Being Furniture Purchasesed.			
Purchases A/c	Dr	1,00,000	
To Cash A/c			1,00,000
Being goods Purchases for cash.			
Purchases A/c	Dr	2,00,000	
To Guna A/c			2,00,000
Being goods Purchases an credit.			
Cash A/c	Dr	1,50,000	
To Sales A/c			1,50,000
Being cash sales.			
Debtors A/c	Dr	2,00,000	
To Sales A/c			2,00,000
Being credit sales.			
Salaries A/c	Dr	10,000	
To Cash A/c			10,000
Being Salaries paid.			
Cash A/c	Dr	5,000	
To Interest A/c			5,000
Being interest received.			

Ledger Accounts in the books of Miss. Eswari for the year ended 31.12.2007.

Cash A/c

Particualrs	Rs	Particulars	Rs
To Capital	5,00,000	By Furniture	20,000
To Cash	1,50,000	By Purchases	1,00,000
To Interest	5,000	By Salaries	10,000
		By Balance c/d	**5,25,000**
	6,55,000		6,55,000
To Balance b/d	**5,25,000**		

Capital A/c

Particualrs	Rs	Particulars	Rs
To Balance c/d	**5,00,000**	By Cash	5,00,000
	5,00,000		5,00,000
		By Balance b/d	**5,00,000**

Furniture A/c

Particualrs	Rs	Particulars	Rs
To Cash	20,000	By Balance c/d	**20,000**
	20,000		20,000
To Balance b/d	**20,000**		

Purchases A/c

Particualrs	Rs	Particulars	Rs
To Cash	1,00,000	By Balance c/d	**3,00,000**
To Credit	2,00,000		
	3,00,000		3,00,000
To Balance b/d	**3,00,000**		

Sales A/c

Particualrs	Rs	Particulars	Rs
To Balance c/d	**3,50,000**	By Cash	1,50,000
		By Credit	2,00,000
	3,50,000		3,50,000
		By Balance b/d	**3,50,000**

Creditors A/c

Particualrs	Rs	Particulars	Rs
To Balance c/d	**2,00,000**	By Purchases	2,00,000

	2,00,000		2,00,000
		By Balance b/d	**2,00,000**

Debtors A/c

Particualrs	Rs	Particulars	Rs
To Salas	2,00,000	By Balance c/d	**2,00,000**
	2,00,000		2,00,000
To Balance b/d	**2,00,000**		

Salary A/c

Particualrs	Rs	Particulars	Rs
To Cash	10,000	By Balance c/d	**10,000**
	10,000		10,000
To Balance b/d	**10,000**		

Interest A/c

Particualrs	Rs	Particulars	Rs
To Balance c/d	**5,000**	By Cash	5,000
	5,000		5,000
		By Balance b/d	**5,000**

Trial Balance of Miss. Eswari as on 31.12.2007

Particulars	Debit	Credit
Capital		5,00,000
Furniure	20,000	
Purchases	3,00,000	
Sales		3,50,000
Debtors	2,00,000	
Creditors		2,00,000
Salaries	10,000	
Interest		5,000
Cash	5,25,000	
Total	**10,55,000**	**10,55,000**

3.8. EXCERCISES

3.8.1. Passing of Journal Entries :

Exercise: 1. Journalise the following transactions of Mr.Arun for the Month of January 2007.

			Rs.
Jan	3	Received cash from Ramkumar	60,000
	4	Purchased goods for cash	15,000
	11	Sold goods to Damodaran	22,000
	13	Paid to Ramkumar	40,000
	17	Received from Damodaran	20,000
	20	Bought furniture from Jagadeesan	5,000
	27	Paid rent	1,200
	30	Paid salary	2,500

Excercise :2 Journalise the following transactions of Mr.Balaji for the Month of January 2007

			Rs.
Jan	1	Received cash form Siva	75,000
	7	Paid cash to Sayeed	45,000
	10	Bought goods for cash	27,000
	12	Bought goods on credit form David	48,000
	15	Sold goods for cash	70,000

Excercise:3. Journalise the following transactions of Mr.Cheran for the Month of January 2007

			Rs
Jan	3	Bought goods for Cash	84,500
	7	Sold goods to Dhanalakshmi on credit	55,000
	9	Received Commission	3,000
	10	Cash Sales	1,09,000
	12	Bought goods from Mahalashmi	60,000
	15	Recieved five chairs from Revathi & Co at Rs. 400 each	
	20	Paid Revathi & Co, cash for five chairs	
	28	Paid Salaries	10,000
		Paid Rent	5,000

Excercise:4. Journalise the following transactions of Mr.Dhayalan for the Month of January 2007**.**

		Rs.
Jan 1	Sold goods on credit to Mohanasundaram	75,000
12	Purchased goods on credit from Bashyam	70,000
15	Sold goods for cash form David	50,000
20	Received from Mohanasundaram	70,000
25	Paid to Bashyam	50,000

Excercise: 5 Journalise the following transactions of Mr.Arun for the Month of January 2007

		Rs.
Jan.1	Started business with cash	1,25,000
3	Purchased goods	20,000
5	Cash sales	37,000
6	Cash sales	18,000
7	Purchasesd from Mr. Velusamy	50,000
8	Crdit sales to Mr. Palani	60,000
12	Bought furniture	7,000
18	Sales to Mr. Selvendran	18,000
24	Purchased goods	1,30.000
28	Cash sales	55,000
30	Cash received from Palani	60,000
30	Paid to Mr. Velusamy	50,000

Excercise:6 Journalise the following transactions of Mr.Favourable for the Month of Jan 2007.

		Rs.
Jan 1	Started business with cash	2,50,000
6	Bought furniture	15,000
7	Cash purchase	90,000
9	Cash sales	40,000

10	Cash purchase	25,000
14	Credit sales to Moorthy	15,000
15	Credit purchase from Mr. Venkat	15,000
16	Cash sales	44,000
17	Received from Moorthy	14,500
17	Allowed discount	500
21	Paid to Venkat	14,700
21	Discount allowed by him	300
26	Advertisement	4,000
27	Electricity	2,700
30	Sales	72,000
31	Rent	4,000
31	Salaries	15,000
31	Telephone Charges	6,700

Excercise :7 Journalise the following transactions of Mr.Gokul for the Month of Jan 2007.

		Rs.
Jan 1	Introduced cash as capital	45,000
3	Paid into Bank	25,000
4	Sales	18,000
5	Purchases	15,000
18	Cash collected from Chezhian	23,700
21	Withdrawn for office use	5,000
25	Telephone charges	1,400
26	Cash sales	7,000
27	Credit purchases from Muthu	7,500
28	Credit sales to Kumar	12,000
29	Paid to Muthu	7,500
30	Cash received from Kumar	11,500
	Allowed discount	500

Excercise:8. Journalise the following transactions of Mr.Happy for the Month of Jan 2007.

		Rs.
Jan1.	Purchased goods for cash	10,000
2.	Purchased stationery for cash	500
3.	Purchased furniture for cash	3,000

4. Sold goods for cash	8,000
5. Sold goods to Jagan for cash	3,000
6. Sold goods to James	2,000
7. Paid Rent to Krishnan, the landlord	800
8. Paid salary	8,000
9. Paid salary to the manager Mr. Lokesh	3,000
10. Paid freight on goods purchased	300
11. Paid freight on machine purchased	400
12. Paid wages	500
13. Paid Wages to erect a machine	1,000

Excercise:9. Journalise the following transactions of Mr.Indian for the Month of Jan 2007

Jan	1	Business started with Rs. 2,50,00 and cash	Rs.
		Deposited with Bank	1,50,000
	3	Purchased machinery on credit from Rangan	50,000
	6	Bought furniture from Ramesh for cash	25,000
	12	Goods sold to Yesodha	22,500
	13	Goods Returned by Yesodha	2,500
	15	Goods sold for cash	50,000
	17	Bought goods for cash	25,000
	20	Cash received from Yesodha	10,000
	21	Cash paid to Raman	20,000
	25	Cash withdrawn from bank	50,000
	29	Paid advertisement expenses	12,500
	30	Bought office stationery for cash	5,000
	31	Cash withdrawn from bank for personal use of the proprietor	6,250
	31	Paid salaries	15,000
	31	Paid rent	2,500

Excercise:10. Journalise the following transactions of Mr.Jaggu for the Month of Jan 2007.

			Rs
Jan	1	Arul commenced business with	21,000
	2	Bought goods for Cash	9,200

4	Sold goods to Kannan on Credit	5,600
5	Purchased goods form Mani	3,300
9	Received Cash from Kannan	3,600
11	Paid Mani on account	2,100
16	Sold goods to Manohar	3,500
21	Cash Sales	7,500
26	Paid Mani	1,200
29	Received Cash from Manohar	3,500
30	Paid Rent	450
30	Paid Salaries to Office Staff	700

3.8.2. Preparation of Ledger Accounts

Excercise :11 Journalise the following transactions of Mr.Karuna and post them to proper ledger accounts relating to the month of January 2007.

		Rs.
Jan. 1	He started business with a capital of	10,000
4	Bought goods from Velan	6,750
7	Cash Purchases	3,000
10	Cash Sales	4,000
13	Bought goods from Velan	2,000
16	Sold goods to Gurunath	5,000
18	Paid Cash to. Velan	2,850
19	Sold goods to Gurunath	500
24	Paid Velan on account	2,400
26	Reecived cash from Gurunath	1,650
27	Paid Salaries	1,250

Excercise:12 . Journalise the following transactions of Mr.Lallu and post them to proper ledger accounts relating to the month of January 2007.

			Rs
Jan	1	Started business with	4,50,000
	3	Goods purchased	70,000
	5	Doods sold	15,000
	10	Goods purchased from Rangasamy	2,00,000
	16	Goods returned to Rangasamy	5,000
	23	Drew from bank	30,000

26	Furniture purchased	10,000
26	Settled Rangasamy's account	
31	Salaries paid.	12,000

Excercise:13 Journalise the following transactions of Mr.Murugan and post them to proper ledger accounts relating to the month of January 2007.

			Rs.
Jan	1	He started business with	3,00,000
	3	Opened a current account with Indian Overseas Bank	50,000
	12	Bought goods from Tmt. Sumathi	90,000
	18	Paid to Tmt. Sumathi	90,000
	20	Sold goods to Tmt. Chitra	1,26,000
	26	Tmt. Chitra settled her account	

Excercise:14. Journalise the following transactions of Mr. Naresh and post them to proper ledger accounts relating to the month of January 2007.

			Rs.
Jan	5	Sold goods to Arumugam on Credit	17,500
	9	Bought goods for cash from Chellappan	22,500
	12	Met Travelling expenses	2,500
	15	Sivakumar Received from as loan	80,000
	21	Paid wages to workers	3,000

Excercise:15. Journalise the following transactions of Mr.Original and post them to proper ledger accounts relating to the month of January 2007.

			Rs
Jan	1	He commenced business with the following assets and liabilities.	
		Plant and Machinery	2,50,000
		Stock	90,000
		Furniture	7,000
		Cash	50,000
		Sundry creditors	1,50,000
	2	Sold goods to Sundar	1,50,000
	3	Bought goods from Natarajan	56,000
	4	Sundar Paid cash	1,25,000
	5	Returned damaged goods to Natarajan	2,000
	9	Paid to Natarajan	28,000
	31	Paid Rent	5,000
		Paid Salaries	9,000

Excercise:16. Journalise the following transactions of Mr.Purushothaman and post them to proper ledger accounts relating to the month of January 2007.

		Rs
Jan 1	Received cash from Ramesh	1,60,000
5	Bought goods for cash	60,000
7	Sold to Suresh	30,000
15	Bought from Dayalan	40,000
18	Sold to Ganesan	50,000
20	Withdrew cash for personal use	18,000
25	Received commission	20,000
30	Paid Rent	5,000
30	Paid Salary	10,000

3.8.3. Preparation of Trial Balance:

Excercise:17. Prepare Trial Balance as on 31.3.2004 from the books of Miss Quick.

	Rs.
Capital	2,49,000
General expenses	97,000
Machinery	1,18,000
Wages	14,000
Bad debts	1,100
Sales	3,30,000
Commission	5,500
Bills payable	7,700
Bank overdraft	28,600
Discount	1,210
Drawings	24,000
Building	78,000
Stock	1,32,400
Insurance	2,610
Creditors	5,000
Loan Cr..	75,000
Purchases	2,10,800
Reserve Fund	15,000
Cash in hand	25, 320

Excercise :18. Prepare trial balance as on 31.12.2002 from the following balances of Mr. Raghul.

	Rs.
Drawings	74,800
Stock 1.1.2007.	30,000
Capital	2,50,000
Furniture	33,000
Sundry creditors	75,000
Printing charges	1,500
Bank loan	1,20,000
Freight	3,500
Income tax	9,500
Machinery	2,15,400
Purchases	2,95,700
Discount received	1,000
Discount allowed	950
Sales	3,35,350
Rent	72,500
Sundry expenses	21,000
Bills receivable	52,500
Carriage outwards	1,500
Insurance	1,200
Bills payable	31,700

Excercise:19. Prepare trial balance as on 31.3.2007 from thefollowing balance of Mr. Sathish..

	Rs.
Drawings	43,000
Capital	2,12,000
Sundry creditors	61,500
Bills Payable	22,000
Sundry Debtors	55,000
Bills Receivable	72,600
Loan from Shyam	2,50,000

Furniture & Fittings	12,250
Opening stock	2,23,500
Cash at bank	86,250
Purchases	2,98,000
Sales	3,64,000
Salaries	44,950
Sales return	500
Purchases return	2,550
Travelling expenses	12,300
Commission Paid	250
Discount earned	2,000
Cash in hand	65,450

Excercise: 20. Prepare trial balance as on 31.3.2007 from the following balance of Mr.Tamil Mani.

	Rs.
Capital	4,20,000
Building	1,15,000
Machinery	60,000
Furniture	11,000
Car	68,000
Opening stock	86,000
Purchases	94,000
Sales	1,96,000
Sundry debtors	16,200
Reserve for	7,300
Cash in hand	25,000
Cash at bank	84,700
Salaries	94,000
Rent	48,000
Commission	1,400
Rates and Taxes	2,600
Bad debts	3,200

Insurance	2,400
Geneal Expense	800
Sundry Creditors	68,000

3.9. Let Us Sum Up : In this lesson we have discussed a theoretical procedure of accounting equation and practical applications of journal, ledger and trial balance.

3.10. Lesson End Activities :

1. What is meant by journal ? Mention the rules for journalizing .
2. What is meant by ledger ? Explain the rules regarding posting and balancing of ledger accounts .
3. What is meant by subsidiary books ? What are its various contents ?

3.11. Model Answers to Check your Progress :

Ex : 17.
Debit : 97,000 +78,000 + 24,000 + 1,32,400 + 2,610 + 1,100 + 5,500
+ 25,320 + 1,18,680 + 14,400 + 1,210 + 2,10,800 = **7,11,020**
Credit : 2,49,000 + 3,30,720 + 7,700 + 28,60 + 5,000 + 75,000+ 15,000 = **7,11,020**

Ex : 18.
Debit : 30,000 + 74,800 + 33,000 + 2,95,700 + 950 + 1500 + 3,500 +
` 9500 + 2,15,400 + 72,500 + 21,000 + 52,500 + 1,500 + 1,200 = **8,13,050**
Credit : 2,50,000 + 1,000 + 3,35,350 + 75,000 + 1,20,000 + 31,700 = **8,13,050**

Ex : 19.
Debit : 43,000 + 72,600 +55,000 + 2,98,000 + 86,250 + 250 + 44,950
+ 500 + 12,300 + 12,250 + 2,23,500 + 65,450 = **9,14,050**
Credit : 2,12,000 + 61,500 + 22,000 + 3,64,000+2,550 + 2,50,000+ 2,000 = **9,14,050**

Ex : 20
Debit : 1,15,000 + 60,000 + 11,000 + 68,000 + 86,000 + 94,000
+ 16,200 + 25,000 + 84,700 + 94,000 + 48,000 + 1,400 + 2,600
+ 3,200 + 2,400 + 800 = **7,12,300**
Credit : 4,20,000 + 1,96,000 + 7,300 + 68,000 + 21,000 = **7,12,300**

3.12 References :

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers

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LESSON 4

RECTIFICATION OF ERRORS

Contents :

4.0. Aims and Objectives : In this lesson we are going to discuss

- meaning of errors
- various types of errors
- various stages involved in the rectification of errors.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

4.1. Introduction :

As we discussed in the previous chapters, accounting proceedure include various books and accounts at different stages. The main purpose such proceedure is maintain the accuracy of the data in each stage of accounting. But, practically due to so many obivious reasons the accuracy in the statements is often distrubed which are called as errors.The present chapter deals with various types opf errors and proceedure for rectification of such errors .

4.2. Meaning of Errors :

An error is a mistake and rectification means correcting the mistakes that have occured . A firm is primarily interested in finding out its true profit and financial position, at every period of closing the financial year. The staff incharge of account section put best effort to be careful and most accurate in regarding the transactions. But due to human element present in the work accuring of mistakes. or errors are unavoidable.

(4.3) Meaning of Rectification of Errors :

It is important to note that erasing or striking of figures should be avoided in the books of accounts. Because erasing or striking of figures tend to discredit the regards and gives chances for fraud. It also reduces the legal value of the books of accounts, apart from giving a dirty look. Therefore it is necessary to follow some commonly accepted proceedure for rectifying errors. If a posting of an item is omitted, then the amount should be posted immediately. But, if a wrong posting is made, it can be corrected by passing and adjusting entry.

4.4. Classification of Errors :

Errors

- On the Basis of Nature
  - Error of omission
  - Error of commission
  - Error of principle
  - Compansating error.
- On the Basis of Effect on Trial Balance
  - Disclosed by Trial Balance
  - Not disclosed by trial balance
- On the Basis of Effect on Number of Accounts
  - One-sided error
  - Two-sided error

4.4.1. Errors of Omission : If a transaction is completely omitted, there will be no effect on the Trail Balance.When a transaction goes completely unrecorded in both aspects or a transaction after being recorded in the books of primary entry is not at all posted in the ledger, the error is an error of omission. For instance, if a credit purchase is omitted to be recorded in the purchase day book, then it will be omitted to be posted both in the Purchase Account and and suppliers account.

4.4.2. Errors of Commission : In this context commission means doing something which should not have been done. It is occured due to lack of concentration or carelessness while preparing accounts. This type of error may be arise in the following cases.

i. Entering wrong amount in a subsidiary book.

ii. Entering correct amount in a wrong subsidiary book.

iii. Right amount in the wrong side of correct account.

iv. Wrong amount in the right side of correct account.

v. Wrong amount in the wrong side of correct account.

vi. Wrong amount in the wrong side of wrong account.

vii. Error of balancing of accounts.

4.4.3. Error of principle : An error of principle is an error which violates the fundamental concepts and conventions of accounting. This type of error may be arise in the following cases.

i. Treating capital expenditure as revenue expenditure.

ii. Treating Revenue expenditure as Capital expenditure.

iii. Improper valuation of investments .

iv. Improper valuation of stock.

v. Inadequate or excess provisions for depreciation.

vi. Inadequate or excess provision for doubtful debts.

4.4.4. Compensating Errors : Those are errors that cancel each other, and because of this they are rather not simple to discover, they may be disimilar in nature, but are of a similar amount. For examples: i. Under posting of the purchases books may be compensated are cancelled out with the undercasting of the sales book by a similar amount. ii. Omission of posting of a certain amount on the debit side of an account may be compensated by excess posting of the similar amount on the debit side in some other account or accounts. Compansating errors do not affect to the agreement of the Trail Balance. Such errors will remain even inspite of the fact that the Trail Balance agrees.

4.4.5. Errors Disclosed by Trail Balance : The following are the error due to which the trail balnce does not agree. These are the errors which are disclosed by the trial balance. Trial Balance, In general, Discloses any error which effects one side of the account. For examples : an error in casting the books of subsidiary records , error in carrying forward the one page to another page., error in posting from the books of subsidiary record of ledger. Error in balancing the accounts, error in preparation of debtors schedule and creditor schedule, for getting to carry forward a balance of an account to the trial balance, omission of casting, error in total in the trial balance, for getting to right cash book balnce in the trial balance.

4.4.6. Errors Not Disclosed by Trial Balance : Following are some of the errors which will not affect the agreement of the trial balnce. These are the erors which are not disclosed by the trial balance.

a. Omission in recording the transaction in the books of original entry : If a transaction is not recorded, then both debit and credit effects of that transactions will be ommitted and the trail balnce will not be affected.

b. Wrong recording in the original books : Again, trial balanace will not be affected because the same amount though wrong. will be shown on both sides of the trial balance .

c. Posting to wrong account with correct account and on correct side : If debit of Rs. 1,000/- to Ram is wrongly posted to the debit side is corrrect. of Rammohan's account Rs. 1,000/- amount is correct. , trial balance will remain unaffected.

d. Compansatory errors : Such errors also do not affect the agreement of a trial balnce. For getting to post Rs.1,000/- on the debit side of a certain account may be compensated by under posting of Rs. 1,000/- on the credit side of some other account or by over posting of Rs.1,000/- on the debit side in some other account.

4.4.7. One Sided Error : Errors which affect one account can be error of a. Casting , b. Carry forward c. Posting d. Balancing e. forgetting to shown in the trial balance. Such errors should first be located and then rectified by giving an explanatory note or by giving a journal entry with the help of a suspense account.

4.4.8. Two Sided Error : Errors which affect two or more accounts are as follows : a. Error of omisssion b. error of recording c. error of posting to wrong account d. error of principle. As these errors affect two or more accounts, rectificationof such errors can be done with the help of journal entry. Some times, where journal entry is not possible , the rectificationis carried out by given explanatory notes.

4.4.9. Suspense Account : When it is difficult to locate the mistakes before preparing the final accounts, the difference in the Trial Balance is transferred to a newly opened imaginary and temporary account called Suspense Account. The Suspense Account is prepared to avoid the delay in the preparation of final accounts.

4.5 Stages in Rectification of Errors :

The time of deduction of errors decide the mode of rectification. To be more detailed, the errors can be rectified in three stages as follows :

4.5.1. Pre- Trial Balance Stage : This is a stage where the final trial balance is not prepared . Rough trial balance is drawn and totals are done. If the totals of the trial balance disagree, then we have to take steps which have been explained in the previous pages. If still the trial balance is not agreed, the errors are to be found out . The errors are rectified in the rough trial balance and final trial balance is made for the preparation of final accounts.

4.5.2. Pre-Final Accounts Stage: When the trial balance disagrees , efforts are made to locate the errors and to rectify them. When the error cannot be located, and the preparation of the final accounts is urgent. The difference in the trial balance is made good by writing it temporarily in the smaller side of the trial balance, under the name of suspense account. The suspense account is only a temporary device which should not be allowed to remain in the books for long. In the next accounting period , attempts must be made to discover the errors which caused the difference in the trial balance. Again if the credit side of the trial balance is shorter, the suspense account is credited and if the debit side of the trial balance is shorter, if the suspense account is debited. Thus, the trial balance is artificially tallied and the final accounts are prepared. The suspense account is shown in the balance sheet. If the suspense account shows a debit balance, it appears on the assets side and if it shows a credit a balance, it appears on the liability side. For every kind of error: one –sided or two sided errors there will be journal entries.

4.5.3. Post Final Accounts Side: This is a stage where the preparation of trial balance and Final Accounts is completed. That, if the errors in the accounts are not readily traceable, then the difference in the trial balance is placed in the Suspense Account and the Final Accounts- Trading and Profit and Loss Account and Balance Sheet, are prepared. Since the suspense account is entered in the trial balance it has to be incorporated in the final accounts. If the Suspense is placed in the balance sheet, suspense account should be reopened in the next financial year and as and when errors committed in the previous year are located, rectification entry should be made. Thus finally, suspense account shoals be completely be closed when all such errors committed in previous year are located and rectified. An error in a nominal account and some real accounts affects the trading result. After the preparation of final accounts , nominal account must not be rectified through the concerned nominal accounts. Moreover, the profits disclosed in the previous year differ from the true profits. Therefore, such errors are rectified through profit and loss adjustment account. It should be remembered that only those rectifying entries are made through profit and loss adjustment accounts which are normally related with the items of trading and profit and loss account. Similarly, after the rectification of errors, the balance of the new profit and loss adjustment account are transferred to capital account.

4.5.4. Subsequent Accounting Years Stage : If errors are located during subsequent accounting years, the following aspects should be noted for the rectification.

i. As per the requirement, Personal Accounts and Real Accounts can be debited and credited in the rectification entries. Similarly, suspense accounts can also be debited or credited as the case may be.

ii. It is not possible to debit or credit accounts, which are usually closed by transferring to trading account or profit and loss account because those accounts where already closed for the year in which the error was committed. If the nominal accounts or the goods accounts are debited or credited as a part of rectification, the subsequent years accounts in which rectification is made, will be unnecessarily affected.

iii. Profit and Loss adjustment account or Capital accounts of the owners can be directly debited or credited for the purpose of rectification, after assessing the impact of rectification on the profit.

4.6. Let Us Sum Up : In this lesson we have discussed meaning and significance of errors, the various types of errors and the procedure for rectification of such errors.

4.7. Lesson End Activities :

1. What is meant by error ? Explain various types of errors.
2. What is meant by rectification error ? What are the stages involved in the rectification?
3. Write short note in a. Error of Principle b. Error of Compensation c. Errors disclosed by Trial Balance d. Errors not disclosed by Trail Balance e. Suspense Account.

4.8. Model Answers to Check your Progress :

Question No.1. Refer para4.2.,Question No.2.Refer para4.3.,Question No.3.Refer para4.4.

4.9 References:

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers

LESSON 5

FINAL ACCOUNTS OF SOLE TRADERS

Contents :

5.0. Aims and Objectives : In this lesson we are going to discuss

- meaning and procedure of preparation of trading account
- meaning and procedure of preparation of manufacturing account
- meaning and procedure of preparation of profit and loss account
- meaning and procedure of preparation of balance sheet.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

5.1. Introduction :

A Trial Balance marks a definite stage in the preparation of accounts. It indicates that all the transaction for a particular period has been duly entered, posted and balanced. But this it self is not the end of book-keeping work. Its a means to an end, the end being a. to find out the profit or loss made by the business firm in given period and b. to understand the financial position of the business as on a given date. A business man can ascertain these by preparing the final accounts, which is prepared on the basis of the trial balance. The Preparation of final accounts is the last step in the accounting circle. The final account includes manufacturing account, trading accounts, profit and loss account and balance sheet. Even though the balance sheet is a statement, for all practical purposes, it is treated as part of final accounts. We are concerned with trading and profit and loss account and balance sheet and the same are discussed in this chapter.

5.2. Trading Account :

Trading account is prepared mainly to know the profitability of goods bought or manufacture and sold by the business man. The difference between the selling price and cost price of the goods is the gross result. The term ‘Goods’ means the goods bought for resale. It does not include assets. If sale proceeds are more than the cost of goods sold, gross profit is made. If sale proceeds are less than the cost of the goods sold, gross loss is incurred.

Format:

Trading Account for the year ended on 31st December

Dr.	Rs.		Cr. Rs.
To Opening Stock	-	By Sales less Return	-
To Purchases less Returns	-	By Closing Stock	-
To Wages	-		-
To Charges	-		-
To Freight	-		-
To Dock Charges	-		-
To Excise Duty	-		-
To Octopi	-		-
To Import duty	-		-
To Fuel, Power etc.	-		-
To Store Consumed	-		-
To Royalty Production Basis.	-		-
To Manufacturing expenses	-		-
To Gross Profit	-		-
	-		-

5.3. Manufacturing Account :

A business man purchases finished goods for resale where as a manufacturer buys raw materials, converts them in to finished goods, by incurring certain expenses, and then sells them. Thus, Trading Account is spitted into two-Manufacturing Account and Trading Account. Manufacturing account is the account to show the cost of manufacture or production. On the debit side, opening stock of raw materials, work-in-process, purchase of raw materials, carriage, manufacturing expenses and all other expenses relating to factory are

entered. On the credit side, closing stock of raw materials, work-in-process, are shown and the balance, representing the cost of production of finished goods, is transferred to Trading

Account. If one wants to know the cost of manufacturing, then as Manufacturing Account- will have to be prepared.

5.4. Profit and Loss Account :

By preparing the Trading Account, its possible to find out the Gross Profit or Gross Loss made during the given period. The next step is the preparation of the Profit and Loss Account to ascertain net profit earned or net lost suffered during a given period of time. The balance of Trading Account is brought down to Profit and Loss Account. Then, the Profit and Loss Account is credited with other incomes and debited with all indirect expenses. Then the Profit and Loss Account may be balance and the balance is Net Profit or Not Loss. to be transferred to capital account, in case of sole trader or partnership firms.

Profit and Loss Account for the year ended 31 st December

Dr.			Cr.
	Rs.		Rs.
To Gross Loss	-	By Gross Profit	-
To Management expenses	-	By Interest Received	-
Office Salaries	-	By Discount Received	-
Rent of Office Building	-	By Commission	-
Office Lighting	-	By Income from Investment	-
Office, Rent and Taxes		By Apprenticeship Premium	-
Printing and Stationery	-	By Rent from tenants	-
Telephone Charges	-	By Reserve for Dis on Creditors	-
Postage	-	By Interest on Renewal of Bills	-
Legal Expenses	-	By Miscellaneous income	-
Audit Fees	-	By Net Loss	-
Insurance	-		
General expenses etc.	-		
To Selling expenses :	-		
Salesman Salaries	-		
Traveling expenses	-		
Advertising	-		
Bad Debts	-		
Selling Commission	-		
Brokerage	-		
Free Samples	-		
To Distribution expenses :	-		
Carriage out	-		
Warehouse Rent	-		
Warehouse Insurance	-		
Delivery Van expenses	-		
Packing expenses	-		
To Depreciation :	-		
Depreciation of Assets	-		
Maintenance expenses	-		
To Finance expenses :	-		
Discount Allowed	-		
Interest on Loan	-		
Interest on Capital	-		
Discount on Bills	-		

Loss by Fire	-		
To Net Profit	-		

5.5. Balance Sheet:

A Balance Sheet is a statement of the financial position at a given date. The given date is the date at which the final accounts are prepaid. Transactions are first recorded in journal. Entries in the journal are posted to ledgers. Ledger accounts are balanced and the balances are recorded in a Trial Balance. Trial Balance consists of all Accounts – Personal, Real and Nominal. From the Trial Balance, nominal accounts are transferred to Trading or Profit and Loss Account and the remaining balances are taken to Balance Sheet. However, Balance Sheet is a summary of whole of the accounting record. This is because the nominal accounts are transferred to Revenue Accounts, and Revenue account is closed by shifting the balance to the Balance Sheet. Balance Sheet is also known as a Statement of Assets and Liabilities. Balance sheet is the last and the most important link in the chain of Final Accounts and Statements. It describes the financial position of a business in a systematic standard form. It is a mirror of a business. When the assets exceed the liabilities, one can conclude that the business is sound and solvent. The function of the Balance Sheet is to show the picture of the business on a particular date.

Balance Sheet as on

Liabilities	Rs.	Assets	Rs.
Current liabilities		Liquid assets	
Bills Payable		Cash in Hand	
Sundry Creditors		Cash at Bank	
Bank Overdraft		Cash in Transit	
Long Term Liabilities		Floating Assets	
Loan from Bank		Sundry Debtors	
Deposits		Investments	
		Bills Receivable	
Fixed Liabilities		Stock in Trade	
Capital		Prepaid expenses	
		Fixed Assets	
		Plant and Machinery	
		Buildings	
		Furniture & Fixtures	
		Land	
		Fictitious Assets	
		Advertisement	
		Miscellaneous expenses	
		Profit & Loss	
		Intangible Assets	
		Goodwill	
		Patents	
		Patterns	
		Copyright	

5.6. Adjustments :

Following are the Adjustments that are to be considered while preparing final accounts. Each and every adjustment is to be posted in two places. The following is the summary of those two places for each adjustment.

1. Closing Stock.
   i. Trading Account Credit Side, show as an item.
   ii. Balance Sheet Assets Side, show as an item.

2. Depreciation
   i. Balance Sheet Assets Side, deduct from particular asset.

ii. Profit and Loss Account debit side, show as an item.

3. Outstanding Expenses
   i. Profit and Loss Account Debit side, add with particular expense.
   ii. Balance Sheet Liabilities side show as an item.
4. Prepaid Expenses
   i. Profit and Loss Account Debit side, deduct from particular expense.
   ii. Balance Sheet Assets side, show as an item.
5. Accrued Income or Outstanding Income
   i. Profit and Loss Account Credit side, add with particular income.
   ii. Balance Sheet Assets side, show as an item.
6. Income Received in Advance
   i. Profit and Loss Account Credit side, deduct from particular income.
   ii. Balance Sheet Liabilities side, show as an item.
7. Interest on Capital
   i. Balance Sheet Liabilities side, add with capital.
   ii. Profit and Loss Account Debit side, show as an item.
8. Interest on Drawings
   i. Balance Sheet Liabilities Side, deduct from capital.
   ii. Profit and Loss Account Credit side, show as an item.
9. Bad Debts
   i. Balance Sheet Assets side, deduct from sundry debtors.
   ii. Profit and Loss Account Debit side, show as an item.
10. Provision for Bad debts
   i. Balance Sheet Assets side, deduct from sundry debtors.
   ii. Profit and Loss Account Debit side, show as an item.
11. Provision for Discount on debtors
   i. Balance Sheet Assets side, deduct from sundry debtors.
   ii. Profit and Loss Account Debit side, show as an item.
12. Provision for discount on creditors
   i. Balance Sheet Liabilities side, deduct from sundry creditors.
   ii. Profit and Loss Account Credit side, show as an item.
13. Drawings of Goods by proprietor
   i. Balance Sheet Liabilities side, deduct from capital.
   ii. Trading Account Credit side, show as an item.
14. Free Samples to customers
   i. Trading Account Credit side, show as an item.
   ii. Profit and Loss Account Debit side, show as an item.
15. Loss of Stock
   i. Trading Account Credit side, show as an item.
   ii. Profit and Loss Account Debit side, show as an item.
16. Manager Commission
   i. Profit and Loss Account Debit side, show as an item.
   ii. Balance Sheet Liabilities side show as an item.

Note : While calculating manager commission on Net Profit or Gross Profit due consideration is to be given whether it is based on Profit before charging such commission or after charging such commission

5.7. ILLUSTRATIONS

5.7.1. Treatment of Certain Items

i. Bad Debts given in the Trial Balance only

Illustration :1. From the following particulars, calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	Rs. 1, 00,000
Gross profit as per trial balance	Rs. 50,000
Bad debts as per trial balance	Rs. 1,000

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Rs. 1,00,000 No adjustment is required.

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts	1,000	By Gross Profit	50,000
To Net Profit	**49,000**		
	50,000		50,000

ii. Bad Debts given in the Adjustments only

Illustration :2. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1, 00,000
Gross profit as per trial balance	50,000
Bad debts as per Adjustments	2,000

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts	2,000	
		98,000

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts	2,000	By Gross Profit	50,000
To Net Profit	**48,000**		
	50,000		50,000

iii. Bad Debts given in the both Trial Balance and Adjustments

Illustration :3. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1, 00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors 1,00,000

Less : Bad debts	2,000	
		98,000

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts		2,000	By Gross Profit	50,000
Existing T.B.	1,000			
Add: New Adj.	2,000	3,000		
To Net Profit		**47,000**		
		50,000		50,000

iv. Provision for Bad Debts given in the Trial Balance only.

Illustration :4. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for bad debts as per adjustments	800

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts	2,000	
		98,000

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts		2,000	By Gross Profit	50,000
Existing T.B.	1,000			
Add: New Adj.	2,000	3,000		
To Provision for bad debts		800		
To Net Profit		**47,000**		
		50,000		50,000

v. Provision for Bad Debts given in Adjustments only

Illustration :5. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000

Provision for bad debts 2% on debtors as per adjustments.

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts Adjustments.	2,000	
	98,000	
Less : Provision for bad debts Adjustments.	2,000	

1,00,000x2%.

96,000

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts Trial Balance.	1,000		By Gross Profit	50,000
To Bad debts Adjustments.	2,000	3,000		
To Provision for bad debts		2,000		
To Net Profit		**45,000**		
		50,000		50,000

vi. Provision for Bad Debts given in both Trial Balance and Adjustments.

a. Increase

Illustration :6. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for Bad debts as per trial balance	800

Provision for bad debts 2% on debtors as per adjustments.

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts Adjustments.	2,000	
	98,000	
Less : Provision for bad debts Adjustments. 98,000x2%.	1,960	
		96,040

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts Trial Balance.	1,000		By Gross Profit	50,000
To Bad debts Adjustments.	2,000	3,000		
To Provision for bad debts Adjustments.	1,960			
Less: Provision for Bad debts Trial Balance.	800	1,160		
To Net Profit		**45,840**		
		50,000		50,000

b. Decrease

Illustration :7. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000

Provision for Bad debts as per trial balance	2,100

Provision for bad debts 2% on debtors as per adjustments.

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts Adjustments.	2,000	
	98,000	
Less : Provision for bad debts Adjustments. 98,000x2%.	1,960	
		96,040

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts Trial Balance.	1,000		By Gross Profit		50,000
To Bad debts Adjustments.	2,000	3,000	By P.B.D T.B.	2,100	
To Net Profit		**47,140**	By P.B.D Adjustment.	1,960	140
		50,140			50,140

vii. Provision for Discount given in the Trial Balance only

Illustration :8. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for Bad debts as per trial balance	800
Provision for Discount as per trial balance	300

Provision for bad debts 2% on debtors as per adjustments.

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts Adjustments.	2,000	
	98,000	
Less : Provision for bad debts Adjustments. 98,000x2%.	1,960	
		96,040

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts Trial Balance.	1,000			By Gross Profit	50,000
To Bad debts Adjustments.	2,000	3,000			
To Provision for bad debts Adjustments.	1,960				
Less: Provision for Bad debts Trial Balance.	800				
	1,160				
To Provision for Discount	300		860		
To Net profit			**46,140**		
			50,000		50,000

viii. Provision for Discount given in the Adjustments only

Illustration :9. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for Bad debts as per trial balance	800
Provision for Discount 1%	
Provision for bad debts 2% on debtors as per adjustments.	

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts Adjustments.	2,000	
	98,000	
Less : Provision for bad debts Adjustments. 98,000x2%.	1,960	
	96,040	
Less : Provision for Discount 1%	960	
		95,080

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts Trial Balance.	1,000			By Gross Profit	50,000
To Bad debts Adjustments.	2,000	3,000			
To Provision for bad debts Adjustments.	1,960				
Less: Provision for Bad debts Trial Balance.	800				
	1,160				
To Provision for Discount 1%	960		200		
To Net profit			**46,800**		
			50,000		50,000

ix. Provision for Discount given in both Trial Balance and Adjustments

Illustration :10. From the following particulars calculate Amount of Debtors balance to be shown in the balance sheet and amount of Net Profit assuming that all other items are not relevant.

Sundry debtors as per trial balance	1,00,000
Gross profit as per trial balance	50,000
Bad debts as per trial balance	1,000
Bad debts as per adjustments	2,000
Provision for Bad debts as per trial balance	800
Provision for Discount as per trial balance	300
Provision for Discount 1%	

Provision for bad debts 2% on debtors as per adjustments.

Solution :

i. Calculation of Amount of Debtors to be shown in the balance sheet.

Sundry debtors	1,00,000	
Less : Bad debts Adjustments.	2,000	
	98,000	
Less : Provision for bad debts Adjustments. 98,000x2%.	1,960	
	96,040	
Less : Provision for Discount 1%	960	
		95,080

ii. Calculation of amount of Net Profit

Profit and Loss Account

To Bad debts Trial Balance.	1,000		By Gross Profit	50,000
To Bad debts Adjustments.	2,000	3,000		
To Provision for bad debts Adjustments.	1,960			
Less: Provision for Bad debts Trial Balance.	800	1,160		
To Provision for Discount 1%	960			
Less : Provision for Discount Trial Balance.	300	660		
To Net Profit		**45,180**		
		50,000		50,000

x. Manager Commission before charging such commission.

Illustration :11.

Gross Profit	1,00,000
Expense as per Profit and Loss A/C	80,000

Manager Commission 2% before charging such commission.

Solution:

Calculation of Manager Commission

Gross Profit	1,00,000	
Less : Expenses	80,000	
Net profit before commission	20,000	
Less : Manager Commission20,000x2/100.	400	
Net Profit `		**19,600**

xi. Manager Commission after charging such commission.

Illustration :12.

Gross Profit	1,00,000
Expense as per Profit and Loss A/C	80,000

Manager Commission 2% after charging such commission.

Solution:

Calculation of Manager Commission

Gross Profit	1,00,000	
Less : Expenses	80,000	
Net Profit before commission	20,000	

Less : Manager Commission20,000x2/102.	392	
Net Profit		**19,608**

5.7.2. Preparation of Trading Account

Illustration: 13. The following balances were extracted from the books of a sole trader Mr.Anchaneyar on 30th June 2007. Prepare Trading Account for the above period:

	Rs.
Opening Stock	2,000
Closing Stock	1,500
Returns Inward	300
Returns Outward	200
Wages	350
Purchases	4,000
Sales	7,000
Freight	100
Carriage	75

Solution:

Trading Account for the year ended on 30th June 2007

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		2,000	By Sales	7,000	
To Purchases	4,000		Less: Returns	300	6,700
Less: Returns	200	3,800	By Closing Stock		1,500
To Wages		350			
To Freight		100			
To Carriage		75			
To Gross Profit		**1,875**			
		8,200			8,200

5.7.3. Preparation of Manufacturing Account

Illustration :14. From the following particulars of Mr. Bhagawan, prepare Manufacturing Account for the year ended 31 st December 2007.

	Rs.		Rs.
Purchase of raw materials	13,195	Interest Bank Loan	600
Returns Inward	70	Stock, 1 st Jan. 2007	
Stock on 31st Dec. 2007		Raw Materials	400
Raw Materials	1,210	Work-in-progress	300
Work-in-progress	1,000	Finished Goods	410
Finished Goods	1,370	Sales	19,500
Productive Wages	2,000	Returns Outward	85
Factory Expenses	1,840	Carriage Outward	105
Office Expenses	300	Carriage Inward	100
Salaries	600	Discount Allowed	10
Distributing Expenses	100	Sale of Scrap	20
Selling Expenses	700	Depreciation on Machinery	500
Purchase Expenses	600	Repairs to Machinery	100
Export Duty	300	Depreciation on Office furniture	40
Import Duty	200		

Solution :

Manufacturing Account for the year ended on 31st December 2007

Particulars			Rs.	Particulars	Rs.
To Work-in-Progress			300	By Sales of Scrap	20
To Materials Consumed:				By Work-in-Progress	1,000
Opening Stock		400		By Cost of Finished goods	**16,920**
Purchases :	13,195				
Less : Returns	85	13,110			
		13,510			
Less : Closing Stock		1,210	12,300		
To Wages			2,000		
To Factory Expenses			1,840		
To Purchase Expenses			600		
To Import Duty			200		
To Carriage Inward			100		
To Depreciation of Machinery			500		
To Repairs to Machinery			100		
			17,490		17,490

5.7.4. Preparation of Profit and Loss Account

Illustration: 15. From the following figures, prepare profit and loss account of Mr. Cheran for the year ending 31 st December 2007.

	Rs.		Rs.
Salaries and wages	3,000	Advertising	1,000
Commission paid	200	Discount allowed	1,800
Postage and telegram	150	Rent received	1,700
Insurance	300	Interest on Investment	1,500
Interest paid	400	Bad debts	900
Carriage out	500	Brokerage paid	95

The gross profit was 45% of sales, which amounted to Rs. 65,000

Solution :

Profit and loss A/c of Mr. Cheran for the year ending on 31 st December 2007.

Particulars	Rs.	Particulars	Rs.
To salaries	3,000	By Gross Profit 65,000 x 45%.	29,250
To Commission	200	By Rent received	1,700
To Postage and Telegram	150	By Interest on Investment	1,500
To Insurance	300		
To Interest	400		
To Carriage out	500		
To Advertisement	1,000		
To discount allowed	1,800		
To bad debts	900		
To Brokerage	95		
To Net Profit	**24,105**		
	32,450		32,450

5.7.5. Preparation of Balance Sheet

Illustration :16. From the following balances of Mr. Dinesh for the year ended 31 st December 2007.

	Rs
Capital	2,00,000
Closing Stock	40,000
Fixed Assets	62,000
Sundry Debtors	2,00,000
Net Profit	42,000
Creditors	75,000
Liabilities for Expenses	11,000
Drawings	6,000
Cash and bank	20,000

Solution:

Balance Sheet of Dinesh as on 31 st December 2007

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital	2,00,000		Fixed Assets		62,000
Add: Net Profit	42,000		Stock		40,000
	2,42,000		Debtors		2,00,000
Less: Drawings	6,000	2,36,000	Cash and bank		20,000
Sundry Creditors		75,000			
Liabilities for Expen		11,000			
		3,22,000			**3,22,000**

5.7.6. Preparation of Final Accounts with Single Adjustment

Illustration :17. From the following trial balance of Mr. Elangovan prepare Trading and Profit & Loss Account for the year ended 31-12-2007 and Balance Sheet as on that date. Stock as on 31-12-2007 is Rs.62,000

	Debit Rs.	Credit Rs.
Cash in hand	2,250	
Cash at bank	17,750	
Stock 1-1-2002	36,000	
Purchases	1,20,000	
Carriage inwards	4,200	
Factory Rent	6,000	
Return outwards		2,000
Sales		2,72,000
Sundry debtors	28,000	
Sundry Creditors		33,000
Wages	12,000	
Rent	6,000	
Salaries	8,600	
Bills receivable	4,000	
Bills payable		3,000
Bank loans		20,000
Insurance	1,200	
Advertisement	800	
Discount	1,400	

Reserve fund		2,400

Furniture	6,000	
Machinery	40,000	
Business premises	50,000	
Bad debts	400	
Drawings	12,000	
Income Tax	4,000	
Return inwards	6,000	
Capital		31,800
Loan on mortgage		2,400
	3,66,600	3,66,600

Solution :

Trading Account for year ending 31 st December 2007.

Particulars	Rs	Amount Rs	Particulars	Rs.	Amount Rs.
To Stock		36,000	By Sales.	2,72,000	
To Purchases	1,20,000		Less: Returns	6,000	2,66,000
Less: Returns	2,000				
		1,18,000	By Closing Stock		62,000
To Carriage Inwards		4,200			
To Factory Rent		6,000			
To Wages		12,000			
To Gross Profit		**1,51,800**			
		3,28,000			3,28,000

Profit & Loss Account for year ended 31st December 2007.

Particulars	Rs.	Particulars	Rs.
To Rent	6,000	By Gross Profit	1,51,800
To Salaries	8,600		
To Insurance	1,200		
To Advertisement	800		
To Discount	1,400		
To Bad Debts	400		
To Net profit	**1,33,400**		
	1,51,800		1,51,800

Balance Sheet as on 31st December.2007

Liabilities	Rs	Amount Rs.	Assets	Amount Rs.
Sundry Creditors		33,000	Cash in hand	2,250
Bills Payable		3,000	Cash at Bank	17,750
Bank Loans		20,000	Sundry Debtors	28,000
Reserve fund		2,400	Bills Receivable	4,000
Loan on Mortgage		2,400	Furniture	6,000
Capital	31,800		Machinery	40,000
Add: Net Profit	1,33,400		Business Promises	50,000

	1,65,200		Closing Stock	62,000

Less: Drawings	12,000			
	1,53,200			
Less: Income Tax	4,000	1,49,200		
		2,10,000		**2,10,000**

Illustration: 18. From the following Trial Balance of Mr. Fazhil, prepare Trading and profit and Loss Account for the year ended 31.12.2007 and Balance Sheet as on that date :

	Dr.	Cr.
Purchases and sales	70,000	1,27,000
Opening stock	28,000	
Plant and machinery	98,000	
Sundry debtors and creditors	27,000	25,000
Capital		1,00,000
Returns inward and outward	1,000	1,275
Discount allowed and received	350	800
Bank charges		75
Salary	16,800	
Carriage inward	750	
Carriage Outward	1,200	
Rent, rate and taxes	2,000	
Advertisement	2,000	
Cash at Bank	6,900	
	2,54,075	2,54,075

The stock on 31.12.2007 was valued at Rs.35,000.

Solution :

Trading Account for the year ending 31st December, 2002

Particulars		Rs.	Particulars		Rs.
To Opening stock		28,000	By Sales	1,27,000	
To Purchases	70,000		Less : Returns		
Less : Returns	1,275	68,725	In wards	1,000	1,26,000
To Carriage inwards		750	By Stock		35,000
To Gross Profit		**63,525**			
		1,61,000			1,61,000

Profit & Loss Account for the year ending 31st December, 2007

Particulars	Rs	Particulars	Rs
To Discount allowed	350	By Gross profit	63,525
To Bank charges	75	By Discount received	800
To salaries and wages	16,800		
To carriage outwards	1,200		
To Rent, rates, taxes	2,000		
To Advertisements	2,000		
To Net Profit	**41,900**		
	64,325		64,325

Balance Sheet as on 31st December, 2007

Liabilities		Rs.	Assets	Rs.
Creditors		25,000	Cash at Bank	6,900
Capital			Stock	35,000
Balance	1,00,000		Sundry debtors	27,000
Add: Net Profit	41,900	1,41,900	Plant and machinery	98,000
		1,66,900		**1,66,900**

5.7.7. Preparation of Final Accounts with several Adjustments

Illustration:19. Consider the following the balances extracted form the books of Mr. Govindhan as on 31st December 2007 prepare the final accounts

	Rs.		Rs.
Capital	20,000	Office Salaries	6,600
Debtors	8,000	Rent	3,900
Creditors	10,000	Trade expenses	2,300
Purchases	60,000	Furniture	10,000
Sales	80,000	Cash in hand	2,400
Opening stock	12,000	Drawings	4,800

Adjustments: Salaries outstanding for December 2007 amounting to Rs. 600. Rent paid in advance for January 2005 Rs.300. Depreciation on furniture @ 10% p.a. Provide interest on capital for the year @ 5% p.a. Stock on 31st December 2007 Rs. 14,000.

