ACCOUNT CURRENT

INTRODUCTION

An Account Current is a statement of mutual transactions between two parties for a given period of time, and includes interest payable to or receivable from the other party at an agreed rate.

These statements are mostly used for rendering accounts between -

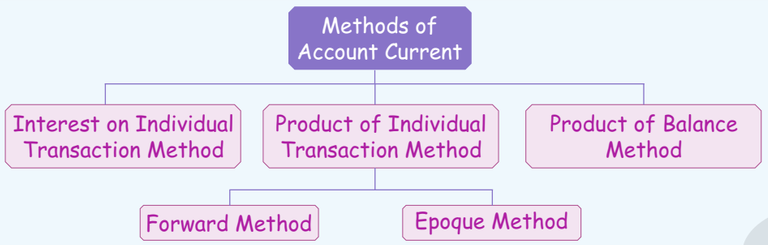
- Supplier and Customer
- Lender and Borrower
- Broker and Client
- Principal and Agent
- Head Office and Branch
- Co-venturers

PARTIES IN ACCOUNT CURRENT

An Account Current has two parties — one **who renders the account** and the other to **whom the account is rendered.**

If X renders the account to Y, then in the books of X, the heading of the account is written as 'Y in Account Current with X'.

METHODS OF PREPARATION ACCOUNT CURRENT



INTEREST ON INDIVIDUAL TRANSACTION METHOD:

FORMAT

…..in Account Current with …For the period …..Rate of Interest = …..% p.a.

Date	Particulars	Due Date	Days	Int.	Rs	Date	Particulars	Due Date	Days	Int.	Rs

Steps in the preparation of Account Current

Step 1: Provide three additional columns on each side of the ledger account – One for Due date, second for Days and third for 'Interest'

Step 2: Calculate due date of each transaction and enter in due date column.

Step 3: Calculate number of days from the due date of each transaction to the date of closing theaccountand enter the number of days in 'Days' column.

Step 4: Calculate the interest on a given rate of interest on the amount of individual transaction for the number of days entered against that item in'Days column' and enter the interest in 'Interest Column'.

Step 5: Calculate the balance of interest columns, enter such balance on the appropriate side in the 'Interest Column' and total up the interest column.

Step 6: Enter the net interest on the appropriate side in the 'Amount Column'. This entry is made on the side other than that on which the balance of interest appears.

USE OF PRODUCTS (PRODUCT OF INDIVIDUAL TRANSACTION METHOD)

FORMAT

….in Account Current with …For the period ……Rate of Interest = …% p.a.

Date	Particulars	Due Date	Days	Products.	Amt	Date	Particulars	Due Date	Days	Products.	Amt

Steps in the preparation of Account Current

Step 1: Provide three additional columns on each side of the ledger account – One for Due date, second for Days and third for 'Products'

Step 2: Calculate due date of each transaction and enter in due date column.

Step 3: Calculate number of days from the due date of each transaction to the date of closing the account and enter the number of days in 'Days' column.

Step 4: Calculate the products by multiplying the amount of transaction by corresponding number of days and enter the product in product column.

Step 5: Calculate the balance of the product, enter such balance on the appropriate side in the 'Product Column' and total up the Product Columns.

Step 6: Calculate the interest at the given rate of interest on the balance of the products for a single day.

Step 7: Enter the interest on the appropriate side in the 'Amount Column'. This entry is made on the side other than that on which the balance of product appears if the number of days is calculated from the due date of transaction to the date of closing the account.

Daily Products = Amount (Rs.) x Number of days

Monthly Products = Amount (Rs.) x Number of months

Products Balance (Dr.) = Interest receivable dr. side amount column

(Cr.) = Interest Payable cr. Side amount column

$$\text{Interest} = \frac{\text{Daily Products}}{100} \times \frac{1}{365} \times \text{Rate of Interest}$$

For Leap year, 366 days [1996, 2000, 2004 etc.]

$$\text{Interest} = \frac{\text{Monthly Products}}{100} \times \frac{1}{12} \times \text{Rate of Interest}$$

RED INK INTEREST

In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called **Red-Ink interest.**
This Red Ink interest is treated as negative interest.

Forwards Method: Here numbers of days are calculated from the due date of transaction to the date of closing the account.

Backward Method or Époque Method: Here numbers of days are calculated from the opening date of the statement to the due date of transaction.

PRODUCTS OF BALANCE METHOD:

FORMAT

….in Account Current with …For the period …Rate of Interest = …% p.a.

Date	Particulars	Dr.	Cr.	Dr. or Cr.	Balance	Days	Dr. Product	Cr.Product

Steps in the preparation of Account Current

Step 1: Provide three additional columns on each side of the ledger account – One for 'Days', second for 'Dr. Product' and third for 'Cr. Products'

Step 2: Calculate number of days from the date of one transaction to the date of next transaction and enter the number of days in 'Days' column.

Step 3: Calculate the products by multiplying the balance by corresponding number of days and enter the product of debit balance in 'Dr. Product Column' and the credit balance in 'Cr. Product Column'.

Step 4: Calculate the total of 'Dr. Product Column' and 'Cr. Product Column'.

Step 5: Calculate the interest on 'Total Dr. Product' and 'Total Cr. Product' at the given rates of interest.

Step 6: Calculate the net interest (i.e. difference between the interest on 'Total Dr. Product' and interest on 'Total Cr. Product'.

Step 7: Enter the net interest payable to the customer as 'By Interest A/c' and the net interest receivable from the customer as 'To Interest A/c'

HINTS FOR CALCULATIONS OF NUMBER OF DAYS

- If no specific date is mentioned as the date on which the payment is due, the date of the transaction itself is to be presumed to be the due date.
- In calculating the number of days, either the date of the transaction or the due date is excluded.
- In case of opening balance, number of days are to be calculated including both opening and closing dates.
- 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.
(Module has Different Approach)

ISSUE OF SHARES

Business Organisation	Ownership	Type Of Capital	Liability Of Owners
Sole Proprietership	Proprietor	Capital	Unlimited
Partnership	Partners	Partners Capital	Unlimited
Company	Share Holder	Share Capital	Limited to issue Prize Of Shares Held

Types Of Shares

Preference share
-Cumulative Preference Shares.
-Non-Cumulative Preference Shares.
-Participating Preference Shares.
-Non- Participating Preference Shares.
-Redeemable Preference Shares.
-Non-Redeemable Preference Shares.
-Convertible Preference Shares.
-Non-Convertible Preference Shares.
Priority in payment of Dividend and payment of Capital
Fixed Rate Of Dividend

Equity Shares
Do not enjoy any preferential rights in payment of Dividend or repayment of Capital
Rate Of Dividend vary from Year to Year

Shares Issued at

Discount
Issue price is Less than the nominal or Par Value of Shares
Issue of shares at discount shall be void except in the ase of issue of sweat equity shares (issued to employees and directors)

Par
IP=FV

Premium
Issue price is more than the Face value
Premium amount is credited to a separate account called "Securities premium Account"

Issued At Premium

FV = 100		IP = 120
20	App.	20
30	Allot.	50 → If nothing is said Premium Is included in Allotment
40	First	40
10	Final	10

Issued At Par

FV = 100		IP = 100
20	App.	20
30	Allot.	30
40	First	40
10	Final	10

Accounting Treatment of Securities premium

Securities Premium is not a part of share capital. It represents a gain of Capital Nature to The Company under the heading,"Reserves and Surplus".However,'Reserves and Surplus' is shown as 'shareholders funds' in the Balance Sheet as per Schedule III.

Company Issue Shares (5,000)

Application → Allotment → First Call → Final Call

(5,000) Full Subscription	(48,000) Under Subscription	(59,000) Over Subscription
Bank 50,000 To Share App. 50,000	Bank 48,000 To Share App. 48,000	Bank 59,000 To Share App. 59,000
Share App. 50,000 To Share Cap. 50,000	Share App. 48,000 To Share Cap. 48,000 (minimum 90% subscription otherwise refund)	Share App. 59,000 To Share Cap. 50,000 To Share Allot. (Adjusted With Allot.) To Share 1st and final Call (Adjusted With Call.) To Bank A/c (Refunded)

Short Cut

(1) Eq. SC. A/c - Allot. x FV
(2) Eq. Sh. App. - Applied x IP
(3) Eq. Sh. Allot. - Allot. x IP
(4) Eq. Sh. Last Call - Allot. x IP
(5) Eq. Sh. Final Call - Allot. x IP

★ Share Capital

- Total Capital of a company is Dividend into a number of Small indivisible units of a fixed Amount and each such unit is called share

Share Capital

- **Authorised Share Capital (Registered/Nominal)** — Maximum Amount of Capital that a company Can raise
- **Issued Share Capital** — Portion Of Share capital issued by the Company
- **Subscribed Share Capital** — Part Of Issued Share Capital Which Is Subscribed by the Public
- **Called up Share Capital** — portion of issue Prize of shares which a company has demanded Balance Amt is Called as uncalled Capital
- **Paid-up share capital** — portion of Called up capital which is paid by the shareholders
- **Reserve share Capital** — Portion of uncalled capital which a company has decided to call only in Case of liquidation

- **Issued Capital + unissued Capital = Authorised Capital**
- **Paid up Capital + Calls in arrears is any Less Calls in Advance if any = Called Up Capital**
- **Reserve Capital ≠ Capital Reserve** → (Part of reserves & Surplus)

