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BENGALURU CITY UNIVERSITY

CHOICE BASED CREDIT SYSTEM

(Semester Scheme with Multiple Entry and Exit Options for Under Graduate Course- as per NEP 2020)

Revised Syllabus for B. COM - REGULAR

I Semester Financial Accounting

And

II Semester Advanced Financial Accounting

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BE BOUNDLESS

BENGALURU CITY UNIVERSITY

CHOICE BASED CREDIT SYSTEM

(Semester Scheme with Multiple Entry and Exit Options for

Under Graduate Course- as per NEP 2020)

Revised Syllabus for

B. COM - REGULAR

2022-23 onwards

B.COM – PROGRAM

Regulations for Bachelor of Commerce, Bachelor of Commerce with B.Com Honours.

SEMESTER – I

SL NO	Course Code	Title of the Course	Category of Course	Teaching Hours per Week (L+T+P)	SEE	CIE	Total Marks	Credits
1	Lang.1.1	Language -I	AECC	3+1+0	60	40	100	3
2	Lang.1.2	Language -II	AECC	3+1+0	60	40	100	3
3	B.Com.1.1	Financial Accounting	DSC-1	3+0+2	60	40	100	4
4	B.COM.1.2	Management Principles and Applications	DSC-2	4+0+0	60	40	100	4
5	B.COM.1.3	Principles of Marketing	DSC-3	4+0+0	60	40	100	4
6	B.COM.1.4	Digital Fluency/ Basics of Computer	SEC-SB	1+0+2	30	20	50	2
7	B.COM.1.5	**Any one of the following:** a. Accounting for Everyone b. Personal finance & Planning	OEC-1	3+0+0	60	40	100	3
8	B.COM.1.6	Yoga	SEC-VB	0+0+2	-	25	25	1
9	B.COM.1.7	Health & Wellness	SEC-VB	0+0+2	-	25	25	1
SUB TOTAL (A)					**390**	**310**	**700**	**25**

SEMESTER – II

SL NO	Course Code	Title of the Course	Category of Course	Teaching Hours per Week (L+T+P)	SEE	CIE	Total Marks	Credits
10	Lang.2.1	Language -I	AECC	3+1+0	60	40	100	3
11	Lang.2.2	Language – II	AECC	3+1+0	60	40	100	3
12	B.COM.2.1	Advanced Financial Accounting	DSC-4	3+0+2	60	40	100	4
13	B.COM.2.2	Business Mathematics OR Corporate Administration	DSC-5	3+0+2	60	40	100	4
14	B.COM.2.3	Law & Practice of Banking	DSC-6	4+0+0	60	40	100	4
15	B.COM.2.4	Environmental Studies	AECC	2+0+0	30	20	50	2
16	B.COM.2.5	**Any one of the following:** a. Investing in stock markets b. Innovation Management	OEC-2	3+0+0	60	40	100	3
17	B.COM.2.6	Sports	SEC-VB	0+0+2	-	25	25	1
18	B.COM.2.7	NCC/NSS/R&R(S&G)/ Cultural	SEC-VB	0+0+2	-	25	25	1
SUB TOTAL (B)					**390**	**310**	**700**	**25**

EXIT OPTION WITH CERTIFICATION –
WITH ABILITY TO SOLVE WELL DEFINED PROBLEMS

Name of the Program: Bachelor of Commerce (B.Com.)
Course Code: B.Com. 1.1
NAME OF THE COURSE: FINANCIAL ACCOUNTING

COURSE CREDITS	NO. OF HOURS PER WEEK	TOTAL NO. OF TEACHING HOURS
4 CREDITS	4 HOURS	56 HOURS

Pedagogy: Classroom lecture, tutorials, Group discussion, Seminar, Case studies & field work etc.,

Course Outcomes: Course Outcomes: On successful completion of the course, the students will be able to

a. Understand the theoretical framework of accounting as well as accounting standards.
b. Demonstrate the ability to prepare financial statement of manufacturing and nonmanufacturing entities of sole proprietors.
c. Workout the accounting treatments for consignment transactions & events in the books of consignor and consignee.
d. Understand the accounting treatment for royalty transactions & articulate the Royalty agreements.
e. Demonstrate various accounting treatments for dependent and independent branches

SYLLABUS:	HOURS
Module- 1: Theoretical Framework of Accounting	**08**
Introduction-Meaning and Scope of Accounting- Objectives of Accounting-Importance of Accounting-Function of Accounting-Terminologies used in accounting- Users of Accounting Information-Accounting Process-Basis of Accounting: Cash basis and Accrual Basis-Branches of Accounting- Principles of Accounting-Concepts and Conventions- Accounting Standards-Indian Accounting Standards (IND AS)-Theory, Accounting equations, Problems on Accounting Equations	
Module -2: Financial Statements of Sole Proprietary Concerns	**12**
Introduction-Meaning of Sole Proprietor-Meaning of Financial Statements - Manufacturing and non-manufacturing Entities: Financial statements of Manufacturing Concerns -Statement of Manufacture, Statement of Trading and Profit & Loss -Balance Sheet **-problems**	
Module. 3: Consignment Accounts	**12**
Introduction – Meaning – Consignor – Consignee – Goods Invoiced at Cost Price – Goods Invoiced at Selling Price – Normal Loss – Abnormal Loss – Valuation of Stock – Stock Reserve – Journal Entries – Ledger Accounts in the books of Consignor-**problems.**	
Module.4: Royalty Accounts	**12**
Introduction-Meaning- Terms used in royalty agreement: Lessee, Lessor, Minimum Rent – Short Workings –Recoupment of Short Working–Accounting Treatment in the books of Lessee only – Journal Entries and Ledger Accounts including minimum rent account. **(Sub-lease and lessor books excluded)-problems**	

Module.5: Branch Accounts	12

Meaning of Branch Accounts -Objectives and Advantages of Branch Accounting Types of Branches – Meaning and features of Dependent Branches, Independent Branches and Foreign Branches-Methods of maintaining books of accounts by the Head Office – Debtors System- ascertainment of Profit or Loss of Branch under Debtors System – **Problems**

Skill Development Activities:

1. Collect Annual Financial Statements of sole proprietary concerns and identify accounting concepts and conventions followed in the preparation of the annual financial statements.
2. Preparation of Pro-form invoice and accounts sales with imaginary figures.
3. Prepare Royalty table with imaginary figures.
4. Prepare Branch Account with imaginary figures

Books for Reference:

1. Robert N Anthony, David Hawkins, Kenneth A. Merchant, (2017) Accounting: Text and Cases, Mc Graw-Hill Education, 13thEdition.
2. S.Anil Kumar, V.Rajesh Kumar and B.Mariyappa – Financial Accounting, Himalaya Publishing House, New Delhi.
3. SP Iyengar (2005), Advanced Accounting, Sultan Chand & Sons, Vol.1.
4. Charles T. Horngren and Donna Philbrick, (2013) Introduction to Financial Accounting, Pearson Education, 11thEdition.
5. J.R. Monga, Financial Accounting: Concepts and Applications. Mayur Paper Backs, New Delhi, 32ndEdition.
6. S.N. Maheshwari, and. S. K. Maheshwari. Financial Accounting. Vikas Publishing House, New Delhi, 6th Edition.
7. B.S. Raman (2008), Financial Accounting Vol. I & II, United Publishers & Distributors

Question 1:

Prepare Accounting Equation from the following:-

		(₹)
1.	Sandeep started business with Cash	1,00,000
2.	Purchased furniture for cash	5,000
3.	Purchased goods for cash	20,000
4.	Purchased goods on credit	36,000
5.	Paid for rent	700
6.	Goods costing ₹ 40,000 sold at a profit of 20% for cash	

Question 2(B):

Prove that the Accounting Equation is satisfied in all the following transactions of Rajaram. Also prepare a Balance Sheet:-

1. Started business with Cash ₹ 1,20,000.
2. Purchased a typewriter for Cash for ₹ 8,000 for office use.
3. Purchased goods for ₹ 50,000 for cash.
4. Purchased goods for ₹ 40,000 on credit.
5. Goods costing ₹ 60,000 sold for ₹ 80,000 on credit.
6. Paid for Rent ₹ 1,500 and for salaries ₹ 2,000.
7. Received ₹ 800 for Commission.
8. Withdrew for private use ₹ 5,000 in cash.

Question 3:

Prepare Accounting Equation from the following:
(a) Started business with Cash ₹ 2,00,000.
(b) Purchased goods for Cash ₹ 60,000 and on Credit ₹ 1,50,000.
(c) Sold goods for Cash costing ₹ 40,000 at a profit of 20% and on Credit costing ₹ 72,000 at a profit of 25%.
(d) Paid for Rent ₹ 5,000.

Question 2(A):

Show the Accounting Equation on the basis of the following and present a balance sheet on the last new equation balances:

		(₹)
(i)	Manu started business with cash	50,000
(ii)	Bought furniture for	500
(iii)	Purchased goods on credit	4,000
(iv)	Sold goods on cash (cost ₹ 500) for	700
(v)	Received rent	200
(vi)	Purchased goods for cash	1,000
(vii)	Withdrew for personal use	700
(viii)	Paid to creditors	400
(ix)	Paid for salaries	200

ANSWER:

Question 4:

Prepare Accounting Equation from the following:

		(₹)
(a)	Kunal started business with cash	2,50,000
(b)	He purchased furniture for cash	35,000
(c)	He paid commission	2,000
(d)	He purchased goods on credit	40,000
(e)	He sold goods (Costing ₹ 20,000) for cash	26,000

ANSWER:

Unit 1: THEORETICAL FRAMEWORK OF FINANCIAL ACCOUNTING 08 Hrs

Introduction – Meaning and Definition – Significance of Accounting – *Functions of Accounting*– Users of Accounting Information - Accounting Principles – Accounting Concepts and Accounting Conventions- Accounting equations, Problems on Accounting Equations - Accounting Standards: List of Indian Accounting Standards

Introduction to Accounting

According to American Institute of Certified Public Accountants, "Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money transactions and events which are, in part at least, of a financial character, and interpreting the results thereof."

Accounting Principles Board (APB) of AICPA(U.S.A) defined accounting as "Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions."

In Simple words, accounting is the process of collecting, recording, classifying, summarising and communicating financial information to the users for judgment and decision-making.

Objectives of Accounting

1. To keep systematic and complete record of financial transactions in the books of accounts according to specified principles and rules to avoid the possibility of omission and fraud.

2. To ascertain the profit earned or loss incurred during a particular accounting period which further help in knowing the financial performance of a business.

3. To ascertain the financial position of the business by the means of financial statement i.e. balance sheet which shows assets on one side and Capital & Liabilities on the other side.

4. To provide useful accounting information to users like owners, investors, creditors, banks, employees and government authorities etc who analyze them as per their requirements.

5. To provide financial information to the management which help in decision making, budgeting and forecasting.

6. To prevent frauds by maintaining regular and systematic accounting records.

Functions of Accounting

- **Systematic record keeping**: The first and foremost function of accounting is the systematic record keeping of the financial transactions, on a regular basis.
- **Facilitating rational decision making**: Another important function of accounting is to communicate the results, i.e. the net profit or loss to the users, with the help of financial statements, so as to help the interested parties in rational decision making.
- **Legal compliance**: The accounting statements must be prepared keeping in mind the compliance with the relevant laws.
- **Protection of business assets**: Accounting not only keeps a record of all the business assets but also ensures no unauthorized use of assets or property belonging to the enterprise.
- **Determination of Profit/loss**: Accounting plays a very important role in the ascertainment of profit earned or loss sustained by the enterprise in an accounting period. This is possible only when a proper record of all the business transactions, revenues and expenses are maintained.
- **Ascertaining the profitability, liquidity and solvency of the entity**: With the help of the financial statement, i.e. Balance sheet and profit and loss account, the financial position of the enterprise can easily be ascertained.

Advantages of Accounting

1. It provides information which is useful to management for making economic decisions.

2. It help owners to compare one year's results with those of other years to locate the factors which leads to changes.

3. It provide information about the financial position of the business by means of balance sheet which shows assets on one side and Capital & Liabilities on the other side.

4. It help in keeping systematic and complete record of business transactions in the books of accounts according to specified principles and rules, which is accepted by the Courts as evidence.

5. It help a firm in the assessment of its correct tax Liabilities such as income tax, sales tax, VAT, excise duty GST etc.

6. Properly maintained accounts help a business entity in determining its proper purchase price.

Limitations of Accounting

1. It is historical in nature; it does not reflect the current worth of a business. Moreover, the figures given in financial statements ignore the effects of changes in price level.

2. It contain only those information which can be expressed in **terms of money**. It ignore qualitative elements such as efficiency of management, quality of staff, customers satisfactions etc.

3. It may be affected by **window dressing i**.e. manipulation in accounts to present a more favorable position of a business firm than its actual position.

4. It is not free **from personal bias** and personal judgment of the people dealing with it. For example different people have different opinions regarding life of asset for calculating depreciation, provision for doubtful debts etc.

5. Cost Concept: Cost Concept is followed in Accounting, Market value and intrinsic Value is not Considered.

Book Keeping – The Basis of Accounting

Book keeping is the record-making phase of accounting which is concerned with the recording of financial transactions and events relating to business in a significant and orderly manner.

Book Keeping should not be confused with accounting. Book keeping is the recording phase while accounting is concerned with the summarizing phase of an accounting system. The distinction between the two are as under.

Book keeping	**Accounting**
1. It is the recording phase of an accounting system.	1. It is the summarizing phase of an accounting system.
2. It is a primary stage and basis for accounting.	2. It is a Secondary Stage which begins where the Book keeping process ends.
3. It is routine in nature and does not require any specialized skill or knowledge	3. It is analytical in nature and required special skill or knowledge.

4. It is done by junior staff called book-keepers	4. It is done by senior staff calledqualified accountants.
5. It does not give the complete picture of the financial conditions of the business unit.	5. It gives the complete picture of the financial conditions of the business unit.

Subfields/Branches of Accounting

1. Financial Accounting:- It is that subfield/Branch of accounting which is concerned with recording of business transactions of financial nature in a systematic manner, to ascertain the profit or loss of the accounting period and to present the financial position of the business.

2. Cost Accounting:- It is that Subfield/Branch of accounting which is concerned with ascertainment of total cost and per unit cost of goods or services produced/ provided by a business firm.

3. Management Accounting:- It is that subfield/Branch of accounting which is concerned with presenting the accounting information in such a manner that help the management in planning and controlling the operations of a business and in better decision making.

Interested users/parties of Accountings information's and their Needs

There are number of users interested in knowing about the financial soundness and the profitability of the business.

Users	Classification	Information the user want
Internal	1. Owner	Return on their investment, financial health of their company/business.
	2. Management	To evaluate the performance to take various decisions.

	3. Employees	Profitability to claim higher wages and bonus, whether their dues (PF, ESI, etc.) deposited regularly.
External	1. Investors and potential investors	To know about Safety, growth of their investments and future of the business.
	2. Creditors	Assessing the financial capability, ability of the business to pay its debts.
	3. Lenders	Repaying capacity, credit worthiness.
	4. Tax Authorities	Assessment of due taxes, true and fair disclosure of accounting information,
	5. Government	To compile national income and other information. Helps to take policy decisions.
	6. Others	Customers, Researchers etc., may seek different in- formation for different reasons.

Basic accounting terms

Business Transaction

An Economic activity that affects financial position of the business and can be measured in terms of money e.g., expenses etc.

Account : Account refers to a summarized record of relevant transactions of particular head at one place. All accounts are divided into two sides. The left side of an account is called debit side and the right side of an account is called credit side.

Capital: Amount invested by the owner in the firm is known as capital. It may be brought in the form of cash or assets by the owner.

Drawings: The money or goods or both withdrawn by owner from business for personal use, is known as drawings. *Example:* Purchase of car for wife by withdrawing money from business.

Assets: Assets are valuable and economic resources of an enterprise useful in its operations. Assets can be broadly classified as:

1. Current Assets: Current Assets are those assets which are held for short period and can be converted into cash within one year. For example: Debtors, stock etc.

2. Non-Current Assets: Non-Current Assets are those assets which are hold for long period and used for normal business operation. For example: Land, Building, Machinery etc. They are further classified into:

(a) Tangible Assets: Tangible Assets are those assets which have physical existence and can be seen and touched. For Example: Furniture, Machinery etc.

(b) Intangible Assets: Intangible Assets are those assets which have no physical existence and can be felt by operation. For example: Goodwill, Patent, Trade mark etc.

Liabilities: Liabilities are obligations or debts that an enterprise has to pay after some time in the future.

Liabilities can be classified as:

1. Current Liabilities: Current Liabilities are obligations or debts that are payable within a period of one year. For Example: Creditors, Bill Payable etc.

2. Non-Current Liabilities: Non-Current Liabilities are those obligations or debts that are payable after a period of one year. Example: Bank Loan, Debentures etc.

RECEIPTS

1. Revenue Receipts: Revenue Receipts are those receipts which are occurred by normal operation of business like money received by sale of business products.

2. Capital Receipts: Capital Receipts are those receipts which are occurred by other than business operations like money received by sale of fixed assets.

Expenses: Costs incurred by a business for earning revenue are known as expenses. For example: Rent, Wages, Salaries, Interest etc.

Expenditure: Spending money or incurring a liability for acquiring assets, goods or services is called expenditure. The expenditure is classified as :

1. Revenue Expenditure: It is the amount spent to purcahse goods and services that are used during an accounting period is called revenue expenditure. For Example: Rent, Interest etc.

2. Capital Expenditure: If benefit of expenditure is received for more than one year, it is called capital expenditure. Example: Purchase of Machinery.

3. Deferred Revenue Expenditure: There are certain expenditures which are revenue in nature but benefit of which is derived over number of years. For Example: Huge Advertisement Expenditure.

Profit : The excess of revenues over its related expenses during an accounting year is profit.

Profit = Revenue – Expenses

Gain: A non-recurring profit from events or transactions incidental to business such as sale of fixed assets, appreciation in the value of an asset etc.

Loss: The excess of expenses of a period over its related revenues is termed as loss. Loss = Expenses – Revenue

Goods: The products in which the business deal in. The items that are purchased for the purpose of resale and not for use in the business are called goods.

Purchases: The term purchases is used only for the goods procured by a business for resale. In case of trading concerns it is purchase of final goods and in manufacturing concern it is purchase of raw materials. Purchases may be cash purchases or credit purchases.

Purchase Return: When purchased goods are returned to the suppliers, these are known as purchase return.

Sales: Sales are total revenues from goods sold or services provided to customers. Sales may be cash sales or credit sales.

Sales Return: When sold goods are returned from customer due to any reason is known as sales return.

Debtors: Debtors are persons and/or other entities to whom business has sold goods and services on credit and amount has not received yet. These are assets of the business.

Creditors: If the business buys goods/services on credit and amount is still to be paid to the persons and/or other entities, these are called creditors. These are liabilities for the business.

Bill Receivable: Bill Receivable is an accounting term of Bill of Exchange. A Bill of Exchange is Bill Receivable for seller at time of credit sale.

Bill Payable: Bill Payable is also an accounting term of Bill of Exchange. A Bill of Exchange is Bill Payable for purchaser at time of credit purchase.

Discount: Discount is the rebate given by the seller to the buyer. It can be classified as :

1. Trade Discount: The purpose of this discount is to persuade the buyer to buy more goods. It is offered at an agreed percentage of list price at the time of selling goods. This discount is not recorded in the accounting books as it is deducted in the invoice/cash memo.

2. Cash Discount: The objective of providing cash discount is to encourage the debtors to pay the dues promptly. This discount is recorded in the accounting books.

Income: Income is a wider term, which includes profit also. Income means increase in the wealth of the enterprise over a period of time.

Stock : The goods available with the business for sale on a particular date is known as stock.

Cost : Cost refers to expenditures incurred in acquiring manufacturing and processing goods to make it saleable.

Voucher: The documentary evidence in support of a transaction is known as voucher. For example, if we buy goods for cash we get cash memo, if we buy goods on credit, we get an invoice, when we make a payment we get a receipt.

Accounting Principles:

Accounting Concepts

1. **Business entity concept:** A business and its owner should be treated separately as far as their financial transactions are concerned.

2. **Money measurement concept:** Only business transactions that can be expressed in terms of money are recorded in accounting, though records of other types of transactions may be kept separately.
3. **Dual aspect concept:** For every credit, a corresponding debit is made. The recording of a transaction is complete only with this dual aspect.
4. **Going concern concept:** In accounting, a business is expected to continue for a fairly long time and carry out its commitments and obligations. This assumes that the business will not be forced to stop functioning and liquidate its assets at “fire-sale” prices.
5. **Cost concept:** The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded minus depreciation. No rise or fall in market price is taken into account. The concept applies only to fixed assets.
6. **Accounting year concept:** Each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.
7. **Matching concept:** This principle dictates that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.
8. **Realisation concept:** According to this concept, profit is recognised only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.

Accounting Conventions

Conservatism is the convention by which, when two values of a transaction are available, the lower-value transaction is recorded. By this convention, profit should never be overestimated, and there should always be a provision for losses.

Consistency prescribes the use of the same accounting principles from one period of an accounting cycle to the next, so that the same standards are applied to calculate profit and loss.

Materiality means that all material facts should be recorded in accounting. Accountants should record important data and leave out insignificant information.

Full disclosure entails the revelation of all information, both favourable and detrimental to a business enterprise, and which are of material value to creditors and debtors.

Meaning of Accounting Standards:

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information.

Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

Nature of Accounting Standards:

On the basis of forgoing discussion we can say that accounting standards are guide, dictator, service provider and harmonizer in the field of accounting process.

(i) Serve as a guide to the accountants:

Accounting standards serve the accountants as a guide in the accounting process. They provide basis on which accounts are prepared. For example, they provide the method of valuation of inventories.

(ii) Act as a dictator:

Accounting standards act as a dictator in the field of accounting. Like a dictator, in some areas accountants have no choice of their own but to opt for practices other than those stated in the accounting standards. For example, Cash Flow Statement should be prepared in the format prescribed by accounting standard.

iii) Serve as a service provider:

Accounting standards comprise the scope of accounting by defining certain terms, presenting the accounting issues, specifying standards, explaining numerous disclosures and implementation date. Thus, accounting standards are descriptive in nature and serve as a service provider.

(iv) Act as a harmonizer:

Accounting standards are not biased and bring uniformity in accounting methods. They remove the effect of diverse accounting practices and policies. On many occasions, accounting standards develop and provide solutions to specific accounting issues. It is thus clear that whenever there is any conflict on accounting issues, accounting standards act as harmonizer and facilitate solutions for accountants.

objectives of Accounting Standards:

In earlier days, accounting was just used for recording business transactions of financial nature. Its main emphasis now lies on providing accounting information in the process of decision making.

Need of Accounting Standards

(i) For bringing uniformity in accounting methods:

Accounting standards are required to bring uniformity in accounting methods by proposing standard treatments to the accounting issue. For example, AS-6(Revised) states the methods for depreciation accounting.

(ii) For improving the reliability of the financial statements:

Accounting is a language of business. There are many users of the information provided by accountants who take various decisions relating to their field just on the basis of information contained in financial statements. In this connection, it is necessary that the financial statements should show true and fair view of the business concern. Accounting standards when used give a sense of faith and reliability to various users.

They also help the potential users of the information contained in the financial statements by disclosure norms which make it easy even for a layman to interpret the data. Accounting standards provide a concrete theory base to the process of accounting. They provide uniformity in accounting which makes the financial statements of different business units, for different years comparable and again facilitate decision making.

(iii) Simplify the accounting information:

Accounting standards prevent the users from reaching any misleading conclusions and make the financial data simpler for everyone. For example, AS-3 (Revised) clearly classifies the flows of cash in terms of 'operating activities', 'investing activities' and 'financing activities'.

(iv) Prevents frauds and manipulations:

Accounting standards prevent manipulation of data by the management and others. By codifying the accounting methods, frauds and manipulations can be minimized.

(v) Helps auditors:

Accounting standards lay down the terms and conditions for accounting policies and practices by way of codes, guidelines and adjustments for making and interpreting the items appearing in the financial statements. Thus, these terms, policies and guidelines etc. become the basis for auditing the books of accounts.

List of ICAI's Mandatory Accounting Standards (AS 1~29)

List of Mandatory Accounting Standards of ICAI (as on 1 July 2017 and onwards), is as under:

1. **AS 1 Disclosure of Accounting Policies:** This Standard deals with the disclosure of significant accounting policies which are followed in preparing and presenting financial statements.
2. **AS 2 Valuation of Inventories:** This Standard deals with the determination of value at which inventories are carried in the financial statements, including the ascertainment of cost of inventories and any write-down thereof to net realisable value.
3. **AS 3 Cash Flow Statements:** This Standard deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a Cash Flow Statement which classifies cash flows during the period from operating, investing and financing activities.
4. **AS 4 Contingencies and Events Occurring After Balance Sheet Date:** This Standard deals with the treatment of contingencies and events occurring after the balance sheet date.
5. **AS 5 Net profit or Loss for the period, Prior Period Items and Changes in Accounting Policies:** This Standard should be applied by an enterprise in presenting profit or loss from ordinary activities, extraordinary items and prior period items in the Statement of Profit and

Loss, in accounting for changes in accounting estimates, and in disclosure of changes in accounting policies.

6. **AS 7 Construction Contracts:** This Standard prescribes the accounting for construction contracts in the financial statements of contractors.

7. **AS 9 Revenue Recognition:** This Standard deals with the bases for recognition of revenue in the Statement of Profit and Loss of an enterprise. The Standard is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from: a) Sale of goods; b) Rendering of services; and c) Interest, royalties and dividends.

8. **AS 10 Property, Plant and Equipment:** The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment (PPE).

9. **AS 11 The Effects of Changes in Foreign Exchange Rates:** AS 11 lays down principles of accounting for foreign currency transactions and foreign operations, i.e., which exchange rate to use and how to recognise in the financial statements the financial effect of changes in exchange rates.

10. **AS 12 Government Grants:** This Standard deals with accounting for government grants. Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, etc.

11. **AS 13 Accounting for Investments:** This Standard deals with accounting for investments in the financial statements of enterprises and related disclosure requirements.

12. **AS 14 Accounting for Amalgamations:** This Standard deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves.

13. **AS 15 Employee Benefits:** The objective of this Standard is to prescribe the accounting treatment and disclosure for employee benefits in the books of employer except employee share-based payments. It does not deal with accounting and reporting by employee benefit plans.

14. **AS 16 Borrowing Costs:** This Standard should be applied in accounting for borrowing costs. This Standard does not deal with the actual or imputed cost of owners' equity, including preference share capital not classified as a liability.

15. **AS 17 Segment Reporting:** The objective of this Standard is to establish principles for reporting financial information, about the different types of segments/ products and services an enterprise produces and the different geographical areas in which it operates.

16. **AS 18 Related Party Disclosures:** This Standard should be applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. The requirements of this Standard apply to the financial statements of each reporting enterprise and also to consolidated financial statements presented by a holding company.

17. **AS 19 Leases:** The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures in relation to finance leases and operating leases.

18. **AS 20 Earnings Per Share:** AS 20 prescribes principles for the determination and presentation of earnings per share which will improve comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise.

19. **AS 21 Consolidated Financial Statements:** The objective of this Standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. These statements are intended to present financial information about a parent and its subsidiary(ies) as a single economic entity to show the economic resources controlled by the group, obligations of the group and results the group achieves with its resources.

20. **AS 22 Accounting for Taxes on Income:** The objective of this Standard is to prescribe accounting treatment of taxes on income since the taxable income may be significantly different from the accounting income due to many reasons, posing problems in matching of taxes against revenue for a period.

21. **AS 23 Accounting for Investments in Associates:** This Standard should be applied in accounting for investments in associates in the preparation and presentation of consolidated Financial Statements (CFS) by an investor.

22. **AS 24 Discontinuing Operations:** The objective of AS 24 is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise’s cash flows, earnings generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations. AS 24 applies to all discontinuing operations of an enterprise.

23. **AS 25 Interim Financial Reporting:** This Standard applies if an entity is required or elects to publish an interim financial report. The objective of AS 25 is to prescribe the minimum

content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period.

24. **AS 26 Intangible Assets:** AS 26 prescribes the accounting treatment for intangible assets (i.e. identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes).

25. **AS 27 Financial Reporting of Interests in Joint Ventures:** The objective of AS 27 is to set out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors.

26. **AS 28 Impairment of Assets:** The objective of AS 28 is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. The asset is described as impaired if its carrying amount exceeds the amount to be recovered through use or sale of the asset and AS 28 requires the enterprise to recognise an impairment loss in such cases. It should be noted that AS 28 deals with impairment of all assets unless specifically excluded from the scope of the Standard.

27. **AS 29 Provisions, Contingent Liabilities and Contingent Assets:** The objective of AS 29 is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. The objective of this Standard is also to lay down appropriate accounting for contingent assets.

List of ICAI’s Non-Mandatory Accounting Standards (AS 30~32)

ICAI has announced on 15 Nov. 2016 that ‘AS 30- Financial Instruments: Recognition and Measurement’, ‘AS 31- Financial Instruments: Presentation’, ‘AS 32- Financial Instruments: Disclosures’ stands withdrawn

Important Questions

Section A

1) What is Accounting ?
2) Define Accounting.
3) What is Journal ?
4) What are the steps of Accounting Cycle?
5) Write the difference between book keeping and Accounting.
6) Give the meaning of Accounting.
7) State any two Accounting Standards.

Section B

1) What are the objectives and functions of Accounting?
2) What are the advantages and limitations of Accounting?
3) Who are the users of Accounting?
4) Explain Accounting Principles.
5) Differentiate between book keeping and accounting.

Objectives of Accounting:

- To record the business transactions systematically
- To know the results of the business
- To know the liquidity position of the business
- To know the financial Position of the business
- To Satisfy legal requirements of the law
- To Provide Accounting Information to the interested people

Functions of Accounting

- Recording (Passing Journal Entries)
- Classifying(Preparation of Ledger)
- Summerising(Preparation of Financial Statement)

- Interpreting(Reporting, Providing information or Communicating)
- Other Functions (Measurement, forecasting, satisfying legal requirements)

Pariculars	2019	2020	Particulars	2019	2020
Expenses	1000	2000	Income	2000	3000

Advantages of Accounting:

- It helps to ascertain the results of the business (Trading and Profit and loss A/c)
- It helps to ascertain the financial position of the business (Balance sheet)
- It helps the users to take the decision
- It helps to satisfy the legal requirements
- It helps the management

Limitations of Accounting:

- Historical in Nature
- Provides Limited Information
- Only monetary transactions are recorded
- Cost concept is followed in Accounting (Acquisition price)
- Window dressing
- Clashes of Accounting principles

Accounting Principles: Rules and regulation, guide lines, prescription to maintain the books of Accounts.

Accounting principles

Accounting Concepts and Accounting Conventions

Accounting Concepts: (Accounting Assumptions)

1. Business Entity Concept
2. Going Concern Concept
3. Money Measurement Concept
4. Cost Concept
5. Dual-Aspect concept
6. Accounting Period Concept
7. Realisation Concept
8. Accrual Concept
9. Matching Concept
10. Objective Evidence Concept

Accounting Conventions

1. Convention of Consistency
2. Convention of Conservation
3. Convention of Disclosure
4. Convention of Materiality

Business Entity concept:

- Entity is treated different from owner
- Ex; if owner is contributing something to the business it is called as capital(Interest on Capital)

- Ex. If owner is with drawing the cash for his personal use - Drawings (Interest on Drawing)

Going Concern Concept:

- Assumption of the business man or belief of the businessman
- That his business is going to survive for a longterm and he is going to earn more income and profit
- He is going to make certain financial arrangements

Money Measurement Concept:

The transactions which are recorded in the books of Accounts those transaction should be measured in terms of money.

Cost Concept:

- **Acquisition** cost of the asset should be recorded in the books of Accounts and Market value of the Asset should not be recorded
- 10 years ago we have started business by purchasing the building for **Rs. 10,000**
- After 10 years the value of the building might be **10,00,000**

Dual Aspect Concept:

- **Each** and every transaction is having two aspects,
- One is giving aspect and another one is receiving aspect
- Or Debit aspect and Credit aspect
- According to this double entry system is followed
- Ex. Goods purchased for cash Rs. 500

Accounting Period Concept:

- It is a period of 12 months

- Starts from 1st April --Ends with 31st Mar
- Financial year -1st April (Begin the Accounts) and 31st March (Close the books of Accounts)
- At the end of the year that is on 31st Mar. Financial statements are prepared to know profitability and financial position of the business.
- It is the yearly break up to know the Profitability and financial position of the business.

Realisation Concept

- Related to Sales
- Sales is classified into cash Sales and Credit Sales
- Cash sales should be recorded after receiving cash
- Credit sales should be recorded after making agreement

Accrual Concept:

- Accrued Items should be recorded.
- Accrued Items Classified into Accrued Expenses and Accrued Incomes.
- Accrued Expenses: Expenses incurred but not paid – Outstanding expenses - even though it is not paid – It should be recorded in the books of accounts.
- Accrued Income: Income Generated but not received - Outstanding Income – even though it is not received - It should be recorded in the books of accounts.

Matching Concept:

- Expenses should match with income
- Expenses - Total expenditure incurred to manufacture the product – Cost
- 1 mobile - Total expenditure is Rs. 100 – out going cash
- Sold for Rs. 120 (Cost 100 and Profit 20) – Income
- If you want to sell the product you have to sell above the cost price then your expenses will match with income.
- If you sell below the cost price than your expenses will mismatch with income

Objective Evidence Concept:

- Transactions which are recorded in the books of accounts should be based on documentary evidences.

Accounting Convention: Traditions and Customs of Business and Accounting

- Methods and Accounting Treatment should not be changed
- Disclosing all the information in the Annual Report
- Reserves and Provision

Types of Accounting Conventions:

- Convention of Consistency
- Convention of Conservation
- Convention of Disclosure
- Convention of Materiality

Materiality - Significant – Important –

Rs. 1, Rs. 2, Rs. 3 = Sundry expenses , Sundry Income,

Accounting Standards:

- Rules and Regulations
- Guide lines
- Prescriptions
- Formats
- Methods

Issued by Institute of chartered Accountants of India (ICAI)

To prepare uniform financial statements

32 Accounting standards

Balance sheet

Liabilities	Rs.	Assets	Rs.
Capital Liabilities	15000 5000	Assets	20000
Total	20000	Total	20000

- Asset = Capital + Liabilities

  20000 =15000+5000
- Capital = Assets –Liabilities

  15000=20000-5000
- Liabilities = Assets - Capital

  5000=20000-15000

1. Asset = 50000, Liabilities =30000, Capital = ?

   Capital = Assets – Liabilities

   50000-30000 = 20000

   Capital = 20000

2. Assets = ? , Capital 15000 and Liabilities 45000

   Assets = Capital + Liabilities

   15000+45000

   =60000

3. Assets 100000, Capital Rs. 20000 and Liabilities =?

   Liabilities = Assets- Capital

   100000-20000

   80000

Prepare Accounting Equation in the books of A & Co

1. Commenced business with cash Rs,. 100000
2. Goods purchased for Cash Rs. 25,000
3. Goods Sold for Cash Rs. 30,000

Particulars	Accounting Equation		
	Assets	Liabilities	Capital
Commenced business with Cash	+Rs.100000 (Cash)		+100000 (Capital)
Goods purchased for Cash	**+100000** **-25000(Cash)** **+25000(Stock)** **+100000**	Nil	**+100000**
Goods Sold for cash	**+100000** **+30000(Cash)** **-30000(Stock)** **+100000**	Nil	**+100000**

Particulars	Accounting Equation		
	Assets	Liabilities	Capital
Commenced business with Cash	+100000(Cash)	Nil	+100000
Balance Goods purchased for cash	**+100000** **-25000(Cash)** **+25000(Stock)** **100000**	Nil Nil	**+100000** **100000**
Balance Goods sold for Cash Rs. 30000	**100000** **+30000(Cash)** **-30000(Stock)** **100000**	Nil Nil	**100000** **100000**

2. Prepare Accounting Equation in the Books of B Co

- Commencement of Business with cash Rs. 5,00,000
- Goods purchased from Mr. X Rs, 80,000 (Mr. X= Creditor)
- Goods Sold to Mr. Y Rs, 1,00,000 (Mr.Y =Debtor)

Particulars	Accounting Equation		
	Assets	Liabilities	Capital
Commenced Business with cash	+5,00,000	Nil	+5,00,000
Balance Goods purchased form Mr. X	+5,00,000 +80,000(Stock) 5,80,000	Nil +80,000(Mr.X) 80,000	**+5,00,000** **5,00,000**
Balance Goods sold to Mr.Y	**5,80,000** **-1,00,000** **(Stock)** **+1,00,000**	80,000	**5,00,000**

	(Debtor Mr y) **580000**	80000	**500000**

Prepare Accounting Equation in the Books of XYZ Ltd.

1. Commenced business with cash Rs. 1,00,000, Furniture, Rs. 3,00,000 and Liabilities Rs. 1,00000
2. Cash with drawn for personal Use Rs. 10000
3. Goods purchased from Mr. X Rs. 25,000

Particulars	Accounting Equation		
	Assets	Liabilities	Capital
Commencement of Business	+400000 (Cash+Furniture)	+100000	+300000 (4,00,000-1,00,000)
Cash with drawn for personal use	400000 -10000(Cash) 390000	100000 100000	**300000** **-10000** **(Drawings** **290000**
Goods purchased from Mr. X	**390000** **+25000 (Stock)** **415000**	100000 +25000 (Mr. X) 125000	**290000** **290000**

Prepare Accounting Equation in the books of ABC Ltd.

Commencement of Business with Assets and Liabilities Rs. 100000 and Rs. 20000

Salary Paid Rs. 15000

Advertisement Paid Rs. 5000

Particulars	Accounting Equation		
	Assets	Liabilities	Capital
Commencement of Business	+100000	+20000	+80000
Salary Paid	100000 -15000(cash) 85000	20000 20000	80000 -15000(salary) 65000
Advertisement Paid	85000 -5000 80000	20000 20000	65000 -5000 60000

Commencement of business with Assets and Liabilities Rs. 200000 amd Rs. 50000

Cash paid to Creditors Rs. 10000

Cash received from Debtors Rs. 600

Accounting Rules

1. **Personal Account**

   Debit the Receiver

   Credit the Giver

2. **Real Account**

Debit what Comes in

Credit what Goes out

3. **Nominal Account**

   Debit all Expenses and Losses

   Credit all income and gains

Personal Account:

Think from the Business point of view

If Business gives something to Mr.A (any person) – Receiver -Debit – Personal Account

Ex. Cash Paid to Ram Rs. 1000 – Ram – Receiver – Debit – Personals Account.

Cash paid to Shyam

Good sold to prem

Furniture given to Nayan

Lap top given to Mahesh

Raw materials supplied to suresh

If (any person) Mr. B is giving something to the business. Mr. B – Giver –Credit – Personal Account.

Ex. Cash Received from Suraj Rs. 5000. – Suraj - Giver – Credit – Personal Account.

Cash received from Prasad

Goods received from suresh

Furniture purchased from Nandish

Goods purchased from Suhas

Mahanth gave laptop

Ex. Cash paid to Arjunrs. 100000

Real Account:

Business point of View

If anything comes into the business (Goods, Cash and Assets) – Debit- Real A/c.

Ex. Goods Purchased for Cash Rs. 5000

Goods purchased

Furniture purchased

Laptop received

Cash received

Goods supplied from Mr. a

Goods sold for cash

Purchases – Coming into the Business-Debit –Real A/c – Debit what comes in

If anything Goes out from the business (Goods, Cash and Assets) – Credit – Real A/c

Ex. Goods sold for cash Rs. 10000

Sales – Going out –Credit – Real A/c

Goods purchase for Cash Rs. 10000

Goods soldfor cash Rs. 20000

Furniture purchased for cash Rs. 5000

Laptop sold for Rs. 150000

Cash paid to Ram

Nominal Account

Business point of view

Any Expenses to the Business – Expenses - Debit – Nominal Account.

Ex. Salary Paid Rs. 600.

Salary - Expenses – Debit – Nominal A/c

Wages paid

Postage paid

Freight Paid

Carriage paid

Rent paid

Interest Paid

Commission Paid

Any Income to the Business – Income – Credit - Nominal Account.

Ex. Rent Received Rs. 4000

Rent - Income- Credit – Nominal A/c.

