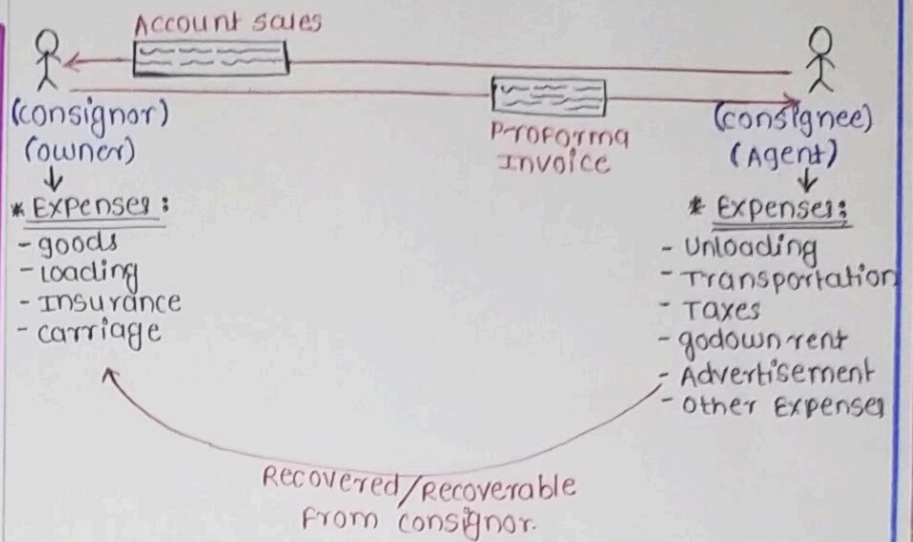


... CONSIGNMENT ...

Journal Entries

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

Introduction



Valuation of stock @ cost

	units	Am't ₹
1. Goods sent on consign.	xxx	xxx
(+) consignor's Expenses	-	xxx
A	xxx	xxx
2. (-) Abnormal loss	(xxx)	(xxx)
(-) Normal loss (in transit)	(xxx)	-
B	xxx	xxx
3. (+) Expenses by consignee (fill the godown)	-	xxx
C	xxx	xxx
4. (-) Abnormal loss	(xxx)	(xxx)
(-) Normal loss (loss in godown)	(xxx)	-
D	xxx	xxx
5. Valuation of stock [total units - units sold]	xxx	xxx

Valuation of stock @ IP :

Valuation of stock @ cost	xxx
(+) stock reserves	xxx
	xxx
Valuation of stock @ IP.	xxx

***Journal Entries in the books of consignor**

commission

Ordinary commission

- Bad debts is a risk of consignor
- Journal Entry: Sale -
- cash/Bank/Debtors A/c -Dr.
 to consignor A/c
- Journal Entry: Bad debts -
- consignor A/c -Dr.
 to cash/Bank/Debtors A/c

Del-credre commission

- Bad debts is a risk of consignee.
- Journal Entry: Sale -
- cash/Bank/Debtors A/c -Dr.
 to consignor A/c
- Journal Entry: Bad debts -
- Bad debt/commission earned -Dr.
 to cash/Bank/Debtors A/c

Over-riding commission

- Extra commission allowed by the consignor
- Normal case: Example -
- commission 25% on any surplus of sale price over invoice price.
- Special cases: Example (with calculation)

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

Total commission = x
 $x = 10\% \cdot 120,000 + 25/100 [150,000 - x - 120,000]$
 $x = 12,000 + 7,500 - 0.25x$
 $1.25x = 19,500$
 $x = \frac{19,500}{1.25}$
 $x = 15,600$

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

Total commission = x
 $x = 10\% \cdot 150,000 + 25/100 [150,000 - x - 120,000]$
 $x = 15,000 + 7,500 - 0.25x$
 $1.25x = 22,500$
 $x = \frac{22,500}{1.25}$
 $x = 18,000$

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

Total commission = x
 $x = 10\% \cdot 150,000 + 25/100 [150,000 - 120,000]$
 $x = 15,000 + 7,500$
 $x = 22,500$

Format of consignment A/c :-

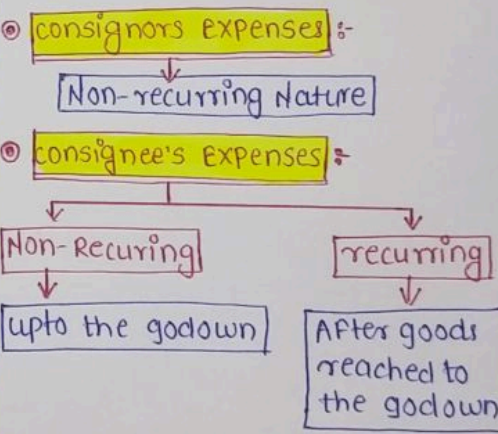
In the books of consignor
consignment A/c

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

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

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

* Godown तक का खर्चा (+) करना है।



RECTIFICATION OF ERRORS....

