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Principles & Practice of Accounting

Accounting for Special Transaction

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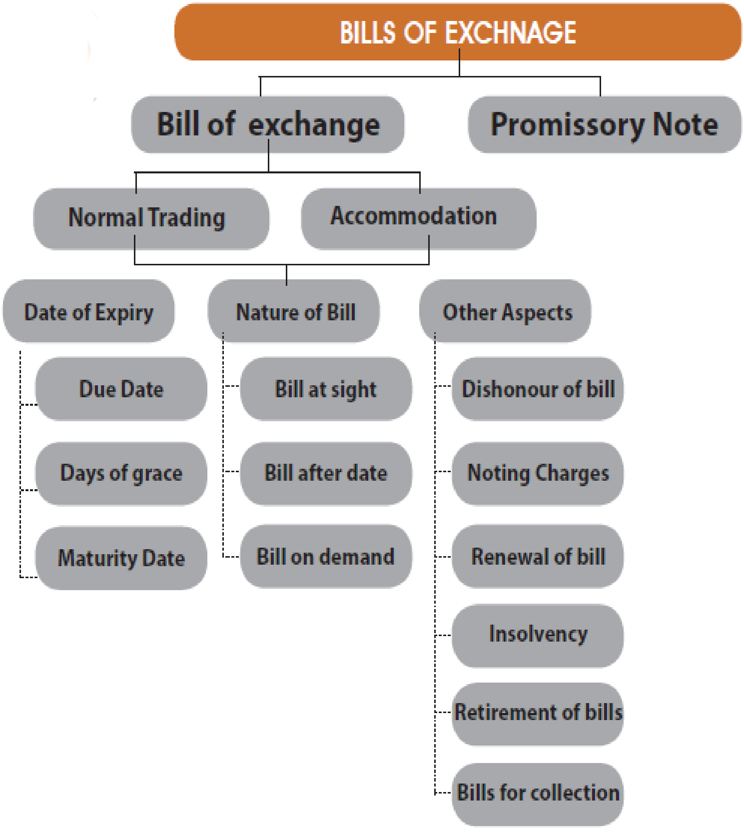
CHAPTER-6
ACCOUNTING FOR SPECIAL TRANSACTION

UNIT : 1
BILLS OF EXCHANGE AND PROMISSORY NOTES

INTRODUCTION



1. Promissory Note - Definition and Features

Meaning: As per Sec.4 of the Negotiable Instruments Act, 1881, a Promissory Note (P/N or Pro-Note) is

- an instrument in **writing** (not being a Bank Note or a 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, (see **Note** below)

Note: A Promissory Note **cannot** be made payable to **Bearer.** Sec.31 of the RBI Act, 1934, permits only RBI and Central v .eminent to make a P/N payable to Bearer on demand.

2. **Features of a Promissory Note:**

(a) P/N must be in **writing.**

(b) Generally, the consideration, place and date of making **need not** be mentioned on the P/N.

(c) A P/N must contain an undertaking / promise to pay. Mere acknowledgment of debt is not sufficient.

(d) The undertaking / promise to pay should be **unconditional** and **definite** (and not vague).

(e) P/N should be **signed** by the Maker himself.

(f) P/N should **specify the Payee** in clear terms i.e. by name, son of, and resident of, etc. The Payee can also be identified by description, e.g. a Promissory Note shall be made payable to the Managing Director of Ram- Industries Ltd.

(g) Sum payable must be certain or capable of being made certain. Along with principal, interest rate can also be specified.

(h) There must be a promise to pay only money and not other consideration.

(i) P/N must be duly stamped and dated. If the P/N is not dated, it is presumed to have been made on the date of its delivery.

Format of a Promissory Note

` **1,00,000 only** **Krishnakumar,**

34, New Street, Chennai

Three months after date, I promise to pay **Ramkumar** or his order, a sum of ` 1,00,000 only, for value received.

To Stamp

Sri. **Ramkumar** Signature of Krishnakumar

43, Old Street, Madurai. **Date:** 15th February 2009

Note: Here, **Maker** = Krishnakumar, **Payee** = Ramkumar.

2. Bills of Exchange-Meaning and Features

1. **Meaning:** As per Sec.5 of the Negotiable Instruments Act, 1881, a **Bill of Exchange** (B/E) 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.

Note: When prepared by the **Maker** (i.e. Seller of Goods), it is called **Draft.** Once it is accepted by the **Acceptor -**Buyer of Goods), it becomes a valid Bill of Exchange.

2. **Features of Bill of Exchange:**

(a) It must be in **writing.**

(b) It must contain an **order** to pay. Order must be **unconditional.**

(c) It must be dated.

(d) The instrument must be to pay **money only** and the amount of money payable must be **certain.**

(e) The party must **sign** the instrument.

(f) It must be properly **stamped** and all the three parties to a Bill (i.e. Drawer, Drawee and Payee) must be = with reasonable **certainty.**

3. **Parties involved:**

(a) The person who **makes** the order is known as the **Drawer** (or Maker), i.e. Seller of Goods.

(b) The person who **accepts** the order is known as the **Acceptor/ Drawee,** i.e. Buyer of Goods.

(c) The person to whom the amount is payable is known as the **Payee. [Note:** The Drawer and Payee -: same person. Sometimes, the Drawer may order the payment to a third party, i.e. Payee.]

4. **Example:** Ram sold goods to Laxman on credit for `50,000 on 1st January, payable after credit period of three months. On the same date, Ram draws a B/E to be paid 3 months after date and sends the draft to Laxman for acceptance. After Ram's acceptance, this draft becomes a valid B/E (i.e. Bills Receivable for Ram, and Bills Payable for Laxman). In the following B/E, Ram is the **Drawer,** Laxman is the **Acceptor,** and Krishna is the **Payee.**

Format of a Bill of Exchange

` 1,00,000 only Chennai, 15th February 2009

Three months after date, pay to Sri. **Krishna** or his order, a sum of ?1,00,000 only, for value received.

Stamp

To Accepted by me. Signature of **Ram**

Sri. Laxman

43,Old Street, Madurai. Signature of Laxman

3. Foreign Bill

An instrument which is **not** an Inland Instrument, is deemed to be a **Foreign Instrument.** So, the following are examples of Foreign Bills -

1 B/E drawn in India on a person resident **outside** India and made payable **outside** India.

2 B/E drawn **outside** India on a person resident **outside** India.

3. B/E drawn **outside** India and made payable in India.

4 B/E drawn **outside** India and made payable **outside** India.

4. Identify whether the following are Inland or Foreign Instruments

Description	Type	Reason
A bill drawn in Pune on a businessman in Chennai **Bid** accepted payable in California.	Inland	It is drawn in India plus drawn upon a Person resident in India.
A bill drawn in London on a trader in Chennai and accepted payable in Chennai.	Foreign	Drawn outside India.
A bill drawn in Lucknow on a trader in London and accepted payable in Chennai.	Inland	It is drawn in India plus Accepted Payable in India.
A bill drawn in Chennai on trader in America made payable in America.	Foreign	Drawn in India but neither it is made payable in India nor it is drawn upon a Person Resident in India.

5. Possible ways a Drawer can deal with a Bill of Exchange

After its acceptance, the Drawer of the Bill of Exchange, has the following options -

1 **Retention till maturity :** Drawer may retain the Bill upto the date of maturity with him. The B/E will be presented on due date by the Drawer himself.

2 Discounting with Bank

- Drawer may discount the Bill with his Bank, to get funds immediately.
- B/E for `1,00,000 payable after 3 months is discounted with Bank at 18%. Here, Discount Charges deducted by Bank = 1,00,000 x 18% x 3/12 = `4,500. So, Drawer will get ` 1,00,000 -`4,500 = `95,500, as funds immediately. This money can be circulated in his business.

3. **Endorsement :** Drawer may endorse the B/E in favour of a Third Party (i.e. his own Creditor), by signing on the back of the instrument. The person who endorses is called as the **Endorser,** and the person so entitled to payment is called **Endorsee.**

4. **Sent for Collection**

- For safety purposes, the Drawer may deposit the B/E with his Bank with clear instruction that the B/E should be retained till maturity, and should be realized on the due date.
- Here, there is no discounting, only deposit of the Bill with Bank. If the B/E is se" such instructions, it is called "Bills sent for Collection."

5. **Pledge**

Drawer may pledge the B/E with any Bank or Other Party for taking a Loan.

Note: Based on the above treatments, appropriate Journal Entries will be passed in the Drawer's books.

6. Maturity Date for P/N and B/E

1. **Maturity:** The Maturity of a Promissory Note or Bill of Exchange is the **date on which it falls due.**
2. **Days of Grace:** In calculating the maturity of a P/N or a B/E which is **not** payable on demand, presentment, **3 days of grace** shall be added to the date on which the instrument is expressed to be : -
3. **Instruments entitled to Days of Grace:**
   (a) A Note or Bill payable on a specified date.
   (b) A Note or Bill payable after sight.

(c) A Note or Bill payable after certain period of time.

(d) A Note or Bill payable after a certain period or after the happening of a certain event.

(e) Where a Note or Bill is payable in installments, days of grace are allowed on each instalment.

4. **Meaning of "At Sight", "On Presentment" and "After Sight":**

(a) In a P/N or B/E, the expressions "at sight" and "on presentment" mean, **"on demand".**

(b) In a P/N, the expression "after sight" means, **after** presentment for sight.

(c) In a B/E, the expression "after sight" means, **after acceptance,** or noting for non-acceptance or protest for non-acceptance..

5. **Provisions as to calculation of Maturity:**

Payable after	Maturity is at -
Stated number of months- ➲ **After date, or** ➲ **After sight, or** ➲ **After a certain event.**	➲ 3 days after corresponding date of the month after the **stated number of months** **Example: B/E dated 30th August ,is made payable 3 months after date. It matures on 3rd December** ➲ If the month in which the period terminates has on the last day of such month. 3 days of grace is added. **Example:** B E dated 30th January is payable 1 month after date. It falls due on 3rd March.
A certain number of days - ➲ After date, or ➲ After sight, or ➲ After a certain event.	➲ It shall be at maturity on the 3rd day after the specified day. ➲ While calculating the date at which a P/N or B/E made payable a certain number of days after date or after sight or after a certain event is at maturity, the day of the date,or of : presentment for acceptance or sight, or of protest for non - acceptance, or on which the event happens shall be excluded. **Example:** B/E dated 1st November is made payable 15 days after date. The period of 15 days will be days counted from 2nd November and the B/E will be at maturity On 19th November.
On a day when day of maturity is a Public Holiday. Official Gazette, to be a Public Holiday.	➲ Public holiday includes Sundays and any other day declared by the Central Government by notification in the ➲ A P/N or B/E which matures on a public holiday shall be deemed to fall due on the next preceding business day, e.g. if a B/E falls due on Sunday, it shall be deemed to be : on Saturday. ➲ A B/E which falls due on emergency holiday shall be deemed to be due on the ne succeeding business day.

7. Dishonour of B/E and payment of Noting Charges

Dishonour: Non-payment of Bill of Exchange on the due date is called **Dishonour.**

Noting: In case of dishonour of a B/E on the due date, the fact of dishonour, and the causes of dishonour should be ascertained and recorded on the B/E itself. Otherwise, the Acceptor may prove that the B/E was not properly presented to him on the due date and hence can escape from his liability.

Charges: Noting Charges refers to the fees paid to a Public Official known as **"Notary Public",** who records the fact 2nd causes of dishonour of B/E.

Accounting: Noting Charges is incurred by the person presenting the B/E on the due date, and is recoverable from the person causing the dishonour, i.e. the Acceptor.

8. Renewal of B/E

1. **Reason for Renewal**

- Sometimes, the Acceptor of a B/E is unable to pay **the** amount on the due date.
- In such case, the Acceptor may request the Drawer for an **extension** of time period,
- This constitutes Renewal of bill.

2. **Accounting for Renewal**

- Old B/E will be cancelled. So, the earlier Journal Entry relating to acceptance of Old B/E will be reversed.
- New B/E will be made out. Journal Entries are passed for recording the New B/E.

  Sometimes, the value of New B/E = Value of Old B/E + Interest, if any.

9. Retirement of B/E

1. **Reason for Retirement**

- Sometimes, the Acceptor of a B/E is ready to pay re amount, even before the due date.
- So, the Acceptor may request the Payee, for settling the payment before due date.
- constitutes **Retirement of Bill.**

2. **Accounting for Retirement**

- Acceptor is entitled to receive certain Interest or Discount (called **Rebate)** for making payment before the due date.
- This **Rebate** on Bills Retired before due date, constitutes Income of Acceptor, and Expense of Payee.

10. Accommodation Bills

1. **Meaning:**

   (a) Generally, B/E is drawn in support of a trade transaction, i.e. credit sales. However, B/E can **also** be utilized for raising finance (i.e. without a trade transaction).

   (b) When B/E is used for financing purposes, it is called as Accommodation Bill. **(Note:** An Accommodation Bill is also referred to as **"Kite".)**

2. **Example:**

   (a) Assume Abhinav & Balram are in need of funds, say `3,00,000 and ` 2,00,000, temporarily in business (3 months). Both draw a B/E on each other for ` 3,00,000 and ` 2,00,000 respectively, and discount the same with their respective Bankers. (Sometimes, a single B/E may also be drawn by one party on the other and discounted with the Bank, the proceeds will be shared by both parties in agreed ratio)

(c) On the respective due dates of the B/E, both parties pay their respective dues to the Bank.

11. Dealing with Insolvency of Drawee

1. **Meaning:** Insolvency of the Drawee means that he will be unable to pay his liabilities. This means that bills accepted - m will be dishonored on the due date.
2. **Accounting:** In the books of the Drawer, the following Journal Entries have to be passed

(a) For dishonour of B/R	Drawee A/c	Dr.
		To Bills Receivable A/c
(b) For recording final amount, if any, received	Cash A/c	Dr. (Amt actually received)
		To Drawee Account (Total Amount due)

12. Bills Receivable Book and Bills Payable Book

Point	Bills Receivable Book	Bills Payable Book
Purpose	To record all the bills received from Debtors	To record all the bills issued to the Creditors
Dishonour	Dishonour of B/E shall be recorded	Dishonour of B/E shall be recorded

CLASS WORK

MULTIPLE CHOICE QUESTIONS

1. On 1.1.2017, A draws a bill on B for `1,20,000 for 3 months' maturity date of the bill will be:

   (a) 1.4.2017 (b) 3.4.2017 (c) 4.4.2017

2. On 16.6.2016 P draws a bill on Q for `1,25,000 for 30 days. 19th July is a public holiday, maturity date of the bill will be:

   (a) 19th July (b) 18th July (c) 17th July

3. PQ draws a bill on XY for `130,000 on 1.1.2017. X accepts the same on 4.1.2017 for period of 3 months after date. What will be the maturity date of the bill:

   (a) 4.4.2017 (b) 3.4.2017 (c) 7.4.2017

4. A draws a bill on B. A endorsed the bill to C. The payee of the bill will be

   (a) A (b) B (c) C

5. A bill of ` 120,000 was discounted by Saras with the banker for `1,18,800. At maturity, the bill returned dishonored, noting charges ` 200. How much amount will the bank deduct from Saras's bank balance at the time of such dishonor?