Commission Received

Interest Received

Dividend Received

Rent Received

Refund of tax

Receiver -D

Coming in-D

Expenses -D

Giver -C

Goes out-C

Income-C

Goods purchased (Purshases) from ravi(Giver)

Advertisement (Expense) Paid Rs. 5000 (Cash)

Goods Purchased for Cash Rs. 20000 (Cash transaction)

Purchases – coming – Real – Debit

Cash – Going out – Real – Credit

Goods Purchasedfrom Ravi Rs. 50000 (Credit transaction)

Purchases – coming – Real – Debit

Ravi – Giver- Personal – Credit

Good purchasedfor Cash Rs. 2000

Goods soldfrocash Rs. 5000

Goods purchased from shyam Rs. 3000

Goods sold to Sangeetha Rs. 10000

Types of Journal Entries

- Journal Entries on Real A/c
- Journal Entries on combination of Real A/c and Personal A/c
- Journal Entries on combination of Real A/c and Nominal A/c
- Journal Entries on Compound entries.

Journal Entries on Real A/c

Goods purchased for Cash Rs. 5000

Purchases – Coming – Real A/c - Debit

Cash – Going out – Real A/c - Credit

Journal Entries

Date	Particulars	L/F	Debit	Credit
	Purchases A/c Dr. *To* *Cash A/c* (Being Goods Purchased for cash)		5000 -	- 5000

Purchase A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	ToCash A/c	5000		By	

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To			ByPurchase A/c	

2. Goods Sold For Cash Rs 10,000

Sales –Going- Real A/c - Credit

Cash- Coming – Real A/c – Debit

Journal Entries

Date	Particulars	L/F	Debit	Credit
	Cash A/c Dr. To Sales A/c (Being Goods Sold for cash)		10,000 -	- 10,000

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sales a/c	10000		By	

Sales A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To			By Cash A/c	10000

Journal Entries on combination of Real A/c and Personal A/c

Cash paid to Ram Rs. 500

Cash – Going- Real A/c – Credit (Credit what goes out)

Ram – Receiver -Personal A/c – Debit (Debit the receiver)

Journal Entries

Date	Particulars	L/F	Debit	Credit
	Ram A/c Dr. (P) To Cash A/c ® (Being Cash paid to Ram)		500 -	- 500

Ram A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Cash A/c	500		By	

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To			By Ram	500

Cash Received from Suraj Rs. 1000

Cash – Coming – Real A/c – Debit (Debit what comes in)

Suraj – Giver – Personal A/c – Credit (Credit the giver)

Journal Entries

Date	Particulars	L/F	Debit	Credit
	Cash A/c Dr. To Suraj A/c (Being Cash received from Suraj)		1000 -	- 1000

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Suraj A/c	1000		By	

Suraj A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To			By Cash a/c	1000

- Journal Entries on combination of Real A/c and Nominal A/c

  Salary Paid Rs. 25,000

  Salary – Expense – Nominal – Debit (Debit all expenses and losses)

  Cash – Going – Real – Credit (Credit what goes out)

Journal Entries

Date	Particulars	L/F	Debit	Credit
	Salary A/c Dr. To Cash A/c (Being Salary paid)		25,000 -	- 25,000

Salary A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Cash A/c	25,000		By	

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To			By Salary A/c	25,000

Interest Received Rs. 2000

Interest – Income – Nominal– Credit (Credit all income and gains)

Cash- Coming– Real– Debit (Debit what Comes in)

Date	Particulars	L/F	Debit	Credit
	Cash A/c Dr. (Real) To Interest A/c (Nominal) (Being Interest Received)		2,000 -	- 2,000

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Interest	2,000		By	

Interest A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To			By Cash A/c	2,000

- Journal Entries on Compound entries.

Advertisement and Wages paid Rs. 5000 and Rs. 10,000

Advertisement paid Rs. 5000

Advetisement A/c Dr.

To Cash A/c

Wages Paid Rs. 10000

Wages A/c Dr.

To Cash A/c

Advertisement and Wages – Expense – Nominal – Debit

Cash - Going - Real – Credit

Journal Entries

Date	Particulars	L/F	Debit	Credit
	Advertisement A/c Dr. (Exp) Wages A/c Dr (EXP) To Cash A/c (5000+10000) (Being Interest Received)		5,000 10,000 -	- 15,000

Advertisement A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Cash A/c	5000		By	

Wages A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Cash	10000		By	

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To			By Advertisement A/c By Wages A/c	5000 10000

Interest and Rent Received Rs. 20,000 and Rs, 40,000

Interest and Rent – Income- Nominal – Credit

Cash – Coming – Real – Debit

Date	Particulars	L/F	Debit	Credit
	Cash A/c Dr. (R) To InterestA/c (N) Rent A/c (N) (Being Income Received)		60,000 -	- 20,000 40,000

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Interest A/c To Rent A/c	20,000 40,000		By	

Interest A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To			By Cash a/c	20,000

Rent A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To			By Cash A/c	40000

Problems on Journal Entries and Ledger Posting:

1. Journalise the following transactions and prepare necessary ledger Account for the month of January 2019.

   1st. Jan: Mr. X Commencement of business with cash Rs. 100000

   X Capital – Credited – giver- personal

   Cash – Debited –Coming – Real

   2nd Jan: Purchase of Goods for cash Rs. 5000

   3rd Jan: Goods sold for cash Rs. 15000

   4th Jan; Goods purchased From Srinivas Rs. 500

   5th Jan: Goods sold to Ravi Rs. 1000

Journal Entries for the month of January 2019

Date	Particulars	L/F	Debit	Credit	Account	Rule

01-01-2019	Cash A/c Dr. To X Capital A/c (Being Commencement of Business)		1,00,000	1,00,000	Real Personal	Coming Giver
02-01-2019	Purchase A/c Dr. To Cash A/c (Being Goods purchased)		5,000	5,000	Real Real	Coming Going
03-01-2019	Cash A/c Dr. To Sales A/c (Being Goods Sold)		15,000	15,000	Real Real	Coming Going
04-01-2019	Purchase A/c Dr. To Srinivas A/c (Being goods purchased by Srinivas)		500	500	Real Personal	Coming Giver
05-01-2019	Ravi A/c Dr. To Sales a/c (Being goods sold to Ravi)		1000	1000	Personal Real	Receiver Going

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1-1-19 3-1-19	To Capital A/c To Sales A/c	1,00,000 15,000	2-1-19 31-1-19	By purchase A/c By Balance C/d (B/f)	5,000 110000
	Total	115000		Total	115000
1-2-2019	To Balance b/d	110000			

Capital A/c

Date	Particulars	Rs.	Date	Particulars	Rs.

31-1-19	To Balance C/d	100000	1-1-2019	By Cash A/c	1,00,000
	Total	100000		Total	100000
			1-2-19	By Balance b/d	100000

Purchase A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2-1-19 4-1-19	To Cash A/c To Srinivas A/c	5,000 500	31-1-19	By Balance C/d	5,500
	Total	5,500	Total		5,500
1-2-19	To Balance B/d	5,500			

Sales A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31-1-19	To Balance C/d	16,000	3-1-19	By Cash A/c By Ravi a/c	15,000 1,000
	Total	16,000		Total	16,000
			1-2-19	By Balance b/d	16,000

Srinivas A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31-1-19	To Balance C/c	500	4-1-19	By Purchase A/c	500
	Total	500		Total	500
			1-2-19	By Balance B/c	500

Ravi A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
5-1-19	To Sales A/c	1,000		By Balance C/d	1,000
	Total	1,000		Total	1,000
	To Balance B/d	1,000			

2. Jouranalise the following transactions and prepare necessary Ledger for the month of February 2021.

   Feb. 1st. Mr. Y Commenced Business with Cash 300000

   Feb 2nd. Purchased Land for Rs. 50000

   Feb 3rd. Sold goods to Suraj Rs. 5000

   Feb 4th Salary Paid Rs. 10000

   Feb 5th. Interest Received Rs. 20000

Journal Entries for the month ofFebruary 2020

Date	Particulars	L/F	Debit	Credit	Account	Rule
01-02-2020	Cash A/c Dr. To Mr. Y Capital A/c (Being Commencement of Business of Capital)		300000	30000	Real Personal	Coming Giver
02-02-2020	Land A/c Dr. To Cash A/c (Being Land Purchased)		50000	5000	Real Real	Coming Going
03-02-2020	Suraj A/c Dr. To Sales A/c (Goods sold to Suraj)		5000	5000	Personal Real	Receiver Going
04-02-2020	Salary A/c Dr. To Cash A/c (Being Salary Paid)		10000	10000	Nominal Real	Exp Going
05-02-2020	Cash A/c Dr. To Interest A/c (Being Interest Received)		20000	20000	Real Nominal	Coming Income

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1-2-2020	To Mr. Y Capital	300000	2-2-2020	By Land A/c	50000
5-2-2020	To Interest A/c	20000	4-5-2020	By Salary	10000
			29-2-2020	By Balance C/d (b/f)	260000
	Total	320000		Total	320000
1-3-2020	To Balance B/d	260000			

Mr. Y Capital A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
29-2-2020	To Balance C/d	300000	1-2-2020	By Cash A/c	300000
	Total	300000		Total	300000
			1-3-2020	By Balance B/d	300000

Land A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2-2-2020	To Cash A/c	50000	29-2-2020	By Balance C/d	50000
	Total	50000		Total	50000
1-3-2020	To Balance B/d	50000			

Sales A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			3-2-2020	By Suraj A/c	5000

Suraj A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
3-2-2020	To Sales a/c	5000			

3. Jouranalise the following transactions and prepare necessary Ledger for the month of February 2021.

   Feb. 1st. Mr. Z Commenced Business with Cash 600000

   Feb 2nd. Purchased Goods from Mahesh Rs. 50000

   Feb 3rd. Sold Laptop to Suraj for Cash Rs. 5000

   Feb 4th Electricity bill Paid Rs. 10000

   Feb 5th.Rent Received Rs. 20000

4. Journalise the following transaction and prepare Ledger A/c for the month of March 2020.

   March 1st. Mr. A Commenced the Business with Cash Rs. 500000, Furniture Rs. 45000 and goods Rs. 15000

   March 2nd. Paid Telephone Charges Rs. 5000, Maintenance Charges Rs. 4000 and Postage charges Rs. 1000

   March 3rd. Received Rent, Commission and Interest, Rs. 1000, Rs. 2000 and Rs. 3000

Journal Entries for the month of March 2020

Date	Particulars	L/F	Debit	Credit	Account	Rule
1-3-2020	Cash A/c Dr. Furniture A/c Dr. Stock A/c Dr. To Mr. A Capital A/c (Being Commencement of Business)		500000 45000 15000	- - 560000	Real Personal	Coming Giver
2-3-2020	Telephone Charges A/cDr Maintenance Chargea A/c Postage Charges A/c Dr. To Cash A/c (Being Expenses paid)		5000 4000 1000	- - 10000	Nominal Real	Exp Going
3-3-2020	Cash A/c Dr. To RentA/c To Commission A/c To Interest A/c (Being Income Received)		6000	1000 2000 3000	Real Nominal	Coming Income

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1-3-2020	To Mr. A Capital A/c	500000	2-3-2020	By Telephone Charges	5000
3-3-2020	To Rent A/c	1000		By Maintenance charges	4000
	To Commission A/c	2000		By Postage A/c	1000
	To Interest A.c	3000	31-3-2020	By Balance C/d (b/f)	496000
	Total	506000		Total	506000
1-4-2020	To Balance B/d	496000			

Furniture A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1-3-2020	To Mr. A Capital A/c	45000	31-3-2020	By Balnace C/d	45000
		45000			45000
1-4-2020	To Balance B/d				

Stock A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1-3-2020	To Capital A/c	15000			

A Capital A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			1-3-2020	By Cash A/c	500000
				By Furniture A/c	45000
				By Stock A/c	15000

Telephone Charges A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2-3-2020	To Cash A/c	5000			

Maintenance Charges A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2-3-2020	To Cash A/c	4000			

Postage Charges A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2-3-2020	To Cash A/c	1000			

Rent A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			3-3-2020	By Cash A/c	1000

Commission A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			3-3-2020	By Cash A/c	2000

Interest A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			3-3-2020	By Cash A/c	3000

Salaries A/c

Date	Particulars	Rs.	Date	Particulars	Rs.

4-2-2020	To Cash A/c	5000			

Interest A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			5-2-2020	By Cash A/c	20000

5. Journalise the transactions and prepare ledger A/c for the month of April 2020

   April 1st. Mr. B Commenced business with Cash Rs. 100000, Land Rs. 300000 and Goods Rs. 50000

   April 2nd Paid Electricity bill, Advetisement, salesman salary, wages, carriage and freight, Rs. 2000, Rs. 1000, Rs. 4000, Rs. 5000, Rs. 2500 and Rs. 500

6. Feb 1st Goods purchased from Mohan for Rs. 15000

   Feb 5th Paid to Mohan Rs. 14500 on full settlements

   Feb 6th Goods sold to Sathish for Rs. 20000

   Feb 8th Received from Satish 19000 on full settlement

   Feb 9th Cash deposited into bank Rs. 4000

   Feb 10th Cash withdrawn for Personal Use Rs. 2000

Journal Entries for the month of Feb 2020

Date	Particulars	L/F	Debit	Credit	Account	Rule
1-2-2020	Purchases A/c Dr. To Mohan A/c (Being Goods Purchased from Mohan)		15000	15000	Real Personal	Coming Giver
5-2-2020	Mohan A/c Dr. To Discount Received A/c To Cash A/c (Being Account Settled)		15000	500 14500	Personal Nominal Real	Receiver Income Going
6-2-2020	Sathish A/c Dr. To Sales A/c (Being Goods Sold to Sathish)		20000	20000	Personal Real	Reciever Going
8-2-2020	Cash A/c Dr. Discount Allowed A/c Dr. To Sathish A/c (Being Account Setteled)		19000 1000	20000	Real Nominal Personal	Coming Exp Giver
9-2-2020	Bank A/c Dr. To Cash A/c (Being Cash Deposited into bank)		4000	4000	Personal Real	Receiver Going
10-2-2020	Drawings A/c Dr. To Cash A/c (Being Cash Withdrawn for personal use)		2000	2000	Personal Real	Receiver Going

7. March 1st. Cash Deposited into Bank Rs. 200000

   March 2nd. Cash with drawn for office use from bank Rs. 1000

   March 3rd Goods Purchased for Rs, 5000 by issuing Cheque

   March 5th Rent and salary paid through Cheque Rs. 2000 and Rs. 4000

   March 6th Commission received through Cheque Rs. 12000

Journal Entries for the month of Feb 2020

Date	Particulars	L/F	Debit	Credit	Account	Rule
1-3-2020	Bank A/c Dr. To Cash A/c (Being cash deposited into bank)		200000	200000	Personal Real	Receiver Going
2-3-2020	Cash A/c Dr. To Bank A/c (Being Cash withdrawn from Bank)		1000	1000	Real Personal	Coming Giver
3-3-2020	Purchase A/c Dr. To Bank A/c (Being Goods Purchased)		5000	5000	Real Real	Coming Going
5-3-2020	Rent A/c Dr. Salary A/c Dr. To Bank A/c (Being Expenses Paid)		2000 4000	6000	Niminal Nominal Real	Exp Going
6-3-2020	Bank A/c Dr. To Commission A/c (Being Commission Received)		12000	12000	Real Nomianal	Coming Income

			2018		2019	
Date	**Particulars**	**L/F**	**Debit**	**Credit**	**Debit**	**Credit**
1	No Entry					
2	Asset A/c Dr. To Bank A/c		**50000**	**50000**		
3	Asset A/c Dr (with cash price part of installment) Interest A/c Dr (Interest on installment)		**50000** **15000**			

	To Hire Vendor A/c			**65000**		
4	Hire Vendor A/c Dr To Bank A/c		**65000**	**65000**		
5	Depreciation A/c Dr To Asset A/c		**20000**	**20000**		
6	P & L A/c Dr To Interest A/c To Depreciation A/c		**35000**	**15000** **20000**		

Asset A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2018	To Bank A/c	25,000	2018	By Depreciation	10000
2018	To Hire Vendor A/c	25,000	2018	By Balance C/d	40000
	Total	50000		Total	50000
2019	To Balance B/d	40000			

Hire Vendor A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2018	To Bank A/c	32,500	2018	By Asset A/c	25,000
			2018	By Interest A/c	7,500
	Total	32500		Total	32500

Interest A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2018	To Hire Vendor A/c	7500	2018	By P&L A/c	7500
	Total	7500		Total	7500

Depreciation A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2018	To Asset	10,000	2018	By P& L A/c	10,000
	Total	10000		Total	10000

2. Solution

Journal Entries in the books of Anand for the month of January 2003

Journal Entries for the month of Feb 2020

Date	Particulars	L/F	Debit	Credit	Account	Rule
01/01/2003	Cash A/c Dr. To Anands Capital A/c (Being Commencement of Business)		50000	50000	Real Personal	Coming Giver
02//01/2003	SBI Bank a/c Dr. To Cash A/c (Being Cash Deposited in to SBI Bank)		10000	10000	Personal Real	Receiver Going
03/01/2003	Purchase A/c Dr. To Cash A/c (Being Goods Purchased)		4000	4000	Real Real	Coming Going
06/01/2003	Cash A/c Dr. To Sales A/c (Being goods sold)		6000	6000	Real Real	Coming Going
08/01/2003	Purchase A/c Dr. To Vinay A/c (Being Goods purchased on Credit)		5600	5600	Real Personal	Coming giver
12/01/2003	Ganesh A/c Dr. To Sales A/c (Being Goods Sold on credit)		6500	6500	Personal Real	Receiver Going
15/01/2003	Vinay A/c Dr. To Purchase Returns (Being Returned to Vinay)		100	100	Personal REal	Receiver Going
16/01/2003	Cash A/c Dr. To Ganesh A/c Being Cash received from ganesh		4000	4000	Real Personal	Coming Giver
18/01/2003	Stationary A/c Dr. To Cash A/c (Being stationary Paid)		150	150	Nominal REal	Exp Going
21/01/2003	Vinay A/c Dr To cash A/c (Being cash paid to vinay)		3500	3500	Personal Real	Receiver Going
25/01/2003	Wages A/c Dr. To Cash A/c		500	500	Nominal REal	Exp

	(Being wages paid)					Going
31/01/2003	Rent A/c Dr. To cash A/c (Being Rent paid)		2000	2000	Nominal REal	Exp Going

Cash a/c

Date	Particulars	Rs.	Date	Particulars	Rs.
01/01/02003	To Anands Capital A/c	50000	02/01/2003	By SBI Bank a/c	10000
06/01/2003	To Sales A/c	6000	03/01/2003	By Purchase A/c	4000
16/01/2003	To Ganesh A/c	4000	18/01/2003	By Stationary A.c	150
			21/01/2003	By VinayA.c	3500
			25/01/2003	By Wages A.c	500
			31/01/2003	By Rent A/c	2000
			31/01/2003	By Balance C/d	39850
	Total	60000		Total	60000
1/2/2003	By Balance b/d	39850			

Capital A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31/01/2003	To Balance C/d	50000	01/01/2003	By Cash A/c	50000
	Total	50000		Total	50000
			1/2/2003	By Balance B/d	50000

SBI Bank a/c

Date	Particulars	Rs.	Date	Particulars	Rs.
02/01/2003	To Cash A/c	10000	31/1/2003	By Balance C./d	10000
	Total	10000		Total	10000
1/2/2003	To Balance B/d	10000			

Purchase A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
03/01/2003 08/01/2003	To Cash A/c To Vinay A/c	4000 5600	31/1/2003	By Balance C./d	9600
		9600			9600
	To Balance b./d	9600			

Sales A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31/1/2003	To Balance C/d	12500	6/01/2003 12/01/2003	By Cash A/c By Ganesh A.c	6000 6500
	Total	12500		Total	12500
			1/2/2003	By Balance B/d	12500

Vinay A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
 21/01/2003	To Purchase Returns To Cash A/c To Balance C/d	100 3500 2000	08/01/2003	By Purchase	5600
	Total	5600			5600
				By Balance b/d	2000

Ganesh A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sales A/c	6500	16/01/2003	By Cash A/c By Balance C/d	4000 2500
	Total	6500		Total	6500
	To Balance B/d	6500			

Purchaser Returns A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance C/d	100	15/01/2003	By Vinay A/	100
	Total	100		Total	100
				Balance B/d	100

Stationary A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
18/01/2003	To Cash a/c	150		By Balance C/d	150
	Total	150		Total	
	To Balance B/d	150			

Wages A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
25/01/2003	To Cash A/c	500		By Balance C/d	500
	Total	500		Total	500
	To Balance B/d	500			

Rent A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31/01/2003	To Cash A/c	2000		By Balance C/d	2000
	Total	2000		Total	2000
	To Balance B/d	2000			

Solution 3

Journal Entries for the month of April 2003

Date	Particulars	L/F	Debit	Credit	Account	Rule
1/4/2003	Cash A/c Dr. To Capital A/c (Being commencement of Business)		70000	70000	Real Personal	Coming Giver
2/4/2003	Cash A/c Dr. To Laxman Loan A/c (Being Loan received)		3500	3500	Real Personal	Coming giver
4/4/2003	Purchase A/c Dr. To Raman A/c (Being goods purchased on Credit)		4600	4600	Real Personal	Coming giver
8/4/2003	Sales Returns a/c Dr. To Kishore A/c Being Sales returns received)		200	200	Real Personal	Coming giver
10/4/2003	Furniture A/c Dr. To Cash A/c (Being Furniture Purchased)		2000	2000	Real Real	Coming going
15/4/2003	Drawings A/c Dr. To Cash A/c (Being Cash with drawn for personal use)		500	500	Personal Real	Receiver Going
20/4/2003	Electricity Bill A/c Dr. To Cash A/c (Being Electricity Charges Paid)		2000	2000	Nominal REal	Exp Going
25/4/2003	Syndicate Bank A/c Dr. To Cash A/c (Being cash deposited into bank)		10000	10000	Personal Real	Receiver Going
28/4/2003	Drawing A/c Dr. To Bank A/c (Being cash withdrawn from Bank for personal use)		400	400	Personal Real	Receiver Going
29/4/2003	Cash A/c Dr. To Commission A/c (Being Commission REceivved)		150	150	Real Nominal	Coming Income

30/4/2003	Rent A/c Dr. To Bank A/c (Being Rent Paid)		2500	2500	Nominal REal	Exp Going

Cash A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1/4/2003	To Capital	70000	10/4/2003	By Furniture A/c	2000
2/4/2003	To Laxmans Loan A/c	3500	15/4/2003	By Drawings A/c	500
29/4/2003	To Commission a/c	150	20/4/2003	By Electricity bill A/c	2000
			25/04/2003	By Syndicate Bank	10000

Capital A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			1/4/2003	By Cash A/c	70000

Laxman Loan A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			2/4/2003	By Cash A/c	3500

Purchase A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
4/4/2003	To Raman A/c	4600			

Raman A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			4/4/2003	By Purchases	4600

Sales Returns A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
8/4/2003	To Kishore A/c	200			

Kishore A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			4/4/2003	By Sales Returns A/c	200

Funiture A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
10/4/2003	To Cash A/c	2000			

Drawings A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
15/4/2003	To Cash A/c	500			
28/4/2003	To Bank A/c	400			

Syndicate Bank A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
25/4/2003	To Cash a/c	10000	28/4/2003	By Drawings	400
			30/4/2003	By Rent A/c	2500

Electricity Bill A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
20/4/2003	To Cash A/c	2000			

Commission A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
			29/4/2003	By Cash a/c	150

Rent A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
30/4/2003	To Bank A/c	2500			

Assets A/c Dr.

To Liabilities

To Capital

Assets A/c Dr.

To Capital a/c

Capital A/c Dr.

To Liabilities

Date	Particulars	L/F	Debit	Credit	Account	Rule
1/1/1992	Cash in hand A/c Dr. Stock in A/c Dr. Furniture A/c Dr. Building A/c Dr. Due by Raman a/c Dr. To Capital A/c (Being commencement of Business with Assets)		**1500** 2500 600 2000 600	 **7200**	**Real** **Real** **Real** **Real** **Personal** **Personal**	**Coming** **Cming** **Coming** **Coming** **Receiver** **Giver**
1/1/1992	Capital A/c Dr. To Due to Kamath To Due to Mohan (Being commencement of Business with Liabilities)		2000	 800 1200	Personal Personal Personal	Receiver Giver Giver
1/1/1992	Purchase A/c Dr. To Mohan (Being Goods purchased)		1500	 1500	Real Personal	Coming Giver
2/1/1992	Murthy A/c Dr. To Sales (Being goods sold on credit – (500-10=490))		490	 490	Personal Real	Receiver Going
3/1/1992	Cash A/c Dr. Discount Allowed A.cDr To Raman (Being Cash Received from Raman)		580 20	 600	Real Nominal Personal	Coming Exp Giver
10/1/1992	Cash A/c Dr. Discount Allowed A/c Dr. To Murthy A.c (Being Cash Received from Murthy)		450 40	 490	Real Nominal Personal	Coming Exp Giver

15/1/1992	Kamath A/c Dr. To Discount Received A/c To Cash A/c (Being cash paid to Kamath)		800	 25 775	Personal Nominal Real	Receiver Income Going
20/1/1992	Mohan A/c Dr. To Discount Received A/c To Cash A/c (Being Cash paid to Mohan)		1050	 50 1000	Personal Nominal Real	Receiver Income Going

Journal Entries in the books of Srinivas

Solution 9th Problem:

In the Books of Kiran	**In the books of Arum**
Arun A/c	**Kirans A/c**
Purchase A/c Dr To ArunA/c	KiranAa/c Dr. To Sales A/c
Purchase Returns: Arun A/c Dr. To Purchase Returns	**Sales Returns** Sales Returns A/c Dr. To Kiran A/c
Sales Arun A/c Dr. To Sales A/c	**Purchases:** Purchase A/c Dr. To Kiran A/c
Sales Returns Sales Returns A/c Dr. To Arun A/c	**Purchase Returns:** Kirna A/c Dr. To Purchase Returns
Payment: Arun A/c Dr. To Discount Received To Cash A/c	**Receipt:** Cash A/c Dr. Discount allowed A/c Dr. To Kiran A/c

Journal Entries in the books of Kiran

Date	Particulars	L/F	Debit	Credit	Account	Rule
05/01/2007	Purchase A/c Dr To ArunA/c (Being Goods Purchased)		650	 **650**	**Real** **Personal**	**Coming** **Giver**
10/01/2007	Arun A/c Dr. To Purchase Returns (Being Purchase Returns)		160	 160	Personal Real	Receiver Going
14/1/2007	Arun A/c Dr. To Sales A/c (Being Goods Sold on Credit)		750	 750	Personal Real	Receiver Going
18/1/2007	Sales Returns A/c Dr. To Arun A/c (Being Sales Returns)		45	 45	Real Personal	Coming giver
20/1/2007	Arun A/c Dr. To Discount Received To Cash A/c (Being Amt paid to Arun)		2285	 25 2260	Personal Nominal Real	Receiver Income Going

In the books of Kiran

Arun's A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1/1/2007	To Balance B/d	2500	05/01/2007	By Purchase A/c	650
10/1/2007	To Purchase Returns	160	18/1/2007	By Sales Returns	45
14/1/2007	To Sales A/c	750		By Balance C/d	5000
20/1/2007	To Discount Received	25			
	To Cash A/c	2260			

		5695			5695
	To Balance B/d	5000			

In The Books of Arun

Kiran's A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
05/01/2007 18/1/2007	To Sales A/c To Purchase Returns A/c To Balance Cd/d	650 45 5000	1/1/2007 10/1/2007 14/1/2007 20/1/2007	By Balance B/d By Sales Returns By Purchase A.c By Cash A/c By Discount Allowed	2500 160 750 2260 25
		5695			5695
				By Balance B/d	5000

Hari A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance C/d			By Purchases By Purchases By Purchases By Purchasee	
	Total			**Total**	
	To Cash A/c To Discount Received To Cash A/c To Cash A/c To Discount Receive		1/12/2007	By Balance B/d	
	Total			**Total**	

Date	Particulars	L/F	Debit	Credit	Account	Rule

Journal Entries

1/4/1988	Cash A/c Dr.' To Capital a/c (Being Commencement of Business)		**10000**	 **10000**	**Real** **Personal**	**Coming** **Giver**
4/4/1988	Cash A/c Dr. To X A/c (Being Cash Received From X)		**500**	 **500**	**Real** **Personal**	**Coming** **Giver**
6/4/1988	Rent A/c Dr. Wages A/c Dr. Salary A/c Dr. To Cash A/c (Being Expenses Paid)		**150** **300** **600**	 **1050**	**Nominal** **Real**	**Exp** **Goes**
8/4/1988	Purchase A/c Dr. To Y A/c (Being Goods Purchased)		**800**	 **800**	**Real** **Personal**	**Coming** **giver**
10/4/1988	Z A/c Dr. Cash A/c Dr. To Sales A/c (Being Goods Sold)		**600** **600**	 **1200**	**Personal** **Real** **Real**	**Receiver** **Coming** **Going**
15/4/1988	Cash A/c Dr. To Commission (Being Commission Received)		**100**	 **100**	**Real** **Nominal**	**Coming** **Income**
20/4/1988	Bank A/c To Cash A/c (Being Cash Deposited into Bank)		**1500**	 **1500**	**Personal** **Real**	**Receiver** **Going**
25/4/1988	Cash A/c Dr. To Bank A/c (Being Cash withdrawn		**500**	 **500**	**Real** **Personal**	**Coming** **Giver**

	from Bank)					
30/4/1988	Rent A/c Dr. To Cash A/c (Being Rent Paid)		**300**	**300**	**Nominal** **Real**	**Exp** **going**

Cash, Capital, X A/c, Rent, Wages, Salary, Purchase, Y A/c, Z A/c, Sales ,Commission, Bank

Date	Particulars	L/f	Debit	Credit	Account	Rule
1/1/1999	Cash A/c Dr. To Capital (Being Commencement of Business)		**75000**	 **75000**	**Real** **Personal**	**Coming** **Giver**
4/1/1999	Machinery A/c Dr. To Cash A/c (Being Machinery Purchased)		**8000**	 **8000**	**Real** **Real**	**Coming** **Going**
5/1/1999	Bank a/c Dr. To Cash A/c (Being Cash Paid into bank)		**6000**	 **6000**	**Personal** **Real**	**Receiver** **Going**
8/1/1999	Purchase A/c Dr. To Cash A/c (Being goods purchased for cash)		**6000**	 **6000**	**Real** **Real**	**Coming** **Going**
10/1/1999	Prasad A/c Dr. To Sales A/c (Being goods sold to Prasad)		**4000**	 **4000**	**Personal** **Real**	**Reciever** **Going**
15/1/1999	Rent A/c Dr. To Cash A/c (Being Rent Paid)		**1000**	 **1000**	**Nominal** **Real**	**Exp** **Going**
19/1/1999	Cash A/c Dr. To Commission (Being Commission Received)		**100**	 **100**	**Real** **Nominal**	**Coming** **Income**
28/1/199	Advertisement A.c Dr. To Cash A/c (Being Advertisement Paid)		**1200**	 **1200**	**Nominal** **Real**	**Exp** **Going**
30/1/1999	Wages A/c Dr. To Cash A/c (Being Wages Paid)		**3000**	 **3000**	**Nominal** **Rea.**	**Exp** **Going**

Cash, Capital, Machinery, Bank, Purchase, Sales, Prasad, Rent, Commission, Advertisement, Wages.

MODULE 4 SUBSIDIARY BOOKS

4.1. Meaning, objectives, Advantages and Limitations

Subsidiary books:

Subsidiary books are subdivision of Journal, they are also called special journal were prime entries or orginal entries are recorded.

Objectives:

1. To divide the work among the clerks
2. To Facilitate the posting
3. To Save the time
4. To minimize the frauds and errors.
5. To help the management to take the decision.

Limitation of Subsidiary Books;

1. It is not according to Accounting rules
2. It is not according to double entry system
3. It requires more work force.
4. It is required only in large organization

4.2. Types of subsidiary books - Purchase Book, Purchase Returns Book, Sales Book, Sales Returns Book, Cash Book – Simple and three columnar - Petty Cash Book (Only formats) and Problems on Petty Cash Book

Purchase Book:

This book is used to record all credit purchases made by the business concern from its suppliers. This book is also known as ‘Purchases Books’, ‘Purchases Journal’ or ‘Invoice Book’.

Purchase Book

Date	Particulars	L/F	Inward Invoice No.	Amount

Problem 1: Prepare Purchase book for the month of January 2021 from the following transactions:

Jan 1st. Goods Purchased from Mohan Rs. 20000

Jan 2nd Goods purchased from Sathish for cash Rs. 10000

Jan 3rd. Goods Purchased for Cash Rs. 500

Jan 4th Goods purchased from Mahesh Rs. 6000

Purchase Book

Date	Particulars	L/F	Inward Invoice No.	Amount
1/1/2021	Mohan			**20000**
4/1/2021	Mahesh			**6000**
	Total Purchase			**26000**

Problem 2: Prepare Purchase book for the month of February 2021 from the following transactions of Stationary busines:

Feb 1stThe following goods are purchased from Sapnapvt ltd.

10 Books at Rs. 100 each

10 Accountancy Text books at Rs. 300 each

Discount at 10%

Feb 2ndThe following goods are purchased from MahaveerPvt Ltd.

10 Rims of A4 Size sheet at Rs. 250 each

200 Pens at Rs. 15 each

Discount at 5%

Purchase Book

Date	Particulars	L/F	Inward Invoice No.	Amount
1/2/2021	Sapna Pvt. Ltd.			**3600**
	10 books @ Rs. 100 each = 1000			
	10 A/c books @ Rs. 300 each= 3000			
	4000			
	Les Discount @ 10% 400			
2/2/2021	Mahaveer Pvt. Ltd.			**5225**

	10 Rims at Rs, 250 each 2500 200 Pens @ Rs. 15 each 3000 5500 Less Discount @ 5% 225			
	Total Purchase			**88250**

Problem 3: Prepare Purchase Returns book for the month of February 2021 from the following transactions of Stationary business:

Feb 3rd The following goods are Returned to Sapnapvt ltd.

2 Books at Rs. 100 each

1 Accountancy Text books at Rs. 300 each

Feb 5th The following goods returned to MahaveerPvt Ltd.

3 Rims of A4 Size sheet at Rs. 250 each

40 Pens at Rs. 15 each

Purchase Returns Book

Date	Particulars	L/F	Debit Note No.	Amount
03/02/2021	Sapna Pvt. Ltd 2 Books at Rs. 100 each 200 1Accountancy book at Rs. 300 300			**500**
05/02/2021	Mahaveer Pvt. Ltd. 3 Rims @ Rs, 250 750 40 Pens @ Rs. 15 600			**1350**
	Total Purchas Returns			**1850**

Problem 4: Prepare Sales Book from the following transactions for the month of March – 2021

March 1st: The following goods sold to Sidhvik Ltd

10 bags of Rice at Rs. 500 each

20 bags of wheet at Rs. 250 each

Discount at 15%

March 2nd: The following goods sold to Big Bazar

50 kgs of Sugar at Rs. 75 each kg

100 kgs of Ragi at Rs. 35 each kg

Discount at 10%

March 3rd. 10kgs of paddy sold to Ravi for cash Rs. 3000

Sales Book

Date	Particulars	L/F	Outward invoice NO.	Amount
01/03/2021	**Sidhvik Ltd** 10bags of Rice @ Rs. 500 5000 20bags of Wheet @ Rs. 250 5000 10000 Less Discount 15% 1500			**8500**
02/03/2021	**Big Bazar:** 50kgs of Sugar @ Rs, 75 3750 100kgs of Ragi@ Rs, 35 3500 7250 Less Discount @ 10% 725			**6525**
	Total Sales			**15025**

Problem5: Prepare Sales Returns Book from the following transactions for the month of March – 2021

March 5thst: The following goods sold returned bySidhvik Ltd

2 bags of Rice at Rs. 500 each

4 bags of wheet at Rs. 250 each

March 10th: The following goods sold returned by Big Bazar

3 kgs of Sugar at Rs. 75 each kg

10 kgs of Ragi at Rs. 35 each kg

Sales Returns Book

Date	Particulars	L/F	Credit Note No.	Amount
5/3/2021	Sidhvik ltd 2 bags of Rice at Rs. 500 each 1000 4 bags of Ragi at Rs. 250 1000			**2000**
10/03/2021	Big Bazar Ltd. 3kgs at Rs. 75 each 225 10kgs of Ragi at Rs. 35 350			**575**
	Total sales returns			**2575**

Solution: 2015 QP

Purchase Book

Date	**Particulars**	**L/F**	**Inward Invoice No.**	**Amount**
1/5/2010	Mr. A 10boxes @ Rs. 150 1500 Less 20% Discount 300			**1200**
10/5/2010	Mr. C 120Pieces @ Rs. 8 960 Les 20% Discount 192			**768**
28/5/2010	Mr. E 15 Cases @ Rs. 180 2700 12Cases @ Rs, 60 720 Add FC 20 3440 Less 25% Discount 860			**2580**
	Total Purchases			**4548**

Purchase A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1/5/2010	To Mr. A	**1200**	31/5/2010	By Balance C/d	4548
10/5/2010	To Mr. C	**768**			
28/5/2010	To Mr. E	**2580**			
	Total	4548		Total	4548
1/6/2010	To Balance B/d	4548			

Mr. A A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31/5/2010	To Balance C/d	1200	1/5/2010	By Purchase A/c	1200
		1200			1200
			1/6/2010	By Balance b/d	1200

Mr. c A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31/5/2010	To Balance C/d	768	1/5/2010	By Purchase A/c	768
		768			768
			1/6/2010	By Balance b/d	768

Mr. E A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31/5/2010	To Balance C/d	**2580**	1/5/2010	By Purchase A/c	**2580**
		2580			**2580**
			1/6/2010	By Balance b/d	**2580**

Solution: 2016 QP

Purchase Book

Date	Particulars	L/F	Inward Invoice No.	Amount
1/6/2016	Ganesh A/c			**5000**
10/6/2016	Parishith Traders A/c			**10000**
26/6/2016	Naveen and Shashi Associates			**12000**
29/6/2016	Gundanna Traders			**12000**
	Total Purchases			**39000**

Purchase Returns Book

Date	Particulars	L/F	Debit Note No.	Amount
7/6/2016	Ganesh			**400**
12/6/2016	Parikshith			**600**
	Total Purchases Returns			**1000**

Cash Book; Cash Receipts and Cash Payment will be recorded

Kinds of Cash Book:

- Simple/Single column Cash Book
- Double/Two Column Cash Book
- Triple/ Three Column Cash Book
- Petty Cash Book – Simple petty Cash & Analytical Petty Cash Book

Dr. Simple/Single Column Cash Book Cr.

Date	Particulars	L/F	Rs.	Date	Particulars	L/f	Rs

Problem 1. Prepare Single Column Cash Book from the following transactions for the month of March – 2021.

March 1st. Opening Balance of Cash Rs. 50000

March 2nd. Goods Purchased for Cash Rs. 20000

March 3rd Goods Sold for Cash Rs. 25000

March 4th Furniture Purchased for Rs. 5000

March 5th. Goods withdrawn for personal use Rs. 2000

Dr. Simple/Single Column Cash Book Cr.

Date	Particulars	L/F	Rs.	Date	Particulars	L/f	Rs
1/3/2021	To Balance b/d		50000	2/3/2021	By Purchases		20000
3/3/2021	To Sales A/c		25000	4/3/2021	By Furniture		5000
				5/3/2021	By Drawings		2000
				31/3/2021	By Balance C/d		48000
	Total		75000		Total		75000
1/4/2021	To Balance b/d		48000				

. Simple/Single Column Cash Book Cr.

Date	Particulars	L/F	Rs.	Date	Particulars	L/f	Rs
1/7/2021	To Balance b/d		2000	2/7/2021	By Purchases		700
4/7/2021	To Sales		600	3/7/2021	By Carriage I/w		70
6/7/2021	To Shankar		1100	5/7/2021	By Salary		1100
10/7/2021	To Machinery		800	18/7/2021	By Stationary		400
12/7/2021	To Sales		700	19/7/2021	By Vignesh		120
20/7/2021	To Dinesh A/c		150	22/7/2021	By Drawings		140
23/7/2021	To Sales		150	24/7/2021	**By** Repairs		60
31/7/2021	To Vignesh		120	25/7/2021	By Rent A/c		150
				31/7/2021	By Balance C/d		2880
	Total		5620		Total		5620
1/8/2021	To Balance b/d		2880				

Problem 3.