★ Joural entry

(1) Recd.			
Cash / Bank	Dr.	XXX	
To Eq. Application A/c			XXX
(2) Due.			
Eq Share App.	Dr.	XXX	
To Eq. SC A/c			XXX
(3) Due.			
Eq Share Allot.	Dr.	XXX	
To Eq. SC			XXX
To security Premium			XXX
(4) Recd.			
C/B	Dr.	XXX	
To Eq. Share Allot			XXX
(5) Due			
Eq. Share first call	Dr.	XXX	
To Eq. SC.			XXX
(6) Recd.			
C/B	Dr.	XXX	
To Eq. Share first Call			XXX
(7) Due.			
Eq. Share final Call	Dr.	XXX	
To Eq. SC			XXX
(8) Recd.			
C/B	Dr.	XXX	
To Eq. Share Final Call			XXX

Forfeiture of Shares

Cancellation of shares because of non-Paymentof amount due is Called share Forfeiture

Entry
Share Capital (Called Up Value)
Securities Prem. (not Received)
To Share Forfeiture (amt Recd. (-) Sp If any received)
To calls in Arrears

Calls In Arrears (Int. @ 10% PA)

1. Eq. Sh. Allotment	5L	
To Eq. SC		5L
2. Bank	4,90,000	
Calls In Arrears	10,000	
To Eq. Sh. Call		5L

Interest On Calls In Adv. (@12%)

1.For interest Due			
Int. on Calls-in-Adv A/c	Dr.		
To shareholder's A/c			
2.For Payment of Interest			
Shareholder's A/c	Dr.		
To Bank A/c			

Interest On Calls In Arrears. (@10%)

1. For Int. Recd. On Call-in- Arrears			
Shareholder's A/c	Dr.		
To Int. On Calls-in-arrears A/c			
2. For receipt of interest			
Bank A/c	Dr.		
To Shareholders A/c			

Balance sheet

Particulars	Note No.	Rs.
Equity & Liabilities		
(1) Shareholder's Fund		
Share Capital	1	xx
Reserve And Surplus	2	xx
		xx
(2) Non Current Liab.		xx
(3) Current Liab.		xx
		xx
Assets		
(1) Non Current Assets		xx
(2) Current Assets		
Cash & Cash Equipments		xx
		xx

Notes To Accounts

	Rs.	Rs.
1. Share capital		
Authorised SC	xxx	
Issued SC	xxx	
Subscribed SC	xxx	
Called Up And Paid Up SC		
(...Eq. Sn. Of Each Rs. called Up)	xxx	
Less :- Calls Unpaid	(xxx)	
Add :- Forfeited Share		xxx
2. Reserve And Surplus		
Securities Premium	xxx	
Capital Reserve		xxx

Calls In advance (Int. @ 12% PA)

1. Eq. Sh. Allotment	5L	
To Eq. SC		5L
2. Bank A/c (5L + 20k)	520k	
To Eq. Sh allot		5L
To Calls In Advance		20K
3.Eq. Sh. Final Call	6L	
To Eq 5L		6L
4.Bank A/c	580k	
Calls In Adv	20K	
To Eq. Sh. Final Call		6L

Reissue

Case I

SF=40 | Reissue Price = 90 | Fv 100

1. Cash / Bank 90
Share Forfeiture 10
To SC 100
2. Share Forfeiture 30
To Capital Reserve 30

Case II

SF=40 | Reissue Prize = 130 | Fv 100

1.Cash / Bank 130
To SC 100
To SP 30
2. Share Forfeiture 40
To Cap Rec. 40

Case III

SF=40 | Reissue Prize = 130 | Fv 100 | Paid Up Value = 70

1. Cash/ bank 50
Sh. Forfeiture 20
To Share Capital 70
2. Sh. Forfeiture 20
To Cr. 20

Case IV

SF=40 | Reissue Prize = 130 | Fv 100 | Paid Up Value = 70

1. Cash / Bank 90
To SC 70
To SP 20
2. SF 40
To Cap. Res. 40

PARTNERSHIP

Accounting of Goodwill

Goodwill Brought in cash			
Cash / Bank A/c	Dr.		
To Sacrificing Partners Capital A/c			
Goodwill is given Personally to partners			
No Entry			
Goodwill is not brought in cash			
Gaining Partners capital A/c	Dr.		
To Sacrificing Partners Capital A/c			

Common Adjustment Journal Entries

★ Revaluation of Assets & Liabilities

Assets (↑) Assets A/c	Dr.		
To Revaluation A/c			
Assets (↓) Revaluation A/c	Dr.		
To Assets A/c			
Liabilities (↑) Revaluation A/c	Dr.		
To Liability A/c			
Liabilities (↓) Liability A/c	Dr.		
To Revaluation A/c			

★ Profits on Revaluation

Revaluation A/c	Dr.		
To old partners Capital A/c			

IN OLD PSR

★ Revaluation Loss

Old Partners Capital A/c	Dr.		
To Revaluation A/c			

IN OLD PSR

★ New partner introduced Capital

Cash / Bank A/c	Dr.		
To Capital A/c			

★ Goodwill Withdrawn by Partners

Withdrawing Partner's Capital A/c	Dr.		
To Cash / Bank A/c			

★ Accumulated Profits / Reserve's / Surplus

Accumulated Reserve/Surplus A/c	Dr.		
To Partners Capital A/c (Old PSR)			

★ Accumulated Losses

Partners Capital A/c	Dr.		
To Accumulated Losses A/c (Old PSR)			

★ Unrecorded Liability to be recorded

Re valuation A/c	Dr.		
To liability A/c			

★ Unrecorded Assets to be recorded

Assets A/c	Dr.		
To revaluation A/c			

★ Assets Taken Over By Partner

Partners Capital A/c	Dr.		
To Assets A/c			

★ Liability Taken Over by Partners

Liability A/c	Dr.		
To partners capital A/c			

(Profit / Loss go to Revaluation A/c)

Gaining Ration

Difference between new profit sharing ratio and old profit sharing ratio

RETIREMENT OF PARTNER

★ **Special Point -:**

① Where will be Balance of retiring Partner will be transferred –

→ Balance of retiring partner will be transferred to **Loan** A/c or **paid**

ⓐ Loan –

Retiring Partner's Capital A/c	Dr.		
To Partner Loan A/c			

ⓑ Paid -

Retiring partner's Capital A/c	Dr.		
To Cash/ bank A/c			

② Joint Life Policy

★ Accounting of JLP

★ Premium is charged to P&L A/c

[JLP does not appear in B/s]

★

JLP Premium A/c	Dr. (Exp)		
To Cash Bank A/c			

↓

★

P&L A/c	Dr.		
To JLP premium A/c			

↓

Death [Sum Assured]

Cash / Bank	Dr.		
To JLP A/c			

↓

JLP A/c	Dr.		
To old Partners in Old PSR			

Alive [Surrendered Value]

Cash / bank	Dr.		
To JLP A/c			

↓

JLP A/c	Dr.		
To old partners in old PSR			

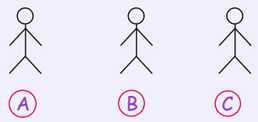
★ JLP is maintained at surrendered Value – [appears in B/S]

Balance sheet

JLP	xxx
Surrendered value	

Only surplus will be distributed to old Partners in old PSR

CONCEPT OF MINIMUM GUARANTEE



minimum guarantee given by A Rs. 100000

3 : 2 : 1

Case 1 –

Profit Rs. 500000

A	B	C
2,50,000	1,66,667	85,333
(-) 16,667	Ⓑ	(+) 16,667
2,33,333		1,00,000
Ⓐ		Ⓒ

guarantee given by A

Case 2 –

Profits Rs. 7,20,000

3,60,000 2,40,000 1,20,000

C will get Rs. 1,00,000 or his share of Profit whichever is more

Case 3 –

Loss Rs. 1,80,000

(90,000)	(60,000)	(90,000)
(-) (1,80,000)		(+) 1,80,000
2,70,000	60,000	1,00,000
Ⓐ	Ⓑ	Ⓒ

Hidden Goodwill

Firm's Capital		xxx
(-) All partners Capital		
A	xxx	
B	xxx	
C	xxx	xxx
(-) Expenses & surplus		xxx
Hidden Goodwill		xxx

FOR ALLOWING INTEREST ON CAPITAL

Profit and Loss Appropriation Account Dr.

To (Individual) Capital (or Current) Accounts of Partners

Net loss and Interest on Capital

Subject to contract between the partners, interest on capitals is to be provided out of profits only. Thus in case of loss, no interest is provided. But in case of insufficient profits (i.e. net profit less than the amount of interest on capital), the amount of profit is distributed in the ratio of capital as partners get profit by way of interest on capital only.

Interest on Drawing

Calculation of Interest on Drawings: Total Drawings x Interest Rate x Multiplication Factor

(a)Fixed Amount is drawn:

Time of drawings	Multiplication Factor	Time of drawings	Multiplication Factor
Beginning of every month	6.5/12	Beginning of each quarter	7.5/12
Middle of every month	6/12	Middle of each quarter	6/12
End of every month	5.5/12	End of each quarter	4.5/12

Note: Where the date of drawings not given then interest on drawing is always calculated for 6 months /multiplication factor will be 6/12

(a)Different amount is withdrawn at various dates: use product method For charging interest on drawings

(Individual) Capital (or Current) Accounts of Partners Dr.

