

Chapter 7

Unit 1: Average Due Date

Question 1

A promissory note executed by Mr. X is due on 12.8.2007. What is the maturity date of the promissory note including grace days?

(2 Marks) (May, 2007)

Answer

Where the promissory note is due (including grace days) on public holiday, the preceding day shall be the due date. Hence, the due date is 14.8.2007.

Question 2

Mr. A advanced Rs.30,000 to Mr. B on 1.4.2008. The amount is repayable in 6 equal monthly instalments commencing from 1.5.2008. Compute the average due date for the loan.

(2 Marks) (May, 2008)

Answer

$$\begin{aligned}
 \text{Average due date} &= \frac{\text{Date of loan} + \text{Sum of months from the date of lending to repayment}}{\text{No. of instalments}} \\
 &= 1.4.2008 + \frac{(1 + 2 + 3 + 4 + 5 + 6)}{6} \\
 &= 1.4.2008 + 3.5 \text{ months} \\
 &= 16^{\text{th}} \text{ July } 2008
 \end{aligned}$$

Question 3

R had the following bills receivable and bills payable against S. Calculate average due date when the payment can be made or received without any loss or gain of interest to either party.

<u>Bills Receivable</u>			<u>Bills Payable</u>		
Date of the Bill	Amount (Rs.)	Tenure in months	Date of bill	Amount (Rs.)	Tenure in months
1.6.08	9,000	3	29.5.08	6,000	2
5.6.08	7,500	3	3.6.08	9,000	3
9.6.08	10,000	1	10.6.08	10,000	2
12.6.08	8,000	2	13.6.08	7,000	2
20.6.08	12,000	3	27.6.08	11,000	1

Holiday intervening in the period 15th August, 2008, 16th August, 2008, and 6th September, 2008.

(4 Marks) (November, 2008)

Answer

Calculation of Average Due Date (taking base date as 12th July, 2008)

<i>Date</i>	<i>Due date including days of grace</i>	<i>Amount (Rs.)</i>	<i>No. of Days from July 12</i>	<i>Products (Rs.)</i>	<i>Remarks</i>
1.6.08	4.9.08	9,000	54	4,86,000	Bills Receivable
5.6.08	8.9.08	7,500	58	4,35,000	
9.6.08	12.7.08	10,000	0	0	
12.6.08	14.8.08	8,000	33	2,64,000	
20.6.08	23.9.08	<u>12,000</u>	73	<u>8,76,000</u>	
		<u>46,500</u>		<u>20,61,000</u>	
29.5.08	1.8.08	6,000	20	1,20,000	Bills Payable
3.6.08	5.9.08	9,000	55	4,95,000	
10.6.08	13.8.08	10,000	32	3,20,000	
13.6.08	14.8.08	7,000	33	2,31,000	
27.6.08	30.7.08	<u>11,000</u>	18	<u>1,98,000</u>	
		<u>43,000</u>		<u>13,64,000</u>	
Difference of Products	=	Rs. 20,61,000 – Rs. 13,64,000 = Rs. 6,97,000			
Difference of Amount	=	Rs. 46,500 – Rs. 43,000 = Rs. 3,500			
Average Due Date	=	Base Date + $\frac{\text{Difference of Products}}{\text{Difference of Amount}}$			
	=	July 12 + $\frac{6,97,000}{3,500}$			
	=	July 12 + 199.14 or 199 days			
	=	27 th January, 2009			

Note:

- | | | |
|-------|----------------|----------------------------------|
| (i) | B/R of 12.6.08 | Due date changed due to holidays |
| (ii) | B/P of 3.6.08 | Due date changed due to holidays |
| (iii) | B/P of 13.6.08 | Due date changed due to holidays |

Question 4

Harish has the following bills due on different dates. It was agreed to settle the total amount due by a single cheque payment. Find the date of the cheque.

- (i) Rs. 5,000 due on 5.3.2009
- (ii) Rs. 7,000 due on 7.4.2009
- (iii) Rs. 6,000 due on 17.7.2009

(iv) Rs.8,000 due on 14.9.2009

(4 Marks) (November, 2009)

Answer

Calculation of number of days from the base date

<i>Due date</i>	<i>Amount (Rs.)</i>	<i>No. of days from 5.3.09</i>	<i>Product</i>
5.3.2009	5,000	0	0
7.4.2009	7,000	33	2,31,000
17.7.2009	6,000	134	8,04,000
14.9.2009	<u>8,000</u>	193	<u>15,44,000</u>
	<u>26,000</u>		<u>25,79,000</u>

$$\begin{aligned}\text{Average due date} &= \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}} \\ &= 5.3.2009 + \frac{25,79,000}{26,000} = 99 \text{ days}\end{aligned}$$

The date of the cheque will be 99 days from the base date i.e.12.6.2009. So on 12th June, 2009, all bills will be settled by a single cheque payment.

Unit 2: Account Current

Question 1

What is meant by 'Red-Ink interest' in an Account Current?

(2 Marks) (November, 2007)

Answer

In an Account Current, interest is calculated on the amount of a bill from the date of transaction to the closing date of the period concerned. In case the due date of the bill falls after the closing date of the account, then no interest is allowed for that period. However, it is customarily followed that interest from the date of closing to the due date is written in red ink in the appropriate side of the Account Current. This interest is called Red-Ink Interest. This Red-Ink interest is treated as negative interest.