. Three/Triple Column Cash Book Cr.

Date	**Particulars**	**Disco**	**Cash**	**Bank**	**Date**	**Particulars**	**Disco**	**Cash**	**Bank**

Goods sold for Rs. 10000 and received through Cheque

From the following transactions prepare Three Column cash book for the month of March 2021

March 1st: Goods sold for cash Rs. 10000

March 2nd Cash Received from Mohan Rs. 50000

March 3rd Goods Sold for Rs. 60000 and received Cheque

March 4th goods Purchased For Rs. 70000 and paid by Cheque

March 5th Carriage Inward paid Rs. 5000

. Three/Triple Column Cash Book Cr.

Date	Particulars	Disco	Cash	Bank	Date	Particulars	Disco	Cash	Bank
1/3/2021	**To Sales A/c**		**10000**	**-**	**4/3/2021**	**By Purchases**			**70000**
2/3/2021	**To Mohan**		**50000**	**-**	**5/3/2021**	**By Carriage I/w**		**5000**	
3/3/2021	**To Sales**			**60000**					
	To Balance c/d			**10000**		**By Balance C/d**		**55000**	
			60000	**70000**				**60000**	**70000**
	To Balance B/d		**55000**			**By Balance B/d**			**10000**

Problems on Contra Entries:

March 1st Cash deposited into bank Rs. 10000

March 2nd Cash withdrawn from Bank Rs. 2000

March 3rd Cash with drawn from bank for office use Rs. 500

March 4th Cash with drawn from bank for personal use Rs. 100

. **Three/Triple Column Cash Book** Cr.

Date	**Particulars**	**Disco**	**Cash**	**Bank**	**Date**	**Particulars**	**Disco**	**Cash**	**Bank**
1/3/2021	**To Cash A/c** **To Bank A/c** **To Bank A/c**	**C** **C** **C**	 **2000** **500**	**10000**	**1/3/2021**	**By Bank A/c** **By Cash A/c** **By Cash A/c** **By Drawings**	**C** **C** **C**	**10000**	 **2000** **500** **100**

Prepare Three Column cash book from the following Transactions

April 1st: Cash Deposited into SBI Bank Rs. 100000

April 2nd Cash with drawn from Bank Rs. 3000

April 3rd Cash with drawn from Bank for Personal use Rs. 4000

April 4th cash with drawn from bank for Office Use Rs. 60

Three/Triple Column Cash Book Cr.

Date	Particulars	Disco	Cash	Bank	Date	Particulars	Disco	Cash	Bank
1/1/1992	**To Capital**		**20000**		**2/1/1992**	**By Bank A/c**	**©**	**8000**	
2/1/1992	**To Bank A/c**	**©**		**8000**	**7/1/1992**	**By Purchases**			**3000**
15/1/1992	**To Sales A/c**		**650**		**10/1/1992**	**By Rent**		**1500**	
18/1/1992	**To Narayan**	**30**	**1500**		**12/1/1992**	**By Furniture**			**180**
20/1/1992	**To Cash A/c**	**C**		**1500**	**16/1/1992**	**By Gopal**	**25**		**970**
28/1/1992	**To Bank A/c**	**C**	**400**		**20/6/1992**	**By Bank A/c**	**C**	**1500**	
30/1/1992	**To Gopu**		**1000**		**25/1/1992**	**By Wages**		**600**	
					28/1/1992	**By Cash a/c**	**C**		**400**
					31/1/1992	**By Drawings**			**150**
					31/1/1992	**By Balance C/**		**11950**	**4800**
	Total	**30**	**23550**	**9500**		**Total**	**25**	**23550**	**9500**
31/1/1992	**To Balance B/d**		**11950**	**4800**					

Petty Cash Book:

Petty Cash Book is a Subsidiary Book used to record all small expenses such as Printing and Stationary, Postage and telegram, cartage, travelling expenses etc.

Types of Petty Cash Book:

- Simple Petty Cash Book
- Analytical Petty Cash Book

Simple Petty Cash Book

Amt Received	Cash book folio	Date	Particulars	Voucher No.	Ledger Folio	Amt Paid
			Total			

Problem 1: Prepare Simple Petty Cash Book from the following transactions for the Month of April – 2021:

April 1st. Received Cheque for Rs. 700 from Cashier

April 2nd. Paid Postage Rs. 50

April 3rd. Paid taxi hire Rs. 100

April 4th. Paid Wages Rs. 125

April 5th Paid telegram Rs. 40

April 6th Paid Stationary Rs. 180

April 7th Paid Refreshment Rs. 140

April 8th Paid to Mahesh Rs. 65

Simple Petty Cash Book

Amt Received	Cash book folio	Date	Particulars	Voucher No.	Ledger Folio	Amt Paid
700		April 1st	To. Bank A/c			
		April 2nd	By Postage			**50**
		April 3rd	By Taxi hire			**100**
		April 4th	By Wages			**125**
		April 5th	By Telegram			**40**
		April 6th	By Stationary			**180**
		April 7th	By Refreshment			**140**
		April 8th	By Mahesh			**65**
		Apri 30th	By Balance C/d			
700			**Total**			**700**
			To Balance b/d			

Problem 2 : Prepare Simple Petty Cash Book from the following transactions for the Month of April – 2021:

April 1st. Received Cheque for Rs. 1000 from Cashier

April 2nd. Paid Postage Rs. 150

April 3rd. Paid Petrol charges Rs. 200

April 4th. Paid Loading charges Rs. 50

April 5th Paid Coffee Rs. 40

April 6th Paid Stationary Rs. 80

April 7th Paid Refreshment Rs. 250

April 8th Paid Wages Rs. 65

Simple Petty Cash Book

Amt Received	**Cash book folio**	**Date**	**Particulars**	**Voucher No.**	**Ledger Folio**	**Amt Paid**
1000		April 1st	To. Bank A/c			
		April 2nd	By Postage			**150**
		April 3rd	By Petrol Charges			**200**
		April 4th	By Loading Charges			**50**
		April 5th	By Coffee			**40**
		April 6th	By Stationary			**80**
		April 7th	By Refreshment			**250**
		April 8th	By Wages			**65**
		Apri 30th	By Balance C/d			**165**
700			**Total**			**700**
165			**To Balance b/d**			

Simple Petty Cash Book

Amt Received	Cash book folio	Date	Particulars	Voucher No.	Ledger Folio	Amt Paid
250		May 1st	To Balance B/d			
750		May 2	To. Bank A/c			
		May 5th	By Postage			**80**
		May 6th	By Stationary			**50**
		May 9th	By Wages			**40**
		May 12th	By Cartage			**130**
		May 15th	By Travel expenses			**200**
		May 17th	By Telegram			**44**
		May 22nd	By Registered Notic e			**18**
		May 28th	By doreswamy			**18**
		May 31st	By Carriage			**20**
			By Balance C/d			**600**
1000			**Total**			**1000**
600			**To Balance b/d**			

Analytical Petty Cash Book

Amt Rec	**CBF**	**Date**	**Particulars**	**V.NO**	**Printing and stationary**	**Postage and telegram**	**Cartage and Coolie**	**Wages**	**Travel Exp**	**Advertisement**	**S. Exp**	**L/f**	**Ledger**

Three/Triple Column Cash Book Cr.

Date	Particulars	Disco	Cash	Bank	Date	Particulars	Disco	Cash	Bank

1/12/1991	**To Balance b/d**		**16000**		**2/12/1992**	**By Bank A/c**	**C**	**7000**	
2/12/1992	**To Cash A/c**	**C**		**7000**	**3/12/1992**	**By Purchase s**		**600**	
4/12/1992	**To Prabhakar**	**25**		**400**	**9/12/1992**	**By Salary**			**450**
6/12/1992	**To Sales**		**1200**		**11/12/1992**	**By Drawing s**			**300**
7/12/1992	**To Interest**			**100**	**18/12/1992**	**By Office Rent**		**80**	
20/12/199	**To Sales**		**900**		**22/12/1992**	**By Govt bond**		**700**	
27/12/199	**To Commission**		**175**		**26/12/1992**	**By Travel All**		**150**	
	To cash A/c			**2000**	**28/12/1992**	**By Ajanta**			**50**
						By Prabhakar			
						By Bank A/c		**2000**	**400**
						By Balance		**7745**	**8300**
						C/d			
	Total	**25**	**18275**	**9500**				**18275**	**9500**
	To Balance b/d		**7745**	**8300**					

Trial Balance

Particulars	Debit	Credit
Capital		**xxx**
Drawings	**xxx**	
Reserves and Surplus		**xxx**
Assets	**xxx**	
Liabilities		**xxx**
Expenses	**xxx**	
Income		**xxx**
Purchases	**xxx**	
Purchase Returns		**xxx**
Sales		**XXX**
Sales Returns	**xxx**	
Total	**xxx**	**xxx**

Solution 1:

Trial Balance

Particulars	Debit	Credit
Capital		**50000**
Drawings	**5000**	
Opening Stock (Asset)	**20000**	
Sundry Creditors (Liability)		**49000**
Machinery (Asset)	**1500**	
Sundry Debtors (Asset)	**60575**	
Cash at bank (Asset)	**17200**	
Cash in Hand(Asset)	**900**	
Purchases	**35000**	
Discount allowed(Expenses)	**1500**	
Carriage Inward (Expenses)	**1300**	
Return outwards (Purchase Returns)		**1000**
Insurance (Expense)	**1400**	
Printing and Stationary (Expenses	**675**	
Rent and Taxes (Expenses)	**1450**	
Salary (Expense)	**8000**	
Return Inwards (Sales Returns)	**2000**	
Bills Receivable (Asset)	**2650**	
Suspense Account (Difference)		**59050**
Total	**159050**	**159050**

Solution 2:

Trial Balance

Particulars	Debit	Credit
Capital		**30000**
Drawings	**2000**	
Opening Stock	**21540**	
Buildings	**20000**	
Wages	**8510**	
Debtors	**6280**	
Creditors		**3500**
Bad debts	**550**	
Loan to ravi	**7880**	
Sales		**68000**
Purchases	**40000**	
BOD (b/f)		**5260**
	106760	**106760**

TRADING ACCOUNT (Horizontal Format)

for the year ended.....

Dr. **Cr.**

Particulars		Rs.	**Particulars**		**Rs.**
To Opening Stock		xxx	By Sales	xxx	
To Purchases	xxx		*Less*: Returns inwards	(xxx)	xxx
Less: Returns outwards	**(xxx)**	xxx	By Closing Stock		xxx
To Frieght & Carriage		xxx	By Gross Loss c/d*		xxx
To Customs & Insurance		xxx			
To Wages		xxx			
To Gas, Water & **Fuel**		xxx			
To Factory Expenses		xxx			
To Royalty on Production		xxx			
To Cargo Expenses		xxx			
To Shipping Expenses		xxx			
To Import Duty		xxx			
To Custom Duty					
To Dock Charges					
To Octroi					
. To Commission on Purchases					
To Gross Profit c/d*					
		xxx			xxx

* Either of two will appear

The following is the pro-forma of Profit and Loss Account when it is prepared as a separate account:

PROFIT AND LOSS ACCOUNT (Horizontal Form)

for the year ended.....

Dr **Cr.**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Gross Loss b/d*	xxx	**By** Gross Profit b/d*	xxx
Office and Administrative Expenses:		**Other Income**:	
To Salaries (Administrative)	xxx	By Commission Earned	xxx
To Office Rent, Rates & Taxes	xxx	By Discount Received	xxx
To Lighting	xxx	**Non Trading Income**:	
To Legal Charges	xxx	By Interest Received	xxx
To Postage	xxx	By Dividend Received	xxx
To Printing	xxx	**Abnormal Gains**:	
To Insurance	xxx	By Gain on	
To Audit Fees etc.	xxx	Sale of Fixed Assets	xxx
Selling and Distribution Expenses:		By Insurance Claims	xxx
To Carriage Outward	xxx	By Net Loss f	xxx
To Advertisement Expenses	xxx	(Transferred to capital account)	
To Godown Rent	xxx		
To Commission	xxx		
To Brokerage	xxx		
To Bad Debts	xxx		
To Provision for bad debts etc.	xxx		
Financial Expenses:			
To Interest on loans	xxx		
To Bank Charges	xxx		
To Legal Charges for arranging loans	xxx		
To Discounts and Rebate on Bills etc.	xxx		
Maintenance Expenses:			
To Repairs & Renewals	xxx		
To Depreciation	xxx		
Abnormal Losses:			
To Loss on Sale of Fixed Assets	xxx		
To Loss by Fire etc	xxx		
To Net Profit f	xxx		
(Transferred to capital account)	xxx		xxx

*; t Only **one** figure will appear in the account

PROFIT AND LOSS ACCOUNT (Vertical Form)
for the year ended.....

Particulars		Rs.	Rs.	Rs.
Gross Profit		-	-	xxx
Add:	***Other Income:***			
	Commission Earned	xxx		
	Discount Received	xxx	xxx	
Add:	***Non Trading Income:***			
	Interest Received	xxx		
	Dividend Received	xxx	xxx	
Add:	***Abnormal Gains:***			
	Gain on Sale of fixed Assets	xxx		
	Insurance Claims	xxx	xxx	xxx
Less:	***Office and Administrative Expenses***			
	Salaries (Administrative)	xxx		
	Office Rent, Rates & Taxes	xxx		
	Lighting	xxx		
	Legal Charges	xxx		
	Postage	xxx		
	Printing	xxx		
	Insurance	xxx		
	Audit Fees etc.	xxx	xxx	
Less :	***Selling and Distribution Expenses :***			
	Carriage Outward	xxx		
	Advertisement Expenses	xxx		
	Godown Rent	xxx		
	Commission	xxx		
	Brokerage	xxx		
	Bad Debts	xxx		
	Provision for Bad Debts etc.	xxx	xxx	
Less:	***Financial Expenses:***			
	Interest on Loans	xxx		
	Bank Charges	xxx		
	Legal Charges for arranging Loans	xxx		
	Discounts and Rebate on Bills etc.	xxx	xxx	
Less:	***Maintenance Expenses:***			
	Repairs & Renewals	xxx		
	Depreciation	xxx	xxx	
Less:	***Abnormal Losses***			
	Loss on Sale of Fixed Assets	xxx		
	Loss by Fire etc.	xxx	xxx	(xxx)
	Net Profit (transferred to Capital Account)			xxx*

* In case of negaitve figure this item shall be treated as loss.

HORIZONTAL FORM OF BALANCE SHEET (In order of liquidity)

BALANCE SHEET

-          *as* ***at.....***

Liabilities	Rs.	**Assets**	Rs.
Sundry Creditors	xxx	Cash in Hand	xxx
Bills Payable	xxx	Cash at Bank	xxx
Bank Loans	xxx	Bills Receivable	xxx
Outstanding Expenses	xxx	Sundry Debtors	xxx
Income Received in Advances	xxx	Advance Payments	xxx
Loan on Mortgages	xxx	Stock	xxx
Reserves & Surplus	xxx	Investments	xxx
Capital Account	xxx	Furniture & Fittings	xxx
		Plant & Machinery	xxx
		Land & Buildings	xxx
		Trade Mark	xxx
		Copy Rights	xxx
		Patents	xxx
		Goodwill	xxx
	xxx		xxx

Tutorial Note

The items of assets and liabilities shown in the above balance sheet may vary from business to business.

HORIZONTAL FORM OF BALANCE SHEET (In order of Permanence)
BALANCE SHEET
as at

Liabilities	Rs.	**Assets**	Rs.
Capital Account	xxx	Goodwill	xxx
Reserves & Surplus	xxx	Patents	xxx
Loan on Mortgages	xxx	Copy Rights	xxx
Bank Loans		Trade Marks	xxx
Income Recieved in Advance		Land & Buildings	xxx
Outstanding Expenses	xxx	Plant & Machinery	xxx
Bills Payable	xxx	Furniture & fittings	xxx
Sundry Creditors	xxx	Investments	xxx
		Stock	xxx
		Sundry Debtors	xxx
		Bills Receivable	xxx
		Cash at Bank	xxx
		CashTnTHand	xxx
	xxx		xxx

Tutorial Note

The items of assets and liabilities shown in the above balance sheet may vary from business to business.

VERTICAL FORM OF BALANCE SHEET
***as at*..........**

Particulars	**Rs.**	**Rs.**	**Rs.**
Fixed Assets:			
Goodwill		xxx	
Patents		xxx	
Copy Rights		xxx	
Trade Marks		xxx	
Land & Buildings		xxx	
Plant & Machinery		xxx	
Furniture & Fittings		xxx	xxx
Current Assets :			
Stock	xxx		
Advance Payments	xxx		
Sundry Debtors	xxx		
Bills Receivable	xxx		
Cash at Bank	xxx		
Cash in Hand	xxx	xxx	
Current Liabilities :			
Sundry Creditors	xxx		
Bills Payable	xxx		
Outstanding Expenses	xxx		
Income Received in Advance	xxx	xxx	
Working Capital			xxx
NET ASSETS EMPLOYED			xxx
Financed By:			
Long-terms Loans		xxx	
Capital		xxx	
Add: Net Profit		xxx	xxx

9. The following is the Trial Balance of A Ltd. as at 31 st March, 2004.

Particulars	Debit Rs.	Credit Rs.
Cash	12,000	
Bank	2,00,000	
Purchases/Sales	1,97,000	1,05,000
Investments	50,000	
Returns	7,000	25,000
Carriage Inward	3,500	
Carriage Outward	12,000	
Salaries	72,000	
Commission	600	
Machinery	1,20,000	
Wages	2,500	
Closing Stock	23,000	
Rent	48,000	
Postage	2,100	
Outstanding Expenses		1,000
Drawings	24,000	
Travelling Expenses	1,500	
Repairs	7,000	
Depreciation	10,000	
Debtors/Creditors	1,55,500	1,41,000
Loan (Short term)		15,000
Capital Account		6,60,700
	9,47,700	9,47,700

Prepare Trading and Profit & Loss Account for the year ending 31 st March, 2004 and a Balance Sheet as at that date.

(**Ans.**: Gross Loss Rs. 80,000; Net Loss Rs. 2,33,200; Total of Balance Sheet Rs. 5,60,500.)

10. Prepare Trading and Profit and Loss Account and Balance Sheet of Nimesh Corporation as at 31 st March, 2004 from the following balances :

Particulars	Rs.	Particulars	Rs.
Opening stock	12,000	Sales	2,19,000
Furniture	14,000	Purchases Returns	2,000
Land	11,80,000	Sales Returns	4,000
Debtors	4,400	Sundry expenses	12,000
Wages and Salaries	9,000	Conveyance charges	700
Drawings	16,000	Advertising expenses	18,000
Purchases	1,72,000	Creditors	14,000
Carriage Inward	500	Rent	12,000
		Capital	12,19,600

The closing stock was valued at Rs. 10,000.

(**Ans.**: Gross Profit Rs. 33,500; Net Loss Rs. 9,200; Total of Balance Sheet Rs. 12,08,400)

11. The following is the Trial Balance of Nitin Ltd. on 31st March, 2004.

Particulars	**L.F**	**Debit Rs.**	**Credit Rs.**
Furniture		45,000	
Plant & Machinery		1,47,000	
Investments		25,000	
Bad debts		2,000	
Sundry Debtors		51,000	
Purchases		2,90,000	
Stock on 1st April, 2003		90,000	
Interest		875	
Bill payable		-	11,000
Sundry Creditors		-	25,000
General Expenses		1,750	
Internet Charges		1,250	
Discount		8,000	9,000
Purchases returns		-	1,250
Sales returns		2,500	
Bills Receivable		26,000	
Capital			3,12,750
Sales			3,50,000
Insurance		2,500	
Stationery		500	
Wages and Salaries		5,000	
Salaries and Wages		10,000	
Carriage		625	
		7,09,000	7,09,000

The closing stock was valued at Rs. 70,020. You are required to prepare Trading and Profit and Loss *Account* and the Balance *Sheet as at 31 st March, 2004.*

(**Ans.**: Gross Profit Rs. 33,145; Net Profit Rs. 15,270; Total of Balance Sheet Rs. 3,64,020.)

12. The Balances of Jatin Bandhu is as follows on 31 st March, 2004. Prepare Trading and Profit and Loss Account and the Balance Sheet as at 31 st March, 2004. Stock was valued at Rs.4,000 on 31st March, 2004.

Debit Balances	Rs.	**Debit Balances (Contd.)**	Rs.
Machinery	3,50,000	Salaries	60,000
Building	9,00,000	Rent, Rates & Taxes	1,250
Sundry Debtors	22,100	Printing	1,800
Opening Stock	3,200	Cash	1,600
Purchases	1,10,000	**Credit Balances**	
Sales Returns	800	Capital	9,00,000
Drawings	72,000	Creditors	70,000
Wages	12,000	Sales	50,650
Freight Inward	1,100	Purchases Returns	12,000
Freight Outward	1,800	Bank Overdraft	60,000
		Loan (long - term)	4,45,000

(Ans.: Gross Loss Rs. 60,450; Net Loss Rs. 1,25,300; Total of Balance Sheet Rs. 12,77,700)

TREATMENT OF ITEMS APPEARING INSIDE THE TRIAL BALANCE

Items given in Trial Balance	Treatment in Trading and Profit & Loss Account	Treatment in Balance Sheet
(/) Closing Stock		Shown on the Assets side as a Current Asset
(H) Outstanding Expenses		Shown on the Liabilities side as a Current Liability
(Hi) Prepaid Expenses		Shown on the Assets side as a Current Asst:
(iv) Accrued Income		Shown on the Assets side as a Current Asse:
(v) Income Received in Advance		Shown on the Liabilities side as a Current Liability
(vi) Depreciation	Shown on the debit side of Profit & Loss Account	
(vii) Bad-Debts (when no Provision for Doubtful Debts A/c appears)	Shown on the debit side of Profit & Loss Account	
(viii) Bad-Debts (When Provision for Doubtful Debts A/c appears)	*(a)* When old provision is more then actual bad debt -Shown on the credit side of Profit & Loss A/c with the amount of difference. *(b)* When old provision is less than actual bad-debt - Shown on the debit side of Profit & Loss A/c with the amount of difference.	
(ix) Discount Allowed (when no Provision for Discount on Debtors A/c appears)	Shown on the debit side of Profit & Loss Account	
(x) Discount Allowed (when Provision for Discount on Debtors A/c appears)	Shown on the debit side of Provision for Discount on Debtors A/c	
(xi) Discount Received	Shown on the credit side of Profit & Loss Account	
(xii) Interest on Loan	Shown on the debit side of Profit & Loss Account	
(xiii) Interest on Investments	Shown on the credit side of Profit & Loss Account	

TREATMENT OF ITEMS APPEARING OUTSIDE THE TRIAL BALANCE

Items of Adjustment	Adjusting Entry	Treatment in Trading A/c	Treatment in Profit & Loss A/c	Treatment in **Balance** Sheet
(i) Closing Stock	Closing Stock A/c Dr. To Trading A/c	Shown on the Credit side		Shown on the assets side as a Current Asset
(ii) Outstanding Expenses	Expenses A/c Dr. To Outstanding Expenses A/c	Added to the respective direct expense on the debit side	Added to the respective indirect expense on the debit side	Shown on the Liabilities side as a Current Liability.
(Hi) Prepaid Expenses	Prepaid Expenses A/c Dr. To Expenses A/c	Deducted from the respe ctive direct expense on the debit side	Deducted trom the respective indirect expense on the debit side.	Shown on the assets side as a Current Asset.
(iv) Accrued Income	Accrued Income A/c Dr. To Income A/c	Added to the respective direct income on the credit side	Added to the respective indirect income on the credit side	Shown on the assets side as a Current Asset.
(v) Income received in advance	Income A/c Dr. To Income received in advance A/c	Deducted from the respe-ctive direct income on the credit side	Deducted from the respe-ctive indirect income on the credit side	Shown on the Liabilities side as a Current Liability.
(vi) Depreciation	Depreciation A/c Dr. To Fixed Asset A/c		Shown on the debit side	Shown on the assets side b; way of deduction from the value of respective fixed - asset.
[vii) Additional Bad- Debts	Bad-Debts A/c Dr. To Debtors A/c		Shown on the debit side	Shown on the assets side : way of deduction from the amount of debtors.
viii) Provision for Doubtful Debts	Profit & Loss A/c Dr. To Provision for Doubtful Debts A/c		Shown on the debit side	Shown on the assets side : j way of deduction from the amount of debtors.
(ix) Provision for Discount on Debtors	Profit & Loss A/c Dr. To Provision for Discount on Debtors A/c		Shown on the debit side	Shown on the assets side by way of deduction from the amount of debtors.
(x) Manager's Commission	Manager's Commission A/c Dr. To Outstanding Commi-ssion A/c		Shown on the debit side	Shown on the liabilities side as a Current Liability.

SOME **IMPLIED OR HIDDEN TRANSACTIONS**

(0 Interest on Loan	Interest on Loan A/c Dr. To O/s Interest A/c	-	Added to the total interest paid on the debit side	Shown on the liabilities **side**
ii) Interest on Investments	Accrued Interest A/c Dr. To Interest on Investment A/<		Added to the total interest received on the credit side	Shown on the assets side

ILLUSTRATION 10 ***(Comprehensive)*** *The Trial Balance of Jain Bros, show the following balances. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2006 and Balance Sheet as at 31st March, 2006.*

Particulars	Rs	**Particulars**	Rs
Capital Account	6,50,000	Cash	5,000
Creditors	36,000	Drawings	24,000
Bank Overdraft	16,500	Freehold Property	2,10,000
Interest on Bank Overdraft	1,650	Plant and Machinery	3,80,000
Debtors	59,400	Computers	1,22,000
Purchases	2,47,400	Rent	6,900
Sales	4,30,950	Insurance and Taxes	12,300
Return Inward	11,400	Fire Insurance Premium	6,000
Return Outward	6,300	Electricity	**2,700**
Stock (Opening)	18,000	Factory Lighting	5,100
Freight Inward	5,700	Salaries to Storekeeper	8,400
Patents	12,000	Coal, Gas and Power	1,800

The following adjustments are to be made :

(i) The value of stock in hand on 31.3.2006 was Rs. 50,700.

(ii) Depreciation to be charged on Computers @ 10% p.a. and on Plant and Machinery @ 5% p.a.

(Hi) Interest on bank overdraft was outstanding Rs. 300.

(iv) Insurance was prepaid Rs. 1,500.

(v) Manager's commission to be provided @ 10% p.a. on Net Profits after charging his commission.

SOLUTION

Books of Jain Bros.
TRADING AND PROFIT AND LOSS ACCOUNT
for the year ended 31st March, 2006

Dr. Particulars		Rs.	Particulars		Cr. Rs.
To Opening Stock		18,000	By Sales	Rs. 4,30,950	
To Purchases	Rs. 2,47,400		*Less* : Returns Inward	Rs. 11,400	4,19,550
Less: Returns Outward	Rs.6,300	2,41,100	By Closing Stock		50,700
To Freight Inward		5,700			
To Factory Lighting		5,100			
To Coal, Gas and Power		1,800			
To Gross Profit c/d		1,98,550			
		4,70,250			4,70,250
To Interest on Bank Overdraft	Rs. 1,650		By Gross Profit b/d		1,98,550
Add: Outstanding	Rs.300	1,950			
To Rent		6,900			
To Insurance and Taxes	Rs. 12,300				
Less : Prepaid	Rs. 1,500	10,800			
To Fire Insurance Premium		6,000			
To Electricity		2,700			
To Salaries to Storekeeper		8,400			
To Depreciation on Plant and Machinery		19,000			
To Depreciation on Computers		12,200			
To Manager's Commission		11,873			
To Net Profit transfered to Capital A/c		1,18,727			
		1,98,550			1,98,550

BALANCE SHEET
as at 31^{s}'March, 2006

Liabilities		Rs.	Assets		Rs.
Creditors		36,000	Cash		5,000
			Debtors		59,400
Manager's Commission Payable		11,873	Stock		50,700
Bank Overdraft	Rs. 16,500		Prepaid insurance		1,500
Add: Interest Due	Rs. 300	16,800	Patents		12,000
Capital	Rs. 6,50,000		Computers	Rs. 1,22,000	
Add: Net Profit	Rs. 1,18,727		*Less* : Depreciation	Rs. 12,200	1,09,800
	Rs.7,68,727		Plant & Machinery	Rs.3,8O,O00	
Less: Drawings	Rs.24,000	7,44,727	*Less* : Depreciation	Rs. 19,000	3,61,000
			Freehold Property		2,10,000
		8,09,400			8,09,400

ILLUSTRATION 1. ***(Comprehensive)*** *From the following balances taken from the Trial Balance of M/s Baba & Company, prepare :*

(a) Trading and Profit and Loss A/c for the year ending 31st March, 2006.

(b) Balance Sheet as at 31st March, 2006.

Particulars	Rs.	**Particulars**	Rs.
Opening Stock	8,100	Freehold Land	9,70,000
Purchases	7,12,000	Capital	2,33,800
Sales	12,12,150	Freight Inward	1,200
Productive Expenses	82,400	Freight Outward	2,200
Interest on Loan	33,750	Sales Tax Collected	40,000
Returns Inward	6,600	Interest on Bank Deposit	2,400
Returns Outward	3,200	Loan	9,00,000
Loose Tools	8,400	Sundry Debtors	30,000
Goodwill	7,000	Sundry Creditors	12,100
Commission (Cr.)	2,000	Bad Debts	1,900
Salaries	11,600	Law Charges	800
Investments	2,00,000	Rent	18,000
Cash in hand	1,700	Motor Car	3,10,000

The following further information was obtained :

(i) The value of closing stock was Rs. 24,400.

(ii) 60% of the rent was paid in respect of factory.

(Hi) Sundry Debtors included a sum of Rs.4,000 in respect of one debtor who has become insolvent and 75 paise in a rupee was realisable from him.

(iv) Interest on loan @ 8% p.a. is unpaid for 4 months,

(v) Depreciation to be charged on Motor car @ 10% p.a.

(vi) Salaries Outstanding Rs. 2,200.

SOLUTION

Books of M/s **Baba** & Co.

TRADING AND **PROFIT** AND LOSS ACCOUNT

Dr. *for the year ended 31st March, 2006* **Cr.**

Particulars		Rs.	**Particulars**		Rs.
To Opening Stock		8,100	By Sales	Rs. 12,12,150	
To Purchases	Rs. 7,12,000		*Less :* Returns Inward	Rs. 6,600	12,05,550
Less : Returns Outward	Rs.3,200	7,08,800	By Closing Stock		24,400
To Productive Expenses		82,400			
To Freight Inward		1,200			
To Factory Rent (60% of Rs. 18,000)		10,800			
To Gross Profit c/d		4,18,650			
		12,29,950			12,29,950
To Salaries	Rs. 11,600		By Gross Profit b/d		4,18,650
Add: Outstanding	Rs.2,200	13,800	By Commission		2,000
To Freight Outward		2,200	By Interest on Bank Deposit		2,400
To Bad Debts	Rs. 1,900				
Add: Further Bad Debts	Rs 1,000	2,900			
To Law Charges		800			
To Rent (40% of Rs. 18,000)		7,200			
To Depreciation on Motor Car		31,000			
To Interest on Loan	Rs. 33,750				
Add: Outstanding	Rs. 24,000	57,750			
To Net Profit transferred to CapialA/c		3,07,400			
		4,23,050			4,23,050

BALANCE SHEET

as at 31st March, 2006

Liabilities		Rs.	Assets		Rs.
Sales Tax Payable		40,000	Cash in hand		1,700
Sundry Creditors		12,100	Sundry Debtors	Rs.30,000	
Outstanding Interest on Loan		24,000	*Less* : FurtherBad debts	Rs. 1,000	29,000
Outstanding Salaries		2,200	Stock		24,400
Loan		9,00,000	Loose Tools		8,400
Capital	Rs. 2,33,800		Investments		2,00,000
Add: Net Profit	Rs. 3,07,400	5,41,200	Motor Car	Rs. 3,10,000	
			Less : Depreciation	Rs. 31,000	2,79,000
			Freehold Land		9,70,000
			Goodwill		7,000
		15,19,500			15,19,500

Tutorial Note

60% of the rent is to be debited to Trading Account and the remaining 40% to Profit & Loss Account.

Problems on Financial Statement of Sole Proprietors

1) Mr. Prasad runs a factory which produces caps. Following are the details available in respect of his manufacturing activities for the year ended on 31/03/2021.

Particular	Amount
Opening Work-in-progress	8,000
Closing Work-in progress	10,000
Opening stock of Raw Materials	75,000
Closing Stock of Raw Materials	85,000
Purchase of Raw Material	4,20,000
Hire Charges of Machine	1,30,000
Rent of Factory	1,50,000
Direct Wages	1,83,000
Repairs and Maintenance	1,00,000

Prepare a Manufacturing Account of Mr. Prasad for the year ended 31/03/2021

2) From the following balances, prepare Trading Account for the year ended 31st March 2021

Particular	Amount
Stock at the beginning	20,000
Purchases	60,000
Sales	90,000
Wages	5,000
Salaries	10,000
Carriage Inwards	500
Power	500
Return Inwards	1,000
Return Outwards	1,000
Stock at the End	21,000

3) From the following information, prepare the profit and loss account of Raj for the year ended 31st march 2021

Particular	Amount
Gross Profit	7,00,000
Salaries and Wages	20,000
Wages and Salaries	5,000
Carriage inwards	5,000
Carriage Outwards	10,000
Discount Allowed	5,000
Discount Received	8,000
Commission Paid	3,000
Commission Received	4,000
Interest Paid	5,000
Interest Received	6,000
Rent Paid	5,000
Rent Received	7,000
General Expenses	9,000
Miscellaneous Expenses	2,000
Miscellaneous Incomes	3,000

Problems on Financial Statement of Sole Proprietors

4) From the Following prepare the Profit and Loss Account for the year ended 31st march 2021

Particular	Amount
Gross Profit	90,000
Salaries and Wages	25,000
Discount Allowed	2,000
Discount Received	1,000
Interest Received	3,000
Interest on Loan paid	2,500
Commission	3,000
Commission Received	2,000
Rent Received	1,000
Rent, rates and taxes	4,000
Fire Insurance Premium	3,500
Freight Outwards	2,500
Sales Promotion Expenses	1,000
Repairs and Maintenance	1,000
Printing and Stationery	500
Travelling Expenses	2,000
Entertainment Expenses	1,500
Advertising and Publicity	4,800
Bad Debts	2,000
Telephone Expenses	1,000
Packing Expenses	1,000
Bank Charges	500
Legal Charges	2,000
Loss by Embezzlement	5,000
Loss by Fire	1,000
Loss on sale of Fixed Asset	500
Profit on sale of Fixed Asset	9,000
Dividend received on shares	1,000
Income on Investment	500
Audit Fees	3,000
Miscellaneous Expenses	2,000
Miscellaneous Income	3,000
Depreciation on Furniture	3,000

5) From the following Trial Balance and Other Particulars given below you are required to prepare trading and profit and loss account and Balance Sheet for the year ended 31st march 2021

Particular	Debit	Credit
Drawing and Capital	6,820	93,230
Purchases and Sales	83,290	1,26,177
Debtors and Creditors	47,800	22,680
Returns	7,422	3,172
Wages	9,915	

Manufacturing Expenses	2,500	
Stock on 1-4-2020	21,725	
Factory fuel and power	542	
Office salaries	3,745	
Factory lighting	392	
Carriage Outwards	960	
Plant and Machinery	55,000	
Fixtures and Fitting	1,720	
Bills Payable		6,422
Travelling Expenses	925	
Cash in Hand	68	
Cash at Bank	2,425	
Rent and taxes	1,765	
Office Expenses	2,778	
Discount Allowed	422	
Insurance	570	
Carriage Inwards	897	
	2,51,681	2,51,681

Adjustment

1) Stock on 31-03-2021 – 16,580
2) Insurance prepaid – 70
3) Wages outstanding – 800, Outstanding Salaries – 350 and Outstanding Rent – 150
4) Depreciate plant and machinery by 5% and fixtures and fitting by 10%.
5) Reserve 2 ½ % of Debtors for bad debts

6) Following is the Trial Balance of Mr. Sunil is given to you as on 31-03-2021

Particular	Debit	Credit
Cash	1,20,000	
Drawings	36,000	
Sales Returns	13,000	
Establishment Charges	62,000	
Deposit in Bank	22,000	
Capital		2,00,000
Sales		8,00,000
Purchases	6,68,000	
Debtors	1,77,000	
Bad Debts	14,000	
Insurance	8,000	
Creditors		49,000
Purchase Returns		18,000
Commission		12,000
Opening Stock	1,55,000	
Fixtures and Fittings	11,000	
Bills Payable		40,000

Bills Receivable	13,000	
Bank Overdraft		1,80,000
	12,99,000	12,99,000

Adjustment

a) Outstanding Expenses. Salary – 6,000, Rent – 4,000
b) Prepaid Insurance – 2,000
c) Commission includes 3,000 received in advance for next year.
d) Interest on Bank Overdraft 33,000 to be paid.
e) Depreciation on Fixtures and Fittings 10% p.a
f) Stock as on 31-03-2021 – 68,000

Prepare trading and profit & loss account, Balance sheet for the year ended 31st march 2021

7) From the following trial balance, prepare the Trading and Profit & Loss Account, Balance Sheet as a 31st March 2021

Particular	Debit	Credit
Nayak's Capital		40,000
Nayak's Drawing	8,000	
Machinery	20,000	
Building	32,000	
Debtors	10,000	
Trade Expenses	300	
Stock	8,000	
Salary	4,000	
Rent for 11 months	2,200	
Bad Debts	500	
Discount	460	560
Returns	760	1,600
Sales		78,000
Purchase	40,000	
Commission		260
Furniture	2,000	
Reserve for Doubtful debts		800
Wages	7,000	
Carriage	500	
Overdraft		3,000
Creditors		12,000
Cash	500	
	1,36,220	1,36,220

Adjustment

a) Allow interest on Capital and Drawings at 5% and 4% respectively.
b) Depreciation on Machinery and Furniture at 10% and 5% respectively.
c) Salary is prepaid to the extent of – 100.
d) One month rent is outstanding.

e) Interest on an Overdraft outstanding – 450.
f) Reserve 6% on Sundry Debtors for doubtful debts.
g) Value of Stock at – 25,000.

8) Following trail balance of Mr. Z is given to you on 31st March 2021

Particular	Amount
Capital	30,000
Drawings	5,000
Furniture and Fittings	2,600
Bank Overdraft	4,200
Creditors	13,300
Premises	20,000
Stock	32,000
Sales	1,50,000
Sales Return	2,000
Discount (Cr)	2,000
Discount (Dr)	1,600
Taxes, Insurance	2,000
General Expenses	4,000
Salaries	9,000
Commission Paid	2,200
Carriage Inwards	1,800
Rent Received	1,000
Purchases	1,00,000
Provision for Doubtful Debts	500
Bad Debts written off	800
Debtors	18,000

Adjustment

a) Stock on hand – 21,060.
b) Write off depreciation for premises – 300 and furniture – 260.
c) Make a provision of 5% on bad and doubtful debts.
d) Allow interest on capital at 5% per annum and 700 for unexpired insurance.

From the above particulars prepare final accounts for the year ended 31st march 2021.

9) From the following trial balance of Mr. Shantharaj as on 31st March 2021, prepare the final accounts.

Adjustments

a) Closing Stock – 2,00,000.
b) Prepaid Insurance – 2,000.
c) Outstanding Salary – 2,000 & Wages – 3,000
d) Interest on Capital 5% p.a.

e) Provide the additional bad debts – 4,000.
f) Create reserves for bad debts at 5% and reserve for discount on debtors at 5%.
g) Create reserves for discount on creditors 2%
h) Provide interest for drawings 6% for 6 months only.
i) Commission earned but not received – 2,000.
j) Rent outstanding (office) – 4,000
k) Depreciation is to be provided at 10% on furniture and plant and machinery.
l) Appreciation on buildings at 10%.

