CA Darshan Jain

B.Com , CA , CS , LLB(P) , DISA , DIRM

A Chartered Accountant & A Company Secretary By Profession & A Educator By passion.

Teaching Financial Accounting & Financial management to CA Students Since Last 11 years.

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CA FOUNDATION PRE EXAM MARATHON PLAN FOR DEC 23 ON YOU TUBE BY DJ SIR

DATE	DAY	TOPIC	TIME
18-12-2023	MONDAY	L1 - RECTIFICATION OF ERRORS	10.00 PM - 12.00 AM
19-12-2023	TUESDAY	L2 - BANK RECONCILIATION STATEMENT	10.00 PM - 12.00 AM
20-12-2023	WEDNESDAY	L3 - NPO	10.00 PM - 12.00 AM
21-12-2023	THURSDAY	L4 - BILLS OF EXCHANGE	10.00 PM - 12.00 AM
22-12-2023	FRIDAY	L5 - DEPRECIATION ACCOUNTING	10.00 PM - 12.00 AM
23-12-2023	SATURDAY	L6 - TIPS & TRICKS TO CRACK CA FOUNDATION ACCOUNTS	10.00 PM - 11.00 PM
24-12-2023	SUNDAY	100 MARKS MOCK TEST	AS PER CONVENIENCE OF STUDENTS
24-12-2023	SUNDAY	L7 - CONSIGNMENT	10.00 PM - 12.00 AM
25-12-2023	MONDAY	L8 - ISSUE , FORFEITURE & REISSUE OF SHARES	10.00 PM - 12.00 AM
26-12-2023	TUESDAY	L9 - FINAL ACCOUNTS OF SOLE PROPRIETOR	10.00 PM - 12.00 AM
27-12-2023	WEDNESDAY	L10 - FINAL ACCOUNTS OF MANUFACTURING ENTITY	10.00 PM - 12.00 AM
28-12-2023	THURSDAY	L11 - THEORY & TRUE OR FALSE	10.00 PM - 12.00 AM
29-12-2023		L12 - 12 HOURS PRE EXAM MAHA MARATHON (INVENTORY VALUATION , DEPRECIATION , ISSUE OF DEB , PARTNERSHIP , FINAL ACCOUNTS , BASICS OF ACCOUNTS)	8.00 AM ONWARDS
30-12-2023	SATURDAY	SELF STUDY DAY	-
31-12-2023	SUNDAY	L13 - WARM UP SESSION	9.00 AM TO 10.00 AM
12 HOURS PRE EXAM MAHA MARATHON (BRS , NPO , SHARES , ADD , ACCOUNT CURRENT , SOGRA , ROE , ACCOMADATION BILL) IS AVAILABLE ON YT			

SUPER 75

SR.NO	NAME OF TOPIC	NO. OF QUE
1	RECTIFICATION OF ERRORS	4
2	BANK RECONCILIATION STATEMENT	4
3	BILL OF EXCHANGE & PROMISSORY NOTES	4
4	INVENTORY VALUATION	7
5	CONSIGNMENT	5
6	DEPRECIATION	4
7	AVERAGE DUE DATE	4
8	ACCOUNT CURRENT	3
9	PARTNERSHIP - BASICS	2
10	PARTNERSHIP - VALUATION OF GOODWILL	2
11	PARTNERSHIP - ADMISSION OF PARTNER	3
12	PARTNERSHIP - RETIREMENT OF PARTNER	2
13	PARTNERSHIP - DEATH OF PARTNER	3
14	PARTNERSHIP - CHANGE IN PSR	1
15	COMPANY ACCOUNTS AND ACCOUNTING FOR SHARES	6
16	ISSUE OF DEBENTURES	3
17	SALE OF GOODS ON APPROVAL BASIS	4
18	FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES	5
19	FINAL ACCOUNTS OF MANUFACTURING ENTITIES	3
20	FINANCIAL STATEMENTS OF NPO	6
	TOTAL	75

ORDER OF CHAPTERS IN MAHA MARATHON NOTES

SR.NO	NAME OF TOPIC	REMARK
1	BANK RECONCILIATION STATEMENT	COVERED IN JUNE 23 MAHA MARATHON
2	FINANCIAL STATEMENTS OF NPO	COVERED IN JUNE 23 MAHA MARATHON
3	COMPANY ACCOUNTS AND ACCOUNTING FOR SHARES	COVERED IN JUNE 23 MAHA MARATHON
4	FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES	TO BE COVERED IN DEC 23 MAHA MARATHON
5	FINAL ACCOUNTS OF MANUFACTURING ENTITIES	TO BE COVERED IN DEC 23 MAHA MARATHON
6	RECTIFICATION OF ERRORS	COVERED IN JUNE 23 MAHA MARATHON
7	BILL OF EXCHANGE & PROMISSORY NOTES	COVERED IN JUNE 23 MAHA MARATHON
8	CONSIGNMENT	TO BE REVISED FROM DEC 23 MINI MARATHON
9	DEPRECIATION	TO BE COVERED IN DEC 23 MAHA MARATHON
10	INVENTORY VALUATION	TO BE COVERED IN DEC 23 MAHA MARATHON
11	AVERAGE DUE DATE	COVERED IN JUNE 23 MAHA MARATHON
12	ACCOUNT CURRENT	COVERED IN JUNE 23 MAHA MARATHON
13	SALE OF GOODS ON APPROVAL BASIS	COVERED IN JUNE 23 MAHA MARATHON
14	ISSUE OF DEBENTURES	TO BE COVERED IN DEC 23 MAHA MARATHON
15	PARTNERSHIP ACCOUNTS	TO BE COVERED IN DEC 23 MAHA MARATHON
16	BASICS OF ACCOUNTS	TO BE COVERED IN DEC 23 MAHA MARATHON

WEIGHTAGE ANALYSIS

SR.NO	NAME OF TOPIC	May-18	Nov-18	May-19	Nov-19	Nov-20	Jan-21	Jul-21	Dec-21	Jun-22	Dec-22	Jun-23
1	MEANING AND SCOPE OF ACCOUNTING		4			4	4					
2	ACCOUNTING CYCLE	4	2		2				7.5	6		5
3	SUBSIDIARY BOOKS AND CASH BOOK					4	2	12	4.5	5	5	4
4	ACCOUNTING PRINCIPLES AND POLICIES			4		2			1	4	4	4
5	CAPITAL AND REVENUE EXPENDITURE AND RECIEPTS	2	2	2	2	2	2	4	4	2	5	2
6	CONTINGENT LIABILITIES AND PROVISIONS	4			4				2	2	4	
7	ACCOUNTING AS A MEASUREMENT DISCIPLINE											
8	ACCOUNTING STANDARDS						2					

SR.NO	NAME OF TOPIC	May-18	Nov-18	May-19	Nov-19	Nov-20	Jan-21	Jul-21	Dec-21	Jun-22	Dec-22	Jun-23
9	RECTIFICATION OF ERRORS	12	10	6	15	7	10	10	5	2	12	2
10	BANK RECONCILIATION STATEMENT	10	10	10	10	10	4	5	10	5	10	5
11	BILL OF EXCHANGE & PROMISSORY NOTES			5	2	10			10		15	5
12	INVENTORY VALUATION			5	7	10	5	7	4	5	2	5
13	CONSIGNMENT	10	12	2	10	7	12	10	2	10		12
14	DEPRECIATION		6	10	4	5	10	4	6	10	4	10
15	AVERAGE DUE DATE	5	5	7	5	5	5	5	5	2	5	5
16	ACCOUNT CURRENT	7	5		5	5	7		5	5	5	

SR.NO	NAME OF TOPIC	May-18	Nov-18	May-19	Nov-19	Nov-20	Jan-21	Jul-21	Dec-21	Jun-22	Dec-22	Jun-23
17	PARTNERSHIP - BASICS	2		2	2		5		5			5
18	PARTNERSHIP - VALUATION OF GOODWILL									5	5	
19	PARTNERSHIP - ADMISSION OF PARTNER		15			2			10		10	
20	PARTNERSHIP - CHANGE IN PSR											
21	PARTNERSHIP - RETIREMENT OF PARTNER	10				10		5		10		
22	PARTNERSHIP - DEATH OF PARTNER			10	10		10	12				20
23	COMPANY ACCOUNTS AND ACCOUNTING FOR SHARES	12	10	10	17	12	17	19	17	15	15	15
24	ISSUE OF DEBENTURES		5	5		5				2	2	3

SR.NO	NAME OF TOPIC	May-18	Nov-18	May-19	Nov-19	Nov-20	Jan-21	Jul-21	Dec-21	Jun-22	Dec-22	Jun-23
25	SALE OF GOODS ON APPROVAL BASIS	5	5		5		5	7		5		5
26	FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES	20	5	10	10	5	15	15	2		10	1
27	FINAL ACCOUNTS OF MANUFACTURING ENTITIES				5	10			15	20		2
28	FINAL ACCOUNTS OF NPO		12	10	10	10	10	10	10	10	12	15
29	OMITTED TOPICS	22	17	27								
	TOTAL	125	125	125	125	125	125	125	125	125	125	125

BANK RECONCILIATION STATEMENT

CAUSES OF DIFFERENCE BETWEEN BALANCE AS PER CASH BOOK AND BALANCE AS PER PASS BOOK

Basically the differences between the Bank Balance as per Cash Book and Bank Balance as per Pass Book are caused by :

1. **Timing difference of recording banking transactions**
2. **Errors in Cash Book committed by the account holder**
3. **Errors in pass Book committed by the Bank.**

SUMMARY OF TIMING DIFFERENCES IN BANKING TRANSACTIONS

Transactions	Timings of Recordings in Cash Book	Timings of Recordings in Pass Book
Cash deposits	When Cash is deposited	When Cash is deposited
Cash withdrawn	When Cash is withdrawn	When the cash is withdrawn
Cheque issued	When Cheque is issued	When a cheque is presented for payment
Cheque deposited	When Cheque is deposited	When cheque is collected
Bank charges	When Information from Bank is received	When charges are levied by bank
Interest charged by Bank	When information from Bank is received	When interest is charged by bank
Interest allowed by Bank	When Information from Bank is received.	When interest is allowed by bank
Direct payment on behalf	When Information from Bank is received.	When payment is made by bank
Direct collection on behalf of customer	When Information from Bank is received.	When the amount is collected by the bank
Dishonor of cheque/bills Receivable	When Information from Bank is received.	When cheque / B/R is dishonored

ERRORS IN CASH BOOK THAT LEADS TO DIFFERENCE BETWEEN BALANCE AS PER CB AND BALANCE AS PER PB

Due to errors in cash book , there may be difference between the bank balance as shown by the pass book and the bank balance as shown by the cash book .

The examples of the errors in cash book may include the following :

1. **Errors of Omission :** Cheque/cash deposited but not recorded in the cash book , Cheques issued but not recorded in the cash Book, cash withdrawn from the Bank but not recorded in the cash book .
2. **Errors of Recording :** Cheque deposited into the bank but recorded in the Cash Column/Discount Column , cheque deposited into the bank but recorded in the bank Column on the payment side of the Cash Book , a cheque of Rs 1,552 deposited into the bank but recorded as Rs 1,525, a discount allowed Rs 100 recorded in Bank Column, cash received Rs 1,000 recorded in the Bank column .
3. **Errors of Casting :** Under/Over casting of bank Column of the Cash Book
4. **Errors of Carrying Forward :** The debit balance on the previous day brought forward as a credit balance,. The bank balance carried forward as Rs 15,889 instead of Rs 15,898.
5. **Other Errors :** Cheque received from a debtor recorded in the Cash Book but not deposited into the Bank for collection .

ERRORS IN PASS BOOK THAT LEADS TO DIFFERENCE BETWEEN BALANCE AS PER CB AND BALANCE AS PER PB

Due to error in Pass Book, there may be difference between the balance as shown by the Bank Pass Book and the balance as shown by the Cash book .

The examples of errors in Pass Book include the following :

a) **Errors of omission :** Cheque collected by bank but not recorded in pass book due to wrong posting in another customers account.
b) **Errors of Recording :** Deposit recorded on withdrawal side and vice versa , deposit of Rs 1,589 recorded as Rs 1,598.
c) **Errors of Casting :** Deposit Column/withdrawal columns under/over casted.
d) **Errors of Carrying forward :** Debit balance on previous page brought forward as credit balance on the next page, the balance of Rs 15,889 carried forward as Rs 15,898.

ADJUSTED/AMENDED CASH BOOK

In case the bank reconciliation statement is required to be prepared at the end of an accounting period , it is recommended that first, the Cash Book (with amended bank column) should be prepared in order to ascertain the correct bank balance as per Cash book and then the bank reconciliation statement should be prepared to reconcile this correct bank balance as per cash book with the balance as per bank pass book. It may be noted that it is the adjusted Cash book balance which is taken to the balance sheet.

How to calculate the adjusted bank balance as per cash book?

The adjusted bank balance as per cash book is ascertained by passing :

A. **Adjusting entries in respect of correct items which appear only in pass book**
   Example : Bank charges, interest charged on overdraft, interest allowed by bank, Dividend/interest/bills receivable directly collected by bank, direct payment by bank under standing instructions of customers.

B. **Rectifying entries in respect of errors committed in the cash book**
   Example : Cheque issued but recorded in cash column/discount column, cheques issued recorded in bank column with wrong amount, over/under cast of bank column, error in balancing the bank column, error in carry forward/brought forward of bank balance.

WHEN TO PREPARE ADJUSTED/AMENDED CASH BOOK?

1. When asked in Question Specifically to Prepare BRS with Adjusted Cash Book.
2. Balance as Per Cash Book is Given (favorable or Overdraft) & BRS is Being Prepared as on 31st Dec/31st March
   In Second Case Give Below Note
   Note – In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st Dec/31st March & Accordingly BRS is Being Prepared With Adjusted Cash Book.
3. No ACB To Be Prepared if Both Cash Book & Pass Book balance Given in Question.
4. NO ACB To Be Prepared if Questions only Ask To Ascertain the Balance as per Pass Book & Does Not Speak About Preparing BRS.

TERMS USED

Sr.No	Terms	Meaning
1	Favourable Balance as per Cash Book	It means Debit balance as per cash Book
2	unFavourable Balance as per Cash Book	It means Credit balance as per cash Book
3	Favourable Balance as per Pass Book	It means Credit balance as per Pass Book
4	unFavourable Balance as per Pass Book	It means Debit balance as per Pass Book

TRICKS TO CRACK BRS

- **For Every transaction There Shall be 2 Hand Movements , First One For Nature of transaction (Which Shall be Same irrespective of Starting Point) & Second One Shall be For Who Needs to Meet Whom (CB to PB or PB to CB)**
- **In case of Overdraft , The Question Shall Be Solved in a Normal manner & At last the Sign Needs to be Reversed.**

TRICKS TO CRACK BRS

Sr. No	Starting Point	If End Point Positive	If End Point Negative
1	Favorable Balance as per Cash Book	Favorable Balance as per Pass Book	Unfavorable Balance as per Pass Book (overdraft)
2	unfavorable Balance as per Cash Book (Overdraft)	unfavorable Balance as per Pass Book (Overdraft)	Favorable Balance as per Pass Book
3	Favorable Balance as per Pass Book	Favorable Balance as per Cash Book	unfavorable Balance as per Cash Book (Overdraft)
4	unfavorable Balance as per Pass Book (Overdraft)	unfavorable Balance as per Cash Book (Overdraft)	Favorable Balance as per Cash Book

ILLUSTRATION 1

On 31st March 2019, the Bank Pass Book of Namrata showed a balance of ₹ 1,50,000 to her credit while balance as per cash book was ₹ 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

i) *She has issued cheques amounting to ₹ 80,000 out of which only ₹ 32,000 were presented for payment.*

ii) *She received a cheque of ₹ 5,000 which she recorded in her cash book but forgot to deposit in the bank.*

iii) *A cheque of ₹ 22,000 deposited by her has not been cleared yet.*

iv) Mr. Gupta deposited an amount of ₹ 15,700 in her bank which has not been recorded by her in Cash Book yet.

v) *Bank has credited an interest of ₹ 1,500 while charging ₹ 250 as bank charges.*

Prepare a bank reconciliation statement.

Namrata			
Bank Reconciliation Statement as at 31-03-2019			
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance As Per Pass Book		150000
B	Add-		
	Cheque Received Recorded in Cash Book But not Yet Deposited	5000	
	Cheque Deposited But Not Yet Cleared	22000	
	Bank Charges Debited by Bank not Recorded in Cash Book	250	27250
C	Less-		
	Cheque Issued But Not Yet Presented	48000	
	Cash Deposited in Bank Not Yet Recorded	15700	
	Interest Credited by Bank Not Recorded in Cash Book	1500	65200
D	Balance as per Cash Book (A+B-C)		112050

ILLUSTRATION 2

The Cash Book of Mr. Gadbadwala shows ₹ 8,36,400 as the balance at Bank as on 31st December, 2019, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

(1) On 15th December, 2019 the payment side of the Cash Book was undercast by ₹ 10,000.

(2) A cheque for ₹ 1,31,000 issued on 25th December, 2019 was not taken in the bank column.

(3) One deposit of ₹ 1,50,000 was recorded in the Cash Book as if there is no bank column therein.

(4) On 18th December, 2019 the debit balance of ₹ 15,260 as on the previous day, was brought forward as credit balance.

(5) Of the total cheques amounting to ₹ 11,514 drawn in the last week of December, 2019, cheques aggregating ₹ 7,815 were encashed in December.

(6) Dividends of ₹ 25,000 collected by the Bank and subscription of ₹ 1,000 paid by it were not recorded in the Cash Book.

(7) One out-going Cheque of ₹ 3,50,000 was recorded twice in the Cash Book. Prepare a Reconciliation Statement.

Cash Book (Amended Bank Column)			
Particulars	**Amount**	**Particulars**	**Amount**
To Bal B/d	836400	By Under Casting of Payment Side	10000
To Cash A/c (Wrongly Debited to Cash)	150000	By Party A/c	131000
To Error of Carrying Forward	30520	By Subscription A/c	1000
To Dividend A/c	25000	By Bal C/d (Bal Fig)	1249920
To Party A/c	350000		
	1391920		**1391920**

Mr. Gadbadwala			
Bank Reconciliation Statement as at 31-12-2019			
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance as Per Adjusted Cash Book		1249920
B	Add-		
	Cheque Issued But Not Yet Presented		3699
C	Balance as Per Pass Book (A+B)		1253619

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st Dec 2019 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 3

When Nikki & Co. received a Bank Statement showing a favourable balance of ₹ 10,39,200 for the period ended on 30th June, 2019, this did not agree with the balance in the cash book.

An examination of the Cash Book and Bank Statement disclosed the following :

1. A deposit of ₹ 3,09,200 paid on 29th June, 2019 had not been credited by the Bank until 1st July, 2019.

2. On 30th March, 2019 the company had entered into hire purchase agreement to pay by bank order a sum of ₹ 3,00,000 on the 10th of each month, commencing from April, 2019. No entries had been made in Cash Book.

3. A customer of the firm, who received a cash discount of 4% on his account of ₹ 4,00,000 paid the firm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

4. Bank charges amounting to ₹ 3,000 had not been entered in Cash-Book.

5. *On 28th June, a customer of the company directly deposited the amount in the bank ₹ 4,00,000, but no entry had been made in the Cash Book.*

6. *₹ 11,200 paid into the bank had been entered twice in the Cash Book.*

7. *A debit of ₹ 11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2019.*

Prepare Bank Reconciliation Statement on 30 June, 2019.

Nikki & Co.

Bank Reconcilation Statement as at 30-06-2019

Sr.No	Particulars	Amount	Amount
A	Balance As Per Pass Book		1039200
B	Add-		
	Deposited not Yet Credited by Bank	309200	
	Amount Paid under Hire Purchase Agreement for April , May & June	900000	
	Discount Allowed Not Entered in Cash Book & Full Amount Recorded in CB	16000	
	Bank Charges Not Recorded in Cash Book	3000	
	Cheque Deposit Entered Twice in Books	11200	
	Cheque returned "out of Date" Not entered in Cash Book (Dishonor)	1100000	2339400
C	Less-		
	Direct Deposit by Customer not Recorded in Cash Book	400000	400000
D	Balance as per Cash Book (A+B-C)		2978600

ILLUSTRATION 4

From the following particulars prepare a bank reconciliation statement as on 31st December 2019:

(i) On 31st December, 2019 the cash-book of a firm showed a bank balance of ₹ 60,000 (debit balance).

(ii) Cheques had been issued for ₹ 15,00,000, out of which cheques worth ₹ 4,00,000 only were presented for payment.

(iii) Cheques worth ₹ 11,40,000 were deposited in the bank on 28th December, 2019 but had not been credited by the bank. In addition to this, one cheque for ₹ 5,00,000 was entered in the cash book on 30th December, 2019 but was banked on 3rd January, 2020.

(iv) A cheque from Susan for ₹ 4,00,000 was deposited in the bank on 26th December 2019 but was dishonoured and the advice was received on 2nd January, 2020.

(v) Pass-book showed bank charges of ₹ 2000 debited by the bank.

(vi) One of the debtors deposited a sum of ₹ 5,00,000 in the bank account of the firm on 20th December, 2019 but the intimation in this respect was received from the bank on 2nd January, 2020.

(vii) Bank pass-book showed a credit balance of ₹ 3,82,000 on 31st December, 2019.

Bank Reconciliation Statement as at 31-12-2019			
Sr.No	Particulars	Amount	Amount
A	Balance As Per Cash Book		60000
B	Add-		
	Cheques Issued but Not Yet Presented	1100000	
	Direct Deposit by Customer not Recorded in Cash book	500000	1600000
C	Less-		
	Cheques Deposited But Not yet Cleared	1140000	
	Cheque Received Recorded In cash Book But omitted to be Banked	500000	
	Cheque Deposited Dishonored	400000	
	Bank Charges Debited by Bank Not Recorded in Cash Book	2000	2042000
D	Overdraft as per Pass Book (A+B-C)		382000

ILLUSTRATION 5

Prepare a bank reconciliation statement from the following particulars on 31st March, 2019:

Particulars	₹
Debit balance as per bank column of the cash book	37,20,000
Cheque issued to creditors but not yet presented to the bank for payment	7,20,000
Dividend received by the bank but not yet entered in the cash book	5,00,000
Interest allowed by the bank	12,500
Cheques deposited into bank for collection but not collected by bank up to this date.	15,40,000
Bank charges	2,000
A cheque deposited into bank was dishonoured, but no intimation received	3,20,000
Bank paid house tax on our behalf, but no information received from bank in this connection.	3,50,000

Cash Book (Amended Bank Column)			
Particulars	Amount	Particulars	Amount
To Bal B/d	3720000	By Bank Charges A/c	2000
To Dividend A/c	500000	By Party A/c (Cheque Dishonor)	320000
To Interest A/c	12500	By Drawings (House tax)	350000
		By Bal C/d (Bal Fig)	3560500
	4232500		4232500

Bank Reconciliation Statement as at 31-03-2019			
Sr.No	Particulars	Amount	Amount
A	Balance as Per Adjusted Cash Book		3560500
B	Add-		
	Cheque Issued But Not Yet Presented		720000
C	Less -		
	Cheque Deposited but not yet Collected		1540000
D	Balance as Per Pass Book (A+B-C)		2740500

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st March 2019 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 6

Prepare a bank reconciliation statement as on 30th September, 2019 from the following particulars:

Particulars	₹
Bank balance as per pass-book	10,00,000
Cheque deposited into the bank, but no entry was passed in the cash-book	5,00,000
Cheque received, but not sent to bank	11,20,000
Credit side of the bank column cast short	2,000
Insurance premium paid directly by the bank under the standing advice	60,000
Bank charges entered twice in the cash book	2,000
Cheque issued, but not presented to the bank for payment	5,00,000
Cheque received entered twice in the cash book	10,000
Bills discounted dishonoured not recorded in the cash book.	5,00,000

Bank Reconciliation Statement as at 30-09-2019			
Sr.No	Particulars	Amount	Amount
A	Balance As Per Pass Book		1000000
B	Add-		
	Cheque Received Recorded in Cash Book But Ommitted to be Banked	1120000	
	Undercasting of Credit Side of Bank Column	2000	
	Insurance Premium Paid By Bank Not Recorded in Cash Book	60000	
	Cheque Received Entered Twice in Cash Book	10000	
	Discounted Bill Dishonored Not recorded in Cash Book	500000	1692000
C	Less-		
	Cheque Deposited in Bank Not Recorded in Cash Book	500000	
	Cheque Issued But Not yet Presented	500000	
	Bank Charges Entered Twice in Cash Book	2000	1002000
D	Balance as per Cash Book (A+B-C)		1690000

ILLUSTRATION 7

From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2019.

(1) The bank overdraft as per Cash Book on 31st December, 2019 ₹ 6,340.

(2) Interest on overdraft for 6 months ending 31st December, 2019 ₹ 160 is entered in Pass Book.

(3) Bank charges of ₹ 400 are debited in the Pass Book only.

(4) Cheques issued but not cashed prior to 31st December, 2019, amounted to ₹ 11,68,000.

(5) Cheques paid into bank but not cleared before 31st December, 2019 were for ₹ 22,17,000.

(6) Interest on investments collected by the bank and credited in the Pass Book ₹ 12,00,000.

A			
Bank Reconciliation Statement as at 31-12-2019			
Sr.No	Particulars	Amount	Amount
A	Overdraft as Per Cash Book		6340
B	Add-		
	Interest on Overdraft Not Recorded in Cash Book	160	
	Bank Charges Debited in Pass Book but Not Recorded in Cash Book	400	
	Cheque Deposited in Bank not yet Cleared	2217000	2217560
C	Less-		
	Cheque Issued But Not yet Presented	1168000	
	Interest on Investments Collected by Bank not Recorded in Cash Book	1200000	2368000
D	Balance as per Pass Book (A+B-C)		144100

ILLUSTRATION 8

The bank column of cash book of Mukesh was balanced on 31st March, 2019. It showed an overdraft of ₹ 5,000. This did not agree with the balance shown by bank statement of Mukesh. You are required to prepare a bank reconciliation statement taking the following into account :

(1) Cheques issued but not presented for payment till 31.3.2019 ₹ 12,00,000.

(2) Cheques deposited but not collected by bank till 31.3.2019 ₹ 20,00,000.

(3) Interest on term-loan ₹ 10,00,000 debited by bank on 31.3.2019 but not accounted in Mukesh's book.

(4) Bank charges ₹ 2,500 was debited by bank during March, 2019 but accounted in the books of Mukesh on 4.4.2019.

(5) An amount of ₹ 30,68,000 representing collection of Remesh's cheque was wrongly credited to the account of Mukesh by the bank in their bank statement.

Cash Book (Amended Bank Column)			
Particulars	**Amount**	**Particulars**	**Amount**
		By Bal B/d	5000
		By Interest on Term Loan A/c	1000000
To Bal C/d (overdraft)	1007500	By Bank Charges A/c	2500
	1007500		**1007500**

Mukesh

Bank Reconciliation Statement as at 31-03-2019

Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance as Per Adjusted Cash Book (Overdraft)		1007500
B	Add-		
	Cheque Deposited but not yet Collected		2000000
C	Less -		
	Cheque Issued But Not Yet Presented	1200000	
	Amount Wrongly Credited By Bank	3068000	4268000
D	Balance as Per Pass Book (A+B-C)		1260500

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st March 2019 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 9

On 30th September, 2019, the bank account of X, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 4,062. On the same date the bank statement showed a credit balance of ₹ 20,758 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

1. *A cheque for ₹ 13,14,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019.*
2. *A payment by cheque for ₹ 16,000 has been entered twice in the Cash Book.*
3. *On 29th September, 2019, the bank credited an amount of ₹ 1,17,400 received from a customer of X, but the advice was not received by X until 1st October, 2019.*
4. *Bank charges amounting to ₹ 580 had not been entered in the Cash Book.*
5. *On 6th September, 2019, the bank credited ₹ 20,000 to X in error.*
6. *A bill of exchange for ₹ 1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of X.*
7. *Cheques issued upto 30th September, 2019 but not presented for payment upto that date totalled ₹ 13,26,000.*

You are required :

(a) to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September, 2019 and

(b) to prepare a bank reconciliation statement as on that date.

Cash Book (Amended Bank Column)			
Particulars	**Amount**	**Particulars**	**Amount**
To Party	16000	By Bal B/d	4062
To Customer (Direct Deposit)	117400	By Bank Charges	580
		By Customer (B/R Dishonored)	140000
To Bal C/d (Bal Fig)	11242		
	144642		**144642**

X

Bank Reconciliation Statement as at 30-09-2019

Sr.No	**Particulars**	**Amount**	**Amount**
A	Overdraft As Per Amended Cash Book		11242
B	Add-		
	Cheque Deposited but Not yet Collected	1314000	1314000
C	Less-		
	Wrong Credit Given by Bank	20000	
	Cheque Issued But Not Yet Presented	1326000	1346000
D	Balance as Per Pass Book (A+B-C)		20758

ILLUSTRATION 10

On 30th December, 2019 the bank column of A. Philip's cash book showed a debit balance of ₹ 4,610. On examination of the cash book and bank statement you find that:

1. *Cheques amounting to ₹ 6,30,000 which were issued to trade payables and entered in the cash book before 30th December, 2019 were not presented for payment until that date.*
2. *Cheques amounting to ₹ 2,50,000 had been recorded in the cash book as having been paid into the bank on 30th December, 2019, but were entered in the bank statement on1st January, 2020.*
3. *A cheque for ₹ 73,000 had been dishonoured prior to 30th December, 2019, but no record of this fact appeared in the cash book.*
4. *A dividend of ₹ 3,80,000, paid direct to the bank had not been recorded in the cash book.*
5. *Bank interest and charges amounting to ₹ 4,200 had been charged in the bank statement but not entered in the cash book.*
6. *No entry had been made in the cash book for a trade subscription of ₹ 10,000 paid vide banker's order in November, 2019.*
7. *A cheque for ₹ 27,000 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December, 2019.*

You are required:

(a) to make appropriate adjustments in the cash book bringing down the correct balance, and

(b) to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement.

Cash Book (Amended Bank Column)

Particulars	Amount	Particulars	Amount
To Bal B/d	4610	By Party (Cheque Dishonored)	73000
To Dividend Collected	380000	By Bank Charges	4200
		By Trade Subscription	10000
		By Bal C/d (Bal Fig)	297410
	384610		384610

A Philip

Bank Reconcilation Statement as at 30-12-2019

Sr.No	Particulars	Amount	Amount
A	Balance as Per Cash Book		297410
B	Add-		
	Cheque Issued But Not Yet Presented		630000
C	Less-		
	Cheque Deposited but Not yet Collected	250000	
	Wrong Debit Given by Bank	27000	277000
D	Balance as Per Pass Book (A+B-C)		650410

ILLUSTRATION 11

According to the cash-book of Gopi, there was a balance of ₹ 44,50,000 in his bank on 30th June, 2019. On investigation you find that :

(i) Cheques amounting to ₹ 6,00,000 issued to creditors have not been presented for payment till the date.

(ii) Cheques paid into bank amounting to ₹ 11,05,000 out of which cheques amounting to ₹ 5,50,000 only collected by the bank up to 30th June 2019.

(iii) A dividend of ₹ 40,000 and rent amounting to ₹ 6,00,000 received by the bank and entered in the pass-book but not recorded in the cash book.

(iv) Insurance premium (up to 31st December, 2019) paid by the bank ₹ 27,000 not entered in the cash book.

(v) The payment side of the cash book had been under casted by ₹ 5,000.

(vi) Bank charges ₹ 1,500 shown in the pass book had not been entered in the cash book.

(vii) A bill payable of ₹ 2,00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.

Required:

(a) to make the appropriate adjustments in the cash book, and

(b) to prepare a statement reconciling it with the bank pass book.

Cash Book (Amended Bank Column)

Particulars	Amount	Particulars	Amount
To Bal B/d	4450000	By Insurance Premium	27000
To Rent	600000	By Under casting of Payment Side	5000
To Dividend Collected	40000	By Bank Charges	1500
To Bills Recievable	59000	By Bills Payable	200000
		By Bal C/d (Bal Fig)	4915500
	5149000		**5149000**

Gopi

Bank Reconciliation Statement as at 30-06-2019

Sr.No	Particulars	Amount	Amount
A	Balance as Per Cash Book		4915500
B	Add-		
	Cheque Issued But Not Yet Presented		600000
C	Less-		
	Cheque Deposited but Not yet Collected		555000
D	Balance as Per Pass Book (A+B-C)		4960500

ILLUSTRATION 12 PYP MAY 2018

The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March 2018. On going through the Pass Book, the accountant found the following:

(i) A Cheque of Rs,1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15th April 2018.

(ii) Bankers had credited her account with ₹ 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

(iii) Out of ₹ 20,500 paid in by Mrs. Rani in cash and by cheques on 31st March 2018 cheques amounting to ₹ 7,500 were collected on 7th April, 2018.

(iv) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2018 a cheque for ₹ 2,500 was encashed on 3rd April, 2018.

(v) Bankers seems to have given here wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No.8765.

(vi) A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.

(vii) A Bill Receivable for ₹ 5,200 previously dishonoured (Discount ₹ 200) with the Bank had been dishounoured but advice was received on 1st April, 2018.

(viii) A Bill for ₹ 10,000 was retired /paid by the bank under a rebate of ₹ 175 but the full amount of the bill was credited in the bank column of the Cash Book.

(ix) A Cheque for ₹ 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.

Prepare Bank Reconciliation Statement as on 31st March, 2018.

Mrs. Rani			
Bank Reconciliation Statement as on 31st March,2018			
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance as per Bank Pass Book (Overdraft)		33575
B	Add :		
	No entry in cash book for interest collection by bank	2800	
	Cheque issued but not yet Presented	2500	
	wrong credit given by Bank	500	
	Rebate on bill retired not entered in cash book	175	
	cheques deposited in bank not yet recorded in cash book	2400	8375
C	Less :		
	Cheque Deposited but not yet Collected	7500	
	wrong Debit given by Bank	300	
	Cheque of Rs.1000 entered in cash book but omitted to be Banked	1000	
	Discounted Bill dishonoured but no entry in Cash Book	5200	14000
D	Balance as per Cash book (overdraft) (A+B-C)		27950

A Cheque of 1080 credited in Pass book on March 28th has no effect on BRS on 31-3-2018

ILLUSTRATION 13 PYP MAY 2019

Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2018 from the particulars given below:

(i) The Bank Pass Book had a debit balance of ₹25,000 on 30th June, 2018.

(ii) A cheque worth ₹400 directly deposited into Bank by customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth ₹34,000, cheques amounting to ₹20,000 only were presented for payment till 30th June, 2018.

(iv) A cheque for ₹4,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth ₹20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2018, ₹14,000

(2) Cheques collected on 10th July, 2018, ₹4,000

(3) Cheques collected on 12th July, 2018, ₹2,000.

(vi) The Bank made a direct payment of ₹600 which was not recorded in the Cash Book.

(vii) Interest on Overdraft charged by the bank ₹1,600 was not recorded in the Cash Book.

(viii) Bank charges worth ₹80 have been entered twice in the cash book whereas Insurance charges for ₹70 directly paid by Bank was not at all entered in the Cash Book.

(ix) The credit side of bank column of Cash Book was under cast by ₹2,000.

RK Brothers			
Bank Reconciliation Statement as on 30th June,2018			
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance as per Bank Pass Book (Overdraft)		25000
B	Add :		
	Cheque Deposited Directly in Bank not Recorded in Cash Book	400	
	Cheques Issued but not Yet Presented	14000	
	Bank Charges Entered Twice in Cash book	80	14480
C	Less :		
	Cheque Received Recorded But omitted to be Banked	4000	
	Cheque Deposited but not yet Collected (4000+2000)	6000	
	Direct Payment made by Bank	600	
	Interest on Overdraft Charged by Bank	1600	
	Insurance Charges paid by Bank Not recorded in Cash Book	70	
	Under casting of Bank Column of Cash Book	2000	14270
D	Balance as per Cash book (overdraft) (A+B-C)		25210

ILLUSTRATION 14 PYP NOV 20

On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of ₹ 98,700. On comparison he finds the following :

(1) Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.

(2) Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.

(3) Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.

(4) A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.

(5) A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.

(6) A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.

(7) The bank allowed interest on deposit ₹ 1,000.

(8) A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

Prepare Bank Reconciliation Statement as on 31-3-2020.

Cash Book (Amended Bank Column)

Particulars	Amount	Particulars	Amount
To Interest on Deposit A/c	1000	By Bal B/d	98700
By Party (Cheque Returned)	1500	By Party (Cheque Dishonoured)	500
		By Bank Charges A/c	35
To Bal C/d (Overdraft) (Bal Fig)	107095	By Bank Interest A/c	2860
		By Party A/c (Cheque Dishonor)	3500
		By Party A/c	4000
	109595		**109595**

Mahesh

Bank Reconciliation Statement as at 31-03-2020

Sr.No	Particulars	Amount	Amount
A	Balance as Per Adjusted Cash Book (Overdraft)		107095
B	**Add-**		
	Cheque Deposited but Not yet Collected		2600
C	**Less-**		
	Cheque Issued But Not Yet Presented	7400	
	Wrong Credit Given By Bank	1550	
	Cheque drawn on this Account Wrongly Debited to Another Account	800	9750
D	Balance as Per Pass Book (A+B-C) (Overdraft)		99945

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st March 2020 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 15 PYP JULY 21

From the following information, ascertain the Cash Book balance of Mr. Bajaj as on 31st March, 2021:

(i) Debit balance as per Bank Pass Book ₹ 3,500.

(ii) A cheque amounting to ₹ 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.

(iii) During March, two bills amounting to ₹ 2,500 and ₹ 500 were collected by the Bank but no entry was made in the Cash Book.

(iv) A bill for ₹ 5,000 due from Mr. Balaji previously discounted for ₹ 4,800 was dishonored. The Bank debited the account, but no entry was passed in the Cash Book.

(v) A Cheque for ₹ 1,500 was debited twice in the cash book.

	Mr. Bajaj		
	Bank Reconciliation Statement as on 31st March 2021		
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance as per Bank Pass Book (Overdraft)		3500
B	Add :		
	Bills Collected by Bank Not Recorded in Cash Book		3000
C	Less :		
	Cheque Returned by Bank Not recorded In Cash Book	2500	
	Discounted Bill Dishonored not Recorded in Cash Book	5000	
	Cheque Debited Twice in Cash Book	1500	9000
D	Balance as per Cash book (A+B-C)		2500

ILLUSTRATION 16 RTP MAY 2018

The Cash-book of M/s ABC shows ₹ 27,570 as the balance at Bank as on 31st March, 2017. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy ₹ 10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March, 2017 the payments side of the Cash-book was under cast by ₹ 350.

(iii) On 20th March, 2017 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s ABC, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s ABC a cheque on 24th March, 2017. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2017 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.

(vi) A cheque issued amounting to ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium ₹ 756 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2017, but advice was received on 1st April, 2017.

(ix) Bank recorded a Cash deposit of ₹ 1,550 as ₹ 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2017.

Cash Book (Amended Bank Column)

Particulars	Amount	Particulars	Amount
To Bal B/d	27570	By Under Casting of Cash Book	350
To Subsidy A/c	10250	By party A/c	100
To Error of carrying Forward	4312	By Discounting Charges	200
To Party A/c (Cheque Issued Returned)	1725	By Insurance Premium A/c	756
		By Discounted Bill Dishonored	1530
		By Bal C/d (Bal Fig)	40921
	43857		**43857**

	M/s. ABC		
	Bank Reconciliation Statement as at 31-03-2017		
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance as Per Adjusted Cash Book		40921
B	**Less-**		
	Bank Recorded Short Cash Deposit		45
C	Balance as Per Pass Book (A-B)		40876

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st March 2017 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 17 RTP NOV 2020

Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2020:

(i) Balance as per Pass Book is ₹ 10,000.

(ii) Bank collected a cheque of ₹ 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).

(iii) Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.

(iv) Withdrawal column of the Pass Book undercast by ₹ 100.

(v) The credit balance of ₹ 1,500 on page 5 was recorded on page 6 as debit balance.

(vi) The payment of a cheque of ` 350 was recorded twice in the Pass Book.

(vii) The Pass Book showed a credit for a cheque of ` 1,000 deposited by Shri Hari (another customer of the bank).

Mr. Shri Hari

Bank Reconciliation Statement as on 31st March 2020

Sr.No	Particulars	Amount	Amount
A	Balance as per Bank Pass Book		10000
B	Add :		
	cheque Collected Credited to another Customer	500	
	Credit Balance Recorded as Debit Balance in Cash Book	3000	
	Payment of Cheque Recorded twice in Pass Book	350	3850
C	Less :		
	Excess Cash Deposit Recorded By Bank	9	
	Withdrawal Column of Pass Book Was Undercast	100	
	Wromg Credit Given By Bank	1000	1109
D	Balance as per Cash book (A+B-C)		12741

ILLUSTRATION 18 MTP DEC 2021 SERIES 1

Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March,2021

The cash book of Satyam Traders shows a debit balance of ₹ 4,12,200 at bank as on 31st March,2021, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2021 the payment side of the Cash Book was under cast by ₹ 12,000/-
2. A cheque of ₹ 85,000 issued on 20th March, 2021 was not taken in the bank column.
3. On 22nd March, 2021 the debit balance of ₹ 18,500 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ₹ 42,000 issued in, the last week of March, 2021, cheques aggregating ₹ 28,500 were encashed in March, 2021.
5. Dividends of ₹ 35,000 collected by the Bank and Fire insurance premium of ₹ 20,000 paid by it were not recorded in the cash book.
6. One cheque issued to a Creditor of ₹ 1,29,000 was recorded twice in the Cash book.
7. A debtor Mr. A has deposited the Cheque for ₹ 32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ₹ 5,000 was deposited in bank on 28th March,2021 but was dishonored and advice received from bank on 3rd April, 2021.
9. Bank paid credit card bill of ₹ 2,500 which is not recorded in cash book.
10. Bank wrongly credited cheque of ₹ 25,000 of other customer in our account.
11. Bank credited cheque of ₹ 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.
12. ₹ 500 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ₹ 200 on 25th March for which no intimation received till 31st March.

Cash Book (Amended Bank Column)			
Particulars	**Amount**	**Particulars**	**Amount**
To Bal B/d	412200	By Under Casting of Cash Book	12000
To Error of carrying Forward	37000	By party A/c	85000
To Dividend A/c	35000	By Insurance Premium A/c	20000
To Party A/c (Twice Recorded)	129000	By Party A/c (Cheque Dishonor)	5000
To Discount Received	500	By Credit Card A/c	2500
		By Bank charges	200
		By Bal C/d (Bal Fig)	489000
	613700		**613700**

Satyam Traders

Bank Reconciliation Statement as at 31-03-2021

Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance as Per Adjusted Cash Book		489000
B	**Add -**		
	Cheques issued But Not Yet Presented	13500	
	Wrong Credit Given By Bank	25000	38500
C	**Less-**		
	Cheque Deposited Credited in Saving Account		2000
D	Balance as Per Pass Book (A+B-C)		525500

No Effect in BRS for Cheque Deposited of Rs, 32000 & Dishonored in the Same Month.

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st March 2021 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 18 WITHOUT ACB

Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March,2021

The cash book of Satyam Traders shows a debit balance of ₹ 4,12,200 at bank as on 31st March,2021, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2021 the payment side of the Cash Book was under cast by ₹ 12,000/-
2. A cheque of ₹ 85,000 issued on 20th March, 2021 was not taken in the bank column.
3. On 22nd March, 2021 the debit balance of ₹ 18,500 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ₹ 42,000 issued in, the last week of March, 2021, cheques aggregating ₹ 28,500 were encashed in March, 2021.
5. Dividends of ₹ 35,000 collected by the Bank and Fire insurance premium of ₹ 20,000 paid by it were not recorded in the cash book.
6. One cheque issued to a Creditor of ₹ 1,29,000 was recorded twice in the Cash book.
7. A debtor Mr. A has deposited the Cheque for ₹ 32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ₹ 5,000 was deposited in bank on 28th March,2021 but was dishonored and advice received from bank on 3rd April, 2021.
9. Bank paid credit card bill of ₹ 2,500 which is not recorded in cash book.
10. Bank wrongly credited cheque of ₹ 25,000 of other customer in our account.
11. Bank credited cheque of ₹ 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.
12. ₹ 500 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ₹ 200 on 25th March for which no intimation received till 31st March.

Satyam Traders Closes Its Books Of Accounts on 31st Dec Every Year

Satyam Traders			
Bank Reconciliation Statement as on 31-3-2021			
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance As Per cash Book		412200
B	Add -		
	Debit Balance carried Forward as credit Balance	37000	
	Cheques issued but Not presented	13500	
	Dividend Collected By bank Not recorded in Cash Book	35000	
	Cheque issued Recorded Twice in Cash Book	129000	
	Wrong Credit Given By Bank	25000	
	Discount Received Wrongly Credited in cash Book	500	240000

Sr.No	Particulars	Amount	Amount
C	Less –		
	Under casting of Payment Side of cash Book	12000	
	Cheque issued Not taken to bank Column	85000	
	Fire Insurance premium Paid By Bank Not Recorded in Cash Book	20000	
	Cheque Deposited Dishonoured	5000	
	Credit card Bill Not Paid Not Recorded in Cash Book	2500	
	Cheque Credited in Saving Account Instead of Current A/c	2000	
	Bank Charges Not Recorded in Cash book	200	126700
D	Balance As Per Pass Book (A+B-C)		525500

Note – No Effect in BRS for Cheque Deposited of Rs, 32000 & Dishonored in the Same Month.

ILLUSTRATION 19 - MTP MAY 2019 SERIES 2 (10 MARKS)

On 30th Sept. 2018 my Cash Book (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 49,350. On going through the Bank Pass book for reconciling the Balance, I found the following:

(a) Out of cheques drawn on 26th Sept, those for Rs. 3,700 were cashed by the bankers on 2nd October.

(b) A crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st Oct.

(c) Cash and cheques amounting to Rs. 3,400 were deposited in the Bank on 29th Sept., but cheques worth Rs. 1,300 were cleared by the Bank on 1st Oct., and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.

(d) According to my standing instructions, the bankers have on 30th Sept, paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy amounting to Rs. 160 and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, as their charges and commission on the above being Rs. 15. On receipt of information of the above transaction, I have passed necessary entries in my Cash Book on 1st Oct.

(e) My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th September, 2018.

		Bank Reconciliation Statement as on 30-9-2018		
Sr.No	**Particulars**		**Amount**	**Amount**
A	Overdraft As Per Cash Book			49350
B	Add -			
	Cheque Deposited But Not Cleared		1300	
	Cheque Deposited Dishonored not Recorded in Cash Book		250	
	Interest paid to Creditors not Recorded in cash book		320	
	Policy Premium paid By Bank Not Recorded in Cash Book		160	
	Calls on Shares paid By Bank Not Recorded in Cash Book		600	
	Bank Charges & Commission Charged by Bank not Recorded in Cash Book		15	
	Wrong Debit Given By Bank		300	2945
C	Less -			
	Cheque issued But Not presented		3700	
	Cheque issued By Abdul Returned by Him		750	
	Dividend Received By Bank Not recorded in Cash Book		150	
	Insurance Claim Received By Bank Not Recorded in cash Book		800	
	Wrong credit Given By Bank		500	5900
D	Overdraft As per Pass Book (A+B-C)			46395

ILLUSTRATION 20 - PYP JAN 2021 (4 MARKS)

Prepare a Bank Reconciliation Statement from the following particulars as on 31st December, 2020 :

Particulars	₹
Bank Balance as per Cash Book (Debit)	*1,98,000*
Bank Charges debited by the bank not recorded in Cash Book	*34,000*
Received from debtors vide RTGS on 31st December, 2020 not recorded in Cash Book	*1,00,000*
Cheque issued but not presented for payment	*45,000*
Cheque deposited but not cleared	*25,000*
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	*5,000*
Instruction for payment given to the bank on 31st December, 2020 but the same effected by the Bank on 01st January, 2021	*4,000*

Cash Book (Amended Bank Column)

Particulars	**Amount**	**Particulars**	**Amount**
To bal B/d	198000	By Bank Charges	34000
To Debtors	100000	By Debtor (Cheque Dishonor)	5000
		By Bal C/d	259000
	298000		**298000**

Bank Reconciliation Statement as at 31-12-2020

Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance As per Adjusted Cash Book		259000
B	**Add -**		
	Cheque issued But Not Presented	45000	
	Payment Not Effected By Bank	4000	49000
C	Less -		
	Cheque Deposited But Not Cleared		25000
D	Balance As Per pass Book		283000

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st Dec 2020 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

FINANCIAL STATEMENTS OF NPO

INTRODUCTION

A Non profit Organization is a legal and accounting entity that is operated for the benefit of the society as a whole , rather than for the benefit of a sole proprietor or a group of partners or shareholders.

The main Objective of NPO may Be to operate as Social , Educational , Religious or charitable Organization and they may be in the form of Clubs , Societies Etc. The main Objective Being to Serve the Society and not profit making.

COMPONENTS OF FINANCIAL STATEMENTS OF NPO

- **Receipts & Payments Account**
- **Income & Expenditure Account**
- **Balance Sheet**

RECIEPTS AND PAYMENT ACCOUNT

A receipts and payment account is a Summary of the cash book Without Date column. It Consists of Summary of Cash/Bank receipts and payments over a certain period together with the cash balance at the beginning and close of the period. The Receipts are entered on the Left hand Side and Payments on the right hand side.

FEATURES OF RECEIPTS AND PAYMENTS ACCOUNT

- **It is Summary of the cash and Bank Transactions Like Cash Book , all the receipts (Capital or revenue) are Debited , All the expenditures (capital or revenue) are credited.**
- **It Starts with Opening cash and Bank balances and also ends with their closing balances.**
- **It includes All Cash and Bank receipts and payments , Whether they are related to current , past or future periods.**

INCOME AND EXPENDITURE ACCOUNT

The Income & Expenditure Account is Equivalent to The profit & Loss Account of the business Enterprise. It is prepared by Matching revenues against the Expenses for a Specific period , Usually a Year. However Since This is not an profit making Institution , It is Known As Income & Expenditure and the balance is not known as Profit or Loss but is known as Deficit or Surplus.

FEATURES OF INCOME & EXPENDITURE ACCOUNT

- It is a revenue Account prepared at the end of the Accounting period for finding out the surplus or deficit of that period.
- It is prepared by matching Expenses against the revenue of that period concerned.
- Both cash and Non cash Items , Such as Depreciation , are taken into consideration.
- All Capital Expenditures and Incomes are excluded
- Only Current year's income and expenses are considered.
- If Income is more than Expenditure then the Balance shall be called as Surplus , whereas if Expenditure is more than income the balance shall be called as Deficit.

DIFFERENCE BETWEEN R&P AND I&E

RECEIPT AND PAYMENT ACCOUNT	INCOME AND EXPENDITURE ACCOUNT
It is Real Account	It is Nominal Account
It Includes Both Capital & Revenue items	It Includes only revenue Items
It is Summary of actual cash receipts and payments of a particular period	It is summary of incomes and expenses of a particular period
It includes all receipts and payments irrespective of the period to which it belongs.	It includes only incomes and expenses of a particular period for which the account is prepared
It does not include non cash transactions	It includes both the cash and non cash transactions
It begins with the opening cash/bank balance and ends with the closing cash/bank balance.	It does not have any opening balance. Closing balance represents either Deficit or Surplus.

BALANCE SHEET

- A Balance Sheet is the statement of assets and liabilities of an accounting unit at a given date.
- The Balance Sheet of NPO is prepared on the same principles as the balance sheet of profit Seeking Business.
- In NPO , The excess of total assets over total outside liabilities is known as Capital Fund.

ACCOUNTING TREATMENT OF DONATIONS

- **Donation is a Gift in Cash or in Kind. There are two types of Donation Specific Donation and General Donation.**
- **Specific Donation is received for certain specific purpose like building donation , Library Books donation etc. The Said donations are to be shown on the liability side of Balance Sheet. Any Expenditure made from such specified donation is deducted from the Said Donation Account.**
- **General Donation is not received for any specific purpose and it is shown on the credit side of Income & Expenditure Account.**

ACCOUNTING TREATMENT OF ENTRANCE AND ADMISSION FEES

- **Entrance and Admission Fees are payable by a member on admission to club or society.**
- **The treatment of Entrance and Admission Fees depends on the Requirement of Question.**
- **If the Question is Silent about the treatment to be done of Entrance and Admission Fees , Such Fees is to be Added to Capital Fund**

ACCOUNTING TREATMENT OF LIFE MEMBERSHIP FEES

- **The Life membership Fees is a Fees received from member of club or society towards a membership for Lifetime. The Life membership Fees in Non-recurring in Nature.**
- **The treatment of Life Membership Fees depends on the Requirement of Question.**
- **If the Question is Silent about the treatment to be done of Life Membership Fees , then Such Fees is to be Added to Capital Fund.**

ACCOUNTING TREATMENT OF LEGACY

Legacy is an Amount received by an Organisation as per the Will of The Person after the death of the person.

The Amount received as a Legacy Should be Added to the Capital Fund on the Liabilities Side of Balance Sheet.

ACCOUNTING TREATMENT OF SUBSCRIPTION

- **Subscription is an Annual Fees received by a NPO. It's a major Source of revenue for NPO.**
- **Journal Entry for Subscription received**
  Cash/Bank A/c…….Dr
  To Subscription A/c
- **Journal Entry for Subscription to Be credited to I&E A/c**
  Subscription A/c……Dr
  To Income & Expenditure A/c

SUBSCRIPTION A/C

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Balance B/d (Subscription Receivable at the beginning of year)	XXX	By Balance B/d (Subscription Received in Advance at the beginning of year)	XXX
To Income & Expenditure A/c (Subscription transferred to Income & Expenditure A/c)	XXX	By Cash/Bank A/c (Subscription Received During the year)	XXX
To Balance C/d (Subscription Received in Advance at the End of Year)	XXX	By Balance C/d (Subscription Receivable at the End of year)	XXX
	XXX		XXX

FUND BASED ACCOUNTING

- **Whenever a Donation is Received for a Specific Purpose , It is transferred to Special Fund which appears on the Liability Side of balance Sheet until It is Utilised for that Specified Purpose.**
- **If the Amount Lying in Special Fund is Invested , then any income earned on Such Investment Shall be transferred to that special fund & not to the credit of Income Expenditure A/c.**

FUND BASED ACCOUNTING

Example – Suppose A donation is received for Building Rs. 1 Crore and the Said funds are invested temporarily and it earned an interest of Say Rs. 3 lakhs then Journal Entries shall be as Follows

For Receipt of Donation
Bank A/c…….Dr 1 Crore
To Building Fund A/c 1 Crore

For Receipt of Interest
Bank A/c…….Dr 3 Lakhs
To Building Fund A/c 3 Lakhs

The Amount That Can be Expended now for the Purpose of Building Shall be 1 Crore & 3 lakhs.

ACTIVITY BASED ACCOUNTING

Activity Based Accounting refers to the Accounting of Similar Activities on Net Basis.

Example – Suppose A Sports Club has Organised a tournament for which they raised Rs. 10,000 By sale of tickets , Sponsorship Etc and they incurred an Expenses of Rs. 9,000 for Tournament.

Thus while Preparing income & Expenditure the Net effect of the above activity will be Shown on the credit side of I & E A/c as Follows

Tournament Receipts	10,000	
Less – Expenses	9,000	1,000

TYPES OF PROBLEMS

- **Preparation of Subscription A/c , Any Nominal A/c , Any Asset A/c , Presentation of Funds Based Accounting Etc**
- **Preparation of Income & Expenditure Account & Balance Sheet when Receipt and Payment Account is given with Additional Information.**
- **Preparation of Receipts and payment Account & Balance Sheet when Income & Expenditure Account is given With Additional Information.**
- **Preparation of Receipt & Payment Account and also Income & Expenditure Account when Relevant information is given.**

STEPS FOR SOLVING PROBLEM

- **Read Questions Thoroughly**
- **Mark items for which Adjustments are Given**
- **Prepare Opening Balance Sheet , if Opening capital Fund is Required but it is not given in Question**
- **Prepare Ledgers for Which Adjustment is Required**
- **Do Posting for all items as applicable in R & P A/c , I & E A/c , Closing Balance Sheet , Opening Balance Sheet , Working Notes Ledger.**
- **Close Working Notes from backward & Post the Balancing Figure at Appropriate Place**

ILLUSTRATION 1

During the year ended 31st March, 2020, the subscriptions received by the Jaipur Literary Society were ₹ 4,50,000. These subscriptions include ₹ 20,000 received for the year ended 31st March, 2019. On 31st March, 2020, subscriptions due but not received were ₹ 15,000. Advance subscription received for the year ending 31st March 2020 but pertaining to year 2021 amounted to ₹ 26,000. The Subscriptions received for the year 31st March 2020, include the advance received for the year ending 31st March 2019 amounted to ₹ 18,000. What amount should be credited to Income and Expenditure Account for the year ended 31st March, 2020 as income from subscriptions. Show the subscription account in book of the society?

In The Books of Jaipur Literary Society
Subscription A/c
For the Year Ended 31st March 2020

Particulars	Amount	Particulars	Amount
To O/S Subscription (Opening)	20000	By Advance Subscription (Opening)	18,000
To Income & Exp. A/c (Bal Fig)	437,000	By Cash/Bank A/c	450,000
To Advance Subscription (Closing)	26000	By O/S Subscription (Closing)	15,000
	483000		**483000**

ILLUSTRATION 2

From the following information, calculate amount of subscriptions outstanding for the year ended 31st March, 2020

A club has 350 members each paying an annual subscription of ₹ 1,050. The Receipts and Payments Account for the year showed a sum of ₹ 4,10,000 received as subscriptions. The following additional information is provided:

Subscriptions Outstanding on 31st March, 2019 – ₹ 45,000

Subscriptions Received in Advance on 31st March, 2020 – ₹ 62,000

Subscriptions Received in Advance on 31st March, 2019 – ₹ 30,000

Subscription A/c
For the Year Ended 31st March 2020

Particulars	Amount	Particulars	Amount
TO BAL B/D	45000	BY BAL B/D	30000
TO I & E A/C (1050*350)	367,500	BY CASH/BANK A/C	410,000
TO BAL C/D	62000	BY BAL C/D (Bal Fig)	34,500
	474500		**474500**

ILLUSTRATION 3

During the year ended 31st March, 2020, Sachin Cricket Club received subscriptions as follows:

	₹
For year ending 31st March, 2019	12,000
For year ending 31st March, 2020	6,15,000
For year ending 31st March, 2021	18,000
Total	6,45,000

There are 500 members and annual subscription is ₹ 1,500 per member.

On 31st March, 2020, a sum of ₹ 15,000 was still in arrears for subscriptions for the year ended 31st March, 2019.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2020. Also show how the items would appear in the Balance Sheet as on 31st March, 2019 and the Balance Sheet as on 31st March, 2021.

Subscription A/c
For the Year Ended 31St March 2020

Expenditure	Amount	Income	Amount
TO BAL B/D (12000+15000)	27000		
TO I & E A/C (500*1500)	750,000	BY CASH/BANK A/C	645,000
TO BAL C/D	18000	BY BAL C/D (Bal Fig)	150,000
	795000		**795000**

Balance Sheet
As on 31St March 2019

Liabilities	Amount	Assets	Amount
		Outstanding Subscription (15000+12000)	27000

Balance Sheet
As on 31St March 2020

Liabilities	Amount	Assets	Amount
Subscription Received in Advance	18000	Outstanding Subscription (15000+135000)	150000

ILLUSTRATION 4

Suppose salaries paid during 2020 were ₹23,000. The following further information is available:

					₹
Salaries unpaid on 31st March,				*2019*	*1,400*
"	*pre-paid on*	*"*	*"*	*2019*	*400*
"	*un-paid on*	*"*	*"*	*2020*	*1,800*
"	*pre-paid*	*"*	*"*	*2020*	*600*

Required

Calculate the amount to be debited to Income and expenditure account in respect of salaries

Salary A/c

Particulars	Amount	Particulars	Amount
TO BAL B/D (Opening Prepaid Salary)	400	BY BAL B/D (Opening OS Salary)	1400
TO CASH/BANK A/C	23000	BY I & EXP A/C (BAL FIG)	23,200
TO BAL C/D (Closing OS Salary)	1800	BY BAL C/D (closing Prepaid Salary)	600
	25200		**25200**

ILLUSTRATION 5

From the following information of a club show the amounts of match expenses and match fund in the appropriate Financial Statements of the club for the year ended on 31st March, 2020:

Details	Amount (₹)
Match expenses paid during the year ended 31st March 2020	*1,10,000*
Match fund as on 01.04.2019	*30,000*
Donations for Match fund (received during the year)	*55,000*
Proceeds from the sale of the match tickets (during the year)	*20,000*

Income & Expenditure Account
For the Year Ended 31st March 2020

Expenditure	Amount	Income	Amount
To Match Expenses	5000		

Balance Sheet
As on 31st March 2020

Liabilities		Amount	Assets	Amount
Match Fund 1-4-19	30000			
Add - Donation	55000			
Add - sale of Tickets	20000			
Total	105000			
Less - Expenses	105000	Nil		

ILLUSTRATION 6 (RTP NOV 20)

The following information of M/s. TT Club are related for the year ended 31st March, 2020:

(1)

Balances	As on 01-04-2019 (₹)	As on 31-3-2020 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2020.

Subscription A/c

Particulars	Amount	Particulars	Amount
TO BAL B/D (Opening Sub Rec.)	11250	BY BAL B/D (Op. Sub rec in advance)	9000
TO INCOME & EXP A/C (BAL FIG)	**384,000**	BY CASH/BANK A/C	375,000
TO BAL C/D (Cl. Sub rec in adv)	5250	BY BAL C/D (Cl. Subs rec.)	16,500
	400500		**400500**

Sports Material A/c

Particulars	Amount	Particulars	Amount
TO BAL B/D	75000		
TO CREDITORS FOR SPORTS MAT.	255,000	**BY Income & Exp A/c (BAL FIG)**	**217,500**
		BY BAL C/D	112,500
	330,000		**330,000**

Creditors for Sports Material A/c

Particulars	Amount	Particulars	Amount
		BY BAL B/D	67500
TO CASH/BANK A/C	225,000	BY SPORTS MATERIAL A/C (PUR) (BAL)	255,000
TO BAL C/D	97500		
	322,500		322,500

Balance Sheet of M/s. TT Club For the year Ended 31st March 20 (Extract)

Liabilities	Amount	Assets	Amount
Subscription Received in Advance	5250	SPORTS MATERIAL	112500
Creditors for Sports material	97,500	OUTSTANDING SUBSCRIPTION	16,500

ILLUSTRATION 7

The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2020:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000
		By Balance c/d	2,450
	36,120		36,120

Figures of other assets and liabilities are furnished as follows:

	As at March 31 ₹ 2019	₹ 2020
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2020 was ₹ 5,250.

Required

From the above information you are required to prepare:

(a) The Club's Balance Sheet as at March 31, 2019;

(b) The Club's Income and Expenditure Account for the year ended March 31, 2020.

(c) The Club's Closing Balance Sheet as at March 31, 2020.

In The Books of Sportswriters Club
Income & Expenditure A/c
For the Year Ended 31St March 2020

Expenditure		Amount	Income	Amount
			By Subscription	28912
To Sundry Expenses		10075	By Misc. Income	700
To Magazine & Newspaper		2286	By Interest on FD	2000
To Rent & Electricity		7329		
To Salaries		11460	By Deficit transferred to Capital Fund	2888
To Depreciation				
Furniture	960			
Sports Equipment	1640			
Library Books	750	3350		
		34500		**34500**

Balance Sheet (Closing)
As on 31St March 2020

Liability		Amount	Assets		Amount
Capital Fund	47000		Furniture	9600	
Less - Deficit	2888	44112	Less - Depreciation at 10%	960	8640
Outstanding Salary		170	Library Books		5250
Outstanding Rent & Electricity		973	Sports Equipments		6560
Outstanding Magazine & Newspaper		340	Fixed Deposit		20000
			Cash in Hand		2450
			Interest Accrued on FD		500
			Oustanding Subscription		1575
			Prepaid Expenses		620
		45,595			**45,595**

Balance Sheet (Opening)
As on 31St March 2019

Liability	Amount	Assets	Amount
Capital Fund (Bal Fig)	47,000	Furniture	9600
Outstanding Salary	710	Sports Equipment	7200
Outstanding Rent & Electricity	864	Library Books	5000
Outstanding Magazine & Newspaper	226	Fixed Deposit	20000
		Cash in Hand	4820
		Interest Accrued on FD	500
		Oustanding Subscription	1263
		Prepaid Expenses	417
	48,800		**48,800**

Working Notes

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	1263		
To Income & Exp A/c (Bal Fig)	28,912	By Cash/Bank A/c	28,600
		By Bal C/d	1,575
	30,175		**30,175**

Salary A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	710
To Cash/Bank A/c	12,000	By Income & Exp A/c (Bal Fig)	11,460
To Bal C/d	170		
	12,170		**12,170**

Interest on FD A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	500		
To Income & Exp A/c	2,000	By Bank A/c	2,000
		By Bal C/d	500
	2,500		**2,500**

Rent & Electricty A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	864
To Cash/Bank A/c	7,220	By Income & Exp A/c (Bal Fig)	7,329
To Bal C/d	973		
	8,193		**8,193**

Magazine & Newspaper A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	226
To Cash/Bank A/c	2,172	By Income & Exp A/c (Bal Fig)	2,286
To Bal C/d	340		
	2,512		**2,512**

Library Books A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	5000		
To Cash/Bank A/c	1,000	By Depreciation (Bal Fig)	750
		By Bal C/d	5,250
	6,000		**6,000**

Sundry Expenses A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	417		
To Cash/Bank A/c	10,278	By Income & Exp A/c (Bal Fig)	10,075
		By Bal C/d	620
	10,695		**10,695**

Sports Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	7200		
To Cash/Bank A/c	1,000	By Depreciation (8200*20%)	1,640
		By Bal C/d (Bal Fig)	6,560
	8,200		**8,200**

ILLUSTRATION 8

The Income and Expenditure Account of the Youth Club for the Year 2020 is as follows:

Expenditure	₹	Income	₹
To Salaries	4,750	By Subscription	7,500
To General Expenses	500	By Entrance Fees	250
To Audit Fee	250	By Contribution for annual dinner	1,000
To Secretary's Honorarium	1,000	By Annual Sport meet receipts	750
To Stationery & Printing	450		
To Annual Dinner Expenses	1,500		
To Interest & Bank Charges	150		
To Depreciation	300		
To Surplus	600		
	9,500		9,500

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2019	600
Subscription received in Advance on 31st December, 2019	450
Subscription received in advance on 31st December, 2020	270
Subscription outstanding on 31st December, 2020	750

Salaries Outstanding at the beginning and the end of 2020 were respectively ₹ 400 and ₹450. General Expenses include insurance prepaid to the extent of ₹60. Audit fee for 2020 is as yet unpaid. During 2020 audit fee for 2019 was paid amounting to ₹200.

The Club owned a freehold lease of ground valued at ₹10,000. The club had sports equipment on 1st January 2020 valued at ₹2,600. At the end of the year, after depreciation, this equipment amounted to ₹2,700. In 2019 the Club has raised a bank loan of ₹2,000. This was outstanding throughout 2020. On 31st December, 2020 cash in hand amounted to ₹1,600.

