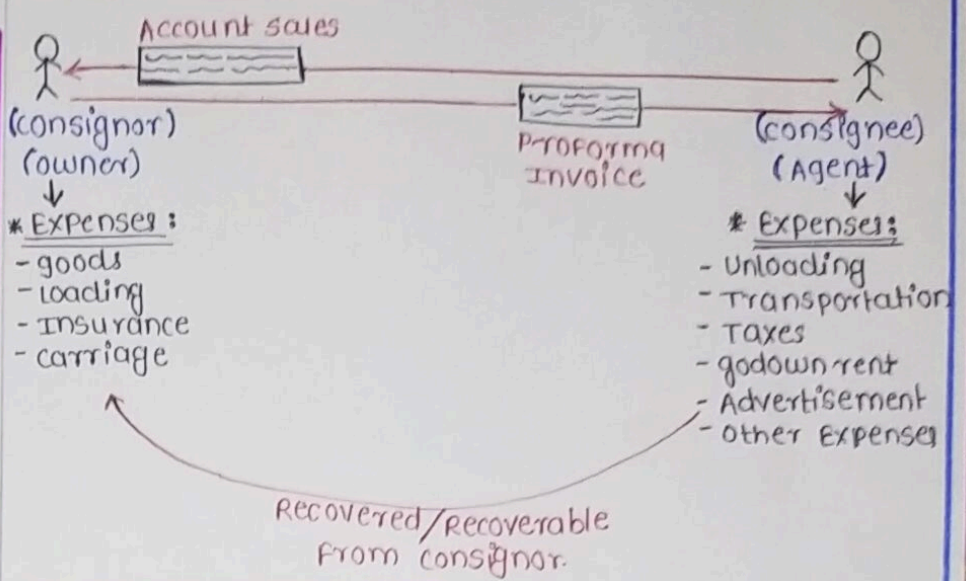


... CONSIGNMENT ...

Journal Entries

| In the books of consignor | In the books of consignee |
|--|---|
| <u>1) Goods sent on consignment</u> - consignment A/c — Dr. TO goods sent on consignment A/c | - NO entry |
| <u>2) Expenses by consignor.</u> - consignment A/c — Dr. TO cash/Bank A/c | - NO entry |
| <u>3) Expenses by consignee</u> - consignment A/c — Dr. TO consignee A/c | - consignor A/c — Dr. TO cash/Bank A/c |
| <u>4) Goods sold on consignment</u> - consignee A/c — Dr. TO consignment A/c | - cash/Bank/Debtors A/c — Dr. TO consignor A/c |
| <u>5) commission</u> - consignment A/c — Dr. TO consignee A/c | - consignor A/c — Dr. TO commission A/c |
| <u>6) Advance received from consignee.</u> - cash/Bank A/c — Dr. TO consignee A/c | - consignor A/c — Dr. TO cash/Bank/Bills payable |
| <u>7) stock on consignment</u> - stock on consignment A/c — Dr. TO consignment A/c | - NO entry. |
| <u>8) Goods in transit</u> - Goods in transit A/c — Dr. TO consignment A/c | - NO entry. |
| <u>9) Abnormal loss</u> - Abnormal loss A/c — Dr. TO consignment A/c | - NO entry. |

Introduction :-



Valuation of stock @ cost

| | units | Amnt ₹ | |
|--|-------|--------|-------------------------------|
| 1. Goods sent on consign. | xxx | xxx | ① valuation of stock @ IP : |
| (+) consignor's Expenses | - | xxx | |
| 2. (-) Abnormal loss | xxx | xxx | valuation of stock @ cost xxx |
| (-) Normal loss (in transit) | (xxx) | (xxx) | |
| 3. (+) Expenses by consignee (Till the godown) | xxx | xxx | (+) stock reserves xxx |
| 4. (-) Abnormal loss | xxx | xxx | xxx |
| (-) Normal loss (loss in godown) | (xxx) | (xxx) | |
| 5. Valuation of stock [total units - units sold] | xxx | xxx | Valuation of stock @ IP. |

*Journal Entries in the books of consignor

commission

Ordinary commission

- Bad debts is a risk of consignor

- Journal Entry: Sale

- Cash/Bank/Debtors A/c -Dr.
To consignor A/c

- Journal Entry: Bad debts

- consignor A/c -Dr.
To cash/Bank/Debtors A/c

Goods sent @ IP ₹120,000, Goods sold @ ₹150,000. Commission is 10% of sale @ IP plus 25% of gross sales less all commission exceeds IP.

Total commission = x

$$x = 10\% \cdot 120,000 + 25\% \cdot [150,000 - x - 120,000]$$

$$x = 12,000 + 7,500 - 0.25x$$

$$1.25x = 19,500$$

$$x = \frac{19,500}{1.25}$$

$$x = 15,600$$

Del-credere commission

- Bad debts is a risk of consignee.

- Journal Entry: Sale

- Cash/Bank/Debtors A/c -Dr.
To consignor A/c

- Journal Entry: Bad debts

- Bad debt/commission earned -Dr.
To cash/Bank/Debtors A/c

Goods sent @ IP ₹120,000 Goods sold @ ₹150,000. Commission is 10% of sales plus 25% of gross sales less all commission exceeds IP.

Total commission = x

$$x = 10\% \cdot 150,000 + 25\% \cdot [150,000 - x - 120,000]$$

$$x = 15,000 + 7,500 - 0.25x$$

$$1.25x = 22,500$$

$$x = \frac{22,500}{1.25}$$

$$x = 18,000$$

Over-riding commission

- Extra commission allowed by the consignor

- Normal case: Example

- Commission 25% on any surplus of sale price over invoice price.

- Special cases: Example (with calculation)

Goods sent @ IP ₹120,000, goods sold @ ₹150,000. Commission is 10% of sales plus 25% of gross sales exceeds IP.

Total commission = x

$$x = 10\% \cdot 150,000 + 25\% \cdot [150,000 - 120,000]$$

$$x = 15,000 + 7,500$$

$$x = 22,500$$

$$x = 22,500$$

Format of consignment A/c :-

In the books of consignor
consignment A/c

| | | | |
|--|-----|----------------------------------|-----|
| To goods sent on consignment | xxx | By goods sent on consignment A/c | xxx |
| @ cost | | (Loading if goods sent @ IP) | |
| @ IP | | By loss in transit | xxx |
| To cash/Bank A/c (Expenses) | xxx | By insurance claim | xxx |
| To consignee A/c (Expenses) | xxx | By goods in transit | xxx |
| To consignee A/c (Commission) | xxx | By consignee A/c (Sales) | xxx |
| To stock reserves A/c (Loading if goods are sent @ IP) | xxx | By stock with consignee | xxx |
| To Profit & Loss A/c (Profit) | xxx | @ cost | |
| | | @ IP | |
| | | By Profit & Loss A/c (Loss) | xxx |
| | xxx | | xxx |

AS-2 - Inventory should be valued at **cost** or NRV (Market price) whichever is lower.

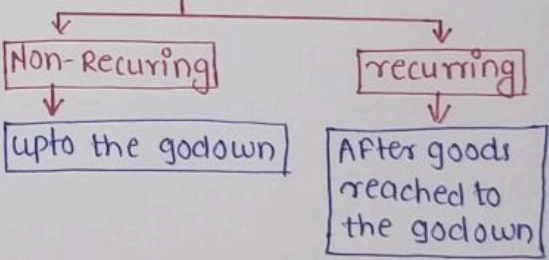
* cost including everything to bring the inventory at present location & condition.

* Godown तक का खर्चा (H) करना है।

consignors expenses :-

Non-recurring nature

consignee's expenses :-



RECTIFICATION OF ERRORS....

