

AVERAGE DUE DATE

In a business enterprise a large no of receipts and payments buy and sell from a single party may occur at several times to simplify the calculation of interest involved in such transactions the idea of average due date has been developed. In average due date on which a debtor pays all amounts due to his creditor without any loss or gain of interest for any of the party.

- Payment on average due date :
There is no loss or gain of interest to any party.
- Payment after average due date:
It is a loss to the creditor and gain to the debtor so creditor compensates this loss by charging interest at on agreed rate.
- Payment before average due date:
It is loss to debtor and gain to creditor so debtor generally allowed cash discount by creditor to compensate loss of interest.

BILL OF EXCHANGE:

- The term of bill after sight comenses from the date of acceptance of the bill.
- The term of the bill after date comenses from the date of drawing of the bill.
- In the above cases three grace days added to the due date to arrive at the date of maturity.
- When the bill is at sight on demand on presentation no grace days are added.
- When the due date of a bill is a public holiday the proceeding business day will be the due date.
- When the due date of a bill is an emergency or unforeseen holiday the following day will be due date.

THERE ARE TWO TYPES OF SITUATIONS FOR CALCULATING AVERAGE DUE DATE

1. Calculation of equated date when the amount is lent in various instalments and repayment is made in one instalment.
2. Calculation of equated date when the amount is lent in one instalment and repayment is made in various instalments.

1. Proforma



Analytical table					
Date	Amount (A)	Tenure (duration)	Due date	no of days from base date to due date (D)	Product (AXD)
	xxxxxxxxxx				xxxxxxxxxx

“Any due date is taken as base date in proforma but base date is lower due date is taken easy for calculation”.

Calculation of average due date and interest amount :

$$\text{Average due date} = \text{Base date (+/-)} \frac{\text{total product}}{\text{Total amount (days)}}$$

$$\text{Interest} = \text{total amount} \times \frac{\text{rate}}{100} \times \frac{\text{No of days from avg due date to payment date}}{365}$$

In case of bills receivable & bills payable Proforma:

Bills receivable

Analytical table

Date	Amount (A)	Tenure (duration)	Due date	no of days from base date to due date (D)	product (AXD)
	xxxxxxxx				xxxxxxxxxx

Bills payable

Analytical table

Date	Amount (A)	Tenure (duration)	Due date	no of days from base date to due date (D)	product (AXD)
	xxxxxxx				xxxxxxxxxx

- Base date is taken for bills receivable and bills payable is only one
- For convenience purpose base date is taken as earlier due date is taken to get the positive days easily to calculation.
- Due date is before the last transaction it is not considered. Actually average due date is get to do only all transactions.

$$\text{Average due date} = \text{base date (+/-)} \frac{\text{Difference of product (B/R)-(B/P)}}{\text{Difference of amount (B/R)-(B/P)}}$$

A partner has withdrawn money different intervals proforma:

Date of drawing	Amount(A)	no of days from base date to due date (D)	product AXD
	xxxxxxxx		xxxxxxxx

Calculation of average due date and interest amount

$$\text{Average due date} = \text{Base date (+/-)} \frac{\text{total product}}{\text{Total amount (days)}}$$

$$\text{Interest} = \text{total amount} \times \frac{\text{rate}}{100} \times \frac{\text{No of days from avg due date to payment date}}{365}$$

- Calculation of equated date when the amount is lent in one instalment and repayment is made in various instalments.
- When instalment amount is equal all periods.

Calculation of average due date and interest amount

$$\text{Average due date} = \text{date of loan} + \frac{\text{sum of duration from date of loan to date of each Instalment payment}}{\text{No instalments}} \text{ Yrs}$$

$$\text{Interest} = \text{total amount} \times \frac{\text{rate}}{100} \times \text{duration from date of loan to average due date}$$

Account current

Account current is a statement in debit and credit form containing various transactions that have taken between two parties during a particular period. The transactions are arranged chronologically & interest is charged on debit items and allowed in credit items at an agreed rate. Actually this account current is the copy of the account of the opposite party appearing in the books of sender with the additional column for interest. This is particularly prepared when the two parties agree that interest should be charged in respect of each transaction between them.

An account current is usually sent by:

- a) An agent to his principal
- b) A consignee to his consignor.
- c) A creditor to his debtor.
- d) A banker to his customer.
- e) A manufacturer to his dealer.

When X renders an account to Y the heading is “Y in account current with X”. It means Y is the receiver and X is the sender. The account is really a copy of Y’s account in X’s ledger. Therefore, the transactions are viewed solely from X’s point of view.

REDINK INTEREST:

Interest is computed, in an account current on the amount of transaction, from the due date of the transaction to the closing date of the period. In case of bills and future dated invoices, the due dates may fall either within the accounting period or outside the accounting period.