Required

Prepare the Receipts and Payments Account for 2020 and Balance Sheet as at the end of the year.

In The Books of Youth Club
Receipt & payment A/c
For the Year Ended 31st Dec 2020

Receipts	Amount	Payment	Amount
To Bal B/d (Bal Fig)	1390	By Audit Fees	200
To Subscription	7170	By Honararium to Secretary	1000
To Entrance Fees	250	By Printing & Stationary	450
To Contribution for Annual Dinner	1000	By Annual Dinner Expenses	1500
To Annual Sports Meet Receipts	750	By Interest & Bank charges	150
		By Salary	4700
		By Sports Equipment	400
		By General Expenses	560
		By Bal C/d	1,600
	10560		**10560**

Balance Sheet (Closing)
As on 31st Dec 2020

Liability		Amount	Assets	Amount
Capital Fund	11540		Freehold Ground	10000
Add - Surplus	600	12140	Sports Equipment	2700
Oustanding Salary		450	Cash in Hand	1600
Subscription Received in Advance		270	Prepaid Insurance	60
Bank Loan		2000	Outstanding Subscription	750
Oustanding Audit Fees		250		
		15,110		**15,110**

Working Notes

Balance Sheet (Opening)
As on 31St Dec 2019

liability	Amount	Assets	Amount
Capital Fund (Bal Fig)	11540	Freehold Ground	10000
Subscription Received in Advance	450	Sports Equipment	2600
Oustanding Salary	400	Cash in Hand	1390
Oustanding Audit Fees	200	Outstanding Subscription	600
Bank Loan	2000		
	14590		**14590**

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d (Opening O/S Sub)	600	By Bal B/d (op. sub recd in adv)	450
To Income & Exp A/c	7500	By Cash/Bank A/c (Bal Fig)	7,170
To Bal C/d (Cl. Sub recd in adv)	270	By Bal C/d (cl.o/s sub)	750
	8,370		**8,370**

General Expenses A/c

Particulars	Amount	Particulars	Amount
To Cash / Bank A/c (Bal Fig)	560	By Income & Exp A/c	500
		By Bal C/d (Prepaid Insurance)	60
	560		**560**

Audit Fees A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d (Bal Fig)	200
To Cash/Bank A/c	200	By Income & Exp A/c	250
To Bal C/d	250		
	450		**450**

Sports Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	2600		
To Cash/Bank (Bal Fig)	400	By Depreciation	300
		By bal C/d	2,700
	3,000		**3,000**

Salary A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	400
To Cash/Bank A/c (Bal Fig)	4,700	By Income & Expenditure A/c	4,750
To bal C/d	450		
	5,150		**5,150**

ILLUSTRATION 9 - RTP NOV 2019

From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2019, and Balance Sheet as at that date of the Jeevan Hospital:

Receipts and Payments Account for the year ended 31 December, 2019

	RECEIPTS	₹			PAYMENTS		₹
To	Balance b/d			By	Salaries:		
	Cash	800			(₹ 7,200 for 2018)		31,200
	Bank	5,200	6,000	By	Hospital Equipment		17,000
To	Subscriptions:			By	Furniture purchased		6,000
	For 2018		5,100	By	Additions to Building		50,000
	For 2019		24,500	By	Printing and Stationery		2,400
	For 2020		2,400				
To	Government Grant:			By	Diet expenses		15,600
	For building		80,000	By	Rent and rates		
	For maintenance		20,000		(₹ 300 for 2020)		2,000
	Fees from sundry Patients		4,800	By	Electricity and water charges		2,400
To	Donations (not to be capitalized)		8,000	By	office expenses		2,000
				By	Investments		20,000
To	Net collections from benefit shows		6,000	By	Balances:		
					Cash	1,400	
					Bank	6,800	8,200
			1,56,800				1,56,800

Additional information:

	₹
Value of building under construction as on 31.12.2019	1,40,000
Value of hospital equipment on 31.12.2019	51,000
Building Fund as on 1.1. 2019	80,000
Subscriptions in arrears as on 31.12.2018	6,500
Investments in 8% Govt. securities were made on 1st July, 2019.	

In The Books of Jeevan Hospital
Income & Expenditure A/c
For the Year Ended 31st December 2019

Expenditure	Amount	Income	Amount
To Rent	1700	By Fees From Patients	4800
To Printing & Stationary	2400	By Subscription	24500
To Diet Expenses	15600	By Government Grant	20000
To Electricity & Water Charges	2400	By Donation	8000
To Office Expenses	2000	By Net Collection from Benefit Shows	6000
To Salaries	24000	By Interest on Investments	800
To Surplus Trf to Capital Fund	16000		
	64100		**64100**

Balance Sheet (Closing)
As on 31st December 2019

Liability		Amount	Assets	Amount
Capital Fund	49300		Building	140000
Add - Surplus	16000	65300	Furniture	6000
			Hospital Equipment	51000
			Cash in Hand	1400
Building Fund		160000	Bank Balance	6800
Subscription Received in Advance		2400	Investments	20000
			Prepaid Rent	300
			Interest Accrued on Investment	800
			Oustanding Subscription	1400
		2,27,700		**2,27,700**

Working Notes
Balance Sheet (Opening)
As on 1st Jan 2019

iability	Amount	Assets	Amount
		Building	90000
Capital Fund (Bal Fig)	49300	Hospital Equipment	34000
		Cash in Hand	800
Building Fund	80000	Bank Balance	5200
Outsanding Salary	7200	Oustanding Subscription	6500
	1,36,500		1,36,500

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	6500		
To Income & Exp A/c (Bal Fig)	24,500	By Cash/Bank A/c	32,000
To Bal C/d	2400	By Bal C/d	1,400
	33,400		**33,400**

Salaries A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	7200
To Cash/Bank A/c	31,200	By Income & Exp A/c (Bal Fig)	24,000
	31,200		**31,200**

Hospital Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d (Bal Fig)	34,000		
To Cash/Bank A/c	17,000		
		By Bal C/d	51,000
	51,000		**51,000**

Furniture A/c

Particulars	Amount	Particulars	Amount
To Cash/Bank A/c	6,000		
		By Bal C/d	6,000
	6,000		**6,000**

Building A/c

Particulars	Amount	Particulars	Amount
To Bal B/d (Bal Fig)	90000		
To Cash/Bank A/c	50,000		
		By Bal C/d	1,40,000
	1,40,000		**1,40,000**

Rent A/c

Particulars	Amount	Particulars	Amount
To Cash/ Bank A/c	2,000	By Income & Exp A/c (Bal Fig)	1,700
		By Bal C/d	300
	2,000		**2,000**

Building Fund A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	80000
		By Cash/Bank A/c	80,000
To Bal C/d (Bal Fig)	160000		
	1,60,000		**1,60,000**

ILLUSTRATION 10 - PYP JUL 2021 (10 MARKS)

Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows:

Receipts	Amount	Payments	Amount
Subscription Received	5,00,000	Payment for Medicine Supply	3,00,000
Donation Raised for meeting revenue expenditure	1,50,000	Honorarium to Doctors	1,00,000
Interest on Investments @ 9% p.a.	90,000	Salaries	2,80,000
Charity Show Collection	1,25,000	Sundry Expenses	10,000
		Equipment Purchase	1,50,000
		Charity Show Expenses	15,000

Additional Information:

Particulars	01.04.2020	31.03.2021
Subscription due	15,000	22,000
Subscription received in advance	12,000	7,000
Stock of medicine	1,00,000	1,50,000
Amount due for medicine supply	90,000	1,30,000
Value of equipment	2,10,000	3,00,000
Value of building	5,00,000	4'80 '000
Cash Balance	80,000	90,000
Opening Balance of Capital Fund	18,03,000	

You are required to prepare:

(i) Income and Expenditure Account for the year ended 31st March, 2021.

(ii) Balance Sheet as on 31st March, 2021

In The Books of AMA Society
Income & Expenditure A/c
For the Year Ended 31st March 2021

Expenditure		Amount	Income		Amount
To Medicine Consumed		290000	By Subscription		512000
To Honararium to Doctor		100000			
To Salaries		280000	By Donation		150000
To Sundry Expenses		10000	By Interest on Investments		90000
To Depreciation			By Charity Show Collection	125000	
Equipment	60000		Less - Charity Show Expenses	15000	110000
Building	20000	80000			
To Surplus Trf to Capital Fund		102000			
		862000			**862000**

Balance Sheet (Closing)
As on 31St March 2021

Liability		Amount	Assets	Amount
Capital Fund	1803000		Equipment	300000
Add - Surplus	102000	1905000	Building	480000
Creditors for Medicine Supply		130000	9% Investments	1000000
Subscription Received in Advance		7000	Outstanding Subscription	22000
			Stock of Medicine	150000
			Cash in Hand	90000
		20,42,000		**20,42,000**

Working Notes

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	15000	By Bal B/d	12000
To Income & Exp A/c (Bal Fig)	5,12,000	By Cash/Bank A/c	5,00,000
To Bal C/d	7000	By Bal C/d	22,000
	5,34,000		**5,34,000**

Medicine A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	100000		
To Purchase of Medicine	3,40,000	By Income & Exp A/c (Bal Fig)	2,90,000
		By Bal C/d	1,50,000
	4,40,000		**4,40,000**

Creditors for Medicine A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	90000
To Cash/Bank A/c	3,00,000	By Purchase of Medicine (Bal Fig)	3,40,000
To Bal C/d	130000		
	4,30,000		**4,30,000**

Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	210000		
To Cash/Bank A/c	1,50,000	By Depreciation (Bal Fig)	60,000
		By Bal C/d	3,00,000
	3,60,000		**3,60,000**

Building A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	500000		
		By Depreciation (Bal Fig)	20,000
		By Bal C/d	4,80,000
	5,00,000		**5,00,000**

ILLUSTRATION 11

The following information was obtained from the books of Delhi Club as on 31.03.2012, at the end of the first year of the club. You are required to prepare Receipt and Payment Account, Income and Expenditure Account for the year ended 31.03.2012 and Balance sheet at 31.03.2012 on mercantile basis:

1. Donations received for building and Library Room Rs.2,00,000.

2. Other revenue income and actual receipts:

	Revenue Income (Rs.)	Actual Receipts (Rs.)
Entrance Fees	17,000	17,000
Subscription	20,000	19,000
Locker Rents	600	600
Sundry Income	1,600	1,060
Refreshment Account	-	16,000

3. Other revenue expenditure and actual payments:

	Revenue Expense (Rs.)	Actual Payment (Rs.)
Land (Cost Rs.10,000)	-	10,000
Furniture (Cost Rs.1,46,000)	-	1,30,000
Salaries	5,000	4,800
Maintenance of Playgrounds	2,000	1,000
Rent	8,000	8,000
Refreshment Account	-	8,000

Donation to the extent of Rs.25,000 were utilized for the purchase of Library Books, balance was still unutilised. In order to keep it safe, 9% Govt. Bonds of Rs.1,60,000 were purchased on 31.03.2012. Remaining amount was put in the bank on 31.03.2012 under the term deposit. Depreciation at 10%p.a. was to be provided for the whole year on furniture and Library books.

In The Books of Delhi Club
Receipts & Payments A/c
For the Year Ended 31st March 2012

Receipts	Amount	Payments	Amount
To Entrance Fees	17000		
To Subscription	19000	By Salary	4800
To Locker Rent	600	By Maintainance of Ground	1000
To Sundry Income	1060	By Rent	8000
To Refreshment Receipts A/c	16000	By Refereshment Payment	8000
To Donation for Building	200000	By Library Books	25000
To Bal C/d (Bank Overdraft) (Bal Fig)	108140	By 9% Government Bonds	160000
		By Term Deposit	15000
		By Furniture	130000
		By Land	10000
	361800		**361800**

Income & Expenditure A/c
For the Year Ended 31st March 2012

Expenditure		Amount	Income		Amount
To Salary		5000	By Entrance Fees		17000
To Maintainance of Ground		2000	By Subscription		20000
To Rent		8000	By Locker Rent		600
To Depreciation			By Sundry Income		1600
Library Books	2500		By Refreshment Receipts	16000	
Furniture	14600	17100	Less - Payments	8000	8000
To Surplus Trf to Capital Fund		15100			
		47200			**47200**

Balance Sheet
As on 31-03-2012

Liability		Amount	Assets		Amount
Capital Fund	-				
Add - Surplus	15100		Land		10000
Add - Amount Utilized From Fun	25000	40100			
Bank Overdraft		108140	Library Books	25000	
Building & Library Room Fund	200000		Less - Depreciation	2500	22500
Less - Utilised For Library	25000	175000			
Oustanding Salary		200	Furniture	146000	
Oustanding for maintainance of Ground		1000	Less - Depreciation	14600	131400
Creditors for Furniture		16000	Outstanding Subscription		1000
			Income Acrrued		540
			9% Government Bonds		160000
			Term Deposit		15000
		340,440			**340,440**

ILLUSTRATION 12 - RTP MAY 2020

Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2018 with ₹ 1,00,000 of his own and ₹ 1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	*Payments*	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2019 was valued at ₹ 47,500.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.

In The Books of Dinesh
Income & Expenditure A/c
for the year ended 31St March 2019

Expenditure		Amount	Income	Amount
			By Prescription Fees	330000
To Motor Car Expenses (60000*2/3)		40000	By Visiting Fees	125000
To Salaries	52500		By Fees from Lectures	12000
Less - Personal Expenses	15000	37500		
To Rent of Clinic		30000		
To General charges		24500		
To Interest on Loan		18000		
To Medicines Consumed		75000		
To Surplus Trf. To Capital A/c		242000		
		467000		467000

Balance Sheet (Closing)			
As on 31st March 2019			
Liabilities	Amount	Assets	Amount
Capital	247000	Surgical Equipments	125000
Loan	150000	Motor car	160000
		Stock of Medicine	47500
		Cash at Bank	55000
		Cash in Hand	9500
	397,000		397,000

Capital A/c			
Particulars	Amount	Particulars	Amount
		By Cash/Bank A/c	100000
To Motor Car Expenses (60000*1/3)	20000	By Pension Recieved	150000
To Salaries	15000	By Surplus	242000
To Household Expenses	90000		
To Household Furniture	12,500		
To Expenses on Daughter's Marriage	107500		
To Bal C/d (Bal Fig)	247,000		
	492,000		492,000

ILLUSTRATION 13 – ADDITIONAL QUESTIONS FROM ICAI

The following is the income and expenditure Account Gama Club for the year ended 31st March, 2017:

Income and Expenditure Account for the year ended 31st March, 2017.

	Rs.		Rs.
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & sports	3,500		
To Subscription Written off	350		

Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less Depreciation	25,000	24,000
Furniture less Depreciation	30,000	27,900
Prepaid Insurance	-	150

Book value of furniture sold is Rs.7,000. Entrance fees capitalized Rs.4,000. On 1st April, 2016 there was no cash in hand but overdraft was for Rs.15,000. On 31st March, 2017. Cash in hand amounted to Rs.850 and the rest was Bank Balance.

Prepare the Receipts and Payments Account of the club for the year ended 31st March,2017.

In The Books of Gama Club
Receipts & Payments A/c
For the Year Ended 31St March 2017

Receipts	Amount	Payments	Amount
		By Bal B/d	
To Subscription	67050	Bank O/d	15000
To Donation	5000	By Printing	750
To Sale of Furniture	4500	By Games & Sports	3500
To Entrance Fees	4000	By Misc. Expenses	14500
		By Insurance	650
		By Furniture	8000
		By Sports Equipment	5000
		By Audit Fees	500
		By Salaries	20350
		By Rent	4200
		By Bal C/d	
		Cash in Hand	850
		Cash at Bank	7,250
	80550		**80550**

Working Notes

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	2600	By Bal B/d	1000
To Income & Exp A/c	68000	By I & E A/c (Subscription W/off)	350
		By Cash/Bank A/c (Bal Fig)	67,050
To Bal C/d	1500	By Bal C/d	3,700
	72,100		**72,100**

Rent A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	500
To Cash/Bank A/c (Bal Fig)	4,200	By Income & Exp A/c	4,500
To Bal C/d	800		
	5,000		**5,000**

Salaries A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	1200
To Cash/Bank A/c (Bal Fig)	20,350	By Income & Exp A/c	19,500
To Bal C/d	350		
	20,700		**20,700**

Audit Fees A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	500
To Cash/Bank A/c (Bal Fig)	500	By Income & Exp A/c	750
To Bal C/d	750		
	1,250		**1,250**

Sports Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	25000		
To Cash/Bank A/c (Bal Fig)	5000	By Depreciation	6,000
		By Bal C/d	24,000
	30,000		**30,000**

Furniture A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	30000		
		By Cash/Bank A/c	4500
To Cash/Bank A/c (Bal Fig)	8000	By Loss on Sale of Furniture	2500
		By Depreciation	3,100
		By Bal C/d	27,900
	38,000		**38,000**

Insurance A/c

Particulars	Amount	Particulars	Amount
To Cash/Bank A/c (Bal Fig)	650	By Income & Exp A/c	500
		By Bal C/d	150
	650		**650**

ILLUSTRATION 14 – PYP MAY 2019 (10 MARKS)

From the following information supplied by M.B.S. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2019.

	01.04.2018 ₹	31.03.2019 ₹
Outstanding subscription	1,40,000	2,00,000
Advance subscription	25,000	30,000
Outstanding salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports goods	15,000	25,000

Subscription for the year amount to ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 14,000. Furniture was sold for ₹ 8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses:	*₹ 50,000*
Rent:	*₹ 24,000 out of which ₹ 2,000 outstanding*
Misc. Expenses:	*₹ 5,000*

In The Books of MBS Club
Receipts & payment A/c
for the year ended 31St March 2019

Receipts	Amount	Payments	Amount
To Bal B/d			
Cash in Hand & at Bank	110000	By Salary	60000
To Sale of 10% Investments	70000	By Sports Expenses	50000
To Interest on 10% Investments	14000	By Misc Expenses	5000
To Sale of Furniture	8000	By Sports Goods	10000
To Subscription	245000	By Machinery	10000
		By Rent	22000
		By Bal C/d	
		Cash in Hand & at Bank	290000
	447000		**447000**

Income & Expenditure A/c				
for the year ended 31St March 2019				
Expenditure		Amount	Income	Amount
To Depreciation			By Subscription	300000
Machinery	1500		By Interest on Investment	17500
Sports Goods	2250			
Furniture	1400	5150		
To Sports Expenses		50000		
To Rent		24000		
To Misc Expenses		5000		
To Loss on Sale of Furniture		6000		
To Salary		63000		
To Surplus		164350		
		317500		**317500**

Working Notes

Subscription A/c

Particulars	Amount	Particulars	Amount
To bal B/d	140000	By Bal B/d	25000
To Income & Exp A/c	300,000	By Cash /Bank (Bal Fig)	245,000
To Bal C/d	30000	By Bal C/d	200,000
	470,000		**470,000**

Salary A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	15000
To Cash/Bank A/c	60,000	By Income & Exp a/c (Bal Fig)	63,000
To Bal C/d	18000		
	78,000		**78,000**

10% Investment

Particulars	Amount	Particulars	Amount
To Bal B/d	140000		
		By Cash/Bank A/c (175000*50%*80%)	70,000
		By Bal C/d	70,000
	140,000		**140,000**

Furniture A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	28000	By Cash/Bank A/c	8000
		By Loss on Sale of Furniture (Bal Fig)	6,000
		By Depreciation	1,400
		By Bal C/d (14000-1400)	12,600
	28,000		28,000

ILLUSTRATION 15 - PYP NOV 2020 (10 MARKS)

From the following balances and particulars of AS College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the date :

Particulars	Amount (₹)	Amount (₹)
Security Deposit - Students	-	1,55,000
Capital Fund	-	13,08,000
Building Fund		19,10,000
Tuition Fee Received		8,10,000
Government Grants		5,01,000
Interest & Dividends on Investments	-	1,75,000

Hostel Room Rent	-	*1,65,000*
Mess Receipts (Net)		*2,05,000*
College Stores - Sales	-	*7,60,000*
Outstanding expenses	-	*2,35,000*
Stock of Stores and Supplies (opening)	*3,10,000*	-
Purchases - Stores & Supplies	*8,20,000*	-
Salaries - Teaching	*8,75,000*	-
Salaries - Research	*1,25,000*	-
Scholarships	*85,000*	-
Students Welfare expenses	*37,000*	-
Games & Sports expenses	*52,000*	-
Other investments	*12,75,000*	-
Land	*1,50,000*	-
Building	*15,50,000*	-

Plant and Machinery	*8,50,000*	-
Furniture and Fittings	*5,40,000*	-
Motor Vehicle	*2,40,000*	-
Provision for Depreciation :		-
Building	-	*4,90,000*
Plant & Equipment	-	*5,05,000*
Furniture & Fittings	-	*3,26,000*
Cash at Bank	*3,16,000*	-
Library	*3,20,000*	
	75,45,000	***75,45,000***

Adjustments :

(a) Materials & Supplies consumed (From college stores):

Teaching	*₹ 52,000.*
Research -	*₹ 1,45,000*
Students Welfare -	*₹ 78,000*
Games or Sports -	*₹ 24,000*

(b) Tuition fee receivable from Government for backward class Scholars ₹ 82,000.

(c) Stores selling prices are fixed to give a net profit of 15% on selling price:

(d) Depreciation is provided on straight line basis at the following rates:

Building	*5%*
Plant & Equipment	*10%*
Furniture & Fixtures	*10%*
Motor Vehicle	*20%*

In The Books of AS College
Income & Expenditure A/c
For the Year Ended 31St March 2020

Expenditure		Amount	Income	Amount
To Salaries			By Government Grants	501000
Teaching	875000		By Interest & Dividend on Investments	175000
Research	125000	1000000	By Hostel room Rent	165000
To Scholarship		85000	By Mess Reciepts (net)	205000
To Student Welfare Expenses		37000	By Tution Fees	8,92,000
To Games & Sports Expenses		52000	By Profit from Stores	1,14,000
To Material Consumed				
Teaching	52000			
Research	145000			
Student Welfare	78000			
Games or Sports	24000	299000		

Expenditure		Amount	Income	Amount
To Depreciation				
Building	77500			
Plant & Equipment	85000			
Furniture	54000			
Motor Vehicle	48000	264500		
To Surplus		314500		
		2052000		**2052000**

Balance Sheet (Closing)
As on 31St March 2020

liability		Amount	Assets		Amount
Capital Fund	1308000		Land		150000
Add - Surplus	314500	1622500	Building	1550000	
			Less - Provision for Depn	567500	982500
Outstanding Expenses		235000	Plant & Equipment	850000	
Building Fund		1910000	Less - Provision for Dep	590000	260000
Security Deposit		155000	Furniture & Fittings	540000	
			Less - Provision for Depn	380000	160000
			Motor vehicle	240000	
			Less - Depn at 20%	48000	192000
			Other Investments		1275000
			Cash at Bank		316000
			Library		320000
			Tution Fees recievable From Govt		82000
			Stock at Stores		185000
		39,22,500			**39,22,500**

Working Notes

Stores & Supplies A/c

Particulars	Amount	Particulars	Amount
To Opening Stock	310000	By Sales	760000
To Purchases	8,20,000	By material Consumed	299000
		By Closing Stock	185000
To Profit from Stores (Bal Fig)	1,14,000		
	12,44,000		**12,44,000**

Tution Fees A/c

Particulars	Amount	Particulars	Amount
		By cash /Bank A/c	8,10,000
To Income & Exp A/c (Bal Fig)	8,92,000	By Bal C/d	82,000
	8,92,000		**8,92,000**

Provision for Depreciation on Building A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	490000
		By Depreciation	77,500
To Bal C/d (Bal Fig)	5,67,500		
	5,67,500		**5,67,500**

Provision for Depreciation on Plants & Equipment A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	505000
		By Deprciation	85,000
To Bal C/d (Bal Fig)	5,90,000		
	5,90,000		**5,90,000**

Provision for Depreciation on Furniture & Fixture A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	326000
		By Depreciation	54,000
To Bal C/d (Bal Fig)	3,80,000		
	3,80,000		**3,80,000**

Ascertainment of Cost of Closing Stock at Stores

Sr.No	Particulars	Amount
A	Opening Stock	310000
B	Purchases	820000
C	Total goods Available for Sale	1130000
D	Material Consumed	299000
E	Cost of Goods Sold (SP-Profit) (760000-114000)	646000
F	Closing Stock (C-D-E)	185000

ILLUSTRATION 16 - RTP MAY 2019

The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

	Receipts	₹	Amount ₹		Payments	Amount ₹
To	Balance b/d		450	By	Expenses *(including Payment for sports material ₹ 2,700)*	6,300
To	Annual Income from Subscription	4,590		By	Loss on Sale of Furniture (cost price ₹ 450)	180
	Add: Outstanding of last year received this year	180		By	Balance c/d	90,450
		4,770				
	Less: Prepaid of last year	90	4,680			
To	Other fees		1,800			
To	Donation for Building		90,000			
			96,930			96,930

Additional information:

Trustwell club had balances as on 1.4.2017 : -

Furniture ₹ 1,800; Investment at 5% ₹ 27,000;

Sports material ₹ 6,660;

Balance as on 31.3.2018 : Subscription Receivable ₹ 270;

Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

In The Books of Trustwell Club

Receipts & payment A/c

for the year ended 31St March 2018

Receipts	Amount	Payments	Amount
To Bal B/d	450		
To Other Fees	1800	By Expenses	3600
To Donation for Building	90000	By Sports Material A/c	2700
To Sale of Furniture	270		
To Subscription	4500	By Bal C/d (Bal Fig)	90720
	97020		97020

Income & Expenditure A/c			
for the year ended 31St March 2018			
Expenditure	Amount	Income	Amount
		By Subscription	4590
To Expenses	3600	By Other Fees	1800
To Loss on Sale of Furniture	180	By Interest on Investments	1350
To Sports Material Used	7560		
		By Deficit (Bal Fig)	3600
	11340		11340

Balance Sheet (Closing)				
As on 31st March 2018				
Liabilities		Amount	Assets	Amount
Capital Fund	36000		Furniture	1350
Less - Deficit	3600	32400	Sports Material	1800
			Cash in Hand	90720
			Interest Accrued on Investment	1350
Building Donation		90000	5% Investments	27000
Subscription Received in Advance		90	Outstanding Subscription	270
		122,490		122,490

Working Notes			
Balance Sheet (Opening)			
As on 1st April 2017			
Liabilities	Amount	Assets	Amount
		Furniture	1800
		Sports Material	6660
Capital Fund (Bal Fig)	36,000	5% Investments	27000
Subscription Received in Advance	90	Cash in Hand	450
		Outstanding Subscription	180
	36,090		36,090

Subscription A/c			
Particulars	Amount	Particulars	Amount
To Bal B/d	180	By Bal b/d	90
To Income & Exp A/c	4,590	By Cash/Bank A/c (Bal Fig)	4,500
To Bal C/d	90	By Bal C/d	270
	4,860		4,860

Sports Material A/c			
Particulars	Amount	Particulars	Amount
To Bal B/d	6660		
To Cash/Bank A/c	2,700	By Income & Exp A/c (Bal Fig)	7,560
		By Bal C/d	1,800
	9,360		9,360

Furniture A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	1800		
		By Cash/Bank A/c	270
		By Loss on Sale of Furniture	180
		By Bal C/d (Bal Fig)	1,350
	1,800		1,800

Interest on Investment A/c

Particulars	Amount	Particulars	Amount
To Income & Exp A/c (27000*5%)	1,350	By Bal C/d (Bal Fig) (Interest Accrued)	1,350
	1,350		1,350

ILLUSTRATION 17 - MTP MAY 20 (15 MARKS)

Smith Library Society showed the following position on 31st March, 2019:

Balance Sheet as on 31st March, 2019

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2020 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2020 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2019 for Rs. 40,000.

In The Books of Smith Library Society

Income & Expenditure A/c

for the year ended 31St March 2020

Expenditure		Amount	Income	Amount
			By Subscription	190000
To Electric Charges		7200	By Entrance Fees (30000*25%)	7500
To Postage & Stationary		5000	By Sale Proceeds of Old papers	1500
To Telephone Charges		5000	By Hire Of Lecture Hall	20000
To Depreciation			By Interest on Securities	8500
Books	46000			
Electrical Equipment	15000		By Deficit Transferred to capital Fund	16700
Furniture	5000	66000		
To Salary		69000		
To Rent		92000		
		244200		244200

Working Notes

Subscription A/c

Particulars	Amount	Particulars	Amount
To Income & Exp A/c (bal Fig)	190,000	By Cash/Bank A/c	200,000
To bal C/d	10000		
	200,000		**200,000**

Books A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	400000		
To Cash/Bank A/c	60,000	By Depreciation (460000*10%)	46,000
		By Bal C/d (Bal Fig)	414,000
	460,000		**460,000**

Investment A/c

Particulars	Amount	Particulars	Amount
To bal B/d	150000		
To Cash/bank A/c	40,000		
		By Bal C/d (Bal Fig)	190,000
	190,000		**190,000**

Rent A/c

Particulars	Amount	Particulars	Amount
To Cash/bank A/c	88,000	By Income & Exp A/c (Bal fig)	92,000
To Bal C/d	4000		
	92,000		**92,000**

Salary A/c

Particulars	Amount	Particulars	Amount
To Cash/bank A/c	66,000	By Income & Exp A/c (Bal fig)	69,000
To Bal C/d	3000		
	69,000		**69,000**

Interest on Securities A/c

Particulars	Amount	Particulars	Amount
To Income & Exp A/c	8,500	By Cash/Bank A/c	8,000
(150000*5%) + (40000*5%/12*6)		By Bal C/d (Bal Fig)	500
	8,500		**8,500**

ILLUSTRATION 18

The following was the Receipts and Payments Account of Exe Club for the year ended March. 31, 2020

All the figures in thousands

Receipts	₹	Payments	₹
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honorarium to Secretary and	
Sale of Equipment	80	Treasurer of 2019	400
Net proceeds of Variety		Balance at Bank as per Pass Book:	
Entertainment	780	Deposit Account	3,090
Donation for forth coming		Current Account	150
Tournament	1,000	Cash in hand	250
	7,820		7,820

You are given the following additional information:

	April, 1, 2019 ₹	March, 31, 2020 ₹
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unpresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1,750
Interest not yet entered in the Pass book		20
Bonus to Groundsman o/s.		300

For the year ended March. 31, 2020, the honorarium to the Secretary and Treasurer are to be increased by a total of ₹200.

Required

Prepare the Income and Expenditure Account for period ending 31-03-2020 and the relevant Balance Sheet.

In The Books of Exe Club
Income & Expenditure A/c
For the Year Ended 31st March 2020 (Rs. In 000)

Expenditure		Amount	Income		Amount
			By Donation & Subscription		2550
To Fares	400		By Receipts From Teas	300	
Less - Contribution	<u>100</u>	300	Less - Cost Of Teas	<u>250</u>	50
To Groundsmen Fees		750	By Net Proceeds of Variety Entertainment		780
To Rent of Ground		250	By Bank Interest		50
To Honorarium to Secretary & Treasurer		600			
To Bonus to Groundsmen		300			
To Repairs		460			
To Printing & office Expenses		260			
To Depreciation on Equipment		470			
To Surplus Trf to Capital Fund		40			
		3430			**3430**

Balance Sheet
As on 31st March

liability3		31-3-20	31-3-19	Assets	31-3-20	31-3-19
Capital Fund	3080			Equipment	1750	800
Add - Surplus	<u>40</u>	3120	3080			
Secretaries Honorarium Payable		600	400			
Donation for Forthcoming Tournament		1000		Interest accrued	20	
Amount due for Printing		80	100	Outstanding Subscription	100	150
Balance In Current A/c (Overdraft)		110		Cash in Hand	250	100
Bonus Payable To Groundsmen		300		Balance In Deposit A/c	3090	2230
				Balance in Current A/c		300
		5210	3580		**5210**	**3580**

Bank Interest A/c

Particulars	Amount	Particulars	Amount
To Income & Exp A/c (Bal Fig)	50	By Bank A/c	30
		By Bal C/d (Interest accrued)	20
	50		**50**

Donation & Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	150		
To Income & Exp A/c (Bal Fig)	2,550	By Cash/Bank A/c	2,600
		By Bal C/d	100
	2,700		**2,700**

Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	800	By Depreciation (Bal Fig)	470
To Cash/Bank A/c	1,500	By Cash/Bank A/c	80
		By Bal C/d	1,750
	2,300		**2,300**

Printing & Office Expenses A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	100
To Cash/Bank A/c	280	By Income & Exp A/c (Bal Fig)	260
To Bal C/d	80		
	360		**360**

Repairs A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	300
To Cash/Bank A/c	500	By Income & Exp A/c (Bal Fig)	460
To Bal C/d	260		
	760		**760**

Honararium to Secretary & Treasurer A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	400
To Cash/Bank A/c	400	By Income & Exp A/c	600
To Bal C/d (Bal Fig)	600		
	1,000		**1,000**

Bonus to Groundsmen A/c

Particulars	Amount	Particulars	Amount
		By Income & Exp A/c (Bal Fig)	300
To Bal C/d	300		
	300		**300**

BRS as on 31-03-2019	
Particulars	Amount
A. Balance as Per Pass Book	600
B. Less - Cheque Issued but Not Presented	300
C. Balance as Per Cash Book	300

BRS as on 31-03-2020	
Particulars	Amount
A. Balance as Per Pass Book	150
B. Less - Cheque Issued but Not Presented	260
C. Balance as Per Cash Book (Overdraft)	-110

ISSUE , FORFEITURE & REISSUE OF SHARES

SHARE CAPITAL - MEANING

Total capital of the company is divided into small units of a fixed amount. Each unit is called Share. "Share means a share in the share capital of company'. The total capital raised by the issue of shares is called "Share Capital". The share capital is always shown at Face Value.

CATEGORIES OF SHARE CAPITAL

Authorized Share Capital

A company estimates its maximum capital requirements. This amount of capital is mentioned in 'Capital Clause' of the 'Memorandum of Association' registered with the Registrar of Companies. It puts a limit on the amount of Capital, which a company is authorized to raise during its lifetime and its called 'Authorized Capital'. It is also referred to as 'Registered Capital' or 'Nominal Capital'. It is shown in the balance sheet at face value.

CATEGORIES OF SHARE CAPITAL

Issued & Un-Issued Capital

A company need not issue total authorized capital. Whatever portion of the share capital is issued by the company, it is called 'Issued Capital'. It is shown in the balance sheet at nominal value.

The remaining portion of the authorized capital which is not issued either in cash or consideration may be termed as 'Un-issued Capital'. It is not shown in the balance sheet.

Subscribed & Unsubscribed Share Capital

It is that part of the issued share capital, which is subscribed by the Public i.e., applied by the public and allotted by the company. It also includes the face value of shares issued by the company for consideration other than cash.
The portion of the issued capital which is not subscribed by the public is called "Un-Subscribed Capital"

CATEGORIES OF SHARE CAPITAL

Called-up & Uncalled Share Capital

Companies generally receive the issue price of shares in installments. The portion of the issue price of shares which a company has demanded or called from shareholder is known as 'called-up Capital' and the balance, which the company has decided to demand in future may be referred to as Uncalled Capital.

Paid up Capital & Calls in Arrear's

It is the portion of called up capital which is paid by the shareholders. Whenever a particular amount is called by the company and the shareholder(s) fails to pay the amount fully or partially, it is known as 'Unpaid calls' or installments (or calls) in Arrears'. Thus, installments in arrears mean the amount not paid although it has been demanded by the company as payment towards the issue price of shares. To calculate paid-up capital, the amount of installments in arrears is deducted from called up capital.

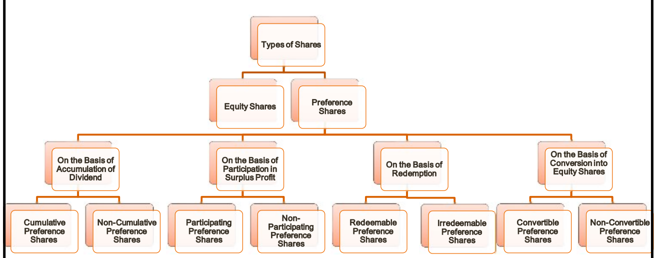
CATEGORIES OF SHARE CAPITAL

Reserve Share Capital

As per Section 65 of the Companies Act, 2013, a company may decide by passing a special resolution that a certain portion of its subscribed uncalled capital shall not be called up except in the event of winding up of the company. Portion of the uncalled capital which a company has decided to call only in case of liquidation of the company is called Reserve Capital.

Reserve Capital is different from Capital reserve , Capital reserves are part of "Reserves & Surplus" and refer to those reserves which are not available for declaration of Dividend. Thus, reserve Capital which is portion of Uncalled capital to be called up in the Event of winding up of a company is entirely different in nature from capital reserve which is created out of capital profits only.

TYPES OF SHARES



EQUITY SHARES

1. **Equity shares are those shares, which are not preference shares. It means that they do not enjoy any preferential rights in the matter of payment of dividend or repayment of capital.**
2. **The rate of dividend on equity shares is recommended by the Board of Directors and may vary from year to year. Rate of dividend depends upon the dividend policy and the availability of profits after satisfying the rights of preference shareholders.**
3. **These shares carry voting rights. Companies Act, 2013 permits issue of equity share capital with differential rights as to dividend, voting or otherwise.**

PREFERENCE SHARES

1. According to section 43 of the Companies Act, 2013, persons holding a preference Shares are called preference shareholders, They are assured of a preferential dividend at a fixed rate during the life of the company.
2. They also carry a preferential right over other shareholders and are to be paid first in case of winding up of the company. Thus, they enjoy preferential rights in the matter of :
   a) Payment of dividend, and
   b) Repayment of capital

Generally, holders of these shares do not get Voting rights. Companies use this mode of financing as it is cheaper than debt. Dividend is generally cumulative in nature and not to be paid every year in case of deficiency of profits. The companies act, 2013 prohibits the issue of any preference share which is irredeemable. Preference shares are cumulative , Non-Participating , Non Convertible & Redeemable in nature unless expressly stated otherwise

TYPES OF PREFERENCE SHARES

Cumulative Preference Shares

1. A cumulative preference share is one that carries the right to a fixed amount of dividend or dividend at fixed rate. Such a dividend is payable even out of future profit if current year's profits are insufficient for the purpose. This means that dividend on these shares accumulates unless it is paid in full and, therefore, the shares are called Cumulative Preference Shares.
2. The arrears of dividend are then shown in the balance sheet as a contingent liability.
3. In India, a preference share is always cumulative unless otherwise stated.
4. In case , The Dividend remains in arrears for a period of not less than two years , Holders of such shares will be entitled to take part and vote on every resolution on every matter in the general body meeting of the shareholders

Non- Cumulative Preference Shares

A non-cumulative preference share carries with it the right to a fixed amount of dividend. In case no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires. It implies that holder of such a share is not entitled to arrears of dividend in future.

TYPES OF PREFERENCE SHARES

Participating Preference Shares

1. Notwithstanding the right to a fixed dividend, this category of preference share confers on the holder the right to participate in the surplus profits, if any, after the equity shareholders have been paid dividend at a stipulated rate.
2. Similarly, in the event of winding up of the company, this type of share carries the right to receive a pre-determined proportion of surplus as well once the equity shareholders have been paid off.

Non- Participating Preference Shares

1. A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares.
2. Unless otherwise specified, the preference shares are generally non participating.

TYPES OF PREFERENCE SHARES

Redeemable Preference Shares

1. These are shares that a company may issue on the conditions that the company will repay after the fixed period or even earlier at company's discretion.
2. The repayment on these shares is called redemption and is governed by Section 55 of The Companies Act, 2013.
3. In India, companies can now issue only this category of preference shares.

Irredeemable Preference Shares

The preference shares, which do not carry with them the arrangement regarding redemption, are called Non-redeemable Preference Shares. According to Section 55, no company limited by shares shall issue irredeemable preference shares or preference shares redeemable after the expiry of 20 years from the date of issue.
However, a company may issue preference shares redeemable after 20 years for such infrastructure projects as may be specified, under the companies act, 2013

TYPES OF PREFERENCE SHARES

Convertible Preference Shares

These shares give the right to the holder to get them converted into equity shares at their option according to the terms and conditions of their issue.

Non Convertible Preference Shares

When the holder of a preference share has not been conferred the right to get his holding converted into equity share, it is called Non-convertible Preference Shares. Preference shares are non-convertible unless otherwise stated.

PROCEDURE FOR ISSUE OF SHARE IN CASH

The following chart shows the procedure to issue shares

Issue of Prospectus → Receipt of Applications → Allotment of Shares → First Call & so on → Final Call

IMPORTANT POINTS AS REGARDS TO ISSUE OF SHARES

1. **As per guidelines of Securities Exchange Board of India, a company must receive a minimum of 90% subscription against the entire issue before making any allotment of shares or debentures to the public.**
2. **If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within 15 days after the date of closure of issue in case of Non-underwritten issue & within 7 days after date of closure of issue in case of underwritten issue.**
3. **Subsequent installments, if any, to be called by the company are known as 'calls'. The Companies Act, 2013, requires that the period of at least one month between two calls.**
4. **As per Section 39 of the Companies Act 2013, application money must be at least 5% of the face value of share. However, as per SEBI Guidelines, the minimum application money to be paid by an applicant along with the application money shall not be less than 25% of the issue price. According to Section 24, matters related to issue and transfer of securities will be administered by the SEBI and not by the Company Law Board.**

FULL SUBSCRIPTION

Issue is fully subscribed if the number of shares offered for subscription and the number of shares actually subscribed by the public are same.

UNDER SUBSCRIPTION

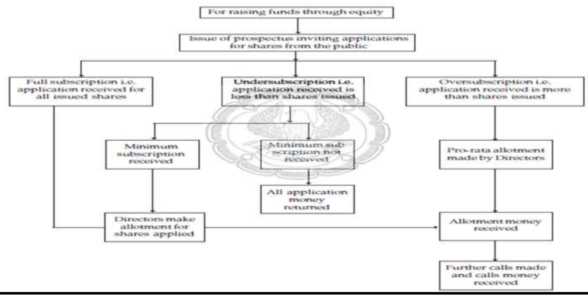
It means the number of shares offered for subscription is more than the number of shares subscribed by the public. It must be remembered that shares can be allotted, in this case, only when the minimum subscription is received.

OVERSUBSCRIPTION OF SHARES & PRO RATA ALLOTMENT

1. **Over subscription is the application money received for more than the number of shares offered to the public by a company.**
2. **It usually occurs in the case of good issues and depends on many other factors like investors confidence in the company, general economic conditions, pricing of the issue etc. when the shares are oversubscribed, the company cannot satisfy all the applicants.**
3. **It means that a decision is to be made on how the shares are going to be allotted. Shares can be allotted to the applicants by a company in following manner –**
   a) **Reject some applications in full**
   b) **Allotment of some applications in full**
   c) **Allot shares to the applicants on Pro-rata basis**

Example for Pro-rata allotment – a company offers to the public 10,000 shares for subscription. The company receives applications for 12,000 shares. If the shares are to be allotted on pro-rata basis, applicants for 12,000 shares are to be alloted 10,000 shares that is in the ratio of 6:5 ratio meaning Any applicant who has applied for 6 shares will be allotted 5 shares.

SUBSCRIPTION OF SHARES



ISSUE OF SHARES AT PREMIUM

When shares are issued at price higher than the face value they are said to be issued at premium. Thus, Premium = Issue Price – Face Value

There are no restrictions on issue of shares at a premium but there are restrictions on utilization of securities premium. Securities Premium is not a divisible profit, but a capital profit.

The 'Securities Premium' can be utilised by the company (according to Sec. 52.) for

a) **Issuing fully paid bonus shares**
b) **Writing off the preliminary expenses**
c) **Writing off the expenses of, or the commission paid or discount allowed on issue of shares or debentures.**
d) **Providing for premium payable on redemption of preference shares or debentures.**
e) **For purchase of own shares or other securities**

ISSUE OF SHARES AT DISCOUNT

Shares are said to be issued at a discount, if issue is at an amount less than the nominal or par value of shares. The excess of the nominal value over the issue price represents discount on the issue of shares. For example when a shares of the nominal value of Rs. 100 is issued at Rs.98, it is said to have been issued at a discount of 2 per cent.

According to section 53 of the companies act, 2013 a company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).

Thus any issue of shares at discount shall be void.

ACCOUNTING ENTRIES FOR ISSUE OF SHARES

1	**Application Money Received**	Bank A/c…….Dr To Share Application A/c
2	**Allottment of Shares** **Issue of Shares at Par**	Share Application A/c……..Dr Share Allotment A/c………Dr To Share Capital A/c
	Issue of Shares at Premium	Share Application A/c……..Dr Share Allotment A/c………Dr To Share Capital A/c To Securities Premium A/c

ACCOUNTING ENTRIES FOR ISSUE OF SHARES

3	**Refund of Application Money**	Share Application A/c……..Dr To Bank A/c
4	**Appropriation of Excess application money towards allotment money due**	Share Application A/c……..Dr To Share Allotment A/c
5	**Appropriation of Excess application money towards call in advance**	Share Application A/c……..Dr To Calls in Advance
6	**Allotment Money Received**	Bank A/c………….Dr To Share Allotment A/c
7	**Call Money Due**	Share Call A/c………Dr To Share Capital A/c

ACCOUNTING ENTRIES FOR ISSUE OF SHARES

8	**Call Money Due if Premium Included in Call Money**	Share Call A/c………Dr To Share Capital A/c To Securities Premium A/c
9	**Call Money Received**	Bank A/c………….Dr Calls in Advance A/c……….Dr To Share Call A/c

CALLS IN ARREARS

Sometimes shareholders fail to pay the amount on calls. The total unpaid amount on one or more installments is known as Calls-in-Arrears or Unpaid Calls. Such amount represents the uncollected amount of capital from the shareholders; hence, it is shown by way of deduction from 'called-up capital' to arrive at paid-up value of the share capital.

For recording 'Calls-in-Arrears', the following journal entry is recorded

Calls-in-Arrears A/c…….Dr [Amount of unpaid Calls]

To Share Allotment A/c (If Allotment money is still due)

To Share Calls A/c (If any call is due)

CALLS IN ADVANCE

Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advances. This amount is credited in Calls-in-Advance Account.

The following entries are recorded in case of Calls in Advance

Bank A/c..........Dr

To Call-in-Advance A/c

(When the amount of call is received in advance)

Calls-in-Advance A/c.......Dr [Call amount due]

To Particular Call A/c

(Adjustment entry when call is made)

INTEREST ON CALLS IN ARREARS AND CALLS IN ADVANCE

Interest on Calls in Arrears	Interest on Calls in Advance
It is payable by shareholders to company on the calls due but remaining unpaid.	It is payable by the Company to Shareholders on the call money received in advance but not yet due.
As per Table F maximum prescribed rate is 10%.	As per Table F maximum prescribed rate is 12%.
Period considered : From the date call money was due to the date money is finally received.	Period considered: From the date money was received to the day call was finally made due.
Directors have a right to waive off such interest in individual cases at their own discretion.	Shareholders are not entitled for any dividend on calls in advance.
It is a nominal account in nature and is credited to statement of profit and loss as an income.	It is a nominal account in nature with interest being an expense for the company.

FORFIETURE OF SHARES

1. **The terms 'forfeit' actually means taking away of property on breach of a condition.**
2. **It is very common that one or more shareholders fails to pay their allotment and / or calls on the due dates. Failure to pay call money results in forfeiture of shares. Forfeiture of share is the action taken by a company to cancel the shares.**
3. **when shares are forfeited, the title of such shareholder is extinguished but the amount paid to date is not refunded to him. The shareholder then has no further claim on the company.**
4. **The fully paid shares can also be forfeited for realization of debts of the shareholders if the articles specifically provide it.**

ACCOUNTING ENTRIES - FORFIETURE OF SHARES

1	**If Shares were Issued at Par**	Share Capital A/c.......Dr To Forfeited Shares A/c (Amt paid by Shareholder) To Share Allotment A/c (Amt due on Share Allotment) To Share first/Second Call A/c (Amt due on respective Calls)
2	**If Shares Were Issued at premium and Premium amount Received**	Share Capital A/c.......Dr To Forfeited Shares A/c (Amt paid by Shareholder other than premium) To Share Allotment A/c (Amt due on Share Allotment) To Share first/Second Call A/c (Amt due on respective Calls)
3	**If Shares Were Issued at Premium and Premium amount not Received**	Share Capital A/c.......Dr Securities Premium A/c..Dr (By the amount earlier credited) To Forfeited Shares A/c (Amt paid by shareholder) To Share Allotment A/c (Amt due on Share Allotment) To Share first/Second Call A/c (Amt due on respective Calls)

REISSUE OF FORFEITED SHARES

1. A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only.
2. Reissue of forfeited shares is not allotment of shares but only a sale.
3. These shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrears on those shares.

Journal Entry

Bank A/c….Dr (Actual Amount Received)

Forfeited Shares A/c…….Dr (Loss on Reissue)

To Share Capital A/c (FV of Share)

To Capital Reserve (Profit on Re-issue)

POINTS FOR CONSIDERATION

1. Loss on re-issue should not exceed the forfeited amount
2. If the loss on re-issue is less than the amount forfeited, the surplus should be transferred to Capital Reserve.
3. The forfeited amount on shares not yet reissued should be shown under the heading 'share capital.'
4. When only a portion of the forfeited shares are re-issued, then the profit made on reissue of such shares must be transferred to Capital Reserve.
5. When the shares are re-issued at a loss, such loss is to be debited to "Forfeited Shares Account"
6. If the shares are re-issued at a price which is more than the face value of the shares, the excess amount will be credited to Securities Premium Account.
7. If the re-issued amount and forfeited amount (taken together) exceeds the face value of the shares re-issued, it is not necessary to transfer such amount to Securities Premium Account.

ISSUE OF SHARES OTHER THAN IN CASH

When the company purchases some assets (Including Services) , instead of making the payment to the supplier in the form of cash , it issues its fully paid shares, such issue of shares is called as the issue of shares for consideration other than cash.

Sr.No	Case	Accounting Entry
1	Purchase of Business / Assets	Respective Assets A/c……….Dr To Respective Liability A/c To Vendor A/c
2	Allottment of Shares Issue of Shares at Par	Vendor A/c……….Dr To Share Capital A/c
	Issue of Shares at Premium	Vendor A/c……….Dr To Share Capital A/c To Securities Premium A/c
3	Issue of Shares to Promoter	Goodwill A/c/Preliminary Expenses A/c……..Dr To Share Capital A/c

BALANCE SHEET OF A COMPANY

Particulars			Notes No.	Figures as at end of the current reporting period	Figures as at end of the previous reporting period
	EQUITY AND LIABILITIES				
1.	**Shareholders' funds**				
	a.	Share capital (A)		xxx	xxx
	b.	Reserves and Surplus (B)		xxx	xxx
	c.	Money received against share warrants		xxx	xxx
2.	**Share application money pending allotment**			xxx	xxx
3.	**Non-current liabilities**				
	a.	Long-term borrowings (C)		xxx	xxx
	b.	Deferred tax liabilities (Net)		xxx	xxx
	c.	Other long term liabilities		xxx	xxx
	d.	Long-term provisions (D)		xxx	xxx
4.	**Current liabilities**				
	a.	Short-term borrowings (E)		xxx	xxx
	b.	Trade Payables		xxx	xxx
	c.	Other current liabilities (F)		xxx	xxx
	d.	Short-term provisions		xxx	xxx
	Total			xxx	xxx

	ASSETS				
1.	**Non-current assets**				
	a.	Property, Plant and Equipment			
		i. Tangible assets (G)		xxx	xxx
		ii. Intangible assets (H)		xxx	xxx
		iii. Capital Work-in-progress		xxx	xxx
		iv. Intangible assets under development		xxx	xxx
	b.	Non-current investments (I)		xxx	xxx
	c.	Deferred tax assets (Net)		xxx	xxx
	d.	Long-term loans and advances (J)		xxx	xxx
	e.	Other non-current assets		xxx	xxx
2.	**Current assets**				
	a.	Current investments (K)		xxx	xxx
	b.	Inventories (L)		xxx	xxx
	c.	Trade receivables		xxx	xxx
	d.	Cash and cash equivalents (M)		xxx	xxx
	e.	Short-term loans and advances		xxx	xxx
	f.	Other current assets		xxx	xxx
	Total			xxx	xxx

A. SHARE CAPITAL

For each class of share capital following points is to be kept in mind:

i. The number and amount of shares authorised.

ii. The number of shares which are issued, subscribed and fully paid and which are issued, subscribed but not fully paid.

iii. The par value per share.

iv. Shares outstanding at the beginning and at the end of the reporting period should be reconciled.

v. Calls unpaid.

vi. Forfeited shares.

B. RESERVES AND SURPLUS

Reserves and surplus can be distributed among the following sub-heads:

i. Capital reserves

ii. Capital redemption reserves

iii. Securities Premium

iv. Debenture Redemption reserve

v. Revaluation reserve

vi. Surplus; the balance as per profit and loss statement

vii. Other reserves (specify the nature and purpose)

C. LONG TERM BORROWINGS

Long term borrowings can be classified under the following sub-heads:

i. Bonds/Debentures

ii. Term loans

iii. Deferred payment liabilities

iv. Deposits

v. Long term maturities of finance lease obligations

vi. Loans and advances from related parties

vii. Other loans and advances (specify nature)

G. TANGIBLE ASSETS

Tangible assets can be classified as follows:

i. Land

ii. Buildings

iii. Plant and Equipments

iv. Furniture and Fixtures

v. Vehicles

vi. Office equipments

vii. Others (specify the nature)

A detailed report showing additions, disposals, acquisitions through business combinations and other adjustments and amount related to depreciation, impairment losses, revaluation etc. should be provided for each class of asset.

H. INTANGIBLE ASSETS

Intangible assets can be classified as follows:

i. Goodwill

ii. Brands/trademarks

iii. Computer software

iv. Mining rights

v. Publishing titles

vi. Copyrights, patents and other intellectual property rights, services and operating rights.

vii. Licence and franchise

viii. Recipes, models, designs, formulae and prototypes

ix. Others (specify the nature)

A detailed report showing additions, disposals, acquisitions through business combinations and other adjustments and amount related to depreciation, impairment losses, revaluation etc. should be provided for each class of asset.

M. CASH AND CASH EQUIVALENTS

The following head can be classified as follows:

i. Balances with banks

ii. Cheques, drafts in hand

iii. Cash in hand

iv. Others (specify the nature)

ILLUSTRATION 1 - SM

The Delhi Artware Ltd. issued 50,000 equity shares of ₹ 100 each and 1,00,000 preference shares of ₹ 100 each. The Share Capital was to be collected as under:

	Equity Shares (₹)	Preference Shares (₹)
On Application	25	20
On Allotment	20	30
First Call	30	20
Final Call	25	30

All these shares were subscribed. Final call was received on 42,000 equity shares and 88,000 preference shares. Prepare the cash book and journalise the remaining transactions in the books of the company.

Delhi Artware Ltd.

Cash Book

		₹		₹
To	Equity Shares Applications Account (application money on 50,000 shares at ₹ 25)	12,50,000	By Balance c/d	14,440,000
To	Preference Share Application A/c (application money on 1,00,000 shares at ₹ 20)	20,00,000		
To	Equity Share Allotment A/c (allotment money on 50,000 shares at ₹ 20)	10,00,000		
To	Preference Share Allotment A/c (allotment money on 1,00,000 shares at ₹ 30)	30,00,000		
To	Equity Shares First Call A/c (₹ 30 on 50,000 shares)	15,00,000		
To	Preference Share First Call A/c (₹20 on 1,00,000 shares)	20,00,000		
To	Equity Shares Final Call A/c (₹ 25 on 42,000 shares)	10,50,000		
To	Preference Share Final A/c (₹ 30 on 88,000 shares)	26,40,000		
		14,440,000		14,440,000
To	Balance b/d	14,440,000		

Journal

		₹	₹
Equity Share Application A/c	Dr.	12,50,000	
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			22,50,000
[The Credit to share capital on allotment of 50,000 equity shares at ₹ 45 per share (₹ 25 on application and ₹ 20 on allotment) allotted as per Directors resolution no.... dated.....]			
Preference Share Application A/c	Dr.	20,00,000	
Preference Share Allotment A/c	Dr.	30,00,000	
To Preference Share Capital A/c			50,00,000
[The credit to Preference Share Capital on allotment of 1,00,000 preference shares at ₹ 50 per share (₹ 20 on application and ₹30 on allotment), allotted as per Directors' resolution no... dated...]			
Equity Share First Call A/c	Dr.	15,00,000	
To Equity Share Capital A/c			15,00,000
(Amount due on 50,000 equity shares at ₹ 30 per share as per Directors' resolution no... dated...)			
Preference Share First Call A/c	Dr.	20,00,000	
To Preference Share Capital A/c			20,00,000
(Amount due on 1,00,000 preference shares at ₹20 per share, as per Directors' resolution no...dated...)			
Equity Share Final Call A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Amount due on final call on 50,000 equity shares at₹ 25 per share, as per Directors' resolution no... dated...)			
Preference Share Final Call A/c	Dr.	30,00,000	
To Preference Share Capital A/c			30,00,000
(Amount due on final call on 1,00,000 preference shares at ₹ 30 per share, as per Directors' resolution no... dated...)			

ILLUSTRATION 2 - SM

Rashmi Limited issued at par 1,00,000 Equity shares of ₹10 each payable ₹2.50 on application; ₹3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Nair who held 10,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 1000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Nair. Give journal entries to record these transactions.

In The Books of Rashmi Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c….Dr (100000*2.50)		250000	
	To Share Application A/c			250000
	(being Application Money received on			
	100000 Shares)			
2	Share Application A/c….Dr		250000	
	Share Allotment A/c…Dr (100000*3)		300000	
	To Equity Share Capital A/c (100000*5.50)			550000
	(Being Shares alloted and allotment money			
	due)			

Sr.No	Particulars	LF	Debit	Credit
3	Bank A/c….Dr		300000	
	To Share Allotment A/c			300000
	(Being Amount received on allotment)			
4	Share First Call A/c….Dr (100000*2)		200000	
	To Equity Share Capital A/c			200000
	(Being Amount on First Call Due)			

Sr.No	Particulars	LF	Debit	Credit
5	Bank A/c…..Dr		225000	
	To Share First Call A/c			200000
	To Calls in Advance (10000*2.50)			25000
	(Being Amount received on first call and			
	Calls in advance received from Mr. nair)			
6	Share Final Call A/c….Dr (100000*2.50)		250000	
	To Equity Share Capital A/c			250000
	(Being Amount due on Final Call)			

Sr.No	Particulars	LF	Debit	Credit
7	Bank A/c…..Dr		222500	
	Calls in Arrears A/c….Dr (1000*2.50)		2500	
	Calls in Advance A/c….Dr		25000	
	To Share Final Call A/c			250000
	(Being amount received on Final Call)			
8	Interest on Calls in Advance A/c….Dr		750	
	To Mr. Nair A/c			750
	(Being Interest on Calls in Advance Payable			
	to Mr. Nair Calculated as 25000*12%*3/12)			

Sr.No	Particulars	LF	Debit	Credit
9	Mr. Nair A/c….Dr		750	
	To Bank A/c			750
	(Being interest on Calls			
10	Shareholder A/c….Dr		41.67	
	To Interest on calls in Arrears			41.67
	(Being Interest recoverable from Shareholder Calculated as 2500*10%*2/12)			

Sr.No	Particulars	LF	Debit	Credit
11	Bank A/c….Dr		2541.67	
	To Calls in Arrears A/c			2500
	To Shareholder A/c			41.67
	(Being Amount received on calls in Arrears with			
	Interest)			

ILLUSTRATION 3 - SM

A Ltd forfeited 30,000 equity shares of ₹10 fully called-up, held by Mr. X for non-payment of final call @ ₹4 each. However, he paid application money @ ₹2 per share and allotment money @ ₹4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

In The Books of A Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Equity Share capital A/c….Dr (30000*10)		300000	
	To Equity Share Final call A/c (30000*4)			120000
	To Forfeited Shares A/c (30000*6)			180000
	(Being the Forfeiture of 30000 Equity Shares Of Rs. 10 Each Fully called up for non payment Of final call money @ 4 Each as Per Board's Resolution No…. Dated…..)			

ILLUSTRATION 4 - SM

X Ltd forfeited 20,000 equity shares of ₹ 10 each, ₹ 8 called-up, for non-payment of first call money @ ₹ 2 each. Application money @ ₹ 2 per share and allotment money @ ₹ 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

In The Books of X Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Equity Share capital A/c….Dr (20000*8)		160000	
	To calls in Arrears A/c (20000*2)			40000
	To Forfeited Shares A/c (20000*6)			120000
	(Being the Forfeiture of 20000 Equity Shares Of Rs. 10 Each Fully called up for non payment Of first call money @ 2 Each as Per Board's Resolution No…. Dated…..)			

ILLUSTRATION 5 - SM

X Ltd. forfeited 5,000 equity shares of ₹100 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application ₹20; on allotment ₹50 (including premium); on First and Final call ₹50. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

In The Books of X Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Equity Share capital A/c….Dr (5000*100)		500000	
	Securities Premium Reserve Ac (5000*20)		100000	
	To Equity Share allotment A/c (5000*50)			250000
	To Equity Share First & Final call A/c (5000*50)			250000
	To Forfeited Shares A/c (5000*20)			100000
	(Being the Forfeiture of 5000 Equity Shares Of Rs. 100 Each Fully called up for non payment Of Allotment & call money as Per Board's Resolution No…. Dated…..)			

ILLUSTRATION 6 - SM

Mr. Long who was the holder of 2,000 preference shares of ₹100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 1500 of such shares to Mr. Short at ₹ 65 per share paid-up as ₹75 per share.

Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

In The Books of Company
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Preference Share Capital….Dr (2000*75)		150000	
	To Forfeited Shares A/c (2000*25)			50000
	To Share Allotment A/c (2000*25)			50000
	To Share First Call A/c (2000*25)			50000
	(being 2000 Preference Shares forfeited on non payment of allotment and call money)			

Sr.No	Particulars	LF	Debit	Credit
2	Bank A/c….Dr (1500*65)		97500	
	Forfeited shares A/c….Dr (1500*10)		15000	
	To preference Share Capital A/c (1500*75)			112500
	(Being 150 Shares reissued)			
3	Forfeited Shares A/c….Dr (1500*15)		22500	
	To Capital Reserve A/c			22500
	(Being profit on reissue credited to capital reserve)			

ILLUSTRATION 7 – PYP MAY 2019 (10 MARKS)

Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each.

The amounts were payable as follows:

On application	*- ₹ 3 per share*
On allotment	*- ₹ 5 per share*
On first and final call	*- ₹ 2 per share*

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ ₹ 6 per share.

Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd.

In The Books of X Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c…..Dr (300000 Shares * 3)		900000	
	To Equity Share Application A/c			900000
	(Being application Money received for 300000 Shares)			
2	Equity Share Application A/c…..Dr		900000	
	Equity Share Allotment A/c……Dr (200000*5)		1000000	
	To Equity Share Capital A/c (200000*8)			1600000
	To Equity Share Allotment A/c (100000*3)			300000
	(Being 200000 Shares Allotted Excess money Received on 100000 Shares adjusted in Allotment)			

Sr.No	Particulars	LF	Debit	Credit
3	Bank A/c……Dr		700000	
	To Equity Share allotment A/c			700000
	(Being Balance Allotment money Received)			
4	Equity Share First & Final call A/c……..Dr (200000*2)		400000	
	To Equity Share capital A/c			400000
	(Being First & Final call Due)			

Sr.No	Particulars	LF	Debit	Credit
5	Bank A/c……Dr (197000*2)		394000	
	To Equity Share First & Final Call A/c			394000
	(Being First & Final call Amount Received Except 3000 Shares of Mr. B)			
6	Equity Share Capital A/c….Dr (3000*10)		30000	
	To Forfeited Shares A/c (3000*8)			24000
	To Equity Share First & Final Call A/c			6000
	(Being 3000 Shares of Mr.B Forfeited on non payment of First & Final Call Money as per Boards resolution…..dated…..)			

Sr.No	Particulars	LF	Debit	Credit
7	Bank A/c…..Dr (2500*6)		15000	
	Forfeited Shares A/c….Dr (2500*4)		10000	
	To Equity Share Capital A/c (2500*10)			25000
	(Being 2500 Forfeited Shares Reissued at Rs. 6)			
8	Forfeited Shares A/c…..Dr (2500*4)		10000	
	To Capital Reserve A/c			10000
	(Being Profit on Reissue of Forfeited Shares transferred to capital Reserve)			

ILLUSTRATION 8 – PYP NOV 2019 (15 MARKS)

B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.

In The Books of B Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c…..Dr (50000 Shares * 3)		150000	
	To Share Application A/c			150000
	(Being aplication received for 50000 Shares)			
2	Share Application A/c…..Dr		150000	
	Share Allotment A/c....Dr (50000*5)		250000	
	To Equity Share Capital A/c (50000*6)			300000
	To Securities Premium A/c (50000*2)			100000
	(Being 50000 Shares Allotted)			

Sr.No	Particulars	LF	Debit	Credit
3	Bank A/c….Dr (49000*5)		245000	
	To Share Allotment A/c			245000
	(Being Money received on Alottment)			
4	Share Call A/c…Dr (50000*4)		200000	
	To Equity Share Capital A/c			200000
	(Being Share call due)			

Sr.No	Particulars	LF	Debit	Credit
5	Bank A/c….Dr (47000 Shares * 4)		188000	
	To Share Call A/c			188000
	(Being Share call amount received)			
6	Equity Share Capital A/c…Dr (1000*10)		10000	
	Securities Premium A/c…Dr (1000*2)		2000	
	To Forfeited Shares A/c (1000*3)			3000
	To Share Allotment A/c (1000*5)			5000
	To Share Call A/c (1000*4)			4000
	(Being X's 1000 Shares Forfieted)			

Sr.No	Particulars	LF	Debit	Credit
7	Equity Share Capital A/c…Dr (2000*10)		20000	
	To Forfeited Shares A/c (2000*6)			12000
	To Share Call A/c (2000*4)			8000
	(Being Y's 1000 Shares Forfieted)			
8	Bank A/c….Dr (2500*8)		20000	
	Forfeited Shares A/c….Dr (2500*2)		5000	
	To Equity Share Capital A/c (2500*10)			25000
	(Being 2500 Shares Reissued)			

Sr.No	Particulars	LF	Debit	Credit
9	Forfeited Shares A/c….Dr (WN 1)		7000	
	To Capital Reserve A/c			7000
	(Being profit Transferred to Capital Reserve)			

Balance Sheet of B Ltd as on….

Particulars	Notes. No.	Rs.
Equity and Liabilities		
Shareholders' Funds		
Share Capital	1	498000
Reserve and surplus	2	105000
Total		603000
Assets		
Current Assets		
Cash and Cash equivalents (Bank)		603000
Total		603000

Note 1 Share Capital

Particulars	Rs.	Rs.
Issued , Subscribed, Called up and paid up share capital		
49500 equity shares of Rs.10 each	495000	
Add: Forfeited Shares	3000	498000
Total		498000

Note 2 Reserves & Surplus

Particulars	Rs.	Rs.
Securities Premium Reserve		98000
Capital Reserve		7000
Total		105000

WN 1 – Ascertainment of Amount To be transferred to Capital Reserve

X's Shares = (Profit on forfieture - Loss on Reissue) * No. of shares Reissued
X's Shares = (3-2)*1000 = 1000

Y's Shares = (Profit on forfieture - Loss on Reissue) * No. of shares Reissued
Y's Shares = (6-2)*1500 = 6000

ILLUSTRATION 9 - PYP JUL 2021 (15 MARKS)

X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- *₹ 9 per share (including premium) on application and allotment*
- *Balance on the First and Final Call*

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries· for the above transactions in the books of X Limited.