Trial Balances

Particular	**Debit**	**Credit**
Capital		3,00,000
Drawings	26,000	
Plant and Machinery	1,20,000	
Stock	50,000	
Purchases	3,50,000	
Sales		5,00,000
Return Inwards	20,000	
Return Outwards		10,000
Sundry Debtors	80,000	
Sundry Creditors		60,000
Carriage Inwards	5,000	
Carriage Outwards	5,000	
Wages	30,000	
Salaries	20,000	
Factory rent	2,000	
Office rent	5,000	
Insurance	5,000	
Discount Received		6,000
Discount Allowed	3,000	
Furniture	20,000	
Bad debts	4,000	
Commission	3,000	
Buildings	80,000	
Bills Payable		20,000
Bills Receivable	60,000	
Cash in Hand	2,000	
Cash at Bank	6,000	
Total	**8,96,000**	**8,96,000**

10) From the following Trial Balance of a trader on 31st March 2021, prepare the trading and profit & loss account, Balance sheet on 31st march 2021

Particular	**Debit**	**Credit**
Cash in Hand	1,200	
Purchases	1,00,000	

Opening Stock	35,000	
Sundry Debtors	50,000	
Plant and Machinery	60,000	
Furniture	15,000	
Bills receivable	18,000	
Rent and Taxes	10,000	
Wages	16,000	
Wages Prepaid	1,000	
Salaries	20,000	
Capital		60,000
4% Bank Loans		20,000
Bills Payable		20,000
Sundry Creditors		24,000
Sales		2,00,000
Bad debts		1,200
Rent Outstanding		1,000
Total	**3,26,200**	**3,26,200**

Adjustment

a) Create Reserves for doubtful debts at 5% on sundry debtors
b) Write off – 500 as bad debts
c) Depreciate plant and machinery at 5% and on furniture at 10%.
d) Provide outstanding liabilities Taxes – 2,000 and salaries – 4,000.
e) Closing Stock 40,000

11) From the following trial balance of Mr. Sanjay prepare the final accounts as on 31st march 2021

Particular	**Debit**	**Credit**
Sanjay's Capital		2,93,000
Sanjay's Drawings	50,000	
Stock	1,23,000	
Purchases	4,00,000	
Carriage	2,000	
Carriage Outwards	3,000	
Purchase returns		10,000
Sundry expenses	4,000	
Rent	4,000	
Bad debts	3,000	
Sales		6,00,000
Printing and Stationery	1,500	
Postage	500	
Wages	10,000	
Sales return	5,000	
Bills receivable and Bills payable	10,000	20,000
Discounts	8,000	3,000
Land and Building	1,50,000	
Plant and Machinery	60,000	

Insurance	5,000	
Debtors and Creditors	1,02,000	80,000
Salaries	13,000	
Investments	30,000	
Cash in hand	2,000	
Cash at bank	5,000	
Fuel and power	3,000	
Commission received		3,000
Furniture	15,000	
Total	**10,09,000**	**10,09,000**

Adjustment

a) Closing stock is 1,50,000.
b) Outstanding wages – 3,000 and salaries – 5,000
c) Prepaid rent – 500, prepaid insurance – 800
d) Interest on investment outstanding – 2,000
e) Write off further bad debts – 2,000, create 5% reserve for bad debts, 3% reserve for discount on debtors.
f) 2% reserves for discount on creditors
g) Depreciation on machinery 10% and furniture at 4%
h) Interest on capital at 5% and interest on drawings – 1,000.

Consignment Accounts

Meaning:

Consignment is an agreement under which a manufacturer or a wholesaler sends goods to his agent for the purpose of sale on his behalf and at his own risk on commission basis.

Consignor/Principal:

The person sending the goods on consignment to another person is called Consignor/Principal.

Consignee/Agent:

The person to whom the goods are sent on consignment is called the consignee/ Agent.

Features of Consignment:

1. Goods are forwarded by the consignor to the consignee with an objective of sale at a profit.
2. Under the consignment goods are to be treated as the property of the consignor and to be sold at his risk entirely.
3. The consignee agrees to sell the goods for an agreed rate of commission and is allowed to deduct his commission due from the sale proceeds.
4. The relationship between the consignor and the consignee is that of principal and agent.
5. The consignee is generally allowed to incur expenses to sell the goods consigned which will be reimbursed by the consignor.
6. Any stock remaining unsold with the consignee belongs to the consignor.
7. As the consignee acts on behalf of the consignor, the profit or loss on sale of goods sent on consignment belongs to the consignor.
8. When the goods are sent by the consignor he prepares a proforma Invoice.

9. Some times before sending the goods, the consignor may require the consignee to remit some money as advance.
10. The consignee sends periodically to the consignor a statement called Account Sales given details of goods sold, Expenses incurred by him etc

Advantages of Consignment

1. It enables a business enterprise to reach its goods to every place in the county and even outside. Without the organization having its presence there.
2. It is most economical form of business expansion since with out opening branches. The market for goods can be increased and maximized
3. It enables the business enterprise to capture better market share and be a dominant player in the industry.

Important terms

1 Commission:

Commission is the remuneration paid to the consignee by the consignor for the services rendered by the consignee in selling the consigned goods. Generally, commission is calculated on the total sales effected by the consignee.

Types of Commission:

Ordinary Commission:

The commission paid to the consignee when he is not responsible for any bad debt is called ordinary Commission. It is calculated as a fixed percentage on total sales made by the consignee.

Del Credere Commission:

The commission paid to the consignee when he is responsible for the bad debts incurred out of credit sales affected by him is called del-credere commission. In other words, it is the additional commisiion paid to the consignee to bear the loss of bad debts incurred by him.

Over-riding Commission:

It is an extra commission allowed by the consignor to the consignee to promote sales at higher price than specified or to encourage the consignee to put hard work in introducing new product in the market. Depending on the agreement between consignor and consignee, it is calculated on tatal sales or on the difference between actual sales and sales at invoiced price or any specified price.

Advance:

Sometimes consignor may ask the consignee to pay an advance for the part of the Value of goods consigned. Consignee may send the advance in the form of a draf or cheque. If the consignee is not in a position to advance money, a Bill may be drawn on consignee, Consignor discounts the Bill and gets the money.

Account Sales:

Periodically the consignee sends to the consignor a statement giving the details fo goods sold, goods unsold, expenses incurred by him on the goods consigned, commission earned by him, amount of advance adjusted, balance outstanding etc. This statement is called Account sales.

Recurring Expenses:

All the expenses incurred by the consignor and the consignee which do not increase the value of goods are called recurring expenses or indirect expenses. They include:

1. The expenses incurred by the consigned after the goods reach the premises of the consignment such as office and administration expenses, storage expenses, selling and distribution expenses.
2. Discount on bills (accepted by the consignee) discounted. Expenses on goods returned etc.

Non Recurring Expenses:

All the expenses incurred till the goods reach the premises of the consignee and the expenses incurred to bring the goods in a saleable condition are treated as direct expenses or non-recurring expenses. Theses expenses may be incurred either by the consignor or by the consignor or by the consignee depending upon the terms of the agreement between them.

Index:

1. Accounting for losses

- Normal Loss
- Abnormal Loss

2. Valuation of Closing or Unsold Stock

- Valuation of Stock
- Valuation of Unsold stock with normal loss
- Valuation of Unsold stock with Abnormal loss

3. Problems on goods sent at Cost price

- Goods sent at cost price without losses
- Goods sent at cost price with normal losses
- Goods sent at cost price with Ab normal losses

4. When goods sent at Invoice price

- Goods sent at Invoice price
- Goods sent at Invoice price with Abnormal losses

5. **Problems in the books of Consignee**

Accounting for Consignment Transaction

The accounting treatment for consignment transactions is hence discussed under the following headings.

A. Accounting in the books of Consignor
B. Accounting in the books of Consignee

Accounting Treatment in the Books of Consignor

The accounting treatment in the books of Consignor is discussed under the following situation:

a. When the goods are sent by consignor to consignee at Cost Price.
b. When the goods are sent by Consignor to consignee at Invoice Price.

a. When the goods are sent by Consignor to Consignee at Cost Price:

1. Consignment Account/Consignment Outward Account
2. Goods Sent on Consignment Account
3. Consignment Stock Account
4. Consignee's Account

1.Consignment Account:

It is prepared by the consignor showing all transactions relating to a particular consignment. The object of account is to ascertain net profit/loss arising from each consignment.

In the Books of Consignor

Consignment

Date	Particulars	Rs.	Date	Partiuclar	Rs
	To Consignment Stock A/c (Opening stock with Consignee) To Goods Sent on Consignment A/c To Bank A/c			By Goods Sent to consignment Account (returns) By Consignee's A/c (Sales made by Consignee)	

	(expenses incurred by consignor) To Consignee's Account (expenses incurred by consignee) To Profit & Loss A/c (for transferring profits)			By Consignment Stock A/c (Closing stock with consignee) By Profit & Loss A/c (for transferring losses of any)	
		XXX			**XXX**

2. Goods Sent on Consignment Account:

This is real account. It deals with the good transferred from the consignor to the consignee and goods returned by the consignee to the consignor. All the goods consigned by the consignor will be credited to this account and goods returned by the consignee are debited to this account. The balance represents the cost of goods with consignee for sale, and is transferred to the Trading Account.

Goods Sent on Consignment Account

Date	**Particulars**	**Rs.**	**Date**	**Partiuclar**	**Rs**
	To Consignment to --------------------Account (when goods sent of consignment is returned) To Trading Account (for transferring the balance in the account at the end of the financial period)			By Consignment to --------------Account (when goods are sent on consignment)	
		XXX			**XXX**

3. Consignment Stock Account:

This account is also opened in the books of Consignor to know the quantity of closing stock with the consignee.

Consignment Stock A/c

Date	Particulars	Rs.	Date	Partiuclar	Rs
	To Balance B/c (Stock with the consignee at the beginning of the accounting period) To Consignment to ---------------Account (for recording the stock with consignee at the end of the accounting period)			By Consignment to -------------Account opening stock to consignment account) By Balance c/d (balance in the account representing closing stock with the consignee)	
		XXX			**XXX**

4. Consignee's Account:

It is a personal account of the consignee . It is prepared for ascertaining the amount due from the consignee .

Consignee's Account

Date	Particulars	Rs.	Date	Partiuclar	Rs
	To Balance b/d (balance due from consignee, if any at the beginning of the accounting period) To Consignment to __________Account (for sales reported by consignee)			By Bank a/c or Bills Receivable A/c (for advance payment or final settlement made by consignee) By Consignment to __________Account (for expenses incurred by consignee) BY Balance c/d (Balance due to consignee, if any at	

				the end of the accounting period)	
		XXX			**XXX**

Note : Treatement of Bad Debts: When there are any bad debts on credit sales affected by consignee. It must be debited to Consignment Account and credited to Consignee Account. However, when the risk of bad debt is borne by the Consignee, bad debts should not be recorded in the books of Consignor.

Treatment of Losses in the books of Consignor:

Accounting for losses:

When the consignor sends the goods, looses may arise during consignment transactions. Such losses affect consignor account and not consignee account. So consignor makes some entries to adjust the loss. The adjustment depends upon the type of losses.

These losses are of two types:

1. Normal Losses
2. Abnormal Losses

1.Normal Losses:

When goods are lost or damaged due to normally expected but unavoidable causes such as losses due to evaporation, leakage, breakage, dusting, drying, sublimination of goods etc. These losses are called Normal Losses.

When calculating the cost of unsold stock, this normal loss is to be considered. The cost of unsold stock increases proportionately due to normal loss, this normal loss is not shown in the consignment account. There is no need to pass and entry in the books of account.

2.Abnormal Losses:

When loss or damage of goods is caused by unnatural and unexpected reasons. Then such loss in treated as abnormal loss. It is unexpected loss and beyond the control of the human beings. Loss of goods due to Fire, flood, earthquake, war, theft, accidents in transit etc. are abnormal losses. Such losses occur because of bad luck, due to accident, mischief by some one or human carelessness.

The journal entries are:

a. When the goods lost or destroyed or damaged were insured

Profit and loss A/c Dr

To Consignment Account

(with the value of goods lost or destroyed)

b. When the goods lost or destroyed or damaged were fully insured

Insurance Company A/c Dr

To Consignment Account

(With the amount recoverable form the insurance company)

c. When the goods lost or destroyed or damaged were partly insured

Insurance Company A/c Dr

Profit and Loss Account Dr

To Consignment A/c

(with the value of goods lost or destroyed)

Note:

a. The goods lost or damaged must be valued at Cost price of the goods plus expenses incurred till the point of loss

The formula for calculation of abnormal loss is follows

Note: Abnormal loss is calculated in the same manner as the value of closing stock.

Valuation of Closing Stock:

Valuation of Unsold stock:

Clsoing stock must be valued at cost price or Net Ralisable value, which ever is less (as per provisions of As-2). In case of consignment, for the purpose of valuing closing stock, cost price includes the cost of the goods to consignor plus expenses incurred till the goods reach the premises of the consignee (such as packaging, freight, carriage, cartage, insurance in transit,, octroi etc).

However expenses incurred after the goods have reached the consignee's premises like go-down rent, insurance f go-down etc, should not be considered.

The expenses incurred on the goods till they reach the premises of the consignee must be considered irrespective of whether the expenses are incurred by the consignor or consignee.

I.Steps in the Valuation of Unsold stock:

Step-1: Calculation of cost of unsold stock

Step-2: Calculation of Non-recurring expense incurred by both consignor and consignee's

Step-3- Calculation of value of unsold stock

Formula:

Cost of unsold stock +(Non-Recurring Expenses x Cost of unsold Stock)/ Cost of goods Consigned.

Problems on Valuation of Unsold stock:

1. Mr. Yogesh of Bangalore sent 1000 cars which cost Rs. 9000 each to Vinay of Bombay on consignment basis. Yogesh paid freight of Rs. 12000, Cartage Rs. 3000 and Insurance Rs. 4000.

In Bombay Vinay has spent Rs. 1000 as cartage, loading Unloading Rs. 500. The cars have been kept in a godown at monthly rent of Rs. 1000 pm at the end of accounting period. 200 cars remain unsold. The selling price of cars is Rs. 10,000 at Madras. What should be the value of stock unsold?

II.Valuation of Unsold Stock with Normal Loss:

Step: 1

Cost of goods sent	XXX
Add Non –recurring Expenses incurred by consignee and consignor till the goods reaches the premises of consignee	XXX
Total cost of goods sent	XXX

Step:2:

Calculation of goods available for sale

Goods available for sale = Quantity of goods sent – Normal Loss

Step – 3:

Calculation of Actual quantity of closing stock

Actual quantity of closing stock = Total Quantity of goods available for sale to received consignee – total quantity sold by consignee

Step 4: calculation of value of closing stock

III. Problem on valuation of unsold stock with normal loss

2.Goods consigned 5000 Kg @ Rs. 200 per kg. Freight and Carriage paid by the consignor Rs. 4,0000. Consignee sold 300 kg @ 3000 @ Rs. 350 per kg and incurred Rs. 1,000 as unloading expenses. Rs. 2,0000 as godown rent and Rs. 10,000 as selling expenses. Normal loss due to leakage is 500Kg

Valuation of unsold stock with Abnormal loss

Step-1: Cost of goods available for sale

Cost of goods sent	XXX
Add Non-recurring expenses “Prior to loss”	XXX
Total Cost of goods sent	XXX
Less Value of abnormal goods	XXX

(Cost of goods sent/Total quantity sent or net quantity X quantity of abnormal goods) Note: Net quantity = total quantity – normal loss	
 Add Non – Recurring expenses “ after loss”	XXX XXX
Cost of goods available for sale	XXX

Step-2: Value of Closing Stock:

Note:

1. Cost of goods available for sale is as per step 1 above
2. Quantity of goods available for sale = Quantity of goods sent – (Abnormal goods in quantity)
3. Closing Stock = Actual quantity available for sale = goods sold

Step III: Calculation of value of Abnormal loss

(When theloss is nsured)

Value of Abnormal loss	XXX
Less Claim admitted	XXX
	XXXX

Problem on valuation of Closing stock with Abnormal loss

4.Goods sent on consignment 1000 Kg @ Rs. 10 per Kg. Expenses paid by the consignor. Freight Rs. 500 and Insurance Rs. 300/ 200 kg were destroyed in transit due to an accident. Claim admitted by the insurance Company was for Rs. 1,500. The consignee sold 700 kg @ Rs. 20 per kg. and incurred the following expenses. Unloading RS. 200, Godown Rent Rs. 500 and Selling Expenses Rs. 300.

Pass journal entries relating to loss in transit and unsold consignment stock in the books of the consignor.

III.. Problems on goods sent at Cost price

Goods sent at cost price without losses:

1. Dinesh & Co of Dharwad consigned on jan 1st 2008, 100 cases of glass ware costing Rs. 80,000 to Samu & Co of Karwar for sale on commission @ 5% on gross sale proceeds. Dinesh & Co paid Rs. 1,000 for freight and carriage and Rs. 1200 for packing.

Samu & Co took the delivery of goods on jan 5th 2008 and paid Rs. 600 for clearing charges Rs. 400 for carriage, Rs 100 for miscellaneous expenses and Rs. 200 for godown rent.

They sold 30 cases @ Rs. 2,000 each at Rs. 50 cases @ Rs 30,000 to Dinesh & Co on account. On April 10th 2008 Samu & Co. Forwarded an Account Sales together with a bill exchange for the balance due .

Prepare the necessary ledger account in the books of both the parties.

2.Williams of Madras consigned 300 chests of tea @ Rs. 2,000 per chest to Johnson of New Delhi Paying freight Rs. 4,000 and other expenses Rs. 2,000. Johnson sold 250 chests at Rs. 2,500 per chest and 25 chest at Rs. 2,200 per chest for cash. Johnoson spent for freight and octroi, Rs. 3,000 and other expenses Rs. 1,000. he remitted the amount due to Williams after deducting his commission at 5% (normal) 2.5 % (over-riding) and + 0.5% (delcredere commission to be given on total sales). Johnson found that one customer to whom credit was allowed paid only Rs. 4,800 against Rs/ 5,000 in full settlement. Other customers paid the amount due.

Pass journal entries in the books of Consignor and prepare ledger accounts

II Goods sent at cost price with normal losses

3. In 1st June 2000 M Coal co Consigned to M Sales Ltd 2000 tons of coal. The cost of coal and railway freight were Rs. 7.50 and Rs. 2 per ton respectively. On 25th June 2000, an Account sale was received from the M Sales Ltd. Showing that 1000 ton Sold @ Rs. 16 pa ton , Sales expenses Rs. 880, Insurance Rs. 120 Brokeage 1 ¼% and Commissiion 2 ½%. The Consignee enclosed a bill for the preoceeds less expenses and reported a shortage of 40 tons on the whole consignment.

Show Consignment Account in the books of M Coal company

- **Goods sent at cost price with Ab normal losses**

4. Nandini Ltd. Consigned 5,000 Kg of Nandini Ghee to Ashoka Dealers, Bengaluru each kg of ghee Costs Rs. 8. Nandini Ltd paid Rs. 50 for carriage, Rs. 250 for packing 200 for insurance in transit

After three months form the date of the consignment of goods Ashoka Dealers reorted 3500 kg of ghee ws sold @ Rs. 9.5 per kg. and expenses were Rs. 500kg of ghee was accidentally destroyed in the godown, Insurance claim of Rs. 3500 was admitted.

Prepare the necessary ledger accounts in the books of both the parties.

5. Amith Oil mills. Cochin consigned 2500 kg of castor oil to Barath & Co. Varanasi in April 1 2012 The cost of oil was Rsl 18 per kg. The consignor paid Rs. 900 towards carriage, freight and insurance in transit During transit 250 kg oil was accidentally destroyed for which the insurance company paid RS. 2,200 in full settlement of the claim directly to the consignor.

Bharath & Co took delivery of the consignment on April 10, 2012 and accepted a bill drawn on by Amith oil Mills of rs. 5,000 for 2 months. On june 30, 2012 Bharath & Co reports 1,750 kg. were sold at Rs. 25 per kg. The expenses of the consignee wee Rs. 1,850 towards godown rent, advertisement and salaries of sales men. Bharath & Co, charged a commission of 3% plus 2% delcredere commission. Bharath & Co further reported a loss of 20kg leakage.

Prepare the necessary ledger accounts in the books of the consignment

II When goods sent at Invoice price

Quite often, for the purpose of maintaining confidentiality about the profit margin, consignor sends goods to the condignee at a price above the cost price. Such price is called the loaded price or the invoice price.

However, while ascertaining the results of the consignor at the end of the year such load must be adjusted.

Additional entries to remove loadings:

a. Stock Reserve Account Dr

To Consignment Account

(Being removing loading on opening stock)

b. Goods sent on consignment Account Dr

To Consignment Account

(Being removing loading on goods sent as consignment)

c. Consignment Account Dr

To Goods sent on consignment Account

(Being removing loading on goods returned by consignee)

d. Consignment Account

To Stock Reserve Account

(Being removing loading on closing stock)

In the books of Consignor

Consignment Account

Date	Particular	Amt	Date	Particular	Amt
	To Consignment Stock A/c (Opening stock with Consignee) To Goods sent on consignment A/c To Consignee's Account (expenses incurred by consignee) To Goods sent on consignment A/c (Loading on Goods returned) To Consignment Stock Reserve A/c (Loading on closing stock)			By Goods sent to consignment A/c (goods returned by consignee) By Consignee's Acount (Sales made by Consignee) By Consignment Stock Reserve Account (Loading on opening stock) By Goods sent on Consignment Account (Loading on goods sent on consignment)	

	To Profit & Loss A/c (profit B/F)			By Consignemtn Stock Account (Closing stock with consignee) By Profit & Loss A/c (loss) b/f	

.

However, consignment account can be prepared alternatively using memorandum Column to arrive at the result from consignment transaction.

In the books of consignor

Consignment Account

Date	Particulars	MM	Act	Date	Particular	MM	Act
	To Consignment Account (O/S with Consignee) To Goods sent on Consignment A/c To Bank A/c (expenses incurred by consignor) To Consignee's A/c (expenses incurred by consignee) To Consignee's Account (commission due to Consignee) To Profit & Loss A/c (for transferring profits)				By Goods sent to consignment A/c (returns) By Consignee's A/c (Sales made by Consignee) By Consignment Stock A/c (C/S with Consignee) By Profit & Loss A/c (for transferring losses if any)		

The following points must be kept in mind while preparing the Consignment Account in the above format

1. The journal entries for all transactions listed earlier remain the same
2. The Memorandum column is not a part of accounting, but a column provided to offer explanation for the transactions.
3. Only the following transaction are recorded in the Memorandum Column

a. Opening Stock
b. Goods sent of Consignment
c. Goods returned by consignee
d. Sales
e. Closing stock

4. The Invoice price (I,e price above cost price) for the above mentioned transactions are shown in the 'Memorandum Column" The cost prices of the same transaction are shown in the Actual Column
5. The total of Memorandum Column must be same on both the sides. Since all transactions relating to goods are recorded at the same price. The Memorandum Column on both sides must tally.

.**Goods sent at Invoice price :**

6. Arun Consigned 100 mini toy cars t sujoy to be sold @ his risk cost of 1 mini toy car is 150, But, invoice price was Rs. 200. Arun paid freight Rs. 600 and insurance in transit Rs. 200.

Sanjoy sent a bank draft to Arun for Rs. 10,000 as advance payment and later sent an Account Sales showing that 80 toy were sold at Rs. 220 each. Expenses incurred by sanjoy were, Carriage inward Rs. 25, Octroi Rs. 75, Godown rent Rs. 500 and Advertisement Rs. 300 Sanjoy is entitled to a commission of 5% on sales.

Journalise the above transactions in the books of Arun and Sanjoy and prepare ledger account

7.Ram Traders of Ludhiana consigned 100 computer costing Rs. 20,000 each to Bahadur of Gauhati at 10% above cost Ram Traders incurred Rs. 500 for packing and other charges on each computer. The consignee received the consignment by paying Rs. 1,500 for railway charges, Rs. 1,300 for insurance and Rs. 200 for carriage. He submitted an Account sales as follows

20 Computers sold at Rs. 25,000 each for cash

50 Computers sold on credit at Rs. 30,000 each

10 taken for his own stock at Rs. 25,000 each

Consignee remitted the balance after deducting his commission at 10% on sales. Assuming that original entries are made at invoice price and consignment stock is valued at invoice price, write necessary account in the books of Ram traders

- Goods sent at Invoice price with Abnormal losses

8. Mr. Achut of Bombay consingned 100 units of a commodity to Mr. Rao of Delhi. The goods were invoiced at Rs. 150 so as to yield a profit of 50% on cost. Mr. Achut incurred Rs. 1,000 on freight and insurance Mr. Rao incurred 500 on freight and Rs. 800 on rent Before 31st December 2006 he sold 50 units for cash at Rs. 160 per unit. 20 units for Rs. 175 on credit. He retained his commission 5% and 1% of the Delcredere arrangement and remitted the balance on 1st December 2006 . Mr Rao noticed that 10 units were damaged on account of bad packing and he expected sell it only for Rs. 80 per unit. A debtor for Rs. 1000 to whom the goods were sold by Mr Rao became insolvent and only 50 Paise in a rupee was recovered. Mr . Rao sent an account sale on 31st March 2007 detailing the transactions for the quarter ended on that date and he remitted the balance due.

Make necessary ledger entries in the books of Mr Achut and Mr. Rao

9. Mr. Arun of Bombay consigned 500 toys to Ramesh. A proforma invoice was prepared at Rs. 40 per toy, the cost of which was Rs. 35 per toy. Arun spent Rs. 750 by way of forwarding charges including insurance premium of Rs. 150. In transit 50 toys were destroyed and Rames received 90% of the cost price in full satisfaction of the claim with Insurance Company. Ramesh sold 400 toys at invoice price and spent Rs. 300 for selling expense. He deducted a commission at 20% on sales and paid the balance to Arun.

Prepare consignment Account, Consignment stock a/c, Accident Loss A/c in the books of Arun under Memorandum Column method.

Accounting Treatment In the books of Consignee

In the books of the consignee, usually only one account is prepared I,e The Consignor A/c any other account felt relevant can be prepared. However, they would be memorandum in nature and would not form a part of double entry system.

The consignor's account prepared in the books of the Consignee is personal account.

Journal Entries

1. When there is stock with the consignee at the beginning of the accounting period (opening stock(

No Entry

2. Whent the goods are sent on consignment by the consignor an d received by consignee

No entry

3. When the consignor incurs expenses for sending the goods

No entry

4. When advance is paid by consignee to consignor

a. If the advance is paid in cash

Consignor's A/c Dr

To Cash/Bank A/c

b. If the advance is paid in the form of a Bill of Exchange

Consignor's A/c Dr

To Bills payable Account

6.When goods are returned by consignee

No Entry

7. When expenses are incurred by the Consignee

Consignor's Account

To Cash/Bank A/c

8. When Sales are effected by the consignee

Cash/Bank a/c Dr

To Consignor's Account

9. When commission is due to consignee (ascertained from Account sales)

Consignor's A/c

To Commission a/c

10. When goods are lying with the consignee at the end of the accounting period (closing stock)

No entry

11. When the final balance is settled by consignee

Consignor's Account

To Cash/Bank A/c or B/P A/c

In the books of Consignee

Consignor's Account

Date	Particulars	Amt	Date	Particulars	Amt
	To Cash/Bank Account or Bills Payable Account (Payment made the consignor) To Cash/Bank Account (expenses incurred by consignee)			By Balance B/c (Balance of earlier period if any) By Cash/ Bank A/c or Debtor's Account (sales effected by consignee)	

	To Commissiion Account (Commission due) To balance c/d (Balance due to consignor, if any) B/F			By Balance C/d (Balance due from consignor if any)	

10. . Dinesh & Co of Dharwad consigned on jan 1st 2008, 100 cases of glass ware costing Rs. 80,000 to Samu & Co of Karwar for sale on commission @ 5% on gross sale proceeds. Dinesh & Co paid Rs. 1,000 for freight and carriage and Rs. 1200 for packing.

Samu & Co took the delivery of goods on jan 5th 2008 and paid Rs. 600 for clearing charges Rs. 400 for carriage, Rs 100 for miscellaneous expenses and Rs. 200 for godown rent.

They sold 30 cases @ Rs. 2,000 each at Rs. 50 cases @ Rs 30,000 to Dinesh & Co on account. On April 10th 2008 Samu & Co. Forwarded an Account Sales together with a bill exchange for the balance due .

Prepare the necessary ledger account in the books of both the parties.

11. Mr. Achut of Bombay consingned 100 units of a commodity to Mr. Rao of Delhi. The goods were invoiced at Rs. 150 so as to yield a profit of 50% on cost. Mr. Achut incurred Rs. 1,000 on freight and insurance Mr. Rao incurred 500 on freight and Rs. 800 on rent Before 31st December 2006 he sold 50 units for cash at Rs. 160 per unit. 20 units for Rs. 175 on credit. He retained his commission 5% and 1% of the Delcredere arrangement and remitted the balance on 1st December 2006 . Mr Rao noticed that 10 units were damaged on account of bad packing and he expected sell it only for Rs. 80 per unit. A debtor for Rs. 1000 to whom the goods were sold by Mr Rao became insolvent and only 50 Paise in a rupee was recovered. Mr . Rao sent an account sale on 31st March 2007 detailing the transactions for the quarter ended on that date and he remitted the balance due.

Make necessary ledger entries in the books of Mr Achut and Mr. Rao

Section A

1. Define consignment
2. Who is a Consignor and Consignee?
3. What is Normal and Abnormal loss? Give two examples?
4. What are Recurring Expenses? How do you treat in consignment?
5. What are non Recurring Expenses? How do you treat in consignment?
6. What is meant by Proforma invoice
7. What is Del-credere Commission allowed?
8. What is Over-riding commission?
9. What is an Account Sale?
10. What is Loading?

Section B

1. Write a note on Valuation of Unsold Stock in Consignment
2. Differentiate between consignment and sales
3. Differentiate Normal and Abnormal loss
4. Explain the salient features of consignment
5. Explain the methods available to prepare consignment accounts

ROYALTY ACCOUNTS

Meaning:

Royalty is an amount payable for utilizing the benefits of certain rights vested or associated with some other person. Some people possess certain special right over certain things. For Ex:

- Landlord Possess the right over the land/Mine.
- The author possess the right over his books.
- The patentee possess right over his the patent.

There are three types of Royalty:

1. **Mining Royalty:**

   It refers to an agreement between land lord and Mining Company where Mining company pay certain amount or rent to the land lord for utiisation of the land for mining purpose of the land lord.

2. **Patent Royalty:**

   It refers to an agreement between scientist or an inventor and Manufacturing Company where the manufacturing pay certain amt or compensation to the inventor or scientist for manufacturing the product of inventor or scientist.

3. **Copy Right Royalty**"

   It refers to an agreement between author and publishing Co where the publishing Co pay certain amount or consideration to the author for publishing the books of author.

Technical Terms:

Royalty:

Royalty is a periodical sum based on output or sale payable by the lessee to the lessor for having utilized the rights of the lessor. The person who makes the payment to the owner of the asset is known as lessee and the owner of the asset to whom payment is made is known as lessor

Landlord:

Land lord is the owner of the land who has exclusive rights to use the same or lease it to others. (In case of patent is called patentee, In case of book is called author).

Tenant or Lessee:

Tenant is the person who gets rights of the land from the landlord for a specific agreed period.

Minimum Rent:

Royalty agreement are usually associated with a clause that the lessee must pay a minimum amount irrespective of the volume of output or sales in a particular period. Such minimum amount is known as minimum rent or dead rent or fixed rent. It is payable when the production is very low.

Short workings:

The excess of minimum rent over actual rent or royalty is called short working. The excess is called short workings for the lessee and called short working suspense for the lessor.

Recoupmen

t /Recovery of short working:

Recoupment of short working refers to recovering the short working of any year from surplus royalty of succeeding year.

- The recoupment permitted over stipulated or fixed period of time.
- Floating or specified period of time.
- Within the life time of the lease.

a. **Fixed Recoupment:**

   When recoupment is permitted over a fixed or stipulated period. It is called fixed recoupment or fixed recovery.

b. **Floating Recoupment:**

   When recoupment is permitted over a subsequent period following the year of short working. It is called subsequent recoupment or floating recoupment.

c. **Recoupment with in the life time of the lease**:

When recoupment is permitted over life time of lease there is no restriction of time of lease there is no restriction of time of recoupment of short working.

The accounting treatment in the books of lessee can be followed using any one of the method:

A. When Minimum Rent Account is not required or not opened (without minimum rent account)

B. With Minimum Rent Account is required or opened (With minimum rent method)

A. When Minimum Rent Account is not required or not opened:

i. When actual Royalties are less than the minimum rent:

a. For royalties payable:

Royalties A/c Dr

Short working A/c Dr

To Landlord A/c

b. For payment of rayalty

Landlord A/c Dr

To Bank A/c

c. For transfer of royalties to profit and loss account/production Account

Profit & Loss A/c or Production A/c Dr

To Royalties Account.

ii. When actual Royalties are more than the minimum rent and short working are recovered :

a. For royalties payable:

Royalties A/c Dr

To Short working A/C (with short working recovered)

To Landlord Account (with the amount due)

b. For Payment or Royalties:

Landlord A/c Dr

To Bank A/c

c. For transfer of royalties to profit and loss account/ Production A/c:

Profit and Loss / Production A/c Dr

To Royalties A/c

d. For transfer of short working irrecovery to profit & Loss Account:

Profit and Loss A/c Dr.

To Short working Account

B. When Minimum Rent Account is required

i. **When Royalties are less than minimum rent:**

a. For Minimum Rent Payable

Minimum Rent Account Dr.

To Landlord Account

b. For Splitting minimum rent to royalty and short workings

Royalty A/c Dr.

Short working Account Dr.

To Minimum Rent A/c

c. For payment of Minimum rent

Land lord A/c Dr.

To Bank A/c

d. For transfer of royalties to profit and loss account/ Production A/c:

Profit and Loss / Production A/c Dr

To Royalties A/c

ii.When royalties are more than minimum rent and short workings are recovered:

a. **For royalties payable:**

Royalties A/c Dr

To Short working A/c

To Landlord A/c

b. **For Payment or Royalties:**

Landlord A/c Dr

To Bank A/c

c.**For transfer of royalties to profit & Loss A/c or production account:**

Profit & Loss A/c Dr.

To Royalties A/c

d. **For transfer of short working irrecovery to Profit & Loss A/c**

Profit & Loss A/c Dr

To Short working A/c

Accounting Entries in the Books of Lessor

a**. For Royalties receivable**

Leasee's A/c Dr.

To Short working Suspense A/c

To Royalty Receivable A/c

b**. For Receipt of Royalty:**

Bank A/c Dr.

To Leasee's A/c

C. **For transfer of royalties to profit & Loss A/c:**

Royalty Receivable Account Dr.

To Profit & Loss Account

When Royalties are more than the minimum rent and short workings are recovered:

a. For Royalties Receivable:

Leasee's A/c Account Dr.

Short working Suspense A/c Dr.

To Royalty Receivable A/c

b. For the receipt of Royalties:

Bank A/c Dr.

To Leasee's A/c

c. For transfer of royalties to Profit&Loss Account

Royalties Receivable A/c Dr.

To Profit and Loss A/c

d. **For transfer of short working irrecovery to profit and loss Account:**

Short working Suspense Account

To Profit and loss Account

Index:

1.Problems on without minimum rent method

2. Problems on Stoppage of work

3. Problems on With Minimum rent

4. Problems in the books of lessor

Answer the following questions

1. What do you mean by Royalty?
2. Why is Minimum rent clause included in the royalty agreement?
3. What is irrecoverable shortworkings?
4. What do you mean by short workings?
5. What do you mean by Dead rent?
6. What is entry for irrecoverable short workings in the books of the lessor?
7. How is irrecoverable short workings account closed?
8. What is Mining Royalty?
9. What is Patent Royalty?
10. What is Copy right Royalty?
11. What is Sub-lease?
12. What do you mean by recoupment of short working?
13. What journal entry do you pass when shortworking is received and not received with stipulated time in the books of tenant.

Problems on Analytical Table:

1. Ramesh has patent of safety locks, he gave the right manufacture and sale of lock to national trader for 14 years of the following:

- Royalty will be Rs. 5 on each lock sold
- Minimum rent is 50000 p.a
- Accounts are closed on 31st Dec every year sale of locks

Year	No of locks sold
2016	8000
2017	9000
2018	11000
2019	18000

Prepare analytical table in the following cases:

a. Short working can be recouped in the first 3 years
b. Short working can be recouped in the following 2 years.

2.Prepare analytical table from the following details

- Minimum rent Rs. 20,000 p.a.
- Royalty payable Rs. 5 per ton
- Short working can be recouped during first 4 years of the lease only
- The production for the first 4 years of the lease only were as follows

2016 – 2000 tons, 2017 – 3000tons, 2018 – 4000tons, 2019 – 4500tons.

3. Prepare an analytical table of royalty from the following details:

- Minimum rent is 10,000 p.a
- Royalty Payable Rs. 1 per ton
- Short workings are recovered during the first 2 years of lease only
- The output for the first four years:

2011 – 2000tons, 2012 – 5000tons, 2013 – 15000tons, 2014 – 20000tons.

4. Prepare an analytical table of royalty from the following details

- Minimum rent 30,000 p.a
- Royalty Rs 2 perton
- Short workings are recoverable in the following two years

2015 – 4000tons, 2016 – 8000tons, 2017 – 16000tons, 2018 – 4000tons

5. Prepare an analytical table from the following details:

- Royalty payable of Rs.5 per ton
- Minimum rent Rs. 40000 p.a
- Right of recoupment of short working in the first two years
- Out put during the year as follows:

2017 – 6000tons, 2018- 8000tons, 2019 – 12,000tons

With out Minimum rent:

6. Joshi Mining Co is engaged in working in a coalmine on Jan 1st 1998. It entered into a agreement with a owner of land which provide for:

- A Royalty of Rs. 20 per ton of coal raised
- A Minimum rent of Rs. 50,000 p.a
- The recovery of shortworkings within a aperiod of first 3 years
- The out put during the first four years are as follows:

2018 – 2000tons, 2019 – 2250tons, 2020 – 3000tons, 2021 – 3800

The amount due to landlord in respect of each year were paid at the end of the year

Journalise the transactions & prepare Royalties a/c, Short working a/c, & landlord a/c in the books of Joshi Co.

7. J Company Ltd took a land from landlord for a period of 20 years from 1st Jan 2001 on a royalty of Rs 2 per ton of coal raised with a minimum rent of Rs. 20,000 and power to

recoup short working during the first 4 years of the lease the annual out put were as follows:

2013-5000tons, 2014-8000tons, 2015-10,000tons, 2016-15000tons, 2017-20,000tons.

Prepare analytical table, pass journal entries & prepare necessary ledger account in the books of J Co Ltd

8. Ramesh has patent of safety locks, he gave the right manufacture and sale of lock to national trader for 14 years of the following:

- Royalty will be Rs. 5 on each lock sold
- Minimum rent is 50000 p.a
- Accounts are closed on 31st Dec every year sale of locks

Year	No of locks sold
2018	8000
2019	9000
2020	11000
2001	18000

Prepare analytical table in the following cases:

c. Short working can be recouped in the first 3 years
d. Short working can be recouped in the following 2 years.

Prepare necessary ledger accounts.

9. Jayshree obtain a lease of some granite bearing land on 1/1/2004. The terms bring a royalty of Rs.700 per meter. Granite raised subject to a minimum rent of Rs. 20,00,000 lakhs p.a with a right of recoupment of shortworking over the first 3 years of lease.

The following are the particulars

Year	Sales in meter	Closing stock
2014	2,200	300
2015	3,300	500
2016	4,800	600,
2017	6,000	700

Prepare royalty a/c, short working a/c, landlord a/c

10. Surya wrote a text book on business management and got it published through Veda book house on 1st Jan 2011 on the following terms. He has to receive a royalty Rs. 10 Per Copy sold subject to minimum rent of Rs. 54,000 p.a Allowing the book house to recover any short working during the first four years. Other details are as follows:

Year	No of copies printed	Closing stock
2012	3,000	1,000
2013	4,000	2,000
2014	8,000	3,000
2015	5,000	1,500
2016	6,000	500

Prepare ledger a/c in the books of Veda books house.