   (a) `1,20,000 (b) `1,18,800 (c) `1,20,200

6. X draws a bill on Y for `300,000 on 1.1.2016 for 3 months after sight, date of acceptance is 6.1.2016.

   Maturity date of the bill will be:

   (a) 8.4.2016 (b) 9.4.2016 (c) 10.4.2016

7. X sold goods to Y for ` 5,00,000. Y paid cash `4,30,000. X will grant 2% discount on balance, and Y request X to draw a bill for balance, the amount of bill will be:

   (a) ` 98,000 (b) ` 68,000 (c) ` 68,600

8. On 1.1.2017, X draws a bill on Y for ` 5,00,000 for 3 months. X got the bill discounted 4.1.2017 at 12% rate. The amount of discount on bill will be:

   (a) ` 15,000 (b) ` 16,000 (c) ` 18,000

9. Mr. Jay draws a bill on Mr. John for ` 3,00,000 on 1.1.2017 for 3 months. On 4.2.2017, John got the bill discounted at 12% rate. The amount of discount will be:

   (a) ` 9,000 (b) ` 6,000 (c) ` 3,000

10. XZ draws a bill on YZ for ` 2,00,000 for 3 months on 1.1.2017. The bill is discounted with banker at a charge of `1,000. At maturity the bill return dishonoured. In the books of XZ, for dishonour, the bank account will be credited by:

    (a) `199,000 (b) ` 200,000 (c) ` 201,000

11. On 1.1.2017, XA draws a bill on YB for ` 1,00,000. At maturity YB request XA to renew the bill for 2 month at 12% p.a. interest. Amount of interest will be:

    (a) ` 2,000 (b) ` 1,500 (c) ` 1,800

12. A bill of exchange is drawn by a

    (a) Creditor (b) Debtor (c) Debenture holder

13. At the time of drawing a bill, the drawer credits

    (a) Bills Receivables A/c (b) Bills Payable A/c

    (c) Debtor's A/c

14. A promissory note is made by a

    (a) Seller (b) Purchaser (c) Endorsee

15. A bill of exchange contains

    (a) An unconditional order (b) A promise

    (c) A request to deliver the goods

16. A promissory note contains

    (a) An unconditional order (b) A promise

    (c) A request to deliver the goods

17. The rebate on the bill shows that

    (a) It has been endorsed

    (b) It has been paid after the date of maturity

    (c) It has been paid before the date of maturity

18. Notary Public may charge his fee from the

    (a) Holder of bill of exchange (b) Drawer (c) None

THEORETICAL QUESTIONS

1 Write short notes on:

(a) Accommodation bill.

(b) Renewal of bill.

(c) Noting charges.

2 What is bill of exchange? How does it diff er from Promissory Note?

HOME WORK

Q-1 On 1st January, 2016, A sells goods for `10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 1st March, 2016, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of B.

Q-2 A draws upon B three Bills of Exchange of ` 3,000, ` 2,000 and ` 1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest `100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for `1,500. The second bill was discounted by A at 5%. This bill on maturity was returned dishonored (nothing charge being `30). The third bill was retained till maturity when it was duly met.

Give the necessary journal entries recording the above transactions in the books of A.

Q-3 Journalize the following in the books of Don:

(i) Bob informs Don that Ray's acceptance for ` 3,000 has been dishonored and noting charges are ` 40. Bob accepts ` 1,000 cash and the balance as bill at three months at interest of 10%.Don accepts from Ray his acceptance at two months plus interest @ 12% p.a.

(ii) James owes Don ` 3,200; he sends Don's own acceptance in favour of Ralph for ` 3,160; in full settlement.

(iii) Don meets his acceptance in favour of Singh for ` 4,500 by endorsing John's acceptance for ` 4,450 in full settlement.

(iv) Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

UNIT : 2
SALE OF GOODS ON APPROVAL OR RETURN BASIS

INTRODUCTION

Under normal course of business, goods sold to customers is treated as sale immediately when the goods are sold, with corresponding revenue from such sale being recognized in the profit and loss account. However, when a businessman wants to increase his sales or introduce a new product in the market, he usually faces hardship due to competition prevailing in the market. To counter it, goods are sometimes sent to the customers on sale or return basis. Here, goods sent on 'approval' or 'on return' basis means goods are delivered to the customers with the option to retain or return them within a specified period. Generally, these transactions take place between a manufacturer (or a wholesaler) and a retailer. In current scenario, this practice is prevalent in case of online sales, where the buyer is given time of few days to return the goods if the buyer believes that the specifications of goods are different from the same mentioned on website at the time of sale. There may be certain terms and conditions to administrate the return of goods. Following are essentially the features of sale of goods on approval or return basis:

(a) There is a change in the possession of goods from one person to another.

(b) It does not involve transfer of ownership of goods. The ownership is passed only when the buyer gives his approval or if the goods are not returned within that specified period.

(c) The customer does not incur any liability when the goods are merely sent to him. In case of online transactions, sometimes customers are given choice to pay on receipt of goods and in some cases they are required to pay in advance and then seller ships the goods to buyer. Even in case the buyer has paid in advance, it retains the right of refund if the goods are returned as per the terms and conditions agreed between seller and buyer.

As per the definition given under the Sale of Goods Act, 1930, in respect of such goods, the sale will take place or the property in the goods pass to the buyer:

(i) When he signifies his approval or acceptance to the seller;

(ii) When he does some act adopting the transaction;

(iii) If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, on the expiry of the specified time (if a time has been expired) or on the expiry of a reasonable time (if no time has been expired).

Accounting entries depend on the fact whether the business sends goods on sale or return basis (i) casually; (ii) frequently; and (iii) numerously.

WHEN THE BUSINESS SENDS GOODS CASUALLY ON SALE OR RETURN BASIS

When the transactions are few, the seller on sending the goods, treats them as an ordinary sale. If the goods are accepted or not returned or the business receives no intimation within the specified time limit, no extra entry is required to be passed because the entry for sale (passed at the time of sending goods) becomes the usual entry after the expiry of the specified period. If the goods are returned within a specified time limit, a reverse entry is passed to cancel the previous transaction. If, at the year-end, goods are still lying with the customers and the specified time limit is yet to expire, the entry for sales made earlier is cancelled and the value of the goods lying with the customers must be reduced from the selling price to the cost price, and treated as ordinary Inventories for Balance Sheet purposes.

Journal Entries:

1. When goods are sent on sale or return basis:
   Trade receivables / Customers Account Dr. [Invoice price]
   To Sales Account
2. When goods are rejected or returned within the specified time:
   Sales/Return Inwards Account Dr. [Invoice price]
   To Customers/Trade receivables Account
3. When goods are accepted at invoice price:
   [No entry]
4. When goods are accepted at a higher price than invoice price:
   Trade receivables / Customers Account Dr.
   To Sales Account [Difference in price]
5. When goods are accepted at a lower price than the invoice price:
   Sales Account Dr.
   To Trade receivables / Customers Account [Difference in price]
6. (i) At the year-end, when goods are lying with customers and the specified time limit is yet to expire:
   Sales Account Dr. [Invoice price]
   To Trade receivables / Customers Account

(ii) These goods should be considered as Inventories with customers and in addition to the above, the following adjustment entry is to be passed:
Inventories with Customers on Sale or Return Account Dr.
To Trading Account [Cost price or market price whichever is less]

No entry is to be passed for goods returned by the customers on a subsequent date.

WHEN THE BUSINESS SENDS GOODS FREQUENTLY ON SALE OR RETURN BASIS

When a business sends goods on sale or return on a frequent basis, an immediate sale does not take place. Only when the customer signifies his intention to purchase the goods or takes some action whereby it is indicated that he has decided to purchase the goods, the property in the goods passes to the buyer. So long as the property does not pass to the buyer, the seller does not record it as a sale and, therefore, does not debit the customer with the sales price. Under this method, record of goods sent is maintained in a specially ruled Sale or Return Journal / Day Book instead of passing entry for sale of goods. This Day Book is divided into 4 main columns –

(1) Goods sent on Approval; (2) Goods Returned: (3) Goods Approved; and (4) Balance.

Goods sent on approval				Goods returned				Goods approved				Balance
1	2	3	4	5	6	7	8	9	10	11	12	13
Date	Particulars	Fol.	Amt.	Date	Particulars	Fol.	Amt.	Date	Particulars	Fol.	Amt.	Amt.

CLASS WORK

Q-1 Goods of Rs. 500000 of sale value sent to customer on sale or return basis out of which customer accepted goods of Rs. 300000 and rejected goods of Rs. 150000, for the remaining goods no approval received from customer upto year end. Also specified time limit has not expired yet on such goods. Cost of remaining goods is 40000. Pass journal entries.

Q-2 Goods of Rs. 800000 of sale value sent to customer on sale or return basis out of which customer accepted goods of Rs. 500000 and rejected goods of Rs. 150000, for the remaining goods no approval received from customer upto year end. Also specified time limit has not expired yet on such goods. Profit margin on goods is 25% on cost. Pass journal entries.

Q-3 Goods of Rs. 1500000 of sale value sent to customer on sale or return basis out of which customer accepted goods of Rs. 1000000 when price was 10% higher and rejected goods of Rs. 300000, when price was 5% higher, for the remaining goods no approval received from customer upto year end. Also specified time limit has not expired yet on such goods. Profit margin on goods is 30% on cost. Pass journal entries.

Q-4 Goods of Rs. 600000 of cost price sent to customer on sale or return basis out of which customer accepted 50% goods and rejected 30% goods, for the remaining goods no approval received from customer upto year end. Also specified time limit has not expired yet on such goods. Profit margin on goods is 20% on cost. Pass journal entries.

Q-5 Goods of Rs. 1000000 of cost price sent to customer on sale or return basis out of which customer accepted 60%, when price was 10% lower, and rejected 30% goods, for the remaining goods no approval received from customer upto year end. Also specified time limit has not expired yet on such goods. Profit margin on goods is 10% on cost. Pass journal entries.

Q-6 A firm sends goods on sale or return basis. Customers having the choice of returning the goods within a month. During May 2016, the following are the details of goods sent:

Date (May)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (`)	15,000	20,000	28,000	3,000	1,000	26,000

Within the stipulated time, P and Q returned the goods and B, D, and E signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer- P for Sale or Return Account on 15th June, 2016.

Q-7 On 31st December, 2016 goods sold at a sale price of ` 3,000 were lying with customer, Ritu to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Q-8 X supplied goods on sale or return basis to customers, the particulars of which are as under.

Date of dispatch	**Party's name**	**Amount**	**Remarks**
		`	
10.12.2016	M/s. ABC	10,000	No information till 31.12.2016
12.12.2016	M/s. DEF	15,000	Returned on 16.12.2016
15.12.2016	M/s. GHI	12,000	Goods worth ` 2,000 returned on 20.12.2016
20.12.2016	M/s. DEF	16,000	Goods Retained on 24.12.2016
25.12.2016	M/s. ABC	11,000	Good Retained on 28.12.2016
30.12.2016	M/s. GHI	13,000	No information till 31.12.2016

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2016.

Prepare the following accounts in the books of 'X'.

MULTIPLE CHOICE QUESTIONS

1. When a large number of articles are sent frequently on a sale or return basis, it is necessary to maintain

(a) Sale journal (b) Goods returned journal (c) Sale or return journal

2. Sale or Return Day Book and Sale or Return Ledger are known as

(a) principal books (b) subsidiary books (c) memorandum books

3. A sent some goods costing ` 3,500 at a profit of 25% on sale to B on sale or return basis. B returned goods costing ` 800. At the end of the accounting period i.e. on 31st December, 2016, the remaining goods were neither returned nor were approved by him. The Inventories on approval will be shown in the balance sheet at

(a) 2,000. (b) 2,700 (c) 2,700 less 25% of 2,700.

4. A merchant sends out his goods casually to his dealers on approval basis. All such transactions are, however, recorded as actual sales and are passed through the sales book. On 31-12-2016, it was found that 100 articles at a sale price of 200 each sent on approval basis were recorded as actual sales at that price. The sale price was made at cost plus 25%. The amount of Inventories on approval will be amounting

(a) ` 16,000. (b) ` 20,000. (c) ` 15,000.

5. Umesh sends goods on approval basis as follows:

Date January, 2016	**Customer's Name**	**Sale price of Goods Sent**	**Goods Accepted**	**Goods Returned**
		`		
8	Anna	3,500	3,000	500
10	Babu	2,800	2,800	–
15	Chandra	3,680	–	3,680
22	Desai	1,260	1,000	260

The Inventories of goods sent on approval basis on 31st January will be

(a) ` 500. (b) Nil. (c) ` 260.

6. A company sends its cars to dealers on ` sale or return' basis. All such transactions are however treated like actual sales and are passed through the sales day book. Just before the end of the financial year, two cars which had cost ` 55,000 each have been sent on 'sale or return' and have been debited to customers at ` 75,000 each, cost of goods lying with the customers will be

(a) ` 1,10,000. (b) ` 55,000. (c) ` 75,000.

7. A trader has credited certain items of sales on approval aggregating ` 60,000 to Sales Account. Of these, goods of the value of ` 16,000 have been returned and taken into Inventories at cost ` 8,000 though the record of return was omitted in the accounts. In respect of another parcel of `12,000 (cost being ` 6,000) the period of approval did not expire on the closing date. Cost of goods lying with customers should be

(a) ` 12,000. (b) ` 54,000. (c) ` 6,000.

8. Under sales on return or approval basis, the ownership of goods is passed only

(a) when the retailer gives his approval

(b) if the goods are not returned within speci fied period.

(c) Both (a) and (b)

9. Under sales on return or approval basis, when transactions are few, the seller, while sending the goods, treats them as

(a) an ordinary sale but no entry is passed in the books

(b) an ordinary sale and entry for normal sale is passed in the books

(c) Approval sale and no entry is passed

10. Under sales on return or approval basis, when transactions are few and the seller at the end of the accounting year reverse the sale entry, then what will be the accounting treatment for the goods returned by the customers on a subsequent date?

(a) No entry will be passed for such return of goods

(b) Entry for return of goods is passed by the seller

(c) Only the Inventories account will be adjusted

HOME WORK

Q-1 CE sends goods to his customers on Sale or Return. The following transactions took place during 2017:

Sept. 15	Sent goods to customers on sale or return basis at cost plus 33-1/3%	Rs. 1,00,000
Oct. 20	Goods returned by customers	40,000
Nov. 25	Received letters of approval from customers	40,000
Dec. 31	Goods with customers awaiting approval	20,000

CE records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of CE assuming that accounting year closes on 31st December, 2017.