If the amount due after the closing dates, we have to calculate red ink interest. The red ink interest is to be calculated in the following manner:

- The number of days is ascertained from the closing date to the due date of such transaction.
- The no of days is multiplied with the amount of such transaction.
- The resultant products are generally deducted from ordinary products. so, if the product appears on the credit side, it will be taken on the debit side and vice versa.

The interest is calculated on the balance of products. In order to differentiate it from other products, the product of such amount is entered in “**redink**”. This is the reason why such a product is known as red ink interest product

Performa in case of bank transactions

customer in account current with bank								
date	Particulars	Withdrawn(dr)	deposit(cr)	balance	Dr/Cr	no of days	product (Dr/Cr Xbal)	
							Dr	Cr
	By cash (deposit)		xxxxxxx					
	To cash (withdrawn)	xxxxxxx						
	by interest		xxxxxxx					

$$\text{Interest} = \text{total product} \times \frac{\text{Rate}}{100} \times \frac{1}{365}$$

Calculate interest on credit and debit balances.

Proforma in case of trade transactions between debtor and creditor

Debtor in account current with creditor books (product method)											
date	particulars	due date	amount (A)	no of days due date to ending (D)	product (A X D)	date	particulars	due date	amount (A)	no of days due date to ending (D)	product (A X D)
	to sales						by purchases				
	to purchase returns						by sales returns				
	to bills payable						by bills receivable				
	to red ink interest as per contra						by red ink interest as per contra				
	to interest										

Debtor in account current with creditor books (interest tables method)											
date	particulars	due date	amount	no of days due date to ending	interest	date	particulars	due date	amount (A)	no of days due date to ending (D)	Interest
	to sales						by purchases				
	to purchase returns						by sales returns				
	to bills payable						by bills receivable				
	to red ink interest as per contra						by red ink interest as per contra				

SELF BALANCING LEDGERS

The firm generally maintain one ledger for all accounts involved as long as number of transactions is less or number of transactions is limited this one ledger system works well. But as the business system and the number of accounts increases especially those are debtors or creditors maintain all accounts in a single ledger becomes in practical. Hence multiple ledger system has been introduced under this system the ledgers are classified into three parts.

1. General ledger
 2. Debtors ledger
 3. Creditors ledger
- General ledger contains accounts.
 - a) Real accounts
 - b) Nominal accounts
 - c) Personal accounts (other than trade debtors creditors)
 - d) Debtors ledger adjustment account
 - e) Creditor ledger adjustment account
 - Debtors ledger
 - a) Trade debtors account
 - b) General ledger adjustment account
 - Creditors ledger
 - a) Trade creditors account
 - b) General ledger adjustment account

Preformat of adjustment a/c

Proforma of adjustment account

Debtors ledger adjustment account in general ledger

Total debtors account

Date	Particulars	amount	Date	Particulars	amount
	To balance b/d(due from customers)	xxxx		By Balance b/d(advance)	xxxx
	To general ledger adjustment account			By general ledger adjustment account	
	sales	xxxx		sales return	xxxx
	cheques dishonoured	xxxx		cash receipt	xxxx
	bills receivable dishonoured	xxxx		cheques receipt	xxxx
	discount allowed cancelled	xxxx		bills receivable	xxxx
	interest and expenses	xxxx		discount allowed	xxxx
	charged to debtors	xxxx		bad debts	xxxx
	cash paid to customer	xxxx		transfer from debtors ledger to creditors ledger	xxxx
	To balance c/d (advance)	xxxx		transfer from creditors ledger to debtors ledger	xxxx
				By balance c/d (due from customers)	xxxx

Transfer from debtors to creditor's ledger

Sometimes business firm may purchase goods from a person and may sell the goods to the same person on credit in such a case the person is a creditor as well as debtor to the firm it is an common practice to settlement both the accounts by the setting back of smaller bank of with that of the higher balance that off than the entry is

creditors a/c dr
To debtors a/c

Proforma of adjustment account					
creditors ledger adjustment account in general ledger					
Total creditors account					
Date	Particulars	amount	Date	Particulars	amount
	To balance b/d (advance)	xxxx		By balance b/d (due to suppliers)	xxxx
	<u>To general ledger adjustment a/c</u>			<u>By general ledger adjustment account</u>	
	cash paid	xxxx		purchases	xxxx
	cheques paid	xxxx		bills payable dishonoured	xxxx
	discount receipt	xxxx		cheques dishonoured	xxxx
	purchase returns	xxxx		endorsed bills dishonoured	xxxx
	bills payable	xxxx		interest payable to creditors	xxxx
	transfer from debtors to creditors ledger	xxxx		By balance c/d (advance)	xxxx
	transfer from creditors to debtors ledger	xxxx			
	To balance c/d (due to suppliers)	xxxx			

Transactions not recorded in adjustment account

1. Bad debts recovered
2. Provision for bad debts and doubtful debts
3. Provision for discount on debtors
4. Bills receivable and bills payable honoured
5. Bills receivable discounted
6. Bills payable matured
7. Cash sales

“Same entries in case of prepare general ledger adjustment account is prepared in trade debtors/ creditors account the entries are reversed”.