Question 2

What is Account current?

(2 Marks)(May, 2008)

Answer

Account current is a running statement of transactions between parties, maintained in the form of a ledger account, for a given period of time and includes interest allowed or charged on various items. It is prepared when transactions regularly take place between two parties. An account current has two parties – one who renders the account and the other to whom the account is rendered.

Unit 3: Self Balancing Ledgers

Question 1

What are the advantages of self-balancing ledger system?

(4 Marks) (November, 2007)

Answer

Following are the advantages of self-balancing ledger system:

- (i) It fixes the responsibility on the ledger keeper who had to balance the ledger. The error is localized.
- (ii) Interim accounts can be prepared without personal ledger to be balanced.
- (iii) The total amount due from debtors and total amount payable to suppliers and creditors is readily available.
- (iv) The maintenance of general ledger would be easy as the voluminous debtors and creditors details are maintained in control accounts.

Question 2

From the following prepare General Ledger Adjustment account in Debtors Ledger and Debtors Ledger Adjustment account in General Ledger:

	Rs.
<i>Balance as on 1.4.2008</i>	
<i>Debit balances in Debtors ledger</i>	2,46,200
<i>Credit balances in Debtors ledger</i>	3,400
<i>Transactions during the month of April, 2008</i>	
<i>Credit sales</i>	9,74,900
<i>Sales return</i>	21,700
<i>Cash received from debtors</i>	8,62,100
<i>Discount allowed to debtors</i>	39,200
<i>Bills receivable received from debtors</i>	51,200
<i>Bills receivable dishonoured</i>	3,500
<i>Bills payable given to suppliers</i>	27,000
<i>Credit balance in Debtors ledger on 30.4.2008</i>	5,200
	(8 Marks) (May, 2008)

Answer

In Debtors Ledger											
General Ledger Adjustment Account											
Date		Particulars		Rs.		Date		Particulars		Rs.	
1.4.2008		To Balance b/d		3,400		1.4.2008		By Balance b/d		2,46,200	

1.4.2008 to 30.4.2008	To	Debtors ledger adjustment A/c:		1.4.2008 to 30.4.2008	By	Debtors ledger adjustment A/c:	
		Sales return	21,700			Sales	9,74,900
		Cash received	8,62,100			B/R dishonoured	3,500
		Discount allowed	39,200	30.4.2008	By	Balance c/d	5,200
		B/R received	51,200				
30.4.2008	To	Balance c/d (Bal. fig.)	2,52,200				
			<u>12,29,800</u>				<u>12,29,800</u>

In General Ledger

Debtors Ledger Adjustment A/c

Date		Particulars	Rs.	Date		Particulars	Rs.
1.4.08	To	Balance b/d	2,46,200	1.4.08	By	Balance b/d	3,400
1.4.2008 to 30.4.08	To	General ledger adjustment A/c:		1.4.2008 to 30.4.08	By	General ledger adjustment A/c:	
		Sales	9,74,900			Sales return	21,700
		B/R dishonoured	3,500			Cash received	8,62,100
30.4.08	To	Balance c/d	5,200	30.4.08		Discount allowed	39,200
						B/R received	51,200
					By	Balance c/d	2,52,200
						(Bal.fig.)	
			<u>12,29,800</u>				<u>12,29,800</u>

Question 3

What is the difference between the Sectional and Self-balancing system?

(4 Marks) (June, 2009)

Answer

- (i) Under sectional balancing system only one trial balance is prepared in General Ledger while under self balancing system, separate trial balance is prepared in each ledger.

- (ii) Under sectional balancing system, Total Debtors account and Total Creditors account are memorandum accounts and not the part of double entry system but under self balancing system adjustment accounts are the parts of double entry system.
- (iii) Under sectional balancing system, arithmetical accuracy of Sales Ledger and Bought Ledger can be checked by preparing Total Debtors account and Total Creditors account while under self balancing arithmetical accuracy of each ledger can be checked by preparing trial balance of each ledger.
- (iv) Under sectional balancing system, Total Debtors account and Total Creditors account are opened in General Ledger while under Self Balancing System, adjustment accounts are opened in General Ledger, Sales Ledger and bought ledger.

Question 4

From the following information furnished by X & Co., prepare Total Debtors Account.

Transactions for the month of March, 2009		Rs.
(i)	Sales (includes cash sales of Rs.7,000)	68,000
(ii)	Collections from debtors (cash)	57,000
(iii)	Discount allowed	2,000
(iv)	Bad debts written off	1,500
(v)	Cheques received	10,000
(vi)	Cheques dishonoured	2,000
(vii)	Return inward	700
(viii)	Bad debts written off – now recovered	500
(ix)	Provision for doubtful debts	1,200
(x)	Balance outstanding on 1.3.2009 (Receivables)	20,000

(4 marks)(November, 2009)

Answer

Total Debtors Account

	Rs.		Rs.
To Balance b/d	20,000	By Discount allowed	2,000
To Sales	61,000	By Bank A/c	10,000
To Bank A/c (Cheques dishonoured)	2,000	By Cash A/c	57,000
		By Bad debts A/c	1,500
		By Sales return A/c	700
		By Balance c/d	11,800
	<u>83,000</u>		<u>83,000</u>