Types of Errors

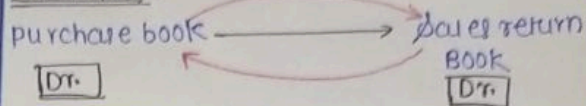
- ① Error of omission
↓
Entry karna bhul gaye
(No entry in the books)
- ② Error of principle
↓
Accountant is not aware about the principles of accounting
eg: capital receipt treated as Revenue receipt
- ③ Error of commission
↓
Books की अदालत बढ़नी & wrong amount etc.
- ④ Compensating Error.
↓
one error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

Intra category :-

Points to be remember-

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

Example :-



* Purchase goods from Vinay was recorded in sales return book ₹ 4000

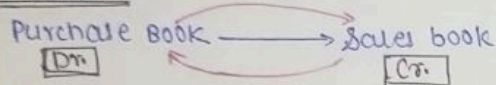
→ Purchase A/c - Dr 4000
TO Sales Return A/c 4000

Inter category :-

Points to be remember-

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

Example :-



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

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

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

casting error :- --> (Total me ghatas)

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

Rectification of errors Before preparing trial Balance.

Rectification should be done in respective ledger A/c

No use of Suspense Account.

Rectification of errors After preparing trial Balance.

Rectification should be done with preparing Profit & Suspense A/c

Rectification of errors when errors are rectified in next year.

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

Balance of suspense A/c as well as profit & loss Adjustment Account transferred to capital A/c because P&L Adjustment Account directly affects capital A/c

posted / debited / credited -

Rectification should be done by :-

Wrong Entry	Correct Entry	Rectification Entry

FINANCIAL STATEMENTS OF NON PROFIT ORGANISATION.

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

Expenses A/c

To prepaid exp. (OP)	xxx	By o/s Exp. (OP)	xxx
To cash/Bank A/c	xxx	By I & E A/c	xxx
To o/s exp. (Cl.)	xxx	By prepaid exp. (Cl.)	xxx
	xxx		xxx

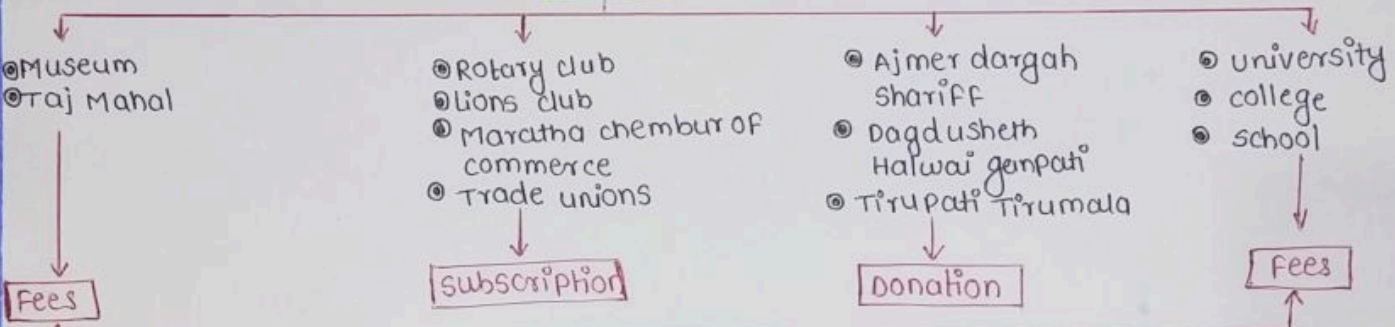
Accounts Bole toh Entries

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

Income A/c

To Income Receivable (OP)	xxx	By Income rec. in Adv. (OP)	xxx
To cash/Bank A/c	xxx	By cash/Bank A/c	xxx
To Income & Exp. enditure A/c	xxx	By Income receivable (Cl.)	xxx
To Income rec. in Adv. (Cl.)	xxx		xxx

NPO



Income Source

Stock ≠ Creditors

* Stock consumed :

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

ii) Funds used :-

Fund A/c —Dr.	xxx
TO cash A/c/Bank A/c	xxx

Fund Accounting - Journal Entries

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

Formats:

Receipts & payments A/c -

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

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

Income & Expenditure A/c -

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

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

Balance sheet / statement of Affairs. -

Statement of Affairs / Balance sheet
 as on _____

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

Entrance fees - Kai SoLo Ki Income hai.

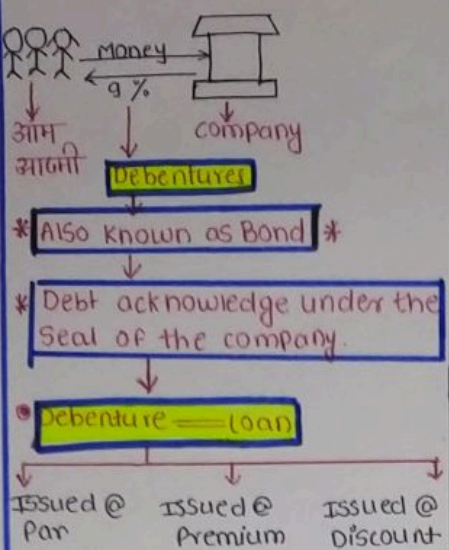
Entries:

cash/Bank A/c -Dr. xxx

Depends on Problem TO Entrance Fees A/c xxx
 Entrance fees A/c -Dr. xxx
 TO Income & Expenditure A/c xxx
 TO Capital fund A/c xxx