To Profit and Loss Appropriation Account

DEATH OF A PARTNER

Joint Life policy

- JLP (Single policy)
  - A B C
  - Joint policy
  - Premium is paid by firm
  - Sum assured
- Joint & several
  - A B C
  - Policy 1 Policy 2 Policy 3
  - Sum assured + Surrendered value of alive Partners
  - Premium is paid by firm
  - Example

☆ A & B policy surrender nahi karenge

☆ A & B total surrender value will be given to 'C's Legal Hire is PSR

Died

A	B	C	
50,000	50,000	50,000	→[Sum Assured]
20,000	20,000	20,000	→[surrendered value]

● [C Ka sum assured + A & B Kii Surrendered value Ka share]

JLP Does not appear in B/S

☆ **A Live – surrendered value**

1] Cash / Bank A/c	Dr.		
To old Partners in Old PSE			
2] Gaining partner	Dr.		
To Sacrificing Partner			

→ [change ho sakti hai]

☆ **Death matured JLP**

Sum Assured

1] Cash / Bank A/c	Dr.		
To JLP A/c			
2] JLP A/c	Dr.		
To old Partners in old PSR			

Appears in Balance sheet

Only credit profit to partners

When policy is not surrendered

GUARANTEE OF MINIMUM PROFIT

However, if share of the partner is less than the guaranteed amount, he takes minimum profit and the excess of guaranteed share of profit over the actual share is borne by the remaining partners as per the agreement.

There are three possibilities as far as share of deficiency by other partners is concerned. These are as follows:

- Excess is payable by one of the remaining partners.
- Excess is payable by at least two or all the partners in an agreed ratio.
- Excess is payable by remaining partners in their mutual profit sharing ratio.

If the question is silent about the nature of guarantee, the burden of guarantee is borne by the remaining partners in their mutual profit sharing ratio.

CAPITAL RATIO

Partners may agree to share profits and losses in the capital ratio.

Capital Ratio

If capitals are fixed

profits will be shared in the ratio of given capitals

If capitals are fluctuating and partners introduce or withdraw capitals during the withdraw capitals during the

the capitals for the purpose of ratio would be determined with reference to time on the basis ofweighted average method

ISSUE OF DEBENTURE

Issued @ Par @ Deb = 100 Face Value = 100

Redeemable @ Par (100)

C/B A/c Dr. (100)
To 10% Deb. A/c (100)

Redeemable @ Premium (110)

C/B A/c Dr. (100)
Loss on Issue A/c Dr. (10)
To 10% Deb A/c (100)
To Pemiumon Redumption A/c (10)

Issued @ Premium @ Deb 110 Face Value=100

Redeemable @ Par (100)

C/B A/c Dr. (110)
To 10% Deb A/c (100)
To SP A/c (10)

Redeemable @ Premium (120)

C/B A/c Dr. 110
Loss on Issue A/c Dr. (20)
To 10% Deb A/c (100)
To SP A/c (10)
To Premium on redemptions (20)

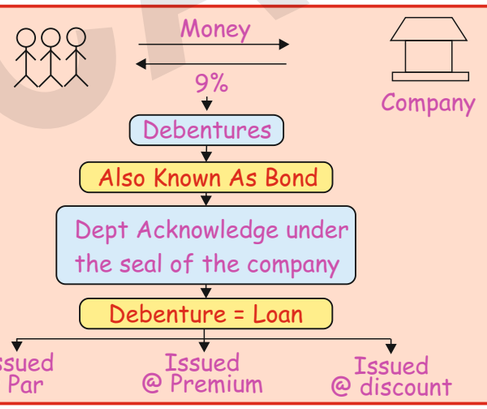
Issued @ Discount @ Deb=95 Face Value=100

Redeemable @ Par (Rs.100)

C/B A/c Dr. (95)
Disc. A/c Dr. (05)
To 10 % Deb A/c (100)

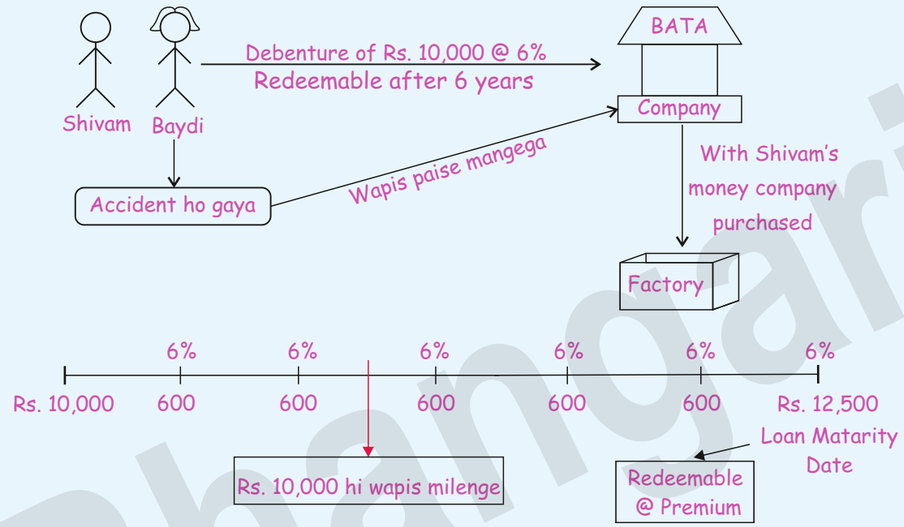
Redeemable @ Premium (120)

C/B A/c Dr. (95)
Disc . A/c Dr. (05)
Loss on issue A/c Dr. (20)
To 10% Deb . A/c (100)
To Premium on redemption (20)

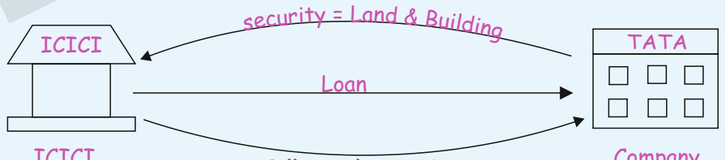


★ REDEEMABLE @ PREMIUM

Example - why Company redeme debentures @ premium?



★ Collateral Security



Collateral Security

Debentures

C/B A/c Dr.
To Loan From ICICI bank

Debentures tabhi active honge jabhi company fails to pay amount of loan

Once the debentures are activated all the compliances should be followed

Treatment of collateral security

Issue
No entry

Option 1 – company balance sheet

Balance sheet [Extract]

Loan xxx
(Secured by collateral security Debentures)

Option 2 – Journal entry karo

Debenture Suspense A/c Dr. (B/s – non current assets)
To debentures A/c
[B/s (L)]

★ Journal Entries Are similar to Issue of shares

RECTIFICATION OF ERROR

Types Of Errors

- **Error of Ommission** → Entry karna bhul gaye (No entry in the book)
- **Error of principle** → Accountant is not Aware about the principle of accounting Eg. Capital Receipt treated as revenue receipt
- **Error of commission** → Books ki adla badli & wrong amount ETC.
- **Compensating error** → One error compensate another error (Does Not affect Trial balance)

Costing Error (total main gadbad)

	Under casting	Over casting
Purchase book	Purchase A/c Dr. To Suspense A/c	Suspense A/c Dr. To Purchase A/c
Sales book	Suspense A/c Dr. To sales A/c	Sales A/c Dr. To Suspense A/c
Sales Return book	Sales Return A/c Dr. To Suspense A/c	Suspense A/c Dr. To Sales return A/c
Purchase return book	Suspense A/c Dr. To Purchase return A/c	Purchase return A/c Dr. To Suspense A/c

POSTED DEBITED CREDITED

Rectification should be done by –

Wrong Entry	Correct Entry	Rectification Entry

INTRA CATEGORY

Points to be remember

- Enter / recorded
- Dr. → Dr.
- Cr. → Cr.

Example

Purchase book → sales return book

Dr. Dr.

★ Purchase goods from Vinay Was recorded in sales Return book Rs. 4000

Purchase A/c Dr. 4000
To Sales Return A/c 4000

INTER CATEGORY

Points to be remember

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

Example

Purchase book → sales book

Dr. Cr.

★ Purchase goods from Rani was recorded in sales book (amt Rs. 5000)

Purchase A/c Dr. 5000
sales A/c Dr. 5000
To Rani A/c 10,000

Note –: whenever Debit become credit & credit becomes debit effect is added.