Types of Errors

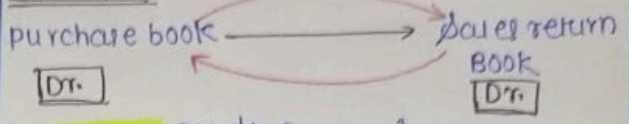
- ① Error of omission
↓
Entry karna bhul gaye (No entry in the books)
- ② Error of principle
↓
Accountant is not aware about the principles of accounting eg: capital receipt treated as revenue receipt
- ③ Error of commission
↓
Books की गलत बढाई & wrong amount etc.
- ④ Compensating error.
↓
one error compensate another error. [Not affected to trial balance]

Intra category :-

Points to be remember-

- Enter/Recorded
- Dr → Dr.
- Cr → Cr.

Example :-



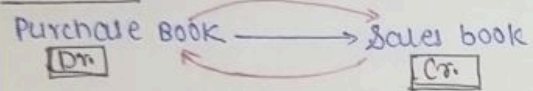
* purchase goods from vinay was recorded in sales return book ₹ 4000
 → Purchase A/c — Dr 4000
 TO Sales Return A/c 4000

Inter category :-

Points to be remember-

- Recorded / Entered
- Dr → Cr.
- Cr → Dr.

Example :-



* Purchase goods from Rani was recorded in sales book. (Amt ₹ 5000)

→ Purchases A/c — Dr 5000
 Sales A/c — Dr 5000
 TO Rani A/c 10000

Note: Whenever debit becomes credit & credit becomes debit effect is added.

casting error :- (Total me ghatas)

| | Undercasting | Overcasting |
|----------------------|---|---|
| Purchase Book | Purchases A/c — Dr TO Suspense A/c | Suspense A/c — Dr TO Purchases A/c |
| Sales Book | Suspense A/c — Dr TO Sales A/c | Sales A/c — Dr TO Suspense A/c |
| Sales Return Book | Sales Return A/c — Dr TO Suspense A/c | Suspense A/c — Dr TO Sales Return A/c |
| Purchase Return Book | Suspense A/c — Dr TO Purchase Return A/c | Purchase Return A/c — Dr TO Suspense A/c |

Rectification of errors Before preparing trial Balance.

Rectification should be done in respective ledger A/c
 ↓
 No use of Suspense Account.

Rectification of errors After preparing trial Balance.

Rectification should be done with preparing ~~profit~~ Suspense A/c

Rectification of errors when errors are rectified in next year.

All nominal Accounts included in rectification entry replaced with profit & loss Adjustment Account. (All items which directly hit to Trading/PL A/c should be replaced).

• Balance of suspense A/c as well as profit & loss Adjustment Account transferred to capital A/c because PL Adjustment Account directly affects capital A/c.

posted / debited / credited -

Rectification should be done by :-

| Wrong Entry | Correct Entry | Rectification Entry |
|-------------|---------------|---------------------|
| | | |

FINANCIAL STATEMENTS OF NON PROFIT ORGANISATION.

| Final Accounts | NPO |
|------------------|--|
| 1) P&L A/c | 1) Income & Expenditure A/c |
| 2) Balance sheet | 2) Balance sheet / statement of Affairs. |
| 3) Capital | 3) Accumulated Fund / Capital Fund. |
| 4) Profit | 4) Surplus |
| 5) Loss | 5) Deficit. |

Accounts Bole toh Entries

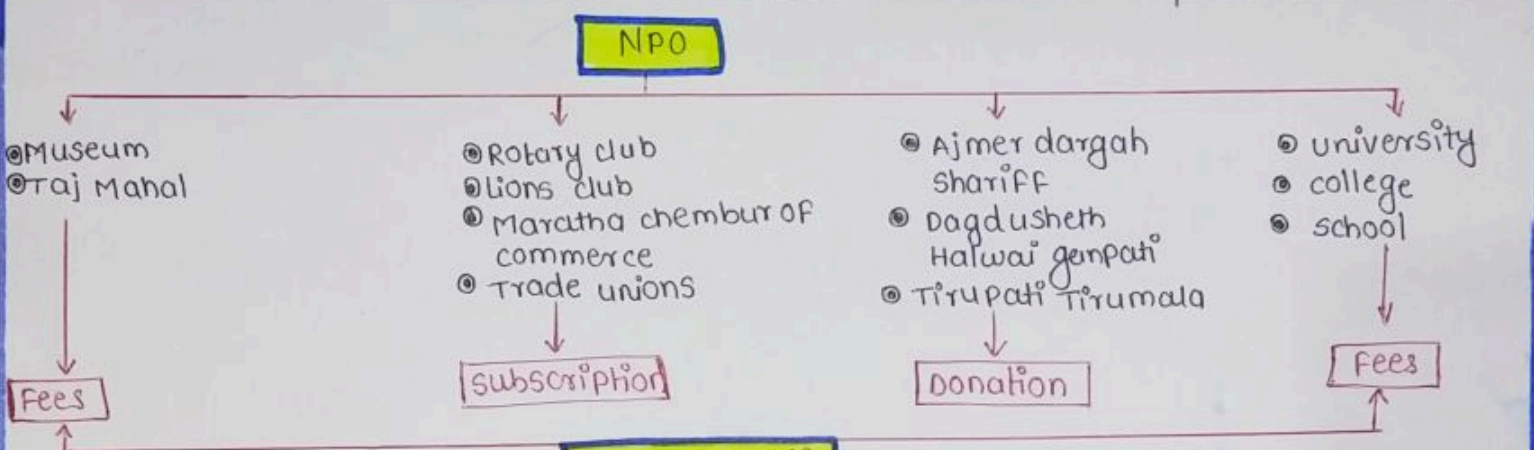
- Subscription : [Income]
 - Subscription received :-
 - Cash/Bank A/c - Dr. xxx
 - TO Subscription A/c xxx
 - Subscription receivable :-
 - Subscription receivable A/c - Dr. xxx
 - TO Subscription A/c xxx
 - Subscription received - in - Advance :-
 - Subscription A/c - Dr. xxx
 - TO Subscription rec. in Adv. A/c xxx

Expenses A/c

| | | | |
|----------------------|-----|-----------------------|-----|
| TO Prepaid exp. (OP) | xxx | By O/S Exp. (OP) | xxx |
| TO Cash/Bank A/c | xxx | By I & E A/c | xxx |
| TO O/S exp. (Cl.) | xxx | By prepaid exp. (Cl.) | xxx |
| | xxx | | xxx |

Income A/c

| | | | |
|-------------------------------|-----|-----------------------------|-----|
| TO Income Receivable (OP) | xxx | By Income rec. in Adv. (OP) | xxx |
| TO Cash/Bank A/c | xxx | By Cash/Bank A/c | xxx |
| TO Income & Exp. Enditure A/c | xxx | By Income receivable (Cl.) | xxx |
| TO Income rec. in Adv. (Cl.) | xxx | | xxx |



Stock ≠ Creditors

* Stock consumed :-

| | | |
|-------------------|-------|---------------------|
| opening stock | xxx | → (Op. B/S - A) |
| (+) purchases | xxx | |
| (-) closing stock | xxx | → (Cl. B/S - A) |
| consumed | → xxx | → (I & E A/c - Dr.) |

Funds used :-

Fund A/c - Dr. xxx
TO Cash A/c/Bank A/c xxx

Fund Accounting - Journal Entries

- Fund Received :-
 - Cash/Bank A/c - Dr. xxx
 - TO Fund A/c xxx
- Fund converted into investment :-
 - Investment A/c - Dr. xxx
 - TO Cash/Bank A/c xxx
- Interest rec. on fund investment :-
 - Cash/Bank A/c - Dr. xxx
 - TO Interest on investment A/c xxx
- Interest on investment transferred to Fund A/c :-
 - Interest on investment A/c - Dr. xxx
 - TO ~~prize~~ Fund A/c xxx