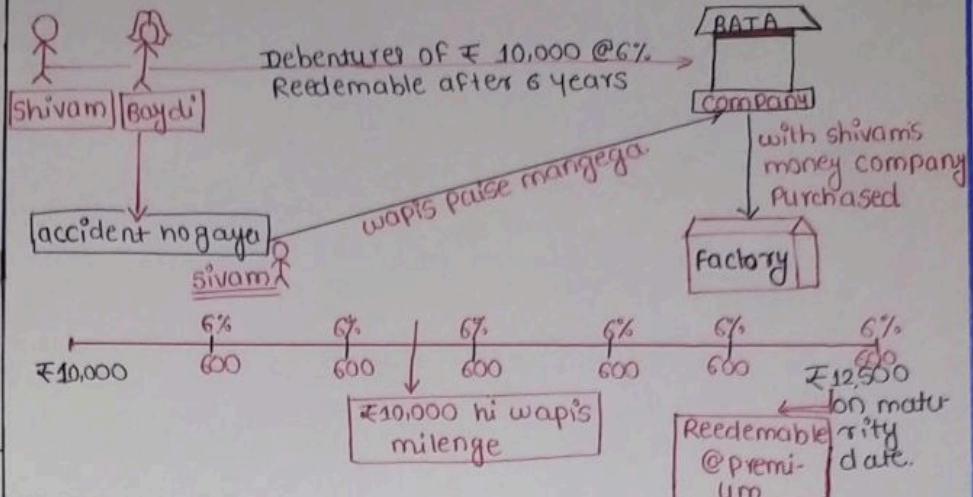
* ISSUE OF DEBENTURES *

Journal Entries are similar to issue of shares

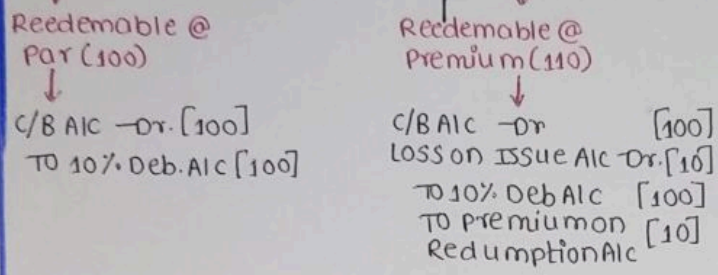


• REDEMABLE @ PREMIUM :-

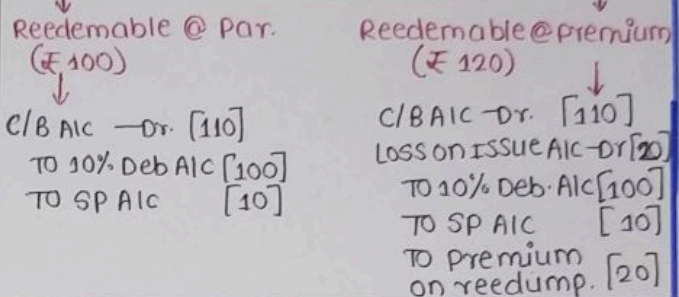
Example: Why company redeme debentures @ premium?