Q-2 S. Ltd. Sends out its goods to dealers on Sale or Return. All such transactions are, however, treated s actual sales and are passed through the Day Book. Just before the end of the accounting year on 31.12.2017, 200 such goods have been sent to a dealer at Rs. 250 each (cost Rs. 200 each) on sale or return and debited to his account. Of these goods, on 31.12.2005, 50 were returned and 70 were sold, for the other goods date of return has not yet expired.

Q-3 Caly Company sends out its gas containers to dealers on Sale or Return. All such transactions are, however, treated as actual sales and are passed through the Day Book. Just before the end of the financial year, 100 gas containers, which cost them Rs. 900 each have been sent to the dealer on ` sale or return' and have been debited to his account at Rs. 1,200 each. Out of this only 20 gas containers are sold at Rs. 1,500 each.

Q-4 E Ltd. Sends out its accounting machines costing Rs. 200 each to their customers on Sales or Return. All such transactions are, however treated like actual sales and are passed through the Day Book. Just before the end of the financial year i.e., on December 24, 2017, 300 such accounting machines were sent out at an invoice price of Rs. 280 each, out of which only 90 accounting machines are accepted by the customers Rs. 250 each and as to the rest no report is forthcoming.

Show the Journal Entries in the books of the company for the purpose of preparing Final Accounts for the year ended December 31, 2017.

UNIT : 3
CONSIGNMENT

INTRODUCTION

MEANING OF CONSIGNMENT ACCOUNT

To consign means to send. In Accounting, the term "consignment account" relates to accounts dealing with a situation where one person (or firm) sends goods to another person (or firm) on the basis that the goods will be sold on behalf of and at the risk of the former. The following should be noted carefully:

(i) The party which sends the goods (consignor) is called principal.

(ii) The party to whom goods are sent (consignee) is called agent.

(iii) The ownership of the goods, i.e., the property in the goods, remains with the consignor or the principal – the agent or the consignee does not become their owner even though goods are in his possession. On sale, of course, the buyer will become the owner.

(iv) The consignor does not send an invoice to the consignee. He sends only a **proforma invoice**, a statement that looks like an invoice but is really not one. The object of the proforma invoice is only to convey information to the consignee regarding particulars of the goods sent.

(v) Usually, the consignee recovers from the consignor all expenses incurred by him on the consignment.

(vi) It is also usual for the consignee to give an advance to the consignor in the form of cash or a bill of exchange. It is adjusted against the sale proceeds of the goods.

(vii) For his work, the consignee receives a commission calculated on the basis of gross sale. For ordinary commission the consignee is not responsible for any bad debt that may arise. If the agent is to be made responsible for bad debts, he is to be paid a commission called del-credere commission. It is calculated on total sales, not merely on credit sales until and unless agreed.

(viii) Periodically, the consignees sends to the consignor a statement called Account Sales. It sets out the sales made by the consignee, the expenses incurred on behalf of the consignor, the commission earned by the consignee and the balance due to the consignor.

DISTINCTIONS

1. CONSIGNMENT AND SALE

S.No.	Consignment	Sale
1.	Ownership of the goods rests with the consignor till the time they are sold by the consignee, no matter the goods are transferred to the consignee.	The ownership of the goods transfers with the transfer of goods from the seller to the buyer
2.	The consignee can return the unsold goods to the consignor.	Goods sold are the property of the buyer and can be returned only if the seller agrees.
3.	Consignor bears the loss of goods held with the consignee.	It is the buyer who will bear the loss if any, after the transfer of goods.

4.	The relationship between the consignor and the consignee is that of a principal and agent.	The relationship between the seller and the buyer is that of a creditor and a debtor.
5.	Expenses done by the consignee to receive the goods and to keep it safely are borne by the consignor unless there is any other agreement.	Expenses incurred by the buyer are to be borne by the buyer itself after the transfer of goods.

2. DISTINCTION BETWEEN COMMISSION AND DISCOUNT

Commission	**Discount**
Commission may be defined as remuneration of an employee or agent relating to services performed in connection with sales, purchases, collections or other types of business transactions and is usually based on a percentage of the amounts involved.	The term discount refers to any reduction or rebate allowed and is used to express one of the following situations: An allowance given for the settlement of a debt be fore it is due i.e. cash discount.
Commission earned is accounted for as an income in the books of accounts, and commission allowed or paid is accounted for as an expense in the books of the party availing such facility or service.	An allowance given to the whole sellers or bulk buyers on the list price or retail price, known as trade discount. A trade discount is not shown in the books of account separately and it is shown by way of deduction from cost of purchases.

VALUATION OF INVENTORIES

- The principle is that inventories should be valued at cost or net realizable value whichever is lower, the same principle as is practised for preparing final accounts.
- In the case of consignment, cost means not only the cost of the goods as such to the consignor but also all expenses incurred till the goods reach the premises of the consignee. Such expenses include packaging, freight, cartage, insurance in transit, octroi, import duty etc.
- But expenses incurred after the goods have reached the consignee's godown (such as godown rent, insurance of godown, delivery charges,salesman salaries) are not treated as part of the cost of purchase for valuing inventories on hand.

  If details of expenses, if details are not available, then for valuing inventories the expenses incurred by the consignor should be treated as part of cost while those incurred by the consignee should be ignored. If the expected selling price of inventories on hand is lower than the cost, the inventories should be valued at expected net selling price only, i.e. expected selling price less delivery expenses, etc.

3. ACCOUNTING FOR CONSIGNMENT TRANSACTIONS AND EVENTS IN THE BOOKS OF THE CONSIGNOR

For ascertaining profit or loss on any transaction (or series of transactions) there is one golden rule; open an account for the transaction (or series of transactions) and (i) put down the cost of goods and other expenses incurred or to be incurred on the debit side; and (ii) enter the sale proceeds as also the cost of goods remaining unsold on the right hand side or the credit side. The difference between the total of the two sides will reveal profit or loss. There is profit if the credit side is more.

The consignor records the following transactions in his book of accounts :

1. When goods are consigned or dispatched:

   Consignment Account Dr.

   To Goods Sent on Consignment Account

2. Expenses incurred by consignor:

   Consignment Account Dr.

   To Supplier Account/Bank/Cash

3. When advance is received from the consignee: The consignee may remit some advance to consignor. The following entry is recorded:

   Bank/Cash Account Dr.

   To Consignee's Personal Account

4. On receipt of account sales from the consignee: Account sales contains details of sales made by consignee, expenses incurred by consignee. Following entries are recorded

   For sales proceeds

   Consignee's Personal Account Dr.

   To Consignment Account

   For expenses incurred by consignee

   Consignment Account Dr.

   To Consignee's Personal Account

5. Cash or cheque or bank draft or bill of exchange/promissory note received from the consignee as settlement:

   Cash/Bank/Bills Receivable Account Dr.

   To Consignee's Personal Account

6. For bad debts: The accounting entry for bad debts will depend on whether del-credere commission is paid to the consignee

   i. When del-credere commission is not paid to the consignee

      Consignment Account Dr.

      To Consignee's Personal Account

   ii. When del-credere commission is paid to the consignee

      No entry is recorded as bad debts is to be borne by consignee.

7. For the goods taken over by the consignee

   Consignee's Personal Account Dr.

   To Consignment Account

8. For unsold consignment stock:

   Consignment Stock Account Dr.

   To Consignment Account

9. For commission payable to consignee

   Consignment Account Dr.

   To Consignee's Personal Account.

4. GOODS INVOICED ABOVE COST

- Sometimes the proforma invoice is made out at a value higher than the cost and entries in the books of the consignor are made out on that basis – even the inventories remaining unsold will initially be valued on the basis of the invoice price.
- It must be remembered, however, that the profit or loss can be ascertained only if sale proceeds (plus) inventories on hand, valued on cost basis, is compared with the cost of the goods concerned together with expenses. Hence, if entries are first made on invoice basis, the effect of the loading (i.e., amount added to arrive at the invoice price) must be removed by additional entries as follows.

(i) To eliminate loading from opening stock

Stock Reserve A/c Dr.

To consignment A/c

(ii) To eliminate loading from Goods sent on consignment

Goods sent on consignment Dr.

To consignment A/c

(iii) To eliminate loading from cl.stock

Consignment A/c Dr.

To stock reserve a/c

5. NORMAL LOSS

If some loss is unavoidable, it would be spread over the entire consignment while valuing inventories. The total cost plus expenses incurred should be divided by the quantity available after the normal loss to ascertain the cost per unit.

6. ABNORMAL LOSS

any accidental or unnecessary loss occurs, the proper thing to do is to find out the cost of the goods thus lost and then to credit the Consignment Account and debit the Profit and Loss Account – this will enable the consignor to know what profit would have been earned had the loss not taken place.

Distinctions between normal and abnormal loss

Normal loss	Abnormal loss
Normal loss occurs due to inherent nature of the goods being shipped e.g. leakage, evaporation, loss of perishable goods etc.	Abnormal loss occurs mainly because of unforeseen events e.g. accident or natural calamity etc.
Normal loss is not accounted for immediately and is loaded on the remaining goods. It gets accounted for as cost of remaining goods as and when they are sold	Abnormal loss is accounted for immediately in profit and loss account.
As normal loss is added to cost of remaining goods, it impact gross profit	Abnormal loss does not impact gross profit.

Insurance companies generally do not cover normal loss as it is expected to be incurred on each consignment or storage of goods.	Insurance is generally available for abnormal losses
Normal loss is almost certain however it may vary from time to time.	Abnormal loss is because of unforeseen events and there is not certain.

Following entry is recorded for abnormal loss :

Abnormal Loss Account Dr.
To Consignment Account

If abnormal loss is recoverable from the insurance company

Insurance Company's Account Dr.
To Abnormal Loss Account

If abnormal loss is recoverable from the consignee

Consignee's Personal Account Dr.
To Abnormal Loss Account.

7. COMMISSION

Commission is the remuneration paid by the consignor to the consignee for the services rendered to the former for selling the consigned goods. Three types of commission can be provided by the consignor to the consignee, as per the agreement, either simultaneously or in isolation. They are:

1. Ordinary Commission

- **commission simply denotes ordinary commission**.
- It is based on fixed percentage of the gross sales proceeds made by the consignee.
- It is given by the consignor regardless of whether the consignee is making credit sales or not. This type of commission does not give any protection to the consignor from bad debts and is provided on total sales.

2. Del-credere Commission

- To **increase the sale and to encourage the consignee to make credit sales,**
- the consignor provides an additional commission generally known as **del-credere commission.**
- This additional commission when provided to the consignee gives a protection to the consignor against bad debts. In other words, after providing the del-credere commission, bad debts is no more the loss of the consignor.
- It is calculated on total sales unless there is any agreement between the consignor and the consignee to provide it on credit sales only.

3. Over-riding Commission

- It is an extra commission allowed by the consignor to the consignee to promote sales at higher price then specified or to encourage the consignee to put hard work in introducing new product in the market.

- Depending on the agreement it is calculated on total sales or on the difference between actual sales and sales at invoice price or any specified price. In order to encourage the consignee to earn higher margins, it can also be in the form of share of additional profits made by consignee on sale of goods.

8. ACCOUNT SALES

An account sale is the periodical summary statement sent by the consignee to the consignor. It contains details regarding –

(a) sales made,

(b) expenses incurred on behalf of the consignor,

(c) commission earned,

(d) unsold inventories left with the consignee,

(e) advance payment or security deposited with the consignor and the extent to which it has been adjusted,

(f) balance payment due or remitted.

It is a summary statement and is different from Sales Account.

9. ACCOUNTING IN THE BOOKS OF THE CONSIGNEE

Following entries are recorded in the books of consignee:

1. On making sales

Cash/Bank Account/Debtors Dr.

  To Consignor's Personal Account

2. For expenses incurred and his commission

Consignor's Personal Account Dr.

  To Bank Account

3. For advance paid to consignor

Consignor's Personal Account Dr.

  To Bank Account

4. For recording bad debts

Bad Debts Account Dr.

  To Customer's Account

5. For writing off bad debts

(a) When del-credere commission is not allowed

Consignor's Personal Account Dr.

  To Bad Debts Account

(b) When del-credere commission is allowed

Commission Account Dr.

  To Bad Debts Account

CLASS WORK

Preparation of necessary accounts in the books of consinor i.e. consignment account, goods sent on consignment account, consignee's personal account, trading & profit & loss account etc.

Q-1 Mr. Y consigned 800 packets of toothpaste, each packet containing 100 toothpastes. Cost price of each packet was `900. Mr. Y Spent `100 per packet as cartage, freight, insurance and forwarding charges. One packet was lost on the way and Mr. Y lodged claim with the insurance company and could get ` 570 as claim on average basis. Consignee took delivery of the rest of the packets and spent `39,950 as other non-recurring expenses and `22,500 as recurring expenses. He sold 740 packets at the rate of `12 per toothpaste. He was entitled to 2% commission on sales plus 1% del-credere commission.

You are required to prepare Consignment Account. Calculate the cost of inventories at the end, abnormal loss and profit or loss on consignment.

Q-2 A of Agra sent on consignment goods valued `1,00,000 to B of Mumbai on 1st March, 2016. He incurred the expenditure of `12,000 on freight and insurance. A's accounting year closes on 31st December. B was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. B took delivery of the consignment by incurring expenses of `3,000 for goods consigned.

On 31.12.2016, B informed on phone that he had sold all the goods for `1,50,000 by incurring selling expenses of `2,000. He further informed that only `1,48,000 had been realized and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale.

On 5.1.2017, A received the cheque for the amount due from B and incurred bank charges of `260 for collecting the cheque. The amount was credited by the bank on 9.1.2017.

Write up the consignment account finding out the profit/loss on the consignment, B's account, Provision for expenses account and Bank account in the books of the consignor, recording the transactions up to the receipt and collection of the cheque.

Q-3 Miss Rakhi consigned 1,000 radio sets costing ` 900 each to Miss Geeta, her agent on 1st July,2016. Miss Rakhi incurred the following expenditure on sending the consignment.

Freight	`7,650
Insurance	`3,250

Miss Geeta received the delivery of 950 radio sets. An account sale dated 30th November,2016 showed that 750 sets were sold for ` 9,00,000 and Miss Geeta incurred ` 10,500 for carriage.

Miss Geeta was entitled to commission 6% on the sales effected by her. She incurred expenses amounting to ` 2,500 for repairing the damaged radio sets remaining in the inventories.

Miss Rakhi lodged a claim with the insurance company which was admitted at ` 35,000. Show the Consignment Account and Miss Geeta's Account in the books of Miss Rakhi.

Q-4 Vikram Milk Foods Co. Ltd. of Vikrampur sent to Sunder Stores, Sonepuri 5,000 kgs of baby food packed in 2,000 tins of net weight 1 kg and 6,000 packets of net weight 1/2 kg for sale on consignment basis. The consignee's commission was xed at 5% of sale proceeds. The cost price and selling price of the product were as under:

	1 kg. tin	1/2 kg. packet
	`	`
Cost Price	10	6
Selling Price	15	7

The consignment was booked on freight "To Pay" basis, and freight charges came to 2% of selling value. One case containing 50 1kg. tins was lost in transit and the transport carrier admitted a claim of `450.