INSURANCE CLAIMS FOR LOSS OF STOCK OF AND LOSS OF PROFIT

Insurance contracts are the contracts of indemnity where by one Party called insurer under takes to indemnified the loss suffered by the other party called the insured on the happening of an in foreseen event in consideration of fixed sum of amount called premium.

Insurance claims can be covered in two situations

- 1 To cover the loss of stock in trade.
- 2 To cover the loss of profits due to disturbance of after the fire occurred.

LOSS OF STOCK

Steps involved in calculation of insurance claims for the loss of stock

- **Calculation of gross profit in the previous year**

$$\text{Gross profit rate} = \frac{\text{gross profit}}{\text{Total sales (normal sales)}} \times 100$$

If gross profit not known prepare trading account for the previous year to ascertain gross profit rate.

- To calculate the estimated value of stock as on the date of fire. For this purpose **“Memorandum Trading A/c” is prepared from the opening date to the date of fire.**
- **To find the salvaged stock.**

- **To find actual loss of stock due to fire**

Total stock as on date of fire	XXX
(-) salvaged stock	XXX

Actual loss of the stock	XXX

- **To calculate the amount of claims**

1. In case of over insurance actual loss is equal to claims.
2. In case of under insurance average clause should be applied

According to average clause

$$\text{Insurance claims} = \text{Actual loss} \times \frac{\text{Policy amount}}{\text{Total stock}}$$

LOSS OF PROFIT

When a fire occurs a part from direct loss on account of stock or assets destroyed there is also a consequential loss because for some time the business is disorganised or has to be discontinued and during that period the standing expenses of the business like rent salaries etc. will be continued more over there is loss of profit which the business would have earned during that period this loss can be insured against by loss of profit policy.

The loss of profit insurance is designed to protect against the consequential losses following the fire accident such as,

1. Net operating profit.
2. Loss on account of standing charges.
3. Increased cost of working (after fire expenses).

Steps involved in determination of the amount of claims under the loss of profit policy.

- **To calculate gross profit rate based on trading results of previous accounting year.**

$$\text{Gross profit rate} = \frac{\text{net profit} + \text{insured standing charges}}{\text{Total sales}} \times 100$$

If there is any special clause given for the adjustment to be made to gross profit rate it is to be done.

- **To calculate the amount of short sales it is the turnover lost during the indemnity period with regard to special circumstances clause if any**

Turn over during corresponding period to indemnity period	XXXX
(+/-) increase or decrease of t/o on amount of upward or down	
Word trend of turnover	<u>XXXX</u>
Adjusted turnover	XXXX
(-) actual turnover during indemnity period	XXXX

Short sales	XXXX

- Calculation of gross profit loss on short sales

Gross profit loss = short sales X gross profit rate

- **To calculate for increased cost of working least of the following is to be claimed**

- ❖ Actual additional expenses XXX
- ❖ Proportionate claims for increased cost

Net profit + insured charges		
-----	X actual additional expenses	XXX
Net profit+ total standing charges		
Or		
Adjusted turnover X gross profit loss		
-----	X expenditure	XXX
Adjusted turnover GPR + uninsured std charges		
- ❖ Savings in liability of insurer = insured sales / indemnity period sales X GPR XXX

Least of the above

- **To calculate gross claims**

Gross profit loss	XXX
(+)Increased cost of working	XXX
(-) savings in insured standing charges	<u>XXX</u>
Gross claims	<u>XXX</u>

- **To calculate the sum insurable**

Turnover of 12 months immediately preceding the date of fire	XXX
(+/-) increased /decreased of turnover due to upward or downward trend	<u>XXX</u>
Adjusted annual turnover	<u>XXX</u>

Sum insurable = adjusted annual turnover X GPR

- **To calculate net claims for loss of profits**

- In case of over insurance
Net claims = gross claims
- In case of under insurance average clause should be applied. According to average clause
Net claims = $\frac{\text{policy amount}}{\text{Sum insurable}} \times \text{gross claims}$

***** calculate the amount of insurance policy**

Gross profit on the basis of last year's sales	XXX
(+) increase of turnover	XXX
(+) increased standing charges (interest on overdraft)	<u>XXX</u>
Policy to taken for current year	<u>XXX</u>