Special Case

- **Rectification error before preparing Trial balance** → Rectification should be done in respective Ledgers A/c → No use of Suspense A/c
- **Rectification of error after Preparing Trial balance** → Rectification should be Done with preparing Suspense A/c
- **Rectification of errors when errors are rectified in next year** → All nominal Accounts included In rectification entry replaced with profit & loss Adjustment A/c (all items which directly hit to trading / P&L A/c should be replaced) → Balance of Suspense A/c as well as profit & Loss Adjustment Account transferred to capital A/c Because P&L Adjustment Account directly affects Capital A/c

Errors

- **Errors that effect trial Balance**
  - Errors of Calculation
  - Errors of omission of one entry
  - Posting to the wrong side of an account
  - Errors in amount
- **Errors that don't effect trial Balance**
  - Errors of omission
  - Errors of commission
  - Errors of principle
  - Complete reversal of entries
  - Compensating errors
  - Errors of original entry

Suspense Account

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

Suggestion Definetly refer exam problems and Master Table in text book

- Before rectification suspense has credit balance.
- After rectification suspense has debit balance

Impact on P & L A/c

- After Reconciliation → Increase ↑
- Before Reconciliation → Decrease

Profit

Correction of Errors

- **Committed & discovered in the Current year** → Includes both types of errors that can or cannot be highlighted By extraction of a trial balance → Rectify immediately in the current year
- **Prior period errors** Committed earlier but discovered in the current year → Includes both types of errors that can be or cannot be highlighted by extraction of a trial balance
  - Errors relating to the prior period(s) reported → Restate the FS of the prior period(s) reported
  - Errors relating to period before the earliest prior period(s) reported → Adjust the effect of error in the opening balance of assets, liabilities & equity of the earliest prior period reported

BANK RECONCILIATION STATEMENT

The Statement Which reconciles the Bankbalance as per cash book with the balance as per Pass Book by showing all the causes of difference

CAUSES OF DIFFERENCE

Timing: Transactions are recorded at two different times in the cash book and pass book

Transaction: Bank Carries Out various Transaction by itself without intimating the customer

Errors: Errors made in preparing the Accounts either by Bank on by the customer

RECTIFICATION OF ERRORS IS DONE BEFORE PREPAIRING BRS

	CB	PB
(1) Cheque Deposited	1	2
(2) Cheque issued	1	2
(3) Direct Diposit	2	1
(4) Cheque Dishonoured	2	1
(5) Standing Instruction	2	1
(6) Bank Charges	2	1
(7) Interest Received	2	1

1.Left Hand= Pass Book
Right Hand = Cash Book
2. Make Both Hands Equal
3. Move any Hand As per Transaction
4. Freeze the Hand for which bal is not Known
5. If Other Hand Goes
Up +
Down -

Bal as Per CB	10,000	Old as Per PB	2,000
+ / -		+ / -	
Bal as Per PB	12,000	Old as Per PB	3,000
Bal as Per CB	10,000	Old as Per PB	2,000
+ / -		+ / -	
Old as Per PB	(-) 12,000	Bal as Per PB	(-)3,000

If You Start With Old

Cr. bal as per CB	xx
Dr. bal as per PB	xx

{Opposite}

- Transaction recorded in PB and correct → Record in CB
  - (1) Direct Deposit
  - (2) Bank Charges
  - (3) Payment As per Standing instructions
  - (4) Int. credited y Bank
- Transaction recorded in PB and Wrong → do not Record in CB
  - Show in BRS
- Transaction recorded in CB and not Record in PB
  - Show in BRS
- Transaction recorded in CB and Wrong
  - Rectify In CB

CB Dr. Side [R]
R ↑ B ↑
R ↓ B ↓

Cr. Side [P]
P ↑ B ↓
P ↓ B ↑

PB Cr. Side [R]
Cr. ↓ Bal. ↓
Cr. ↑ Bal. ↑

Dr. Side [P]
Dr. ↓ B ↑
Dr. ↑ B ↓

REVISE BEFORE EXAM

Bal as per CB - Given

(1) of the total cheque amounting to Rs. 11,514drawn in the last week of Dec 2019, cheque of Rs. 7815 were encashed in Dec.
Ans -:
Add -:3699

(2) Instruction For Payment given to the Bank on 31st Dec 2020 but the same effected by Bank on 1st Jan 2021
Ans -:
Add -: 4000

(3) Bank Credited cheque of Rs. 2000 in savings A/c of proprietor instead of crediting in current A/c
Ans -:
Less -: 2000

(4) 500 disc Recd. Wrongly entered in Bank Column of CB.
Ans -:
Add -: 500

CASH BOOK SHOW BANK O/D

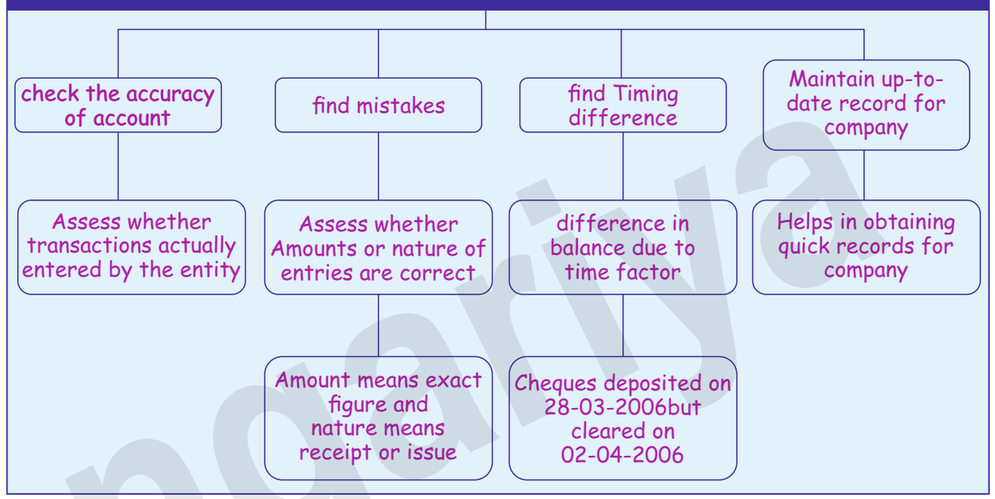
(1) Cheque deposited in his another A/c Rs. 1550 Wrongly Credited to this Account By Bank
Ans -:
Less -: 1550

(2) Cheque drawn on this A/c Wrongly Dr. to another A/c By Bank Rs. 800
Ans -:
Less -: 800

(3) Debit of Rs. 3500 Appearing in bank statement for an unpaid cheque returned for being out of date had been redated
Ans -:
Add -: 3500

(4) Customer Received Cash Disc. 4% on Rs. 1,00,000 The Cashier entered Gross Amount in bank column
Ans -:
Add -: 4,000

PURPOSE OF BRS



AVERAGE DUE DATE

MEANING

★ Average due date is a ***mean date*** on which
★ a ***single amount*** can be paid
★ in lieu of ***several payments on different dates***
★ ***without any loss of interest*** to either party.

MONTHS AND NO OF DAYS

Month	No. of Days
January	31
February	28/29
March	31
April	30
May	31
June	30
July	31
August	31
September	30
October	31
November	30
December	31
Total	365/366

CALCULATION OF DUE DATES

Date of drawings	Date of Acceptance	Payable	Date of Maturity
31.01.1999	02.02.1999	1 month after date	03.03.1999
29.01.1999	03.02.1999	30 Days after date	03.03.1999
29.01.1999	02.02.1999	2 Months after date	01.04.1999
12.07.1999	14.07.1999	1 Months after date	14.08.1999
27.06.1999	28.06.1999	3 Months after date	30.09.1999
28.09.1999	01.10.1999	2 Months after sight	04.12.1999
23.12.1999	24.12.1999	1 Month	25.01.2000

15th August is Public Holiday

Since 26th Jan is Public Holiday

AMOUNT IS LENT IN VARIOUS INSTALMENTS

★ Assume ***any of the due dates as a base date*** (also called as" Zero date" or" Start date").
★ Calculate the ***number of days from the base date*** to the due date of each transaction
★ ***Multiply the number of days so calculated by the corresponding amount*** of transaction. The resultant figure is called 'Products'.
★ Sum up the amount and product columns.
★ ***Divide the total of product by the total of amount***. The result is the number of days
★ Average Due Date = Base Date ± $\frac{\text{Total Product Days}}{\text{Total Amount}}$

Calculate Interest from begen of loan date to Average Due Date

WHERE AMOUNT IS LENT IN ONE INSTALMENT AND REPAYMENT IS DONE IN VARIOUS INSTALMENT

Step 1: Calculate number of days/monthly/years ***from the date of lending money to the date of each repayment***

Step 2: Find the ***total of such days/months/years***

Step 3: Average Due Date

=Date of loan

$$\pm \frac{\text{Sum of days/months/Years from the date of lending to the date of repayment of each instalment}}{\text{Number of instalments}}$$

AMOUNTS ARE RECEIVABLE AS WELL AS PAYABLE ON DIFFERENT DATES

Receivable

Step 1: Select the first due date as the base date.
Step 2: Calculate the number of days from the base date.
Step 3: Multiply the amounts by the number of days (calculated above)

Payables

Step 4: Take the same due date (as above) as the base date.
Step 5: Calculate the number of days from the base date.
Step 6: Multiply the amounts by the number of days (calculated above).
Step 7: Now, add both amounts and products of Receivable and Payable column separate evately
Step 8: Find out the balance of amounts and balance of Products column.
Step 9: Divide 'the balance of the product' by' the Balance of the amount
Step 10:

$$\text{Average Due Date} = \text{Base Date} \pm \frac{\text{Balance of product}}{\text{Balance of Amount}}$$

APPLICATION TO PARTNERSHIP

Interest on Drawing

★ ***Calculate the average due date in the usual manner***.
★ Find out the ***difference between the average due date (as computed above) and the date of closing the books of account***.
★ Calculate interest by applying the following formula:
★ Interest = $\frac{\text{Number of months from ADD to YE9Year End)}}{12}$ x Rate of Interest x Amount

FINANCIAL STATEMENTS OF NON PROFIT ORGANISATION

FINAL ACCOUNTS	NPO
1. P & L A/c	1.Income & Expenditure A/c
2. Balance sheet	2. Balance sheet / statement of Affairs
3. Capital	3. Accumalated fund / Capital Fund
4. Profit	4.Surplus
5. Loss	5.Deficit
6. Cash Bool	6. Receipt & Payment A/c