At the end of the first half-year, the following information is gathered from the "Account Sales" sent by the consignee:

(i) Sale proceeds: 1,500 1 kg. tins
4,000 1/2 kg. packets

(ii) Store rent and insurance charges `600.

Find out the value of closing inventory on consignment.

Show the Consignment A/c and the Consignee's A/c in the books of Vikram Milk Food Co. Ltd. assuming that the consignee had paid the amount due from him.

Q-5 From the following two statements and other information prepare a Consignment Account and Consignee's Account in the books of the consignor and also Consignor's Account in the books of the consignee :

Statmenet - 1

Proforma Invoice - No. 5

Royal Furniture House

Kalikund Road, Dhavalpur

Proforma invoice of the goods sent on consignment to A-One Furniture

Mart, on our behalf :

Particulars	**Rate** **Rs.**	**Total Amount** **Rs.**
100 Chairs	300	30,000
Add: Expenses :		
Freight	1,000	
Insurance Premium	200	
Wages 300	1,500	
		31,500
E. & O. E.	S/d-	
Place : Dhavalpur	(Vijay Mistry)	
Date : 1-1-2010 Manager		

Statement - 2

Account Sales A-One Furniture Mart

Dharanidhar Road, Vasana, Ahmedabad-7

Account sales of the goods received from Royal Furniture House,

Dhavalpuar to be sold on commission :

Particulars	Rate		Total Amount
		Rs.	Rs.
Cash sales of 50 chairs	450	500	
Credit sales of 30 chairs		500	15,000
			37,500
Less :	Expenses and commission :		
		Rs.	
	Octroi	1,000	
	Carriage	2,250	
	Wages	250	
	Advertisement expenses	2,250	
	General commission	3,750	
	Del credere commission	300	9,800
			27,700
Less : A bill for four months accepted on 1-1-2010			20,000
			7,700
Less : A bank draft No. 02370 enclosed herewith			7,700
E. & O. E.		S/d-	
Place : Ahmedabad		(Chandrakant Rana)	
Date : 31-3-2010			

Additional Information :

(1) After one month, the consignor discounted the bill accepted by the consignee at the rate of 9% of discount per annum in a bank.

(2) Two chiars were stolen away from the godown of the consignee against which the insurance company accepted a claim of Rs. 600.

(3) Out of the credit sales made by the consignee, one customer was declared insolvent and Rs. 2,000 were written off as bad debt.

Q-6 D of Delhi appointed A of Agra as its selling agent on the following terms:

Goods to be sold at invoice price or over.

A to be entitled to a commission of 7.5% on the invoice price and 20% of any surplus price realized over invoice price

The principals to draw on the agent a 30 days bill for 80% of the invoice price.

On 1st February, 2016, 1,000 cycles were consigned to A, each cycle costing `640 including freight and invoiced at `800.

Before 31st March, 2016, (when the principal's books are closed) A met his acceptance on the due date; sold off 820 cycles at an average price of `930 per cycle, the sale expenses being `12,500; and remitted the amount due by means of Bank draft.

Twenty of the unsold cycles were shop-spoiled and were to be valued at a depreciation of 50% of cost.

Show by means of ledger accounts how these transactions would be recorded in the books of A and find out the value of closing inventory with A to be recorded in the books of D at cost.

Q-7 X of Delhi purchased 10,000 metres of cloth for ` 2,00,000 of which 5,000 metres were sent on consignment to Y of Agra at the selling price of `30 per metre. X paid `5,000 for freight and `500 for packing etc.

Y sold 4,000 metre at `40 per metre and incurred `2,000 for selling expenses. Y is entitled to a commission of 5% on total sales proceeds plus a further 20% on any surplus price realised over `30 per metre. 3,000 metres were sold at Delhi at `30 per metre less `3,000 for expenses and commission. Owing to fall in market price, the inventories of cloth in hand is to be reduced by 10%.

Prepare the Consignment Account and Trading and Profit & Loss Account in books of X.

Q-8 Amit Traders of Ahmedabad consigned 20 air-conditioner sets to Mitesh Brothers of Mumbai at an invoice price of Rs. 25.000 each on 1-4-2009. The invoice price is fixed after adding 25% on cost price. Amit Traders paid Rs. 3.000 for freight and insurance, while sending the goods.

On 1-4-2009 Amit Traders drew a bill of Rs. 3,00,000 for three months on Mitesh Brothers, which was, immediately returned by the latter, duly accepted. Amit Traders discounted this bill in a bank on 4-5-2009, at annum.

Mitesh Brothers is entitled to get general commission at the rate of 5% and del credere commission at the rate of 2%.

On 31-3-2010 Mitesh Brothers sent an account sale and a bank after for the amount due from him. He reported in the account sale that :

(i) He paid Rs. 2,000 for octroi, Rs. 8,750 for carriage and Rs.8,750 for advertisement.

(ii) He sold 10 airconditioner sets at the rate of Rs.26,000 each for cash.

(iii) He sold 4 airconditioner sets at the rate of Rs. 30,000 each to Garibdas on credit.

(iv) He purchased one airconditioner set for his personal use, at the invoice price.

(v) Garibdas was declared insolvent and 80 paise in a rupee could be recovered from him as a final dividend.

(vi) During the course of the year, fire took place in his godown and one airconditioner set was completely destroyed, against which the insurance company accepted a claim of Rs.18,000.

(vii) Out of the unsold airconditioner sets, two sets were damaged and Rs. 1,600 were estimated as repairing expense to make them saleble.

From the above particulars prepare Consignment Account and Mitesh Brothers Account in the books of Amit Traders.

Q-9 Shree Oil Mill of Rajpar consigned 2,000 kg. of groundnut oil to Naresh Brothers of Ahmedabad at Rs. 40 per kg. They paid Rs. 4,000 for expenses. The consignee accepted a bill of Rs. 48,000 drawn by the consignor for three months which the latter discounted at Rs. 800 as discount.

100 kg. groundnut oil was destroyed in transit for which the insurance co. paid a claim of Rs. 2,400. Naresh Brothers paid Rs 4,800 as sales expenses.

From the account sales received from the consignee, it was seen that 1,600 kg. groundnut oil were sold at Rs. 50 and there was a shortage of 50 kg. due to natural causes. The consignee was entitled to a commission of 5 percent and a del-credere Commission of 2 percent. The consignee sent a bank draft for the balance alongwith the account sales. A customer to whom the consignee has sold goods for Rs. 2,500 on credit was declared bankrupt and only 50 paise in a rupee could be recovered from his estate.

Prepare necessary accounts in the books of Shree Oil Mill.

MULTIPLE CHOICE QUESTIONS

1 P of Delhi sends out 1,000 boxes of toothpaste costing `200 each. Each box consist of 12 packets. 600 boxes were sold by consignee at `20 per packet. Amount of sale value will be:

(a) `1,44,000 (b) `1,20,000 (c) ` 1,32,000

2 X of Kolkata sends out 2,000 boxes to Y of Delhi costing `100 each. Consignor's expenses `5,000. 1/10th of the boxes were lost in consignee's godown and treated as normal loss. 1,200 boxes were sold by consignee. The value of consignment Inventories will be:

(a) `68,333 (b) `61,500 (c) `60,000

3 Which of the following statement is not true:

(a) If del-credere commission is allowed, bad debt will not be recorded in the books of consignor

(b) If del-credere commission is allowed, bad debt will be debited in consignment account

(c) Del-credere commission is provided by consignor to consignee

4 X of Kolkata sent out 2,000 boxes costing 100 each with the instruction that sales are to be made at cost + 45%. X draws a bill on Y for an amount equivalent to 60% of sales value. The amount of bill will be:

(a) `1,74,000 (b) `2,00,000 (c) `2,90,000

5 Which of the following statement is wrong:

(a) Consignor is the owner of the consignment Inventories

(b) Del-credere commission is allowed by consignor to protect himself from bad debt

(c) All proportionate consignee's expenses will be added up for valuation of consignment Inventories.

6 Out of the following at which point the treatment of "Sales" and "Consignment" is same:

(a) Ownership transfer.

(b) Money receive.

(c) Inventories out flow.

7 If del-credere commission is allowed for bad debt, consignee will debit the bad debt amount to:

(a) Commission Earned A/c

(b) Consignor's A/c

(c) Trade receivables (Customers) A/c

8 A proforma invoice is sent by:

(a) Consignee to Consignor

(b) Consignor to Consignee

(c) Customer/Debtors to Consignee

9 Which of the following statement is correct:

(a) Consignee will pass a journal entry in his books at the time of receiving goods from consignor.

(b) Consignee will not pass any journal entry in his books at the time of receiving goods from consignor.

(c) The ownership of goods will be transferred to consignee at the time of receiving the goods.

10 Consignment Inventories will be recorded in the balance sheet of consignor on asset side at:

(a) Invoice Value

(b) At Invoice value less Inventories reserve

(c) At lower than cost price

11 Which of the following expenses of consignee will be considered as non-selling expenses:

(a) Advertisement

(b) Insurance on freight inward

(c) Selling Expenses

12 The consignment accounting is made on the following basis:

(a) Accrual

(b) Realisation

(c) Cash Basis

13 Which of the following item is not credited to consignment account?

(a) Cash sales made by consignee

(b) Credit sales made by consignee

(c) Inventories Reserve on closing consignment Inventories.

HOME WORK

Q-1 Exe sent on 1st July,2016 to Wye goods costing `50,000 and spent `1,000 on packing etc. On 3rd July,2016, Wye received the goods and sent his acceptance to Exe for `30,000 payable at 3 months. Wye spent `2,000 on freight and cartage, `500 on godown rent and `300 on insurance. On 31st December,2016 he sent his Account Sales (along with the amount due to Exe) showing that 4/5 of the goods had been sold for `55,000. Wye is entitled to a commission of 10%. One of the customers turned insolvent and could not pay `600 due from him. Show the necessary journal entries in the books of consignor. Also prepare ledger accounts.

Q-2 Exe sent on 1st July, 2016 to Wye goods costing ` 50,000 and spent ` 1,000 on packing etc. On 3rd July,2016, Wye received the goods and sent his acceptance to Exe for ` 30,000 payable at 3 months. Wye spent ` 2,000 on freight and cartage, ` 500 on godown rent and ` 300 on insurance. On 31st December,2016 he sent his Account Sales (along with the amount due to Exe) showing that 4/5 of the goods had been sold for ` 55,000. Wye is entitled to a commission of 10%. One of the customers turned insolvent and could not pay ` 600 due from him. Show the necessary journal entries in the consignee's book.

Q-3 Ajay of Mumbai consigned to Vijay of Delhi, goods to be sold at invoice price which represents 125% of cost. Vijay is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Ajay were ` 10,000. The account sales received by Ajay shows that Vijay has e ected sales amounting to ` 1,00,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were `8,000. 10% of consignment goods of the value of ` 12,500 were destroyed in re at the Delhi godown and the insurance company paid ` 12,000 net of salvage. Vijay remitted the balance in favour of Ajay. Prepare consignment account and the account of Vijay in the books of Ajay along with the necessary calculations.

Ans. Losson consignment-` 1,438

Remittance - ` 81,062

Closing Investory(At Invoice Value)- `20,250

Inventory Reserve ` 3,750

Commission - ` 10937.5 or 10,938

Q-4 Tulsian Traders of Delhi purchased 10,000 pieces of sarees @ Rs. 100 per saree. Out of these sarees, 6,000 sarees were sent on consignment to Vastralaya of Jablapur at the selling price of Rs. 120 per saree. The consignors paid Rs. 3,000 for packaging and freight Vastralaya sold 5,000 sarees @ Rs. 125 per saree and incurred Rs. 1,000 for selling expenses and remitted Rs. 5,00,000 to Delhi on account. They are entitled to a commission of 5% on total sales *Plus* a further 20% commission on any surplus price realised over Rs. 120 per saree. 3,000 sarees were sold at Rs. 110 per saree. Owing to depression in the market the selling price (Rs. 120) of sarees has come down by 10%. Prepare the Consignment Account and Trading. Profit and Loss Account in the books of Tulsian Traders and their account in the books of the agents Masers vastralaya of jabalpur.

Ans. Profit on consignment- ` 85,250

Net profit in P & L A/C - ` 1,15,250

Commission - ` 36,250

Consignment closing Inventory in Trading - ` 1,00,500

Closing Inventory in Trading A/c -` 1,00,000

Amount due - ` 87,750

Q-5 Ramesh consigned 2,000 MT of chemicals at a cost of Rs 800 per MT to John, Ramesh paid freight and insurance charges of Rs. 20,000. Of the above 500 MT of chemicals were destroyed by fire during transit. John cleared the balance of 1,500 MT of chemicals and sold 1,000 MT at an average price of Rs. 1,000 per MT. John incurred the following expenses. Godown Rent Rs. 5,000, Insurance Rs. 3,000, Clearing Charges Rs. 4,500. Insurance claim received against fire Rs. 4,00,000 after admitting the salvage value of Stock destroyed by fire at Rs. 10,000. John was entitled to a commission of 10% on sales proceeds. John sends the balance to Ramesh after adjusting his commission and expense out of the sales proceeds, Prepare a Consignment Account and John's Account and John's Account in the books of Ramesh.

Ans. Profit on Consignment -` 79,000

Remittance - ` 87,500

Closing Inventory - ` 4,06,500

Q-6 X of Delhi purchased 10,000 meters of cloth for Rs. 2,00,000 of which 5,000 meters were sent on consignment to Y of Agra at the selling price of Rs.30 per meter. X paid Rs. 5,000 for freight and Rs. 500 for packing, etc. Y sold 4,000 meters at Rs. 40 per meter and incurred Rs. 2,000 for selling expenses Y is entitled to a commission of 5% on total sales proceeds plus a further 20 per cent on any surplus price realised over Rs. 30 per meter. 3,000 meters were sold at Delhi @ Rs. 30 per meter less Rs. 3,000 for expenses and commission. Owing to fall in market price, the stock of cloth in hand is to be reduced by 10 per cent. Prepare the Consignment Account and Trading and Profit & Loss Account in Books of X and his account in the books of Y.

Ans. Profit on consignmenrt - ` 55,490

Net Profit in P& L A/C -` 78,490

Amount due - ` 1,42,000

Q-7 M/s Ram & Co. of Delhi purchased 20,000 pieces of sarees @ Rs. 200 per saree. Out of these, 12,000 sarees were sent on consignment to M/s Laxman Traders of Bombay at the selling price of Rs. 240 per saree. The consignors paid Rs. 6,000 for packing and freight.

M/s Laxman Traders sold 10,000 sarees @ Rs. 250 per saree and incurred Rs. 2,000 towards selling expenses and remitted Rs. 10,00,000 to Delhi on account. M/s Laxman Traders are entitled to a commission of 5 per cent on total sales plus a further 20 per cent commission on any surplus price realised over Rs. 240 per saree.