Solution:

Trading Account for the year ended 31st December 2007

Particulars	Rs.	Particulars	Rs.
To Opening Stock	12,000	By Sales	80,000
To Purchases	60,000	By Closing Stock	14,000
To Gross Profit	**22,000**		
	94,000		94,000

Profit and Loss Account for the year ended 31st December, 2007

Particulars	Rs.	Rs.	Particulars	Rs.
To Salaries	6,600		By Gross Profit	22,000
Add: Outstanding	600	7,200		
To Rent	3,900			
Less : Prepaid	300	3,600		
To Trade Expenses		2,300		
To Depreciation on Furniture		1,000		
To Interest on Capital		1,000		
To Net Profit		**6,900**		
		22,000		22,000

Balance Sheet as on 31st December 2007

Liability		Rs.	Assets		Rs.
Creditors		10,000	Furniture	10,000	
Salary Outstanding		600	Less: Depreciation	1,000	9,000

Capital :	20,000		Debtors		8,000

Add: Interest	1,000		Cash	2,400
Add: Net Profit	6,900		Rent paid in Advance	300
	27,900		Stock	14,000
Less : Drawings	4,800	23,100		
		33,700		**33,700**

Illustration: 20. From the following trial balance of Mr. Hari prepare Trading and profit and Loss Account for the year ended December 31, 2007 and Balance Sheet as on that date :

	Debit Rs.	Credit Rs.
Capital		40,000
Sales		25,000
Purchases	15,000	
Salaries	2,000	
Rent	1,500	
Insurance	300	
Drawings	5,000	
Machinery	28,000	
Bank Balance	4,500	
Cash	2,000	
Stock 01.01.2007	5,200	
Debtors	2,500	
Creditors		1,000
	66,000	66,000

Adjustments : Stock on 31.12.2007 Rs.4,900. Salary unpaid Rs.300. Rent paid in advance Rs.200. Insurance Prepaid Rs.90

Solution:

Trading Account for the year ending 31st December 2007

Particulars	Rs.	Particulars	Rs.
To Opening Stock	5,200	By Sales	25,000
To Purchases	15,000	By Stock	4,900
To Gross Profit	**9,700**		
	29,900		29,900

Profit & Loss Account for the year ended 31st December 2007

Particulars	Rs.	Rs.	Particulars	Rs
To Salaries	2,000		By Gross Profit	9,700
Add : Unpaid	300	2,300		
To Rent	1,500			
Less : Advance	200	1,300		
To Insurance	300			
Less : Prepaid	90	210		
To Net Profit		**5,890**		
		9,700		9,700

Balance Sheet as on 31st December, 2007

Liabilities		Rs.	Assets	Rs.
Capital	40,000		Cash	2,000
Add : Net Profit	5,890		Bank Balance	4,500
	45,890		Stock	4,900
Less : Drawings	5,000	40,890	Rent prepaid	200
Creditors		1,000	Insurance prepaid	90
Salaries unpaid		300	Debtors	2,500
			Machinery	28,000
		42,190		**42,190**

Illustration: 21. From the following Trail Balance and additional information pertaining to Mr. Indian, prepare Trading and Profit and loss Account and Balance Sheet :

Stock on 01.04.2007	15,000	Sales	1,07,800
Purchases	62,400	Return outwards	2,400
Wages	10,600	Sundry creditors	32,500
Carriage in	1,400	Outstanding wages	1,400
Plant and Machinery	35,000	Capital	1,00,000
Coal, Gas, water	2,500	Discount	1,800
Trade Expenses	1,500	Bank overdraft	20,000
Furniture	5,000		
Loose Tools	3,200		
Depreciation on Plant & machinery	2,000		
Salaries	4,500		
Bank charges	500		
Sundry debtors	15,000		
Factory premises	1,00,000		
Commission	1,000		
Sales Returns	2,800		
Drawings	3,000		
Insurance	500		
	2,65,900		2,65,900

Adjustments : Stock on 31.03.2007 is valued at Rs.30,000**.** Interest on overdraft outstanding Rs.1000. Three months insurance paid in advance. Loose tools are to be valued at Rs.2,000**.** Provide 10 % depreciation on furniture and 5% on Factory premises.

Solution:

Trading Account for the year ending 31.03.2007.

Particulars		Rs.	Particulars		Rs.
To Stock		15,000	By Sales	1,07,800	
To Purchase	62,400		Less: Returns	2,800	1,05,000
Less: Returns	2,400	60,000	By Closing Stock		30,000
To Wages		10,600			
To Carriage		1,400			
To Coal, gas, water		2,500			
To Gross Profit		**45,500**			
		1,35,000			1,35,000

Profit & Loss Account for the year ending 31.03.2007.

Particulars		Rs	Particulars	Rs.
To Trade expenses		1,500	By Gross profit	45,500
To Depreciation on Plant		2,000	By Discount	1,800
To Salaries		4,500		
To Back Charges		500		
To Commission		1,000		
To Insurance	500			
Less: Paid in advance	125	375		
To Dep. on Furniture		500		
To Dep. on Premises		500		
To Loose Tools- Loss		1,200		
To Interest Outstanding		1000		
To Net Profit		**29,725**		
		47,300		47,300

Balance Sheet as on 31st December, 2007

Liabilities	Rs	Rs.	Assets	Rs.	Rs.
Outstanding wages		1,400	Stock		30,000
Bank overdraft		20,000	Loose tools		2,000
Interest Outstanding		1,000	Insurance Prepaid		125
Sundry creditors		32,500	Debtors		15,000
Capital	1,00,000		Furniture	5,000	
Add: Net Profit	29,725		Less:Depreciation	500	4,500
	1,29,725		Factory Premises	1,00,000	
Less: Drawings	3,000	1,26,725	Less:Depreciation	5,000	95,000
			Plant & Machinery		35,000
		1,81,625			**1,81,625**

Note : Depreciation on Plant and Machinery has been Credited to Plant and Machinery before preparation of Trial Balance. Therefore, it will appear only on debit side of Profit and Loss Account. Similarly, 'Outstanding wages' has been adjusted before preparation of Trial Balance. thus, it will also be shown only on liabilities side of the balance sheet.

Illustration: 22. The Following is the Trial Balance of Mr. Jayaraman Agencies as on 31 st March 2007. Prepare Trading and Profit and Loss Account for the year ended 31 st March 2007 and a Balance Sheet as on that date :

	Rs.	Rs.
Capital		1,00,000
Buildings	15,000	
Drawings	18,000	
Motor Van	25,000	
Furniture	7,500	
Loan from Mr. A @ 12%		15,000
Interest Paid	900	
Sales		1,00,000
Purchases	75,000	
Opening Stock	25,000	
Establishment	15,000	

Wages	2,000	

Insurance	1,000	
Commission		7,500
Sundry Debtors and Creditors	28,100	10,000
Bank	20,000	
	2,32,500	2,32,500

Adjustments : Closing Stock Rs. 32,000. Outstanding wages Rs. 500. Prepaid Insurance Rs. 300. Commission received in advance Rs. 800. Interest on capital 10% p.a. Depreciate building by 2.5%, furniture by 10% and motor van by 10%. Interest on drawings Rs. 500

Solution :

Trading Account for the year ended 31st March 2007

Particulars	Rs.	Rs.	Particulars	Rs.
To Opening Stock		25,000	By Sales	1,00,000
To Purchases		75,000	By Closing Stock	32,000
To Wages	2,000			
Add: Outstanding	500	2,500		
To Gross Profit		**29,500**		
		1,32,000		1,32,000

Profit & Loss Account for the year ended 31st March 2007

Particulars	Rs	Rs	Particulars	Rs	Rs
To Insurance	1,000		By Gross Profit		29,500
Less : Prepaid	300	700	By Interest Drawings		500
To Interest on Loan	900		By Commission	7,500	
Add : Outstanding	900	1,800	Less : Advance	800	6,700
To Establishment		15,000			
To Depreciation					
Buildings	375				
Furniture	750				
Motor Van	2,500	3,625			
To Interest on Capital		10,000			
To Net Profit		**5,575**			
		36,700			36,700

Balance Sheet as on 31st March 2007

Liabilities		Rs.	Assets		Rs.
Outstanding Wages		500	Cash at Bank		20,000
Commission in Advance		800	Sundry Debtors		28,100
Sundry Creditors		10,000	Closing Stock		32,000
Loan from A	15,000		Prepaid Insurance		300
Add: Interest	900	15,900	Buildings	15,000	
Capital	1,00,000		Less: Depreciation	375	14,625
Add: Net Profit	5,575		Furniture & Fittings	7,500	
Interest on Capital	10,000		Less: Depreciation	375	14,625
	1,15,575		Motor Van	25,000	
Less : Drawings	18,000		Less : Depreciation	750	6,750
	97,575				
Less: Interest on Draws	500	97,075			
		1,24,275			**1,24,275**

Illustration:23. The following are the balances extracted from the books of Mr. Kannan as on 31.12.2007. Prepare Trading and Profit and Loss Account for the year ending 31.12.2007 and a Balance Sheet as on that date.

Debit Balances	Rs.	Credit Balances	Rs.
Drawings	4,000	Capital	20,000
Cash at Bank	1,700	Sales	16,000
Wages	6,500	Sundry Creditors	4,500
Purchases	2,000		
Stock 01.01.2007	6,000		
Buildings	10,000		
Sundry Debtors	4,400		
Bills Receivable	2,900		
Rent	450		
Commission	250		
General Expenses	800		
Furniture	500		
	40,500		40,500

Adjustments: Stock on 31.12.2007 was Rs. 4,000. Interest on capital at 6% to be provided. Interest on Drawings at 5% to be provided. Wages yet to be paid Rs. 100.Rent prepaid Rs. 50.

Solution:

Trading Account for the year ending 31st December 2007

Particulars		Rs.	Particulars	Rs.
To Opening Stock		6,000	By Sales	16,000
To Purchases		2,000	By Closing Stock	4,000
To Wages	1,000			
Add: Outstanding	100	1,100		
To Gross Profit		**10,900**		
		20,000		20,000

Profit & Loss Account for the year ended 31 st December 2007

Particulars	Rs	Rs	Particulars	Rs
To Rent	450		By Gross Profit	10,900
Less: Prepaid	50	400	By Interest on drawings	200
To Interest on capital		1,200		
To Commission		250		
To General Expenses		800		
To Net Profit		**8,450**		
		11,100		11,100

Balance Sheet as on 31 st December 2007

Liabilities		Rs.	Assets	Rs.
Creditors		4,500	Cash in hand	6,500
Wages Outstanding		100	Cash at bank	1,700
Capital	20,000		Stock	4,000
Add: Net Profit	8,450		Rent prepaid	50
Interest	1,200		Debtors	4,400
	29,650		B/R	2,900
Less: Drawings	4,000		Furniture	500
	25,650			
Less: Interest	200	25,450	Buildings	10,000
		30,050		**30,050**

Illustration: 24 . Form the following Trial Balance and the adjoining information provided by Mr. Logesh, prepare a Trading and Profit and Loss Account for the year ending 31 st March 2007 and a Balance Sheet as on that date :

	Dr. Rs	Cr. Rs
Land and Buildings	20,000	
Machinery	50,000	
Furniture	4,000	
Opening Stock	16,300	
Purchases	80,000	
Salaries	6,000	
Carriage on sales	1,500	
Freight on purchases	2,000	
Customs duty on purchases	3,000	
Advertising	5,400	
Wages	20,000	
Rent	3,000	
General Expenses	3,200	
Postage and Stationery	1,500	
Repairs to Machinery	2,000	
9% Loan to Krishna	5,000	
Prepaid Insurance	200	
Sundry Debtors	20,000	
Cash at Bank	3,350	
Capital		80,000
Sundry Creditors		8,000
Discount received		400
Outstanding expenses		1,550
Sales		1,50,500
Provision for Repairs		6,000
	2,46,450	2,46,450

Adjustments :

i. Stock on 31st March 2007 amounted Rs. 14,900.

ii. Machinery worth Rs. 10,000 was purchased on 1st October 2006. Wages Rs. 500 were paid to workmen for its installation which have been debited to wages account.

iii. Depreciation is to be written off @ 3% on Land and Buildings 10% Machinery and 5% on Furniture.

iv. Provision for repairs is to be credited with Rs. 1,500 every year.

Solution:

Trading Account for the year ending 31st March 2007

Particulars		Rs.	Particulars	Rs.
To Opening Stock		16,300	By Sales	1,50,500
To Purchases		80,000	By Stock	14,900
To Freight on Purchases		2,000		
To Custom Duty		3,000		
To Wages	20,000			
Less: Capital Expenses	500	19,500		
To Gross Profit		**44,600**		
		1,65,400		1,65,400

Profit & Loss Account for the year ended 31 st March 2007.

Particulars	Rs	Particulars	Rs
To Interest 5000x9%.	450		
To Salaries	6,000	By Gross Profit	44,600
To Carriage	1,500	By Discount	400
To Advertisements	5,400		
To Rent	3,000		
To General Expenses	3,200		
To Postage and Stationery	1,500		
To Repairs to Machinery	2,000		
To Provision for repairs	1,500		
To Depreciation on L& B	600		
To Depreciation on Furniture	200		
To Depreciation on Machinery 4,000 + 525.	4,525		
To Net Profit	**15,125**		
	45,000		45,000

Balance Sheet as on 31 st March 2007

Liabilities		Rs	Assets		Rs.
Creditors		8,000	Cash at bank		3,350
Outstanding expenses		1,550	Stock		14,900
Provision for Repairs			9% Loan		5,000
6,000+1,500.		7,500	Debtors		20,000
			Prepaid Insurance		200
Capital	80,000		Land and Building	20,000	
Add : Net Profit	15,125	95,125	Less: Depreciation	600	19,400
Interest Outstanding		450	Furniture	4,000	
			Less: Depreciation	200	3,800
			Machinery	50,000	
			Add: Capital Expdr	500	
				50,500	
			Less: Depreciation	4,525	45,975
		1,12,625			**1,12,625**

Illustration: 25. The following are the ledger balances extracted form the books of Mr. Muthu.

	Rs.		Rs.
Capital	50,000	Sales	3,01,000
Bank Overdraft	8,400	Return inwards	5,000
Furniture	5,200	Discount Cr.	800
Business Premises	40,000	Taxes & Insurance	4,000
Creditors	26,600	General Expenses	8,000
Opening Stock	44,000	Salaries	18,000
Debtors	36,000	Commission allowed	4,400
Rent form tenants	2,000	Carriage on purchases	3,600
Purchases	2,20,000	Provision for Doubtful debts	1,000
		Bad debts written off	1,600

Adjustments: Stock on hand on 31-12-2007 was estimated as Rs. 40,120. Write off depreciation on business premises Rs. 600 and furniture Rs.520. Make a provision of 5% on debtors for bad & doubtful debts. Allow interest on Capital at 5% and carry forward Rs.1,400 for unexpired insurance. Prepare Final Accounts for the year ended 31-12-2007.

Solution:

Trading Account for the year ending 31 st December 2007

Particulars	Rs	Particulars		Rs.
To Opening Stock	44,000	By Sales	3,01,000	
To Purchases	2,20,000	Less: Returns	5,000	2,96,000
To Carriage on Purchases	3,600	By Closing Stock		40,120
To Gross Profit	**68,250**			
	3,36,120			3,36,120

Profit & Loss Account for the year ending 31st December 2007

Particulars	Rs	Rs	Particulars	Rs
To Taxes & Insurance	4,000		By Gross Profit	68,520
Less: Prepaid	1,400	2,600	By Rent	2,000
To General Expenses		8,000	By Discount	800
To Salaries		18,000		
To Commission		4,400		
To Bad Debts		1,600		
To Provision for Bad Debts	1,800			
Less: Existing Provision	1,000	800		
To Depreciation:				
Business Premises		600		
Furniture		520		
To Int. on Capl 50,000x5%.		2,500		
To Net Profit		**32,300**		
		71,320		71,320

Balance Sheet as on 31st December, 2007

Liabilities		Rs.	Assets		Rs.
Creditors		26,600	Debtors	36,000	
Bank overdraft		8,400	Less: P. B.D	1,800	34,200
Capital	50,000		Stock		40,120
Add: Net Profit	32,300		Prepaid Insurance		1,400
Interest on Capital	2,500	84,800	Furniture	5,200	
			Less: Depreciation	520	4,680
			Business Premises	40,000	
			Less: Depreciation	600	39,400
		1,19,800			**1,19,800**

Illustration: 26. From the following Trial Balance of Mr. Naveen prepare a Trading and profit and Loss Account for the year ended December 31, 2007 and a Balance Sheet as on that date :

	Dr. Rs	Cr. Rs
Capital		4,250
Drawings	710	
Plant & Machinery	950	
Stock on 1st January	1,460	
Purchases and Sales	10,362	11,906
Purchases and Sales returns	210	291
General Expenses	440	
Rent	120	
Rates	200	
Apprentice Premium		80
Bank overdraft		240
Bank Debts	172	
Debtors & Creditors	4,200	2,000
Cash on hand	48	
Bad Debts reserve		105
	18,872	18,872

Adjustments: Depreciate Plant & Machinery at 10% p.a. Increase bad debts reserve to 5% on sundry debtors. Rent accrued in Rs. 40 Rates of Rs. 80 are paid in advance. Stock on hand as on 31st December is Rs. 1,700. Apprentice premium received in advance is Rs. 20

Solution:

Trading Account for the year ended 31st December 2007.

Particulars	Rs.	Rs.	Particulars	Rs	Rs.
To Stock		1,460	By Sales	11,906	
To Purchases	10,362		Less: Returns	210	11,696
Less: Returns	291	10,071	By Stock		1,700
To Gross Profit		**1,865**			
		13,396			13,396

Profit & Loss Account for the year ended 31st December, 2007

Particulars	Rs	Rs	Particulars	Rs	Rs
To General expenses		440	By Gross Profit		1,865
To Rent	120		By Apprentice Prm	80	
Add: Accrued	40	160	Less: Advance	20	60
To Rates	200				
Less: Advance	80	120			
To Bad Debts		172			
To P.B.D Adjustment.	210				
Less: P.B.D TrialBal.	105	105			
To Depreciation on P&M		95			
To Net Profit		**833**			
		1,925			1,925

Balance Sheet as on 31st December 2007

Liabilities		Rs.	Assets		Rs.
Rent Accrued		40	Cash in hand		48
Apprentice Prem Adv.		20	Stock		1,700
Bank overdraft		240	Rates paid in advance		80
Creditors		2,000	Debtors	4,200	
Capital :	4,250		Less: P.B.D	210	3,990
Add: Net Profit	833		Plant & Machinery	950	
	5,083		Less: Depreciation	95	855
Less Drawings	710	4,373			
		6,673			**6,673**

Illustration: 27. The following are the balances extracted from the books of Mr. Oliver as on 31 st December 2007.

Rajesh's capital	20,000	Reserve for discount on Debtors	200
Drawings	3,500	Loan at 9%	5,000
Building	10,000	Salaries	4,400
Machinery	2,500	Wages	7,500
Furniture and fittings	600	Rent	2,750
Opening Stock	12,500	Traveling expenses	1,250
Cycle	400	Postage and telegram	135
Purchase	75,000	Rate and tax	90
Sales	1,25,000	Carriage inward	2,500
Sales return	5,000	Bad debts	300
Duty paid on purchase	15,000	Carriage outwards	750
Sundry debtors	10,000	Interest paid	375
Sundry creditors	7,500	General charges	900
Reserve for bad debts	400	Cash on hand	250
Cash at bank	2,400		

Adjustments : Stock on 31-12-2007 Rs. 14,000. Provide the following outstanding : salary Rs.400 Rent Rs.250 Wages Rs.600 and Interest outstanding Rs.75. Maintain the reserve for doubtful debtors at 5% and reserve for Discount on debtors at 2 ½ %. Provide depreciation for Building 2 ½ %, Machinery 10%, Furniture 6% and Cycle 15%. Prepare trading and profit loss A/c for the year ended 31.12.2007 and a balance sheet on that date

Solution:

Trading Account for the year ending December 31.2007

Particulars		Rs	Particulars		Rs
To Opening Stock		12,500	By Sales	1,25,000	
To Purchase	75,000		Less: Returns	5000	1,20,000
Add: Duty	15,000	90,000	By Stock		14,000
To Wages	7,500				
Add: Outstanding	600	8,100			
To Carriage inward		2500			
To Gross Profit		**20,900**			
		1,34,000			1,34,000

Profit & Loss Account for the year ended 31 December 2007

Particulars		Rs	Particulars	Rs
To Salaries	4,400		By Gross Profit	20,900
Add: Outstanding	400	4,800		
To Rent	2,750			
Add: Outstanding	250	3,000		
To Traveling expenses		1,250		
To Postage		135		
To Rent and Tax		90		
To Bad Debts		300		
To Carriage outwards		750		
To Interest	375			
Add: Outstanding	75	450		
To General charges		900		
To Depreciation:				
Building		250		
Machinery		250		
Furniture		36		
Cycle		60		
To P.B.D Adjustment.	500			
Less: P.B.DTri.Bal.	400	100		
To Provision for DisAdj.	238			
Less: P.B.DTri.Bal.	200	38		
To Net Profit		**8,491**		
		20,900		20,900

Balance Sheet as on December 31, 2007

Liabilities		Rs	Asset		Rs.
Outstanding:			Cash		250
Salary		400	Cash at bank		2,400
Wages		600	Stock		14,000
Rent		250	Debtors	10,000	
Interest		75	Less: P.B.D 10,000x5%.	500	
Creditors		7500		9,500	
Loan		5000	Less: P.D 9,500x2.5%.	238	9,262
Capital:	20,000		Building	10,000	
Add: Net Profit	8,491		Less: Depreciation	250	9750
	28,491		Machinery	2,500	
			Less: Depreciation	250	2,250
Less: Drawings	3,500	24,991	Furniture	600	
			Less: Depreciation	36	564
			Cycle	400	
			Less: Depreciation	60	340
		38,816			**38,816**

Illustration: 28. The following trial balance was extracted from the books of Mr. Prem as on 31st December 2007

Debit balances	Rs.	Credit balances	Rs.
Plant and Machinery	20,000	Capital account	80,000
Manufacturing wages	34,500	Sundry creditors	44,560
Salaries	15,850	Bank loan	15,000
Furniture	10,000	Purchase Returns	1,740
Freight on purchase	1,860	Sales	2,50,850
Freight on sales	2,140	Provision for bad debts	2,000
Buildings	24,000		
Manufacturing expenses	9,500		
Insurance	4,250		
Good will	25,000		
General expenses	8,200		
Factory fuel and power	1280		
Sundry debtors	78,200		
Factory lighting	950		
Opening Stock	34,200		
Motor car	12,000		
Purchase	1,02,000		
Sales Returns	3,100		
Bad Debts	1,400		
Interest and bank charges	400		
Cash at bank	4,200		
Cash in hand	1,120		

Prepare the trading and profit loss account and balance sheet after taking into consideration the following information: Stock in hand on 31st December 2007 was valued at Rs.30,500 Depreciate plant and Machinery by 10% , Furniture 5% and Motor car by Rs. 1,000. Bring provision for bad debts to 5% on sundry debtors. A commission of 1% on the G.P. is to be provided to works manager.

Solution:

Trading Account for the year ending 31st December 2007

Particulars	Rs	Rs.	Particulars	Rs	Rs.
To Opening Stock		34,200	By Sales	2,50,850	
To Purchase	1,02,000		Less: Returns	3,100	2,47,750
Less: Returns	1,740	1,00,260			
To Freight on Purchase		1,860	By Stock		30,500`
To Manufacturing wages		34,500			
To Manufacturing Exp		9,500			
To Factory Fuel& Power		1,280			
To Factory lighting		950			
To Gross Profit		**95,700**			
		2,78,250			2,78,250

Profit & Loss Account for the year ended 31 st December 2007

Particulars	Rs.	Particulars	Rs
To Salaries	15,850	By Gross Profit	95,700
To Freight on sales	2,140		
To Insurance and tax	4,250		

To General expenses		8,200		
To Bad debts		1,400		
To Interest		400		
To Depreciation:				
Plant		2000		
Furniture		500		
Motor car		1,000		
To P.B.D Adjustment.	3,910			
Less: P.B.DTril Bal.	2,000	1,910		
To W M Commission 95,700 x 1%.		957		
To Net Profit		**57,093**		
		95,700		95,700

Balance Sheet as on 31st December, 2007

Liabilities	Rs	Rs.	Assets	Rs	Rs.
Creditors		44,560	Cash in hand		1,120
Bank loan		15,000	Cash at bank		4,200
Manager Commission		957	Stock		30,500
Capital	80,000		Plant and machinery	20,000	
Add: Net Profit	57,093	1,37,093	Less: Depreciation	2,000	18,000
			Furniture	10,000	
			Less: Depreciation	500	9,500
			Motor car	12,000	
			Less: Depreciation	1000	11,000
			Debtors	78,200	
			Les: Provision	3,910	74,290
			Buildings		24,000
			Goodwill		25,000
		1,97,610			**1,97,610**

Illustration: 29. From the following Trial Balance of Mr. Quick, prepare Trading and Profit and Loss Account for the year ended 31st December 2007 and a Balance Sheet as on that date after giving effect to the under mentioned adjustment.

Debit Balance	Rs.
Drawings	3,250
Stock opening.	17,445
Returns Inward	554
Deposit with Gupta	1,375
Carriage Outward	725
Loan to Ashok @ 5% 1-01-07	1,000
Rent	820
Purchase	12,970
Debtors	4,000
Good will	1,730
Advertisement	954
Bad Debts	400
Patents and patterns	500

Cash	62
Discount	330
Wages	754
Carriage Inward	1,240
Credit balances	
Capital	15,000
Returns Outward	840
Interest on Loan to Ashok	25
Rent Outstanding	130
Creditors	3,000
Provision for bad Debts	1,200
Sales	27,914

Adjustments:
1. The Manager is entitled to commission of 10% of the net profit after charging such commission.
2. Increase Bad Debts by Rs.600.
3. Make provision for Doubtful Debts at 10% and provision for Discount on Debtors at 5%
4. Stock valued at Rs. 1,500 destroyed by fire on 25th Dec.2007 but the Insurance Company admitted a claim for Rs. 950 only and paid it in January 2008.
5. Rs. 200 out of the Advertisement is to be carried forward to the next year.
6. The value of closing stock is Rs. 18,792.

Solution:

Trading Account for the year ended 31st December 2007

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		17,445	By Sales	27,914	
To Purchases	12,970		Less: Returns	554	27,360
Less : Returns	840	12,130	By Closing Stock		18,792
To Wages		754	By Stock destroyed		1,500
To Carriage Inward		1,240			
To Gross Profit		**16,083**			
		47,652			47,652

Profit & Loss Account for the year ended 31 st December 2007

Particulars	Rs	Rs	Particulars	Rs	Rs
To Rent		820	By Gross Profit		16,083
To Advertisement Expenses	954		By Interest	25	
Less: Prepaid	200	754	Add: Accrued	25	50
To Bad Debts Tril Bal.	400		By P.B.D Tril Bal.	1,200	
Add: Bad Debts Adj.	600	1,000	Less: P.B.D Adj.	340	860
To Discount		330			
To Loss on Stock by fire		550			
To Carriage Outward		725			
To Provision for Discount		153			
To Commission to Manager		1,151			
To Net Profit		**11,510**			
		16,993			16,993

Balance Sheet as at 31st December 2007

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Outstanding Rent		130	Cash		62
Commission payable		1,151	Deposit with Gupta		1,375
Creditors		3,000	Loan to Ashok	1,000	
Capital	15,000		Add: Interest Accrued	25	1,025
Add: Net Profit	11,510		Insurance Company		950
	26,510		Debtors	4,000	
Less: Drawings	3,250	23,260	Less: Bad Debts Adj.	600	
				3,400	
			Less: P.B.D Adj.	340	
				3,060	
			Less: P.D.D Adj.	153	2,907
			Stock		18,792
			Prepaid Advertisement		200
			Patents and Patterns		500
			Good will		1,730
		27,541			**27,541**

Illustration: 30. From the following Trial Balance Mr. Raj prepare final account for the year ended 31 st December 2007.

Debit Balances	Rs.	Credit Balances	Rs
Opening Stock	6,000	Capital	40,000
Salaries	6,000	Return Outwards	500
Drawings	6,000	Loan from Y 6%.	5,000
Carriage Inwards	1,000	Rent Outstanding	100
Carriage Outwards	500	Creditors	13,000
Return Inwards	800	Outstanding Expenses	1,900
Loan to X 8%.	3,000	Bad Debts Provision	1,000
Rent	1,200	Discount	300
Goodwill	5,000	Sales	73,700
Wages	100	Subletting Rent	500
Insurance Premium	600		
Bank	8,500		
Purchases	60,000		
Debtors	30,000		
Advertisements	3,000		
Bad Debts	500		
Discount	600		
Cash	200		
Furniture	3,000		

Adjustments : Closing Stock Rs. 9,500. One Quarter of Insurance Premium falls in Next year. Provide depreciation on furniture at 10%. Goods worth Rs. 500 have been taken by the proprietor for Private use. Provide 5% for bad debts. Salaries Includes salary to the Proprietor @ Rs. 200 per month.

Solution:

Trading Account for the year ended 31st December 2007

Particulars	Rs.	Rs.	Particulars	Rs	Rs.
To Opening Stock		6,000	By Sales	73,700	
To Purchases	60,000		Less: Returns	800	72,900
Less: Returns	500		By Drawings		500
		59,500	By Closing Stock		9,500
To Wages		100			
To Carriage Inwards		1,000			
To Gross Profit		**16,300**			
		82,400			82,400

Profit & Loss Account for the year ended 31 st December 2007

Particulars	Rs	Rs	Particulars	Rs
To Salaries	6,000		By Gross Profit	16,300
Less: Paid to Proprietor	2,400	3,600	By Discount	300
To Salaries to Proprietor		2,400	By Rent by subletting	500
To Carriage Outwards		500	By Interest accrued	240
To Rent		1,200		
To Bad Debts		500		
To P.B.DAdjustment.	1,500			
Less : P.B.DTril Bal.	1,000	500		
To Advertisement		3,000		
To Discount		600		
To Insurance Premium	600			
Less : Unexpired	150	450		
To Outstanding Interest		300		
To Depreciation of Furniture		300		
To Net Profit		**3,990**		
		17,340		17,340

Balance Sheet as on 31st December 2007

Liabilities		Rs.	Assets		Rs.
Creditors		13,000	Cash		200
Y's Loan		5,000	Bank		8,500
Liability for other Exp		1,900	Debtors	30,000	
Rent Outstanding		100	Less: P.B.DTril.Bal.	1,500	28,500
Interest Outstanding		300	Loan to X		3,000
Capital	40,000		Closing Stock		9,500
Add: Net Profit	3,990		Unexpired Insurance		150
	43,990		Interest Accrued		240
Less : Drawings Cash.	6,000		Furniture	3,000	
	37,990		Less: Depreciation	300	2,700
Less: Drawings Goods.	500	37,490	Good will		5,000
		57,790			**57,790**

5.8. Lesson End Activities

5.8.1. Preparation of Trading Account

Exercise: 1. Prepare Trading Account of Miss. Archana for the year ending 31.12.2007 from the following information :

	Rs.
Opening Stock	80,000
Purchases	8,60,000
Freight Inward	52,000
Wages	24,000
Sales	14,40,000
Purchase Returns	10,000
Sales Returns	3,16,000
Closing Stock	1,00,000
Import duty	30,000

5.8.2. Preparation of Manufacturing Account

Exercise: 2. The following are the balances in the Ledger of Miss. Bharathi for the year ended 31 st March 2007.

	Rs.
Opening Stock :	
Raw Materials	20,000
Work-in progress	3,000
Finished goods	10,800
Purchase of raw materials	50,000
Sales	2,40,000
Fuel and coal	1000
Wages	32,000
Factory expenses	40,000
Office expenses	30,000
Depreciation on Plant Machinery	3,000
Closing Stock :	
Raw Materials	20,000
Work-in-Progress	4,000
Finished goods	8,000

Prepare manufacturing Account for the year ended 31 st March 2007.

Exercise : 3. The following are the balances in the Ledger of Miss. Chitra for the year ended 31 st March 2007

	Rs.
Stock on 01.01.2007	
Raw Materials	10,000
Work-in-process	5,000
Finished goods	20,000
Stock on 31.12.2007	
Raw Materials	5,000
Work-in-process	15,000
Finished goods	30,000
Purchase of Raw Materials	50,000
Direct Wages	10,000
Carriage Charges on purchase of raw materials	5,000

Factory Power	5,000
Depreciation on Factory Machines	5,000
Purchase of Finished Goods.	30,000
Cartage paid on Finished Goods purchased	2,000

5.8.3. Preparation of Profit and Loss Account

Exercise: 4. From the following balance extracted at the close of the year ended 31 st Dec. 2007, prepare Profit and Loss account of Miss. Devi as at that date.

	Rs.		Rs.
Gross profit	55,000	Repairs	500
Carriage on sales	500	Telephone expenses	520
Office Rent	500	Interest Dr..	480
General Expenses	900	Fire Insurance Premium	900
Discount to customers	360	Bad Debts	2,100
Interest from Bank	200	Apprentice Premium Cr..	1,500
Traveling expenses	700	Printing & Stationery	2,500
Salaries	900	Trade expenses	300
Commission	300		

Exercise:5. From the following balances, taken from the Trial Balance of Miss. Ilakkiya, prepare a Trading and Profit and Loss Account for the year ending 31 st Dec. 2007.

	Dr.Rs.	Cr.Rs
Stock on 01.01.2007	2,000	
Purchases and Sales	20,000	30,000
Returns	2,000	1,000
Carriage	1,000	
Carriage	1,000	
Rent	1,000	
Interest received		2,000
Salaries	2,000	
General Expenses	1,000	
Discount		500
Insurance	500	

The Closing Stock on 31 st December, 2007 is Rs. 5,000.

5.8.4. Preparation of Balance Sheet

Exercise: 6. Prepare Balance Sheet of Miss. Farzana as at 31 st December 2007.

	Rs
Capital	10,00,000
Closing Stock	2,00,000
Fixed Assets	3,10,000
Sundry Debtors	10,00,000
Profit & Loss Account	2,10,000
Sundry Creditors	3,75,000
Liabilities for Expenses	55,000
Drawings	30,000
Cash and bank	1,00,000

5.8.5. Preparation of Final Accounts with single Adjustment

Exercise:7. From the following balances extracted from the books of Miss Gomathi. Prepare a Trading and Profit and Loss Account and a Balance Sheet.

Particulars	Rs.	Particulars	Rs
Opening Stock	1,250	Plant and Machinery	6,230
Sales	11,800	Returns Outwards	1,380
Depreciation	667	Cash in hand	895
Commission Cr..	211	Salaries	750
Insurance	380	Debtors	1,905
Carriage Inwards	300	Discount Dr..	328
Furniture	670	Bills Receivable	2,730
Printing Charges	481	Wages	1,589
Carriage Outwards	200	Returns Inwards	1,659
Capital	9,228	Bank overdraft	4,000
Creditors	1,780	Purchases	8,679
Bills Payable	541	Petty Cash in hand	47
		Bad Debts	180

The Value of Stock on 31 st December, 2007 was Rs. 3,700.

5.8.6. Preparation of Final Accounts with several Adjustments

Exercise:8. From the following Trial Balance and additional information for Miss. Hema, you are required to prepare a Profit & Loss Accounts for the year ended 31 December 2007.

Particulars	Dr. Rs.	Cr. Rs.
Capital		20,000
Sundry Debtors	5,400	
Drawings	1,800	
Machinery	7,000	
Sundry Creditors		2,800
Wages	10,000	
Purchases	19,000	
Opening Stock	4,000	
Bank Balance	3,000	
Carriage Charges	300	
Salaries	400	
Rent and Taxes	900	
Sales		29,000
	51,800	51,800

Additional Information : Closing Stock Rs. 1,200. Outstanding Rent and Taxes Rs. 100. Charge depreciation on machinery at 10%. Wages prepaid Rs. 400.

Exercise: 9. The following are the Balances extracted from the Books of Miss. Indhu as on December 31,2007.

	Rs.		Rs.
Capital	2,00,000	Loan @9%	50,000
Drawings	35,000	Salaries	44,000
Buildings	1,00,000	Wages	75,000
Machinery	25,000	Rent	27,500
Furniture & fittings	6,000	Traveling expenses	12,500
Opening Stock	1,25,000	Postage telegrams	1,350
Cycle	4,000	Rates& taxes	900
Purchase	7,50,000	Carriage inwards	25,000
Sales	12,50,000	Carriage outwards	7,500
Sales returns	50,000	Interest paid	3,750
Duty paid on purchase	1,50,000	General charges	9,000
Sundry debtors	1,00,000	Carriage outwards	7,500

Sundry creditors	75,000	Interest paid	3,750
Reserve for Bad & doubtful debts	4,000	General charges	9,000
Reserve for Discount on Debtors	2,000	Bad debts	3,000
Cash in the bank	24,000	Cash in hand	2,500

Provide the following: outstanding Salary Rs.4,000; Rent Rs.2,500; Wages Rs.6,000 and Interest outstanding. Maintain the reserve for doubtful debts at 5% and reserve for Discount on Debtors at 2 ½ %**.** Provide depreciation for building 2 1/2 % Machinery 10% furniture 6% cycle 15%. Prepare final Accounts.

Exercise:10. Prepare Trading and Profit and Loss a/c and Balance Sheet from the following particulars Miss. Jaya as on 31-12-2007

Particulars	Dr Rs.	Cr.Rs.
Capital		10,000
Cash in hand	1,500	
Bank O.D. @ 5%		2,000
Purchases and Sales	12,000	15,000
Returns	1,000	2,000
Establishment charges	2,500	
Taxes Insurance	500	
Bad debts reserve		1,000
Bad Debts	500	
Sundry Debtors and creditors	5000	1,850
Commission		650
Investments	4,000	
Stock as on 1 st Jan, 1996	3,000	
Drawings	1,500	
Furniture	500	
Bills Receivable and Payable	3,000	2,500
Total	35,000	35,000

Adjustments: Salary Rs.100 and Taxes Rs.400 are outstanding but Insurance Commission amounting to Rs.100 has been received in advance. Interest accrued on investment Rs.210. Bad Debts Reserve is to be maintained at Rs.1,000. Depreciation on furniture is to be charged at 10%. Stock on 31 st Dec.1993 was valued at Rs.4,500.

Exercise: 11. From the following Trial Balance of Miss. Kalaivani as at 31 st December 2007. Prepare Trading and Profit and Loss Account for the year ended 31 st Dec.2007 and a Balance Sheet as on that date.

Particulars	Dr. Rs.	Cr Rs.
Capital		80,000
Drawings	6,000	
Machinery	25,000	
Stock 1-1-07	15,000	
Purchases	82,000	
Returns inwards	2,000	
Sundry Debtors	20,600	
Furniture	5,000	
Freight and Duty	2,000	
Carriage outwards	500	
Rent, Rates & Taxes	4,600	
Printing and Stationery	800	

Trade Expenses	400	
Sundry Creditors		10,000
Sales		1,20,000
Return outwards		1,000
Postage and Telegram	800	
Provision for doubtful Debts		400
Discount		800
Rent Received		1200
Insurance Charges	700	
Salaries and wages	21,300	
Cash in hand	6,200	
Cash at bank	20,500	
	2,13,400	2,13,400

Adjustments: Stock on 31.12.2007 was valued at Rs.14,600. Write off Rs.600 as bad debts. Provision for doubtful debts to be made at 5% on debtors. Create a provision for discount on debtors and on creditors at 2%. Depreciate machinery by 20% and furniture by 5%. Insurance prepaid was Rs.100.

Exercise: 12. The following balances of Miss. Lawanya as on 30 th June 2007.

Capital	5,000	Loans Borrowed	25,000
Drawings	3,000	Sundry Debtors	10,000
Buildings	15,000	Deposits Dr.	1,000
Plant and Machinery	15,000	Purchases	2,20,000
Furniture and fittings	4,000	Opening stock	15,000
Lorry	10,000	Sales	3,00,000
Creditors for trade	5,000	Carriage inwards	2,000
Freight and duty on purchases	25,000	Insurance	500
Carriage outwards	1,000	Commission on sales	1,000
Salaries	6,000	Reserve for Bad debts	300
Wages	20,000	Reserve for discount on debtors	150
Lighting charges	1,000	Discount allowed to customers	1,500
Taxes and license	1,200	Cash on hand	150
Postage and telegrams	150	Over draft with bankers	24,750
General charges	700	Lorry maintenance	3,500
Interest paid	2,250		

Adjustments:

(a) Stock on hand 30-6-2007 Rs.2000

(b) Provide the following

Salaries due Rs.600

Wages due Rs. 1,000

Interest due on Loans Rs.500 On overdraft Rs.250

Lorry maintenance due Rs.500

Insurance prepaid Rs.125.

(c) Maintain the reserve for Doubtful Debts at 5% and Reserve for discount at 5% and Reserve for discount 2 ½ % on debtors.

(d) Provide Depreciation on: Building 5%; Plant and Machinery 10%; lorry 25%.

Prepare Trading and Profit and Loss account for the year ended 30 th June 2007 and Balance Sheet as on that date.

Exercise: 13. Miss. Malathi books show the following balances prepare his Trading and Profit and loss a/s for the year ended 31 st December 2007 and Balance Sheet as that date

Particulars	Rs	Particulars	Rs.
Drawings	5,000	Capital	1,08,850
Bills Receivable	4,500	Loan at 6% p.a.	20,000
Land and Building	37,770	Sales	3,50,000
Sundry Debtors	62,000	Interest on Investments	5,640
Wages and Salaries	40,970	Sundry Creditors	59,000
Returns inwards	2,780	Commission Received	630
Purchases	2,56,590	Returns outwards	6,430
Postage and telegrams	5,620		
Stock at Commencement	89,680		
Printing and Stationery	880		
Traveling Expenses	12,000		
Interest on loan paid	300		
Petty Cash	70		
Bank balance	8,800		
Commission	470		
Repairs	3,620		
Furniture	500		
Investments	19,000		
	5,50,550		5,50,550

Adjustments : The closing stock Rs.1,28,960 on 31-12-2007. Commission received but not earned Rs.130. Travelling Expenses were overdrawn by the employees to the extent of Rs.2000. Create at 5% Reserve for Doubtful Debts on sundry Debtors and 2% Reserve for discount on Debtors and Creditors. Interest on loan due for 9 months. One-fourth of wages and salaries should be charged to Trading Account.

Exercise:14. The following are the balances extracted from the books of Miss. Nathiya as on 31-12-2007

Particulars	Dr.Rs	Cr Rs
Capital		12,500
Drawings	6,200	
Furniture and fittings	1,750	
Typewriter	1,200	
Purchases	1,80,000	
Sales		2,35,000
Lorry	12,000	
Travelling Expenses	900	
Sundry Creditors		10,000
Insurance premium	500	
Audit fees	600	
Postage and telegrams	150	
Bad Debts	500	
Interest paid	250	
Rent and Taxes	5,000	
Return out wards		5,000
Return inwards	10,000	
Carriage outwards	8,000	
Salaries	11,000	
Advertisement	1,200	
Cycle	200	

Opening stock	21,500	
Sundry Debtors	12,000	
Provision for Bad & Doubtful Debts		400
Commission earned		9000
Discount allowed	5000	
Cash on hand	450	
Bank Overdraft		6,500
	2,78,400	2,78,400

Adjustments:

(a) Stock on 31-12-2007 Rs.17,500

(b) Provide the following Outstanding; Interest Rs.250; Salaries Rs.1,000; Rent Rs.500; Audit fee Rs.500;

(c) Prepaid Expenses: Insurance Premium Rs.125; Advertisement Rs.200

(d) Maintain Provision for Bad & Doubtful Debts at 5% on Debtors

(e) Provide Depreciation

Furniture and Fitting - @ 10%
Cycle - @ 15%
Typewriter - @ 15%

Prepare Trading and Profit & Loss Account for the above period ended and a Balance Sheet as that date.

Exercise: 15. The following are the balances extracted from the books Miss. Oviya as on 31-12-2007 Prepare Final Accounts.

Particulars	Rs.	Particulars	Rs
Capital	20,000	Creditors	4,800
Buildings	15,000	Cash on Hand	300
Machinery	10,000	Cash at Bank	4,700
Furniture	1,000	Salaries	14,000
Motor Cycle	8,000	Rent paid	4,000
Purchases	94,000	Commission Cr.	1,400
Purchases returns	1,000	Rates & Taxes	600
Sales	1,40,000	Bad Debts	200
Sales Returns	500	Interest	400
Debtors	15,000	Dividend	500
Sundry Expenses	800	Discount allowed	700
Rent received	1,500	Provision for Bad Debts	300
Stock 1-1-2007	11,000		
Bank Overdraft	10,700		

Adjustments:

(a) Closing Stock valued at Rs.10,000 31-12-2007

(b) Salaries outstanding Rs.1,000

(c) Rent received in advance Rs.200

(d) Dividend accrued but not yet received Rs.150

(e) Provide depreciation on Machinery at 10% Buildings at 5%

(f) Interest on Capital at 8%

(g) Maintain provision for Bad Debts at 5% on Debtors.

h. Provide 2% each for discount on and debtors on creditors

Exercise: 16. The following Trial balances extracted from the books of a Merchant Miss. Padmavathi on 31-12-2007

Particulars	Dr.Rs.	Cr. Rs.
Furniture & Fittings	640	
Motor Vehicles	6,250	
Buildings	7,500	
Capital		12,500
Bad Debts	125	
Bad & Doubtful Debts Provision		200
Sundry Debtors and Creditors	3,800	2,500
Stock 1-1-2007	3,460	
Purchases and Sales	5,475	15,450
Bank overdraft		2,850
Sales and Purchases Returns	200	125
Advertising	450	
Interest on Bank overdraft	118	
Commission		375
Cash	650	
Taxes and Insurance Premium	782	
General Expenses	1,250	
Salaries	3,300	
	34,000	34,000

Adjustments :

1) Stock on hand on 31.12.2007 Rs. 3,250
2) Depreciation Buildings @ 5% Furniture @ 10% Motor Vehicles @ 20% per annum.
3) Rs. 85 is due for interest on Bank overdraft
4) Salaries Rs. 300 and Taxes Rs. 200 are outstanding
5) Insurance Premium amounting Rs. 100 Prepaid
6) One-third of the commission received is in respect of work to be done next year.
7) Write of a further sum of Rs. 100 as bad debts from Debtors and create provision for Bad & Doubtful debts to be made @ 5% on debtors.

Prepare a Trading and Profit & Loss Account and the Balance Sheet for the above year.

Exercise: 17. Prepare Trading, Profit & Loss A/c and Balance Sheet from the following Trial Balance of Miss. Queen.

Debit Balances	Rs.	Credit Balances	Rs.
Sundry Debtors	92,000	Capital	70,000
Plant & Machinery	20,000	Purchase Returns	2,600
Interest	430	Sales	2,50,000
Rent, Rates, Taxes & Insurance	5,600	Sundry Creditors	60,000
Conveyance charges	1,320	Bank Overdraft	20,000
Wages	7,000		
Sales Returns	5,400		
Purchases	1,50,000		
Opening stock	60,000		
Drawings	22,000		
Trade Expenses	1,350		
Salaries	11,200		
Advertising	840		
Discount	600		

Bad debts	800		
Business Premises	12,000		
Furniture & Fixtures	10,000		
Cash in hand	2,060		
	4,02,600		4,02,600

Adjustments :

i. Stock on hand on 31.12.2007 Rs. 90,000.
ii. Provide depreciation on premises at 2.5%; Plant & Machinery at 7.5% and Furniture & Fixtures at 10%.
(iii) Write off Rs. 800 as further bad debts.
(iv) Provide for doubtful debts at 5% on sundry debtors.
(v) Outstanding rent was Rs. 500 and outstanding wages Rs. 400.
(vi) Prepaid insurance Rs. 300 and prepaid salaries Rs. 700.

Exercise: 18. From following Trial Balance extracted for the Books of Miss. Ramya, prepare Trading, Profit & Loss A/c and Balance Sheet for the year ended 31.12.2007.

Debit Balances	Rs.	Credit Balances	Rs.
Cash at Bank	2,610	Creditors	4,700
Book Debts	11,070	Discounts	150
Salaries	4,950	Creditors for expenses	400
Carriage inwards	1,450	Returns outwards	2,520
Carriage outwards	1,590	Sales	80,410
Bad debts	1,310	Capital	40,000
Office expenses	5,100		
Purchases	67,350		
Returns inwards	1,590		
Furniture & Fixtures	1,500		
Stock	14,360		
Insurance	3,300		
Depreciation on property	1,200		
Freehold Property	10,800		
	1,28,180		1,28,180

Adjustments :

i. Make provision for doubtful debts at 5%
ii. Calculate discount on creditors @ 2%
(iii) Office expenses include stationery purchased Rs. 800.
(iv) Carriage inwards includes carriage paid on purchase of furniture Rs. 50.
(v) Outstanding salaries Rs. 150.
(vi) Prepaid insurance Rs. 300.
(vii) Stock on hand Rs. 10,700

Exercise: 19. The following are the Ledger balances extracted from the books of Miss. Sathiya as on 31.12.2007.

	Rs.		Rs.
Debit Balances :			
Drawings	3,000	Repairs	360
Goodwill	6,000	Printing & Stationery	110
Land & Buildings	12,000	Bad debts	640
Plant & Machinery	8,000	Advertisement	6,700
Loose tools	600		
Bills receivable	1,600		
Stock, Ist Jan. 2007	8,000		80,720
Purchases	10,200		
Wages	4,000	Credit Balances :	
Carriage inwards	200	Sales	24,000
Carriage outwards	80	Provision for Bad debts	900
Coal, Gas & Coke	1,160	Provision for discount on debtors	342
Sales return	400	Loan at 6%	4,000
Furniture & Fixtures	240	Sundry creditors	8,000
General expenses	1,050	Purchase returns	500
Provision for Discount on Crs	320	Discount received	300
Interest loan	120	Commission received	400
Salaries	1,000	Bills payable	2,278
Rent, Rates & Taxes	560		
Discount allowed	300		80,720
Cash at bank	5,000		
Cash in hand	80		
Sundry debtors	9,000		

Adjustments : Closing stock on 31.12.2007 amounted to Rs. 15,654. Depreciate Plant & Machinery at 5% loose tools at 15% and furniture & Fixtures at 20%. Provide for Bad & Doubtful Debts at 5% and for discount on Debtors and Creditors at 2%. Outstanding : Wages Rs. 200; and Rent, Rates & Taxes Rs. 100. Write off one-third of advertisement. Interest on loan has been paid for six months only. A bill for Rs. 1,000 included in Bills Receivable has been dishonored. The Manager is entitled to a commission of 5% on net profits after changing such commission.

Prepare final accounts for the year ended 31.12.2007.

Exercise: 20. From the following figures extracted from the books of Miss. Thenmozhi you are required to prepare a Trading and Profit & Loss Account for the year ended 31 st March, 2007 and a Balance Sheet as on that date after making the necessary adjustments.

Particulars	Rs.	Particulars	Rs.
Capital	2,28,800	Stock 01.04.1989	38,500
Drawings	13,200	Wages	35,200
Plant and Machinery	99,000	Sundry Creditors	41,000
Freehold property	66,000	Postage and Telegrams	1,540
Purchases	1,10,000	Insurance	1,760
Returns Outwards	1,100	Gas and Fuel	2,970
Salaries	13,200	Bad Debts	660
Office Expenses	2,750	Office Rent	2,360
Office Furniture	5,500	Freight	9,900
Discounts A/cDr..	1,320	Loose Tools	2,200
Sundry Debtors	29,260	Factory Lighting	1,100
Loan to Krishna @		Provision for D/D	880

10% p.a.-balance on 01.04.2006	44,000	Interest on Loan to Shri Krihsna	1,100
Cash at Bank	29,260	Cash on hand	2,640
Bills Payable	5,500	Sales	2,31,440

Adjustments :

1. Stock on 31 st March 2007 was valued at Rs.72,600.
2. A New machine was installed during the year costing Rs. 15,400, but it was not recorded in the books as no payment was made for it. Wages Rs. 1,100 paid for its erection has been debited to wages account.
3. Depreciate :
   Plant and Machinery by 33 1/3 %.
   Furniture by 10%
   Freehold Property by 5%
4. Loose tools were valued at Rs. 1,760 on 31.03.2007.
5. Of the Sundry Debtors Rs. 600 are bad and should be written off.
6. Maintain a provision of 5% on Sundry Debtors for doubtful debts.
7. The Manager is entitled to a commission of 10% of the net profits after charging such commission.