11. Kiran the author of an accountancy text book entered into a royalty agreement with Bangalore publishers Ltd on 1st April 2015. The terms were a of Rs.4,00,000 p.a with right to recover short working during the following 2 years of the year of deficit other details are as follows:

Year	No of copies printed	Closing stock
2016	6,200	1200
2017	8,000	1800
2018	9,000	2000
2019	10,000	1500
2020	12,000	1000

Pass the Journal entries and also prepare ledger a/c in the books of Bangalore publishers Ltd.

STOPPAGE OF WORK:

Stoppage of work due to abnormal reasons like strike, lockout, accident or for any other reason. The minimum rent is required to be adjusted as provided in the agreement. Such agreement may have the following:

1. Non application of the conditions of the Minimum rent in such a case. The clause of Minimum rent is not applied. Actual royalty will discharge all rental obligations.

2. Reduction in the amt of Minimum Rent:

If there is any clause in the agreement regarding reduction in the amount of minimum rent, It can take the following form:

a. Minimum rent is reduced proportionately to the length of stoppage of work during a relevant year.
b. Minimum rent is reduced by a fixed percentage or a fixed amount in the year of stoppage.

Problems on stoppage of work

12. Bengal coal leased land from at a royalty of Rs. 25 per ton of coal raised Minimum rent of Rs. 24000. Short working was to be recouped during the first 4years. The coal raised in the last 4 years were as follows:

2016-8000, 2017-9000, 2018-6000 (strike for 3 months), 2019-12000

There was a provision called proportionate reduction in minimum rent in the case of stoppage of work by strike . Show the relevant ledger a/c in the books of Bengal coal Ltd.

13. K lease a property from R at royalty of Rs. 1 per ton with a Minimum rent of 4000 P.a lease provides that the Short workings shall be recouped out of excess with in first 5 years after lease and in period of strike Minimum rent stands reduced proportionately for the period of work.

Year	Out put
2016	-
2017	1300
2018	3700
2019	4500

2020	7000
2021	2400 (strike for six monts)
2022	6000

Pass the Journal entries and also prepare the ledger a/c.

Problems on With Minimum Rent method:

14. On 1/1/2013, Karnataka Colliery leased out some land for a Minimum Rent of Rs. 3000 for 1st year, Rs. 5000 in 2nd year, there after Rs. 10,000 P.a Merged into a royalty Rs. 0.50 per ton with a power to recoup Short working over 2 years after occurring Short working. The annul out put further 5 years are
2013-3000, 2014-8600, 2015-22000, 2016-28000, 2017-30000
Pass Journal entries and prepare ledger A/c in the books of lessee.

15. The trader obtained a lease on coal mine on 1st Jan 2014 on the following terms Royalty at Rs. 1, Minimum Rent at Rs. 20,000 P.a, Recoupment of Short working of each year during the next 3 years subject to a minimum rent of Rs. 20000. In the event of strike the minimum rent would be taken Pro-rata on the basis of actual working days. But in the event of lock the lessee would enjoy a concession in respect or Minimum rent for 50% after period of lock out.

Year	Out put
2013	11.200
2014	16.320
2015	30.400
2016	17.280 (Strike for 50 days)
2017	14.400 (lockout for 4 months)

Prepare ledger a/c and also pass the Journal entries

16. Mr. Ramanjunam Patented automatic door closer and granted to Mr. Raju the license to manufacture and sell the closer for 10 years on the following terms.

a. Raju to pay a royalties of Rs.5 of every closure sold with a Minimum rent of Rs. 2500 P.a

b. Raju would sett off the short working arising any year against surplus royalties payable in the 2 years

c. from the 2nd year on wards the dead rent is agreed upon to Rs. 2000 instead of 2500 at all other terms being unchanged.

The other details are as follows:

Year	Product	Closing Stock
I	125	25
II	225	50
III	285	35
IV	515	50

Pass Journal Entries and also prepare ledger a/c

17. On 1st Jan 2015, A obtained from B a lease of some bearing lands, the term being a royalty of Rs.2 per ton of coal raise subject to minimum rent of Rs. 10,000 p.a with a right of recoupment of shortworking over the first 4 years of lease. From the following details show Royalty a/c, Shortworking a/c, landlord a/c in the books of A

Year	Sales	Closing stock
2015	2,200	300
2016	3,500	500
2017	4,600	400
2018	5,800	600
2019	7,000	800

Problems in the books of lessor:

18. A company leased a colliery from the Swathanthria Co limited on 1st Jan 2015. At a Minimum rent of Rs. 40,000, merging into a royalty of Rs. 1 per ton with a power to recoup Short working over the first 3 years are as follows:

The out put for the first three years are as follows:

Year	Production in tons
2015	18000
2016	32000
2017	48000

Pass Journal Entries & Prepare ledger Account in the books of lessor.

19. Sundar & Co has right to publish the book. They permitted Indian publishing house to publish it . Royalty Rs.1 on each published book but it should not be less than Minimum rent of Rs. 4000 P.a. Short working can be recouped in the first 5 years only

Year	No of copies published
1	1000
2	3000
3	4000
4	5000
5	8000

Prepare necessary ledger a/c in the books of lesser

Two Marks Question and Answers

1. What do you mean by Royalty?

Royalty is an amount payable for utilizing the benefits of certain rights vested or associated with some other person. Some people possess certain special right over certain things. For Ex:

- Landlord Possess the right over the land/Mine.
- The author possesses the right over his books.
- The patentee possesses right over his the patent.

2**. Why is Minimum rent clause included in the royalty agreement?**

Royalty agreement are usually associated with a Minimum rent clause So, That the lessee must pay a minimum amount irrespective of the volume of output or sales in a particular period. Such minimum amount is known as minimum rent or dead rent or fixed rent. It is payable when the production is very low.

3. What is irrecoverable short workings?

If the short working is not recouped with in the permitted period, they become irrecoverable and it is transferred to Profit and Loss Account.

4. What do you mean by short workings?

The excess of minimum rent over actual rent or royalty is called short working. The excess is called short workings for the lessee and called short working suspense for the lessor.

5. What do you mean by Dead rent?

Royalty agreement are usually associated with a clause that the lessee must pay a minimum amount irrespective of the volume of output or sales in a particular period. Such minimum amount is known as minimum rent or dead rent or fixed rent. It is payable when the production is very low.

6. What is entry for irrecoverable short workings in the books of the lessor?

Short working Suspense Account

To Profit and loss Account

7**. How is irrecoverable short workings account closed in the books of lessee?**

It should be closed by transferring short working irrecovery to profit & Loss Account:

Profit and Loss A/c Dr.

To Short working Account

8. What is Mining Royalty?

It refers to an agreement between land lord and Mining Company where Mining company is going to pay certain amt or rent to the land lord for utiisation of the land for mining purpose of the land lord.

9. What is Patent Royalty?

It refers to an agreement between scientist or an inventor and Manufacturing Company where the manufacturing Co is going to pay certain amt or compensation to the inventor or scientist for manufacturing the product of inventor or scientist.

10. What is Copy right Royalty?

It refers to an agreement between author and publishing Co where the publishing Co is going to pay certain amount or consideration to the author for publishing the books of author.

11. What do you mean by recoupment of short working?

Recoupment of short working refers to recovering the short working of any year from surplus royalty of succeeding year.

- The recoupment permitted over stipulated or fixed period of time.
- Floating or specified period of time.
- Within the life time of the lease.

Branch Accounts

Meaning:

A business enterprise may concentrate its activities at only one place or could spread across the different parts of a region, state, nation or the world. The offices or outlets or establishments of business enterprises at other places other than the head office are called Branches.

Definition of a Branch;

Section 2(9) of the companies Act, 1956 defines Branch offece as:

a. any establishment described as a branch by a company.
b. Any establishment carrying on either the same or substantially the same activity as that carried on by the Head office of the company or
c. Any establishment engaged in any production, processing of manufacturing but does not include any establishment specified in the central Government's order under section 8.

Objectives of branch accounting:

- To know the profit or loss of each branch separately.
- To know the financial position of each branch.
- To know the cash goods requirement of various branches.
- To evaluate the progress and performance of each branch.
- To calculate the commission payable to the manager, it is based on profits.
- To make necessary suggestion for the improvement of any branch.
- To exercise proper control over each branch.

Accounting for Branches:

- For ascertaining the profitability and financial position of the branch
- For assessing the feasibility and viability of operating a branch.
- For evaluating the progress and performance of the branch.
- For taking decisions relating to branches like whether to expand or not etc.
- For enabling the calculation of commission payable to the branch by head office
- For ascertaining the correct profitability and financial position of the business enterprise, by incorporating the results of the branch.

Accounting procedure for Branches:

For the purpose of accounting of branches in the books of head office, branches have been classified into the following types:

1. Domestic Branches
2. Foreign Branches

Domestic Branches:

1. Dependent Branches
2. Independent Branches

Domestic Branches:

They refer to the branches located in the same country in which the head office is located.

- **Fully controlled Branches:**

Fully controlled Branches are those branches which have no powers for any decision making. They are not permitted to make any purchases on their own, but must depend on the supplies of the head office. Such branches cannot retain any amount collected from its debtors or from any other source, but must completely remit it to the head office.

- **Partly controlled Branches**:

Partly controlled Branches are those which are given some limited powers for decision making. Such branches are given a certain amount of flexibility in its operations. It can make any purchases on its own in case of emergency and need not to wait for the suppliers of the head office. It can retain the collections and meet some expenses. The balance of collections after meeting expenses must only be remitted to the head office.

Independent Branches:

They refer to the branches which operate like a separate entity, though legally it is not a separate entity. They are the branches which maintain a complete accounting system itself. The head office would only incorporate the results of such branches at the end of the accounting period, in its books.

Index:

1. Problems on Debtors System:
    - When goods sent at Cost price
    - When goods sent at Invoice price
2. Problems on Financial Accounting System
3. Problems on Stock and Debtors System
4. Problems on Independent Branches

5.5-Marks problems:

- Problems on Simple Branch Accounting
- Problems on Journal Entries

Methods of accounting for Dependent Branches:

- Debtors System
- Final Accounts System
- Stock and Debtors System.

Debtors System:

Under this system, the head office treats the branch office as a Debtor. At the end of the accounting period the head office prepares a Branch Account to ascertain the profit or loss of the branch.

The assets and liabilities of the branch at the beginning of the accounting year is treated as given by the head office and those at the end of the year is treated as returned by the branch to the head office.

The format of Branch Account prepared by the Head office for ascertaining the results of the branch is dependent upon two situations

- When the head office sends goods to the branch at cost price
- When the head office sends goods to the branch at inflated price or invoice price or loaded price,

A. When the head office sends goods to the branch at Cost price:

Books of Head of Office

Branch Account for the year

Particulars	Rs	Particulars	Rs
To Opening Assets (with the value of assets at the branch at the beginning of the year)	xxx	By Opening Liability (with the vlue of liabilities at the branch at the beginning of the year)	xxx
To Goods sent to Branch a/c (with cost price of goods sent by head office to branch)	xxx	By Bank a/c (with the remittances made by the branch to head office out of collections from debtors, cash sales and other receipts)	xxx
To Bank a/c (with the amount of branch expenses met by the head office)	xxx	By Goods sent to Branch a/c (with the cost price of goods returned by branch to head office	Xxx
To closing Liability (with the value of liabilities at the branch at the end of the accounting period)		By Closing Assets (with the value of assets at the branch at the end of the accounting period)	xxx
To General Profit & Loss a/c (B/F) (profits)		By General Profit & Loss a/c (B/f) (loss)	xxx

Note:

a. Apart from the above items, no other item must be shown in the Branch Account.

b. The value of the fixed assets at the end of the accounting period must be shown after adjusting depreciation.

c. Memorandum Debtors a/c:

This account should be prepared to ascertain the following missing information.

- Opening balance of Drs.
- Closing balance of Drs.
-

d. Memorandum Creditors a/c:

This account should be prepared to ascertain the following missing information.

- Opening balance of Crs
- Closing balance of Crs.

e. Bills Receivable a/c:

This account should be prepared to ascertain the following missing information.

- Opening balance of B/R
- Closing balance of B/R
- Collection from B/R.

f. . Bills Payable a/c:

This account should be prepared to ascertain the following missing information.

- Opening balance of B/P
- Closing balance of B/P
- Payment to B/P

g. Cash and Bank a/c:

This account should be prepared to ascertain the following missing information.

- Opening balance of cash
- Closing balance of cash
- Remittance of the branch

Problem when goods sent @ cost price:

1. XYZ Ltd. With its HO in Bangalore has a Branch at Mysore, Goods are supplied to the Branch at Cost. The expenses of the branch are paid from Bangalore and the Branch keeps a sales ledger and the Drs ledger only. From the following information supplied by the Branch, Prepare Branch a/c in the books of HO

Stock at Branch on 1-4-2003 -16700

Goods sent to branch during the year – 48600

Total Sales at Branch-78300

Cash Sales – 19300

Cash Received from Drs – 54400

Petty cash at Branch for expenses:

Salary-13200

Petty cash – 2600

Rent-3200

Stock at Branch on 31-3-2004 - 20800

Petty Cash at Branch on 31-3-2004 - 200

Drs at Branch on 31-3-2004 - 18300

2. Zamana Ltd, Mysore opened a branch at Bangalore on 1-1-2004. Branch is instructed to sell the goods both for cash and credit. All cash collections are to be remitted to HO to meet the expenses at Branch. From the following details, prepare Bangalore Branch a/c in HO Books.

Stock of goods at Branch on 1-1-2004-5000

Petty cash – 150

Furniture – 2500

Goods sent to Branch at Cost -50000

Goods returned from branch at Cost – 3000

Expenses paid by HO – 10000

Cash sent by HO for petty cash – 250

Remittances from Branch

Cash Sales 2500

Collection from Drs 42500

Credit sales – 51000

Closing Petty cash – 17000

Closing petty cash – 50

B. When the head office send goods to the branch at inflated price or invoice price or loaded price:

To maintain confidentiality about its profit margin, head office sends goods to the branch at a price above the cost price. Such price is called the loaded price or the invoice price.

However, while ascertaining the results of the branch at the end of the year, such load must be adjusted. The following format for ascertaining the branch results under this situation:

Books of Head Office

Branch Account for the year ended

Particulars	Rs	Partuculars	Rs
To Opening Assets (with the value of assets at the branch at the beginning of the a/cing period)	xxx	By Opening Liabililties (with the value of liabilities at the branch at the beginning of the accounting period, if any)	xxx
To Goods sent to Branch A/c (with the value of goods sent by head office to branch)	xxx	**By Stock Reserve A/C (with the load included in opening stock of the branch)**	**xxx**
To Goods sent to Branch A/c (with the load included in the goods returned by Branch)	xxx	By Bank A/c (with the remittances mad by the branch to head office out of collections from debtors, cash sales and other receipts)	**xxx**
To Bank A/c (with the amount of branch expenses met by head office)	xxx	**By Goods Sent to Branch A/c (with the load included in the goods sent to branch)**	**xxx**
To Stock Reserve A/c (with the load included in the closing stock of the branch)	xxx	By Goods Sent to Branch A/c (with the value of goods returned by branch to head office)	**xxx**
To Closing liabilities (with the value of liabilities at the branch at the end of the a/cing period if any)	xxx	By Closing Assets (with the value of assets at the branch at the end of the a/cing period)	**xxx**
To General P&L A/c (B/F, being profits)	xxx	By General P&L A/c (B/F, being loss, if any)	**xxx**

Notes:

a. Load will be included in four items shown in branch account, namely
Opening stock of good at the branch
Goods sent to branch
Goods returned by branch and
Closing stock of goods at branch.

b. Load would normally be a percentage of cost . Since all the above items are at the loaded price, the load as a percentage of cost must be converted into load as a percentage of the invoice price.

Problems:

1. A. Shoe Company of Kanpur has its branch at Delhi. Goods are invoiced to the branch at cost plus 25%. Branch has been instructed to deposit daily all cash received by it in the H.O. except petty expenses which are met by the Branch Manager from the petty cash amount sent by the H.O From time to time.

From the following particulars, prepare Delhi Branch account in the books of the H.O at Kanpur.

The Branch sell the goods at the invoice price only,

Stock on 1/4/2003 at Invoice price	30000
Sundry Debtors on 1/4/2003	18000
Cash in hand on 1-4-2003	800
Office furniture on 1-4-2003	2400
Goods invoiced from H.O (invoice price)	160000
Goods returned to H.O (invoice price)	2000
Cash received from Debtors	60000
Credit Sales	100000
Discount allowed to Drs	600
Goods returned by Drs	960
Expenses paid by H.O For Rent For Salary For Printing & Stationary	 2400 4800 600
Petty Expences paid by branch Manager	7800
Depreciation is to be provided on branch furniture at 10% p.a	560

2. The Basha Company has branches at several places, The following information relates to the Mangalore branch which does not maintain books of accounts, for the year ended march 31 2008

Opening Balance(April 01 2007) –

Stock –18750

Drs – 10500

Transactions during the year at branch

Cash sales – 81000

Credit Sales - 52500

Cash remitted to the H.O – 112500

Furniture purchased by the branch-9000

Goods invoiced to the branch – 136500

Expenses paid by the head office – 12300

Expenses paid by Branch – 900

Cash sent to the branch by the Head Office for the purchase of Billing machine – 9750

Closing Balance (March 31 2008)

Stock – 22500

Drs – 13,500

Goods are always sent to the branch at 125% cost, All the branch expenses are paid by the H.O except the petty expenses paid by the branch manager.

Prepare the Mangalore branch account in the books of H.O for the year ended March 31 2008.

3. Bangalore H.O of a company invoices goods to its K.G.F Branch at Cost Plus 20%. The branch also purchases independently from local parties for which payments are made by the H.O. All cash Collections of the day is to be remitted to H.O. through a bank account and all expences of the branch are directly paid by H.O

From the following, Show the K.G.F branch account in head office books

Imprest Cash 1/1/2007 31/12/2007	 20,000 18,5000
Debtors on 1-1-2007	250000
Stock on 1-1-2007 transferred from H.O at invoice price Direct purchase by branch	 240000 160000

Total Sales	1750000
Cash Sales	450000
Returns from customers	30000
Direct purchase	450000
Goods sent to branch from H.O	600000
Transfer from H.O for petty cash Exp	25000
Bad debts	10000
Discount to customers	1250000
Branch Expenses	300000
Stock on 31-12-2007 Directly purchased by branch Transferred from H.O at invoice price	 120000 180000

4. Bangalore

Final Accounts System:

Under this system, the head office prepares a Memorandum Branch Trading and Profit and Loss Account to ascertain the results of the branch. The format of the Memorandum Branch Trading and Profit and Loss Account is the same as the usual Trading and Profit and loss Account, the format of which has been given below:

Memorandum Branch Trading and Profit and Loss Account

Particulars	Rs	Particulars	Rs
To Opening Stock at Branch	xxx	By Sales of the Branch	xxx
To Goods sent to Branch from Head office (less returns from branch)	xxx	By Closing stock at Branch	xxx
To Purchase (made by branch directly if any) cash or credit	xxx	Bt Gross Loss c/d(B?F)	xxx
To Direct expenses of the branch	xxx		
Tota.			
To Gross loss C/d	Xxx	By Gross profit b/d	xxx
To Expenses of the Branch	xxx		

To Bad Debts	xxx		
To Depreciation on fixed assets	Xxx		
Total		**Total**	

Notes:

a. The opening stock at branch, goods sent to branch, goods returned by the branch and closing stock at the branch must be shown at Cost price. If the goods are sent at invoice or loaded price, the load must be deducted and the cost price of these items must only be shown.

b. For ascertaining any information relevant, but missing, other Memorandum Accounts I,e Drs a/c, Crs a/c, B/R a/c, B/P a/c must be prepared

c. Since this system involves preparation of Memorandum branch Trading and profit and loss a.c, it s not a part of double entry system and hence there is no need of passing any Journal entries

1. A Bangalore Trade has a Branch at Chennai to which the goods are supplied at cost price. The Chennai Branch keeps its own sales ledger and transmits all cash received to the Head Office every day, All the expenses of the Branch are paid from the Head office. The transactions for the Branch were as follows:

Stock on 1-4-2003 – 22000

Debtors on 1-4-200. -200

Petty Cash on 1-4-2003 -400

Cash Sales – 5300

Goods sent to Branch – 32000

Cash received from Drs – 42000

Goods returned to HO – 480

Bad debts – 600

Allowance to Drs- 500

Sales Returns – 1000

Cheques sent to Branch: Rent-1200, Wages-400, Salaries-1800

Stock on 31-3-2003 – 20800

Debtors on 31-3-200.3 -4000

Petty Cash on 31-3-2003 -200, Miscellaneous – 50

2. Bata Limited has a HO and many retail branches which are supplied goods from the head office at cost plus 25% profit. Account are kept at HO from where all the expenses are paid. From the following balances as shown by the books, prepare Branch Trading and profit and loss A/c

Balances on 1st Jan 2004 – 1300

Petty Cash at Branch – 24000

Stock at Branch at Invoice price – 50000

Furniture and fixtures – 28000

Rent prepaid – 1300

Transactions for the year ended 31st December 2004:

Goods sent to Branch- 304000

Cash sales at Branch – 280000

Credit sales – 95000

Allowance to Drs – 1500

Cash received from Drs-80000

Bad debts written off – 1200

Payments made by the Head office:

Rent for one year (paid on 1-4-2004) – 2800

Salaries – 12000

Insurance paid for the year ending 31-3-2005 – 960

Petty cash at Branch on 31-12-2004 – 800

Stock at Branch on 31-12-2004 – 37500

Write off 10% dep on furniture and fixture

3. The Ahmedabad branch of Universal Traders Ltd, Closed its books on 30th June 2006, when the following T.B was compiled:

S Drs	24000	S Crs	17200
Cash in hand	3800	Sales	17200
Furniture	12500	HO account	25000
Stock on 1st january	4500		
Goods from Ho	68000		
Purchases	132000		
Wages and salaries	11000		
Trade Expenses	10500		
	267200		267200

The closing stock on 30th June, 2006 was Rs.5200 Close the branch books, prepare branch trading and P&L a/c and Balance Sheet. Also incorporate the branch figure in the books of Head office by journal entries.

Stock and Debtors System:

Accounting for Independent Branches:

In case of independent branches, where the books of accounts are maintained by the branch, the results of the branch is ascertained by the branch and incorporated in the books of the head office. While the transactions of the branch and recorded only in the books of branch, the transactions between head office and branch are recorded both in the books of the head office and the books of the branch, Often, the balances of certain accounts in the books of the head office and branch disagree if the mutual tranaction between head office and branch are recorded in one place, but not recorded in the other

1. Transation Entries:

Transaction	In the books of HO	In the books of branch
Goods sent by HO to Branch	Branch A/c Dr To Goods sent to Branch a/c	Goods received from Ho a/c To HO a/c
Goods returned by branch to HO	Goods sent to branch a/c To Branch a/c	HO a/c Dr To Goods received from HO
Branch expenses paid by HO	Branch a/c Dr To Bank a/c	Expenses a/c To HO

Head office expenses paid by branch	Expenses a/c To Branch a/c	HO a/c To Cash/Bank a/c
Collections from branch debtors by HO	Bank a,c To Branch a/c	HO a,c To Drsa/c
Collection from HO drs by branch	Branch a/c To Drs a/c	Bank a/c To HO a/c
Payment of branch Crs by Ho	Branch a/c To Bank a/c	Crs a/c To HO a/c
Payment of HO Crs by branch	Crs a/c To Branch a/c	HO a/c To bank a/c
Remittance of Money by branch to Ho	Bank a/c To Branch a/c	Bank a/c To HO a/c
Remittance of money by Ho to branch	Branch a/c To Banka/c	Bank a/c To HO a/c
Purchase of asset by branch for which accounts are maintained by HO	Branch asset a/c To Branch	HOa/c To Bank a/c
Deptn on branch asset the account of which are maintained by HO	Branch a/c To Branch asset a.c	Dep a/c To Ho a/c
Transfer of goods from one branch to another branch	Receiving Branch a/c To Suppling Branch A,c	books of receiving branch Goods received From Ho To HO a/c Books f supplying Branch HOa/c To Goods received from Hoa/c
Charging branch for the efforts and time of head office	Branch a/c To Service Charges a/c	Expenses a/c To HO a/c

Incorporation entries:

For Incorporating Profit made by branch

Branch a/c

To General P&L a/c

For incorporating Loss made by branch

General P&l a/c

To Branch a/c

For incorporating the assets

Branch Asset a/c

To Branch a/c

For incorporating the liabilities

Branch a/c

To Branch liabilities

Adjusting or Reconciliation Entries:

Goods-in –Transit:

Goods-in-Transit refers to goods sent by HO or branch before closing the books, but not yet reached the destination before the closure of books.

Goods-in-Transit a/c

To Branch a/c

Cash-in-Transit:

Cash-in-transit refer to cash sent by HO before closing the books, but not yet reached the destination before the closure of books.

Cash-in-transit

To Branch a/c

1. The following is the Trial Balance of Belgaum branch as at 30th June 2005

Particulars	Debit	Credit
Bangalore H.P	32400	
Stock 1-7-2004	60000	
Purchases	178000	
Goods from H.P	90000	
Sales		380000
Goods of H.P		60000
Salaries	15000	
Drs	37000	
Crs		18500
Rent	9600	

Office Expenses	4700	
Cash	17800	
Furniture	458500	458500

Stock on hand on 30-6-2005 Rs.27000. The Branch Account in the H.O books on 30-6-2005 stood at Rs. 15400 (Cr). On 24th June the H,O sent goods of the value of Rs.25000 to branch which they received on 7-7-2005. the H.O has paid the branch account's salary of Rs.6000. When he visited the H.O. on 30-6-2005 and this not recorded in the branch books.

Pass necessary J.E in the books of H.O to incorporate the above T.B and also prepare Bangalore branch account in H.O Books.

2. The Big Brother Company, Bangalore has a branch at Hubli which maintains its own books of accounts. The following Trial Balance has been prepared by the Hubli branch on Mrch 31 2008

Particulars	Debit	Credit
HO a/c	11664	
Opening Stock	21600	
Purchases	352080	
Goods from Head office	68400	
Sales		496800
Goods returned to the Head Office		196800
Salaries	16200	
Drs	13320	
Crs		6660
Rent	7056	
S expenses	5292	
Cash at bank	6408	
Furniture	21600	
Depreciation on Furniture	1440	

	525060	525060

Closing stock at the branch Rs.27720.

Prepare the Hubli branch on the above date.

3. Sathvik Co Ltd has a branch at Bangalore, and it has received the following trial balance from the branch

Particulars	Rs	Particulars	Rs
Opening Stock	6000	Sales	62000
Purchases	12000	Discount earned	500
Goods from HO	25000	Creditors	5000
Wages	7000	H O Account	10000
Salary	9000		
Sundry expenses	1500		
Drs	14000		
Cash in hand	30000		
	77500		77500

Additional information:

a. The branch closing stock was valued at Rs.8000
b. In the books of HO, the branch account shows a debit balance of Rs.12000
c. The cash remitted by HO Rs.800 had not reached the branch office on or before closing the books of accounts.
d. The goods worth Rs.1200 sent by HO reached the branch after closing the books of accounts.
e. The Head office expenses of Rs. 3000 are chargeable to branch for the year
f. The branch assets whose accounts are maintained in the Head office booiks are to be depreciated by Rs.2000

Pass journal entries and prepare the Bangalore branch accounts in the books of Head office,

4. Following is the Trial Balance of Kolar Branch as on 31-12-2009

Particular	Rs	Particular	Rsf
Furniture	2800	Crs	3700
Cash at Bank	3560	Goods supplied to HO	12000
Office Expenses	940	Sales	76000
Drs	7400		
Salaries	3000		
Rent	1920		
Goods from HO	16000		
Purchases	37600		
Stock on 1-1-2009	12000		
HO a/c	6400		
	91700		91700

Closing stock valued at Rs.2700. The branch account in the HO books on 31-12-2009 stood at Rs.460(Dr). Goods worth Rs. 2500 sent by H.O to branch and remittance of Rs. 1200 sent by branch to H.O were in transit. Incorprate above .Trial balance in H.O and prepare Kolar Branch a/c

5-Marks problems:

Problems on simple Branch account:

1.From the following particulars. Prepare Branch a/c showing the profit or loss from the branch

Opening stock at branch – 15000

Goods sent to branch – 45000

Cash sales – 60000

Expenses

Salaries – 1000

Other expenses – 2000

Closing stock could not be ascertained but it is known that the branch usually sells at cost plus 20% . The branch manager is entitled to a commission of 5% on the profit of branch before charging such commission.

2. Calculate the branch profit from the following information

Opening Balances – 40000

Branch Furniture – 600000

Branch Stock –

Transaction during the year

Goods sent to the branch-1200000

Cheques sent for branch expenses-50000

Goods returned by the branch-20000

Remittances by the branch-1385000

Closing balances

Branch furniture-35000

Branch stock-650000

3.Neeraj Ltd. With its Head Office in Bangalore has a branch at Mysore. You are given the following details relating to Mysore branch for the year ended 30-6-2008.

Stock at Branch on 1-7-2007

Petty cash at branch on 1-7-2007-110

Goods sent to Branch – 45600

Goods returned by the Branch – 3900

Cash sales at branch – 71900

Cash sent to Branch for expenses:

Salaries – 12800

Rent – 3000

Petty cash – 2600 18400

Stock at Branch on 30-6-2008 – 90

Prepare Mysore Branch Account in the Books of HO.

4. The Bangalore shoe Company has a branch at KGF. The following are the transactions between the HO and branch during the year 2008-2009

Stock at branch on 1-4-2008 – 750

Petty cash at branch on 1-4-2008 – 200

Cheques sent to branch:

Salaries - 1000

Rent – 2000

Petty cash – 300

Cash remitted to HO 18000

Goods received from HO -13000

Stock on 31-3-2009 – 1000

Petty cash on 31-3-2009 – 150

Prepare the KGF Branch Account in the books of HO

<u>Problems related to Journal entries</u> :

1. Give the journal entry for the following in books of HO. The books are closed on 31-12-2005

- Goods sent by HO on 28-12-2005 with Rs. 15000 to its Tumkur Branch not by the Branch upto 31-12-2005
- Goods sent by Davangeri Branch to Tumkur Branch for Rs. 3000 are yet to be recorded

- Tumkur Branch paid Rs. 30000 for a machine purchased by the HO for the use of HO

2. Give Journal entries for the following transactions in the books of HO

Goods sent by Ho on 28th Dec worth Rs.1500 to its kanpur branch not received by branch up to Dec 31

- Goods sent by Mumbai branch to kanpur branch for Rs.300 are yet to be recorded
- Kanpur branch paid Rs.3000 for a Machinery purchased by HO in kanpur
- Kanpur branch collected Rs.2000 from kanpur customer of HO
- A remittance of RS. 8500 made by kanpur to HO on 28th Dec was received by the latter on 4th Jan 2007

2. Journalise the following transactions in the books of a HO
    - HO paid branch commission – 55000
    - Branch paid Rs. 10000 to a HO Crs
    - Branch Collected Rs.60000 from a HO Drs
    - Cash sent by the branch to the HO Rs. 30000 still in transit
    - Goods sent by the HO to the branch Rs.45000 still in transit

3. Give journal entries for the following transactions in the books of the HO. The books are closed on 31-12-2008

Goods sent by HO on 28-12-2008 worth Rs. 1500 to its shimoga branch, not received by the branch upto 31-12-2008

Goods sent by Davangere branch to Shimoga branch for Rs. 3000 are yet to be recorded.

Shimoga branch paid Rs.30000 for a machine purchased by the HO for the use of HO

Davangere branch paid Rs.1000 dividend to a local shareholder on behalf of the HO

Provide depreciatioin at 10% on furniture, when shimoga branch furniture account is maintained in the HO books, Furniture book value Rs. 26000

Theory questions:

1. Distinguish between departmental and Branch accounting?

2. Marks Questions:

    1. What are dependent branches?
    2. What are Independent branches?
    3. What is meant by loaded price in Branch Accounting?
    4. What is meant by cash in transit?
    5. What is meant by goods in transit?
    6. What do you mean by Inter-branch transactions?
    7. Mention any two inter branch transactions?
    8. What is stock reserve?
    9. Why are goods sent by the head office to the branchs at invoice price?
    10. Distinguish between cost price and loaded price?
    11. Give examples for goods in transit and cash in transit?

Consignment Accounts

1. **Define consignment**

   Consignment is an agreement under which a manufacturer or a wholesaler sends goods to his agent for the purpose of sale on his behalf and at his own risk on commission basis.

   Consignor/Principal:

   The person sending the goods on consignment to another person is called Consignor/Principal.

   Consignee/Agent:

   The person to whom the goods are sent on consignment is called the consignee/ Agent.

2. **Who is a Consignor and Consignee?**

   Consignor/Principal:

   The person sending the goods on consignment to another person is called Consignor/Principal.

   Consignee/Agent:

   The person to whom the goods are sent on consignment is called the consignee/ Agent.

3. **What is Normal and Abnormal loss? Give two examples?**

   .Normal Losses:

   When goods are lost or damaged due to normally expected but unavoidable causes such as losses due to evaporation, leakage, breakage, dusting, drying, sublimination of goods etc. These losses are called Normal Losses.

   When calculating the cost of unsold stock, this normal loss is to be considered. The cost of unsold stock increases proportionately due to normal loss, this normal loss is not shown in the consignment account. There is no need to pass and entry in the books of account.

   Abnormal Losses

   When loss or damage of goods is caused by unnatural and unexpected reasons. Then such loss in treated as abnormal loss. It is unexpected loss and beyond the control of the human beings. Loss of goods due to Fire, flood, earthquake, war, theft, accidents in transit etc. are abnormal losses. Such losses occur because of bad luck, due to accident, mischief by some one or human carelessness

4. What are Recurring Expenses? How do you treat in consignment?

All the expenses incurred by the consignor and the consignee which do not increase the value of goods are called recurring expenses or indirect expenses. They include:

1. The expenses incurred by the consigned after the goods reach the premises of the consignment such as office and administration expenses, storage expenses, selling and distribution expenses.
2. Discount on bills (accepted by the consignee) discounted. Expenses on goods returned etc.

5. What are non Recurring Expenses? How do you treat in consignment?

All the expenses incurred till the goods reach the premises of the consignee and the expenses incurred to bring the goods in a saleable condition are treated as direct expenses or non-recurring expenses. Theses expenses may be incurred either by the consignor or by the consignor or by the consignee depending upon the terms of the agreement between them.

6. What is meant by Proforma invoice

A Proforma Invoice is statement prepared and sent by the consignor to the consignee giving the details of the goods sent.

7. What is Ordinary Commission ?

Ordinary Commission:

The commission paid to the consignee when he is not responsible for any bad debt is called ordinary Commission. It is calculated as a fixed percentage on total sales made by the consignee.

8. What is Del Credere Commission:

The commission paid to the consignee when he is responsible for the bad debts incurred out of credit sales affected by him is called del-credere commission. In other words, it is the additional commisiion paid to the consignee to bear the loss of bad debts incurred by him.

9. What is Over-riding Commission:

It is an extra commission allowed by the consignor to the consignee to promote sales at higher price than specified or to encourage the consignee to put hard work in introducing new product in the market. Depending on the agreement between consignor and consignee, it is calculated on tatal sales or on the difference between actual sales and sales at invoiced price or any specified price.

10. What is an Account Sale?

Periodically the consignee sends to the consignor a statement giving the details fo goods sold, goods unsold, expenses incurred by him on the goods consigned, commission earned by him, amount of advance adjusted, balance outstanding etc. This statement is called Account sales.

11. What is Loading?

Quite often, for the purpose of maintaining confidentiality about the profit margin, consignor sends goods to the consignee at price above the cost price. Such price is called the loaded price or the invoice price. However, while ascertaining the results of the consignor at the end of the year, such load must be adjusted.

12. What are the features of Consignment

- Goods are forwarded by the consignor to the consignee with an objective of sale at a profit.
- Under the consignment goods are to be treated as the property of the consignor and to be sold at his risk entirely.
- The consignee agrees to sell the goods for an agreed rate of commission and is allowed to deduct his commission due from the sale proceeds.
- The relationship between the consignor and the consignee is that of principal and agent.
- The consignee is generally allowed to incur expenses to sell the goods consigned which will be reimbursed by the consignor.

13. What is Advance?

Sometimes consignor may ask the consignee to pay an advance for the part of the Value of goods consigned. Consignee may send the advance in the form of a draf or cheque. If the consignee is not in a position to advance money, a Bill may be drawn on consignee, Consignor discounts the Bill and gets the money.

Royalty Accounts

1. **What do you mean by Royalty?**

Royalty is an amount payable for utilizing the benefits of certain rights vested or associated with some other person. Royalty is the sum payable periodically for utilizing the rights vested with some other person. This, royalty is an amount which is paid as a consideration to the owner for the use of right.

2. **Why is Minimum rent clause included in the royalty agreement?**

Royalty agreement are usually associated with a clause, So, that the lessee must pay a minimum amount irrespective of the volume of output or sales in a particular period. Such minimum amount is known as minimum rent or dead rent or fixed rent. It is payable when the production is very low.

3. What is irrecoverable short workings?

Irrecoverable short workings refers to the short workings which is not recovered within the specified period according to the royalty agreement.

4. What do you mean by short workings?

The excess of minimum rent over actual rent or royalty is called short working. The excess is called short workings for the lessee and called short working suspense for the lessor. (Minimum rent – Royalty = Short workings)

5. What do you mean by Dead rent?

Royalty agreement are usually associated with a clause that the lessee must pay a minimum amount irrespective of the volume of output or sales in a particular period. Such minimum amount is known as minimum rent or dead rent or fixed rent. It is payable when the production is very low.

6. What is entry for irrecoverable short workings in the books of the lessor?

Short working Suspense A/c Dr.

To Profit and loss A/c

7. How is irrecoverable short workings account closed in the books of lessee?

It is closed by passing the following entry:

Profit and Loss A/c Dr.

To Short working Account

8. What is Mining Royalty?

It refers to an agreement between land lord and Mining Company where Mining company is going to pay certain amt or rent to the land lord for utiisation of the land for mining purpose of the land lord.

9. What is Patent Royalty?

It refers to an agreement between scientist or an inventor and Manufacturing Company where the manufacturing Co is going to pay certain amt or compensation to the inventor or scientist for manufacturing the product of inventor or scientist.

10. What is Copy right Royalty?

It refers to an agreement between author and publishing Co where the publishing Co is going to pay certain amount or consideration to the author for publishing the books of author.

11. What is Sub-lease?

The terms of the original may empower the lessee to sub- let a part or whole of the property to another person, such arrangement is called sub-lease. In such a case, as a lessee he maintains royalty payable a/c. short workings a/c. and land lord a/c. as a lessor he maintain royalty receivable a/c, short working suspense a/c, and lessee a/c.

12. What do you mean by recoupment of short working?

Recoupment of short working refers to recovering the short working of any year from surplus royalty of succeeding year.

- The recoupment permitted over stipulated or fixed period of time.
- Floating or specified period of time.
- Within the life time of the lease.

13. How do you treat the effect of strike in Royalty Accounts?

During the year of strike, the lessor allows some reduction in the minimum rent payable for theat year, by including in the royalty agreement some clause as :

i. that the minimum rent for the year shall be reduced proportionately having regard to the length of stoppage of work or

ii. that the actual royalties for the year shall discharge on the rental obligation for that year.

14. What is short working? How do you treat it in the B/s of lessee, if the recoupment period is not over?

The excess of minimum rent over the actual royalty of any particular year is called short working. If the recoupment period is not over, it will be shown on the asset side of the Balance Sheet of the lessee.

Branch Accounts

Meaning:

A business enterprise may concentrate its activities at only one place or could spread across the different parts of a region, state, nation or the world. The offices or outlets or establishments of business enterprises at other places other than the head office are called Branches.

Definition of a Branch;

Section 2(9) of the companies Act, 1956 defines Branch offece as:

a. any establishment described as a branch by a company.
b. Any establishment carrying on either the same or substantially the same activity as that carried on by the Head office of the company or
c. Any establishment engaged in any production, processing of manufacturing but does not include any establishment specified in the central Government's order under section 8.

Objectives of branch accounting:

- To know the profit or loss of each branch separately.
- To know the financial position of each branch.
- To know the cash goods requirement of various branches.
- To evaluate the progress and performance of each branch.
- To calculate the commission payable to the manager, it is based on profits.
- To make necessary suggestion for the improvement of any branch.
- To exercise proper control over each branch.