6,000 sarees were sold Rs. 220 per saree by the consignor. Owing to fall in the market price, the value of stock of sarees in hand is to be reduced by 10 per cent.

Prepare the consignment Account and the account of M/s Laxman Traders in the books of the consignor.

Ans. Profit on Consignment - ` 3,07,900

Amount due - ` 13,53,000

Q-8 X of Calcutta on 15th January sent to Y of Bombay a consignment of 250 televisions costing Rs. 10,000 each. Expenses of Rs. 7,000 were met by the consignor. Y of Bombay spent Rs. 4,500 for clearance on 30th January and the selling expenses were Rs. 500 per television as and when the sale made by Y.

Y sold. On 4th March, 150 televisions @ Rs.14,000 per television and again on 10th April, 75 televisions @ Rs. 14,400.

Mr. Y was entitled to a commission of Rs. 500 per television sold *plus* one-fourth of the amount by which the gross sale proceeds *less* total commission there on exceeded a sum calculated at the rate of Rs. 12,500 per television sold. Y sent the account sale and the amount due to X on 30th April by bank demand draft.

You are required to show the consignment Account and Y's account in the books of X.

Ans. Profit on consignment -` 6,43,650

Amount due /Remittance - ` 28,99,500

Commission - ` 1,63,500

Q-9 Shri Mehta of Mumbai consigns 1,000 cases of goods costing `1,000 each to Shri Sundaram of Chennai. Shri Mehta pays the following expenses in connection with consignment:

	`
Carriage	10,000
Freight	30,000
Loading charges	10,000
Shri Sundaram sells 700 cases at `140 per case and incurs the following expenses:	
Clearing charges	8,500
Warehousing and storage	17,000
Packing and selling expenses	6,000

It is found that 50 cases have been lost in transit and 100 cases are still in transit.

Shri Sundaram is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Sundaram's Account in the books of Shri Mehta.

Ans. Profit on consignment - ` 1,17,000

Closing Inventories -

In Hand 150 @ ` 1060 each	159000
In Transit 100 @ ` 1050 each	105000
	264000

Remittance / Amount Due - ` 8,50,500

UNIT : 4
JOINT VENTURES

INTRODUCTION

1. MEANING :

Joining hands may be for finance, for technical know-how, for sharing risk etc. When two or more persons join together to carry out a specific business and share the profits or losses on predetermined basis, it is known as a Joint Venture. As per Accounting Standard a joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control. Further, joint control is defined as contractually agreed sharing of control over economic activity.

A Joint Venture is a specific duration “business” (generally, concerned to a single transaction, like, developing some housing project and selling the same or mining of a particular coal mine) entered into by two or more persons jointly which comes to an end as soon as specific period elapses or the joint purpose/business is completed. Joint Venture may be described as a temporary partnership between two or more persons without the use of the firm name, for a limited purpose. In other words, under Joint Venture, two or more persons agree to undertake a particular venture (e.g. Joint consignment of goods, Joint construction of a building, Joint underwriting of a particular issue of shares or debentures) and to share the profits and losses thereof in an agreed ratio (if agreement is silent on this point, then in equal ratio). Venture may be for the construction of a building or a bridge, for the supply of certain quantity of materials or labour and even for the supply of technical services.

The persons who have so agreed to undertake a Joint Venture are known as ` Joint Venturers’ or ` Co-Venturers’ and their liability is limited to the project or activity concerned for which they agree to contribute capital and share profits or losses. This limited partnership automatically expires on the completion of the venture for which it was formed. During the duration of the venture, the co-venturers are are generally engaged in their own business as usual as well (unless agreed otherwise).If the co-venturers are in business, then they often supply goods from their regular business for achieving objective of the venture.

Example 1: A and B decided to purchase Assam Teak in Guwahati and send to Delhi. A of Guwahati purchased Teak of ` 1,00,000, spent ` 20,000 for transportation and ` 8,000 for transit insurance. B of Delhi received the goods. B spent ` 2,000 for unloading, ` 6,000 for godown rent and ` 4,000 for selling expenses. He sold the entire lot for ` 1,75,000. They agreed to share profit of the venture in the ratio of A:B = 3:2.

In the above example, A and B are co-venturers. The venture was for sale of a certain quantity of Assam Teak. The venture would be over on sale of such Teak. Obviously some accounting is necessary to nd out pro t/ loss of the venture and settlement of claims of the co-venturers.

2 FEATURES OF JOINT VENTURE

Some important characteristics of joint venture business are as follows:

(i) It is specific duration special purpose partnership.

(ii) Two or more parties come together for a specific purpose and are bound by an agreement. Parties in venture are called co-venturers.

(iii) The agreement between co-venturers establishes joint control.

(iv) The joint venture may or may not have a specific name. Joint ventures may also be created in the form of a company where co-venturers contribute to its share capital.

(v) Co-venturers may contribute funds for running the venture or supply Inventories from their regular business.

(vi) Co-venturers share profit/loss of the venture at an agreed ratio likewise partnership.

(vii) The co-ventures are free to continue with their own business unless agreed otherwise during the life of joint venture.

(viii) Joint venture terminates on completion of purpose for which it was created.

(ix) Generally profit/loss of the venture is computed on completion of the venture, however, for a joint venture which is expected to run for a long period, profit/loss is computed annually.

3 DISTINCTION OF JOINT VENTURE WITH PARTNERSHIP

Joint Venture differs from Partnership in the following respects:

Basis of Distinction	Joint Venture	Partnership
1. Scope	It is limited to a specific venture, and comes to an end on completion of such venture	It is not limited to a specific venture.
2. Persons involved	The persons carrying on business are called co-venturers.	The persons carrying on business are called partners.
3. Name of entity	Joint venture does not necessarily require	A partnership rm always has a distinct rm name.
4. Ascertainment of profit/loss	The profits/losses are ascertained at the end of specifi c venture (if venture continues for a short period) or on interim basis annually (if venture continues for a longer period).	The profits/losses are ascertained on an annual basis.
5. Separate set of Books	There is no need for a separate set of books. The accounts can be maintained even in one of the Co-venturer's books only.	Separate set of books have to be maintained.
6. Competition	It is a rule rather than exception that chances of co-venturers in the competing business are very high.	Partners generally do not involve in competing business.

7.	Closure	Joint venture will be closed automatically on the completion of the venture i.e. achievement of purpose for which joint formed.	Partnership can be dissolved by mutual consent of the partners or under certain circumstances venture was

4 DISTINCTION OF JOINT VENTURE WITH CONSIGNMENT

Joint venture and consignment are in the nature of an agreement between different parties but there are many points of differences between the two.

Some of these are given below.

	Basis of Distinction	Joint Venture	Consignment
1.	Purpose	It may be for sale of goods or for carrying out any other activity like construction. of building, investment in shares, etc.	It generally involves sale of movable goods.
2.	Persons involved	The persons carrying on business are called co-venturers.	The persons in the trade are called consignor and consignee
3.	Tenure	The relationship comes to an end as soon as the venture is completed.	The arrangement may continue for a long period of time.
4.	Contribution of funds	All the co-venturers contribute funds to a common pool.	The funds are provided by the consignor only.
5.	Sharing of profit/ loss	The profit/loss is shared by all the co-venturers in the agreed ratio (in equal ratio if agreement is silent)	The profit/loss belongs to consignor only. The consignee is entitled only to commission
6.	Ownership	There is joint ownership.	The consignor owns the goods.
7.	Relationship	The relationship between co-venturers is as partners to common purpose	The relationship between consignor and consignee is as principle and agent.

5 METHODS OF MAINTAINING JOINT VENTURE ACCOUNTS

<u>1. When Separate Set of Books are maintained</u>

When size of the venture is fairly big, the co-venturers keep separate set of books of account for the joint venture. Joint venture is considered a separate entity for the purpose of accounting and hence, its transactions are recorded separately from their regular business activities. This method is similar to a partnership agreement being entered into by the partners of a rm.

In the books of Joint Venture, the following accounts are opened:

(i) Joint Bank Account.

(ii) Joint Venture Account.

(iii) Personal Accounts of the Co-venturers (or Co-venturers' Accounts).

(i) Joint Bank Account: The co-venturers open a separate bank account for the venture transactions by making initial contributions. The bank account is generally operated jointly. Expenses are met from this Joint Bank Account. Also sales or collections from transactions are deposited into this account. However, sometimes the co-venturers may make direct payments and direct collections; in such a case they get due credit/ debit in their Personal Accounts for the transactions done. On completion of the venture the Joint Bank Account is closed by paying the balance to co-venturers.

(ii) Joint Venture Account: This account is prepared for measurement of venture profit. This account is debited with all venture expenses and credited with all sales or collections. If credit side of this account is greater than the debit side, the difference represents profit on joint venture and vice versa in the opposite case which is transferred to co-venturers' accounts in the profit-sharing ratio.

(iii) Co-venturers' Accounts: Personal accounts of the venturers are maintained to keep record of their contributions of cash, goods or meeting venture expenditure directly and direct payment received by them on venture transactions. The profit or loss so made on venture is transferred to this account in profit sharing ratio. This account is also closed simultaneously with the closure of joint bank account.

The following journal entries are necessary in the books of joint venture:

Journal Entries

(a) For initial contribution by the co-venturers in Joint Bank Account

Joint Bank A/c Dr.

To Co-venturers' A/c

(b) For purchases made or expenses incurred

Joint Venture A/c Dr.

To Joint Bank A/c (for cash purchase)/Creditors A/c (for credit purchase)

(c) For material supplied by venturers or direct payment made by venturers

Joint Venture A/c Dr.

To Co-venturers' A/cs

(d) For sale made

Joint Bank A/c (for cash sales)/Debtors A/c (for credit sales) Dr.

To Joint Venture A/c

(e) For sale or payment received directly by the venturers.

Co-venturers' A/c Dr.

To Joint Venture A/c

(f) For payment made to creditors

Creditors A/c Dr.

To Joint Bank A/c

(g) For payment received from debtors

Joint Bank A/c Dr.

To Debtors' A/c

(h) For pro t on Joint Venture

Joint Venture A/c Dr.

To Co-venturers' A/c

or For loss on Joint Venture

Co-venturers' A/c Dr.

To Joint Venture A/c

(i) For closing the Joint Bank A/c

Co-venturers' A/c Dr.

To Joint Bank A/c

Form above transactions, it may be noted that all sales, incomes, purchases and expenses are recorded in Joint Venture A/c directly. Difference between total revenues and total expenses becomes profit/loss of the joint venture and is shared by co-venturers.

2. When no separate set of Books are maintained

- When no separate set of books of accounts are maintained for joint venture, each venturer maintains accounts independently for the venture transactions.
- Co-vernturers are generally engaged in their own business for which they have their books of accounts. Additional accounts with respect to join venture transactions are opened in their respective books of accounts.
- The standard practice is to keep full records of own transactions as well as transactions of the co-venturer relating to the venture.
- But sometimes the parties to a venture keep record of their own transactions only. In that case a Memorandum Joint Venture Account is prepared by the parties.
- Sometimes, a bill of exchange is drawn by one of the parties and is discounted. In such a case the discount on the bill should be charged to Joint Venture Account.
- Also, since joint venture is considered separate from the business of the co-venturers, the co-venturers are credited (or debited) for any goods or material supplied (or taken) to (or from) the joint venture out of their own business(es).
- Usually the co-venturers invest money in Joint venture business and receive back the amounts on different dates. It is quite usual for them to agree to calculate interest at a certain rate. Each co-venturers is entitled to receive interest on the amounts invested by him and pay interest on the amounts received by him. Only net interest receivable from or payable to the co-venturer is recorded in the joint venture account. Thus, the net amount of interest is also taken into amount before ascertaining the profit or loss on joint venture.

3. When each Co-venturer keeps records of all transactions

Under this method, the following accounts are prepared by each co-venturer:

(i) Joint Venture Account.

(ii) Co-venturer's Account.

When venturers maintain full records of joint venture, the following journal entries are necessary:

Journal Entries

(i)	For supply of goods to venture out of business Inventories	
	Joint Venture A/c	Dr.
	To Purchase A/c	
(ii)	For meeting expenses or purchases of venture	
	Joint Venture A/c	Dr.
	To Bank A/c/Creditors A/c	
(iii)	When co-venturer supplies goods and incurs expenses for venture	
	Joint Venture A/c	Dr.
	To Co-venturer A/c	
(iv)	For venture sale	
	Bank A/c/Debtors A/c	Dr.
	To Joint Venture A/c	
(v)	For venture sale made by the co-venturer	
	Co-venturer A/c	Dr.
	To Joint Venture A/c	
(vi)	For Bill of Exchange drawn on co-venturer	
	Bills Receivable A/c	Dr.
	To Co-venturer A/c	
(vii)	For discounting the Bill of Exchange	
	Bank A/cDr.	
	Joint Venture A/c	Dr.
	To Bills Receivable A/c	
(viii)	For accepting the Bill of Exchange drawn by co-venturer	
	Co-venturer A/c	Dr.
	To Bills Payable A/c	
(ix)	For Bill of Exchange discounted by co-venturer	
	Joint Venture A/c	Dr.
	To Co-venturer A/c	
(x)	For venture pro t	
	Joint Venture A/c	Dr.
	To Pro t and Loss A/c	(for own shares)
	To Co-venturer A/c	(for co-venturer's share)
(xi)	For venture loss	
	Pro t and Loss A/c	Dr. (for own share)
	Co-venturer A/c	Dr. (forco-venturer's share)
	To Joint Venture A/c	

(xii) For settlement of claims
When payment is due to co-venturer
Co-venturer A/c Dr.
To Bank A/c

(xiii) When payment is due from co-venturer
Bank A/cDr.
To Co-venturer A/c

4. When each Co-venturer keeps records of their own transactions only:

Sometimes the venturers it wasteful to keep full record of venture transactions; rather it is considered convenient to keep record of own transactions only. For this purpose, it is necessary to open ` Joint Venture with Co-venturer A/c'. All expenses incurred, materials sent, etc. are debited to this account. Profit earned is also debited to this account while the loss sustained is credited. Any receipt from joint venture or from co-venturer is credited to this account, while any payment to the co-venturer is debited to this account.

However, profit/loss on joint venture cannot be determined from this account, for which a Memorandum Joint Venture Account is prepared. Memorandum Joint Venture Account is statement prepared by the venturers for determination of venture profit when they just keep record of own transactions and do not maintain full records of venture transactions in the books of accounts. It contains cost of goods, expenses etc. in the debit side and sales and closing stock in the credit side. Balance of Memorandum Joint Venture.

Account shows profit or loss on joint venture. Entries in Memorandum Joint Venture Account are directly recorded without going through the process of journal.

Venturers usually pass the following journal entries.