In The Books of X Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c…..Dr (300000 Shares * 9)		2700000	
	To Equity Share Application & Allotment A/c			2700000
	(Being application Money received for 300000 Shares)			
2	Equity Share Application & Allotment A/c…..Dr		2700000	
	To Equity Share Capital A/c (75000*4)			300000
	To Securities Premium Reserve A/c (75000*5)			375000
	To Bank A/c (200000*9)			1800000
	To Equity Share First & Final Call A/c (25000*9)			225000
	(Being 75000 Shares Allotted Excess money Received on 25000 Shares adjusted in First & Final call & Application money on 200000 Shares			

Sr.No	Particulars	LF	Debit	Credit
3	Equity Share First & Final Call A/c…..Dr (75000*6)		450000	
	To Equity Share Capital A/c (75000*6)			450000
	(Being First & Final call Made)			
4	Bank A/c……Dr (450000-225000-3375)		221625	
	Calls in Arrears A/c……Dr (WN 1)		3375	
	To Equity Share First & Final call A/c			225000
	(Being Final call amount Received except from raj who held 1125 Shares)			

Sr.No	Particulars	LF	Debit	Credit
5	Equity Share Capital A/c….Dr (1125*10)		11250	
	To Forfeited Shares A/c (13500-5625)			7875
	To Calls in Arrears A/c			3375
	(Being 1125 Shares Forfeited)			
6	Bank A/c….Dr (1125*6)		6750	
	Forfeited Shares A/c....Dr (1125*4)		4500	
	To Equity Share capital A/c (1125*10)			11250
	(Being 1125 Forfeited Shares Reissued)			

Sr.No	Particulars	LF	Debit	Credit
7	Forfeited Shares A/c…Dr (7875-4500)		3375	
	To Capital Reserve A/c			3375
	(Being profit on Reissue credited to capital Reserve)			

Note – Amount Not Received on First & Final Call transferred to calls in Arrears)

WN 1 – Ascertainment of Calls in Arrears of Mr. Raj

Sr.No	Particulars	No./Amount
A	Shares Applied by Raj	1500
B	Application Money Received from Raj (1500*9)	13500
C	Shares Allotted to Raj (1500/10*7.50)	1125
D	Application Money that Should have been received on the Basis of Shares Allotted (1125*9)	10125
E	Excess Money to be Adjusted in First & Final call (B-D)	3375
F	First & Final Call Amount Receivable from Raj (1125*6)	6750
G	Calls in arrears of Raj (F-E)	3375

ILLUSTRATION 10 - MTP DEC 2021 SERIES 2 (10 MARKS)

Hament applies for 2,000 shares of Rs. 10 each at a premium of Rs. 2.50 per share. He was allotted 1,000 shares. After having paid Rs. 3 per share on application , he did not pay the allotment money of Rs. 4.50 per share (including premium) and on his subsequent failure to pay the first call of Rs. 2 per share, his share were forfeited. These share were reissued at Rs. 8 per share, his shares were forfeited.

At the time of re-issue of forfeited shares of Mr. Hament, final call money amount all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Share Capital A/c	Dr.	7,000	
	Securities Premium Reserve A/c	Dr.	1,500	
	To Forfeited Share A/c			5,000
	To Share Allotment A/c			1,500
	To Share First Call A/c			2,000
	(Being 100 shares forfeited for non-payment of allotment money and first call)			
2	Bank A/c	Dr.	8,000	
	Forfeited Shares A/c	Dr.	2,000	

Sr.No	Particulars	LF	Debit	Credit
	To Share Capital A/c			10,000
	(Being 1000 forfeited shares reissued as fully paid up for Rs. 8 per share)			
3	Forfeited Shares A/c	Dr.	3,000	
	To Capital Reserve A/c			3,000
	(Being the transfer of gain on reissue)			

WN Ascertainment of Amount due on allotment & its recept

Amt due on Allotment
1000 x 4.50
= 4500

Allotment
2000

received
2000

Calls in arrear
—

Premium
2500

received
1000

Calls in arrears
1500

ILLUSTRATION 11 - SM

JHP Limited is a company with an authorised share capital of ₹10,00,000 in equity shares of ₹10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2020. The company proposed to make a further issue of 1,00,000 of these ₹10 shares at a price of ₹14 each, the arrangements for payment being:

(a) ₹ 2 per share payable on application, to be received by 1st July, 2020;

(b) Allotment to be made on 10th July, 2020 and a further ₹ 5 per share (including the premium) to be payable;

(c) The final call for the balance to be made, and the money received by 30th April, 2021.

Applications were received for 3,55,000 shares and were dealt with as follows:

(i) Applicants for 5,000 shares received allotment in full;

(ii) Applicants for 30,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(iii) Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(iv) the money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the Journal of JHP Limited.

Working Note for Adjustment & Refund

Category	No. of Shares Applied	No. of Shares Allotted	Amount received on Application	Amount required on Application	Amount adjusted in Allotment	Refund	Amount Due on Allotment	Amount Received on Allotment
(i)	5000	5000	10000	10000	-	-	25000	25000
(ii)	30000	15000	60000	30000	30000	-	75000	45000
(iii)	320000	80000	640000	160000	400000	80000	400000	-
Total	355000	100000	710000	200000	430000	80000	500000	70000

In The Books of JHP Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c…..Dr		710000	
	To Share Application A/c			710000
	(Being Amount Received on Application as			
	per Working Note)			

Sr.No	Particulars	LF	Debit	Credit
2	Share Application A/c….Dr		710000	
	Share Allotment A/c….Dr (100000 * 5)		500000	
	To Equity Share Capital A/c (100000*3)			300000
	To Share Allotment A/c			430000
	To Bank A/c			80000
	To Securities Premium (100000*4)			400000
	(Being Shares alloted , excess amount			
	refunded as per working Note)			

Sr.No	Particulars	LF	Debit	Credit
3	Bank A/c……Dr		70000	
	To Share Alottment A/c			70000
	(Being Amount received on Allotment as			
	per Working Note)			
4	Share Final call A/c….Dr (100000*7)		700000	
	To Equity Share Capital A/c (100000*7)			700000
	(Being Final call Due)			

Sr.No	Particulars	LF	Debit	Credit
5	Bank A/c….Dr		700000	
	To Share Final call A/c			700000
	(Being Amount on Final call Recieved)			

ILLUSTRATION 12 - SM

X Co. Ltd. was incorporated with an authorized share capital of 90,000 equity shares of ₹ 10 each. The company purchased land and buildings from Y Co. Ltd for ₹ 4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for.

You are required to pass Journal Entries and to prepare the Balance Sheet.

In The Books of X Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Land & Building A/c….Dr		400000	
	To Y Ltd A/c			400000
	(Being land & building Purchased from y Ltd)			
2	Y Ltd A/c		400000	
	To Equity Share capital A/c			400000
	(Being 40000 Shares issued of 10 Each as a Consideration			

Date	Particulars	LF	Debit	Credit
3	Bank A/c……Dr (50000*10)		500000	
	To Equity Share Application & Allotment A/c			500000
	(Being Application Received for 50000 Shares)			
4	Equity Share application & Allotment A/c…Dr		500000	
	To Equity Share Capital A/c			500000
	(Being 50000 Shares allotted to Public)			

Balance Sheet of X Company Limited as at….

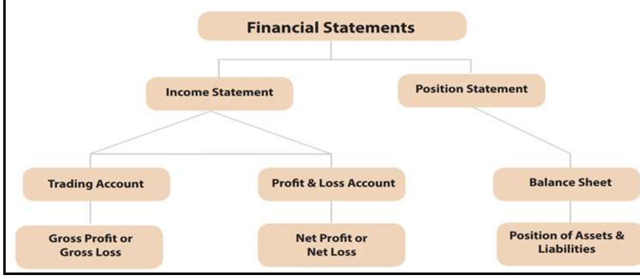
	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
	Shareholders' funds		
	Share capital	1	9,00,000
	Total		9,00,000
	ASSETS		
1.	**Non-current assets**		
	a Fixed assets		
	i. Tangible assets	2	4,00,000
2.	**Current assets**		
	Cash and cash equivalents	3	5,00,000
	Total		9,00,000

Notes to accounts

		₹
1.	**Share Capital**	
	Equity share capital	
	Authorised share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Issued share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Subscribed Share Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	Called up and Paid up Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	(Out of the above 40,000 shares have been allotted as fully paid up pursuant to contract(s) without payment being received in cash)	
2.	**Tangible Assets**	
	Land and Building	4,00,000
3.	**Cash and cash equivalents**	
	Balances with banks	5,00,000

FINAL ACCOUNTS OF SOLE PROPRIETORS

COMPONENTS OF FINAL ACCOUNTS OF SOLE PROPRIETORS



TRADING ACCOUNT

Trading Account of.....for the year ended.....

		₹			₹
To Opening Stock		XXX	By Sales	XXX	XXX
To Purchases	XXX		*Less*: Returns Inwards	XXX	XXX
Less: Returns outwards	XXX	XXX	By Closing Stock		
To Direct expenses:		XXX	By Gross Loss c/d*		
Freight & Carriage		XXX			
Customs & Insurance	XXX				
Wages	XXX				
Gas, Water & Fuel	XXX				
Factory Expenses	XXX				
Royalty on production	XXX	XXX			
		XXX			XXX

TRADING ACCOUNT

Point to Remember:-

- The opening inventory and purchases are written on the debt side.
- Sales and the closing inventory are entered on the credit side.
- If there are any direct expenses then they should also be written on the debit side of the Trading account.
- If the balances of credit side is more, the difference is written on the debit side as gross profit. This amount will also be carried forward to the Profit and Loss Account on the credit side.
- In case of gross loss, i.e., when the debit side of the Trading Account exceeds the credit side, the amount will be written on the credit side of the Trading Account and transferred to the debit side of the Profit and Loss Account.

PROFIT & LOSS ACCOUNT

Dr. Profit and Loss Account for the year ended Cr.

Particulars	₹	Particulars	₹
To Gross Loss b/d		**By Gross Profit b/d**	
Management expenses		**Other Income**	
To Salaries (administrative)		By Discount Received	
To Office rent, rates and taxes		By Commission Received	
To Printing and stationery		**Non-trading Income**	
To Telephone charges		By Bank Interest	
To Postage and telegrams		By Rent of property let-out	
To Insurance		By Dividend from shares	
To Audit Fees		**Abnormal Gains**	
To Legal Charges		By Profit on sale of machinery	
To Electricity Charges		By Profit on sale of investment	

Particulars	₹	Particulars	₹
Maintenance expenses			
To Repairs & renewals		**By Net Loss (transferred to capital A/c)**	
To Depreciation on:			
Office Equipment			
Office Furniture			
Office Buildings			
Selling and Distribution expenses			
To Salaries (selling staff)			
To Advertisement			
To Godown rent			
To Carriage Outward			
To Bad Debts			
To Provision for bad debts			
To Selling commission			

Particulars	₹	Particulars	₹
Financial expenses			
To Bank charges			
To Interest on loans			
To Discount on bills			
To discount allowed to customers			
Abnormal Losses			
To Loss on sale of machinery			
To Loss on sale of investment			
To loss by fire			
To Net Profit (transferred to Capital A/c)			

BALANCE SHEET

The balance sheet may be defined as *"a statement which sets out the assets and liabilities of a firm or an institution as at a certain date."* Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at a particular point of time. That is the significance of the word "as at."

The assets are shown on the right hand side and liabilities and capital on the left hand side.

ARRANGEMENT OF ASSETS & LIABILITIES

1) **Assets:** Assets may be grouped in one of the following two ways:

(i) **Liquidity:** Under this approach, the asset, which can be converted into cash first, is presented first. Those assets, which are most difficult in this respect, are presented at the bottom. As per Liquidity the balance sheet can be prepared as follow:-

Balance Sheet as at...

Liabilities	Amount ₹	Assets	Amount ₹
Bills Payable		Cash in Hand	
Trade Creditors		Cash at Bank	
Loans		Government Securities	
Outstanding Expenses		Other Investments	
Reserves & Surplus		Bills Receivable	
Capital		Sundry Debtors	
		Stock	
		Furniture & Fixtures	
		Plant & Machinery	
		Land and Building	

ARRANGEMENT OF ASSETS & LIABILITIES

(ii) **Permanence:** Assets, which are to be used, for long term in the business and are not meant to be sold are presented first. Assets, which are most liquid, such as cash in hand, are presented at the bottom.

Balance Sheet as at...

Liabilities	Amount ₹	Assets	Amount ₹
Capital		Land and Building	
Reserves & Surplus		Plant & Machinery	
Outstanding Expenses		Furniture & Fixtures	
Loans		Stock	
Trade Creditors		Sundry Debtors	
Bills Payable		Bills Receivable	
		Other Investments	
		Government Securities	
		Cash at Bank	
		Cash in Hand	

ADJUSTMENTS

Adjustment	If Given in Trial Balance	If Not Given in Trial Balance
1. Closing stock	Balance Sheet – Asset Side	(a) Trading A/c – Credit Side
		(b) Balance Sheet – Asset Side
2. Outstanding Expenses	Balance Sheet – Liability Side	(a) Trading/Profit & Loss A/c Debit Side. Add to the concerned expenses.
		(b) Balance Sheet – Liability Side
3. Prepaid Expenses	Balance Sheet – Asset Side	(a) Trading/Profit & Loss A/c Debit Side. Deduct from the concerned expense.
		(b) Balance Sheet - Asset
4. Income Outstanding	Balance Sheet – Asset Side	(a) Profit & Loss A/c – Credit Side. Add to the concerned income.
		(b) Balance Sheet – Asset Side.
5. Incomes Received in Advance	Balance Sheet – Liability Side	(a) Profit & Loss A/c – Credit Side. Deduct from concerned income.
		(b) Balance Sheet – Liability Side

Adjustment	If Given in Trial Balance	If Not Given in Trial Balance
6. Bad Debts	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side. Deduct from debtors.
7. Provision for Bad or Doubtful debts	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side. Deduct from Debtors after additional bad debts, if any.
8. Provision for Discount on Debtors	Balance Sheet – Asset Side Deduct from Debtors.	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side. Deduct from debtors after providing for provision for bad debts
9. Depreciation	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side. Deduct from Respective Asset.
10. Interest on Capital	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Liability Side. Add to Capital.

Adjustment	If Given in Trial Balance	If Not Given in Trial Balance
11. Interest on Drawings	Profit & Loss A/c – Credit Side	(a) Profit & Loss A/c – Credit Side.
		(b) Balance Sheet – Liability Side. Deduct from Capital.
12. Loss by Fire	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side (with full amount of loss)
		(b) Profit & Loss A/c – Debit Side (Actual loss, if any)
		(c) Balance Sheet – Asset Side (with insurance claim admitted by Insurance Co.)
13. Goods withdrawn for personal use	Trading A/c - Credit Side	(a) Trading A/c – Credit Side or Deduct from Purchases.
		(b) Balance Sheet – Liability Side (Deduct from Capital as Drawings)
14. Goods Distributed as free Samples	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side or Deduct from Purchases
		(b) Profit & Loss A/c – Debit Side

Adjustment	If Given in Trial Balance	If Not Given in Trial Balance
15. Sale of Goods on Approval Basis, approval not yet received	Usually it is not given in Trial Balance	(a) Trading A/c – Credit Side. Deduct from Sales the selling price of goods sold and add to stock at cost price.
		(b) Balance Sheet – Asset Side. Deduct from Debtors the selling price of such sales and show the cost price of such sales along with closing stock.

ILLUSTRATION 1

On 1st April 2020 provision for Doubtful Debts existed at ₹ 40,000. Trade receivables on 31.03.2020 were ₹ 15,00,000; bad debts totalled ₹ 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances.

Show how you would compute the amount debited to the Profit and Loss Account.

Profit & Loss A/c

Particulars	Amount	Particulars	Amount
		By Old RDD	40000
To Bad Debts	100000		
To RDD	70000		

Balance Sheet

Liabilities	Amount	Assets		Amount
		Debtors	1500000	
		Less - Bad Debts	100000	
			1400000	
		Less - RDD	70000	13,30,000

Net Amount Debited to P/L Shall Be 130000

COMMISSION BASED ON PROFITS

Commission based on profit: Sometimes commission is payable to manager based on net profit; in such a case calculation is done as follows:

(i) Commission on net profit before charging such commission =

$$\text{Profit before commission} \times \frac{\text{Rate of commission}}{100}$$

(ii) Commission on net profit **after** charging such commission =

$$\text{Profit before commission} \times \frac{\text{Rate of commission}}{100 + \text{Rate of commission}}$$

Commission is recorded by following journal entry

Commission A/c Dr.

To Commission Payable A/c

ILLUSTRATION 2

The balance sheet of Thapar on 1st April, 2019 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Trade payables	15,00,000	Plant & Machinery	30,00,000
Expenses Payable	1,50,000	Furniture & Fixture	3,00,000
Capital	50,00,000	Trade receivables	14,00,000
		Cash at Bank	6,50,000
		Inventories	13,000,000
	66,50,000		66,50,000

During 2019-20, his Profit and Loss Account revealed a net profit of ₹ 18,30,000. This was after allowing for the following :

(a) Rent received from property let out ₹ 3,00,000.

(b) Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.

(c) A provision for Doubtful Debts @ 5% of the trade receivables as at 31st March, 2020.

But while preparing the Profit and Loss Account he had forgotten to provide for (1) outstanding expenses totaling ₹ 1,80,000 and (2) prepaid insurance to the extent of ₹ 20,000.

His current assets and liabilities on 31st March, 2020 were: Inventories ₹ 14,50,000; Trade receivables ₹ 20,00,000; Cash at Bank ₹ 10,35,000 and Trade payables ₹ 11,40,000.

During the year he withdrew ₹ 6,00,000 for domestic use.

Required

Draw up his Balance Sheet at the end of the year.

Balance Sheet as on 31st March 2020

Liabilities		Amount	Assets		Amount
Capital	5000000		Plant & Machinery	3000000	
Less - Drawings	600000		Less -Depreciation at 10%	300000	2700000
Add - Net profit	1670000	6070000	Furniture & Fixture	300000	
			Less -Depreciation at 5%	15000	285000
			Trade Recievables	2000000	
			Less - RDD at 5%	100000	1900000
			Cash at Bank		1035000
			Inventories		1450000
			Prepaid Insurance		20000
Trade Payables		1140000			
Outstanding Expenses		180000			
		7390000			**7390000**

Working Notes

Profit & Loss A/c (Revised)

Particulars	Amount	Particulars	Amount
To Expenses	180000	By Bal B/d	1830000
To NP Trf to Capital A/c (Bal Fig)	16,70,000	By Insurance	20000
	18,50,000		**18,50,000**

ILLUSTRATION 3

The following is the schedule of balances as on 31.3.20 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of Messrs Gavaskar Viswanath & Co., at Bombay:

Particulars	Dr.	Cr.
	₹	₹
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2019	6,20,000	
Furniture & fixtures	2,14,000	
Office equipment	1,60,000	
Buildings	6,00,000	
Motor Car	2,00,000	
Sundry Creditors		4,30,000
Loan from Viswanath		3,00,000
Provision for bad debts		30,000
Purchases	14,00,000	
Purchase Returns		26,000
Sales		23,00,000
Sales Returns	42,000	
Salaries	1,10,000	
Rent for Godown	55,000	
Interest on loan from Viswanath	27,000	
Rates & Taxes	21,000	
Discount allowed to Debtors	24,000	
Discount received from Creditors		16,000
Freight on purchases	12,000	
Carriage Outwards	20,000	
Drawings	1,20,000	
Printing and Stationery	18,000	
Electricity Charges	22,000	
Insurance Premium	55,000	
General office expenses	30,000	
Bad Debts	20,000	
Bank charges	16,000	
Motor car expenses	36,000	
Capital A/c		16,20,000
TOTAL	47,22,000	47,22,000

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 and the Balance Sheet as at that date after making provision for the following:

1. *Depreciate: (a) Building used for business by 5 percent; (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for ₹ 14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account; (c) Office equipment by 15 percent; Purchase of a typewriter during the year for ₹ 40,000 has been wrongly debited to purchase; and (d) Motor car by 20%.*
2. *Value of stock at the close of the year was ₹ 4,40,000.*
3. *Two month's rent for godown is outstanding.*
4. *Interest on loan from Viswanath is payable at 12 percent per annum, this loan was taken on 1.5.2019.*
5. *Provision for bad debts is to be maintained at 5 percent of Sundry Debtors.*
6. *Insurance premium includes ₹ 40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2019 to 30.6.2020.*

Trading & Profit & Loss Account

For the year Ended 31-03-20

Particulars		Amount	Particulars		Amount
To Opening Stock		620000	By Sales	2300000	
To Purchases	1400000		Less - Returns	42000	
Less - Pur of Typewriter	40000		Less - Sale of Furniture	14000	2244000
Less - Returns	26000	1334000	By Closing Stock		440000
To Freight on Purchase		12000			
To Gross profit Carried to P/l A/c		718000			
		2684000			**2684000**

To Salaries		110000	By Gross Profit B/d	718000
To Rent Godown	55000		By Discount Received from Creditors	16000
Add - O/s Rent	11000	66000		
To Interest on Loan	27000			
Add - O/s Interest	6000	33000		
To Rates & Taxes		21000		
To Discount Allowed to Debtors		24000		
To RDD	43000			
Less - Old RDD	30000	13000		
To Carriage Outwards		20000		
To Printing & Stationary		18000		
To Electricity Charges		22000		
To Insurance Premium	55000			
Less - Life insurance of Proprietor	40000			
Less - Prepaid Insurance	3000	12000		
To General Office Expenses		30000		
To Bad Debts		20000		
To Bank Charges		16000		
To Motor Car Expenses		36000		
To Depreciation				
Furniture & Fixture	20000			
Office Equipment	30000			
Building	30000			
Motor Car	40000	120000		
To Net Profit Transferred to Capital A/c		173000		
		734000		**734000**

Balance Sheet as on 31-03-20

Liabilities		Amount	Assets		Amount
Capital	1620000		Furniture & Fixtures	214000	
Less - Drawings	120000		Less - Included on Sales	14000	
Less - Life Insurance Premium	40000		Less - Depreciation at 10%	20000	180000
Add - Net Profit	173000	1633000	Office Equipment	160000	
			Add - Typewriter	40000	
				200000	
			Less - Depreciation @15%	30000	170000
Vishwanath Loan	300000		Building	600000	
Add - Outstanding Interest	6000	306000	Less - Depreciation @5%	30000	570000
Sundry Creditors		430000	Motor Car	200000	
Outstanding Rent		11000	Less - Depreciation @20%	40000	160000
			Sundry Debtors	860000	
			Less - Provision For RDD@5%	43000	817000
			Prepaid Insurance		3000
			Closing Stock		440000
			Cash in Hand		14,000
			Cash at Bank		26,000
		2380000			2380000

ILLUSTRATION 4

From the following particulars extracted from the books of Ganguli, prepare trading and profit and loss account and balance sheet as at 31st March, 2020 after making the necessary adjustments:

	₹		₹
Ganguli's capital account (Cr.)	5,40,500	Interest received	7,250
Stock on 1.4.2019	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.2019	25,000
Purchases	12,15,500	Furniture as on 1-4-2019	9,000
Purchases return	29,000	Discounts allowed	37,700
Carriage inwards	93,000	General expenses	19,600
Rent	28,500	Audit fees	3,500
Salaries	46,500	Fire insurance premium	3,000

Sundry debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage and telegrams	4,350
Loan from Dena Bank Ltd. (at 12%)	1,00,000	Cash in hand	1,900
Interest paid	4,500	Deposits at 10% as on 1-4-2019 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments:

(1) Value of stock as on 31st March, 2020 is ₹ 3,93,000. This includes goods returned by customers on 31st March, 2020 to the value of ₹ 15,000 for which no entry has been passed in the books.

(2) Purchases include furniture purchased on 1st January, 2020 for ₹10,000.

(3) Depreciation should be provided on furniture at 10% per annum.

(4) The loan account from Dena bank in the books of Ganguli appears as follows:

		₹			₹
31.3.2020	To Balance c/d	1,00,000	1.4.2019 31.3.2020	By Balance b/d By Bank	50,000 50,000
		1,00,000			1,00,000

(5) Sundry debtors include ₹ 20,000 due from Robert and sundry creditors include ₹ 10,000 due to him.

(6) Interest paid include ₹ 3,000 paid to Dena bank.

(7) Interest received represents ₹ 1,000 from the sundry debtors (due to delay on their part) and the balance on investments and deposits.

(8) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.

(9) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision need to be made for the deposits.

In The Books of Mr. Ganguli
Trading & Profit & Loss Account
For the year Ended 31-03-2020

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		234000	By Sales	1448000	
To Purchases	1215500		Less - Sales Return (43000+15000)	58000	1390000
Less - Returns	29000		By Closing Stock		393000
	1186500				
Less - Furniture Purchased	10000	1176500			
To Carriage Inward		93000			
To Gross Profit		279500			
		1783000			**1783000**
To Postage & Telegram		4350	By Gross profit B/d		279500
To Travelling Expenses		11650	By Interest Received	7250	
To Depreciation on Furniture		1150	Add - O/s Interest on Deposit & Investment	10000	17250
To Rent		28500	By Discount received		14,950
To Salaries		46500			
To RDD		4,750			
To Interest Paid	4500				
Add - O/s Interest on loan from Dena Bank	3000	7500			
To Printing & Stationary		17000			
To Advertisement		56,000			
To Discount Allowed		37,700			
To General Expenses		19,600			
To Audit Fees		3,500			
To Fire Insurance Premium		3,000			
To Net Profit		70,500			
		3,11,700			**3,11,700**

Balance Sheet as on 31-03-2020

Liabilities	Amount	Amount	Assets	Amount	Amount
Ganguli's Capital	540500		Furniture	9000	
Less - Drawings	50000		Add - Furniture Purchased on 1-1-20	10000	
Add - Net Profit	70,500	5,61,000		19000	
			Less - Depreciation at 10%	1150	17850
Loan from Dena Bank		100000	5% Investments		25000
Interest O/s on Dena Bank Loan		3000	10% Deposit		150000
Sundry Creditors	74000		O/s Interest on Deposit & Investments		10000
Less - Adjusted against Debtors	10000	64000			
			Closing Stock		393000
			Debtors	120000	
			Less - Sales Return	15000	
				105000	
			Less - Creditors adjusted	10000	
				95000	
			Less - 5% RDD	4750	90250
			Cash at Bank		40000
			Cash in Hand		1900
		728000			**728000**

ILLUSTRATION 5

Sengupta & Co. employs a team of eight workers who were paid ₹30,000 per month each in the year ending 31st March, 2019. At the start of financial year 2019-2020, the company raised salaries by 10% to ₹33,000 per month each.

On October 1, 2019 the company hired two trainees at salary of ₹21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.

You are required to calculate:

(i) Amount of salaries which would be charged to the profit and loss for the year ended 31st March, 2020.

(ii) Amount actually paid as salaries during 2019-20

(iii) Outstanding Salaries as on 31st March, 2020.

Salary to Be charged to Profit & Loss Account in 19-20

Sr.No	Particulars	Amount
A	Salary of 8 Workers (8 Workers*33000 Per Month * 12 Months)	3168000
B	Salary of 8 Trainees (2 trainee *21000*6 Months)	252000
C	Total Salary to be Debited to Profit & Loss Account (A+B)	3420000

Amount Paid as Salaries During 19-20

Sr.No	Particulars	Amount
A	Salary of 8 Workers for March 2019 (8 Workers*30000 Per Month)	240000
B	Salary of 8 Workers from April to Feb (8 Workers *33000 Per Month * 11 Months)	2904000
C	Salary of 2 trainees from Oct to Feb (2 Trainees * 21000 Per month * 5 Months)	210000
D	Amount of Salary Paid During 19-20 (A+B+C)	3354000

Outstanding Salary as on 31st March 2020

Sr.No	Particulars	Amount
A	Salary of 8 Workers for March 2020 (8 Workers*33000 Per Month)	264000
B	Salary of 2 trainees for March 2020 (2 Trainees * 21000 per month)	42000
C	Amount of Salary Oustanding as on 31st March 2020 (A+B)	306000

ILLUSTRATION 6

Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2020 has been given below:

On 1.4.2019 he had a balance of ₹ 2,00,000 advance from customers of which ₹ 1,50,000 is related to year 2019-20 while remaining pertains to year 2020-21. During the year 2019-20 he made cash sales of ₹ 5,00,000. You are required to compute:

(i) Total income for the year 2019-20.

(ii) Total money received during the year if the closing balance in advance from customers account is ₹ 1,70,000.

Case (i)

Customer A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	200000
To Sales	150000		
To Bal C/d	50000		
	200000		200000

Computation of Total Income For the Year 2019-2020

Particulars	Amount
Cash Sales	500000
Sales For Which Advance Received Earlier	150000
Total Income	650000

Case (ii)			
Customer A/c			
Particulars	Amount	Particulars	Amount
		By Bal B/d	200000
To Sales	150000	By Cash (Bal Fig)	120000
To Bal C/d	170000		
	320000		320000

Computation of Total Amount Recieved in the Year 2019-2020

Particulars	Amount
Cash Sales	500000
Amount Recieved From Customers	120000
Total Amount Received	620000

PROVISION & RESERVES

Basis of Distinction	Provision	Reserve
Meaning	Provision means – (i) Any Amount written off. (ii) Any Amount retained by way of providing for depreciation, renewal or diminution in value of Assets, (iii)Any Provision for known liability, of which amount cannot be determined with substantial Accuracy.	Profit retained in the business not having any of the attributes of a 'provision' is to be treated as a reserve. Also provisions in excess of the amount considered necessary for the purposes these were originally made are to be considered as reserves.
Propose	It is created for a particular purpose and can only be used for that particular purpose	It need not necessarily be created for a particular purpose, e.g., General reserve is not for any particular purpose.
Charge Vs. Appropriation	It is a charge against the profit	It is an appropriation out of profit

PROVISION & RESERVES

Basis of Distinction	Provision	Reserve
Disclosure in Balance Sheet	Usually a provision is shown by way of deduction from the amount of the items for which it is created. E.g., Provision for Doubtful Debts.	Reserve is known as a separate item under the head Reserves and Surplus' on the liabilities side of the Balance Sheet.
Investment outside the business	There is no question of investment of the amount of provisions.	The amount of a reserve can be invested outside the business. If it is invested outside business, it is called 'FUND'.
Utilisation for dividends	It cannot be utilised for distribution by way of dividends.	It can be utilised for distribution by way of dividends.
Examples	Provision for Tax Provision for Doubtful Debts	General Reserve Contingency Reserve Worker's Welfare Reserve

ILLUSTRATION 7

Crimpson Ltd.'s profit and loss account for the year ended 31st March, 2020 includes the following information:

		₹
(i)	*Depreciation*	*57,500*
(ii)	*Bad debts written off*	*21,000*
(iii)	*Increase in provision for doubtful debts*	*18,000*
(iv)	*Proposed dividend*	*15,000*
(v)	*Retained profit for the year*	*20,000*
(vi)	*Liability for tax*	*4,000*

Required

State which one of the items (i) to (vi) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

SOLUTION

(a) Transfer to provisions - (i), (iii) (vi)

(b) Transfer to reserves - (v)

(c) Neither related to provisions nor reserves - (ii), (iv).

ILLUSTRATION 8 - RTP DEC 2021

The following are the balances as at 31st March, 2021 extracted from the books of Mr. Satender.

	₹		₹
Plant and Machinery	78,200	Bad debts recovered	1800
Furniture and Fittings	41,000	Salaries	90,200
Bank Overdraft	3,20,000	Salaries payable	9,800
Capital Account	2,60,000	Prepaid rent	1,200
Drawings	32,000	Rent	17,200
Purchases	6,40,000	Carriage inward	4,500
Opening Stock	1,29,000	Carriage outward	5,400
Wages	48,660	Sales	8,61,200

Provision for doubtful debts	12,800	Advertisement Expenses	13,400
Provision for Discount on debtors	5,500	Printing and Stationery	5,000
Sundry Debtors	4,80,000	Cash in hand	5,800
Sundry Creditors	1,90,000	Cash at bank	12,500
Bad debts	4,400	Office Expenses	40,640
		Interest paid on loan	12,000

Additional Information:

1. Purchases include sales return of ₹ 10,300 and sales include purchases return of ₹ 6,900.
2. Goods withdrawn by Mr. Satender for own consumption ₹ 14,000 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 1,800 were included in wages account.
4. Free samples distributed out of purchases for publicity costing ₹ 3,300.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 20% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date. Also show the rectification entries.

Rectification Entries

Sr.No	Particulars	LF	Amount	Amount
1	Sales Return A/c…..Dr		10300	
	To Purchase A/c			10300
	(Being Sales return Included in Purchase , now Rectified)			
2	Sales A/c…..Dr		6900	
	To Purchase Return A/c			6900
	(Being Purchase Return Included in Sales , Now Rectified)			

Sr.No	Particulars	LF	Amount	Amount
3	Drawings A/c…..Dr		14000	
	To Purchase A/c			14000
	(Being goods Withdrawn included in purchase , Now Rectified)			
4	Plant & Machinery A/c….dr		1800	
	To Wages A/c			1800
	(Being wages paid for installation of P & M was debited to wages , now rectified)			

Sr.No	Particulars	LF	Amount	Amount
5	Advertisement A/c…..Dr		3300	
	To Purchase A/c			3300
	(Being Entry Recorded)			

Trading and Profit and Loss Account of Mr. Satendra
for the year ended 31st March, 2021

Dr. *Cr.*

			Amount				*Amount*
		₹	₹			₹	₹
To	Opening stock		1,29,000	By	Sales	8,54,300	
To	Purchases	6,12,400			*Less*: Sales return	10,300	8,44,000
	Less: Purchases return	6,900	6,05,500	By	Closing stock		
To	Carriage inward		4,500		$₹\ 3,20,000 \times \frac{100}{80} \times \frac{100}{80}$		5,00,000
To	Wages		46,860				
To	Gross profit c/d		5,58,140				
			13,44,000				13,44,000
To	Salaries		90,200	By	Gross profit b/d		5,58,140
To	Rent		17,200	By	Bad debts recovered		1800
To	Advertisement expenses		16,700				
To	Printing and stationery		5,000				
To	Bad debts		4,400				

To	Carriage outward		5,400		
To	Provision for doubtful debts				
	5% of ₹ 4,80,000	24,000			
	Less: Existing provision	12,800	11,200		
To	Provision for discount on debtors				
	2.5% of ₹ 4,56,000	11,400			
	Less: Existing provision	5,500	5,900		
To	Depreciation:				
	Plant and machinery 16,000				
	Furniture and fittings	4,100	20,100		
To	Office expenses		40,640		
To	Interest on loan		12,000		
To	Net profit (Transferred to capital account)		3,31,200		
			5,59,940		5,59,940

Balance Sheet of Mr. Satendra as on 31st March, 2021

		Amount			Amount
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	2,60,000		Plant and machinery	80,000	
Add: Net profit	3,31,200		*Less*: Depreciation	16,000	64,000
	5,91,200		Furniture and fittings	41,000	
Less: Drawings	46,000	5,45,200	*Less*: Depreciation	4,100	36,900
Bank overdraft		3,20,000	Closing stock		5,00,000
Sundry creditors		1,90,000	Sundry debtors	4,80,000	
Payable salaries		9,800	*Less:* Provision for doubtful debts	35,400	
					4,44,600
			Prepaid rent		1,200
			Cash in hand		5800
			Cash at bank		12,500
		10,65,000			10,65,000

ILLUSTRATION 9 - PYP JUL 2021 (10 MARKS)

Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.

Loan and interest repaid by her in the first year are as follows:

30th June, 2020	-	*₹ 15,000 principal+ ₹ 9,000 interest*
30th September, 2020	-	*₹ 15,000 principal+ ₹ 8,550 interest*
31st December, 2020	-	*₹ 15,000 principal+ ₹ 8,100 interest*
31st March, 2021	-	*₹ 15,000 principal+ ₹ 7,650 interest.*

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	*Amount*	*Particulars*	*Amount*
Total Sales	*20,00,000*	*Total Purchases*	*17,00,000*
Electricity Expenses paid	*40,000*	*Telephone Charges*	*50,000*
Cartage Outwards	*60,000*	*Travelling Expenses*	*45,000*
Entertainment Expenses	*5,000*	*Maintenance Expenses*	*25,000*
Misc. Expenses	*15,000*	*Electricity Expenses Payable*	*20,000*

Other Information:

(i) She withdrew ₹5,000 by cheque each month for her personal expenses.

(ii) Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.

(iii) Closing stock in hand as on 31st March, 2021: ₹5,50,000

Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date.

In the books of M/s Designer wear

Trading and Profit & Loss Account (for the year ending 31.3.2021)

			₹			₹
To	Purchases		17,00,000	By	Sales	20,00,000
To	Gross profit		8,50,000	By	Closing stock	5,50,000
			25,50,000			25,50,000
To	Interest (9,000+8,550+8,100+7,650)		33,300	By	Gross profit	8,50,000
To	Telephone charges		50,000			
To	Travelling expenses		45,000			
To	Maintenance expenses		25,000			
To	Entertainment expenses		5,000			
To	Electricity exp	40,000				
	Add: outstanding	20,000	60,000			
To	Carriage outward		60,000			
To	Depreciation					
	Building 5%	30,000				
	Furniture 10%	1,000	31,000			
To	Misc. exp		15,000			
To	Net profit		5,25,700			
			8,50,000			8,50,000

Balance Sheet as on 31st March, 2021

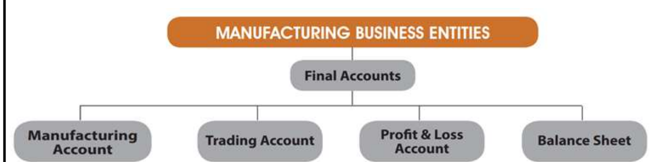
LIABILITIES	₹	₹	ASSETS	₹	₹
Capital	3,00,000		Building	6,00,000	
Further Capital	2,00,000		Less: dep	30,000	5,70,000
Less: Drawings	(60,000)		Furniture	10,000	
Add: Net profit	5,25,700	9,65,700	Less: dep	1,000	9,000
			Security deposit-Telephone		7,000
Bank Loan	3,00,000				
Less: repayment	60,000	2,40,000	Bank		89,700
outstanding electricity exp		20,000	Closing stock		5,50,000
		12,25,700			12,25,700

Bank Account

	PARTICULARS	RS.		PARTICULARS	RS.
To	Capital	3,00,000	By	Building	6,00,000
To	Further capital	2,00,000	By	Furniture	10,000
To	Bank loan	3,00,000	By	Bank loan repaid	60,000
To	Sales	20,00,000	By	Interest	33,300
			By	Security deposit	7,000
			By	Drawings	60,000
			By	Purchase	17,00,000
			By	Telephone charges	50,000
			By	Travelling expenses	45,000
			By	Maintenance expenses	25,000
			By	Entertainment expenses	5,000
			By	Electricity	40,000
			By	Carriage outward	60,000
			By	Misc. expenses	15,000
			By	Balance c/d	89,700
		28,00,000			28,00,000

FINAL ACCOUNTS OF MANUFACTURING ENTITY

FINAL ACCOUNTS OF MANUFACTURING ENTITIES



INTRODUCTION

The manufacturing entities generally prepare a separate Manufacturing Account as a part of Final accounts in addition to Trading Account, Profit and Loss Account and Balance Sheet.

The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.

Manufacturing costs of finished goods are then transferred from the Manufacturing Accounts to Trading Account.

Trading account shows Gross Profit while Manufacturing Account shows Cost of goods sold/Cost of Production which includes direct expenses.

Manufacturing account deals with the raw material, and work in progress while the trading account would deal with finished goods only.

PURPOSE OF MANUFACTURING ACCOUNT

A manufacturing account serves the following functions:

1) It shows the total cost of manufacturing the finished products and sets out in detail, with appropriate classifications, the constituent elements of such cost. It is, therefore, debited with the cost of materials, manufacturing wages and expenses incurred directly or indirectly on manufacture.

2) It provides details of factory cost and facilitates reconciliation of financial books with cost records and also serves as a basis of comparison of manufacturing operation from year to year.

3) The Manufacturing Account may also be used for various other purposes. For example, if the output is carried to the Trading Account at market prices, it discloses the profit or loss on manufacture.

INDIRECT MANUFACTURING EXPENSES (OVERHEADS)

These are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

Overhead= Indirect Material + Indirect Wages + Indirect Expenses

Indirect material means materials which cannot be linked directly with the units produced, for example, stores consumed for repair and maintenance work, small tools, fuel and lubricating oil, etc.

Indirect wages are those which cannot be directly linked to the units produced, for example, wages for maintenance works, holding pay, etc.

Indirect expenses are those which cannot be directly linked to the units produced, for example, training expenses, depreciation of plant and machinery, depreciation of factory shed, insurance premium for plant and machinery, factory shed, etc.

Accordingly, indirect manufacturing expenses comprise indirect material, indirect wages and indirect expenses of the manufacturing division.

TREATMENT OF BY PRODUCTS

1. In most manufacturing operations, the production of the main product is accompanied by the production of a subsidiary product which has a value on sale.
2. Example - Molasses is the by-product in sugar manufacturing ,Butter milk is the by-product of a dairy which produces butter and cheese, etc.
3. The subsidiary product is termed as a by-product because its production is not consciously undertaken but results out of the production of the main product. It is usually very difficult to ascertain the cost of the product. Moreover, its value usually forms a very small percentage of the main product.
4. By-product is a secondary product. This is produced from the same raw materials, which are used for producing the main product and without incurring any additional expenses form the same production process in which the main product is produced.
5. By-products generally have insignificant value as compared to the value of main product. They are **generally valued at net realizable value,** if their costs cannot be separately identified. It is often treated, as "Miscellaneous income" but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

FORMAT OF MANUFACTURING ACCOUNT

Particulars	Amount	Particulars	Amount
To Opening Work In Progress	xxx	**By Closing Work in Progress**	xxx
To Raw Material Consumed	xxx	**By Sale of By-Products**	xxx
To Direct Wages	xxx	**By Cost of Production Trf to Trading Account (BF)**	xxx
To Direct Manufacturing Expenses	xxx		
To Indirect Manufacturing Expenses	xxx		
	xxx		

ILLUSTRATION 1

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2020.

			₹
W.I.P.	- Opening		3,90,000
	- Closing		5,07,000
Raw Materials	- Purchases		12,10,000
	- Opening		3,02,000
	- Closing		3,10,000
	- Returned		18,000
	- Indirect material		16,000
Wages	- direct		2,10,000
	- indirect		48,000
Direct expenses	- Royalty on production		1,30,000
		- Repairs and maintenance	2,30,000
		- Depreciation on factory shed	40,000
		- Depreciation on plant & machinery	60,000
By-product at selling price			20,000

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2020.

In The Books of Mr. PANKAJ
Manufacturing A/c
For the year Ended 31-03-2020

Particulars		Amount	Particulars	Amount
To Opening Work In Progress		390000		
To Raw Material Consumed (WN 1)		1184000	By By-Products	20000
			By Closing Work in Progress	507000
To Direct Wages		210000	By Cost of Production Trf to Trading Account (Bal Fig)	1781000
To Direct Manufacturing Expenses				
Royalty On Production		130000		
To Indirect Manufacturing Expenses				
Indirect Material	16000			
Indirect Wages	48000			
Repairs & Maintenance	230000			
Dep on Factory Shed	40000			
Dep on P & M	<u>60000</u>	394000		
		2308000		2308000

Working Note 1 - Calculation of RM Consumed

RAW Material Consumed = Opening Stock of RM + Purchase of RM - Return of RM - Closing Stock of RM

RAW Material Consumed = 302000+1210000-18000-310000

= 1184000

ILLUSTRATION 2

Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2019-20. There are certain figures missing from these accounts.

Raw Material A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Opening Stock A/c	1,00,000		By Raw Material Consumed	....
	To Creditors A/c	....		By Closing Stock A/c	....

Creditors A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000			

Manufacturing A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Raw Material Consumed	....	By Trading A/c	17,94,000
To Wages	3,50,000		
To Depreciation	2,00,000		
To Direct Expenses	2,44,000		

Additional Information:

1) Purchase of machinery worth ₹ 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.

2) Wages include the following

   Paid to Factory Workers - ₹ 3,00,000

   Paid to labour at office - ₹ 50,000

3) Direct Expenses include following:

- Electricity charges of ₹ 80,000 of which 30% pertained to office.
- Fuel Charges of ₹ 20,000
- Freight Inwards of ₹ 35,000
- Delivery charges to customers - ₹ 20,000.

You are required to prepare revised Manufacturing A/c, and Raw Material A/c.

In The Books of M/s. Shivi

Manufacturing A/c

For the year Ended 31-03-2020

Particulars		Amount	Particulars	Amount
To RM Consumed (Bal Fig)		1000000		
To Wages	350000			
Less - Wages for Office	50000	300000		
			By Trading Account (WN 2)	1800000
To Direct Manufacturing Expenses	244000			
Less - Electricity expenses of office	24000			
Less - Delivery Charges to customer	20000	200000		
To Indirect Manufacturing Expenses				
Depreciation (200000+100000)		300000		
		1800000		**1800000**

Raw Material A/c

For the year Ended 31-03-2020

Particulars	Amount	Particulars	Amount
To Opening Stock	100000	By RM Consumed	1000000
To Creditors (WN 1)	1300000	By Closing Stock (Bal Fig)	400000
	1400000		1400000

Working Notes			
WN - 1 Creditors A/c			
For the year Ended 31-03-2020			
Particulars	**Amount**	**Particulars**	**Amount**
To Bank A/c	2200000	By Bal B/d	1500000
		By Purchases (Bal Fig)	1300000
To Bal C/d	600000		
	2800000		**2800000**

WN - 2 CALCULATION OF REVISED COST OF PRODUCTION	
PARTICULARS	**AMOUNT**
Cost of Production as Per Manufacturing Account	1794000
Add - Depreciation on Plant	100000
Less - Electricity Expenses	24000
Less - Delievery Charges to customer	20000
Less - Wages of Office labour	50000
Revised Cost of Production	1800000

ILLUSTRATION 3

On 31st March, 2020 the Trial Balance of Mr. White were as follows:

Trial Balance as on 31st March, 2020

Particulars	Dr. ₹	Particulars	Cr. ₹
Stock on 1st April 2019			
Raw Materials	21,000	Sundry Creditors	15,000
Work in Progress	9,500	Bills Payable	7,500
Finished goods	15,500	Sale of Scrap	2,500
Sundry Debtors	24,000	Commission Received	450
Carriage on Purchases	1,500	Provision for doubtful debts	1,650
Bills Receivable	15,000	Capital Account	1,00,000
Wages	13,000	Sales	1,67,200
Salaries	10,000	Bank Overdraft	8,500
Telephone, Postage etc.	1,000		
Repairs to Office Furniture	350		
Cash at Bank	17,000		
Office Furniture	10,000		
Repairs to Plant	1,100		
Purchases	85,000		
Plant and Machinery	70,000		
Rent	6,000		
Lighting	1,350		
General Expenses	1,500		
	3,02,800		3,02,800

The following additional information is available:

Stocks on 31st March, 2020 were:

Raw Materials ₹16,200

Finished goods ₹18,100

Semi-finished goods ₹ 7,800

Salaries and wages unpaid for March 2020 were respectively, ₹ 900 and ₹ 2,000

Machinery is to be depreciated by 10% and office furniture by 71/2 %

Provision for doubtful debts is to be maintained @ 1% of sales

Office premises occupy 1/4 of total area.

Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account Trading Account, Profit and Loss Account and the Balance Sheet relating to 31st March 2020.

In The Books of Mr. White				
Manufacturing A/c				
For the year Ended 31-03-2020				
Particulars		**Amount**	**Particulars**	**Amount**
To Opening Work in Progress		9500	By Sale of Scrap	2500
To Raw Material Consumed			By Closing Work in Progress	7800
Opening stock	21000		By Cost of Production trf to Trading Account	119000
Add - Purchases	85000		(Bal Fig)	
Less - Closing Stock	16200	89800		
To Carriage on Purchase		1500		
To Repairs to Plant		1100		
To Wages	13000			
Add - O/s Wages	2000	15000		
To Rent (6000*3/4)		4500		
To Lighting (1350*2/3)		900		
To Depreciation on Plant		7000		
		129300		129300

Trading & P/L A/c				
For the year Ended 31-03-2020				
Particulars		**Amount**	**Particulars**	**Amount**
To Opening Stock of Finished Goods		15500	By Sales	167200
To Cost of Production		119000	By Closing Stock of FG	18100
To Gross profit (Bal Fig)		50800		
		185300		**185300**
To Salaries	10000		By Gross Profit B/d	50800
Add - O/s Salaries	900	10900	By Commission Receieved	450
To Telephone , Postage Etc		1000	By Old RDD	1650
To Repairs to Office Furniture		350		
To Rent (1/4*6000)		1500		
To Lighting (1/3 of 1350)		450		
To RDD		1672		
To General Expenses		1500		
To Depreciation on Furniture		750		
To Net Profit Trf to Capital A/c (bal Fig)		34778		
		52900		**52900**

BALANCE SHEET					
AS ON 31-03-2020					
Particulars		**Amount**	**Particulars**		**Amount**
Capital	100000		Office Furniture	10000	
Add - Net Profit	34778	134778	Less - Depreciation at 7.50%	750	9250
			Plant & Machinery	70000	
Bank Overdraft		8500	Less - Depreciation at 10%	7000	63000
Bills Payable		7500	Sundry Debtors	24000	
Sundry Creditors		15000	Less - RDD @ 1% of Sales	1672	22328
O/s Wages		2000	Bills Receivable		15000
O/s Salaries		900	Cash at Bank		17000
			Closing Stock		
			Raw Material	16200	
			Work in Progress	7800	
			Finished Goods	18100	42100
		168678			**168678**

ILLUSTRATION 4

The following is the trial balance of Mr. Pandit for the year ended 31st March, 2020:

Trial Balance as on 31st March 2020

Particulars	Dr. ₹	Particulars	Cr.₹
Opening Stock:			
Raw Materials	1,50,000	Sundry Creditors	50,000
Finished goods	75,000	Purchase Returns	5,000
Purchase of Raw Materials	5,00,000	Capital	1,00,000
Land & Building	1,00,000	Bills Payable	24,000
Loose tools	30,000	Long-Term Loan	2,00,000
Plant & Machinery	30,000	Provision for Bad and Doubtful Debts	2,000
Investments	25,000	Sales	8,50,000
Cash in Hand	20,000	Bank Overdraft	23,000

Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		

Interest Paid	7,000		
Discount Allowed	3,000		
Carriage Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	5,000		
Dividend Paid	4,000		
	12,54,000		12,54,000

Additional Information

Stock of finished goods at the end of the year ₹1,00,000.

A provision for doubtful debts. at 5% on Sundry Debtors. Depreciation on building ₹ 1,000 and ₹ 3,000 on Machinery to be provided.

Accrued commission ₹ 12,500. Interest has accrued on investment ₹ 15,000.

Salary Outstanding ₹ 2,000 and Prepaid Interest ₹ 1,500.

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2020.

In The Books of Mr. Pandit

Manufacturing A/c

For the year Ended 31-03-2020

Particulars		**Amount**	**Particulars**	**Amount**
To Opening Stock of RM		150000		
To Purchase	500000		By cost of Production trf to trading A/c (Bal Fig)	808000
Less - Returns	5000	495000		
To Coal & Fuel		15000		
To factory Rent & rates		20000		
To Direct Wages		80000		
To Depreciation on Plant & Machinery		3000		
To Power		30000		
to carriage inward		15000		
		808000		**808000**

Trading & P/L A/c

For the year Ended 31-03-2020

Particulars		**Amount**	**Particulars**		**Amount**
To opening Stock of FG		75000	By Sales	850000	
to Cost of Production		808000	Less - Sales return	10000	840000
			By Closing Stock		100000
To Gross profit (bal Fig)		57000			
		940000			**940000**
To Interest paid	7000		By Gross profit		57000
Less - Prepaid	1500	5500	By Old RDD		2000
To Salary	20000		By Commission		12500
Add - O/s Salary	2000	22000	By interest on Investments		15000
To RDD		2000			
To Depreciation on Land & Building		1000			
to general Expenses		4000			
To Advertisment		5000			
To bad Debts		4000			
to Discount Allowed		3000			
To carriage outward		7000			
To Commision Paid		5000			
To Dividend paid		4000			
To Net profit		**24000**			
		86500			**86500**

BALANCE SHEET
AS ON 31-03-2020

Particulars		**Amount**	**Particulars**		**Amount**
Capital	100000		Land & Building	100000	
Less - drawings	20000		Less - Depreciation	1000	99000
Add - Net profit	24000	104000	Plant & machinery	30000	
			Less - Depreciation	3000	27000
			Prepaid interest		1500
			Loose Tools		30000
			Sundry Debtors 40000		
Sundry Creditors		50000	Less - RDD 2000		38000
Outstanding Salary		2000	Investments		25000
Bills payable		24000	Cash in hand		20000
Long Term loan		200000	Cash at Bank		5000
bank Overdraft		23000	Furniture & Fixtures		15000
			Bills Receivable		15000
			Closing Stock		100000
			Accrued Commission		12500
			Accrued interest		15000
		403000			**403000**

RECTIFICATION OF ERRORS

BIRDS EYE VIEW

- **Error : Meaning & Example**
- **Rectification of Error : Meaning , Process , Need ,Timing**
- **How to Detect Errors**
- **Types of Errors : Errors of Omission , Errors of Commission , Compensating Errors & Errors of Principle**
- **Summary of Errors affecting Trial Balance**
- **Role of suspense Account in Rectification of Errors**
- **Effect of rectification of Errors on Profitability**
- **Rectification of errors after Finalization of Account**

Important Points

- It is Always Assumed That Subsidiary Books are Maintained.
  Example – Goods purchased from Gopi for Rs. 68,000
  (Recorded in Purchase Book)
- If The Mistake is in Recording , The Same Mistake Shall be Followed in Ledger as ledger posting is Done on the Basis of Recording Only.
  Example – Goods purchased from Gopi for Rs. 68,000
  (Recorded in Sales Book)
  Effect Of Errors – Gopi is Debited & Sales is Credited
- If The Mistake is in Posting , Then the Mistake is in Ledger Only (Recording is Correctly Done).
  Example – Goods purchased from Gopi for Rs. 68,000
  (posted to A/c of Gopi as Rs. 86000)
  Effect Of Errors – Purchase is Debited With Rs. 68000 , Gopi is Credited With 86000)

- One Side Errors – Errors Affecting only 1 Account.
- Two Sided Errors – Errors Affecting 2 or More Accounts.
- If The Debit & Credit Effect is Same , Trial Balance Will tally Irrespective of Errors.
- Stage 1 Rectification of Error – Rectification of Errors Before Preparation of trial Balance.
- Stage 2 Rectification of Error – Rectification of Errors After Preparation of trial Balance But Before Preparation of Final Accounts.
- Stage 3 Rectification of Error – Rectification of Errors After Preparation of Final Accounts.

TYPES OF ERRORS

1. **Errors of Omission**
2. **Errors of Commission**
3. **Compensating Errors**
4. **Errors of Principle**

ERROR OF OMISSION

This error arises when a transaction is completely or partially omitted to be

a) Recorded in the books of accounts or
b) Posted to the ledger.

Error of omission may be classified as under –

Error of complete omission
This error arises when any transaction is not recorded in the book of original entry at all or the transaction is recorded in General Journal but is not posted in the ledger at all. This error does not affect the agreement of trial balance.

Example - Goods purchased on credit from Ram not recorded in the purchase Book
Example - Goods sold on credit to Shyam not recorded in the Sales Book
Example - Furniture sold on credit to Mohan recorded in Journal proper but omitted to be posted.

ERROR OF OMISSION

Error of partial omission
An error of omission other than an error of complete omission is called as an error of partial omission. This error affects the agreement of trial balance.

The examples of errors of partial omission include the following :
a) Transaction correctly recorded in the books of original entry (other than Journal Proper) but not posted in the ledger at all. [e.g. A credit sale of goods to Shyam recorded in Sales Book but omitted to be posted in Shyam Account].

b) Omission in carrying forward the total from one page to the other

c) Omission to balance an account.

ERROR OF COMMISSION

This error arises due to wrong recording, wrong casting, wrong carry forward, wrong posting, wrong balancing etc.

Errors of commission may be classified as follows :

- **Errors of Recording**
- **Errors of casting**
- **Errors in carrying forward**
- **Errors in posting**

ERROR OF COMMISSION - ERROR OF RECORDING

Errors of Recording

This error arise when any transaction is incorrectly recorded in the books of original entry. This error does not affect the agreement of trial balance. These errors may be of following types :

Sr. No	Books of original entry in which the transaction was recorded	Name of the accounts used in recording	Amount with which the transaction was recorded	Whether affects the Trial Balance
1	Correct	Correct	Wrong	No
2	Correct	Wrong	Correct	No
3	Correct	Wrong	Wrong	No
4	Wrong	Correct	Correct	No
5	Wrong	Correct	Wrong	No
6	Wrong	Wrong	Correct	No
7	Wrong	Wrong	Wrong	No

Example Goods of Rs 500 purchased on credit from Ram are recorded in the Purchase Book for Rs 5,500

Example Goods of Rs 5,000 purchased on credit from Ram are recorded in the Sales Book.

ERROR OF COMMISSION

Error of Casting

This error arises when a mistake is committed in totalling. This error affects the agreement of trial balance.

Example - Purchase Book is totalled as Rs 1,000 instead of Rs 100
Example - Sales Book is totalled as Rs 500 instead of Rs 5,000

Error in Carrying Forward

This error arises when a mistake is committed in carrying forward a total of one page on the next page. This error affects the agreement of trial balance

Example - Total of Purchase Book is carried forward as Rs 1,000 instead of Rs 100
Example - Total of Sales Book is carried forward as Rs 100 instead of Rs 1,000

ERROR OF COMMISSION – ERROR OF POSTING

This error arises when information recorded in the books of original entry are incorrectly entered in the ledger. This error may or may not affect the agreement of trial balance.

These errors may be of following types :

Sr. No	Account to which the posting was made	Side (Dr/Cr) on which posting was made	Amounts with which posting was made	Whether affects the Trial Balance
1	Correct	Correct	Wrong	Yes
2	Correct	Wrong	Correct	Yes
3	Correct	Wrong	Wrong	Yes
4	Wrong	Correct	Correct	No
5	Wrong	Correct	Wrong	Yes
6	Wrong	Wrong	Correct	Yes
7	Wrong	Wrong	Wrong	Yes

COMPENSATING ERRORS

These errors arise when two or more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts involved is nullified. In other words, compensating errors refers to such a group of errors wherein the effect of one error is compensated by the effect of other error or errors.

These errors do not affect agreement of the trial balance but may or may not affect the figure of net profit.

Example If the total of Purchase Book is posted in the ledger as Rs 1,000 instead of Rs 100 and at the same time Ram's A/c is credited in the ledger as Rs 1,000 instead of Rs 100, as a result of these errors, there is an excess credit of Rs 900 in Ram's Account and an excess debit of Rs 900 in Purchase Account. Thus, these two errors nullify the effects of each other. The first error will increase the figure of purchase and consequently will reduce the figure of profit.

Example If the total of Bills Receivable Book is posted in the ledger as Rs 1,000 instead of Rs 100 and at the same time total of Bills Payable Book is posted as Rs 1,000 instead of Rs 100, as a result of these errors, there is excess credit of Rs 900 in Bills Payable Account and an excess debit of Rs 900 in Bills Receivable Account. These two errors will nullify the effect of each other. These errors will not affect the figure of profit in anyway.

ERROR OF PRINCIPLE

This error arises when the transaction is recorded ignoring the distinction between the capital item and revenue item. In other words, this error involves an incorrect allocation of expenditure *or* receipt between Capital and Revenue. The correct allocation between Capital and Revenue is of paramount importance because any incorrect allocation would disturb the final result as disclosed by the Financial Statements. It may lead to under/ over stating of incomes or assets or liabilities. This error does not affect the agreement of trial balance.

Example – If Freight paid for bringing a new machinery is posted to Freight A/c, this error will increase the figure of freight and reduce the figure of depreciation and as a result, the figure of net profit shall be changed by the net effect (i.e. the difference between the amount of freight and amount of depreciation)

SUMMARY OF ERRORS AND EFFECT ON TB

Sr.No	Error	Whether Affects TB	
		Yes	No
A	**Recording of Transaction in a Day Book**		
i	Omission to record a transaction		✓
ii	Transaction recorded twice in the books		✓
iii	Transaction recorded with wrong amount		✓
iv	Transaction recorded in wrong day book		✓
v	Transaction recorded on the wrong side of cash book (Receipt transaction entered as a payment or vice-versa)		✓
vi	Transaction recorded in the wrong column of the day book		✓
vii	Transaction recorded with wrong account head		✓
B	**Casting mistakes of the Day Book**	✓	
C	**Posting of Transaction from day book to ledger**		
i	Omission to post the transaction	✓	
ii	Posting to an account twice	✓	
iii	Posting with wrong amount	✓	
iv	Posting to wrong side	✓	
v	Posting to wrong account		✓

SUMMARY OF ERRORS AND EFFECT ON TB

Sr.No	Error	Whether Affects TB	
		Yes	No
D	**Brought forward of ledger account balance from previous year (Real & Personal Accounts)**		
i	Omission to record brought forward balance	✓	
ii	Balance brought forward twice	✓	
iii	Balance brought forward with wrong amount	✓	
iv	Balance brought forward to wrong side	✓	
v	Balance brought forward in wrong account		✓
E	**Casting & Balancing mistakes in Ledger Accounts**	✓	
F	**Preparation of Trial Balance**		
i	Omission to take ledger account balance	✓	
ii	Ledger account balance taken twice	✓	
iii	Ledger account balance taken with wrong amount	✓	
iv	Ledger account balance taken on wrong side	✓	
v	Ledger account balance taken to wrong account		✓

ROLE OF SUSPENSE ACCOUNT IN RECTIFICATION OF ERRORS

Meaning of Suspense Account : A Suspense Account is an account in which the amount of difference in the trial balance is put till such time that error are located and rectified.

Preparation of Suspense Account : The difference in the trial balance is transferred on the credit side of the Suspense Account (if the debit side of the trial balance exceeds the credit side) or on the debit side of the Suspense Account (if the credit side of the trial balance exceeds the debit side).

Objective of Suspense Account : The rationale behind the opening of a Suspense Account is to avoid delay in the preparation of financial statements.

Disposal of Suspense Account : When the errors affecting the Suspense Account are located, they are rectified with the help of the Suspense Account, when all the errors affecting the trial balance are located and rectified, the Suspense Account automatically stands balanced.

Treatment of Balance of Suspense Account : When the errors affecting the trial balance are still to be located and rectified, the suspense account will show outstanding balance. The balance of Suspense Account merely represents the net effect of errors which still remain undetected. Such balance will be shown in the balance sheet on the assets side (if debit balance) or on the liabilities side (if credit balance).

EFFECT OF RECTIFICATION OF ERRORS ON PROFIT OR LOSS

The effect of rectification of error on profit/ loss is summarized as under:

a) **If nominal account is debited in a rectifying entry :** Profit will decrease or Loss will increase
b) **If nominal account is credited in a rectifying entry** : Profit will increase or Loss will decrease

RECTIFICATION OF ERRORS AFTER PREPARING FINAL ACCOUNTS

After the preparation of final accounts, the errors affecting the nominal account (e.g. Sales A/c, Purchases A/c, Expense A/c) are rectified with the help of Profit and Loss Adjustment Account so that current year's profit or loss may not be affected as a result of rectification of such errors.

While passing a rectifying entry after the preparation of the final accounts, profit and loss Adjustment account is used in place of nominal accounts (s).

RECTIFICATION OF ERROR – STAGE 1

RECTIFICATION OF ERROR – STAGE 2

RECTIFICATION OF ERROR – STAGE 3

ILLUSTRATION 1

Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth Rs. 500 from M not recorded in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recored in Journal Proper but omitted to be posted.

(v) Goods worth Rs. 5,000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500.

(i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

ILLUSTRATION 2

How would you rectify the following errors in the book of Rama & Co.?

1. *The total to the Purchases Book has been undercast by ₹ 100.*
2. *The Returns Inward Book has been undercast by ₹ 50.*
3. *A sum of ₹ 250 written off as depreciation on Machinery has not been debited to Depreciation Account.*
4. *A payment of ₹ 75 for salaries (to Mohan) has been posted twice to Salaries Account.*
5. *The total of Bills Receivable Book ₹ 1,500 has been posted to the credit of Bills Receivable Account.*
6. *An amount of ₹151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as ₹ 115.*
7. *Discount allowed to Satish ₹ 25 has not been entered in the Discount Column of the Cash Book. the amount has been posted correctly to the credit of his personal account.*

1. The Purchases Account should receive another debit of ₹100 since it was debited short previously:
"To Undercasting of Purchases Book for the month of --- ₹100."
2. Due to this error the Returns Inward Account has been posted short by ₹ 50 : the correct entry will be:
"To Undercasting of Returns Inward Book for the month of --- ₹50."
3. The omission of the debit to the Depreciation Account will be rectified by the entry:
"To Omission of posting on ₹ 250".
4. The excess debit will be removed by a credit in the Salaries Account by the entry:
"By double posting on ₹ 75".
5. ₹1,500 should have been debited to the Bills Receivable Account and not credited. To correct the mistake, the Bills Receivable Account should be debited by ₹ 3,000 by the entry:
"To Wrong posting of B/R received on ₹ 3,000"
6. Hari's personal A/c is debited ₹ 36 short. The rectification entry will be:
"To Wrong posting ₹ 36".
7. Due to this error, the discount account has been debited short by ₹ 25. The required entry is :
"To Omission of discount allowed to Satish on ₹ 25."

ILLUSTRATION 3

Correct the following errors (i) without opening a Suspense Account and (ii) opening a Suspense Account:

(a) The Sales Book has been totalled ₹100 short.

(b) Goods worth ₹150 returned by Green & Co. have not been recorded anywhere.

(c) Goods purchased ₹250 have been posted to the debit of the supplier Gupta & Co.

(d) Furniture purchased from Gulab & Bros, ₹1,000 has been entered in Purchases Day Book.

(e) Discount received from Red & Black ₹15 has not been entered in the Discount Column of the Cash Book.

(f) Discount allowed to G. Mohan & Co. ₹18 has not been entered in the Discount Column of the Cash Book. The account of G. Mohan & Co. has, however, been correctly posted.

If a Suspense Account is not opened.