Accounting for Branches:

- For ascertaining the profitability and financial position of the branch
- For assessing the feasibility and viability of operating a branch.
- For evaluating the progress and performance of the branch.
- For taking decisions relating to branches like whether to expand or not etc.
- For enabling the calculation of commission payable to the branch by head office
- For ascertaining the correct profitability and financial position of the business enterprise, by incorporating the results of the branch.

Accounting procedure for Branches:

For the purpose of accounting of branches in the books of head office, branches have been classified into the following types:

1. Domestic Branches
2. Foreign Branches

Domestic Branches:

1. Dependent Branches
2. Independent Branches

Domestic Branches:

They refer to the branches located in the same country in which the head office is located.

- **Fully controlled Branches:**

Fully controlled Branches are those branches which have no powers for any decision making. They are not permitted to make any purchases on their own, but must depend on the supplies of the head office. Such branches cannot retain any amount collected from its debtors or from any other source, but must completely remit it to the head office.

- **Partly controlled Branches**:

Partly controlled Branches are those which are given some limited powers for decision making. Such branches are given a certain amount of flexibility in its operations. It can make any purchases on its own in case of emergency and need not to wait for the suppliers of the head office. It can retain the collections and meet some expenses. The balance of collections after meeting expenses must only be remitted to the head office.

Independent Branches:

They refer to the branches which operate like a separate entity, though legally it is not a separate entity. They are the branches which maintain a complete accounting system itself. The head office would only incorporate the results of such branches at the end of the accounting period, in its books.

Index:

1. Problems on Debtors System:

  - When goods sent at Cost price
  - When goods sent at Invoice price

2. Problems on Financial Accounting System

3. Problems on Stock and Debtors System

4. Problems on Independent Branches

5.5-Marks problems:

- Problems on Simple Branch Accounting
- Problems on Journal Entries

Methods of accounting for Dependent Branches:

- Debtors System
- Final Accounts System
- Stock and Debtors System.

Debtors System:

Under this system, the head office treats the branch office as a Debtor. At the end of the accounting period the head office prepares a Branch Account to ascertain the profit or loss of the branch.

The assets and liabilities of the branch at the beginning of the accounting year is treated as given by the head office and those at the end of the year is treated as returned by the branch to the head office.

The format of Branch Account prepared by the Head office for ascertaining the results of the branch is dependent upon two situations

- When the head office sends goods to the branch at cost price
- When the head office sends goods to the branch at inflated price or invoice price or loaded price,

A. When the head office sends goods to the branch at Cost price:

Books of Head of Office

Branch Account for the year

Particulars	Rs	Particulars	Rs
To Opening Assets (with the value of assets at the branch at the beginning of the year)	xxx	By Opening Liability (with the vlue of liabilities at the branch at the beginning of the year)	xxx
To Goods sent to Branch a/c (with cost price of goods sent by head office to branch)	xxx	By Bank a/c (with the remittances made by the branch to head office out of collections from debtors, cash sales and other receipts)	xxx
To Bank a/c (with the amount of branch expenses met by the head office)	xxx	By Goods sent to Branch a/c (with the cost price of goods returned by branch to head office	Xxx
To closing Liability (with the value of liabilities at the branch at the end of the accounting period)		By Closing Assets (with the value of assets at the branch at the end of the accounting period)	xxx
To General Profit & Loss a/c (B/F) (profits)		By General Profit & Loss a/c (B/f) (loss)	xxx

Note:

a. Apart from the above items, no other item must be shown in the Branch Account.

b. The value of the fixed assets at the end of the accounting period must be shown after adjusting depreciation.

c. Memorandum Debtors a/c:

This account should be prepared to ascertain the following missing information.

- Opening balance of Drs.
- Closing balance of Drs.
-

d. Memorandum Creditors a/c:

This account should be prepared to ascertain the following missing information.

- Opening balance of Crs
- Closing balance of Crs.

e. Bills Receivable a/c:

This account should be prepared to ascertain the following missing information.

- Opening balance of B/R
- Closing balance of B/R
- Collection from B/R.

f. . Bills Payable a/c:

This account should be prepared to ascertain the following missing information.

- ➢ Opening balance of B/P
- Closing balance of B/P
- Payment to B/P

g. Cash and Bank a/c:

This account should be prepared to ascertain the following missing information.

- Opening balance of cash
- Closing balance of cash
- Remittance of the branch

<u>Problem when goods sent @ cost price:</u>

1. XYZ Ltd. With its HO in Bangalore has a Branch at Mysore, Goods are supplied to the Branch at Cost. The expenses of the branch are paid from Bangalore and the Branch keeps a sales ledger and the Drs ledger only. From the following information supplied by the Branch, Prepare Branch a/c in the books of HO

Stock at Branch on 1-4-2003 -16700

Goods sent to branch during the year – 48600

Total Sales at Branch-78300

Cash Sales – 19300

Cash Received from Drs – 54400

Petty cash at Branch for expenses:

Salary-13200

Petty cash – 2600

Rent-3200

Stock at Branch on 31-3-2004 - 20800

Petty Cash at Branch on 31-3-2004 - 200

Drs at Branch on 31-3-2004 - 18300

2. Zamana Ltd, Mysore opened a branch at Bangalore on 1-1-2004. Branch is instructed to sell the goods both for cash and credit. All cash collections are to be remitted to HO to meet the expenses at Branch. From the following details, prepare Bangalore Branch a/c in HO Books.

Stock of goods at Branch on 1-1-2004-5000

Petty cash – 150

Furniture – 2500

Goods sent to Branch at Cost -50000

Goods returned from branch at Cost – 3000

Expenses paid by HO – 10000

Cash sent by HO for petty cash – 250

Remittances from Branch

Cash Sales 2500

Collection from Drs 42500

Credit sales – 51000

Closing Petty cash – 17000

Closing petty cash – 50

B. When the head office send goods to the branch at inflated price or invoice price or loaded price:

To maintain confidentiality about its profit margin, head office sends goods to the branch at a price above the cost price. Such price is called the loaded price or the invoice price.

However, while ascertaining the results of the branch at the end of the year, such load must be adjusted. The following format for ascertaining the branch results under this situation:

Books of Head Office

Branch Account for the year ended

Particulars	Rs	Partuculars	Rs
To Opening Assets (with the value of assets at the branch at the beginning of the a/cing period)	xxx	By Opening Liabililties (with the value of liabilities at the branch at the beginning of the accounting period, if any)	xxx
To Goods sent to Branch A/c (with the value of goods sent by head office to branch)	xxx	**By Stock Reserve A/C (with the load included in opening stock of the branch)**	**xxx**
To Goods sent to Branch A/c (with the load included in the goods returned by Branch)	xxx	By Bank A/c (with the remittances mad by the branch to head office out of collections from debtors, cash sales and other receipts)	**xxx**
To Bank A/c (with the amount of branch expenses met by head office)	xxx	**By Goods Sent to Branch A/c (with the load included in the goods sent to branch)**	**xxx**
To Stock Reserve A/c (with the load included in the closing stock of the branch)	xxx	By Goods Sent to Branch A/c (with the value of goods returned by branch to head office)	**xxx**
To Closing liabilities (with the value of liabilities at the branch at the end of the a/cing period if any)	xxx	By Closing Assets (with the value of assets at the branch at the end of the a/cing period)	**xxx**
To General P&L A/c (B/F, being profits)	xxx	By General P&L A/c (B/F, being loss, if any)	**xxx**

Notes:

a. Load will be included in four items shown in branch account, namely

Opening stock of good at the branch

Goods sent to branch

Goods returned by branch and

Closing stock of goods at branch.

b. Load would normally be a percentage of cost . Since all the above items are at the loaded price, the load as a percentage of cost must be converted into load as a percentage of the invoice price.

Problems:

1. A. Shoe Company of Kanpur has its branch at Delhi. Goods are invoiced to the branch at cost plus 25%. Branch has been instructed to deposit daily all cash received by it in the H.O. except petty expenses which are met by the Branch Manager from the petty cash amount sent by the H.O From time to time.

From the following particulars, prepare Delhi Branch account in the books of the H.O at Kanpur.

The Branch sell the goods at the invoice price only,

Stock on 1/4/2003 at Invoice price	30000
Sundry Debtors on 1/4/2003	18000
Cash in hand on 1-4-2003	800
Office furniture on 1-4-2003	2400
Goods invoiced from H.O (invoice price)	160000
Goods returned to H.O (invoice price)	2000
Cash received from Debtors	60000
Credit Sales	100000
Discount allowed to Drs	600
Goods returned by Drs	960
Expenses paid by H.O For Rent For Salary For Printing & Stationary	 2400 4800 600
Petty Expences paid by branch Manager	7800
Depreciation is to be provided on branch furniture at 10% p.a	560

2. The Basha Company has branches at several places, The following information relates to the Mangalore branch which does not maintain books of accounts, for the year ended march 31 2008

Opening Balance(April 01 2007) –

Stock –18750

Drs – 10500

Transactions during the year at branch

Cash sales – 81000

Credit Sales - 52500

Cash remitted to the H.O – 112500

Furniture purchased by the branch-9000

Goods invoiced to the branch – 136500

Expenses paid by the head office – 12300

Expenses paid by Branch – 900

Cash sent to the branch by the Head Office for the purchase of Billing machine – 9750

Closing Balance (March 31 2008)

Stock – 22500

Drs – 13,500

Goods are always sent to the branch at 125% cost, All the branch expenses are paid by the H.O except the petty expenses paid by the branch manager.

Prepare the Mangalore branch account in the books of H.O for the year ended March 31 2008.

3. Bangalore H.O of a company invoices goods to its K.G.F Branch at Cost Plus 20%. The branch also purchases independently from local parties for which payments are made by the H.O. All cash Collections of the day is to be remitted to H.O. through a bank account and all expences of the branch are directly paid by H.O

From the following, Show the K.G.F branch account in head office books

Imprest Cash 1/1/2007 31/12/2007	 20,000 18,5000
Debtors on 1-1-2007	250000
Stock on 1-1-2007 transferred from H.O at invoice price Direct purchase by branch	 240000 160000

Total Sales	1750000
Cash Sales	450000
Returns from customers	30000
Direct purchase	450000
Goods sent to branch from H.O	600000
Transfer from H.O for petty cash Exp	25000
Bad debts	10000
Discount to customers	1250000
Branch Expenses	300000
Stock on 31-12-2007 Directly purchased by branch Transferred from H.O at invoice price	 120000 180000

4. Bangalore

<u>Final Accounts System:</u>

Under this system, the head office prepares a Memorandum Branch Trading and Profit and Loss Account to ascertain the results of the branch. The format of the Memorandum Branch Trading and Profit and Loss Account is the same as the usual Trading and Profit and loss Account, the format of which has been given below:

Memorandum Branch Trading and Profit and Loss Account

Particulars	Rs	Particulars	Rs
To Opening Stock at Branch	xxx	By Sales of the Branch	xxx
To Goods sent to Branch from Head office (less returns from branch)	xxx	By Closing stock at Branch	xxx
To Purchase (made by branch directly if any) cash or credit	xxx	Bt Gross Loss c/d(B?F)	xxx
To Direct expenses of the branch	xxx		
Tota.			
To Gross loss C/d	Xxx	By Gross profit b/d	xxx
To Expenses of the Branch	xxx		

To Bad Debts	xxx		
To Depreciation on fixed assets	Xxx		
Total		**Total**	

Notes:

a. The opening stock at branch, goods sent to branch, goods returned by the branch and closing stock at the branch must be shown at Cost price. If the goods are sent at invoice or loaded price, the load must be deducted and the cost price of these items must only be shown.

b. For ascertaining any information relevant, but missing, other Memorandum Accounts I,e Drs a/c, Crs a/c, B/R a/c, B/P a/c must be prepared

c. Since this system involves preparation of Memorandum branch Trading and profit and loss a.c, it s not a part of double entry system and hence there is no need of passing any Journal entries

1. A Bangalore Trade has a Branch at Chennai to which the goods are supplied at cost price. The Chennai Branch keeps its own sales ledger and transmits all cash received to the Head Office every day, All the expenses of the Branch are paid from the Head office. The transactions for the Branch were as follows:

Stock on 1-4-2003 – 22000

Debtors on 1-4-200. -200

Petty Cash on 1-4-2003 -400

Cash Sales – 5300

Goods sent to Branch – 32000

Cash received from Drs – 42000

Goods returned to HO – 480

Bad debts – 600

Allowance to Drs- 500

Sales Returns – 1000

Cheques sent to Branch: Rent-1200, Wages-400, Salaries-1800

Stock on 31-3-2003 – 20800

Debtors on 31-3-200.3 -4000

Petty Cash on 31-3-2003 -200, Miscellaneous – 50

2. Bata Limited has a HO and many retail branches which are supplied goods from the head office at cost plus 25% profit. Account are kept at HO from where all the expenses are paid. From the following balances as shown by the books, prepare Branch Trading and profit and loss A/c

Balances on 1st Jan 2004 – 1300

Petty Cash at Branch – 24000

Stock at Branch at Invoice price – 50000

Furniture and fixtures – 28000

Rent prepaid – 1300

Transactions for the year ended 31st December 2004:

Goods sent to Branch- 304000

Cash sales at Branch – 280000

Credit sales – 95000

Allowance to Drs – 1500

Cash received from Drs-80000

Bad debts written off – 1200

Payments made by the Head office:

Rent for one year (paid on 1-4-2004) – 2800

Salaries – 12000

Insurance paid for the year ending 31-3-2005 – 960

Petty cash at Branch on 31-12-2004 – 800

Stock at Branch on 31-12-2004 – 37500

Write off 10% dep on furniture and fixture

3. The Ahmedabad branch of Universal Traders Ltd, Closed its books on 30th June 2006, when the following T.B was compiled:

S Drs	24000	S Crs	17200
Cash in hand	3800	Sales	17200
Furniture	12500	HO account	25000
Stock on 1st january	4500		
Goods from Ho	68000		
Purchases	132000		
Wages and salaries	11000		
Trade Expenses	10500		
	267200		267200

The closing stock on 30th June, 2006 was Rs.5200 Close the branch books, prepare branch trading and P&L a/c and Balance Sheet. Also incorporate the branch figure in the books of Head office by journal entries.

Stock and Debtors System:

Accounting for Independent Branches:

In case of independent branches, where the books of accounts are maintained by the branch, the results of the branch is ascertained by the branch and incorporated in the books of the head office. While the transactions of the branch and recorded only in the books of branch, the transactions between head office and branch are recorded both in the books of the head office and the books of the branch, Often, the balances of certain accounts in the books of the head office and branch disagree if the mutual tranaction between head office and branch are recorded in one place, but not recorded in the other

1. Transation Entries:

Transaction	In the books of HO	In the books of branch
Goods sent by HO to Branch	Branch A/c Dr To Goods sent to Branch a/c	Goods received from Ho a/c To HO a/c
Goods returned by branch to HO	Goods sent to branch a/c To Branch a/c	HO a/c Dr To Goods received from HO
Branch expenses paid by HO	Branch a/c Dr To Bank a/c	Expenses a/c To HO

Head office expenses paid by branch	Expenses a/c To Branch a/c	HO a/c To Cash/Bank a/c
Collections from branch debtors by HO	Bank a,c To Branch a/c	HO a,c To Drsa/c
Collection from HO drs by branch	Branch a/c To Drs a/c	Bank a/c To HO a/c
Payment of branch Crs by Ho	Branch a/c To Bank a/c	Crs a/c To HO a/c
Payment of HO Crs by branch	Crs a/c To Branch a/c	HO a/c To bank a/c
Remittance of Money by branch to Ho	Bank a/c To Branch a/c	Bank a/c To HO a/c
Remittance of money by Ho to branch	Branch a/c To Banka/c	Bank a/c To HO a/c
Purchase of asset by branch for which accounts are maintained by HO	Branch asset a/c To Branch	HOa/c To Bank a/c
Deptn on branch asset the account of which are maintained by HO	Branch a/c To Branch asset a.c	Dep a/c To Ho a/c
Transfer of goods from one branch to another branch	Receiving Branch a/c To Suppling Branch A,c	books of receiving branch Goods received From Ho To HO a/c Books f supplying Branch HOa/c To Goods received from Hoa/c
Charging branch for the efforts and time of head office	Branch a/c To Service Charges a/c	Expenses a/c To HO a/c

Incorporation entries:

For Incorporating Profit made by branch

Branch a/c

To General P&L a/c

For incorporating Loss made by branch

General P&l a/c

To Branch a/c

For incorporating the assets

Branch Asset a/c

To Branch a/c

For incorporating the liabilities

Branch a/c

To Branch liabilities

Adjusting or Reconciliation Entries:

Goods-in –Transit:

Goods-in-Transit refers to goods sent by HO or branch before closing the books, but not yet reached the destination before the closure of books.

Goods-in-Transit a/c

To Branch a/c

Cash-in-Transit:

Cash-in-transit refer to cash sent by HO before closing the books, but not yet reached the destination before the closure of books.

Cash-in-transit

To Branch a/c

1. The following is the Trial Balance of Belgaum branch as at 30th June 2005

Particulars	Debit	Credit
Bangalore H.P	32400	
Stock 1-7-2004	60000	
Purchases	178000	
Goods from H.P	90000	
Sales		380000
Goods of H.P		60000
Salaries	15000	
Drs	37000	
Crs		18500
Rent	9600	

Office Expenses	4700	
Cash	17800	
Furniture	458500	458500

Stock on hand on 30-6-2005 Rs.27000. The Branch Account in the H.O books on 30-6-2005 stood at Rs. 15400 (Cr). On 24th June the H,O sent goods of the value of Rs.25000 to branch which they received on 7-7-2005. the H.O has paid the branch account's salary of Rs.6000. When he visited the H.O. on 30-6-2005 and this not recorded in the branch books.

Pass necessary J.E in the books of H.O to incorporate the above T.B and also prepare Bangalore branch account in H.O Books.

2. The Big Brother Company, Bangalore has a branch at Hubli which maintains its own books of accounts. The following Trial Balance has been prepared by the Hubli branch on Mrch 31 2008

Particulars	Debit	Credit
HO a/c	11664	
Opening Stock	21600	
Purchases	352080	
Goods from Head office	68400	
Sales		496800
Goods returned to the Head Office		196800
Salaries	16200	
Drs	13320	
Crs		6660
Rent	7056	
S expenses	5292	
Cash at bank	6408	
Furniture	21600	
Depreciation on Furniture	1440	

	525060	525060

Closing stock at the branch Rs.27720.

Prepare the Hubli branch on the above date.

3. Sathvik Co Ltd has a branch at Bangalore, and it has received the following trial balance from the branch

Particulars	Rs	Particulars	Rs
Opening Stock	6000	Sales	62000
Purchases	12000	Discount earned	500
Goods from HO	25000	Creditors	5000
Wages	7000	H O Account	10000
Salary	9000		
Sundry expenses	1500		
Drs	14000		
Cash in hand	30000		
	77500		77500

Additional information:

a. The branch closing stock was valued at Rs.8000
b. In the books of HO, the branch account shows a debit balance of Rs.12000
c. The cash remitted by HO Rs.800 had not reached the branch office on or before closing the books of accounts.
d. The goods worth Rs.1200 sent by HO reached the branch after closing the books of accounts.
e. The Head office expenses of Rs. 3000 are chargeable to branch for the year
f. The branch assets whose accounts are maintained in the Head office booiks are to be depreciated by Rs.2000

Pass journal entries and prepare the Bangalore branch accounts in the books of Head office,

4. Following is the Trial Balance of Kolar Branch as on 31-12-2009

Particular	Rs	Particular	Rsf
Furniture	2800	Crs	3700
Cash at Bank	3560	Goods supplied to HO	12000
Office Expenses	940	Sales	76000
Drs	7400		
Salaries	3000		
Rent	1920		
Goods from HO	16000		
Purchases	37600		
Stock on 1-1-2009	12000		
HO a/c	6400		
	91700		91700

Closing stock valued at Rs.2700. The branch account in the HO books on 31-12-2009 stood at Rs.460(Dr). Goods worth Rs. 2500 sent by H.O to branch and remittance of Rs. 1200 sent by branch to H.O were in transit. Incorprate above .Trial balance in H.O and prepare Kolar Branch a/c

5-Marks problems:

Problems on simple Branch account:

1.From the following particulars. Prepare Branch a/c showing the profit or loss from the branch

Opening stock at branch – 15000

Goods sent to branch – 45000

Cash sales – 60000

Expenses

Salaries – 1000

Other expenses – 2000

Closing stock could not be ascertained but it is known that the branch usually sells at cost plus 20% . The branch manager is entitled to a commission of 5% on the profit of branch before charging such commission.

2. Calculate the branch profit from the following information

Opening Balances – 40000

Branch Furniture – 600000

Branch Stock –

Transaction during the year

Goods sent to the branch-1200000

Cheques sent for branch expenses-50000

Goods returned by the branch-20000

Remittances by the branch-1385000

Closing balances

Branch furniture-35000

Branch stock-650000

3.Neeraj Ltd. With its Head Office in Bangalore has a branch at Mysore. You are given the following details relating to Mysore branch for the year ended 30-6-2008.

Stock at Branch on 1-7-2007

Petty cash at branch on 1-7-2007-110

Goods sent to Branch – 45600

Goods returned by the Branch – 3900

Cash sales at branch – 71900

Cash sent to Branch for expenses:

Salaries – 12800

Rent – 3000

Petty cash – 2600 18400

Stock at Branch on 30-6-2008 – 90

Prepare Mysore Branch Account in the Books of HO.

4. The Bangalore shoe Company has a branch at KGF. The following are the transactions between the HO and branch during the year 2008-2009

Stock at branch on 1-4-2008 – 750

Petty cash at branch on 1-4-2008 – 200

Cheques sent to branch:

Salaries - 1000

Rent – 2000

Petty cash – 300

Cash remitted to HO 18000

Goods received from HO -13000

Stock on 31-3-2009 – 1000

Petty cash on 31-3-2009 – 150

Prepare the KGF Branch Account in the books of HO

<u>Problems related to Journal entries</u> :

1. Give the journal entry for the following in books of HO. The books are closed on 31-12-2005

- Goods sent by HO on 28-12-2005 with Rs. 15000 to its Tumkur Branch not by the Branch upto 31-12-2005
- Goods sent by Davangeri Branch to Tumkur Branch for Rs. 3000 are yet to be recorded

- Tumkur Branch paid Rs. 30000 for a machine purchased by the HO for the use of HO

2. Give Journal entries for the following transactions in the books of HO

Goods sent by Ho on 28th Dec worth Rs.1500 to its kanpur branch not received by branch up to Dec 31

- Goods sent by Mumbai branch to kanpur branch for Rs.300 are yet to be recorded
- Kanpur branch paid Rs.3000 for a Machinery purchased by HO in kanpur
- Kanpur branch collected Rs.2000 from kanpur customer of HO
- A remittance of RS. 8500 made by kanpur to HO on 28th Dec was received by the latter on 4th Jan 2007

2. Journalise the following transactions in the books of a HO
    - HO paid branch commission – 55000
    - Branch paid Rs. 10000 to a HO Crs
    - Branch Collected Rs.60000 from a HO Drs
    - Cash sent by the branch to the HO Rs. 30000 still in transit
    - Goods sent by the HO to the branch Rs.45000 still in transit

3. Give journal entries for the following transactions in the books of the HO. The books are closed on 31-12-2008

Goods sent by HO on 28-12-2008 worth Rs. 1500 to its shimoga branch, not received by the branch upto 31-12-2008

Goods sent by Davangere branch to Shimoga branch for Rs. 3000 are yet to be recorded.

Shimoga branch paid Rs.30000 for a machine purchased by the HO for the use of HO

Davangere branch paid Rs.1000 dividend to a local shareholder on behalf of the HO

Provide depreciatioin at 10% on furniture, when shimoga branch furniture account is maintained in the HO books, Furniture book value Rs. 26000

Theory questions:

1. Distinguish between departmental and Branch accounting?

2. Marks Questions:

1. What are dependent branches?
2. What are Independent branches?
3. What is meant by loaded price in Branch Accounting?
4. What is meant by cash in transit?
5. What is meant by goods in transit?
6. What do you mean by Inter-branch transactions?
7. Mention any two inter branch transactions?
8. What is stock reserve?
9. Why are goods sent by the head office to the branchs at invoice price?
10. Distinguish between cost price and loaded price?
11. Give examples for goods in transit and cash in transit?

CHAPTER I

Insurance Claims for loss of Stock

Introduction :

Business organizations face several risks. One among them is loss of property and stock on account of calamities like foods, cyclones, fire accidents etc. In the present economic system, such losses need not be borne by the organization. The burden of loss can be shifted to another person.

Meaning of Insurance:

Insurance refers to transfer of risk from one person to another person or third party or insurance company.

Insurer:

The person who agrees to bear the risk of loss arising on account of loss of stock, property, profits etc. due to calamities and compensates such loss is called insurer. (Insurance company)

Insured:

The person who has suffered loss and shifts to the insurer, is called insured.

Premium:

The consideration for which insurer will take up the burden of loss is called.

Claim for loss of stock

- The Stock on the date of fire should be ascertained for the calculating the amount to be claimed from the insurer for loss of stock in fire accident.

- If books of accounts properly maintained and not destroyed in the fire accident , stock on the date of fire can be ascertained from books of accounts itself.

- If books are not updated or if they are not available on account of being destroyed in fire accident or for any other reason, stock on the date of fire can be ascertained by preparing Memorandum Trading Account" with the help of the following steps.

Steps to be followed to calculate the claim for loss of stock

1. Prepare Last year's trading account
2. Calculate Rate of Gross profit on sales
3. Prepare Memorandum Trading account to ascertain the stock on the date of fire.
4. Calculate the Actual Amount of loss.
5. Ascertain the amount of claim.

Step-1: Preparation of last year's trading account:

A trading account is prepared for the preceding year of fire for the purpose of ascertaining the amount of gross profit. This step is necessary when ratio of gross profit is not given.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	Xxx	By Sales Less Returns	XXX
To Purchase Less Returns	Xxx	By Closing Stock	XXX
To Carriage Inwards	Xxx		
To Wages	Xxx		
To Manufacturing expenses	Xxx		
To Custom Duties	Xxx		
To Coal, Gas and Fuel	Xxx		
To Gross Profit (B/f)	xxx		
Total	**xxx**	**Total**	**xxx**

Step-2: Ascertainment of rate of gross profit:

Rate of gross profit = gross profit/Net Sales x100

Step-3: Preparation of Memorandum Trading Account:

Memorandum Trading Account is nothing but Trading Account, prepared to ascertain the stock on the date of fire accident. It is not prepared as a part of Double Entry System. Hence, it is called 'Memorandum Trading Account'

The following is the format of Memorandum Trading Account

Particulars	Rs	Particulars	Rs
To Opening Stock	Xxx	By Sales upto the date of fire	XXX
To Purchase Less Returns (Up to the date of fire)	Xxx	By Stock on the date of fire (Balancing figure)	XXX
To Carriage Inwards	Xxx		
To Wages	Xxx		
To Manufacturing expenses	Xxx		
To Custom Duties	Xxx		
To Coal, Gas and Fuel	Xxx		
To Gross Profit (B/f)	xxx		
	XXXX		XXXX

Note:

- In this case Gross profit should be ascertained in order to ascertain stock on the date of fire.
- To ascertain Gross profit, the rate of gross profit on sales must be known.
- The rate of gross profit may be directly made known or might have to be calculated.
- For calculating the information could be provided in different manner,like :
  a. Rates of gross profit of past few years could be given or
  b. Gross profit and sales figures of past few years could be given etc.
  c. Trading account items of last year could be given etc

Based on the above information, the normal gross profit on sales must be calculated. Using that rate, gross profit for the period upto fire accident must be calculated to ascertain stock on the date of fire.

Step 4: Ascertainment of "Actual amount of loss":

From the stock on the date of fire, the actual amount of loss must be ascertained: The actual amount of loss can be ascertained using the following format

Particulars	Rs
Stock on the date of fire	XXX
Less Goods saved or salvaged goods or Salvage or Scrap	XXX
	XXX
Add Expenses incurred for extinguishing fire, if any	XXX
Actual Amount of Loss	XXX

Salvage:

The term salvage refers to the realizable or realized value of the stock saved from fire.

Step-5: Ascertainment of "Claim amount"

For the amount of loss incurred, the claim must be calculated. Calculation of claim depends on 'extent of insurance' on the value of goods.

a. When the stock is properly insured or over insured, the amount of claim will be the same as amount of loss
b. When the stock is under-insured

If the entire stock is destroyed: the policy amount would be the amount of claim

If only a portion of goods are destroyed: or if the actual loss is different from stock on the date of fire, the amount of claim can be calculated using the following formula or average clause.

Amount of Claim= Policy Amount x Actual Loss of Stock / Stock on the date of fire

Average Clause:

Average clause refers to a clause included in an insurance agreement for the purpose of discovering under insurance of stock or any other asset. When the insurance policy includes average clause, the claim admitted by the insurance company is calculated using the above mentioned formula.

Index:

1. **Problems on fire insurance claim which includes 5 steps (simple problems)**
2. **Problems related to Under valuation and over valuation of stock:**
3. **Problems related to Abnormal line of goods**
4. **Problems related to Total debtors and Total creditors account**
5. **Others. (5 Marks)**

15 marks problems

I Problems on fire insurance claim which includes 5 steps (simple problems)

1. A fire occurred in business premises of Ramesh on 15/10/2019. From the following particulars ascertain the stock of loss and prepare of claim for insurance:

Particulars	Rs
Stock on 1/1/2018	17,000
Purchases from 1/1/2018 to 31/12/2018	61,000
Sales from 1/1/2018 to 31/12/2018	90,000
Stock on 31/12/2018	15,000
Purchases from 1/1/2019 to 14/10/2019	73,500
Sales from 1/1/2019 to 14/10/2019	75,000
The stock saved from fire	9,000
The amount of policy was	31,500

There was an average clause in the policy

2. On 15th June 2021, the premises and stock of a Firm was destroyed by fire, but the Accounting records were saved from which the following particulars were available.

Stock on 1-1-2020	1,47,000
Stock on 31-12-2020	1,63,800
Purchases for the year 2020	7,96,000
Sales for the year 2020	9,74,000

Purchases from 1-1-2021 to 15-6-2021	3,24,000
Sales from 1-1-2021 to 15-6-2021	4,62,400
Carriage out wards from 1-1-2021 to 15-6-2021	22,000
Stock salvaged	60,600
Show the amount of claim.	

II Problems related to Under valuation and over valuation of stock:

3. Determine the amount of claim for the loss of stock from the following details:

Date of Fire 15-8-2021

Stock on 1-4-2020 Rs.25,740

Stock on 31-3-2021 Rs. 37800

Stock Salvaged 1,931

Amount of policy 24,000 (There is an average clause)

Particulars	2020-2021	1-4-2021 to 15-8-2022
Purchases	1,57,900	78,800
Sales	2,28,600	1,33,900
Wages	27,480	13,780
Carriage in wards	10,900	3,160
Carriage out wards	5,580	1,920

Stock have been always valued at 10% below cost

4. If fire occurred in the premises of Sridhar on 1/4/2022 and considerable part of the stock was destroyed. The stock salvaged was Rs. 56,000 Sridhar has taken fire insurance policy of Rs.3,42,000 to cover the loss of stock by fire.

You are required to ascertain the insurance claim which Sridhar should claim from the insurance Co for the loss of stock by fire. The following particulars are as follows:

Particulars	Rs
Purchase for the year 2022	18,76,000

Sales for the year 2022	24,20,000
Purchases from 1/1/2021 to 1/4/2021	3,64,000
Sales from 1/1/2021 to 1/4/2021	4,80,000
Stock on 1/1/2021	2,88,000
Stock on 31/12/2021	4,84,000
Wages paid during the year 2021	2,00,000
Wages paid during the year 1/1/2021 to 1/4/2021	3,6000

Stock at the end of each year for until the end of calendar year and had been valued at 10% less cost from 2018, However there was change in the value of Closing stock which was ascertained by adding 10% to its cost .

5. Fire occurred in the premises of Mr. Ranganath on 10th march 2022 in order to make a claim on their fire policies in respect of stock. They ask your advice and you are able to obtain the following information:

Particulars	2019	2020	2021	2022
Opening stock valued	76,000	1,14,000	1,52,000	76,000
Purchases	3,60,000	4,30,000	4,60,000	1,50,000
Sales	5,60,000	7,00,000	8,00,000	2,60,000
Wages and manufacturing expenses	1,50,400	1,91,000	1,40,000	45,000
Closing stock	1,14,000	1,52,000	76,000	

The stock salvaged was Rs. 15,400

It was practice of the firm to value of the stock at 5% less cost, Determine the amount claim to be recovered from insurance company.

6. The premises and stock of Kiran were totally destroyed by fire on 30/1/2017. From the following accounts and other records that were saved. The following information is available.

The stock on hand has been valued at 90%

Particulars	2018	2019	2020	2021
Opening stock as valued	27000	32400	36000	36900

Purchases less returns	74900	80000	81000	6000
Sales less returns	120000	132000	140000	12000
Wages	17400	16400	23600	2000
Closing stock as valued	32400	36000	36900	

Salvaged stock is Rs 15000

Policy Amt is Rs 20000

There is an average clause in the policy. Stock had been always at 10% less cost.

7. The I Don't care Enterprises had insured its goods for Rs. 1,60,000 There was an accidental fire in and its premises on Feb 20th 2018 which destroyed a major portion of the goods. Calculate the amount of the claim to be lodged for the loss of goods with the insurance company, based on the following information

Particulars	Rs
Stock of goods on April,1st, 2016	1,44,000
Purchases during the year ended march 31st 2017	5,84,000
Purchases returns during the year ended march 31st 2017	8,000
Stock of goods on march 31st 2017	2,01,600
Sales during the year ended march 31st 2017	6,5.6,000
Sales returns during the year ended march 31st 2017	16,000
Purchases from April 1st 2017 to Feb 20th 2018	1,34,400
Sales from April 1st 2017 to Feb, 20th 2018	1,64,800
Sales returns from April 1st 2017 to Feb 20th 2018	6,400
Stock Saved	31,680

The stocks have always been valued at 90% of their original cost and the gross profit has remained the same.

8. Nishanth Ltd. Suffered loss of stock due to fire on May 15th 2018. From the following information, prepare statement showing the claim to be lodged:

Particulars	Rs
Stock on 1-1-2017	38,400

Purchases during 2017	1,60,000
Sales during 2017	2,02,600
Closing stock on 31-12-2017	31,800
Purchases from 1-1-2018 to 15-5-2018	54,000
Sales from 1-1-2018 to 15-5-2018	61,400

An item o stock purchased in 2016 at a cost of Rs.10,000 was valued at Rs. 6,000 on 31-12-2016.. Half of this stock was sold in 2017 for Rs 2,600, the remaining was valued at Rs. 2,400 on 31-12-2017, One fourth of the original stock was considered to be worth 60% of the original cost. Salvage was Rs. 12,000. The amount of the policy was Rs. 30,000 and there was average clause in the policy

III Problems related to Abnormal line of goods

Ascertainment of Claim when abnormal line of goods is available

Abnormal line of Goods:

Abnormal line of goods are those which cannot be sold at the normal price or has a slow rate of turnover. The steps involved in calculating the claim in the presence of abnormal line of goods are explained below:

Steps to be followed:

1. Preparation of last year Trading Account.
2. Calculation of Rate of gross profit on sales
3. Preparation of Memorandum Trading Account.
4. Calculation of Actual Amount of Loss
5. Calculation of Amount of Claim.

1. Preparation of Memorandum Trading Account:

   While preparing last year Trading Account, Value of Abnormal value of goods included in opening stock, purchases, sales and Closing Stock, must be deducted from the respective item. That is stock, purchases and Sales of normal goods must only be considered, in arriving at the gross profit.
2. Calculation of Gross profit on Sales:

While calculating the rate, Gross profit on sale of normal goods and sales of normal goods only must be considered. That is, Rate of Gross Profit, in this case, must be calculated using the following formula.

Rate of gross profit=

3. Preparation of Memorandum Trading Account:

- While preparing the Memorandum Trading Account, value of Abnormal goods included in opening stock, Purchases and Sales must be deducted from the respective item.
- That is Opening stock, purchases and sales of normal goods only must be considered.
- The Gross profit must be calculated on the sale valued of normal goods applying 'Rate of Gross profit on Normal Sales'.
- The resulting closing stock will be the stock of normal goods on the date of fire.
- In addition to this, a separate a column must be inserted in Memorandum trading account for abnormal items, which enables the ascertainment of Profit or loss from those items.

4. Calculating of Actual Amount of loss

Stock of normal goods on the date of fire (from memorandum trading A/c) Stock of abnormal goods on the date of fore	XXX XXX
 Less Salvaged Stock	XXX XXX
 Add Expenses incurred for extinguishment of fire	XXX XXX
Actual Loss of Stock	XXX

:

5. Calculation of Amount of Claim:

Same as above.

Problems:

9. The premises of a company were destroyed by fire on 15/6/2003. The records however were saved where from the following particulars were available;

Stock on 1/1/2002	30,000
Purchases less returns on 31/12/2002	2,00,000
Stock on 31/12/2002	40,000
Sales less returns 31/12/2002	2,50,000
Purchases less returns from 1/1/2003 to 15/6/2003	85,000
Sales less returns from 1/1/2003 to 15/6/2003	1,20,000

Rs. 2,500 has been written off as certain stock which was a poor selling line, while valuing the stocks for balance sheet as at 31/12/2002. The cost of such stock was 4000. A portion of this stock was sold in March 2003 at a loss of Rs.500 of the original cost of Rs.2000. The balance of this stock was now estimated to be worth the original cost. The stock saved was Rs. 5,000. You are required to ascertain the amount of claims be lodged with the Insurance Company.

10. On 1/1/2007 the warehouse of XYZ Ltd was destroyed by the fire. The record of the Co relieved the following:

Stock as on 1/4/2006	9,50,000
Stock as on 31/3/2007	8,00,000
Purchases for the year ended 31/3/2007	31,00,000
Sales for the year ended 31/3/2007	40,00,000
Purchases from 1/4/2007 to 1/10/2007	7,50,000
Sales from 1/4/2007 to 1/10/2007	1,00,000

While valuing stock on 31/3/2007 is sum of Rs. 10000 was written off from the goods. A Cost of Rs 48,000 of stock was sold in 1/6/2007 at a loss of Rs.4000 on the original cost of Rs/ 24000. The reminder of this stock was now estimated to be worth the original cost. Subject to the above acceptation gross profit remained at a uniform rate throughout stock salvaged was Rs. 50000. The ware house was fully insured. Calculate the amount of insure claimed for the loss,

2 Marks Question:

1. What is meant by Salvage?
2. What are Abnormal line of goods?
3. What is the objective of inclusion of Average clause in fire claims?
4. What is meant by fire claims?
5. Why Average clause included in fire claims?
6. How do you calculate the Gross profit ratio?
7. Who is insured and who is insurer?
8. What is Memorandum Trading Account and why it is prepared?
9. What is Average clause and when it is applicable?
10. When do we have to prepare the previous trading account under insurance?

5 marks problems:

IV Problems related to Total debtors and Total creditors account:

1. A fire broke out in the ware house of Mahesh traders on 30th Sept 2003. The company wishes to file claim with a insurance Company for less of stock and gives you the following information, enables you to prepare a statement of the amount to be claimed .

Sundry debtors as on 31/12/2002	40000
Cash received from debtors	1,44,000
Sundry debtors as on 30/9/2003	30,000
Stock on 31/12/2002	15,000
Purchases from 1/1/2003 to 30/9/2003	12,5000
25% gross profit on cost	

2. Goutham is small whole seller of fancy goods on 30/9/2007a fire occurred at his ware house and the greater portion of his stock was destroyed. The value of stock salvaged was Rs 550.