Journal Entries

(a) For supply of material from stores:
Joint Venture with X A/c Dr.
To Purchases A/c

(b) For payment of expenses
Joint Venture with X A/c Dr.
To Bank/Cash A/c

(c) For sale on venture
Bank A/c Dr.
To Joint Venture with X A/c

(d) For profit on venture
Joint Venture with X A/c Dr.
To Profit & Loss A/c
or For loss on venture
Profit & Loss A/c Dr.
To Joint Venture with X A/c

(e) For final payment to co-venturer
Joint Venture with X A/c Dr.
To Bank A/c

or For final payment made by co-venturer
Bank A/c Dr.
To Joint Venture with X A/c

Let us now take some illustrations to understand the book keeping system of joint venture, when venturers maintain records of their own transactions only.

Our next comprehensive example aims to perfectly establish this methodof maintenance of joint venture accounts in your mind.

CLASS WORK

Q-1 B and C enter a joint venture to prepare a dam for the Government. The Government agrees to pay `1,00,000. B contributes ` 10,000 and C contributes `15,000. These amounts are paid into a Joint Bank Account. Payments made out of the joint bank account were:

	`
Purchase of equipment	6,000
Hire of equipment	5,000
Wages	45,000
Materials	10,000
Office expenses	5,000

B paid `2,000 as licensing fees. On completion, the lm was found defective and Government made a deduction of `10,000. The equipment was taken over by C at a valuation of `2,000.

Separate books were maintained for the joint venture whose pro ts were divided in the ratio of B-2/5 and C-3/5.

Required : Give ledger accounts

Q-2 Rajiv and Sanjiv enter into a joint venture as dealers in land and opened a Joint Bank Account with ` 75,000 towards which Rajeev contributed ` 50,000. They agree to share pro ts and losses in proportion to their cash contribution. They purchased a plot of land measuring 5,000 square yards for `50,000. It was decided to sell the land in smaller plots and a plan was got prepared at a cost of ` 5,700.

In the said plan 1/5th 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, 3 plots were sold @ `15 per square yard and the remaining 5 plots were sold @ `20 per square yard. Expenses incurred in connection with the plots were: Registration Expenses ` 6,000, Stamp Duty `600 and *Other Expenses `2,500. Allow 5% on the sale proceeds as a commission to Rajiv.*

Required : Journalize the above transactions and prepare the necessary ledger accounts.

Q-3 A and B enter into a joint venture to sell a consignment of timber sharing pro ts and losses equally. A provides timber from stock at mutually agreed value of ` 5,000. He pays expenses amounting to ` 250. B incurs further expenses on cartage, storage, and coolie charges of `650 and receives cash or sales `3,000.

He also takes over goods to the value of balance stock in hand which is valued at `1,000 for his use in his own business. At the close, A takes over the ` 1,100.

Required : *P*repare joint venture account and Co-venturer's account in the books of A.

Q-4 A and B entered into a joint venture of underwriting the subscription of the entire share capital of the Copper Mines Ltd. consisting of 1,00,000 equity shares of `10 each and to pay all expenses upto allotment. The pro ts were to be shared by them in proportions of 3/5ths and 2/5ths. The consideration in return for this agreement was the allotment of 12,000 other shares of ` 10 each to be issued to them as fully paid. A provided funds for registration fees `12,000, advertising expenses of `11,000, for expenses on printing and distributing the prospectus amounting to ` 7,500 and other printing and stationery expenses of ` 2,000. B contributed towards payment of o ce rent ` 3,000, legal charges `13,750, salary to clerical staff ` 9,000 and other petty disbursements of `1,750. The prospectus was issued and applications fell short by 15,000 shares. A took over these on joint account and paid for the same in full. The venturers received the 12,000 fully paid shares as underwriting commission. They sold their entire holding at

`12.50 less 50 paise brokerage per share. The net proceeds were received by A for 15,000 shares and B for 12,000 shares.

Required : Write out the necessary *accounts in the books of A showing the nal adjustments.*

Q-5 A and B enter into a joint venture sharing pro ts and losses equally. A purchased goods for `5,000 for cash on January 1, 2016. On the same day, B bought goods for `10,000 on credit and spent `1,000 on freight etc.

Further expenses were incurred as follows :

On 1.2.2016 `1,500 by B

On 12.3.2016 `500 by A

Sales were made by each one of them as follows :

15.1.2016 `3,000 by A

13.1.2016 `6,000 by B

15.2.2016 `3,000 by A

1.3.2016 `4,000 by B

Creditors for goods were paid as follows:

1.2.2016 `5,000 by A

1.3.2016 `5,000 by B

On March 31, 2016 the balance of stock was taken over by B at `9,000.

The accounts between the co-venturers were settled by cash payment on this date. The co-venturers are entitled to interest at 12% per annum.

Required : Prepare necessary ledger accounts in the books of assuming that he maintains record of all venture transactions.

Q-6 A and B entered into a joint venture agreement to share the pro ts and losses in the ratio of 2:1. A supplied goods worth ` 60,000 to B incurring expenses amounting to ` 2,000 for freight and insurance. During transit goods costing ` 5,000 became damaged and a sum of `3,000 was recovered from the insurance company. B reported that 90% of the remaining goods were sold at a pro t of 30% of their original cost. Towards the end of the venture, a re occurred and as a result the balance Inventories lying unsold with B was damaged. The goods were not insured and B agreed to compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the share of pro t of the joint venture, B was also entitled under the agreement to a commission of 5% of net pro ts of joint venture after charging such commission. Selling expenses incurred by B totalled `1,000. B had earlier remitted an advance of `10,000. B duly paid the balance due to A by Bank Draft.

You are required to prepare

(i) Joint Venture Account and

(ii) B's Account. in A's books.

Q-7 Ram and Gautham entered into a joint venture to buy and sell TV sets, on 1st July, 2016.

On 1.7.2016, Ram sent a draft for ` 2,50,000 in favour of Gautham, and on 4.7.2016, the latter purchased 200 sets each at a cost of ` 2,000 each. The sets were sent to Ram by lorry under freight "to pay" for ` 2,000 and were cleared by Ram on 15.7.2016.

Ram effected sales in the following manner:

Date	No. of sets	Sale price per set	Discount on sales price
16.7.2016	20	3,000	10%
31.7.2016	100	2,800	-
15.8.2016	80	2,700	5%

On 25.8.2016, Ram settled the account by sending a draft in favour of Gautham, pro ts being shared equally.

Gautham does not maintain any books. Show in Ram's book:

(i) Joint Venture with Gautham A/c; and

(ii) Memorandum Joint Venture A/c.

Q-8 D of Delhi and M of Mumbai entered into a joint venture for the purpose of buying and selling second-hand computers, M to make purchases and D to e ect sales. The pro t and loss was to be shared equally by D and M. A sum of `1,50,000 was remitted by D to M towards the venture.

M purchased 22 old computers for `1,50,000 and paid `90,000 for their reconditioning and sent them to Delhi.

His other expenses were: Buying commission `10,000; Cartage ` 2,000 and Miscellaneous `1,000.

D took delivery of the computers and paid ` 2,700 for Octroi and ` 1,000 for Cartage. He sold 12 computers at `22,000 each; 4 computers at ` 1,000 each and 3 computers at ` 20,000 each. He retained remaining computers for his personal use at an agreed value of ` 15,000. His other expenses – Insurance `2,500; Rent `4,000; Brokerage `12,000 and Miscellaneous `2,000.

Each party's ledger contains a record of his own transactions on account of joint venture. Prepare a statement showing the result of the ven*ture and the account of the venturer in D's ledger as it will nally appear, assuming that the matter was nally settled between the parties.*

Q-9 David of Mumbai and Khosla of Delhi entered into a joint venture for the purpose of buying and selling second-hand motor cars: David to make purchases and Khosla to e ect sales. The pro t and loss was to be shared equally. Khosla remitted a sum of ` 1,50,000 to David towards the venture.

David purchased 5 cars for `1,60,000 and paid `60,000 for their reconditioning and sent them to Delhi. He also incurred an expense of `5,000 in transporting the cars to Delhi.

Khosla sold 4 cars for `2,40,000 and retained the fth car for himself at an agreed value of ` 50,000. His expenses were: Insurance `1,000; Garage Rent ` 2,000; Brokerage ` 2,000; and Sundry Expenses ` 400.

Each party's ledger contains a record of his own transactions on account of joint venture.

Required : Prepare a Memorandum Joint Venture Account showing the result of the venture and the joint venture account with David in the books of Khosla as it will appear, assuming that the matter was nally settled between the parties.

HOME WORK

Q-1 A of Delhi and B of Bangalore entered into a joint venture for purchase and sale of one lot of mopeds. The cost of each moped was `3,600 and the xed retail selling price; `4,500. The following were the recorded transactions.

2016

Jan 1	A purchased 100 mopeds paying `72,000 in cash on account.
	A raised a loan from X Bank for ` 50,000 at 18% p.a., interest repayable with loan amount on 1.3.2016.
	A forwarded 80 mopeds to B incurring `2,880 as forwarding and insurance charges.
Jan. 7	B received the consignment and paid `720 as clearing charges.
	A sold 5 mopeds for cash.
	B sold 20 mopeds for cash.
Feb. 1	B raised a loan of `1,50,000 from Y Bank, repayable with interest at 18% p.a on 1.3.2016.
	B telegraphically transferred `1,50,000 to A incurring charges of `50. A paid balance due for the mopeds.
Feb. 26	A sold the balance mopeds for cash.
	B sold balance mopeds for cash.
	A paid selling expenses ` 5,000.
	B paid selling expenses ` 20,000.
Mar. 1	Accounts settled between the venturer and loans repaid, pro t being appropriated equally.

You are required to show Memorandum Joint Venture A/c. You are also required to show

(1) Joint Venture with B A/c in A's books; and

(2) Joint Venture with A A/c in B's books.

Assume each venturer recorded only such transactions as concluded by him.

Ans. Hint :

Net profit = Rs. 57,600

Q-2 K and A of Nagpur entered into a joint venture to trade in silk goods in the ratio 2:1. On June 1, 2016, K bought goods worth ` 7,200 and handed over half of the goods to A. On July 1, 2016, K bought another lot of goods costing ` 2,400 and paid ` 180 as expenses. On September 1, A purchased goods for ` 4,500 and on the same day he sent to K a part of these goods costing ` 1,800 and paid `240 towards expenses. On the same day K remitted ` 1,800 to A. The goods were invariably sold by the venturers at a uniform price of 33.33% above cost price excluding expenses. Each of the venturers collected cash proceeds on sales excepting an amount of ` 250 owing to K by a customer and this was written o as a loss relating to the venture. In addition, goods costing ` 600 in possession of A were destroyed by re and an amount of `500.

Ans. Hint :

Net profit = Rs. 2,930

MULTIPLE CHOICE QUESTIONS

1. M and N enter into a Joint venture where M supplies goods worth ` 6,000 and spends ` 100 on various expenses. N sells the entire lot for ` 7,500 meeting selling expenses amounting to ` 200. Profit sharing ratio is equal. N remits to M the amount due. The amount of remittance will be:
(a) ` 6,700 (b) ` 7,300 (c) ` 6,400

2. A purchased goods costing ` 42,500. B sold goods costing ` 40,000 at ` 50,000. Balance goods were taken over by A at same gross profi t percentage as in case of sale. The amount of goods taken over will be:
(a) ` 3,125 (b) ` 2,500 (c) ` 3,000

3. For material supplied from own Inventories by any of the venturer, the correct journal entry will be: (In case of separate sets of books)
(a) Joint Venture A/c will be debited and Venturers Capital A/c will be credited
(b) Joint Venture A/c will be debited and Joint Bank A/c will be credited
(c) Joint Venture A/c will be debited and Material A/c will be credited

4. A and B enter into a joint venture to underwrite the shares of K Ltd. K Ltd make an equity issue of 1,00,000 equity shares of `10 each. 80% of the issue was subscribed by the public. The profit sharing ratio between A and B is 3:2. The balance shares not subscribed by the public, purchased by A and B in profit sharing ratio. How many shares to be purchased by A.
(a) 80,000 shares (b) 72,000 shares (c) 12,000 shares

5. A and B enter into a joint venture to underwrite shares of K Ltd. K Ltd make an equity issue of 2,00,000 equity shares. 80% of the shares underwritten by the venturer. 1,60,000 shares are subscribed by the public. How many shares are to be subscribed by the venturer?
(a) 40,000 shares (b) 36,000 shares (c) 32,000 shares

6. P and Q enter into a Joint Venture sharing profi ts and losses in the ratio 3:2. P purchased goods costing `2,00,000. Other expenses of P ` 10,000. Q sold the goods for 180,000. Remaining goods were taken over by Q at ` 20,000. The amount of final remittance to be paid by Q to P will be:
(a) ` 2,15,000 (b) ` 2,04,000 (c) ` 2,10,000

7. C and D entered into a Joint Venture to construct a bridge. They did not open separate set of books. They shared profits and losses as 3:2. C contributed ` 1,50,000 for purchase of materials. D paid wages amounting to ` 80,000. Other expenses were paid as:
C – ` 5,000 D – ` 15,000
C purchased one machine for ` 20,000. The machine was taken over by C for `10,000. Total contract value of ` 3,00,000 was received by D. What will be the profit on venture?
(a) ` 30,000 (b) ` 40,000 (c) ` 20,000

8. R and M entered into a joint venture to purchase and sell new year gifts. They agreed to share the profit and losses equally. R purchased goods worth ` 1,00,000 and spent ` 10,000 in sending the goods to M. He also paid ` 5,000 for insurance. M spent ` 10,000 as selling expenses and sold goods for ` 2,00,000. Remaining goods were taken over by him at ` 5000. What will be the amount to be remitted by M to R as final settlement?
(a) ` 1,55,000 (b) ` 1,50,000 (c) ` 11,5000

9. A and B enter into a joint venture sharing profit and losses in the ratio 3:2. A will purchase goods and B will affect the sale. A purchase goods costing ` 200,000. B sold it for ` 3,00,000. The venture is terminated after 3 months. A is entitled to get 10% interest on capital invested irrespective of utilization period. The amount of interest received by A will be
(a) ` 15,000 (b) ` 10,000 (c) ` 20,000

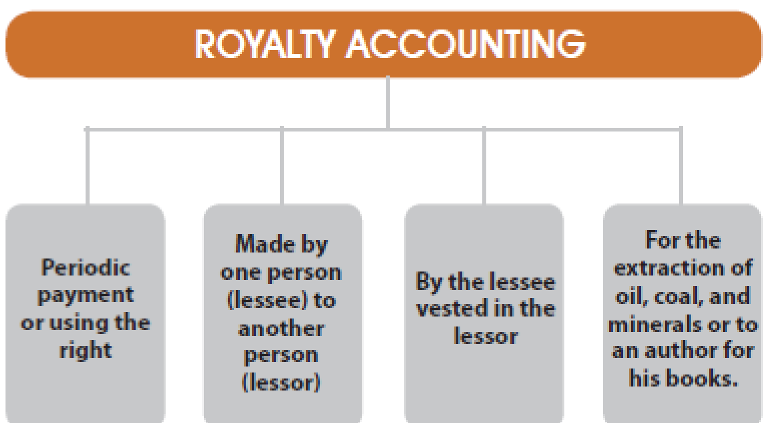
10. If any Inventories is taken over by the venturer, it will be treated as an:
(a) Income of the joint venture, hence credited to Joint Venture Account
(b) Expenses of Joint Venture, hence debited to Joint Venture Account
(c) To be ignored as Joint Venture Transaction

UNIT : 5
ROYALTY ACCOUNTS

INTRODUCTION

Study Objectives as under :

- Understand the meaning of the term “Royalty”.
- Familiarize yourself with the Terminology related to Royalty Accounting:
  - Minimum Rent
  - Short-workings and Recoupment of Short-workings
    - Fixed
    - Floating
- Understand the Accounting Treatment in the books of Lessee and Lessor.