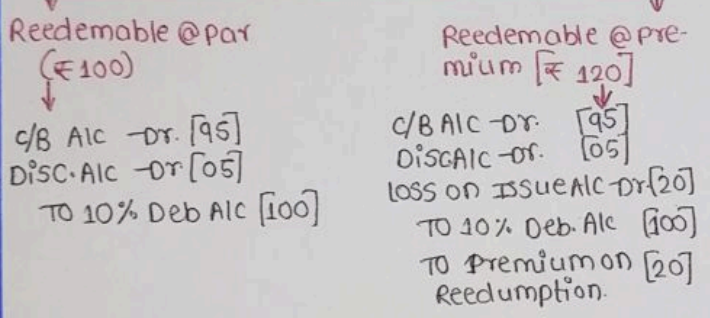
• Issued @ Par; Deb = 100



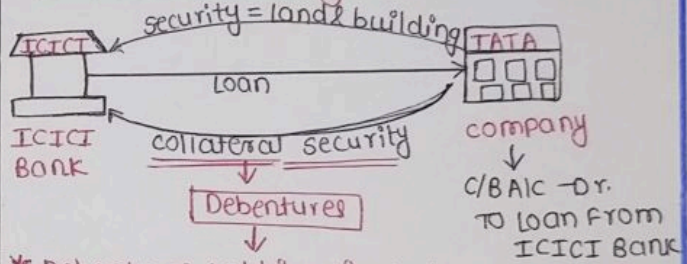
• Issued @ Premium; Deb = 110



• Issued at discount; Deb = 95



* Collateral Security :-

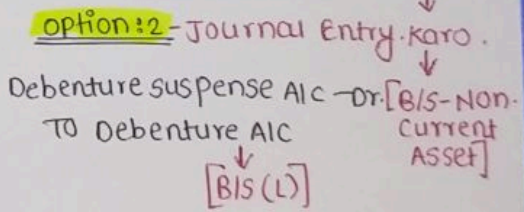
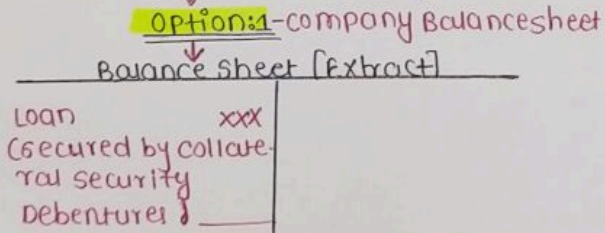


* Debentures tabhi activate honge jabhi "company fails to pay Amount of loan"

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

Treatment of collateral security

ISSUE
No Entry



6. Accrual Concept -

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

-

Paid	Received	→	Ignored
------	----------	---	---------

- e.g. - outstanding exp., outstanding / Accrue income / prepaid expenses / income rec. in advance.

- Also called as mercantile basis of accounting.

7. Dual Aspect concept -

• Asset (↑) capital / Liability (↑)

• Asset (↓) capital / Liability (↓)

* Short cut -

• Asset \propto Liability / capital.

• Asset \propto Asset.

• Liability \propto Liability / capital.

• same things move in opposite direction.

• opposite things move in same direction.

- Every business transaction has two-fold effects & it is referred to as dual aspects or double aspects or duality of aspects.

• Equity (E) + Liability (L) = Assets (A)

CONVENTIONS -

1) Matching concepts -

- In the financial statements of the organizations if any revenue is recognized then expense related to earn that revenue should also be recognized.

- This concept is based on accrual concept as it considers the occurrence of expenses & income & does not concentrate on actual inflow & outflow of cash.

- This leads to certain adjustments like prepaid & outstanding expenses, unearned or accrued incomes.

2. Materiality [Relative Importance] -

- According to materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements.

- Materiality principle permits other concepts to be ignored, if their effect is not considered material.

- This principle is an exception to the full disclosure principle.

- An item material to one person may be immaterial to another person.

3. Full disclosure -

- Full disclosure refers to all the information that should be disclosed.

- Full disclosure principle should be always implemented in relation to materiality.

4. Consistency -

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

5. Conservatism [includes prudence] -

- This principle is applied to report lower profits where alternatives exist. However, conservatism cannot justify deliberate understatement of profit.

- For this concept there should be at least three qualitative characteristics of financial statements namely -

1) Prudence

2) Neutrality

3) Faithful representation of alternative values.

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

ACCOUNTING CONCEPTS, CONVENTIONS AND PRINCIPLES.....

ACCOUNTING CONCEPTS - Rules which are uniform throughout the world.

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

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

Following are some Accounting principles-

1. Business Entity concept -

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

2. Money Measurement concepts -

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

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

Fluctuations in the value of money.

3. Going Concern Concepts -

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

~~Limitations~~ -

* Effect on Accounts -

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

4. Historical cost concepts -

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

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

Historical cost based accounts may lose comparability.

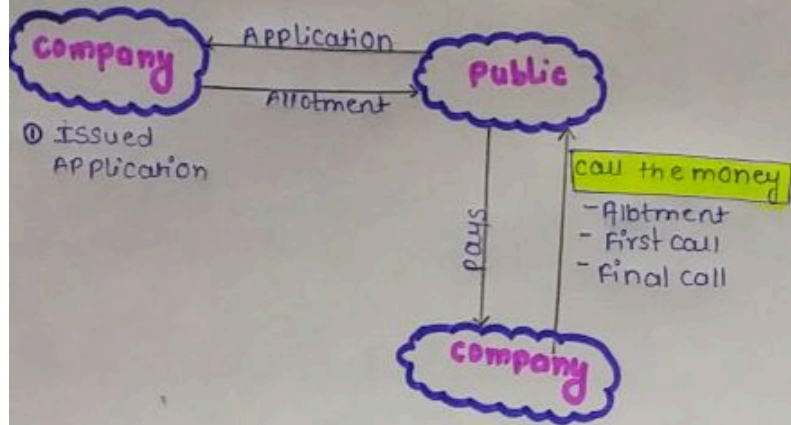
Many assets do not have acquisition cost, Human assets of an enterprise are an example. The cost concept fails to recognize such assets.

5. Periodicity concept -

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

...COMPANY ACCOUNTS...