5.9. Model Answers to Check your Progress :

Ex:1.

G.P. : 14,40,000 – 3,60,000 = 11,24,000 + 1,00,000= 12,24,000-
80,000 + 8,50,000 + 52, 000 + 24,000 + 30,000. **1,88,000**

Ex:2.

Cost of Goods Manufactured : 3,000 + 50,000 + 32,000 + 1,000 +
40,000 + 3,000. – 4,000. = **1,24,000**

Ex:3.

Cost of Goods Manufactured : 5,000 + 55,000 + 10,000 + 5,000 +
5,000 + 5,000. – 15,000. = **70,000**

Ex:4.

N.P : 55,000+200+1500. – 500+500+900+360+700+900+300+500+520+480+
900+2100+2500+300. = **45,240**

Ex:5.

G.P : 28,000 + 5,000. – 2,000 + 19,000 + 1,000+1,000. = **10,000**
N.P : 10,000 + 2,000 + 500. – 1,000+2,000+1,000+1,000+500. = **8,000**

Ex :6.

Liabilities: 10,00,000 + 2,10,000. – 30,000. + 3,75,000 + 55,000 **16,10,000**
Assets : 3,10,000 + 2,00,000 + 10,00,000 + 1,00,000 **16,10,000**

Ex:7.

G.L : 29,000+2,700. – 4,000 + 17,800+9,600+300. = **2,700**
N.L : 2,700. + 400+1,000+700. = **4,800**
Liabilities: 100 + 2,800+20,000 – 4,800 – 1,800 = **16,300**
Assets : 3,000+5,400+1,200+400+6,300 = **16,300**

Ex:8.

G.P : 1,20,000 + 14,000. – 12,000 + 90,000+7,500+600. = **20,900**

N.P : 20,900.–4,400+400+2,750+250+1,250+135+90+750+900+375+75+250
+36+60+500+300-400+238-200. = **8,490**.
Liabilities: 20,000+8,492+3,500 =24,992 + 7,500+5,000+75+400+250+600 = **38,816**
Assets : 9,750+2,250+564+340+14,000+9,263+2,400+250 = **38,816**.

Ex:9.
G.P : 14,000+4,500. – 3,000+10,000. = **5,500**
N.P : 5,500+550+210+1,000. – 2,500+850+500+100+50+1,000. = **2,260**
Liabilities: 10,000 – 1,500+2,260+2,000+2,500+1,850+100+400+100 = **17,710**
Assets :1,500+4,000+3,000+4,210+450+50+4,500 = **17,710**

Ex:10.
G.P : 1,18,000 + 14,600. – 15,000+81,000+2,000. = **34,600**
N.P : 34,600+1,200+200+800.–500+4,600+800+400+800+1,200+600
+21,300+380+5,250. = **970**
Liabilities: 80,000+970 - 6,000 = 74,990 + 9,800 = **84,770**
Assets : 20,000+4,750+14,600+18,620+20,500+6,200+100 = **84,770**

Ex:11.
G.P : 3,00,000+20,000. – 15,000+2,20,000+25,000+21,000+2,000. = **37,000**
N.P : 37,000.-7,200+2,750+4,000+375+1,000+1,000+1,200+150+750+1,000
+1,500+200+88+5,150. = **10,380**
Liabilities: 5,000+10,386-3,600=11,786+600+1,000+500+5,000+25,500+25,500 = **69,386**
Assets :150+1,000+926+20,000+7,500+3,600+13,500+14,250+125 = **69,386**

Ex:12.
G.P: 3,47,220+1,28,960. – 89,680+2,50,160+10,243. = **1,26,096**
N.P: 1,26,096+5,640+500+1,180.–30,726+5,620+880+10,000+1,200+470
+3, 620+3,100+ 1,178. = **66,272**
Liabilities: 1,08,850+76,622-50,000 = 1,35,472 + 130+900+57,820+20,000 = **2,59,322**
Assets : 70+8,800+19,000+4,500+57,722+1128,960+2,000+37,770+500 = **2,59,322**

Ex:13.
G.P : 2,25,000+17,500. – 21,500+1,75,000+12,000. = **34,000**
N.P : 34,000+9,000.–900+375+1,100+150+700+500+5,500
+8,000+12,000+1,000+ 5,000+175+30+180. = **7,390**.
Liabilities: 12,500+7,390-6,200 = 13,690+10,000+6,500+2,250 = **32,440**
Assets : 1,575+1,020+170+11,400+450+17,500+325 = **32,440**

Ex:14.
G.P : 1,39,500+10,000. – 11,000+93,000. = **45,500**
N.P : 45,500+1,300+1,400+650+96.–800+15,000+4,000+600
+650+400+1,000+750+1,600+985. = **23,161**
Liabilities: 20,000+23,161+1,600 = 44,761+4,704+10,700+1,000+200 = **61,365**
Assets : 14,250+9,000+10,000+150 = **61,365**

Ex:15.
G.P : 15,250+3,250.- 3460+5350. = **9,690**

N.P : 9,690 + 250. – 210+450+203+1,250+3,600+882+375+64+1250. = **1,656**
Liabilities : 12,500+1,656=14,156+2,500+2,850+300+200+85+125= **20,216**
Assets : 576+5,000+7,125+3,515+650+325+100= **20,216**

Ex:16.
G.P : 2,44 ,600+90,000. –60,000+14,7400 +7400.= **1,19,800**
N.P : 1,19,800.-1350+10500+1320+840+5800+600+430+6160+800.= **90,000**
Liabilities: 70,000-22,000+90,000=1,38,000+60,000+20,000+900= **2,18,900**
Assets : 86,640+2,060+90,000+1,000+18,500+1,17,00+9,000= **2,18,900**

Ex:17.
G.P : 7,88,200+10,500.-14,360+64,830+1,400.= **8,730**
N.L : 8,730+150+94. –5,100+3,000+4,300+1,863+1,590+600+1,200.= **8,679**
Liabilities: 40,000+8,679=31,321+550+4,606= **36,477**
Assets : 2,610+10,517+200+300+1,550+10,800= **36,477**

Ex:18.
G.P : 23,600+15,654. – 8,000+9,700+200+4,200+1,160. = **15,994**
N.P : 15,994+400+140.–80+1,000+660+360+110+700+1,050+240+240+
148+2,000+400+90+48+448. = **8,960**
Liabilities : 40,000-3,000+8,960+748+2,278+4,120+7,840 = **60,946**
Assets : 80+5,000+600+9,310+15,654+510+192
+7,600+12,000+4,000+6,000.= **60,946**.

Ex:19.
G.P : 2,47,750+30,500.–34,200+1,00,260+1,860+34,500+9,500+1,280+950. = **95,700**
N.P : 95,700.+15,850+2,140+4,250+8,200+1,400+400+2,000
+500+1,000+1910+957+. = **57,093**
Liabilities: 80,000+57,093 = 1,37,093+957+15,000+44,560 = **1,97,610**
Assets : 1,120+4,200+30,500+18,000+9,500+11,000+74,290+24,000+25,000 **1,97,610**

Ex:20.
G.P : 2,31,440+72,600.–38,500+1,08,900+34,100+2,970+9,900+1,100. = **1,08,570**
N.P : 1,08,570+4,400.–13,200+2,750+1,540+1,760+2,860+1,320+1,870
+42,790+4,080. = **40,800**
Liabilities: 2,28,800+40,800-13,400 = 2,56,400+5,500+59,400+4,080 = **3,25,380**
Assets : 77,000+62,700+4,950+1,760+72,600+27,170+47,300+29,460+2,640 **3,25,380**

5.10 References :

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers

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LESSON 6

BILLS OF EXCHANGE

Contents :

6.0. Aims and Objectives : In this lesson we are going to discuss

- meaning, characteristics, and elements of bills of exchange
- meaning of promissory note and cheque
- distinction between bills of exchange and promissory note
- distinction between bills of exchange and cheque
- journal entries in the books of drawer
- journal entries in the books of drawee.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

6.1. Introduction :

Business transactions are, as we saw earlier, either cash transactions or credit transactions. When a person buys goods, on credit, for a smaller amount, the seller relies on him for the recovery of the debt dues from the buyer. and no security evidence is necessary because of the small transactions. But, at the same time, when the amount involved in the transaction is large, the seller needs security and evidence over the dealings. Here, the bill of exchange solves the problems of the seller more over, when one wanted to increase the business transactions, credits may be allowed and are paid after some time. In search cases, it becomes necessary that the dealings been reduced in writing so that there is no possibility of misunderstanding between the seller and the buyer, besides, the amount may be paid punctually as agreed upon. Thus, commercial practices have developed this written promise into the valuable instruments of credit. If they are in proper form, the buyer and the seller, who concluded a credit transaction, are in sound position. Even this written promise can be passed on from person to person-bills of exchange and promissory notes. However, this instrument comes under the negotiable Instruments. Negotiable Instruments are divided into three main classes-bills of exchange, promissory note, and cheque. Our purview is focused on bills of exchange and promissory notes.

6.2. Bills of Exchange :

According the to the Indian negotiable instruments Act of 1881, under section 5, “A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument”.

6.2.1. Meaning :

A bill of exchange is a written acknowledgement of debt, given by the debtor to his creditor for the sum due and the time of payment as well as the date and place of payment being set down. A bill of exchange has been defined as an “Instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of a certain person are to the bearer of the instrument”. When such as order is accepted by writing on the face of the order itself, it becomes a valid bill of exchange. For example, suppose Ram orders Shyam to pay rupees 50,000 three months after date and Shyam accepts this order by the putting his signature and name on it, then it will be a bill of exchange.

6.2.2. Specimen :

Specimen of a Bill of Exchange

Rs. 4,000 Saraswathi, Coimbatore
1st January 2007

Stamp

Three months after date, pay to me or my order the sum of Rupees Four Thousand Only, for value received.

Ramu

To
Miss. Durga
Cuddalore

Durga : Debtor/Acceptor/Drawee Saraswathi : Creditor/Maker/Drawer/Payee

6.2.3. Characteristics :

a. A bill of exchange must be in writing.
b. It must be dated and stamped.
c. It must be signed by the maker or drawer.
d. The name of the drawer must be clearly mentioned.
e. The order must be an unconditional one.
f. It must contain an order to pay money and not goods.
g. The sum payable must be specified.
h. The Money must be payable to a definite person or to his order are to the bearer.
i. The amount should be paid within a stipulated time.
j. It must have adequate stamp duty and the prescribed rate.

6.2.4. Elements :

i. Date : Whenever a bill is drawn, it is usual for the drawer to specify the date of the bill, on the top right – hand corner. The date is important for the purpose of calculation of the due date of the billing. In the above specimen bill. In the above specimen bill, the due date of the bill is calculated by adding, to the date of the bill, the period of the bill. It is a general principle due to the drawee three days of grace extra days. over and above the period of the bill. Thus, the due date of the specimen bill given above. is 1^{st} August plus three months plus three days, i.e., 4^{th} November 2004. Due date is the date of payment. It is also known as the date of maturity.

ii. Parties : There are three parties to a bill of exchange.

a. *Drawer:* The person who draws or writes the bill is called Drawer, who is also called the Maker, Maker is the creditor. The creditor or Maker of the bill receives the amount, mentioned in the bill, on the due date.

b. *Drawee:* Drawee is the person on whom the bill is drawn. Drawee is a debtor. He is the person who is ordered by the Drawer to pay the amount. When the bill is accepted by the drawee, he becomes the Acceptor. That is, when the drawee gives his consent by writing the word "Accepted" duly signed on the bill, the drawee becomes as Acceptor.

c. *Payee:* The person, who has the right to receive the amount of the bill, is called payee. The payee may be third person or the Drawer himself. When the drawer has made the bill payable to him self, the drawer is the payee. In such case, the number of parties is reduced to two. In some cases, the drawer may make the bill payable to a third party, then the drawer and the payee will be different persons.

iii. Term : It is the period after which sum mentioned in the bill is to be paid. In the specimen given above, the term of the bill is three months. The term is agreed upon by the parties.

iv. Amount : The sum payable is specified both in figures and words. This is done with a view to minimize the possibility of alteration.

v. Stamp : The stamp is affixed on every bill of exchange, except bill payable on demand. The value of stamp depends on the amount of the bill. Usually the stamp is affixed on the top left-hand corner of the bill.

vi. Acceptance : A bill requires "Acceptance" by the drawee. But, a bill drawn and payable at sight or on demand does not require acceptance. Acceptance is the assent by the drawee to the order of the drawer. Unless the drawee gives his acceptance by writing the word "Accepted" and also putting his signature along with date, the bill does not become a legal document. After the acceptance the bill is returned to the drawer. Before the acceptance the bill is called a Draft and after the acceptance, it is termed an Acceptance The effect of an acceptance is to bind the drawee to honour the bill on the due date. The acceptance may be General Acceptance or Qualified Acceptance. A general acceptance is an unconditional assent to the order of the drawer. It means there the drawee accepts the contents of the bill without any change. When the drawee makes materials alterations in the wordings of the bill, and then accepts it, it is a qualified acceptance.

vii. Endorsement : An endorsement is the process by which a bill is transferred from one person to another. He may use the bill to settle his debt with another person. The endorsement is done by signing by the holder, on the face or back of the bill and thus transfers the right to someone else. The person who makes the endorsement is called the "Endorser". The person to whom the bill is transferred is known as the "Endorsee".

viii. Retiring a Bill : Retiring a bill means honouring it before its due date. The drawee, who does so, is allowed a rebate. It is an allowance for early payment. When ever the payment of an amount which is less then the face value of the bill is made, before the due date by the acceptor and accepted by the drawer, it is known as retirement of a bill under rebate.

ix. Holder : According to section 8 of the Negotiable Instruments Act, a holder is "any person entitled in his own name to the possession thereof and to receive are recover the amount due there on from the parties thereto". That is, the person who is legally entitled to receive the money due on the instrument is called the holder.

x. Holder in Due Course : According to section 9 of the Negotiable Instruments Act, "the holder in due course is a particular kind of holder". The holder of a negotiable instrument is called the holder in due course, if he satisfies we following conditions :

a. He obtained the instrument for valuable considerations:
b. He becomes holder of the instrument before its maturity:
c. He had no cause to believe that any defect existed in the title of the person from whom derived his title.

xi. Renewal of a bill : When the acceptor finds it difficult to meet his acceptance on the due date, he approaches the drawer and requires him for an extension of time. If the drawer agrees to his request, the old bill is cancelled and a fresh bill is drawn for the amount stated in the old bill plus interest for the extended period. The process is referred as Renewal of Bill.

xii. Dishonour of bill : On maturity if the Bill is not paid by the Acceptor, it is said to be dishonoured. A Bill may be dishonoured either by non-acceptance or by non-payment. Dishonour makes the drawer and endorsers liable to compensate the subsequent parties. Each endorsee may look to his transferor for payment.

xiii. Notice of Dishonour : When a Bill is dishonoured, the holder of the Bill must give notice of dishonour to the drawer and each endorser. Failure to do so will discharge them from their obligations. The notice must be given within a reasonable time to warn the parties of their obligations.

xiv. Noting and Protesting : After acceptance of the bill, the Acceptor becomes liable to any the amount to the Payee on maturity. If the payment is duly made, the Bill is said to be honoured or discharged. If the Acceptor fails to pay off, the Bill is dishonoured by non-payment. On the Bill being dishonoured by the Acceptor, the holder hands it over to a Notary Public. Notary Public is a Public Officer authorized to certify deeds and other documents. He represents the bill, again, to the Drawee and notes down the particulars of dishonour in his register. This process is known as Noting a Bill. Then, the Notary Public issues a note of the dishonour of the bill and it is an authentic proof, which is attached to the bill. This record of dishonour is called protest. The charges payable for the services of the Notary Public is called Noting charges. The holder of a Bill of Exchange is said to be the holder in due course. The holder of the Bill can hold the Bill till its due date to realize the amount, or if he is in need of cash before maturity, he may discount it with his banker or he may endorse it over to anyone in settlement of his debt. A Bill can be endorsed any number of times, till the due date.

xv. Insolvency : It is common that a few of the accepts become bankrupt before their acceptances mature. These acceptances then be treated as dishonoured by the holder or drawer by the holder or drawer and the relevant entries record. On the adjustment of a person as insolvent, his estate vests with the Officer Receiver who realizes the bankrupt's properties and proportionately pays the creditors out of the realized sum. The payment by the Official Receiver to the insolvent's creditors is called 'Dividend'. Generally, the dividend is expressed as so many paise in the rupee. The dividend is usually below 100 paise a rupee. Hence, the entire claim is rarely discharged. In order to close off the personal accounts, the unsatisfied balance is debited to Bad Debts Account in the creditor's book.

6.2.5. Kinds of Bills : There are two types of Bills :

i. Inland Bill : An inland bill is drawn and payable in the same country. The specimen given above is an example of inland bill. The due date is counted from the given in the bill.

ii. Foreign Bill : Foreign bill is drawn in one country, but payable in another country. A foreign bill is always drawn in a set of three, each of which is called "VIA". The drawee has to accept and make payment of only one Bill. After the acceptance of one bill, the other two sets become inoperative. The due date of the foreign bill is to be counted from the date, when it is seen and accepted by the drawee.

6.2.6. Advantages of Bills : The following are the main advantages :

i. It is facilitates movement of capital, because it is an instrument of credit.

ii. It is a valid evidence of debt. It is a full proof of indebtedness.

iii. Since the date of payment is fixed, debtor knows when he has to pay and the creditor knows when to expect his money.

iv. The creditor can allow credit and at the same time capital is not locked up.

v. Since it is a negotiable instrument, it can easily be transferred in settlement.

vi. It is easy and convenient for remitting money from one place to another place.

vii. Free transfer facility of bills enhances commercial transactions.

viii. If the Drawer is in need of money, the Bill can be converted into cash, by discounting it with a bank, at a very normal expense.

6.2.7. Accommodation Bills : As stated above, Bills are accepted and endorsed for the benefit received. Generally, an acceptance is made to settle a trade debt, which is due to the Drawer by the drawee and such a Bill is called Trade Bill. Moreover, in such a Bill, we come across the words "for value received". This means, Bills are accepted and endorsed for value benefit. received. Thus, it is clear that Bill of Exchange is usually used in the businesses for discharging of mutual indebtedness arising from genuine trading activities. As contrasted with the Trade Bill, Accommodation Bills are drawn and accepted with no consideration passed or received. The Bill, which is drawn just to oblige a friend, who is in need of money, of course without any trading activities, with sole intention of raising funds required for ready cash is known as Accommodation party, i.e., the drawee accepts the Bill drawn by the accommodated party drawer.. That is the Drawer of the accommodation bill can be called accommodated party and drawee can be called accommodating party. After the Bill is accepted, the drawer discounts it with a bank obtains the cash. Before the due date of the Bills, Drawer provides funds to the Acceptor, who honours the Bill. Since the acceptance is given without consideration and to help the accommodated party to raise the funds, the accommodated party has to discharge the Bill by himself or provide funds to accommodating party. Thus, there is a always a mutual understanding between the parties and hence, these bills are called Accommodation Bills. The language of an Accommodation Bill is the same as that of an ordinary Trade Bill. The mode of drawing, accepting, discounting, honouring etc. are similar to that of any Trade Bills. A banker cannot make distinction between a genuine Trade Bill and Accommodation bill. These Bills are also called "kites" or "Finance Bills".

6.3. Other Negotiable Instruments :

6.3.1. Promissory Note : "A Promissory Note is an instrument in writing not being a bank note or currency note. containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument." [Sec.4]

Essential of a Promissory Note : In order to be a valid one, a promissory note must have the following:

a. The instrument must be in writing.
b. The instrument must be signed by its maker.
c. The instrument must contain a promise to pay.
d. The promise to pay must be conditional.
e. The maker of the instrument must be certain and define.
f. It must be stamped.
g. The sum of money to be paid must be certain.
h. The Payment must be in legal tender money of India.
i. The money must be payable to a definite person or according to his order.
j. The Promissory note must be payable on demand or after a certain definite period of time.

6.3.2. Cheque : "A cheque is a Bill of Exchange drawn on a specified banker and not expressed to be payable otherwise than on demand." The essential features of a cheque are :

a. A cheque must have to fulfill all the essential elements of a Bill of Exchange.
b. It must be payable to the bearer or to order, but in either case, it must be payable on demand.
c. The banker, named, pay it when it is presented for payment.
d. The signature must tally with the specimen signature of the drawee in the Bank.
e. A cheque must be dated.
f. A cheque drawn with a future date is valid, but the same is payable on and after such specified date.

6.3.3. Difference Between Bills of Exchange and Promissory Note :

Bill of Exchange	**Promissory Note**
a.. It is drawn by the creditor	a. It is drawn by the debtor.
b.. It has three parties, i.e. the drawer, drawee and payee.	b. It has two parties, i.e. the maker and the payee.
c.. It contains an order to pay.	c. . It is contains a promise to pay.
d.. It is used in settlement of trade debts.	d.. It is used to borrow money.
e.. Drawer is a creditor.	e.. Drawer is a debtor.
f.. It needs acceptance by the drawee.	f.. It does not need acceptance.
g.. Drawee or acceptor is primarily liable.	g.. Maker debtor. is primarily liable to honour his promises.
h.. Demand bill of exchange does not require stamp.	h.. Both demand and time promissory note require stamp duty.
i.. Foreign bills are drawn in sets and inland bill is drawn one copy.	i.. Only one copy is prepared whether it is foreign or inland
j.. It is widely circulated in business.	j.. Not so common in circulation.

6.3.4. Difference Between Bills of Exchange and Cheque:

Cheque	Bill of Exchange
a.. A Cheque is always drawn on a printed form.	a.. A bill need not be drawn on a printed form.
b.. A cheque does not requires any acceptance.	b.. A bill of exchange requires acceptance.
c.. A cheque is always supposed to be drawn against the funds in the hands of a banker.	c.. There is no such supposition.
d.. A cheque is always payable on demand.	d.. Acceptor is allowed 3 days of grace after the date of maturity.
e.. A cheque is free from stamp duty.	e.. A bill of exchange must be stamped .

f.. A cheque may be crossed to ensure safety.	f.. It cannot be crossed.
g.. A cheque may be countermanded.	g.. The payment of a bill cannot be countermanded.
h.. Notice of dishonour is not necessary.	h.. Notice of dishonour is necessary.
i.. It is not protested or noted on dishonour.	i.. It is usually protested and noted for dishonour.

(6.4) Journal Entries in the books of Drawer and Drawee :

In the Books of Drawer	In the Books of Drawee
1. When a Bill Receivable is received. Debit : Bills Receivable Account Credit : Personal Account of the Drawee.	1. When a Bill is accepted. Debit : Personal Account of the Drawer Credit : Bills Payable Account.
2. When Bills Receivable is honoured Debit : Cash Account Credit : Bills Receivable Account.	2. When a Bill payable is duly honoured. Debit : Bills Payable Account. Credit : Cash Account.
3. When Bills Receivable is discounted. Debit : Cash Account. Credit : Bills Receivable Account.	---
4. When a Bill is endorsed Debit : Receiver A/c. Credit : Bills Receivable A/c.	--
5. When a bill is retired. Debit : Cash A/c Debit : Rebate A/c. Credit : Bills Receivable A/c.	5. When a bill is retired. Debit : Bills Payable A/c. Credit : Cash A/c. Credit : Rebate A/c.
6. When a bill is dishonoured Debit : Acceptor A/c Credit : Bills Receivable A/c.	6. When a bill is dishonoured Debit : Bills Payable A/c. Credit : Drawer A/c.
7. When a bill is sent for collection Debit : Bank A/c. Credit : Bills Receivable A/c.	---
8. When a bill is renewed a. Debit : Acceptor A/c Credit : Bills Receivable A/c Being cancellation of old bill.	8. When a bills payable is renewed. a. Debit : Bills Payable A/c Credit : Drawer A/c Being cancellation of old bill.
b. Debit : Acceptor A/c Credit : Interest A/c Being the amount of interest.	b. Debit : Interest A/c Credit : Drawer A/c Being the amount of interest.
c. Debit : Bills Receivable A/c Credit : Acceptor A/c Being drawal of new bill.	c. Debit : Drawer A/c Credit : Bills Payable A/c Being drawal of new bill.
9. When a bill is noted. Debit : Acceptor A/c. Credit : Cash A/c. Credit : Bills Receivable A/c.	9. When a bill is noted. Debit : Bills payable A/c. Debit : Noting charges A/c. Credit : Drawer A/c

6.5. ILLUSTRATIONS

6.5.1. Discharge of Bills

Illustration 1: On March 10 th, A sold goods to B a Bill at three months for Rs. 800, which B accepts immediately and returns it to A. The Bill is honoured on the due date. Pass entries in the books of both A and B.

Solution :

	In the books of A		Rs.	Rs.	In the books of B		Rs.	Rs.
March 10	B Account	Dr.	800		Purchase Account	Dr.	800	
	To Sales A/c			800	To A Account			800
	Being credit sales made to B.				Being credit purchase.			
March 10	Bills Receivable Account	Dr.	800		A Account	Dr.	800	
	To B Account			800	To Bills Payable A/c			800
	Being acceptance received.				Being acceptance given.			
June 13	Cash Account	Dr.	800		Bills Payable Account	Dr.	800	
	To Bills Receivable A/c			800	To Cash Account			800
	Being amount received.				Being acceptance met.			

6.5.2. Discounting the Bill :

Illustration : 2. A accepted a four month's draft for Rs. 1,000 drawn on him by B on 15 th April. The Bill was discounted with the bankers on the next day at 12%. On maturity the Bill was met. Make journal entries in the books of A and B.

Solution :

	In the books of A		Rs.	Rs.	In the books of B		Rs.	Rs.
April 15	B Account	Dr.	1,000		Bills Receivable A/c	Dr.	1,000	
	To Bills Payable A/c			1,000	To A Account			1,000
	Being acceptance given.				Being acceptance given.			
April 16					Bank Account	Dr.	960	
					Discount Account	Dr.	40	
	--				To Bills Receivable A/c			1,000
					Being the Bill Discounted.			
Aug. 18	Bills Payable A/c	Dr.	1,000					
	To Bank Account			1,000	--			
	Being acceptance met.							

6.5.3. Endorsing the Bill

Illustration: 3. On 1 st June Ram drew a bill upon Krishna for Rs. 500 at four months date. This was duly accepted and payable at Canara Bank. After the acceptance, the bill was endorsed to Gopal. On the due date, the Bill was honoured. Pass the journal entries in the books of all parties.

Solution :

In the books of Ram

			Rs.	Rs.
June 1	Bills Receivable Account	Dr.	500	
	To Krishna Account			500
	Being acceptance received.			

June 1	Capital Account	Dr.	500	
	To Bills Receivable Account			500
	being Krishna's acceptance endorsed to Gopal.			

In the books of Krishna

			Rs.	Rs.
June 1	Ram Account	Dr.	500	
	To Bills Payable Account			500
	Being acceptance given.			
Oct. 4	Bills Payable Account	Dr.	500	
	To Cash Account			500
	Being acceptance met.			

In the books of Gopal

			Rs.	Rs.
June 1	Bills Receivable Account	Dr.	500	
	To Ram Account			500
	Being Krishna's acceptance endorsed.			
Oct. 4	Cash Account	Dr.	500	
	To Bills Received Account			500
	Being Cash Received.			

6.5.4. Bills Sent for Collection :

Illustration :4. A four months Bill for Rs. 500 was returned duly accepted by Natesh on 1 st February, to the drawer, Mahesh, who sent it to his banker for collection. On maturity, the banker informed Mahesh that the Bill was honoured. Pass journal entries in both the books.

Solution :

	In the books of Mahesh				In the books of Natesh			
			Rs.	Rs.			Rs.	Rs.
Feb. 1	Bills Receivable	Dr.	500		Mahesh Account	Dr.	500	
	To Natesh's A/c			500	To Bills Payable A/c			500
	Being acceptance received.				Being acceptance given.			
Feb. 1	Bills Sent for Collection A/c	Dr.						
	To Bills Receivable A/c				---			
	Bill sent to bank for collection.							
June 4	Bank Account	Dr.	500		Bill Payable Account	Dr.	500	
	To Bills sent for Collection A/c			500	To cash Account			500
	Cash received on the honour of the bill				Being acceptance met.			

6.5.5. Dishonour of Bills

a. When bill is in the hands of drawer

Illustration : 5. Mr. Ravi draws a Bill for Rs. 2,000 on Gopal on 15 th September for three months. On maturity, Gopal failed to honour the Bill. Pass the necessary journal entries in the books of Ravi and Gopal, if he had retained the Bill with him till maturity.

Solution :

	In the books of Ravi		Rs.	Rs.	In the books of Gopal		Rs.	Rs.
Sep. 15	Bills Receivable A/c	Dr.	2,000		Ravi's Account	Dr.	2,000	
	To Gopal A/c			2,000	To Bills Payable A/c			2,000
	Being acceptance received.				Being acceptance given.			
Dec.18	Gopal Account	Dr.	2,000		Bill Payable A/c	Dr.	2,000	
	To Bills Receivable A/c			2,000	To Ravi A/c			2,000
	Being Bill dishonoured at maturity.				Being Bill dishonoured at maturity.			

b. When the bill is in the hands of banker

Illustration : 6. On 15 th June, Niranjan sold goods to Prema, valued at Rs. 2,000. He drew a Bill at 3 months for the amount and discounted the same with his bankers at Rs. 1,960. On the due date, the Bill was dishonoured and Niranjan paid the bank the amount due plus the noting charges of Rs. 10. Pass the journal entries in the books of the two parties.

Solution :

	In the books of Niranjan		Rs.	Rs.	In the books of Prema		Rs.	Rs.
June15	Prema Account	Dr.	2,000		Purchases Account	Dr.	2,000	
	To Sales Account			2,000	To Niranjan Account			2,000
	Being goods sold on credit.				Being goods Purchases on credit.			
June15	Bills Receivable Account	Dr.	2,000		Niranjan Account	Dr.	2,000	
	To Prema Account			2,000	To Bills Payable A/c			2,000
	Being acceptance received.				Being acceptance given.			
June15	Bank Account	Dr.	1,960					
	Discount Account	Dr.	40					
	To Bills Receivable A/c			2,000	---			
	Being the bill discounted.							
Sept.18	Prema Account	Dr.	2,010		Bills Payable A/c	Dr.	2,000	
	To Bank Account			2,010	Noting Charges A/c	Dr.	10	
	Being the amount of the bill plus Noting charges of Rs.10 Paid.				To Niranjan A/c			2,010
					Being the amount of the Bills plus Noting Charges.			

C. When the bill is under the endorsement

Illustration :7. On 1 st January, A drew a Bill on B for Rs. 1,000 payable after three months. B accepted the Bill and returned it to A. After 10 days A endorsed the Bill to his Creditor C. On the due date, the Bill was dishonoured and C paid Rs. 5 as noting charges.

Record the transactions in the journals of A, B and C.

Solution :

In the books of A

			Rs.	Rs.
Jan. 1	Bills Receivable Account	Dr.	1,000	
	To B Account			1,000
	Being acceptance received.			
Jan. 10	C Account	Dr.	1,000	
	To Bills Receivable A/c			1,000
	Being the acceptance endorsed to C.			

April 4	B Account	Dr.	1,005	
	To C Account			1,005
	Being dishonour of Bills and Noting charges paid by C.			

In the books of B

			Rs.	Rs.
Jan. 1	A Account	Dr.	1,000	
	To Bills Payable Account			1,000
	Being acceptance given.			
April 4	Bills Payable Account	Dr.	1,000	
	Noting Charges Account	Dr.	5	
	To A Account			1,005
	Being the bill dishonoured and noting charges paid.			

In the books of C

			Rs.	Rs.
Jan. 10				
	Bills Receivable Account	Dr.	1,000	
	To A Account			1,000
	Being B's acceptance endorsed by A.			
April 4	A Account	Dr.	1,005	
	To Bills Receivable A/c			1,000
	To Cash Account			5
	Being the dishonour of the bill and paid Noting charges.			

d. When the bill is sent for collection

Illustration :8. On Ist January, A drew a Bill on B for Rs. 1,000, payable after three months. Immediately after its acceptance, A sent the Bill to his Bank for collection. On the due date, the Bill was dishonoured. Record the transactions in the journals of A and B.

Solution :

	In the books of A				In the books of B			
			Rs.	Rs.			Rs.	Rs.
Jan. 1	Bills Receivable A/c	Dr.	1,000		A Account	Dr.	1,000	
	To B A/c			1,000	To Bills Payable A/c			1,000
	Being acceptance received.				Being acceptance received.			
Jan. 1	Bills Sent for collection A/c	Dr.	1,000					
	To Bills Receivable A/c			1,000				
	Being Bill sent to bank for collection.				--			
April4	B Account	Dr.	1,000		Bills Payable A/c	Dr.	1,000	
	To Bill sent for collection A/c			1,000	To A Account			1,000
	Being Bill dishonoured.				Being acceptance dishonoured.			

6.5.6. Renewal of the Bills

Illustration :9. On Ist May, Azhagu sold goods to Anbu for Rs. 500 and drew upon him a Bill at three months for the amount. Anbu accepted the draft and returned to Azhagu on the due date Anbu expressed their inability to meet the Bill and offered Rs. 300 in cash and to accept a new Bill for the balance plus interest at 12% p.a. for three months. Azhagu agreed to the proposal. On maturity, the Bill was duly met by Anbu. Pass entries in the books of the parties to record the above transactions.

Solution :

In the books of Mr. Azhagu

			Rs.	Rs.
May 1	Anbu Account	Dr.	500	
	To Sales Account			500
	Being acceptance given.			
May1	Bills Receivable Account	Dr	500	
	To Anbu Account			500
	Being acceptance received.			
Aug 4	Anbu Account	Dr	500	
	To Bills Receivable Account			500
	Being cancellation of old Bill.			
Aug 4	Cash Account	Dr	300	
	To Anbu Account			300
	Being the receipt of part payment.			
Aug 4	Anbu Account	Dr	6	
	To Interest Account			6
	Being interest on Rs. 200 at 12% for 3 months.			
Aug 4	Bills receivable Account	Dr	206	
	To Anbu Account			206
	Being new acceptance received.			
Nov 7	Cash Account	Dr	206	
	To Bills receivable Account			206
	Being Amount received on Bill.			

In the books of Mr. Anbu

			Rs.	Rs.
May 1	Purchases Account	Dr.	500	
	To Azhagu Account			500
	Being Purchases of goods on credit.			
May 1	Azhagu Account	Dr.	500	
	To Bills Payable Account			500
	Being acceptance given.			
Aug 4	Bills payable Account	Dr	500	
	To Azhagu Account			500
	Being cancellation of acceptance.			
Aug 4	Azhagu Account	Dr	300	
	To Cash Account			300
	Being Payment of part payment.			
Aug 4	Interest Account	Dr	6	
	To Azhagu Account			6
	Being interest on Rs. 200 at 12% for 3 months.			
Aug 4	Azhagu Account	Dr	206	
	To Bills Payable Account			206
	Being new acceptance given.			

Nov 7	Bills payable Account	Dr	206	
	To Cash Account			206
	Being acceptance honoured.			

6.5.7. Retiring of the Bills

Illustration :10. On Ist January, A sold goods to B for Rs. 1,000 and drew upon him a Bill at three months for the amount B accepted the Bill and returned. On 4 th March, B Returned the Bill under rebate of 12% p.a. Record these transactions in the journals of A and B.

Solution :

	In the books of A				In the books of B			
			Rs.	Rs.			Rs.	Rs.
Jan. 1	B Account	Dr.	1,000		Purchase Account	Dr.	1,000	
	To Sales Account			1,000	To A Account			1,000
	Being goods sold on credit.				Being purchase of goods on credit.			
Jan. 1	Bills Receivable Account	Dr.	1,000		A Account	Dr.	1,000	
	To B Account			1,000	To Bills Payable Account			1,000
	Being acceptance received.				Being acceptance given.			
March4	Cash Account	Dr.	990		Bills Payable Account	Dr.	1,000	
	Rebate Account	Dr.	10		To Cash Account			990
	To Bills Receivable A/c			1,000	To Rebate Account			10
	Being Bill honoured under rebate.				Being acceptance met under rebate.			

6.5.8. Accommodation Bills

i. For the benefit of drawer

Illustration: 11. Mr. A accepted a bill for Rs. 20,000 drawn by B to enable the raise funds at three months on Ist October 2007. The bill was duly discounted by B at their Bank at 6% per annum. On the due date B remitted the amount to the acceptor and the Bill was duly met. Pass journal entries in the books of both the parties.

Solution :

	In the books of B				In the books of A			
			Rs.	Rs.			Rs.	Rs.
2004 Oct. 1	Bills Receivable A/c	Dr.	20,000		B Account	Dr.	20,000	
	To A Account			20,000	To Bill Payable A/c			20,000
	Being Bill drawn on A for 3 months.				Being acceptance of Bill drawn by B.			
Oct. 2	Cash Account	Dr.	19,700					
	Discount on Bills A/c	Dr.	300					
	To Bills Receivable			20,000	--			
	Being Bill dishonoured at 6% p.a.							
2005 Jan.4	A Account	Dr.	20,000		Cash Account	Dr.	20,000	
	To cash Account			20,000	To B Account			20,000
	Being amount paid to A to meet the Bill on the due date.				Being cash received from B to honour the Bill.			
Jan. 4					Bills Payable A/c	Dr.	20,000	
	---				To cash Account			20,000
					Being bill honoured on maturity.			

ii. For Mutual benefit

Illustration :12. Mr. Ram draws a Bill for Rs. 15,000 on Mr. Gopal on Ist January payable three months after the date at Canara Bank, Coimbatore. The Bill after acceptance is discounted by Ram at 6%p.a. and he remits 1/3 of the proceeds to Gopal. On the due date, Ram sends the necessary amount to Gopal who meets the Bill. Record these transactions in the journal of both the parties.

Solution:

	In the books of Ram		Rs.	Rs.	In the books of Gopal		Rs.	Rs.
Jan. 1	Bills Receivable A/c	Dr.	15,000		Ram Account	Dr.	15,000	
	To Gopal Account			15,000	To Bill Payable A/c			15,000
	Being Acceptance received from Gopal.				Being Ram's bill accepted.			
Jan. 1	Cash Account	Dr.	14,775					
	Discount on Bills A/c	Dr.	225					
	To Bills Receivable A/c			15,000	---			
	Being Bill dishonoured at 6% p.a.							
Jan. 1	Gopal Account	Dr.	5,000		Cash Account	Dr.	4,925	
	To Discount on Bills A/c			75	Discount on Bills A/c	Dr.	75	
	To cash Account			4,925	To Ram Account			5,000
	Being 1/3 of proceeds and 1/3 of discount charges transferred.				Being 1/3 of proceeds and 1/3 of discount charges transferred.			
April4	Gopal Account	Dr.	10,000		Cash Account	Dr.	10,000	
	To Cash Account			10,000	To Ram Account			10,000
	2/3 of the Bill sent to Gopal, who met the Bill.				Being 2/3 contribution received from Ram.			
April4					Bills Payable A/c	Dr.	15,000	
	---				To Cash Account			15,000
					Being Bill paid on maturity.			

iii. Two Bills

Illustration :13. Mr. A drew a Bill on B on November Ist, 2007 for an amount Rs. 4,000 payable three months after that date. On the very same date Mr. A accepted a Bill for Rs. 4,000 drawn by B for a period of three months. Both the parties discounted their Bills at 12% p.a. On the due date both the Bills were honoured. Make journal entries in the books of both the parties.

Solution :

2007	In the books of A		Rs.	Rs.	In the books of B		Rs.	Rs.
Nov. 1	Bills Receivable A/c	Dr.	4,000		A Account	Dr.	4,000	
	To B Account			4,000	To Bill Payable			4,000
	Being Acceptance of B received.				Being acceptance given to A.			
Nov.1	B Account	Dr.	4,000		Bill Receivable A/c	Dr.	4,000	
	To Bills Payable A/c			4,000	To A Account			4,000
	Being acceptance given to B.				Being acceptance received.			
Nov.1	Cash Account	Dr.	3,880					
	Discount on Bills A/c		120					
	To Bills Receivable A/c			4,000	--			
	Being discounting of Bill at 12% p.a..							

Nov.1	--			Cash Account Dr. Discount on Bills A/c Dr. To Bills Receivable A/c Being discounting of Bill at 12% p.a..	3,880 120	 4,000
Feb.4	Bills Payable A/c Dr. To Cash A/c Being the Bill is met.	4,000	 4,000	---		
Feb.4	--			Bills Payable A/c Dr. To Cash Amount being the bill is met.	4,000	 4,000

6.5.9. Insolvency :

Illustration :14. Balan draw a three months Bill on Sekhar for Rs. 4,000 on Ist April 2007. Sekhar accepts the Bills and sends it to Balan, who gets it discounted with his bank for Rs. 3,940. Balan immediately remits Rs. 985 to Sekhar. On the due date, Balan being unable to remit the amount due, accepts a Bill for Rs. 4,500 for three months which is discounted by Sekhar for Rs. 4,440. Sekhar sends Rs. 330 to Balan. Before the maturity of the second Bill Balan becomes insolvent and his estates paying 40 paise in the rupee. Give journal entries in the books of Balan and Sekhar. Also, show the ledger accounts.

Solution :

	In the books of A	Dr. Rs.	Cr. Rs.	In the books of B	Dr. Rs.	Cr. Rs.
2007 April 1	Bills Receivable Account Dr. To Sekhar Account Being Acceptance received.	4,000	 4,000	Balan Account Dr. To Bill Payable Account Being acceptance given .	4,000	 4,000
2007 April1	Bank Account Dr. Discount on Bill Account Dr. To Bills Receivable A/c Being Bills Discounted.	3,940 60	 4,000	--		
2007 April1	Sekhar Account Dr. To Discount Account To Bank Account Being remittance of amount less discount.	1,000	 15 985	Bank Account Dr. Discount Account Dr. To Balan Account Being share received from Balan less discount.	985 15	 1,000
July 4	Sekhar Account Dr. To Bills Payable Account Being acceptance given.	4,500	 4,500	Bills receivable Account Dr. To Balan Account Being acceptance received.	4,500	 4,500
July 4	--			Bank Account Dr. Discount on Bills Account Dr. To Bills Receivable A/c Being acceptance discounted.	4,440 60	 4,500
July 4	--			Bills Payable A/c Dr. To Bank Account Being own acceptance.	4,000	 4,000
July 4	Bank Account Dr. Discount on Bills Accounts Dr. To Sekhar account Being receipt of share on discounting of bill.	330 45	 375	Balan Account Dr. To Discount on Bills A/c To Bank Account Being remittance of share of proceeds to Balan.	375	 45 330

Oct. 7	Bills Payable Account Dr.	4,500		Balan Account Dr.	4,500	
	To Sekhar Account		4,500	To Bank Account		4,500
	Being Bill dishonoured by Sekhar.			Being dishonour of Bill by Balan.		
Oct. 7	Sekhar Account Dr.	3,375		Bank Account Dr.	1,350	
	To Bank Account		1,350	Bad Debts Account Dr.	**2,025**	
	To Deficiency Account		**2,025**	To Balan Account		3,375
	Being cash paid to Sekhar 40 paise in the rupee.			Being cash received at 40 paise in the rupee.		

Sekhar Account.

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs.
2007				2007			
April 1	To Discount A/c		15	April1	By Bill Receivable A/c		4,000
April 1	To Bank A/c		985	July 4	By Bank A/c		330
July 4	To Bills Payable A/c		4,500	July 4	By Discount on Bills A/c		45
Oct. 7	To Bank A/c		1,350	Oct. 7	By Bills Payable A/c		**4,500**
Oct. 7	To Deficiency A/c		2,025				
			8,875				8,875

Balan Account

Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs.
2007				2007			
April 1	To Bills Payable A/c		4,000	April1	By Bank A/c		985
July 4	To Discount on Bills A/c		45	April1	By Discount on Bills A/c		15
July 4	To Bank A/c		330	July 4	By Bills Receivable A/c		4,500
Oct. 7	To Bank A/c		**4,500**	Oct. 7	By Bank A/c		1,350
				Oct. 7	By Bad Debts A/c		2,025
			8,875				8,875

6.6. Let Us Sum Up:

In this lesson we have discussed theriotical aspects of bills of exchange and practical solutions to various occasions of bills of exchange followed by sufficient number of unsolved problems.

6.7. Lesson End Activities

6.7.1. Discharge of Bills :

Exercise : 1. A sold goods to B for Rs. 10.000 on 1 st January, 2007. A drew a bill upon him for there months for the amount. B accepted the bill and returned it to A. On the due date, the bill was paid. Pass necessary journal entries in the books of A and B.

Exercise: 2. On 1-1-2007, Jayanthy sold goods to Devi on Credit for Rs. 2,000 and drew a bill on Devi for Rs. 2,000 for 3 months after date. Devi accepted it on 3-1-2007 and returned it to Jayanthy, On Maturity, the bill was duty honored by Devi. Pass Journal entries in the books of both the parties.

6.7.2. Discounting the Bill

Exercise :3. On February 1,2007, A drew a bill on B for two months for Rs.12,000 B accepted the draft and returned it to A. A discounted the bill immediately with his bankers at 18% per annum. Pass necessary journal entries in the books of all the parties concerned

Exercise : 4. Mala purchased goods for Rs. 3,000 form Kala on 1-4-2007, Mala accepted a three months' bill for the amount and gave it to Kala the same day. Kala discount it immediately with Indian Bank at discount of 5% p.a. On due date the bill was honoured by payment. You are required to give entries in the books of all the parties.

6.7.3. Endorsing the Bill

Exercise: 5. A drew on B a bill on March 1, 2007 for two months for Rs. 7,000 which B accepted and returned to A. The bill is endorsed one month after the accepted in favor of C. On the due date, the bill was honoured. Pass necessary journal entries in the books of all the parties concerned

Exercise : 6. On 1-4-2007 Balu draws a bill on Ravi for Rs. 1,600 for goods sold at 90 days after sight. Ravi accepts the bill on 5-4-2007. Balu, however, endorsed the bill to Sohan in settlement of a debt of Rs. 1,700. On maturity the bill was duly honoured by Ravi.

Show the journal entries in the books of all the parties.

6.7.4. Bills Sent for Collection :

Exercise: 7. A drew a bill on B for Rs. 5,000 payable two moths after date. Immediately after its acceptance A sent the bill to his banker for collection. On the due date bank collects the bill and sends the advice of collection after deducting Rs. 25 as collection charges. Pass journal entries in the books of all parties.

Exercise: 8. On 1-5-2007 Mohan gave his acceptance for three months bill of Rs. 6,000 drawn by of Murali. Murali sent the bill to bank for collecting the amount on maturity. After maturity Murali received intimation form the bank that the bill was duly honoured by Mohan and Bank charged Rs.20 for collection. Show the entries in the books of Murali and Mohan

6.7.5. Dishonour of Bills

Exercise: 9. Mohan owes Shyan Rs. 6,000 on 1 st January, 2007 Mohan accepts a three-month bill for Rs. 5,900 being in full settlement of the claim. At its due date the bill is dishonored. Noting charges are paid by Shyam Rs. 50. Give journal entries in the books of Mohan

.**Exercise: 10.** On 1 st June 2007, Murugan sells goods to Selvam for Rs. 3,500 and draws three bills on him, the first for Rs. 800 for One month, the second for Rs. 1,200 for 2 months and the third for Rs. 1,500 for 3 months. Selvam accepts and returns these bills to Murugan.

The first bill is by Murugan till the date of maturity. The second bill is endorsed by Murugan to his creditor Ramu on 3 rd June 2007 and the third bill is sent to the bank for collection on 4 th June 2007. On maturity all bills were dishonored and noting charges paid were Rs. 10. Rs. 20 and Rs. 30 respectively.

You are required to pass journal entries in the books of Murugan, Selvam and Ramu.

Exercise: 11. Mohan owes Shyam Rs. 4,000 on 1 st January 2007. Mohan accepts a three month bill Rs. 3,900 in satisfaction of his full claim. On the same date it was endorsed by Shyam to Gyam in satisfaction of his claim of Rs. 3,980. The bill is dishonored on the due date, give journal entries in the books of Shyam.

6.7.6. Renewal of the Bills:

Exercise: 12. K having accepted a bill for Rs. 15,000 is unable to meet the same. Before the due date he request L to receive Rs. 13,200 in cash and to draw on him a new bill for Rs. 2,000 for a further period of 2 months and cancel the old bill. L agree to his proposal. Pass journal entries in the books of both the parties.

Exercise: 13. Kalai owed to Venu Rs. 12,000 on 1-1-2007. On the same date Venu drew upon Kalai a bill for the amount at 2 months and Kalai returned the bill duly accepted Venu got the bill discounted at his bank at 6% p.a. Before the bill was due for payments Kalai told Venu that the he was not able to pay the full amount and requested Venu to accept Rs. 4,500 immediately and draw upon him another bill for the remaining amount for two months together with interest at 8% p.a. Venu agreed. The second bill was duly met. Give Journal entries in the books of Venu and Kalai.

6.7.7. Retiring of the Bills

Exercise. 14. Ajay purchased goods form Vijay for Rs. 2,000 on 1st January, 2007. He accepted a bill of exchange for the amount at 2 months drawn on him by Vijay on the same day. On 4th January, 2007, Vijay got the bill discounted with his bank at 18% per annum. At maturity ,The bill was dishonored, noting charges amounting to Rs.15,however. Vijay agreed to receive a sum of Rs.575 from Ajay in cash and two promissory notes- one at one month for rs.500 and the other at 3 months for Rs. 1,000 in full settlement. The first promissory note was duly honored but the second promissory note was dishonored due to Ajay's insolvency. Vijay could recover 30%of the amount due from him.

Show journal entries in the books of both the parties and Ajay's account in Vijay's ledger

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Exercise: 15. On 1st February, Ram received form Hari three acceptances for Rs. 6,000, Rs. 8,000 and Rs. 10,000 for two months.

The first Bill for Rs. 6,000 was endorsed to Mohan; the second Bill for Rs. 8,000 was held till due date; and the third Bill for Rs. 10,000 was discounted for Rs. 50.

At maturity all the Bills were dishonoured. Give journal entries in the books of Ram and the ledger accounts in the books of Hari, in respect of these transactions.

6.7.8. Accommodation Bills

Exercise: 16. On 1st January, 2007, B accepted a three month bill for Rs, 20, 000 drawn on him by A for latter's benefit. A discounted the bill on 4th January @ 20% per annum and on the due date sent B a cheque for Rs 20,000 in order to enable him to honor the bill. B duly honored his acceptance. Pass journal entries in the books of A and B.

Exercise: 17. On 1 st May 2007 Madhan accepted a tow month bill for Rs. 10,000 drawn on him by Mani for the latter's benefit. Mani discounted the bill on 4th may @ 12% p.a. and on the due date sent Madhan a cheque for Rs. 10,000 in order to enable him to honor the bill. Madhan duly honored his acceptance. Pass journal entries in the books of Mani and Madhan.

Exercise: 18. For the mutual accommodation of P and Q, P draws a bill on Q for Rs. 15,000. Q accepts the bill and returns it to P. He discount the same with his bankers and receives Rs.14,640. The proceeds are shared between P and Q in proportion of 2/3 and 1/3 respectively. On the due date P remits his portion to Q who meets the bill. Pass journal entries in the book of P and Q to record the above transactions.