ACCOUNTS BOLE TO ENTRY

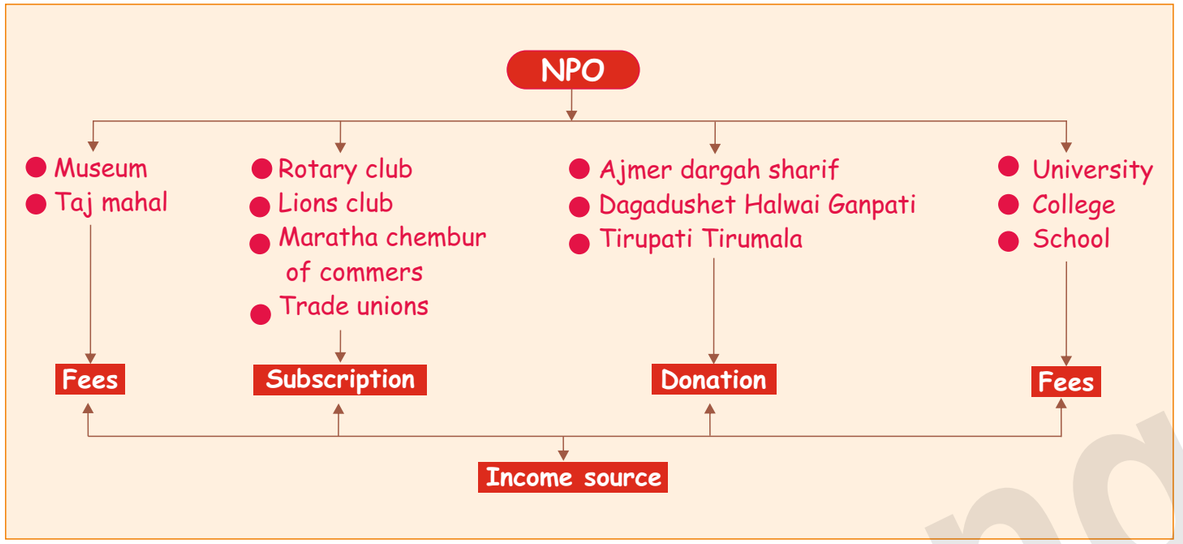
Subscription (Income) -:

1. Subscription Received -:
   Cash / Bank A/c Dr. xxx
   To Subscription A/c xxx
2. Subscription receivable -:
   Subscription Receivable A/c Dr. xxx
   To Subscription A/c xxx
3. Subscription received -in- advance :-
   Subscription A/c Dr. xxx
   To Subscription Rec. in Adv. A/c xxx

STOCK ≠ CREDITORS

- **Stock consumed :-**

Opening stock	xxx →	O.P B/s -A
(+) Purchases	xxx	
(-) Closing Stock	xxx →	(Cl. B/s - A)
Consumed →	xxx →	(I&E A/c Dr.)



Expenses A/c

To Prepaid Exp. (op)	xxx	By O/s Exp. (OP)	xxx
To Cash Bank A/c	xxx	By I&E A/c	xxx
To O/s exp (C.l)	xxx	By Prepaid Exp. (c.l)	xxx
	xxx		xxx

Income A/c

To Income Receivable (op)	xxx	By rec. in Adv. (op)	xxx
To Income and Expenditure A/c	xxx	By Cash / Bank A/c	xxx
To Income Rec. in Adv. (C.l)	xxx	By Income receivable (c.l)	xxx
	xxx		xxx

FUNDS ACCOUNTING - JOURNAL ENTRIES

1. Fund Received :-
   Cash /Bank A/c Dr. xxx
   To fund A/c xxx
2. Fund converted into Investment -:
   Investment A/c Dr. xxx
   To Cash / Bank A/c xxx
3. Interest rec. on Fund Investment -:
   Cash / Bank A/c Dr. xxx
   To Interest on Investment xxx
4. Interest on Investment Transferred to Fund A/c - :
   Interest on Investment A/c Dr. xxx
   To Fund A/c xxx
5. Funds Used-: eg. Prises given from Prize Fund
   Fund A/c (Expenses) Dr. xxx
   To Cash A/c/ Bank A/c xxx

Entrance Fees - Kai salo ki income hai

- Entries

Cash / bank A/c Dr. xxx
To Entrance Fees A/c xxx
↓ Depends on problem
Entrance fees A/c Dr. xxx
To income and expenditure A/c xxx
To Capital Fund A/c xxx

Receipts & Payment A/c -:

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

Receipts	Rs.	Payments	Rs.
To Balance b/d		By salaries	xxx
-Cash	xxx		
- Bank	xxx		
To subscription received	xxx	By insurance	xxx
To membership Fees	xxx	By rates & taxes	xxx
To entrance Fees / Admission Fees	xxx	By postage and telegram	xxx
To Life membership fees	xxx	By Printing and stationary	xxx
To internet	xxx	By purchase of fixed assets	xxx
To donation	xxx	By newspaper and periodicals	xxx
To donation for building fund	xxx	By payment for purchase of food stock	xxx
To receipts for Prize fund	xxx	By general exp.	xxx
To Interest on prize Fund investment	xxx	By sport material	xxx
To sale of refreshments	xxx	By prizes awarded	xxx
To sale of old news paper	xxx	By balance c/d	
		-Cash	xxx
		-Bank	xxx
To sale sport material	xxx		
	xxx		xxx

Income and expenditure A/c -:

In the books of
Income and expenditure A/c for the year end

Expenditure	Rs.	Income	Rs.
To salaries	xxx	By subscription	xxx
To insurance	xxx	By Entrance fees	xxx
To rates and taxes	xxx	By interest	xxx
To honorarium	xxx	By donation	xxx
To postage and telegram	xxx	By profit from Sale of assets	xxx
To printing and stationary	xxx	By profit from sale of refreshment	xxx
To newspaper and periodicals	xxx	By profit from sale of old news paper	xxx
To general exp.	xxx	By sale of sport material	xxx
To sport material	xxx	By excess of expenditure over income (deficit)	xxx
To loss on sale of assets	xxx		
To depreciation on fixed assets	xxx		
To excess of income over expenses (surplus)	xxx		
	xxx		xxx

BALANCE SHEET / STATEMENT OF AFFAIRS -:

Statement of affairs /balance sheet as on .....

Liabilities	Rs.	Assets	Rs.
Creditors	xxx	Cash	xxx
Outstanding expenses	xxx	Bank	xxx
Advance subscription	xxx	Accrued Subscription	xxx
Donation for building fund	xxx	Prepaid expenses	xxx
Prize fund -:		Fixed assets -:	
(+) Receipt		(-) Sale	
(+) Interest		(+) Purchases	
(-) Expenses	xxx	(-) Depreciation	xxx
Capital fund		Investment	xxx
(+) surplus		Prize fund investment	xxx
(-) deficit			
(+) Life membership fees			
(+) legacies			
(+) Donation	xxx		
		Stock	xxx
	xxx		xxx

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TREATMENT OF SPECIAL ITEMS

Donation

- Special Purpose Donation
  - Received for Capital expenditure
    - Liability Side of Balance Sheet
  - Received for onetime revenue Expenses
    - Expenses incurred in current financial year
      - Income & Exp. A/c
    - Expenses not incurred in current financial year
      - Liability Side of Balance Sheet
- General Donation
  - 1) Income & Exp. A/c
    2) If amount of Donation is Large - Liability Side of B/s

Legacy

- Balance Sheet Liability Side

Entrance or Admission Fee

- 1) Capital receipt Balance sheet Liability Side
  2) Small Amount Can be Shown as Income & Exp. A/c

Life Membership Fee

- 1) Credited to " life Membership Fee A/c"
  2) Liability Side of Balance Sheet
  3)In A Case of Death of member his subscription will be transferred to accumulated fund Account
- Normal Annual Subscription transferred to credit of income & Exp. Account & Balance is Shown in Liability Side of Balance Sheet

Special Fund

- 1) Amt. Recd - Credited to fund A/c
  2) Amt Expended - Debited to fund A/c
  3) If Fund Amt. invested in securities
  4) Income on - Credited to fund A/c
  5) Closing Bal. of Fund - Liability side of B/s
  6) Investment - Assets Side of Balance Sheet

Endowment Fund

- 1) Created for any specific purpose, treated like special funds
  2) Credited for general purpose , income from investments made Against such fund , credited to Income & Expenditure Account

Grants

- Special purpose - Capital Receipt
  general Purpose - General Receipt

INVENTORY

Definition :
Inventories are assets
- Held for sale in the ordinary Course of business
- Used in the process of production for such sale
- Used in the from of materials or supplies to be consumed in the production process or in the rendering of services

Cost of Goods sold

Opening inventory	xx	
Add : Purchases	xx	
Add :Direct Expenses	xx	
Less : Closing inventory	xx	
Cost of Sales		xx

Types of Inventory

- In Case of Manufacturing Concerns
  - Raw material
  - Work in Progress
  - Finished Goods
  - Stores & Spares
  - Packing Material
- In Case of Trading Concerns
  - Traded Goods

THE SIGNIFICANCE OF INVENTORY VALUATION

- ☆ Determination of Income
- ☆ Ascertainment of Financial position
- ☆ Liquidity Analysis
- ☆ Statutory Compliance

Inventory is valued At cost or NRV whichever is lower

Cost of Inventories

- Manufactured / Produced
  - Will study in inter
- Purchased for sale in ordinary course of business

Purchases	xx	
(Less) Trade discount	xx	
(Add) Non- refundable cost	xx	
(Add) Transportation	xx	
	xx	

Following Cost will not be added
- ☆ Abnormal Cost
- ☆ Selling Cost
- ☆ Administrative Cost
- ☆ Borrowing Costs
- ☆ Storage Cost
- ☆ Carriage outward

NRV

Selling price in ordinary Course of business	xx	
(Less) Cost to complete the product	xx	
(Less) Selling Expenses	xx	
	xx	

☆ **GP rate will not apply on abnormal item**

NET REALISABLE VALUE

In Case of Raw Material	replacement cost is generally considered as net realisable value.
In case of work in progress	Net realisable value mean expenses and overheads required to be incurred to convert work in progress into finished goods and making it ready for sale as reduced from selling price.
In case of finished goods and traded goods	Net realisable value means selling price reduced by selling and distribution expenses.