● STEPS :-



● JOURNAL ENTRIES :-

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

- 5] Amount due on final call :-
 - ⊙ Eq./pref. share final call A/c - Dr.
 - TO Eq./pref. share capital A/c

- 6] Amount received on final call :-
 - ⊙ Bank A/c - Dr.
 - TO Eq./pref. share final call A/c

- 7] Call-in-Arrears :-
 - ⊙ Bank A/c - Dr.
 - call-in-Arrears A/c - Dr.
 - TO share allotment/final call A/c

- 8] Call-in-Advance Received :-
 - ⊙ Bank A/c - Dr.
 - TO call-in-Advance A/c

- 9] Call-in-Advance Adjusted & call money rec'd :-
 - ⊙ Bank A/c - Dr.
 - call-in-Advance A/c - Dr.
 - TO Particular call A/c

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

- 11] Interest received on call-in-arrears :-
 - ⊙ Bank A/c - Dr.
 - TO Shareholder's A/c

- 12] Int. due on call-in-Advance :-
 - * Maximum prescribed rate is 12%
 - ⊙ Int. on call-in-Adv. - Dr.
 - TO Shareholder's A/c
- 13] Payment of Interest on call-in-Advance :-
 - ⊙ Shareholder's A/c - Dr.
 - TO Bank A/c.

- ⊙ Equity/preference share capital - Allotted x Face value
- ⊙ Equity/preference share Application - Applied x Issue price
- ⊙ Equity share Allotment - Allotted x Issue price
- ⊙ Equity/preference share first call - Allotted x Issue price
- * Due ki entry kabhi nakh-re nahi karti.
- * Cash/Bank "Bayko" hai isliye Nakhre karti hai.

● SHARE FORFEITURE - [Face value]

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

● MASTER ENTRY :-

- Share capital A/c [called up value] - Dr.
- Security premium A/c [write if not received] - Dr.
- TO Share forfeiture A/c [amt rec - SP if any rec.]
- TO call-in-arrears A/c [Bal. figure]

● RE-ISSUE OF SHARES :-

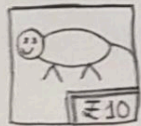
○ Loss on reissue of shares :-

- Paid up value of reissued shares - Reissued price

○ Capital Reserve :-

- Capital Reserve = Share forfeited - Loss on reissue

○ EXAMPLES :-



(Share)

FV		IP	Called	paid
3	APP	3	✓	✓
3	Allot.	3	✓	✓
2	First	2	✓	X
2	final	2	✓	X → (P)
10		10		

- [Company reissued fully paid-up shares @ ₹8]

- 300 shares

- 1) Cash A/c - Dr.
- Share forfeiture A/c - Dr.
- TO Share capital A/c

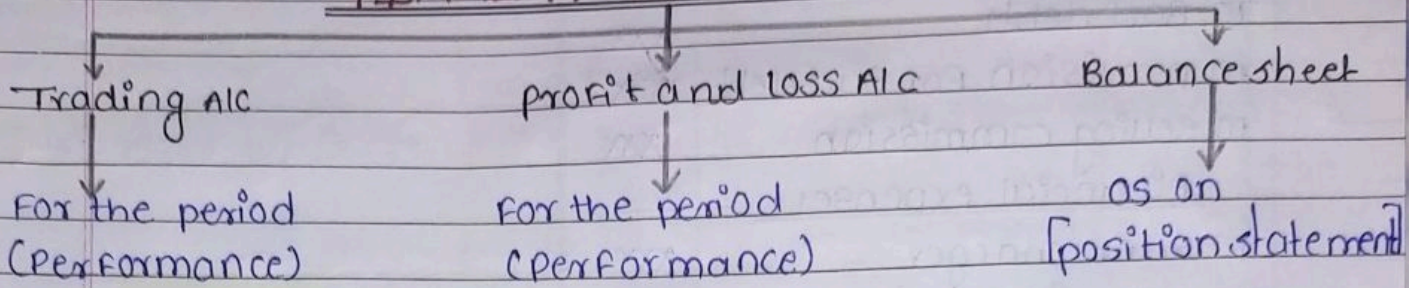
- 2) Share forfeiture A/c - Dr.
- TO Capital Reserves A/c

● ALLOTMENT OF SHARES ON PRO-RATA BASIS :-

○ Working Note :-

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

FINAL ACCOUNTS



* Format : Profit and loss A/c

In the books of _____

Profit and loss A/c For the year ended _____

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

FINAL ACCOUNTS

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

* Format of Trading A/c

Trading A/c for the year ended _____

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

- Gas, water & fuel	xxx		
- Factory expenses	xxx		
- Royalty on production	xxx	xxx	
TO Gross profit c/d		xxx	xxx
		xxx	

* Format :- Balance sheet

Balance sheet as on

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

⊙ Important Adjustments :-

1] Accrual :-

* Expenses *

⊙ Prepaid Expenses - (Dr.)

⊙ outstanding Expenses - (Cr.)

Prepaid Expenses Alc - Dr
TO Expenses Alc

Expenses Alc - Dr
TO outstanding Expenses Alc

* Income *

⊙ Accrued Income - (Dr.)

⊙ Income received in advance

Accrued Income Alc - Dr
TO Income Alc

Income Alc - Dr
TO Income received in adv.