Exercise: 19. For their mutual accommodation, Bala draws a bill on Gani for Rs.8.000 for 3 months on 1.1.2007 Gani accepts the bill and returns it to Bala. Bala discounts the bill with the bank for Rs. 7,900 and remits half the proceeds to Gani Before maturity Bala remits the amount due to Gani and Gani honors the bill. Show the entries in the books of Bala and Gain.

Exercise: 20. On 1st July 2007, G drew a bill for Rs.80, 000 for 3 months on H for mutual accommodation. He accepted the bill of exchange. G had purchased goods worth Rs. 81,000 form J on the same date. G endorsed H's acceptance to J in full settlement. On 1st September

2007, J purchased goods worth Rs. 90,000 from H. J endorsed the bill of exchange received from G to H and paid Rs. 9,000 in full settlement of the amount due to H.

On 1st October, 2007, H purchased goods worth Rs. 1, 00,000 from G. He paid the amount due to G by cheque. Give the necessary Journal Entries in the books of H.

Exercise: 21. On 1-1-2007, Ramya and Priya draw on each other at 2 months for Rs. 3,000 for their mutual accommodation. They discount each other's bill at 12% p.a. and on maturity, each party honors her own acceptance. Record the transactions in the journals of Ramya and Priya.

6.7.9. Insolvency :

Exercise: 22. For the mutual accommodation of X and Y on 1st April, 2007 X drew a four months bill on Y for Rs. 4,000. Y returned the bill after acceptance on the same date X. On due date X discounts the bill form his bankers @6% per annum and remit 50% of the proceed to Y. On due date X is unable to send the amount due and therefore Y draws a bill for Rs. 7,000, which is duly accepted by X.

Y discounts the bill for Rs.6,600 and sends Rs. 1,300 to X. Before the bill is due for payment X becomes insolvent. Latter 25 paisa in a rupee are received form his Estate. Record Journal Entries in the book of X.

Exercise: 23. On 1-1-2007, Yasmin and begum for their mutual accommodation drew on each other bills for Rs.5,000 each payable after three months. On 4-1-2007, they discount with their bankers each other's bill @ 12% p.a. On due date, Yasmin meets her bill and Begum fails to meet her acceptance.

Begum then accepts a bill of Rs. 5,500 including Rs. 500 interest for renewal of bill. drawn by Yasmin on 4-3-2007 payable after one month. Yasmin immediately gets the bill discounted for Rs. 5,250.On 5-4-2007. Begum become insolvent and a final dividend of 40 paise in a rupee is received from her estate on 6-5-2007. Pass journal entries in the books of Yasmin and Begum. Also show Begum's Account in Jasmine's ledger.

Exercise: 24. On 1st January 2007, A draws a bill on B at four months for Rs. 1,000and B draws on A for similar amount and term. Both the bills are accepted and discounted at 6% p.a. A meets his own acceptance at maturity, but B's acceptance is dishonored.

B then accepts a new Bill at three months for the amount due by him plus interest at 8% p.a. which is duly met at maturity. Journal the above transaction in the books of A and B.

Exercise: 25. X draw a Bill for Rs. 1,500 and Y accepts the same for the mutual accommodation of both of them to the extent of X-2/3 and Y-1/3. X discounts the same for Rs. 1,410 and remits 1/3rd of the proceeds toY.

Before the due date, Y draws another Bill for Rs.2, 100 on X, in order to provide funds to meet the first Bill. The second Bill is discounted for Rs. 2,040 with the help of which the first Bill is met and Rs. 360 is remitted to X. Before the due date of the second Bill X becomes insolvent and Y receives a dividend of 50 paise in the Rupee in full satisfaction. Pass necessary entries in the books of X and Y.

6.8. Model Answers to Check your Progress :

Solutions to questions given under head are almost journal entries in the nature Questions under the head exercises are given under the same manner of sub headings as in the case of illustrations. Therefore, students are requested to refer respective illustration for answering the exercise questions.

6.9 References:

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers

LESSON 7

AVERAGE DUE DATE

Contents

7.0. Aims and Objectivities : In this lesson we are going to discuss

- the significance of average due date
- uses of average due date
- application to concepts of average due date in the various accounting situations.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

7.1. Introduction : Where account person, owing several debts due on different dates, wishes to pay the total amount due on one particular date, the date must be such that neither the debtor nor the creditor lose anything by way of interest. An idea of average due date is important because calculation of such a date, where there is no loss to either party, gives an important hint that if payment is not done on that date, then the party receiving the payment suffers the loss. The present chapter deals with the meaning of average due date, calculation of average due date in different cases and amount of interest thereon.

7.2. Meaning : Average Due Date is the date on which several debts due on different dates can be paid by a single payment without any loss of interest either to debtor or creditor. Average Due Date of Equated Due Date is the arithmetic average of several due dates. When a person owes various amounts on different dates to another, it may be desired to discharge the debts on a single date by a lump sum payment without any loss of interest to either party. Such an equated date of payment is called the Average Due Date. The application of the average due date comes into use in settlement of accounts, such as, Bill transactions, payment of credit transactions, calculation of interest on drawings by partners etc.

7.3. Uses : Average due date is useful in the following types of accounting problems :

a.. Problems relating to settlement of accounts involving a series of bills of exchange due on different dates.

b.. Problems relating to calculation of interest of partners' drawings made on different dates.

c.. Problems involving piece-meal relation of assets during the partnership dissolution.

d.. Problems involving settlement of accounts where money advanced is to be received in a number of installments due on different dates.

7.4. Types : Procedure for calculation of Average Due Date varies according to the type of the problem involved. Following are the two types of situations :

1. Lending in installments but repayment in one lump sum.
2. Lending in lump sum but repayment in installments.

$$\text{Average Due date} = \text{Base Date} \pm \frac{\text{Total of Product}}{\text{Total of Amounts}}$$

7.5. ILLUSTRATIONS

7.5.1. Lending in Installments but repayment in lump sum.

i. When Due Dates are Given :

Illustration : 1. Raman owes Balan the following sums of money due on the dates stated:

Rs. 400 due on 5th January 2004
Rs. 200 due on 20th January 2004
Rs. 800 due on 4th February 2004
Rs. 100 due on 26th February 2004
Rs. 50 due on 10th March 2000

Calculate Average Due Date

Solution.

Calculation of Average Due Date
Base date = 5th January 2004.

Due Date	Amount Rs.	Number of days From 5th January	Product
05.01.2004	400	0	0
20.01.2004	200	15	3,000
04.02.2004	800	30 26+4.	24,000
26.02.2004	100	52 26+26.	5,200
10.03.2004	50	65 26+29+10.	3,250
	1,550		35,450

$$\text{Average Due date} = \text{Base Date} + \frac{\text{Total of Product}}{\text{Total of Amounts}}$$

$$= \text{5th January} + \frac{35{,}450}{1{,}550}$$

= 5th January + 22.8 or 23 days = **28th January 2004.**

Illustration : 2. A owes B the following sums of money due on the dates stated. Calculate the average due date.

Rs. 1,000 due on Jan. 1, 2007 ; Rs. 2,000 due on Feb. 1, 2007
Rs. 3,000 due on Mar. 1, 2007 ; Rs. 4,000 due on April 1, 2007.

Solution.

Calculation of Average Due Date
Base date = 1st January 2007.

Due Date	Amount Rs..	No. of Days from base date	Product
01.01.2007	1,000	0	0
01.02.2007	2,000	31 30+1.	62,000
01.03.2007	3,000	59 30 + 28 + 1.	1,77,000
01.04.2007	4,000	90 30 + 28 + 31 + 1.	3,60,000
	10,000		5,99,000

$$\text{Average Due date} = \text{Base Date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$$

$$= 01.01.2007 + \frac{5{,}99{,}000}{10{,}000}$$

= 01.01.2007 + 60 days = **02.03.2007**

Note : In calculating days, the date of transaction is ignored.

Illustration : 3. X owes Y the following sums of money due from him on the dates stated:

Rs.		
3,000	due on	March 10, 2007
10,000	due on	April 2, 2007
40,000	due on	April 30, 2007
1,000	Due on	June 10, 2007

He wants to make the complete payment on 30th June, 2007. Calculate interest at 15% per annum with the help of average due date method.

Solution.

Calculation of Average Due Date
Zero date = March 10, 2007

Due Date	Amount	No. of Days from base date	Product
March 10, 2007	3,000	0	0
April 2, 2007	10,000	23 21+2.	2,30,000
April 30, 2007	40,000	51 21+30.	20,40,000
June 10, 2007	1,000	92 21+30+31+10.	92,000
	54,000		23,62,000

$$\text{Average Due date} = \text{Base Date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$$

$$= \text{March 10} + \frac{23{,}62{,}000}{54{,}000}$$

= March 10 + 43.74 days = **April 23.2007.**

Interest will be calculated on the total amount, i.e., Rs. 54,000 for 68 days, i.e., the days from the average due date to the settlement date, i.e., from April 23 to June 30,

$$\text{Interest} = \frac{15 \text{ x } 68 \text{ x Rs. } 54{,}000}{100 \text{ x } 365} = \textbf{Rs. 1,509}.$$

ii. Interest on Drawings

Illustration : 4. A Partner has withdrawn the following sums of money during the half year ending 30.06.2007.

January	15	Rs. 300	April	20	Rs. 400
February	18	Rs. 250	May	16	Rs. 300
March	10	Rs. 150	June	18	Rs. 500
March	26	Rs. 200			

Interest is to be charged at 8% p.a. Find out the average due date and calculate the amount of interest to be debited to the partner.

Solution.

Computation of Average due date
Base date 15.01.2007

Date	Amount Rs..	No of days from Base date	Product Rs..
15.01.2007	300	0	0
18.02.2007	250	34	8,500
10.03.2007	150	54	8,100
26.03.2007	200	70	14,000
20.04.2007	400	95	38,000
16.05.2007	300	121	36,300
18.06.2007	500	154	77,000
	2,100		1,81,900

$$\text{Average due date} = \text{Base date} + \frac{\text{Total of Products}}{\text{Total of Amounts}} \text{ days}$$

$$= 15.01.2007 + \frac{181900}{2{,}100} \text{ days}$$

Average due date = 15.01.2007 + 87 days = **12.04.2007**.
Amount of Interest = 2,100 x 8/100 x 79/365= **Rs. 36.36**

Illustration : 5. Sunil is a partner in a firm Sunil, Sharad & Co. His drawings from the business during the year 2007 are as follows :

Month	Rs.	Month	Rs.
Jan. 31	150	Jul. 31	250
Feb. 28	100	Aug. 31	150
Mar. 31	160	Sep. 30	120
Apr. 30	200	Oct. 31	100
May 31	140	Nov. 30	180
June 30	70	Dec. 31	300

You are required to calculate the Average Due Date and the amount of interest @ 10% p.a. payable by Sunil for his transactions, taking Dec. 31 as the basic date.

Solution.

Computation of Average due date
Base date 31.12..2007

Date	Amount Rs..	No of days before Base date	ProductsRs..
1990			
Jan. 31	150	11	1,650
Feb. 28	100	10	1,000
Mar. 31	160	9	1,440
Apr. 30	200	8	1,600
May 31	140	7	980
June 31	70	6	420
July 31	250	5	1,250
Aug. 31	150	4	600
Sep. 30	120	3	360
Oct. 31	100	2	200
Nov. 30	180	1	180
Dec. 31	300	0	0
	1,920		9,680

$$\text{Average due date} = \text{Base date} + \frac{\text{Total of Products}}{\text{Total of Amounts}} \text{ months}$$

$$= 31.12.2007 + \frac{9,680}{1,920} \text{ months}$$

Average due date = 31.12.2007 + 5 months = **31.07.2007**.

iii. When due date is not given

Illustration : 6. Sheela drew the following Bills of Exchange on during the year 2007.

Date of drawing of Bill of exchange	Amount Rs.	Term
12th January	500	2 months
14th February	300	2 months
20th March	1,000	1 month
4th April	500	1 month
15th May	600	2 months

Solution.

Calculation of Average Due Date
Base Date 15-03-2007

Bill Date	Period	Due Date	Amount Rs.	Number of days from base date	Product
12.1.07	2 months	15.3.07	500	0	0
14.2.07	2 months	17.4.07	300	33 16+17.	9,900
20.3.07	1 month	23.4.07	1,000	39 16+23.	11,500
4.4.07	1 month	7.4.07	500	23 16+7.	11,500
15.5.07	1 month	18.5.07	600	6416+30+18.	38,400
			2,900		98,800

$$\text{Average Due date} = \text{Base Date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$$

$$= 15.03.07 + \frac{98,800}{2,900}$$

$$= 15.3.07 \ + 34 \text{ days} = \mathbf{18.4.2007.}$$

Illustration : 7. Find out an Average Due Date from the following details:

Date of Acceptance	Period	Amount
15th June 2007	3 months	1,000
20th July 2007	2 months	2,000
10th August 2007	3 months	3,000
26th September 2007	3 months	4,000

Solution.

Base Date 18.09.2007.

Date of acceptance	Period	Due Date	Amount Rs.	No. of days	ProductRs.
15th June 2007	3 months	18 Sep.	1,000	0	0
20th July 2007	2 months	23 Sep.	2,000	5	10,000
10th August 2007	3 months	13 Nov.	3,000	56	1,68,000
26th September 2007	3 months	29 Dec.	4,000	102	4,08,000
			10,000		5,86,000

$$\text{Average due date} = \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}} \text{ Days}$$

$$18.09.2007 + \frac{5,86,000}{10,000} = 59 \text{ Days}$$

Average Due Date = Base date + Equated Period
= 18.09.2007 + 59 days
= **16.11.2007**

iv. When Due Date falls on public holiday

Illustration : 8. The following amounts are due to Ezil by Satya. Find out average due date.

Due Dates		Rs.
10.01.2007		1,000
26.01.2007	Republic day.	2,000
23.03.2007		6,000
18.08.2007	Sunday.	8,000

Solution.

Computation of Average due date
Base date 10.01.2007

Due dare Nominal.	Due date actual.	No. of days from Base date	Amount Rs.	Product Rs.
10.01.2007	10.01.2007	0	1,000	0
26.01.2007	25.01.2007	15	2,000	30,000
23.03.2007	23.03.2007	72	6,000	4,32,000
18.08.2007	17.08.2007	219	8,000	17,52,000
			17,000	22,14,000

$$\text{Average due date} = \text{Base date} + \frac{\text{Total of Product}}{\text{Total Amount}} \text{ days.}$$

$$\text{Average due date} = 10.01.2007 + \frac{22,14,000}{17,000} \text{ days}$$

= 10.01.2007 + 130 days = **20.05.2007**

v. When Saving of amount of interest is required

Illustration : 9. Red owes White the following sums of money due from him on the dates stated.

Rs. 300 due on March 10, 2007
Rs. 1,000 due on April 2, 2007
Rs. 4,000 due on April 30, 2007
Rs. 100 due on June 10, 2007

He wants to make the complete payment on 30th June 2007. Calculate Interest at 5% per annum with the help of average due date method.

Solution.

Calculation of Average Due Date
Base Date : 10.03.2007.

Due Date	Amount Rs..	No. of Days from Base Date	Product Rs.
10.03.2007	300	0	0
02.04.2007	1,000	23 21+2.	23,000
30.04.2007	4,000	51 21+30.	2,04,000
10.06.2007	100	92 21+30+31+10.	9,200
	5,400		2,36,200

$$\text{Average due date} = \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}}$$

$$= 10.03.2007 + \frac{2,36,200}{5,400}$$

= 10.03.2007+43.74 or 44 days = **23.04.2007.**

Illustration : 10. Mani has accepted the following bills drawn by Sharma :-

On 08.03.2007	Rs. 8,000	for 4 months
On 16.03.2007	Rs. 10,000	for 3 months
On 07.04.2007	Rs. 12,000	for 5 months
On 17.05.2007	Rs. 10,000	for 3 months

He wants to pay all the bills on a single day. Find out this date. Interest is charges at 18% p.a. and Mani wants to save Rs. 300 by way of interest. Find out the date on which he has to effect the payment to save interest of Rs. 300.

Solution.

Computation of Average due date
Base date 19.06.2007

Due date	Amount Rs..	No. of days from base date	Product Rs..
11.07.2007	8,000	22	1,76,000
19.06.2007	10,000	0	0
10.09.2007	12,000	83	9,96,000
20.08.2007	10,000	62	6,20,000
	40,000		17,92,000

$$\text{Average due date} = \text{Base date} + \frac{\text{Total of Products}}{\text{Total of Amounts}} \text{ days}$$

$$= 19.06.2007 + \frac{17,92,000}{40,000} \text{ days}$$

= 19.06.2007 + 45 days

Average due date = **03.08.2007**

Interest per day = 40,000 x 18/100 x 1/360 = Rs. 20

In order to save Rs. 300, he must pay 15 days earlier.

03.08.2007 – 15 days = **19.07.2007**

vi. Mutual obligations

Illustration : 11. Mr. Kapoor has the following Bills Receivable and Bills Payable against Mr. Ramanathan. Calculate the Average Due date when the payment can be made or received without any loss of interest to either party.

Bills Receivable			Bills Payable		
Date	Amount	Tenure months	Date	Amount	Tenure months.
01.05.2007	2,000	4	10.05.2007	1,000	2
12.06.2007	1,500	2	29.05.2007	3,000	4
15.06.2007	3,000	3	06.06.2007	2,000	2
07.07.2007	1,000	2	17.06.2007	1,500	3
10.07.2007	2,500	1	30.06.2007	500	1

Gazetted Holidays intervening in the period :

15th Aug. 2007

2nd October 2007

18th September 2007 Emergency Holidays.

Solution.

Calculation of Average Due Date

Base date 13.07.2007

Bills Receivable					Bills Payable				
Date	Due Date	Amount	No. of days from July 13.	Product	Date	Due Date	Amount	No. of days from July 13.	Product
01.05.2005	04.09.2005	2,000	53	1,06,000	10.05.2005	13.07.2005	1,000	0	-
12.06.2005	14.08.2005	1,500	32	48,000	29.05.2005	01.10.2005	3,000	80	2,40,000
15.06.2005	19.09.2005	3,000	68	2,04,000	06.06.2005	09.08.2005	2,000	27	54,000
07.07.2005	10.09.2005	1,000	59	59,000	17.06.2005	20.09.2005	1,500	69	1,03,500
10.07.2005	13.08.2005	2,500	31	77,500	30.06.2005	02.08.2005	500	20	10,000
		10,000		4,94,500			8,000		4,07,500

$$\text{Base Date} + \frac{\text{Difference in Products}}{\text{Difference in Amounts}} = \frac{4,94,500-4,07,500}{10,000-8,000} = \frac{87,000}{2,000} = 45 \text{ days}$$

Average Due Date = Base Date + 45

= 13.07.2007 + 44 days = **26.08.2007**

Note : When the due date of a bill after adding three days of grace falls on a public holiday, then due date will be on the working day preceding the public holiday. When due date of a bill after adding three days of grace falls on such a day which has been suddenly declared a public holiday, then its due date will be on the succeeding working day after the emergency holiday.

Illustration : 12. Kumaran had the following bills receivable and bills payable against Raman. Calculate the average due date when the payment can be made or received without any loss of interest to either party.

Note : Holidays intervening in the period : 15th August 2007, 16th August 2007, 6th September, 2007.

Bills Receivable			Bills Payable		
Date	AmountRs.	Tenure Months.	Date	AmountRs.	Tenure months.
01.06.2007	3,000	3	29.05.2007	2,000	2
05.06.2007	2,500	3	03.06.2007	3,000	3
09.06.2007	6,000	1	10.06.2007	6,000	2
12.06.2007	10,000	2	13.06.2007	9,000	2
20.06.2007	15,000	3	27.06.2007	13,000	1

Solution.

Calculation of Average Due Date

Base date = 12.07.2007

Bills Receivable				Bills Payable			
Date	Amount Rs.	Days	Product Rs..	Date	Amount Rs.	Days	Product Rs..
04.09.*2007*	3,000	54	1,62,000	01.08.2007	2,000	20	40,000
08.09.*2007*	2,500	58	1,45,000	05.09.2007	3,000	55	1,65,000
12.07.*2007*	6,000	0	0	**06.09.2007.**			
14.08.*2007*	10,000	33	3,30,000				
15.08.*2007*.				13.08.2007	6,000	32	1,92,000
				14.08.2007	9,000	33	2,97,000
23.09.*2007*	15,000	73	10,95,000	**16.08.2007.**			
				30.07.2007	13,000	18	2,34,000
	36,500		17,32,000		33,000		9,28,000

$$\text{Average due date} = \text{Base date} + \frac{\text{Difference in Product}}{\text{Difference in amount}}$$

$$= \frac{17,32,000 - 9,28,000}{36,500 - 33,000}$$

$$= \frac{8,04,000}{3,500}$$

= 229.7 Days.

= 230 Days.

Average due date = July 12 + 230 Days = **27.02.2007**

7.5.2. Lending in lumpsum but repayment in instalments

i. Repayable in equal instalments

Illustration : 13. Mr. A had lent Rs. 5,000 to B on 1st Jan. 2006. Loan is repayable in 5 half-yearly instalments commencing from 1st Jan. 2007 Interest is changed at 12%. Calculate Average Due Date.

Solution.

Calculation of Average Due Date Base date = 01.01.2006.

Instalments	Due Date	Months since Jan. 1st 2006
1st	Jan. 1 2007	12 months
2nd	July 1 2007	18 months
3rd	Jan. 1 2008	24 months
4th	July 1 2008	30 months
5th	Jan. 1 2009	36 months
		120 months

Average Due Date = 01.01.2006+120/5
= 01.01.2006+24 months
= **01.01.2008**

Amount of interest = 5,000 x 12/100 x 24/12 = **Rs. 1,200**

ii. Repayable in unequal instalments

Illustration : 14. Rs. 15,000 let on 1st January 2004 is repayable as below :

Rs. 1,000 on 1st January 2005
Rs. 3,000 on 1st January 2007
Rs. 5,000 on 1st January 2008
Rs. 6,000 on 1st January 2009

Determine the Average Due Date for settling all the above installments by single payment and complete interest at 6%p.a.

Solution.

Calculation of Average Due Date Base date = 01.01.2004.

Due Date	Amount Rs.	No. of months from 01.01.2000	Products
1st Jan. 2005	1,000	12 months	12,000
1st Jan. 2007	3,000	36 months	1,08,000
1st Jan. 2008	5,000	48 months	2,40,000
1st Jan. 2009	6,000	60 months	3,60,000
	15,000		7,20,000

Average Due Date = 1st Jan. 2004+7,20,000/15,000
= 1st Jan. 2004+48 months
= 1st Jan. 2004+4 years
= **1st January 2008**

Interest for four years = $\frac{15,000 \times 4 \times 6}{100}$ = Rs. 3,600

7.6. Let Us Sum Up :

In this lesson we have discussed the areas in which the technique of average due date is applied practically followed by sufficient number of unsolved problems.

7.7. Lesson End Activities

7.7.1. Lending in installments but repayment in lump sum

i. when due dates are given :

Exercise : 1. X owes, Y, the following sum of money due on the dates stated :

Due Date	Amount Rs.
05.01.2007	4,000
20.01.2007	2,100
04.02.2007	3,500
26.05.2007	1,000
10.06.2007	500

Find out the Average Due Date.

Exercise : 2. A owes B the following sums of money due from him, on the dates stated:-

	Rs.
On March 10	700
On April 2	1,200
On April 30	3,400
On June 10	400
On June 25	200

A wants to make complete payment on June 30th, Calculate interest @ 10%p.a. with the help of average due date method.

Exercise : 3. Anand owes Sunil kumar Rs. 870 on 1st January 2007.

The following further transactions took place between Anand and Sunil Kumar:

January 16 Anand buys goods Rs. 700
February 2 Anand receives cash Rs. 550
March 5 Anand buys goods Rs. 400

Anand pays the whole amount due on 31st March, together with interest at 10% per annum. Calculate the interest by the average due date method.

ii. Interest on drawings

Exercise : 4. A partner has withdrawn the following sums from the business for his personal use during the half-year ended 30.06.2007.

22.01.07 – Rs. 500
31.01.07 – Rs. 200
18.02.07 – Rs. 100
09.03.07 – Rs. 150
04.05.07 – Rs. 400
30.06.07 – Rs. 1,000

Find the average due date and calculate interest at the rate of 5%p.a. for the half year ended 30.06.07.

Exercise : 5. Ananthan draws the following amounts from his business :

Date	Amount Rs..
15.01.2007	1,000
06.03.2007	1,500
21.05.2007	500
24.06.2007	1,000

Calculate a. Average Due Date b. Interest on drawing at 12% p.a. assuming that financial year ends on 30.06.2007.

Exercise : 6. A partner has been withdrawing Rs. 600 at the end of each month from January to December for private expenses. According to the partnership deed, interest is charged on drawings @ 12% per annum. Calculate the amount of interest to be charged on drawings by the partner during the year.

iii. When due date is not given

Exercise : 7. Ramesh drew upon Vinod several bills of exchange due for payment on different dates as under:

Date of the Bill	Amount Rs..	Tenure of the Bill
01.06.2007	1,200	3 months
19.06.2007	1,600	2 months
10.07.2007	2,000	3 months
27.07.2007	1,500	3 months
07.08.2007	1,800	1 month
15.08.2007	2,400	2 months

Find out average due date on which payment may be made in one single amount.

Exercise : 8. X Sold goods to Y as detailed below :

Date of Invoice	Sales Rs.
05.05.2007	2,000
12.05.2007	1,500
19.05.2007	3,000
26.05.2007	2,200
01.06.2007	1,500
03.06.2007	1,000

The payments were agreed to be made by bills payable 90 days for the respective dates of invoice. However, Y wanted to arrange for payment of all the bills to be made on a single date. Calculate the date on which such payment could be made without loss of interest to earlier party.

Exercise : 9. A purchased from B, for which he accepted bills drawn by B and the bills were to be honoured after three months from the respective dates of the invoice as per the details given below.

Date of Invoice	Value of GoodsRs..
10th Jan. 2004	6,000
20th Feb. 2004	10,000
30th Mar. 2004	5,000
1st May 2004	15,000
10th Jun. 2004	12,000

A preferred to honour all the bills on 15th Oct. 2004 and interest @ 8% p.a. should be calculated with the help of the average due date.

iv. When due date falls on public holiday

Exercise 10 'X' has the following bills due to 'Y' on different dates. They agree to settle the entire account by a cheque. Decide upon the date of the cheque.

Rs. 6,000 due on 17.07.2004
Rs. 4,000 due on 15.08.2004 Independence day.
Rs. 14,000 due on 18.09.2004 Sunday.
Rs. 6,000 due on 03.10.2004.

Exercise : 11. The following amounts are due to Raj by vasant. Vasant wants to pay off on 16.08.2007. Interest rate of 6% p.a. is taken into consideration.

Due dates	Amount Rs..
01.08.2007	600
15.08.2007 Independence Day.	1,000
22.09.2007	500
05.10.2007 Sunday.	800

Determine the amount to be paid on 16.08.2007.

v. When Saving of amount of interest is required

Exercise : 12. Madan has accepted the following bills drawn by Pandey.

On 8th Mar. 2007 Rs. 2,000 for 4 months.
On 16th Mar. 2007 Rs. 2,500 for 3 months.
On 7th Apr. 2007 Rs. 3,000 for 5 months.
On 17th May 2007 Rs. 2,500 for 3 months.

He wants to pay all the bills a single day. Find out this date. Interest is charged at 18% p.a. and Madan wants to save Rs. 150 by way of interest. Find out the date on which he has to effect the payment to save interest of Rs. 150.

vi. Mutual Obligations

Exercise : 13. Seetha and Geetha had the following mutual dealings and desire to settle their account on the average due date :

Purchases by Seetha from Geetha during 2004

	Rs.
January 6	600
February 2	280
March 31	200

Sales by Seetha to Geetha during 2004

January 6	1,160
March 9	240
March 20	100

Ascertain the average due date.

7.7.2. Lending in lumpsump but repayable in instalments

Exercise 14 Anusha lent Rs. 30,000 to Kavitha on 1st January 2004 which is repayable in 6 equal annual installments commencing from 1st January 2005. Calculate the average due date and amount of each installment at 10% p.a. interest.

7.8. Model Answers to Check your Progress :

Exercise 1 :	Base Date	:	January 05
	Average due date	:	February 06
Exercise 2 :	Base Date	:	March 10
	Average due date	:	April 23
	Amount of Interest	:	Rs. 109.92
Exercise 3 :	Base Date	:	January 16
	Average due date	:	January 22
	Amount of Interest	:	Rs. 46.95
Exercise 4 :	Base Date	:	January 22
	Average due date	:	April 22
	Amount of Interest	:	Rs. 22.21
Exercise 5 :	Base Date	:	January 15
	Average due date	:	March 31
	Amount of Interest	:	Rs. 120.00
Exercise 6 :	Base Date	:	January 31
	Average Due Date	:	July 15
	Amount of Interest	:	Rs. 396
Exercise 7 :	Base Date	:	August 22
	Average Due Date	:	September 29
Exercise 8 :	Base Date	:	August 6
	Average Due Date	:	August 21
Exercise 9 :	Base Date	:	January 10
	Average Due Date	:	July 12
	Amount of Interest	:	Rs. 996.72

Exercise 10 :	Base Date	:	July 17
	Average Due Date	:	September 3
Exercise 11 :	Base Date	:	August 1
	Average Due Date	:	September 1
	Amount of Interest	:	Rs. 2,892.37
Exercise 12 :	Base Date	:	June 19
	Average Due Date	:	August 3
	Date of Payment	:	July 4
Exercise 13 :	Base Date	:	January 6
	Average Due Date	:	January 1
Exercise 14 :	Base Date	:	January 1, 2004
	Average Due Date	:	July 1, 2007
	Amount of Interest	:	Rs. 10,500
	Amount of Instalments:		30,000 + 10,500 = 40,500/6 = **Rs. 6,750**.

7.9 References:

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers

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LESSON 8

ACCOUNT CURRENT

Contents :

8.0. Aims and Objectives : In this lesson we are going to discuss

- meaning of current account
- preparation of account current and different methods.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

8.1. Introduction

When a business grows, customers also increase. When the businessman gets confidences on his customers, he often sells goods on credit and payments are received according to convenience of customers or as agreed upon. Similarly one businessman sells goods to another businessman and also makes purchases form him. Similar is the case with i. Supplier with customers, ii. Lender to its borrower, iii. Agent to his principal, iv. Bankers to his client, v. A co-venture to another co-venture etc. Under these circumstances, each party opens each other's account in their books of account, which is called running account. The customers purchases goods and make the payments form time to time.

8.2. Meaning

An Account Current is a settlement in Debtor and Creditor from containing various transactions that have taken place between two parties during a particular period. Interest is charged on debit items and allowed on credit items at an agreed rate. It is a statement of account which is sent by one person to another after a prescribed period. It contains entry for purchases, sales receipts periods and payments made between them during the period. Record of interest is made for various periods and ultimately its balance indicates the amount which one party has to receive from or pay to another.

8.3. Definition

An account current may be defined as "an account of the transaction between two parties during a particular period, in which interest is calculated at as agreed rate on each debit and credit item and the net balance of interest is included on the debit or credit side of the account in the amount column"

8.4. Heading of an Account Current

An Account Current is a copy of the ledger account of other party. In the heading of this Account Current, the name of the party to whom it is rendered is first mentioned while the name of the sender appears last. For instance, when Gopal renders an Account Current to Ramu, the heading is RAMU IN ACCOUNT WITH GOPAL, That is, Receiver's name appears first and sender's name appears. To facilitate computation of interest on each transaction a special column adjacent to the usual amount on each of the ledger is employed on a purely memorandum basis. The net interest – excess of chargeable or allowable interest or vice versa, is however, charged or allowed as usual on double entry basis.

8.5. Procedure for Preparation of Account Current:

There are three methods of calculating the number of days for account current purpose.

i.Forward Method:- Under this method, the days are account from the date of transaction if there is no credit period. or from the due date of transaction where a period of credit is granted or bill is used. to the closing date or date of settlement of account current. It includes product method and interest table method.

ii.Backward or Époque Method:- In this method, days are counted form the due date of transaction to the opening date of the account current. This method is useful where the opening date of the account current is given..

iii.Daily Balance Method or Periodical Balance Method:- This method is generally followed in banks. In this method, days are calculated form the due date of one transaction to the due date of the next transaction.

8.6. ILLUSTRATIONS

8.6.1. Interest Table Method

Illustration :1. The following are a series of transactions between A and B for the three months ending on 31 st March 2007. Calculate the amount of interest to be payable by one party to the other @ 10% p.a.

		Rs.
Jan.1	Opening balance Dr.	5,000
Jan.10	Sold goods to B	10,000
Jan. 15	Cash received from B	10,000
Feb.15	Sold goods to B	10,000
March.1	Cash received from B	5,000

Solution:

B in Account Current with A

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
Jan.1	To Balance b/d	5,000	Jan.15	By cash	10,000
Jan.10	To sales	10,000	March.1	By cash	5,000
Feb.15	To Sales	10,000	March.31	By Balance c/d	**10,217**
Mar 31	To Interest	217			
		25,217			25,217

Working Note : Computation of Interest

i. 5,000 x 90/365 x 10/100 =123

ii. 10,000 x 80/365 x 10/100 =220

iii. 10,000x44/365x10/100 =121

iv. 10,000 x 75/365x10/100 = 06

v. 5,000x30/365x10/100 = 41

Total Interest to be charged to B = 123 + 220 + 121. – 206 + 41. = **Rs 217**

8.6.2. Product Method.

Illustration:2. Mr. B. the following transaction with A during the year 2007

		Rs.
June.1	Balance due from A	600
July 15	Sold goods to A	1,900
Aug. 10	Received cash form A	1,100
Aug. 19	Purchased goods form A	700
Sept. 3	Returned goods to A	300
Sept. 16	Received cash from A	500

Prepare an Account Current to be rendered by B to A as on 30 th September 2007 calculating interest at 10% p.a.

Solution :

A in Account Current with B as on 30 th September 2007

Date	Particulars	Amt Rs.	Days	Product Rs	Date	Particulars	Amt Rs.	Days	Product Rs
2007					2007				
July1	To Balance b/d	600	92	55,200	Aug 10	By Cash A/c	1,100	51	56,100
July15	To sales A/c.	1,900	77	1,46,300	Aug 19	By Purchases A/c	700	42	29,400
Sep.3	To Purchases Returns	300	27	8,100	Sep. 16	By Cash A/c	500	14	7,000
					Sep.30	By Balance of products			**1,17,100**
Sep. 30	To Interest 1,17,100x10/100x1/365	32			Sep 30	By Balance c/d	**532**		
		3,832		2,09,600			2,832		2,09,600
Oct.1	Balance b/d	532							

Calculation of no of days :

	July	Aug	Sept	Total
July 1 to Sept. 30	31	31	30	= 92
July 15 to Sept.30	16	31	30	= 77
Aug.10 to Sept.30	-	21	30	= 51
Aug. 19 to Sept. 30	-	12	30	= 42
Sept. 3 to Sept. 30	-	-	27	= 27
Sept. 16 to Sept. 30	-	-	14	= 14

8.6.3. Index Number Method

Illustration :3. The following transactions took place between Ram and Krishna from 1-1-2007 to

30-06-2007.

		Rs.
Jan.1	Sold goods to Ram,	2,240
Jan 10	Received Ram's acceptance at 2 months	1,000
Feb. 15	Received cash from Ram	1,200
Mar. 2	Bought goods from Ram	5,500
Mar 3	Accepted Ram's bill at 1 month	2,000
Apr.11	Paid cash to Ram	2,000
Apr. 30	Sold goods to Ram payable up to 31 st May	2,400
May 11	Bought goods from Ram	1,500
May 31	Sold goods to Ram payable up to 10 th June	2,200
June 15	Bought goods from Ram	3,000

Prepare the account current to be sent by Krishna on 30 th June 2007. The rate of interest is 5%.

Solution :

In the Books of Krishna

Ram is Account Current with Krishna as on 30-06-2007

Date 2007	Particulars	Amount Rs.	Products	Date 2007	Particulars	Amount Rs.	Products
Jan.1	To Sale	2,240.00	4,03,200	Jan 10	By B/R	1,000.00	1,09,.000.00
Mar.3	To B/P	2,000.00	1,70,000	Feb.15	By Cash	1,200.00	1,62,000
Apr.11	To Cash	2,000.00	1,60,000	Mar.2	By Purchases	5,500.00	6,60,000
Apr.30	To Sales	2,400.00	72,000	May.11	By Purchases	1,500.00	75,000
May.31	To Sales	2,200.00	44,000	June 15	By Purchases	3,000.00	45,000
June30	To Balance		2,01,800	June 30	By Interest 2,01,800x 5/100x1/365.	27.64	
June 30	To Bal. c/d	**1,387.64**					
		12,227,64	10,51,000			12,227.64	10,51,000
				July 1	By Balance b/d		**1,387.64**

Illustration : 4. Balaji had the following transactions with Ganesan for the year 2007

		Rs.
Jan.20	Sold goods to Ganesan	400
Mar.2	Purchased goods from Ganesan	250
Mar.3	Accepted Ganesan's draft at 1 month due	200
Apr.11	Cash paid to Ganesan	400
Apr.30	Goods sold to Ganesan due end of May	100
May 11	Bought goods from Ganesan	300
June 11	Balaji drew a bill on Ganesan this day. Payable two months after date, and this was duly accepted by Ganesan	300

Prepare an Account current to be rendered by Balaji to Ganesan as at 30 th June, bringing interest into account at 20% p.a.

Solution :

In the Books of Balaji

Ganesan in Account Current with Balaji as on 30-06-2007

Date 2007	Particulars	Amount Rs.	Products	Date 2007	Particulars	Amount Rs.	Products
Jan.20	To Sales	400.00	64,400	Mar.2	By Purchases	250.00	30,000
Mar.3	To B/P	200.00	17,000	May 11	By Purchases	300.00	15,000
Apr.11	To Cash	400.00	32,000	June11	By B/R	300.00	-13,500
Apr.30	To Sales	100.00	3,000	June30	By Balance	-	**84,900**
June30	To Interest 84,900 x 20/100x1/365.	46.52		June30	By Bal.c/d	296.52	
		1,146.52	1,16,400			1,146.52	1,16,400
July 1	To Balance b/d	296.52					

Note : Red Interest days = -45

8.6.4. Backward Method

Illustration:5. On 1 st January 2007, Prem owed Rs. 5,400 to Kamal. Prepare an Account Current to be rendered by Kamal for the period up to 30 th June 2007. The following transactions have taken place between them during the period of six months.

		Rs.
Jan.1	Sold goods to Prem	800
Jan.16	Received form Prem	2,000
Jan.25	Sold to Prem, goods on credit for one month	1,000
Feb.10	Received three months acceptance from Prem	2,000
March 1	Bought goods to Prem	1,500
April 20	Sold goods to Prem	500
May.7	Prem bought goods	1,200

June 9	Remitted by Prem	800
June 14	Received form Prem	900

Interest is to be charged at an agreed rate of 6% p.a

Solution.

Calculation of days :

	Jan		Feb		March		April		May		June	Total
Jan 1 to Jan 1	0											0
Feb.25 to Jan.1	31	+	25									56
March 1 to Jan 1	31	+	28	+	1							60
April 20 to Jan.1	31	+	28	+	31	+	20	+				110
May 7 to Jan 1	31	+	28	+	31	+	30	+	7			127
May 13 to Jan1`	31	+	28	+	31	+	30	+	13			133
June 8 to Jan 1	31	+	28	+	31	+	30	+	31	+	8	159
June 14 to Jan 1	31	+	28	+	31	+	30	+	31	+	14	165
June 13 to Jan 1	31	+	28	+	31	+	30	+	31	+	30	181

8.6.5. Periodic Balance Method

Illustration :6. Mr. Mohan opened a current account with the Indian Bank on 1 st January 2007 and deposited Rs. 7,000. His deposits during the period were.

Jan 25	Rs. 1,500
April 15	Rs. 2,500
May 26	Rs.800
June 20	Rs. 2,000

His withdrawals were:

Jan 20	Rs. 4,000
Feb 10	Rs. 3,000
March 5	Rs. 2,000
May 20	Rs. 1,800
June 8	Rs. 2,750

Calculate interest @ 10% p.a on the customer's debit balances and 6% p.a on credit balances and close the account on 30 th June 2007.

Solution

Mr. Mohan in Account Current with the Indian Bank

Date 2007	Particulars	Deposit	Withdrawals	Dr/Cr.	Balance	Days	Dr. Balance	Cr. Balance
		Rs	Rs.		Rs			
Jan 1	By cash	7,000	-	Cr.	7,000	19	-	1,33,000
Jan 20	To Cheque	-	4,000	Cr.	3,000	5	-	15,000
Jan 25	By Cash	1,500	-	Cr.	4,500	16	-	72,000
Feb10	To Cheque	-	3,000	Cr.	1,500	24	-	36,000
Mar 5	To Cheque	-	2,000	Dr.	500	41	20,500	-
Apr15	By Cash	2,500	-	Cr.	2,000	35	-	70,000
May20	To Cheque	-	1,800	Cr.	200	6	-	1,200
May20	By Cash	800	-	Cr.	1,000	13	-	13,000
June8	To Cheque	-	2,750	Dr.	1,750	12	21,000	-
Jun20	By Cash	2,000	-	Cr.	250	10	-	2,500
Jun30	To Interest	86.83						

Jun30	To Balance	**336.83**			
		13,886.83	13,886.83	41.500	3,42,700

Interest = 3,42,700x10/100x1/366. – 41,500x6/100x1/366. = 93.63-6.80 = **86.83**

8.7. Let Us Sum Up :

In this lesson we have discussed meaning and scope of account current and the procedure for preparation of account current under different situations followed by sufficient number of unsolved problems.

8.8. Lesson End Activities :

8.8.1. Interest table Method:

Exercise:1. On 1-1-2007 Ramesh owed Rs. 6,000 to Umesh on account, During the six months ended 30-06-2007, the transactions were as follows in the books of Umesh.

		Rs.
Jan .1	Goods sold to Ramesh	Rs 3,000
Feb.1	Amount received from Ramesh	Rs. 6,000
Mar.1	Goods sold to Ramesh	Rs. 12,000
Apr. 1	Goods Purchased from Ramesh	Rs.4,500
May 1	Goods sold to Ramesh	Rs. 15,000
May 1	Cash received from Ramesh	Rs. 6,000
June 1	Goods purchased from Ramesh	Rs. 7,500
June 30	Cash received form Ramesh	Rs. 3,000

Prepare Account current to be rendered to Ramesh on 30-06-2007. Interest to be calculated at 18% p.a in months.

8.8.2. Product Method

Exercise:2. Prepare account current for Nagesh in respect of the following transactions with Basha:

up to 1 st February 2007 at 6% p.a.

		Rs.
Sep.16	Goods sold to Basha	400 due 1 st Oct.
Oct.1	Cash received from Basha	180
Oct. 21	Goods purchased from Basha	1,000 due 1st Dec.
Nov.1	A paid to Basha	660
Dec.1	Paid to Basha	600
Dec.5	Goods purchased from Basha	1,000 due 1 st Jan.
Dec.10	Goods purchased from Basha	440 due 1 st Jan.
2008		
Jan 1	Paid to Basha	1,200
Jan.9	Goods sold to Basha	40 due 1 st Feb.

8.8.3. Index Number Method

Exercise : 3. The following transactions took place between Sohan and Mohan during 2007.

		Rs
Jan 1	Sold goods to Sohan	1,120
Jan 20	Received Sohan's acceptance due after 2 months.	500
Feb 15	Received cash from Sohan	600
Mar 2	Bought goods from Sohan	2,750
Mar 3	Acceptanced Sohan's Bill due after one month	1000
April 11	Paid cash to Sohan	1000

April 30	Sold goods to Sohanpayable on 31st May .	1,200
May11	Bought goods from Sohan	750
May 31	Sold goods to Sohan payable on 10 th June.	1,100

June 15	Bought goods from Sohan	1,500

Prepare the Account Current to be sent by Mohan on 30 th June 2007. The rate of interest is 10%.

8.8.4. Backward Method

Exercise : 4. The following are a series of transactions between Anbu and Balu for the three months ending on 31-3-2007. Calculate the amount of interest to be paid to one party to the other at 10% p.a., using the époque method.

01-01-2007	Balu's opening Balance Dr..	10,000
10-01-2007	Sold Goods to Balu	20,000
15-01-2007	Cash received from Balu	20,000
15-02-2007	Sold Goods to Balu	20,000
01-03-2007	Cash received from Balu	10,000

8.8.5. Periodic Balance Method

Exercise : 5. From the following prepare an Account current by A to B charging interest on debits @ 12% and on credits @ 8% p.a.

		Rs.
2004 Jan. 1	Balance due from B	600
10	Sold goods to B	520
17	B returned goods	125
Feb.10	B paid by cheque	400
14	B accepted A's draft for one month	300
April. 29	Goods sold to B	615
May.15	Received cash from B	700
June. 5	B accepted A's Bill for 3 months	500

8.9. Model Answers to Check your Progress :

Exercise :1.

Interest Amount Rs. 1035

Balance Amount Dr. Rs. 10,035

Exercise :2.

Interest amount Rs.9.13

Balance Amount Dr. Rs. 289.13

Exercise :3.

Interest Amount Rs. 27.65

Balance Amount Cr. Rs. 707.65

Exercise :4.

Interest Amount Rs. 433

Balance Amount Dr. Rs.20,433

Exercise :5.

Interest Amount Rs. 23.10

Balance Amount Cr. Rs.235.48

8.10 References:

Financial Accounting – R.L. Gupta – Sultan chand & Sons

Advanced Accounting – S.N. Mageswari – Vikas Publishers

LESSON 9

CONSIGNMENT

Contents :

9.0. Aims and Objectives : In this lesson we are going to discuss

- meaning and need for consignment
- important terms relating to consignment
- valuation of closing stock
- journal entries in the books of consignor
- journal entries in the books of consignee
- additional journal entries in the case of invoice price method
- treatment of normal loss
- treatment of abnormal loss
- preparation of account sales
- ledger accounts in the books of both parties on the cost price method
- ledger accounts in the books of under invoice price method
- ledger accounts in the books of under memorandum method.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

9.1. Introduction:

In these days of mass production, manufacturers and wholesalers have to promote their sales by all possible ways. Thus sales are made directly or indirectly. In the case of direct sales businessmen or manufacturers appoint salesman and they sell the goods. As such, all sales are under the control of the businessmen or the manufacturers. On the other hand, in indirect sales, the manufacturer or a wholesaler appoints an agent on commission basis. The manufacturer dispatches goods to him, who sells the goods. This system of indirect selling is known as consignment system. The accounting relations to consignment transactions are called Consignment Account.

9.2. Meaning:

Consignment is an agency arrangement under which the manufacturer or the wholesaler sends his goods at his own risk to his agent in a different place for the purpose of sales on commission basis. The person who sends the goods is known as the Consignor or the Principal. The ownership of the goods remains with the consignor. The person to whom the goods sent for sales is known as the Consignee or the Agent. Sending of goods from consignor to consignee is known as Consignment and the goods so sent are termed as Goods Sent on Consignment. The sender is the consignor and the receiver is the consignee. Sending of goods by the consignor is Outward Consignment and to the consignee it is an Inward Consignment.

9.3. Need for Consignment:

i. The manufacturer does not know the local condition of the market to sell his goods. Hence he appoints agents on commission basis in different places to sell his goods. As a local man, the agent will sell more goods, very easily.

ii. New goods to the market can also be sold by an agent who knows the market condition. He will take initiative to sell the goods by doing the necessary promotional work for the product.

iii. It is very expensive for the manufacturers to sell the goods directly. It is economical to send the goods on consignment to the agent for selling them.

iv. The products of the manufacturers can be sold in foreign countries by sending the goods to an agent who is in that country. It is also economical to the manufacturer.

9.4. Important terms:

i. Proforma Invoice: When the consignor sends the goods to the consignee, he forwards a statement showing the particulars of goods such as quality, quantity, price, markings, packing etc., and their statement is called the Proforma Invoice. But in case of regular sale, an invoice is prepared and sent along with the goods. It implies that a sale has taken place.

ii. Non- Recurring & Recurring Expenses: Consignor and Consignee have to incur some expenses for des patching and selling the Goods. These expenses of consignment are of two types: Non- Recurring Expenses and Recurring Expenses.

a. Non-recurring Expenses: Non-recurring expenses are incurred for bringing the goods from the place of the consignor to the place of the consignee. Hence, all the expenses incurred till the goods reach the godown of the consignee are non-recurring expenses. These expenses are incurred only once on a particular consignment. It will increase the value of goods. These expenses are paid by the consignor or by the consignee on behalf of the consignor.

b. Recurring Expenses: These expenses are incurred after the goods have been received at consignee's gowns. These expenses are incurred quite often and of recurring in nature. These expenses occur regularly at fixed intervals. Generally these expenses are incurred after the goods have reached the place of business by consignee. It is met by the consignor or consignee. These expenses do not increase the value of goods.

iii. Advance: Sometimes, consignor may ask the consignee to pay an advance for the part of the value of goods consigned. Consignee may send the advance in the form of a draft or cheque. If the consignee is not in a position to advance money, a Bill may be drawn on consignee. Consignor discounts the Bill and gets the money. The amount of discount on the Bill may be debited to Consignment Account or debited to Discount Account. Advance given by the consignee will be deducted from the sale proceeds.

iv. Account Sales : Periodically or when the goods consigned are sold by the consignee, The consignee will sent to the consignor a statement, which is called Account Sales, showing The amount received by way of sale of goods, expenses incurred, commission charge, advance payment and balance due to the consignor and the stock still in hand. From the Account Sales, The consignor closes her entries in the books regarding the consignment for that year. He can ascertain the profit or loss resulting from the transactions. Following is the specimen of an Account sales.

v. Commission: Consignor pays commission to Consignee for selling his goods. Commission is generally calculated at fixed percentage of total sales as per terms laid by The Consignor. These commissions may be simple, or ordinary, special or over-riding and del credere. Ordinary commission is calculated as per terms laid down by the consignor. Generally it is calculated on the basis of total sales. Special commission is paid to give further incentive for increasing the sales. Over-riding commission is paid to consignee when she overrides the specified amount of sales. The commission is also calculated on total sales.

vi. Del Credere: The consignee is not expected to sell the goods on credit. However, the consignee has the right to sell the goods on credit, if consignor permits him to do so. Again if consignee makes credit sales and if there incurs any loss by way of bad debts, then such loss should be born by the consignor. To avoid such a loss, extra commission is given to the consignee, who is responsible for any bad debts. This extra commission is called Del Credere commission. It is given for taking risk in credit sales. In such cases, consignor receives the gross sale proceeds, whether recovered or not. This is generally calculated on total sales. Sometimes, del credere commission is restricted to credit sales only. In that case it is calculated only on credit sales.

9.5. Accounting treatment:

9.5.1. Valuation of Unsold Stock at cost price.:

If all goods are not sold by the Consignee within the accounting period, then the sun sold stock is brought into account by the Consignor. As usual, the unsold stock in the hands of the consignee should be valued on cost price or market price whichever is less. The cost means the cost at the moment when the goods reached the Consignee's go down. The cost includes by adding proportionate non-recurring expenses incurred by the consignor as well as the consignee. It is calculated as follows:

(a) The proportionate cost price and
(b) Proportionate direct expenses i.e. the expenses incurred by he Consignor and Consignee till the goods reached the godown of the Consignee.