“Royalty” may be defined as:

- Periodic payment
- Made by one person (lessee) to another person (lessor)
- For using the right by the lessee vested in the lessor.

Examples:

1. For the extraction of oil, coal, and minerals.
2. To an author for sale of his books.
3. To a patentee for the use of patent.
4. For use of technical know-how developed by a party

Thus, royalty means sum payable, generally based on output or sale, to the owner of mine, a patentee or an author or any other such person for use of rights vested in him.

Lease

Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The party who conveys the rights is lessor and the one who is being granted the right to use in return for a series of payments is lessee.

Minimum Rent/Dead Rent/Rock Rent/Fixed Rent

Amount of Rent/Royalty which the lessee is required to pay to the lessor Irrespective of Actual Royalty/ Rent Payable is Lower.

(**Note**: Minimum Rent/royalty may be the same for each year or may be different in different years according to the terms of agreement.)

Example : 1

A landlord granted a lease to mining company whereby he is to receive $0.05 per ton of ore mined.

The output for the first 3 years is:

1st year - 10,000 tons

2nd year - 20,000 tons

3rd year - 24,000 tons

Assume that the minimum rent is $800.

Ans :

Year	Calculation of Royalty (Actual Royalty)	Minimum rent	Payment
1	10,000x$0.05 = $500	800	
2	20,000x$0.05 = $1,000	800	
3	24,000x$0.05 = $1,200	800	

Short Workings

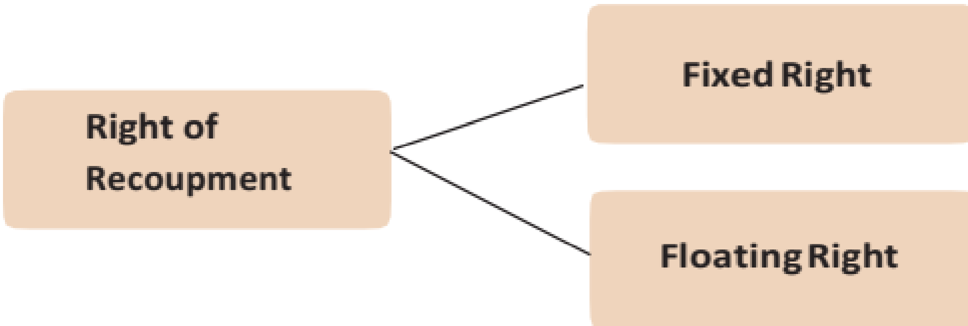
Short-workings = Minimum Rent – Actual Royalty

- ❖ Short- workings will only arise when the Actual royalty is less than the Minimum Rent.
- ❖ Also, short-workings will arise only when the same are allowed to be adjusted against future royalties.
- ❖ If the agreement is such that amount short-workings (minimum rent in excess of royalty computed as per agreement) cannot be adjusted in future years, then minimum rent will become expense of the lessee for that particular year.

Recoupment of Short-workings

Recoupment implies that lessor allows the lessee the **right to carry forward and set off** the short-workings against the excess or surplus of royalties over the Minimum Rent in the subsequent years.

This right is known as the right of Recoupment of Short-working.***(Aaj Actual se jayda jo bhi Pay Kiya usko Future years me If Actual royalty Minimum se Jyada aaye To utnaa Kum pay karne kaa)***



Case I: Fixed Right of Recoupment

If the lessor promises the lessee to compensate the loss (short working) only for a fixed time period

Example:

If lessor promises to compensate the loss only during the first 4 years, the right is said to be fixed.

Case II: Floating Right of Recoupment

If the lessor promises the lessee to compensate the short working of **any year** in the next two or three years

Example : 2

If lessor promises to compensate the (short-working) of any year in coming 2 years, then short-workings of 3rd year can be recouped in 4th and 5th year and short-workings of 8th year in 9th and 10th year.

With a minimum rent – also with the rights to recoup short-workings

A Lessor granted a lease to mining company whereby he is to receive $0.05 per ton of ore mined.

The output for the first 3 years is:

1st year - 10,000 tons

2nd year - 20,000 tons

3rd year - 24,000 tons

Assume that the minimum rent is $800.

Solution :

Year	Calculation of Royalty	Minimum rent	Payment	Short workings		
				Current	Written off	Recoverable
1	10,000x40.05 = $500	800	800	-	-	-
2	20,000x$0.05 = $1,000	800	800	-	-	-
3	24,000x40.05 = $1,200	800	1,100	-	-	-

Accounting In the Books Of Lessee

When Short working is Allowed

Entry 1: When Royalty is Payable:

Entry 2: For Payment to Landlord:

Entry 3: For Transferring Royalty:

Entry 4:When Short-workings is recouped:

Entry 5:

For Irrecoverable Short-workings to Trading/P&L/Mfg/Production A/c:

Summary

- ❖ Actual amount se royalty Debit karo
- ❖ Minimum rent se Lessor ko Payable karke , Pay bhi Karo
- ❖ Diff. of Minimum and Actual Rent ko Shortworking me Debit karo..
- ❖ Pehle Shortworking ko debit kiya tha Ab credit karo And actual royalty ko Exps. Debit karke baaki kaa payable credit karo
- ❖ Ab koi bhi shortworking balance he wo credit karke Trading /P&L / Mfg/ Production A/c me debit karo.

ACCOUNTING IN THE BOOKS OF LESSOR

Entry 1:When Royalty is due:

Entry 2:When money is received:

Entry 3:When short-workings is recouped:

Entry 4:For Irrecoverable amount of Short-workings

Entry 5:For Transferring Royalty Receivable to Trading/P&L/Mfg/Production A/c:

Summary

- ❖ Actual amount se royalty Credit karo
- ❖ Minimum rent se Lessee ko Receivable karke , Received ki entry Karo
- ❖ Diff. of Minimum and Actual Rent ko Shortworking me Credit karo..
- ❖ Pehle Shortworking ko Credit kiya tha Ab Debit karo
- ❖ And actual royalty Income Credit karke baaki kaa Receivable ki entry Karo
- ❖ Ab koi bhi shortworking balance he wo Debit karke Trading /P&L / Mfg/ Production A/c me Credit karo.

CLASS WORK

Q-1 A grants a mine on lease to B on 31.3.13 a royalty of ` 2 per tonne of the coal produced. The following is the quantum of output for each year :

For the year ended 31st March,	2014	3,000 tonnes
	2015	3,200 tonnes
	2016	4,000 tonnes
	2017	5,000 tonnes

The minimum rent is fixed at ` 7,000 and short-workings recoupment is allowable throughout the period of lease. Compute the amount of royalty payable for the years ended 31st March, 2014, 2015, 2016 and 2017 and do accounting in books of both the parties.

Q-2 ABC Collieries Co. Ltd. took from M/s XYZ. a lease of coal field for a period of 25 years from 1st April, 2010 on a royalty of ` 25 per tonne of coal extracted with a Dead Rent of ` 2,20,000 a year with power to recoup short - workings during the first five years of the lease. The company closes its books of account on 31st March every year.

The output in the first five years of the lease was as follows:-

Year ended 31st March, 2011	2,000	tonnes
Year ended 31st March, 2012	3,600	tonnes
Year ended 31st March, 2013	9,000	tonnes
Year ended 31st March, 2014	15,000	tonnes
Year ended 31st March, 2015	20,000	tonnes

You are required to give journal entries for all the transactions relating to royalties for the five years in the books of ABC Collieries Co. Ltd.

HOME WORK

Q-1 On January 1, 1984, A brick Co.acquired a lease of 15 years from Mr.X on lease for getting earth extraction. Terms of the lease are.

(a) annual rate of royalty is 10 paise per 100 cubic feet of earth taken out.

(b) minimum rent is Rs. 1,200 per annum.

(c) short workings can be recouped during first 4 years only.

(d) annual royalty is paid on 31st December,each year.

Brick making company extracted earth in the following manner:

Year	1984	1985	1986	1987
Earth in cubic feet	10,00,000	15,00,000	9,00,000	14,00,000

Open Required ledger accounts in the books of Brick Co. (Lessee) and also pass journal Entries in his books .

Q-2 Kabir took a lease of coal mine @16 per ton of coal extracted subject to a minimum rent of Rs.70,000 p.a. with aright to recoup shortworkings over the first three years of the lease. From thefollowing information, **Prepare anaytical table to show amount of royalty payable to the landlord.**

Year	1	2	3	4	5
Output (tons)	2500	3500	5500	5000	8600

Q-3 A obtained from B, a lease of some coal bearing land,the terms being a royalty of Rs.15 per ton of coal extracted subject to a minimum rent of Rs. 75,000 per annum with a right to recoupment of shortworkings over the first four years of the books of A.

Year	1997	1998	1999	2000	2001
sales(Tones)	2000	3500	4800	5600	8000
Closing Stock(Tonnes)	300	400	600	500	800

Make Table of calculation of Royalty payable and Shortworking Raised/recouped.

Q-4 Sachin obtained a lease of a coal mine for 5 years at a minimum rent of Rs. 3,000 per year merging in to a royalty of 50 paise per ton .The shortworkings of any year could be recouped out of excess of subsequent two years.The output was as follows.

1998	Nil
1999	1,200 tons
2000	4,800 tons
2001	12,000 tons
2002	9,000 tons

Make necessary ledger accounts and also Journalize the above in the books of both, Lessor and Lessee

UNIT : 6
AVERAGE DUE DATE

INTRODUCTION

In business enterprises, a large number of receipts and payments by and from a single party may occur at different points of time. To simplify the calculation of interest involved for such transactions, the idea of average due date has been developed. Average Due Date is one on which the net amount payable can be settled without causing loss of interest either to the borrower or the lender. In this unit, we shall elaborate the underlying principle of determining average due date covering the cases where the amount is lent in various instalments but repayment is made in a single instalment as well as where the amount is lent in one instalment but repayment is made by various instalments. The technique of average due date is also useful for calculating interest on drawings made by the proprietors or partners of a business firm at several points of time.

Due Date

The due date of a bill of exchange/invoice is the date when the amount of a bill/invoice is payable by the drawee/ creditor to drawer/ debtor.

Calculation of Due Date after Taking into Consideration Days of Grace: A Bill of exchange or promissory note matures on the date on which it falls due. And every promissory note or bill of exchange (other than those payable on demand or at sight or on presentment) falls due on the third day after on which it is expressed to be payable.

Examples

(i) A bill dated 30th September is made payable three months after date. It falls due on 2nd January.

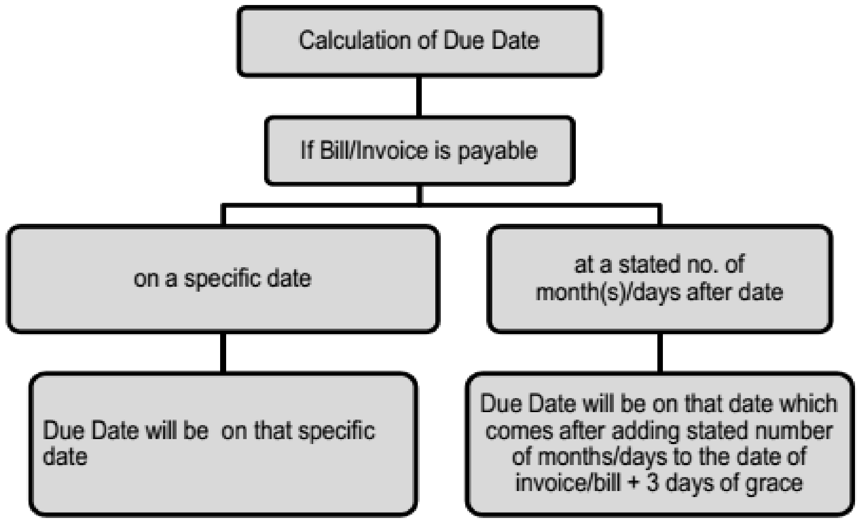
(ii) A note dated 1st January is payable one month after sight. It falls due on 4th February.

Calculating Due Date of Bill or Note Payable Few Months after Date or Sight

When the bill is made payable at a stated number of months after date or after sight or after certain events, then the period stated shall be held to terminate on the date of the month which corresponds with the day on which the instrument is dated. If the month in which the period would terminate has no corresponding day, the period shall be held to terminate on the last day of such month.

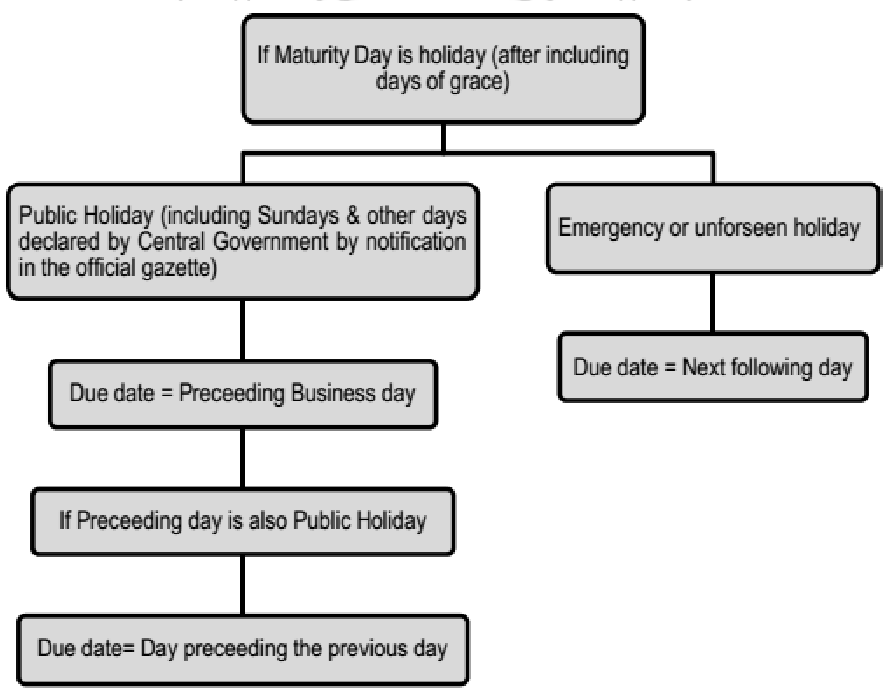
Example:

A Bill due on 29th January, 2011 is made payable at one month after date. The due date of instrument is 3rd day after 28th February, i.e., 3rd March (in 2011, February is of 28 days only).