Sr.No	Rectification of Error
a	The Correcting Entry is to credit the Sales Account by 100 as "By Wrong Totaling of the Sales Book"
b	Sales Return A/c……Dr 150 To Green & Co A/c 150
c	The Said Error needs to rectified by Crediting Gupta & Co. by Rs. 500 as "By Errors in Posting"
d	Furniture A/c….Dr 1000 to Purchase A/c 1000
e	Red & Black A/c….Dr 15 To Discount A/c 15
f	The Said Error needs to be Rectified by Debiting Discount Account by Rs. 18 as " To Omission of Entry in Cash Book "

If a Suspense Account is opened :

	Particulars		L.F.	Dr. ₹	Cr. ₹
(a)	Suspense Account	Dr.		100	
	To Sales Account				100
	(Being the correction arising from under- casting of Sales Day Book)				
(b)	Return Inward Account	Dr.		150	
	To Green & Co	.			150
	(Being the recording of unrecorded returns)				
(c)	Suspense Account	Dr.		500	
	To Gupta & Co.				500
	(Being the correction of the error by which Gupta & Co. was debited instead of being credited by ₹ 250).				

(d)	Furniture Account	Dr.		1,000	
	To Purchases Account				1,000
	(Being the correction of recording purchase of furniture as ordinary purchases)				
(e)	Red & black	Dr.		15	
	To Discount Account				15
	(Being the recording of discount omitted to be recorded)				
(f)	Discount Account	Dr.		18	
	To Suspense Account				18
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).				

ILLUSTRATION 4

The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts.

(i)

Before Preparation of Trial Balance

The Said Error will be Rectified by Debiting Trivedi & Co. A/c by Rs. 800 as "To Errors in Posting"

After Preparation of Trial Balance

Trivedi & Co. A/c.......Dr 800
To Suspense A/c 800

After Preparation of Final Accounts

Trivedi & Co. A/c.......Dr 800
To Suspense A/c 800

(ii)

Before Preparation of Trial Balance

Sales A/c.....Dr 240
Purchase A/c.....Dr 420
To Mantri & Co. A/c 660

After Preparation of Trial Balance

Sales A/c.....Dr 240
Purchase A/c.....Dr 420
To Mantri & Co. A/c 660

After Preparation of Final Accounts

Profit & Loss Adjustment A/c.......Dr 660
To Mantri & Co. A/c 660

ILLUSTRATION 5

The trial balance of Mr. W & H failed to agree and the difference ₹20,570 was put into suspense pending investigation which disclosed that:

(i) Purchase returns day book had been correctly entered and totalled at ₹6,160, but had not been posted to the ledger.

(ii) Discounts received ₹1,320 had been debited to discounts allowed.

(iii) The Sales account had been under added by ₹10,000.

(iv) A credit sale of ₹1,470 had been debited to a customer account at ₹1,740.

(v) A vehicle bought originally for ₹7,000 four years ago and depreciated to ₹1,200 had been sold for ₹1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.

(vi) An accrual of ₹560 for telephone charges had been completely omitted.

(vii) A bad debt of ₹1,560 had not been written off and provision for doubtful debts should have been maintained at 10% of Trade receivables which are shown in the trial balance at ₹23,390 with a credit provision for bad debts at ₹2,320.

(viii) Tools bought for ₹1,200 had been inadvertently debited to purchases.

(ix) The proprietor had withdrawn, for personal use, goods worth ₹1,960. No entries had been made in the books.

You are required to give rectification entries without narration to correct the above errors before preparing annual accounts.

	Particulars		Dr.	Cr.
(i)	Suspense Account	Dr.	6,160	
	To Return Outward A/c			6,160
(ii)	Suspense Account	Dr.	2,640	
	To Discount Allowed Account			1,320
	To Discount Received Account			1,320
(iii)	Suspense Account	Dr.	10,000	
	To Sales Account			10,000
(iv)	Suspense Account	Dr.	270	
	To Customer Account			270
(v)	Suspense Account	Dr.	1,500	
	To Vehicle Account			1,200
	To Profit on Sale of Vehicle Account			300
(vi)	Telephone Charges Account	Dr.	560	
	To Outstanding Expenses Account			560
(vii)	Bad Debts Account	Dr.	1,560	
	To Trade receivables Account			1,560
	Provision for Doubtful Debts Account	Dr.	164	
	To Profit and Loss Account			164
(viii)	Loose Tools Account	Dr.	1,200	
	To Purchases Account			1,200
(ix)	Drawings Account	Dr.	1,960	
	To Purchases Account			1,960

Working Notes :

(i)	Trade receivables as per books		23,390
	Deduction vide item (iv) 270	270	
	Bad Debts	1,560	1,830
			21,560

ILLUSTRATION 6

Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of ₹ 100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

(3) A sale of ₹ 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹ 20; and

(4) The total of "Discount Allowed" column in the Cash Book for the month of September, 2020 amounting to ₹ 250 was not posted.

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		100	
	Sales Returns Account	Dr.		100	
	To Suspense Account				200
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				

(2)	Suspense Account	Dr.		300	
	To Mr. Philip				300
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				
(3)	Mr. Ghanshyam	Dr.		200	
	To Mr. Radheshyam				20
	To Suspense Account				180
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹ 200, now rectified)				
(4)	Discount Account	Dr.		250	
	To Suspense Account				250
	(The total of Discount allowed during September, 2020 not posted from the Cash Book; error now rectified)				

QUESTION 7

Mr. Joshi's trial balance as on 31st March, 2020 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

(i) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.

(ii) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.

(iii) A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) Cash received from Senu, ₹ 895 was posted to debit of Sethu.

(v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.

(vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.

(vii) ₹ 600 due from Mr. Q was omitted to be taken ·to the trial balance.

(viii) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

Journal Entries

Sr.No	Particulars	LF	Debit	Credit
(i)	Suspense A/c…..Dr		936	
	To Profit & Loss Adjustment A/c			936
	(Being purchase book Carried Forward Wrongly			
	Earlier , Now Rectified)			
(ii)	Profit & Loss Adjustment A/c….Dr		540	
	Customer's Ac….Dr		1102	
	To Suspense A/c			1642
	(Being Error Rectified)			

Date	Particulars	LF	Debit	Credit
(iii)	Suspense A/c….Dr		590	
	To P/L Adjustment A/c			590
	(Being Error Rectified)			
(iv)	Suspense A/c….Dr		1790	
	To Senu A/c			895
	To Sethu A/c			895
	(Being Cash Received From Senu Posted to Sethu Earlier , now Rectified)			

Date	Particulars	LF	Debit	Credit
(v)	Customer's A/c….Dr		1400	
	To profit & Loss Adjustment A/c			1400
	(Being Sales made Earlier not Recorded , Now Recorded)			
(vi)	Profit & Loss Adjustment A/c….Dr		1600	
	To Customer A/c			1600
	(Being Reversal of Sale For goods Sent on Approval Basis)			
(vii)	Stock With Customer on Approval Basis With			
	Customer A/c….Dr		1280	
	To Profit & Loss Adjustment A/c			1280

Date	Particulars	LF	Debit	Credit
	(Being Goods Sent on Approval basis included In Stock)			
(Viii)	Trade Receivable A/c….Dr		600	
	To Suspense A/c			600
	(600 Due From Q not taken in trial Balance , Now Rectified)			
(ix)	R A/c….Dr		3000	
	To profit & Loss Adjustment A/c			3000
	(Goods Sold To R Not Recorded Earlier , Now Rectified)			

Date	Particulars	LF	Debit	Credit
(x)	Profit & loss Adjustment A/c….Dr		5066	
	To Joshi capital A/c			5066
	(Being profit & loss Adjustment A/c's Balance transferred to Capital A/c			

ILLUSTRATION 8

Mr. Roy was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next Year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(1) Purchase of a scooter was debited to conveyance account ₹3,000.

(2) Purchase account was over-cast by ₹10,000.

(3) A credit purchase of goods from Mr. P for ₹2,000 entered as a sale.

(4) Receipt of cash from Mr. A was posted to the account of Mr. B ₹1,000.

(5) Receipt of cash from Mr. C was posted to the debit of his account, ₹500.

(6) ₹ 500 due by Mr. Q was omitted to be taken to the trial balance.

(7) Sale of goods to Mr. R for ₹2,000 was omitted to be recorded.

(8) Amount of ₹2,395 ofpurchase was wrongly posted as ₹2,593.

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

Journal Entries in the books of Mr. Roy

Date	Particulars	LF	Amount	Amount
1	Motor Vehicles A/c……Dr		2700	
	To Profit & Loss Adjustment A/c			2700
	(Being Purchase of Scooter wrongly debited to conveyance account now rectified) 3000 -10% Depreciation = 2700			
2	Suspense A/c……Dr		10000	
	To Profit & Loss Adjustment A/c			10000
	(Being Purchase Account Over casted Earlier now Rectified)			

Date	Particulars	LF	Amount	Amount
3	Profit & Loss Adjustment A/c……Dr		4000	
	To P A/c			4000
	(being Credit Purchase Recorded as Credit Sales Earlier , Now Rectified)			
4	B A/c…..Dr		1000	
	To A A/c			1000
	(Being Cash Received from A Posted to B Earlier , Now Rectified)			
5	Suspense A/c……Dr		1000	
	To C A/c			1000
	(Being Amount Received from C was wrongly debited to his account earlier , Now Rectified)			

Date	Particulars	LF	Amount	Amount
6	Trade Receivables A/c……Dr		500	
	To Suspense A/c			500
	(Being Balance of Due from Q Was omitted to be taken to Trial Balance Earlier , Now Rectified)			
7	R A/c…		2000	
	To Profit & Loss Adjustment A/c			2000
	(Being Sale to R not Recorded Earlier , Now Recorded)			

Date	Particulars	LF	Amount	Amount
8	Suspense A/c…..Dr		198	
	To Profit & Loss Adjustment A/c			198
	(Being Purchase Wrongly Posted as 2593 instead of 2395 Earlier , Now Rectified)			
9	Profit & Loss Adjustment A/c…..Dr		10898	
	To Roy's Capital A/c			10898
	(Being Balance of P/L adjustment Account transferred to Roy's Capital A/c)			
10	Roy's Capital A/c……Dr		10698	
	To Suspense A/c			10698
	(Being balance of Suspense A/c transferred to Roy's Capital A/c as it was written to P/L Account in last Year)			

Profit & Loss Adjustment A/c

Particulars	Amount	Particulars	Amount
To P A/c	4000	By Motor Vehicle A/c	2700
		By Suspense A/c	10000
To Roy's Capital A/c (Bal Fig)	10898	By R A/c	2000
		By Suspense A/c	198
	14898		**14898**

Suspense A/c

Particulars	Amount	Particulars	Amount
To Profit & Loss Adjustment A/c	10000	By Trade Receivables A/c	500
To C A/c	1000		
To Profit & Loss Adjustment A/c	198	By Roy's Capital A/c (Bal Fig)	10698
	11198		**11198**

BILL OF EXCHANGE & PROMISSORY NOTES

INTRODUCTION

Commercial transactions are entered into on the basis of written promise to pay definite sum of money at definite point of time. These written promises can also be passed from one person to another. Such written promises are known as Negotiable Instruments or Bills of Exchanges. These instruments are means of creating credit. They are transferable by negotiation i.e. by endorsement.

The Following are the chief types negotiable instruments –

1. Promissory Notes
2. Bills of Exchange
3. Cheque

PARTIES TO BILL OF EXCHANGE

1. **Drawer :** A party who draws a bill or makes the order is known as "Drawer". Drawer is also known as maker
2. **Drawee :** A party who accept a bill or order is known as Drawee. Drawee is also known as Acceptor.
3. **Payee :** A party to whom the amount is payable on due date is known as Payee. Payee is also known as Receiver.

A bill of exchange can be passed on to another person by endorsement. Endorsement is transfer of right to receive the money on due date. Thus for a bill of exchange the holder of the bill is an payee.

FOREIGN BILL OF EXCHANGE

Section 12 of the Negotiable Instruments act provides that all instruments which are not inland instruments are foreign. The following are examples of foreign bills

1. A bill Drawn in India on a person resident outside India and made payable outside India.
2. A bill Drawn outside India on a Person resident outside India.
3. A bill drawn outside India and made payable in India
4. A bill drawn outside India and made payable outside India.

CALCULATION OF MATURITY DATE IN CASE OF BILL OF EXCHANGE

TERM OF BILL

The term of bill of exchange may be of any duration. Usually the term does not exceed 90 days from the date of the bill. When a bill is drawn after sight, the term of the bill begins to run from the date of 'sighting', i.e., when the bill is accepted. When a bill is drawn 'after date', the term of the bill begins to run from the date of drawings the bill.

EXPIRY DATE/DUE DATE OF BILL

The date on which the term of the bill expires is called as Expiry Date/Due Date of the bill.

MATURITY OF BILL

The date which comes after adding three grace days to the expiry date of a bill, is called the date of maturity date of the bill.

CALCULATION OF MATURITY DATE IN CASE OF BILL OF EXCHANGE

BILL AT SIGHT

Bill at Sight (or Instrumental payable on demand) means the instruments in which no time for payment is mentioned. A Cheque is always payable on demand. A promissory note or bill of exchange is payable on demand –

a. When no time for payment is specified, or
b. When it is expressed to be payable on demand, or at sight or on presentment.

IMPORTANT POINTS FOR CALCULATION OF MATURITY DATE

1. Maturity Date of Bill = Date of Drawal/ Acceptance + Term of Bill + 3 Grace Days
2. No grace days are to be added if bill payable at sight.
3. If the due date falls on the public holiday under the Negotiable Instrument Act, due date will be the preceding business working day.
4. If the due date falls on holiday (emergency) declared under the Negotiable Instruments Act, and ratified in the official gazette, due date will be the succeeding business working day.
5. Thirty days are not necessarily a month.
6. Either exclude starting day or ending day in calculation of No. of days for ascertaining due date.

EXAMPLE

Find out the date of maturity of the following Bills receivable :

Bill No.	Date of Drawing	Date of Acceptance	Payable	Due Date
A-1	31.01.1999	02.02.99	1 month after date	03.03.1999
A-2	29.01.1999	03.02.99	30 days after date	03.03.1999
A-3	29.01.1999	02.02.99	2 months after date	31.03.1999
A-4	12.07.1999	14.07.99	1 months after date	14.08.1999
A-5	27.06.1999	28.06.99	3 months after date	29.09.1999
A-6	28.09.1999	01.10.99	2 months after sight	04.12.1999
A-7	23.12.1999	24.12.1999	1 months	25.01.2000
A-8	02.01.2000	03.01.2000	On Demand	24.01.2000
A-9	05.01.2000	06.01.2000	At sight	24.01.2000
A-10	10.01.2000	11.01.2000	On presentment	24.01.2000

Drawer demanded the amount of last three bills on 24th Jan , 2000.

UNDERSTANDING THE TERMS RELATED TO BILL OF EXCHANGE

1. **Retention of Bill**
   When drawer holds the bill of exchange with himself till due date, bill is said to be retained by the drawer.

2. **Endorsement of Bill**
   A bill of exchange can be passed on to another person by endorsement. Endorsement of a bill of exchange is made exactly as it is done on case of cheques. Bills are endorsed by drawer or holder of the bill in favour of his creditor in full or part settlement of his dues. There are no restrictions on number of endorsements.

3. **Discounting of Bill**
   When drawer or holder of the bill (i.e endorsee) is in need of funds he normally discounts the bill with bank. Bank deducts discount in advance (similar to interest) and credit the balance proceeds to the customer's account. In case of dishonor of bill by drawee bank debits Customers account along with bank charges.

4. **Bill sent to bank for collection**
   Instead of keeping a bill of exchange till the date of maturity a person who received it, may send to bank with instructions that the bill should be retained till maturity & should be collected only on its realisation. Bank charges commission for this service.

5. **Holder of the Bill**
   A person who holds the bill is known as' Holder in Due Course". Holder may be drawer or the bank or endorsee of the bill

6. **Honoring the negotiable instrument**
   on proper presentation of the bill when the commitment of the payment is fulfilled by acceptor of bill of exchange or issuer of promissory note on the due date it is known as honoring the negotiable instrument.

7. **Dishonor of negotiable instrument**
   When the commitment of the payment is not fulfilled by the acceptor of bill of exchange or issuer of promissory note on due date it is known as act of dishonor of negotiable instrument

8. Noting charges

If the negotiable instrument is dishonored the public official known as Notary Public will note the fact of dishonor for this service Notary Public charges a fee. This is known as noting charges. The sum of noting charges is recoverable from party who is responsible for dishonor.

9. Renewal of bill

When an acceptor is unable to honor the bill on due date he himself approaches the drawer and requests him to give time extension. In such a case old bill is cancelled and new bill is drawn. This is also known as **Cancellation of bill.** No bill can be cancelled by drawee with unilateral act without the consent of an drawer.

10. Retirement of bill

When acceptor has surplus funds and want to honor the bill before the due date, he himself approaches the drawer and expresses his desire to pay earlier. In such a case there is a normal practice of allowing rebates or discount. (To compensate early payment) by the drawer (i.e receiver) to the drawee (i.e Payer)

11. Insolvency

When a person is unable to pay off his liabilities, he himself or any of his creditor may file a petition in the court to declare the person as insolvent. On accepting the petition by the court, the court appoints an official which will be in charge of proceeding. Insolvent's assets are then disposed off by him and liabilities are paid off to claimants according to their rights. (Secured or unsecured etc)

In case of insolvency bills accepted by insolvent will be dishonored. **When it is known that a person is insolvent, entry for dishonor of his acceptance is passed without any reference to due date.**

On disposal of insolvent's assets by an official a sum of received by creditor is known as **Dividend from insolvent estate.** The balance irrecoverable sum is then written off as bad debts.

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

SR.NO	TRANSACTION	BOOKS OF DRAWER	BOOKS OF DRAWEE
1	**Bill drawn duly accepted**	Bills Receivable A/c…………Dr To Drawee's A/c	Drawer's A/c…..Dr To Bills Payable A/c
2	**Bill retained**	No entry (Not being a transaction)	No entry (Not being a transaction)
3	**Bill sent to bank for collection**	Bill for collection A/c………..Dr To Bills Receivable A/c	No entry
4	**Bill discounted with Bank**	Bank A/c………………Dr Discount A/c……….Dr To Bills Receivable A/c	No entry
5	**Endorsement of bill**	Endorsee's A/c……….Dr To Bills Receivable A/c	No entry

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

6 (i)	**Renewal of Bill** **Cancellation of old bill**	Drawee's A/c………..Dr To Bills Receivable A/c	Bills Payable A/c………….Dr To Drawer's A/c
(ii)	**Interest Due/Payable**	Drawee's A/c....Dr To Interest A/c	Interest A/c….Dr To Drawer's A/c
(iii)	**Part payment of bill**	Cash/ Bank A/c……….Dr To Drawee's A/c	Drawer's A/c………..Dr To Cash/ Bank A/c
(iv)	**Drawal of new bill**	Bills Receivable A/c…………Dr To Drawee's A/c	Drawer's A/c………..Dr To Bills Payable A/c
7	**Retirement of Bill**	Bank A/c………..Dr Rebate/ Dscount A/c……..Dr To Bills Receivable A/c	Bills Payable A/c………….Dr To Bank A/c To Rebate/ Discount A/c

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

8 (i)	**Honoured on Maturity** **Bill retained**	Bank A/c……………Dr To Bills Receivable A/c	Bills Payable A/c…………Dr To Bank A/c
(ii)	**Bill sent to bank for collection**	Bank A/c…………Dr Bank Commission A/c….Dr To Bill sent for collection A/c	Bills Payable A/c…………Dr To Bank A/c
(iii)	**Bill discounted with Bank**	No entry as payment will be received by Bank	Bills Payable A/c…………Dr To Bank A/c
(iv)	**Endorsement of bill**	No entry as payment will be received by Endorsee	Bills Payable A/c…………Dr To Bank A/c

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

9 (i)	**Dishonoured on Maturity** **Noting charges Paid**	Noting/Bank charges A/c…………Dr To Cash/Bank A/c	No entry
(ii)	**Bill retained**	Drawee's A/c………..Dr To B/R A/c To Noting Charges A/c	Bills Payable A/c…………Dr Noting charges A/c……..Dr To Drawer's A/c
(iii)	**Bill sent to bank for collection**	Drawee's A/c…………Dr To Bill for collection A/c	Bills Payable A/c…………Dr To Drawer's A/c
(iv)	**Bill discounted with Bank**	Drawee's A/c…………Dr To Bank A/c (Bill amt + Bank charges)	Bills Payable A/c…………Dr Bank Charges A/c………Dr To Drawer's A/c
(v) (a)	**Endorsement of bill** **Noting charges paid by drawer**	Drawee's A/c…….Dr To Endorsee's A/c To Noting Charges A/c	Bills Payable A/c…………Dr Noting charges A/c……..Dr To Drawer's A/c
(b)	**Noting charges paid by endorsee**	Drawee's A/c…….Dr To Endorsee's A/c	Bills Payable A/c…………Dr Noting charges A/c……..Dr To Drawer's A/c

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

10 (i)	**Insolvency of Drawee** **Bill retained**	Drawee's A/c……….Dr To Bills Recievable A/c	Bills Payable A/c…………Dr To Drawer's A/c
(ii)	**Bill sent to bank for collection**	Drawee's A/c……….Dr To Bill sent to Bank for Collection A/c	Bills Payable A/c…………Dr To Drawer's A/c
(iii)	**Bill discounted with Bank**	Drawee's A/c……..Dr To Bank A/c	Bills Payable A/c…………Dr To Drawer's A/c
(iv)	**Endorsement of bill**	Drawee's A/c…………Dr To Endorsee A/c	Bills Payable A/c…………Dr To Drawer's A/c
(v)	**Dividend received from Insolvent's Estate**	Bank A/c…………Dr Bad Debts A/c…………Dr To Drawee's A/c	Drawer's A/c………………Dr To Bank A/c To Deficiency A/c

ACCOUNTING ENTRIES IN THE BOOKS OF ENDORSEE

SR.NO	TRANSACTION	ACCOUNTING ENTRY
1	**Bill received from endorser**	Bills Receivable A/c…………Dr To Endorser's A/c
2	**Bill retained**	No entry (Not being a transaction)
3	**Bill sent to bank for collection**	Bill for collection A/c………..Dr To Bills Receivable A/c
4	**Bill discounted with Bank**	Bank A/c………………Dr Discount A/c……….Dr To Bills Receivable A/c

ACCOUNTING ENTRIES IN THE BOOKS OF ENDORSEE

5	**Further Endorsement of bill**	Endorsee's A/c..........Dr To Bills Receivable A/c
6 (i)	**Honored on Maturity** **Bill retained**	Bank A/c...............Dr To Bills Receivable A/c
(ii)	**Bill sent to bank for collection**	Bank A/c.............Dr Commission A/c....Dr To Bill sent for collection A/c
(iii)	**Bill discounted with Bank**	No entry as payment will be received by the bank (Holder in due course)
(iv)	**Endorsement of bill**	No entry as payment will be received by the bank (Holder in due course)

ACCOUNTING ENTRIES IN THE BOOKS OF ENDORSEE

7 (i)	**Dishonored on Maturity** **Noting charges paid**	Noting charges A/c............Dr To Cash/Bank A/c
(ii)	**Bill retained**	Endorser's A/c...........Dr To B/R A/c To Noting charges A/c
(iii)	**Bill sent to bank for collection**	Endorser's A/c...........Dr To Bill for collection A/c
(iv)	**Bill discounted with Bank**	Endorser's A/c...........Dr To Bank A/c (Bill amt + Bank Charges)
(v)	**Endorsement of bill**	Endorser's A/c...........Dr To Endorsee's A/c

ACCOMMODATION BILL

Normally Bills of Exchange are meant to finance only commercial transactions. But apart from financing commercial transaction, bills may be drawn for raising funds to accommodate and oblige friends. Accommodation bills are those instruments which are drawn to enable one or all the parties temporarily to raise funds by getting the bill discounted with the bank. After meeting the temporary need of finance, drawer/other accommodated parties sends back money to the acceptor, thus making him possible to meet the bill on the due date. Even tough , the acceptor has not received payment from the accommodated parties towards their share , he can not escape from his liability to the third party.

PROCEDURE UNDER ACCOMMODATION BILL

1. **A bill is drawn by one party on another. The another party accept the bill and sends back the same duly accepted to the drawer.**

2. **Drawer discounts the bill with bank.**

3. **Proceeds are shared by accommodating parties in an agreed ratio. Drawer remits other party's share of discounting proceeds (net of proportionate discount)**

4. **Before due date drawer/other accommodated party is supposed to remit his share (Gross) to drawee , to enable him to honor the bill.**

5. **Drawee is to honor the bill on the due date**

Note : According to the present guidelines of Reserve Bank of India, bankers are not permitted to discount accommodation bills in India.

DISTINCTION BETWEEN TRADE BILLS AND ACCOMODATION BILLS

No.	Trade Bills	Accommodation Bills
1	These bills are drawn to settle a business transaction.	These bills are drawn to meet the financial needs of the drawer/ drawee/ both temporarily.
2	These bills are accepted for a consideration.	These bill are accepted without any consideration.
3	The bill may not be necessarily discounted	The bill is necessary discounted with bank
4	On Discounting of such bills, proceeds remain with the holder	On discounting of such bills, proceeds may be shared by drawer and drawee in an agreed ratio.
5	Discount charges are borne by the Drawer.	Discount charges are shared by the parties in the ratio in which discounting proceeds are shared. (i.e. by drawer as well a drawee).

ILLUSTRATION 1 – PYP MAY 2019 (5 MARKS)

On 1st January 2018, Akshay draws two bills of exchange for ₹16,000 and ₹25,000.

The bill of exchange for ₹16,000 is for two months while the bill of exchange for ₹25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for ₹25,000, the interest rebate i.e. discount being ₹250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Akshay.

In The Books of Akshay
Journal Entries

Date	Particulars	LF	Debit	Credit
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	To Vishal A/c			41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No. 1) A/c			16,000
	(Being the reversal entry for bill No. 1 on renewal)			

Date	Particulars	LF	Debit	Credit
March 4	Bills receivable (No. 3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal A/c			16,000
	(Being the drawing of bill of exchange No. 3 dur for maturity on 7.5.2018 together with interest at 15% p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000
	(Being the amount received on retirement of bill No. 2 before the due date)			

Date	Particulars	LF	Debit	Credit
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the amount received from official assignee of Vishal at 50 paisa per rupee against dishonoured bill)			

Date	Particulars	LF	Debit	Credit
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

ILLUSTRATION 2 - MTP DEC 2021 SERIES 1 (10 MARKS)

Mr. Q accepted a bill for ₹ 10,000 drawn on him by Mr. P on 1st August, 2020 for 3 months. This was for the amount which Q owed to P. On the same date Mr. P got the bill discounted at his bank for ₹ 9,800.

On the due date, Q approached P for renewal of the bill. Mr. P agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Q should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2020, Q became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. P

In The Books of P
Journal Entries

Date	Particulars	LF	Debit	Credit
01-08-20	Bills Receivable A/c….Dr		10000	
	To Q A/c			10000
	(Being Drawn on Q)			
01-08-2020	Bank A/c Dr.		9800	
	Discount A/c Dr.		200	
	To Bills Receivable A/c			10,000
	(Being discounting of bill)			

Date	Particulars	LF	Debit	Credit
04-11-20	Q A/c…….Dr		10000	
	To Bank A/c			10000
	(Being the bill cancelled up due to Q's inability to pay it)			
04-11-20	Q A/c….Dr		240	
	To Interest A/c			240
	(Being Interest on Renewed Bill			

Date	Particulars	LF	Debit	Credit
4-11-20	Cash A/c….Dr		2240	
	To Q A/c			2240
	(Being Part Payment received)			
01-08-20	Bills Receivable A/c….Dr		8000	
	To Q A/c			8000
	(Being Drawn on Q)			

Date	Particulars	LF	Debit	Credit
31-12-20	Q A/c…….Dr		8000	
	To Bills Receivable A/c			8000
	(Being Bill Dishonored Due to Insolvency)			
31-12-20	Bank A/c…..Dr		3200	
	Bad Debts A/c….Dr		4800	
	To Q A/c			8000
	(Being Final Dividend received from Q's Estate)			

ILLUSTRATION 3 – PYP DEC 2021 (10 MARKS)

On 12th May, 2020 A sold goods to B for Rs. 36,470 and drew upon the later two bills one for Rs. 16,470 at one month and the other for Rs. 20,000 at three months. B accepted both the bills.

On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay Rs. 20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay Rs. 8,020 in cash and accept a new bill at 3 months for Rs. 12,480 which included interest for postponement of the part payment of the dishonored bill. A immediately sent new acceptance to it's bank for collection on the due date.

On 1st October, 2020 B approached A offering Rs. 12,240 for retirement of his acceptance. A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

In The Books of A
Journal Entries

Date	Particulars	LF	Debit	Credit
12-5-20	B's A/c…..Dr		36470	
	To Sales A/c			36470
	(Being Goods Sold			
12-5-20	Bills Receivable 1 A/c….Dr		16470	
	Bills Receivable 2 A/c….Dr		20000	
	To B's A/c			36470
	(Being Bills Drawn			

Date	Particulars	LF	Debit	Credit
5-6-20	Bill For Collection A/c….Dr		36470	
	To Bills Receivable 1 A/c			16470
	To Bills Receivable 2 A/c			20000
	(Being Bill Sent To Bank For Collection)			
15-6-20	Bank A/c…..Dr		16470	
	To Bill For Collection A/c			16470
	(being First Bill Honored)			

Date	Particulars	LF	Debit	Credit
14-8-20	B's A/c…..Dr		20020	
	To Bill For Collection A/c			20000
	To Bank A/c			20
	(Being 2nd Bill Disohonor on Due Date)			
16-8-20	B's A/c….Dr		480	
	To Interest A/c			480
	(Being Interest Receivable on Renewal of Bill)			

Date	Particulars	LF	Debit	Credit
16-8-20	Bank A/c…..Dr		8020	
	To B's A/c			8020
	(Being Part payment Received)			
16-8-20	Bills Receivable 3 A/c….Dr		12480	
	To B's A/c			12480
	(Being New Bill Drawn)			

Date	Particulars	LF	Debit	Credit
16-8-20	Bill For Collection A/c…Dr		12480	
	To Bills Receivable 3 A/c			12480
	(Being Bill Sent To Bank For Collection)			
1-10-20	Bank A/c….Dr		12240	
	Rebate A/c…Dr		240	
	To Bill For Collection A/c			12480
	(Being Bill Retired)			

ILLUSTRATION 4 - SM

X draws on Y a bill of exchange for Rs 30,000 on 1st April, 2020 for 3 months. Y accepts the bill and sends it to X who gets it discounted for Rs 28,800. X immediately remits Rs 9,600 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for Rs 42,000 for three months which is discounted by Y for Rs 40,110. Y sends Rs 6,740 to X. Before the maturity of the bill X becomes bankrupt, his estate paying fifty paise in the rupee. Give the journal entries in the books of X and Y.

Working Note

Ascertainment of Discount to Be Borne By Parties to Bill of Exchange

In The Books of X
Journal Entries

Date	Particulars	LF	Debit	Credit
01-04-2020	Bills Receivable A/c Dr.		30,000	
	To Y A/c			30,000
	(Being acceptance received for Mutual accomodation)			
01-04-2020	Bank A/c Dr.		28,800	
	Discount A/c Dr.		1,200	
	To Bills Receivable A/c			30,000
	(Being discounting of bill)			

Date	Particulars	LF	Debit	Credit
01-04-2020	Y A/c Dr.		10,000	
	To Cash/Bank A/c			9,600
	To Discount A/c			400
	(Being 1/3 proceeds of the bill transfer to the Y's A/c)			
04-07-2020	Y A/c Dr.		42,000	
	To Bills Payable A/c			42,000
	(Being acceptance of bill given)			

Date	Particulars	LF	Debit	Credit
04-07-2020	Cash/Bank A/c Dr.		6,740	
	Discount A/c Dr.		1,260	
	To Y A/c			8,000
	(Being amount received from Y against 2nd Bill)			
	Bills Payable A/c Dr.		42,000	
	To Y A/c			42,000
	(Being dishonour of bill due insolvency)			

Date	Particulars	LF	Debit	Credit
	Y A/c Dr.		28,000	
	To Bank A/c			14,000
	To Deficiency A/c			14,000
	(Being Final Settlement at 50 Paise in A Rupee due to Insolvency)			

In The Books of Y
Journal Entries

Date	Particulars	LF	Debit	Credit
01-04-2020	X A/c……Dr		30,000	
	To Bills Payable			30,000
	(Being acceptance Given for Mutual accomodation)			
01-04-2020	Cash/Bank A/c…..Dr		9,600	
	Discount A/c…..Dr		400	
	To X A/c			10,000
	(Being Proceeds Received from X and Share of Discount			

Date	Particulars	LF	Debit	Credit
04-07-2020	Bills Recievable A/c…..Dr		42,000	
	To X A/c			42,000
	(Being Bill Drawn on X)			
04-07-2020	Bank A/c……Dr		40,110	
	Discount A/c…..Dr		1,890	
	To Bills Recievable A/c			42,000
	(Being Bill Discounted with Bank)			

Date	Particulars	LF	Debit	Credit
	X A/c….Dr		8,000	
	To Discount A/c			1,260
	To Cash/Bank A/c			6,740
	(being 6740 Paid to X After Discounting of 2nd Bill)			
	Bills Payable A/c…..Dr		30,000	
	To Cash/Bank A/c			30,000
	(Being First Bill Honored)			

Date	Particulars	LF	Debit	Credit
	X A/c….Dr		42,000	
	To Bank A/c			42,000
	(Being Bill Dishonored Due to Insolvency)			
	Cash/Bank A/c…Dr		14,000	
	Bad Debts A/c….Dr		14,000	
	To X A/c			28,000
	(Being Final Settlement at 50 Paise in A Rupee due to Insolvency)			

ILLUSTRATION 5 - SM

Anil draws a bill for ₹9,000 on Sanjay on 5th April, 2019 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for ₹ 8,820 on 8th April, 2019 and remits one-third amount to Sanjay. On the due date Anil fails to remit the amount due to Sanjay, but he accepts a bill for ₹12,600 for three months, which Sanjay discounts it for ₹ 12,330 and remits ₹ 2,220 to Anil. Before the maturity of the renewed bill Anil becomes insolvent and only 50% was realized from his estate on 15th October, 2019.

Pass necessary Journal entries for the above transactions in the books of Anil.

Working Note
Ascertainment of Discount to Be Borne By Parties to Bill of Exchange

In The Books of Anil
Journal Entries

Date	Particulars	LF	Debit	Credit
05-04-2019	Bills Receivable A/c Dr.		9,000	
	To Sanjay's A/c			9,000
	(Being acceptance received for material accomodation)			
08-04-2019	Bank A/c Dr.		8,820	
	Discount A/c Dr.		180	
	To Bills Receivable A/c			9,000
	(Being discounting of bills)			

Date	Particulars	LF	Debit	Credit
08-04-2019	Sanjay's A/c Dr.		3,000	
	To Bank A/c			2,940
	To Discount A/c			60
	(Being 1/3 proceeds of the bill transfer to the Sanjay's A/c)			
08-07-2019	Sanjay's A/c Dr.		12,600	
	To Bills Payable A/c			12,600
	(Being acceptance of bill given)			

Date	Particulars	LF	Debit	Credit
08-07-2019	Bank A/c Dr.		2,220	
	Discount A/c Dr.		180	
	To Sanjay's A/c			2,400
	(Being amount received from sanjay against 2nd Bills)			
11-10-2019	Bills Payable A/c Dr.		12,600	
	To Sanjay's A/c			12,600
	(Being dishonour of bill due insolvency)			

Date	Particulars	LF	Debit	Credit
15-10-2019	Sanjay's A/c Dr.		8,400	
	To Bank A/c			4,200
	To Deficiency A/c			4,200
	(Being @50% of (Rs.6,000+2,400) paid to Sanjay)			

ILLUSTRATION 6 - PYP NOV 2020 (10 MARKS)

Suresh draws a bill for ₹15,000 on Anup on 15th April, 2020 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October, 2020.

Pass necessary Journal entries for the above transactions in the books of Suresh.

Working Note
Ascertainment of Discount to Be Borne By Parties to Bill of Exchange

In The Books of Suresh
Journal Entries

Date	Particulars	LF	Debit	Credit
15-04-2020	Bills Receivable A/c Dr.		15000	
	To Anup A/c			15000
	(Being acceptance received)			
15-04-2020	Bank A/c Dr.		14700	
	Discount A/c Dr.		300	
	To Bills Receivable A/c			15000
	(Being discounting of bills)			

Date	Particulars	LF	Debit	Credit
18-04-2020	Anup's A/c Dr.		5000	
	To Bank A/c			4900
	To Discount A/c			100
	(Being 1/3 proceeds of the bill transfer to the Anup A/c			
18-07-2020	Anup A/c Dr.		17500	
	To Bills Payable A/c			17500
	(Being acceptance of bill given)			

Date	Particulars	LF	Debit	Credit
18-07-2020	Bank A/c Dr.		2825	
	Discount A/c Dr.		300	
	To Anup A/c			3125
	(Being amount received from sanjay against 2nd Bills)			
21-10-2020	Bills Payable A/c Dr.		17500	
	To Anup A/c			17500
	(Being dishonour of bill due insolvency)			

Date	Particulars	LF	Debit	Credit
31-10-2020	Anup's A/c Dr.		13125	
	To Bank A/c			6563
	To Deficiency A/c			6562
	(Being Final Dividend Paid)			

ILLUSTRATION 7 - RTP MAY 2021

Prepare Journal entries for the following transactions in Samarth's books.

(i) Samarth's acceptance to Aarav for ₹ 1,250 discharged by a cash payment of ₹ 500 and a new bill for the balance plus ₹ 25 for interest.

(ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Samarth to Sahni was dishonoured. Sahni paid ₹ 20 noting charges. Bill withdrawn against cheque.

(iii) Harshad retires a bill for ₹ 5,000 drawn on him by Samarth for ₹ 20 discount.

(iv) Samarth's acceptance to Patel for ₹ 19,000 discharged by Sandeep Chadha's acceptance to Samarth for a similar amount.

Books of S. Samarth

Journal Entries

(i)	Bills Payable Account	Dr.	1,250	
	Interest Account	Dr.	25	
	To Cash A/c			500
	To Bills Payable Account			775
	(Bills Payable to Aarav discharged by cash payment of ₹ 500 and a new bill for ₹1,250 including ₹ 25 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To Sahni			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to Sahni dishonoured, ₹ 20 paid by Sahni as noting charges)			
	(b) Sahni	Dr.	4,020	
	To Bank Account			4,020
	(Payment to Sahni on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	4,980	
	Discount Account	Dr.	20	
	To Bills Receivable Account			5,000
	(Payment received from Harshad against his acceptance for ₹ 5,000. Allowed him a discount of ₹ 20)			
(iv)	Bills Payable Account	Dr.	19,000	
	To Bills Receivable Account			19,000
	(Bills Receivable from Patel endorsed to Sandeep in settlement of bills payable issued to him earlier)			

ILLUSTRATION 8 - SM

On 1st July, 2019 Gorge drew a bill for ₹ 1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth ₹ 1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2019, Jack purchased goods worth ₹ 1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ₹ 9,000 in full settlement of the amount due to Harry. On 1st October, 2019, Harry purchased goods worth ₹ 2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry and Gorge.

In The Books of Harry
Journal Entries

Date	Particulars	LF	Debit	Credit
01-07-2019	Gorge A/c Dr.		1,80,000	
	To Bills Payable A/c			1,80,000
	(Being Acceptance of bill drawn by Gorge)			
01-09-2019	Jack A/c Dr.		1,90,000	
	To Sales A/c			1,90,000
	(Being Sales made to Jack)			

Date	Particulars	LF	Debit	Credit
01-09-2019	Bills Receivable A/c Dr.		1,80,000	
	Cash/Bank A/c Dr.		9,000	
	Discount A/c Dr.		1,000	
	To Jack's A/c			1,90,000
	(Being Acceptance received from Jack's endorsment of bill received from George for Rs.180000 & 9000 received in full settlement of the amount due)			

Date	Particulars	LF	Debit	Credit
01-09-2019	Bills Payable A/c Dr.		1,80,000	
	To Bills Receivable A/c			1,80,000
	(Being Own Acceptance received from Jack's Endorsement Cancelled)			
01-10-2019	Purchase A/c Dr.		2,00,000	
	To Gorge A/c			2,00,000
	(Being Purchase made from Gorge)			

Date	Particulars	LF	Debit	Credit
01-10-2019	Gorge A/c Dr.		20,000	
	To Bank A/c			20,000
	(Being Amount paid to Gorge after adjustment of Rs.180000 for accommodation extended to him)			

In The Books of Gorge
Journal Entries

Date	Particulars	LF	Debit	Credit
01-07-2019	Bills Receivable A/c……Dr		1,80,000	
	To Harry A/c			1,80,000
	(Being Bill drawn on harry Accepted by Him)			
01-07-2019	Purchase A/c….Dr		1,81,000	
	To Jack A/c			1,81,000
	(Being Good Purchased)			

Date	Particulars	LF	Debit	Credit
01-07-2019	Jack A/c…..Dr		1,81,000	
	To Discount A/c			1000
	To Bills Receivable A/c			1,80,000
	(Being Bill Endorsed in Full Settlement to Jack)			
01-10-2019	Harry A/c....Dr		200000	
	To Sales A/c			200000
	(being goods Sold)			

Date	Particulars	LF	Debit	Credit
01-10-2019	Bank A/c….Dr		20000	
	To Harry A/c			20000
	(being Amount Due received from Harry)			

CONSIGNMENT

CONSIGNMENT – MEANING , PARTIES & EXAMPLE

MEANING

Consignment means the transaction of sending goods by one person to another, who is to sell those goods on behalf of the first person.

PARTIES TO CONSIGNMENT

The person who sends the goods is known as 'Consignor' the person to whom the goods are sent is known as 'Consignee'. The legal relationship between these two persons is that of principal and agent.

EXAMPLE

If 'X' sends goods to 'Y' for sale on his behalf ,'X' is known as consignor or principal and 'Y' is known as consignee or agent.

DISTINCTION BETWEEN SALE & CONSIGNMENT

SR. NO	SALE	CONSIGNMENT
1	Ownership is transferred from seller to buyer.	Ownership rests with the consignor till the goods are sold by the consignee.
2	The relationship of the parties is of a seller and buyer.	The relationship of the parties is of a principal and agent
3	Sale Invoice is prepared by seller	Proforma Invoice is prepared by consignor.
4	Buyer is liable to pay amount mentioned in the sales invoice	Consignee is not liable to pay amount mentioned in the Proforma Invoice
5	Buyer bears the loss if any after the delivery of goods	Consignor bears the loss of goods held by consignee.
6	Buyer can return the goods to the seller only if the terms of sales so provides.	Consignee can return the unsold goods to the consignor.

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 –

- **Ordinary Commission**
- **Del-Credere Commission**
- **Over-Riding Commission**

ORDINARY COMMISSION

The term 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.

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 consignee to provide it on credit sales only.

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.

SPECIAL TERMS – INVOICE PRICE

Whenever the goods are consigned by the consignor to the consignee, a document indicating value of consignment is sent. This document is known as 'Proforma Invoice'. It is like a regular invoice. However, as the consignee does not buy the goods on his own account, he is not liable to pay the amount mentioned in the Proforma Invoice. The Proforma Invoice is prepared either at cost or at inflated cost.

It may also be noted that invoice price need not necessarily be same as selling price unless the consignor directs the consignee to sell the goods at the invoice price itself.

SPECIAL TERMS – LOADING

Quite often the goods are consigned by the consignor to the consignee at inflated cost. The difference between invoice price and cost price is known as loading. This is usually done not to divert business secrets.

Invoice price = Cost price + Loading

Loading = Invoice price – Cost price

Cost Price = Invoice price – Loading

Loading is expressed as certain % of cost or % of invoice price

ACCOUNT SALES

An account sale is the periodical summary statement sent by the consignee to the consignor. It is a summary statement and is different from sales account.
It contains details regarding -

1. **Sales made**
2. **Expenses incurred on behalf of the consignor,**
3. **Commission earned,**
4. **Unsold stock left with the consignee,**
5. **Advance payment or security deposited with the consignor and the extent to which it has been adjusted,**
6. **Balance payment due to or remitted.**

VALUATION OF STOCK WITH CONSIGNEE

Unsold goods lying with the consignee at the close of the financial year are valued and brought into account before ascertainment of profit/loss on consignment. The goods are valued on the well accepted principle of **"Cost or Net realizable Value whichever is Lower"** . The word 'Cost' is interpreted as cost inclusive of proportionate non- recurring expenses e.g. loading charges, freight, transit insurance, unloading charges, custom duty. All the expenses incurred by the consignor are of this nature. However consignee incurs recurring as well as non-recurring expenses. Recurring expenses are incurred while the consignment is being disposed off and these expenses do not increase the valuation of goods e.g. Godown rent, Advertisement, Salaries of salesman, Office expenses etc.

VALUATION OF STOCK WITH CONSIGNEE

Cost Price + Proportionate expenses of consignor + Proportionate non recurring expenses of consignee

Cost

Cost as Per AS-2.

Non Recurring Expenses of Consignee

Expenses exclusively incurred for Consignment.

Ex – loading charges, freight, transit insurance, unloading charges, custom duty

Recurring Expenses of Consignee

Recurring expenses are incurred while the consignment is being disposed off and these expenses do not increase the valuation of goods.

Ex - Godown rent, Advertisement, Salaries of salesman, Office expenses etc.

VALUATION OF GOODS IN TRANSIT

If Consignment goods are in transit, the valuation is done like stock with consignee. However this stock valuation will include consignor's proportionate expenses only. Consignee's expenses are not attributable to goods in transit. Hence consignee's proportionate non recurring expenses are not included in valuation of goods in transit.

TREATMENT OF ABNORMAL LOSS IN CONSIGNMENT

A loss which could have been avoided or which is within the control or would have been reduced is known as Abnormal Loss. This loss is accidental or may arise due to carelessness e.g. theft of goods, goods destroyed or damaged by fire, goods damaged due to bad packing.

As the losses are controllable and of a non recurring nature it is treated as abnormal loss and written off to Profit and loss account directly. In other words, such loss neither affects the value of goods nor the profits on consignment. The abnormal loss can occur when goods are in transit or at Consignee's place.

VALUATION OF ABNORMAL LOSS AND JOURNAL ENTRY

Cost of the goods lost due to abnormal loss	Xxxx
Add : Proportionate expenses of consignor	xxxx
Sub Total	**xxxx**
Add : Proportionate non-recurring expenses of consignee (if abnormal loss occurs at consignee's end)	xxxx
Value of abnormal Loss	**xxxx**

Note : If goods are lost in transit consignee's,expenses are not attributable thereto and hence consignee's proportionate non recurring expenses are not considered for valuation of loss in transit.

The Accounting entry for Abnormal Loss is –

Abnormal Loss A/c (Net Loss) …....Dr

Insurance Claim A/c (Claim Admitted) ….Dr

To Consignment A/c (Total Loss)

TREATMENT OF NORMAL LOSS IN CONSIGNMENT

A loss which is inherent or unavoidable or beyond control is known as 'Normal Loss'. E.g. conversion of coal into dust, evaporation of liquids, normal leakage etc. As the loss is uncontrollable and of a recurring nature it is treated as consignment loss. While calculating the cost of the stock on hand, the cost of normal loss should be spread on goods sold as well as on stock

Example : 10,000 liters of chemical is consigned @ Rs.25 per litres , freight being Rs. 5,000. Suppose a normal wastage is 100 litres , if the quantity unsold at the end of the year is 1980 litres. The valuation of stock will be-

$$\frac{\text{Rs. } 2{,}50{,}000 + \text{Rs. } 5{,}000}{10{,}000 \text{ ltrs} - 100 \text{ ltrs}} \times 1980 \text{ Ltrs}$$

= Rs 2,55,000/9,900 X 1980ltrs = Rs. 51,000

Thus, normal loss affects stock valuation.
Separate accounting entry to account for normal loss is not required.

FORMAT OF CONSIGNMENT A/C IN BOOKS OF CONSIGNOR

CONSIGNMENT ACCOUNT

PARTICULARS	Rs.	PARTICULARS	Rs.
To Goods sent on Consignment	xxx	By Consignee's A/c (Sale Proceeds)	xxx
To Bank A/c (Consignor's Expenses)	xxx	By Goods damaged-in-transit A/c (Cost)	xxx
To Consignee's A/c (Expenses) Unloading Expenses Landing & Clearing Transport upto godown Godown Rent Establishment Expenses Selling & Distribution Expenses Advertisement Expenses	xxx	By Goods destroyed by Fire A/c(Cost) **By Consignment stock A/c** In hand In transit By Goods sent on Consignments A/c [Loading on Goods Sent] * By Loss T/f to p&L A/c	xxx xxx xxx xxx
To Consignee's A/c (Bad Debts) [where consignee does not get DCC)	xxx		
To Consignee's A/c (Comm) Normal Commission @ Del Credere Commision @ Over- riding Commission @	xxx		
To Consignment Stock Reserve A/c [Loading on closing stock]	xxx		
*To Profit T/f to P&L A/c	xxx		
	xxx		**xxx**

ILLUSTRATION 1 – Study Material

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 ₹ 1,400 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.

In The Books of Shri Mehta.
Consignment A/c

Particulars	Amount	Particulars	Amount
To Goods Sent on Consignment (1000*1000)	1000000	By Sundaram A/c (Sales)(700*1400)	9,80,000
To Cash/Bank A/c		By Abnormal Loss (WN 1)	52,500
Carriage	10,000	**By Consignment Stock**	
Freight	30,000	In Transit	1,05,000
Loading Charges	10,000	With Consignee	1,59,000
To Sundaram A/c			
Clearing Charges	8,500		
Warehousing & Storage Charges	17,000		
Packing & Selling Expenses	6,000		
To Sunadaram A/c (Commission) (980000*10%)	98,000		
To Profit & Loss A/c	1,17,000		
	12,96,500		**12,96,500**

Sundaram A/c

Particulars	Amount	Particulars	Amount
To Consignment A/c (Sales)	9,80,000	By Consignment A/c (Expenses)	31,500
		By Consignment A/c (Commission)	98000
		By Bal C/d (Bal Fig)	8,50,500
	9,80,000		**9,80,000**

Working Notes
1. Calculation of Cost of Abnormal Loss in Transit

Sr.No	Particulars	Amount
A	Basic Cost of Goods Lost in Transit (50 Cases* 1000 Per Case)	50000
B	Add - Proportionate Expenses of Consignor (50000/1000*50)	2500
C	Total Cost of abnormal Loss in Transit (A+B)	52500

2. Calculation of Cost of Stock Still In transit

Sr.No	Particulars	Amount
A	Basic Cost of Goods Still in Transit (100 Cases* 1000 Per Case)	100000
B	Add - Proportionate Expenses of Consignor (50000/1000*100)	5000
C	Total Cost of goods Still in Transit (A+B)	105000

3. Calculation of Cost of Closing Stock lying With Consignee

Sr.No	Particulars	Amount
A	Basic Cost of Goods Lying With Consignee (150 Cases * 1000 Per Case)	150000
B	Add - Proportionate Expenses of Consignor (50000/1000*150)	7500
C	Add - Proportionate Non Recurring Expenses of Consignee (8500/850*150)	1500
D	Total Cost of Goods Lying With Consignee (A+B+C)	159000

ILLUSTRATION 2

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.

In The Books of X (Consignor)
Consignment A/c

Particulars	Amount	Particulars	Amount
To Goods Sent on Consignment A/c	150000	By Y's A/c (Sales)	160000
To Bank A/c		By Goods Sent on Consignment (Loading)	50,000
Freight	5,000	By Consignment Stock (WN 2)	27,990
Packing etc	500		
To Y's A/c (Selling Expenses)	2,000		
To Y's A/c (Commission) (WN 1)	16,000		
To Stock Reserve (WN 2)	9,000		
To Profit & Loss A/c	55,490		
	237990		**237990**

Trading & Profit & Loss A/c

Particulars	Amount	Particulars		Amount
To Purchases A/c	2,00,000	By Goods Sent on Consignment		1,00,000
		By Sales		90,000
To Gross Profit c/d	26,000	By Stock in hand	40,000	
		Less: 10%	4,000	36,000
	2,26,000			**2,26,000**
To Expenses & Commission	3,000	By Gross profit b/d		26,000
		By Consignment A/c (profit)		55,490
To Net Profit	78,490			
	81,490			**81,490**

Working Notes

1. Calculation of Commission

Sales = 160000
Sales at Specified Selling Price = 4000*30 = 120000
Surplus = 40000
Commission = 5% of total Sales + 20% of surplus
= 5% of 160000 + 20% of 40000
= 8000 + 8000
= 16000

2. Calculation of value of Closing Inventories at IP & Cost and Stock reserve on It

Sr.No	Particulars	Amount
A	IP of Goods in Stock (1000 Metres * 30)	30000
B	Add - Consignor Proportionate Expenses (5500/5000*1000)	1100
C	Total Value of Stock at IP (A+B)	31100
D	Total Value of Stock at IP as reduced by 10% (31100*90%)	27990
E	Cost of Goods in Stock (1000 Metres * 20)	20000
F	Add - Consignor Proportionate Expenses (5500/5000*1000)	1100
G	Total Value of Stock at Cost (E+F)	21100
H	Total Value of Stock at cost as reduced by 10% (21100*90%)	18990
I	Stock Reserve (D-H)	9000

ILLUSTRATION 3 - RTP MAY 2021

Mr. Divik of Jaipur purchased, 5,000 pieces of sarees at ₹ 500 per saree. Out of these 3,000 sarees were sent on consignment to Mr. Manoj of Pillani at the selling price of ₹ 600 per saree. The consignor paid ₹ 30,000 for packing and freight. Mr. Manoj sold 2,500 sarees at ₹ 625 per saree and incurred ₹ 10,000 for selling expenses and remitted ₹ 5,00,000 to Jaipur on account of Mr. Divik. Mr. Manoj is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

You are required to prepare Consignment Account in the books of Mr. Divik and Mr. Divik's account in the books of agent Mr. Manoj.

In The Books of Mr. Divik

Consignment A/c

Particulars	Amount	Particulars	Amount
To Goods Sent on Consignment A/c	1800000	By Manoj A/c (Sales)	1562500
To Cash/Bank A/c (Exp)	30000	By Goods Sent on Consignment A/c (Loading)	300000
To Manoj A/c (Selling Exp)	10000	By Consignment Stock A/c (WN 2)	305000
To Manoj A/c (Commission) (WN 1)	90625		
To Inventory Reserve (WN 2)	50000		
To Profit Transferred To P/L A/c	186875		
	2167500		**2167500**

In The Books of Mr, Manoj
Divik A/c

Particulars	Amount	Particulars	Amount
To Bank A/c (Selling Exp)	10000	By Cash/Bank A/c (Sales)	1562500
To Commission A/c	90625		
To Bank A/c	500000		
To Balance C/d (BF)	961875		
	1562500		**1562500**

Working Notes

1. Calculation of Commission

Total Sales = 1562500
Sales at IP = 2500*600 = 1500000
Surplus = 62500

Commission = 5% of 1562500 + 20% of 62500
= 78125 + 12500
= 90625

2. Calculation of value of Closing Inventories at IP & Cost and Stock reserve on It

Sr.No	Particulars	Amount
A	IP of Goods Lying With Consignee (500*600)	300000
B	Add – Proportionate Expenses of Consigner (30000/3000*500)	5000
C	Total IP of Goods Lying With Consignee (A+B)	305000
D	Cost of Goods Lying With Consignee (500*500)	250000
E	Add – Proportionate Expenses of Consigner (30000/3000*500)	5000
F	Total Cost of Goods Lying With Consignee (D+E)	255000
G	Inventory Reserve (C-F)	50000

ILLUSTRATION 4 – Study Material

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 effected 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 fire 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.

In The Books of Ajay
Consignment to Vijay A/c

Particulars	Amount	Particulars	Amount
To Goods Sent on Consignment A/c (WN 1)	125000	By Goods Sent on Consignment A/c	25,000
To Cash A/c	10,000	By Abnormal Loss (WN 2)	11,000
To Vijay (Expenses)	8,000	By Vijay (Sales)	1,00,000
To Vijay (Commission) (WN 4)	10,938	By Consignment Stock (WN 3)	20250
To Inventories/Stock Reserve A/c	3,750		
		By Profit & Loss A/c	1,438
	1,57,688		1,57,688

Vijay A/c

Particulars	Amount	Particulars	Amount
To Consignment A/c	1,00,000	By Consignment A/c	8,000
		By Consignment A/c	10,938
		By Bank A/c (Bal Fig)	81,062
	1,00,000		**1,00,000**

Working Notes

1. Calculation of Value of Goods Sent on Consignment

Abnormal Loss at Invoice Price = 12500
Abnormal Loss as a percentage of total Consignment = 10%
Hence the value of goods sent on consignment = 12500/10% = 125000
Loading of goods sent on consignment = 125000/125*25 = 25000

2. Calculation of Cost of Abnormal Loss

Sr.No	Particulars	Amount
A	Cost of Goods Sent (125000/125*100) * 10%	10000
B	Add - Consignor Proportionate Expenses (10000*10%)	1000
C	Cost of Abnormal Loss (A+B)	11000

3. Calculation of value of Closing Inventories at IP & Cost and Stock reserve on It

Sr.No	Particulars	Amount
A	IP of Goods in Stock (125000* 15%)	18750
B	Add - Consignor Proportionate Expenses (10000*15%)	1500
C	Total Value of Stock at IP (A+B)	20250
D	Cost of Goods in Stock (100000* 15)%	15000
E	Add - Consignor Proportionate Expenses (10000*15%)	1500
F	Total Value of Stock at Cost (D+E)	16500
G	Stock Reserve (C-F)	3750

4. Calculation of Commission

Total Selling price = 100000
IP of Goods Sold = 125000*75% = 93750
Surplus = 100000-93750 = 6250
Comission = 10% of Sales at IP + 25% of Surplus
= 10% of 93750 + 25% of 6250
= 9375 + 1563
= 10938

ILLUSTRATION 5 – Study Material

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 fixed 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.

In The Books of Vikram Milk foods Co. Ltd (Consignor)
Consignment A/c

Particulars		Amount	Particulars		Amount
To Goods Sent on Consignment A/c			**By Sunder Stores (Sales)**		
2000 Tins of 1 Kg (2000*10)	20000		Tins of 1 Kg (1500*15)	22500	
6000 Packets of 1/2 Kg (6000*6)	36000	56000	Packets of 1/2 Kg (4000*7)	28000	50500
To Sunder Stores (freight) (WN 1)		1440	By Abnormal Loss A/c (WN 2)		515
To Sunder Stores (Store Rent & Insurance)		600	By Consignment Stock A/c (WN 3)		16915
To Sunder Stores (Commission)		2525			
To Profit & Loss A/c		7,365			
		67930			**67930**

Sundar Stores A/c (Consignee)

Particulars	Amount	Particulars	Amount
To Consignment A/c (Sales)	50500	By Consignment A/c (Freight)	1,440
		By Consignment A/c (Store Rent & Insurance)	600
		By Consignment A/c (Commission)	2525
		By Bank A/c (Bal Fig)	45,935
	50500		**50500**

Working Notes

1. Calculation of Total Sale Value of all Goods & Amount of Freight

Total Sale value = (2000 Tins of 1 Kg *15 Per Tin) + (6000 Packets of 1/2 kg * 7 Per Packet)
= 30000 + 42000
= 72000
Freight = 2% of 72000
Freight = 1440

2. Calculation of Cost of Abnormal Loss

Sr.No	Particulars	Amount
A	Cost of Goods 1kg tins lost in transit (50 Tins * 10)	500
B	Add - Proportionate Expenses of Consignor [1440/72000* (50 Tins * 15)]	15
C	Total Cost of abnormal Loss (A+B)	515

3. Calculation of value of Closing Inventories at Cost

Sr.No	Particulars	Amount
A	Cost of 450 1 kg Tins (450 Tins*10)	4500
B	Cost of 2000 1/2 kg packets (2000*6)	12000
C	Add - Proportionate Expenses of Consignor for 450 Tins [1440/72000* (450 Tins * 15)]	135
D	Add - Proportionate Expenses of Consignor for 2000 Packets [1440/72000* (2000 Tins * 7)]	280
E	Total Cost of Goods In Stock (A+B+C+D)	16915

ILLUSTRATION 6 - PYP NOV 2018 (10 MARKS)

Raj of Gwalior consigned 15,000 kgs of Ghee at ₹ 30 per kg to his agent Siraj at Delhi. He spent ₹ 5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. ₹ 9,000 was paid to consignor directly by the Insurance company as Insurance claim.

Siraj sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses.

You are required to calculate:

(i) The amount of abnormal loss

(ii) Value of stock at the end and

(iii) Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales.

In The Books of Raj
Consignment A/c

Particulars	Amount	Particulars	Amount
To Goods Sent on Consignment (15000*30)	450000	By Siraj A/c (Sales) (7500*60)	4,50,000
To Cash/Bank A/c (Freight & Insurance) (15000*5)	75,000	By Abnormal Loss	14,000
To Siraj A/c (Advertisement & Rec Exp)	33,000	By Consignment Stock	246690
To Siraj A/c (Commission) (450000*5%)	22,500		
To Profit & Loss Account	1,30,190		
	7,10,690		7,10,690

Calculation of Amount of Abnormal Loss

Sr.No	Particulars	Amount
A	Basic Cost of Goods Destroyed in Transit (400 Kg * 30)	12000
B	Add - consignor's Proportionate Expenses (400 kg * 5)	2000
C	Total Abnormal Loss (A+B)	14000

Calculation of value of Stock at End

Sr.No	Particulars	Units	Amount
A	Cost of Goods Sent	15,000	450000
B	Add - Proportionate Expenses of Consignor		75,000
C	Total Cost of Goods Sent (A+B)	15,000	525000
D	Less - Abnormal Loss (525000/15000*400)	400	14,000
E	Less - Normal Loss	100	-
F	Cost of Goods reached With Consignee (C-D-E)	14500	5,11,000
G	Cost of Goods Lying With Consignee (511000/14500*7000)	7,000	2,46,690

ILLUSTRATION 7 – Old CA Foundation

M of Mathura consigned 5,000 kg. of oil costing Rs. 20 per kg. to S of Surat. M paid Rs. 25,000 as Freight and Insurance. 125 kg. of oil was destroyed in transit. The insurance claim was settled at Rs. 2,250 and was paid directly to the consignor. S took delivery of consignment and accepted a bill drawn upon him by M for Rs 50,000. S reported as follow:

A) 3,750 kg. of oil was sold at Rs. 30 per kg.
B) His expenses were – Godown rent Rs. 10,000; Wages Rs. 1,000; Printing and Stationery Rs. 5,000.
C) 125 kg. of oil was lost due to leakage, which is quite normal.

S is entitled to a commission of 5% on the sales effected. S paid the amount due in respect of the consignment. Show the Consignment Account, the Account of S and Abnormal Loss Account in the books of M.

In The Books of M
Consignment A/c

Particulars	Amount	Particulars	Amount
To Goods Sent on Consignment (5000*20)	100000	By S A/c (3750*30)	1,12,500
To Cash/Bank A/c (Freight & insurance)	25,000	By Abnormal Loss (WN 1)	3,125
To S A/c		By Consignment Stock A/c (WN 2)	25658
Godown Rent	10,000		
Wages	1,000	By Profit & Loss A/c	5,342
Printing & Stationary	5,000		
To S A/c (Commission) (112500*5%)	5,625		
	1,46,625		**1,46,625**

S A/c

Particulars	Amount	Particulars	Amount
To Consignment A/c (Sales)	1,12,500	By B/R A/c	50,000
		By Consignment A/c (Expenses)	16,000
		By Consignment A/c (Commission)	5625
		By Cash/Bank A/c (Bal Fig)	40,875
	1,12,500		**1,12,500**

Abnormal Loss A/c

Particulars	Amount	Particulars	Amount
To Consignment A/c	3,125	By Bank A/c	2,250
		By P/L A/c (Bal Fig)	875
	3,125		**3,125**

WN 1 - Calculation of Amount of Abnormal Loss

Sr.No	Particulars	Amount
A	Basic Cost of Oil (125Kg * 20 Per Kg)	2500
B	Add - Proportionate Expenses of Consignor (25000/5000*125)	625
C	Total Cost of abnormal Loss (A+B)	3125

WN 2 - Calculation of value of Stock at End

Sr.No	Particulars	units	Amount
A	Cost of Goods Sent to Consignee (5000*20)	5000	100000
B	Add - Expenses of Consignor	-	25000
C	Total Cost of 5000 Kg of oil Sent (A+B)	5000	125000
D	Less - Abnormal Loss in Transit	125	3125
E	Total Cost of 4875 Kg of Oil received by Consignee (C-D)	4875	121875
F	Less – Normal Loss at Consignee’s Godown	125	-
G	Total Cost of Goods Available for Sale	4750	121875
H	Cost of 1000 Kg of Oil Lying With Consignee after Sales & Normal Loss (121875/4750*1000)	1000	25658

ILLUSTRATION 8

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, 2020, 1,000 cycles were consigned to A, each cycle costing ₹ 640 including freight and invoiced at ₹ 800.

Before 31st March, 2020, (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.

In The Books of A (Consignee)

D's A/c

Date	Particulars	Amount	Date	Particulars	Amount
01-02-2020	To Bill Payable A/c (80% of Rs.8,00,000)	640000	31-03-2020	By Cash/Bank A/c (820xcycles x Rs.930)	7,62,600
31-03-2020	To Cash/Bank A/c (Expenses)	12,500			
31-03-2020	To Commission A/c	70,520			
31-03-2020	To Bank A/c (Bal Fig)	39,580			
		7,62,600			**7,62,600**

Bills Payable A/c

Date	Particulars	Amount	Date	Particulars	Amount
05-03-2020	To Cash/Bank A/c	640000	01-02-2020	By D's A/c	640000
		640000			**640000**

Working Notes

1. Calculation of Commission

Total Sales = 762600
IP of Goods Sold = 820*800 = 656000
Surplus = 106600
Commission = 7.50% of Sales at IP + 20% of surplus
= 7.50% of 656000 + 20% of 106600
= 49200 + 21320
= 70520

2. Calculation of Cost of Goods Lying With Consignee

Sr.No	Particulars	Amount
A	Cost of Normal Cycles Lying With Consignee (160 Cycles * 640 each)	102400
B	Cost of Shop Soiled Cycles Lying With Consignee (20 Cycles * 640 each)*50%	6400
C	Cost of Closing Stock to be shown in Books of D	108800

DEPRECIATION ACCOUNTING

DEPRECIATION - MEANING

Depreciation is a measure of wearing out consumption or other loss of the value of Depreciable Assets .

It may arise due to following reasons –

1. **Wear & tear Due to Use of Assets.**
2. **Effluxion of Time**
3. **Obsolescence of Assets, through market changes or Technology changes.**

DEPRECIATION - MEANING

Deprecation covers Depletion, amortization and obsolescence

Depletion – It means the physical deterioration or exhaustion of natural resources (like, oil wells, mines, quarries etc.)

Amortization – It means the economic deterioration by the expiration of intangible Assets (like patents, Copyrights, Goodwill etc.)

Obsolescence – It refers to economic deterioration by market changes or technology changes.