Expenses incurred by the Consignee after the goods have been brought to the shop or godown are not considered. Correct profit or loss can be ascertained by the proper valuation of unsold stock which is credited to Consignment Account.

Value of unsold stock = Cost Price of Closing Stock + Proportionate non-Recurring Expenses.

9.5.2. Journal entries in the books of Consignor:

1. When the goods are sent on consignment:

Consignment Account	Dr.
To Goods Sent on Consignment A/c	

2.When expenses are incurred by the Consignor:

Consignment Account	Dr.
To Bank/Cash Account	

3.When the advance is received from Consignee:

Cash /Bank/ Bill Receivable Account	Dr.
To Consignee Account	

4.When The Bills is discounted by the Consignor with his banker:

Bank Account	Dr.
Discount Account	Dr.
To Bills Receivable A/c	

5.When the gross sales proceeds are reported by the Consignee:

Consignee Account	Dr.
To Consignment Account	

6.For expenses incurred by the Consignee:

Consignment Account	Dr.
To Consignee Account	

7.For commission payable to the Consignee:
Consignment Account Dr.
To Consignee Account

8.For unsold stock remaining with the Consignee:
Consignment Stock Account Dr.
To Consignment Account

9.For transferring the profit or loss to Profit and Loss A/c
For Profit:
Consignment Account Dr.
To Profit and Loss Account

For Loss: Profit and Loss Account Dr.
To Consignment Account

10. For settlement of account by the Consignee:
Bank/Cash/Bill Receivable Account Dr.
To Consignee Account

11.When goods sent on Consignment account is closed:
Goods sent on Consignment Account Dr.
To Trading/Purchases Account

9.5.3. Journal Entries in the Books of Consignee:

1.When the goods is received:
No entry

2.When expenses are incurred by the Consignee:
Consignor Account Dr.
To Bank Account

3.Advance remitted to Consignor by Cash/Cheque/Bills Payable
Consignor Account Dr.
To Cash/Bank/Bills Payable A/c

4.When Consignee sold the goods:
For cash sales:
Bank Account Dr.
To Consignor Account

For credit sale:
Consignment Debtors Account Dr.
To Consignor Account

5.When the commission is due:

Consignor Account Dr.
To Commission Account

6.When The Consignee collected the debt from Consignment Debtors:

Bank Account Dr.
To Consignment Debtors A/c

7.For bad debts if any:

i. If Del Credere Commission is not paid:

Consignor Account Dr.
To Debtors Accounts

ii. If Del Credere Commission is paid:

Bad Debts Account Dr.
To Consignment Debtors A/c

iii. Bad debts is transferred to her Profit & Loss Account

Del Credere Commission Account Dr.
To Bad Debts Account

8.Settlement of Account with Consignor:

Consignor Account Dr.
To Cash/Bank/Bill payable A/c

9.5.4. Invoice Price Method:

The Consignor, instead of sending the goods on consignment at cost price, may send it at a price higher than the cost price. This price is known as Invoice price or Selling Price. The difference between the cost price and the invoice price of goods is known as loading or the higher price over the cost. This is done with a view to keep the profits on consignment secret. As such, consignee could not know the actual profit made on consignment. Hence the consignor sends the Proforma Invoice at a higher price than the cost price.

When there is any stock remaining unsold, it is also valued at the invoice price plus proportionate direct expenses incurred or market price whichever is lower under this method. Once the stock on consignment is valued at the invoice, it is but natural the value of the same should be brought down to the cost as otherwise the Consignment Account will not reveal the correct profit or loss. For this purpose, the Consignment Account is debited with the difference between the invoice price and the cost of the unsold stock and the corresponding credit is given to a new account called Consignment Stock reserve Account.

When she consignor records the transaction in her book at invoice price, some additional entries have to be passed in order to eliminate the excess price and to arrive at the correct profit or loss on consignment. Excess Price or Loading is to be calculated on the following items:

i.To remove the excess price in the opening stock:

Consignment Stock Reserve A/c Dr.
To Consignment Account

ii.To remove the excess price in the goods sent on consignment:

Goods sent on Consignment Account Dr.
To Consignment Account

iii.To remove the excess price in goods return:

Consignment Account Dr.
To Goods Sent on Consignment A/c

iv. To remove the excess price in closing stock:

Consignment Account Dr.

To Consignment Stock Reserve A/c

9.5.5. Normal Loss:

When goods are lost or damaged due to normally expected but unavoidable causes such as losses due to evaporation, leakage, breakage, dusting, weightment, drying, sublimation of goods etc. These losses are called Normal Losses. These types of losses cannot be avoided. Such inherent and unavoidable losses form part of the cost of goods. That is the loss on account of normal loss is borne by good units. When calculating the cost of unsold stock, this normal loss is to be considered. The cost of unsold stock increases proportionately due to normal loss. When there is normal loss the following formula is used for calculating the consignment stock:

$$\text{Value of Closing Stock} = \frac{\text{Cost of goods sent + total non - recurring expenses}}{\text{Units of goods sent – normal loss units}} \times \text{Closing stock in units}$$

The normal loss is not shown in the consignment account. There is no need to pass any entry in the books of account.

9.5.6. Abnormal Loss:

When loss or damage of goods is caused by unnatural and unexpected reasons, then such loss is treated as abnormal loss. It is unexpected loss and beyond the control of the human beings. Loss of goods due to fire, flood, earthquake, war, theft, accidents in transit etc. are abnormal losses. Such losses occur because of bad luck, due to accident, mischief by someone or human carelessness.

Abnormal loss is calculated just like the unsold stock on consignment and credited to consignment account and debited to Abnormal or Accidental Loss Account and then transferred to General Profit and Loss Account, so as to arrive at the correct profit or loss of consignment. This is because abnormal loss has nothing to do with the particular consignment. Some businessmen take insurance policy in respect of the goods sent or received on consignment by the consignor or the consignee. Such a policy is obtained only in respect of abnormal loss which may be caused to the goods. If the insurer is liable for the loss, then the amount of claim admitted by the insurer should be debited to the insurer and balance of the loss should be debited to Profit and Loss Account.

The journal entries are:

i. When the Loss is Irrecoverable:

a. Abnormal Loss Account Dr.

To Consignment Account

b. Profit and Loss Account Dr.

To Abnormal Loss A/c

ii. When the Loss is insured and full amount is recoverable:

a. Abnormal Loss Account Dr.

To Consignment Account

b. Insurance Company Account Dr.

To Abnormal Loss Account

iii . When the Loss is partly recoverable :

a. Abnormal Loss Account	Dr.
To Consignment Account	
b. Insurance Company	Dr.
Profit & Loss Account	Dr.
To Abnormal Loss Account	

9.5.7. Memorandum Column Method:

Memorandum Column Method is a combination of Cost Price Method and Invoice Price Method. Under This method; there are two columns on each side of the consignment account. These two columns are used to record both cost and invoice prices of goods sent on consignment, opening stock, closing stock etc. The extra column used to record invoice price are known as Memorandum Column. Hence, the method is called Memorandum Column Method. From the accounting point of view it is not important. It is provided to know and show the profit if the consignments are recorded at invoice price.

9.6. ILLUSTRATIONS

9.6.1. Preparation of Account Sales:

Illustration: 1. Prepare an Account Sales from The following details:

Consignor	:	Anitha
Consignee	:	Anandhi
Sales	:	100 T.V. Sets at Rs. 4,500 each
Expenses of consignee	:	Wages Rs. 200, Freight Rs. 6,000,
Insurance	:	Rs. 1,800
Date	:	June 5, 2007
Commission	:	5% on sales
Advance paid	:	Rs. 1, 50,000.
Balance	:	Remitted by Bank Draft.

Solution:

Account Sales

Particulars	Rs.	Rs.
100 T.V. Sets @ Rs. 4,500 each		4,50,000
Less : Expenses and commission :		
Wages	200	
Freight	6,000	
Insurance	1,800	
Commission 5% on Sales	22,500	30,500
		4,19,500
Less : Advance		1,50,000
Balance Due		**2,69,000**

Bank Draft enclosed herewith for the balance.

9.6.2. Cost Price Method:

Illustration: 2. Brindha of Cuddalore sends 40 cases of Hosiery Goods worth Rs. 20,000 to Bhavani of Erode to be sold on consignment basis on 1 st April 2007. Brindha pays Rs. 500 towards freight charges. The goods are received by Bhavani and she accepts a bill drawn on him by Brindha at 3 months, for Rs. 10,000 on 5 th April 2007. The bill was discounted on the next day by Brindha at 6% per annum. On 5 th July 2007, Bhavani sends an Account Sales to Brindha showing that sales of the entire stock has been effected totaling Rs. 24,800.

Her expenses are: Godown rent Rs. 500 and Insurance Rs. 250. Bhavani is entitled to a commission of 6% on sale proceeds. Bhavani sent a bank draft for the balance due to Brindha and settled her account. Pass journal entries and show ledger accounts in the books of Brindha

Solution:

In the books of Brindha Consignor.
Journal Entries

Date	Particulars		Rs Dr.	Rs. Cr.
1.04.07 Apr.	Consignment A/c	Dr.	20,000	
	To Goods sent on Consignment A/c			20,000
	The cost of goods sent to Bhavani of Cuddalore to be sold on our account.			
1.04.07	Consignment A/c	Dr.	500	
	To Bank A/c			500
	The amount of expenses incurred by us.			
5.04.07	Bills Receivable A/c	Dr.	10,000	
	To Bhavani			10,000
	The receipt of acceptance from Bhavani as advance against consignment.			
6.04.07	Bank A/c	Dr.	9,850	
	Discount A/c	Dr.	150	
	To Bills Receivable A/c			10,000
	The bill discounted at 6% with the bank.			
5.07.07	Bhavani	Dr.	24,800	
	To Consignment A/c			24,800
	The sale proceeds of goods sent on consignment as per A/c received from Bhavani.			
5.07.07	Consignment	Dr.	750	
	To Bhavani			750
	The amount of expenses incurred by Bhavani on selling The goods.			
5.07.07	Consignment A/c	Dr.	1.488	
	To Bhavani			1,488
	The commission payable at 6% on sales effected.			
5.07.07	Bank A/c	Dr.	12,562	
	To Bhavani			12,562
	The receipt of balance from Bhavani.			
5.07.07	Consignment A/c	Dr.	2,062	
	To Profit & Loss A/c			2,062
	The transfer of profit on consignment to Profit & Loss A/c.			

5.07.07	Goods sent on Consignment A/c	Dr.	20,000	
	To Purchases A/c			20,000
	The transfer of The value of goods sent on consignment to Purchases A/c.			

Illustration: 3. Chidambaram consigns 100 radiograms to Chandru. Each radiogram costs Rs. 800. Chidambaram pays the following expenses:

Freight	1,000
Insurance	400
Carriage	500

Chandru pays the following expenses:

Customs duty	2,000
Dock dues	500
Godown rent	500
Salary to salesman	500

Goods reach the godown of the consignee. At the end of the year, 25 radiograms remained with Chandru. The market value of each radiogram is Rs 850. You are required calculating value of stock lying with Chandru.

Solution:

Calculation of Value of Closing Stock

Cost of goods 25 x800.		20,000.00
Add: Proportionate non recurring expenses		
By consignor		
Freight	250.00	
Insurance	100.00	
Carriage	125.00	
By consignee		
Customs Duty	500.00	
Dock dues	125.00	1,100.00
		21,100.00

ii. At market price: 25 x 850 = **Rs.21,250/-**

The closing stock is to be valued at cost price or market price which ever is lower. Therefore, the value of closing stock shall be **Rs. 21,100/-**

Illustration: 4. A consigned 2,000 tonnes of coal @ Rs 50 per tonne to B of Delhi. He paid Rs 20,000 as freight. Due to normal wastage only 1,950 tonnes were received by B. He also paid Rs 5,000 as unloading and cartage charges. The goods unsold amount to 650 tonnes. You are required to calculate the value of closing stock.

Solution:

Calculation of value of closing stock

	Units	Amount
Cost of goods	2,000	1,00,000

Add : Proportionate non recurring expenses by consignor	-	20,000
	2,000	1,20,000
Less: Normal Loss	50	-
	1950	1,20,000
Add: Proportionate non recurring expenses by consignee	-	5,000
Value of total goods	1,950	1,25,000

Value of closing stock= 1,25,000/1950 x 650 = **Rs. 41,667/-**

Illustration: 5. A consigned to B 100 cases of tea costing Rs 100 per case. He paid Rs. 1,000 as freight and cartage. B could take deliver of only 90 cases since 10 cases were lost in transit. She paid Rs. 2,000 as unloading and carriage charge. At The end of the year she reported that she has sold away 80 cases at Rs 150 per case. You are required to calculate. i. The value of abnormal loss and ii. The value of closing stock.

Solution:

i. Calculation of value of abnormal loss and closing stock

	Units	Amount
Cost of goods	100	10,000
Add : Proportionate non recurring expenses by consignor	-	1,000
	100	11,000
Less: Normal Loss not given.	-	-
	100	11,000
Less : Abnormal Loss 11,000/100 x10 .	10	1,100
	90	9,900
Add: Proportionate non recurring expenses by consignee	-	2,000
Value of total goods	90	11,900

Value of closing stock= 11,900/90x 10 = **Rs. 1,322/-**

Illustration: 6. A consignment of 10,000kg of tea, costing Rs 50 per kg sent on consignment on 1 st February 2007 to an agent, on commission of 5% on gross sales.The following expenses are incurred:

(a) By the Consignor :

Freight and Insurance	2,000
Dock charges and Sundry Expenses	800

(b) By the Consignee :

Godown Rent and Insurance	800
Miscellaneous Expenses	1,400

Some packages containing 2,000kg of tea were damaged in transit and the contents had to be destroyed on landing as having become unfit for sale. 7,000kg of tea were sold at Rs 60 and on 28 th February 2007. The date of closing of accounts, the balance of the consignment remained unsold in stock. Prepare necessary ledger Account.

Solution :

In The Books of Consignor
Consignment Account

2007	Particulars		Rs	2007	Particulars	Rs.
Feb 1						
	To Goods sent on Consignment A/c		5,00,000		By Consignee Account Rs 7,000x Rs 60.	4,20,000
	To Bank Account				By Abnormal Loss	1,00,560
	Freight	2,000	2,800		By Closing Stock	50,280
	Dock Charges	800				
	To Consignee Account					
	Godown Rent	800	2,200			
	Misc Expenses	1,400				
	To Consignee Account Commission 4,20,000 x 5%.		21,000			
	To Profit		**44,840**			
			5,70,840			5,70,840

Consignee Account

	Rs.			Rs.
To Consignment Account Sales.	4,20,000	By Consignment A/c		
		Godown Rent	800	
		Misc	1,400	2,200
		By Consignment A/c		21,000
		By Balance c/d		**3,96,800**
	4,20,000			4,20,000

Working Note :

	Rs
Calculation of value of closing stock and loss of stock :	
Cost of 10,000kg @ Rs 50	5,00,000
Add: Non-recurring Expenses:	2,800
Cost for 10,000kg	5,02,800

Value of closing stock = 5,02,800 /10000 x 100 = **Rs 5,280**

Value of loss of stock = 5,02,800 /10,000 x 2,000 = **Rs 1,00,560**

Illustration:7. Bharat Cycles of Calcutta consigned to Hindu Brothers 1,000 mini cycles at Rs 300 each. Bharat Cycles paid freight Rs 20,000 and insurance in transit Rs 3,000. During the transit 100 mini cycles were totally damaged by fire. Hind Brothers took delivery of the remaining cycles and paid Rs 1,530 for octroi.

Hindu Brothers sent a bank draft for Rs 1,00,000 as advance payment and later sent an Account Sales showing that 800 cycles were sold at Rs 400 each. Expenses incurred in godown rent and advertisement etc. amounted to Rs 4,000. Hind Bros. is entitled to commission of 5%. Prepare the Consignment Account. Accidental Loss Account and Hind Brothers Account in The books of Bharat Cycles of Calcutta, assuming that the claim from Insurance was settled for Rs 28,000.

Solution:

In The books of Bharat Cycles
Consignment Account

Particulars		Rs.	Particulars	Rs.
To Goods sent to Consignment		3,00,000	By Hind Brothers A/c Sales.	3,20,000
To Bank Account			By Abnormal Loss Account	32,300
Freight	20,000			
Insurance	3,000	23,000	By Closing Stock Account	32,470
To Hind Brothers Account				
Octroi				
1,530		5,530		
Rent	4,000			
To Hind Brothers Account		16,000		
Commission 3,20,000 x 5%.				
		40,240		
To Profit				
		3,84,770		3,84,770

Abnormal Loss Account

	Rs.		Rs.
To Consignment Account	32,300	By Consignment Account	28,000
		By Profit and Loss Account	**4,300**
	32,300		32,300

Hind Brothers Account

	Rs.		Rs.
To Consignment Account	3,20,000	By Consignment Account	
		Octroi	
		1,530	5,530
		Godown rent	1,00,000
		4,000	16,000
		By Bank Account	**1,98,470**
		By Consignment Account	
	3,20,000	By Bank Account	3,20,000

Working Note :

i. Calculation of Abnormal Loss

Cost of 100 Bicycles @ Rs 300 30,000

Add: Non Recurring Expenses

Freight	20,000	
Insurance	3,000	
	23,000x1/10	2,300
		32,300

ii. Calculation of value of closing stock

Cost of 100 Bicycles @ Rs 300	30,000
Add: Non Recurring Expenses	
Consignor23,000x100/1000.	2,300
Consignee 1,530x100/900.	170
	32,470

Illustration: 8. Oswal Mills consigned 5,000 kgs oil to Vijay Dealers. Each kilogram of oil costs Rs 8. Oswal Mills paid Rs 50 as carriage. Rs 250 as freight and Rs 200 as insurance in transit. During transit 500 kg of oil were accidentally destroyed for which the Insurance paid, directly to the consignor Rs 2,500 in full settlement of the claim.

After three months from the date of the consignment of the goods, Vijay Dealers reported that 3,500 kg of oil was sold @ Rs 9.50 per kg and expenses being godown rent Rs 500, Salesmen salary Rs 750. Vijay Dealers are entitled to a 5% commission on sales. Vijay Dealers also reported a loss of 20kg of oil due to leakage. Prepare the necessary accounts in the books of the both the parties.

Solution:

In the books of Oswal Mills
Consignment Account

Particulars		Rs.	Particulars	Rs.
To Goods sent on Consignment		40,000	By Vijay Dealers A/c Sales.	33,250
To Bank Account :				
Carriage	50		By Bank A/c Insurance claim.	2,500
Freight	250			
Insurance	200	500	By Abnormal Loss Account	1,550
To Vijay Dealers Account :				
Godown Rent	500		By Closing Stock Account	7,973
Salesmen Salary	750	1,250		
To Vijay Dealers Commission5%.		1,663		
To Profit		**1,860**		
		45,273		45,273

Vijay Dealers Account

Particulars	Rs	Particulars	Rs
To Consignment Account	33,250	By Consignment Account	
		Expenses	1,250
		By Consignment Account	
		Commission	1,663
		By Balance c/d	**30,337**
	33,250		33,250

In The books of Vijay Dealers
Oswal Mills Account

Particulars	Rs	Particulars	Rs
To Bank Account - Expense	1,250	By Cash Account- Sales	33,250
To Commission Account	1,663		
To Balance c/d	**30,337**		
	33,250		33,250

Working Note :

i. Calculation of value of Abnormal Loss

Cost of goods 500 x 8.	4,000
Add : Non – Recurring Expenses 50+250+200.=500x500/5000	50
	4,050
Less : Insurance claim	2,500
	1,550

ii. Calculation of closing stock units

Total units	5,000
Less : Abnormal Loss units	500
	4,500
Less : Normal Loss units	20
	4,480
Less : Sales units	3,500
	980

iii. Calculation of value of closing stock

Cost of goods 5000 x 8.		40,000
Add : Non – Recurring Expenses 50+250+200.	500	
		40,500
Less : Cost of Abnormal Loss		4,050
		36,450
Value = 36,450x980/4480		**7,973**

9.6.3. Invoice Price Method

Illustration:9. Smith of Mysore consigned 100 machines costing Rs 50,000 to their agent Ashok of Chennai at 20% above the cost to be sold on behalf of Consignor. Consignor incurred Rs 50 for packing and other charges on each machine. Ashok received consignment by paying Rs 500 as railway charges and spent Rs 50 for carriage to godown. He rendered an Account Sales showing that:

20 Machines realised Rs 12,000 in each.
50 Machines sold on credit at Rs 650 each.
10 Machines taken to his own stock at Rs 610 each.

Consignee remitted the balance after deducting her commission at 5% on invoice price of goods sold and 15% on any excess price realised. Show the Consignment Account.

Solution :

In The books of Smith
Consignment Account

Particulars		Rs	Particulars		Rs
To Goods sent on Consignment		60,000	By Ashok Account		
To Bank Account - Expenses		5,000	Cash Sales	12,000	
To Ashok Account:			Credit Sales	32,500	
Railway Charges	500	550	Own use	6,100	50,600
Carriage to go down	50	2,790	By Closing Stock		13,110
To Ashok Account commission.		2,000	By G SC 60,000x20/120.		10,000
To Stock Reserve 12,000-10,000.		**3,370**			
To Profit		73,710			73,710

Working Note :

i. Calculation of value of closing stock

Invoice price of machines @ Rs 600		12,000
Add: Proportions Expenses:		
Consignor @ Rs 50 on each machine		1,000
Consignee: 550 x 20 /100		110
		13,110

ii. Calculation of amount of Commission

Sales price of 80 machines by Consignee Rs 12,000 + 32,500 + 6,100.		50,600
Invoice price 80 machines @ Rs 600		48,000
Excess money realised		2,600
Normal Commission 48,000x5% .	2,400	
Special Commission 2,600x15%.	390	**2,790**

Illustration:10. X consigns to Y 40 cases of goods at a cost of Rs. 5,000 per case. X incures the following expenses: Freight Rs 4,500, insurance Rs. 12,500 . Y paid cartage Rs 2,000 and rent Rs. 2,280. Four cases were destroyed by fire and a sum of Rs. 20,000 is recovered from the insurance company. Out of 36 cases 26 cases of goods were sold for Rs 6,000 each. Commission payable to Y is 5% on sales. Y sent the bank draft in full settlement of account. Give ledger accounts in the books of X.

Solution:

In the Books of X Consignor.
Consignment Account

Particulars		Rs	Particulars	Rs
To Goods sent on Consignment A/c 40 cases x 5,000 each.		2,00,000	By Y Sales 26 x 6,000.	1,56,000
To Bank:			By Abnormal Loss A/c	21,900
Freight	4,500			
Insurance	12,500	17,000	By Consignment Stock A/c	54,750
To Y Account :				
Cartage	2,000			

Rent 2,280	4,280			
To Y Account :				
Commission 1,56,000x5%.	7,800			
To Profit	**3,570**			
	2,32,650			2,32,650

Y Account

Particulars	Rs	Particulars		Rs
To Consignment 26 x Rs. 6,000.	1,56,000	By Consignment A/c		
		Cartage	2,000	
		Rent	2,280	
		Commission	7,800	12,080
		By Bank		**1,43,920**
	1,56,000			1,56,000

Working Notes :

i. Calculation of value of Abnormal Loss:

Cost of goods5,000x4.	20,000
Add : Non – Recurring Expenses	
Consignor 4,500+12,500=17,000x4/40.	1,700
Consignee 2,000 x 4/40.	200
	21,900

ii. Calculation of value of closing stock :

Cost of goods 5,000x10.	50,000
Add : Non – Recurring Expenses	
Consignor 4,500+12,500=17,000x 10/40.	4,250
Consignee 2,000 x 10/40.	500
	54,750

Illustration:11. Ali of Kolkata sent a consignment of cotton goods to Osman of Delhi, invoiced at Rs. 1,00,000. The invoice price was made by adding 25% to the cost. The expenses incurred by Ali were: Packing Rs. 2,400, carriage etc. Rs. 1,600, Insurance Rs. 1,200 and other expenses Rs. 2,600. After three months he received Account Sales intimating that half of the consignment was sold at Rs. 60,000. The expenses incurred by the consignee were: Freight Rs. 3,000 fire insurance Rs. 1,800 and other expenses Rs. 1,000. His commission was 6% on sales and del credere commission 1 ½ %. But no sale could be made of the remainder so that it was brought back after another nine months at a further cost of Rs. 6,000 paid by Osman. The goods were damaged and valued at 20% below cost. Give necessary ledger accounts in the books of both the parties.

Solution:

In the Books of Ail

Consignment Account

Particulars	Rs	Particulars	Rs
To Goods sent on consignment	1,00,000	By GSC Loading.	20,000
To Bank Expenses.:		1,00,000 x 25/125.	

Packing	2,400		By Osman Sales.	60,000
Carriage	1,600	7,800		
Insurance	1,200		By Closing stock	40,000
Others	2,600			
To Osman Account Expenses.:			By Loss	**12,100**
Freight	3,000	5,800		
Insurance	1,800	4,500		
Others	1,000			
To Osman Commission 60,000 x 7.5%.		6,000		
		8,000		
To Osman Expenses.				
To Stock Reserve 40,000x25/125.		1,32,100		1,32,100

Osman Account

Particulars	Rs	Particulars	Rs
To Consignment Sales.	60,000	By Consignment Expenses.	5,800
		By Consignment Commission.	4,500
		By Consignment Expenses.:	6,000
		By Balance c/d	**43,700**
	60,000		60,000

In the Books of Osman

Ali Account

Particulars	Rs	Particulars	Rs
To Bank A/c Expenses.	5,800	By Bank A/c Sale.	60,000
To Commission A/c	4,500		
To Bank A/c Expenses.	6,000		
To Balance c/d	**43,700**		
	60,000		60,000

Illustration:12. On 1 st January 2007, A of Delhi consigned to B of Amritsar goods for sale at invoice price. B is entitled to commission of 3 per cent on invoice price and 20 per cent of any surplus price realised. Goods costing Rs. 12,000 were consigned to Amristar at the invoice price of Rs. 14,400. The expenses of consignment amounted to Rs. 1,000. On 31 st March 2003, an Account Sales was received from B showing that she had effected sales of Rs. 12,000 in respect of 3/4 th of the quantity of goods consigned to him. His actual out of pocket expenses were Rs. 600. B accepted a bill drawn by A for Rs. 5,000 and remitted the balance due from him in cash. Prepare the necessary ledger accounts in the books of the consignor.

Solution:

In the Books of A
Consignment Account

Date 2003	Particulars	Rs	Date 2003	Particulars	Rs
Jan. 1	To Goods sent on consignment	14,400	Mar 31	By B-Sales	12,000
	To Bank Expenses.	1,000			
Jan. 1	To B Account Expenses.	600		By GSC Loading.	2,400
March 31	To B Account Commission.	564			
	To Stock Reserve	600		By Closing Stock	3,850
	To Profit	**1,086**			
		18,250			18,250

B Account

Date 2003	Particulars	Rs	Date 2003	Particulars	Rs
Mar. 3	To Consignment Sales.	12,000	Mar. 31	By Consignment	600
				By ConsignmentCom.	564
				By B/R	5,000
				By Bank	**5,836**
		12,000			12,000

Good Sent on Consignment Account

Date 2007	particulars	Rs	Date 2007	Particulars	Rs
Mar. 31	To Consignment Loading .	2,400	Mar 31	By Consignment	14,400
	To Trading A/c	**12,000**			
		14,400			14,400

Working Note:

i. Calculation of commission

Invoice price of good sold14,400x 3/4 .		10,800
Ordinary commission10,800 x3%.	324	
Special commission 12,000-10,800= 1,200 x 20%.	240	**564**

ii. Calculation of value of closing stock

Invoice price 14,400x 1/4 .	3,600
Add : Expenses 1,000 x 1/4 .	250
	3,850

9.6.4. Memorandum Method :

Illustration: 13. Mr. Arun of Bombay consigned 500 toys to Ramesh. A Proforma invoice was prepared at Rs 40 per toy, the cost of which was Rs 35 per toy. Arun spent Rs 750 by way of forwarding charges including insurance premium of Rs 150. In transit 50 toys were destroyed and Ramesh received 90% of the cost price in full satisfaction of the claim with Insurance Company. Ramesh sold 400 toys at invoice price and spent Rs 300 for selling expenses. She deducted a commission at 20% on sales and paid the balance to Arun. Prepare Consignment Account and in the Accidental Loss Account in the books of Arun under Memorandum Column method.

Solution :

In the books of Mr Arun
Consignment Account

Particulars	Invoice Price Rs	Cost Price Rs	Particulars	Invoice Price Rs	Cost Price Rs
			By Ramesh Sales.	16,000	16,000
To G S C	20,000	17,500	By Abnormal Loss	2,075	1,825
To Bank Expenses.	750	750	By Closing Stock	2,075	1,825
To Ramesh Expenses.	300	300	By Loss	**4,100**	**2,100**
To RameshCommission.	3,200	3,200			
	24,250	21,750		24,250	21,750

Abnormal Loss Account

	Rs	Rs		Rs	Rs
To Consignment Account	2,075	1,825	By Cash 1750 x90%.	1,575	1,575
			By Profit & Loss A/c	**500**	**250**
	2,075	1,825		2,075	1,825

Working Note :

i. Calculation of value of closing stock

	Invoice Price	Cost Price
500 toys @ Rs 40	20,000	
500 toys @ Rs 35		17,500
Add: Non-recurring Expenses	750	750
For 500 toys:	20,750	18,250
For 50 toys:	2,075	1,825

Closing stock: 50 toys
Abnormal Loss: 50 toys

9.7. Let Us Sum Up :

In this lesson we have discussed meaning and need for consignment accounting solutions for consignments under different methods followed by sufficient numbers of unsoved problems.

9.8. Lesson End Activities :

9.8.1. Cost Price Method:

Exercise: 1. Mr. Ram Manohar of Bombay sent 100 bicycles, which cost Rs 900 each to Gopal of Madras on consignment basis. Ram Manohar paid freight of Rs 1,200, cartage Rs 300 and insurance Rs 400 in Madras, Gopal has spent Rs 100 as cartage, loading and unloading Rs 50. The bicycles have been kept on a godown at a monthly rent of Rs 100 p.m. At The end of accounting period, 20 bicycles remained unsold. The selling price of the bicycle is Rs 1,000 at Madras. Calculate value of closing stock.

Exercise: 2. Goods consigned 500kg @ Rs 20 per kg. Freight and Carriage paid by the consignor Rs 4,000. Consignee sold 300kg @ Rs 35 per kg and incurred Rs 1,000 as unloading expenses, Rs 2,000 as godown rent and Rs 1,000 as selling expenses. Normal loss due to leakage is 50 kg. Show how the loss and unsold stock will be treated in the books of the consignor.

Exercise: 3. Goods sent on consignment 1,000 kg @ Rs 10 per kg. Expenses paid by the consignor: Freight Rs 500 and Insurance Rs 300. 200kg were destroyed in transit due to an accident. Claim admitted by the Insurance Company was for Rs 1,500. The consignee sold 700kg @ Rs 20 per kg and incurred the following expenses: Unloading Rs 200, Godown Rent Rs 500 and Selling Expenses Rs 300. Calculate value of abnormal loss and closing stock.

Exercise: 4. Rathnasamy Mills of Coimbatore consign goods costing Rs 25,000 to their agent Ramof Chennai on which they pay freight, insurance and at other charges of Rs 1,500 drawing on him at 90 days Bill for Rs 20,000. They discount the Bill with a bank at a discount of Rs 150. After 3 months they receive from their agent an Account Sales informing that the entire consignment had been sold for Rs 35,000 that expenses amounting Rs 700 have been incurred and showing as a deduction they agreed commission of 2% on the amount realised. A draft on the bank was enclosed for the balance due. Show the journal entries and important ledger accounts in the books of both the parties.

Exercise: 5. Williams of Madras consigned 300 Bags of tea at 2,000 per bag to Johnson of New Delhi paying freight Rs 4,000 and other expenses Rs 2,000. Johnson sold 250 bags at Rs.2,500 per bag and 25 bags at Rs. 2,200 per bag. Johnson spent for freight and octori Rs. 3,000 and other expenses Rs 1,000. He remitted the amount due to Williams after deducting her commission at 5% normal. 2 ½ % Over-riding. and + 1/2 % Del credere commission to be given on total sales.. Johnson found that one customer to whom credit was allowed paid only Rs 4,800 against Rs 5,000 in full settlement. Other customers paid the amount due. Pass journal entries in the books of both parties and prepare ledger accounts.

Exercise: 6. A & Co. of Calcutta sent on consignment account goods to B & Co, of Bombay at an invoice price of Rs 29,675 and paid freight Rs 762, cartage Rs 232 and insurance Rs 700. Half the goods were sold by agents for Rs 17,500, subject to the agent's commission of Rs 875, storage expenses of Rs 200 and other selling expenses of Rs 350. One fourth of the consignment was lost by fire and a claim of Rs 5,000 was recovered. Draw up the necessary accounts in the books of A & Co. and ascertain the profit or loss made on consignment. The consignor received a two months bill of exchange from the agents in satisfaction of the dues.

Exercise :7. Sri Mehta of Bombay consigns 1,000 cases goods costing Rs 100 each to Shri Sundaram of Madras. Sri Mehta pays the following expenses in connection with the consignment.

	Rs
Carriage	1,000
Freight	3,000
Loading Charges	1,000

Sri Sundaram sells 700 cases at Rs 140 per case and incurs the following expenses

	Rs
Warehousing and Storage	850
Clearing Charges	1,700
Packing and Selling Expenses	600

It is found that 50 cases have been lost in transit and 100 cases are still in transit. Sri Sundaram is entitled to a Commission of 10 per cent on gross sales. Draw up the Consignment Account and Sundaram's Account in the books of Sri Mehta.

Exercise: 8. 2,000 Shirts were consigned by Bhagwan & Company of Delhi to Shreyans of Tokyo at a cost of Rs 150 each. Bhagwan & Company paid freight Rs 20,000 and insurance Rs 3,000. During the transit 200 shirts were totally damaged by fire. Shreyans took delivery of the remaining shirts and paid Rs 28,800 as customs duty. Shreyans has sent a bank draft to Bhagwan & Company for Rs 1,00,000 as advance payment. 1,600 Shirts were sold by him at Rs 200 each. Expenses incurred by Shreyans on godown rent and advertisement etc. amounted to Rs 4,000. She is entitled to a commission of 5 per cent. A customer to whom the goods were sold on credit could not pay the cost of 10 Shirts. Prepare the Consignment Account and The account of Mr. Shreyans in his books of Bhagwan & Company. Shreyans settled his account immediately. Nothing was recovered from the insurers for the damaged goods.

9.8.2. Invoice Price Method

Exercise: 9. Dinesh of Bombay consigned medicines of Rao of Madras costing Rs 1,00,000. The invoice was made proforma so as to show a profit of 25% on cost. Dinesh paid freight and insurance Rs 2,000. Rao sold part of consignment of Rs 88,000 at uniform price of 10% over invoice price and spent Rs 3,000 as warehouse charges and Rs 1,000 as selling expenses. Rao is entitled to a commission of 5% on sales and 20% of the net profit after charging such commission on sales. Rao paid the amount due by bank draft. Draw up the Consignment Account and Rao Account in the books of Dinesh.

Exercise:10. Roy of Calcutta sends 100 sewing machines on consignment to Malik at Patna. The cost of each machine is Rs 1,300/- but the invoice price is at the rate of Rs. 1,600/. Roy spends Rs 4,000/- on packing and despatch. Malik received the consignment and immediately accepts Roy's Draft for Rs. 60,000/-. Subsequently Malik informs Roy that 80 machines have been sold at Rs. 1,750/- each including credit sales of 20 machines.. Expenses paid by Malik are: Freight Rs.3,600/- Godown Rent 1,500 and Insurance 3000. The account sales was accompanied by The necessary Bank Draft. Prepare the necessary accounts in the Books of Roy.

Exercise :11. Mopedes Ltd., Madras, forwarded on 1 st June 2007. 50 Mopedes to Mr. Pathak of Patna to be sold on its behalf. The cost of one Mopede was Rs. 1,600 but the

invoice price was Rs. 2,000. Mopedes Ltd., incurred Rs. 10,000 on freight and insurance. The consignment was received by Mr. Pathak on 10 th June 2007. He also sent a bank draft for Rs. 75,000 as advance against the consignment. Mr.Pathak also incurred Rs. 600 on godown rent and Rs. 1,400 on advertisements. On 10 th August 2007. Mr. Pathak sent an Account Sales stating that He had sold 45 Mopedes at a price of Rs. 2,150 each. He is also entitled to a commission of 5% gross sales. Pass journal entries to record the above transactions in the books of Mopedes Ltd., and Mr. Pathak, assuming that the balance due by Mr. Pathak is sent by bank on 31 st August 2007.

Exercise:12. Sundaram of Coimbatore Ltd, forwarded on 1 st Jan 2007 steel chairs to Naresh of Chennai .The cost of one steel chair was Rs. 250 but the invoice price was Rs. 300. Sundaram incurred Rs. 1,000 on freight and insurance and received Rs. 1,000 as an advance from Naresh. Naresh paid Rs. 500 as octroi and carriage, Rs. 400 as rent and Rs. 300 as insurance and 30 th June 2007 had disposed of 80 bicycles for Rs. 25,000. Naresh in entitled to a commission on sale at 5 percent on proforma invoice price and 25% of any Surplus price realised. Naresh remitted the amount due from by a bank draft. You are required to give the journal entries to record the above transactions in the books of the consignor and the consignee and also write up ledger accounts in the books of both the Parties.

9.8.3. Memorandum Method

Exercise :13. On 1 st August 2007, Raman of Delhi consigned 200 radio sets to Balaji of Banglore. While the cost of each set was Rs. 300, Raman invoiced them at Rs.350 per set. Raman incurred Rs. 2,000 on freight and insurance on goods consigned. On 20 th December, 2007 Balaji sent an Account Sales to Raman stating that 135 sets have been sold at Rs 410 per set and 43 sets have been sold at Rs 360 per set. Two sets have been damaged in the godown and they have been sold for Rs. 100 per sent under instructions from the consignor. Balaji also incurred Rs.500 on godown rent and Rs. 2,000 towards salaries to salesmen. He is also entitled to a commission of 5% on gross sales including del credere commission of 2%. Show relevant ledger accounts in the books of both the parties, assuming that Balaji has remitted the balance due by bank draft along with Account Sales.

9.9. Model Answers to Check your Progress :

Ex: 1.

Cost price = 900 x 20	18,000
Add: N.R.E 1200 + 300 + 400 + 100 + 50 = 2050 x 20/100	410
Value of unsold Stock Rs.	**18,410**

Ex: 2.

Cost price = 500 x 20	10,000
Add: N.R.E 4000 + 1000	5,000
	15,000
Actual quantity = 500-50	450kg
Value of unsold Stock = 15000 / 450 x 150	**5,000**

Note : No separate treatment is reared for Normal loss.

Ex: 3.

Cost price = 100 x 10	10,000
Add: N.R.E 500 + 300	800
	10,800

Less: Abnormal Loss	10800 x 200/1,000	2,160
		8,640
Add : N.R.E		200
		8,840
Value of unsold stock 8,840 x 100 /800.		**1,105**

Ex: 4

Profit from consignment A/c 35,000 – 25,000 + 1,500 + 150 + 700 + 700. **6,950**

G.S.C. A/c Balance **25,000**

Consignee A/c Balance 25,000 – 20,000 + 700 + 700. **13,600**

Ex: 5.

Value of Closing stock = 50,000 + 9,000 / 300 x 25 **50,750**

Profit on consignment 6,80,000 + 50,750. – 6,00,000 + 6,000 + 4,000 + 54,400. **66,350**

Consignee A/c Balance 6,80,000 – 4,000 + 54,400. **6,21,600**

Ex: 6.

Abnormal loss value 7419 + 424 = 7,843 – 5,000 **2,843**

Closing stock value 7419 + 424 **7,843**

Profit on consignment 17,500 + 7,843 + 7,843. –
29,675 + 762 + 232 + 700 + 875 +200 + 350. **392**

Consignee A/c Balance 17,500 – 1425 **16,075**

Ex:7.

Abnormal loss value = 100 + 5 = 105 x 50 5,250

Value of closing stock= 100 +5 = 105 x 100. + 105 +1 = 106 x 150. **26,400**

Profit on consignment
98,000 + 5,250 + 26,400. – 1,00,000 + 5,000 + 3,150 + 9,800. **11,700**

Consignee A/c Balance 98,000 – 3,150 + 9,800. **85,050**

Ex: 8.

Abnormal loss value = 200 x 150 = 30,000 + 23,000 x 200/2,000. = 2,300. **32,300**

Value of closing stock = 200 x 150 30,000 + 23,000 x 200/2,000. +
28,800 x 200/1,800. **35,500**

Profit on consignment = 3,20,000 + 35,500 + 32,300 – 3,00,000
+ 23,000 + 28,800 + 4,000 + 6,000 + 2,000. **14,000**

Consignee A/c Balance = 3,20,000 – 28,800 +4,000 + 16,000
+ 2,000 + 1,00,0000. **1,69,200**

Note : Bad debts of Rs 2,000 is included in consignment account as there is no provision for Del credere commission

Ex: 9.

i.Value of closing stock

Invoice value of goods sent	1,25,000
Less: Invoice value of goods sold 88,000 x 100 /110.	80,000
	45,000
Add: N.R.E 45,000 x 2,000/ 1,25,000.	720
	45,720

ii.Value of stock Reserve

Invoice price	45,000
Less: Cost price 45,000 x 100/125.	36,000
	9,000

Profit on consignment =88,000 + 25,000 + 45,720.	
– 1,25,000 + 2,000 + 4,000 + 4,400 + 9,000.	**14,320**
Consignee A/c Balance = 88,000 – 4,000 + 4,400.	79,180

Ex:10.

Value of closing stock	
Invoice value 20 x 1,600	32,000
Add : N.R.E 4,000 + 3,600 + 3,000 x 20/100.	2,120
	34,120
Value of stock Reserve 300 x 20	6,000
Value of Excess profit 300 x 100	30,000
Profit on consignment = 1,40,000 + 34,120 + 30,000.	
– 1,60,000 + 4,000 + 3,600 + 1,500 + 3,000 + 8,400 + 525 + 6,000.	1**7,095**
Consignee A/c Balance = 1,40,000 – 60,000 + 8,100 + 8,925.	**62,975**

Ex:11.

Value of closing stock	11,000
Value of stock Reserve	2,000
Value of Excess profit	20,000
Profit on consignment = 96,750 + 11,000 + 20,000.	
– 1,00,000 + 10,000 + 2,000 + 4,838 + 2,000.	**892**
Consignee A/c Balance = 96,150 75,000 + 2,000 + 4,838.	**14,912**

Ex:12.

Value of closing stock 6,000 + 300.	6,300
Value of stock Reserve 50 x 20.	1,000
Value of Excess Profit 100 x 50.	5,000
Profit on consignment = 25,000 + 6,300 + 5,000.	
– 30,000 + 1,000 + 1,200 + 1,450 + 1,000.	**1,650**
Consignee A/c Balance = 25,000. – 10,000 + 1,200 + 1,450.	**12,350**

Ex:13.

Cost Price method

Value of closing stock	6,200
Value of Abnormal loss	620
Profit on consignment = 70,830 + 620 + 6,200.	
– 60,000 + 2,000 + 2,500 + 3,546.	**9,608**
Consignee A/c Balance = 70,830 + 200. – 2,500 + 3,542 +10.	**64, 978**

Invoice Price Method

Value of closing stock	10,000
Value of Abnormal loss	620
Value of Excess Profit	10,000
Value of stock Reserve	1,000
Profit on consignment = 70,830 + 620 + 7,200 + 10,000.	
– 70,000 + 2,000 + 2,500 + 3,502 + 1,000.	**9,608**
Consignee A/c Balance	**64, 978**

9.10 References :

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers.

LESSON 10

JOINT VENTURE

Contents :

10.0. Aims and Objectives : In this lesson we are going to discuss

- the concept of joint venture
- features of joint venture
- comparison of joint venture with partnership firm
- comparison of joint venture with consignment
- journal entries and ledger accounts under three methods.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

10.1. Introduction :

Some times a party may be in a position to buy goods at a lower cost than others. A second party may sell at an exceptionally good price. A third party may have financial resource but may not be in a position either to buy at lower-price or to sell at a higher price. A combination of all these parties in a common venture may result in successful and remunerative business.

10.2. Meaning:

Joint Venture is a business where two or more persons agree to undertake jointly a particular venture. Joint venture is a particular partnership. Joint Venture is defined as the kind of business proposition where two or more persons jointly venture to complete a specific business undertaking on agreed conditions, to share the profit or losses arising there from, on a temporary partnership basis until its completion. A joint Venture is also known as Joint Adventure or Joint Trade. It is a temporary partnership. It has no firm name. Hence it is a partnership without name. the partners or in a joint venture are called the Co-venturer. They agree to contribute capital to carry on a particular job. The capital may be in cash or in kind with a view to share the profits or loss in an agreed ratio. If there is no agreement regarding the profit sharing ratio, they share the profits or losses equally, as in the partnership. As soon as the business is completed, the joint venture comes to an end. If a trader is in need of funds or business skill or wants to share the risk, he joints with other businessmen. Examples of such transaction are:

a. Joint Consignment of goods b. Construction or contract businesses c. Purchase and sale of properties and stocks of liquidated business d. Underwriting shares or debentures of joint stock companies. e. Speculation in share etc.

10.3. Features of Joint Venture:

The main characteristic features of a joint venture are as follows:

(i) It is an agreement between two or more persons.

(ii) No specific name of the firm is necessary for a joint venture business.

(iii) The object is execution of a specific work.

(iv) The venturers share profits or losses in an agreed ratio, in the absence of any agreement, it is assumed to be equal.

(v) The Joint venture comes to an end as soon as the venture is completed, hence is temporary in venture.

(vi) The venturers may do any type of business of their own during the course of the venture.

10.4. Benefits of Joint Venture :

A joint venture business has the following benefits:

i. Sharing of risk: The risk of the joint venture transaction is not to be born only by one person. It is shared in an agreed ratio because profits or losses of the transaction are shared in a pre-determined ratio.

ii. Financial resources: Financial resources are collected by two or more persons in the joint venture transaction. Thus, adequate financial availability is possible to undertake relatively big projects requiring more capital.

iii. Sufficient experience: More people can come together in a joint venture business having wide experience in a particular line. Thus, people of different skills and experience can come together to undertake costly and profitable projects and execute them efficiently.

10.5. Joint Venture and Partnership:

Joint venture is not a partnership in strict sense though we call it a temporary partnership. It differs from partnership and its salient points are outlined below.

Joint Venture	Partnership
1. There is no necessity for a trade name	1. The firm has a specific trade name
2. The parties in Joint Venture are known as Co-venturers.	2. The parties in partnership are known as partners.
3. The minimum number of Co-venturers are two and there is no limit for maximum	3. Minimum number is two and maximum number is ten in case of banking business and 20 in other business.
4. It is temporary in nature. It is formed for special purpose and it ceases to exist on completion of a particular business.	4. It is continuous business operation and it is not restricted to a particular operation.
5. The agreement is not registered in order to make it enforceable against the third parties.	5. It must be registered in order to make claim of partnership against the third parties.
6. Co-venturers are free to have their own independent business of the same type.	6. Partners cannot independently undertake business of similar nature.
7. The profit is ascertained for each venture.	7. The profit is ascertained annually.
8. Co-venturers have no implied authority.	8. Partners have implied authority.
9. There is no joint and several liabilities unless there is special agreement.	9. There is joint and several liabilities on partners.
10. There is no special Act for joint Venture.	10.There is a special Act known as Indian Partnership Act, 1932
11. It is not necessary to maintain separate and permanent record of account.	11.The firm must maintain a separate set of books of account on a permanent basis.

10.6. Joint Venture and Consignment

Joint Venture and Consignment are different methods of doing business. If co-venturers consign goods to each other or to third parties, then such transaction can be called as Joint Consignment. It is different from consignment. The difference between Joint Venture and Consignment are:

Joint Venture	Consignment
1. The parties are called co-venturers.	1. The parties are called Consignor or Principal and Consignee or Agent.
2. The relationship between the co-venturers is like that of partners.	2. The relationship between the consignor and consignee is that of principal and agent.
3. It is a temporary partnership	3. It is not a partnership. The agent need not be a partner.
4. The profits or losses are shared equally or in agreed ratio.	4. The agent has no right to share the profits. But he receives commission.
5. All the Co-venturers have equal powers to buy and sell the goods, to collect the dues etc.	5. The agent does not have any power. He has to follow the principal's orders.
6. Capital in cash or in kind is contributed by Co-venturers.	6. Here, capital in cash or in kind is contributed by consignor.
7. It ceases to exist when the specific business is completed by the Co-venturers.	7. It is continuing for any length of time as long as the relationship between the consignor and by consignee exists.

8. The business may be concerned with buying or selling or contract work or any other activities.	8. Consignments are meant for sale of goods alone

10.7. Accounting Treatment

10.7.1. Recording in Separate set of Books for Joint Venture:

Under this method one of the ventures is entrusted to manager the joint venture and he maintains the accounts relating to the Joint Venture. The other Co-venturer only contributes their share of investment. The entries of the transactions are recorded by one person i.e. managing participant. in his books. He opens Joint Venture Account and other Co-venture's Account. It is a complete record. The journal entries are.

1. When cash contributed or invested or paid in by Co-venturer
   Joint Bank Account Dr.
   To Respective Co-venturer Account

2. When goods purchased for joint venture
   Joint Venture Account Dr.
   To Joint Bank Account

3. When goods contributed by Co-venturer
   Joint Venture Account Dr.
   To Respective Co-venturer Account

4. When goods purchased on credit
   Joint Venture Account Dr.
   To Supplier's Account

5. When suppliers are paid off
   Supplier's Account Dr.
   To Joint Bank Account

6. When expenses incurred
   Joint venture Account Dr.
   To Joint Bank Account

7. When expenses paid by a Co-venturer
   Joint venture Account Dr.
   To Respective Co-venturer Account

8. When goods sold for cash
   Joint Bank Account Dr.
   To Joint venture Account

9. When goods sold on credit
   Debtor's Account Dr.
   To Joint venture account

10. When cash received from debtors
    Joint Bank Account Dr.
    To Debtor's A/c

11. When goods taken by Co-venturer
Respective Co-venturer Account Dr.
To Joint venture Account

12. When commission or salary payable to Co-venturer
Joint venture Account Dr.
To Respective Co-venturer A/c

13. When discount received from creditors
Creditors Account Dr.
To Joint venture Account

14. When discount allowed or bad debts incurred
Joint venture Account Dr.
To Debtor's Account

15. When cash is paid to creditors
Creditorse A/c Dr.
To Joint Bank Account

16. When there is a profit
Joint venture Account Dr.
To Each Co- venturer Account

17. When there is a Loss
Each Co-venturer Account Dr.
To joint Venture Account

10.7.2. Recording In Each Party Books Individually:

This account shows the profit of loss made on joint venture. It is nominal account Following are the journal entries under method:

1. When cash is contribute by Co-venturer:
Cash/Bank Account Dr.
To Co-venturer Account

2. When goods is purchased on account of join venture:
Joint Venture Account Dr.
To Bank/Supplier's Account

3. When goods supplied by other Co-venturer:
Joint Venture's Account Dr.
To Co-venturer's Account

4. When goods are supplied out of his stock:
Joint Venture Account Dr.
To Purchases Account

5. When expenses are met:
Joint Venture Account Dr.

To cash Account

6. When goods are sold:
   Cash Account Dr.
   To Joint venture Account

7. When goods are sold on credit:
   Customer's Account Dr.
   To Joint venture Account

8. When expenses are met by other Co-venturer:
   Joint Venture Account Dr
   To other Co-venturer Account

9. When working or managing participant charges commission
   Joint Venture Account Dr
   To Commission Account
   Being commission given to participant
10. When unsold stock is taken over by participating Co-venturer:
   Purchases Account Dr
   To Joint Venture Account
   Being unsold goods taken back.
11. When unsold stock is taken by other Co-venturer:
   Co-venturer Account Dr
   To Joint Venture Account
   Being goods taken over by other Co-venturer.
12. When there is a profit:
   Joint Venture Account Dr
   To Profit and Loss Account
   To other Co-venturer Account
   Being profits on Joint venture.
13. When there is a loss:
   Profit and Loss Account Dr
   Other Co-venturer Account Dr
   To Joint Venture Account
   Being loss is transferred on joint venture.
14. When the final settlement is made
   Other Co-venturer Account Dr
   To Cash/Bank Account
   Being the final settlement made.