Calculation of Due Date when the Maturity Day is a Holiday

When the day on which a promissory note or bill of exchange is at maturity (after including days of grace) is a public holiday, the instrument shall be deemed to be due on the preceding business day. The expression “public holiday” includes Sundays and other days declared bythe Central Government by notification in the official gazette, to be a public holiday. And now if the preceding day is also a public holiday, it will fall on the day preceding the previous day. But if the holiday happens to be emergency or unforeseen holiday then the date shall be the next following day.

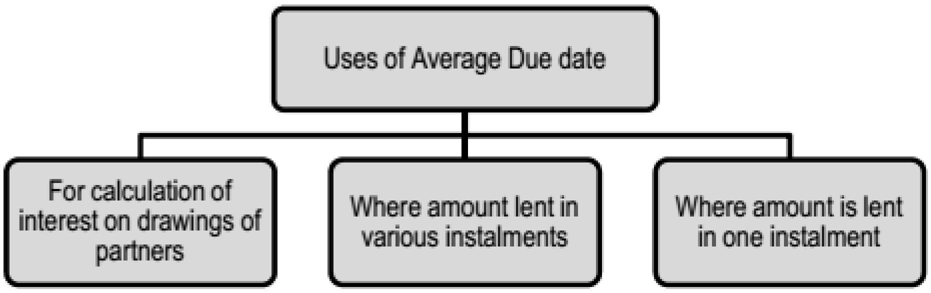


Types of Problems

There are two types of problems:

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

(2) Calculation of equated date when amount is lent in one instalment and repayment is made in various instalments



Case 1. Where amount is lent in various instalments

Calculation of average due date: Under this type of problem, average due date is calculated as follows :

a. Take the earliest due date as starting day or base date or "O" day for convenience. Any date whatsoever, may also be taken as "O" day.

b. Consider the number of days from base date up to each due date. Calculations may also be made in month.

c. Multiply the number of days by the corresponding amounts. (Product will be find multiplying)

d. Divide the "Product total" by "Amount total" and get result approximately up to a whole number.

e. This number is added in the base date to find the average due date.

Thus the formula for the average due date can be under.

$$\text{Average due date} = \text{Base date} \pm \frac{\text{Total of products}}{\text{Total amounts}}$$

Note: For calculation of no. of days, no. of days in each respective month involved are to be considered individually.

CLASS WORK

Q-1 X has accepted the following bills payable on different dates. He wants accept only one bill on average due date and requests you to find out that date.

Serial No.	Date of Drawing	Amount (`)	Payable After
101	30.01.2014	1,000	30 days
102	31.01.2014	2,000	1 month
103	12.07.2014	1,000	1 month
104	27.08.2014	1,000	1 month

Note : On 1st July, 2014 the day was Friday.

Q-2 X and Y had the following mutual dealings and desire to settle their account on the average due date :

01.01.2014	Balance owing by Mr. X	` 5,000
30.01.2014	Goods sold to Y (credit period 30 days)	` 1,000
31.01.2014	Goods purchased by X (credit period I month)	` 2,000
13.07.2014	Goods sold to Y (credit period 30 days)	` 1,000
28.09.2014	Goods purchased by X (credit period 3 months)	` 1,000

Ascertain the average due date

Q-3 X owes Y ` 10,000. The average due date of mutual transactions is 2nd June 2014. Calculate the date on which X has to make the payment if X wants to pay (a) ` 10,000 only (b) ` 10,360 (c) ` 9,640. Interest is charged @) 18% p.a.

MULTIPLE CHOICE QUESTIONS

1. If payment is made on the average due date it results in-
(a) Loss of interest to the creditor.
(b) Loss of interest to the debtor.
(c) No loss of interest to either of them.

2. A mean date is calculated
(a) In connection with the settlement of contra accounts.
(b) For a lump sum payment.
(c) For several payments on different dates.

3. If payment is made after average due date, the party entitled to interest is
(a) Creditor (b) Debtor (c) Bank

4. When due date is a public holiday, then the due date will be.
(a) Succeeding business day
(b) Preceding business day
(c) Due date will not change and will remain same.

5. A Bill due on 29th January, 2015 is made payable at one month after date. The due date of instrument
(a) 28th February, 2015. (b) 29th February, 2015.
(c) 3rd March, 2015.

THEORETICAL QUESTIONS

1. Define Average Due Date.

2. List out the various instances when Average Due Date can be used.

HOME WORK

Q-1 Mr. Yash and Mr. Harsh are partners in a firm. They had drawn the following amounts from the firm during the year ended 31.03.2016:

Date	Amount	Drawn by
	`	`
01.05.2015	75,000	Mr. Yash
30.06.2015	20,000	Mr. Yash
14.08.2015	60,000	Mr. Harsh
31.12.2015	50,000	Mr. Harsh
04.03.2016	75,000	Mr. Harsh
31.03.2016	15,000	Mr. Yash

Interest is charged @ 10% p.a. on all drawings. Calculate interest chargeable from each partner by using Average due date system. (Consider 1st May as base date)

Q-2 Anand purchased goods from Amirtha, the average due date for payment in cash is 10.08.2016 and the total amount due is ` 67,500. How much amount should be paid by Anand to Amirtha, if total payment is made on following dates and interest is to be considered at the rate of 12% p.a.

(i) On average due date.

(ii) On 25th August, 2016.

(iii) On 30th July, 2016.

UNIT : 7
ACCOUNT CURRENT

INTRODUCTION

An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of an ledger account.

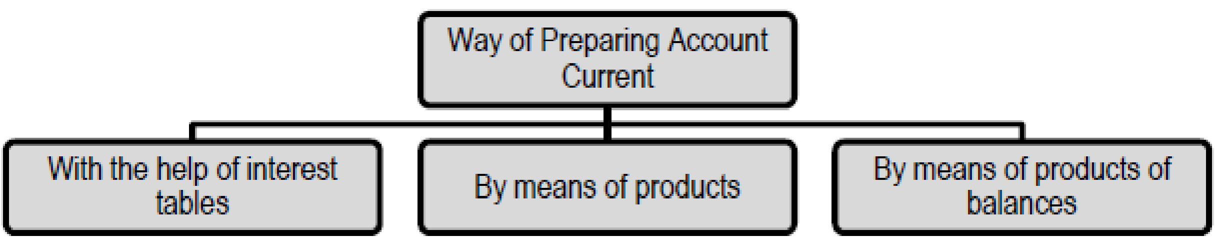
Some of the situations when account current is prepared are:

1. It is prepared when frequent transactions regularly take place between two parties. An example is of a manufacturer who sells goods frequently to a merchant on credit and receives payments from him in instalments at different intervals and charges interest on the amount which remains outstanding.
2. A consignee of goods can also prepare an Account Current, if the latter is to settle the account at the end of the consignment & interest is chargeable on outstanding balance.
3. An Account Current also is frequently prepared to set out the transactions taking place between a banker and his customer.
4. It is prepared when two or more persons are in joint venture and each co-venture is entitled to interest on their investment. Also, no separate set of book is maintained for it.

An Account Current has two parties - one who renders the account and the other to whom the account is rendered. This is indicated in the heading of an Account Current, which is like the following: “A in Account Current with B”. It implies that A is the customer, and the account is being rendered to him by B.

Preparation of Account Current

There are three ways of preparing an Account Current:



Preparation of Account Current with the help of Interest Tables

According to this method, all the transactions are arranged in the form of an account. There are two additional columns on both the sides of such an account.

(a) One column is meant to indicate the number of days counted from the due date of each transaction to the date of rendering the account. If no specific date is mentioned as the date on which payment is due, the date of the transactions is presumed to be the due date.

(b) The other column is meant for writing interest.

With the help of ready made tables, interest due on different amounts at given rates for different periods of time is found out and this is entered against each item separately.

The interest columns of both the sides are totalled up and the balance is drawn.

CLASS WORK

Q-1 From the following particulars make up an Account Current to be rendered by S. Dasgupta to A. Halder at 31st Dec. reckoning interest at 5% p.a.

2014		`
June 30	Balance owing by A. Halder	520
July 17	Goods sold to A. Halder	40
Aug. 1	Cash received from A. Halder	500
Aug. 19	Goods sold to A. Halder	720
Aug. 30	Goods sold to A. Halder	50
Sept. 1	Cash received from A. Halder	400
Sept. 1	A. Halder accepted Dasgupta.s Bill at 3 month date for	300
Oct. 22	Goods bought from A. Halder	20
Nov. 12	Goods sold to A. Halder	14
Dec. 14	Cash received from A. Halder	50

Q-2 Following transaction took place between X and Y during the month of April, 2014.

		`
April 1	Amount payable by X to Y	10,000
7	Received acceptance of X to Y for 2 months	5,000
10	Bills receivable (accepted by Y) on 7.2.2014 is honoured on this due date	
10	X sold goods to Y (invoice dated 10.5.2014)	15,000
12	X received cheque form Y dated 15.5.2014	7,500
15	Y sold goods to X (invoice dated 15.5.2014)	6,000
20	X returned goods sold by Y on 15.4.2014	1,000
20	Bill accepted by Y is dishonoured on this due date	5,000

You are required to make out an account current by products method to be rendered by X to Y as on 30.4.2014, taking interest into account @ 10% p.a.

Q-3 On 2nd January, 2014 Vinod opened a current account with the Allahabad Bank Limited; and deposited a sum of ` 30,000. He further deposited the following amounts :

15th January	` 12,000
12th March	` 8,000
10th May	` 16,000

His withdrawals were as follows :

15th February	` 26,000
10th April	` 30,000
15th June	` 14,000

Show Vinod.s a/c in the ledger of the Allahabad Bank. Interest is to be calculated at 5% on the debit balance and 2% on credit balance. The account is to be prepared as on 30th June, 2014. Calculation may be made correct to the nearest rupee.

MULTIPLE CHOICE QUESTIONS

1 Red ink interest is
   (a) really not interest
   (b) negative interest
   (c) used in connection with average due date.

2 An account current is a statement of mutual transactions
   (a) between two parties
   (b) in lieu of average due date
   (c) prepared for a particular accounting period.

3 In account current, while counting the number of days, the due date is ignored and date up to which the accounts are prepared, is
   (a) included (b) excluded (c) ignored

THEORETICAL QUESTIONS

1. Define Account Current. Explain ways of preparing an Account Current
2. Write short note on Red-ink interest.

HOME WORK

1. Roshan has a current account with partnership firm. It has debit balance of ` 75,000 as on 01-07-2016. He has further deposited the following amounts:

Date	**Amount (`)**
14-07-2016	1,38,000
18-08-2016	22,000

He withdrew the following amounts :

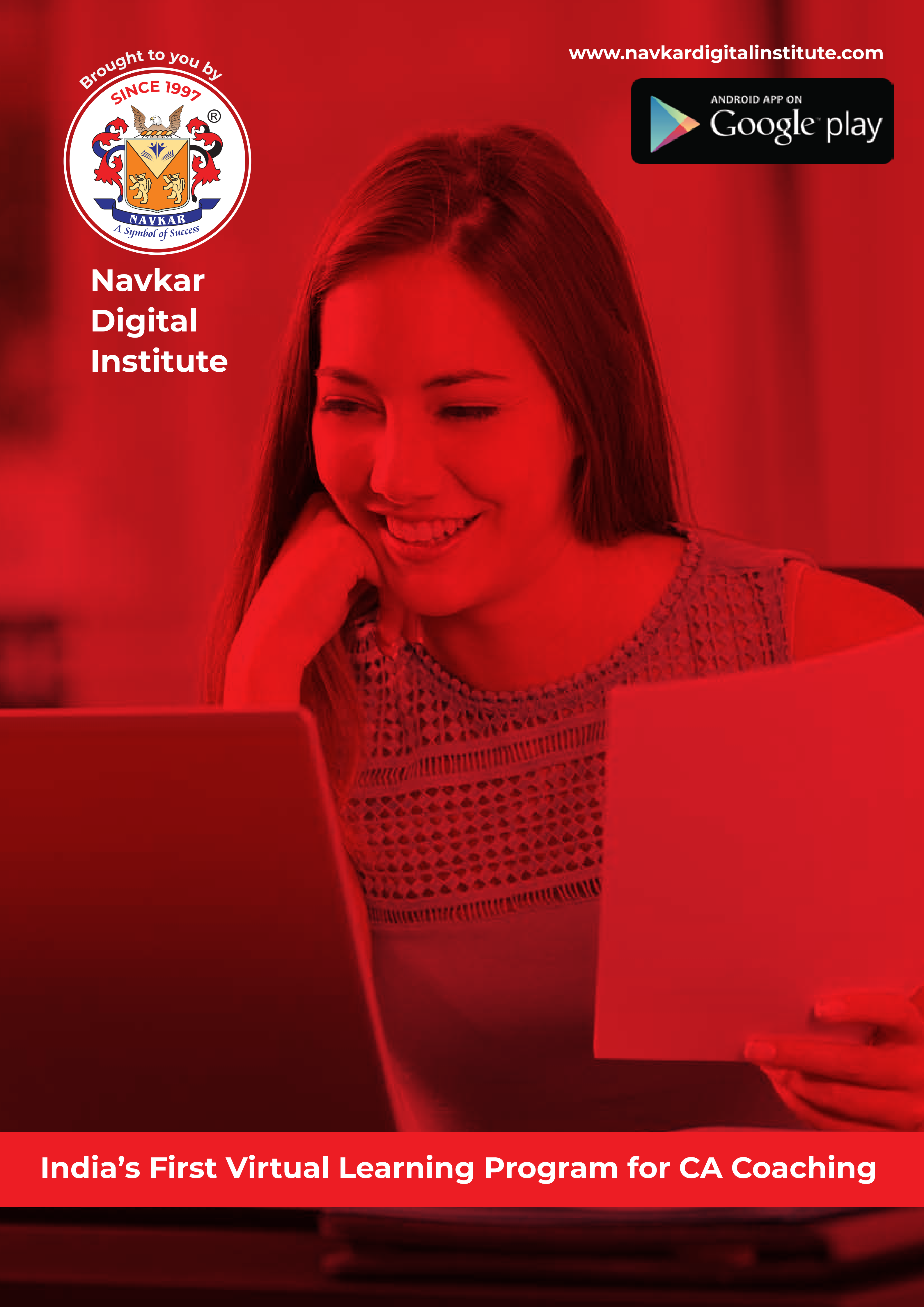
Date	**Amount (`)**
29-07-2016	97,000
09-09-2016	11,000

Show Roshan's A/c in the ledger of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2016 by means of product of balances method.

2. From the following particulars prepare a account current, as sent by Mr. Ram to Mr. Siva as on 31st October 2016 by means of product method charging interest @ 5% p.a.

2016	**Particulars**	`
1st July	Balance due from Siva	750
15th August	Sold goods to Siva	1250
20th August	Goods returned by Siva	200
22nd Sep	Siva paid by cheque	800
15th Oct	Received cash from Siva	500

❑



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