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

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

4] Goods :-

Drawings of Goods

Free sample

Loss by fire

Drawings Alc - Dr
TO purchases Alc

Advertisement Alc - Dr
TO purchases Alc

Loss by fire - Dr
TO purchases

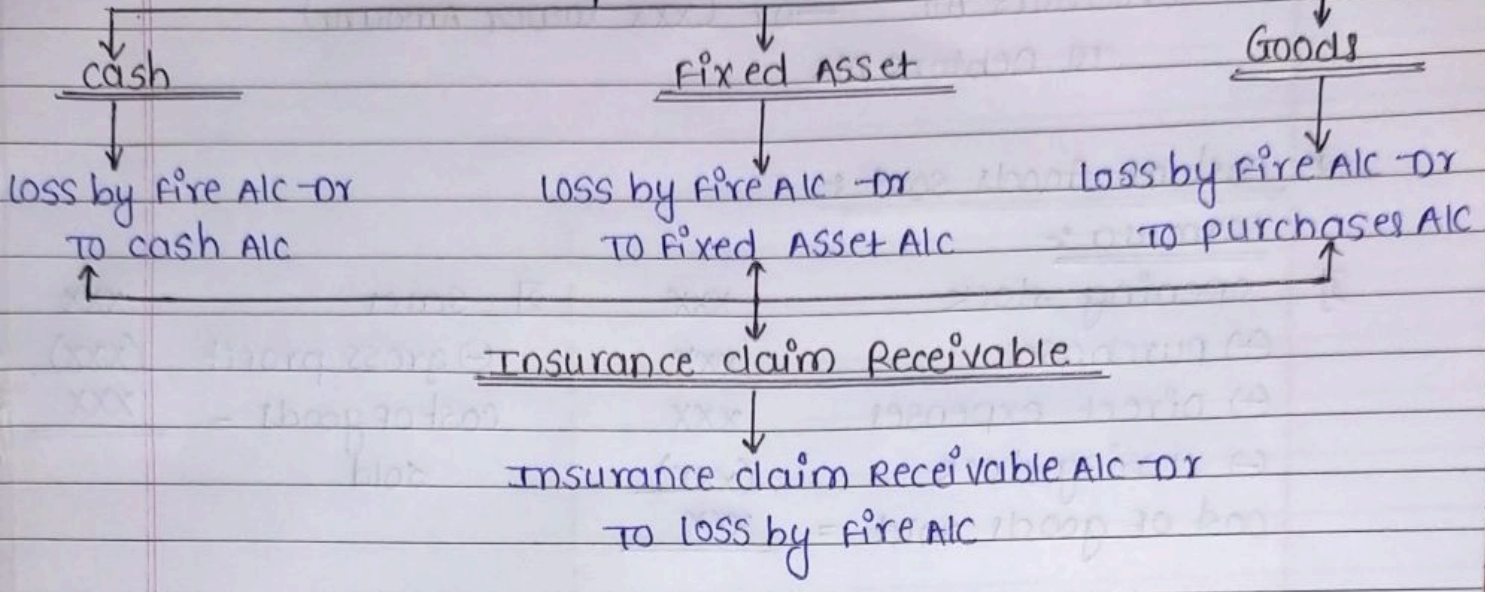
5] Depreciation

Depreciation Alc - Dr
TO Fixed Asset Alc

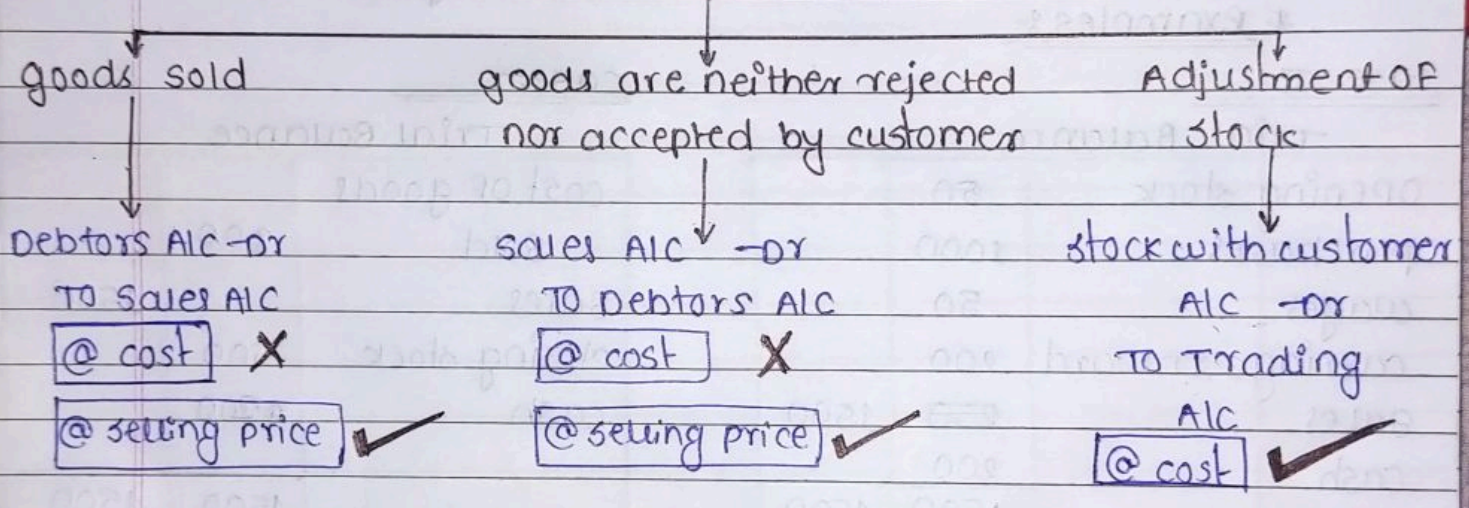
loss on sale [BV > SV]
cash Alc/Bank Alc - Dr
loss on sale Alc - Dr
TO Fixed Asset Alc

profit on sale [BV < SV]
cash/Bank Alc - Dr
TO Furniture Alc
TO profit on sale Alc