◎ Formats :-

◎ Receipts & payments A/c -

In the books of _____
Receipts & payments A/c
 For the year ended _____

| Receipts | ₹ | payments | ₹ |
|--------------------------------------|-----|--|-----|
| <u>To balance b/d :</u> | | By salaries | xxx |
| - cash | xxx | By insurance | xxx |
| - Bank | xxx | By Rates & taxes | xxx |
| To subscription received | xxx | By postage & telegram | xxx |
| To membership fees | xxx | By printing & stationery | xxx |
| To entrance fees/ Admission fees | xxx | By purchase of Fixed Asset | xxx |
| To life membership fees | xxx | By Newspapers & periodicals | xxx |
| To interest | xxx | By payments for purchase of food stock | xxx |
| To donation | xxx | By general exp. | xxx |
| To donation for building fund | xxx | By sports material | xxx |
| To Receipt for prize fund | xxx | By prizes awarded | xxx |
| To interest on prize fund investment | xxx | <u>By Balance c/d :</u> | |
| To sale of refreshments | xxx | - cash | xxx |
| To sale of old newspaper | xxx | - Bank | xxx |
| To sale of sports material | xxx | | |
| | xxx | | xxx |

◎ Income & expenditure A/c -

In the books of _____
Income & expenditure A/c
 for the year ended _____

| Expenditure | ₹ | Income | ₹ |
|---|-----|---------------------------------------|-----|
| To salaries | xxx | By subscrip-tion | xxx |
| To insurance | xxx | By Entrance fees | xxx |
| To Rates & taxes | xxx | By interest | xxx |
| To Honorarium | xxx | By Donation | xxx |
| To postage & telegram | xxx | By profit from sale of asset | xxx |
| To printing & stationery | xxx | By profit from sale of refreshment | xxx |
| To newspapers & periodicals | xxx | By profit from sale of old newspapers | xxx |
| To general exp. | xxx | By sale of sports material | xxx |
| To sports material | xxx | By excess of expenditure over income | xxx |
| To loss on sale of Asset | xxx | (Deficit) | |
| To Depreciation on fixed asset | xxx | | |
| To Excess of income over expenses (Surplus) | xxx | | |
| | xxx | | xxx |

◎ Balance sheet/ statement of Affairs -

Statement of Affairs/ Balance sheet
 as on _____

| Liabilities | ₹ | Assets | ₹ |
|-------------------------------|-----|----------------------|-----|
| Creditors outstanding | xxx | Cash | xxx |
| Expenses Advance subscription | xxx | Bank | xxx |
| Donation for Building Fund | xxx | Accrued subscription | xxx |
| <u>Price Fund:</u> | | Prepaid expenses | xxx |
| (+) Receipts | | Fixed Asset | |
| (+) Interest | | (-) sale | |
| (-) Expenses | xxx | (+) purchases | |
| <u>Capital Fund</u> | | (-) depreciation | xxx |
| (+) Surplus/ (-) deficit | | Investments | xxx |
| (+) life membership fees | | Prize fund | xxx |
| (+) Legacies | | Investment stock | xxx |
| (+) Donation | xxx | | |
| | xxx | | xxx |

◎ Entrance Fees - Kai Salo Ki Income hai.

• Entries :-

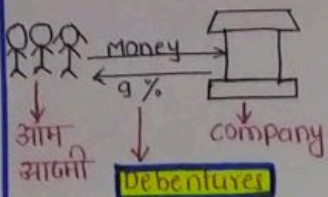
cash/Bank A/c -Dr. xxx

To Entrance Fees A/c xxx

[Depends on Problem] Entrance Fees A/c -Dr. xxx
 To Income & Expenditure A/c xxx
 To Capital fund A/c xxx

* ISSUE OF DEBENTURES *

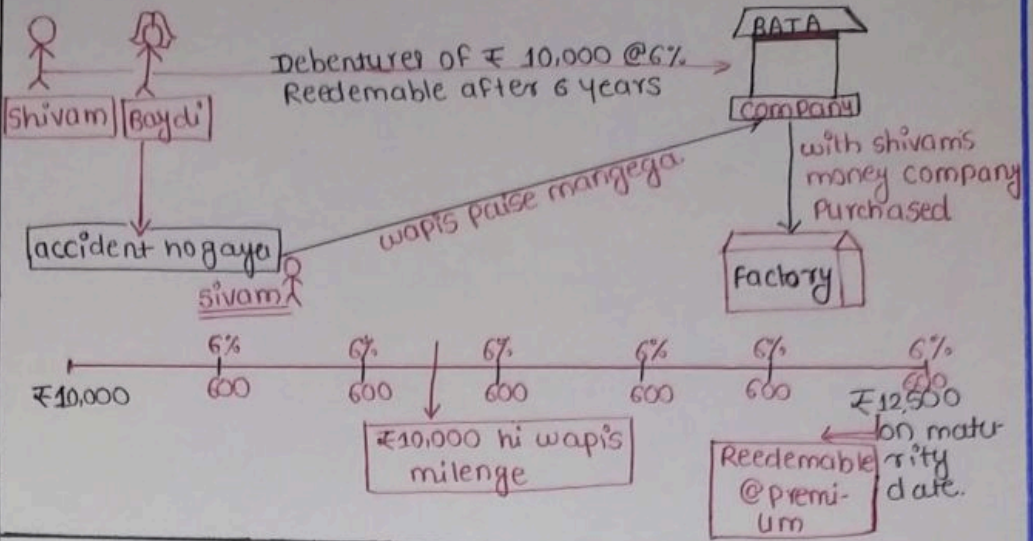
Journal Entries are similar to issue of shares



- * Also known as Bond *
- * Debt acknowledge under the Seal of the company.
- * Debenture = loan
- Issued @ Par
- Issued @ Premium
- Issued @ Discount

REDEEMABLE @ PREMIUM :-

Example: Why company Redeem debentures @ premium?



Issued @ Par; Deb = 100

- Redeemable @ Par (100)
 - c/b A/c - Dr. [100]
 - TO 10% Deb. A/c [100]
- Redeemable @ Premium (110)
 - c/b A/c - Dr. [100]
 - LOSS ON ISSUE A/c - Dr. [10]
 - TO 10% Deb. A/c [100]
 - TO Premium on Redemption A/c [10]

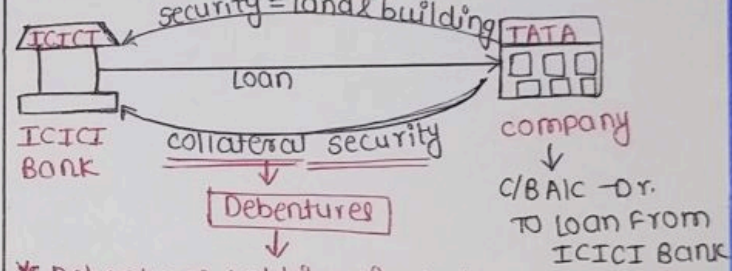
Issued @ Premium; Deb = 110

- Redeemable @ Par. (₹ 100)
 - c/b A/c - Dr. [110]
 - TO 10% Deb. A/c [100]
 - TO SP A/c [10]
- Redeemable @ Premium (₹ 120)
 - c/b A/c - Dr. [110]
 - LOSS ON ISSUE A/c - Dr. [20]
 - TO 10% Deb. A/c [100]
 - TO SP A/c [10]
 - TO Premium on reedump. [20]

Issued at Discount; Deb = 95

- Redeemable @ Par (₹ 100)
 - c/b A/c - Dr. [95]
 - DISC. A/c - Dr. [05]
 - TO 10% Deb. A/c [100]
- Redeemable @ Premium (₹ 120)
 - c/b A/c - Dr. [95]
 - DISC. A/c - Dr. [05]
 - LOSS ON ISSUE A/c - Dr. [20]
 - TO 10% Deb. A/c [100]
 - TO Premium on [20]

* Collateral Security :-



* Debentures tabhi activate honge jabhi "company fails to pay amount of loan"

* Once the debentures are activated all the compliances should be followed.