INVENTORY VALUATION

- **Homogeneous** — Ex. Laptop, camera, Pen drive .etc
  - •FIFO
  - • LIFO
  - •Average price
  - •WAC , etc .
- **Heterogeneous Valuation** — Ex. Gold Jewellery , furniture.
  - •Adjusted selling price method
  - •Specific identification Method

Adjusted selling method

Cost of Purchase

Purchases Goods from supplier	xx	
(Less) Trade discount	xx	
Add) transport & package	xx	
Cost of Purchase		xx

Calculation of GP

Sales	xx	
(+) closing stock at sp	xx	
A		xx
(-) Op Stock	xx	
(-) Purchases	xx	
B		xx
GP (A – B)		xx

GP Rate = (GP / A) x 100

Closing Stock at Cost
Closing stock at SP - GP rate

INVENTORY RECORD SYSTEM

Periodic Inventory System

opening inventory (Known) + Purchase (Known) – Closing Inventory (Physically Counted) = Cost of goods sold.

Perpetual inventory system

opening inventory (Known) + Purchases (known) – Cost of goods sold (Known) = Closing Stock (balancing figure)

RETAIL INVENTORY METHOD OR ADJUST SELLING PRIZE METHOD

The cost of the Inventory is determined by reducing from the sales Value of the inventory an appropriate percentage of Gross Margin

When physical inventory taken before or after

Before

(+) Purchases	xx
(-) Purchase return	xx
(-) Sales @ Cost	xx
(+) Sales return @ Cost	xx

After

(-) Purchases	xx
(+) Purchase return	xx
(+) Sales	xx
(-) Sales return	xx

HISTORICAL COST METHODS

Specific Identification Method	• It attributes specific costs to identified goods
FIFO (First in first out) Method	• The FIFO formula assumes that the items of inventories which were purchased or produced first are consumed or sold first and consequently items remaining in the inventory at the end of the period are those most recently purchased or produced. • Thus, the closing inventory is valued at the price paid for latest consignments.
LIFO (Last in first out) Method	• goods issued are valued at the price paid for the latest lot of goods on hand which means inventory of goods in hand is valued at price paid for the earlier lot of Goods. • The price paid for the earliest consignments is used for valuing closing inventory.
Simple Average Price Method	• In Simple Average Price method, all the different prices are added together and then divided by the number of prices. • The closing inventory is then valued according to the price ascertained.
Weighted Average Price Method	• Weighted average price per unit = Total cost of goods available for sale during that period / Total number of units available for sale during that period • Closing inventory = No. of units in inventory × Weighted average price per unit • Cost of goods sold = No. of units sold ×Weighted average price per unit.

CONCEPT AND ACCOUNTING OF DEPRECIATION

★ Depreciation is the systematic allocation of the depreciable Amount of an asset over its useful life

Factors Affecting Depreciation

- **life** — The period over which a depreciable asset is expected to be used by the enterprise
- **Cost**
- **Residual Value** — Residual Value refers to estimated net realisable value of an asset at the end of its useful life. it is also called scrap Value or Salvage Value

$$\text{Depreciation} = \frac{\text{Cost - Scrap Value}}{\text{Estimated Useful Life}}$$

Revaluation

- **Increase**
  - Credited directly to owners' interests under the heading of Revaluation surplus
  - Exception: When it is subsequent Increase (Initially Decrease) — Recognised in the Statement of Profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of profit and loss
- **Decrease**
  - Charged to the Statement of profit and loss
  - Exception: When it is subsequent Decrease (Initially Increase) — Decrease should be debited directly to owners' interests under the heading of Revaluation surplus to the extent of any credit balance existing in the Revaluation surplus in respect of that asset

COST OF FIXED ASSETS

Purchase price	xx
ADD installation exp.	xx
Carriage	xx
All taxes	xx
Trial run cost	xx
Less Refundable Taxes	xx
Trade Discount	xx
Cost of fixed Assets	xx

Methods of Providing Depreciation

- **Uniform Charge method**
  - Fixed Installment Method
  - Production unit method
  - Depletion method
  - Machine hour rate method
- **Declining Charge method**
  - Diminishing balance method
  - Sum of years digits method

CHANGE IN THE 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.

WDV METHOD

- Depreciation is charged on the book value of the assets each year. Thus, the amount of depreciation decreases every year
- Diminishing Balance Depreciation Rate

$$= 1 - n\sqrt{\frac{\text{Residual Value}}{\text{Cost of Assets}}} \times 100$$

① $\frac{R}{C}$
② $\sqrt{\ }\sqrt{\ }$ 12 Times
③ 3-1
④ + 1
⑤ $\times_1 = _1$ (12 Times)

(where, n = Useful Life)

- Written Down Value (WDV) = Cost - Accumulated Depreciation
- Annual Depreciation = Written Down Value (WDV) x Diminishing Balance Depreciation rate

FIXED INSTALMENT METHOD

According to this method, an equal amount is written off every year during the working life on an asset so as to reduce the cost of the asset to nil or its residual value at the end of its useful life

$$\text{Annual dep.} = \frac{\text{Cost of assets – Scrap value}}{\text{Useful Life}}$$

$$\text{Depreciation} = \frac{\text{Depreciable amt}}{\text{useful life}} \times \text{cost} \times \text{Rate}$$

Depreciable Amt = Cost – Scrap value

Rate Base = Calculated per Annual

$$\text{Straight line dep rate} = \frac{\text{straight line dep} \times 100}{\text{Cost of assets}}$$

Book Value or WDV = cost – Accumulated dep.

DEPLETION METHOD

$$\text{Dep} = \frac{\text{Cost of assets – Scrap Value}}{\text{Total expected output}} \times \text{Quantity taken during year}$$

MACHINE HOUR METHOD

$$\text{Dep} = \frac{\text{cost of assets – Scrap Value}}{\text{Life of the assets in hr}} \times \text{Hr in current year}$$

REVISION OF THE ESTIMATED USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT

Whenever there is a revision in the estimated useful life of the asset,
↓
the unamortised depreciable amount
↓
should be charged over the
↓
revised remaining estimated useful life of the asset.

EXAMPLE:

A machine of cost R12,00,000 is depreciated straight-line having useful life of 10 years and zero residual value for three years. At the end of third year, the machine was revalued upwards by R60,000 the remaining useful life was reassessed at 9 years. In this case, Depreciation per year charged for three years
= R12,00,000 / 10 = R1,20,000
WDV of the machine at the end of third year
= R12,00,000 – R1,20,000 × 3 = R8,40,000.
Depreciable amount after revaluation =
R8,40,000 + R60,000 = R9,00,000
Remaining useful life as per previous estimate = 7 years
Remaining useful life as per revised estimate
= 9 years
Depreciation for the fourth year onwards =
R9,00,000 / 9 = R1,00,000.

SUM OF DIGIT YEAR METHOD

$$\text{Depreciation} = \frac{\text{Remaining life of the assets (including Current year)}}{\text{Sum of All the digits of the life of the assets in year}} \times \text{Original Cost}$$

$$\text{Dep. Amt.} = \frac{\text{Cost of assets – Scrap Value}}{\text{Useful Life}}$$

$$\text{Dep. rate} = \frac{\text{Dep. Amt.}}{\text{Cost of Assets}} \times 100$$

PRODUCT UNIT METHOD

$$\text{Depreciation for period} = \text{Depreciable Amount} \times \frac{\text{Actual production during the period}}{\text{Estimated total production}}$$

PROFIT OR LOSS ON THE SALE /DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

- 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.

EXAMPLES OF DIRECTLY ATTRIBUTABLE COSTS ARE

Directly Attributable cost include

- cost of employee benefits arising directly from acquisition or construction of an item of property, plant and equipment.
- cost of site preparation
- initial delivery and handling costs
- installation and assembly costs
- cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)
- professional fees e.g. engineers hired for helping in installation of a machine

COST OF PROPERTY, PLANT AND EQUIPMENT

(a) its purchase price, including non-refundable import duties and purchase taxes, after deducting trade discounts and rebates. +

(b) any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise. +

C) the initial estimate of the costs of dismantling, removing, the item and restoring the site on which an asset is located. ⇒ Cost of Property, Plant and Equipment

FACTORS AFFECTING THE AMOUNT OF DEPRECIATION

- Estimated life of asset
- Cost of the asset
- Residual value of the asset at the end of the of its estimated useful life

OBJECTIVES OF PROVIDING DEPRECIATION

- *Correct income measurement:*
- *True position statement:*
- *Ascertainment of true cost of production:*
- *Funds for replacement:*

THUS ALL THE EXPENSES WHICH ARE NECESSARY FOR ASSET TO BRING IT IN CONDITION AND LOCATION OF DESIRED USE WILL BECOME PART OF COST OF THE ASSET

Expenses should not become part of cost of asset

(a) costs of opening new facility or business, such as inauguration costs;

(b) cost of introducing new product or service (for example cost of advertisement or promotional activities).

c) cost of conducting business in a new location or with a new class of customer (including cost of staff training); and