WHAT ARE DEPRECIABLE ASSETS

'Depreciable assets' are assets which –

1. **Are expected to be used during more than one accounting period; and**
2. **Have a limited useful life; and**
3. **Are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purpose and not for the purpose of sale in the ordinary course of business.**

OBJECTIVES OF CHARGING DEPRECIATION

1. **Correct income measurement.**
2. **To ascertain true and fair view of financial position.**
3. **To ascertain true cost of production.**
4. **To accumulate fund for replacement of assets.**
5. **To comply with legal requirement (As per Companies Act, depreciation must be charged before declaration of dividend)**

FACTORS TO BE CONSIDERED IN COMPUTATION OF DEPRECIATION

1. **Historical cost of** a depreciable asset implies the cost incurred on its acquisition, installation, commissioning and for additions to or improvements there of which are of capital nature.
2. **Useful life is** either (i) the period over which a depreciable asset is expected to be used by the enterprise: or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprises.
   Useful Life of assets is affected by following factors-
   wear tear;
   Obsolescence;
   Legal or other limits on the use of the assets.
3. **Estimated residual value of** a depreciable asset implies the value expected to be realized on its sale or exchange on the expiry of its useful life.

Thus , Total Depreciable amount = Cost – Scrap Value

METHODS OF PROVIDING DEPRECIATION

1. **Straight Line Method / Fixed Installment Method**
2. **Reducing Balance Method / Written Down Value Method**
3. **Sum of Years of Digit Method**
4. **Machine Hour Method**
5. **Production Units Method**
6. **Depletion Method**

STRAIGHT LINE METHOD/FIXED INSTALLMENT METHOD

According to this method , an equal amount is written off every year during the working life of an asset so as to reduce the cost of the asset to Nil or its residual value at the end of its useful life.

Amount of Depreciation = $\dfrac{\text{Cost of Asset – Scrap Value}}{\text{Useful Life}}$

Rate of Depreciation = $\dfrac{\text{Straight Line depreciation Amount Per Year}}{\text{Cost of Asset}}$ x 100

The underlying assumptions of this method is that the particular asset generates equal utility during its lifetime. But this cannot be true under all circumstances. The expenditure incurred on repairs & maintenance will be low in earlier years, whereas the same will be high as the asset becomes old. Apart from this the asset may also have varying capacities over the years , indicating logic for unequal depreciation.

This method is suitable for those assets in relation to which (a) repair charges are less, and (b) the possibility of obsolescence is less. This method is suitable for furniture, patent, copyright, trademark, lease, etc.

ILLUSTRATION 1

Jain Bros. acquired a machine on 1st July, 2018 at a cost of ₹ 14,00,000 and spent ₹ 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. of the original cost every year. The books are closed on 31st December every year.

Required

Show the Machinery Account and Depreciation Account for the year 2018 and 2019.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-7-18	To Bank A/c	1400000	31-12-18	By Depreciation A/c	75000
1-7-18	To Bank A/c	100000		(1500000*10%*6/12)	
			31-12-18	By Bal C/d (BF)	1425000
		1500000			**1500000**
1-1-19	To Bal B/d	1425000	31-12-19	By Depreciation	150000
				(1500000*10%)	
			31-12-19	By Bal C/d (BF)	1275000
		1425000			**1425000**

Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-12-18	To Machinery A/c	75000	31-12-18	By P/L A/c	75000
		75000			**75000**
31-12-19	To Machinery A/c	**150000**	31-12-19	By P/L A/c	**150000**
		150000			**150000**

REDUCING BALANCE METHOD/WRITTEN DOWN VALUE METHOD

Under this system , A fixed percentage of the diminishing value of the asset is written off each year so as to reduce the asset to its break up value at the end of its life. Under this method , The annual charge for depreciation , decreases from year to year, so that the earlier years suffer to the benefit of the later years. Also , under this method , the value of the asset can never be Completely extinguished , which happens in SLM method.

Amount of Depreciation = Cost of Asset x $\frac{\text{WDV Dep. Rate}}{100}$

This method is suitable for those assets in relation to which (a) the amount of repairs and renewals goes on increasing as the assets grows older (b) possibilities of obsolescence are more. This method is suitable for plant and machineries, building etc.

ILLUSTRATION 2

Jain Bros. acquired a machine on 1st July, 2018 at a cost of ₹ 14,00,000 and spent ₹ 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. every year. The books are closed on 31st December every year.

Required

Show the Machinery Account on diminishing balance method for the year 2018 and 2019.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-7-18	To Bank A/c	1400000	31-12-18	By Depreciation A/c	75000
1-7-18	To Bank A/c	100000		(1500000*10%*6/12)	
			31-12-18	By Bal C/d (BF)	1425000
		1500000			**1500000**
1-1-19	To Bal B/d	1425000	31-12-19	By Depreciation	142500
				(1425000*10%)	
			31-12-19	By Bal C/d (BF)	1282500
		1425000			**1425000**

SUM OF YEARS OF DIGIT METHOD

It is variation of the "Reducing Balance Method" The deprecation under this method is calculated as per the below formula –

$$\text{Depreciation} = \text{Original Cost} - \text{Scrap Value} \times \frac{\text{No. of Years of remaining Life of assets (incl. CY)}}{\text{Sum of all digits of the useful life of assets in years}}$$

This method is not yet in vogue in India , and its advantages are the same as those of the Reducing balance method.

ILLUSTRATION 3

M/s Akash & Co. purchased a machine for ₹ 10,00,000. Estimated useful life and scrap value were 10 years and ₹ 1,20,000 respectively. The machine was put to use on 1.1.2014.

Required

Show Machinery Account and Depreciation Account in their books for 2019 by using sum of years digits method.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d (WN 1)	360000	31-12-19	By Depreciation A/c (WN 1)	80000
			31-12-19	By Bal C/d (BF)	280000
		360000			**360000**
1-1-20	To Bal B/d	280000			

Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-12-19	To Machinery A/c	80000	31-12-19	By P/L A/c	80000
		80000			**80000**

WN – Ascertainment Of WDV of 1-1-19 & Depreciation of 2019

Year	Opening Balance	Depreciation for The Year (Cost – Scrap Value) * Remaining Useful life including Current Year/Sum of All Digits of Life of Asset	Closing Balance
2014	1000000	(1000000-120000) X 10/1+2+3+4+5+6+7+8+9+10 = 880000*10/55 = 160000	840000
2015	840000	880000*9/55 = 144000	696000
2016	696000	880000*8/55 = 128000	568000
2017	568000	880000*7/55 = 112000	456000
2018	456000	880000*6/55 = 96000	360000
2019	360000	880000*5/55 = 80000	280000

MACHINE HOUR METHOD

This method is suitable only when it is possible to keep the records of actual running hours of each machinery. This method is a slight variation of the Straight line method under which depreciation is calculated per year , here it is calculated for each hour the machine works.

$$\text{Depreciation} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Useful life in terms of hours}} \times \text{(Actual hours run during the year)}$$

$$\text{Rate Per Hour} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Useful life in terms of hours}}$$

ILLUSTRATION 4

A machine was purchased for ₹ 30,00,000 having an estimated total working of 24,000 hours. The scrap value is expected to be ₹ 2,00,000 and anticipated pattern of distribution of effective hours is as follows :

Year	
1 – 3	3,000 hours per year
4 - 6	2,600 hours per year
7 - 10	1,800 hours per year

Required

Determine Annual Depreciation under Machine Hour Rate Method.

Ascertainment Of Depreciation Each Year Under Machine Hour Method

Year	Depreciation Per year Cost – Scrap Value Useful Life in Hours X No. of Hours Machine worked during the year
1-3	(3000000 – 200000) / 24000 Hours * 3000 Hours = 350000
4-6	(3000000 – 200000) / 24000 Hours * 2600 Hours = 303333
7-10	(3000000 – 200000) / 24000 Hours * 1800 Hours = 210000

PRODUCTION UNITS METHOD

This method is suitable where (a) the life of the asset can be estimated in terms of output (b) the utility of the asset is directly related to its productive life (c) Obsolescence is not a primary factor.

$$\text{Depreciation} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Useful life in terms of productive output}} \times \text{(Actual output during the year)}$$

$$\text{Rate Per Unit} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Useful life in terms of Productive unit}}$$

ILLUSTRATION 5

A machine is purchased for ₹ 20,00,000. Its estimated useful life is 10 years with a residual value of ₹ 2,00,000. The machine is expected to produce 1.5 lakh units during its life time. Expected distribution pattern of production is as follows:

Year	*Production*
1-3	*20,000 units per year*
4-7	*15,000 units per year*
8-10	*10,000 units per year*

Required

Determine the value of depreciation for each year using production units method.

Ascertainment Of Depreciation Each Year Under Production Units Method

Year	Depreciation Per year <u>Cost – Scrap Value</u> Useful Life in Units that can Be produced During Life time X No. of Units Produced during the year
1-3	(2000000 – 200000) / 150000 Units * 20000 Units = 240000
4-7	(2000000 – 200000) / 150000 Units * 15000 Units = 180000
8-10	(2000000 – 200000) / 150000 Units * 10000 Units = 120000

DEPLETION METHOD

Depletion is the allocation of the cost of wasting natural resources such as oil, gas, timber, and minerals to the production process. This method is used in case of mines, quarries etc. containing only a certain quantity of product. The depreciation rate is calculated by dividing the cost of the asset by the estimated quantity of product likely to be available to be extracted. Annual depreciation will be the quantity extracted multiplied by the rate per unit.

Depreciation = <u>Original Cost – Scrap Value</u> X (Actual output Extracted during the year)
Useful life in Qty That can be Extracted

ILLUSTRATION 6

M/s Surya & Co. took lease of a quarry on 1-1-2017 for ₹ 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2017	*2,000 tonnes*
2018	*10,000 tonnes*
2019	*15,000 tonnes*

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2017 to 2019.

Quarry Lease A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-17	To Bank A/c	10000000	31-12-17	By Depreciation A/c (WN 1)	100000
			31-12-17	By Bal C/d (BF)	9900000
		10000000			**10000000**
1-1-18	To Bal B/d	9900000	31-12-18	By Depreciation A/c (WN 1)	500000
			31-12-18	By Bal C/d (BF)	9400000
		9900000			**9900000**
1-1-19	To Bal B/d	9400000	31-12-19	By Depreciation A/c (WN 1)	750000
			31-12-19	By Bal C/d (BF)	8650000
		9400000			**9400000**

Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-12-17	To Quarry Lease A/c	100000	31-12-17	By P/L A/c	100000
		100000			**100000**
31-12-18	To Quarry Lease A/c	500000	31-12-18	By P/L A/c	500000
		500000			**500000**
31-12-19	To Quarry Lease A/c	750000	31-12-19	By P/L A/c	750000
		750000			**750000**

WN - Ascertainment Of Depreciation Each Year Under Production Units Method

Year	Depreciation Per year Cost – Scrap Value Useful Life in output that can Be Extracted During Life time X Qty of output Extracted during the year
2017	10000000 / 200000 Tonnes * 2000 Tonnes = 100000
2018	10000000 / 200000 Tonnes * 10000 Tonnes = 500000
2019	10000000 / 200000 Tonnes * 15000 Tonnes = 750000

PROFIT OR LOSS ON THE SALE/DISPOSAL OF DEPRECIABLE ASSETS

Whenever any depreciable asset is sold during the year, depreciation is charged on it for the period it has been used in the sale year. the written down value after charging such depreciation is used for calculating the profit or loss on the sale of that asset. The resulting profit or loss on sale of the asset is ultimately transferred to profit and loss account.

For example - The book value of the asset as on 1st January, 2011 is Rs 50,000. Depreciation is charged on the asset @ 10% p.a. On 1st July 2011, the asset is sold for Rs 32,000. In such a situation profit or loss on the sale will be calculated as follows:

Book value as on 1st Jan, 2011	50,000
Less - depreciation for 6 months @ 10%.p.a	
(from 1st Jan., 2011 to 30th June., 2011)	2,500
Written down value as on 1st July, 2011	47,500
Less - Sale proceeds as on 1st July, 2011	32,000
Loss on sale of the asset	15,500

ILLUSTRATION 7

A firm purchased on 1st January, 2018 certain machinery for ₹ 5,82,000 and spent ₹ 18,000 on its erection. On July 1, 2018 another machinery for ₹ 2,00,000 was acquired. On 1st July, 2019 the machinery purchased on 1st January, 2018 having become obsolete was auctioned for ₹ 3,86,000 and on the same date fresh machinery was purchased at a cost of ₹ 4,00,000.

Depreciation was provided for annually on 31st December at the rate of 10 per cent p.a. on written down value.

Required

Prepare machinery account.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-18	To Bank A/c	582000	31-12-18	By Depreciation A/c (60000 + 10000)	70000
1-1-18	To Bank A/c	18000	31-12-18	By Bal C/d (BF) (540000+190000)	730000
1-7-18	To Bank A/c	200000			
		800000			**800000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d (540000+190000)	730000	1-7-19	By Depreciation on machine Auctioned	27000
1-7-19	To Bank A/c	400000	1-7-19	By Bank A/c	386000
			1-7-19	By P/L A/c	127000
			31-12-19	By Depreciation A/c (19000 + 20000)	39000
			31-12-19	By Bal C/d (BF) (171000+380000)	551000
		1130000			**1130000**

CHANGE IN METHOD OF DEPRECIATION

The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Whenever any change in depreciation method is made, such change in method is treated as change in accounting estimate as per Accounting Standards. Its effect needs to be quantified and disclosed seperately. A change in an accounting estimate may affect the current period only or both the current period and future periods.

Example :

Cost of Machine	₹ 10,50,000
Residual Value	₹ 50,000
Useful life	10 years.

The company charges depreciation on straight line method for the first two years and thereafter decides to adopt written down value method by charging depreciation @ 25%. (calculated based on useful life). You are required to calculate depreciation for the 3rd year.

Depreciation already charged for the first 2 years as per straight line method is ₹ 2,00,000. Therefore, WDV for 2nd year is ₹ 8,50,000

Therefore in the profit and loss account of the 3rd year, the depreciation of ₹ 2,12,500 (25% of ₹ 850,000) should be debited. In case the entity would have continued with Straight Line Method, depreciation for 3rd year would have been ₹ 1,00,000.

ILLUSTRATION 8

M/s Anshul & Co. commenced business on 1st January 2015, when they purchased plant and equipment for ₹ 7,00,000. They adopted a policy of charging depreciation at 15% per annum on diminishing balance basis and Over the years, their purchases of plant have been:

Date	*Amount*
	₹
1-1-2016	*1,50,000*
1-1-2019	*2,00,000*

On 1-1-2019 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2019 with no scrap value and 10 years for the asset purchased on 1.1.2019.

Required

Calculate the difference in depreciation to be adjusted in the Plant and Equipment Account for the year ending 31st December, 2019.

Plant & Equipment A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d (365404 + 92119)	457523	31-12-19	By Depreciation A/c (60901 + 15353+20000)	96254
1-1-19	To Bank A/c	200000	31-12-19	By Bal C/d (BF) (304503+76766+180000)	561269
		657523			**657523**

WN 1 – Ascertainment of WDV of plant & Equipment Purchased on 1-1-15 & 1-1-16 as on 1-1-19

WDV as on 1-1-19 for Plant & Equipment Purchased on 1-1-15
= Purchase Value of 1-1-15 – Dep of 15 – Dep of 16 – Dep of 17 – Dep of 18
= 700000 – 15% -15% -15% - 15%
= 365404

WDV as on 1-1-19 for Plant & Equipment Purchased on 1-1-16
= Purchase Value of 1-1-16 –Dep of 16 – Dep of 17 – Dep of 18
= 150000 – 15% -15% -15%
= 92119

REVISION OF ESTIMATED USEFUL LIFE OF PROPERTY , PLANT AND EQUIPMENT

- In this case, the unamortized amount should be charged to asset over the revised remaining estimated useful life of asset.
- Such revision should be treated as change in accounting estimates.

ILLUSTRATION 9

A Machine costing ₹ 6,00,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years.

Required

Calculate depreciation for the fourth year.

Solution

Depreciation Per Year = 600000/10 years = 60000

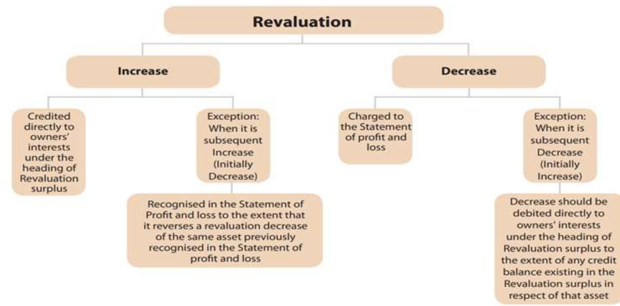
Depreciation Charged on Machine for First 3 years = 60000*3 = 180000

WDV of Machine after 3 years = 600000-180000 = 420000

Revised Remaining useful Life After 3rd Year = 5 years

Depreciation for 4th year & Onwards = 420000/5 years = 84000 Per Annum

REVALUATION OF PROPERTY , PLANT & EQUIPMENT



REVALUATION OF PROPERTY , PLANT & EQUIPMENT

- Revaluations should be made at regular Intervals (Say yearly) for ensuring that carrying amount does not differ substantially from that which would be determined if fair Value at the end of Reporting Period is used.
- In case Item of PPE is Revalued , Whole class of such PPE to which such asset belongs should be revalued.
- In this case, the depreciation should be charged on the revalued amount on the basis of the remaining estimated useful life of the asset.
- If there is an upward revision in the value of asset, then the amount of appreciation is debited to asset Account and credited to Revaluation Account. However , Such Increase should be recognized in P/L Statement to the extent of reversal of a previous decrease of that asset that was recognized in P/L Account.
- If there is downward revision in the value of assets then profit and Loss Account is debited and Asset Account is credited. However , Such decrease should be debited to the revaluation reserve to the extent of reversal of a previous increase that was recognized in Revaluation reserve of that Asset.

ILLUSTRATION 10

A machine of cost ₹ 12,00,000 is depreciated straight-line assuming 10 year working life and zero residual value for three years. At the end of third year, the machine was revalued upwards by ₹ 60,000 the remaining useful life was reassessed at 9 years.

Required

Calculate depreciation for the fourth year.

Solution

Depreciation Per Year = 1200000/10 years = 120000

Depreciation Charged on Machine for First 3 years = 120000*3 = 360000

WDV of Machine after 3 years = 1200000-360000 = 840000

Depreciable Amount After Revaluation = 840000 + 60000 = 900000

Revised Useful Remaining Life after 3 years & Upward revaluation = 9 Years

Depreciation for 4th year & Onwards = 900000/9 Years = 100000 p.a

ILLUSTRATION 11

A Machinery costing ₹ 20,00,000 is depreciated on straight line assuming 10 years working life and nil salvage value for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 80,000. The remaining useful life of the machinery was also reassessed as 8 years at the end of the fourth year. Calculate the depreciation for 5th Year.

Solution

Depreciation Per Year = 2000000/10 years = 200000

Depreciation Charged on Machine for First 4 years = 200000*4 = 800000

WDV of Machine after 4 years = 2000000-800000 = 1200000

Depreciable Amount After Revaluation = 1200000 + 80000 = 1280000

Revised Useful Remaining Life after 4 years & Upward revaluation = 8 Years

Depreciation for 5th year & Onwards = 900000/9 Years = 160000 p.a

ILLUSTRATION 12

Amazing group had Property, Plant & Equipment (PP&E) with a book value of ₹ 35,00,000 on 31st December 2019. The balance in Revaluation Surplus on that date was ₹ 3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31st December 2019. Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December 2019 was (a) ₹ 37,00,000 (b) ₹ 33,00,000 and (c) ₹ 31,00,000. Also, give the journal entries.

Case A

Property Plant & Equipment A/c......Dr 200000

To Revaluation Surplus A/c 200000

Case B

Revaluation Surplus A/c......Dr 200000

To Property Plant & Equipment A/c 200000

Case C

Revaluation Surplus A/c......Dr 300000

Profit & Loss A/c.......Dr 100000

To Property Plant & Equipment A/c 400000

ILLUSTRATION 13

The Machinery Account of a Factory showed a balance of ₹ 19,00,000 on 1st January, 2019. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On 1st June 2019, a new machinery was acquired at a cost of ₹ 2,80,000 and installation charges incurred in erecting the machine works out to ₹ 8,920 on the same date. On 1st June, 2019 a machine which had cost ₹ 4,37,400 on 1st January 2017 was sold for ₹ 75,000. Another machine which had cost ₹ 4,37,000 on 1st January, 2018 was scrapped on the same date and it realised nothing.

Write a plant and machinery account for the year 2019, allowing the same rate of depreciation as in the past calculating depreciation to the nearest multiple of a Rupee.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bank A/c (354294 + 393300 + 1152406)	1900000	1-6-19	By Depreciation ON Machine Sold A/c	14762
1-6-19	To Bank A/c	280000	1-6-19	By Bank A/c	75000
1-6-19	To Bank A/c	8920	1-6-19	By P/L A/c	264532
			1-6-19	By Depreciation on Machine Scrapped A/c	16388
			1-6-19	By P/L A/c	376912
			31-12-19	By Depreciation A/c (115241 + 16854)	132095
			31-12-19	By Bal C/d (BF)	1309231
		2188920			**2188920**

WN 1 - Calculation of Profit/Loss on Sale of Machinery 1

Sr.No	Particulars	Amount
A	Cost on 1-1-17	437400
B	Depreciation for 2017	43740
C	WDV as on 1-1-18	393660
D	Depreciation for 2018	39366
E	WDV as on 1-1-19	354294
F	Depreciation for For 5 Months of 2019	14762
G	WDV Before Sale as on 1-6-2019	339532
H	Sale Value	75000
I	Loss on Sale (G-H)	264532

WN 2 - Calculation of Profit/Loss on Sale of Machinery 2

Sr.No	Particulars	Amount
A	Cost on 1-1-18	437000
B	Depreciation for 2018	43700
C	WDV as on 1-1-19 (A-B)	393300
D	Depreciation for 2019 for 5 Months	16388
E	WDV Before Sale as on 1-6-2019 (C-D)	376912
F	Sale Value	0
G	Loss on Sale (E-F)	376912

ILLUSTRATION 14

The LG Transport company purchased 10 trucks at ₹ 45,00,000 each on 1st April 2016. On October 1st, 2018, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date another truck is purchased by the company for the sum of ₹ 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

Give the motor truck account for two year ending 31 Dec, 2019.

Motor Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-18	To Bal B/d	29250000	1-10-18	By Depreciation on truck Destroyed A/c	675000
1-10-18	To Bank A/c	5000000	1-10-18	By Bank A/c	2700000
1-10-18	To P/L A/c	450000	31-12-18	By Depreciation A/c (8100000+250000)	8350000
			31-12-18	By Bal C/d (BF)	22975000
		34700000			**34700000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d	22975000	31-12-19	By Depreciation A/c (8100000+1000000)	9100000
			31-12-19	By Bal C/d (BF)	13875000
		22975000			**22975000**

WN 1 - Calculation of Profit/Loss on truck

Sr.No	Particulars	Amount
A	Cost on 1-4-16	4500000
B	Depreciation for 2016 for 9 Months	675000
C	WDV as on 1-1-17 (A-B)	3825000
D	Depreciation for 2017	900000
E	WDV as on 1-1-18 (C-D)	2925000
F	Depreciation for 2018 For 9 Months	675000
G	WDV of truck as on 1-10-18 Before Sale (E-F)	2250000
H	Sale value	2700000
I	Profit on Settlement of truck (H-G)	450000

ILLUSTRATION 15 RTP NOV 20

M/s. Green Channel purchased a second-hand machine on 1st January, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-17	To Bank A/c	160000	31-12-17	By Depreciation A/c (20000+4000)	24000
1-1-17	To Bank A/c	40000	31-12-17	By Bal C/d (BF) (180000+76000)	256000
1-7-17	To Bank A/c	80000			
		280000			**280000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-18	To Bal B/d (180000+76000)	256000	31-12-18	By Depreciation A/c (20000 + 8000)	28000
			31-12-18	By Bal C/d (BF) (160000+68000)	228000
		256000			**256000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d (160000+68000)	228000	1-7-19	By Depreciation on Machine Sold A/c	10000
30-9-19	To Bank A/c	30000	1-7-19	By Bank A/c	100000
			1-7-19	By P/L A/c	50000
			31-12-19	By Depreciation A/c (8000 + 750)	8750
			31-12-19	By Bal C/d (BF) (60000 + 29250)	89250
		258000			**258000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-20	To Bal B/d (60000+29250)	89250	31-12-20	By Depreciation A/c (9000 + 4388)	13388
			31-12-20	By Bal C/d (BF) (51000+24862)	75862
		89250			**89250**

WHEN ASSETS ARE MAINTAINED AT COST-JOURNAL ENTRIES

Purchase of Asset

Asset A/c…..Dr
To Cash/Bank A/c

Depreciation

Depreciation A/c…..Dr
To Provision for Depreciation

WHEN ASSETS ARE MAINTAINED AT COST-JOURNAL ENTRIES

Sale of Asset

Cash/Bank A/c.....Dr
To Asset Disposal A/c

Asset Disposal Account.....Dr
To Asset A/c

Provision for Depreciation A/c....Dr
To Asset Disposal A/c

If Debit Balance in Asset Disposal Account – Loss on Sale of Asset
If Credit Balance in Asset Disposal Account – Profit on Sale of Asset

ILLUSTRATION 16

On April 1, 2018 Shubra Ltd. purchased a machinery for ₹ 12,00,000. On Oct 1, 2020, a part of the machinery purchased on April 1, 2018 for ₹ 80,000 was sold for ₹ 45,000 and a new machinery at a cost of ₹ 1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10% p.a. depreciation on the written down value of the machinery.

Required : *Show the necessary ledger accounts for the years ended 31st March 2019 to 2021 assuming that (a) 'Provision for Depreciation Account' is not maintained (b) Provision for Depreciation Account is maintained.*

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
01/04/2018	To Bank A/c	12,00,000	31/03/2019	By Balance c/d (BF)	12,00,000
		12,00,000			**12,00,000**
01/04/2019	To Balance b/d	12,00,000	31/03/2020	By Balance c/d	12,00,000
		12,00,000			**12,00,000**

Date	Particulars	Amount	Date	Particulars	Amount
01/04/2020	To Balance b/d	12,00,000	01/10/2020	By Machinery Disposal A/c	80,000
01/10/2020	To Bank A/c	1,58,000	31/03/2021	By Balance c/d (BF)	12,78,000
		13,58,000			**13,58,000**

Provision for Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31/03/2019	To Balance c/d (BF)	120000	31/03/2019	By Depreciation A/c	120000
		120000			**120000**
31/03/2020	To Balance c/d (BF)	2,28,000	01/04/2019	By Balance b/d	120000
			31/03/2020	By Depreciation A/c	108000
		2,28,000			**2,28,000**

Date	Particulars	Amount	Date	Particulars	Amount
01/10/2020	To Machinery Disposal A/c	18,440	01/04/2020	By Balance b/d	2,28,000
			01/10/2020	By Depreciation A/c (Asset sold)	3,240
31/03/2021	To Balance c/d (BF)	3,11,420	31/03/2021	By Depreciation A/c (90720+7900)	98,620
		3,29,860			**3,29,860**

Machinery Disposal A/c

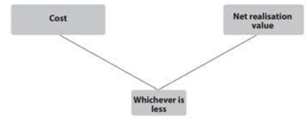
Date	Particulars	Amount	Date	Particulars	Amount
01/10/2020	To Machinery A/c	80,000	01/10/2020	By Cash /Bank A/c	45,000
			01/10/2020	By Provision for Depreciation A/c	18,440
			31/03/2021	By P&L A/c (loss)	16,560
		80,000			**80,000**

Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31/03/2019	To Provision for Depreciation A/c	120000	31/03/2019	By P&L A/c	120000
		120000			**120000**
31/03/2020	To Provision for Depreciation A/c	1,08,000	31/03/2020	By P&L A/c	1,08,000
		1,08,000			**1,08,000**
01/10/2020	To Provision for Depreciation A/c	3,240	31/03/2021	By P&L A/c	1,01,860
31/03/2021	To Provision for Depreciation A/c (90720+7900)	98,620			
		1,01,860			**1,01,860**

INVENTORY VALUATION

BASIS OF INVENTORY VALUATION



Cost

Cost means historical cost i.e. the amount of expenditure incurred on acquisition of goods. The computation of Historical cost is shown below.

Net realizable value

This is the estimated selling price in the ordinary course of business less the estimated cost of completion & the estimated costs necessary to make the sale. An assessment is made of net realizable value as at each balance sheet date. Inventories are usually written down to net realizable value on an item-by-items bases. In some circumstances, however, it may be approximate to group similar or related items.

EXCEPTION TO COST OR NRV WHICHEVER IS LOWER PRINCIPLE

Sr.No	Type of Inventory	Valued At
1	Consumable stores and supplies	Ordinarily valued at cost
2	By-Products, where cost cannot be separately determined	NRV
3	By-products, where cost can be separately determined	Cost value/NRV whichever is lower
4	Non-Reusable waste	NRV
5	Reusable waste -	
	(i) Where reprocessing facilities are available and used for reprocessing	Raw Material cost less Reprocessing Cost
	(ii) Where reprocessing facilities are not available	Valued at NRV

TECHNIQUES OF INVENTORY VALUATION (GOODS , ORDINARILY INTERCHNAGEABLE)

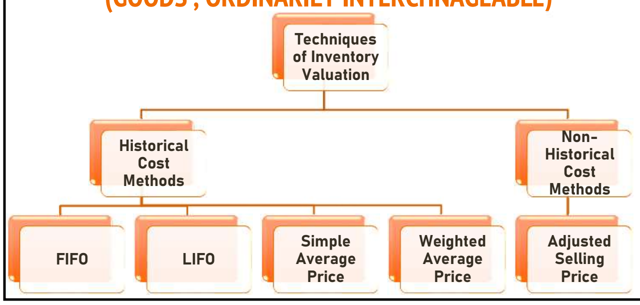


ILLUSTRATION 1

Given Below is the Details of Receipts & issue of Material . Find The Value of Closing Stock using LIFO method

Date	Quantity (units)	Price per unit
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
	2,600	

Date	Quantity (units)
Dec. 5	500
Dec. 20	600
Dec. 29	500
Total	1,600

STATEMENT SHOWING VALUE OF CLOSING STOCK AS PER LIFO

	RECEIPTS			ISSUES			BALANCE		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
4th Dec	900	50	45000	-	-	-	900	50	45000
5th Dec	-	-	-	500	50	25000	400	50	20000
10th Dec	400	55	22000	-	-	-	400	50	20000
							400	55	22000
11th Dec	300	55	16500	-	-	-	400	50	20000
							400	55	22000
							300	55	16500
19th Dec	200	60	12000	-	-	-	400	50	20000
							400	55	22000
							300	55	16500
							200	60	12000
20th Dec	-	-	-	200	60	12000			
				300	55	16500	400	50	20000
				100	55	5500	300	55	16500
28th Dec	800	47	37600	-	-	-	400	50	20000
							300	55	16500
							800	47	37600
29th Dec	-	-	-	500	47	23500	400	50	20000
							300	55	16500
							300	47	14100

VALUE OF CLOSING STOCK AS PER LIFO IS 50600

ILLUSTRATION 2

Given Below is the Details of Receipts & issue of Material . Find The Value of Closing Stock using Weighted Average Price Method

Date	Quantity (units)	Price per unit
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
	2,600	

Date	Quantity (units)
Dec. 5	500
Dec. 20	600
Dec. 29	500
Total	1,600

STATEMENT SHOWING VALUE OF CLOSING STOCK AS PER WEIGHTED AVERAGE PRICE METHOD

	RECEIPTS			ISSUES			BALANCE		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
4th Dec	900	50	45000	-	-	-	900	50	45000
5th Dec	-	-	-	500	50	25000	400	50	20000
10th Dec	400	55	22000	-	-	-	800	52.5	42000
11th Dec	300	55	16500	-	-	-	1100	53.18	58500
19th Dec	200	60	12000	-	-	-	1300	54.23	70500
20th Dec	-	-	-	600	54.23	32538	700	54.23	37962
28th Dec	800	47	37600	-	-	-	1500	50.37	75562
29th Dec	-	-	-	500	50.37	25185	1000	50.37	50377

VALUE OF CLOSING STOCK AS PER WEIGHTED AVERAGE PRICE METHOD IS 50377

NON- HISTORICAL COST METHOD –ADJUSTED SELLING PRICE METHOD

1. **According to Accounting Standard 2 'this method may be used in retail businesses or in business where the inventory comprises items the individual costs of which are not readily ascertainable'**
2. **The cost of the inventory is determined by reducing the estimated percentage of gross margin from the sales value of inventory.**
3. **The calculation of the estimated gross margin of profit may be made for individual items or groups of items or by departments, as may be appropriate to the circumstances. This method is also used by some manufacturing organization for valuing the inventory of finished products held against forward sale contracts.**

Steps For Determining Value of Closing Stock Under Adjusted Selling Price Method

1. **Prepare Estimated Trading Account Assuming All The Goods Are Sold**
2. **Find out Gross profit**
3. **Find Out GP margin**
4. **Reduce GP margin From Sale value of Closing Stock To Arrive At Cost of Closing Stock**

INVENTORY RECORD SYSTEM

There are two inventory systems, viz. periodic Inventory System and perpetual Inventory System.

Periodic Inventory System : **Periodic Inventory System is a method of ascertaining inventory by taking an actual physical count (or measure or weight) of all the inventory items on hand at a particular date on which information about inventory is required. The cost of goods sold is calculated as a residual figure (which includes lost goods also) as under :**
Cost of Goods Sold = Opening Inventory (Known) + Purchases (Known) – Closing Inventory (Physically Counted)

Perpetual Inventory System : **Perpetual Inventory System is a method of recording inventory balances after each receipt and issue. In order to ensure accuracy of perpetual inventory records, physical stocks should be checked and compared with recorded balances. The discrepancies, if any, should be investigated and adjusted in the accounts properly. The closing inventory is calculated as a residual figure (which include lost goods also) as under :**
Closing Inventory = Opening Inventory + Purchases – Cost of Goods Sold

PERIODIC AND PERPETUAL INVENTORY SYSTEM

Sr. No	PERIODIC INVENTORY SYSTEM	PERPETUAL INVENTORY SYSTEM
1	This system is based on physical verification.	It is based on books records.
2	This system provides information about stock and cost of goods sold at a particular date.	It provides continuous information about stock and cost of sales.
3	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes stock as balancing figure.
4	Cost of goods sold includes loss of goods as goods not in stock are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be Inventory.
5	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6	This system is simple and less expensive.	It is costlier method.
7	Periodic system requires closure of business for counting of stock.	Inventory can be determined without affecting the operations of the business.

RECO OF STOCK - IMPORTANT POINTS

1. Check Whether The Starting Point is Value as Per Physical Stock or Book Stock ? If Nothing is Mentioned Always Assume Starting point as Physical Value of Stock.

2. Check What is Being Asked to Find? Value of Physical Stock or Book Stock. If Nothing is Mentioned Assume Book Stock to be Found.

3. Check Whether The Question is For Forward Reconciliation or Backward Reconciliation?
   If Forward Reconciliation – Transactions Because of Which Stock will increase shall be added & Transactions because of which stock will decrease shall be Subtracted.
   If Backward Reconciliation – Transactions Because of Which Stock will increase shall be Subtracted & Transactions because of which stock will decrease shall be Added
   (The Above Addition or Substraction Rule Shall Be For Movement of Goods Only)

4. Inventory to be Valued at Cost or NRV whichever is Lower.

5. Goods Sent on Consignment though Not Available physically with Consignor is Shown in balance sheet of Consignor.

6. Goods Sent on Approval Basis though Not Available physically with Sender is Shown in balance sheet of Sender.

7. Goods Received in The Capacity of Consignee though Available Physically with Consignee but Not to be shown in Balance Sheet of Consignee.

8. Goods Received in The Capacity of Buyer on Sale on Approval Basis though Available Physically with Reciever but Not to be shown in Balance Sheet of Reciever.

9. Profit if Expressed as –
   1/2 of Cost Means 1/3 0f Sales
   1/3 of Cost Means 1/4 0f Sales
   1/4 of Cost Means 1/5 of Sales
   1/5 of Cost Means 1/6 of Sales

10. Gross Profit Margin is Always Calculated as % of Sales.

11. Sales & Sales return Includes Profit Whereas Purchase & Purchase return is Always Specified at Cost. So Whenever Sales or Sales return is Given We need to Find Its Cost.

ILLUSTRATION 3 - PYP JUL 2021 (5 MARKS)

From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Purchase during the year	-	*₹ 5,00,000*
Sales during the year	-	*₹ 7,50,000*
Opening Inventory		*Nil*
Closing Inventory at selling price	-	*₹ 1,00,000*

Determination of Estimated GP Margin
Estimated Trading A/c Assuming All Goods Sold

Particulars	Amount	Particulars	Amount

Determination of Cost of Closing Stock

ILLUSTRATION 4 – SM

From the following information, ascertain the value of stock as on 31.3.2020:

	₹
Value of stock on 1.4.2019	7,00,000
Purchases during the period from 1.4.2019 to 31.3.2020	34,60,000
Manufacturing expenses during the above period	7,00,000
Sales during the same period	52,20,000

At the time of valuing stock on 31.3.2019 a sum of ₹ 60,000 was written off a particular item which was originally purchased for ₹ 2,00,000 and was sold for ₹ 1,60,000. But for the above transaction the gross profit earned during the year was 25% on cost.

TRADING A/C							
PARTICULARS	NORMAL	ABNORMAL	TOTAL	PARTICULARS	NORMAL	ABNORMAL	TOTAL
To Opening Stock	560000	140000	700000	By Sales	5060000	160000	5220000
To Purchases	3460000	-	3460000				
To manufacturing Expenses	700000	-	700000	By Closing Stock (BF)	672000	-	672000
To Gross Profit	1012000 (20% of 5060000)	20000	1032000				
	5732000	**160000**	**5892000**		**5732000**	**160000**	**5892000**

Value of Closing Stock = 672000

ILLUSTRATION 5 - SM

Inventory taking for the year ended 31st March, 2020 was completed by 10th April 2020, the valuation of which showed a inventory figure of ₹ 16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for ₹ 68,750, profit margin being 33.33 percent on cost. Purchases for the next year included in the inventory amounted to ₹ 90,000 at cost less trade discount 10 percent. During this period, goods were added to inventory at the mark up price of ₹ 3,000 in respect of sales returns. After inventory taking it was found that there were certain very old slow-moving items costing ₹ 11,250, which should be taken at ₹ 5,250 to ensure disposal to an interested customer. Due to heavy flood, certain goods costing ₹ 15,500 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 12,500 on 31st March. Compute the value of inventory for inclusion in the final accounts for the year ended 30th March, 2020.

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 30-3-2020			
SR.NO	PARTICULARS	AMOUNT	AMOUNT
A	**Stock as on 10-4-2020**		**1675000**
B	**Add -**		
	Cost of Goods Sold (68750-25%)		51563
C	**Less -**		
	Cost of Goods purchased (90000-10%)	81000	
	Cost of Goods returned by Customer (3000-25%)	2250	
	Reduction in Value of Slow Moving Item	6000	
	Reduction in Value of Stock due to Refusal by Customer	3000	**92250**
D	**Value of Stock as on 30-3-2020**		**1634313**

ILLUSTRATION 6 - SM

Physical verification of stock in a business was done on 23rd June, 2020. The value of the stock was ₹ 48,00,000. The following transactions took place between 23rd June to 30th June, 2020:

(i) Out of the goods sent on consignment, goods at cost worth ₹ 2,40,000 were unsold.

(ii) Purchases of ₹ 4,00,000 were made out of which goods worth ₹ 1,60,000 were delivered on 5th July, 2020.

(iii) Sales were ₹ 13,60,000, which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2020.

(iv) Goods are sold at cost plus 25%. However, goods costing ₹ 2,40,000 had been sold for ₹ 1,20,000.

Determine the value of stock on 30th June, 2020.

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 30-6-2020			
SR. NO	PARTICULARS	AMOUNT	AMOUNT
A	**Stock as on 23-06-2020**		**4800000**
B	**Add -**		
	Goods lying with Consignee	240000	
	Cost of Goods Purchased & Received	240000	
	Cost of Goods in Transit	160000	
	50% of Goods Returned by Customer to whom Goods Sent on Approval	128000	
	50% of Goods lying with Customer to whom Goods Sent on Approval	128000	896000
C	**Less -**		
	Cost of Normal Goods Sold	736000	
	Cost of Goods on Approval Basis	256000	
	Cost of Abnormal Goods	240000	1232000
D	**Value of Stock as on 30-6-2020**		**4464000**

Working Note – Bifurcation of Sales & Its Cost

ILLUSTRATION 7 - RTP DEC 2021

Submarine Ltd. keeps no stock records but a physical inventory of stock is made half yearly and the valuation is taken at cost. The company's year ends on 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 30th September, 2020 and some other information is available to you:

(i) The cost of stock on 30th September, 2020 as shown by the inventory sheet was ₹ 2,40,000.

(ii) On 30th September, stock sheet showed the following discrepancies:

(a) A page total of ₹ 15,000 had been carried to summary sheet as ₹ 16,000.

(b) The total of a page had been undercast by ₹ 600.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from October,2020 to March,2021 totaled ₹ 2,10,000. Out of this ₹ 9,000 related to goods received prior to 30th September, 2020. Invoices entered in April,2021 relating to goods received in March, 2021 totaled ₹12,000.

(iv) Sales invoiced to customers totaled ₹2,70,000 from September,2020 to March, 2021. Of this ₹ 15,000 related to goods dispatched before 30th September, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totaled ₹ 12,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2021.

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 31-3-2021			
SR.NO	PARTICULARS	AMOUNT	AMOUNT
A	**Stock as on 30-09-2020**		**240000**
B	**Add -**		
	Under casting of Stock Sheet	600	
	Purchases (210000-9000+12000)	213000	
	Cost of Goods Returned (3000*80%)	2400	**216000**
C	**Less -**		
	overcasting of Stock Sheet	1000	
	Cost of Goods Sold (270000-15000+12000) * 80%	213600	**214600**
D	**Value of Stock as on 31-3-2021**		**241400**

ILLUSTRATION 8 - RTP MAY 2019

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2018.

(i) Sales ₹ 41,000 (including cash sales ₹ 10,000)

(ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

(iii) Sales Return ₹ 1,000.

(iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2018.

STATEMENT SHOWING COMPUTATION OF VALUE OF STOCK AS ON 31-3-2018			
SR.NO	PARTICULARS	AMOUNT	AMOUNT
A	**Value of Stock as on 15-4-2018**		**50000**
B	**Add -**		
	Cost of Net Sales (40000-20%)	32000	
	Cost of Goods Lying with Customer Not added in Stock(10000*60%*80%)	4800	**36800**
C	**Less -**		
	Cost of Goods Purchased	5034	
	Cost Of Goods Received on Consignment (8000*30%)	2400	**7434**
D	**Value of Stock as on 31-03-2018**		79366

ILLUSTRATION 9 – SM

X who was closing his books on 31.3.2020 failed to take the actual stock which he did only on 9th April, 2020, when it was ascertained by him to be worth ₹ 2,50,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31.3.2020 and 9.4.2020 as per the sales day book are ₹ 17,200. Purchases between 31.3.2020 and 9.4.2020 as per purchases day book are ₹ 1,200, out of these goods amounting to ₹ 500 were not received until after the stock was taken.

Goods invoiced during the month of March, 2020 but goods received only on 4th April, 2020 amounted to ₹ 1,000. Rate of gross profit is 33-1/3% on cost.

Ascertain the value of physical stock as on 31.3.2020.

STATEMENT SHOWING COMPUTATION OF PHYSICAL STOCK AS ON 31-3-2020

SR.NO	PARTICULARS	AMOUNT	AMOUNT
A	**Value of Stock as on 09-04-2020**		**250000**
B	**Add -**		
	Cost of Goods Sold (17200 – 25%)	12900	**12900**
C	**Less -**		
	Cost of Goods Purchased & Received (1200-500)	700	
	Goods Invoiced in March But Received in April	1000	**1700**
D	**Value of Physical Stock as on 31-3-2020**		**261200**

ILLUSTRATION 10 - MTP MAY 2019 SERIES 1 (10 MARKS)

M/s Kedar, Profit and loss account showed a net profit of Rs. 8,00,000, after considering the closing stock of Rs. 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included Rs. 30,000 paid for new electric fittings for the shop.

(ii) M/s Kedar gave away goods valued at Rs. 80,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to Rs. 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.

(iv) In March, 2017 goods of Rs. 4,00,000 sold and delivered were taken in the sales for April, 2017.

(v) Goods costing Rs. 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017.

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 31-3-2017

SR.NO	PARTICULARS	AMOUNT
A	Stock As on 31st March 2017 (Given)	750000
B	Add – Goods Purchased But Not Included in Stock	500000
C	Add – Goods Sent To Customers on Approval Basis At Cost	150000
D	Value of Closing Stock as on 31st march 2017 (A+B+C)	1400000

Adjusted Profit & Loss Account

Particulars	Amount	Particulars	Amount
To Advertisement (Free Sample)	80000	By Net profit	800000
To Sales (Goods Sent on Approval Wrongly treated As Sale) (150000+1/3 of 150000)	200000	By Electric Fittings	30000
		By Goods Distributed as Free Sample	80000
To Adjusted Net Profit (Bal Fig)	1680000	By Sales to Be recorded in March	400000
		By Increase in Closing Stock (1400000-750000)	650000
	1960000		1960000

AVERAGE DUE DATE

DEFINITION OF AVERAGE DUE DATE

Average Due Date is a settlement date on which date, different sums of money due to different dates are settled with consolidated sum, without any loss of interest to either party.

ADVANTAGES

- Different transactions are settled with consolidated sum on a single date.
- Calculation of interest on drawings of partners becomes easier.
- Calculation of interest from Average due date till settlement date is possible.
- Calculation of interest on loan becomes easier.

STEPS FOR CALCULATION OF AVERAGE DUE DATE

1. Assume either of the due date as a base date (also called as 'Zero date' or 'Start date'). Any date can be taken as base date. But it is better to take first chronological due date as base date to avoid negative calculations.If due dates are not given specifically in the problem, then transactions dates are taken as due dates.
2. Calculate the number of days from the Base date to the due date of each transaction.
3. Calculate the products for each transaction by applying the following formula.

   Product= No. of days (as calculated under earlier step) X Amount of the respective transaction

4. Sum up the amounts and products of all the transactions.
5. Divide the total of product by the total of amount. The result is the number of days to be added or subtracted to the base date to arrive at average due date. (Refer arithmetic signs below for guidance).
6. Calculate average due date as per the following formula:
   ADD= Base date +/- (Total of Products/Total of Amount) days

Note: If all the transactions are at beginning or middle or at the end of month, Average due date may be calculated with the help of Monthly Products.

For No of Days to be Added to Base date To arrive at Average Due Date Consider Following points

1. If No of Days Has a Decimal of .50 Or More Directly Consider Next Day
   Example – If No of Days to Be added are 35.50/35.90 Consider it 36 Days.

2. If No of Days Has a Decimal of Less than .50 Still Consider Next Date But Give a Note As below
   Example – If No of Days to Be added are 35.10/35.40 Consider it 36 Days.
   Note – As No of Days To be added to Base Date to Arrive at ADD is in Decimal it has Been Rounded up to Next Day.

Arithmetical Sign (+ or -) for adding or subtracting from base date-

Products	Amounts	Sign
Receivable	Receivable	+
Payable	Payable	+
Receivable	Payable	-
Payable	Receivable	-

CALCULATION OF DUE DATE OF BILLS OF EXCHANGE

Due Date of bill

=

Date of Drawal/Date of Acceptance

+

Tenure of Bill

+

3 Grace days

CALCULATION OF DUE DATE OF BILLS OF EXCHANGE

When to take Date of Drawal or Date of Acceptance as starting point?

Tenure of Bill	Starting point for calculation of due date
Specific number of days/months 'after date'	Date of Drawal of Bill
Specific number of days/months 'after sight'	Date of Acceptance of Bill

When the bill is made expressly payable after stated number of days/months, due date shall be calculated after adding 3 grace days. However, Days of grace are not added of bill is payable on demand or at sight or on presentation

EXAMPLE

Date of bill	Payable after	Due date
27.11.2011	2 Months	30.01.2012
14.12.2011	20 days	06.01.2012
08.02.2012	1 Month	11.03.2012
08.02.2011	30 Days	13.03.2011
08.02.2012	30 Days	12.03.2012

CALCULATION OF DUE DATE OF BILLS OF EXCHANGE

When the bill of Exchange is at maturity (after including days of grace) and it is public holiday (notified holiday by Central Government), the instrument shall be due on preceding business day, but if the holiday happens to be the emergency holiday, then the bill shall be due on succeeding business day.

Examples of Public Holidays - 26th January (Republic Day).

15Th August (Independence Day).

25Th December (Christmas).

Application I
Amounts are receivable or Payable on different dates

For the goods sold, Geet Draws the following bills on Aditya who accepts the same as per following terms:

Amount of the bills (Rs.)	Date of Drawal	Date of Acceptance	Tenure
8,000	06.01.2011	09.01.2011	3 Months after the date
9,000	15.02.2011	18.02.2011	60 Days
8,000	21.02.2011	21.02.2011	2 Months
15,000	14.03.2011	17.03.2011	30 Days after sight

Find out the Average Due date for the above transactions. Also find the answers for following situations.

1. Aditya pays the whole amount, together with interest @15% per annum, to Geet on 31st May, 2011. Calculate the interest payable on 31st May, 2011 by the average due date method.

2. When should Aditya make the payment to earn interest of Rs.120 @15% per annum?

Statement Showing Computation of ADD

Date of Bill	Tenure	Due Date	Amount	No. of Days from Base Date	Products
06/01/2011	3 Months	09/04/2011	8000	0	0
15/02/2011	60 Days	19/04/2011	9000	10	90000
21/02/2011	2 Months	24/04/2011	8000	15	120000
17/03/2011	30 Days	19/04/2011	15000	10	150000
			40000		360000

Let the Base Date Be 09-04-2011

Average Due Date = Base Date + (Total of Products/Total of Amount) Days

= 9-4-2011 + (360000/40000) Days

= 9-4-2011 + 9 days

= 18-4-2011

on 18-4-2011 Aditya Needs to pay Geet Rs. 40000 Without any loss of Interest to either Party

NO OF DAYS DELAY IN PAYMENT (18-4-11 TO 31-5-11)	43 DAYS
INTEREST TO BE PAID BY ADITYA	40000*15%/365*43 = 707

DATE OF PAYMENT TO EARN INT OF 120

PER DAY INTEREST SAVING IF PAYMENT MADE EARLY	40000*15%/365 =16.43
NO OF DAYS EARLY PAYMENT REQUIRED TO EARN INT OF 120	120/16.43 = 7.30 Days = Say 8 Days
DATE ON WHICH PAYMENT NEEDS TO BE MADE TO EARN INTEREST OF 120	18-4-2011- 8 DAYS = 10/04/2011

Application II

Amounts are receivable as well as payable on different dates

Asmita had the Following bills Receivable and Bills payable against Babita.

Bills Receivable			Bills Payable		
Date	Amount (Rs.)	Tenure (months)	Date	Amount (Rs.)	Tenure (months)
01.06.2012	3,000	3	29.09.2012	2,000	2
05.06.2012	2,500	3	03.06.2012	3,000	3
09.06.2012	6,000	1	10.06.2012	6,000	2
12.06.2012	10,000	2	13.06.2012	9,000	2
20.06.2012	15,000	3	27.06.2012	13,000	1

Calculate the average due date.

Statement Showing Computation of ADD from The View Point of Asmita

Date of Bill	Tenure	Due date	Amount		No. of Days from Base Date	Products	
			Recievable	Payable		Recievable	Payable
01/06/2012	3 Months	04/09/2012	3000		54	162000	
05/06/2012	3 Months	08/09/2012	2500		58	145000	
09/06/2012	1 Month	12/07/2012	6000		0	0	
12/06/2012	2 Months	14/08/2012	10000		33	330000	
20/06/2012	3 Months	23/09/2012	15000		73	1095000	
29/09/2012	2 Months	02/12/2012		2000	143		286000
03/06/2012	3 Months	06/09/2012		3000	56		168000
10/06/2012	2 Months	13/08/2012		6000	32		192000
13/06/2012	2 Months	16/08/2012		9000	35		315000
27/06/2012	1 Month	30/07/2012		13000	18		234000
			36500	33000		1732000	1195000

Let the Base Date Be 12-7-2012

Net Amount Recievable = 3500

Net Products Receivable = 537000

Average Due Date = Base Date + (Net Products/Net Amount) Days

= 12-7-2012 + (537000/3500) Days

= 12-7-2012 + 153.42 Days Say 154 Days

= 13th Dec 2012

On 13th Dec 2012 Asmita Shall Receive Rs. 3500 from Babita Without Loss of Interest to Either Party

Note - As The No of Days to Be added to base Date to Arrive At Average Due Date are in Decimal , The No of Days are Rounded up to Next Day hence taken 154 Days

Application III
Interest on Partners Drawings

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 (Rs.)	Drawn By (Rs.)
01.05.2015	75,000	Mr. Yash
02.07.2015	20,000	Mr. Yash
15.08.2015	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).

Statement Showing Computation of ADD & Interest on Drawings of Yash

Date of Drawings	Amount	No. of Days from Base Date	Products
01/05/2015	75000	0	0
02/07/2015	20000	62	1240000
31/03/2016	15000	335	5025000
	110000		6265000

Let the Base Date Be 01-05-2015

ADD = Base Date + (Total Products/Total Amount) Days

= 01-05-2015 + (6265000/110000) Days

= 01-05-2015 + 56.95 Days Say 57 Days

= 27th June 2015

No of Days from ADD to 31-03-2016 = 278 Days

Interest on Drawings = 110000*10%/366*278 = 8355

Statement Showing Computation of ADD & Interest on Drawings of Harsh

Date of Drawings	Amount	No. of Days from Base Date	Products
15/08/2015	60000	106	6360000
31/12/2015	50000	244	12200000
04/03/2016	75000	308	23100000
	185000		41660000

Let the Base Date Be 01-05-2015

ADD = Base Date + (Total Products/Total Amount) Days

= 01-05-2015 + (41660000/185000) Days

= 01-05-2015 + 225.18 Days Say 226 Days

= 13th Dec 2015

No of Days from ADD to 31-03-2015 = 109 Days

Interest on Drawings = 185000*10%/366*109 = 5510

ApplicationIV
Where amount is lent in one installment

Saif lent Rs.5,00,000 on 1.4.2007 to Shahid, repayable in 5 equal annual installments commencing 1.4.2008, find out the Average due date and Calculate interest at 12% p.a. which Saif will recover from Shahid.

Statement Showing Computation of ADD			
Date of Installment	Amount	No. of Years from Base Date	Products
01/04/2008	100000	0	0
01/04/2009	100000	1	100000
01/04/2010	100000	2	200000
01/04/2011	100000	3	300000
01/04/2012	100000	4	400000
	500000		1000000
Let The Base Date be 1-4-2008			
ADD = 1-4-2008 + (Total Products/Total Amount) years			
ADD = 1-4-2008 + (1000000/500000) Years			
ADD = 1-4-2008 + 2 Years			
ADD = 1-4-2010			
Tenure for Interest = ADD - Date of Loan = 1-4-2010 - 1-4-2007 = 3 Years			
Interest = 500000*12%*3 Years = 180000			

ACCOUNT CURRENT

INTRODUCTION

The Following or conventional form of 'Ledger Account' does not depict the information about due dates of transactions, number of days payment is overdue and interest on overdue balances. It does not provide for columns required for calculations of interest on the overdue settlement between two parties. By referring to 'Ledger Account', one can get only the outstanding balance between two parties without interest overdue thereon. To overcome this drawback of 'Ledger Format', it has been modified suitably so that interest calculation on overdue payments will become simple. Such suitably modified ledger format, with additional columns for interest calculations, is known as Account Current.

DEFINITION

An Account Current is a periodical statement of account rendered by one party to another party, along with additional columns which facilitate interest calculations.

The statement, in addition to details of the transaction shows the interest due together with details of calculation of interest. The names of the two parties are entered at the top and the party to whom the account is rendered is named first e.g. if Vinayak is rendering account to gajanan, the statement is headed as "Gajanan in Account Current with Vinayak". As stated in above paragraph, this statement is in account form having the debit and credit side and is a replica of ledger account, with additional columns facilitating interest calculations. All Transactions are arranged chronologically (date wise) and interest is charged/ allowed at an agreed rate.

USEFULNESS

Account Current is mostly used for rendering accounts between-

1. Supplier and Customer
2. Principal and Agent
3. Lender and Borrower
4. Head office and Branch
5. Broker and Client
6. Co-ventures.

METHODS OF ACCOUNT CURRENT

1. Forward (interest) Method :

Under this method interest is calculated at an agreed rate for each transaction by counting the number of days from the date/due date of transactions to the last date of rendering 'Account Current'. Net interest receivable or payable is then debited or credited to the parties account. This method is however tedious, since interest has to be calculated for each transaction separately. However one may calculate interest with the help of pre-prepared 'Interest Tables'.

2. Forward (Means of Products) Method :

Under the previous method, interest columns are provided on both sides of Current Account and Interest in respect of each item is found out. Under this method, 'Interest' Columns are replaced by 'Product' Columns. **Product is the amount multiplied by number of days/months for which it is outstanding (also known as 'Daily Products')**

Daily Products = Amount (Rs.) X Number of Day
Monthly Products = Amount (Rs.) X Number of Months

Interest is calculated on the ***Balance*** of the products and interest is entered in the ***amount*** column of the side which has the larger of the total products e.g. if the products are more on the debit side, the interest is entered to the debit side.

Products Balance	(Dr.)= Interest Receivable	- Dr. side amount column
	(Cr.)= Interest Payable	- Cr. Side amount column

Interest Formula:

$$\text{Interest} = \frac{\text{Balance of Daily Products}}{100} \times \frac{1}{365^*} \times \text{Rate of Interest}$$

For leap year 366 days [2000,2004,2008 etc.]

$$\text{Interest} = \frac{\text{Balance of Monthly Products}}{100} \times \frac{1}{12} \times \text{Rate of Interest}$$

3. Forward (Means of products of Balance) Method :

This method is also known as ' Periodic Balance Method'. It is usually adopted by banks. Products are calculated by multiplying the balance by number of days for which it is outstanding (known as 'Daily Products'). In this method, separate columns are provided for ' Dr. Products' and ' Cr. Products'. At the end, net products are found out and interest is calculated.

4. Backward Method or Epoque Method :

The procedure is just the opposite of the forward method. Under this method, the period (number of days) is calculated from the opening date of the statement to the due date of each transaction. Since the starting date is considered as base, closing balances covers the entire period and opening balance bears 'Zero' Period. Thus no interest is calculated on opening balance, but the interest is calculated for full period on the closing balance (excluding interest). The amount of interest is to be recorded on the shorter side and thereafter the amount column is balanced.

HINTS FOR CALCULATION OF DAYS

1. If no specific date is mentioned as the date on which the payment is due, the date of transaction itself is to be presumed to be due date.

2. In calculating the number of days, **either** the date of the transaction or the due date is **excluded.**

3. In case of opening balance, number of days is to be calculated including ***Both*** opening and closing dates.

4. There may be transactions, the due dates of which may fall after the period for which account is prepared. Special adjustment will have to be made regarding interest or products on such transactions by writing in 'Red-Ink' (Indicating Negative Interest) or the interest or products is written in ordinary ink on the opposite side or the negative interest or product is written on the same side on which the transaction is entered.

5. For the purchase return transaction, take the same due date of related purchase transaction. Similarly for the sale return transaction, take the same due date of related sale transaction.

FORMAT OF ACCOUNT CURRENT

"Receiver in Account Current with Sender"
For the period from _____ to__________

Date	Particular	Amt	No. of Days	Interest/ Products Rs.	Date	Particulars	Amt	No. of Days	Interest/ Products Rs.
	Total					Total			

ILLUSTRATION 1

From the following particulars prepare the Account Current to be rendered by Tina to Sania as on 31.08.2011 by A Forward (Interest) Method , Forward (Means of Products Method) & Epoque Method . Interest is agreed to be calculated @Rs.10% p.a.

		Rs.
11.06.2011	Goods sold to Sania	10,200
15.06.2011	Cash received from Sania	5,000
20.06.2011	Goods sold to Sania	6,500
07.07.2011	Goods sold to Sania	7,000
08.08.2011	Cash received from Sania	10,000

In The Books of Tina

Sania In Account Current With Tina

For The Period 11-6-2011 to 31-8-2011

Rate of Interest = 10% p.a

Forward (Interest) Method

Date	Particulars	Amount	No. of Days	Interest	Date	Particulars	Amount	No. of Days	Interest
11/06/2011	To Sales	10200	81	226.36	15/06/2011	By Cash	5000	77	105.48
20/06/2011	To Sales	6500	72	128.22	08/08/2011	By Cash	10000	23	63.01
07/07/2011	To Sales	7000	55	105.48	31/08/2011	By Bal of Int.			291.57
						(Bal Fig)			
31/08/2011	To Interest	291.56			31/08/2011	By Bal C/d	8991.56		
						(Bal Fig)			
		23991.56		460.06			23991.56		460.06

In The Books of Tina

Sania In Account Current With Tina

For The Period 11-6-2011 to 31-8-2011

Rate of Interest = 10% p.a

Forward (Means of Products) Method

Date	Particulars	Amount	No. of Days	Products	Date	Particulars	Amount	No. of Days	Products
11/06/2011	To Sales	10200	81	826200	15/06/2011	By Cash	5000	77	385000
20/06/2011	To Sales	6500	72	468000	08/08/2011	By Cash	10000	23	230000
07/07/2011	To Sales	7000	55	385000	31/08/2011	By Bal of			1064200
						Products (BF)			
31/08/2011	To Interest	291.56			31/08/2011	By Bal C/d	8991.56		
						(Bal Fig)			
		23991.56		1679200			23991.56		1679200

Interest = 1064200*10%/365 Days * 1 Day = 291.56

In The Books of Tina

Sania In Account Current With Tina

For The Period 11-6-2011 to 31-8-2011

Rate of Interest = 10% p.a

Backward/Epoque Method

Date	Particulars	Amount	No. of Days	Products	Date	Particulars	Amount	No. of Days	Products
11/06/2011	To Sales	10200	0	0	15/06/2011	By Cash	5000	4	20000
20/06/2011	To Sales	6500	9	58500	08/08/2011	By Cash	10000	58	580000
07/07/2011	To Sales	7000	26	182000	31/08/2011	By Products	-	-	704700
						on Closing Bal			
31/08/2011	To Balance of	-	-	1064200		(8700*81 Days)			
	Products								
	(Bal Fig)				31/08/2011	By Bal C/d	8991.56		
						(Bal Fig)			
31/08/2011	To Interest	291.56							
		23991.56		1304700			23991.56		1304700

Interest = 1064200*10%/365 Days * 1 Day = 291.56

ILLUSTRATION 2

Following transactions took place between X any Y during the month of April, 2012.

2012	Particulars	Rs.
April.1	Amount Payable by X to Y	10,000
April.7	Received acceptance of X to Y for 2 months	5,000
April.10	Bills Receivable (accepted by Y) on 7.2.2012 honored on this due date.	10,000
April.10	X sold goods to Y (Invoice dated 10.5.2012)	15,000
April.12	X received cheque from Y (dated 15.5.2012)	7,500
April.15	Y Sold goods to X (Invoice dated 15.5.2012)	6,000
April.20	X returned goods sold by Y on 15.4.2012	1,000
April.20	Bills accepted by Y is dishonored on this due date	5,000

Prepare an 'Account Current' to be rendered by X to Y for the period from 1.4.2012 to 30.4.2012. Agreed rate of interest between the parties is 12% per annum.

In The Books of X

Y in Account Current With X

For The Period 1-4-2012 to 30-4-2012

Rate of Interest = 12% p.a

Forward (Products) Method

Date	Due Date	Particulars	Amount	No. of Days	Products	Date	Due Date	Particulars	Amount	No. of Days	Products
07/04/2012	10/06/2012	To B/P	5000	-41	-205000	01/04/2012	01/04/2012	By Bal B/d	10000	30	300000
10/04/2012	10/05/2012	To Sales	15000	-10	-150000	12/04/2012	15/05/2012	By Bank	7500	-15	-112500
20/04/2012	15/05/2012	To Pur Return	1000	-15	-15000	15/04/2012	15/05/2012	By Purchase	6000	-15	-90000
20/04/2012	20/04/2012	To B/R	5000	10	50000	30/04/2012	30/04/2012	By Interest	136.89		
30/04/2012	30/04/2012	To Bal of Products (Bal Fig)			417500	30/04/2012	30/04/2012	By Bal C/d (Bal Fig)	2363.11		
			26000		97500				26000		97500

Interest = 417500*12%/366 Days * 1 Day = 136.89

ILLUSTRATION 3

Mr. A owed Rs.40,000 on 1st January, 2011 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @10% p.a. is to be calculated on all transactions.

2011	Particulars	Rs.
15-Jan	Mr. X Sold Goods to Mr. A	22,300
29-Jan	Mr. X bought goods from Mr. A	12,000
10-Feb	Mr. A paid Cash to Mr. X	10,000
13-Mar	A accepted a bill drawn by Mr. X for one month	20,000

They agree to settle their complete accounts by one single payment on 15th March, 2011. Prepare Mr. A in Account current with Mr. X and ascertain the amount to be paid. **Ignore days of Grace.**

In The Books of X

A in Account Current with X

For The Period 1-1-2011 to 15-03-2011

Rate of Interest = 10% p.a

Forward (Means of Products) Method

Date	Due Date	Particulars	Amount	No. of Days	Products	Date	Due Date	Particulars	Amount	No. of Days	Products
01/01/2011	01/01/2011	To Bal B/d	40000	74	2960000	29/01/2011	29/01/2011	By Purchase	12000	45	540000
15/01/2011	15/01/2011	To Sales	22300	59	1315700	10/02/2011	10/02/2011	By Cash	10000	33	330000
15/03/2011	15/03/2011	To Interest	1091.97			13/03/2011	13/04/2011	By B/R	20000	-29	-580000
						15/03/2011	15/03/2011	By Bal of Products (Bal Fig)			3985700
						15/03/2011	15/03/2011	By Bal C/d (Bal Fig)	21391.97		
			63391.97		4275700				63391.97		4275700

Interest = 3985700*10%/365 Days*1 Day =1091.97

ILLUSTRATION 4

On 2nd January, 2016 Vinod opened a current account with the Allahabad Bank Limited; and Deposited a Sum of Rs.30,000.

He further deposited the following amounts:	Rs.
15th January	12,000
12th March	8,000
10th May	16,000

His Withdrawals were as follows:	Rs.
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 to be prepared as on 30th June, 2016. Calculation may be made correct to the nearest rupee.