Treatment of collateral security

- Issue**
 - No Entry
- Option: 1 - company Balancesheet**

Balance Sheet (Extract)

| | |
|---------------------------------------|-----|
| Loan (Secured by collateral security) | xxx |
| Debentures | --- |
- Option: 2 - Journal Entry. Karo.**
 - Debenture suspense A/c - Dr. [B/S - Non-current Asset]
 - TO Debenture A/c
 - ↓
 - [B/S (L)]

6. Accrual Concept -

- Income is recognized as & when it is earned & expenses are recognized as & when it is incurred.
- | |
|------|
| Paid |
|------|

| |
|----------|
| Received |
|----------|

 \rightarrow

| |
|---------|
| Ignored |
|---------|
- e.g. - outstanding exp., outstanding/Accrued income/prepaid expenses/ income rec. in advance.
- Also called as mercantile basis of accounting.

7. Dual Aspect concept -

- Asset \uparrow capital / liability \uparrow
- Asset \downarrow capital / liability \downarrow

* Short cut -

- Asset \propto liability / capital.
- Asset $\frac{1}{\propto}$ Asset.
- liability $\frac{1}{\propto}$ liability / capital.
- same things move in opposite direction.
- opposite things move in same direction.
- Every business transaction has two-fold effects & it is referred to as dual aspects or double aspects or duality of aspects.
- Equity (E) + Liability (L) = Assets (A)

CONVENTIONS -

1) Matching concepts -

- In the financial statements of the organizations if any revenue is recognized then expense related to earn that revenue should also be recognized.
- This concept is based on accrual concept as it considers the occurrence of expenses & income & does not concentrate on actual inflow & outflow of cash.
- This leads to certain adjustments like prepaid & outstanding expenses, unearned or accrued incomes.

2. Materiality (Relative Importance) -

- According to materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements.
- Materiality principle permits other concepts to be ignored, if their effect is not considered material.
- This principle is an exception to the full disclosure principle.
- An item material to one person may be immaterial to another person.

3. Full Disclosure -

- Full disclosure refers to all the information that should be disclosed.
- Full disclosure principle should be always implemented in relation to materiality.

4. Consistency -

- In order to achieve comparability of financial statements of an enterprise through time, accounting policies should be followed consistently from one period to another.

5. Conservatism (includes prudence) -

- This principle is applied to report lower profits where alternatives exist. However, conservatism cannot justify deliberate understatement of profit.
- For this concept there should be at least three qualitative characteristics of financial statements namely -
 - 1) Prudence
 - 2) Neutrality
 - 3) Faithful representation of alternative values.

- 6. Realisation - Any change in the value of an asset is to be recorded only when the business has realized it.

ACCOUNTING CONCEPTS, CONVENTIONS AND PRINCIPLES.....

ACCOUNTING CONCEPTS - Rules which are uniform throughout the world.

CONVENTIONS - Which is developed with repeated practice, custom, usage, etc. Need not have universal application. eg:- Materiality, prudence, etc.

Accounting principles - Defines the Assumptions on the basis of which financial statements of a business entity are prepared. They have universal application.

• Following are some Accounting principles-

1. Business Entity concept -

- Business & Businessman are separate persons.
- As per Business Entity concept every transaction is analysed from the point of view of a business, Enterprise and not that of a person who are associated with it.
- Applicable to all organisations.

2. Money Measurement concepts -

- As per money measurement concept transactions that are capable of being measured in terms of money are only recorded in books of accounts.
- Even foreign currency transactions are entered in reporting currency, i.e. Rupees.

Limitations - Non-monetary events, if they affect the results of the business materially are excluded. eg:- Government Policies.

• Fluctuations in the value of money.

3. Going Concern Concepts -

- Business is going to continue for foreseeable future.
- It is assumed that enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations.
- If such an intention or need exist, accounts have to be prepared on different basis & if so the basis used is disclosed.
- Valuation of Assets of a business entity is dependent on this Assumptions.

Limitations -

* Effect on Accounts -

- If going concern is followed, use HC
- If going concern is not followed, use MRV.
- Assets are shown at book values [on cost less dep basis] Hence, their present realisation values are Ignored.

4. Historical cost concepts -

- All Transactions/Assets of a business entity are recorded at the original cost price.
- Fixed Assets are recorded at time of their acquisition & thereafter systematically reduced by the process called as depreciation.

Limitations - In an inflationary situation when prices of all the commodities go up on an average, acquisition cost loses its relevance.

• Historical cost based accounts may lose comparability.

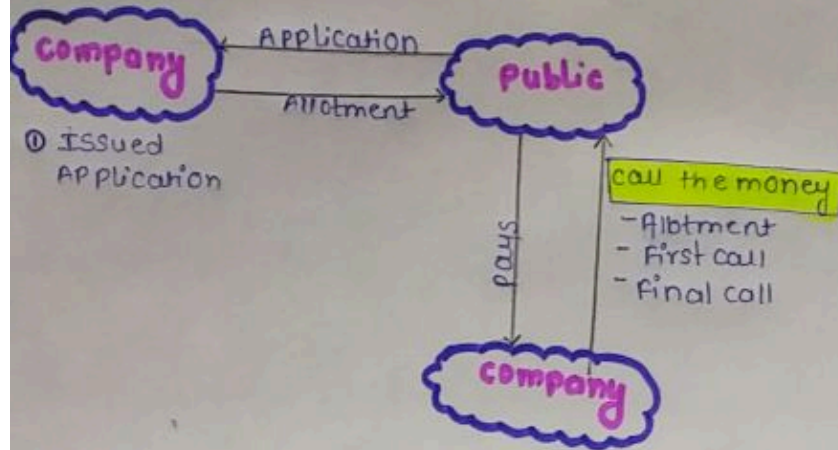
• Many assets do not have acquisition cost, Human assets of an enterprise are an example. The cost concept fails to recognize such assets.

5. Periodicity concept -

- As per going concern concept an indefinite life of the entity is assumed.
- Accounts should be prepared after every period and not at the end of the life of the entity.
- We generally follow from 1st April of a year to 31st March of the immediately following year.

...COMPANY ACCOUNTS...

● STEPS :-



● JOURNAL ENTRIES :-

- 1] Application money received :-
 - ⊙ Bank A/c - Dr.
 - TO Equity/preference share application A/c
- 2] Share Allotted :-
 - ⊙ Equity/preference share Application A/c - Dr.
 - TO Equity/preference share capital A/c
- 3] Amount due on Allotment :-
 - ⊙ Equity/preference share allotment A/c - Dr.
 - TO eq./pref. share capital A/c
- 4] Amount received on Allotment :-
 - ⊙ Bank A/c - Dr.
 - TO equity/pref. share Allotment A/c

5] Amount due on final call :-

- ⊙ Eq/pref. share final call A/c - Dr.
- TO Eq/pref. share capital A/c

6] Amount received on final call :-

- ⊙ Bank A/c - Dr.
- TO Eq/pref. share final call A/c

7] Call-in-Arrears :-

- ⊙ Bank A/c - Dr.
- call-in-Arrears A/c - Dr.
- TO share allotment/final call A/c

8] Call-in-Advance received :-

- ⊙ Bank A/c - Dr.
- TO call-in-Advance A/c

9] Call-in-Advance Adjusted & call money recd :-

- ⊙ Bank A/c - Dr.
- call-in-Advance A/c - Dr.
- TO Particular call A/c

10] Interest receivable on call-in-arrears :-

- * Maximum prescribed rate is 10%
- ⊙ Shareholder's A/c - Dr.
- TO Interest on call-in-Arrears A/c

11] Interest received on call-in-Arrears :-

- ⊙ Bank A/c - Dr.
- TO Shareholder's A/c

12] Int. due on call-

in-Advance :-

* Maximum prescribed rate is 12%.