The books were saved and the following is an extracted from his last account for the year ended 31/3/2007

Particulars	Rs	Particulars	Rs
To Opening Stock	34000	By Sales	98000
To Purchases	78710	By Closing stock	29410
To Gross Profit	14700		

Total	127410	Total	12410

- The stock was fully insured against fire risk.
- The creditors on 31/3/2007 amt to Rs. 12304
- Sales for the period to 30/9/2007 Rs. 54600 and payment made for purchases amount to Rs44,000
- On 30/9/2007 Creditors were Rs. 11056

You are required to prepare a statement showing the amount which goutham should claim from the insurance Company

V Others

3. From the following information calculate opening stock:

Particulars	Rs
Purchases during the year	55,000
Sales during the year	1.25.000
Closing stock	18,000
Manufacturing expenses	12,000
Carriage in ward	2,000

Rate of gross profit was 25% on cost

4. Calculate the gross profit percentage from the following information

Particulars	Rs
Opening stock of Goods	40,000
Purchases of goods	2,80,000
Wages paid	50,000
Direct expenses	20,000
Sales	4,50,000
Closing Stock	30,000

5. Fire occurred in the premises of Mr. Anju on September 30, 2008. All stocks were destroyed except to the extent of Rs. 5,600. From the following details ascertain the claim to be lodged by Anju.

Stock on 1st January 2008	10,600
Purchases upto 30th September 2008	60,800
Wages upto 30th September 2008	3000
Freight upto 30th September 2008	1000
Sales upto the date of fire	80,000

The rate of gross profit is 25% on cost.

Fire Insurance Claims

1. What is meant by Salvage?

The term salvage refers to the realizable or realized value of the stock saved from fire.

2. What are Abnormal line of goods?

Abnormal line of goods are those which cannot be sold at the normal price or has a slow rate of turnover.

3. What is the objective of inclusion of Average clause in fire claims?

Average clause refers to a clause included in an insurance agreement for the purpose of discovering under insurance of stock or any other asset. When the insurance policy includes average clause, the claim admitted by the insurance company is calculated using the above mentioned formula.

4. What is meant by fire insurance?

A fire insurance is an agreement between the insurer and insured where by insure undertakes to indemnify the insured for damage to the property caused by fire. The amount which can be claimed against loss suffered by fire from the fire insurance such claim amount is called fire claims.

5. Why Average clause included in fire claims?

Average clause refers to a clause included in an insurance agreement for the purpose of discovering under insurance of stock or any other asset. When the insurance policy includes average clause, the claim admitted by the insurance company is calculated by using the below mentioned formula.

6. How do you calculate the Gross profit ratio?

Gross profit ration can be calculated from the following formula

7. Who is insured and who is insurer?

Insurer:

The person who agrees to bear the risk of loss arising on account of loss of stock, property, profits etc. due to calamities and compensates such loss is called insurer. (Insurance company)

Insured:

The person who has suffered loss and shifts to the insurer, is called insured.

Premium:

The consideration for which insurer will take up the burden of loss is called.

8. What is Memorandum Trading Account and why it is prepared?

Memorandum Trading Account is nothing but Trading Account, prepared to ascertain the stock on the date of fire accident. It is not prepared as a part of Double Entry System. Hence, it is called 'Memorandum Trading Account'

9. What is Average clause and when it is applicable?

Average clause refers to a clause included in an insurance agreement for the purpose of discovering under insurance of stock or any other asset. When the insurance policy includes average clause, the claim admitted by the insurance company is calculated using the above mentioned formula.

It is applicable when the actual loss is different from stock on the date of fire or if only a portion of goods are destroyed and also when there is under insurance.

10. When do we have to prepare the previous trading account under insurance?

A trading account is prepared for the preceding year of fire for the purpose of ascertaining the amount of gross profit. This step is necessary when ration of gross profit is not given.

HIRE PURCHASE SYSTEM

Meaning:

Hire Purchase System refers to the system wherein, the seller of goods delivers the goods to the buyer without transferring the ownership of goods. The payment for the goods will be made by the buyer in installments . If the buyer pays all the installments, the owner ship of the goods will be transferred, on payment of the last installment .

However, if the buyer does not pay for any installment, the goods will be repossessed by the seller and the money paid on earlier installments will be treated as hire charges for using the goods. So under this system, the transaction may result in purchasing of goods by the buyer or in hiring the goods. Hence, the system is called Hire Purchase System.

Features of Hire Purchase System:

1. Hire Purchase is an agreement between two parties called Hire vendor and Hire purchaser.
2. The agreement provides for parting the possession of goods, by the seller , with an option to purchase or hire the goods by buyer.
3. Payment for the goods will be made by the hire purchaser in installments.
4. If the hire purchaser pays all the installments, the ownership of the goods will be transferred on payment of last installment.
5. If the hire purchaser stops paying the installments, the hire vendor repossesses the goods.
6. In case of the transaction resulting in purchase, each installment paid will be inclusive of:

a. Payment towards price of the goods (Principal amount)
b. Payment of interest.

Important Terms and Provisions under Hire Purchase:

1. **Hire purchaser:**

An hire purchaser is a person who obtains the possession of goods for use with an option to either purchase it or return after use.

2. **Hire Vendor:**

An hire vendor is a person who owns the goods and who parts with the possession of these goods to the buyer with an option f 'Purchase or hire'.

3. **Cash price:**

It refers to the price at which goods are sold under 'Contract of Sale'

4**. Hire purchase Price:**

It refers to the price at which the goods are sold under 'Hire Purchase System', It includes cash price of the goods and interest.

5**. Installment money:**

It refers to a part of Hire purchase price paid by hire purchaser, in periodic intervals.

6**. Deposit :**

It is also called as "down payment" i,e payment made by hire purchaser to hire vendor at the time of taking delivery of goods or at the time of signing hire purchase agreement.

7. **Net cash price:**

It refers to the difference between cash price of the goods and the deposit for the down payment. It is the amount on which. Interest is calculated under hire purchase system.

8. **Net Hire Purchase Price**: It refers to the hire purchase price of the goods less

a. delivery charges if any (included in the price)

b. registration charges if any (included in the price)

c. Insurance charges, if any (included in the price)

9. Hire purchase charges:

It refers to the difference between net hire purchase price and net cash price of the goods. It is also referred to as interest.

10. Statutory Hire purchase charges:

It refers to the hire purchase charges according to the Hire Purchase Act. 1972.

Section 7 of the Hire Purchase Act, 1972 restricts hire purchase charges at a maximum of 30% of cash installment, for each installment and further provides the following formula for calculation of the charges:

Where : SC= Statutory charges

CI= Amount of cash price installment

R= Rate of interest or charges

T= Time gap between two installments.

11**. Hire Purchase Agreement:**

According to Section 2(c) of the Hire Purchase Act. 1972, an hire purchase agreement is one under which the goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement and includes an agreement under which:

i. "Possession of thee goods is delivered by the owner thereof to a person on condition that such a person pays the agreed amount in periodical installment:

ii. The property in the goods is to pass for such person on the payment of last of such installments and

iii. Such a person has the right to terminate the agreement at any time before the property to passess.

Under Section 3 of the Act. It is compulsory that the purchase agreement must be in writing, signed by the parties concerned and must state the following:

a. the hire purchase price of the goods to which the agreement relates:
b. the cash price of the goods, that is to say, the price at which the goods may be purchased by the hire for cash:
c. the date on which the agreement shall be deemed to have commenced.
d. The number of installments by which the hire purchase price is to be paid, the amount of each of those installments and the date or the mode of determining the date. Upon which it is payable.
e. The goods to which the agreement relates, in a manner sufficient to identify them.

Termination of agreement:

- The hirer can terminate the agreement at any time giving 14 day notice to the owner.
- However under such circumstances the agreement may impose severe liability, say , payment of additional charges if the hirer wants to terminate it.
- However, he need not pay this additional charge if the hirer has to deliver or tender the goods to the owner.
- The owner will have the right to retain and to recover the arrears of hire due.

Rights of Hire Vendor:

a. He has the right to charge hire charges (interest) on the hire purchaser for the goods.
b. He has the right to repossess the goods on non-payment of any instalment money by the hire purchaser.

Rights of Hire Purchaser:

a. The hire purchaser can return the goods if he excercises the option and does not want to complete the transaction
b. The hire vendor cannot terminate the hire purchase agreement due to the failure on the part of the hire purchaser to pay hire or due to an unauthorized act or breach of express conditions. Without notice to the hire purchaser to that effect. A week's notice is necessary where the hire is payable weekly or less than that, and two week's notice in other cases.
c. The hire vendor's right of repossession will not exist in the following cases, unless the same is sanctioned by the court:

i. where the hire purchase price is higher, three-fourths of the same has been paid. However the right as applicable to Motor vehicle is: where the hire purchase price is less than Rs. 5000 and half of it has been paid: and where the hire purchase price is more than Rs. 5000, three-fourths of the same has been paid.

d. The hirer has a right of receiving from the owner, on payment of Re 1, a shatement showing amount paid by or on behalf of the hirer, the amount which has become due and remains unpaid, together with the dates concerned, and the date or mode of determining the date upon which each future installment is to become payable and the amount of such installment.

e. Rebate:

   The hirer can claim rebate from the owner or hire vendor in case he decides to remit the balance of the purchase price in lump sum without continuing the hire purchase agreement till the last date stipulated. However, for such a charge in terms of agreement he has to give 14 days notice to the owner of his intention of tendering the remaining balance in one lot.

The rebate in such case is calculated as follows:

Rebate =

Problems on calculation of Rebate:

1. The following are the terms of an hire purchase agreement:

   Cash price = Rs. 24,000

   Hire purchase price = Rs.30,000

   No of installments = 30

The hire purchaser has already paid 12 installments. He wants to settle the remaining balance and terminate the agreement.

Calculate :

a. the amount of rebate he can claim
b. the balance of amount to be paid on settlement

Information required for Hire Purchase Accounting:

1. Date of Purchase and down payment
2. Date of which the installments become due
3. Date of closure of accounts
4. Cash price
5. Amount of each installment
6. Rate of interest
7. Rate of depreciation
8. Hire purchase price
9. Method of depreciation

Ascertainment of Interest:

Calculation of interest includes two situation:

1. When rate of interest, total cash price and installments are given.
2. When total cash price and installments are given, but rate of interest is not given.

1. **When rate of interest, total cash price and installments are given.:**

It is helpful to ascertain the total amount of interest involved. This will be ascertained by subtracting the total cash price from the hire purchase price.

Calculation of Amount of interest

Particulars	Rs.
Cash price	XXXX
Less: Down Payment	XXX
	XXX
Add: interest for the first year	XXX
	XXX
Less First Installment paid	XXX
	XXX
Add Interest for the Second year	XXX
	XXX
Less Second Year Installment Paid	XXX
	XXX
Add Interest for the last year (Balancing Figure)	XXX
	XXX
Less Last year Installment Paid	XXX
	Nil

2. **When total cash price and installments are given, but rate of interest is not given**:

i. Calculate the total interest by subtracting the total cash price form the total hire purchase price

ii. Calculate the amount of hire purchase outstanding at the beginning of each year after subtracting the down payment

iii. Find out the ration of outstanding amounts calculated in step - 2

iv. Apply the ratio to the total interest and calculate the interest on each installment

Ascertainment of Total Cash price:

1. Without the help of annuity table
2. With the help of annuity table.

1. Without the help of annuity table:

Under this method interest is calculated starting with the last installment. No interest is calculated on down payment. Under this method formula is used to calculate the interest involved in each installment and then subtract this amount of interest from the total amount due. So as to work the outstanding amount of cash price.

Interest = Total amount due at the time of instalment X

2. **With the help of annuity table:**

Under this method the interest is calculated with the help of annuity table:

<u>Accounting Treatment In The Books of Hire Purchaser</u>:

There are **three methods** by which the purchaser can record the hire purchase transaction in the books of account which are as follows:

<u>A. Outright Property Method</u> :

Under this method the asset is recorded at the cash price. This method is also known a credit purchase with interest or sales method.

<u>B. Asset Accrual Method:</u>

Under this method the assets is recorded at the cash price actually paid Here. The asset will not become the treating goods not becoming the property.

<u>C. Interest Suspense Method</u>:

This method is applicable in case of Installment Purchase System, This method is explained in detail in the next chapter

Asset Accrual Method:

In case of hire purchase, the ownership of the goods passes to the hire purchaser after the last installment has been paid. Since the goods do not become he property of the purchaser, he does not have any right to debit the asset at its full price. Hence no, entry is passed when the asset is purchased unless it involves down payment.

In the books of purchaser

Date	Particulars	L/F	Debit	Credit
1	**When the asset is purchase** No Entry			
2	**When the down payment is made** Asset A/c Dr. To Bank A/c			
3	**When the installment becomes due** Asset A/c Dr (with cash price part of installment) Interest A/c Dr (Interest on installment) To Hire Vendor A/c			
4	**When installment is paid** Hire Vendor A/c Dr To Bank A/c			
5	**When Depreciation is charged** Depreciation A/c Dr To Asset A/c			
6	**When interest and depreciation accounts are closed by transfer to P&L A/c** P & L A/c Dr To Interest A/c To Depreciation A/c			

It should be noted that though the asset account is debited with the amount of the cash price paid (not the full cash price). The depreciation is charged on the full cash price.

Accounting Treatment in the books of Hire Vendor:

Journal Entries in the books of Hire Vendor

Date	Particulars	L/F	Debit	Credit
1	**<u>When the item is sold on hire purchase basis</u>** Hire Purchaser A/c Dr To Sales A/c (With the cash price only)			
2	**<u>When the down payment is received</u>** Bank A/c Dr To Hire Purchaser A/c			
3	**<u>When the interest became due</u>** Hire Purchaser A/c To Interest A/c			
4	**<u>When the installment is received</u>** Bank A/c Dr To Hire Purchaser's A/c			
5	**<u>When the interest a/c is closed by transfer to P&L a/c</u>** Interest A/c Dr To P&L A/c			

Index:

1. **Problems, when rate of interest is given.**
2. **Problems, when rate of interest is not given.**
3. **Problems when cash price is not given.**
4. **Problems in the books of Hire Vendor**
5. **Problems on Repossession.**

1.Problems, when rate of interest is given:

1. The Bombay Transport Company purchased a Motor Lorry from the Delhi Motor Company on Hire Purchase System on 1-1-2020 Paying Rs. 20,000 on that day and agreed to pay the remaining amount in three annual installments of Rs. 20,000 each with interest at 5% p.a.

Prepare necessary accounts in the books of buyer under out right property method assuming that:

i. Depreciation at 10% p.a, is charged on the diminishing balance .
ii. The books are closed on 31st December
iii. The owner ship passess on to the buyer on payment of final instalment.

2. On 1-4-2021 Ramya shree patel purchased a computer under Hire Purchase System, The cash price was Rs. 34,000 payable as Rs. 4,000 on signing the agreement and the balance in 3 installments of Rs. 10,000 each together with interest at 8% p.a. on 31st March every year . The asset is depreciated at 10% p.a on diminishing balance method.

3. Pradeep purchased a machine costing Rs. 2,40,000 on 1-4-2020 from Bangalore Machines Ltd. Under hire purchase system . The terms being:

Rs. 60,000 down and the balance in three equal annual installments together with interest at 20% p.a. on the outstanding cash price, Depreciation is to be charged at 15% under Diminishing Balance Method.

Prepare necessary ledger in the books of buyer under Asset accrual method.

4.On 1-1-2021 Rama & Co purchased a machinery under hire purchase system, the cash price was Rs. 17,000 payable as under Rs. 2.000 on signing the agreement p.a. on 31st December each year. The asset is depreciated at 10% p.a on original cost method.

Give necessary ledger account in the books of buyer under Asset accrual method.

2.Problems, when rate of interest is not given.

5.On 1st January 2020 Honda Company delivered a generator to sundar raj on hire purchase system. Rs. 5000 was paid on delivery and the balance in 3 equal instalment of Rs 6000 each payable annually on 31st December . Cash price of the asset is Rs. 20000. Proved depreciation at 10% under reducing balance method. Pass journal entries and prepare ledger account under Out right property method and Asset accrual method.

6. A Mini Bus is purchased for Rs. 1,60,000 under hire purchase agreement on 1-1-2020. The amount payable is Rs. 40,000 on 1-1-2000 on entering the agreement and the balance in three annual instalments of Rs. 50,000 each at the end of each year . Depreciation is charged at 10% on diminishing balance method. Prepare ledger account in the books of buyer under Out right property method and Asset accrual method.

3.Problems when cash price is not given.

7. Eastern Printers purchased a printing Machine on Hire Purchase basis from Ramesh. Payments were to be made as follows:

On 1st Jan 2019 on signing of agreement Rs. 10,000.

On 31st Dec 2019 Pain installment of Rs.8200

On 31st Dec 2020 paid Installment of Rs. 7440.

On 31st Dec 2021 paid installment of 6300

Interest at 10% p.a and Depreciation at 10% under diminishing balance method.

8. Calculate the cash price of an asset from the following details:

Down payment = RS.4500

1st installment = Rs. 4200

2nd installment = Rs. 3,900

3rd installment = Rs. 3600

4th installment = Rs. 3300

Rate on interest 10% p.a and rate of depreciation 20% p.a

4.Problems in the books of Hire Vendor:

9. Mysore transport company purchased of books on Hire purchase basis. Payment was to be made under on 1-1-2020 on signing the agreement Rs 20,000, 1st installment – Rs. 30000, 2nd installment - Rs. 30000 and 3rd installment – Rs. 20000. Rate of interst at 10% p.a and Depreciation at 10% on diminishing balance method. Pass journal entries and prepare ledger accounts in the books of hire vendor

10. On 1st January 2020 Honda Company delivered a generator to sundar raj on hire purchase system. Rs. 5000 was paid on delivery and the balance in 3 equal instalment of Rs 6000 each payable annually on 31st December . Cash price of the asset is Rs. 20000. Proved depreciation at 10% under reducing balance method. Pass journal entries and prepare ledger account in the books of hire vendor.

5 Marks Questions:

13. Calculate the amount of interest included in each instalment;
Cash price – Rs,19000, Down payment – Rs, 5000, Four installments of Rs. 5000 each payable at the end or the year.

14. Caluclate the value of each installment from the following:
Cash price – Rs. 200000, Down payment – 10% if cash price, Balance of cash price is payable in 3 equal installment together with interest @ 10% on out standing cash price.

15. Calculate the amount of interest included in each installment:
Cash price - Rs.150000, down payment – Rs. 45000, 3 annual installment of Rs. 60,000, Rs. 45000, Rs. 30,000 respectively payable at the end of each year

16. Calculate the amount of interest included in each installment:
Cash price – Rs. 50000, Down payment – Rs. 15000, 3 annual installment of Rs. 20,000, Rs, 15,000 and Rs. 10000 Respectively payable at the end of each year.

17.A radio set with the cash price of Rs.1620 is acquired on hire purchase system, payable in three installments of Rs.600 each. How do you apportion each installment between revenue and capitsl.

18.A washing machine set with cash price of Rs.16200 is acquired on hire purchase system, payable in three instalment of Rs. 6000 each. How do you apportion each installment between revenue and capital?

19. Calculate the cash price of an asset from the following details:

Down payment = RS.4500

1^{st} installment = Rs. 4200

2^{nd} installment = Rs. 3,900

3^{rd} installment = Rs. 3600

4^{th} installment = Rs. 3300

Rate on interest 10% p.a and rate of depreciation 20% p.a

20. Calculate the cash price of an asset from the following details:

Down payment = RS.10000

1^{st} installment = Rs. 14000

2^{nd} installment = Rs. 13000

3^{rd} installment = Rs. 12000

4^{th} installment = Rs. 11000

Rate on interest 10% p.a .

21. Ms Nidihi purchases a motor car on hire purchase system, calculate cash price of the motor car from the following:

Down payment – Rs. 20000, 1^{st} year installment – Rs. 28000, 2^{nd} year installment – Rs. 36000, 3^{rd} year installment - Rs. 33000, Rate of interest 10% P.a.

22. Distinguish between hire purchase system and installment system>

2 Marks questions:

1. What is Hire purchase agreement?

2.Why is the hire purchase price always higher than the cash price?

3. State the features of hire purchase system?

4. What do you mean by down payment?

5. What do you mean by Repossession?

6. Who is a hire purchaser & hire vendor?

7. What do you mean by Net cash price?

8. What do you mean by Net Hire purchase price?

9. What is statutory hire purchase charger? How can it be calculated

10. What is complete repossession?

11. What is partial repossession?

12.State any two rights of hire vendor and hire purchaser?

Conversion of Single Entry System into Double Entry System

Meaning:

An Accounting System which is not based on double entry system is known as Incomplete Accounting system or Single Entry System.

In other words any accounting records which do not contain a complete records of each and every transaction is known as Single Entry System.

In other words single entry system is a system of book keeping in which for some transactions both the aspects are recorded, for some transactions only one aspect is recorded and for some transaction no record is made, So under which only personal a/c and a cash a/c are maintained and only one aspect of each transaction is recorded.

Features of Single Entry System of book keeping

- It is a system of maintaining business transactions in an unsystematic and unscientific manner.
- For most of the transaction recording of only one aspect is made in the books of accounts.
- Generally this system is adopted by petty business organization carried out by sole traders and firms. Where the no of transaction are limited.
- Under this system generally personal a/cs are maintained but real and nominal a/c's are not maintained.
- The result obtained under this method is not very accurate.

Types of Single Entry System:

1. **Pure Single Entry System**::

   Pure Single Entry System of book keeping is a system under which only personal a/c's are maintained.

2. **Simple Single Entry System**:

   It refers to the system of book keeping under which along with personal a/c's a cash book also maintained.

3. **Quasi Single Entry System:**

   This is a system under with addition to personal a/c's and cash book, some subsidiary books also maintained.

Advantages of Single Entry System:

- This System is less costly.
- It is very simple and easy to maintain.
- It is suitable only for sole trading and small partnership firm.

Disadvantages of Single Entry System:

- No arithematical accuracy.
- No Profit and loss a/c is maintained.
- Difficult to ascertain financial position.
- It encourages fraud.
- Rectification of errors is difficult.
- Comparison is difficult.
- Lack of business statistics.
- Difficult to fix the valued and assets.
- Difficult to obtain loan from banks or other financial institution.
- It is difficult to determine the taxable income.

Difference between Single Entry and double Entry System:

Sl	Basis of difference	Double Entry	Single Entry
1	Both Aspects	Both the aspects of a transaction are recorded	In some cases both and in other cases only one aspect is recorded.
2.	Accounts	All personal, real and nominal accounts are opened.	Only personal accounts and cash accounts are opened
3.	Trial Balance	Trial Balance can be prepared.	Trial Balance cannot be prepared
4.	Profit and Loss account	Trading and P&L a/c can be prepared to find out Gross profit and Net profit.	Trading and profit and loss a/c cam not be prepared
5.	Final position	Balance Sheet can be prepared to know the	Balance sheet cannot be prepared to know the financial

		financial position	position
6.	Method	Scientific method	Crude and unscientific method.
7.	Reliability	Most reliable	Not reliable
8.	Utility	Satiable for all types of business	Suitable only for sole Trading and Partnership firms.

Ascertainment of Profit under Single Entry System:

This can be ascertain under following method:

1. **Net worth method/statement of Affairs method or capital comparison method.**
2. **Conversion method.**

1. Net worth Method:

The following procedure in followed for the ascertainment of the profit/loss from the single entry books.

1. A Statement of affairs at the begin of the year that of the lost year is prepared to determine the amt of capital of the proprietor at the beginning of the ear.
2. A statement of affairs at the close of the year is prepared to determine the amount of capital at the end of the year.
3. Drawings made by the prperitor during the year should be added to the capital at the end of the year as ascertainment in the step 2
4. Capital introduced during the year should be deducted from the capital at the end.
5. Capital at the beginning of the year as ascertained in step 1 should be deducted from the capital at the end of the year as adjusted in step 3 and step 4 and differenced will be either a trading or P&L a/c.
6. Interest on capital and interest on drawings adjusted in P&L a/c a derived in step 5 to arrive at net profit or net loss for the year.

Problems:

1. I kept his books on SES. His position on 31/3/2022 was as follows:

Cash in hand	Rs. 200
Cash at bank	3000
Stock	20,000
Sundry Debtors	8,500
Furniture	1800
Plant and machinery	15,000
Sundry Creditors	22,000

Mr. J put Rs 5,000 during the year as new capital and his drawings were at Rs. 750 per month.

On 31/3/2003 his position was as follows:

Cash in hand	300
Cash at bank	2000
Sundry Debtors	14000
Stock	19000
Plant and machinery	27000
Furniture	1500
Sundry Creditors	29000

From the following Prepare the statement of affairs showing Profit & Loss on the year ending 31/3/2003.

2. Shankar Keeps his book on SES and following information is disclosed from the records

Particulars	31/12/2006 Rs	31/12/2007 Rs.
Bank balance	2100	5600
Stock	15000	20000
Debtors	30000	28500
Furniture	5000	5000
Investments	5000	5000
Cash in hand	100	400
Creditors	25000	27000
Bills payable	1000	500
Loan from X	nil	3000

1. Shankar transferred Rs. 250 each month during 1st half year and Rs. 200 each month for the remaining period of the business.
2. In addition he with drew Rs. 5000 for his daughter marriage and Rs.1000 for charitable purpose. He also with drew goods worth Rs. 1000 for domestic purpose.
3. In September 2007. he had received a lottery price of Rs. 5000 of which he invested into business. He sold his private car for Rs. 5500 and proceeds were utilized for business.
4. He wants his furniture to be depreciated at 10% and provision for bad debts at 5% . he had not paid 2 months salary to his clerks at Rs. 150 per months and 2 months rent of shop Rs. 200 in total.
5. Commission earned but not received war Rs. 2400.
   Calculate his business profit during the year.

CONVERSION METHOD:

CONVERSIION OF SINGLE ENTRY SYSTEM INTO DOUBLE ENTRY SYSTEM:

Step-1: Finding Missing Information.

Step-2: Preparation of Final a/c's.

Step -1: Finding Missing Information: To find out missing information the followings account s should be prepared:

Sl	**procedure**	**Comfortable**
1.	Statement of affairs	Statement of affairs
2.	Bills Receivable a/c	Bill Receivable A,c
3.	Bills payable a/c	Total Debtors a/c
4.	Total Debtors a/c	Bills payable a/c
5.	Total Creditors a/c	Total Creditors a/c
6.	Cash Book	Cash Book
7.	Memorandum Trading A/c	Memorandum Trading A/c
8.	Memorandum Profit & Loss A/c	Memorandum Profit & Loss A/c

Step – 2
Final Accounts

Trading Account | **Profit & Loss A/c** | **Balance Sheet**

Step -1: Finding Missing Information:

1. Prepare an Opening Statement Affairs:
    - Statement of affairs at the beginning of the year is to be prepared with the help of assets and liabilities at the beginning to find out the opening capital.
    - When the Opening Balance of cash, debtors, creditors, etc are not given in the problem, respective accounts must be prepared **first** and the balance ascertained must be taken in the preparation of statement of affairs.

Format of Statement of Affairs

Liabilities	**Rs**	**Assets**	**Rs**
Sundry Creditors	**xxx**	**Land & Building**	**xxx**
Bills payable	**xxx**	**Machinery**	**xxx**
Bank overdraft	**xxx**	**Furniture**	**xxx**
Outstanding Expenses	**xxx**	**Stock**	**xxx**
Income received in advance	**xxx**	**Debtors**	**xxx**
Capital (B/F)	**xxx**	**Bills Receivable**	**xxx**
		Cash at Bank	**xxx**
		Cash in hand	**xxx**
		Outstanding incomes	**xxx**
		Pre-paid expenses etd	**xxx**
	xxx		**xxx**

2. Prepare Bills Receivable Account:

a. **When the** Closing balance of Bills Receivable is not given, and all other information is available in the problem, the balancing figure in B/R a/c will be closing B/R. This Balance will appear in the Closing Balance Sheet.

b. **When the** Opening balance of Bills Receivable is not given, and all other information is available in the problem, the balancing figure in B/R a/c will be Opening B/R. This Balance will appear in the Opening Statements of Affairs.

c. **When both** Opening balance and closing balance of B/r are given in the problem, Usually the balancing figure will be

- Cash received against B/r (debit side is more than credit side) **& will appear on the debit side of cash book**
- Bills receivable received from debtors (credit side is more than debit side) & will appear on **the credit side of Total Debtors account**

Proforma of Bills Receivable Account

Liabilities	**Rs**	**Assets**	**Rs**
To Balance b/d	**xxx**	**By Cash(**cash received against B/R)	**xxx**
To Sundry Debtors (Bills received from Debtors)	**xxx**	By Sundry Debtors (B/R dishonored)	**xxx**
		By Sundry Creditors (B/R endorsed)	**xxx**
		By Balance C/d	**xxx**
			xxx
			xxx
			xxx
	xxx		**xxx**

3. Preparation of Bills payable Account:

d. **When the** Closing balance of Bills Payable is not given, and all other information is available in the problem, the balancing figure in B/P a/c will be closing B/P. This Balance will appear in the Closing Balance Sheet.

e. **When the** Opening balance of Bills Payable is not given, and all other information is available in the problem, the balancing figure in B/P a/c will be Opening B/P. This Balance will appear in the Opening Statements of Affairs.

f. **When both** Opening balance and closing balance of B/r are given in the problem, Usually the balancing figure will be

- Cash paid against B/P (credit side is more than debit side) **& will appear on the credit side of cash book**
- Acceptances given to Creditors (debit side is more than credit side) & will appear on **the debit side of Total Creditors account**

Proforma of Bills Payable Account

Particulars	**Rs**	**Particulars**	**Rs**
To Cash (cash paid to creditors) To Sundry Creditors (Bills dishonored) To Balance C/d	Xxx Xxx xxx	By Balance B/d By Sundry Creditors (Bills issued to creditors)	**Xxx** **xxx**
	xxxx		**xxxx**

4. Prepare Total Debtors Account:

a. When the closing balance of Total debtors is not given and all other information is available in the problem, the B/F in Total debtors will be Closing total debtors. This will appear in the 'Closing Balance Sheet'.

b. When the Opening balance of Total debtors is not given and all other information is available in the problem, the B/F in Total debtors will be opening total debtors. This will appear in the 'Statement of Affairs'.

- c. When both opening and closing balance of Total Debtors are given in the problem, then usually the balancing figure will be treated as cash received from debtors or B/R from debtors (debit side is more than credit side) . Cash received will appear on the debit side o cash book and B/R received will appear on the debit side or B/R a/c.
- Credit Sales (Credit side is more than debit side (credit sales will appear on the credit side of Trading a/c)

Total Debtors Account

Particulars	**Rs**	**Particulars**	**Rs**
To Balance b/d To Credit Sales To Bill Receivable (Dishonored) To Creditors(B/R Endorsed dishonored) To Cash (Paid t Debtors) To Interest cleared to Debtors To Carriage or any other expences	Xxx Xxx Xxx Xxx Xxx Xxx Xxx	By Cash (received from debtors) By B/R (Received from Drs) By Sales Returns/Return inwards By Bad Debts written off By Discount allowed By Allowance to Debtors By Balance C/d	**Xxx** **Xxx** **Xxx** **Xx** **Xxx** **Xxx** **Xxx**

cleared to Debtors			
	xxxx		**xxxx**

5. Prepare Total creditors Account:

a. When the closing balance of Total Crditors is not given and all other information is available in the problem, the B/F in Total Creditors will be Closing creditors in total Creditors a/c. This will appear in the 'Closing Balance Sheet'.

b. When the Opening balance of Total Creditors is not given and all other information is available in the problem, the B/F in Total Creditors will be opening total Creditors. This will appear in the 'Statement of Affairs'.

- c. When both opening and closing balance of Total Creditors are given in the problem, then usually the balancing figure will be treated as cash paid to creditors or B/P accepted by creditors (credit side is more than debit side) . Cash paid will appear on the credit side in cash book and B/P accepted by creditors will appear on the credit side of B/P a/c.
- Credit Purchases (debit side is more than credit side) (credit sales will appear on the credit side of Trading a/c)

Total Creditors Account

Particulars	**Rs**	**Particulars**	**Rs**
To Cash (paid to creditors)	Xxx	By Balance c/d	**Xxx**
To B/P (issued to Creditors)	Xxx	By Credit purchase	**Xxx**
To B/R (B/R endorsed)	Xxx	By B/P (Dishonored)	**Xxx**
To Purchase returns	Xxx	By Drs (B/R endorsed	**Xx**
To Discount received from Crs	Xxx	dishonored)	**Xxx**
To Allowance from Crs	Xxx	By Cash (received from Crs)	**Xxx**
To Balance C/d	xxx	By Int charged to Crs	**Xxx**
	xxxx		**xxxx**

6. Prepare Cash Book:

a. When the closing balance of Cash/Bank is not given and all other cash transactions are available in the problem, then, the B/F in the cash Boll will be Closing Cash/bank balance. This will appear in Closing Balance Sheet.

b. When the opening balance is not given and all other information is available then the B/F is treated as opening Balance of Cash/Bank. This will appear in the opening statement of affairs (in this case cash book should be prepared before preparing Statement of affairs).

c. When both opening and closing balance of Cash/Bank are not given in the problem usually B/F will be treated as cash paid to Crs or Drawings or Cash purchases or opening BOD, (debit side is more than credit side of cash book). And cash received from Drs or Cash sales or additional capital or closing BOD, (Credit side is more than debit side of Cash Book)

Cash Account

Particulars	**Rs**	**Particulars**	**Rs**
To Balance b/d		By Balance b/d	
To Drs(Cash received from Drs)		By Crs(Cash paid to Crs)	
To Cash Sales		By Cash purchases	
To B/R (cash received against B/R)		By B/P (cash paid against B/P)	
To Additional Capital		By Drawings	
To Other incomes		By Salaries	
To Balance c/d (closing BOD)		By Rent	
		By other Expences	
		By Balance C/d (Closing Balance of Cash)	
	xxxx		**xxxx**

7. Prepare Memorandum Trading A/C

When the G/P or percentage of G/P is given in the problem, then, it is an indication that any one of the Trading account item is missing. It could be opening stock or Total purchases or Closing stock or Total sales. To ascertain that Memorandum trading a/c is prepared.

Memorandum Trading Account

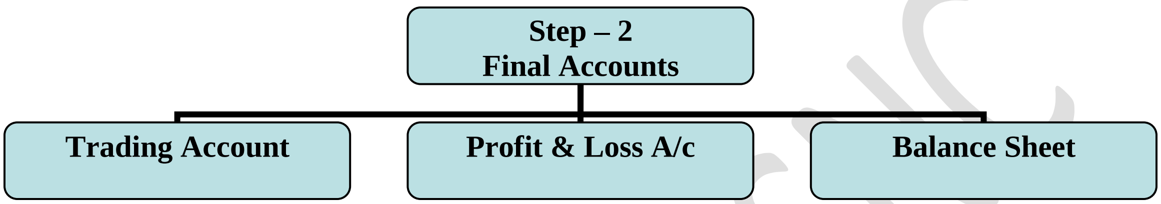
Particulars	**Rs**	**Particulars**	**Rs**
To opening Stock		By sales	
To Purchases		By Closing Stock	
To wages			
To Freight			
To power			
To G/P			
To other direct Exp			

8.Prepare Memorandum P&L A/c

When the N/P is already given in the problem, it is an indication that any of the items of P&L A/c is missing. It could be expenses or incomes , To ascertain that Memorandum P&L A/C is prepared.

Memorandum P&L Account

Particulars	**Rs**	**Particulars**	**Rs**
To Sundry Exp To N/P		By G/P b/d By Sundry Income	



Index:
1. Normal Problems(15 Marks)
2. Problems when Statement of affairs is prepared first
3. Problems when cash and bank a/c is opened
4. Others (5 Marks)

15 Marks problems:

1. Ashok does not maintain proper books of accounts. From the following information, prepare Trading and profit and loss a/c for the year ending 30th September, 2017and a Balance Sheet as on that date:

Stock	5200	5800
Drs	10300	11400
Cash	1500	1270
Furniture	1200	1500
Crs	4100	3750
B/R	600	800
B/P	1500	1000
Bank OD	3000	

Analysis of other transactions is as follows:

Cash paid t Crs	21500
Cash received from Drs	27800
Salaries	7200
Office Expenses	1200
Rent	2400
Cash Sales	13500
Cash purchases	4200
Discount allowed	600
Discount received	800
Bad debts	200

Return inwards	500
Return outwards	300
Payment made against Bills payable	1800
Cash received against Bills Receivable	1300
B/R dishonoured during the year	400
Drawings	1100
Provide 5% interest on capital	

2. From the information given below prepare Trading a/c & P/L a/c for the year ending 30/6/2022 & Balance sheet as on that date:

Particlars	**30/6/2021**	**30/6/2022**
Drs	16000	14800
Crs	6000	4800
O/S Rent	100	60
Cash	1500	
Stock	15000	16000
Plant	10000	12000

Cash transactions:

Receipts:

Cash Sales – 1000, Debtors-71,000

Payments:

Purchase of plant – 2000, Rent – 1240, Cash purchases – 2000, Payment to Crs – 31200, Salaries – 20000, Wages – 6000, Electricity – 2000, Drawings – 2560,

others

Bad debts already written of RS.200, Depreciation of Plant to be Rs.1200

3. The following information is obtained from the books of Mr. Ranjan who maintained the same under single entry system.

1. Receipts for year ending 31-12-2022

From Debtors	1,76,250
Cash Sales	41,250
Paid by Mr. Ranjan	25,000

Payments during the year

New plant bought	6,250
Drawings	15,000
Salaries	11,250
Wages	67,250
Interest paid	750
Rent paid	13,250
Light and power	4,750
S.Expenses	21,250
S. Creditors	76,250

Mr. Ranjan Banks all receipts and make all payments by means of cheques

Assets and Liabilities	**1-1-2022**	**31-12-2022**
Sundry Creditors	25,250	24,000
Sundry Debtors	37,500	61,250
Bank	6.250	
Stock	62,500	31,250
Plant	75,000	73,150

Prepare Trading and P/L a/c and Balance Sheet.

4. A trader who has not kept a complete set of books, ask you to prepare final a/cs for the year ended 31/3/2004

Summary of cash book:

Balance of Cash on 1/4/2003	5170
Receipt from Drs	42050
Payment from Crs	32400
Salaries	2500
Rent	1200
Electricity charges	360
Printing & Stationary	250
Advertisement	450

Particulars	**1/3/2005**	**31/3/2004**
Drs	3350	5100
Crs	1400	3500
O/s advertisement Exp		250
Furniture	5000	8000
Machinery	8000	8000

The Stock on 31/3/2004 was valued at Rs.4500 but the trader has no record of stock on 1/4/2003, However he informed you that he invariably sells goods at Cost +25% profit. He has regularly used goods worth Rs.120 per month for Private purpose, 1/3 or rent and electricity charges to be treated as personal expenses, depreciate furniture by 5% and machinery by 10%.

II. Problems when first statement of affairs is prepared

5. The books of Mr. Z showed the following information:

Particulars	**1/1/2022**	**31/12/2022**
Bank Balance		50000
Drs		87500
Crs		46000
Stock	50000	62500
Fixed Assets	7500	9000

The following are the details of the bank transactions:

Receipt from customers – 3,40,000

Payment to Crs – 2,80,000

Capital brought in 5,000
Sale of Fixed Assets 1,750
Expenses paid 49,250
Drawings – 25.000
Purchases of Fixed Assets – 5000
Other information:
Cost of goods sold – 2,60,000
Gross profit 25% on cost of goods sold
Book value of assets sold 2,500
Prepare Trading, Profit & Loss Account for the year ended 31-12-2007 and Balance sheet as at 31-12-2007

6. A trader keeps his books by single entry. The following was his positon:

Particulars	**1/4/2022**	**31/3/2022**
Stock		40000
Drs	30000	40000
Crs	15000	25000
Cash	5000	
Machinery	17000	18000

He has no record of opening stock but he informed you that normally his gross profit is 25% on sales,
Analysis of Cash transactions are : Cash sales amounted Rs. 23,000

Cash purchases	10000	Drawings	**3000**
wages	7000	Receipt from Drs	**50,000**
Salaries	3,000	Payment to Crs	**30,000**
Carriage Out wards	2,000	Machinery purchase paid excess	**3,000**
Advertisements	1,000	Interest received	**4000**
Domestic expenses	1,000		
Other business exp	2,000		

Other Information:
Bad debts 1000,, Discount allowed 2,000, Discount received 3000, Return inwards 4000, Return out wards 5000
You are required to prepare Trading & P&L a/c and Balance Sheet after providing 5% on RBDD and charge interest on capital at 5%

7. From the following information furnished by Mr.Kumar, who keeps his books of account on single entry system. Prepare his trading , P&LA/c for the year ending 31-3-2006 and Balance sheet as on that date.
   a. Summary of cash book:

BanK O.D on 1-4-2005	10,000
Cah Sales	23,000
Drawings	5,000
Manager salary	4,000

Salary to staff	7,000
General Expenses	2,000
Wages	8,000
Paid to creditors	62,000
Received from debtors	75,000
Cash on hand on 31-3-2006	500
Cash on bank on 31-3-2006	1,500

b.