6] Loss by Fire



7] Goods sold on sale or return basis



8] Closing stock :-

Closing stock A/c - Dr
To Trading A/c

9] Format of Bad debts :-

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

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

* Cost of Goods sold :-

Formula :-

1] opening stock xxx
 (+) purchases xxx
 (+) Direct expenses xxx
 (-) closing stock (xxx)
 Cost of goods sold = xxx

2] Sales xxx
 (-) gross profit (xxx)
 Cost of goods sold = xxx

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

* Examples :-

Case - I

Trial Balance

opening stock	50	
purchases	1000	
wages	50	
carriage inward	200	
Sales	500 1500	
Cash	200	
	<u>1500</u>	<u>1500</u>

Case - II

Trial Balance

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

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

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

PARTNERSHIP

Very-Very-Very Important chapter

..... BASICS OF PARTNERSHIP

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

In absence of Partnership Deed (Agreement)

** Partnership Act \neq Partnership Deed **

Journal Entries - (P&L Appropriation Transfer)

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

FORMAT [Profit & Loss APPROPRIATION A/c] -

Dr. Profit & Loss APPROPRIATION A/c Cr.			
Particulars	Am't	Particulars	Am't
TO Profit & loss A/c [loss]	xxx	By Profit & loss A/c [profit]	xxx
TO Partner's salary A/c	xxx	By Int-on Partner's Drawing's A/c	xxx
TO Part. commission A/c	xxx	By Partner's capital & current A/c [transfer of loss]	xxx
TO Int-on Partner's loan	xxx		
TO Int-on Part. capital A/c	xxx		
TO Part. capital & current A/c [transfer of Profit]	xxx		

Fixed capital A/c - [1] Partner's capital A/c

Dr. Partner's capital A/c Cr.			
TO Bank A/c [Permanent with drawal of capital]	xxx	By Balance b/d [capital contributed till last year].	xxx
TO Balance c/d [Bal. of capital @ the end of the year]	xxx	By Bank A/c [Fresh capital introduced].	xxx

Capital A/c

Fluctuating capital A/c

Fixed capital A/c

Capital A/c

Current A/c

Partner's Current A/c -

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

Fluctuating Capital A/c -

Dr. Partner's capital A/c Cr.			
TO Bank A/c [Permanent with drawal of capital].	xxx	By bal. b/d [Fresh cap.]	xxx
TO Drawings	xxx	By salary A/c	xxx
TO Int-on Drawing's A/c	xxx	By Int-on capital A/c	xxx
TO P&L APP A/c [loss]	xxx	By P&L APP A/c [Profit]	xxx
TO balance c/d	xxx		

Interest On Drawings -

Uniform Amount & uniform date -

* Beginning of month -
Total Drawings $\times \frac{7}{100} \times \frac{6.5}{12}$

* End of Month -
Total Drawings $\times \frac{7}{100} \times \frac{5.5}{12}$

* Middle of Month -
Total Drawings $\times \frac{7}{100} \times \frac{6}{12}$

* Beginning of Quarter -
Total Drawings $\times \frac{7}{100} \times \frac{7.5}{12}$

* End of Quarter -
Total Drawings $\times \frac{7}{100} \times \frac{4.5}{12}$

* Middle of Quarter -
Total Drawings $\times \frac{7}{100} \times \frac{6}{12}$

GOODWILL -

• Goodwill is future earning capacity of the business.

Valuation Method's -

1. Simple Average Method -

Goodwill = Average Profit \times No. of Years purchase

* Care to be taken while calculating Average Profit -

- Ignore Abnormal year's
- Reduce Any int-on capital/managerial remuneration to partner.

2. Weighted Average Method -

Goodwill = weighted Profit \times No. of Years purchase.

3. Super Profit Method -

* Average Profit xxx
(\rightarrow) Normal Profit (xxx)
[Capital employed \times NRR %]
• Super Profit \rightarrow xxx
• Goodwill = Super Profit \times No. of Years purchase.

4. Annuity Method -

• Goodwill = Super Profit \times Annuity Factor.