- ⊙ Int. on call-in-Adv. - Dr.
- TO Shareholder's A/c

13] Payment of Interest

on call-in-Advance :-

- ⊙ Shareholder's A/c - Dr.
- TO Bank A/c.

⊙ **Equity/preference share capital -**
Allotted x Face value

⊙ **Equity/preference share Application -**
Applied x Issue price

⊙ **Equity share Allotment -**
Allotted x Issue price

⊙ **Equity/preference share first call -**
Allotted x Issue price

* Due ki entry kabhi nakhre nahi karti.

* Cash/Bank "Bayko" hai isliye Nakhre karti hai.

● SHARE FORFEITURE - [Face value]

- Cancellation of shares because of non-payments of amount due is called as share forfeiture.
- Shareholders are owners of the company & only paid back when company is liquidated/shut-down.

● MASTER ENTRY :-

- Share Capital A/c [called up value] - Dr.
- Security Premium A/c [write if not received] - Dr.
- TO Share Forfeiture A/c [amt rec - SP if any rec.]
- TO Call-in-Arrears A/c [Bal. figure]

● RE-ISSUE OF SHARES :-

○ Loss on reissue of shares :-

- Paid up value of reissued shares - reissued price

○ Capital Reserve :-

- Capital Reserve = Share Forfeited - Loss on reissue

○ EXAMPLES :-



(Share)

| FV | | IP | Called | Paid |
|----|--------|----|--------|---------|
| 3 | APP | 3 | ✓ | ✓ |
| 3 | Allot. | 3 | ✓ | ✓ |
| 2 | First | 2 | ✓ | X |
| 2 | Final | 2 | ✓ | X → (F) |
| 10 | | 10 | | |

- Company reissued fully paid-up shares @ ₹8

- 300 shares

- 1] Cash A/c - Dr.
- Share Forfeiture A/c - Dr.
- TO Share Capital A/c

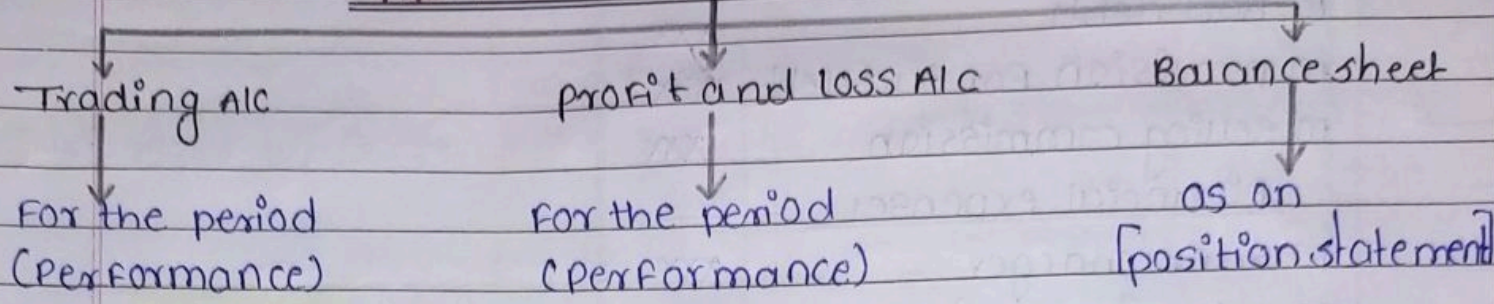
- 2] Share Forfeiture A/c - Dr.
- TO Capital Reserves A/c

● ALLOTMENT OF SHARES ON PRO-RATA BASIS :-

○ Working Note :-

- 1] No. of shares Applied
- 2] Application money received
- 3] No. of shares allotted.
- 4] Application money transferred to share capital [APP x FV]
- 5] Surplus
- 6] Amount due on allotment
- 7] Adjustment against allotment
- 8] Amount to be called on allotment.
- 9] Amount refunded.

FINAL ACCOUNTS



* Format :- Profit and loss A/c

In the books of _____

Profit and loss A/c for the year ended _____

| Particulars | Amt(₹) | Particulars | Amt(₹) |
|---------------------------------|--------|-----------------------------|--------|
| TO Gross loss b/d | xxx | By gross profit b/d | xxx |
| <u>Management expenses</u> | | <u>Other income</u> | |
| TO salaries | xxx | By discount received | xxx |
| TO office rent, rates & taxes | xxx | By commission received | xxx |
| TO printing and stationery | xxx | By interest received | xxx |
| TO telephone charges | xxx | <u>Non-Trading income</u> | |
| TO postage and telegram | xxx | By Bank Interest | xxx |
| TO insurance | xxx | By Rent on property | xxx |
| TO Audit fees | xxx | By Dividend from | xxx |
| TO legal charges | xxx | <u>shares</u> | |
| TO Electricity charges | xxx | By <u>Abnormal gains</u> | |
| <u>Maintainance expenses</u> | | By profit on sale of | xxx |
| TO repairs and renewals | xxx | <u>machinery.</u> | |
| TO depreciation on - | xxx | By profit on sale of | xxx |
| - office equipments | xxx | <u>Investment</u> | |
| - office furniture | xxx | | |
| - office Building | xxx | By Net loss (transfe- | xxx |
| <u>selling and distribution</u> | | <u>rred to capital A/c)</u> | |
| <u>expenses</u> | | | |
| TO salaries | xxx | | |
| TO Advertisement. | xxx | | |

TRADING ACCOUNT

| | | | |
|--|------------|--|------------|
| TO Godown rent | xxx | | |
| TO carriage outward | xxx | | |
| TO Bad debts | xxx | | |
| TO provision for Bad debt | xxx | | |
| TO selling commission | xxx | | |
| <u>Financial expenses</u> | | | |
| TO Bank charges | xxx | | |
| TO interest on loans | xxx | | |
| TO discount allowed to customers | xxx | | |
| <u>Abnormal losses</u> | | | |
| TO loss on sale of machinery | xxx | | |
| TO loss on sale of investment | xxx | | |
| TO loss by fire | xxx | | |
| TO Net profit (Transferred to capital A/c) | xxx | | |
| | <u>xxx</u> | | <u>xxx</u> |

*** Format of Trading A/c**

Trading A/c For the year ended _____

| Particulars | Amt(₹) | Amt(₹) | Particulars | Amt(₹) | Amt(₹) |
|-----------------------|--------|--------|------------------------------|--------|--------|
| TO opening stock | | xxx | By sales | xxx | |
| TO purchases | xxx | | (-) returns | (xxx) | xxx |
| (-) returns | (xxx) | xxx | By closing stock | | xxx |
| TO direct expenses | | | By Gross loss/cd | | xxx |
| - Freight & carriage | xxx | | By drawing of good | | xxx |
| - Customs & Insurance | xxx | | By Goods sent on consignment | | xxx |
| - wages | xxx | | By loss by fire | | xxx |
| | | | By free samples | | xxx |

| | | | | |
|-------------------------|-----|------------|--|------------|
| - Gas, water & fuel | xxx | | | |
| - Factory Expenses | xxx | | | |
| - Royalty on production | xxx | xxx | | |
| To Gross profit c/d | | xxx | | |
| | | <u>xxx</u> | | <u>xxx</u> |