10.7.3. Memorandum Method:

When all parties keep accounts, the method adopted for recording the transactions relating to joint venture, is called joint venture memorandum method. In order to prepare Memorandum Joint Venture Account, one Co-venturer sends another Co-venturer a copy, of the account kept by him. One the basis of the copydum Joint Vneture Account is just a combination of Joint Venture Accounts prepared by all the Co-venturers. The debit side of

the Joint Venture with B Account is put on the debit side of the Memorandum Joint Venture Account and credit side of that account is put on the credit side of the Memorandum Joint

Venture Account. That is, the transactions of personal accounts of all Co-venturers are entered in the Memorandum Joint Venture Account.

Memorandum Joint Venture Account is just like a trading and profit and Loss Account. All the Co-venturer prepares the same Memorandum Joint Venture Account. The balance amount of Memorandum Joint Account shows either profit or loss on Joint Venture. The Co-venturer share the profit or loss in the agreed ratio.

(10.8) ILLUSTRATIONS

10.8.1. Recording in Separate set of Books for Joint Venture:

Illustration :1. A, B and C enter into a joint venture to divide profits equally. They bought goods from D for Rs.12, 500 and from A for Rs.25, 000. A contributed Rs.30, 000, B Rs.40, 000 and C Rs.90, 000 which amounts were banked in a joint account. They settled their account with D by cheque and paid for carriage and other expenses Rs.7, 500. They sold goods for cash Rs.65, 000 and to E on credit for Rs.1, 40, 000 who accepted a draft for the amount. The acceptance was cashed and realizes Rs.1, 37, 000. A was allowed 5% commission on sales for effecting the transactions. Pass necessary journal entries and open accounts, assuming that the final settlement between parties was made by cheque.

Solution :

Journal Entries

Particulars		Rs.	Rs.
1. Joint venture account	Dr.	1,50,000	
To Dishonoured			1,25,000
To Account's capital account			25,000
Being cost of goods purchased on credit.			
2. Joint bank account	Dr.	1,60,000	
To A's capital account			30,000
To B's capital account			40,000
To C's capital account			90,000
Being capital contributed by partners.			
3. D	Dr.	1,25,000	
To Joint bank account			1,25,000
Being payment of carriage and expenses.			
4. Joint bank account	Dr.	7,500	
To Joint bank account			7,500
Being payment of carriage and expensed.			
5. Joint bank account	Dr.	65,000	
E	Dr.	1,40,000	
To Joint venture account			2,05,000
Being sales in cash and on credit.			
6. Bills receivable account	Dr.	1,40,000	
To E			1,40,000
Being E's acceptance of bill.			
7. Joint bank account	Dr.	1,37,000	
Discount account	Dr.	3,000	
To Bills receivable account			1,40,000
Being the bill discounted on joint account.			
8. Joint venture account	Dr.	3,000	
To Discount account			3,000
Being discount charges transferred.			
9. Joint venture account	Dr.	10,250	
To A's capital account			10,250
Being commission at 5% on sales.			
10. Joint venture account	Dr	34,250	

To A's capital account			11,416.67
To B's capital account			11,416,67
To C's capital account			11,416.66

11. A's capital account	Dr.	76,666.67	
B's capital account	Dr.	51,416.67	
C's capital account	Dr.	1,01,416.66	
To Joint bank account			2,29,500.00
being the final settlement among partners.			

Ledger Accounts:

Joint Venture Account

To D		1,25,000	By Joint bank	65,000
To A		25,000	By E	1,40,000
To Joint bank		7,500		
To Discount		3,000		
To Account		10,250		
To Profit :				
Account	11,416.67			
B	11,416.67			
C	11,416.65	**34,250**		
		2,05,000		2,05,000

A's Capital Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank	**76,666.67**	By Joint Venture account	25,000.00
		By Joint Bank	30,000.00
		By Joint Venture account	10,250.00
		By Joint Venture account	11,416.67
	76,666.67		76,666.67

B's Capital Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank	**51,416.67**	By joint Bank	40,000.00
		By Joint Venture account	11,416.67
	51,416.67		51,416.67

C's Capital Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank	**1,01,416.66**	By Joint Bank	90,000.00
		By Joint Venture account	11,416.66
	1,01,416.66		1,01,416.66

Joint Bank Account

Particulars	Rs.	Particulars	Rs.
To A's capital account	30,000.00	By Dishonoured	1,25,000.00

To B's capital account	40,000.00	By joint venture account	7,500.00
To C's capital account	90,000.00	By A's capital account	76,666.67
To joint venture account	65,000.00	By B's capital account	51,416.67
To Bill receivable account	1,37,000.00	By C's capital account	1,01,416.66
	3,62,000.00		**3,62,000.00**

Illustration.2: Dinesh and Maneesh who share profit &losses equally undertook jointly, the construction of building each contributing Rs. 1,00,000 into a joint bank account, for a contract price of Rs. 5,00,000. They spent Rs. 1.25,000 on material and Rs 2, 00, 000 on wages. The contract price was duly received after the completion of the contract. Show the necessary account in the joint books of Dinesh and Maneesh.

Solution :

Joint Venture Account

Particulars		Rs	Particulars	Rs
To Joint bank			By Joint bank Contract Price.	5,00,000`
Material	1,25,000			
Wages	2,00,000	3,25,000		
To Profit tr. to:				
Dinesh	87,500			
Maneesh	87,500	**1,75,000**		
		5,00,000		5,00,000

Co-venturers Account

Particulars	Dinesh Rs.	Maneesh Rs.	Particulars	Dinesh Rs.	Maneesh Rs.
To Joint bank A/c	**1,87,500**	**1,87,500**	By Joint venture A/c	1,00,000	1,00,000
			By Joint venture – Profit	87,500	87,500
	1,87,500	1,87,500		1,87,500	1,87,500

Joint Bank Account

Particulars	Rs.	Particulars	Rs.
To Dinesh-Contribution	1,00,000	By Joint venture A/c	
To Maneesh- Contribution	1,00,000	Material	1,25,000
To Joint venture A/c	5,00,000	Wages	2,00,000
		By Dinesh	1,87,500
		By Maneesh	1,87,500
	7,00,000		**7,00,000**

Illustration.3 Kapli and Tendulkar jointly underwrite and place on the market 50, 000 equity shares of Mumbai Machineries Ltd of Rs. 10 each. It was agreed with the company that they would be allotted 2,000 Equity shares as fully paid towards their remuneration. Their profit sharing ratio is 3:2

Applications were received from the public only for 45,000 equity shares. Kapil paid Rs. 4,000 for postage and advertisement in addition to 60% of the amount required to take up the short subscription. Tendulkar financed the balance amount. There are accounted for through Joint bank account. All the shares including those allotted for remuneration were sold. Kapil sold 3,000 Equity shares for Rs. 25,000 and Tendulkar sold the balance shares for Rs. 48,000. Tendulkar incurred expenses of Rs. 2,000. Sale proceeds were retained individually.

Show necessary Ledger Accounts in the books of the ventures, which were separately kept for this purpose. The inter se account was settled through the Joint Bank Account.

Solution:

Joint Venture Account

Particulars		Rs.	Particulars	Rs
To Joint bank		50,000	By Kapil Sale proceeds.	35,000
To Joint bank		4,000	By Tendulkar Sale proceeds.	48,000
To Joint bank-expenses		2,000		
To Net profit				
Kapil	16,200			
Tendulkar	10,800	**27,000**		
		83,000		83,000

Kapil Account

Particulars	Rs.	Particulars	Rs
To Joint venture A/c	35,000	By Joint bank A/c	34,000
To Joint bank A/c	**15,200**	By Joint venture A/c-Profit	16,200
	50,200		50,200

Tendulkar Account

Particulars	Rs.	Particulars	Rs
To Joint venture A/c	48,000	By Joint bank A/c	22,000
		By Joint venture A/c – Profit	10,800
		By Joint bank A/c	**15,200**
	48,000		48,000

Joint Bank Account

Particulars	Rs.	Particulars	Rs
To Kapil 30,000 + 4,000	34,000	By Joint venture	4,000
To Tendulkar 20,000 + 2,000.	22,000	By Joint venture	2,000
To Tendulkar	15,200	By Joint venture 5,000 x 10.	50,000
		By Kapil	15,200
	71,200		**71,200**

Note: It has been assumed that 2,000 Equity shares issued against commission are over and above the 50,000 Equity shares to the public.

Illustration :4 A and B, both contractors, undertook a joint venture involving the construction of a building. A Joint Bank Account was opened in which a contributed Rs. 75,000 and B contributed Rs. 37,500. The contract price was Rs. 3, 75,000. The result of joint venture was shared as to a 2/3 and B 1/3. The details of the transactions were as follows.

	Rs.
Wages paid	89,000
Materials supplied by A	13,500
Materials supplied by B	12,000
Materials purchased	1,65,000
Salaries	12,000
Architect fee paid by A	18,500
Concrete mixer plant purchased	38,500

The stock materials on the completion of the contract, valued at Rs. 16,500, were taken over by A. Concrete mixer plant was taken over by B for Rs. 30,000. A was to be paid Rs. 18,000 p.a against establishment expenses, to be charged to the Joint Venture Account. The contract lasted for 8 months. Pass Journal Entries and prepare Joint Venture Account, Joint Bank Account and Accounts of A and B.

Solution :

Journal Entries

		Dr. Rs.	Cr. Rs.
Joint Bank Account	Dr	1,12,500	
To A Account			75,000
To B Account			37,500
Being the amount contributed by A and B.			
Joint Venture Account	Dr.	89,000	
To Joint Bank Account			89,000
Being wages paid.			
Joint Venture Account	Dr	25,500	
To Account			13,500
To B Account			12,000
Being Materials supplied by A and B.			
Joint Venture Account	Dr.	1,65,000	
To Joint Bank Account			1,65,000
Being materials purchased.			
Joint Venture Account	Dr	30,500	
To Joint Bank Account			30,500
Being Salaries and Cartage paid.			
Joint Venture Account	Dr	10,000	
To A Account			10,000
Being Architect fees paid by A.			

Joint Venture Account	Dr	38,500	
To Joint Bank Account			38,500
Being Contract Mixer Plant purchased.			

Joint Bank Account	Dr	3,75,000	
To Joint Venture Account			3,75,000
Being Contract Price received.			
A Account	Dr	16,500	
To Joint Venture Account			16,500
Being stock of materials taken over.			
B Account	Dr	30,000	
To Joint Venture Account			30,000
Being concrete mixer plant taken over.			
Joint Venture Account	Dr	12,000	
To A Account			12,000
Being 8 months establishment expenses paid.			
Joint Venture Account	Dr.	51,000	
To A Account			34,000
To B Account			17,000
Being Profit transferred to A and B.			
A Account	Dr	1,28,000	
B Account	Dr	36,500	
To Joint Bank Account			1,64,500
Being the balance amount paid.			

Joint Venture Account

.Particulars		Rs.	.Particulars	Rs.
To Joint Bank A/cWages.		89,000	By Joint Bank A/c Contract price.	3,75,000
To A Account Materials supplied.		13,500	By A A/c Stock of Material.	16,500
To B Account Materials Supplied.		12,000	By B A/cContract Mixer Plant taken.	30,000
To Joint Bank A/c Materials.		1,65,000		
To Joint Bank A/c Salaries.		30,500		
To A A/c Architect Fees.		10,000		
To Joint Bank A/cConcrete Mixer.		38,500		
To A A/c Establishment Expenses.		12,000		
To Profit transferred to				
A	34,000			
B	17,000	**51,000**		
		4,21,000		4,21,000

Co-venturers Account

Particulars	A Rs	B Rs	Particulars	A Rs	B Rs

To Joint Venture A/c	16,500		By Joint Venture A/c	75,000	75,000
			By Joint Venture A/c-		
To Joint Venture A/c		30,000	Materials	13,500	12,000
			Architect Fess	10,000	
To Joint Bank A/c	**1,28,000**	**36,500**	Establishment	12,000	
			By Joint Venture A/c-	34,000	17,000
	1,44,500	66,500		1,44,500	66,500

Joint Bank Account

Particulars	Rs	Particulars	Rs
To A A/c	75,000	By Joint Venture A/c	
To B A/c	37,500	Wages	89,000
To Joint Venture A/c		By Joint Venture A/c	
Contract Price	3,75,000	Materials	1,65,000
		Salary	12,000
		Cartage	18,500
		Concrete Mixer	38,500
		By A A/c	1,28,000
		By B A/c	36,500
	4,87,500		**4,87,500**

10.8.2. Recording in Each parties Books Individually

Illustration .5: Koshi and Joshi were partners in a joint venture sharing profits and losses in the proportion of three-fifths and two-fifths respectively, Koshi supplies goods to the value of Rs. 10,000 and incurs on freight, Rs.500. Joshi also supplied goods to the value of Rs. 8,000 and incurs Rs. 400 towards freight and other incidental charges. Joshi sells the entire stock of goods on behalf of the joint venture for Rs. 25,000. Joshi is also entitled to a commission of 5% on sales. Joshi settles his account by remitting a bank draft... Pass necessary journal entries and ledger accounts in the books of both Koshi and Joshi.

Solution :

In the Books of Koshi

Journal Entries

Particulars		Dr. Rs	Cr. Rs
Joint Venture A/c	Dr	10,500	
To Purchases A/c			10,000
To Bank A/c			500
The value of goods sent to Joshi and expenses incurred by us on account of joint venture.			

Joint Venture A/c	Dr	8,400	
To Joshi			8,400
The value of goods supplied and expenses			

incurred by Joshi on account of joint venture.

Joshi	Dr	25,000	
To Joint Venture A/c			25,000
The Joint sale proceeds of goods received by Joshi on joint venture account.			
Joint Venture A/c	Dr.	1,250	
To Joshi			1,250
The amount of commission at 5% on sale due to Joshi.			
Joint venture A/c	Dr	4,850	
To Joshi			1,940
To Profit & Loss A/c			2,910
The division of profit on joint venture in the agreed proportion .			
Bank A/c	Dr	13,410	
To Joshi			13,410
Receipt of balance due from Joshi.			

Ledger Account

Joint Venture Account

Particulars		Rs	Particulars	Rs
To Purchases		10,000	By Joshi	25,000
To Bank A/c		500		
To Joshi		8,400		
To Joshi		1,250		
To Profit to Joshi	1,940			
To Profit to P&L	2,910	**4,850**		
		25,000		25,000

Joshi Account

Particulars	Rs	Particulars	Rs
To Joint Venture A/c	25,000	By Joint Venture a/c	8,400
		By Joint Venture A/c	1,250
		To Joint Venture A/c Profit.	1,940
		To Bank A/c	**13,410**
	25,000		25,000

In the Books of Joshi

Journal Entries

Particulars	Dr.Rs.	Cr Rs

Joint Venture A/c	Dr	10,500	
To Koshi			10,500
The value of goods supplied and expenses incurred by Koshi.			
Joint Venture A/c	Dr	8,400	
To Purchases A/c			8,000
To Bank A/c			400
The value of goods sent to Koshi and expenses incurred by us.			
Bank A/c	Dr	25,000	
To Joint Venture A/c			25,000
The sale proceeds of goods received in cash.			
Joint Venture A/c	Dr	1,250	
To commission A/c			1,250
The amount of commission at 5% on sales due to us.			
Joint Venture A/c	Dr	4,850	
To Profit & Loss A/c			1,940
To Koshi			2,910
The division of profit on joint venture in the agreed proportion.			
Koshi	Dr	13,410	
To Bank A/c			13,410
Remittance of balance due to Koshi.			

Ledger Accounts

Joint Venture Account

Particulars		Rs	Particulars	Rs
To Koshi		10,500	By Bank A/c	25,000
To Purchases A/c		8,000		
To Bank A/c		400		
To Commission A/c		1,250		
Profit to :				
Koshi	2,910			
P & L A/c	1,940	**4,850**		
		25,000		25,000

Koshi Account

Particulars	Rs	Particulars	Rs
To Bank A/c	**13,410**	By Joint Venture A/c	10,500
		By Joint Venture A/c	2,910
	13,410		13,410

Illustration : 6 X and Y entered into a Joint Venture of underwriting the subscription at par for the entire share capital of Rama Ltd consisting of 10,000 Equity shares of Rs.10 each and to pay all expenses up to allotment. They were to share profits in the ratio of 3:2 respectively.

The consideration in return for the guarantee was 1,200 other shares of Rs. 10 each fully paid to be issued to them.

X provided the funds for Registration fees Rs. 1,200; advertising Rs. 1,100 and printing and stationery Rs. 950. Y contributed towards payment of office rent Rs. 300; legal charges Rs. 1,550 and staff salaries Rs. 900. The prospectus was issued and applications fell short of the full issue by 1,500 shares. X took these over on Joint account and paid for the same in full. They received the 1,200 fully paid shares as underwriting commission. They sold their entire holding at Rs. 12 per share. The proceeds were received by X for 1,500 shares and Y for 1,200 shares. Write up Joint Venture account and Co-venturers accounts in the books of both the parties.

Solution :

In the Books of X

Joint Venture Account

Particulars		Rs	Particulars	Rs
To Bank			By Bank sale proceeds of	
Registration	1,200		1,500 shares @ Rs.12.	18,000
Advertising	1,100		By Y sale proceeds of 1,200	
Printing	950	3,250	Shares @ Rs. 12.	14,400
To Y				
Office rent	300			
Legal charges	1,550			
Staff salaries	900	2,750		
To Bank-Subscription				
for shares not applied		15,000		
To Profit				
Profit & Loss Account	6,840			
Y Account	4,560			
		11,400		
		32,400		32,400

Y Account

Particulars	Rs	Particulars	Rs
To Joint venture account-		By Joint venture account	2,750
Sale proceeds	14,400	By Joint venture 2/5th profit.	4,560
		By Bank	**7,090**
	14,400		14,400

In the books of Y

Joint Venture Account

Particulars		Rs	Particulars	Rs
To Bank			By Bank-Sale proceeds	
Office rent	300		of 1,200 shares at Rs.12.	14,400
Legal charges	1,550		By X-Sales proceeds of	
Staff salary	900	2,750	1,500 shares at Rs. 12.	18,000
To X Account				

Registration fees	1,200			
Advertising	1,100			
Printing	950	3,250		

To Xsubscription for shares.		15,000		
To Profit				
Profit & Loss Account-	4,560			
X Account	6,840	**11,400**		
		32,400		32,400

X Account

Particulars	Rs	Particulars	Rs
To Joint venture account -Sale proceeds	18,000	By Joint account expenses	3,250
To Bank final settlement.	**7,090**	By Joint venture account subscription	15,000
		By Joint venture account	6,840
	25,000		25,000

Note. The students should remember that no entry will be passed for the shares received from the company in consideration for the guarantee.

Illustration .7: Ram and Rahim enter into a Joint venture to take building contract for Rs. 24, 00,000. They provide the following information regarding the expenditure incurred by them.

	Ram Rs.	Rahim Rs.
Materials	6,80,000	5,00,000
Cement	1,30,000	1,70,000
Wages	-	2,70,000
Architect's fee	1,00,000	-
License fee	-	50,000
Plant	-	2,00,000

Plant was valued at Rs. 1, 00,000 at the end of the contract and Rahim agreed to take it at that value. Contract amount of Rs. 24,000 was received by Ram. Profits or Losses to be shared equally. You are asked to show the ledger accounts in the books of both the parties

Solution :

In the books of Ram

Joint Venture Account

Particulars		Rs.	Particulars	Rs.
To Bank			By Bank	24,00,000
Material	6,80,000		By Rahim : Plant	1,00,000
Cement	1,30,000			
Architect's fee	1,00,000	9,10,000		
To Rahim :				
Material	5,00,000			
Cement	1,70,000			

Wages	2,70,000			
Licenses fee	50,000			
Plant	2,00,000	11,90,000		

To Net profit transferred to:				
Rahim	2,00,000			
Profit & Loss A/c	2,00,000	**4,00,000**		
		25,00,000		25,00,000

Rahim Account

Particulars	Rs	Particulars	Rs.
To Joint venture A/c : Profit	1,00,000	By Joint venture A/c Sundries	11,90,000
To Bank	**12,90,000**	By Joint venture A/c: profit	2,00,000
	13,90,000		13,90,000

In the books of Rahim

Joint Venture Account

Particulars		Rs.	Particulars	Rs.
To Ram :			By Ram : Contract amount	24,00,000
Material	6,80,000		By Plant	1,00,000
Cement	1,30,000			
Architect's fee	1,00,000	9,10,000		
To Bank :				
Material	5,00,000			
Cement	1,70,000			
Wages	2,70,000			
Licenses fee	50,000			
Plant	2,00,000	11,90,000		
To Net Profit transferred to:				
Ram	2,00,000			
Profit & Loss A/c	2,00,000	**4,00,000**		
		25,00,000		25,00,000

Ram Account

Particulars	Rs	Particulars	Rs.
To Joint venture A/c: Contract amount	24,00,000	By Joint venture A/c. Sundries	9,10,000
		By Joint venture A/c : Profit	2,00,000
		By Bank	12,90,000
	24,00,000		24,00,000

10.8.3. Memorandum Method

Illustration .8: Bharat and Sharad joined together as co-ventures for equal share in profits through sale of television cabinets. On March 31, 2003, Bharat purchased 2,000 cabinets at Rs. 250 each for cash and sent 1,500 of these to Sharad for sale, the selling price of each being Rs. 300. All the cabinets were sold by April 30, 2003 by both and the proceeds collected.

Each venture record in his books only those transactions concluded by him, final profit/loss being ascertained through account Memorandum Joint Venture Account.

The expenses met by the ventures were:

Bharat	
Freight and insurance	9,000
Selling expenses	4,500
Sharad	
Wages	900
Selling expenses	13,500

Final settlement between the ventures took place on May 31, 2003. You are required to show the ledger accounts under Memorandum Method.

Solution :

Ledger Accounts

Memorandum Joint Venture Account

Particulars	Rs	Particulars	Rs.
To Purchases		By Sales	
Bharat 2,000 x 250.	5,00,000	Bharat 500 x 300.	1,50,000
Sharad	-	Sharad 1,500 x 300.	4,50,000
To Expenses			
Bharat			
Freight	9,000		
Selling Expenses	4,500		
Sharad			
Wages	900		
Selling expenses	13,500		
To Net Profit			
Bharat 36,050			
Sharad 36,050			
	72,100		
	6,00,000		6,00,000

In the Books of Bharat

Joint venture with Sharad Account

Particulars	Rs	Particulars	Rs.
To Purchases		By Cash 500 x 300.	1,50,000
Bharat 2,000 x 250.	5,00,000		
To Cash		By Cash Settlement.	**3,99,550**
Freight	9,000		
Selling Expenses	4,500		
To Share of Profit 72,100x1/2.	36,050		
	5,49,550		5,49,550

In the Books of Sharad
Joint venture with Bharat Account

Particulars	Rs	Particulars	Rs.
		By Cash 1,500 x 300.	4,50,000
To Cash			
Wages	900		
Selling Expenses	13,500		
To Share of Profit 72,100x1/2.	36,050		
To Cash Settlement.	**3,99,550**		
	4,50,000		4,50,000

10.9. Let Us Sum Up :

In this lesson we have discussed nature and scope of joint venture in the contest of present business environment and application of the same under various methods followed by sufficient number of unsolved problems.

10.10. Lesson End Activities :

10.10.1. Recording in Separate Set of Books for Joint Venture

Exercise :1 Rajeev and Ashok enter into a joint venture as dealers in land and opened a joint Bank account with Rs 60,000towards which Rajeev contributed Rs40.000. they agree to share profits and losses in proportion to their cash contribution. They purchased a plot of land measuring 5,000 square yards for Rs 50,000 .It was decided to sell the land in smaller plot and a plan was got prepared at a cost of 1.200. In the said plan $1/5^{th}$ of the total area of the land was left over for public roads and the remaining land was divided into 8 plots of equal size. Out of 8 plots, 3plots were sold @ Rs 15 per square year and the remaining 5 plots were sold @ Rs 14 per squire yard. Expenses incurred in connection with the plots were. Registration expenses Rs. 4,000, Stamp Duty Rs. 400and Other Expenses Rs. 1,000 Allow 2% on the sale proceeds as a commission to Rajiv. Prepare necessary ledger accounts in the books of both parties.

Exercise :2 A and B entered into a joint venture to construct a building for Rs. 10,000 payable in cash. A joint bank account was opened. A and B deposited Rs. 2, 50,000 and Rs. 1, 50,000 respectively. The profit or loss was to be shared in 2 : 1 ratio after providing interest at 10% on money deposited into bank by A and B.

Details of transactions are	Rs.
Purchases of Plant and materials	5,00,000
Wages paid	3,00,000
Materials supplied by A	70,000
Materials supplied by B	40,000

Contract was completed and price was duly received. B took over materials for Rs. 31,000 and joint venture was closed. Prepare necessary ledger accounts.

Exercises:3. Vasanth and Charan enter into a joint venture to construct a building for a contract price of Rs. 5, 00,000 payable as Rs. 4, 00,000 in cash and the balance in the form of shares of a newly started joint stock company. They opened a Joint Bank Account; Vasanth is contributing Rs. 2, 00,000 and Charan Rs. 1, 50,000. They are to share profit and losses in the ratio of 2 : 1 Their transaction are as follows.

Material bought	1,20,000

Wages paid	1,80,000
Material supplied by Vasanth	10,000
Plant Supplied by Charan	28,000
Architect fees paid	2,000
Miscellaneous expenses	12,000

The contract was completed and the contract. The plant was taken over by Charan at an agreed value of Rs. 8,000. Shares were taken over by Vasanth at a mutually agreed price of Rs. 80,000. Prepare Joint Venture Account, Joint Bank Account and individual accounts of Vasanth and Charan in separate books of Joint Venture.

Exercise:4. Ram, Bharat and Laxman undertook the construction of a Bridge at a contract price of Rs. 5, 00,000 payable in cash Rs. 4, 00,000 and in debentures Rs. 1, 00,000. They decided to share the profit and losses in proportion of their initial amount.

They opened a Joint Bank Account wherein they deposited the following initial amount: Ram Rs. 2, 00,000; Bharat Rs. 2, 00,000 and Laxman Rs. 1, 00,000.

The following payments are made through Joint Bank A/c Purchases of Cement Rs. 2,00,000; Purchases of Steel Rs. 50,000; payment of Wages Rs. 75,000; other charges Rs. 15,000.

Ram brings the truck of Rs. 60,000; Bharat brings material of Rs. 80,000 and Laxman brings mixer worth Rs. 20,000

At the close of venture the unused materials was taken by Ram for Rs. 10,000. Bharat took over the mixer and steel for Rs. 35,000. The truck was sold in the market for Rs. 40,000.

The contract price was received as per the agreement and Laxman agreed to take over debentures for 1, 00,000.

Prepare: Joint Venture A/c, Joint Bank A/c and Co-venturers A/c.

Exercises:5. Mohan and Sohan undertook the construction of a Cinema Hall for A payment of Rs. 3, 00,000. For this purpose, Mohan put Rs. 60,000 and Sohan put Rs. 50,000 in a joint Bank Account opened for this purpose. The following expenditures were made:

	Rs.
On Materials	37,500
On Wages	60,000
On Plant	7,500

These payments were made out of the Bank Account, but in addition, Mohan supplied bags of cement which were valued at Rs. 7,500 The Cinema Hall was constructed, but due to certain defects, the owner deducted Rs. 60,000 from the payment which was made gradually. The plant was taken over by Sohan at Rs.4, 000 and the bags of cement left were taken back by Mohan at a value of Rs. 2,000. They shared profits and losses in the ratio of 2:1.Show the necessary ledger accounts.

Exercise :6. M/s Amar, Akbar and Anthony enter into a joint venture and agreed to share profit equally. They purchased goods from Mr. Balu for Rs. 30,000 and from Mr.Amar for Rs.10, 000 on credit. Amar contributed Rs.10, 000, Akbar Rs. 16,000 and Anthony Rs. 20,000. They amounts were banked in a joint Bank Account. They settled the account of Mr. Balu by cheque and paid for carriage and other expenses Rs. 40,000 who accepted a bill for the amount. The bill was discounted for Rs. 39,600. Mr. Amar was allowed 8% commission on total sales for effecting the transactions.

Prepare Joint Venture Account; Joint Bank Account and Co-venturers Account assuming that they settle their accounts by cheque.

Exercise:7. Ram Gopi and Jain jointly undertook to construct a building for P and Co., at a price of Rs 2, 50,000. The price was to be paid as follows:

Rs 2, 00,000 in cash, And Rs 50,000 by the issue of preference shares of the company.

Profit was agreed to be divided equally. The partners contributed as follows: Ram-Rs 30,000; Gopi-Rs 37,500 and Jain- Rs 20,000. The amounts were deposited in a joint Bank Account opened with the state Bank of India. Ram got the plan prepared and paid Rs3, 500 as architect's fees. Gopi brought into venture a concrete mixer of the value of Rs 12,000 and

join brought a lorry of the value of Rs 26,000. They bought a plant for Rs15, 000 materials worth Rs 1, 20,000 were purchased for cash and a sum of Rs 11,000; Jain took back his lorry at Rs 20,000. The plant is sold as scrap for Rs5, 000. When the contract price received, Ram agreed to take over the preference Shares at Rs 40,000. Open the Joint Venture Account, Joint Bank Account and the Accounts of Ram, Gopi and Jain.

Exercise:8. Das, Bose and Gupta undertake to erect a five storied mansion for National Housing Trust Ltd. The contract price is agreed at Rs 25,00,000 to be paid in cash Rs.22,00,000 by four equal instalments and the balance amount in 8% Debentures of the company. They agree to share equally the profit or loss. They opened a Joint Bank Account with cash contributed as stated below:

Das Rs 3, 00,000; Bose Rs 3, 75,000 and Gupta Rs2, 00,000

Das arranges the preparation of building plans etc. and pays Rs32, 000 as architect's fees. Bose bring a concrete mixer and other instrumentslementsd valued at Rs 80,000 and Gupta brings a motor lorry valued at Rs 75,000. They paid in cash for the following:

	Rs
Materials	12, 26,800
Wages	7, 33,200
Sundry Expenses	20,000
Plant	60,000

On completion of the venture concrete mixer is sold for Rs50, 000 and other implements are sold for Rs 10,000 Gupta takes back the motor the lorry Rs40, 000 Das took over the debentures issued by the company at a valuation of Rs 2, 80,000. Show the necessary accounts for the joint venture.

Exercise:9. Gopal and Ahmed undertook jointly to construct a building for a contract price of Rs. 3, 00,000 A Joint banking account was opened by them in their joint names. Good paid into it Rs. 1, 00,000 and Ahmed Rs. 50,000. Profit and Loss is be distributed in the ratio 2 : 1. The details of transactions made are given below.

	Rs.
Wages	80,000
Materials Purchased	1,60,000
Materials supplied by Gopal	10,000
Materials supplied by Ahmed	8,000
Gopal paid architect's fee	4,000

After the completion of contract, the price was duly received. There was stock of unused materials which were valued at Rs. 10,000, and this was taken over by Ahmed. Prepare Joint Venture a/c and Joint Bank A/c.

Exercise:10. Maran, Saran and Maravan entered into a joint venture agreeing to share profits as 6 : 3 : 1 respectively. They paid into a Joint Bank Account their contribution amount as follows. Maran Rs. 60,000, Saran Rs. 40,000 and Maravan Rs. 20,000. Purchases paid from Joint Bank Account Rs. 1, 00,000. Most of the goods were sold for Rs. 2, 50,000. Maravan took over damaged goods for Rs. 1,500. Other expenses were as follows: Carriage paid by Maran Rs. 5,200. Rent paid by Saran Rs. 2,500 and Maravan paid for advertising Rs. 2,000. Prepare the necessary ledger accounts.

10.10.2. Recording in Each Parties Books Individually

Exercise:11 X and Y entered into a joint-venture of underwriting the subscription at par of the entire share capital of Copper Mines Limited consisting of 10,000 shares of Rs. 10 each and to pay all expenses up to a allotment. They were to share profits in the ratio of 3 : 2 respectively. The consideration in return for the guarantee was 1,200 other shares of Rs. 10 each fully paid to be issued to them. X provided the funds for registration fees Rs. 1,200;

advertising Rs. 1,100 and printing and stationery Rs. 950. Y contributed towards payment of office rent Rs.300; legal charges Rs. 1,550 and staff salaries Rs. 900.

The prospectus was issued and the application fell short of the full issue by 1,500 shares. X took these over on joint account and paid for the same in full. They received the 1,200 full paid shares as underwriting commission. They sold their entire holding at Rs. 12 per share. The proceeds were received by X for 1,500 shares and by for 1,200 share. Write up the necessary accounts in the books of the parties showing the final adjustment.

Exercise:12. A and B entered into a joint venture contract for sharing the profits and losses in the ratio of 60 per cent and 40 per cent. Purchased goods worth Rs. 3, 00,000 and dispatched to B.A paid Rs.24, 000 in the process. B reported after some time that he had sold the goods for Rs. 3, 20,000 and the remaining were not being sold. Later on A and B decided to dispatch the goods on consignment basis to M/s C & Co., who agreed to sell the goods on their behalf. C was to be paid all the expenses plus 5 per cent commission. After few days C sent an Account Sales along with a cheque for Rs. 35,000 to B after deducting expenses Rs. 5,000 and commission.. The unsold remaining. goods were returned to B. B purchased the goods for Rs. 20,000.

B prepared a statement of account to A and informed that he spent Rs. 14,500 on this joint venture. They agreed to settle their accounts. Prepare the necessary ledger accounts in the books of A and B showing the final settlement of accounts.

10.10.3. Memorandum Method

Exercise:13. A and B enter into a joint venture as dealers in land with effect from 1 st July 2005. On the same day A advanced Rs. 90,000 and a plot of land, measuring 9,000sq yards, was purchased with this money. It was decided to sell the land in smaller plots and a plan was got prepared at a cost of Rs. 1,000 paid by B. In the said plan 1/3 rd of the total are of the land was left over for public roads and the remaining land was divided into 6 plots of equal size. On 1 st October 2005, two of the plots were sold at Rs. 30 per sq, yard, the buyer deducting Rs. 1,000 per plot for stamp duty and registration expenses to be borne by the seller. The remaining plots were sold at net price of Rs. Per sq. yard on 1 st December 2005. The sale proceeds of all the plots were received by A After charging interest at 6% p.a on the investments of A allowing for money received by him. and allowed 1% on the net sale proceeds of plots as commission to B, the net profit of the joint venture is to be shared in the proportion of 3/4 th to A and 1/4 th to B. Draw up the memorandum joint venture account and personal accounts.

10.11. Model Answers to Check your Progress :

Exercise 1.

Loss on JV	: **250**
Raju Account	: **40,983**
Asohk Account	: **19,917**
Joint Bank Account	: **1, 17,500**

Exercise 2.

Profit on JV	: **4,500**
Ram A/c	: **15,000**
Gopi A/c	: **40,000**
Jain A/c	: **27,500**
Joint Bank A/c	: **3, 07,500**

Exercise 3.

Profit on JV	: **9,300**
Amar A/c	: **27,580**
Akbar A/c	: **90,100**
Antony A/c	: **23,100**
Joint Bank A/c:	**1, 01,600**

Exercise 4.

Profit on JV	: **81,000**
A A/c	: **3, 99,000**
B A/c	: **2, 01,000**
Joint A/c	: **14, 00,000**

Exercise 5.

Profit on JV	: **1, 36,000**
Vasantha A/c	: **1, 75,333**
Charan A/c	: **2, 60,667**
Joint Bank A/c	: **7, 50,000**

Exercise 6.

Profit on JV	: **95,000**
Ram A/c Bal	: **2, 88,000**
Bharat A/c Bal	: **2, 83,000**
Lakshman A/c Bal	: **29,000**
Joint Bank A/c	: **9, 40,000**

Exercise 7.

Profit on JV	: **1, 33,500**
Mohan A/c BAL	: **1, 54,500**
Sogan A/c Bal	: **90,500**
Joint Bank A/c	: **3, 50,000**

Exercise 8.

Profit on JV	: **48,000**
Gopal A/c	:**1, 46,000**
Ahamed A/c	: **64,000**

Exercise 9.

Profit on JV	: **1, 41,800**

Exercise 10.

Profit on JV	: **3, 53,000**
Doss A/c	: **1, 69,667**

Boss A/c	: **5, 72,667**
Gupta A/c	: **3, 52,666**
Joint Bank A/c	: **3, 35,800**

Exercise 11.

In the Books of X :

Profit to Profit & Loss A/c	: **6,840**
Profit to Y	: **4,560**
Y A/c	: **7, 090**

In the Book of Y :

Profit to Profit & Loss A/c	: **4,500**
Profit to X	: **6,840**
X A/c	: **9,090**

Exercise 12.

In the Books of A

Profit to Profit & Loss A/c	: **21,900**
Profit to B	: **14,600**
B A/c	: **3, 45,900**

In the Books of B

Profit to Profit & Loss A/c	: **14,600**
Profit to A	: **21,900**
A A/c	: **3, 45,900**

Exercise 13.

In the Separate Books

Profit on Memorandum JV A/c	: **63,750**

In the Books of A

JV A/c	: **18,516**

In the Books of B

JV A/c	: **18,516**
Interest to A	: **2,250**
Interest from A	: **580**

10.12 References:

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers.

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LESSON 11

BANK RECONCILATION STATEMENT

Contents :

11.0. Aims and Objectives : In this lesson we are going to discuss

- meaning of pass book and cash book
- meaning of bank reconciliation statement
- circumstances under which it is required
- preparation of bank reconciliation statement and four headings.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

11.1. Introduction :

After studying this chapter you should be able to appreciate the utility of keeping an account with a bank by a business firm, identify the causes of difference between the balance shown by the bank Pass Book and the firm's cash book. Explain the meaning and objective of preparing a Bank Reconciliation Statement.

11.2. Meaning :

The balance as shown by the firm's books in the bank account should tally with the balance shown by the bank's books in the account of the firm. Of course, if in the books of the firm the bank account shows a debit balance, in the books of the Bank, the firm's account will show a credit balance and vice-versa. However, the two balances rarely tally on account of the reasons given later in the chapter. All transactions relating to the Bank i.e., deposits or withdrawals of the money in or from the bank are recorded by the firm in the bank column maintained on each side of the cash book. The deposit of the money into the business bank account is recorded on the debit side of the cash in the Bank column, while the withdrawal of money from the bank is recorded on the credit side in the bank column of the cash book. The bank also maintains the firm's account in its books. A copy of this account, it submits to the firm from time to time. The account so submitted by the bank to the customer is known as the Bank Pass Book or Bank Statement.

11.3. Causes of Difference :

Following are the causes of difference in the balance as shown by the cash book and the bank pass book on any particular date :

11.3.1. Cheques deposited into the bank but not yet collected and credited: When cheques are deposited, in the books of the concern bank account in immediately debited but in the books of bank, the concern's account is not credited until they are actually collected by the bank. It is quite usual that some of the cheques deposited by the concern may remain uncollected at the time the pass book is sent for comparison. For example, the concern may deposit a cheque for Rs. 5,000 on March 29 for collection. The bank collects the cheque on April 2. Now, if the balances on March 31 are compared, there will be different because Rs. 5,000 will not appear in the credit column of the pass book whereas in the cash book, the balance will be more by Rs. 5,000.

11.3.2.. Cheques issued but not yet presented for payment: Similarly, the entry for the issue of cheque is made in the books of the concern immediately and the bank account is credited. But in the books of bank, entry for payment can be made only when cheque is presented for payment. At the time of comparison it is quite possible to find out some cases where cheques were issued and recorded in the cash book but not presented for payment and remained unrecorded in the bank books and thus causing a difference. It should be remembered that a cheque can be presented for payment within three months from the date of issue. For example, the concern has issued a cheque for Rs. 7,000 to Mr. Xon March 26, 2007. Mr. X presented this cheque for payment to bank on 3 rd April 2007. The concern will record this payment on the credit side of the cash book in the bank column. on March, 26, thus reducing the bank balance. The bank, debits the pass book only on 3rd April when the cheque is present for payment. The balance in the bank pass book will be more than the balance as per cash book, if the two are compared on March, 31, 2007.

11.3.3.. Bank charges : Banks render many services to its clients and for that it levies charges. Entry for such charges is made by the bank but corresponding entry for it does not

appear in the cash book of the concern because it is not known to the client until he receives a statement. This causes a difference.

11.3.4. Amount collected or credited by bank on standing instructions : Often, a concern issues standing instructions to the bank to collect on its behalf dividends, interest etc. on investments. When the bank collects such amounts, it immediately credits the concern's account with it. The necessary intimation and advice is sent to the concerned party after this is done. The concern will debit the bank account in the cash book only when it receives such intimation or when it gets the pass book duly completed from the bank. If, before this entry, the two balances are to be compared, the cash book balance will be lower than the bank pass book balance.

11.3.5. Amount paid or debited by the bank on standing instructions : The concern may also issue standing instructions to the bank for making some payments on its behalf and debit the concern's account with it, e.g., life insurance premium, rent, payment of installments, payment of bill payable, etc. Whenever such payments are made by the bank, the concern's account is immediately debited, thus, the pass book only when it gets intimation of such payment or the pass book from the bank. Till then, the two books will show difference.

11.3.6. Interest credited by the bank : Banks, normally, do not allow any interest on current accounts. But if it is allowed, the concern's account is credited by the bank, which will enhance the firm's balance with the bank. On the other hand, the firm will record it no the debit side of the bank account in the cash book only when the pass book is received.

11.3.7. Interest debited by bank on overdraft : If the firm withdraws more money from the bank than the available deposits with it, it is called an overdraft. Overdraft facility is permitted to the party by the bank only when it fulfils certain conditions. The bank charges interest on overdrawn balances. It debits the customer's account periodically with such amount of interest. The firm will record the interest on the credit side of the cash book only when it gets the pass book duly completed. Till then, the two books will show different balances.

11.3.8. Direct payment by customers into the bank account : Sometime, customers may deposit money direct into the firm's account in the bank. The bank will immediately record the entry on the credit side of the firm's account and thus in the pass book and enhance the balance. But, the firm will debit the bank account in the cash book only when it gets the intimation or the pass book. In the meantime, if two balances are to be compared, the cash book balance will be lower than the pass book balance.

11.3.9. Dishonour of cheque or bills : When cheques are deposited in the bank for collection, the firm debits the bank account in the cash book. It increases the balance immediately. But the bank will credit the proceeds of cheques only when they are collected. If due to some reason, some cheques are dishonoured. i.e, not collected, the bank will not credit the firm's account. The balance with the bank, thus, will be lower than in the cash book. The firm will credit the bank account only on receiving the information from the bank or when pass book is received. Similarly, when bills receivable are sent for collection to the bank, the firm, in case some are dishonoured, will credit the bank account only on getting intimation from the bank. In this case, too, if the two balances are compared, the cash book balance will be more than the pass book balance.

11.3.10. Errors : Difference in the two balances may also be due to some errors in the recording of transactions by either the firm or the bank. For example, the cheque deposited in the bank for collection may not be recorded at all; or the cheque may be forgotten to be sent to the bank though necessary entry has been recorded in the cash book.

11.4. ILLUSTRATIONS

11.4.1. Starting with Cash Book Favourable Balance

Format :

Bank Reconciliation Statement as on ….

Particulars	Rs.	Rs.
Balance as per Cash Book		
Add		
i..Cheques issued but not yet presented for payment.		
ii.. Incomes like dividend, interest etc., directly collected by the bank.		
iii. Interest on bank deposits credited in the pass book		
iv. Deposits directly made by the customers in to the bank		
v. Professional charges, if any, payable by the bank to the account holder.		
vi. Wrong entry, if any, on credit side of the pass book.		
Less		
i.. Cheques deposited but not credited by the bank.		
ii.. Expenses like insurance premium rent etc., directly paid by the bank.		
iii. Interest on overdraft debited in the pass book.		
iv. Payment directly made by the bank to customers.		
v. Bank charges, if any, payable by account holder to the bank.		
vi. Wrong entry, if any, on debit side of the pass book.		
Balance as per Pass Book		

Illustration : 1. From the following particulars prepare a Bank Reconciliation Statement as on 31st March 2007.

	Rs.
Balance as per cash book	5,877
Cheques issued but not presented for payment	2,013
Cheques deposited but not cleared up to 31st March 2007	1,419

The bank had wrongly debited the firms account Rs. 225 which was not rectified until 31st March.

Solution:

Bank Reconciliation Statement as on 31st March 2007

	Particulars	Rs.	Rs.
	Balance as per Cash Book		5,877
Add:	Cheques issued but not presented for payment		2,013
			7,890
Less:	Cheques deposited but not cleared	1,419	
	Amount wrongly debited in the pass book	225	1,644
	Balance as per Pass Book		**6,246**

Illustration : 2. From the under-mentioned particulars of Mr. Mohan prepare a Bank Reconciliation Statement as 31st July 2007.

i. Cheques paid into Bank on the 28th July 2007 but credited to Mohan's account in the first week of August 2007 Kalyan Rs. 1,000; Joy Rs.800; Raghul Rs. 1,200

ii. The following cheques were issued by Mohan on 30th July 2007 but presented to bank for payment after the close of the year. David Rs. 1,200; Hari Rs. 1,000; Lal Rs. 800.

iii. A cheque for Rs. 300 was credited direct to the account and was not passed through the cash book.

iv. The bank balance as per cash book on 31st July 2007 amounted to Rs. 30,000.

Solution.

Bank Reconciliation Statement of Mr. Mohan as on 31st July 2007

					Rs.	Rs.
		Bank Balance as per cash book				30,000
Add:	i.	Cheques issued but not presented for payment				
			David	Rs. 1,200		
			Hari	Rs. 1,000		
			Lal	Rs. 800	3,000	
	ii.	Cheque credited direct to the account but not passed through the cash book			300	3,300
						3,300
Less:		Cheques paid into bank but not credited in the pass book				
			Kalyan	Rs. 1,000		
			Joy	Rs. 800		
			Raghul	Rs. 1,200	3,000	3,000
		Bank balance as per pass book				**30,300**

Illustration : 3. Prepare a bank reconciliation statement from the following data as on 31.12.2007

		Rs.
a.	Balance as per cash book	12,500
b.	Cheques issued but not presented for payment	900
c.	Cheques deposited in bank but not collected	1,200
d.	Bank paid insurance premium	500
e.	Direct deposit by a customer	800
f.	Interest on investment collected by bank	200
g.	Bank charges	100

Solution.

Bank Reconciliation Statement as on 31.12.2007

		Rs.	Rs.
	Balance as per cash book		12,500
Add : i.	Cheques issued but not presented for payment	900	
ii.	Direct deposit by a customer	800	
iii.	Interest on Investment collected by bank	200	1,900
			14,400
Less : i.	Cheques deposited in bank but not collected	1,200	
ii.	Bank paid insurance premium	500	
iii.	Bank charges	100	1,800
	Balance as per pass book		**12,600**

11.4.2. Starting with cash book overdraft balance

Format:

Bank Reconciliation Statement as on ….

Particulars	*Rs.*	*Rs.*
Balance as per Cash Book		
Add:		
i. Cheques deposited but not credited by the bank.		
ii. Expenses like insurance premium, rent etc., directly paid by the bank.		
iii. Interest on overdraft debited in the pass book.		
iv. Payment directly made by the bank to customers.		
v. Bank charges, if any, payable by account holder to the bank.		
vi. Wrong entry, if any, on debit side of the pass book.		
Less:		
i. Cheques issued but not yet presented for payment.		
ii. Incomes like dividend, interest etc., directly collected by the bank.		
iii. Interest on bank deposits credited in the pass book		
iv. Deposits directly made by the customers in to the bank		
v. Professional charges, if any, payable by the bank to the account holder.		
vi. Wrong entry, if any, on credit side of the pass book.		
Balance as per Pass Book		

Illustration : 4. From the following particulars ascertain the bank balance as would appear in the pass book as on 31st December, 2007.

(i) The bank overdraft credit balance. as per cash book on 31st December, 2007 was Rs. 6,000.

(ii) Interest on overdraft, six months ending 31st December, 2007 amounting to Rs. 200 is debited in the pass book.

(iii) Bank charges for the above period also debited in the pass book which amounted to Rs. 50.

(iv) Cheques issued but not presented for payment before 31st December 2007 amounted to Rs. 1,500.

(v) Cheques paid into the bank, but not cleared and credited before 31st December, 2007 were Rs. 2,500.

(vi) Interest on Government Securities collected by the bank and credited in the pass book amounted to Rs. 1,800

Solution:

Bank Reconciliation Statement as on 31st December, 2007

		Rs.	Rs.
	Bank Overdraft as per cash book :		6,000
Add :	Interest on overdraft debited in the pass book but not entered in the cash book.	200	
	Bank charges debited in the pass book but not entered in the cash book.	50	
	Cheques paid into the bank but not yet cleared	2,500	2,750
			8,750
Less :	Cheques issued but not yet presented for payment	1,500	
	Interest on Govt. Securities credited in the pass book but not adjusted in the cash book.	1,800	3,300
	Bank Overdraft as per Pass Book		**5,450**

Illustration : 5. The bank overdraft of Rajini on 31.12.2007 as per cash book is Rs. 9,000. From the following particulars, prepare bank reconciliation statement :

		Rs.
i.	Unpresented cheque	3,000
ii.	Uncleared cheque	1,700
iii.	Bank interest debited in the pass book only	500
iv.	Bill collected and credited in the pass book only	800
v.	Cheque of Renu dishonoured	500
vi.	Cheques issued to Sekhar entered in the Cash column of cash book	300

Solution.