(d) administration and other general overhead costs

JOURNAL ENTRIES

Provision for depreciation A/c is maintained	**Provision for depreciation A/c is not maintained**
For providing depreciation	
Depreciation A/c Dr. To Provision for Dep	Depreciation A/c Dr. To Assets A/c
For transfer of Depreciation to the profit and Loss	
Profit and loss A/c Dr. To depreciation A/c	Profit and loss A/c Dr. To depreciation A/c
On sale of Assets	
Provision for Dep. A/c Dr. Bank A/c Dr. To Assets A/c	Bank A/c Dr. To assets A/c
In case of profit on sale of assets	
Profit	
Assets A/c Dr. To Profit & loss A/c	Assets A/c Dr. To Profit & loss A/c
Loss	
Profit & Loss A/c Dr. To Assets A/c	Profit & Loss A/c Dr. To Assets A/c

FINAL ACCOUNT

● Manufacturing A/c

Particulars	unit	Amt.	Particulars	unit	Amt.
To Raw +Material Consumed			By by- Products at net realisable value		XX
Opening Stock	XX		By Closing WIP		XX
(+) Purchases	XX		By Trading A/c (Cost of Production)		XX
(-) Closing Inventory	XX	XX			
Direct Wages		XX			
Direct Expenses		XX			
Prime Cost		XX			
To Factory Overhead					
Royalty	XX				
Hire Changes	XX				
To Indirect Expenses	XX				
Repairs & Maintenance	XX				
Depreciation	XX	XX			
Factory Cost		XX			
To Opening WIP		XX			

● BY PRODUCT

The Production of the main product is accompanied by the production of a subsidiary or Secondary Product having A sale Value is Called By product By Product generally have insignificant Value They Are generally valued at **Net Realizable Value**
It Is Treated As Miscellaneous income.

● MANUFACTURING COSTS

Raw Material Consumed	XX
Direct Manufacturing Wages	XX
Direct Manufacturing Expenses	XX
Prime Cost	XX
Indirect Manufacturing expenses or Manufacturing Overhead	XX
Total Manufacturing Cost	XX

Raw Material Consumed = Opening Stock of Raw Materials + Purchases - Closing Stock of Raw Materials

● DIRECT MANUFACTURING EXPENSE

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Examples of direct manufacturing expenses are

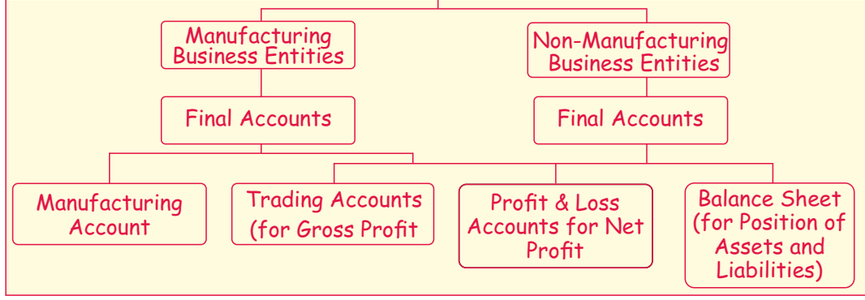
Royalties for using license or technology if based on units produced,

Hire charge of the plant and machinery used on hire, if based on units produced, etc.

PREPARATION OF FINAL ACCOUNTS

(I) a distinction should be made between capital and revenue receipts and payments;
(II) also income and expenses relating to a period of account should be separated from those of another period.
(III) different items of income and expenditure should be accumulated under significant heads so as to disclose the sources from which capital has been procured and the nature of liabilities, which are outstanding for payment.

BUSINESS ENTITIES



Trading A/c

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To opening Stock		XX	By Sales	XX	
To Purchase	XX		Less: Return Inward	XX	XX
Less: Returns outwards	XX	XX	By Closing Stock		XX
To direct expenses		XX	By Gross Loss transferred		
To Gross Profit Transferred		XX	To P&L A/c		XX
To P&L A/c		XX			
		XX			XX

Profit and Loss A/c

Particulars	Rs.	Particulars	Rs.
To Gross Loss b/d	XXX	By Gross Profit b/d	XXX
To salaries & Wages	XXX	By Discount Received	XXX
To Rent, Rates, & Taxes	XXX	By Commission Earned	XXX
To fire Insurance premium	XXX	By Interest on Marketable Securities	XXX
To Repairs & Maintenance	XXX	By Profit on Sale of Marketable Securities	XXX
To Depreciation	XXX	By Rent Earned	XXX
To audit Fees	XXX	By Interest Earned	XXX
To Bank Charges	XXX	By Profit on Sale of fixed Assets	XXX
To Legal Charges	XXX	By Income From Investment	XXX
To Expenses	XXX	By Dividend Received	XXX
To Carriage outward	XXX		
To Freight outward	XXX		
To commission to salesmen	XXX		
To travelling Expense	XXX		
To Entertainment Expenses	XXX		
To sales Promotion Expenses	XXX		
To Advertising and Publicity	XXX		
To bad debts	XXX		
To Packing Expenses	XXX		
To Interest on loan	XXX		
To loss on Sales of Fixed Assets	XXX		
To Net Profit	XXX	By Net Loss	XXX
	XXX		XXX

BALANCE SHEET

Liabilities		Rs.	Assets	Rs.
Capital:			Fixed Assets:	
Opening Balance	XXX		Goodwill	XXX
Add: Net Profit	XXX		Land	XXX
Less: Net loss	XXX		Building	XXX
Less: Drawings	XXX	XXX	Plant & machinery	XXX
Long Term Liabilities:			Furniture & fixture	XXX
Loan		XXX	Investment:	XXX
Current Liabilities:			Current Assets:	
Income received - in-Advance		XXX	Closing stock	XXX
Sundry Creditors		XXX	Accrued Investment	XXX
Outstanding Expenses		XXX	Prepaid Expenses	XXX
Bills payable		XXX	Sundry Debtors	XXX
Bank overdraft		XXX	Bills Receivable	XXX
			Cash at Bank	XXX
			Cash In Hand	XXX
		XXX		XXX

● INDIRECT MANUFACTURING EXPENSES

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

T.B

Rent -(P&L Dr.)
Prepaid rent -(B/S A.)
O/s Exp. (B/S Liability
Closing Stock (B/s A.)
Bad Debts (P&L Dr.)