* Format :- Balance sheet

Balance sheet as on _____

| Liabilities | Amt(₹) | Assets | Amt(₹) |
|-----------------------------------|------------|------------------------------|------------|
| Capital A/c | xxx | <u>Tangible Fixed Assets</u> | |
| (+) Net profit / (-) Net loss | xxx | Land & Building | xxx |
| (-) Drawings | xxx | plant & machinery | xxx |
| <u>Long term loans</u> | | Furniture & fixtures | xxx |
| Term loans | xxx | Vehicles | xxx |
| Other loans | xxx | <u>Intangible Assets</u> | |
| <u>Short term loans</u> | | Goodwill | xxx |
| Cash credit | xxx | Patents rights | xxx |
| Overdrafts | xxx | Design & brand names | xxx |
| Other loans | xxx | <u>Investments :-</u> | |
| <u>Current liabilities</u> | | Long term investments | xxx |
| Trade payables | xxx | <u>Current Assets</u> | |
| Outstanding expenses | xxx | Inventory in trade | xxx |
| Advance taken | xxx | Trade receivables | xxx |
| <u>Provisions</u> | | | |
| Provision for Bad debts | xxx | | |
| Provision for retirement Benefits | xxx | | |
| Provision for taxation | xxx | | |
| | <u>xxx</u> | | <u>xxx</u> |

⊙ Important Adjustments :-

1] Accrual :-

* Expenses *

⊙ Prepaid Expenses (Dr.)

Prepaid Expenses Alc -Dr
TO Expenses Alc

⊙ outstanding Expenses - (Cr.)

Expenses Alc -Dr
TO outstanding Expenses Alc

* Income *

⊙ Accrued Income - (Dr.)

Accrued Income Alc -Dr
TO Income Alc

⊙ Income received in advance

Income Alc -Dr
TO Income received in adv.

2] Interest on capital
Interest on capital Alc -Dr
TO capital Alc

3] Interest on drawings
capital Alc -Dr
TO Interest on drawings

4] Goods :-

Drawings of Goods

Free sample

Loss by fire

Drawings Alc -Dr
TO purchases Alc

Advertisement Alc -Dr
TO purchases Alc

Loss by fire -Dr
TO purchases

5]

Depreciation

Depreciation Alc -Dr
TO Fixed Asset Alc

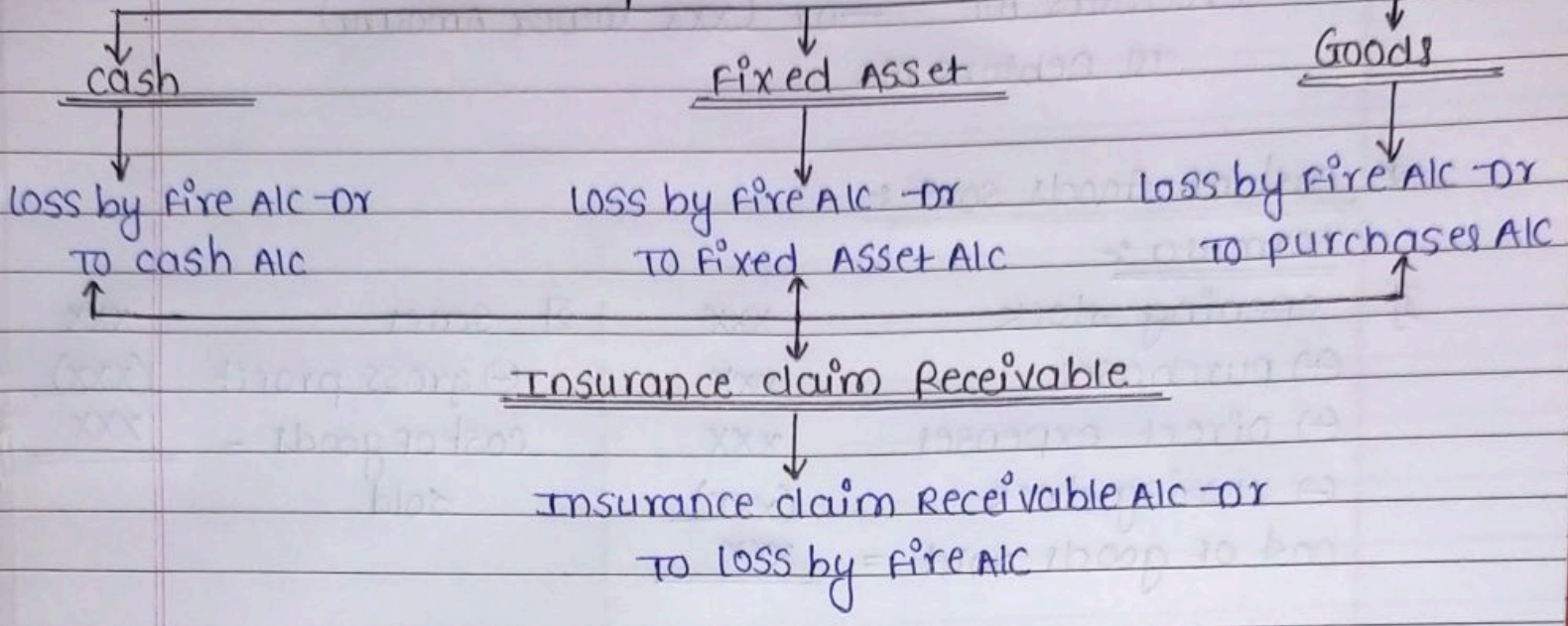
loss on sale [BV > SV]

Cash Alc/Bank Alc -Dr
Loss on sale Alc -Dr
TO Fixed Asset Alc

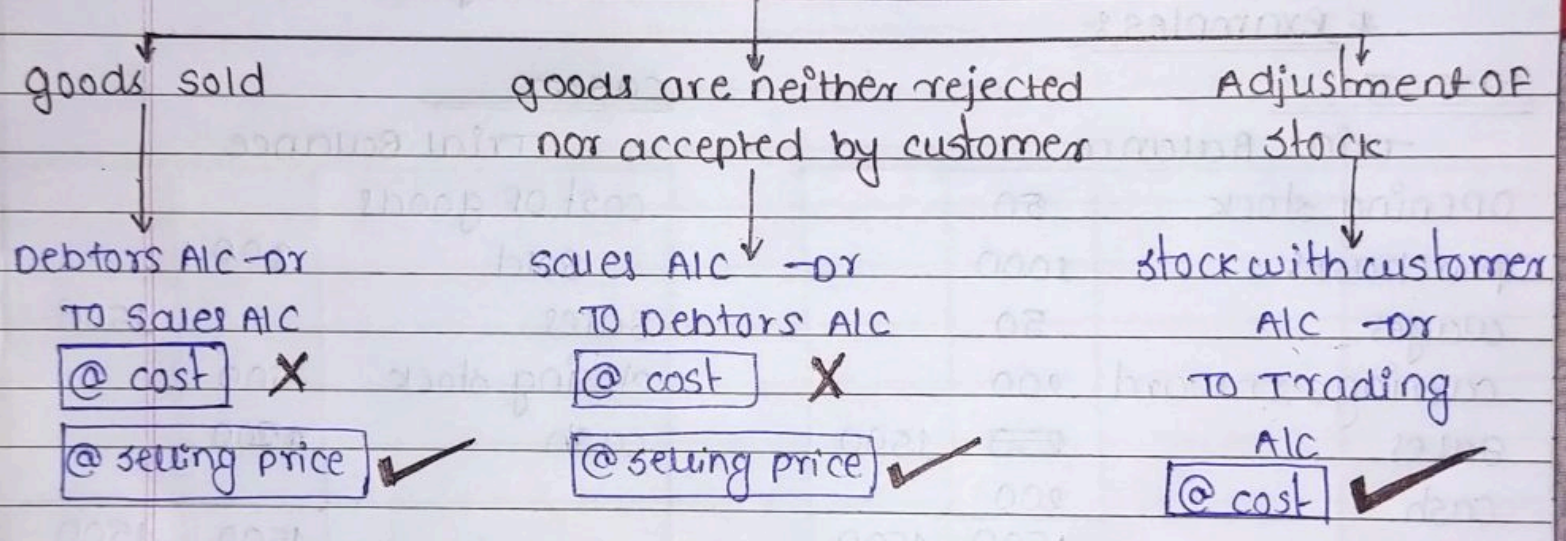
profit on sale [BV < SV]