Bank Reconciliation Statement as on 31.12.2007

			Rs.	Rs.
		Bank Overdraft as per cash book		9,000
Add:	i.	Uncleared cheque	1,700	
	ii.	Interest Debited	500	
	iii.	Dishonoured cheques	500	
	iv.	Cheques omitted from the Bank column	300	3,000
				12,000
Less:	i.	Unpresented cheques	3,000	
	ii.	Bill Collected	800	3,800
		Bank Overdraft as per pass book		**8,200**

Illustration : 6. From the following particulars ascertain the bank balance as per bank pass of Mr. Ramnath as on 31.12.2007

(1) Bank overdraft as per cash book on 31.12.2007 Rs. 6,000
(2) Interest on overdraft for six months ending 31.12.2007 Rs. 200 is debited in the pass book.
(3) Cheques issued but not cashed before 31.12.2007 amounted to Rs. 1,500.
(4) Cheques deposited into bank but not cleared and credited before 31.12.2007 amounted to Rs. 2,500.
(5) Interest on investments collected by bank and credited in bank pass book amounted to Rs. 1,800.
(6) Bills receivable which was discounted with the bank in November 2007, was dishonoured on 31.12.2007 and bank had debited Rs. 1,050 including Rs. 50 for bank charges.
(7) The bank column of cash book receipts side was over cast by Rs. 1,000 in December 2007.
(8) Bank had wrongly debited Mr. Ramnath for Rs. 500 on 10.12.2007, on account of dishonour of cheque pertaining to Mr. Ramgopal but rectified the said mistake on 30.12.2007

Solution.

Bank Reconciliation Statement of Mr. Ramnath as on 31.12.2007

			Rs.	Rs.
		Overdraft as per cash book		6,000
Add:	i.	Interest on overdraft not entered in cash book	200	
	ii.	Cheques deposited into bank but not yet credited	2,500	
	iii.	Bills receivable dishonoured and Bank charges of Rs. 50 not entered in cash book.	1,050	
	iv.	Over casting of bank column of the receipt side of the cash book	1,000	4,750
				10,750
Less:	i.	Cheques issued but not cashed	1,500	
	ii.	Interest on Investment collected by bank, not entered in cash book	1,800	3,300
		Overdraft as per bank pass book		**7,450**

11.4.3. Starting with pass book favourable balance

Format

Bank Reconciliation Statement as on ….

Particulars	*Rs.*	*Rs.*
Balance as per Cash Book		
Add:		
i. Cheques issued but not yet presented for payment.		
ii. Incomes like dividend, interest etc., directly collected by the bank.		
iii. Interest on bank deposits credited in the pass book		
iv. Deposits directly made by the customers in to the bank		
v. Professional charges, if any, payable by the bank		

to the account holder.
vi. Wrong entry, if any, on credit side of the pass book.

Less:

i. Cheques deposited but not credited by the bank.
ii. Expenses like insurance premium, subscriptions etc., directly paid by the bank.
iii. Interest on overdraft debited in the pass book.
iv. Payment directly made by the bank to customers.
v. Bank charges, if any, payable by account holder to the bank.
vi. Wrong entry, if any, on debit side of the pass book.

Balance as per Pass Book

Illustration : 7. On 31st March 2007, the Pass Book of Mr. V. Shanmugam showed account credit balance Rs. 9,250. Account comparison of pass book and cash book revealed the following :

		Rs.
a.	Cheques deposited but not yet cleared by 31st March 2007	1,500
b.	Cheques issued by Shanmugam but not presented for payment before 31st March 2007.	2,000
c.	Insurance Premium paid by the bank on behalf of shanmugam but not recorded in the cash book	240
d.	Bank commission not yet recorded in the cash book	10
e.	Interest on bonds collected by the bank on behalf of shanmugam not yet-recorded in the cash book.	500

From the above particulars prepare account bank reconciliation statement as on 31st March, 2007.

Solution.

Bank Reconciliation Statement of Mr. V. Shanmugam as on 31st March, 2007

		Rs.	Rs.
	Bank Balance as per Pass Book :		9,250
Add :	Cheques deposited but not cleared	1,500	
	Insurance premium paid by the bank but not recorded in the cash book.	240	
	Bank commission charged in the pass book, but not entered in the cash book.	10	1,750
			11,000
Less :	Cheques issued but not yet presented for payment	2,000	
	Interest on bonds collected by the bank and credited in the pass book	500	2,500
	Bank Balance as per Cash Book :		**8,500**

Illustration : 8. From the following particulars, ascertain the bank balance as per cash book of Swamy as at 31st March 2007.

(i) Credit balance as per pass book as on 31.03.2007 Rs. 2,500.
(ii) Bank charges of Rs. 60 had not been entered in the cash book.

(iii)Out of the cheque of Rs. 3,500 paid into the bank, a cheque of Rs. 1,000 was not yet credited by the banker.
(iv)Out of the cheques issued for Rs. 4,500, cheques of Rs. 3,800 only were presented for payment.
(v) A dividend of Rs. 400 was collected by the banker directly but not entered in the cash book.
(vi)A cheque of Rs. 600 had been dishonoured prior to 31.03.2007, but no entry was made in the cash book.

Solution.

Bank Reconciliation Statement of Swamy as on 31.03.2007

			Rs.	*Rs.*
		Credit Balance as per pass book		2,500
Add:	i.	Bank charges debited in pass book	60	
	ii.	Cheque deposited but not credited	1,000	
	iii.	Cheque dishonoured but not entered in cash book	600	1,660
				4,160
Less:	i.	Cheques issued but not presented for payment	700	
	ii.	Dividend collected by bank not entered in cash book	400	1,100
		Balance as per cash book		**3,060**

Illustration : 9. From the following particulars, prepare account bank reconciliation statement as on 28 th February 2007. The Bank Pass Book showed account credit balance of Rs. 9,436 on that date.

a.. Out of the total cheques amounting to Rs. 1,536 issued during the month, cheques of Rs. 496 were presented for payment in march 2007. One cheque of Rs. 50 issued to an upcountry party was lost in transit.

b.. The Bank had in accordance with the standing instructions of the account holder, paid life insurance premium of Rs. 427, for which no entry is recorded in his books.

c.. One of his customers directly deposited in the Bank Rs. 1,000 for which no entry is recorded in his books.

d.. A cheque for Rs. 579 was deposited in the Bank on 15th February and the same was not recorded in the cash book.

f.. The cash book bank column. did not show the bank charges debited by the bank amounting to Rs. 12.

Solution

Bank Reconciliation Statement as on 28th February 2007

		Rs.	*Rs.*
Bank balance as per pass book			9,436
Add:	Life insurance premium paid by the Bank	427	
Add :	Bank charges debited in the Pass Book	12	439
			9,875
Less:	Cheques issued but not presented	496	
Less :	Cheque lost in transit	50	
Less :	Amount directly deposited by a customer	1,000	
Less :	Cheuqe deposited and credited by the bank	579	2,125
	Bank Balance as per Cash Book		**7,750**

11.4.4. Starting with pass book overdraft balance

Format:

Bank Reconciliation Statement as on ….

Particulars	Rs.	Rs.
Balance as per Cash Book		
Add:		
i.. Cheques deposited but not credited by the bank.		
ii.. Expenses like insurance premium, Rent etc., directly paid by the bank.		
iii. Interest on overdraft debited in the pass book.		
iv. Payment directly made by the bank to customers.		
v. Bank charges, if any, payable by account holder to the bank.		
vi. Wrong entry, if any, on debit side of the pass book.		
Less:		
i..Cheques issued but not yet presented for payment.		
ii.. Incomes like dividend, interest etc., directly collected by the bank.		
iii. Interest on bank deposits credited in the pass book		
iv. Deposits directly made by the customers in to the bank		
v. Professional charges, if any, payable by the bank to the account holder.		
vi. Wrong entry, if any, on credit side of the pass book.		
Balance as per Pass Book		

Illustration : 10. On 30th June, 2007 pass book of Mr. Raman showed an overdraft balance debit balance. of Rs. 4,768.75. Prepare account bank reconciliation statement.

		Rs.
a..	Cheques issued but not presented for payment	876.25
b..	Cheques deposited with the bank but not cleared	1,200.50
c..	Bank charges in the pass book	25.30
d..	Interest collected by the bank	270.80

Solution.

Bank Reconciliation Statement as on 30th June 2007

		Rs.	Rs.
Bank Overdraft as per pass book			4,768.75
Add:	Cheques issued but not presented	876.25	
”	Interest collected by the bank	270.80	1,147.05
			5,915.80
Less:	Cheques deposited with the bank but not cleared	1,200.50	
	Bank charges in the pass book	25.30	1,225.80
	Bank Overdraft as per cash book		**4,690.00**

Illustration : 11. From the following particulars of Mr. Kumar prepare account bank reconciliation statement as on 31.10.2007. The Bank Pass Book showed debit balance Rs. 500 on that date.

i. Cheques issued by Kumar in October 2007 of Rs. 4,535 of which cheques amount Rs. 3,535 were paid by the bank by 31st October 2007.
ii. Kumar deposited cheques amounting to Rs. 5,000 on 31st October 2007 which were realized on 1st November 2007.
iii. Mr. Velan a customer had directly deposited a sum of Rs. 3,000 on 24th October 2007 with the bank. Kumar recorded this receipt on 4th November 2007.
iv. The bank debited kumar's account with Rs. 1,520 on 31.10.2007 for a dishonoured bill no entry was passed in his books.
v. On 31.10.2007, his account was credited with Rs. 130 being dividend collected by the bank.
vi. On the same date, his account was debited with Rs. 10 being bank charges.

Prepare reconciliation statement as on 31.10.2007.

Solution.

Bank Reconciliation Statement of Kumar as on 31.10.2007

			Rs.	*Rs.*
		Overdraft balance as per pass book		500
Add:	i.	Cheques issued but not presented	1,000	
	ii.	Cheque deposited by a customer	3,000	
	iii.	Dividend collected by bank	130	4,130
				4,630
Less :	i.	Cheques deposited but not credited	5,000	
	ii.	Dishonoured bill	1,520	
	iii.	Bank charges	10	6,530
		Balance as per cash book Dr..		**1,900**

Illustration : 12. Prepare a Bank Reconciliation Statement on 31 st December 2007.

i. A's overdraft as per Pass Book was Rs. 31st December 2007 was Rs. 12,000
ii. On 30th December cheques had been issued for Rs. 7,000 of which cheques worth Rs. 3,000 only had been encashed upto 1 31st December.
iii. Cheques amounting to Rs. 3,500 had been paid into the bank for collection but of these only Rs. 500 had been credited in the Pass Book.
iv. The bank charged Rs. 500 as interest on overdraft, the intimation of which has been received on 2 January 2007.
v. The Bank Pass Book shows account credit for Rs. 1,000 representing Rs. 400 paid by a debtor of A direct into the bank and Rs. 600 collected direct by the bank in respect of interest on A's investments. A had no knowledge of these items.
vi. A cheque for Rs. 200 had been debited in bank column of Cash Book by A, but it had not been sent to Bank.

Solution:

Bank Reconciliation Statement as on 31st December 2007.

		Rs.	*Rs.*
	Debit balance as per Pass Book		12,000
Add:	Cheques issued but not presented for payment	4,000	
”	Direct payment received by bank from A's debtor	400	
”	Interest on investment directly received by the bank	600	5,000
			17,000

Less	Cheques sent for collection but not collected	3,000	
”	Interest on overdraft	500	
”	Cheque entered in cash book but not sent to bank	200	3,700
	Credit Balance as per Cash Book overdraft.		**13,300**

11.5. Let Us Sum Up:

In this lesson we have discussed meaning and nature of reconciliation statement and the cause reasons for arising of different between pass book and cash book.

11.6. Lesson End Activities :

11.6.1. Starting with cash book favourable balance

Exercise : 1. The bank balance as per cash book was Rs. 19,600 on 31 st March 2007. The following cheques were paid into he foreign bank current account in March 2007 but were credited by the bank in April 2007. Raman Rs. 800; Chandran Rs. 600 Mohan Rs. 400. The following cheques were issued by the firm in March 2007 but were cashed in April 2007: Balan Rs. 1,000, Vasu Rs. 500. The pass book shows a credit of Rs. 360 for interest on debit of Rs. 80 for bank charges the pass book contains also an entry for Rs. 480 being the payment made by a customer direct into the bank.

Exercise : 2. From the following particulars extracted the books of Mr. Jeyaraj, prepare account Bank reconciliation statement showing the balance as per pass book as on 31st January 2007.

i. The bank balance as per cash book was Rs. 7,000 on 30.01.2007.

ii. Cheques amounting to Rs. 800 were issued in January 2007 but presented for payment in February 2007.

iii. Cheques amounting to Rs. 1,800 were paid in the bank in January 2007 but were credited in the bank in February 2007.

iv. A cheque of Rs. 600 which was received from a customer was entered in the Bank Coloumn of the cash book January 2007 but the same was paid into the bank in February 2007.

v. The pass book shows a credit of Rs. 250 for interest and a debit of Rs. 50/- for Bank charges.

Exercise : 3. From the following particulars prepare a Bank Reconciliation Statement as on 31st December 2007.

i.. Balance as per cash book Rs. 5,800.

ii.. Cheques issued but not presented for payment Rs. 2,000.

iii.. Cheques sent for collection but not collected upto 31st December, 2007 Rs. 1,500.

iv.. The Bank had wrongly debited the account of the firm by Rs. 200 which was rectified by them after 31st December.

Balance as per Pass Book is Rs. 6,100.

11.6.2. Starting with cash book overdraft balance

Exercise : 4. The Cash book of account trader showed a credit balance of Rs. 875 on 31st December 2007. On verification with the Bank Pass book it was found that.

i. A cheque for Rs. 300 dishonoured was not entered in the cash book.

ii. Bank charges amounting to Rs. 10 were not recorded through the cash book.
iii. There was a wrong credit of Rs. 750 in the cash book.
iv. Cheques for Rs. 580 paid into account branch of the Bank on 31st December, had not been entered in the Pass book.

v.. Interest amounting to Rs. 970 was received by the bank and not entered only in the Pass Book.
vi.. A cheque for Rs. 250 was paid into the Bank for collection but the cash book showed no entry for it.

Prepare Bank Reconciliation Statement as on 31st December 2007.

Exercise : 5. From the following particulars, ascertain the bank balance as per pass book as on 31st December 2007.

i.. Credit balance as per cash book on 31.12.2007 was Rs. 1,500.
ii.. Interest balance as per Cash Book Rs. 50 is recorded only in the pass book.
iii.. Bank charges made by the bank Rs. 12.50 were also recorded only in the pass book.
iv.. Cheques paid into bank Rs. 2,500 but cheques Rs. 1,875 were cleared and credited in the pass book.
v.. Cheques issued to creditors for Rs. 2,250 of which only one cheque for Rs. 750 was presented by 31st December 2007.
vi.. Dividend on shares Rs. 450 were collected by bankers directly and no information to the trader.

Exercise : 6. From the following information, prepare a Bank Reconciliation Statement as at 31st December 2007 for Messrs New Steel Limited :

		Rs.
i..	Bank overdraft as per cash book on 31st December 2007	2,45,900
ii..	Interest debited by the bank on 26th December 2007 but no advice received	27,870
iii..	Cheque issued before 31st December but not yet presented to bank	66,000
iv..	Transport subsidy received from the State Government directly by the bank but not advised to the company.	42,500
v..	Draft deposited in the bank, but not credited till 31st December	13,500
vi..	Bills for collection credited by the bank till 31st December but no advice received by the company.	83,600
vii..	Amount wrongly debited to company account by the bank, for which no details are available.	7,400

11.6.3. Starting with pass book favourable balance

Exercise : 7. On 31st December the pass book of Anbumani showed account balance at Bank Rs. 10,500. The cash book showed account different balance. You are required to prepare a Bank reconciliation as on 31st December 2007 after considering the following items.

i. Cheques issued but not Presented for payment Rs. 1,000.
ii. Cheques paid, but not collected and credited by the banker Rs. 500.
iii. The banker has given account credit in the pass Book for interest on the balance kept with them Rs. 70.
iv. There is a debit in the pass book for bank charges Rs. 10.
v. As per the standing instructions, the banker has collected interest on investments and credited in the pass book, but no entry has been passed in the cash book. The Amount being Rs. 700.
vi. A cheque received from Balan although entered in the cash book as deposited has been omitted to be deposited with the bank Rs. 600.

vii. A cheque paid into bank and credited in the pass book for Rs. 200 has been subsequently dishonoured and debited in the pass book only.
viii. According to the standing instruction the banker debited in the pass book for payment of insurance premium Rs. 150.

Exercise : 8. From the following particulars prepare account Bank Reconciliation Statement of Govindhan as on 31st December 2007.

i. Balance as per Pass Book on 31st December 2007 Rs. 8,500
ii. Cheques for Rs. 5,100 were issued during the month of December but of these cheques for Rs. 1,200 were presented in the month of January 2007 and one cheque for Rs. 200 was not presented for payment.
iii. Cheques and cash amounting to Rs. 4,800 were deposited in Bank during December but credit was given for Rs. 3,800 only.
iv. A customer had deposited Rs. 800 into the Bank directly.
v. The Bank has credited the merchant for Rs. 200 as interest and has debited him for Rs. 30 as bank charges, for which there are no corresponding entries in the Cash Book.

Exercise : 9. From the following information prepare the Bank Reconciliation Statement of Bas on 31st January 2007.

	Rs.
Balance as per Pass Book	30,000
Cheque collected for B credited to C	1,500
Cash deposit of Rs. 4,770 recorded by bank	4,800
Pass Book withdrawal column undercast	300
Credit entry of Rs. 4,500 in Pass book wrongly entered on debit side	
Cheque paid by bank recorded twice in pass book	1,050
D's cheque of Rs. 3,000 wrongly credited by bank to the account of B.	

11.6.4. Starting with pass book overdraft balance

Exercise : 10. On 31st December 2007 the pass book shows an overdraft of Rs. 7130. On verification with the Bank Pass Book, it is observed that the adjustments regarding the following are to be made :

i.. Cheques issued for Rs. 3,000 out of which cheques for Rs. 2,100 have so for been Presented for payment.
ii.. He had paid in cheques amounting to Rs. 2,000 on 29.12.2007 of which he finds that Rs. 300 has been credited in the Pass Book on 02.01.2008.
iii.. Rao has paid into Bank directly sum of Rs. 300 on 28th December, which has not been entered in the Cash Book.
iv.. The bank had charged Rs. 10 towards commission and Rs. 250 forwards interest on overdraft on 2007.
v. The banker has given a wrong credit for Rs. 50.
vi. A standing charges of Rs. 300 for insurance premium paid by the bank on December had been entered in the cash book on December 29.
vii. There was a wrong credit to Rs.2 in the Cash book.
viii. There was a wrong debit in the Pass book for Rs.5

Exercise : 11. From the following Particulars, prepare account Bank Reconciliation Statement of Mr. C as at 30th September 2007.

i. Overdraft balance on 30th September, 2007 as per pass book Rs. 13,095.
ii. Cheques deposited in Bank but not recorded in Cash book Rs. 105.
iii. Cheque received and recorded in Bank column but not sent to Bank for collection Rs. 1,015.
iv. The credit side of the Bank column of the cash book was cost Rs. 1,000 short.

v. Chamber of commerce fee of Rs. 250 was paid by the bank, it was not recorded in cash book.
vi. In the cash a bank charge of Rs. 30 was recorded twice, while another bank charge of Rs. 45. was not recorded at all.

Exercise : 12. Prepare Bank Reconciliation statement as on 31.12.2007 from the following information.

i.. Balu's overdraft as per pass book on 31.12.2007 Rs. 12,000.
ii.. On 30.12.2007 cheques had been issued for Rs. 7,000 for which cheques worth Rs. 3,000 only had been encashed upto 31.12.2007.
iii.. Cheques amounting to Rs. 3,500 had been paid into bank for collection but on these only Rs. 500 had been credited in the pass book.
iv.. Bank charged Rs. 500 as interest on overdraft and the intimation of which has been received on 2nd January 2008.
v.. The Bank pass book shows credit for Rs. 1,000 representing Rs. 400 paid by a debtor into the bank and Rs. 600 collected directly by the bank as income from investment, Balu had no knowledge of these.

11.7. Model Answers to Check your Progress :

Exercise : 1.

Balance of CB : 19,600
Balance of PB :19,600 + 1,000 + 500 + 360 + 480 = 21,940 – 800+600+400+80. = 20,060

Exercise : 2.

Balance of CB : 7,000
Balance of PB : 7,000 + 800 + 850 – 1,800 – 600 – 50 = 5,600

Exercise : 3.

Balance of CB : 5,800
Balance of PB : 5,800 + 2,000 – 1,500 – 200 = 6,100

Exercise : 4.

Balance of CB OD. : 875
Balance of PB : 875 + 300 + 100 + 580 – 750 – 970 – 250 = 205

Exercise : 5.

Balance of CB OD. : 1,500
Balance of PB : 1,500 + 50 + 12.50 + 625 – 1,500 – 450 = 237.50

Exercise : 6.

Balance of CB OD. : 2,45,900
Balance of PB : 2,45,900 + 27,870 + 13,500 + 7,400 – 66,000 – 42,500 – 83,600 = 1,02,570

Exercise : 7.

Balance of PB :	10,500
Balance of CB : 10,500 + 500 + 600 + 10 + 150 + 200 – 1,000 – 70 – 70	10,190

Exercise : 8.

Balance of PB :	8,500
Balance of CB : 8,500 + 1,000 + 30 – 1,400 – 800 – 200 =	7,130

Exercise : 9.

Balance of PB :	30,000
Balance of CB : 30,000 + 1,500 + 9,000 + 1,050 – 30 – 300 – 3,000 =	38,220

Exercise : 10.

Balance of PB OD. :	7,830
Balance of CB : 7,830 + 900 + 300 + 50 + 2 – 300 – 10 – 250 – 5 =	8,517

Exercise : 11.

Balance of PB OD. :	13,095
Balance of CB : 13,095 + 105 + 30 – 1,015 – 1,000 – 250 – 45 =	10,920

Exercise : 12.

Balance of PB OD. :	12,000
Balance of CB : 12,000 + 4,000 + 400 + 600 – 3,000 – 500 =	13,500

11.8 References:

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers.

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LESSON 12

ACCOUNTS OF NON-TRADING ORGANISATIONS

Contents :

12.0. Aims and Objectives : In this lesson we are going to discuss

- the various terms relating to non trading organisations
- preparation of receipts and payments account
- preparation of income and expenditure account
- distinction between receipts and payments account and income and expenditure account
- distinction between income and expenditure account and profit and loss account
- accounting treatment of certain expenses and income
- accounting treatment of special fund
- preparation of final accounts on non trading concern.

After reading this chapter you should be able to acquire basic working knowledge about the above mentioned topics.

LESSON 12

ACCOUNTS OF NON TRADING ORGANISATIONS

12.1. Introduction : People join together in voluntary organizations like sports clubs, trade unions, consumer co-operatives, political associations, automobile associations, medical associations, educational Institutions, hospitals, and so on for various reasons: for mutual entertainment, for protection, for professional reasons, or for the promotion of art and culture. The aim of such organizations is the pursuit of some interest other than financial gain. Nevertheless, these organizations must have money to promote their activities and money must be honestly accounted for. The officer elected for the purpose. The treasurer collects subscriptions from the members and spends money on such activities as are needed for achieving the aim of the organization. At the Annual General Meeting, the treasurer submits suitable final accounts to the members. In this chapter it is proposed to take up the preparation of final accounts suitable for such organizations.

12.2. Meaning: The non-profit making organisations or institutions are different from profit making institutions in several respects. They have not to purchase or sale goods or receive bills of exchange nor do have to make credit transactions. Most of their transactions are cash transactions and therefore they need not maintain detailed books of accounts like profit making concerns. However, they do maintain Cash Book and minimum number of such other books which may be required for their purpose. For example, a Register of Members and a Minute Book are maintained in case of a club or society, a Student Fee Register is maintained in case of a school or college, a summary record of outstanding fees may be kept by an Advocate or a Chartered Accountant. At the end of the accounting period, a non-profit making institution also prepares its final accounts which include the following: i. Receipts and Payments Account.ii. Income and Expenditure Account. and iii. Balance Sheet.

12.3. Specific terms:

12.3.1. Subscriptions: In case of trading concerns, subscriptions are usually given, e.g., subscriptions for trade journals, subscriptions for membership of a club, etc., In case of a non- trading concern, subscriptions are usually received. For example, a club receives subscriptions from its members and this may be a major source of the club. The Receipts and Payments Account records the amount of actual subscriptions received while the Income and Expenditure Account records only the subscriptions which relate to the accounting period; whether received or not. Adjustment may, therefore, be required to find out the actual amount of income from subscriptions.

12.3.2. Donations: A Charitable institution may receive donations from time to time. The amount of donations may be taken as income or capitalized and taken to Balance Sheet depending upon whether it is a specific donation or general donation.

(a) **Specific donation:** In case a donation has been received for a specific purpose, the donation is termed as a specific donation. For example, an institution may receive donation for construction of building or for giving prizes to the best sportsman. The amount of such donation cannot, therefore, be used for any other purpose. It should be taken to Balance Sheet on the liabilities side and be used only for the purpose for which it is meant, irrespective of the amount.

(b) **General donation:** A donation not received for a specific purpose is termed as a General Donation. Its treatment depends upon the amount received. In case, the donation is of a substantial amount, it can be fairly taken for granted that such donation is of a non-recurring nature and therefore, should be taken to the Balance Sheet on the liabilities side.

However, if the donation is of a small amount and not meant for a specific purpose, it can be safely taken to the Income and Expenditure Account.

12.3.3. Special Funds: An institution may keep special funds for some special purpose. For example, a sports club may keep a special fund for meeting sports expenses or for awarding of sports prizes. In case such special funds are maintained, any income relating to such special funds should be added to these funds in the the Balance Sheet on the liabilities side. Similarly, all expenses on account of these funds should be deducted out of these funds. In case of a deficit, the amount should be met out from the income and expenduiture account.In case of a surplus, it will be better on account of convention of conservatism, to be keep it in the balance sheet or merged it with the capital fund.

12.3.4. Entrance Fees : Entrance fee or Admission Fee is usually charged by a club or a society or an educational institution from the new entrants. It is usually taken as an item of income. However, in case of clubs and similar institution some people favour capitalising the entrance fee on the ground that it is of a non – recurring nature and being charged by the club as a premium from the new members towards the capital cost involved in establishing and maintaining the club by older members.

12.3.5. Life Membership Fees : Certain institutions charge fee for making persons as life members. Such members have to pay fee only once in their life – time. Of course they continue to enjoy the benefits from the institution throughout their life.

12.3.6. Sale of old newspapers: The amount received on account of sale of old newspapers is of a recurring nature and should, therefore, be taken as Income in the Income and Expenditure Account.

12.4. Accounting Procedure:

12.4.1. Receipts and Payments Accounts:

i. Meaning: Receipts and Payments Account is merely a summary of the cash transactions under proper heads which have taken place during the accounting period. It is prepared at the end of the accounting period from the cash book. The Cash Book contains a record of cash receipts and cash payments in a chronological order while receipts and payments account is a summary of total cash receipts and total cash payments received and made under different heads during a particular period. For example, if a club receives subscriptions from its members on different dates of accounting year, they will be recorded on these dates separately in the Cash Book. However, Receipts and Payments Account will contain the total subscription received during the accounting years. Similarly Cash Book contains payment of salaries made on different dates of the month on different pages. The Receipts and Payments Account will show the total salaries paid during the accounting period.

ii. Features: The main features of the Receipts and Payments Account can be summarised as follows:

(i) It is an abbreviated copy of the cash book. The cash and bank items are usually merged in one column. Thus, contra entries between cash and bank are eliminated.

(ii) It is Real Account

iii. All cash receipts are recorded on the debit side while all cash payments are recorded on the credit side.

iv. It records all cash receipts and payments irrespective of the fact whether they are of capital or revenue nature or whether they relate to the current year or not. Similarly, it records all cash payments whether they are of capital nature or whether they relate to the current year or the next year. What is necessary is the receipts and payments should have been received or made during the period to which the Receipts and Payments Account relates.

12.4.2. Income and Expenditure Account:

i. Meaning : It is Nominal Account. It is in the form of Profit and Loss Account. It is concerned with only revenue items-expenses and incomes. It records all losses and expenses on its debit side and all incomes and gains on its credit side. Of the incomes and expenses of revenue nature, only the portion pertaining to the current year is shown in the Income and Expenditure Account. i.e. amount relating to the previous year or future year are excluded. Again, the incomes and expenses of current year, whether received or not, must be shown. In other words, incomes and expenses have to be adjusted for both out-standing and pre-payments. All non-cash items, Depreciation, Bad debts, Provision for Doubtful Debts etc., are taken into account. The difference between the debit side and the credit side is either surplus or deficit for the year concerned and the difference will be transferred to the Capital Fund also called General Fund or Accumulated Fund. appearing in Balance Sheet.

ii. Features : Its essential features can be put as follows :

i. It is a Nominal Account.

(ii) It records all losses and expenses on its debit side while all incomes and gains on its credit side.

iii. The balance of this account represents either the excess of income over the expenditure or excess of expenses over income.

12.4.3. Distinction between Receipts and Payments Accounts and Income and Expenditure Accounts.

Receipts and Payments Account	Income and Expenditure Account
1. It is Real Account	1. It is a Nominal Account
2. It starts with opening balance	2. It does not start with opening balance.
3. It ends with closing balance either cash in hand or at bank.	3. It ends with a surplus excess on income over expenditure. or deficit excess of expenditure over incomes.
4. It is similar to Cash Book.	4. It is similar to profit and loss account.
5. Receipts are shown on the debit side and payments are shown on the credit side.	5. Expenses or losses are shown on the debit side and incomes and gains are shown on the credit side.
6. It contains both Capital and Revenue items.	6. It contains only Revenue items.
7. It includes receipts and payments whether they relate to any period past, previous and subsequent.	7. It included only revenue items of the current year only.
8. No adjustments are made for obtaining or prepaid incomes and expenses.	8. It takes into account the outstanding expenses and incomes.
9. Generally, it is not followed by Balance Sheet.	9. It is followed by Balance Sheet.
10. This is based on Cash system of accounting.	10. This is based on mercantile system.

12.4.4. Distinction between Income and Expenditure Accounts and Profit and Loss Accounts.

The Income and Expenditure Account of a Non – trading concern is similar to Profit and Loss Account of a trading concern. However, the following differences may be noted.

1. The Income and Expenditure Account is prepared by a Non- Trading concern while Profit and Loss Account is prepared by a trading concern.
2. Income and Expenditure shows Surplus of Deficit while Profit and Loss Account shows Net Profit or Net Loss.
3. Income and Expenditure Account does not start with Gross Profit or Gross Loss while Profit and Loss Account starts with Gross Profit or Gross Loss.
4. The Surplus or Deficit. shown in the Income and Expenditure is added or deducted. to from Capital Fund and is not distributed among the owners: whereas the Net Profit shown in the Profit and Loss Account is distributed among the owners.

12.4.5. Balance Sheet:

Balance sheet in case of non – trading concern is prepared in the usual manner and consists of all liabilities and assets on the date on which it is prepared. The excess of assets over liabilities is termed Capital Fund or General Fund. Again, The Capital Fund are accumulated with Capital Receipts,. Receipts that are capitalised and further increased by surplus or decreased by deficit, during the year. At the inception of a non – trading concern, there will be no formal Capital Fund and in such case, the Surplus, if any earned during the year constitute the Capital Fund at the end of the year.

12.5. ILLUSTRATIONS

12.5.1. Preparation of Receipts and Payments Account:

Illustration :1. From the following the details calculate amount of rent paid during the year ended 31.12.2007 to be transferred to Reciepts and Payments Accounts.

	Rs.
Rent as per Income and Expenditure account	5,000
Rent outstanding as on 1.1.2007	2,000
Rent outstanding as on 31.12.2007	3,000
Rent prepaid as on 1.1.2007	2,500
Rent prepaid as on 31.12.2007	1,500

Solution :

Calculation of amount of rent paid to be transferred to Receipts and Payments A/c for the year ending 31.12.2007.

Rent as per Income and Expenditure account	5,000
Add : Outstanding at beginning	2,000
	7,000

Less : Outstanding at end	3,000
	4,000
Add: Prepaid at end	1,500
	5,500
Less: Prepaid at beginning	2,500
	3,000

Illustration: 2. From the following the details calculate amount of subscriptions received during the year ended 31.12.2007 to be transferred to Reciepts and Payments Accounts.

	Rs.
Subscriptions as per Income and Expenditure account	7,500
Subscriptions Subscriptions outstanding as on 1.1.2007	600
Subscriptions outstanding as on 31.12.2007	750
Subscriptions prepaid as on 1.1.2007	450
Subscriptions prepaid as on 31.12.2007	270

Solution :

Calculation of amount of Subscriptions received to be transferred to Receipts and Payments A/c for the year ending 31.12.2007.

Subscriptions as per Income and Expenditure account	7,500
Add : Outstanding at beginning	600
	8,100
Less : Outstanding at end	750
	7,350
Add: Prepaid at end	270
	7,620
Less: Prepaid at beginning	450
	7,170

Illustration: 3 Prepare Receipts and Payments A/c of a club for the year ended 31 st Dec 2007 from the following particulars**:**

	Rs
Opening balance of cash	40,000
Receipt of entrance fees	8,000
Subscriptions received for 2007	16,000
Previous year’s subscription	1,600

Paid salaries	2,000
Paid for miscellaneous expenses	200
Rent paid	1,200
Purchase of cricket balls	500
Purchase of cricket bats	1,600
Purchase of stationery	100

Solution:

Receipts and Payments Account for the year ended 31 st Dec 2007.

Receipts	Rs.	Payments	Rs
To Balance b/d	40,000	By Rent	1,200
To Entrance fees	8,000	By Cricket balls	500
To Subscription:		By Cricket bats	1,600
For 2007		By Stationery	100
For 2006		By Salaries	2,000
	17,600	By Miscellaneous Expenses	200
		By Balance c/d	**60,000**
	65,600		65,600

12.5.2. Preparation of Income and expenditure Account:

Illustration: 4. From the following the details calculate amount of salary is to be transferred to Income and Expenditure Account for the year ended 31.12.2007.

	Rs
Salary paid as per Receipts and Payments Account	3,250
Salary Outstanding as on 1.1.2007	450
Salary Outstanding as on 31.12.2007	500
Salary prepaid as on 1.1.2007	300
Salary prepaid as on 31.12.2007	400

Solution:

Calculation of amount of Salary to be transferred to I & E A/c for year ending 31.12.2007.

	Rs.
Salary as per Receipts and Payments	3,250
Add: Salary outstanding at the end	500
	3,750
Less: Salary Outstanding at the beginning	450
	3,300
Add: Salary prepaid at the beginning	300

	3,600
Less: Salary prepaid at the end	400
	3,200

Illustration: 5 From the following the details calculate amount of subscriptions received during the year ended 31.12.2007 to be transferred to Income and Expenditure Accounts.

Subscription as per Receipts and Payments Account	10,000
Subscriptions outstanding as on 1.1.2007	2,000
Subscriptions outstanding on 31.12. 2007	4,000
Subscription received in advance as on 1.1.2007	3,000
Subscriptions received in advance as on 31.12.2007	2,000

Solution:

Calculation of amount of Subscription received to be transferred to Income & Expenditure Account for the year ending 31.12.2007.

Subscriptions as per Receipts & Payments Account	10,000
Add: Subscription outstanding at the end	4,000
	14,000
Less: Subscription outstanding at the beginning	2,000
	12,000
Add: Subscriptions received in advance at the beginning	3,000
	15,000
Less : Subscriptions received in advance at the end	2,000
	13,000

Illustration: 6. From the following the details calculate amount of stationery to be transferred to Income and Expenditure Accounts.during the year ended 31.12.2007

Amount of stationery as per Receipts and payments Account	1,750
Stock of stationery 1.1.2007	150
Stock of stationery on 31.12.2007	415
Creditors for stationery on 1.1.2007	370
Creditors for stationery on 31.12.2007	300
Paid advance for stationery 1.1.2007	250
Paid advance for stationery 31.12.2007	200

Solution:

Calculation of amount of stationery to be transfered to Income & Expenditure account for the year ended 31.12.2007

	Rs
Stationery as per receipts and Payments Account	1,750
Add: Stock of stationery at the opening	150
	1,900
Less : Stock of stationery at the end	415
	1,485
Add: Outstanding at the end	300
	1,785
Less : Outstanding at the beggining	370
	1,415
Add: Prepaid in the beginning	250
	1,665
Less: Prepaid at the end	200
	1,465

Illustration: 7. From the following Receipts & Payments Account and additional informations of a sports club for the year ending 31.12.2007. Prepare Income & Expenditure Account for the same period.

	Rs		Rs
To Balance b/d	1,125	By Newspaper	750
To Subscriptions	2,900	By Rent	250
To Tournament Fund	750	By Salaries	1,800
To Membership	1,000	By Office Expenses	1,200
To Entrance Fees	100	By Sports Equipments	1,150
To Donations for Building	1,500	By Tournament Expenses	450
To Sales of Newspaper	50	By Balance c/d	1,825
	7,425		7,425

Subscriptions outstanding on 31 st December 2006 Rs. 450 and on 31 st December 2007 Rs.400. Subscriptions received includes Rs. 100 on account of the year 2008 Sports equipment was valued on 31 st December 2006 at Rs. 550 and on 31 st December 2007 are Rs.1,090 Office expenses include Rs. 150 for 2006 whereas Rs. 200 is still payable on this account for 2007 Tournament Fund is treated as Capital Receipt.

Solution:

Income and Expenditure Account for the year ended 31 st December 2007.

Expenditure		Rs	Income		Rs
To Newspaper		750	By Subscriptions	2,900	
To Rent		250	Less: o/s in begining	450	
To Salaries		1,800		2,450	
To Office Expenses	1,200		Add: o/s at the end	100	
Less: o/s in begining	150			2,850	
	1,050		Less: Received in advance	100	2,750
Add: o/s at the end	200	1,250	By Entrance Fees		100
To Depreciation Equipment		610	By Sale of Newspaper		50
			By Deficit		**1,760**
		4,660			4,660

Illustration: 8. From the following Receipts and Payments Account of a club and from the information supplied, prepare an income and Expenditure Account for the year ended 31 st December 2007.

		Rs		Rs
To Balance b/d		350	By Salaries	1,400
To Subscriptions			By General Expenses	300
2006	250	1,800	By Electric charges	200
2007	1,000		By Books	500
2008	200	1,450	By Newspaper	400
To Rent Received from hall		700	By Balance c/dishonoured	200
To Profit from Entertainment		400		
To Sale of Newspaper		100		
		3,000		3,000

Additional Information:

a. The club has 50 members each paying an annual subscriptions of Rs.25 subscriptions outstanding on 31 st December 2006 were Rs. 300

b. On 31 st December 2007, salaries outstanding amounted to Rs.100 Salaries paid in 2007 included Rs. 300 for 2006.

c. On 1.1.2007, the club owned Building valued at Rs.10, 000, Furniture Rs.1,000 and Books Rs.1,000

d. Provide depreciation on Furniture at 10%

Solution:

Income and Expenditure for the year ended 31 st December 2007.

Expenditure		Rs	Income	Rs
To Salaries	1,400		By Subscriptions 50 x 25.	1,250
Add: o/s at the end	100		By Rent of Hall	700
	1,500		By Profit from Entertainment	400
Less: o/s at the end	300	1,200	By Sales of Newspaper	100
To General Expenses		300		
To Electric Charges		200		
To Newspaper		400		
To Depreciation Furniture.		100		
To Surplus		**250**		
		2,450		2,450

12.5.3. Preparation of Balance Sheet :

Illustration: 9. Following is the information given in respect of certain items of a sports club. You are required to show them in the Balance Sheet of the Club as on 31.12.2007.

	Rs
Sports Fund as on 1.1.2007	10,000
Sports Fund Investments	10,000
Interest on Sports Fund Investments	1,000
Donation for Sports Fund	4,000
Sports Prizes Awarded	3,000
Expenses on Sports Events	1,000
General Fund	20,000
General Fund Investments	20,000
Interest on General Fund Investment	2,000

Solution: Balance Sheet as on 31·12.2007.

Liabilities	Amount	Assets	Amount
Sports Fund	10,000	Sports Fund Investment	10,000
Add : Interest	1,000	General Fund Investments	20,000
Add: Donations	4,000	Interest Outstanding	1,000
	15,000		
Less : Sports Prizes	3,000		
	12,000		
Less :Expenses on Events	1,000		
	11,000		
General Fund	20,000		
	31,000		**31,000**

Illustration: 10. The following is the Receipts and Payments A/c of Delhi Football Association for the first year ending 31 st Dec. 2007.

Receipts	Rs	Payments	Rs.
To Donation	50,000	By Pavilion office	40,000
To Reserve fund Life membership fees and entrance fees received.	4,000	By Expenses in connection with matches	900

To Receipts from football matches	8,000	By Furniture	2,100
To Revenue Receipts :		By Investment at cost	16,000
Subscriptions	5,200	By Revenue Payments:	
Locker Rents	50	Salaries	1,800
Interest on Securities	240	Wages	600
Sundries	350	Insurance	350
		Telephone	250
		Electricity	110
		Sundry expenses	210
		By balance on hand	5,520
	67,840		67,840

Additional Information:

i. Subscriptions outstanding for 2007 are Rs. 250.
ii. Salaries unpaid for 2007 are Rs.170.
iii. Wages unpaid for 2007 are Rs. 90
iv. Outstanding sundry expenses is Rs. 40.
v. Donations received have to be capitalised.

Prepare Income and Expenditure A/c for the year ended 31.12.2007 and the Balance sheet of the Association as on that date.

Solution : In the Books of Delhi Football Association

Income and Expenditure A/c for the year ended 31 st Dec. 2007.

Expenditure		Rs	Income		Rs
To Salaries	1,800		By Subscriptions	5,200	
Add: Outstanding	170	1,970	Add: Outstanding	250	5,450
To Wages	600		By Rent of lockers		50
Add: Outstanding	90	690	By Interest on Securities		240
To Telephone		250	By Sundries		350
To Electricity		110			
To Insurance		350			
To Sundry expenses	210				
Add: Outstanding	40	250			
To Surplus		**2,470**			
		6,090			6,090

Balance Sheet as on 31.12.2007.

Liabilities	Rs	Rs.	Assets	Rs.	Rs.
Capital Fund	50,000		Pavilion office		40,000
Add: Surplus	2,470	52,470	Furniture		2,100
Reserve Fund		4,000	Investments		16,000
Match Fund Receipts	8,000		Cash in hand		5,520
Less: Expenses	900	7,100	Subscriptions due		250
Outstanding Expenses:					
Salaries	170				
Wages	90				
Sundry expenses	40				
		300			
		63,870			**63,870**

Illustration : 11 Prepare Income and Expenditure Account and Balance Sheet for the following Receipts and Payments Account and Balance sheet as on 31 st December 2007.

		Rs		Rs
To Balance b/d		10,000	Expenses 2006	1,200
To Subscriptions			2007	2,000
2006	200		By Land	4,000
2007	2,100		By Interest	400
2008	100	2,400	By Miscellaneous Expenses	2,000
To Entrances fees		800	By Balance c/d	**8,300**
To Lockers Rent		700		
To Miscellaneous Income		4,000		
		17,900		17,900

Balance Sheet as on 31 st December 2006

Liabilities	Rs	Assets	Rs
Capital Fund	33,620	Building	30,000
Subscriptions received in advance	600	Outstanding Subscriptions	380
Outstanding Expenses	1,400	Outstanding Locker Rent	240
Loan	5,000	Cash	10,000
	40,620		**40,620**

Solution:

Income and Expenditure Account for the year ended 31 st December 2007.

Expenditure	Rs	Income		Rs
To Expenses	2,000	By Subscriptions	2,100	
To Interest	400	Add: Received in advance	600	2,700
To Miscellaneous Expenses	2,000	By Entrance Fees		800
To Surplus	**3,560**	By Lockers Rent	700	
		Less : Received for 2006	240	460
		By Miscellaneous Income		4,000
	7,960			7,960

Balance sheet as on 31 st December 2007**.**

Liabilities		Rs	Assets	Rs
O/S Expenses Rs.1400 -1,200.		200	Cash	8,300
Subscriptions in advance		100	O/S Subscriptions Rs.380 - 200.	180
Add : Excess of Income	3,560	37,180	Land	4,000
Loan		5,000	Building	30,000
		42,480		**42,480**

Illustration: 12. From the following information relating to Cricket club, prepare Income and Expenditure Account for the year ended 31st March 2007. Balance Sheet as at 31 st March 2007.

Receipts	Rs	Payments	Rs
To Members Subscriptions	50,000	By Upkeep of Field and Pavilion	20,000
To Members Admission Fees	3,000	By Expenses for Tournament	7,000
To Sale of old Balls, Bats etc	500	By Rate & Insurance	2,000
To Hire of Ground	3,000	By Telephones	500
To Subscriptions of Tournament	10,000	By Printing and Stationery	1,000
To Cash drawn from bank	40,000	By General Expenses	500
To Expenses	1,00,000	By Honorarium to secretary	1,700
		By Grass seeds	300
		By Bats, Balls etc	7,000
		By cash deposited into Bank	1,66,500
	2,06,500		2,06,500

Assets as on 1 st April 2006.

Cash in Bank	30,000
Stock of Balls Bats etc	15,000
Printing and stationery	2,000
Subscription due	5,000
Liabilities	Nil

Donations received and surplus on account of V.J. Tournament should be kept in Reserve for a permanent Pavilion. Subscriptions due at 1 st March 2007 were Rs.7,500. Write off 50% of Bats, Balls Account and 25% of Printing and Stationery Account.

Solution:

Income and Expenditure Account for the year ended 31 st March 2007.

Expenditure	Rs	Income		Rs
To Upkeep of Field and Pavilion	20,000	By Member's Subscriptions	50,000	
To Rates and Insurance	2,000	Less: o/s at the begining	5,000	
To Telephones	500		45,000	
To General Expenses	500	Add: o/s at the end	7,500	52,500
To Honorarium to Secretary	1,700	By Admission Fees		3,000
To Grass Seeds	300	By Sale of Old Balls, Bats etc		500
To Dep on Printing and Stationery		By Admission Fees		3,000
2,000 +1,000 = 3,000 x25%.	750	By Sale of Old Balls, Bats etc		500
To Depreciation on Bats, Balls		By Hire of Ground		3,000
15,000 +7,000 = 22,000x50%.	11,000			
To Surplus	**22,250**			
	59,000			59,000

Balance Sheet as on 31 st March 2006

Liabilities	Rs	Assets	Rs
Capital Fund	52,000	Cash in Bank	30,000
		Stock of Bats, Balls etc	15,000
		Printing and Stationery	2,000

			Subscriptions Due		5,000
		52,000			**52,000**

Balance Sheet as on 31 st March 2007.

Liabilities		Rs	Assets		Rs
Capital Fund	52,000		Cash at bank		
Add: Excess of Income	22,250	74,250	30,000 +1,66,500-40,000.		1,56,500
Reserve for pavilion			Subscription Outstanding		7,500
1,00,000+10,000-7,000.		1,03,000	Stock of Printing and Stationery	3,000	
			Less: Depreciation	750	2,250
			Stock of Bats, Balls etc.	22,000	
			Less: Depreciation	11,000	11,000
		1,77,250			**1,77,250**

Illustration: 13. Following are the assets and liabilities of on 31 st December 2006.

Liabilities	Rs	Assets	Rs
O/s Creditors for Expenses	650	Cash	3,200
Capital Fund Surplus.		Furniture	4,850
	44,350	O/S Subscriptions	750
		O/S Rent of Lecture Hall	350
		Library Books	16,850
		Investments	5,000
		Buildings	14,000
	45,000		45,000

Receipts and Payments A/c for the year ended 31.12.2007.

	Rs		Rs
Balance b/dishonoured	3,200	Salaries	2,400
Entrance Fees	2,600	Municipal Taxes	700
Subscriptions	8,500	Insurance on Buildings	500
Receipts from sale of furniture	600	Books Purchased	1,250
Receipts from sale of newspaper	60	Payment to creditors	650
Rent of Library Hall	1,040	Repairs	250
Proceeds from lectures	3,000	Electric fittings	4,500
		Printing and Stationery	400
		Postal Charges	50
		Sundry Expenses	150
		Balance c/d	8,150
	19,000		19,000

It was found out at the end of the year that amounts to be received for subscriptions were Rs.1,100 and for use of library hall were Rs.375, prepaid insurance on building was Rs.175 and outstanding sundry expenses were Rs.80. Provide for depreciation 2 ½ % on building and write of 5 % on investments and 10% on the opening amount of library books.

Whole of the entrance fee is to be treated as revenue income. Prepare Income and Expenditure Account and Balance Sheet for the year ending at 31 st December 2007.

Solution:

Income and Expenditure Account for the year ended 31.12.2007.

Expenditure		Rs	Income		Rs
To Salaries		2,400	By Entrance fees		2,600
To Municipal Taxes		700	By Subscriptions	8,500	
To Insurance on building	500		Add :o/s at the end	1,100	
Less : Prepaid	175	325		9,600	
To Repairs		250	Less : o/s in begng	750	8,850
To Printing & Stationery		400	By Rent of Library Hall		
To Postal Charges		50	1040 +375-350.		1,065
To Sundry Expenses	150				
Add: Outstanding	800	950	By Sale of Old Newspaper		60
To Dep on Building		350	By Proceeds from Lectures		3,000
To Dep on Books		1,685			
To Dep on Investments		250			
To Surplus		**8, 215**			
		15,575			15,575

Balance Sheet as on 31 st December 2007

Liabilities	Rs	Assets	Rs
Outstanding Sundry Expenses	800	Cash	8,150
Capital Fund 44,350+8,215.	52,565	Debtors	
		Subscription o/s 1,100 +375.	1,475
		Investments 5,000-250.	4,750
		Library Books 16850-1685 +1250.	16,415
		Furniture 4,850-600.	4,250
		Electric Fittings	4,500
		Prepaid Insurance	175
		Building 14,000 - 350.	13,650
	53,365		**53,365**

Illustration:14. From the following Trial Balance and accompanying notes for adjustments, prepare Income and Expenditure Account for the year ended 31 st December 2007 and the Balance Sheet as on that date of a club:

	Rs	Rs
Club Buildings	37,400	-
Library Books	2,280	-
Furniture and Fixtures	3,520	-
Glass, Cutlery etc. 1 st Jan 2007.	2,000	-
Printing and Stationery	1,000	-
Printing and Stationery	225	-
Rent Received	-	10,370
Annual Subscriptions	-	12,150

Entertainment cost	345	-
Billiard Room Receipts	-	3,845
Billiard Board	10,400	-
Billiard Room Expenses	2,135	-
Canteen Profit	-	1,200
Subscriptions arrears on 1 st Jan 2007.	1,125	-
Honorarium	1,500	-
Sales of tickets for Annual Dinner	-	1,600
Annual Dinner Expenses	1,875	-
Salaries of Staff	2,700	-
Donations	-	8,500
Audit Fees	600	-
Repairing , Clearing etc.	350	-
Newspaper and Magazines	180	95
Interest on Bank Deposit	-	25
Bank Charges	20	-
Entrance Expenses	-	225
Stock of canteen provision on 31 st December 2007	2,995	-
Sundry Creditors	300	-
Cash in Hand	-	3,135
Cash in Bank	1,400	-
General Fund	1,735	-
	-	32,940
	74,085	74,085

Notes for adjustments:

(a) Out of the total subscriptions, Rs.1,125 represented arrears collected and Rs.760 paid in advance.
(b) An amount of Rs.500 was outstanding on account of rent.
(c) Unpaid salary amounts to Rs.200
(d) Entrance fees to be capitalised.
(e) Out of the donation, Rs.3,600 represented donation towards election expenses and of the balance , half the amount shall be capitalised.
(f) Depreciation to be provided as under :
    Library Books at 10%
    Furniture and Fixtures at 15%
    Club Buildings at 5 %
    Glass, Cutlery etc. Rs.1,700

Solution :

Income and Expenditure Account for the year ended 31 st December 2007.