(assume 1 year= 365 days)

In The Books of Allahabad Bank

Vinod in Account Current with Allahabad Bank Ltd

For The Period 2-1-2016 to 30-6-2016

Date	Particulars	Debit	Credit	Balance	Dr/Cr	No. Of Days	Debit Products	Credit Products
02/01/2016	By Cash A/c		30000	30000	Cr	13		390000
15/01/2016	By Cash A/c		12000	42000	Cr	31		1302000
15/02/2016	To Self	26000		16000	Cr	25		400000
12/03/2016	By Cash A/c		8000	24000	Cr	29		696000
10/04/2016	To Self	30000		6000	Dr	30	180000	-
10/05/2016	By Cash A/c		16000	10000	Cr	36		360000
15/06/2016	To Self	14000		4000	Dr	16	64000	
							244000	3148000
30/06/2016	By Interest Payable		139	3861	Dr			

Interest Payable on Credit Products = 3148000*2%/365 Days * 1 Day = 172.49 Say 172

Interest Recievable on Debit Products = 244000*5%/365 Days * 1 Day = 33.42 Say 33

Net Interest Payable = 172 -33 = 139

ILLUSTRATION 5 – PYP NOV 2019 (5 MARKS)

Ramesh has a Current Account with Partnership firm. He had a debit balance of ₹ 85,000 as on 01-07-2018. He has further deposited the following amounts:

Date	*Amount (₹)*
14-07-2018	*1,23,000*
18-08-2018	*21,000*

He withdrew the following amounts:

Date	*Amount (₹)*
29-07-2018	*92,000*
09-09-2018	*11,500*

Show Ramesh's A/c in the books 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, 2018 by means of product of balances method.

In The Books of Partnership Firm
Ramesh in Account Current with Partnership Firm
For The Period 1-7-2018 to 30-09-2018

Date	Particulars	Debit	Credit	Balance	Dr/Cr	No. Of Days	Debit Products	Credit Products
01/07/2018	To Bal B/d	85000		85000	Dr	13	1105000	
14/07/2018	By Cash A/c		123000	38000	Cr	15		570000
29/07/2018	To Self	92000		54000	Dr	20	1080000	
18/08/2018	By Cash A/c		21000	33000	Dr	22	726000	
09/09/2018	To Self	11500		44500	Dr	22	979000	
							3890000	570000
30/09/2016	To Interest A/c	941		45441	Dr			

Interest Payable on Credit Products = 3890000*10%/365 Days * 1 Day = 1065.75 Say 1066

Interest Recievable on Debit Products = 570000*8%/365 Days * 1 Day = 124.93 Say 125

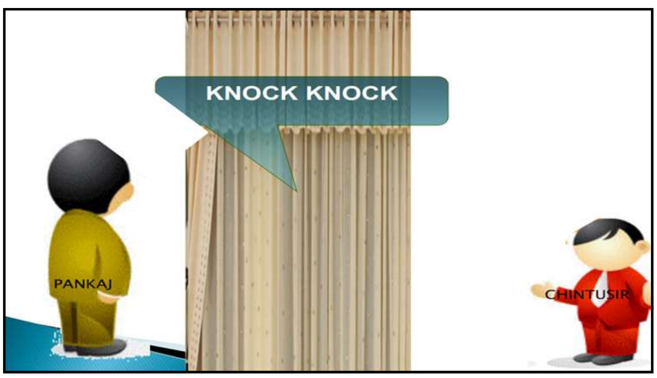
Net Interest Recievable = 1066-125 = 941

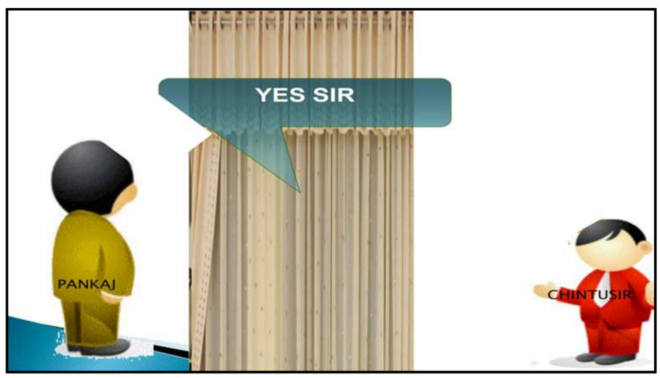
Sale of Goods on Return or Approval Basis

WHAT IS SALE OF GOODS ON RETURN OR APPROVAL BASIS ?

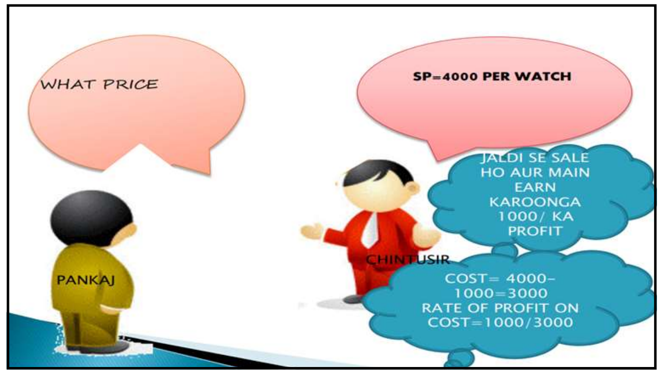
Goods Sent on "Approval" or on "Sale or return" Basis means the Delivery of the Goods to the Customers with The option to retain or return Them With in a Specified Period.

Lets Understand the Concept by Way of a Interesting Story






SIR I WANT TO PURCHASE 10 WATCHES DO U SELL?
.YES SIR WHY NOT
CHINTU


WHAT PRICE
SP=4000 PER WATCH
JALDI SE SALE HO AUR MAIN EARN KAROONGA 1000/ KA PROFIT
CHINTUSIR
PANKAJ
COST= 4000-1000=3000
RATE OF PROFIT ON COST=1000/3000

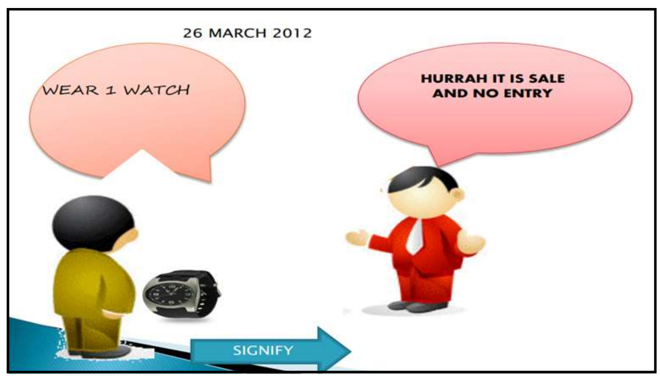

I HAVE ONE DOUBT
YES SIR , WHAT
CHINTUSIR
PANKAJ


I WANT TO TRY AND THEN GIVE APPROVAL
.OK SIR. U CAN TAKE 15 DAYS PERIOD AND IF U DON'T SEND UR APPROVAL , IT WILL BE SALE
(i) When he signifies his approval or acceptance to the seller;
(ii) When he does act OF adopting the transaction;
(iii) retains the goods without giving notice of rejection,
CHINTUSIR
PANKAJ


18 MARCH 2012
SEND 10 WATCHES TO MY SHOP
.YES SIR , WE WILL
PANKAJ AccountDr.
40000
To Sales Account
CHINTUSIR
PANKAJ
10 WATCHES
SALE=4000*10=
40000


20 MARCH 2012
SEND APPROVAL OF 4 WATCHES
IT IS SALE AND THUS
NO ENTRY REQUIRED
CHINTUSIR
PANK
AJ


24 MARCH 2012
RETURNED 2 WATCHE
PASSED RETURN
INWARD ENTRY
SALES RETURN
AccountDr.
8000
CHINTUSIR
To PANKAJ Account
PANK
AJ


26 MARCH 2012
WEAR 1 WATCH
HURRAH IT IS SALE
AND NO ENTRY
SIGNIFY

FEATURES OF SALE OF GOODS ON RETURN OR APPROVAL 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 good 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 agree between seller and buyer.

SALE OF GOODS ACT , 1930

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 any of the following conditions is satisfied:

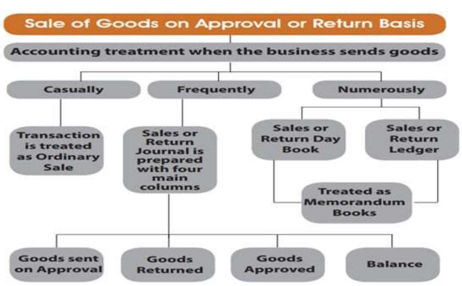
1. **When he signifies his approval or acceptance to the seller;**
2. **When he does some act adopting the transaction;**
3. **If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, on the expiry of the specified time (if a time has been fixed) or on the expiry of a reasonable time (if no time has been fixed).**

BASIS OF ACCOUNTING

Accounting Entries Depend on the Fact Whether the Business Sends goods on Sale of Approval Basis

- Casually
- Frequently
- Numerously

BASIS OF ACCOUNTING



WHEN GOODS ARE SENT CASUALLY

When goods are sent on sale or return basis:

Trade receivables/Customers Account Dr. [Invoice price]
To Sales Account

When goods are rejected or returned within the specified time:

Sales/Return Inwards Account Dr. [Invoice price]
To Customers/Trade receivables Account

When goods are accepted at invoice price:

[No entry]

WHEN GOODS ARE SENT CASUALLY

When goods are accepted at a higher price than invoice price:

Trade receivables/Customers Account Dr.

To Sales Account [Difference in price]

When goods are accepted at a lower price than the invoice price.

Sales Account Dr.

To Trade receivables/Customers Account [Difference in pric

WHEN GOODS ARE SENT CASUALLY

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

Inventories with Customers on Sale or Return Account Dr.

To Trading Account [Cost price or market price whichever is less]

ENTRY OF SALE WILL BE PASSED IF GOODS ARE APPROVED AFTER SUBSEQUENT DATE & NO ENTRY IS TO BE PASSED FOR GOODS RETURNED BY THE CUSTOMERS ON A SUBSEQUENT DATE.

WHEN GOODS ARE SENT FREQUENTLY

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
(4)Balance

WHEN GOODS ARE SENT FREQUENTLY

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.

WHEN GOODS ARE SENT FREQUENTLY

When goods are sent out for sale on approval

Memorandum Books
Customer A/c is Debited & Total of Column 4 is posted in Credit of "Goods on Approval total A/c"

Main Books
No Entry

When goods are Returned

Memorandum Books
Customer A/c is Credited & Total of Column 8 is posted in Debit of "Goods on Approval total A/c"

Main Books
No Entry

WHEN GOODS ARE SENT FREQUENTLY

When goods are Approved By Customer

Memorandum Books
Customer A/c is Credited & Total of Column 12 is posted in Debit of "Goods on Approval total A/c"

Main Books
Customer A/c……Dr
To Sales A/c

Goods Lying With Customer

Memorandum Books
The Balance in Column 13 Shall represent The Balance of Goods lying with Customer at Sale value & Same Shall Appear as Balance in Goods on approval Total A/c

Main Books
Inventories with Customers on Sale or Return Account Dr.
To Trading Account [Cost price or market price whichever is less]

WHEN GOODS ARE SENT NUMEROUSLY

When transaction are numerous, a business maintains the following books: (a) Sale or Return Day Book; and (b) Sale or Return Ledger. "Ledger" contains the accounts of the costumers and the 'Sale or Return' Total account. 'Day Book' is the primary book which record all transactions, and from there these are entered in the 'Sale or Return' Total Account. It is important to remember that both are Memorandum Books, i.e., these records are not a part of regular books of accounts.

WHEN GOODS ARE SENT NUMEROUSLY

When goods are sent out for sale on approval

Memorandum Books
It is Entered in Sale or return Day Book & Customer A/c is Debited Individually & thereafter Periodic total of Sale or return Day Book is posted in Credit of "Sale or Return A/c"

Main Books
No Entry

When goods are Returned

Memorandum Books
It is Entered in Sale or return Day Book & Customer A/c is Credited Individually & thereafter Periodic total of goods Returned is posted in Debit of "Sale or Return A/c"

Main Books
No Entry

WHEN GOODS ARE SENT NUMEROUSLY

When goods are Approved By Customer

Memorandum Books
Sale or return A/c….Dr
To Customer A/c

Main Books
Customer A/c……Dr
To Sales A/c

Goods Lying With Customer

Memorandum Books
The Balance in Sale or Return A/c will Shall represent The Balance of Goods lying with Customer at Sale value

Main Books
Inventories with Customers on Sale or Return Account Dr.
To Trading Account [Cost price or market price whichever is less]

ILLUSTRATION 1

CE sends goods to his customers on Sale or Return basis. The following transactions took place during 2019:

Sept. 15	Sent goods to customers on sale or return basis at cost plus 33 1/3 %	₹ 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, 2019.

In The Books of CE
Journal Entries

Date	Particulars	LF	Debit	Credit
15/09/2019	Customer's A/c….Dr		100000	
	To Sales A/c			100000
	(Being Goods sent on Sale or return Basis)			
20/10/2019	Sales Return A/c…..Dr		40000	
	To Customer's A/c			40000
	(Being Goods returned sent on Sale or return basis)			

Date	Particulars	LF	Debit	Credit
31/12/2019	Sales A/c….Dr		20000	
	To Customer's A/c			20000
	(Being reversal of Sales on Balance Sheet date for goods unsold)			
31/12/2019	Stock With Customer on Approval Basis A/c….Dr		15000	
	To Trading A/c			15000
	(Being Stock Lying with Customer Sent on Approval Basis)			

ILLUSTRATION 2

S. Ltd sends out its goods to dealers on Sale or Return basis. All such transactions are, however, treated as actual sales and are passed through the day book. Just before the end of the accounting year 31.03.2020, 200 such goods have been sent to a dealer at Rs.250 each (cost Rs.200 each) on sale or return basis and Debited to his account. Of these goods, on 31.03.2020, 50 were returned and 70 were sold while for the other goods, date of return has not expired yet.

Pass necessary adjustment entries on 31.03.2020.

In The Books of S Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
31/03/2020	Sales Return A/c…..Dr (50 Units * Rs. 250)		12500	
	To Customer's A/c			12500
	(Being Goods returned sent on Sale or return basis)			
31/03/2020	Sales A/c….Dr (80 Units * Rs. 250)		20000	
	To Customer's A/c			20000
	(Being reversal of Sales on Balance Sheet date for goods unsold)			

Date	Particulars	LF	Debit	Credit
31/03/2020	Stock With Customer on Approval Basis A/c….Dr		16000	
	To Trading A/c			16000
	(Being Stock Lying with Customer Sent on Approval Basis)			

ILLUSTRATION 3

Caly Company sends out its gas containers to dealers on Sale or Return basis. 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 basis' 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.

You are required to pass necessary adjustment entries for the purpose of Profit and Loss Account Balance sheet.

In The Books of Caly Company
Journal Entries

Date	Particulars	LF	Debit	Credit
	Customer's A/c….Dr (20 Containers * Rs.300)		6000	
	To Sales A/c			6000
	(Being Goods sent on Sale or return Basis accounted as sale for increase in price)			
	Sales A/c….Dr (80 Containers* Rs. 1200)		96000	
	To Customer's A/c			96000
	(Being reversal of Sales on Balance Sheet date for goods unsold)			

Date	Particulars	LF	Debit	Credit
	Stock With Customer on Approval Basis A/c….Dr (80 Containers* Rs. 900)		72000	
	To Trading A/c			72000
	(Being Stock Lying with Customer Sent on Approval Basis)			

ILLUSTRATION 4

E Ltd. sends out its accounting machines costing Rs.200 each to their customers on Sales or Return basis. 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 March 24, 2020, 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 March 31, 2020.

In The Books of E Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
	To Sales A/c (90 Machines * 30)		2700	
	To Trade Receivables A/c			2700
	(Being Goods sent on Sale or return Basis accounted as sale for reduction in price)			
	Sales A/c….Dr (210 Machines * Rs. 280)		58800	
	To Trade Receivables A/c			58800
	(Being reversal of Sales on Balance Sheet date for goods unsold)			

Date	Particulars	LF	Debit	Credit
	Stock With Customer on Approval Basis A/c….Dr (210 Machines* Rs. 200)		42000	
	To Trading A/c			42000
	(Being Stock Lying with Customer Sent on Approval Basis)			

ILLUSTRATION 5

A sends out goods on an approval to few customers and include the same in the Sales Account. On 31.03.2020, the Trade Receivables balance stood at Rs.1,00,000 which included Rs.7,000 goods sent on approval against which no intimation was received during the year. The goods were sent out at 25% over and above cost price and were sent to-

Mr. X – Rs.4,000 and Mr. Y- Rs.3,000.

Mr. X sent intimation of acceptance on 30th April and Mr. Y returned the goods on 10th April, 2020.

Make the adjustment entries and show how these items will appear in the Balance sheet on 31st March, 2020. Show also the entries to be made during April, 2020. Value of Closing Inventories as on 31st March, 2020 was Rs.60,000.

In The Books of A
Journal Entries

Date	Particulars	LF	Debit	Credit
31/03/2020	Sales A/c…..Dr		7000	
	To X			4000
	To Y			3000
	(Being reversal of Sales on Balance Sheet date for goods unsold)			
31/03/2020	Stock With Customer on Approval Basis A/c….Dr		5600	
	To Trading A/c			5600
	(Being Stock Lying with Customers Sent on Approval Basis)			

Date	Particulars	LF	Debit	Credit
30/04/2020	X A/c….Dr		4000	
	To Sales A/c			4000
	(Being Entry for goods accepted by X sent on Approval basis)			

BALANCE SHEET (EXTRACT)				
AS ON 31-3-2020				
LIABILITIES	AMOUNT	ASSETS		AMOUNT
		Trade Receivables	100000	
		Less - Reversal	7000	93000
		Stock	60000	
		Add- Stock with customer		
		on sale or Return basis	5600	65600

ILLUSTRATION 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 (Rs.)	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.

Sale or Return A/c					
Date	Particulars	Amount	Date	Particulars	Amount
31/05/2016	**To Sundries – Sale**	24000	31/05/2016	**By Sundries as Per Sale or Return Day Book**	93000
15/06/2016	**To Sundries - Returned**	43000			
15/06/2016	**To Balance C/d (Bal Fig)**	26000			
		93000			

P for Sale or return A/c					
Date	Particulars	Amount	Date	Particulars	Amount
31/05/2016	To Sale or Return A/c	15000	31/05/2016	By Sale or Return A/c	15000
		15000			**15000**

ILLUSTRATION 7

On 31st December, 2020 Goods sold at a sale price of Rs.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.

In The Books of ......

Date	Particulars	LF	Debit	Credit
31/03/2016	Sales A/c....Dr		3000	
	To Ritu A/c			3000
	(Being reversal of Entry for goods sent on approval Basis)			
31/03/2016	Stock With Customer on Approval Basis A/c....Dr		2250	
	To Trading A/c			2250
	(Being Stock Lying with Customers Sent on Approval Basis)			

Working Note

Ascertainment of Price at Which Stock Lying With Customer to be recorded

Sr.No	Particulars	Amount
A	Sale Price of Goods Sent on Approval Basis	3000
B	Cost Price of Above Goods (3000/120*100)	2500
C	Market Price of Goods (B-10%)	2250

The above goods Will be recorded at Cost or Market price Whichever is lower that is 2250

ILLUSTRATION 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
10.12.2019	M/s. ABC	10,000	No information till 31.12.2019
12.12.2019	M/s. DEF	15,000	Returned on 16.12.2019
15.12.2019	M/s. GHI	12,000	Goods worth ₹ 2,000 returned on 20.12.2019
20.12.2019	M/s. DEF	16,000	Goods Retained on 24.12.2019
25.12.2019	M/s. ABC	11,000	Good Retained on 28.12.2019
30.12.2019	M/s. GHI	13,000	No information till 31.12.2019

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, 2020.

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

(a) Goods on "sales or return, sold and returned day books".

(b) Goods on sales or return total account.

In The Books of X							
Goods on Sales or return , Sold and Returned Day Book							
Date of Sending	Party	Amount	Date of sale	Amount of Sale	Date of Return	Amount of Return	Balance
10/12/2019	M/s. ABC	10000	25/12/2019	10000	-	-	-
12/12/2019	M/s. DEF	15000	-	-	16/12/2019	15000	-
15/12/2019	M/s. GHI	12000	30/12/2019	10000	20/12/2019	2000	-
20/12/2019	M/s. DEF	16000	24/12/2019	16000	-	-	-
25/12/2019	M/s. ABC	11000	28/12/2019	11000	-	-	-
30/12/2019	M/s. GHI	13000	-	-	-	-	13000
		77000		47000		17000	13000

Goods on Sales Or Return Total A/c

Date	Particulars	Amount	Date	Particulars	Amount
31/12/2019	To Sales	47000	31/12/2019	By Goods Sent on Sales or Return basis	77000
31/12/2019	To Returns	17000			
31/12/2019	To Bal C/d	13000			
		77000			77000

ILLUSTRATION 9 - PYP JAN 2021 (5 MARKS)

From the following information show the journal entries in the books of ABC Limited for the year ended 31st March, 2020:

(1) 100 units of goods costing ₹ 500 each sent to XYZ Limited on Sales or Return Basis @ ₹ 750 per unit. This transaction was however treated as actual sales in the books of accounts.

(2) Out of the above 100 units, only 60 units were accepted by XYZ Limited during the year @ ₹ 700 per unit. No information was received about acceptability of balance units by the year end.

In The Books of ABC Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
31-3-20	Sales A/c….Dr (60 units * 50)		3000	
	To XYZ limited A/c			3000
	(Being 60 units Accepted at Reduced Price			
31-3-20	Sales A/c….Dr (40*750)		30000	
	To XYZ limited A/c			30000
	(Being Reversal of Sale at year End)			

Date	Particulars	LF	Debit	Credit
31-3-20	Stock With Customer on Approval basis A/c….Dr		20000	
	To Trading A/c			20000
	(being goods Lying With Customer which were Sent on approval basis Included in Stock At Cost			

ISSUE OF DEBENTURES

DEBENTURES - MEANING

The word debenture represent amount lent to the company on which the company will have to pay a fixed amount of return. The word debenture is not defined precisely in the companies Act, 2013. **However 'debenture' includes debenture stock, bonds & any other securities of the company, whether constituting a charge on the assets of the company or not.**

A debenture can be defined as a bond issued by the company under its common seal, accepting the debt & containing the provision as the regards repayment of principle & interests.

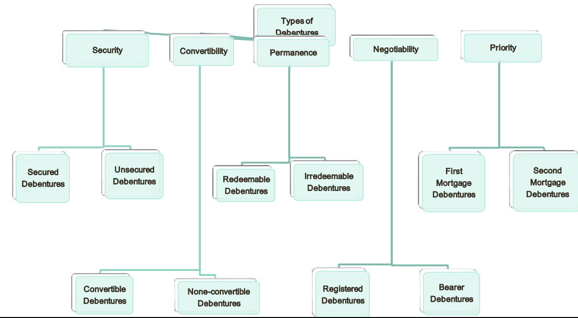
DEBENTURES - FEATURES

1. It is a document which evidences a loan made to a company.
2. It is a fixed interest-bearing security which falls due on specific dates.
3. Interest is payable at a predetermined fixed rate, regardless of the level of profit.
4. The original sum is repaid at a specified future date or it is converted into shares or other debentures.
5. It may or may not create a charge on the assets of a company as security.
6. It can generally be bought or sold through the stock exchange at a price above or below its face value.

DISTINCTION BETWEEN SHARES & DEBENTURES

Sr.No	SHARES	DEBENTURES
1	Shareholders are the owners of the company	Debentureholders are the creditors of the company
2	Shareholders have voting rights	Debenture holders do not have voting rights
3	Reward is the payment of dividend	Reward is the payment of Interest
4	Dividend on Shares is appropriation of Profits	Interest on Debentures is Charge against profits
5	Dividend on Shares is paid at a variable rate	Interest on Debentures is paid at a pre-determined fixed rate
6	Shares cannot be converted into debentures	Debentures can be converted into shares
7	Shares can be forfieted for non payment of allotment and call money	debentures cannot be forfieted for non payment of call money
8	Payment of share capital is made after the repayment of Debentures	payment of debentures is made before the payment of share capital

TYPES OF DEBENTURES



TYPE OF DEBENTURES

Secured Debentures

1. These debentures are secured by a charge upon some or all assets of the company.
2. There are two types of charges : (i) Fixed charge ; and (ii) Floating charge.
3. A fixed charge is a mortgage on specific assets. These assets cannot be sold without the consent of the debenture holders. The sale proceeds of these assets are utilized first for repaying debenture holders. A floating charge generally covers all the assets of the company including future one.

Unsecured or "Naked" Debentures

These debentures are not secured by any charge upon any assets. A company merely promises to pay interest on due dates and to repay the amount due on maturity date. These types of debentures are very risky from the view point of investors.

TYPE OF DEBENTURES

Convertible Debentures

1. These are debentures which will be converted into equity share (either at par or premium) after a certain period of time from the date of its issue.
2. These debentures may be fully or partly convertible. In future, these debenture holders get a chance to become the shareholders of the company.

Non-Convertible Debentures

These are debentures which cannot be converted into shares in future. As per the terms of issue, these debentures are repaid.

TYPE OF DEBENTURES

Redeemable Debentures
These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.

Irredeemable Debentures
These debentures are not repayable during the life time of the company. These are also called Perpetual debentures. These are repaid only at the time of liquidation.

TYPE OF DEBENTURES

Registered Debentures
1. These debentures are payable to registered holder whose name, address and particulars of holdings is recorded in the Register of Debenture holders.
2. They are not easily transferable. The provisions of the Companies Act, 2013 are to be complied with for effecting transfer of these debentures.
3. Debentures interest is paid to the order of registered holders as expressed in the warrant issued by the company.

Bearer Debentures
1. These debentures are transferable by delivery. These are negotiable instruments payable to the bearer.
2. No kind of record is kept by the company in respect of the holders of such debentures. Therefore, the interest on it is paid to the holder irrespective of any identity.

TYPE OF DEBENTURES

First Mortgage Debentures
These debentures are payable first out of the property charged.

Second Mortgage Debentures
These debentures are payable after satisfying the first mortgage debentures.

ISSUE OF DEBENTURES

The issue of Debentures can be categorized into the Following –

1. Debentures Issued at Par & Redeemable at Par.
2. Debentures Issued at Premium & Redeemable at Par.
3. Debentures Issued at Discount & Redeemed at Par
4. Debenture Issued at Par & Redeemable at Premium
5. Debenture Issued at Discount & Redeemable at premium
6. Debenture Issued at Premium & Redeemable at premium.

DEBENTURES ARE ISSUED AT PAR AND REDEEMABLE AT PAR

1. Debentures are said to have been issued at par when the issue price is equal to the face value.
2. Debentures are said to be redeemable at par when the redeemable value is equal to face value.
3. Example – An issue of debenture of Rs. 100 at Rs. 100 redeemable at 100.

Accounting Entries

Sr.No	Case	Accounting Entry
1	Application Money Received	Bank A/c.......Dr To Debenture Application A/c
2	Allotment of Debentures	Debenture Application A/c........Dr Debenture Allotment A/c........Dr To ....% Debentures
3	Allotment Money Received	Bank A/c.............Dr To Debenture Allotment A/c
4	Call Money Due	Debenture Call A/c.........Dr To ....% Debentures A/c
5	Call Money Received	Bank A/c.............Dr To Debenture Call A/c

ILLUSTRATION 1

Amol Ltd. issued 40,00,000, 9% debentures of ₹50 each, payable on application as per term mentioned in the prospectus and redeemable at par any time after 3 years from the date of issue. Record necessary entries for issue of debentures in the books of Amol Ltd.

JOURNAL BOOK

(Rs. In Lakhs)

SR.NO	PARTICULARS	L.F	DEBIT	CREDIT
1	Bank A/c.....Dr (4000000*50)		2000	
	To Debenture Application & Allotment A/c			2000
	(Being Application money Received)			
2	Debenture Application & Allotment A/c....Dr		2000	
	To 9% Debentures A/c			2000
	(Being 4000000 Debentures issued at Par)			
			4000	4000

DEBENTURES ARE ISSUED AT PREMIUM AND REDEEMABLE AT PAR

1. Debentures are said to have been issued at premium but redeemable at par when the issue price is more than the face value but redeemable value is equal to face value.
2. Example – An issue of debenture of Rs. 100 at Rs. 110 and redeemable at 100.

Accounting Entries

Sr.No	Case	Accounting Entry
1	Application Money Received	Bank A/c.......Dr To Debenture Application A/c
2	Allotment of Debentures	Debenture Application A/c........Dr Debenture Allotment A/c........Dr To ....% Debentures A/c To Securities Premium A/c
3	Allotment Money Received	Bank A/c.............Dr To Debenture Allotment A/c
4	Call Money Due	Debenture Call A/c.........Dr To ....% Debentures
5	Call Money Received	Bank A/c.............Dr To Debenture Call A/c

ILLUSTRATION 2

Koinal Chemicals Ltd. issued 15,00,000, 10% debenture of ₹50 each at premium of 10%, payable as ₹20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in application money

JOURNAL BOOK

SR.NO	PARTICULARS	L.F	DEBIT	CREDIT
1	Bank A/c.....Dr (1500000*20)		30000000	
	To Debenture Application A/c			30000000
	(Being Application money Received)			
2	Debenture Application A/c....Dr		30000000	
	Debenture Allotment A/c...Dr (1500000*35)		52500000	
	To 10% Debentures A/c (1500000*50)			75000000
	To Securities Premium Reserve A/c (1500000*5)			7500000
	(Being 1500000 Debentures issued at Premium)			
3	Bank A/c....Dr		52500000	
	To Debenture Allotment A/c			52500000
	(Being Allotment money Received)			
			165000000	165000000

DEBENTURES ARE ISSUED AT DISCOUNT AND REDEEMABLE AT PAR

1. Debentures are said to have been issued at discount but redeemable at par when the issue price is less than the face value but redeemable value is equal to face value.
2. Example – An issue of debenture of Rs. 100 at Rs. 90 and redeemable at 100

Accounting Entries

Sr.No	Case	Accounting Entry
1	Application Money Received	Bank A/c.......Dr To Debenture Application A/c
2	Allotment of Debentures	Debenture Application A/c........Dr Debenture Allotment A/c........Dr Discount on Issue of Debentures A/c....Dr To ....% Debentures A/c
3	Allotment Money Received	Bank A/c............Dr To Debenture Allotment A/c
4	Call Money Due	Debenture Call A/c.........Dr To ....% Debentures
5	Call Money Received	Bank A/c............Dr To Debenture Call A/c

ILLUSTRATION 3

Atul Ltd. issued 1,00,00,000, 8% debenture of ₹100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 30 on application

₹ 60 on allotment

Record necessary journal entries regarding issue of debenture.

JOURNAL BOOK				
SR.NO	PARTICULARS	L.F	DEBIT	CREDIT
1	Bank A/c…..Dr (10000000*30)		300000000	
	To Debenture Application A/c			300000000
	(Being Application money Received)			
2	Debenture Application A/c…..Dr		300000000	
	Debenture Allotment A/c….Dr (10000000*60)		600000000	
	Discount on Issue of Debentures A/c (10000000*10)		100000000	
	To 8% Debentures A/c (10000000*100)			1000000000
	(Being Debentures issued at Discount)			
3	Bank A/c…..Dr		600000000	
	To Debenture Allotment A/c			600000000
	(Being Allotment money Received)			
			1900000000	1900000000

DEBENTURES ARE ISSUED AT PAR AND REDEEMABLE AT PREMIUM

1. Debentures are said to have been issued at par but redeemable at premium when the issue price is equal to face value but redeemable value is more than the face value.

2. Example – An issue of debenture of Rs. 100 at Rs. 100 and redeemable at 110.

3. The difference between the redeemable value and issue value is treated as loss on issue of debentures at the time of allotment of debentures.
   Loss on Issue of debentures in above example shall be Rs. 10.

4. The amount of premium payable on redemption of debentures is credited to a separate account called “Debenture Redemption Premium A/c”. The said account shall appear on the liability side of the balance sheet till the debentures are redeemed.

Accounting Entries

Sr.No	Case	Accounting Entry
1	Application Money Received	Bank A/c…….Dr To Debenture Application A/c
2	Allotment of Debentures	Debenture Application A/c……..Dr Debenture Allotment A/c……..Dr Loss on Issue of Debentures A/c……Dr (Premium Payable on redemption) To ….% Debentures A/c To Debenture Redemption Premium A/c (Premium Payable on Redemption)
3	Allotment Money Received	Bank A/c…………Dr To Debenture Allotment A/c
4	Call Money Due	Debenture Call A/c………Dr To ….% Debentures
5	Call Money Received	Bank A/c…………Dr To Debenture Call A/c

ILLUSTRATION 4

Modern Equipments Ltd. issued 4,00,000, 12% debentures of ₹ 100 payable as follows :

On application	*₹ 30*
On allotment	*₹ 70*

The debenture were fully subscribed and all the money was duly received. As per the terms of issue, debentures are redeemable at ₹110 per debenture. Record necessary entries regarding issue of debentures.

JOURNAL BOOK				
SR.NO	PARTICULARS	L.F	DEBIT	CREDIT
1	Bank A/c…..Dr (400000*30)		12000000	
	To Debenture Application A/c			12000000
	(Being Application money Received)			
2	Debenture Application A/c….Dr		12000000	
	Debenture Allotment A/c…Dr (400000*70)		28000000	
	Loss on Issue of Debentures A/c…..Dr (400000*10)		4000000	
	To 12% Debentures A/c (400000*100)			40000000
	To Debenture Redemption Premium A/c (400000*10)			4000000
	(Being Debentures allotted & liability created for			
	redemption on premium)			
3	Bank A/c….Dr		28000000	
	To Debenture Allotment A/c			28000000
	(Being Debenture Allotment money receieved)			
			84000000	84000000

DEBENTURES ARE ISSUED AT DISCOUNT AND REDEEMABLE AT PREMIUM

1. Debentures are said to have been issued at discount but redeemable at premium when the issue price is less than the face value but redeemable value is more than the face value.

2. Example – An issue of debenture of Rs. 100 at Rs.90 and redeemable at 110.

3. The difference between the redeemable value and issue value is treated as loss on issue of debentures at the time of allotment of debentures.
   Loss on Issue of debentures in above example shall be Rs. 20.

4. The amount of premium payable on redemption of debentures is credited to a separate account called "Debenture Redemption Premium A/c". The said account shall appear on the liability side of the balance sheet till the debentures are redeemed.

Accounting Entries

Sr.No	Case	Accounting Entry
1	Application Money Received	Bank A/c…….Dr To Debenture Application A/c
2	Allotment of Debentures	Debenture Application A/c……..Dr Debenture Allotment A/c……..Dr Loss on Issue of Debentures A/c……Dr (Disc. Allowed + Premium Payable on redemption) To ….% Debentures A/c To Debenture Redemption Premium A/c (Premium Payable on Redemption)
3	Allotment Money Received	Bank A/c…………Dr To Debenture Allotment A/c
4	Call Money Due	Debenture Call A/c………Dr To ….% Debentures
5	Call Money Received	Bank A/c…………Dr To Debenture Call A/c

ILLUSTRATION 5

Agrotech Ltd. issued 150 lakh 9% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ₹50 on application and ₹ 44 on allotment. Record necessary journal entries for issue of debentures.

JOURNAL BOOK				
				(RS IN CRORES)
SR.NO	PARTICULARS	L.F	DEBIT	CREDIT
1	Bank A/c…..Dr (15000000*50)		75	
	To Debenture Application A/c			75
	(Being Application money Received)			
2	Debenture Application A/c…..Dr		75	
	Debenture Allotment A/c….Dr (15000000*44)		66	
	Loss on issue of Debentures A/c (15000000*11)		16.5	
	To 9% Debentures A/c (15000000*100)			150
	To Debenture Redemption premum A/c (15000000*5)			7.5
	(Being Debenture issued at Discount to be			
	redeemed at premium)			
3	Bank A/c….Dr		66	
	To Debenture Allotment A/c			66
	(Being Allotment money received)			
			298.5	298.5

DEBENTURES ARE ISSUED AT PREMIUM AND REDEEMABLE AT PREMIUM

1. Debentures are said to have been issued at premium and redeemable at premium when both the issue price and redeemable value is more than the face value.

2. Example – An issue of debenture of Rs. 100 at Rs.105 and redeemable at 110.

3. The difference between the redeemable value and face value is treated as loss on issue of debentures at the time of allotment of debentures.
   Loss on Issue of debentures in above example shall be Rs. 10.

4. The amount of premium payable on redemption of debentures is credited to a separate account called "Debenture Redemption Premium A/c". The said account shall appear on the liability side of the balance sheet till the debentures are redeemed.

Sr.No	Case	Accounting Entry
1	Application Money Received	Bank A/c…….Dr To Debenture Application A/c
2	Allotment of Debentures	Debenture Application A/c……..Dr Debenture Allotment A/c……..Dr Loss on Issue of Debentures A/c……Dr (Premium Payable on redemption) To ….% Debentures A/c To Securities Premium A/c (Premium on Issue) To Debenture Redemption Premium A/c (Premium Payable on Redemption)
3	Allotment Money Received	Bank A/c…………..Dr To Debenture Allotment A/c
4	Call Money Due	Debenture Call A/c………Dr To ….% Debentures
5	Call Money Received	Bank A/c…………..Dr To Debenture Call A/c

ILLUSTRATION 6

X Ltd. Issued 10000, 12% Debentures of Rs 100 each at 6% premium, redeemable at 6% premium after 5 years, payable as Rs 60 on application and the balance on allotment. The debentures were fully subscribed and all money was duly received.

Required : Prepare Journal

JOURNAL BOOK

SR.NO	PARTICULARS	L.F	DEBIT	CREDIT
1	Bank A/c…..Dr (10000*60)		600000	
	To Debenture Application A/c			600000
	(Being Application money Received)			
2	Debenture Application A/c…..Dr		600000	
	Debenture Allotment A/c….Dr (10000*46)		460000	
	Loss on issue of Debentures A/c (10000*6)		60000	
	To 12% Debentures A/c (10000*100)			1000000
	To Securities Premium Reserve A/c (10000*6)			60000
	To Debenture Redemption premum A/c (10000*6)			60000
	(Being Debenture issued at premium to be redeemed at premium)			
3	Bank A/c….Dr		460000	
	To Debenture Allotment A/c			460000
	(Being Allotment money received)			
			2180000	2180000

ISSUE OF DEBENTURES AS A COLLATERAL SECURITY

1. Collateral security means secondary or supporting security for a loan, which can be realized by the lender in the event of the original loan not being repaid on the due date.
2. Under this arrangement, the borrower agrees that a particular asset or a group of assets will be realized and the proceeds there from will be applied to repay the loan in the event that the amount due, cannot be paid.
3. Sometimes companies issue their own debentures as collateral security for a loan or a fluctuating overdraft. In case, the company cannot repay its loan and the interest thereon on the due date, the lender becomes the debenture holder who can exercise all the rights of a debenture holder.
4. The holder of such debentures (given as a collateral security) is entitled to interest only on the amount of loan, but not on the debentures.
5. There are two methods of showings these type of debentures in the accounts of a company.

<u>Method 1</u>

Under this method, no entry is made in the books of account of the company at the time of making issue of such debentures. In the 'Notes to Account' of Balance Sheet, the fact of the debentures being issued and outstanding is shown by a note under the liability secured.

<u>Method 2</u>

Under this method, the following entry is made to record the issue of such debentures :

Debentures Suspense Account……..Dr.

To Debentures Account

The Debentures Suspense Account will appear on the assets side of the Balance sheet and Debentures on the liabilities side of the Balance Sheet. When the loan is repaid, the entry is reversed in order to cancel it.

ILLUSTRATION 7

X Ltd. Obtains a Loan from IDBI of Rs.1,00,00,000, giving as collateral security of Rs.1,50,00,000 (of Rs.10 each), 14%, First Mortgage Debentures. Give Journal Entry and relevant disclosures in Balance Sheet.

Balance Sheet of X Limited as at…. (Extracts)

	Particulars		Notes No.	Rs.	
	EQUITY AND LIABILITIES				
(i)	**Non-Current Liabilities**				
	Long Term Borrowings		1	2,50,00,000	
		Total		**2,50,00,000**	
	ASSETS				
(ii)	Non-current Assets				
	Other Non-current Assets		2	1,50,00,000	
(iii)	Current Assets				
	Cash and Cash Equivalent			1,00,00,000	
		Total		**2,50,00,000**	
	Notes to accounts				
				Rs.	**Rs.**
(i)	**Long Term Borrowings**				
	Secured Loan				
	IDBI Loan			1,00,00,000	
	14% First Mortgage Debentures			1,50,00,000	**2,50,00,000**
(ii)	**Other Non-current Assets**				
	Debenture Suspense Account				
	(Issue of Rs.15,00,000 14% first debentures as collateral security as per contra)				**1,50,00,000**

ISSUE OF DEBENTURES IN CONSIDERATION OTHER THAN CASH

Just like Shares, debentures can also be issued for consideration other than for cash, such as for purchase of land, machinery, etc.

Sr.No	Case	Accounting Entry
1	**Purchase of Business / Acquisition of Assets**	Sundry Assets A/c………Dr To Sundry Liabilities A/c To Vendor's A/c
2	**Issue of Debentures in Consideration**	Vendor's A/c……..dr To ….% Debentures A/c

ILLUSTRATION 8

X Ltd. Took over the assets of Rs 660000 and liabilities of Rs 80000 of Y Ltd. For an agreed purchase consideration of Rs 600000 payable 10% in cash and the balance by the issue of 15% Debentures of Rs 100 each, Shown the necessary journal entries in the books of X Ltd., assuming that—

Case (a) Such Debenture are issued at par;

Case (b) Such Debenture are issued at 20% premium; and

Case (c) Such Debentures are issued at 10% discount;

JOURNAL BOOK

SR.NO	PARTICULARS	L.F	DEBIT	CREDIT
1	Assets A/c…..Dr		660000	
	Goodwill A/c….Dr		20000	
	To Liabilities A/c			80000
	to Y Ltd			600000
	(Being Consideration Payable for purchase			
	of Business)			
2	Y Ltd A/c…..Dr		60000	
	To Cash/Bank A/c			60000
	(Being 10% Consideration paid in Cash)			
CASE A	Y Ltd A/c…..Dr		540000	
	To 15% Debentures A/c			540000
	(Being 5400 Debentures issued at par)			
CASE B	Y Ltd A/c…..Dr		540000	
	To 15% Debentures A/c (4500*100)			450000
	To Securities Premium Reserve A/c			90000
	(Being 4500 Debentures issued at premium)			
CASE C	Y Ltd A/c…..Dr		540000	
	Discount on Issue of Debentures A/c		60000	
	To 15% Debentures A/c (6000*100)			600000
	(Being 6000 Debentures issued at Discount)			
			2420000	2420000

Working Note

Statement Showing No of Debentures to be issued

SR.NO	PARTICULARS	CASE A	CASE B	CASE C
A	Consideration Payable in Debentures	540000	540000	540000
B	Issue Price Per Debenture	100	120	90
C	No. Of Debentures to be Issued	5400	4500	6000
	(A/B)	Deb	Deb	Deb

ILLUSTRATION 9

X company Limited issued 10,000 14% Debentures of the nominal value of 50,00,000 as follows –

a) To sundry persons for cash at 90% of nominal value of Rs. 25,00,000
b) To a vendor For purchase of fixed assets worth Rs. 10,00,000- 12,50,000 nominal value
c) To the banker as Collateral security for a loan of Rs 10,00,000- 12,50,000 nominal value.
Pass necessary journal entries

JOURNAL BOOK

SR.NO	PARTICULARS	L.F	DEBIT	CREDIT
A	Bank A/c….Dr		2250000	
	Discount on Issue of Debentures A/c		250000	
	To 14% Debentures A/c			2500000
	(Being issue of 5000 14% debentures at Discount)			
B	Fixed Assets A/c….Dr		1000000	
	To vendor A/c			1000000
	(Being purchase of Fixed Assets from vendor)			
	Vendor A/c….Dr		1000000	
	Discount on Issue of Debentures A/c		250000	
	To 14% Debentures A/c			1250000
	(Being issue of 2500 14% debentures at Discount)			
C	Debenture Suspense A/c….Dr		1250000	
	To 14% Debentures A/c			1250000
	(Being issue of 2500 14% debentures as a collateral Security against Bank Loan)			
			6000000	6000000
	Bank A/c…..Dr		1000000	
	To Bank Loan A/c			1000000
	(Being loan Received)			

TREATMENT OF DISCOUNT/ LOSS ON ISSUE OF DEBENTURES

1. The discount on issue of debentures is amortized over a period between the issuance date and redemption date.
2. It should be written-off in the following manner depending upon the terms of redemption :

a) If the debentures are redeemable after a certain period of time, say at the end of 5 or 10 year, the total amount of discount should be written-off **equally** throughout the life of the debentures (applying the straight line method). The main advantage of this method is that it spreads the burden of discount equally over the year.

b) If the debentures are redeemable at different dates, the total amount of discount should be written-off in the ratio of benefit derived from debentures loan in any particular year (applying the sum of the year's digit method). This is suitable when debentures are redeemed by unequal installments.

c) If the debentures are irredeemable, the discount should be written-off gradually over a long period.

3. Loss on issue of debentures is also a capital loss and should be written-off in a similar manner as discount on debentures issued.
4. In the balances sheet both the items are shown as Non-current/ current assets depending upon the period for which it has to be written off.

ILLUSTRATION 10

HDC Ltd. issues 2,00,000, 12% Debentures of ₹10 each at ₹9.40 on 1st January, 2020. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2020. Calculate the amount of discount to be written-off from 2020 to 2024.

Amount of Discount to be W/off = 200000*0.6 = 120000

STATEMENT SHOWING DISCOUNT TO BE WRITTEN EACH YEAR

YEAR	OPENING BALANCE OF DEBENTURES	AMOUNT OF DEBENTURES USED	AMOUNT OF DEBENTURES REDEEMED	CLOSING BALANCE OF DEBENTURES	RATIO OF USAGE	AMOUNT OF DISCOUNT TO BE W/OFF
A	B	C	D	E = B-D	F	G = F/60*120000
1	2000000	2000000	400000	1600000	20	40000
2	1600000	1600000	400000	1200000	16	32000
3	1200000	1200000	400000	800000	12	24000
4	800000	800000	400000	400000	8	16000
5	400000	400000	400000	0	4	8000
					60	120000

INTEREST ON DEBENTURES

1. Interest Payable on Debenture is treated as a charge against the profits of the company.
2. Interest on debenture is paid periodically and is calculated at coupon rate on the nominal value of debentures.
3. The company will pay interest net of tax to the debenture holders because the company is under obligation to deduct tax at source at the rates applicable under tax rules from time to time. The companies will deposit the tax so deducted with income tax authorities.

Sr.No	Case	Accounting Entry
1	**Making Interest Due**	Interest a/c…………Dr To Debenture holders A/c
2	**Making Payment of Interest and Deduction of Tax at Source**	Debenture holders A/c………Dr To TDS Payable A/c To Bank A/c
3	**Making Payment of Tax Deducted At Source**	TDS Payable A/c…………Dr To Bank A/c
4	**Transfer of Interest to Profit & Loss A/c**	Profit & Loss A/c……Dr To Interest A/c

ILLUSTRATION 11

A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2017. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass journal entries for the accounting year 2020.

JOURNAL BOOK

DATE	PARTICULARS	L.F	DEBIT	CREDIT
30/06/2020	Interest on Debentures A/c…..Dr		60000	
	To Debentureholders A/c			60000
	(Being Interest on debentures payable)			
30/06/2020	Debentureholders A/c….Dr		60000	
	To TDS Payable A/c			6000
	To Bank A/c			54000
	(Being interest paid to debentureholders net of TDS)			
30/06/2020	TDS payable A/c…Dr		6000	
	To Bank A/c			6000
	(Being TDS Paid to Government)			

31/12/2020	Interest on Debentures A/c.....Dr		60000	
	To Debentureholders A/c			60000
	(Being Interest on debentures payable)			
31/12/2020	Debentureholders A/c....Dr		60000	
	To TDS Payable A/c			6000
	To Bank A/c			54000
	(Being interest paid to Debentureholders net of TDS)			
31/12/2020	TDS payable A/c...Dr		6000	
	To Bank A/c			6000
	(Being TDS Paid to Government)			
31/12/2020	P/L A/c....Dr		150000	
	To Loss on Issue of Debentures A/c			30000
	To Interest on Debentures A/c			120000
	(Being Loss & Interest on Debentures transferred to P/L A/c)			

ILLUSTRATION 12 - MTP DEC 2021 SERIES 1 (5 MARKS)

On 1st April, 2020, Sky ltd. took over assets of ₹ 4,50,000 and liabilities of ₹ 60,000 of Universe Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debentures of ₹ 100 each at 10% premium. On the same date it issued another 3,000,8% debentures of ₹ 100 at discount of 10% redeemable at the premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment of debenture.

You are required to pass journal entries in the books of Sky ltd. for financial year 2020-21.

In the Books of Sky Ltd

Journal Entries

Date	PARTICULARS	L.F	DEBIT	CREDIT
01/04/2020	Sundry Assets A/c.....Dr		450000	
	Goodwill A/c......Dr		50000	
	To Sundry Liabilities A/c			60000
	To Universe Limited A/c			440000
	(Being Assets & liabilities Taken Over at a Consideration of 440000			
01/04/2020	Universe Limited A/c......Dr		440000	
	To 8% Debentures A/c (4000*100)			400000
	To Securities Premium Reserve A/c (4000*10)			40000
	(Being 4000 Debentures alloted to universe limited at a Premium of 10%			

01/04/2020	Bank A/c......Dr (3000*30)		90000	
	To Debenture Application A/c			90000
	(Being Application Money Received on 3000 Debentures at 30 Each)			
01/04/2020	Debenture Application A/c....Dr		90000	
	Debenture Allotment A/c....Dr (3000*60)		180000	
	Loss on Issue of Debentures A/c (3000*15)		45000	
	To 8% Debentures A/c (3000*100)			300000
	To Debenture Redemption Premium A/c (3000*5)			15000
	(Being 3000 8% Debentures Alloted at 10% Discount to Be redeemed after 5 years at a premium of 5%)			

31/03/2021	Securities Premium Reserve A/c....Dr		40000	
	Profit & Loss A/c....Dr		5000	
	To Loss on Issue of Debentures A/c			45000
	(Being Securities Premium used to Sett off Loss on Issue of Debentures to the Extent Available & balance Loss Debited to P/L A/c)			

Note

1. No Entry For Interest on Debentures Passed as necessary Information Not Provided
2. Securities Premium Reserve used to Sett off Loss on Issue of Debentures as per Section 52 of Companies Act 2013

PARTNERSHIP ACCOUNTS

BIRDS EYE VIEW

- Meaning of Partnership
- Features of Partnership
- Partnership Deed – Meaning & Contents
- Limited Liability Partnership
- Distinction Between Partnership Firm & LLP
- Provisions of Partnership Act, 1932 Affecting Accounting Treatment
- P/L Appropriation A/c – Meaning & Purpose
- Methods of Maintaining Capital Accounts of Partners
- Interest on Capital to Partners
- Interest on Drawings
- Interest on Partner's Loan to the Firm
- Salary or Commission to partner
- Minimum or Guarantee profit
- Past Adjustments

PROVISION AFFECTING ACCOUNTING TREATMENT

Law does not make it obligatory for the partners to reduce in writing all the terms and conditions. In the absence of any such agreement, the Indian Partnership Act , 1932 provides following provisions –

- **Every partner is entitled to share profits equally.**
- **No partner is entitled to interest on capital.**
- **No interest on drawings is to be charged by the firm to a partner.**
- **A partner is not entitled to any salary for taking part in carrying on the firm's business.**
- **A partner is entitled to interest on advances (over and above the agreed capital contribution) at the rate of six per cent per annum.**
- **Every partner being joint owner of partnership, is entitled to have equal share in the property.**

ILLUSTRATION 1 - SM

Weak, Able and Lazy are in partnership sharing profits and losses in the ratio of 2:1:1. It is agreed that interest on capital will be allowed @ 10% per annum and interest on drawings will be charged @ 8 % per annum. (No interest will be charged/allowed on Current Accounts).

The following are the particulars of the Capital and Drawings Accounts of the partners:

	Weak	Able	Lazy
	₹	₹	₹
Capital (1.1.2019)	75,000	40,000	30,000
Current Account (1.1.2019)	10,000	5,000	(Dr.) 5,000
Drawings	15,000	10,000	10,000

The draft accounts for 2019 showed a net profit of ₹ 60,000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

The draft accounts for 2019 showed a net profit of ₹ 60,000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

(a) Life Insurance premium of Weak amounting to ₹ 750 paid by the firm on 30th June, 2019 has been charged to Miscellaneous Expenditure A/c.

(b) Repairs of Machinery amounting to ₹ 10,000 has been debited to Plant Account and depreciation thereon charged @ 20%.

(c) Travelling expenses of ₹ 3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June, 2019 has been debited to Travelling Expenses Account.

You are required to prepare the Profit and Loss Appropriation Account, Current Accounts of partners Weak, Able and Lazy for the year ended 31st December, 2019.

Profit & Loss Appropriation A/c

Particulars		Amount	Particulars		Amount
To Interest on Capital			By Profit & Loss A/c		55750
Weak	7500		(60000+750-8000+3000)		
Able	4000		**By Interest on Drawings**		
Lazy	3000	14500	Weak	630	
			Able	520	
To Profit trf to Current A/c			Lazy	400	1550
Weak	21400				
Able	10700				
Lazy	10700	42800			
		57300			**57300**

Partners Current A/c

Particulars	Weak	Able	Lazy	Particulars	Weak	Able	Lazy
To Balance B/d	-	-	5,000	By Balance B/d	10000	5000	-
To Cash (Drawings)	15,000	10,000	10,000	By Interest on Capital	7,500	4000	3,000
To Drawings	750	3000	-	By p/L Appropriation A/c	21,400	10700	10,700
To Interest on Drawings	630	520	400	By Balance C/d (Bal Fig)	-	-	1,700
To Balance C/d (Bal Fig)	22,520	6,180	-				
	38,900	**19,700**	**15,400**		**38,900**	**19,700**	**15,400**

ILLUSTRATION 2 -SM

Ram and Rahim are in partnership sharing profits and losses in the ratio of 3:2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the chief clerk of the firm, Ratan, is admitted as a partner with effect from 1st January, 2019, and becomes entitled to 1/10th of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered.

Before becoming a partner, Ratan was getting a salary of ₹ 500 p.m. together with a commission of 4% on the net profits after deducting his salary and commission.

It is provided in the partnership deed that the share of Ratan's profits as a partner in excess of the amount to which he would have been entitled if he had continued as the chief clerk, should be taken out of Ram's share of profits.

The net profit for the year ended December 31, 2019 is ₹ 1,10,000. Show the distribution of net profit amongst the partners.

Profit & Loss Appropriation A/c

Particulars		Amount	Particulars	Amount
To Ram	60000		By P/L A/c	110000
Less - to be given to Ratan	1000	59000		
To Rahim		40000		
To Ratan (Salary + Comm)	10000			
Add - Receive from Ram	1000	11000		
		110000		**110000**

Statement Showing Amount Payable to Ratan if he had Continued as Clerk

Particulars	Amount
A. Salary (500*12)	6000
B. Commission (104000/104*4)	4000
C. Total Amount Payable as Clerk (A+B)	10000

ILLUSTRATION 3 - PYP DEC 2021 (5 MARKS)

A, B and C are partners in a firm. On 1st April, 2019, their fixed capital stood at Rs. 50,000 , Rs. 25,000 and Rs. 25,000 respectively.

As per the provision of partnership deed:

1. C was entitled for a salary of Rs. 5,000 p.a.
2. All the partners were entitled to interest on capital at 5%p.a.
3. Profits and losses were to be shared in the ratio of Capitals of the partners.

Net profit for the year ended 31st March, 2020 of Rs. 33,000 and 31st March, 2021 of Rs. 45,000, was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors.

Particulars	A	B	C	Total Profit of firm
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2019-20,2020-21)	26,000	26,000	26,000	78,000
II. Amount which should have been credited:				
C's Salary (2019-20,2020-21)			10,000	
Interest on Capital (2019-20,2020-21)	5,000	2,500	2,500	
Share of Profit	29,000	14,500	14,500	58,000
	34,000	17,000	27,000	
Net effect (I-II)	(8,000)	9,000	(1,000)	-

ILLUSTRATION 4 - RTP MAY 2021

Rose, Lilly and Lotus start business with capital of ₹ 2,00,000/-, ₹ 3,00,000/- and ₹4,00,000 on 1st April 2019. Lotus is entitled to a salary of ₹ 50,000 per annum. Interest is allowed on capitals at 12% p.a. and is charged on drawings at 12% per annum. Profits are to be distributed in the ratio 1:2:3 after the above-mentioned adjustments. Rose was given guarantee of minimum profit of ₹ 50,000 by Lotus. Partners drawings during the year were Rose ₹ 40,000/-Lilly ₹ 30,000/- Lotus ₹ 20,000/-. Lotus had paid ₹ 10,000/- as tuition fees of his son on 31st March 2020, which was wrongly debited to salaries account. The profit for the year 2019-20 before allowing interest on capital and charging interest on drawings and salary paid to Lotus was ₹3,34,600/-. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

In the Books of Rose, Lilly and Lotus

Profit and Loss Appropriation A/c for the Year ended 31st March, 2020

Particulars	₹	Particulars	₹
To Salary to Lotus	50,000	By Net Profit b/d 3,34,600	
To Interest on capital		Add: Drawings of	
Rose 24,000		Lotus wrongly debited	
Lilly 36,000		as salaries 10,000	3,44,600
Lotus 48,000	1,08,000		
		By Interest on drawings	
To Net Profit transferred to		Rose 2,400	
Rose 50,000		Lilly 1,800	
Lilly 64,000		Lotus 1,200	5,400
Lotus 78,000	1,92,000		
	3,50,000		**3,50,000**

Partners' Capital Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Balance c/d	2,00,000	3,00,000	4,00,000	By Bank	2,00,000	3,00,000	4,00,000
	2,00,000	**3,00,000**	**4,00,000**		**2,00,000**	**3,00,000**	**4,00,000**
				By balance b/d	2,00,000	3,00,000	4,00,000

Partners' Current Accounts

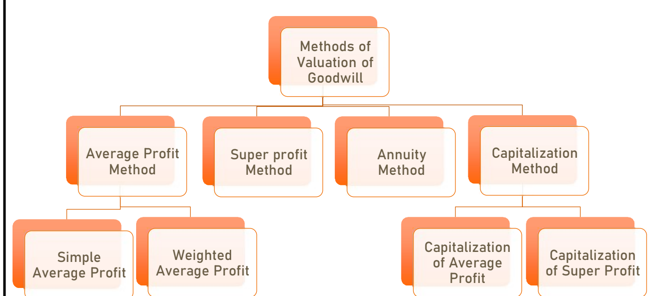
Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Tuition fees			10,000	By Interest on capital	24,000	36,000	48,000
To Drawings	40,000	30,000	20,000	By Salary			50,000
To Interest on drawings	2,400	1,800	1,200	By Net Profit	50,000	64,000	78,000
To balance c/d	31,600	68,200	1,44,800				
	74,000	**1,00,000**	**1,76,000**		**74,000**	**1,00,000**	**1,76,000**
				By balance b/d	31,600	68,200	1,44,800

PARTNERSHIP VALUATION OF GOODWILL

BIRDS EYE VIEW

- Goodwill – Meaning
- Nature of Goodwill
- Factors Affecting Goodwill
- Need For Valuation of Goodwill
- **Methods of Valuation of Goodwill** – Average Profit Method , Super Profit Method , Annuity Method , Capitalization Method.

METHODS OF VALUATION OF GOODWILL



AVERAGE PROFIT METHOD

- Under this method goodwill is valued on the basis of certain number of years' purchase of the average annual profits of the past years. While calculating past profits any abnormal gain is excluded by deducting from past profits and any abnormal loss is excluded by adding to the past profits. Thus

  Goodwill = Average Annual Profit X Number of Years's Purchase.

- For ascertaining Average Annual Profit , either simple average or weighted average may be employed depending upon the circumstances . If there exists clear increasing or decreasing trend of profits , it is better to give more weight to the profits of the recent years than those of earlier years. But if there is no clear trend of profit , it is better to go by simple average.

- This method of goodwill is not usually followed in practice, as the goodwill is really attached with the profit, over and above the normal level of profit. Under this method there will be a value attached to the goodwill, even though an enterprise is not earning normal or expected profits.

SUPER PROFIT METHOD

- Goodwill under this method is ascertained by multiplying the super profits by certain number of year's purchase. While calculating past profits any abnormal gain is excluded by deducting from past profits and any abnormal loss is excluded by adding to the past profits. Thus

  Goodwill = Annual Super Profit X Number of Years's Purchase.
  Annual Super Profit = Average Annual Profit – Normal/Expected Annual Profit
  Normal/Expected Annual Profit = Average Capital Employed * Normal Rate of Return (%)

- If future maintainable profit is less than the normal expected profit, there is no super profit, hence no goodwill.

ANNUITY METHOD

Under this method, time value of money is considered. Time value of money is the difference between value of money at To (i.e. present date) and value of money at T1 (i.e. future date). Suppose it is expected that the super profits would be available to the firm for 5 years in this case, the value of super profits to be received in different 5 years would be different depending upon the rate of interest. Since there is a time gap between payment for goodwill at present date and the receipts of super profits at some future date, this method suggests to calculate the present value of future super profits.

Goodwill = Present value of goodwill arrived at under the Super Profits Method

CAPITALISATION METHOD

The goodwill under this method is ascertained by capitalizing either the **Super profits** or **Average profits.**

Capitalisation of Average Profits Method

Under this basis, value of whole business is determined applying normal rate of return. If such value (arrived at by applying normal rate of return) is higher than the capital employed in the business, then the difference is goodwill. The steps to be followed under this method are given below :

1. Determine the normal rate of return
2. Find out the average profit of the partnership firm for which goodwill is to be determined.
3. Determine the capital employed by the partnership firm for which goodwill is to be determined.
4. Fins out normal value of the business by dividing average profit by normal rate of return.
5. Deduct average capital employed from the normal value of the business to arrive at goodwill.

CAPITALISATION METHOD

In Short,
Goodwill = Value of Business – Capital Employed /Net Assets

Value of Business = Average Profit/ Normal rate of Return (%)

Net Assets = All Assets other than Goodwill – Outsiders Liability

Capitalization of Super Profits Method

The Goodwill under Capitalization of Super Profits method can be calculated with the help of following formulae

Goodwill = Super Profit/Normal rate of Return (%)

ILLUSTRATION 5 - RTP MAY 2018

J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2017 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

(i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\ 1,50,000 \times 100}{20} = ₹\ 7,50,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

ILLUSTRATION 6 - RTP NOV 2018

Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2017 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		
	6,55,000		6,55,000

The partnership earned profit ₹ 2,00,000 in 2017 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Value of Goodwill = 5 years X Super Profits
Super Profit = Average profit - Normal Profit
Average Profit (Given) = 200000
Average capital Employed = capital as on 31-12-18 + Capital as on 31-12-19 / 2
= (625000-50000)+625000/2
= 600000

Normal Profit = Average Capital Employed X NRR
= 600000*30% = 180000

Super Profit = 200000-180000 = 20000

Value of Goodwill = 5 years * 20000 = 100000

Thus Value of Goodwill is 100000

PARTNERSHIP
ADMISSION OF PARTNER

BIRDS EYE VIEW

- Admission of Partner – Meaning
- Adjustments Required at the Time of Admission of Partner
- Ascertainment of New Profit Sharing ratio & Sacrificing Ratio
- Treatment of Goodwill
- Hidden Goodwill
- Revaluation of Assets & Liabilities
- Treatment of Reserves Appearing in Balance Sheet

TREATMENT OF GOODWILL

When the existing partners of a firm decide to admit a new partner, new partner will gain in future profits while other's will lose. The new partner who gains by acquiring a right to share future profits must compensate the partner or partners who has or have made the sacrifice. The compensation is made by bringing his share of goodwill of a firm.

Points To Remember in Regards to Treatment of Goodwill

1. **As Per Accounting Standards , It is Not Recommended to raise Goodwill Account But to Show the Adjustment of Goodwill Through partner's Capital A/c.**
2. **The Goodwill Should be recorded in The Books only when some Consideration in Money or Money's worth is paid for It. Thus , Only Purchased goodwill Should be recorded in books of the Firm.**

TREATMENT OF GOODWILL

The following are the situations through which the Goodwill to be brought in by the incoming partner is dealt with –

- Private Settlement of Goodwill
- Incoming partner brings in his share of firm's Goodwill in cash.
- Incoming partner brings in his share of firm's Goodwill in Kind
- Incoming partner does not bring his share of Firm's Goodwill in cash. (Adjusted Through Capital Accounts)
- Incoming partner brings only part of his share of Firm's Goodwill in cash.

PRIVATE SETTLEMENT OF GOODWILL

When the incoming partner pays his share of Goodwill privately to the sacrificing partner's outside the business , no entry is passed in the books of the firm.

INCOMING PARTNER BRINGS HIS SHARE OF FIRMS G/W IN CASH

Journal Entries

Bringing Share of Goodwill in Cash & Crediting to Sacrificing Partners

Cash/Bank A/c…..Dr
To Sacrificing Partners capital A/c
(In SR)

Goodwill Withdrawn by Sacrificing partners

Sacrificing Partner's capital A/c…….Dr
To Cash/ Bank A/c

INCOMING PARTNER BRINGS HIS SHARE OF FIRMS G/W IN KIND

Journal Entry

Recording of Assets brought in Against Goodwill
Assets A/c…..Dr
To Capital A/c (Bal Fig)
To Sacrificing Partners Capital A/c
(Amount of G/W In SR)

INCOMING PARTNER DOES NOT BRINGS HIS SHARE OF FIRMS G/W IN CASH

Journal Entry

Adjustment of Goodwill Through Partner's capital Accounts
Gaining Partner's Capital A/c…..Dr (In GR)
To Sacrificing Partners Capital A/c (In SR)

INCOMING PARTNER BRINGS ONLY PART OF HIS SHARE OF FIRMS G/W IN CASH

Journal Entries

Bringing Share of Goodwill in Cash & Crediting to Sacrificing Partners with Full Amount of Goodwill
Cash/Bank A/c…..Dr
Gaining Partner's capital A/c….Dr
To Sacrificing Partners Capital A/c
(In SR)

Goodwill Withdrawn by Sacrificing partners
Sacrificing Partner's Capital A/c…….Dr
To Cash/ Bank A/c

ILLUSTRATION 7 -SM

The following is the Balance Sheet of Yellow and Green as at 31st December, 2019:

Liabilities	₹	Assets	₹
Trade payables	20,000	Cash at Bank	10,000
Capital:		Sundry Assets	55,000
Yellow	25,000		
Green	20,000		
	65,000		65,000

The partners shared profits and losses in the ratio 3:2. On the above date, Black was admitted as partner on the condition that he would pay ₹ 20,000 as Capital. Goodwill was to be valued at 3 years' purchase of the average of four years' profits which were:

	₹		₹
2016	*9,000*	*2018*	*12,000*
2017	*14,000*	*2019*	*13,000*

The new profit sharing ratio is 6:5:5.