Cash/Bank Alc -Dr
TO Furniture Alc
TO profit on sale Alc

6] Loss by Fire



7] Goods sold on sale or return basis



8] closing stock :-

closing stock A/c -Dr
TO Trading A/c

9] Format of Bad debts :-

| | Profit & Loss A/c | |
|-----------------------------|-------------------|-----|
| Bad debts (TB) | xxx | |
| (+) Further Bad debts (Adj) | xxx | |
| (+) New RDD (Adj) | xxx | |
| (-) old RDD (TB) | (xxx) | xxx |

10] Common debts :-
 creditors A/c — or (xxx lower Amount)
 TO Debtors A/c

* Cost of Goods sold :-

Formula :-

| | |
|----------------------|------------|
| 1] opening stock | xxx |
| (+) purchases | xxx |
| (+) Direct expenses | xxx |
| (-) closing stock | (xxx) |
| Cost of goods sold = | <u>xxx</u> |

| | |
|----------------------|------------|
| 2] Sales | xxx |
| (-) gross profit | (xxx) |
| Cost of goods sold = | <u>xxx</u> |

* How shown in Trial Balance & Trading A/c :-

* Examples :-

Case - I

Trial Balance

| | | |
|-----------------|-------------|-------------|
| opening stock | 50 | |
| purchases | 1000 | |
| wages | 50 | |
| carriage inward | 200 | |
| Sales | | 1500 |
| Cash | 200 | |
| | <u>1500</u> | <u>1500</u> |

Case - II

Trial Balance

| | | |
|--------------------|-------------|-------------|
| cost of goods sold | | |
| Sold | 800 | |
| Sales | | 1500 |
| closing stock | 500 | |
| Cash | 200 | |
| | <u>1500</u> | <u>1500</u> |

| | | | |
|---------------------|-------------|------------------|-------------|
| <u>Dr.</u> | | <u>Cr.</u> | |
| TO op. stock | 50 | By sales | 1500 |
| TO purchase | 1000 | By closing stock | 500 |
| TO wages | 50 | | |
| TO carriage inward | 200 | | |
| TO Gross profit c/d | 700 | | |
| | <u>2000</u> | | <u>2000</u> |

| | | | |
|-----------------------|-------------|------------|-------------|
| <u>Dr.</u> | | <u>Cr.</u> | |
| TO cost of goods sold | 800 | By sales | 1500 |
| TO Gross profit c/d | 700 | | |
| | <u>1500</u> | | <u>1500</u> |

PARTNERSHIP

Very-Very-Very Important chapter

..... BASICS OF PARTNERSHIP

- In the absence of Agreement PSR Equal.
 - Interest on capital is provided at the rate of 0.
 - Interest on Partner's loan is 6% P.A.
 - Interest on Partner's Drawings is 0.
- In absence of partnership deed (Agreement)

** Partnership Act ≠ Partnership Deed **

Journal Entries [P&L Appropriation Transfer].

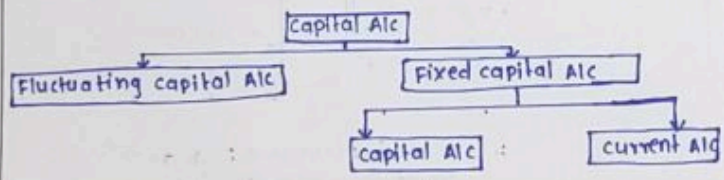
| Particulars | Journal Entries For Transaction | Journal Entries For closing |
|------------------------------------|---|---|
| 1. Interest on capital. | Int-on cap. Alc - Dr. TO Partner's cap. Alc | P&L Appropriation Alc - Dr. TO Int-on capital Alc |
| 2. Drawings | Drawings Alc - Dr. TO Purchases/Bank/cash Alc | Partner's capital Alc - Dr. TO Drawings Alc |
| 3. Interest on Drawings | Partner's cap. Alc - Dr. TO Int-on-Drawing | Int-on Drawings Alc - Dr. TO Profit & loss APP Alc |
| 4. Salary/Remuneration to Partners | Salary/rem to Part. - Dr. TO Partner's capital Alc | P&L Appropriation Alc - Dr. TO Salary/Remuneration to Partner Alc. |
| 5. Share of Profit to Partner's | | <u>Profit:</u> P&L Appropriation Alc - Dr. TO Partner's cap. Alc <u>Loss:</u> Partner's capital Alc - Dr. TO P&L Appropriation Alc |
| 6. Commission to partner's | Commission to Part Alc - Dr. TO Part. capital Alc | P&L Appropriation Alc - Dr. TO Commission to Part. |
| 7. Int-on partner's loan. | Int-on Partn. loan Alc - Dr. TO loan Alc/Part. capital Alc | P&L Appropriation Alc - Dr. TO Interest on Partner's loan Alc. |

FORMAT [Profit & Loss Appropriation Alc] -

| Dr. Profit & Loss Appropriation Alc | | | | Cr. | |
|--|------|---|------|-----|--|
| Particulars | Amnt | Particulars | Amnt | | |
| TO Profit & Loss Alc [Loss] | xxx | By Profit & Loss Alc [Profit] | xxx | | |
| TO Partner's salary Alc | xxx | By Int-on Partner's Drawings Alc | xxx | | |
| TO Part. commission Alc | xxx | By Partner's capital & current Alc [transfer of loss] | xxx | | |
| TO Int-on Partner's loan | xxx | | | | |
| TO Int-on Part capital Alc | xxx | | | | |
| TO Part capital & current Alc [transfer of Profit] | xxx | | | | |

Fixed capital Alc - [Partner's capital Alc]

| Dr. Partner's capital Alc | | | | Cr. | |
|--|-----|--|-----|-----|--|
| TO Bank Alc [Permanent withdrawal of capital] | xxx | By Balance b/d [capital contributed till last year]. | xxx | | |
| TO Balance c/d [Bal. of capital @ the end of the year] | xxx | By Bank Alc [fresh capital introduced.] | xxx | | |



Partner's Current Alc -

| Dr. Partner's current Alc | | | | Cr. | |
|-------------------------------|-----|----------------------------|-----|-----|--|
| TO bal. b/d [Debit bal.] | xxx | By bal. b/d [Cr-op. bal.] | xxx | | |
| TO Drawings | xxx | By salary | xxx | | |
| TO Int-on Drawings Alc | xxx | By Int-on capital Alc | xxx | | |
| TO P&L APP Alc [Loss] | xxx | By P&L APP [Profit] | xxx | | |
| TO bal. c/d [Cr-closing bal.] | xxx | By bal. c/d [Dr. cl. Bal.] | xxx | | |

Fluctuating Capital Alc -

| Dr. Partner's capital Alc | | | | Cr. | |
|--|-----|--------------------------|-----|-----|--|
| TO Bank Alc [Permanent withdr. of capital] | xxx | By bal. b/d [fresh cap.] | xxx | | |
| TO Drawings | xxx | By salary Alc | xxx | | |
| TO Int-on Drawings Alc | xxx | By Int-on capital Alc | xxx | | |
| TO P&L APP Alc [Loss] | xxx | By P&L APP Alc [Profit] | xxx | | |
| TO balance c/d | xxx | | | | |

Interest On Drawings -

Uniform Amount & uniform date -

* Beginning of month -

$$\text{Total Drawings} \times \frac{T}{100} \times \frac{6.5}{12}$$

* End of Month -

$$\text{Total Drawings} \times \frac{T}{100} \times \frac{5.5}{12}$$

* Middle of Month -

$$\text{Total Drawings} \times \frac{T}{100} \times \frac{6}{12}$$

* Beginning of Quarter -

$$\text{Total Drawings} \times \frac{T}{100} \times \frac{7.5}{12}$$

* End of Quarter -

$$\text{Total Drawings} \times \frac{T}{100} \times \frac{4.5}{12}$$

* Middle of Quarter -

$$\text{Total Drawings} \times \frac{T}{100} \times \frac{6}{12}$$

GOODWILL -

• Goodwill is future earning capacity of the business.