Other assets and liabilities as on	**1-4-2005**	**31-3-2006**
Plant	40,000	40,000
Furniture	4,000	4,000
Stock	22,000	27,000
Debtors	9,000	12,000
Creditors	15,000	13,000

Other information:
Depreciate plant and furniture by 10%
Provide for doubtful debts @5% on Debtors.

8. Mr. Suma a general goods merchant does not maintain her books of accounts systematically. However the following information could be ascertained from her books of accounts for the year ended march 31st 2008.

Assets and Liabiities	1-4-2007	31-3-2008
Plant and Machinery	63,000	63,000
Stock of goods	28,000	24,500
S Drs	7,000	10,500
S Crs	17,500	16,310
Balance at bank	14,000	

Cash Transactions during the year ended 31-3-2008 :
Wages – 21,000
S Exp – 8,250
Advertisement expenses – 3,920
Rent paid – 8,750
Purchase expenses – 8,610
Cash collected from Drs – 2,88,750
Cash paid to Crs – 2,25,190
Drawing – 10,290
Ms. Suma drew goods worth Rs. 2,730 from the business during the year for her household purposes. The purchases returns and sales returns during the year amounted to RS.7,000 and Rs, 3,500 respectively. The plant and Machinery have to be depreciated @5%
Prepare Trading and P/L a/c for the year ended March 31 2008 and also a Balance sheet on the same date

III. Problems when cash and bank a/c is opened

.9. From the information supplied below by Sridhar Venture Ltd. Prepare P&L a/c for the year ended 31/12/2007 and a Balance Sheet as on that date:

Particulars	1/6/2007	31/12/2007
Sundry Fixed Assets	180000	200000
Stock in Hand	140000	190000
Cash in hand	82000	48000
Cash at bank	22000	80000
Sundry Drs		260000
Sundry Crs	120000	98000
Outstanding Expenses	10000	6000

During the year the following transactions took place:

1. Collection from Drs and discount allowed to them	2450000
2. Return Inward	60000
3. Bad debts	10000
4. Sales (cash & Credit)	3000000
5. Return Out ward	30000
6. Paid to suppliers by cheques	2362000
7. Collection from Drs and Deposited into the Bank	2430000
8. Cash purchases	100000
9. Salaries and wages paid by cheque	180000
10. Miscellaneous Cash Expenses	50000
11. Drawings in Cash	94000
12. Assets purchases by cheque	20000
13. Cash withdrawals from Bank	210000
14. Cash Sales deposited into Bank	
15. Discount Received	40000

10. A Client submits to you the following figures relating to his business in respect of the year ending 31st December 2003. Prepare a Trading & P&L a/c and a Balance Sheet as on that date. Any difference in the cash balance is assumed to be drawings. As the trader Lives in his business premises. 1/3 of the lighting and heating and of the rent and rates is to be treated as personal expenses and thus charged as drawings:

Cash paid into bank	8690
Private dividend paid into the business (cash)	200
Private payments out of bank	750
Business payments to creditors by cash and cheque	7950
Cash and cheques from Drs	11700
Wages	1500
Delivery expenses	600
Rent & Taxes	135
Lighting & Heatin	90
General Expenses	250
Bank Interest received	10

Stock	600	750
Bank Balance	800	1000
Cash in hand	30	20
Trade Drs	750	1050
Trade Crs	1200	1400
Investments	3000	3000

5 Marks Problems:

1. From the following information calculate total sales
Opening balance of Debtors 30,800
B/R in the beginning – 7,800
B/R en cashed during the year – 20,900
Cash Received from Debtors – 70,000
Bad debts written off – 8,700
B/R dishonored – 1,600
B/R at the end of the year – 6,000
Debtors at the end of the year – 26,500
Cash Sales as per cash book 40,900

2. Prepare total Debtors a/c and B/R a/c for the year ending 31-3-2000 from the following details
Total sales during the year – 1,12,500
Cash sales during theyear – 29,450
Return inwards – 450
Discount allowed – 150
Cash received from debtors – 68,750
Cash received against B/R – 2,900
Debtors on 1-4-99 – 39,250
Debtors on 31-3-2000 – 49,850
B/R on 1-4-99 – 1,900
B/R on 31-3-2000 – 1,450

3.Calculate total sales from the following information related to the total debtors
Opening Balance – 60,000
Acceptances received 3,08,000
Cash received 3,08,000
Goods returned by the debtors 40,000
Discount allowed to the debtors 2,000
Closing balance 20,000
The cash sales during the period amounted to Rs.90,000

4. From the following figures drawn from the books of Manasa you are required to calculate credit sales:
B/R in the beginning of the year – 7,800
Drs in the beginning of the year – 30,800
B/R encashed during the year – 20,900

Cash received from debtors – 70,000
Bad debts written off - 2,800
Returns Inwards – 8,700
B/R dishonored – 1,800
B/R at the end of the year – 6,000
Drs at the end of the year – 25,500

5. From the following facts supplied by Mr. Suman, who keeps his books on slingle-entry, you are required to calculated total purchases

Opening Crs – 30000
Opening Bills Payable – 15000
Cash and cheque paid to Crs (Including Rs. 10.000 to X Ltd for machine bill) 151000
Bills payable discharged during the year 40500
Returns outwards – 6000
Freight charged by suppliers – 10000
Discount allowed by Crs – 5000
B/P dishonoured – 1000
Cash purchases – 115000
Closing Crs – 20000
Closing B/P – 25000
Note: Opening Crs include Rs. 10000 to X Ltd.

2 Marks Questions

1. Give a specimen of B/R a/c as prepared under single entry system?
2. What is Single entry System of Book Keeping?
3. What is Quasi Single Entry System
4. State any two merits of single entry system
5. Give a specimen of B/P a/c as prepared under single entry system.
6. State any two demerits of Single Entry System
7. Mention any 2 items appearing on the debit side of a total Crs a/c
8. Why are total Drs a/c and total Crs a/c are prepared under Single Entry System
9. What is Net worth Method
10. What is Conversion Method
11. What is Pure Single Entry System
12. What is Simple Single Entry System

5 Marks Questions:

1. Briefly Explain the stages in the conversion of books of accounts from Single Entry system.
2. Give any five differences between Single Entry System and Double Entry System
3. Mention any five features of Single Entry System
4. What are the advantage and disadvantages of Single Entry System
5. Single entry system is incomplete, inaccurate, unscientific and unsystematic method of recording transactions' Discuss with four reasons
6. What are the differences b/w statement of affairs and Balance Sheet

DEPARTMENTAL ACCOUNTING

Departmental Undertaking:

Departmental Undertaking refers to a large organization or a concern which has a number of departments, each of which is specialized in a particular line of activity or a particular product or service.

Departmental Accounts:

To ascertain the individual results and individual performance or to know the individual result or performance of each department the accounts is maintained which can provide details of each individual department are called Departmental Accounts.

Objectives of Departmental Accounts:

- To enable the concern to ascertain the results and performance trend of each department.
- To enable the management to take decisions regarding the extent of investment or disinvestment to be made in each department, the continuance or discontinuance of loss making or low-profit making department etc
- To provide a basis for remunerating the employees of various departments.

Advantages of Departmental Accounts:

1. It enables the management to know the specific results of each department, thereby helping it in various aspects of decision making.
2. It can enable a healthy competition among the departments, which in turn, could lead to the overall development of the organization.
3. It provides a basis for deciding on the incentives and remuneration to the employees working in different departments.
4. Outsiders will be able to get a better view of the concern's performance.

Methods of Maintaining Departmental Account:

1.Singular Method

2. Columnar Method

Steps and procedures in preparation of Departmental Final Accounts

1. Preparation of Departmental Trading Account
2. Preparation of Departmental Profit and Loss Account
3. Preparation of General Profit and Loss Account
4. Preparation of Profit and Loss Appropriation Account
5. Preparation of Consolidated Balance Sheet.

1. **Preparation of Departmental Trading Account:**
   a. The details of opening stock, purchases, purchases returns, sales, sales returns, Direct expenses of each department and closing stock are available from accounting records.
   b. The details of direct expenses may be available individually for each department.
   c. If the details of direct expenses is not available individually or department wise then such expenses should be apportioned on a suitable basis.

Basis for apportioning direct expenses

Direct Expenditure	Basis of Apportionment
Freight charges and carriage inwards for purchases	Ratio of net purchases of each department (Net purchases=Gross purchases-purchase returns)
Import duty, octroi etc on purchases	Ratio of net purchases of each department (Net purchases=Gross purchases-purchase returns
Power Charges	Ratio of meter reading of each department or ratio of floor space occupied by each department, whichever is practical
Water Charges	Ratio of meter reading of each department

Note: If the problem specifies any particular basis for apportionment, the same must be adopted and not the basis stated in the table above.

2.Preparation of Departmental Profit and Loss Account:

Incomes of each department is separately available or if not so, then the incomes should be apportioned on a suitable basis

Basis for apportioning Incomes

Discount Received	Ration of net purchases of each department
Commission earned on sales	Ratio of net sales of each department

Reserve for discount on creditors	Raton of net purchases of each department

Note: If the problem specifies any particular basis for apportionment, the same must be adopted and not the basis stated in the table above.

Indirect Expenses of each department is separately available or if not so, then the Indirect Expenses should be apportioned on a suitable basis

Basis for apportioning Indirect Expenses

Indirect Expenditure	Basis of Apportionment
Discount allowed	Ratio of net sales
Selling commission	Ratio of net sales
Sales Tax	Ratio of net sales
Carriage outwards	Ratio of net sales
Traveling salesmen salary and commission	Ratio of net sales
After Sales Service	Ratio of net sales
Advertisement	Ratio of net sales or ratio of advertisement space
Bad Debts	Ratio of net sales
Reserve for bad debts	Ratio of net sales
Rent and rates	Ratio of floor space occupied by each dept
Repairs and insurance of buildings	Ratio of floor space occupied by each dept
Air Conditioning expenses	Ratio of floor space occupied by each dept
Electricity bills	Ratio of no of light points of each depts. Or Ratio of floor space occupied by each dept
Dep on machinery	Ratio of value of machinery of each dept or Ratio of floor space occupied by each dept
Repairs of machinery	Ratio of value of machinery of each dept or Ratio of floor space occupied by each dept
Insurance Premium	Ration of value of subject matter insured
Workmen’s Compensation Insurance	Ratio of wages to workers of each dept
Canteen Expenses	Ratio of number of workers of each dept
Recreation Expenses	Ratio of number of workers of each dept
Labour welfare expenses	Ratio of number of workers of each dept

Note: If the problem specifies any particular basis for apportionment, the same must be adopted and not the basis stated in the table above.

3. Preparation of General Profit and loss account :

- A General Profit and Loss account is prepared to ascertain the final result of each department can be ascertained. The net profit or loss of each department must be transferred to General Profit and loss account.
- Common incomes which are not apportion able among departments include dividend received transfer fees, interest on bank deposits etc.
- Common expenses which are not apportion able among departments include interest on capital, interest on debentures, general manager's salary, audit fees, director's fee, bank charge, legal charges, sundry office expenses etc.
- In the absence of space for instructions the above mentioned items are to be taken in the General Profit and Loss A/c.

4. Preparation of Profit and Loss Appropriation Account:

In case of departmental undertaking being joint stock company, a profit and loss Appropriation Account must be prepared to show the appropriation and carry forward of profits.

5. Preparation of Consolidated Balance Sheet:

Asset, liabilities of undertakings and Capital are required to prepare consolidated Balance sheet.

S**pecial Adjustments in Departmental Final Accounts:**

Departmental Manager's Commission:

Commission to the Manager of a particular department must be debited to the concerned department's profit and loss account and shown as outstanding expenditure on the liabilities side of the Balance Sheet.

Calculation of Commission:

- When the commission is to be calculated on profit before charging such commission

- When the commission is to be calculated on profit after charging such commission

General Mangers Commission:

Commission to the Manager of a particular department must be debited to the concerned department's profit and loss account and shown as outstanding expenditure on the liabilities side of the Balance Sheet.

Calculation of Commission:

- When the commission is to be calculated on profit before charging such commission

- When the commission is to be calculated on profit after charging such commission

Index:

1. Problems on Simple departmental accounting
2. Problems on Inter-departmental accounting
   - When inter departmental made transfer at Cost Price
   - When inter departmental made transfer at Selling price
3. Others (5 Marks problems)

15 Marks Problems:

1. The following balances as at 31-3-2002 are extracted from the books of a firm which runs two departments

Particulars	Dept-A	Dept-B	General
Opening stock: Materials Finished goods	 7000 18000	 5000 15000	
Purchases	230000	190000	
Purchase Returns	2000	1000	
Manufacturing wages	180000	160000	
Office Salaries	35000	32000	
Sales	633000	492000	
Sales Returns	3000	2000	
Sundry Drs			190000
S Crs			173000
Plant & Machinery			240000
Leaseholds			80000
Building & Structure			120000
Furniture & Fitting			48000
Office & selling Exp			128000
Cash in hand and at Bank on 31-3-2002			118000
Capital			250000

a. Plant and Machinery is to be depreciated by 10%. Building and Structures by 2%, Furniture and Fittings by 5%, Leaseholds are to be written off by Rs. 8000.
b. The Stock at the end were:
c. Rent materials: Dept –A- Rs.6000 Dept – B- 6000
d. Finished goods: Dept –A Rs. 20000 dept –B Rs. 18000
e. All unallocated expenditure is to be distributed in the ratio of the net sales of each department

Prepare in a columnar form trading & P&L A/c of the two departments and Balance sheet of the combined business as a whole as on 31-3-2002

2.A firm has two departments A and B During the trading period ending 31-3-2004. the requisite figures were as follows

Particulars	Dept-A	Dept - B	Total
Openings Stock	5000	7000	12000
Purchases	42000	52000	94000
Sale	80000	93000	173000
Purchase Returns	2000	2000	4000
Sales Returns	2000	2000	4000
Wages	5000	6000	11000
Carriage Inwards			4500
Discount received			1800
Carriage outwards			1300
Salaries	10000	13000	23000

General Salaries			13000
Rent rates taxes			5000
Discount allowed			1300
Sundry expenses			2600
Closing stock	6000	8000	14000

Prepare Trading and Profit and Loss Account in Columnar form assuming that

- Rent rates and taxes are pertaining to business premises which are occupied by the two departmental equally
- Depreciation at 10% is to be charged on Machinery costing Rs. 60000 which is used by the two departments in 2:1 ratio.

Inter Departmental Transfer:

Inter-departmental refers to selling of goods by one department to another department. The accounting treatment for this depends on whether the transfer is made at Cost price to the transferring department or at selling price to the transferring department

When inter-departmental transfers are made at cost price to the transferring department:

a. Purchase for the transferee department and hence must be debited to the concerned department's trading account and
b. Sales for the transferring department, and hence must be credited to the concerned department's trading account.

When inter-departmental transfers are made at selling price to the transferring department:

a. Purchases for the transferee department and hence must be debited to the concerned department's trading account and
b. Sales for the transferring department and hence must be credited to the concerned department's trading account.
c. Special adjustment should be made when the transfer made by one department to another is not fully sold.
d. When the goods transferred by one department to another, is in the closing stock of the transferee department, the amount of profit of transferring department included in such stock must be considered as unrealized profit.
e. A stock reserve must be created for unrealized profits in the closing stock of transferee department by debiting General Profit and Loss Account.
f. The amount of stock reserve so created must be deducted from Closing stock under the Assets side of the Balance Sheet.

3. Mr. Gopal who is running a departmental store has supplied you with the following ledger balances prepared for the year ended 31-12-2005

Particulars	Dept-A	Dept-B
Stock on 1-1-2005	2000	4000
Purchases A-6000 KGS	10000	
B-18000 KGS		16000
Wages	1200	1600
Sales	20000	30000
Rent and Taxes	1200	
Salaries	1440	
Carriage in wards	480	
Advertisement expenses	1560	
Discount (Cr)	360	
Furniture and Fixture	8000	
Drs	1600	
Investments	10000	
Creditors	800	
Capital	16000	
Drawings	400	
Bank	6000	
Cash	1680	

Prepare departmental trading account and profit and loss account for the year ended 31-12-2005 and the Balance sheet after taking into consideration the following adjustments:

a. Closing stock on 31-12-05 – A-Rs.200, B-Rs.4000
b. Internal transfer of goods from A to B Rs. 200 at cost.
c. Services rendered by B Dept. to A Dept included in wages of B Rs 40
d. Space occupied by Dept A 200 Sq feet B 400 Sq feet
e. Other incomes and expenses should be apportioned on the basis which you think most envitable.

4. From the following particulars prepare the Departmental Trading and Profit and Loss account for the year ending 31-12-2006

Particulars	Dept A	Dept B	Total
Opening Stock	14000	12000	26000
Purchases	75100	69800	144900
Sales	100000	80000	180000
Returns outward	1100	800	1900
Salaries	9000	8500	17500
General Salaries			11600
Rent and rates			6000
Advertising			8100
Insurance			1000
Carriage outwards			5400
Discount allowed			1800

Discount earned			1430
Accountancy charges			2860
Carriage inwards			1430

Additional information:

a. Goods transferred from Dept A to Dept B worth Rs.5000 were not recorded
b. General salaries are to be allocated equally
c. The area occupied is in the ratio of 3:2
d. Insurance premium and accountancy charges cannot be allocated conveniently to any department
e. Closing stock of Dept A was Rs. 16000 and that of Dept B Rs. 17000

5. Following figures are extracted from the books of needs stores Ltd

Particulars	Dept A	Dept B	Dept C
Purchases	200000	300000	800000
Return outwards	20000	10000	30000
Sales	610000	1220000	1830000
Return Inwards	10000	20000	30000
Wages	40000	60000	80000
Stock on 1-4-2004	50000	70000	10000
Stock on 31-3-2004	80000	50000	40000

1. Goods transferred from A Dept to B Dept - 10000
A Dept to C Dept – 20000
2. Goods transferred from B Dept to A Dept – 5000
B Dept to C Dept – 10000
3. Goods transferred from C Dept to A Dept - 7000
C Dept to B Dept – 9000

Following expenses are to allocated equally:

a. Telephone charges Rs.3000, Insurance charges Rs. 6000, Office expenses Rs.
b. 9000, Rent Rs.24000 to be divided in proportion of space i,e A-1/4, B-1/4 C-1/2
c. Other expenses were discount allowed Rs. 18000, Legal expenses Rs. 2000, Bad debts Rs. 15000, Income tax – 38000, interest on capital, 5000, interest on debentures Rs.16000, Director's fee Rs. 3000, General Manger's Salary RS. 10000, Audit fee Rs. 12000. Bank charges Rs. 9000

Prepare Departmental Trading and profit and loss account.

6. From the following information of Bangalore Departmental stores, prepare the departmental Trading and profit and loss Account for the year ending 31-12-2008

Particulars	Dept-X	Dept-Y	Total
Opening stock	6000	5000	11000
Purchases	62000	31000	93000
Sales	101500	76000	177500
Returns inwards	2000	1000	3000
Wages	4000	7500	11500
Return inwards	1500	1000	2500
Salary to office staff			25000

Rent and taxes			4500
Discount allowed			3500
Discount earned			2500
Carriage out wards			1400
General expenses			4200

Other information:

a. Office staff appointed: Dept X – 8 persons and Dept Y-12 Persons
b. Area occupied: Dept X – 400 Sq ft and dept Y – 800 Sq feet
c. Depreciation on machinery worth Rs.50000 at 10% and on furniture worth Rs. 15000 at 20% to be distributed between the departments equally
d. Stock of goods on 3-12-2008 Dept – X Rs 8000 and Dept y Rs. 4000
e. Interdepartmental transfers: Dept X to Dept Y Rs. 10000 which is not included in the above information

Exclude the interdepartmental transfers for the calculation of ratio.

Problems on stock Reserve:

7. A department stores has two departments namely A and B. It was arranged that Department B has to receive the requirements from Department A at its usual selling price which includes 20% profit.

The following are the figures extracted from the books of amount for the year ending 31-12-2003

Particulars	Dept - A	Dept – B
Stock on 1-1-2003	20000	
Purchases from out side	50000	10000
Sales	50000	35000
Goods supplied by Dept A to Dept B	15000	
Stock on 31-12-2003	25000	3000

a. Other Expenses are Rent Rs. 3000, General expenses Rs. 100, Area occupied A-2/3 & B-1/3
b. It has been estimated that stock held by Dept – B consists of goods supplied by Dept – A to the extent of 2/3

Prepare the columnar trading and profit and loss account for the year ending 31-12-2003

8. From the following balances of Ravi. Prepare Departmental Trading and Profit and Loss Account for the year ended 31-12-2003 after adjusting the unrealized profit, if any

Particulars	Dept - A	Dept – B
Opening Stock	25000	20000
Purchases	450000	778000
Sales	640000	960000

General expenses incurred for both departments were Rs.75000

Other information:

- Closing stock of Dept-A Rs.27000 (Including goods received from Dept B for Rs. 9000 at Cost)
- Closing Stock of Dept-B Rs30000 (Including goods received from Dept – A for Rs.8000 at Cost).

- Opening stock of Dept-A and Dept-B include goods of the value of Rs.3000 and Rs.2000 received from Dept B and Dept A respectively at Cost
- The gross profit is uniform from year to year

5 Marks Problems:

1. A firm has two departments A and B During the Trading period ending 31-3-2004

Particulars	Dept - A	Dept - B	Total
Opening Stock	5000	7000	12000
Purchases	42000	52000	94000
Sales	80000	93000	173000
Purchase returns	2000	2000	4000
Sales Returns	2000	2000	4000
Carriage inwards			4500
Power			6000
Wages			11000

Closing stock of Dept A 2000 and Dept B 9000 and wages are allocated in the ration of 5:6 and the number of units consumed by Dept A and Dept B are in the ration of 1:2 prepare departmental trading account in the columnar form.

2. Distribute the following expenses to the departments of a business on an appropriate basis:

Advertisement expenses – 25000
Rent – 12000
Electric lighting charges – 7000
Salaries paid – 200000
Depreciation – 9000
The following information is available regarding the departments

Particulars	A	B	C
Sales in Rs.	10,00,000	10,00,000	5,00,000
Floor Area in Sq mts.	600	400	200
No of the light points	10	15	10
No of employee	9	6	5
Values of assets in Rs.	5,00,000	2,00,000	2,00,000

3. From the following particulars of Niharika Enterprises. Prepare a departmental Trading Account

Stock on 1st January
Dept – A – 5000
Dept – B – 7000
Purchases during the year:
Dept – A
Dept – B
Sales during the year:
Dept – A – 80,000
Dept – B – 75,000

Wages – 31000
Carriage Inwards – 15500
Power – 7750
Apportion the expenses in proportion to the turnover of each department

4. The Huge Bazaar Departmental Stores has 3 departments D, E and F The following information relates to the 3 departments for the year ended March 31 2008. Calculate the departmental net profits:

particulars	D	E	F
Opening Stock	78000	91000	39000
Purchases	91000	97500	61100
Sales	156000	130000	78000
Direct Expenses	26260	181850	9230
Closing stock	101660	116350	46390

The total indirect expenses of the organization for the above period was Rs. 18200 The Indirect expenses vary with sales.

5. From the following particulars of Rama Enterprises prepare departmental trading and profit and loss account

Particulars	Department A	Department B
Opening stock	5000	8000
Purchases	20,000	16,000
Sales	45,000,	30,000
Wages	3,000	2,000
Closing Stock	12,000	10,000
Other Expenses	Office Salaries Rs, 24,000 Rent Rs. 16,000 Discount Allowed -4,500 Discount Earned Rs. 1,440	

Office staff appointed 10 persons in Dept A and 5 Persons in Dept B Area occupied 100 Sq ft by Dept A and 60 Sqft by Dept B

<u>2 Marks Theory Questions:</u>
1. What do you mean by departmental undertakings?
2. Mention important objectives of departmental accounting
3. Mention the basis of apportionment of the following expenses in case of departmental accounting- Labour welfare expenses, Advertising, Insurance premium, lighting bills, Carriage Inwards
4. Mention any 2 advantages of maintaining departmental accounts
5. Mention any 2 advantages of loaded price based inter departmental transfer of goods

MODULE 5

Emerging Trends in Accounting

Digital Transformation of Accounting - Big Data Analytics in Accounting - Accounting through Cloud Computing - Green Accounting - Human Resource Accounting - Inflation Accounting - Database Accounting (Concepts only)

DIGITAL TRANSFORMATION OF ACCOUNTING

Digital accounting refers to the formation, representation and transmission of financial data in an electronic format. Digital accounting is all about savings—time, space and money. No more waiting weeks for data. Having access to more timely accurate financial information provides owners and decision-makers with a competitive advantage.

Advantages of Digital transformation of Accounting

A Streamlined System: Recording the information or managing the books will be easy and gathering information will be faster.

Accessibility to Important Financial Information: Departments are interlinked together, with each department helping the other departments out. This is one of the key reasons why companies outperform others.

Ease of Use and Improved Speed and Productivity: The ease of use is one of the core aims of the changes in technology. Providing users with convenience and comfort, the accounting software applications are easy to use in comparison to the manual methods.

The primary purpose of recording all accounting data is to:

i) keep a record of all the transactions on a monthly or yearly basis and

ii) to analyze the data and the numbers accumulated to make business decisions.

Increased Data Security: With digital accounting, one can now backup data and secure it safely in a server. Obtaining the information in a cloud system will enable to retrieve data even if things go wrong.

(3) Lack of Expertise: Due to a Lack of Expertise, several firms struggle with analysis. Employees may lack the skills or knowledge to conduct in-depth Data Analysis. However, this challenge can be mitigated by emphasizing Analytical Ability during the hiring process.

ACCOUNTING THROUGH CLOUD COMPUTING

Cloud accounting software is similar to traditional, self-install accounting software, only the accounting software is hosted on remote servers, similar to the SaaS (Software as a Service) business model. Data is sent into "the cloud," where it is processed and returned to the user.

Advantages of Cloud Accounting

If the business is looking for a more effective way to manage its financial affairs, these are the six reasons for seriously considering a move to cloud accounting.

1. Mobile access at any time: With cloud accounting one can access his accounts and key financial figures at any time, from anywhere. If there is Wi-Fi and an Internet connection. one can always check the status of his business.

2. A cost and time-effective solution: Working online reduces IT costs and saves time by keeping constantly connected to the business.

Online accounting is carried out entirely from the cloud. There is no costly IT infrastructure for its maintenance.

3. Watertight security and no time-consuming back-ups: When accounts are cloud-based, then the accounts and records are all saved and backed up with military levels of encryption. On a cloud platform, back-ups and software updates become a thing of the past. The software updates automatically with latest functions, tax rates and necessary returns. This saves both time and money on tedious back-up procedures.

4. Share and Collaborate with ease: Working with colleagues, and sharing data with advisers, is an extremely straightforward process when you're based in the cloud. Colleagues, management team and advisers can all access the same numbers - instantly, from any geographical location. So, collaboration is always easy.

5. Reduces paperwork and is more sustainable: Using cloud accounting can deliver the dream of having a paperless office. With an online accounting system, one can significantly reduce the reliance on paperwork. Invoices can be emailed out directly to clients, removing the costs of printing and postage - and speeding up the payment process. Incoming bills and receipts can be scanned and saved directly with the associated transactions in our accounting software.

And because your documents are all digitised and stored in the cloud, there is no need to keep the paper originals - saving on filing space and storage costs.

6. Better control of financial processes: The efficiencies of Xero's online accounting software give you greatly improved control of your core financial processes.

Xero's online invoicing function streamlines the whole invoice process, giving a better view of expected income, an overview of outstanding debts and a clear breakdown of what each customer owes to business.

7. 24/7 access: A big advantage for many clients is the 'always on' availability of their financial information. Important indicators are often displayed on a dashboard so that you don't even have to go looking for them.

8. Realtime information: Another big advantage is that 'real time' information is available provided that you input your data on a timely basis.

Disadvantages of Cloud Accounting

1. Internet / Broadband speed: Cloud-based accounting requires a good Internet connection – otherwise slow speeds could impact efficiency and/or you could be affected by outages.

2. Data security: This is extremely important so you need to be confident that your provider adheres to high standards. In addition, you need strong discipline around things like controlling access so that when staff leave, for example, their logins to your system are removed.

3. Vendor lock in: Some clients worry about this in case they may need to switch to an alternative solution provider in future.

4. Lack of customisation: This is usually more of a concern for large organisations with legacy systems.

GREEN ACCOUNTING

Environmental accounting, also called green accounting, refers to modification of the System of National Accounts to incorporate the use of natural resources. Environmental accounting is a vital tool to assist in the management of environmental and operational costs of natural resources

Need for Environmental Accounting at Corporate Level

The environmental accounting at the corporate level helps the management to know whether corporate has been discharging its responsibilities towards sustainable development while meeting business objectives. Environmental accounting addresses the following:

1. Meeting regulatory requirements;
2. Operate its factory in a way that environmental damages do not occur;
3. Promote a culture and attitude of environmentally safe working amongst its employees;
4. Disclosure to shareholders the amount and nature of the preventative measures taken by the management;
5. Ensures safe handling and disposal of hazardous waste;

Scope of Environment Accounting

The scope of Environmental Accounting (EA) is extensive and includes corporate, national & international level.

The following aspects are included in environmental accounting:

1. The direct investments made by a corporate for minimization of losses to environment. It includes investment made into the equipment/devices that help in reducing potential losses to the environment. This can be easily monetized.
2. Indirect losses due to business operation. It mainly includes

• Degradation and destruction such as loss of biodiversity, air and water pollution, hazardous waste including bio medical waste, coastal marine pollution etc. • Depletion of non-renewable natural resources • Deforestation and land uses (measuring and monetizing them can be complex)

Forms of Environmental Accounting

a. Environmental Financial Accounting (EFA):

Environmental Financial accounting concentrates on reporting environmental liability costs and other significant environmental costs.

b. Environmental Management Accounting (EMA)

In EMA there is a particular focus on material and energy balance aspects and environmental cost information. This type of accounting is further classified into:

1. Segment Environmental Accounting: This is an internal environmental accounting tool to select an investment activity, or a project, related to environmental conservation from among all processes of operations, and to evaluate environmental effects for a specified period.
2. Eco Balance Environmental Accounting: This is an internal environmental accounting tool to support PDCA for sustainable environmental management activities.
3. Corporate Environmental Accounting: This is a tool to inform the public of relevant information compiled in accordance with the Environmental Accounting. This could be referred to as Corporate Environmental Reporting. For this purpose the cost and effect (in quantity and monetary value) of its environmental conservation activities are used.

c. Environmental National Accounting (ENA):

In national level accounting the particular focus is on natural resources stocks & flows, environmental costs & externality costs, etc.

Advantages of Green Accounting

Responsibility towards environment has become one of the most crucial areas of social responsibility. Recent years have witnessed rising concern for environmental degradation which is taking place mainly in the form of pollution of various types. It spoils human health, reduces economic productivity and leads to loss of amenities. So environmental accounting is gaining continuous popularity.

1. Discloses Utilisation of Natural Resources: Environmental accounting is helpful in presenting in a transparent manner, the utilisation of natural resources of the country, the costs incurred to use them and the income earned therefrom.

2. Social Contribution by Corporates: Environmental accounting helps in measuring the contribution made by various corporations or companies in fulfilling their social responsibilities.

3. Environmental Protection: A business enterprise does not live-in isolation. In order to maximize wealth, it takes support of social and ecological systems. Environmental accounting helps in measuring the extent to which a corporate enterprise has utilised the environmental resources. In any case, it has to be seen that a business enterprise in the course of their business activities does not vitiate, pollute or endanger environment. As a matter of fact, a number of laws have been enacted in our country to protect the environment.

Disadvantages of Green Accounting

The present format of national accounts does not provide a full economic value of environmental resources. The following are a few limitations:

1. Non-recognition of Environmental Expenditure: Expenditure incurred to protect the environment or preventing it from degradation cannot be separated from the present system of national accounts.

2. Non-marketed Goods and Services: Environment provides certain goods which are of high value but are not sold in the market. These may include firewood, building materials generated in the forests, medicinal plants, etc. Some countries do not incorporate these goods in their national accounts. However, they compute the marketable value of similar products and use it as a basis for valuing non-marketed goods and services.

3. Consumption of Natural Capital: The system of national accounts treats the gradual depletion of physical assets such as plant and equipment as depreciation. However, depletion of natural capital particularly the forest is treated as income. This seems to be an inconsistent approach. It will be appropriate to treat the depletion of natural capital, on the same pattern of that of depletion of physical assets.

4. Other Limitations of Environmental Accounting: (a) Environmental accountings have no economic value. (b) The method of estimating the social value of environmental goods and services is imperfect, and often misleading.

HUMAN RESOURCE ACCOUNTING

Definition of Human Resource Accounting

According to Woodriff Jr, vice President of R.G.Barry Corporation, "Human Resource Accounting is an attempt to identify and report investments made in human resources of an organisation that are presently not accounted for in conventional accounting practice. Basically it is an information systems that tells the management what changes over time are occurring to the human resources of the business."

According to American Accounting Society Committee, "Human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties."

In simple words, **human resource accounting** may be defined as the process of valuing human resources, recording such value in the books of accounts, and presenting the information in the financial statements of the business.

The present chapter deals with the first stage of the process *i.e.*, valuation of human resources.

Valuation of Human Resources

Valuation of human resources can be made on the basis of either the cost of the resource or on the basis of economic value of the resource. Therefore, the different methods of valuation of human resources can be classified into the following two categories, *viz.*

1. Cost based methods of human resource valuation.
2. Value based methods of human resource valuation.

Importance of Human Resource Accounting or Advantages of Human Resource Accounting

1. Human Resource accounting provides relevant information to the management enabling it to take appropriate decisions in matters relating to human resources like recruitment, selection, hiring, training, development, transfers, promotions, retrenchment, etc.
2. An investor or an analyst gets the complete picture about the effectiveness of application of funds by the organisation.
3. Human Resource Accounting brings in awareness in the employees about their levels of efficiency and performance, and thereby provides an opportunity for their improvement.
4. Management will be facilitated in the form of knowing accurately the return on Capital employed-both in physical and human resources-and thereby take steps for increasing the return.
5. Human Resource Accounting helps management to reorient their attitudes towards labour and in improving their administration styles.

Objections to or Limitations of Human Resource Accounting

1. Valuation of Human Resources is a vague concept. Quantifying the value of human resources, is almost an impossibility, despite the various methods suggested.
2. If the cost of measuring human resource value is higher than the benefits derived from it, the entire effort would be a waste and uncalled for.
3. No Law considers human resource as an asset, making human resource accounting just a theoretical concept.

4. The behaviour of human resources being unpredictable in nature, the output in any form is difficult to estimate, proving every model as insufficient and incomplete.
5. When the existing pay structure, promotion policies, training policies etc., are not structured, human resource valuation based on such weak structure, may not be appropriate.

INFLATION ACCOUNTING

Meaning of Inflation Accounting

Accounting for Price Level Changes or Price Level Accounting is a technique of preparing financial statements, wherein the general price level changes are reflected and true and fair view of the business is ascertained.

Although, the technique is supposed to incorporate changes in the general price level in the financial statements, the generally observed trend in prices being upward, accounting is done for increasing prices. Hence, the technique is also called ***Inflation Accounting***.

Merits of Inflation Accounting

Following are the merits of inflation accounting

1. This system helps in the comparative analysis of the profitability of two plants installed at different dates.
2. Revaluation of assets provides the correct value of investments in the business and an that basis the return on capital employed can be calculated more accurately. This is useful to owners, creditors and management.
3. In the period of rise in price - level, the amount of profit found under inflation accounting tends to be lower than the profit calculated after charging depreciation on the historical cost. Thus, trade unions, employees, shareholders and general public are not misguided as for as business profit is concerned.
4. Calculation of depreciation on the basis of replacement cost provides sufficient funds to replace the fixed assets more conveniently.
5. The use of this system makes all the real factors affecting the operations included in the books of account. Due to this business records are dynamic and price-level changes are easily adjusted.

Demerits of Inflation Accounting

1. The system is not acceptable to Income tax authorities.
2. Too much calculations make complications.
3. Changes in prices are a never ending process.
4. The amount of depreciation will be lower in times of deflation.
5. The profit calculated on the system of price level accounting may not be a realistic profit.

Approachs of Inflation Accounting

The following are the various methods for accounting of prime level changes:

I ***Current Purchasing Power (CPP) Method or General Purchasing Power (GPP) Method***: This method considers changes in general price level.

II ***Current Cost Accounting (CCA) Method***: This method considers changes in Prices of Specific Assets/Items only.

III ***Hybrid Method or Specific and General Price Level Accounting Method***: This method is a combination of the earlier two methods and considers changes in both general price level and specific assets.

DATABASE ACCOUNTING

A database is a shared collection of inter-related data tables which meet the various informational needs of an organization. Thus, an accounting database stores the accounting data. It is a collection of accounting data which is inter-related to depict the various aspects of the accounting information system.

AIS subsystems process financial transactions and nonfinancial transactions that directly affect the processing of financial transactions. For example, changes to customers' names and addresses are processed by the AIS to keep the customer file current. Although not technically financial transactions, these changes provide vital information for processing future sales to the customer.

The AIS is composed of three major subsystems:

(1) the transaction processing system (TPS), which supports daily business operations with numerous reports, documents, and messages for users throughout the organization;

(2) the general ledger/financial reporting system (GL/FRS), which produces the traditional financial statements, such as the income statement, balance sheet, statement of cash flows, tax returns, and other reports required by law; and

(3) the management reporting system (MRS), which provides internal management with special-purpose financial reports and information needed for decision making such as budgets, variance reports, and responsibility reports.

Advantage of Database Accounting

1. Simplicity: Most business owners are not accountants or bookkeepers by trade and find it challenging to do most accounting tasks. This is where accounting software programs give a business owner advantages. A wide variety of accounting software programs are consumer friendly.

2. Reliability: Most of the major software programs make using the program simple. The math is accurate and reliable, so a business owner can accurately determine available funds at any time.

3. Cost-Effectiveness: Hiring an in-house bookkeeper or outsourcing the work to a bookkeeper or accounting firm can be costly. The software program has an upfront cost and might require contracting a bookkeeper to set up the accounts and coach the business owner on using the program, but it quickly becomes cost-effective. The owner doesn't need to pay for anything beyond the software purchase and setup. Most programs work with operating systems for years and only occasionally require an inexpensive upgrade.

4. Ability to Collaborate: Many software programs allow business owners to set permissions that give an outside bookkeeper or accountant access to the data. Business owners can sync information with bank and credit accounts and import data with a click of a mouse. This allows business owners to quickly reconcile accounts and import the correct information that needs to be reviewed by key advisors.

Disadvantage of Database Accounting

1. Potential Fraud: Dependence on computers sometimes leads to bigger problems. With more software data being housed in the cloud, there are more opportunities for hackers to get your business's financial data and use it. This puts assets at risk and creates potential liability if hackers use employer tax identification to open credit cards and business loans. There is also the risk of someone within the business accessing the information, perhaps pilfering money from daily deposits and altering the data in the program.

2. Technical Issues: When dealing with computers, issues can arise. You may be completing year-end data for your accountant and experience a power outage. Computers might acquire a virus and fail. There is also the potential of users incorrectly performing software tasks that they are not familiar with. If a user tries to do one thing but inadvertently does something else, it might take some work to undo the error.

3. Incorrect Information: Bookkeeping records are only as good as the data put into the system. Business owners that don't take the time to establish account categories properly may enter data and generate reports that are not accurate.

REVIEW QUESTIONS

Section A Type Questions

1. a. What is meant digital transformation of accounting?
   b. Define big data.
   c. What is accounting through cloud computing?
   d. What is meant environmental accounting?
   e. Define HR accounting.
   f. Give the meaning of inflation accounting.
   g. What is database accounting?

Section B Type Questions

1. What are the advantages of disadvantages of digital tranformation of accounting?
2. What are the advantages of disadvantages of big data analytics in accounting?
3. State the need for environmental accounting.
4. What are the advantages of disadvantages of green accounting?
5. What are the merits of demerits of HR accounting?
6. State the uses and limitations of HR accounting.
7. What are the advantages of disadvantages of database accounting?