Give Journal Entries & Balance Sheet under Below Situations

A. If Goodwill is Paid Privately
B. If Goodwill is Brought In Cash
C. If Goodwill is Brought in Cash & Withdrawn By Partners
D. If Goodwill is Adjusted Through Partners Capital A/c

Calculation of Value of Goodwill

Value of Goodwill = 3 Yrs Purchase * 4 Years Average Profit
Average Profit For Last 4 Years = 9000+14000+12000+13000/4
Average Profit For Last 4 Years = 12000

Value of Goodwill = 3 Yrs Purchase * 12000
Value of Goodwill = 36000

Black's Share's in Goodwill = 36000*5/16 = 11250

Calculation of Sacrificing Ratio

Yellow = 3/5-6/16 = 18/80
Green = 2/5-5/16 = 7/80
Sacrificing Ratio = 18:7

Case B

Date	Particulars	LF	Amount	Amount
1	Bank A/c….Dr		11250	
	To Yellow's Capital A/c			8100
	To Greens's Capital A/c			3150
	(Being Goodwill Bought in Cash By Black Distributed to Sacrificing Partners in Sacrificing ratio)			

Balance Sheet

Liabilities		Amount	Assets	Amount
Trade Payables		20000	Cash at Bank	41250
Capital			Sundry Assets	55000
Yellow	33100			
Green	23150			
Black	20000	76250		
		96250		**96250**

Case C

Date	Particulars	LF	Amount	Amount
1	Bank A/c….Dr		11250	
	To Yellow's Capital A/c			8100
	To Greens's Capital A/c			3150
	(Being Goodwill Bought in Cash By Black Distributed to Sacrificing Partners in Sacrificing ratio)			
2	Yellow's Capital A/c……Dr		8100	
	Green's Capital A/c….Dr		3150	
	To Bank A/c			11250
	(Being Goodwill Withdrawn By Partners)			

Balance Sheet

Liabilities		Amount	Assets	Amount
Trade Payables		20000	Cash at Bank	30000
Capital			Sundry Assets	55000
Yellow	25000			
Green	20000			
Black	20000	65000		
		85000		**85000**

Case D

Date	Particulars	LF	Amount	Amount
1	Black's Capital A/c….Dr		11250	
	To Yellow's Capital A/c			8100
	To Greens's Capital A/c			3150
	(Being Goodwill Adjusted)			

Balance Sheet

Liabilities		Amount	Assets	Amount
Trade Payables		20000	Cash at Bank	30000
Capital			Sundry Assets	55000
Yellow	33100			
Green	23150			
Black	8750	65000		
		85000		**85000**

HIDDEN GOODWILL

If on admission, the new partner introduces capital in excess of his proportionate share in the total capital of the firm, the excess capital introduced is treated as his contribution towards goodwill. **The hidden Goodwill can be calculated as follows –**

Sr.No	Particulars	Amount
A	Incoming Partner's Capital X Reciprocal of Share of Incoming Partner	XXX
B	Total Capital after taking into consideration the capital brought in by Incoming Partner	XXX
c	Value of Hidden Goodwill (A-B)	XXX

Journal Entry

Incoming Partner's Capital A/c……….Dr
(His share of Goodwill)
To Sacrificing Partners A/c
(Sacrificing Ratio)

ILLUSTRATRATION 8 - SM

A and B are partners with capitals of ₹7,000 each. They admit C as a partner with 1/4th share in the profits of the firm. C brings ₹8,000 as his share of capital. Give the necessary journal entry to record goodwill.

Statement Showing calculation of Hidden Goodwill

Sr.No	Particulars	Amount
A	Capital Brought in by New Partner * Reciprocal of his PSR (8000*4/1)	32000
B	Capital of All partners including New partner (7000+7000+8000)	22000
C	Value of Hidden Goodwill (A-B)	10000
D	Share of New partner in Goodwill	2500

Adjustment Entry

C's Capital A/c…..DR	2500	
To A's Capital A/c		1250
To B's Capital A/c		1250
(Being Godwill Credited to SP in SR)		

REVALUATION OF ASSETS AND LIABILITIES

At the time of admission of a partner, the assets and liabilities are revalued so that the profit or loss arising on account of such revaluation up to the date of admission of a new partner may be ascertained and adjusted in the old partners' Capital Accounts in their old profits ratio since it belongs to old partners and not to new partner.

Revaluation Account

1. Revaluation Account is a nominal Account.
2. The purpose of Revaluation Account is to ascertain the profit / loss arising on account of revaluation of assets and liabilities.
3. Revaluation Account is **credited** with increase in the value of assets and decrease in the amount of liabilities(it is a gain) and is **debited** with any decrease in the value of assets and increase in the amount of liabilities. (it is a loss). Unrecorded assets are recorded through the Revaluation Account as increase in assets. Unrecorded liabilities are recorded through the Revaluation Account as increase in liabilities.
4. The balance of Revaluation Account shows the net effect on account of revaluation which is transferred to the partners Capital Accounts in their old profit sharing ratio.

REVALUATION OF ASSETS AND LIABLITIES

When the changed Valuation of Assets and Liabilities is to be Recorded in the Books

Sr.No	Transaction	Journal Entry
1	Increase in Value of an Asset / Creation of New Asset	Respective Asset A/c ………Dr To Revaluation A/c
2	Decrease in Value of an Asset / Write off of Asset	Revaluation A/c……………Dr To Respective Asset A/c
3	Increase in Value of Liability / Provision of Liability	Revaluation A/c……………Dr To Respective Liability
4	Decrease in Value of Liability / Write Back of Excess Provision	Respective Liability A/c…….Dr To Revaluation A/c
5	Profit on Revaluation	Revaluation A/c…………..Dr To Old Partner's Capital A/c's (Old Profit Sharing Ratio)
6	Loss on Revaluation	Old Partner's Capital A/c's…………Dr (Old Profit Sharing Ratio) To Revaluation A/c

WHEN THE CHANGED VALUES OF ASSESTS AND LIABLITIES ARE NOT TO BE ALTERED

In this case Profit or revaluation is found out by preparing a memorandum statement and then the profit or loss on revaluation is adjusted in capital accounts of the partners

Sr.No	Transaction	Journal Entry
1	Profit on Revaluation	Gaining Partners Capital A/c's……….Dr (Gaining Ratio) To Sacrificing Partners Capital A/c (Sacrificing Ratio)
2	Loss on Revaluation	Sacrificing Partners Capital A/c……..Dr To Gaining Partners Capital A/c's (Sacrificing Ratio/Gaining Ratio)

TREATMENT OF RESERVES & ACCUMULATED PROFIT/LOSSES

If, at the time of admission of a partner, any reserves or accumulated profits/ losses exists in the books of the firm, these should be transferred to old partners Capital Accounts in their old profit sharing ratio since the reserves, accumulated profits/ losses up to the date of admission of a new partner belong to the old partners and not to the new partner.

ILLUSTRATION 9 - SM

A and B are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.3.2020 is given below:

Liabilities	₹	Assets	₹
Trade payables	50,000	Freehold premises	2,00,000
Capital Accounts:		Plant	40,000
A	2,00,000	Furniture	20,000
B	1,00,000	Office equipment	25,000
		Inventories	30,000
		Trade receivables	25,000
		Bank	10,000
	3,50,000		3,50,000

On 1.4.2020 they admit C on the following terms:

(1) C will bring ₹ 50,000 as a capital and ₹ 10,000 for goodwill for 1/5 share;

(2) Provision for doubtful debts is to be made on Trade receivables @ 2%

(3) Inventory to be written down by 10%.

(4) Freehold premises is to be revalued at ₹2,40,000, plant at ₹ 35,000, furniture ₹ 25,000 and office equipment ₹ 27,500.

(5) Partners agreed that the values of the assets and liabilities remain the same and, as such, there should not be any change in their book values as a result of the above mentioned adjustments.

You are required to make necessary adjustment in the Capital Accounts of the partners and show the Balance Sheet of the New Firm.

In The Books of Firm
Balance Sheet

Liabilities	Amount	Assets	Amount

Working Notes
Memorandum Revaluation A/c

Particulars	Amount	Particulars	Amount

Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C

ILLUSTRATION 10 - SM

A and B are partners in a firm, sharing profits and losses in the ratio of 3:2. The Balance Sheet of A and B as on 1.1.2020 was as follows:

Liabilities	₹	Amount ₹	Assets	₹	Amount ₹
Trade payables		17,000	Building		26,000
			Furniture		5,800
Bank overdraft		9,000	Inventories		21,400
Capital accounts:			Trade receivables	35,000	
A	44,000		Less: Provision	(200)	34,800
B	36,000	80,000	Investment		2,500
			Cash		15,500
		1,06,000			1,06,000

'C' was admitted to the firm on the above date on the following terms:

(i) C is admitted for 1/6 share in the future profits and to introduce a capital of ₹25,000.

(ii) The new profit sharing ratio of A, B and C will be 3:2:1 respectively.

(iii) 'C' is unable to bring in cash for his share of goodwill, they decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ₹870 and Inventory to be depreciated by 5%. A provision is required for trade receivables @ 5% for bad debts. A provision would also be made for outstanding wages for ₹1,560. The value of buildings having appreciated be brought upto ₹29,200. The value of investments is increased by ₹450.

(v) It is found that the trade payables included a sum of ₹1,400, which is not to be paid off.

Prepare the following:

(i) Revaluation account.

(ii) Partners' capital accounts.

Revaluation A/c

Particulars	Amount	Particulars	Amount
To furniture	870	By Building	3200
To Inventory	1070	By Investment	450
To RDD	1550	By Trade Payables	1400
To Provision for O/s Wages	1560		
	5050		**5050**

Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To A's Capital			4,500	By Balance B/d	44000	36000	
To B's Capital			3,000	By Cash			25,000
				By C's Capital	4,500	3000	
To Balance C/D (Bal Fig)	48,500	39,000	17,500				
	48,500	**39,000**	**25,000**		**48,500**	**39,000**	**25,000**

Balance Sheet as on 1-1-20

Liabilities		Amount	Assets		Amount
Trade Payables	17000		Building		29200
Less – W/off	1400	15600	Furniture		4930
Bank Overdraft		9000	Inventory		20330
Provision for O/s Wages		1560	Trade Receivables	35000	
Capital A/c			Less - Provision	1750	33250
A	48500		Iinvestment		2950
B	39000		Cash		40500
C	17500	105000			
		131160			**131160**

Working Notes

1.Calculation of Sacrificing Ratio

A = 3/5-3/6 = 3/30
B = 2/5-2/6 = 2/30
SR is 3:2

2.Calculation of Firm's Goodwill & New partner's Share in it

Sr.No	Particulars	Amount
A	Capital Brought in by New Partner * Reciprocal of his PSR (25000*6/1)	150000
B	Capital of All partners including New partner (44000+36000+25000)	105000
C	Value of Hidden Goodwill (A-B)	45000
D	Share of New partner in Goodwill (45000*1/6)	7500

ILLUSTRATION 11 - SM

Dalal, Banerji and Mallick are partners in a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2020 is as below:

Liabilities		₹	Assets	₹
Trade payables		12,850	Land and Buildings	25,000
Outstanding Liabilities		1,500	Furniture	6,500
General Reserve		6,500	Inventory of goods	11,750
Capital Account :			Trade receivables	5,500
Mr. Dalal	12,000		Cash in hand	140
Mr. Banerji	12,000		Cash at Bank	960
Mr. Mallick	5,000	29,000		
		49,850		49,850

The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2020 on the following terms :

(1) Mr. Mistri shall bring ₹5,000 towards his capital.

(2) The value of Inventory should be increased by ₹2,500 and Furniture should be depreciated by 10%.

(3) Reserve for bad and doubtful debts should be provided at 10% of the Trade receivables.

(4) The value of land and buildings should be enhanced by 20%.

(5) The value of the goodwill be fixed at ₹15,000.

(6) General Reserve will be transferred to the Partners' Capital Accounts.

(7) The new profit sharing ratio shall be: Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 andMr. Mistri 2/15.

The outstanding liabilities include ₹1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) The Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Mr. Mistri.

Revaluation A/c

Particulars	Amount	Particulars	Amount
To RDD	550	By Inventory	2500
To Furniture & Fittings	650	By Land & Building	5000
To Profit Trf to Capital			
Dalal 2520			
Banerji 2520			
Mallick 1260	6300		
	7500		**7500**

Partners Capital A/c

Particulars	Dalal	B'ji	Mal'k	Mistri	Particulars	Dalal	B'ji	Mal'k	Mistri
To Dalal Capital				1,000	By Balance B/d	12000	12000	5000	-
To Banerji Capital				1,000	By general Reserve	2,600	2600	1300	-
					By Bank A/c				5,000
To Balance C/d	19,120	18,120	7,560	3,000	By Mistri Capital	1,000	1000		
					By O/s Liability	1,000			
					By Revaluation A/c	2,520	2520	1260	
	19120	**18120**	**7560**	**5000**		**19120**	**18120**	**7560**	**5000**

Balance Sheet
as on 1-4-20

Liabilities	Amount	Assets	Amount
Trade Payables	12850	Land & Building	30000
Outstanding Liabilities 1500		Furniture	5850
Less - Paid by Dalal 1000	500	Inventory	14250
		Trade Receivables 5500	
Capital A/c		Less - Provision 550	4950
Dalal 19120		Cash in Hand	140
Banerji 18120		Cash at Bank	5960
Mallick 7560			
Mistri 3000	47800		
	61150		**61150**

Working Notes

1.Calculation of Sacrificing Ratio

Dalal = 2/5 - 5/15 = 5/75 that is 1/15
Banerji = 2/5-5/15 = 5/75 that is 1/15
Mallick = 1/5-3/15 = 0/75
SR Is 1:1:0

ILLUSTRATION 12 - SM

Alpha and Beeta were partners in a firm namely Meta-Chem sharing profits and losses equally.

BALANCE SHEET of Meta-Chem as on 31st March 2020

Liabilities		₹	Assets	₹
Capital :			Factory Building	4,78,000
Alpha	3,00,000		Plant & Machinery	3,41,000
Beeta	2,00,000	5,00,000	Office Furniture	55,850
General Reserve		1,80,000	Inventory	77,740
Workmen compensation fund		60,000	Trade Receivables	1,43,210
Term loan from IDFC bank		2,78,000	Bank	44,200
Trade payables		1,22,000		
		11,40,000		11,40,000

They agreed to admit Gyama as partner from 1st April 2020 on the following terms:

1. He shall have one-sixth share in future profits.
2. New profit sharing ratio would be 3:2:1
3. He shall bring Rs.2,50,000 as his capital.
4. Goodwill of the firm is valued at Rs. 3,00,000
5. Factory Building is to be appreciated by 20% and inventory is revalued at Rs. 70,000.
6. Machinery to be appreciated by 20%.and Office furniture to be revalued at Rs.50,000
7. Of the trade receivables Rs. 3,210 are bad and 5% be provided for bad & doubtful debts.
8. There is no actual liability towards workman.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Bank account.
4. Balance Sheet after admission.

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Office Furniture	5850	By Factory Building A/c	95600
To Inventory	7740	By plant & Machinery A/c	68200
To Bad Debts	3210		
To RDD	7000		
To Profit Trf to Capital A/c			
Alpha 70000			
Beeta 70000	140000		
	163800		**163800**

Partners Capital A/c

Particulars	Alpha	Beeta	Gyama	Particulars	Alpha	Beeta	Gyama
To Beeta's capital A/c			50,000	By Bal B/d	300000	200000	
				By General Reserve A/c	90000	90000	
				By Workmen Comp. Fund A/c	30000	30000	
				By Bank A/c			250000
				By Gyama's capital A/c		50000	
To Bal C/d (Bal Fig)	490000	440000	200000	By Revaluation A/c	70,000	70000	
	490000	**440000**	**250000**		**490000**	**440000**	**250000**

Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	44200	By Bal C/d	294200
To Gyama's Capital A/c	250000		
	294200		**294200**

Balance Sheet
as on 1-4-20

Liabilities	Amount	Assets	Amount
Capital A/c		Factory Building	573600
Alpha 490000		Plant & Machinery	409200
Beeta 440000		Office Furniture	50000
Gyama 200000	1130000	Inventory	70000
		Trade Receivables 140000	
		Less - RDD @5% 7000	133000
Term Loan From IDFC Bank	278000	Bank	294200
Trade Payables	122000		
	1530000		**1530000**

Working Notes
1.Calculation of Sacrificing Ratio

Alpha = 1/2-3/6 = Nil
Beeta = 1/2 – 2/6 = 1/6

ILLUSTRATION 13 - RTP MAY 2021

Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2

Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital :		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		5,06,000

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring ₹ 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000
5. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.
6. Furniture to be reduced to ₹40,000.
7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission

Revaluation A/c

Particulars		Amount	Particulars	Amount
To Machinery		36000	By Land & Building	75000
To Furniture		4000		
To Bad Debts		2800		
To RDD		2000		
To Inventory		5200		
To Profit Transferred to Capital A/c				
Ramu	15000			
Mamu	10000	25000		
		75000		**75000**

Partners Capital A/c

Particulars	Ramu	Mamu	Damu	Particulars	Ramu	Mamu	Damu
To Ramu's & Mamu's Capital A/c			50000	By Bal B/d	210000	190000	
				By General Reserve A/c	36000	24000	
To Bank A/c (BF)	36000	99000		By Bank A/c			150000
				By Damu's Capital A/c	25000	25000	
To Bal C/d	250000	150000	100000	By Revaluation A/c	15000	10000	
	286000	**249000**	**150000**		**286000**	**249000**	**150000**

Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	24000	By Ramu's Capital A/c	36000
To Damu's Capital A/c	150000	By Mamu's Capital A/c	99000
		By Bal C/d (BF)	39000
	174000		**174000**

Balance Sheet as on 1-4-20

Liabilities		Amount	Assets		Amount
Capital			Land & Building		225000
Ramu	250000		Machinery		144000
Mamu	150000		Furniture		40000
Damu	100000	500000	Trade Receivables	42800	
			Less – Bad Debts	2800	
				40000	
Loan from LFC Bank		25000	Less – RDD at 5%	2000	38000
Trade Payables		21000	Inventory		60000
			Bank		39000
		546000			**546000**

Working Notes
1.Calculation of Sacrificing Ratio & New PSR

Ramu = 3/5 – (1/5*1/2) = 3/5-1/10 = 5/10
Mamu = 2/5 – (1/5*1/2) = 2/5-1/10 = 3/10
Damu = 1/5 That is = 2/10

Therefore New PSR = 5:3:2
SR = 1:1

Working Notes
2.Treatment of Goodwill

Value of Firms Goodwill = 250000
Damu's Share in Goodwill = 250000*1/5 = 50000

Adjustment Entry

Damu's Capital A/c....Dr 50000
To Ramu's Capital A/c 25000
To Mamu's Capital A/c 25000

Working Notes
3. Capital Adjustment After Admission of Damu

Amount Brought in By Damu 150000
Less – Amount of Goodwill 50000
Therefore, Amount of Capital 100000

Total Capital of Firm = 10000*5/1 = 500000
New Capital of All partners in Their New PSR Shall be
Ramu = 250000 , Mamu = 150000 & Damu = 10000

PARTNERSHIP
RETIREMENT OF PARTNER

BIRDS EYE VIEW

- Retirement of Partner – Meaning
- How Can A Partner Retire
- Adjustments Required at the Time of Retirement of Partner
- Ascertainment of New Profit Sharing ratio & Gaining Ratio
- Treatment of Goodwill
- Hidden Goodwill
- Revaluation of Assets & Liabilities
- Treatment of Reserves Appearing in Balance Sheet
- Capital adjustment
- Disposal of Amount Due to Retiring Partner
- Sec. 37 of Indian Partnership Act ,1932

ADJUSTMENTS REQUIRED AT THE TIME OF RETIREMENT OF NEW PARTNER

The various matter that need adjustment at time of Retirement of Partner are given below-

- Adjustment in Profit Sharing Ratio
- Adjustment of Goodwill,
- Adjustment of Profit/loss arising from the Revaluation of Assets and Liabilities
- Adjustment of Accumulated Profits, Reserves and Losses,
- Adjustment of Capitals (if agreed).

TREATMENT OF GOODWILL

When an existing partner of a firm decides to retire from the firm, the continuing partners(s) will gain in future profits. The continuing partner who gains by acquiring an additional right to share future profits must compensate the outgoing partner who sacrifices by foregoing his right to share future profits. The amount of compensation will be equal to the proportionate amount of firm's goodwill. **Thus,**

Outgoing Partner's Share of Goodwill = Value of Firm's Goodwill x Share of Profit Sacrificed

Credit for Outgoing Partner 's full share of Goodwill to Outgoing Partner by Debiting Continuing Partners

Gaining Partner's Capital A/c…..Dr (In GR)
To Sacrificing Partner's Capital/Outgoing partner's Capital A/c (In SR)

DISPOSAL OF AMOUNT DUE TO THE RETIRING PARTNER

Amount due to retiring partner is arrived at after considering balances in capital and current account, share of profit up to the date of retirement, goodwill, profit/ loss on revaluation, drawings, interest on capital/ drawings etc.

The dues of the retiring partner may be settled -

- Out of existing funds/ assets available with the firm
- Out of additional capital contribution to be brought in by the contributing partners
- Out of capital contribution of the new partner
- In lumpsum value after sometime (along with interest at an agreed rate)
- In installment (along with interest at agreed rate)

ILLUSTRATION 14 - SM

F, G and K were partners sharing profits and losses at the 2:2: 1. K wants to retire on 31.12.2019. Given below is the Balance Sheet of the partnership as well as other information:

Balance Sheet as on 31.12.2019

Liabilities	₹	Assets	₹
Capital A/cs			
F	1,20,000	Sundry Fixed Assets	1,50,000
G	80,000	Inventories	50,000
K	60,000	Trade receivables	70,000
Reserve	10,000	(Including Bills Receivable 20,000)	
Trade payables	50,000	Bank	50,000
	3,20,000		3,20,000

F and G agree to share profits and losses at the ratio of 3:2 in future. Value of Goodwill is taken to be ₹ 50,000. Sundry Fixed Assets are revalued upward by ₹30,000 and Inventories by ₹10,000. Bills Receivable dishonoured ₹5,000 on 31.12.2019 but not recorded in the books. Dishonour of bill was due to insolvency of the customer. F and G agree to bring sufficient cash to discharge claim of K and to make their capital proportionate. Also they wanted to maintain ₹75,000 bank balance for working capital.

Required:

Pass necessary journal entries and draft the Balance Sheet of M/s F & G. Also prepare capital accounts of partners and draft the Balance Sheet of Ms/ F & G after K's retirement.

Journal Book

Particulars	Rs.	Rs.
Reserves A/c….Dr	10,000	
To F's Capital		4,000
To G's Capital		4,000
To K's Capital		2,000
(Being Reserves Distributed to partners)		
Sundry Fixed Assets A/c….Dr	30,000	
To Revaluation A/c		30,000
(Being Fixed Assets Revalued on Retirement)		
Inventory A/c….Dr	10,000	
To Revaluation A/c		10,000
(Being Inventory Revalued on Retirement)		
Revaluation A/c…..Dr	5,000	
To Trade Recievables		5,000
(Being Bad Debts)		
F's Capital A/c….Dr (50000*1/5)	10,000	
To k's Capital A/c		10,000
(Being Goodwill Adjusted)		
Revaluation A/c…..Dr	35000	
To F's Capital A/c		14000
To G's Capital A/c		14000
To K's Capital A/c		7000
(Being Revaluation Profit distributed)		
Bank A/c…..Dr	1,04,000	
To F's Capital A/c		70000
To G's Capital A/c		34000
(Being Amount Brought in by F & G)		

K's Capital A/c....Dr	79000	
To Bank A/c		79000
(Being retiring Partner's Share paid)		

Partners Capital A/c

Particulars	F	G	K	Particulars	F	G	K
To K's Capital	10,000			By Balance B/d	120000	80,000	60,000
				By Reserve	4,000	4,000	2,000
To Bank A/c (Bal Fig)			79,000	By F's Capital			10,000
				By Revaluation A/c	14,000	14,000	7,000
To Balance C/d	198000	132000		By Bank A/c (bal Fig)	70,000	34,000	
	208000	**132000**	**79000**		**208000**	**132000**	**79000**

Balance Sheet of M/s. F & G
(After Retirement of K)

Liabilities		Amount	Assets	Amount
Capital A/c (Bal Fig)			Fixed Assets	180000
F	198000		Inventory	60000
G	132000	330000	Trade Receivables	65000
			Bank	75000
Trade Payables		50000		
		380000		**380000**

Working Notes
1. Revaluation A/c

Particulars		Amount	Particulars	Amount
To Trade Receivables		5000	By Fixed Assets	30000
			By Inventory	10000
To Profit Trf to Capital				
F	14000			
G	14000			
K	7000	35000		
		40000		**40000**

2. Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	50000	By K's capital A/c	79000
To F's Capital A/c	70000		
To G's Capital A/c	34000		
		By Bal C/d	75000
	154000		**154000**

3. Calculation of Gaining & Sacrificing Ratio

F = 3/5 - 2/5 = 5/25

G = 2/5 - 2/5 = 0

F is gaining 1/5 and K is Sacrificing 1/5

ILLUSTRATION 15 - SM

Satyam, Shivam & Sundaram are partners of M/s. Great Stationers sharing profits and losses in the ratio of 1:1:2. On 31st March, 2020 their Balance Sheet was as under :

Liabilities		₹	Assets	₹
Capitals :			*Building*	*2,50,000*
Satyam	*1,95,000*		*Plant*	*1,60,000*
Shivam	*1,48,000*		*Investments*	*85,000*
Sunderam	*1,12,000*	*4,55,000*	*Stock*	*45,280*
General Reserve		*80,000*	*Trade Receivable*	*68,000*
Loan from Satyam		*94,000*	*Bank*	*95,720*
Sundry Creditors		*75,000*		
		7,04,000		*7,04,000*

On 1st April 2020 Shivam retired on the following terms:

1. *Goodwill is to be valued at ₹ 1,20,000 but the same will not appear as an asset in the books of the reconstituted firm.*
2. *Buildings is to be appreciated by 20% and Plant is to be depreciated by 10 %.*
3. *Investments are to be taken over by the Satyam in full settlement of his loan.*
4. *Provision of 5% is to be made on trade receivables to cover doubtful debts.*
5. *In the reconstituted firm, the total capital will be ₹ 3,00,000/- which will be contributed by Satyam and Sunderam in their new profit sharing ratio, which is 2:3.*
6. *The amount due to retiring partner shall be transferred to his loan account.*

You are required to give journal entries to record above adjustments and also prepare Balance Sheet thereafter.

Journal Book

Particulars	Rs.	Rs.
General Reserve A/c……Dr	80,000	
To Satyam Capital A/c		20,000
To Shivam Capital A/c		20,000
To Sundaram Capital A/c		40,000
(Being reserve transferred to partners capital A/c)		
Loan From Satyam A/c…..Dr	94,000	
To Investments A/c		85000
To Revaluation A/c		9000
(Being Investments taken over by Satyam in full		
settlement of his Loan)		
Building A/c…..Dr	50,000	
To Revaluation A/c		50000
(Being building revalued)		
Revaluation A/c…..Dr	16,000	
To Plant A/c		16000
(Being Plant Revalued)		

Revaluation A/c….Dr	3,400	
To RDD		3,400
(Being provision made on Debtors)		
Satyam Capital A/c…..Dr (120000*3/20)	18,000	
Sundaram capital A/c….Dr (120000*2/20)	12,000	
To Shivam capital A/c		30000
(being Goodwill Adjusted		
Revaluation A/c……..Dr	39600	
To Satyam Capital A/c		9,900
To Shivam Capital A/c		9,900
To Sundaram Capital A/c		19,800
(Being profit on Revluation Distributed)		
Shivam Capital A/c….Dr	2,07,900	
To Shivam Loan A/c		2,07,900
(Being Amount Payable to Shivam transferred to his		
Loan A/c)		
Satyam Capital A/c…..Dr	86900	
To Bank A/c		86900
(being Amount Paid to Satyam)		
Bank A/c…..Dr	20200	
To Sundaram capital A/c		20200
(Being Amount Received from Sundaram)		

Balance Sheet
As On 01-04-2020

Liabilities	Amount	Assets	Amount
Capital Account:		Building	300000
Satyam 180000		Plant	144000
Sundaram 120000	300000	Stock	45280
		Trade Receivables 68000	
Sundry Creditors	75000	Less - RDD 3400	64600
Shivam's Loan A/c	207900	Bank	29020
	582900		**582900**

WN 1 - Partners Capital A/c

Particulars	Satyam	Shivam	Sundaram	Particulars	Satyam	Shivam	Sundaram
				By Balance B/d	1,95,000	1,48,000	1,12,000
To Shivam's Capital A/c	18000		12000	By General Reserve	20,000	20,000	40,000
				By Satyam & Sundaram A/c		30,000	
To Shivam's Loan A/c (BF)		2,07,900		By Revaluation A/c	9900	9900	19,800
To Bank A/c (Bal Fig)	86,900			By Bank A/c (bal Fig)			20,200
To Balance C/d	120000		180000				
	224900	**207900**	**192000**		**224900**	**207900**	**192000**

WN 2 - Revaluation A/c

Particulars		Amount	Particulars	Amount
To Plant A/c		16000	By Investments	9000
To RDD		3400	By Building	50000
To Profit Trf to Capital				
Satyam	9900			
Shivam	9900			
Sundaram	19800	39600		
		59000		**59000**

WN 3 - Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	95720	By Satyam capital A/c	86900
To Sundaram Capital A/c	20200	By Bal C/d (Bal Fig)	29020
	115920		**115920**

4. Calculation of Gaining & Sacrificing Ratio

Satyam = 2/5 - 1/4 = 3/20 Gaining
Shivam = 0 - 1/4 = 5/20 Sacrificing
Sundaram = 3/5 - 2/4 = 2/20 Gaining

ILLUSTRATION 16 - SM

A,B,C were in partnership sharing profits and losses in the ratio of 3:2:1. The balance sheet of the firm as on 31.2.2020 was as under:

Liabilities		₹	Assets	₹
Capital accounts:				
A	1,50,000		Fixtures	30,000
B	1,00,000		Stock	1,70,000
C	50,000	3,00,000	Sundry debtors	90,000
Sundry creditors		40,000	Cash	50,000
		3,40,000		3,40,000

A, on account of ill-health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered as on 31.3.2020, the terms of which were as follows:

(a) The profit and loss account for the year ended 31.3.2020, which showed a net profit of ₹ 42,000 was to be re-opened. B was to be credited with ₹ 6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio is to be 2:3:1 as and from 1st April 2019.

(b) Goodwill was to be valued at two years' purchase of the simple average profits of five years. Profits for these five years ending on 31st March were as under:

	₹
31.3.2016	15,000
31.3.2017	23,000
31.3.2018	25,000
31.3.2019	35,000
31.3.2020	42,000

(c) Fixtures are to be valued at ₹ 39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

(d) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6 %. Total capital of the firm will be ₹ 3 lakhs as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare capital accounts of partners, cash account and balance sheet of B and C after giving effect to the above arrangements on the retirement of A.

Journal Book

Date	Particulars	LF	Amount	Amount
	Fixtures A/c Dr.		9,800	
	To Revaluation A/c			9800
	(Being Fixtures revalued)			
	Revaluation A/c Dr.		1,800	
	To RDD A/c			1800
	(Being Provision Made on debtors at 2%)			

Date	Particulars	LF	Amount	Amount
	A's Capital A/c Dr.		21,000	
	B's Capital A/c Dr.		14,000	
	C's Capital A/c Dr.		7,000	
	To Profit and Loss Adjustment A/c			42,000
	(Being Profit written back for Adjustments)			
	Profit and Loss Adjustment A/c Dr.		6,000	
	To B's Capital A/c			6,000
	(Being Bonus credited to B's Capital A/c)			

Date	Particulars	LF	Amount	Amount
	Profit and Loss Adjustment A/c Dr.		36,000	
	To A's Capital A/c			12,000
	To B's Capital A/c			18,000
	To C's Capital A/c			6,000
	(Being distribution of profits in the new ratio)			
	B Capital A/c.....Dr (6/24*56000)		14000	
	C Capital A/c.....Dr (2/24*56000)		4667	
	To A's Capital A/c (2/6*56000)			18667
	(Being Goodwill Adjusted in partners Capital A/c)			

Date	Particulars	LF	Amount	Amount
	Revaluation A/c Dr.		8000	
	To A's Capital A/c			2,667
	To B's Capital A/c			4,000
	To C's Capital A/c			1,333
	(Being profit on revaluation Distributed)			
	A's Capital A/c Dr.		162,334	
	To B's Capital A/c			162,334
	(Being Amount payable to A paid by B)			

Date	Particulars	LF	Amount	Amount
	B's Capital A/c Dr.		2,700	
	C's Capital A/c Dr.		900	
	To RDD A/c			3600
	(Being Provision on Debtors increased to 6%)			
	Cash A/c Dr.		30234	
	To C's Capital A/c			30234
	(Being Cash received from C)			

Date	Particulars	LF	Amount	Amount
	B's Capital A/c Dr.		34624	
	To Cash A/c			34624
	(Being Cash Paid to B)			

Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To P&L Adj A/c	21,000	14,000	7,000	By Balance b/d	1,50,000	1,00,000	50,000
To A's Capital A/c		14,000	4,667	By P&L Adj. A/c	-	6,000	-
To RDD A/c	-	2,700	900	By P&L Adj. A/c	12,000	18,000	6,000
				By B & C Capital A/c	18,667		
To B's Capital A/c (Bal Fig)	162,334	-	-	By Revaluation A/c	2,667	4,000	1,333
To Cash A/c (Bal Fig)	-	34,634	-	By A's Capital A/c	-	162,334	-
To Balance c/d	-	2,25,000	75,000	By Cash A/c (Bal Fig)	-	-	30,234
	183334	290334	87,567		183334	290334	87,567

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	50000	By B's Capital A/c	34634
To C's Capital A/c	30234	By Balance c/d (bal Fig)	45600
	80234		80234

Balance Sheet of B & C
As on 31-3-20 (After Retirement of A)

Liabilities		Amount	Assets		Amount
Capital			Fixtures		39800
B	225000		Stock		170000
C	75000	300000	Sundry Debtors	90000	
			Less – RDD	5400	84600
Sundry creditors		40000	Cash		45600
		340000			**340000**

Working Notes

1. Valuation of Firm's Goodwill

Average of Last five year's profit = 15000+23000+25000+35000+42000/5 years

= 28000

value of Goodwill = 2yrs Purchase of Average profits of Last 5 years

= 2 x 28000

= 56000

PARTNERSHIP
DEATH OF PARTNER

BIRDS EYE VIEW

- ❑ Difference Between Retirement of Partner & Death of Partner
- ❑ Joint Life Policy – Meaning & Accounting Treatment
- ❑ Several Life Policy – Meaning & Accounting Treatment
- ❑ Determination of Deceased/Retiring Partner's Share in Profits
- ❑ Treatment of Goodwill
- ❑ Disposal of Amount Due to deceased Partner

DIFFERENCE BETWEEN RETIREMENT OF PARTNER AND DEATH OF PARTNER

The basic differences between two situations are

A. That the retirement of a partner may be planned to be effective from a particular date whereas the death of a partner may occur anytime during the year;

B. That the payment of the amount due is made to the retiring partner in case of retirement of a partner whereas the payment of the amount due is made to the legal representatives of a deceased partner in case of death of a partner.

JOINT LIFE POLICY –MEANING AND ACCOUNTING TREATMENT

Joint Life Policy

1. **Joint Life Policy is an assurance policy covering the lives of the partner jointly.**
2. **The main objective behind taking out a joint life policy is to make provision for payment of the amount due to the executors of a deceased partner so that the working capital of the firm may not be adversely affected to that extent.**
3. **Joint Life Policy matures on the expiry of the term of the policy or the death of any partner (covered under the policy) whichever is earlier.**

Accounting Treatment of Joint Life Policy

The premium paid may be treated either as an expense or as an investment. The various methods of recording a joint life policy are as under :

1. **Ordinary Business Expense Method**
2. **Surrender Value Method**
3. **Joint Life Policy Reserve Method**

JLP – ORDINARY BUSINESS EXPENSE METHOD

1. Under this method, the premium paid is treated as an ordinary business expense.
2. Joint life policy does not appears as an asset in the Balance Sheet of the firm.

The Journal Entries under this method are -

Sr.No	Case	Accounting Entry
1	On Payment of Premium	Joint Life Policy Premium A/c……Dr To Bank A/c
2	On Closing the Joint Life Policy premium A/c at the end of the Year	Profit & Loss A/c……….Dr To Joint Life Policy Premium A/c
3	On Claim (Including Bonus) Becoming Due	Insurance Company's A/c………Dr To All Partner's Capital A/c's (in PSR)
4	On Receipt of amount Due from The insurance Company	Bank A/c…………Dr To Insurance Company's A/c

JLP – SURRENDER VALUE METHOD

1. Under this method, the premium paid is treated as an investment in joint Life Policy.
2. Joint Life Policy appears in the Balance Sheet as an asset at its surrender value.
3. Surrender value is amount payable by the insurance company on the surrender of a policy by the firm before the date of maturity.

The Journal Entries under this method are -

Sr.No	Case	Accounting Entry
1	On Payment of Premium	Joint Life Policy A/c……Dr To Bank A/c
2	On Transfer of the Balance in Excess of Surrender Value	Profit & Loss A/c……….Dr To Joint Life Policy A/c
3	On Claim (Including Bonus) Becoming Due	Insurance Company's A/c………Dr To Joint Life Policy A/c
4	On Receipt of amount Due from The insurance Company	Bank A/c…………Dr To Insurance Company's A/c
5	On Transfer of the Balance in Joint Life Policy A/c	Joint Life Policy A/c……Dr To All Partner's Capital A/c's (in PSR)

JLP – JLP RESERVE METHOD

1. Under this method, Joint Life Policy is treated as an asset.
2. At the same time a Joint Life Policy Reserve created out of the profits is also maintained.
3. The Joint Life Policy A/c will appear on the assets side and the Joint Life Policy Reserve A/c will appear on the liabilities side of the Balance Sheet at the surrender value of the Joint Life Policy.
4. No transfer is made from Profit & Loss Appropriation A/c to Joint Life Policy Reserve A/c if the Joint Life Policy matures before the end of the accounting year.

JLP – JLP RESERVE METHOD

The Journal Entries under this method are -

Sr.No	Case	Accounting Entry
1	On Payment of Premium	Joint Life Policy A/c……Dr To Bank A/c
2	On Appropriation of Reserve	P & L Appropriation A/c……….Dr To Joint Life Policy reserve A/c
3	On Transfer of the Balance in Excess of Surrender Value	Joint Life Policy reserve A/c……Dr To Joint Life Policy A/c
4	On Claim (Including Bonus) Becoming Due	Insurance Company's A/c………Dr To Joint Life Policy A/c
5	On Receipt of amount Due from The insurance Company	Bank A/c…………Dr To Insurance Company's A/c
6	On Transfer of the Balance in Joint Life Policy Reserve A/c	Joint Life Policy Reserve A/c……Dr To Joint Life Policy A/c
7	On Transfer of Balance in Joint Life Policy A/c	Joint Life Policy A/c……Dr To All Partner's Capital A/c's (in PSR)

ILLUSTRATION 17

A and B sharing profits and losses in the ratio of 2:3 took out a joint Life Policy on 1st January, 2011 for Rs 10,000 for 10 years. The premium for the whole years is Rs 1,000. B died on 1st March 2014 and claim (including Bonus) Rs 12,100 was received on 1st May 2014. The books of the firm are closed on 31st December, each year. The surrender values of the policy at the end of 2011, 2012, 2013 and 2014 were nil, Rs 200, Rs 600 and Rs 1,200 respectively. Give the necessary journal entries under each of the following alternative methods of recording a joint Life Policy:

a) Ordinary Business Expense Method
b) Surrender Value Method

Ordinary Business Expenses method

Date	Particulars	LF	Amount	Amount
01-01-2011	Joint Life Policy Premium A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
31-12-2011	Profit and Loss A/c Dr.		1000	
	To Joint Life Policy Premium A/c			1000
	(Being Premium paid transferred to P/L A/c)			
01-01-2012	Joint Life Policy Premium A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			

Date	Particulars	LF	Amount	Amount
31-12-2012	Profit and Loss A/c Dr.		1000	
	To Joint Life Policy Premium A/c			1000
	(Being the transfer of Premium to P/L A/c)			
01-01-2013	Joint Life Policy Premium A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
31-12-2013	Profit and Loss A/c Dr.		1000	
	To Joint Life Policy Premium A/c			1000
	(Being the transfer of Premium to P/L A/c)			

Date	Particulars	LF	Amount	Amount
01-01-2014	Joint Life Policy Premium A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
01-03-2014	Insurance Company's A/c Dr.		12100	
	To A's Capital A/c			4840
	To B's Capital A/c			7260
	(Being the claim due on B's Death)			
01-05-2014	Bank A/c Dr.		12,100	
	To Insurance Company's A/c			12,100
	(Being the claim Received)			
31-12-2014	Profit & Loss A/c Dr.		1000	
	To Joint Life Policy Premium A/c			1000
	(Being the transfer of Premium to P/L A/c)			

Surrender Value Method

Date	Particulars	LF	Amount	Amount
01-01-2011	Joint Life Policy A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
31-12-2011	Profit and Loss A/c Dr.		1000	
	To Joint Life Policy A/c			1000
	(Being the amount in excess of surrender value written off to P& L A/c)			
01-01-2012	Joint Life Policy A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			

Date	Particulars	LF	Amount	Amount
31-12-2012	Profit and Loss A/c Dr.		800	
	To Joint Life Policy A/c			800
	(Being the amount in excess of surrender value written off to P& L A/c)			
01-01-2013	Joint Life Policy A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
31-12-2013	Profit and Loss A/c Dr.		600	
	To Joint Life Policy A/c			600
	(Being the amount in excess of surrender value written off to P& L A/c)			

Date	Particulars	LF	Amount	Amount
01-01-2014	Joint Life Policy A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
01-03-2014	Insurance Company's A/c Dr.		12100	
	To Joint Life Policy A/c			12100
	(Being the claim due on B's Death)			
01-05-2014	Bank A/c Dr.		12,100	
	To Insurance Company's A/c			12,100
	(Being the claim Received)			
01-05-2014	Joint Life Policy A/c Dr.		10500	
	To A's Capital A/c			4200
	To B's Capital A/c			6300
	(Being transfer of balance in Joint life policy A/c)			

Joint Life Policy A/c

Date	Particulars	Amount	Date	Particulars	Amount
01.01.2011	To Bank A/c	1000	31.12.2011	By P&L A/c	1000
		1000			**1000**
01.01.2012	To Bank A/c	1000	31.12.2012	By P&L A/c (BF)	800
			31.12.2012	By Balance C/d	200
		1000			**1000**
01.01.2013	To Bal B/d	200	31-12-2013	By P&L A/c (BF)	600
01.01.2013	To Bank A/c	1000	31-12-2013	By Balance C/d	600
		1200			**1200**
01.01.2014	To Bal B/d	600	01-03-2014	By Ins.Co A/c	12100
01.01.2014	To Bank A/c	1000			
01.05.2014	To A's A/c	4200			
01.05.2014	To B's A/c	6300			
		12100			**12100**

ILLUSTRATION 18 - SM

Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2016 for ₹50,000, a premium of ₹3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2016 nil; 2017 ₹ 900; 2018 ₹ 2,000; 2019 ₹ 3,600.

Black retires on 15th April, 2020.

Required

Prepare ledger accounts assuming no Joint Life Policy Account is maintained.

Joint Life Policy Premium A/c

Date	Particulars	Amount	Date	Particulars	Amount
10-06-2016	To Bank A/c	3000	31-12-2016	By P/L A/c	3000
		3000			**3000**
10-06-2017	To Bank A/c	3000	31-12-2017	By P/L A/c	3000
		3000			**3000**
10-06-2018	To Bank A/c	3000	31-12-2018	By P/L A/c	3000
		3000			**3000**
10-06-2019	To Bank A/c	3000	31-12-2019	By P/L A/c	3000
		3000			**3000**

Adjustment Entry For JLP on Retirement of Black

IF JLP SURRENDERED AND CASH OBTAINED

Bank A/c...Dr	**3600**	
To Red A/c		**1800**
To White A/c		**1080**
To Black A/c		**720**

IF JLP NOT SURRENDERED

Red A/c....Dr	**450**	
White A/c....Dr	**270**	
To Black A/c		**720**
(3600*2/10)		

ILLUSTRATION 19 - SM

Red, White and Black shared profits and losses in the ratio of 5: 3: 2. They took out a Joint Life Policy in 2016 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2016 nil; 2017 ₹ 900: 2018 ₹ 2,000; 2019 ₹ 3,600.

Black retires on 15th April, 2020.

Required:

Prepare ledger accounts assuming Joint Life Policy Account is maintained on surrender value basis.

Joint Life Policy A/c

Date	Particulars	Amount	Date	Particulars	Amount
10.06.2016	To Bank A/c	3000	31.12.2016	By P&L A/c	3000
		3000			**3000**
10.06.2017	To Bank A/c	3000	31.12.2017	By P&L A/c (BF)	2100
			31.12.2017	By Balance C/d	900
		3000			**3000**
01.01.2018	To Bal B/d	900	31-12-2018	By P&L A/c (BF)	1900
10.06.2018	To Bank A/c	3000	31-12-2018	By Balance C/d	2000
		3900			**3900**
01.01.2019	To Bal B/d	2000	31-12-2019	By P&L A/c (BF)	1400
10.06.2019	To Bank A/c	3000	31-12-2019	By Balance C/d	3600
		5000			**5000**

NO ADJUSTMENT ENTRY REQUIRED AT THE TIME OF RETIREMENT AS SHARE TO ALL PARTNERS ALREADY CREDITED

ILLUSTRATION 20 - SM

A, B and C are in partnership sharing profits and losses at the ratio of 5:3: 2. The balance sheet of the firm on 31.12.2019 was as follows:

Balance Sheet

Liabilities	₹	Assets	₹
Capital A/cs:		Sundry Fixed Assets	80,000
A	50,000	Inventories	50,000
B	40,000	Trade receivables	30,000
C	30,000	Joint Life Policy	20,000
Bank Loan	40,000	Bank	10,000
Trade payables	30,000		
	1,90,000		1,90,000

On 1.1.2020, A wants to retire, B and C agreed to continue at 2:1. Joint Life Policy was taken on 1.1.2014 for ₹ 1,00,000 and its surrender value as on 31.12.2019 was ₹ 25,000. For the purpose of A's retirement goodwill was raised for ₹ 1,00,000. Sundry Fixed Assets was revalued for ₹ 1,10,000. But B and C did not prefer to show such increase in assets in the Balance Sheet. Also they agreed to bring necessary cash to discharge 50% of the A's claim, to make the bank balance ₹25,000 and to make their capital proportionate.

Required:

Prepare necessary journal entries

Journal Book

Date	Particulars	LF	Amount	Amount
1	B's Capital A/c…....Dr		49,500	
	C's Capital A/c…....Dr		18,000	
	To A's Capital A/c (135000*5/10)			67,500
	(Being Profit on Revaluation of Assets debited to Gaining Partners & Credited to Sacrificing partner)			
2	A's Capital A/c…..Dr		1,17,500	
	To A's Loan A/c			58,750
	To Bank A/c			58750
	(Being 50% amount paid to A & balance 50% credited to loan A/c)			

Date	Particulars	LF	Amount	Amount
3	Bank A/c…...Dr		73750	
	To B's capital A/c			60,333
	To C's Capital A/c			13417
	(Being Additional Capital Introduced)			

Working Notes

1. Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c		49,500	18,000	By Bal B/d	50000	40000	30,000
To Bank A/c	58,750			By B & C's Capital A/c	67500		
To A's Loan A/c	58,750			By Bank A/c (Bal Fig)		60,333	13,417
To balance C/d		50833	25,417				
	117500	**100333**	**43417**		**117500**	**100333**	**43417**

2. Bank A/c

Particulars	Amount	Particulars	Amount
To Balance B/d	10000	By A's Capital A/c	58750
To B's Capital A/c	60333		
To C's Capital A/c	13417		
		By Balance C/d	25000
	83750		**83750**

3. Balance Sheet

Liabilities	Amount	Assets	Amount
Capital Accounts (Bal fig)		Sundry Fixed assets	80000
B 50833		Inventories	50000
C 25417	76250	Trade Recievables	30000
Bank Loan	40000	JLP	20000
trade Payables	30000	Bank Balance	25000
A's Loan	58750		
	205000		**205000**

4. Calculation of Gaining & Sacrificing Ratio

B = 2/3 - 3/10 = 11/30

C = 1/3 - 2/10 = 4/30

GR 11:4

ILLUSTRATION 21 - SM

On 31st March, 2020, the balance sheet of M/s Ram, Rahul and Rohit sharing profits and losses in proportion to their capital, stood as follows:

Liabilities	₹	₹	Asset	₹
Capital accounts:			Land & building	2,00,000
Ram	3,00,000		Machinery	2,00,000
Rahul	2,00,000		Closing stock	1,00,000
Rohit	1,00,000	6,00,000	Sundry debtors	2,00,000
Sundry creditors		2,00,000	Cash and bank balances	1,00,000
		8,00,000		8,00,000

On 31st March, 2020, Ram desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the assets and liabilities on that date on the following basis:-

1. Land and buildings be appreciated by 30%.

1. Land and buildings be appreciated by 30%.
2. Machinery be depreciated by 20%.
3. Closing stock to be valued at ₹ 80,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of sundry creditors ₹ 10,000 be written off.
6. Joint life policy of the partners surrendered and cash obtained ₹ 60,000.
7. Goodwill of the entire firm be valued at ₹ 1,80,000 and Ram's share of the goodwill be adjusted in the accounts of Rahul and Rohit who share the future profits equally. No goodwill account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Ram is to be settled on the following basis:-

   50% on retirement and the balance 50% within one year

Prepare revaluation account, capital account of partners: Rahul & Rohit, loan account of Ram, cash account and balance sheet as on 1.4.2020 of M/s Rahul and Rohit.

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Machinery	40000	By Creditors W/off	10000
To Stock	20000	By Land & Building	60000
To RDD	10000		
	70000		**70000**

Partners Capital A/c

Particulars	Ram	Rahul	Rohit	Particulars	Ram	Rahul	Rohit
To Ram's Capital A/c		30000	60,000	By Bal B/d	3,00,000	2,00,000	1,00,000
				By Insurance Co. (JLP)	30,000	20,000	10,000
To Ram's Loan A/c	4,20,000			By Rahul's Capital A/c	30,000		
				By Rohit's Capital A/c	60000		
				By Cash/Bank A/c		1,10,000	2,50,000
To Balance C/d		300000	300000				
	420000	**330000**	**360000**		**420000**	**330000**	**3,60,000**

Ram's Loan A/c

Particulars	Amount	Particulars	Amount
		By Ram's Capital A/c	420000
To Bank A/c	210000		
To Balance C/d	210000		
	420000		**420000**

Cash A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	100000	By Ram's Loan A/c	210000
To Insurance Co.	60000		
To Rahul's Capital A/c	110000		
To Rohit's Capital A/c	250000	By Balance C/d	310000
	520000		**520000**

Balance Sheet of M/s. Rahul & Rohit
As On 1-4-20

Liabilities		Amount	Assets		Amount
Capital			Land & Building		260000
Rahul	300000		Machinery		160000
Rohit	300000	600000	Closing Stock		80000
			Sundry Debtors	200000	
Ram's Loan A/c		210000	Less -	10000	190000
			Bank		310000
Sundry Creditors	200000				
Less - W/off	10000	190000			
		1000000			**1000000**

Working Notes

1. Calculation of Gaining & Sacrificing Ratio

Rahul - 1/2-1/3 =1/6

Rohit - 1/2-1/6 =4/12 that is 1/3

GR SHALL BE IN RATIO OF 1:2

SEVERAL LIFE POLICY – MEANING & ACCOUNTING TREATMENT

Individual Life Policy is an assurance policy covering the life of a partner individually. If the firm had insured the partners' lives severally and charged the premium to Profit & Loss Account, the executors of a deceased partner are entitled to claim a share in

(a) The claim receivable from the insurance company in respect of matured policy and

(b) The surrender values of unmatured individual life policies of other partners.

ILLUSTRATION 22 - SM

The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31.3.2019. Mr. Z died on 31st December, 2019. His account has to be settled under the following terms.

Balance Sheet of Om & Co. as on 31.3.2019

Liabilities	₹	₹	Assets	₹
Trade payables		20,000	Building	1,20,000
Bank loan		50,000	Computers	80,000
General reserve		30,000	Inventories	20,000
Capital accounts:			Trade receivables	20,000
X	40,000		Cash at bank	50,000
Y	80,000		Investments	10,000
Z	80,000	2,00,000		
		3,00,000		3,00,000

Goodwill is to be calculated at the rate of two years purchase on the basis of average of three years' profits and losses. The profits and losses for the three years were detailed as below:

Year ending on	profit/loss
31.3.2019	30,000
31.3.2018	20,000
31.3.2017	(10,000) Loss

Profit for the period from 1.4.2019 to 31.12.2019 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.

During the year ending on 31.3.2019 a car costing ₹ 40,000 was purchased on 1.4.2018 and debited to traveling expenses account on which depreciation is to be calculated at 20% p.a. at written down value method. This asset is to be brought into account at the depreciated value.

Other values of assets were agreed as follows:

Inventory at ₹ 16,000, building at ₹ 1,40,000, computers at ₹ 50,000; investments at ₹ 6,000. Trade receivables were considered good.

Required:

(i) Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2019 to 31.12.2019.

(ii) Prepare revaluation account assuming that other items of assets and liabilities remained the same.

(iii) Prepare partners' capital accounts and balance sheet of the firm Om & Co. as on 31.12.2019.

Revaluation A/c

Particulars	Amount	Particulars		Amount
To Computers	30000	By Building		20000
To Inventory	4000			
To Investments	4000	By Loss on Revaluation		
To Depreciation on Car	4800	x	4560	
		y	9120	
		z	9120	22800
	42800			**42800**

Partners Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Revaluation A/c	4,560	9,120	9,120	By Balance b/d	40,000	80,000	80,000
To Z's Capital A/c	6,400	12,800		By General reserve	6,000	12,000	12,000
To Z's Executor A/c (BF)			1,22,080	By X & Y Capital A/c			19,200
To Balance C/d (Bal Fig)	41,440	82,880		By P/L Suspense A/c	-	-	7,200
				By Car A/c	6,400	12,800	12,800
	52400	**104800**	**131200**		**52400**	**104800**	**131200**

Balance Sheet of M/s. OM & Co.
As On 31-12-2019

Liabilities	Amount	Assets		Amount
Capital		Building		140000
X	41440	computers		50000
Y	82880	Inventory		16000
Z's Executor A/c	122080	Trade Receivables		20000
Trade Payables	20000	Cash at Bank		50000
Bank Loan	50000	Investments		6000
		P/L Suspense A/c		7200
		Car	32000	
		Less - Depn	4800	27200
	316400			**316400**

Ascertainment of Value of Firm's Goodwill & Its Treatment

Value of Firm's Goodwill = 2 Years * Average Profit of Last 3 Years
Value of Firm's Goodwill = 2 Years * (-10000+20000+62000)/3 years
Value of Firm's Goodwill = 2 Years * 24000
Value of Firm's Goodwill = 48000

Treatment of Goodwill

X A/c....Dr	6400	
Y A/c.....Dr	12800	
To Z A/c (48000*2/5)		19200

Ascertainment of Deceased partner's Share in Profit Upto The Date of Death & its Treatment

Average profit of Last 3 Years = 24000

Profit of Firm upto the date of Death = 24000/12 months * 9 months
Profit of Firm upto the date of Death = 18000

Z's Share in profit = 18000 *2/5 = 7200

Journal Entry

P/L Suspense A/c.....Dr	7200	
To Z's Capital A/c		7200

Working Notes
1. Computation of Revised profits for 31-03-2019

Particulars	Amount	Amount
Profit as Given		30,000
Add Back: Cost of Car Wrongly Written off to P/L A/c	40,000	
Less:Depreciation for the year 2018-19 (20% on Rs.40,000)	8,000	32,000
Revised Profit for 2018-2019		**62,000**

ILLUSTRATION 23 - SM

Diya, Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2. On 31st March 2020 their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capitals :		Land & Building	1,65,000
Diya	1,50,000	Furniture	75,000
Riya	1,80,000	Joint life Policy	60,000
Kiya	70,000	Inventory	88,740
General Reserve	1,40,000	Trade Receivable	96,750
Trade payables	60,000	Bank	1,14,510
	6,00,000		6,00,000

Kiya died on 30th September, 2020.

The partnership deed provides as follows:

(a) *That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.*

(b) *Upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner. The profits of the firm before charging interest on capitals were*

2016-17	1,62,000
2017-18	1,99,000
2018-19	1,87,000
2019-20	1,96,000

Average capital during preceding four years may be assumed as ₹ 3,00,000

(c) *Profits till the date of death to be ascertained on the basis of average profit of previous four years*

(d) *Upon the death of a partner, she is to be credited with her share of the profits, interest on capitals etc. calculated till the date of death*

After the death of Kiya

1. *₹ 2,00,000 was received from insurance company against Joint life Policy.*
2. *Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at ₹ 80,000. Bad debts amounted ₹ 1760.*
3. *Amount payable to Kiya was paid in cash.*

You are required to prepare

1. *Revaluation A/c*
2. *Partners' Capital A/c*
3. *Balance Sheet as on 30th September 2020, assuming other Assets and liabilities remaining the same.*

Revaluation A/c

Particulars		Amount	Particulars	Amount
To furniture		7500	By Land & Building	33000
To Inventory		8740		
To Bad Debts		1760		
To Profit Trf to Capital A/c				
Diya	6000			
Riya	3000			
Kiya	6000	15000		
		33000		**33000**

Partners Capital A/c

Particulars	Diya	Riya	Kiya	Particulars	Diya	Riya	Kiya
				By Bal B/d	1,50,000	180000	70,000
To Kiya Capital A/c	40,000	20,000		By General Reserve	56,000	28,000	56,000
				By JLP	56,000	28,000	56,000
				By Interest on Capital			4,200
To Bank A/c (BF)			2,79,800	By Riya & Diya Capital			60,000
To Bal C/d (Bal Fig)	2,28,000	2,19,000		By P/L Suspense A/c			27,600
				By Revaluation A/c	6,000	3,000	6,000
	268000	**239000**	**279800**		**268000**	**239000**	**279800**

Balance Sheet
As On 30-09-2020

Liabilities		Amount	Assets	Amount
Capital			Land & Building	198000
Diya	228000		Furniture	67500
Riya	219000	447000	Inventory	80000
			Trade Receivables	94990
			By P/L Suspense A/c	31800
Trade Payables		60000	(4200 +27600)	
			Bank A/c	34710
		507000		**507000**

Working Notes
1. Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	114510	By Kiya Capital A/c	279800
To JLP	200000		
		By Bal C/d (Bal Fig)	34710
	314510		**314510**

2. Ascertainment of Value of Firm's Goodwill & Its Treatment

value of Goodwill = 1Years Purchase of Average profits of Last 4 Years

Average Profit of Last 4 Years = (162000 - 36000) + (199000-36000) +(187000-36000)
(196000 - 36000) /4 years

= 150000

Value of Goodwill = 1 * 150000 = 150000

Diya A/c……Dr	40000	
Riya A/c…. Dr	20000	
To Kiya A/c (150000*2/5)		60000

3. Ascertainment of Deceased partner's Share in Profit Upto The Date of Death & its Treatment

Average Profit of Last 4 Years before Int = 162000+199000+187000+196000/4 years = 186000
Net profit After After Interest on capital = 186000 - (400000*12%) = 138000
Profit of the Firm upto Death of Death & Kiya's Share in it = 138000/12M*6M*2/5 = 27600

ILLUSTRATION 24 – PYP NOV 2019 (10 MARKS)

Arup and Swarup were partners. The partnership deed provides inter alia:

(i) That the annual accounts be balanced on 31st December each year;

(ii) That the profits be allocated as follows:

Arup: One-half; Swarup: One-third and Carried to reserve account: One sixth;

(iii) That in the event of death of a partner, his executor will be entitled to the following:

(1) The capital to his credit at the date of death;

(2) His proportionate share. of profit to date of death based on the average profits of the last three completed years; and

(3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December, 2018

Particulars	Debit (₹)	Credit (₹)
Arup's Capital		90,000
Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,15,000	2,15,000

The profits for the three year were 2016: ₹ 51,000; 2017: ₹ 39,000 and 2018: ₹ 45,000. Swarup died on 1st May 2019.

Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executor Account as would appear in the firms' ledger transferring the amount to the Loan account.

Swarup's Executors A/c

Particulars	Amount	Particulars	Amount
To Swarup's Executor's Loan A/c (Bal Fig)	138000	By Swarup's Capital A/c	60,000
		By Reserve (45,000x2/5)	18,000
		By Profit & Loss Suspense A/c	6,000
		By Arup's Capital A/c (Goodwill)	54,000
	128000		**1,38,000**

Ascertainment of Swarup's Share in Profit Upto The Date of Death

Average Profit of last 3 years = 51,000+39,000+45,000/3 years

45000

Share of Swarup in Profit = (45000/12)*4 x 2/5

= 6000

Ascertainment of Value of Firm's Goodwill & Swarup's Share in it

Average Profit of last 3 years	=	51,000+39,000+45,000/3 years
		45000
Value of Goodwill =		45000 x 3 Years Purchase
		135000
Swarup' s Share in Goodwill =		135000*2/5
		54000

Working Notes

1. Calculation of PSR of Arup & Swarup

Arup = 1/2 *3 = 3/6

Swarup = 1/3 *2 = 2/6

PSR = 3:2

ILLUSTRATION 25 – PYP JAN 2021 (10 MARKS)

The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.

(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn ₹ 30,000 from the business.

An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017	*Profit ₹ 29,340*
2018	*Profit ₹ 26,470*
2019	*Loss ₹ 8,320*
2020	*Profit ₹ 13,470*

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note: Impact for unrecorded liability not to be given in earlier years.

P's Capital A/c

Particulars	Amount	Particulars	Amount
To Drawings	30,000	By Bal B/d	30,000
To Revaluation A/c (6000*2/4)	3000	By Interest on Capital A/c	2,400
		By P's Current A/c	5,000
To P's Executor A/c (Bal Fig)	38,465	By Q's & R's Capital A/c (Goodwill)	11,830
		By P/L Suspense A/c (profit)	4,735
		By Share in SLP	17,500
	71,465		**71,465**

Working Notes

1. Ascertainment of Value of Firm's Goodwill & P's Share in it

Value of Goodwill = 2Years Purchase of Average profits of Last 3 Years

Average Profit of Last 3 Years = (29340-4000) + (26470-4000) -(8320-4000)/3 years

= 11830

Value of Goodwill = 11830 * 2 Years = 23660

Share of P in Firm's Goodwill = 23660*2/4 = 11830

2. Ascertainment of Share of Profit to be credited to deceased Partner

Profit for 2020 after debiting interest on Capital = 13470 - 4000 = 9470

Share of P in Profit for 2020 = 9470*2/4 = 4735

3. Adjustment on Account of SLP

Amount of SLP to be Adjusted = 25000 of P's Policy + 20% of 25000 of Q's policy

+ 20% of 25000 of R's Policy

= 35000

P's Share in SLP = 35000*2/4 = 17500

PARTNERSHIP — CHANGE IN PSR

BIRDS EYE VIEW

- **Change In PSR – Meaning**
- **Sacrificing Partner – Meaning**
- **Gaining Partner – Meaning**
- **Calculation Of Sacrifice Or Gain Of Partners**
- **Adjustment For Goodwill**
- **Adjustment For Reserves & Accumulated Profit & Losses**
- **Adjustment For Revaluation Of Assets & Reassessment Of Liabilities**

ILLUSTRATION 26 - MTP NOV 2019 (20 MARKS)

A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2018 was as follows:

	Rs.		Rs.
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		5,50,000

From 1st January, 2019 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:

(a) the fixed assets should be valued at Rs. 3,31,000;

(b) a provision of 5% on sundry debtors to be made for doubtful debts;

(c) the goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) the stock be reduced to Rs. 1,12,000.

There is a joint life insurance policy for Rs. 2,00,000 for which an annual premium of Rs. 10,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2018 was Rs. 78,000.

The net profits of the firm for the last five years were Rs. 14,000, Rs. 17,000, Rs. 20,000, Rs. 22,000 and Rs. 27,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet.

Journal Entries

Date	Particulars	LF	Amount	Amount
01-01-2019	General Reserve A/c…..Dr		80000	
	To A's Capital A/c			40000
	To B's Capital A/c			25000
	To C's Capital A/c			15000
	(Being General Reserve Distributed to all Partners in Old ratio)			
01-01-2019	Revaluation……Dr		3000	
	To RDD A/c			3000
	(Being Provision Created on Debtors at 5%)			

Date	Particulars	LF	Amount	Amount
01-01-2019	Revaluation……Dr		8000	
	To Stock A/c			8000
	(Being Value of Stock Reduced)			
01-01-2019	Fixed Assets A/c…..Dr		51000	
	To Revaluation A/c			51000
	(Being Fixed assets Revalued)			
01-01-2019	B's capital A/c……Dr		5625	
	C's capital A/c……Dr		11250	
	To A's Capital A/c			16875
	(Being Godwill Adjusted in Partners Capital A/c)			

Date	Particulars	LF	Amount	Amount
01-01-2019	B's capital A/c……Dr		4875	
	C's capital A/c……Dr		9750	
	To A's Capital A/c			14625
	(Being Surrender Value of JLP Adjusted in Partner's Capital A/c)			
01-01-2019	Revaluation A/c……Dr		40000	
	To A's Capital A/c			20000
	To B's Capital A/c			12500
	To C's Capital A/c			7500
	(Being Revaluation profit Distributed to Partners in Old ratio)			

Balance Sheet

Liabilities	Amount	Assets	Amount
Partners Capital A/c		Cash	40000
A 191500		Bills Recievable	50000
B 107000		Debtors 60000	
C <u>71500</u>	370000	Less - RDD <u>3000</u>	57000
Partners Loan A/c		Stock	112000
A 40000		Fixed Assets	331000
B <u>30000</u>	70000		
Sundry Creditors	150000		
	590000		**590000**

WN 1 - Revaluation A/c

Particulars	Amount	Particulars	Amount
To RDD	3000	By Fixed Assets	51000
To Stock	8000		
To Revaluation profit			
A 20000			
B 12500			
C 7500	40000		
	51000		**51000**

WN 2 - Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c	-	5625	11,250	By Bal B/d	1,00,000	80,000	70,000
To A's Capital A/c	-	4,875	9,750	By General Reserve	40,000	25,000	15,000
	-			By B & C's Capital (G/W)	16,875		
				By B & C's Capital (JLP)	14,625		
To bal C/d (Bal Fig)	1,91,500	1,07,000	71,500	By Revaluation A/c	20000	12,500	7,500
	1,91,500	**1,17,500**	**92,500**		**1,91,500**	**1,17,500**	**92,500**

WN 3 - Calculation of Gaining & Sacrificing Ratio

A = 8/16 - 5/16 = 3/16 (Sacrifice)
B = 5/16 - 6/16 = (1/16) (Gain)
C = 3/16 - 5/16 = (2/16) (Gain)

WN 4 - Ascertainment of Value of Firm's Goodwill & Its Treatment

Average profit of Last 5 Years after Charging Insurance Premium
i.e 14000+17000+20000+22000+27000/ 5 Years = 20000
Average profit of last 5 Years Before Charging Insurance Premium = 20000+Insurance Premium per Year
= 20000+10000
= 30000

Value of Goodwill = 3Yrs Purchase * Average profit Before Charging Insurance Premium
= 3 * 30000
= 90000

Accounting Entry For Goodwill Adjustment

B's Capital A/c......Dr (1/16*90000)	5625	
C's Capital A/c......Dr (2/16*90000)	11250	
To A's Capital A/c (3/16*90000)		16875

WN 5 - Treatment of Surrender Value of JLP

B's Capital A/c......Dr (1/16*78000)	4875	
C's Capital A/c......Dr (2/16*78000)	9750	
To A's Capital A/c (3/16*78000)		14625

BASICS OF ACCOUNTS

MEANING & SCOPE OF ACCOUNTING

MEANING & SCOPE OF ACCOUNTING

- Introduction
- Meaning of Accounting – Traditional & Modern Definition
- Procedural Aspects of Accounting
- Objectives of Accounting
- Functions of Accounting
- Advantages of Accounting
- Limitations of Accounting
- Book Keeping , Accounting & Accountancy
- User's of Accounting Information
- Relationship of Accounting with other Disciplines
- Role of Chartered Accountant in Society

LIMITATIONS OF ACCOUNTING

1. Only transactions which can be measured in terms of money can be entered in the accounts. So events how so ever important they may be to the business, do not find a place in the accounts, if they cannot be measured in terms of money.
2. Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
3. According to the cost concept, assets are recorded at historical cost and ignore the changes in value of assets brought about by changing value of money and market factors.
4. Accounting ignores changes in some money factors like inflation etc.
5. There is conflict between one accounting principle and another e.g. stock-in-trade is valued on the basis of cost or market price whichever is lower. Therefore in one year cost basis may be taken, whereas in another year it may be market price. This system contravenes the accounting principle of consistency.
6. The balance-sheets is largely the result of personal judgment of the accountant with regard to adoption of accounting policies. Therefore accounts are affected by subjectivity factor.