Valuation Methods -

1. Simple Average Method -
 Goodwill = Average Profit x No. of years purchase

* Care to be taken while calculating Average Profit -

- Ignore Abnormal years
- Reduce Any int-on capital/managerial remuneration to partner.

2. Weighted Average Method -

Goodwill = weighted Profit x No. of years purchase.

3] Super Profit Method -

- * Average Profit xxx
- (-) Normal Profit (xxx)
- [Capital employed x HRR %]
- Super Profit → xxx
- Goodwill = Super Profit x No. of years purch. asc.

4] Annuity Method -

• Goodwill = Super Profit x Annuity Factor.

5] Capitalisation Method -

- Capital that should be employed xxx
- [Profit earned HRR %]
- (-) Actual capital employed (xxx)
- Goodwill → xxx

AVERAGE CAPITAL EMPLOYED -

• How to calculate Average capital employed -

Method-1

- opening capital xxx
- (+) Profits xxx
- (-) Drawings (xxx)
- closing capital → xxx

• Average capital employed = $\frac{\text{opening cap} + \text{cl.}}{2}$

Method-2

• When opening capital Given -
 Average capital employed = opening + 1/2 Profit - 1/2 Drawings

Method-3

• When closing capital is Given -
 Average capital employed = closing - 1/2 Profit + 1/2 Drawings

Sacrificing Ratio =

$$\frac{\text{Old Ratio} - \text{New Ratio}}{\text{Old Ratio}}$$

Gaining Ratio =

$$\frac{\text{New Ratio} - \text{Old ratio}}{\text{Old ratio}}$$

ACCOUNTING OF GOODWILL-

- Goodwill brought in cash-
Cash/Bank A/c --- Dr.
TO sacrificing Partner's capital A/c
- Goodwill is given personally to partner's-
- NO Entry.
- Goodwill is not brought in cash-
Gaining partner's capital A/c - Dr.
TO sacrificing Partner's capital A/c

JOURNAL ENTRIES-

Revaluation on Assets & Liabilities-

- Assets (↑) - Assets A/c --- Dr.
TO Revaluation A/c
- Asset (↓) - Revaluation A/c --- Dr.
TO Assets A/c
- Liabilities (↑) - Revaluation A/c --- Dr.
TO Liability A/c
- Liabilities (↓) - Liabilities A/c --- Dr.
TO Revaluation A/c

Revaluation profits-

- Revaluation A/c --- Dr.] In old PSR
TO old Partner's capital A/c

Revaluation loss-

- old Partner's capital A/c --- Dr.] In old PSR
TO Revaluation A/c

New Partner introduced Capital-

- Cash/Bank A/c --- Dr.
TO Capital A/c

Goodwill withdrawn by partner's-

- Withdrawing partner's capital A/c -- Dr.
TO Cash/Bank A/c.

Accumulated Profits/Reserves/Surplus-

- Accumulated Reserves/surplus A/c --- Dr.
TO Partner's capital A/c [old PSR]

Accumulated losses-

- Partner's capital A/c --- Dr.
TO Accumulated Losses A/c [old PSR]

Unrecorded liability to be recorded-

- Revaluation A/c --- Dr.
TO Liability A/c

Unrecorded Asset to be recorded-

- Asset A/c --- Dr.
TO Revaluation A/c

Asset taken over by partner-

- Partner's capital A/c --- Dr.] Profit/loss go to Revaluation A/c
- TO Asset A/c

Liability taken over by partner's-

- Liability A/c --- Dr.
TO Partner's capital A/c

HIDDEN GOODWILL-

| | | |
|---------------------------|-----|-------|
| Firm's capital | xxx | |
| (-) All Partner's capital | | |
| A | xxx | |
| B | xxx | |
| C | xxx | (xxx) |
| • Hidden Goodwill | | xxx |

RETIREMENT OF PARTNER...

Special points-

- 1] Where will be balance of retiring partner will be transferred -
- 2] balance of retiring partner will be transferred to loan A/c or paid.

(a) loan -

- Retiring partner's cap. A/c - Dr.
TO partner's loan A/c

(b) paid -

- Retiring partner's cap. A/c - Dr.
TO cash/Bank A/c

Joint Life Policy-

- Accounting of JLP
- Premium is charged to P&L A/c [JLP does not appear in B/S]

- JLP Premium A/c - Dr (Exp)
TO cash/Bank A/c

- P&L A/c --- Dr
TO JLP Premium A/c

- Death - [Sum Assured]
- Alive - [Surrendered value]

- Cash/Bank - Dr - cash/Bank A/c - Dr
TO JLP A/c TO JLP A/c

- JLP A/c - Dr - JLP A/c - Dr
TO old Partner's in old PSR TO old partner's in old PSR.

- JLP is maintained at surrendered value - [Appears in B/S]

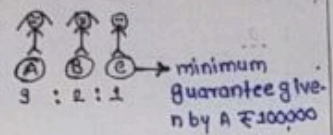
Balance sheet

JLP xxx
(Surrendered value)

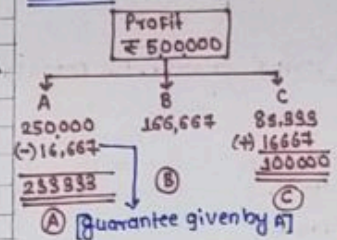
- Only surplus will be distributed to old partner's in old PSR.

Concept Of Minimum Guarantee-

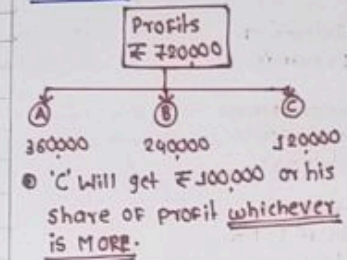
Guarantee-



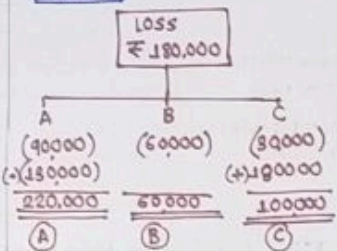
Case-I



Case-II



Case-III



DEATH OF A PARTNER

Joint life Policy

JLP (single policy)

- A, B, C [One policy]
- Premium is paid by firm.
- Sum assured assured.

JLP does not appear in B/S

- Alive - surrendered value
- 1] Cash/Bank A/c --- Dr.
TO old Partner's in old PSR.

- 2] Gaining partner - on TO sacrificing Partner [change ho sakti hai]

Death - Matured JLP

- Sum Assured
- 1] Cash/Bank A/c --- Dr
TO JLP A/c
- 2] JLP A/c --- Dr
TO old Partner's in old PSR.

- Appears in Balance sheet.
- Only credit profit to partner's

Joint & several

- A, B, C [Policy 1, 2, 3]
- A & B policy surrender nah Karenge.
- A & B total surrender value will be given to C's legal heir in PSR.

- sum assured + surrendered value of Alive Partner's
- premium is paid by firm.

Example -