5. Capitalisation Method -

• Capital that should be employed xxx
[Profit earned] NRR %
(\rightarrow) Actual capital employed (xxx)
• Goodwill \rightarrow xxx

AVERAGE CAPITAL EMPLOYED -

• How to calculate Average capital employed -

Method-1

opening capital xxx
(+) profits xxx
(-) Drawing's (xxx)
closing capital \rightarrow xxx

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

Method-2

• When opening capital Given -

Average capital employed = $\frac{\text{opening} + \frac{1}{2} \text{ Profit} - \frac{1}{2} \text{ Drawing's}}{\text{capital}}$

Method-3

• When closing capital is Given -

Average capital employed = $\frac{\text{closing} - \frac{1}{2} \text{ Profit} + \frac{1}{2} \text{ Drawing's}}{\text{capital}}$

Sacrificing Ratio =

OLD RATIO - New Ratio

Gaining Ratio =

New Ratio - Old ratio.

ACCOUNTING OF GOODWILL-

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

JOURNAL ENTRIES -

- Revaluation on Assets & Liabilities-
- Assets (↑) - Assets A/c --- Dr.
 to Revaluation A/c
- Asset (↓) - Revaluation A/c --- Dr.
 to Asset's A/c
- Liabilities (↑) - Revaluation A/c --- Dr.
 to Liability A/c
- Liabilities (↓) - Liabilities A/c --- Dr.
 to Revaluation A/c

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

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

- New Partner introduced Capital-
- Cash/Bank A/c --- Dr.
 to Capital A/c

- Goodwill withdrawn by Partner's-
- Withdrawing partner's capital A/c - Dr.
 to Cash/Bank A/c.

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

- Accumulated losses-
- Partner's capital A/c --- Dr.
 to Accumulated losses A/c [old PSR]

- Unrecorded Liability to be recorded-
- Revaluation A/c --- Dr.
 to Liability A/c

- Unrecorded Asset to be recorded-
- Asset A/c --- Dr.
 to Revaluation A/c

- Asset taken over by Partner-
- Partner's capital A/c --- Dr. } Profit/loss go to Revaluation A/c
- to Asset A/c
- Liability taken over by Partner's-
- Liability A/c --- Dr.
 to Partner's capital A/c

HIDDEN GOODWILL-

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

RETIREMENT OF PARTNER...

Special points-

- 1] Where will be balance of retiring Partner will be transferred -
→ balance of retiring partner will be transferred to loan A/c or paid.
(a) Loan -
Retiring partner's cap. A/c - Dr.
 to Partner's loan A/c
- (b) Paid -
Retiring partner's cap. A/c - Dr.
 to Cash/Bank A/c

Joint Life Policy-

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

- JLP Premium A/c - Dr (Exp)
 to Cash/Bank A/c

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

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

- Cash/Bank - Dr - Cash/Bank A/c - Dr
 to JLP A/c to JLP A/c

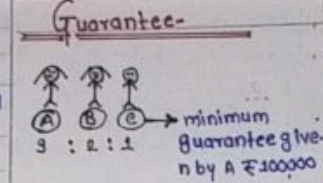
- JLP A/c - Dr - JLP A/c - Dr
 to old part- to old partner's
 ners in old in old PSR.

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

Balance sheet
JLP xxx
(Surrendered value)

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

Concept Of Minimum Guarantee-



Case-I

Profit ₹ 5,00,000		
A	B	C
250,000	166,667	83,333
(-) 16,667		(+) 16,667
233,333		100,000
A [Guarantee given by A]		C

Case-II

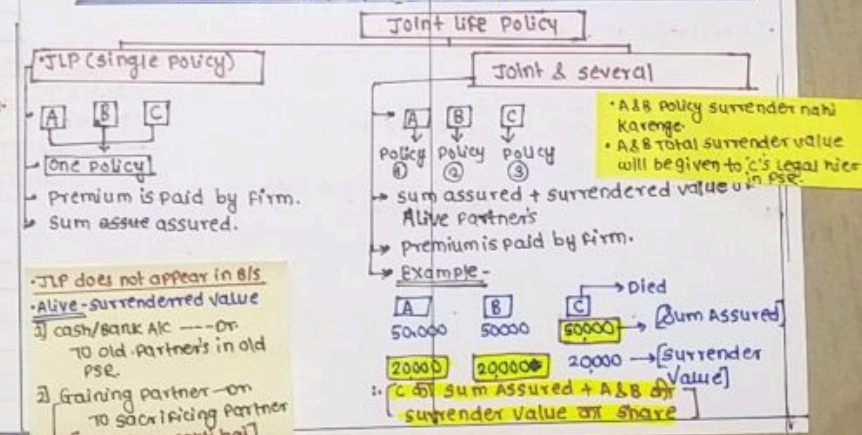
Profits ₹ 7,20,000		
A	B	C
3,60,000	2,40,000	1,20,000

• 'C' will get ₹1,00,000 or his share of profit whichever is MORE.

Case-III

Loss ₹ 1,80,000		
A	B	C
(90,000)	(60,000)	(30,000)
(-) 180,000		(+) 180,000
220,000	60,000	100,000
A	B	C

DEATH OF A PARTNER



- JLP does not appear in B/S
- Alive - surrendered value
- 1] Cash/Bank A/c --- Dr.
 to old Partner's in old PSR.
- 2] Gaining partner - Dr.
 to sacrificing Partner [change ho sakti hai]

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

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