ROLE OF CHARTERED ACCOUNTANT IN SOCIETY

1. Chartered Accountant in Practice
2. Chartered Accountant in Industry
3. Chartered Accountant in Public Sector Enterprise
4. Chartered Accountant in Framing Fiscal Policies

AREA OF SERVICE BY A PRACTICING CHARTERED ACCOUNTANT

- Maintenance of Books of Accounts
- Statutory Audit
- Internal Audit
- Taxation
- Management Accounting & Consultancy
- Financial Advise
- Investments
- Insurance
- Business Expansion
- Investigations & Secretarial Work

ACCOUNTING CYCLE

BIRDS EYE VIEW

- Accounting Process
- Identification of Transactions – Financial or Non-Financial
- Recording of Transactions in Journal – Meaning , Format & Procedure
- Classification of Accounts – Traditional & Modern Approach
- Rules of Debit & Credit - Traditional & Modern Approach
- Ledger Posting – Meaning , Format & Procedure
- Ledger Balancing – Meaning & Procedure
- Preparation of Trial Balance - Meaning & Methods
- Preparation of financial Statements
- Concept of Accounting Equation

ACCOUNTING CYCLE

Identification of Transactions

↓

Measurement of Transactions

↓

Recording of Transactions in Journal Book

↓

Classification of Transactions (Ledger Posting)

↓

Ledger Balancing

↓

Preparation of Trial Balance

↓

Preparation of Final Accounts

ILLUSTRATION 1

Prepare Journal Entries for the following transactions in the books of Gamma Bros.

(i) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery ₹ 8,000.

(iii) Income tax liability of proprietor ₹ 1,700 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of ₹ 2,000. He allowed 10% trade discount, ₹ 50 cash discount was also allowed for quick payment.

ILLUSTRATION 2

Pass a journal entry in each of the following cases.

(i) A running business was purchased by Mohan with following assets and liabilities:

Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

(ii) Goods distributed by way of free samples, ₹ 1,000.

(iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

ILLUSTRATION 3

You are required to pass necessary journal entries in the books of Kewal:

(i) Cheque amounting ₹ 9,000 from Hari Krishan in full settlement of his account for ₹ 10,000.

(ii) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹1,000

(iii) Goods costing ₹ 3,000 (Sale price ₹4,000) distributed as free samples.

(iv) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.

(v) Purchased second hand machinery from Jawahar for ₹30,000 against a cheque. Goods of ₹ 12,000 (Cost ₹ 9,000) used in repairs of this machinery which is necessary to make it ready for working.

ILLUSTRATION 4

From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2020:

Account Head	₹
Capital	1,00,000
Sales	1,66,000
Purchases	1,50,000
Sales return	1,000
Discount allowed	2,000
Expenses	10,000
Trade receivables	75,000
Trade payables	25,000
Investments	15,000
Cash at bank and in hand	37,000
Interest received on investments	1,500
Insurance paid	2,500

Trial Balance of Anuradha Traders as on 31.03.2020

Dr. balance	₹	Cr. balance	₹
Purchases	1,50,000	Capital	1,00,000
Sales return	1,000	Sales	1,66,000
Discount allowed	2,000	Trade payables	25,000
Expenses	10,000	Interest received on investments	1,500
Trade receivables	75,000		
Investments	15,000		
Cash at bank and in hand	37,000		
Insurance paid	2,500		
Total	2,92,500		2,92,500

ILLUSTRATION 5

One of your clients, Mr. Singhania has asked you to finalise his accounts for the year ended 31st March, 2020. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement.

	Dr. Balance (₹)	Cr. Balance (₹)
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers		530
Purchases	1,259	
Purchases return	264	
Loan from bank		256
Trade payables	528	

	Dr. Balance (₹)	Cr. Balance (₹)
Trade expenses	*700*	
Cash at bank	*226*	
Bills payable	*100*	
Salaries and wages	*600*	
Inventories (1.4.2019)		*264*
Rent and rates	*463*	
Sales return		*98*
	5,454	*5,454*

The closing inventory on 31st March, 2020 was valued at ₹ 574. Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

Corrected Trial Balance of Mr. Singhania as on 31st March, 2020

Particulars	Dr. Amount ₹	Cr.Amount ₹
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers	530	
Purchases	1,259	
Purchases returns		264
Loan from Bank		256
Creditor/Suppliers		528
Trade expenses	700	
Cash at Bank	226	
Bills payable		100
Salaries and Wages	600	
Inventory (1.4.2019)	264	
Rent and rates	463	
Sales return	98	
	5,454	5,454

ILLUSTRATION 6

An inexperienced bookkeeper has drawn up a Trial Balance for the year ended 30th June, 2020.

	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	200	–
Bank Overdraft	1,654	–
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	252	–
Discount Allowed	–	733
Drawings	1,200	–
Office Furniture	2,155	–
General Expenses	–	829
Purchases	10,923	–
Returns Inward	–	330
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	364	–
Total	24,983	25,002

Required:

Draw up a 'Corrected' Trial Balance, debiting or crediting any residual errors to a Suspense Account.

Trial Balance as on 30th June, 2020		
Heads of Accounts	**Debit ₹**	**Credit ₹**
Provision for Doubtful Debts	–	200
Bank overdraft	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
General Expenses	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Inventory	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,175	–
Total	25,580	25,580

SUBSIDIARY BOOKS & CASH BOOK

BIRDS EYE VIEW

- **Meaning , Need, Types & Advantages of Subsidiary Books**
- **Purchase Book**
- **Sales Book**
- **Sales Return/Return Inwards Book**
- **Purchase Return/Return Outwards Book**
- **Bills Receivable & Bills Payable Book**
- **Journal Book**
- **Cash Book – Meaning & Types of Cash Book**
- **Single , Double , Triple Columnar Cash Book**
- **Petty Cash Book – Meaning ,Advantages & Methods.**

MEANING & NEED OF SUBSIDIARY BOOKS

Meaning

Subsidiary Books refer to the journals meant for specific transactions of similar nature. In nutshell, Subsidiary books are nothing but sub division of Journal.

Need

When the number of transactions are large. It is practically impossible to record all the transactions through one journal **because of the following limitations of journal :**

1. The system of recording all transactions in journal requires (a) writing down of the name of the account involved as many times as the transactions occur and (b) an individual postings of each account debited and credited and hence, involves the repetitive journalizing.
2. Such a system does not provide the information on prompt basis
3. Such a system does not facilitate the installations of an internal check system since, the journal is handled only by 1 person.
4. The journal becomes bulky and voluminous.

TYPES OF SUBSIDIARY BOOKS

1. Purchase book/Purchase Journal/ Purchase Register
2. Sales book/Sales Journal/Sales Register
3. Purchase Return Book/Return Outward Book/Debit Note Journal
4. Sales Return Book/Return inward Book/ Credit Note Journal
5. Bills Receivable Book
6. Bills Payable Book
7. Journal Proper Book
8. Cash Book

ADVANTAGES OF SUBSIDIARY BOOKS

1. **Division of work :** Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.
2. **Specializations and efficiency :** When the same work is allotted to particular persons over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.
3. **Saving of time :** Various accounting process can be undertaken simultaneously because of the use of number of books. This will lead to the work being completed quickly.
4. **Availability of information :** Since a separate register or books is kept for each class of transactions the information relating to each transaction will be available at one place.
5. **Facility in checking :** When the trial balance does not agree the locations of the error or errors are facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

PURCHASE BOOK

1. Purchase book is one of the subsidiary books which is used for the purpose of recording the credit purchase of Trading goods/merchandise (i.e. the goods in which the enterprise deals in). Neither the cash purchase of the merchandise is recorded in purchases book nor the purchase of any asset on credit basis is recorded.
2. The entries in the purchase book are made on the basis of **purchase invoice received from the suppliers** with the amounts net of trade discount/ quantity discount.
3. The individual entries and the total of the book are posted in to ledger as follows :

Posting of Individual Amount	Posting of Periodic Total
Individual amounts are daily posted to the credit of supplier's accounts by writing **'By purchase A/c'** in the particular column.	Periodic total is posted to the debit of purchase account by writing **'To Sundries as per purchase book'** in the particulars column.

4. **Usually the following information is provided in this book;**

a) Date of purchase,
b) Purchase Invoice Number
c) Name of the supplier,
d) Page No. of the ledger on which Supplier account appears, and
e) Amount of purchase invoice net of trade discount (If Any).

5. The simplest format of a purchase book is shown below :

Date	Purchase Invoice no.	Name of supplier	LF	Details		Amount	
				Rs.	P.	Rs.	P.

SALES BOOK

1. Sales book is one of the subsidiary books which is used for the purpose of recording the credit sales of merchandise. Neither the cash sales of the merchandise nor sales of any asset on credit basis are recorded in sales book.

2. The entries in the sales book are recorded on the basis of the ***sales invoice issued to the customers*** with the amounts net of trade discount/ quantity discount.

3. The individual entries and the total of the book are posted into the ledger as follows:

Posting of Individual Amount	Posting of Periodic Total
Individual amounts are daily posted to the debit of the customer accounts by writing **"To sales A/c"** in the particular column.	Periodic total is posted to the credit of the sales account by writing **"By Sundries as per sales book"** in the particular column.

4. **Usually, the following information is provided in this book**

a) Date of sale.

b) Sales Invoice Number

c) Name of the customer,

d) Page number of the ledger on which the Customer's Account appears, and

e) Amount of sales invoice net trade discount (if any)

Note : *In case the firm deals in taxable goods, one additional column may be added to record the GST recovered from the customers.*

5. **The simplest format of a Sales book is shown below :**

Date	Sales Invoice no.	Name of Customer	LF	Details		Amount	
				Rs.	P.	Rs.	P.

PURCHASE RETURN BOOK

1. Purchase return book (also known as Return outward book/ Journal) is one of the subsidiary books which are used to record return of the goods purchased on credit. Neither the return of goods purchased on cash basis nor the return of any asset other than the merchandise is recorded in purchase return book.

2. The entries in the purchase returns book are usually made on the basis of ***debit note issued to the suppliers or credit notes received from the suppliers.***

   Note : A debit note is a document prepared by the purchase to inform the supplier that his account has been debited with the amount mentioned and for the reasons stated therein. A debit note contains the date of the good returned, reasons for returning the goods. Each debit note is serially numbered.

3. If some trade discount had been received at the time of original purchase and some expenses on purchase (e.g. cartage) had been charged by the supplier, the appropriate adjustment should be made so as to arrive at the correct value of goods returned.

4. The individual entries and the periodic total of the book are posted in to ledger as follows:

Posting of Individual Amount	Posting of Periodic Total
Individual amounts are daily posted to the debit of suppliers Accounts by writing **"To Purchase returns A/c"** in the particular column.	Periodic total is posted to the credit of purchase returns account by writing **"By Sundries as per purchase returns book"** in the particulars book in the particular column.

5. **Usually, the following information is provided in this book:**

a) Date of return

b) Debit note number

c) Name of the supplier

d) Page number of the ledger on which supplier A/c appears and

e) Amount of goods returned to the supplier.

6. The simplest format of a purchase Return book is shown below :

Date	Debit Note no.	Name of Supplier	LF	Details		Amount	
				Rs.	P.	Rs.	P.

SALES RETURN RETURN BOOK

1. Sales returns book (also known as return inward book/ journal) is one of the subsidiary books which is used for the purpose of recording the return of merchandise sold on credit. Neither the return of merchandise sold on cash basis *nor* the returns of any asset other than the merchandise are recorded in sales return book.

2. The entries in the sales returns book are usually on the basis of ***credit notes issued to the customers*** **or** ***debit notes issued by the customers.***
   Note : A credit note is document prepared by the seller to inform the buyer that his account has been credited with the amount mentioned and for the reasons stated therein. A credit note contains the date of return of goods. The name of the customer who has returned the goods details of goods received back and the amount of such goods. Each credit note is serially numbered.

3. If some trade discount had been allowed and some expenses on sales (e.g. cartage) had been charged from the customer the appropriate adjustment should be made so as to arrive at the correct value of goods returned.

4. The individual entries and the periodic total of the book are posted in to ledger as follows:

Posting of Individual Amount	Posting of Periodic Total
Individual amount are daily posted to the credit of customers accounts by writing **"By sales returns A/c"** in particulars column	Periodic total is posted to the debit of sales return account by writing**" To Sundries as per sales return book"** in particular column.

5. **Usually the following information is provided in this book :**
a) Date of return
b) Credit note number
c) Name of the customer,
d) Page number of ledger on which customer A/c appears and
e) Amount of goods returned by the customer.

6. The simplest format of a Sales Return book is shown below :

Date	Credit Note no.	Name of Customer	LF	Details		Amount	
				Rs.	P.	Rs.	P.

BILLS RECEIVABLE BOOK

1. Bills receivable book is one of the subsidiary books which are used for the purpose of recording the details of bills receivable in favor of person who is maintaining the bills receivable book.

2. Individual amounts are daily posted to the credit of the accounts of individual debtors from whom the bill are received periodic total is posted to the debit of bills receivable account in the ledger by writing "To Sundries as per B/R Book"

BILLS PAYABLE BOOK

1. Bills payable book is one of the subsidiary books which is used for the purpose of recording the details of bills payable accepted by the person who is maintaining the bills Payable Book.

2. Individual amounts are daily posted to the debit of the accounts of individual creditors to whom acceptances have been given. The periodic total is posted to the credit of Bills Payable Account in the ledger by writing "By Sundries as per B/P Book".

JOURNAL PROPER

Journal proper is residuary book in which those transaction are recorded which cannot be recorded in any other subsidiary book such as a) cash book (b) purchase book (c) sales book (d) purchase returns book(e)sales return book (f) bills receivable book and (g) Bills payable book. The format of the Journal Proper is same as of Journal Book.

Examples of Transactions entered in Journal Proper :

a) **Opening Entries**
b) **Closing entries – Transfer of Net profit to Capital A/c etc**
c) **Adjusting Entries – O/s Exp , Prepaid Exp , Int. on Capital , Depreciation etc**
d) **Rectifying Entries**
e) **Capital Brought in Kind**
f) **Credit Purchase of Asset**
g) **Credit Sales of Asset**
h) **Return of Assets Purchased/Sold on Credit**
i) **Endorsement of Bills Receivable**
j) **Dishonor of Bills Receivable**
k) **Cancellation of Bills Payable**
l) **Loss of stock/Asset by Fire , Accident ,Theft etc**
m) **Writing off Bad Debts**
n) **Drawings by proprietor In Kind.**
o) **Goods distributed as free samples.**

MEANING & TYPE OF CASH BOOK

A Cash book is special journal which is used for recording all cash receipts and cash payments.

The cash book is book of original entry (or prime entry) since transactions are recorded for the first time from the source documents. The cash book is ledger in the sense that it is designed in the form of cash account and records cash receipts on the debit side and cash payments on the credit side. Thus, the cash book is both a journal and a ledger.

There are 3 Types of Cash Book :

1. Single Column Cash Book / Simple Cash Book (Cash)
2. Double Columnar Cash Book (Cash , Discount)
3. Triple Columnar Cash Book (Cash , Discount , Bank)

SINGLE COLUMNAR CASH BOOK

1. Single column cash book has one amount column on each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open this account in the ledger. It is to be kept in mind that the Debit side is always bigger than the credit side since the payment cannot exceed the available cash.

2. The format of single column cash book is given below:

Date	Particulars	LF	Amount Rs.	Date	Particulars	LF	Amount Rs.

DOUBLE COLUMNAR CASH BOOK

Cash Book with Discount Column has two columns (one for cash and another for discount) on each side. All cash receipts and cash discount allowed are recorded on the debit side and all cash payments and discount received are recorded on the credit side.

It is to kept in mind that discount columns in the cash book are not accounts & hence they are not balanced. The total of discount columns are posted in discount ledger.

The format of cash book with discount column is given below :

Date	Particulars	LF	Discount Rs.	Cash Rs.	Date	Particulars	LF	Discount Rs.	Cash Rs.

TRIPLE COLUMNAR CASH BOOK

1. Three column cash book has three amount columns (one for cash one for bank and one for discount) on each side. All cash receipts deposits in to bank and discount allowed are recorded on debit side and all cash payments, withdraws from bank and discount received are recorded on credit side. In fact a three column cash book serves the purpose of cash account and bank account. Hence there is no need to open these two accounts.

2. Format of three columnar cash book

Date	Particulars	LF	Disc. Rs.	Cash Rs.	Bank Rs.	Date	Particulars	LF	Disc. Rs.	Cash Rs.	Bank Rs.

3. Both the debit effect & credit effect of transaction in case of contra entries will be recorded in this type of cash book. However , "C" needs to mentioned in the particulars column in case of such entries.

4. If cheque is received it will be first treated as cash receipt & hence it will appear on debit side of Cash column & when it is deposited in the bank the entry shall be as of Cash deposited in Bank

5. If some cheque sent to the bank is dishonoured i.e the bank is not able to collect the amount , It is entered in the bank column on the credit side with the name of the related party in the particulars column.

6. If some cheque issued by the firm is not paid on presentation , it is entered in the bank column on the debit side with the name of the party to whom the cheque is given.

PETTY CASH BOOK

Petty cash book is one of the subsidiary books which are used for the purpose of recording the payment of petty cash expenses.

Petty cashier is the person who is authorized to make payments of petty cash expenses and to record them in petty cash book.

FEATURES OF PETTY CASH BOOK

1. The amount of cash received from the main cashier is recorded on the left hand side column.
2. The payment of petty cash expenses are recorded on the right hand side in the respective columns.
3. It can never show a credit balance because the cash payment can never exceed the cash receipts.
4. Its balance represents unspent petty cash in hand.
5. Recording is done on the basis of internal as well as external vouchers. Whenever external vouchers are not received (e.g. in case of auto rickshaw charge, coolie charge, postage stamps etc.) internal vouchers are prepared and get verified by an authorized person.
6. All the columns of expenses are totaled periodically and such periodic totals are individual posted to the debit side of respective expenses accounts in the ledger by writing "To Sundries as per Petty Cash Book" in the particulars column.
7. Petty cash book is book of original entry as well as a book of final entry. In other words it serves the purpose of both journal and ledger. It is a journal in the sense that all petty cash payments are recorded in it for first time from the source documents. It is ledger in the sense that it serves the purpose of petty cash account in which cash receipt from main cashier are recorded on the debit side and cash payments are recorded on the credit side.
   Hence, there is no need to open Petty Cash Account in the ledger.

ADVANTAGES OF PETTY CASH BOOK

1. **Saving of chief cashier time :** The time of chief cashier is saved when petty expenses are recorded in petty cash book.

2. **Saving of Labour in posting :** There is saving in labour in posting because of the following two reasons :
   a) Limited number of accounts are opened for head of petty expenses only,
   b) Periodical totals (say monthly) of each column of expenses are posted to the debit of the respective ledger accounts.

3. **Controls over the mistakes :** The chances of mistakes are reduced since the chief cashier regularly examine the petty cash book.

4. **Control over Petty Expenses :** Petty expenses are kept within the limits of imprest since the petty cashier can never spend more than the available petty cash.

5. **Control over Fraud :** Misappropriation if any, is always kept within the limits of Imprest

6. **Benefits of Specialization :** The benefits of specialization are available since recording of cash transactions is divided between main cash book and petty cash book.

IMPREST V/S NON-IMPREST SYSTEM OF PETTY CASH BOOK

a) "**Imprest' or 'Float'** is the amount which the main cashier hands over to the petty cashier in order to meet the petty cash expenses of a given period.

b) Petty cash book may be maintained on Imprest system or no Imprest system.

(i) Imprest System of petty cash – under Imprest system. The chief cashier ***makes the reimbursement*** of the amount spent by the petty cashier and the petty cashier again has the same amount of petty cash at the end as in the beginning.

(ii) Non Imprest system of Petty Cash - Under the non Imprest system the Chief Cashier may hand over the cash to the Petty Cashier equal to/ more than / less than the amount spent by the petty cashier. The petty cashier may or may not have the same closing balance of petty cash as opening balance.

FEATURES OF IMPREST SYSTEM OF PETTY CASH BOOK

1. **Estimation by Chief Cashier :** The chief cashier estimates the total petty cash expenses for a particular fixed period.

2. **Advance by chief cashier :** The chief cashier advance the estimate amount to the petty cashier in the beginning of the period

3. **Submission of petty cash book by petty cashier :** The petty cashier submits the petty cash book along with supporting vouchers to the chief cashier at the end of the period.

4. **Examinations of petty cash book by chief cashier :** The chief cashier examine the petty cash book.

5. **Reimbursement of Amount Spent** : The Chief Cashier **makes the reimbursement** of the amount the petty cashier.

6. **Availability of same amount of petty cash** : The petty cashier again has the same amount of petty cash in the beginning of new period.

POSTINGS FROM PETTY CASH BOOK

All the heads of expenses (including miscellaneous) are totaled periodically (usually monthly) and such periodic totals are individually posted to the debit side of the concerned ledger accounts in the ledger by writing " To Sundries as per Petty Cash Book" in the particular column.

The accounting entry Shall Be :

a) At the time of Providing Cash to Petty cashier

Petty Cash/Petty Cashier A/c .... Dr
To Cash A/c

b) At the time of recording of expenditure

Head of Exp .... Dr
To Petty Cash/Petty Cashier A/c.

ILLUSTRATION 1

Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2017			₹
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private expenses	600
	24	Received cheque from Parul	1,430
		Allowed him discount	20
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	2,000
	30	Paid rent by cheque	800

Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2017			₹	₹	₹	2017			₹	₹	₹
Nov. 1	To	Balance b/d	–	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		–	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
						Nov. 30	By	Balance c/d		8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Note:

(1) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

ILLUSTRATION 2

Prepare a Triple Column Cash Book for the month of April 2018 from the following transactions and bring down the balance for the start of next month:

Date		₹
1	Cash in hand	4,500
1	Cash at bank	18,000
2	Paid into bank	1,500
5	Bought furniture and issued cheque	2,250
8	Purchased goods for cash	750
12	Received cash from Mr. K	1,470
	Discount allowed to him	30
14	Cash sales	7,500
16	Paid to Mr. P by cheque	2,175
	Discount received	75
19	Paid into Bank	750
23	Withdrawn from Bank for Private expenses	900
24	Received cheque from Mr. B	2,145
	Allowed him discount	30
26	Deposited Mr. B's cheque into Bank	
28	Withdrew cash from Bank for Office use	3,000
30	Paid rent by cheque	1,200

Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2017			₹	₹	₹	2017			₹	₹	₹
April 1	To	Balance b/d		4,500	18,000	April 2	By	Bank (C)		1,500	
April 2	To	Cash (C)			1,500	April 5	By	Furniture A/c			2,250
April 12	To	Mr. K	30	1,470		April 8	By	Purchase A/c		750	
April 14	To	Sales A/c		7,500		April 16	By	Mr. P	75		2,175
April 19	To	Cash (C)			750	April 19	By	Bank (C)		750	
April 24	To	Mr.B (Note 2)	30	2,145		April 23	By	Drawings A/c			900
April 26	To	Cash (C)			2,145	April 26	By	Bank (C)		2,145	
April 28	To	Bank (C)		3,000		April 28	By	Cash (C)			3,000
						April 30	By	Rent A/c			1,200
			—	—	—	April 30	By	Balance c/d	—	13,470	12,870
			60	18,615	22,395				75	18,615	22,395
May 1	To	Balance b/d		13,470	12,870						

Note:

(1) Discount allowed and discount received ₹ 60 and ₹ 75 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

ILLUSTRATION 3

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger :

Date	Debit Note No.	Particulars
04.01.2018	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 100.
09.01.2018		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹ 40.
16.01.2018	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹ 260.
30.01.2018		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

Purchase Returns Book

Date	Debit Note No.	Name of supplier	L.F.	Amount
2018				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

ILLUSTRATION 4

Prepare a Petty Cash Book on the Imprest System from the following:

2019			₹
April	1	Received ₹ 20,000 for petty cash	
"	2	Paid auto fare	500
"	3	Paid cartage	2,500
"	4	Paid for Postage & Telegrams	500
"	5	Paid wages	600
"	5	Paid for stationery	400
"	6	Paid for the repairs to machinery	1,500
"	6	Bus fare	100
"	7	Cartage	400
"	7	Postage and Telegrams	700
"	8	Cartage	3,000
"	9	Stationery	2,000
"	10	Sundry expenses	5,000

PETTY CASH BOOK

Receipts ₹	Date 2019	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

ACCOUNTING CONCEPTS , PRINCIPLES & POLICIES

BIRDS EYE VIEW

- Accounting Principles - Meaning
- **Accounting Concepts** : Separate Entity Concept , Going Concern Concept , Money Measurement Concept, Cost Concept, Dual Aspect Concept, Periodicity Concept, Matching Concept, Realization Concept , Accrual Concept , Objectivity Concept.
- **Accounting Conventions** : Conservatism or Prudence, Full Disclosure, Consistency , Materiality.
- Fundamental Accounting Assumptions
- Accounting Policies – Meaning , Examples & Considerations in selecting Accounting Policies , Change in Accounting Policy
- Methods of Book-Keeping
- Methods of Accounting
- Qualitative Characteristics of Financial Statements

ACCOUNTING PRINCIPLE - MEANING

Accounting is the language of business which communicates the position of a business house to the outside world. In order to make this language easy and commonly understandable by all , it is necessary that it should be based on certain uniform doctrines and standards which are known as Accounting Principles.

Thus, Accounting principles may be defined as those rules , doctrine and standards Which are followed by all the accountants universally at the time of recording business transactions and events

<u>The Accounting principles can be classified into the following categories :</u>

1. **Accounting Concepts**
2. **Accounting Conventions**

ACCOUNTING CONCEPTS - MEANING

Accounting concepts define the assumption on the basis of which financial statement of Business entities are prepared. Certain concepts are perceived, assumed and accepted in accounting to provide a unifying structure and internal logic to accounting process. The word concept means idea or notion, which has universal application. Financial transactions are interpreted in the light of the concepts, which govern accounting methods. Concepts are those basic assumptions and conditions, which form the basis upon which accountancy has been laid. These accounting concepts lay the foundations on the basis of which the accounting principles are formulated.

ACCOUNTING CONCEPTS

1. Separate Entity or Business Entity Concept
2. Going Concern Concept
3. Money Measurement Concept
4. Cost Concept
5. Dual Aspect Concept
6. Periodicity Concept
7. Matching Concept
8. Realization Concept
9. Accrual Concept
10. Objective Concept

ACCOUNTING CONVENTIONS

Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the conventions to improve the quality of accounting information. Accounting convention need not have universal application.

The following are the Accounting Conventions :
1. Conservatism or Prudence
2. Full Disclosure
3. Consistency
4. Materiality

In the study material, the terms 'Accounting Concepts.' 'Accounting Principles' and 'Accounting Conventions' have been used interchangeably to mean those basic points of agreement on which financial accounting theory and practice are founded. Let's deal with each Accounting Concepts & Convention in detail.

SEPARATE ENTITY CONCEPT OR BUSINESS ENTITY CONCEPT

According to this concept, business and businessman, both should be treated as separate entities at the time of recording transactions in the books of business. This concept makes it possible -
- ❖ To record the transactions between businessman and business,
- ❖ Not to record the private transactions of businessman in the books of business,
- ❖ To present the true and fair view of the business affairs.

Why this concept?
If this concept is not followed. Then the private transactions of the proprietor will be mixed up with the transactions of business and then, the true and fair position of the business could not be known. That is why, when one person invests Rs. 1,00,000 into business, it is deemed that the proprietor has given that amount to the business and therefore, this amount is shown as a liability in the books of the business. In case the proprietor withdraws Rs. 20,000 from the business, it will be charged to him and therefore, the net amount payable by the business to businessman will be shown as Rs. 80,000.

Conflict with law
The concept of separate entity is applicable to all forms of business organizations. The relationship, created by law between business and businessman, should not be taken into consideration at the time of recording transaction. For example, in case of a partnership business or in case of a sole proprietorship business, the partner or sole proprietor are not considered as separate entities in the eyes of law, but for accounting purposes they will be considered as separate entities.

GOING CONCERN CONCEPT

As per this concept, unless otherwise known, it is assumed that the firm is a going concern and its business will continue for an indefinite time. A firm is said to be a going concern, if there is neither intention nor necessity to wind up the affairs of business or substantially curtail the scale of its operation. It is due to this concept that :

- ➢ Proper distinction is made between capital and revenue expenditure,
- ➢ Assets are classified into current assets and fixed assets,
- ➢ Liabilities are classified into short-term liabilities and long-term liabilities

MONEY MEASUREMENT CONCEPT

As per this concept, only monetary transactions are recorded in the books of accounts. The transactions, which cannot be expressed in monetary terms, do not find place in the books of accounts, although they may be very useful for the business.

For example, if a business has got a team of dedicated and trusted employees, it is definitely an asset to the business, but since their monetary measurement is not possible, they are not shown in the books of the business. Similarly, inefficiency of management, poor industrial relation, lack of coordination between managers etc. are non-monetary events and not recorded in the Books of Business.

Measurement of business transactions in money helps in understanding the state of affairs of the business in a better way. **For example,** if a business owns cash of Rs.10,000, 600 kg. of raw materials, two trucks, 1000 square feet of building space etc. these items cannot be added together to produce a meaningful total, what the business owns. However, if these items are expressed in monetary items such as Rs. 10,000 of cash, Rs. 12,000 of raw materials (600 kg.), Rs. 2,00,000 of two trucks and Rs. 5,00,000 of 1000 square feet of building, all such items can be added and a better estimate about the assets of the business will be available.

Some people think that the Accounting gives a full picture of business. It is never true, Because in Accounting, only monetary items are recorded ; no record is made for non-monetary items. Thus, accounting does not give the picture of non-monetary items.

COST CONCEPT

According to this concept -

- ❖ Fixed asset is recorded in the books at the price which is paid to acquire it, and
- ❖ This cost is the basis for all subsequent accounting for that asset.

For example, if a plot of land is purchased for Rs. 1,50,000, then as per this concept, the asset will be recorded in the books at Rs. 1,50,000, even if its market value at that time is Rs. 2,00,000. In case a year later, the market value of this asset comes down to Rs. 1,00,000 it will continue to be shown at Rs. 1,50,000 and not at Rs. 1,00,000.

The cost concept does not mean that the asset will always be shown at cost. It has also been stated above that cost becomes the basis for all further accounting for the asset. It means that asset is recorded at cost at the time of its purchase, but it may systematically be reduced in its value by charging depreciation.

Advantage : Cost concept has the advantage of bringing objectivity in the preparation and presentation of financial statements. In the absence of this concept, the figures shown in the accounting records would have depended on the subjective views of a person.

Drawbacks : However, if cost concept is followed in the following situations, then the financial statements will not depict the true and fair position of the business -

- ➢ In case of **inflationary trend** in the price of the assets (such as land), the historical cost does not have relevance. **For example**, suppose during the financial year, a Land is purchased for Rs. 50,000 and at the end of financial year, its market value is Rs.2,00,000. In the financial statements, the land will be shown at Rs. 50,000, which will not depict the true and fair view of the land.
- ➢ In case, **asset does not have any acquisition value,** (for example, assets acquired by the firm by way of gift), such assets will not be shown in the financial statement, if cost concept is followed, because nothing is paid for it. This will adversely affect the concept of true and fair view.

DUAL ASPECT CONCEPT

This is a basic concept of accounting. According to this concept, every business transaction has dual effect

a. It increases one Asset and decreases other Asset,
b. It increases one Asset and simultaneously increases liability,
c. It decreases one Asset, increases another Asset,
d. It decreases one Asset, decreases a liability.

Alternatively -

a. It increases one liability, decreases other liability,
b. It increases a liability, increases an Asset,
c. It decreases liability, increases other liability,
d. It decreases liability, decreases an Asset.

For example, suppose Mr. A purchases some goods worth Rs.1,000 in cash in this business transaction, Mr. A gets the goods of worth Rs.1,000, but on the other hand, he lost the cash of Rs.1,000. So, Goods Account and Cash Account shall be affected by this transaction.
Thus, in every business transaction, one aspect represents the assets or expenses and other represents the liability or income and these two aspects are always equal.

ACCOUNTING PERIOD CONCEPT OR PERIODICITY CONCEPT

This concept is based on Going Concern concept. As per the going concern concept, the life of the business is considered to be indefinite. However, the measurement of income and study of the financial position of a business house after a very long period would not be helpful in taking the corrective action within the right time.

In order to tackle the above problem, Accounting period concept is developed. As per this concept, the life of the business is divided into appropriate segments or into time interval and after every time interval, the businessman must **'Stop'** and **'see back', 'how things are going'**. A segment or time interval is called 'Accounting Period'. Which is usually one year. In India generally the accounting period starts on April 1st & ends on March 31st next year.

Thus, at the end of each accounting period, an income Statement and a Balance Sheet are prepared. The Income Statement discloses the profit or loss, made by the business during the accounting period, while the Balance Sheet depicts the financial position of the business at the end of Accounting Period.

Further, it is to be noted that this concept is also necessary for the allocation of expenses between capital and revenue. That portion of capital expenditure, which is consumed during the current period, is charged as an expense to income statement and unconsumed portion is shown in the balance sheet as an asset for the future consumption.

MATCHING CONCEPT

This is based on the Accounting Period Concept. The main object of running a business is to earn profit. In order to ascertain the profits, made by the business during a period, it is necessary that 'cost' of the period should be matched with the 'revenue' of that period. The effect of this principle can be summarized as follows :

a. When an item of revenue is entered in the profit and loss account, then all the expenses, incurred to earn that income (whether paid or not) should be entered on the expenses side.

b. When some amount is spent in the current year, and the income against it will be earned in the subsequent years, then the expenditure should be shown in the subsequent years, when the income is earned.

It is due to this concept that necessary entries are made for outstanding expense, pre-paid expenses, accrued income and unaccrued income in the books of accounts.

REALISATION CONCEPT

This concept deals with the problem, when the revenue should be recognized ? According to this concept, the sale should be recognized at the point, when the property in goods passes to the buyer and he becomes legally liable to pay and other income is recognised, when they accrue.

Mr. A places an order with Mr. B for supply of certain goods, which are yet to be manufactured. On receipt of order, Mr. B Purchases raw materials, employs workers, produces the goods and delivers finished goods to Mr. A. Mr. A makes payment on receipt of goods. In this case, the sale will be presumed to have been made not at the time of receipt of the order for the goods, but at the time, when goods are delivered to Mr. A.

ACCRUAL CONCEPT

According to this principle –

- all the revenues should be recognized when they are earned, not when they are received in cash, and
- Similarly, the expenses should be recognized when they are incurred, not when they are paid.

This concept is based on the matching concept of accounting.

For example, suppose a building is taken on rent for the purpose of business on 1st May the financial year ends on 31st March. In such a situation, as per accrual concept, the total rent for eleven months should be shown in the profit and loss account, irrespective of the actual amount paid for rent during the year.

OBJECTIVITY CONCEPT

According to this concept, the accounting data and accounting information should be verifiable and free from personal bias. **For example**, in the case of Fixed Assets. The amount can be verified by purchase bill. Etc. they should be objective (out of one's mind), not subjective (of one's mind).

However, there are some areas in Accounting, where evidence cannot be made available to verify information and where estimations are made. **For example,** the estimation of depreciation, estimation of Bad and Doubtful debts, etc. These estimates should be free from any bias and should be based on reasonable analysis.

CONSERVATISM OR PRUDENCE

This principle suggests that ''the future profits should not be recognized in present, but all the possible future losses should be provided at present''.

On account of this convention, the inventory is valued at cost or NRV whichever is lower; a provision is made for possible bad and doubtful debts against debtors, but a provision for discount on creditors is not made.

Effect : It is to be noted that this principle mainly affects the current assets. The Fixed assets are not affected by this principle. Inventory valuation, estimation of doubtful debts etc. are some areas, where this principle plays important role.

Drawbacks : This doctrine of accounting has been seriously criticized by experts on the following grounds:

a. **Conflict with the convention of consistency** : If this principle is followed, then it is possible that the stock of one accounting period is valued on the cost and of other year at NRV. Thus this principle conflicts with the principle of consistency.
b. **Creation of Secret Reserves** : When excessive provision is made for doubtful debts or depreciation then it leads to the creation of secret reserves. Thus, this principle conflicts with the principle of full disclosure.
c. **Based on subjective judgments :** The estimation of future losses is a subjective judgment and thus this principle conflicts with the principles of disclosure.

Whatever the criticism may be, ultimately we see that the main intention of this principle is to prohibit the ''window Dressing'' of Financial Statements, i.e. showing a position better than what it is.

FULL DISCLOSURE

According to this principle, the financial statement should act as means of conveying information and not as means of concealing information. Therefore. Financial statement must disclose, truly and fairly, all the information,
- Which they purport to represent, and
- Which are of material interest to the users of account.

However, Full Disclosure does not mean that all the information, that one might expect, should be given in the financial statement. If the information is of material interest to the users of accounts, such information must be disclosed in Financial Statements.

It is due to this principle the Companies Act 2013 requires that income statement and Balance Sheet of a company must be given in a prescribed form. Generally, different notes, such as notes about contingent liabilities or market value of investments etc. are annexed with the financial statement, which do not find place in the accounting this is done in pursuance of convention of full disclosure.

CONSISTENCY

According to this convention, accounting policies should remain unchanged from one period to another, **For example,** if the stock is valued by FIFO method in one accounting year, then this policy should be followed in the subsequent years also. Similarly, if depreciation is charged in accordance with WDV Method, then this method should be followed year after year.

MATERIALITY

This principle is basically a modified form of the principle of Full Disclosure. The full disclosure principle requires that all facts, necessary to ensure that the financial statements are not misleading, must be disclosed. However, according to the materiality principle, only material items are required to be disclosed in the financial statements and the items which are immaterial to the users of accounts may not be disclosed.

Now the question arises, "What is the meaning of Material Information?" This is because what information is material from the view-point of one person may be immaterial from view-point of other person. This is a question of fact and circumstances. However, as per AS-1, issued by ICAI, any information, misstatement of which may change the decision of users of financial statements, shall be deemed to be the material information and should be properly disclosed in the financial statements.

FUNDAMENTAL ACCOUNTING ASSUMPTIONS

The Accounting standard (AS – 1) "Disclosure of Accounting Policies" issued by ICAI , states that there are 3 fundamental accounting assumptions which are as follows :

1. Going Concern
2. Consistency
3. Accrual

If the fundamental accounting assumptions , viz. Going Concern , Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed , the fact should be disclosed.

ACCOUNTING POLICIES

Accounting policies refer to the specific accounting principles and method of applying those principles adopted by the enterprise in the preparations and presentation of financial statement. There is no single list of accounting policies which are applicable to all enterprise in all circumstances. The management of each enterprise has to select appropriate accounting policies having regard to the nature and circumstances of the enterprise.

Following are the examples of some of the area in which different accounting policies may be adopted by different enterprise :

a. Methods of depreciations, depletion and amortizations,
b. Valuations of inventories etc

The change in accounting policies is recommended only in the following circumstances :

a. If it is required by statute for compliance with an accounting standard.
b. If it is considered that the change would result in more appropriate presentation of financial statement of an enterprise.

CONSIDERATIONS IN SELECTING OF ACCOUNTING POLICIES

The primary consideration in the selection of accounting policies should be to prepare and present financial statements in a way that they represent a true and fair view of state of affairs of the enterprise as at balance sheet date and of the profit and loss account for period ended on that date. The major considerations governing the selections and application of accounting policies are as under :

1. **Prudence :** uncertainties inevitable surround many transaction. This should be recognized by exercising prudence in preparing financial statements. Prudence does not, however, justify the creation of secret or hidden reserve.

2. **Substance over form :** Transaction and other events should be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form.

3. **Materiality :** financial statement should disclose all material items, that is, items, the knowledge of which might influence the decision of users of the financial statements.

SYSTEMS OR METHODS OF BOOK KEEPING

1. Single Entry System
2. Double Entry System

Single Entry System

a) An incomplete double entry system can be termed as a single entry system. Under this system the preliminary books of accounting such as cash book, purchase book, sales book etc. are maintained in the proper way. The ledger is also maintained, but in the ledger, only personal accounts are opened and the posting is made from the original books only in the personal account. In this system the nominal accounts and real accounts are not opened in the ledger.

b) In nutshell, the businessman keeps the record of only essential information i.e. record of cash, bank and personal accounts. Thus under this system, some transaction are recorded in both sides, some are recorded only on single side and other are completely omitted.
For example, if Rs 1,000 is paid for telephone expenses, then under the single entry system, its entry shall be made in the payment side of cash book, but no account shall be opened for telephone expenses, which is of nominal nature. However if Rs 1000 is paid to Mr. Ram , who is a creditor, then its entry shall be made in the payment side of cash book and the corresponding entry will be made in in Ram Account, which is of personal nature.

c) Since all records are not kept in this system, so it is not reliable and is suitable only by small business houses.

Double Entry System

According to this system, every business transaction has a two field effect & both these effects of every transaction are recorded in the books of accounts. In fact, this system of accounting is based on the dual aspect concept of accounting.

For example , suppose Mr. A purchase some goods worth Rs 1,000 in cash. In this business transaction, Mr. A gets the goods worth Rs 1,000 but lost the cash of Rs 1,000, goods account and cash account shall be affected by this transaction.

METHODS OF ACCOUNTING

Mercantile System

This system of accounting is based on Accrual concept. In this system –

- All the revenue are recognized when they are earned, not when they are received in cash, and
- Expenses are matched against such revenue or the expenses should be recognized when they are incurred, not when they are paid

For example, suppose a building is taken on rent for the purpose of business on 1st May. The rent is paid only for 10 months. The financial year ends on 31st March. In such a situation, if mercantile system of accounting is followed, then the total rent for eleven months should be shown in the profit and loss account, irrespective of the actual amount paid for rent during the year.

Cash System

In cash system of accounting :

- All the revenue are recognized when they are received in cash, not when they are earned, and
- Similarly, the expenses are recognized, when they are paid in cash, not only when they are incurred.

In the case of above example, if the cash system of accounting is followed, then the rent for only 10 months shall be in the profit and loss account.

Thus, under this system, only cash receipt and payment are recorded. No treatment is done for outstanding and prepaid items.

QUALITATIVE CHARACTERSTICS OF FINANCIAL STATEMENT

1. **Understandability :** Financial Statement must be readily understandable by the users. But this does not mean that complex and not easily understandable information should not be included in financial statement, even if it is relevant for decision making by the users.

2. **Relevance :** Financial statement must contain all the information, which is relevant, i.e. material, to the users of financial statement. As per AS-1 (issued by ICAI), information becomes material, if its omission or misstatement could influence the economic decisions of users of the financial statement. Thus, materiality provides a threshold or a base to decide what information to be included in financial statements and what not.

3. **Reliability & Faithful Representation :** Reliability is another qualitative characteristic, which the financial statements must possess to be useful to the users. If the information, contained in the financial statements is not reliable, it could not serve purpose of users. Fraud and errors make the financial statements unreliable. Therefore there should be faithful representation of transaction and events in the financial statement.

4. **Comparability :** The financial statement should also have the characteristic of comparability. Usually the users want to make the following comparison :
   - **Intra-Firm Comparison** i.e. the comparison of the figures of one accounting year with those of the other accounting year of the same firm,
   - **Inter-Firm Comparison** i.e. the comparison of the figures of one firm with those of another firm of the same industry, and
   - **Pattern Comparison** i.e. comparison of the figures of one firm with those of industry to which the firm belongs. By this way the users want to develop some judgments.

5. **Substance over Form :** The financial information must be presented in accordance with their substance, not by their legal form.
   For Example, in the case of Hire purchase sale, legally, the ownership in goods is transferred by seller to the buyer only at the payment of last installment. But in reality, the buyer uses the assets as owner from the date of entering into transaction, not on the date of payment of last installment. Similarly, all the significant risks and returns, inherent in the ownership of goods, are also transferred on the same date. Such transaction therefore, should be treated as purchase of assets on the date of entering into the transaction, not on the date of payment of last installment.

6. **Prudence :** Financial statements should have the characteristics of Prudence, i.e. accounting uncertainties should be dealt in such a way that assets and incomes are not overstated and similarly, liabilities and losses are not understated.

7. **Completeness :** The information contained in the financial statements should be complete in all respects. All the transactions and events of financial nature should be reflected in the financial statements. Not only the financial information, but the non-financial information, which may be useful to the users of accounts, should also be disclosed in the financial statements. For example, if the organization has followed any rules and regulations, and due to non-compliance of these rules and regulations, the government may give order for closing up of the business, then such non-financial information must be disclosed in the financial statement as per AAS-21.

8. **True & Fair Picture :** True & Fair presentation of information is the fundamental rule that should be strictly followed at the time of preparation and presentation of financial statements.

CAPITAL & REVENUE EXPENDITURE & RECIEPT

BIRDS EYE VIEW

- **Type of Expenditures**
- **Capital Expenditure**
- **Revenue Expenditure**
- **Deferred Revenue Expenditure**
- **Consideration in Determining Capital & Revenue Expenditure**
- **Difference between Deferred Revenue Expenditure & Prepaid Expenses**
- **Capital & revenue Receipts**

INTRODUCTION

Types of Expenditures

Capital Expenditure

- Non Recurring
- Benefits arises for Longer period
- Expenditure to acquire new asset or to increase efficiency/capacity of Existing asset
- Shown on asset side of B/s.

Revenue Expenditure

- Recurring in nature
- Benefit not exceeding 1 year
- Expenses for day to day running of business
- Shown in Trading & PL A/c

Deferred Revenue Expenditure

- These are those revenue expenditure whose benefit is for more than 1 year
- Written off portion appears on Dr of PL A/c & balance on Asset side of B/s.

CAPITAL EXPENDITURE

1. It is an expenditure which is incurred :
   a. To acquire or bring into existence an asset, or
   b. To acquire or bring into existence an advantage or benefit of an enduring nature, or
   c. To increase the productivity or earning capacity.
2. It normally yields benefits beyond current accounting period.
3. It is debited to the Respective Asset Account & shown on asset side of balance sheet.
4. **Examples :** Purchase of Land & Building , Machinery , Furniture , Car.

REVENUE EXPENDITURE

1. It is an expenditure which is incurred :
   a. To maintain the productivity or earning capacity of a business.
   b. To carry out operating activities in the normal course of business
2. It normally does not yield benefits beyond current accounting period.
3. It is debited to Trading/Profit & Loss account.
4. **Examples :** Depreciation on machines , Rent , Insurance , Salary etc.

DEFFERED REVENUE EXPENDITURE

1. According to the guidance note on 'Terms used in Financial Statements' , issued by ICAI **'Deferred revenue expenditure is the expenditure for which payment has been made or a liability has been incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods'.** In short it refers to that expenditure which is For the time being, deferred from being charged to Profit & Loss account.
2. **Example :** Heavy advertising to launch a new product is a deferred revenue expenditure since the benefit from it will be availed over the next 3 to 5 years.
3. Normally such expenditure should be written off over a period of 3 to 7 years The written off portion during the year shall be debited to PL account & balance portion shall be shown on asset side.

CONSIDERATION IN DETERMINING NATURE OF EXPENSES

1. **Nature of business** : For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is very important criteria in separating an expenditure between capital and revenue.

2. **Recurring nature of expenditure** : If the frequency of an expenses is quite often in an accounting year then it said to be expenditure of revenue nature while non recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done on regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.

3. **Purpose of expenses :** Expenses for repairs of machine may be incurred in course of normal maintenances of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature. However, determination of the cost of maintenance and ordinary repairs which should be expensed, as opposed to a cost which ought to be capitalized, is not always simple.

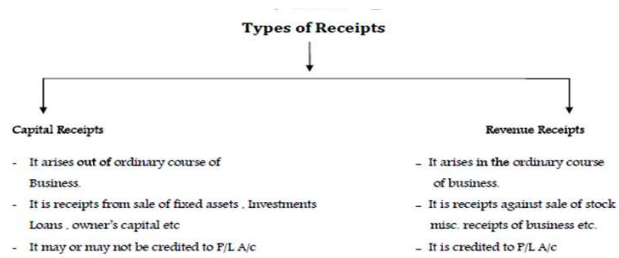
4. **Effect on revenue generating capacity of business :** The expenses which help to generate income/ revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure
 When the expenditure on improvement and repair of fixed asset is done, it has to be charged to Profit and Loss Account if the expected future benefits from fixed assets do not change, and it will be included in book value of fixed asset, where the expected future benefits from assets increase.

5. **Materiality of the amount involved :** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital. Even, if expenditure does not increase the production capacity of an asset, it may be capitalized because the amount is material or expenditure may increase the asset value and yet to be expensed because the amount is immaterial.

DIFFERENCE BETWEEN DEFFERRED REVENUE EXPENDITURE AND PREPAID EXPENDITURE

A thin line of difference exists between deferred revenue expenses and prepaid expenses. The benefits available from prepaid expenses can be precisely estimated but that is not so in case of deferred revenue expenses. Heavy advertising to launch a new product is a deferred expenditure since the benefit from it will be available over the next three to seven years but one cannot say precisely how long the benefit would be available and the exact amount of benefit. On the other hand, insurance premium paid say, for the year ending 30th June, 2021 when the accounting years ends on 31st March, 2021 will be an example of prepaid expense to the extent of premium relating to three months period i. e. from 1st April, 2021 to 30th June 2021. Thus the insurance protection will be available precisely for three months after the close of the Year and the amount of the premium, to be carried forward can be calculated exactly.

TYPES OF RECEIPTS



CAPITAL RECEIPT

- Capital receipts refer to those receipts which are not revenue in nature & rise out of normal course of business.
- These are credited to the respective account of capital nature.
- **Examples :** Sale of land & building by a person other than a dealer in real estate , Raising of loan by a person other than one engaged in the business of banking/financing , Raising of capital.

REVENUE RECEIPT

- Revenue Receipts refer to those receipts which arise in the normal course of business.
- These are credited to Trading/Profit & Loss Account.
- **Examples :** Sale of land & building by a dealer in real estate , Raising of loan by a person engaged in the business of Finance/Banking

ILLUSTRATION 1

Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

(i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

ILLUSTRATION 2

Classify each of the following transactions into capital or revenue transactions:

-- Complete repaint of existing building.

-- Installation of a new central heating system.

-- Repainting of a delivery van.

-- Providing drainage for a new piece of water-extraction equipment.

-- Legal fees on the acquisition of land.

-- Carriage costs on a replacement part for a piece of machinery.

Complete repaint: revenue.

-- Installation of new heating system: capital.

-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Legal fees on acquisition of land: capital

-- Carriage costs on replacement part: revenue.

ILLUSTRATION 3

Classify the following expenditures and receipts as capital or revenue:

(i) ₹ 10,000 spent as import duty on machinery purchased.

(ii) Amount received from debtors during the year.

(iii) Cost of testing whether the equipment is functioning properly.

(iv) Insurance claim received on account of a machinery damaged by fire.

(i) Capital expenditure

(ii) Revenue receipt.

(iii) Capital expenditure.

(iv) Capital receipt.

ILLUSTRATION 4

Classify the following expenditures as capital or revenue expenditure:

(i) An extension of railway tracks in the factory area.

(ii) Amount spent on painting the factory.

(iii) Payment of wages for building a new office extension.

(iv) Amount paid for removal of stock to a new site.

(v) Rings and Pistons of an engine were changed to get full efficiency.

ANSWERS

(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.

(iii) Payment of wages for building a new office extension should be treated as a Capital Expenditure.

(iv) Amount paid for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of any asset.

CONTINGENT ASSETS & CONTINGENT LIABILITIES

BIRDS EYE VIEW

- **Contingent Assets : Meaning , Example , Recognition Criteria**
- **Contingent Liabilities : Meaning , Example , recognition Criteria**
- **Provision : Meaning , Recognition Criteria**
- **Distinction Between Provision & Contingent Liability**
- **Treatment of Present/Possible Obligation under Various Situations**

CONTINGENT ASSET

1. A contingent asset is possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise. It usually arises from unplanned or unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise.
   Example : A Claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.

2. **No Recognition in Financial Statements** : As per the concept of prudence as well as the present accounting standards, an enterprise should **not recognize a contingent assets**. It is possible that recognition of contingent asset may result in recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset no longer remains as contingent asset.

3. **Disclosure Requirements** : A Contingent asset **need not be disclosed** in the financial statements. A Contingent asset is usually disclosed in the report of the approval authority (*i.e.* Board of Directors in the case of company, and the correspondence approving authority in the case of any other enterprise), if an inflow of economic benefits is probable.

4. **When Recognized** : Contingent assets are assessed continually and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the changes occurs.

CONTINGENT LIABILITY

1. 'Contingent liability' is

   a) A possible obligation that arises from past events the existence of which will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the enterprise; *or*

   b) A present obligation that arises from past events but is not recognized because :
      i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; *or*
      ii) A reliable estimate of the amount of the obligations cannot be made.

- **Possible obligation –** An obligation is a possible if, based on the evidence available, its existence at the balance sheet date is considered **not probable**

- **Present Obligation –** An obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered **probable**. i.e. more likely than not.

2. **No Recognition in Financial Statements :** An enterprise should be not recognize a contingent liability.

3. **Disclosure Requirements :** A Contingent liability **is required to be disclosed** by way of note to the balance sheet unless possibility of outflow of resources embodying economic benefits is remote.

4. **When Recognized :** Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow or future economic benefits will be required for item previously dealt with as a contingent liability, a provision is recognized in financial statements of the period in which the change in probability occurs except in the extremely rare circumstances where no reliable estimate can be made.

PROVISION

1. **Meaning** : A provision is a liability which can be measured only by using a substantial degree of estimation.

2. **Conditions for Recognition of Provision :** A provision should be recognized when :
   a) An enterprise has a present obligation as a result of past events
   b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and
   c) A reliable estimate can be made of the amount of the obligation.

DIFFERENCE BETWEEN CONTINGENT LIABILITY & PROVISION

Basis of Distinction	Provision	Contingent Liability
Meaning	Provision is present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence of one or more uncertain future events.
Recognition Criteria	A provision meets the recognition criteria.	A Contingent liability fails to meet the same.
Conditions for Recognition	Provision is recognized when (a) an enterprise has a present obligation arising from past events an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligation will require outflow of economic benefits, or the amount cannot be estimated.
Judgment of Management	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet	If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability

EXAMPLE TO UNDERSTAND THE DIFFERENCE BETWEEN CONTINGENT LIABILITY & PROVISION

The Value Added Tax officer imposes a penalty on *X* Ltd. for violation of a provision in the Value Added Tax Act. The Company files an appeal. If the management of the company estimates that it is probable that the company will have to pay the penalty, it recognizes a provision for the liability. On the other hand, if the management anticipates that the judgment of the appellate authority will be in its favor and it is less likely that the company will have to pay the penalty, it will disclose the obligation as a contingent liability instead of recognizing a provision for the same.

TREATMENT OF PRESENT/POSSIBLE OBLIGATION UNDER VARIOUS SITUATION

Nature of obligation Situation	Present Obligation	Possible Obligation
Probable outflow And reliable estimate	Recognize as 'Provision'	Disclose as 'Contingent Liability'
Probable outflow and no reliable estimate	Disclose as 'Contingent Liability'	Disclose as 'Contingent Liability'
No probable outflow/ Liability and No Reliable estimate	Disclose as 'Contingent Liability'	Do Nothing

ACCOUNTING STANDARDS

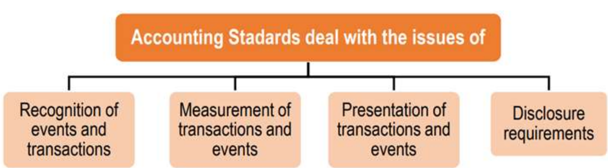
BIRDS EYE VIEW

- INTRODUCTION OF ACCOUNTING STANDARDS
- OBJECTIVES OF ACCOUNTING STANDARDS
- BENEFITS OF ACCOUNTING STANDARDS
- LIMITATION OF ACCOUNTING STANDARDS
- PROCESS OF FORMULATION OF ACCOUNTING STANDARDS IN INDIA

INTRODUCTION OF ACCOUNTING STANDARDS

Accounting as a 'language of business' communicates the financial results of an enterprise to various stakeholders by means of financial statements. If the financial accounting process is not properly regulated, there is possibility of financial statements being misleading, tendentious and providing a distorted picture of the business, rather than the true. To ensure transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardize the accounting principles and policies. Accounting Standards (ASs) provide framework and standard accounting policies for treatment of transactions and events so that the financial statements of different enterprises become comparable.

Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in the company's economic performance.



OBJECTIVES OF ACCOUNTING STANDARDS

The whole idea of accounting standards is centered around harmonisation of accounting policies and practices followed by different business entities so that the diverse accounting practices adopted for various aspects of accounting can be standardised. Accounting Standards standardise diverse accounting policies with a view to:

(i) eliminate the non-comparability of financial statements and thereby improving the reliability of financial statements; and

(ii) provide a set of standard accounting policies, valuation norms and disclosure requirements.

Accounting standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises.

BENEFITS OF ACCOUNTING STANDARDS

Accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. By setting the accounting standards, the accountant has following benefits:

(i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.

LIMITATIONS OF ACCOUNTING STANDARDS

(i) ***Difficulties in making choice between different treatments:*** Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.

(ii) ***Restricted scope:*** Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

PROCESS OF FORMULATION OF ACCOUNTING STANDARDS IN INDIA

Identification of area

↓

Constitution of study group

↓

Preparation of draft and its circulation

↓

Ascertainment of views of different bodies on draft

↓

Finalisation of exposure draft (E.D)

↓

Comments received on exposure draft (E.D)

↓

Modification of the draft

↓

Issue of AS

The standard-setting procedure of Accounting Standards Board (ASB) can be briefly outlined as follows:

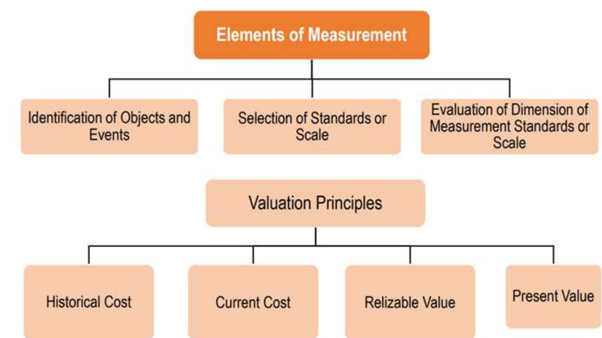
- Identification of broad areas by ASB for formulation of AS.
- Constitution of study groups by ASB to consider specific projects and to prepare preliminary drafts of the proposed accounting standards. The draft normally includes objective and scope of the standard, definitions of the terms used in the standard, recognition and measurement principles wherever applicable and presentation and disclosure requirements.
- Consideration of the preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.
- Circulation of draft of accounting standard (after revision by ASB) to the Council members of the ICAI and specified outside bodies such as Department of Company Affairs (DCA), Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C&AG), Central Board of Direct Taxes (CBDT), Standing Conference of Public Enterprises (SCOPE), etc. for comments.
- Meeting with the representatives of the specified outside bodies to ascertain their views on the draft of the proposed accounting standard.
- Finalisation of the exposure draft of the proposed accounting standard and its issuance inviting public comments.

- Consideration of comments received on the exposure draft and finalisation of the draft accounting standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.
- Consideration of the final draft of the proposed standard and by the Council of the ICAI, and if found necessary, modification of the draft in consultation with the ASB is done.
- The accounting standard on the relevant subject (for non-corporate entities) is then issued by the ICAI. For corporate entities the accounting standards are issued by The Central Government of India.

ACCOUNTING AS A MEASUREMENT DISCIPLINE

BIRDS EYE VIEW

- ❑ **ELEMENTS OF MEASUREMENT**
- ❑ **VALUATION PRINCIPLES – HISTORICAL COST , CURRENT COST , REALIZABLE VALUE , PRESENT VALUE**
- ❑ **ACCOUNTING ESTIMATES**



VALUATION PRINCIPLES

(i) *Historical Cost:* It means acquisition price. For example, the businessman paid ₹ 7,00,000 to purchase the machine and spend ₹1,00,000 on its installation, its acquisition price including installation charges is ₹ 8,00,000. The historical cost of machine would be ₹8,00,000.

According to this base, assets are recorded at an amount of cash or cash equivalent paid at the time of acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation. In some circumstances a liability is recorded at the amount of cash or cash equivalent expected to be paid to satisfy it in the normal course of business.

When a businessman, takes ₹ 5,00,000 loan from a bank @ 10% interest p.a., it is to be recorded at the amount of proceeds received in exchange for the obligation. Here the obligation is the repayment of loan as well as payment of interest at an agreed rate i.e. 10%. Proceeds received are ₹ 5,00,000 - it is historical cost of the transactions. Take another case regarding payment of income tax liability. You know every individual has to pay income tax on his income if it exceeds certain minimum limit. But the income tax liability is not settled immediately when one earns his income. The income tax authority settles it some time later, which is technically called assessment year. Then how does he record this liability? As per historical cost base it is to be recorded at an amount expected to be paid to discharge the liability.

(ii) *Current Cost:* Take that Mr. X purchased a machine on 1st January, 2011 at ₹ 7,00,000. As per historical cost base he has to record it at ₹ 7,00,000 i.e. the acquisition price. As on 1.1.2020, Mr. X found that it would cost ₹ 25,00,000 to purchase that machine. Take also that Mr. X took loan from a bank as on 1.1.2011 ₹ 5,00,000 @ 18% p.a repayable at the end of 15th year together with interest. As on 1.1.2020 the bank announces 1% prepayment penalty on the loan amount if it is paid within 15 days starting from that day. As per historical cost the liability is recorded at ₹ 5,00,000 at the amount or proceeds received in exchange for obligation and asset is recorded at ₹ 7,00,000.

Current cost gives an alternative measurement base. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

So as per current cost base, the machine value is ₹ 25,00,000 while the value of bank loan is ₹ 5,05,000.

(iii) *Realisable Value:* Suppose Mr. X found that he can get ₹ 20,00,000 if he would sell the machine purchased, on 1.1.2011 paying ₹ 7,00,000 and which would cost ₹ 25,00,000 in case he would buy it currently. Take also that Mr. X found that he had no money to pay off the bank loan of ₹ 5,00,000 currently.

As per realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Haphazard disposal may yield something less. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents expressed to be paid to satisfy the liabilities in the normal course of business.

So, the machine should be recorded at ₹ 20,00,000 the realisable value in an orderly sale while the bank loan should be recorded at ₹ 5,00,000 the settlement value in the normal course of business.

(iv) *Present Value:* Suppose we are talking as on 1.1.2020 - take it as time for reference. Now think the machine purchased by Mr. X can work for another 10 years and is supposed to generate cash @ ₹ 1,00,000 p.a. Also take that bank loan of ₹ 5,00,000 taken by Mr. X is to be repaid as on 31.12.2026. Annual interest is ₹ 90,000.

As per present value, an asset is carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

The term 'discount', 'cash inflow' and 'cash outflow' need a little elaboration. ₹ 100 in hand as on 1.1.2020 is not equivalent to ₹ 100 in hand as on 31.12.2020. There is a time gap of one year. If Mr. X had ₹ 100 as on 1.1.2020 he could use it at that time. If he received it only on 31.12.2020, he had to sacrifice his use for a year. The value of this sacrifice is called 'time value of money'. Mr. X would sacrifice i.e. he would agree to take money on 31.12.2020 if he had been compensated for the sacrifice. So a rational man will never exchange ₹ 100 as on 1.1.2020 with ₹ 100 to be received on 31.12.2020. Then ₹ 100 of 1.1.2020 is not equivalent to ₹ 100 of 31.12.2020. To make the money receivable at a future date equal with the money of the present date it is to be devalued. Such devaluation is called discounting of future money.

ACCOUNTING ESTIMATES

Earlier in this unit we have learned how to measure a transaction, which had already taken place and for which either some value/money has been paid or some valuation principles are to be adopted for their measurement. But there are certain items, which have not occurred therefore cannot be measured using valuation principles still they are necessary to record in the books of account, for example, provision for doubtful debts. For such items, we need some value. In such a situation reasonable estimates based on the existing situation and past experiences are made.

The measurement of certain assets and liabilities is based on estimates of uncertain future events. As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. Therefore, the management makes various estimates and assumptions of assets, liabilities, incomes and expenses as on the date of preparation of financial statements. Such estimates are made in connection with the computation of depreciation, amortisation and impairment losses as well as, accruals, provisions and employee benefit obligations. Also estimates may be required in determining the bad debts, useful life and residual value of an item of plant and machinery and inventory obsolescence. The process of estimation involves judgements based on the latest information available.

An estimate may require revision if changes occur regarding circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments. Change in accounting estimate means difference arises between certain parameters estimated earlier and re-estimated during the current period or actual result achieved during the current period.

ILLUSTRATION 1

Book value of machinery on 31st March, 2019	₹ 10,00,000
Market value as on 31st March, 2019 if sold	₹ 11,00,000

As on 31st March, 2019, if the company values the machinery at ₹ 11,00,000, which of the following valuation principle is being followed?

(a) Historical Cost. (b) Present Value.

(c) Realisable Value.

ILLUSTRATION 2

Mohan purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2019, similar machinery could be purchased for ₹ 20,00,000 but the realizable value of the machinery (purchased on 1.4.2001) was estimated at ₹ 15,00,000. The present discounted value of the future net cash inflows that the machinery was expected to generate in the normal course of business, was calculated as ₹ 12,00,000.

(i) The current cost of the machinery is

(a) ₹ 10,00,000. (b) ₹ 20,00,000.

(c) ₹ 15,00,000.

(ii) The present value of machinery is

(a) ₹ 10,00,000. (b) ₹ 20,00,000.

(c) ₹ 12,00,000.

(iii) The historical cost of machinery is

(a) ₹ 10,00,000. (b) ₹ 20,00,000.

(c) ₹ 15,00,000.

(iv) The realizable value of machinery is

(a) ₹ 10,00,000. (b) ₹ 20,00,000.

(c) ₹ 15,00,000.