No	Adjustment	Journal Entry or effect	Example			
			Facts of the Case	Working Note	Adjustment Entry	Treatment in FS
1.	Outstanding Expenses Expenses incurred but not paid at the end of the year	Exp. A/c Dr. To O/s Exp. A/c	Rent payable is Rs. 200 p.m. Rent paid for year Rs. 2,000	Rent p.a. = 200 x 12 months = 2400 O/s Rent = 2,400 - 2,000 = 400	Rent A/c Dr. 400 To O/s Rent A/c 400	Dr Effect : Rs. 400 to P & L A/c Cr Effect : Rs. 400 to Liabilities
2.	Prepaid ExpensesAmount paid in current year for services to be received in next year.	Pre. Exp. A/c Dr. To Exp. A/c	Premium paid Rs. 4,000 Premium for 9 months is paid in advance.	Rs. 4,000 x 9 months ÷ 12 months = Rs. 3,000	Pre. Premium A/c Dr.3,000 To Premium A/c 3,000	Dr Effect : Rs. 3,000 to Assets Cr Effect : Rs. 3,000 to P & L A/c
3.	Income received in advance Income received in current year against which services are to be provided in next year.	Income A/c Dr. To Inc. in adv. A/c	Rent received Rs. 56,000 Rent for 2 months is recd. in advance	Rs. 56,000 x 2 months ÷ 14 months = Rs. 8,000	Rent recd. A/cDr. 8,000 To Rent recd. in adv. A/c 8,000	Dr Effect : Rs. 8,000 to P & L A/c Cr Effect : Rs. 8,000 to Liabilities
4.	Income earned but not received (Accrued Income)Income for the current year is not recd. during the year.	Accr. Inc. A/c Dr. To Income A/c	Amt of invest. Rs. 2,000 Rate of int. 18%Int. recd. Rs. 270	Interest p.a. = 2,000x 18% = Rs. 360 Accr. Int. = Rs.360 – Rs. 270 = Rs.90	Accr. Int. A/c Dr. 90 To Interest A/c 90	Dr Effect : Rs. 9,000 to P & L A/c Cr Effect : Rs. 9,000 to Liabilities (Add to Capital)
5.	Interest on Capital	Int. on cap. A/c Dr. To Cap. A/c	Capital Rs. 50,000 Interest on Cap. 18%	Interest p.a. = 50,000 x 18% = Rs. 9,000	Int. on cap. A/c Dr. 9,000 To Cap. A/c 9,000	Dr Effect : Rs. 2,000 to Liabilities (less from Capital) Cr Effect : Rs. 2,000 to P & L A/c
6.	Interest on Drawings	Drawings A/c Dr. To Int. on Drawings A/c	Int. on Drawings Rs. 2,000	—	Drawings A/c Dr. 2,000 To Int. on Drawings A/c 2,000	Dr Effect : Rs. 90 to Assets Cr Effect : Rs. 90 to P & L A/c
7.	Bad Debts	Bad Debts A/c Dr. To Debtors A/c	Bad debts not recorded in the books Rs. 3,500	—	Bad debts A/c Dr. 3,500 To Debtors A/c 3,500	Dr Effect : Rs. 3,500 to P & L A/c Cr Effect : Rs. 3,500 to Assets (less from Debtors)
8.	Provision for Bad and doubtful Debts	P & L A/c Dr. To Pro. for doubtful Debts A/c	Debtors balance Rs.2,000 5% Pro. for doubtful debts	Provision = Rs. 2,000 x 5% = Rs. 100	P & L A/c Dr. 100 To Pro. for doubtful Debts A/c 100-	Dr Effect : Rs. 100 to P & L A/c Cr Effect : Rs. 100 to Assets (less from Debtors)
9.	Provision for discount on debtors	P & L A/c Dr. To Pro. for Dis. Debtors A/c	Debtors balance Rs.5,000 3% Pro. for doubtful debts	Provision = Rs. 5,000 x 3% = Rs. 150	P & L A/c Dr. 150 To Pro. for Dis. Debtors A/c 150	Dr Effect : Rs. 150 to P & L A/c Cr Effect : Rs. 150 to Assets (less from Debtors)
10.	Provision for Discount on Creditors	Prov. for Dis. on creditors A/c Dr. To P & L A/c	Creditors Rs. 10,000 Create provision 5%	Provision = Rs. 10,000 x 5% = Rs. 500	P & L A/c Dr. 500 To Prov. Dis. on creditors A/c 500	Dr Effect : Rs. 500 to Liabilities (less from creditors) Cr Effect : Rs. 500 to P & L A/c
11.	Common Debt Creditors & Debtors include amt due from & due to each other	Creditors A/c Dr. To Debtors A/cS	undry Debtors include Rs. 4,000 due from Mr. X & Sundry Creditors include Rs. 2,000 due to Mr. X	Lower of the amt. i.e. Rs. 2,000 is known as common debt.	Creditors A/c Dr. 2,000 To Debtors A/c 2,000	Dr Effect : Rs. 2,000 to Liabilities (less from creditors) Cr Effect : Rs. 2,000 to Assets (less from Debtors)
12.	Adjustment of stock of material in hand debited to Exp A/c	Stock of Materials A/c Dr To Appropriate Exp. A/c	Stores of Rs. 5,000 debited to Repairs A/c	—	Stores A/c Dr. 5,000 To Repairs A/c 5,000	Dr Effect : Rs. 5,000 to Assets Cr Effect : Rs. 5,000 to P & L A/c
13.	When goods are given away as donation	Donation A/c Dr. To Purchases A/c	Purchases include chairs purchased @ Rs. 200 per chair. Out of the chairs purchased for resale, 10 chairs were taken by the proprietor for domestic use, 20 chairs were distributed as free samples, 25 chairs were donated to old aged home & 5 chairs were used for business purpose.	Donation = 25 chairs x 200 = Rs. 5,000	Donation A/c Dr. 5,000 To Purchases A/c 5,000	Dr Effect : Rs. 5,000 to P & L A/c Cr Effect : Rs. 5,000 to Trading A/c (less from purchases)
14.	When goods are used by the proprietor for his personal use	Drawings A/c Dr. To Purchases A/c		Drawings = 10 chairs x 200 = Rs. 2,000	Drawings A/c Dr. 2,000 To Purchases A/c 2,000	Dr Effect : Rs. 2,000 to Liabilities (less from Capital) Cr Effect : Rs. 2,000 to Trading A/c (less from purchases)
15.	When goods are distributed as free samples	Free Samples A/c Dr To Purchases A/c		Free Samples = 20 chairs x 200 = Rs. 4,000	Free Samples A/c Dr 4,000 To Purchases A/c 4,000	Dr Effect : Rs. 4,000 to P & L A/c Cr Effect : Rs. 4,000 to Trading A/c (less from purchases)
16.	When goods are used in business for construction of Building or the Machinery	Assets A/c Dr. To Purchases A/c		For Business = 5 chairs x 200 = Rs. 1,000	Furniture A/c Dr. 1,000 To Purchases A/c 1,000	Dr Effect : Rs. 1,000 to Asset Cr Effect : Rs. 1,000 to Trading A/c (less from purchases)
17.	When goods are used for maintenance of business premises	Repairs A/c Dr. To Purchases A/c				

CASH BOOK

★ Cash book is a special journal in which all cash transactions are recorded

★ It is both subsidiary book & a principle book

Simple cashbook

- An ordinary account with one column for cash
- Cashbook is balanced
- **Format -:**

Dr. Cash Book Cr.

Date	Receipt	Lf	Amt	Date	Receipt	Lf	Amt
xxx	To Bal b/d			xxx	By Bal c/d		

- Receipt of Cash -------Dr. cash
- Payment of Cash ------Cr. Cash
- Cash A/c will always have Dr. balance

★ Receipt α Cash Bal ↑ — R↑ Bal ↑, R↓ Bal ↓

Payment $\frac{1}{\alpha}$ Cash Bal ↓ — P↑ Bal ↓, P↓ Bal ↑

- Receipt side of cash book Overcast → Balance is overcast
- Receipt side of cash book undercast → Balance is Under cast
- Payment of cashbook overcast → Balance is Under cast
- Payment of cashbook undercast → Balance is overcast

Double column cashbook

- Two separate columns.
- One for cash and,
- One for either bank or for discount

Cash and bank column is balanced.Discount columns are not balanced. They are merely Totalled.

- **Format -:**

Dr. Cash Book Cr.

Date	Receipt	Lf	Cash	Bank	Date	Receipt	Lf	Cash	Bank
xxx	To Bal b/d		xx	xx	xxx	By Bal c/d		xx	xx

Triple column cashbook

- Three columns for cash, Bank and discount column
- **Format -:**

Dr. Cash Book Cr.

Date	Receipt	Lf	Cash	Bank	Dis. Allowed	Date	Receipt	Lf	Cash	Bank	Dis. Rec'd.

Discount coloum is not balanced

Rectification entries

- Discount Allowed Overast → Suspense / To Disount Allowed
- Undercast → Discount Allowed / To Suspense
- Discount Recived Overast → Discount Received / To Suspense
- Undercast → Suspense / To Discount Received

Petty cashbook

- Are small cash transactions such as payments for postage stamps ,transport Etc .
- **Need for petty cash records**
  - Analysis of transaction into different Accounting Heading
  - Control & Maintain Cash
  - Avoid misuse of cash & theft
- Assets → Petty cash ----- petty cashier; Cash --------- head cashier

Petty cash A/c Dr.

To cash A/c

- **Format -:**

Dr. Petty Cash Book Cr.

Rs.	Particulars	Date	Particulars	VN	Printing	Postage	Wages	Repair	Total
xx	To bal. b/d		By print		xxx				xxx
			By post			xxx			xxx
			By repair					xxx	xxx
			By wages				xxx		xxx

- **Operation of a petty cash Imprest system**

Float Rs. 500 − Total Expenses Rs. 350 = Balance Rs. 150 + Refund to Cashier Rs. 350 = Float Rs. 500

At any point of time , the cash in hand plus the total of vouchers not yet reimbursed must be equal to the Imprest or float amount

★ **Operation of a petty cash non Imprest system**

- These is no amount fixed as float
- The amount & timing of reimbursement are decided by people operating the system

★ SPECIAL TRANSACTION

CONTRA ENTRY

★ Contra entry is used when both the effect of transaction are given on same page in same account

- Cash deposited – Bank to cash
- Cash withdrawn – cash to bank

] Contra

- Cash Withdrawn for personal use - drawing to bank] Not a Contra

TRANSACTION THROUGH CHEQUE -:

Cheque received	Cheque issued
Day 1 :- Received cheque Cash A/c To Mahesh	Balaji A/c Dr. To bank A/c
Day 2 -:Deposited cheque Bank A/c To Cash A/c	

Day 1 → Day 1 [Bank] — Bank To JAY HIND

Day 1 → Day 2 [Bank] — cash To JAY HIND; Bank To Cash

JOURNAL ENTRY

- **Discount allowed -:**

Discount allowed A/c Dr.

To Debtors A/c

- **Discount received -:**

Creditors A/c Dr.

To discount received A/c

- **Dishonoured -:**

a)Cheque deposited and Dishonoured

Party A/c Dr.

To bank A/c

b)Cheque issued & honoured

Bank A/c Dr.

To party A/c

CHEQUE DISHONOURED -:

★ Generally reverse the entry passed also check

When discount is allowed received at the time of cheque received / paid reverse it if cheque is dishonoured

- Cheque dishonoured (Reverse Entry)
- cheque received and Deposited

Cash A/c Dr. To Dhanaji A/c | To bank A/c Dr. To cash A/c

- Consolidated effect

Bank A/c Dr.

To Dhanaji A/c

- Cheque dishonoured

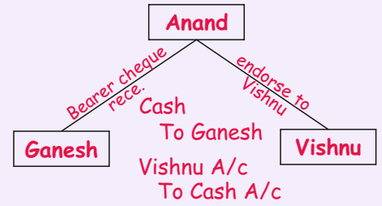
Dhanaji A/c Dr.

To Bank A/c

- Cheque issued & dishonoured

Sakshi To Bank (issued) → Bank A/c Dr. To Sakshi (dishonoured of Cheque)

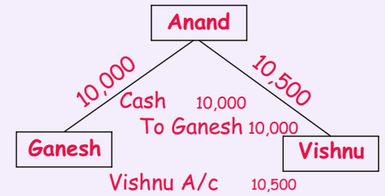
CHEQUE ENDORSED



DISHONOURED OF CASH ENDORSED

Ganesh A/c Dr.

To Vishnu A/c



Ganesh A/c Dr. 10,000

Discount A/c Dr. 500

To Vishnu A/c 500