Expenditure	Rs	Income		Rs
To Printing and Stationery	225	By Rent Received	10,370	
To Entertainment Cost	345	Add : Outstanding	500	10,870
To Billiard Expenses	2,135	By Annual Subscription	12,150	
To Honorarium	1,500	Less: O/s begining	1,125	

To Dinner Expenses		1,875		11,025	
To Salaries	2,700		Less: Prepaid at the end	760	10,265
Add: Outstanding	200	2,900	By Billiard Room receipts		3,845
To Audit Fees		600	By Canteen Profit		1,200
To Repairs		350	By Sale of tickets		1,600
To Newspaper etc		180	By Donations	8,500	
To Bank Charges		20	Less: Election Expenses	3,600	
To Depreciation:				4,900	
Library Books	228		Less: Capitalised	2,450	2,450
Furniture	528		By Newspaper etc		95
Club Buildings	1,870		By Interest on Bank		25
Glass, Cutlery etc	1,700	4,326			
To Surplus		**15,894**			
		30,350			30,350

Balance Sheet as on 31 st December 2007

Liabilities		Rs	Assets		Rs
Subscription in Advance		760	Cash in Hand		1,400
Outstanding Salary		200	Cash in Bank		1,735
Sundry Creditors		3,135	Stock of Canteen Provision		300
Donation	3,600		Rent Outstanding		500
Less : Election Expenses	2,995	605	Library Books	2,280	
Capital Fund :			Less: Depreciation	228	2,052
Entrance Fees	225		Glass, Cutlery etc.	2,000	
General Fund	32,940		Add: Purchased	1,000	
Add: Donation Capld	2,450			3,000	
	35,615		Less: Depreciation	1,700	1,300
Add: Surplus	15,894	51,509	Furniture and Fixtures	3,520	
			Less: Depreciation	528	2,992
			Billiard Board		10,400
			Club Building	37,400	
			Less: Depreciation	1,870	35,530
		56,209			**56,209**

12.5.4. Accounting for professionals:

Illustration: 15. Mr. Perumal who is doctor commenced practice on 1 st January 2007 with a cash of Rs.1,00,000. At the end of the year the following details of his receipts and payments are available.

	Rs		Rs
To cash Introduced	1,00,000	By Furniture	10,000
To Fees Received	50,000	By Equipments	25,000
To Receipts from Dispensing	1,20,000	By Drugs	24,000
To Miscellaneous Receipts	1,000	By Assistant's Salary	10,000
		By Rent	12,000
		By Stationery	500
		By Electricity	1,000

		By Journals	900
		By Drawings	36,000
		By Cash at Bank	1,50,000
		By Cash in Hand	1,600
	2,71,000		2,71,000

Other information: Fees Rs.5,000 are still to be received. Salary to assistant unpaid Rs.750. Creditors for drugs purchased Rs.10,000. Stock of drugs still in hand Rs.5,000. Depreciate furniture and equipment by 10% p.a. Prepare final accounts.

Solution:

Income and Expenditure Account for the year ended 31 st December 2007.

		Rs			Rs
To Drugs Consumed :			By Fees Received	50,000	
Paid	24,000		Add : Outstanding	5,000	55,000
Add : Outstanding	10,000		By Clinical Fees		1,20,000
	34,000		By Misc. Receipts		1,000
Less : Stock	5,000	29,000			
To Salaries	10,000				
Add : Outstanding	750	10,750			
To Rent		12,000			
To Stationery		500			
To Electricity		1,000			
To Journals etc		900			
To Fees outstanding		5,000			
To Dep on Furniture		1,000			
To Dep on Equipments		2,500			
To Surplus		**1,13,350**			
		1,76,000			1,76,000

Balance Sheet as on 31.12.2007.

Liabilities		Rs	Assets		Rs
O/s Salary		750	Cash in Hand		1,600
O/s Creditors		10,000	Cash at Bank		1,50,000
Capital :	1,00,000		Fees Accrued	5,000	
Add: Surplus	1,13,350		Less : Provision	5,000	
	2,13,350		Drugs Stock		5,000
Less : Drawings	36,000	1,77,350	Furniture	10,000	
			Less: Dep	1,000	9,000
			Equipment	25,000	
			Less: Dep	2,500	22,500
		1,88,100			**1,88,100**

12.6. Let Us Sum Up:

In this lesson we have discussed meaning and specific terms relating to non trading organisations, accounting procedure for preparation of receipts and payments account, income and expenditure account and balance sheet followed by sufficient number of unsolved problems.

12.7. Lesson End Activities :

12.7.1. Preparation of Receipts and Payments Accounts :

Exercise :1. Coimbatore Club is started on January 1, 2007. During the year ending 31 st December, 2007, its receipts and payments were as under:

Receipts:

		Rs
	Subscriptions	3,500
	Donations	1,200
Payments :		
	Investments	1,500
	Rent	900
	Printing & Stationery	250
	Salary	360
	Postage	80
	Sundries	310

On December 31, 2007, Cash and Bank Balance were Rs.50 and Rs.1250 respectively. Prepare Receipts and Payments A/c for the year 2007.

Exercise : 2. From the following particulars taken from the Cash Book of a club, prepare a Receipts and Payments Account.

		Rs
Opening Balance :		
	Cash in Hand	100
	Cash at Bank	500
Receipts :		
	Subscriptions	3,300
	Donations	260
Payments :		
	Investment Purchased	1,000
	Rent – paid	400
	General Expenses	210
	Postage and Stationery	70
	Sundry Expenses	30
	Closing Cash Balance	20

12.7.2. Preparation of Income and Expenditure Account

Exercise : 3. From the following extracts of the Receipts and Payments Account and the additional information, you are required to compute the income from subscriptions for the year ending 31.12.2007.

Receipts	Amount Rs.	Payments	Amount Rs.
To Subscriptions :			
2006	1,800		
2007	10,000		

2008	4,000

Additional Information:

i. Subscriptions outstanding as on 31.12.2006:	Rs 2,000
ii. Subscriptions outstanding as on 31.12.2007:	Rs.3,000
iii. Subscriptions received in advance as on 31.12.2006:	Rs.2,000

Exercise: 4. From the following details, ascertain the amount of subscriptions to be credited to income and expenditure account for the year ended 2007.Subscription received in 2007Rs. 48,000, which included Rs.4,000 for 2006 and Rs.8,000 for 2,000. Subscriptions due but not received at the end of the year 2007 were Rs.20,000. Subscriptions received in 2006 in advance for 2007 were Rs.12,000.

Exercise: 5. On 31.12.2006, Subscriptions out standing were Rs.10,000 and received in advance for 2001 Rs.8,000. During 2007, subscriptions received were Rs.80,000 including Rs.7,000 towards the dues of the year 2006. On 31.12.2007, total subscriptions outstanding were Rs.12,000 and received in advance for 2008 Rs.6,000. You are required to show. Subscriptions to be credited to Income and expenditure A/c.

Exercise: 6. Compute the expenditure to be shown in Income and Expenditure Account for the following:

A. Sports materials purchased for cash	20,000
Opening stock of sports materials	5,000
Closing stock of sports materials	8,000
Opening creditors for sports materials	7,000
Cash paid to creditors for sports materials	22,000
Closing creditors for sports materials	6,000

Exercise: 7. The Calcutta sports club gives you the following Receipts and Payments A/c for the year ended 31 st Dec. 2007

Receipts	Rs	Payments	Rs.
To Cash in hand	150	By Ground men's fees	1,500
To Cash at bank	2,100	By Mowing machine	1,100
To Subscriptions	5,800	By Rent	500
To Tournament fund	1,500	By Salaries to coaches	3,600
		By Tournament Expenses	900
To Life membership	2,000	By Office expenses,	1,400
To Entrances fees	200	By Sports equipment	1,220
To Donations for pavilion	3,000	By Cash in hand	350
To Sale of grass	100	By Cash at Bank	3,300
	14,850		14,850

Additional information:

i. Subscriptions due on 31.12.2006 and on 31.12.2007 were Rs. 900/- and Rs. 800/- respectively.

ii. Subscriptions received also include subscription for 2008 Rs.200/-

iii. Sports equipment on hand on 31.12.2006 was Rs. 1,100/- the value placed on the equipment on hand on 31.12.2007 was Rs. 1,300/-

iv. The moving machine was purchased on 1.7.2007 and is to be depriciation @ 20% per annum.

v. Office Expenses include Rs. 300/- for 2006 and Rs. 400/- are still due for payment.

vi. Tournament receipts and expenses are to be seperated from general incomes and expenses.Prepare income and expenditure for the year 2007.

Exercise : 8. From the following particulars, prepare Income and Expenditure A/c of the Central Sports society for the twelve months from April 2006 date of inception. to March 31, 2007.

Particulars	Rs
Subscription from members	4,600
Subscription from affiliated societies	1,400
Life Subscription 10years.	2,000
Gifts received	3,000
Interest received	160
Committee Expenditure	
Executive	1,500
Planning	1,440
Tournament	420
Printing, Postage & Stationery	1,140
Office furniture	2,000
Investment purchased	3,000
Outstanding subscription affiliated.	200
Outstanding committee expenditure	
Executive	200
Planning	640
Tournament	120
Outstanding Printing etc	160

Exercise: 9. The following is the Receipts and Payments A/c of the Young club in respect of the year to 31 st Dec 2007.

Receipts	Rs	Rs.	Payments	Rs	Rs
To Balance b/d		20,500	By Salaries		41,600
To Subscriptions :			By Stationery		8,000
2008	1,600		By Rates		12,000
2007	42,200		By Telephone		2,000
2006	800	44,600	By Investments 4%.		25,000
To Sports Profit		31,000	By Sundry expenses		18,500
To Dividend		20,000	By Balance c/d		9,000
		1,16,100			1,16,100

Additional information :

i. There are 450 members each paying an annual subscription of Rs.100/-. Rs. 900/-being arrears for 2006 at the beginning of 2007.

ii. Stock of Stationery at 31.12.2006 was Rs. 1000/- ; at 31.12.2007 Rs. 1800/-.

iii. At 31.12.2007, the rate were prepaid to the following 31 st March, the yearly charge being Rs. 12,000/-. A quarter's charge for telephone is outstanding the amount accrued being Rs. 700/-. Expenses accruing at 31.12.2006 Rs. 1,400/-.

iv. At 31.12.2006, the building stood in the books at Rs. 2,00,000 and it is required to write off depreciation at 5% per annum.Investments at 31.12.2006 were Rs. 4,00,000/- . You are required to prepare an income and expenditure account for the year ended 31.12..2007 and a balance sheet as that date.

12.7.3. Preparation of Balance Sheet:

Exercise: 10 Receipts and payments A/c and Income and Expenditure A/c of Asiatic Public Library for the year ended 31 st Dec 2007 were as follows:

Receipts		Rs	Payments	Rs
To Balance b/d		700	By Books Purchased	33,000
				230
To Subscriptions :			By Printing & Stationery	1,500
2006	4,000		By Salaries for 2007	8,000
2007	30,000		By Salaries for 2006	2,000
2008	2,000	36,000	By Telephone charges	1,500
To Int Rs.200 for 2006.		4,000	By Misc. Expenses	3,000
To Donations for specific fund		5,000	By Balance c/d	200
To Rent :				
2007	2,500			
2008	1,000	3,500		
		49,200		49,200

Expenditure		Rs	Income	Rs
To Salaries		12,000	By Interest	3,800
To Priniting & Stationery		1,500	By Subscriptions	35,000
To Telephone charges		1,500	By Rent	2,500
To Misc. Expenditure		3,000		
To Depreciation on :				
Books	5,000			
Buildings	5,000			
Furniture	1,000	11,000		
To Surplus		12,300		
		41,300		41,300

On enquiry you find that the Library has the following other assets on 1.1.2007.

Buildings	2,00,000
Furniture	10,000
Books	17,000
Investments	38,000

You are asked to prepare Balance Sheet of the library as on 31.12.2006 and 31.12.2007.

Exercise : 11. The following particulars related to sports clubs of Delhi Income and Expenditure Account for the year ended 31st December 2007.

	Rs		Rs
To Salaries	6,000	By Admission Fees	15,000
To Print and Stationery	2,500	By Subscriptions	25,000
To Advertising	1,000	By Rent Receivable	4,800
To Insurance Charges	900		
To Electric Charges	500		

Receipts and payments Account for the year ended 31 st Dec 2007.

			Rs		Rs
To Balance b/d			5,000	By Salary	7,500
To Admission Fee :				By Printing	2,500
	2006	2,500		By Advertising	1,000
	2007	13,500	16,000	By Insurance charges	1,200
To Subscriptions				By Electricity	500
	2006	1,000		By Fixed assets	20,000
	2007	23,000		By Balance b/dishonoured	17,900
	20058		26,000		
2,000					
To Rent			3,600		
			50,600		50,600

On 1 st January 2007, the club had the following assets: Land and Buildings 60,000 Sports Equipments 30,000 Furniture 4,500 Prepare Opening and Closing Balance Sheets.

Exercise: 12. Following is the Receipts and Payments Account of Sail Club for the year ended December 31, 2007.

Receipts		Rs	Payments		Rs
Balance b/d :			Salaries to Secretary		6,000
Cash	2,000		Salaries to Staff		5,000
Bank	12,000	14,000	Canteen expenses		12,000
Subscriptions			Miscellaneous expenses		2,500
For 2006	500		Construction of building		15,000
For 2007	5,500		Balance c/d:		
For 2008	400	6,400	Cash	1,300	
Interest from Bank		1,000	Bank	4,000	5,300
Sale of old newspaper		400			
Sale of old furniture		2,000			
Canteen collection		12,000			
Donation Building.		10,000			
		45,800			45,800

With the additional information given below, prepare the Income and Expenditure Account for the year ended 31 st December 2007 and the Balance sheet as on that date :

	31 st Dec. 2006	31 st Dec. 2007
	Rs.	Rs.

a. Subscriptions receivable	1,000	600
b. Subscription received in advance	200	400
c. Salary of staff outstanding	1,000	2,000
d. Canteen expenses prepaid	1,000	1,500
e. Furniture at book value	14,000	?
f. Buildings	15,000	?
g. Fixed deposit with bank	10,000	10,000

h. Book value if furniture sold during 2007 was Rs.3,500
i. Charge depreciation on furniture at 10 per annum on the closing balance.

12.7.4.Accounting for Professionals:

Exercise : 13. Following are the accounts of Dr. Sankaran for the year ending 31.12.2007.

Receipts	Rs	Payments	Rs
To Capital Introduced	5,000	By Furniture	2,000
To Visits	16,000	By Equipment	2,500
To Receipts from Dispensing	10,000	By Purchase of Drugs	3,000
To Miscellaneous Receipts	100	By Salary of Assistant	2,000
		By Rent	1,500
		By Conveyance	1,000
		By Stationery	100
		By Lighting	150
		By Journals	250
		By Drawings	12,000
		By Balance c/dishonoured	6,600
	31,100		31,100

Amounts still receivable on account of visits and dispensing are Rs.1,000 and Rs.600 respectively. Salary of Assistant still payable is Rs.200. 40% of conveyance is for domestic purpose. Stock of drugs still on hand is Rs.800 amount still payable for their purchase is Rs.200. Furniture & Equipment are both subject to depreciation at 10%. Prepare the Income and Expenditure Account of Dr. Sankaran for 2007 and his balance sheet as on 31.12.2007.

12.8. MODEL ANSWERS TO CHECK YOUR PROGRESS :

Ex: 1. Receipts and Payments Balance
3500 +1200. = 4700 1500 +900+250+360+80+310+50+1250. = **4700**

Ex: 2. Receipts and Payments Balance.
600+3300+260. – 1000 + 400+210+70+30+20. = **2450**

Ex: 3. Amount of subscription in Income and Expenditure Account
1000 + 3000 – 200 + 2000 = **14800**

Ex: 4. Amount of subscription in Income and Expenditure Account
48000 – 4000 – 8000 + 20000 + 12000. = **68000**

Ex: 5. Amount of subscription in Income and Expenditure Account
80000+9000+8000 – 7000 – 6000. = **84000**

Ex: 6. Amount of Sports materials in Income & Expenditure Account
6000 + 22000- 7000 + 20000 + 5000 – 8000. = **38000**

Ex: 7. Balance from Income and Expenditure Account
1500 + 500 + 3600 + 2500 + 1000 + 110. –
5800 – 90+800 – 200 - 200+100. = **3410**

Ex: 8. Balance from Income & Expenditure Account
4600 +1400 + 200 + 200+ 3000+ 160 . – 1700 + 2080 + 540 + 130. **3940**

Ex: 9. Balance of Income & Expenditure Account
42200 + 2800 + 31000 + 20000. – 41600 + 7200 +
12000 + 2700 + 17100 + 10000. = **5400**

Ex: 10. Opening Balance Sheet
700 + 38000 + 4000 + 200 + 10000 +17000 +200000. – 2000 = **267900**
Closing Balance Sheet
Liabilities : 267900 + 12300 + 2000 + 1000 + 4000+ 5000. = **292200**
Assets : 200 + 38000 + 5000+ 45000 + 9000 + 195000. = **292200**

Ex: 11. Balance of Opening Balance Sheet
5000+1000+2500+30000+4500+60000. = **103000**
Closing Balance Sheet
Liabilities: 2000 + 103000 + 21900 = **126900**
Assets : 17900 + 2000 + 1500 + 1500 + 1200 + 300 + 18000 +
4500 + 20000 + 60000= **126900**

Ex: 12. Balance from opening Balance Sheet
2000 + 12000+10000+15000+14000+1000+1000. –
1000 + 200. = **53800**
Subscription Amount: 6400 + 200 + 600 – 1000 – 400. = **5800**
Balance from Income & Expenditure Account
6000 + 6000 + 2500 + 1500 +1050.- 5800+500+1000+400. = **9350**
Closing Balance Sheet:
Liabilities: 53800 – 9350 + 400 + 2000+ 10000 = **56850**
Assets : 1300 + 4000 + 10000 + 9450 + 30000 +600 + 1500 = **56850**

Ex: 13. Balance from Income and Expenditure Account:
800 +100 +10600 + 17000. – 600 +2200+1500 +100 +
150 + 250 +3200 +450 + 1600. = **18450**
Closing Balance Sheet:
Liabilities : 5000 + 18450 – 12400 + 200 + 200 = **11450**
Assets : 1800 + 2250 + 6600 + 800 = **11450**

12.9 References:

Financial Accounting – R.L. Gupta – Sultan chand & Sons
Advanced Accounting – S.N. Mageswari – Vikas Publishers.

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Model Question Paper -1

Principles of Accountancy

Time : 3 Hours Max. Marks: 100

Answer any Five Questions 20 x 5 = 100.

1. Explain various accountings concepts and conventions.

2. Write Short Note on :
   i. Steps involved in accountings
   ii. Difference between Journal and Ledger.
   iii. What are the errors that are not disclosed by tiral balance.
   iv. Distinguish between Receipts and Payments Account and Income & Expenditure Account.

3. The Following is the Trial Balance of Mr. Jayaraman Agencies as on 31 st March 2007. Prepare Trading and Profit and Loss Account for the year ended 31 st March 2007 and a Balance Sheet as on that date :

	Rs.	Rs.
Capital		1,00,000
Buildings	15,000	
Drawings	18,000	
Motor Van	25,000	
Furniture	7,500	
Loan from Mr. A @ 12%		15,000
Interest Paid	900	
Sales		1,00,000
Purchases	75,000	
Opening Stock	25,000	
Establishment	15,000	
Wages	2,000	
Insurance	1,000	
Commission		7,500
Sundry Debtors and Creditors	28,100	10,000
Bank	20,000	
	2,32,500	2,32,500

Adjustments : Closing Stock Rs. 32,000. Outstanding wages Rs. 500. Prepaid Insurance Rs. 300. Commission received in advance Rs. 800. Interest on capital 10% p.a. Depreciate building by 2.5%, furniture by 10% and motor van by 10%. Interest on drawings Rs. 500.

4. A consignment of 10,000kg of tea, costing Rs 50 per kg sent on consignment on 1 st February 2007 to an agent, on commission of 5% on gross sales.The following expenses are incurred:

(c) By the Consignor :

Freight and Insurance	2,000
Dock charges and Sundry Expenses	800

(d) By the Consignee :

Godown Rent and Insurance	800
Miscellaneous Expenses	1,400

Some packages containing 2,000kg of tea were damaged in transit and the contents had to be destroyed on landing as having become unfit for sale. 7,000kg of tea were sold at Rs 60 and on 28 th February 2007. The date of closing of accounts, the balance of the consignment remained unsold in stock. Prepare necessary ledger Account.

5. A, B and C enter into a joint venture to divide profits equally. They bought goods from D for Rs.12, 500 and from A for Rs.25, 000. A contributed Rs.30, 000, B Rs.40, 000 and C Rs.90, 000 which amounts were banked in a joint account. They settled their account with D by cheque and paid for carriage and other expenses Rs.7, 500. They sold goods for cash Rs.65, 000 and to E on credit for Rs.1, 40, 000 who accepted a draft for the amount. The acceptance was cashed and realizes Rs.1, 37, 000. A was allowed 5% commission on sales for effecting the transactions. Pass necessary journal entries and open accounts, assuming that the final settlement between parties was made by cheque.

6. From the following Receipts & Payments Account and additional informations of a sports club for the year ending 31.12.2007. Prepare Income & Expenditure Account for the same period.

	Rs		Rs
To Balance b/d	1,125	By Newspaper	750
To Subscriptions	2,900	By Rent	250
To Tournament Fund	750	By Salaries	1,800
To Membership	1,000	By Office Expenses	1,200
To Entrance Fees	100	By Sports Equipments	1,150
To Donations for Building	1,500	By Tournament Expenses	450
To Sales of Newspaper	50	By Balance c/d	1,825
	7,425		7,425

Subscriptions outstanding on 31 st December 2006 Rs. 450 and on 31 st December 2007 Rs.400. Subscriptions received includes Rs. 100 on account of the year 2008 Sports equipment was valued on 31 st December 2006 at Rs. 550 and on 31 st December 2007 are Rs.1,090 Office expenses include Rs. 150 for 2006 whereas Rs. 200 is still payable on this account for 2007 Tournament Fund is treated as Capital Receipt.

7. On 1 st January 2007, Prem owed Rs. 5,400 to Kamal. Prepare an Account Current to be rendered by Kamal for the period up to 30 th June 2007. The following transactions have taken place between them during the period of six months.

		Rs.
Jan.1	Sold goods to Prem	800
Jan.16	Received form Prem	2,000
Jan.25	Sold to Prem, goods on credit for one month	1,000
Feb.10	Received three months acceptance from Prem	2,000
March 1	Bought goods to Prem	1,500
April 20	Sold goods to Prem	500
May.7	Prem bought goods	1,200
June 9	Remitted by Prem	800
June 14	Received form Prem	900

Interest is to be charged at an agreed rate of 6% p.a

8. Answer all the questions given below: 4 x 5 = 20.

8.1. Jouranlis the following transactions in the books of Miss Amudha.

		Rs.
01.01.2007	Amudha commenced business with cash	50,000
02.01.2007	Purchased goods for cash	10,000
05.01.2007	Purchased goods from Mohan on credit	6,000
07.01.2007	Paid into Bank	5,000
10.01.2007	Purchased furniture	2,000
20.01.2007	Sold goods to Suresh on credit	5,000
25.01.2007	Cash sales	3,500
26.01.2007	Paid to Mohan on account	3,000
31.01.2007	Paid salaries	2,800

8.2. Raman owes Balan the following sums of money due on the dates stated:

Rs. 400 due on 5th January 2004
Rs. 200 due on 20th January 2004
Rs. 800 due on 4th February 2004
Rs. 100 due on 26th February 2004
Rs. 50 due on 10th March 2000

Calculate Average Due Date

8.3. Prepare a bank reconciliation statement from the following data as on 31.12.2007

		Rs.
a.	Balance as per cash book	12,500
b.	Cheques issued but not presented for payment	900
c.	Cheques deposited in bank but not collected	1,200
d.	Bank paid insurance premium	500
e.	Direct deposit by a customer	800
f.	Interest on investment collected by bank	200
g.	Bank charges	100

8.4. On March 10 th, A sold goods to B a Bill at three months for Rs. 800, which B accepts immediately and returns it to A. The Bill is honoured on the due date. Pass entries in the books of both A and B.

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Model Question Paper -II

Principles of Accountancy

Time : 3 Hours Max. Marks: 100

Answer any Five Questions 20 x 5 = 100.

1. What is mean by errors ? What are the different types of errors ? Discuss different stages involved in the rectification of errors.

2. Write short note on: i. Methods of accounting ii. Accounting conventions iii. Distinction between joint venture and partnership iv. Basic rules for journal.

3. Form the following Trial Balance and the adjoining information provided by Mr. Logesh, prepare a Trading and Profit and Loss Account for the year ending 31 st March 2007 and a Balance Sheet as on that date :

	Dr. Rs	Cr. Rs
Land and Buildings	20,000	
Machinery	50,000	
Furniture	4,000	
Opening Stock	16,300	
Purchases	80,000	
Salaries	6,000	
Carriage on sales	1,500	
Freight on purchases	2,000	
Customs duty on purchases	3,000	
Advertising	5,400	
Wages	20,000	
Rent	3,000	
General Expenses	3,200	
Postage and Stationery	1,500	
Repairs to Machinery	2,000	
9% Loan to Krishna	5,000	
Prepaid Insurance	200	
Sundry Debtors	20,000	
Cash at Bank	3,350	
Capital		80,000
Sundry Creditors		8,000
Discount received		400
Outstanding expenses		1,550
Sales		1,50,500
Provision for Repairs		6,000
	2,46,450	2,46,450

Adjustments :

i. Stock on 31st March 2007 amounted Rs. 14,900.

ii. Machinery worth Rs. 10,000 was purchased on 1st October 2006. Wages Rs. 500 were paid to workmen for its installation which have been debited to wages account.

iii. Depreciation is to be written off @ 3% on Land and Buildings 10% Machinery and 5% on Furniture.

iv. Provision for repairs is to be credited with Rs. 1,500 every year.

4. Smith of Mysore consigned 100 machines costing Rs 50,000 to their agent Ashok of Chennai at 20% above the cost to be sold on behalf of Consignor. Consignor incurred Rs 50 for packing and other charges on each machine. Ashok received consignment by paying Rs 500 as railway charges and spent Rs 50 for carriage to godown. He rendered an Account Sales showing that:

20 Machines realised Rs 12,000 in each.
50 Machines sold on credit at Rs 650 each.
10 Machines taken to his own stock at Rs 610 each.

Consignee remitted the balance after deducting her commission at 5% on invoice price of goods sold and 15% on any excess price realised. Show the Consignment Account.

5. A and B, both contractors, undertook a joint venture involving the construction of a building. A Joint Bank Account was opened in which a contributed Rs. 75,000 and B contributed Rs. 37,500. The contract price was Rs. 3, 75,000. The result of joint venture was shared as to a 2/3 and B 1/3. The details of the transactions were as follows.

	Rs.
Wages paid	89,000
Materials supplied by A	13,500
Materials supplied by B	12,000
Materials purchased	1,65,000
Salaries	12,000
Architect fee paid by A	18,500
Concrete mixer plant purchased	38,500

The stock materials on the completion of the contract, valued at Rs. 16,500, were taken over by A. Concrete mixer plant was taken over by B for Rs. 30,000. A was to be paid Rs. 18,000 p.a against establishment expenses, to be charged to the Joint Venture Account. The contract lasted for 8 months. Pass Journal Entries and prepare Joint Venture Account, Joint Bank Account and Accounts of A and B.

6. Prepare Income and Expenditure Account and Balance Sheet for the following Receipts and Payments Account and Balance sheet as on 31 st December 2007.

		Rs		Rs
To Balance b/d		10,000	Expenses 2006	1,200
To Subscriptions			2007	2,000
2006	200		By Land	4,000
2007	2,100		By Interest	400
2008	100	2,400	By Miscellaneous Expenses	2,000
To Entrances fees		800	By Balance c/d	**8,300**
To Lockers Rent		700		
To Miscellaneous Income		4,000		
		17,900		17,900

Balance Sheet as on 31 st December 2006

Liabilities	Rs	Assets	Rs
Capital Fund	33,620	Building	30,000
Subscriptions received in advance	600	Outstanding Subscriptions	380
Outstanding Expenses	1,400	Outstanding Locker Rent	240

Loan	5,000	Cash	10,000
	40,620		**40,620**

7. Prepare a Bank Reconciliation Statement on 31 st December 2007.
   i. A's overdraft as per Pass Book was Rs. 31st December 2007 was Rs. 12,000
   ii. On 30th December cheques had been issued for Rs. 7,000 of which cheques worth Rs. 3,000 only had been encashed upto 1 31st December.
   iii. Cheques amounting to Rs. 3,500 had been paid into the bank for collection but of these only Rs. 500 had been credited in the Pass Book.
   iv. The bank charged Rs. 500 as interest on overdraft, the intimation of which has been received on 2 January 2007.
   v. The Bank Pass Book shows account credit for Rs. 1,000 representing Rs. 400 paid by a debtor of A direct into the bank and Rs. 600 collected direct by the bank in respect of interest on A's investments. A had no knowledge of these items.
   vi. A cheque for Rs. 200 had been debited in bank column of Cash Book by A, but it had not been sent to Bank.

8. Answer all the questions given below: 4 x 5 = 20.

8.1. Journalise the following transactions of Miss. Banu for the year 2007.

		Rs.
Jan 1	Banu commenced business with cash	30,000
Jan 2	Paid into bank	21,000
Jan 3	Purchased goods by cheque	15,000
Jan 7	Drew cash from bank for office use	3,000
Jan 15	Purchased goods from Siva	15,000
Jan 20	Cash sales	30,000
Jan 25	Paid to Siva	14,000
”	Discount Received	250
Jan 31	Paid rent	500
”	Paid Salaries	2,000

8.2. A Partner has withdrawn the following sums of money during the half year ending 30.06.2007.

January	15	Rs. 300	April	20	Rs. 400
February	18	Rs. 250	May	16	Rs. 300
March	10	Rs. 150	June	18	Rs. 500
March	26	Rs. 200			

Interest is to be charged at 8% p.a. Find out the average due date and calculate the amount of interest to be debited to the partner.

8.3. The following balances are extracted from the books of Miss.Dhivya. Prepare trial balance as on 30.12.2007.

Particulars	Rs.
Capital	4,70,000
Cash in hand	6,000
Building	3,20,000
Stock	33,000

Sundry creditors	26,000
Commission paid	750
Rent & Taxes	6,300
Purchases	1,65,000
Salaries	70,600
Discount allowed	650
Drawings	5,000
Bad debts	1,350
Machinery	1,58,800
Sundry Debtors	48,000
Repairs	5,400
Insurance premium	3,300
Sales	2,90,000
Telephone charge	6,450
Furniture	11,000
Discount earned	1,100
Loan from Mohammed	51,000
Reserve fund	5,900
Bills receivable	8,600
Bills payable	6,000

8.4. Mr. Ravi draws a Bill for Rs. 2,000 on Gopal on 15 th September for three months. On maturity, Gopal failed to honour the Bill. Pass the necessary journal entries in the books of Ravi and Gopal, if he had retained the Bill with him till maturity.

Model Question Paper -III

Principles of Accountancy

Time : 3 Hours Max. Marks: 100

Answer any Five Questions 20 x 15= 100.

1. What is mean by bank reconciliation statement? Explain reasons neccessating preparation of bank reconciliation statement

2. Write short note: i. Advantages of account ii. Accomodation bills iii. Errors of principle iv. Features of Accountings.

3. From the following Trial Balance of Mr. Naveen prepare a Trading and profit and Loss Account for the year ended December 31, 2007 and a Balance Sheet as on that date :

	Dr. Rs	Cr. Rs
Capital		4,250
Drawings	710	
Plant & Machinery	950	
Stock on 1st January	1,460	
Purchases and Sales	10,362	11,906
Purchases and Sales returns	210	291
General Expenses	440	
Rent	120	
Rates	200	
Apprentice Premium		80
Bank overdraft		240
Bank Debts	172	
Debtors & Creditors	4,200	2,000
Cash on hand	48	
Bad Debts reserve		105
	18,872	18,872

Adjustments: Depreciate Plant & Machinery at 10% p.a. Increase bad debts reserve to 5% on sundry debtors. Rent accrued in Rs. 40 Rates of Rs. 80 are paid in advance. Stock on hand as on 31st December is Rs. 1,700. Apprentice premium received in advance is Rs. 20

4. On 1 st January 2007, A of Delhi consigned to B of Amritsar goods for sale at invoice price. B is entitled to commission of 3 per cent on invoice price and 20 per cent of any surplus price realised. Goods costing Rs. 12,000 were consigned to Amristar at the invoice price of Rs. 14,400. The expenses of consignment amounted to Rs. 1,000. On 31 st March 2003, an Account Sales was received from B showing that she had effected sales of Rs. 12,000 in respect of 3/4 th of the quantity of goods consigned to him. His actual out of pocket expenses were Rs. 600. B accepted a bill drawn by A for Rs. 5,000 and remitted the balance due from him in cash. Prepare the necessary ledger accounts in the books of the consignor.

5. Bharat and Sharad joined together as co-ventures for equal share in profits through sale of television cabinets. On March 31, 2003, Bharat purchased 2,000 cabinets at Rs. 250 each for cash and sent 1,500 of these to Sharad for sale, the selling price of each being Rs. 300. All the cabinets were sold by April 30, 2003 by both and the proceeds collected.

Each venture record in his books only those transactions concluded by him, final profit/loss being ascertained through account Memorandum Joint Venture Account.

The expenses met by the ventures were:

Bharat	
Freight and insurance	9,000
Selling expenses	4,500
Sharad	
Wages	900
Selling expenses	13,500

Final settlement between the ventures took place on May 31, 2003. You are required to show the ledger accounts under Memorandum Method.

6. From the following Trial Balance and accompanying notes for adjustments, prepare Income and Expenditure Account for the year ended 31 st December 2007 and the Balance Sheet as on that date of a club:

	Rs	Rs
Club Buildings	37,400	-
Library Books	2,280	-
Furniture and Fixtures	3,520	-
Glass, Cutlery etc. 1 st Jan 2007.	2,000	-
Printing and Stationery	1,000	-
Printing and Stationery	225	-
Rent Received	-	10,370
Annual Subscriptions	-	12,150
Entertainment cost	345	-
Billiard Room Receipts	-	3,845
Billiard Board	10,400	-
Billiard Room Expenses	2,135	-
Canteen Profit	-	1,200
Subscriptions arrears on 1 st Jan 2007.	1,125	-
Honorarium	1,500	-
Sales of tickets for Annual Dinner	-	1,600
Annual Dinner Expenses	1,875	-
Salaries of Staff	2,700	-
Donations	-	8,500
Audit Fees	600	-
Repairing , Clearing etc.	350	-
Newspaper and Magazines	180	95
Interest on Bank Deposit	-	25
Bank Charges	20	-
Entrance Expenses	-	225
Stock of canteen provision on 31 st December 2007	2,995	-
Sundry Creditors	300	-
Cash in Hand	-	3,135
Cash in Bank	1,400	-
General Fund	1,735	-
	-	32,940
	74,085	74,085

Notes for adjustments:

(g) Out of the total subscriptions, Rs.1,125 represented arrears collected and Rs.760 paid in advance.
(h) An amount of Rs.500 was outstanding on account of rent.
(i) Unpaid salary amounts to Rs.200
(j) Entrance fees to be capitalised.
(k) Out of the donation, Rs.3,600 represented donation towards election expenses and of the balance , half the amount shall be capitalised.
(l) Depreciation to be provided as under :
Library Books at 10%
Furniture and Fixtures at 15%
Club Buildings at 5 %
Glass, Cutlery etc. Rs.1,700

7. Mani has accepted the following bills drawn by Sharma :-

On 08.03.2007	Rs. 8,000	for 4 months
On 16.03.2007	Rs. 10,000	for 3 months
On 07.04.2007	Rs. 12,000	for 5 months
On 17.05.2007	Rs. 10,000	for 3 months

He wants to pay all the bills on a single day. Find out this date. Interest is charges at 18% p.a. and Mani wants to save Rs. 300 by way of interest. Find out the date on which he has to effect the payment to save interest of Rs. 300.

8. Answer all the questions given below: 4 x 5 = 20.

8.1. The following are a series of transactions between A and B for the three months ending on 31 st March 2007. Calculate the amount of interest to be payable by one party to the other @ 10% p.a.

		Rs.
Jan.1	Opening balance Dr.	5,000
Jan.10	Sold goods to B	10,000
Jan. 15	Cash received from B	10,000
Feb.15	Sold goods to B	10,000
March.1	Cash received from B	5,000

8.2. Journalise the folllowing transactions of Miss. Chitra and post them in the ledger and balance the same relating to June 2007.

1 Chitra invested Rs. 5,00,00 cash in the business.

3 Paid into Bank Rs. 80,000

5 Purchased building for Rs. 3,00,000

7 Purchased goods for Rs. 70,000

10 Sold goods for Rs. 80,000

15 Withdrew cash from bank Rs. 10,000

25 Electricity Charges Rs. 3,000

31 Salaries Rs. 15,000

8.3. From the following particulars of Mr. Bhagawan, prepare Manufacturing Account for the year ended 31 st December 2007.

	Rs.		Rs.
Purchase of raw materials	13,195	Interest Bank Loan	600
Returns Inward	70	Stock, 1 st Jan. 2007	
Stock on 31st Dec. 2007		Raw Materials	400
Raw Materials	1,210	Work-in-progress	300
Work-in-progress	1,000	Finished Goods	410
Finished Goods	1,370	Sales	19,500
Productive Wages	2,000	Returns Outward	85
Factory Expenses	1,840	Carriage Outward	105
Office Expenses	300	Carriage Inward	100
Salaries	600	Discount Allowed	10
Distributing Expenses	100	Sale of Scrap	20
Selling Expenses	700	Depreciation on Machinery	500
Purchase Expenses	600	Repairs to Machinery	100
Export Duty	300	Depreciation on Office furniture	40
Import Duty	200		

8.4. On 15 th June, Niranjan sold goods to Prema, valued at Rs. 2,000. He drew a Bill at 3 months for the amount and discounted the same with his bankers at Rs. 1,960. On the due date, the Bill was dishonoured and Niranjan paid the bank the amount due plus the noting charges of Rs. 10. Pass the journal entries in the books of the two parties.

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Solutions to Model Question Paper-I

Q.No. 1. Refer Paras 2.1and 2.2

Q.No. 2.

i. Refer Para 1.7

ii. Refer Para 3.2.2

iii. Refer Para 4.3.6

iv. Refer Para 12.3.3

Q.No. 3. Refer Page No. 78, Illustration No. 22

Q.No. 4. Refer Page No. 154, Illustration No. 6

Q.No. 5. Refer Page No. 174, Illustration No. 1

Q.No. 6. Refer Page No. 216, Illustration No. 7

Q.No. 7. Refer Page No. 141, Illustration No. 5

Q.No. 8.

i. Refer Page No. 35, Illustration No. 1

ii. Refer Page No. 123, Illustration No. 1

iii. Refer Page No. 196, Illustration No. 3

iv. Refer Page No. 111, Illustration No. 1

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Solutions to Model Question Paper-II

Q.No. 1. Refer Paras 4.1, 4.3 and 4.4

Q.No. 2.

i. Refer Para 1.11

ii. Refer Para 2.2

iii. Refer Para 10.4

iv. Refer Para 3.1.2

Q.No. 3. Refer Page No. 81, Illustration No. 24

Q.No. 4. Refer Page No. 158, Illustration No. 9

Q.No. 5. Refer Page No. 178, Illustration No. 4

Q.No. 6. Refer Page No. 220, Illustration No. 11

Q.No. 7. Refer Page No. 203, Illustration No. 12

Q.No. 8.

i. Refer Page No. 37, Illustration No. 2

ii. Refer Page No. 125, Illustration No. 4

iii. Refer Page No. 41, Illustration No. 4

iv. Refer Page No. 112, Illustration No. 5

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Solutions to Model Question Paper-III

Q.No. 1. Refer Paras 11.1and 11.2

Q.No. 2.

i. Refer Para 1.3

ii. Refer Para 6.5.8

iii. Refer Para 4.3.3

iv. Refer Para 3.3.6

Q.No. 3. Refer Page No. 84, Illustration No. 26

Q.No. 4. Refer Page No. 161, Illustration No. 12

Q.No. 5. Refer Page No. 186, Illustration No. 8

Q.No. 6. Refer Page No. 223, Illustration No. 14

Q.No. 7. Refer Page No. 129, Illustration No. 10

Q.No. 8.

i. Refer Page No. 139, Illustration No. 1

ii. Refer Page No. 38, Illustration No. 3

iii. Refer Page No. 70, Illustration No. 14

iv. Refer Page No. 113, Ill ustration No. 6

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GLOSSARY

LIST OF IMPORTANT ACCOUNTING TERMS

1. Accounting	:	The process of recording, classifying, analyzing and communicating the financial transactions.
2. Account	:	A clear record of transactions affecting a person or an asset or profit or loss.
3. Book Keeping	:	Recording of financial transactions in a systematic manner.
4. Transaction	:	Transfer of money's worth from one account to another account
5. Debit	:	An account which receives the benefit from a transaction.
6. Credit	:	An account which gives the benefit from a transaction.
7. Debit an a/c	:	A command to record a transaction on the left hand side of an account .
8. Credit an a/c	:	A command to record a transaction on the right hand side of an account.
9. Debtor	:	A person who owes money to the business.
10. Creditor	:	A person to whom the business owes money.
11. Journal	:	A date wise record of the transactions with details of the accounts debited and credited and the amount of each transactions.
12. Narration	:	A brief explanation of the transactions with necessary details written under each journal entry within brackets.
13. Ledger	:	A book containing all the accounts which are transferred from journal and subsidiary books.
14. Subsidiary books	:	The division of journal entries into various books on the basis of nature of transactions.
15. Personal a/c	:	An account containing details about the transactions with a living natural person.
16. Impersonal a/c	:	An account containing details about the transactions with any account other than persons.
17. Real a/c	:	An account which contains details about real things owned by the business.

18. Nominal a/c	:	An account which contains details about expenses, losses, incomes and gains.
19. Capital	:	Amount invested by the proprietor in the business.
20. Drawings	:	Amount taken from the capital of the business for the personal purposes of the proprietor.
21. Capital Expenditure	:	Amount paid for the purchase of assets.
22. Revenue Expenditure	:	Amount paid for the purchase of goods.
23. Capital Receipts	:	Amount received from sale of assets etc.
24. Revenue Receipts	:	Amount received on account of sale of goods etc.
25. Double Entry System	:	An accounting system based on the principle "for every debit there must be correspondent credit of equal amount and vice versa".
26. Single Entry System	:	An accounting system used to prepare final accounts from the various incomplete records prepared by ignoring double entry system.
27. Invoice	:	A business document prepared by seller on the occasion of credit sales of goods containing details about name, date, quantity and price.
28. Debit Note	:	A business document prepared by buyer on the occasion of purchase returns containing details about name, date, quantity and price.
29. Credit Note	:	A business document prepared by seller on the occasion of sales returns containing details about name, date, quantity and price.
30. Receipt	:	An acknowledgement for cash received from other persons for business dealings.
31. Voucher	:	An evidence document for the payment of cash to other party for business dealing.

32. Purchases Book	:	A book containing details about credit purchase of goods disclosing details about name, date, quantity and price.

33. Sales Book	:	A book containing details about credit sales of goods disclosing details about name, date, quantity and price.
34. Bills Receivable	:	A bill of exchange received from the debtors an account of credit sales.
35. Bills Payable	:	A bill of exchange issued to the creditors on account of credit purchase.
36. B/R Book	:	A book containing the details of bills received from debtors.
37. B/P Book	:	A book containing the details of bills issued to creditors.
38. Cash Book	:	A book containing the details of cash received and paid during a particular period.
39. Pass Book	:	A book containing the details of cash position in the bank account of a trader.
40. Trade Discount	:	A deduction allowed by seller from the list price of the goods on the occasion of large quantity of sales.
41. Cash Discount	:	A deduction allowed by seller to buyer at the occasion of cash sale or prompt payment on credit sales.
42. Petty Cash Book	:	A book in which entries are made for the payment of sundry day to day expenses in small amounts.
43. Imprest System	:	Maintaining a specific amount of cash balance in the petty cash book permanently.
44. Trial Balance	:	A two sided balanced statement contain all the account balances on a particular date.
45. Return Inwards	:	Sales returns
46. Return Outwards	:	Purchase returns
47. Carriage Inward	:	Transportation charges incurred on purchase of goods.
48. Carriage Outward	:	Transportation charges incurred on sale of goods.
49. Accounting Concept	:	The basic principles or assumptions or conditions upon which the accounting statements are prepared.
50. Accounting Convention	:	The basic principles or customs or traditions on which the accounting statements are prepared.
51. Separate Entity Concept	:	Assumption that business is a separate legal entity distinct from its proprietor.

52. Going Concern Concept	:	Assumption that business is intended to continue for an indefinitely long period.
53. Convention of Conservatism	:	Accounting principle that anticipate no profit and provide for all possible losses.
54. Convention of Consistency	:	Accounting principle that methods of accounting remain constant atleast for a particular period.
55. Convention of Materiality	:	Accounting principle that the importance of and accounting treatment of particular transaction is based on the economic significance.
56. Error of Omission	:	Mistake of omitting a transaction to record in the books.
57. Error of Commission	:	Mistake of entering a transaction at a different amount in the books.
58. Error of Principle	:	Mistake of application of accounting concepts and conventions.
59. Error of Compensation	:	Occurrence of two errors which counter balance each other while balancing the books.
60. Depreciation	:	Decrease or Decline in the value of asset due to usage and passage of time.
61. Bad Debts	:	The debts which are definitely known to be irrecoverable.
62. Provision for Bad Debts	:	Setting aside a specific amount or percentage on debtors in respect of estimated bad debts.
63. Provision for Discount on Debtors	:	Setting aside a specified amount or percentage on debtors in respect of estimated discount.
64. Provision for Discount on Creditors	:	Provision for anticipated gain in respect of discount on sundry creditors.
65. Interest on Capital	:	Amount payable by the business concern to the proprietor at a given rate on the amount of capital.
66. Interest on Drawings	:	Amount payable by the proprietor to his business concern at a given rate on the amount of drawings.
67. Outstanding Expenses	:	Expenses remain unpaid at the end of the accounting year.
68. Prepaid Expenses	:	Expenses paid during the year but benefit remain unexpired on the closing date.

69. Accrued Income : Income earned during the year but not yet received on the date of closing of accounts.

70. Income Received in Advance : Income received during the year but service thereon remine incomplete at the date of the closing of the accounts.

71. Fixed Assets : Assets acquired for permanent use of the business.

72. Current Assets : Assets acquired for trading purpose.

73. Fixed Liabilities : Financial commitments payable after one year.

74. Current Liabilities : Financial commitments payable shortly with in one year.

75. Tangible Assets : Assets having physical existence such as land, buildings etc.

76. Intangible Assets : Assets not having physical existence such as patents, pattern trade mark, good will, etc.

77. Fictitious Assets : Nominal assets exist only in the books of accounts such as preliminary expenses etc.

78. Contigent Assets : An asset whose existence is depend upon the happening of a certain even which may or may not take place.

79. Contigent Liabilities: A liabilities arise only on the happening of account certain even which may or may not take place.

80. Negotiable Instrument : A written promise in a legal document as per, "Negotiable Instruments Act. 1881".

81. Bills of Exchange : An instrument in writing containing an unconditional order.

82. Cheque : A bill of exchange drawn on a specified bankers and not expressed to be payable otherwise than on demand.

83. Promissory Note : An instrument in writing, not being the bank, contains an unconditional undertaking.

84. Drawer : The person who draws or writes the bills of exchange.

85. Drawee : The person on whom the bill of exchange is drawn.

86. Payee : Person who has the right to receive the amount of bills of exchange.

87. Maturity Date : The date on which a bill falls due for payment.

88. Bills Discounting : Sale of a bill to bank by the drawer or holder of the bill to meet immediate financial commitment.

89. Bills Endorsing	:	Transfer of a bill by holder or drawer to any other person except banker.
90. Endorser	:	The person transfer the bill to another.
91. Endorsee	:	The person to whom the bill is transferred from drawer or holder
92. Bill Honour	:	Settlement of bill of exchange promptly in time.
93. Bills Dishonour	:	Failure to settle the bill amount in due date.
94. Bills for Collection	:	Sending of the bill to the banker from the drawee by opening the separate account.
95. Bills Renewal	:	Extension of bill date by drawer on the request of the drawee.
96. Bills Retirement	:	Settlement of bill amount before the bill date.
97. Notice of Dishonour	:	Issue of notice through a Notary Public by drawer to drawee on the occasion of dishonour.
98. Noting Charges	:	Charges payable for the services of Notary Public.
99. Accommodation Bills	:	The bills drawn and accepted with no consideration passed or received.
100. Solvent	:	A person financially sound enough to discharge his liabilities.
101. Insolvent	:	A person whose liabilities are higher his assets and who is not capable of discharging his liabilities in full.
102. Consignment	:	An agency agreement under which the manufactures transfer goods to another person for making sales on commission basis.
103. Consignor	:	A person who transfer the goods under the agreement of consignment.
104. Consignee	:	A person who receives the goods under the agreement of consignee.
105. Account Sales	:	A accounting statement prepared by consignee for the submission to the consignor.
106. Normal Loss	:	Loss of stock due to a loss which is unavoidable in nature.
107. Abnormal Loss	:	Loss of stock due to a loss which is not natural and unavoidable.
108. Invoice price	:	Cost price plus a fixed percentage of profit on cost price.

109. Recurring Expenses	:	The expenses incurred after the goods have been received at consigninee godown.
110. Non recurring Expenses	:	The expenses incurred for bringing the books from the place of the consignor to the place of consignee.
111. Delcredre Commission	:	Additional commission payable to consignee to bear bad debts.
112. Joint venture	:	A temporary partnership agreement between two or more persons to undertake a particular business.
113. Co-venturers	:	The parties to the joint venture agreement.
114. Average Due Date	:	The arithmetic average of several due dates.
115. Base Date	:	A starting date from which average due date is calculated.
116. Grace Days	:	Grace period of three days customarily by allowed on the due date of a bill of exchange.
117. Account Current	:	An account of the transactions between two parties during a particular period in which interest is calculated at an agreed rate.
118. Forward Method	:	Counting of number of days for account current from date of transaction to the closing date.
119. Backward Method	:	Counting of number of days for account current from date of transaction to the closing date.
120. Periodical Balance Method	:	Counting of number of days for account current from date of one transaction to date of another transaction.
121. Red-Interest	:	Amount of interest accrued for the period between closing date and due date in the case of account current.
122. Trading Concern	:	A business concern established for the purpose of earning profit.
123. Non Trading Concern	:	A business concern which is not aimed at making profit.
124. Receipts and Payment a/c	:	An account showing movement of cash for a particular period.
125. Income and Expenditure a/c	:	An accounting statement showing income and expenses of a non-trading concern for a particular period.

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