KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under Section 3 of UGC Act 1956)
Coimbatore – 641 021.

Semester I

		L	T	P	C
18CCU101	**FINANCIAL ACCOUNTING**	6	2	-	6

Learning Course Objectives

1. To give an insight into the basics of Accounting Concepts, Conventions, Principles and Techniques
2. To familiarize students with the regulatory framework of computing depreciation and preparation of Final Accounts
3. To impart the knowledge Hire Purchase and Installment System, Consignment and Joint Venture
4. To inculcate the knowledge on Partnership Accounting

Learning Course Outcomes

1. Students come out with the knowledge of Accounting and Book Keeping
2. Students will be able to prepare final Accounts for various concerns
3. Students are able to compute different methods of Depreciation
4. Students are capable to employ at Partnership firms
5. Students may compute Hire Purchase and Installment, Consignment and Joint Venture Accounting

UNIT- I

Accounting Information System:

i. Accounting as an information system, the users of financial accounting information and their needs. Qualitative characteristics of accounting, information. Functions, advantages and limitations of accounting. Branches of accounting. Bases of accounting; cash basis and accrual basis.

ii. The nature of financial accounting principles – Basic concepts and conventions: entity, money measurement, going concern, cost, realization, accruals, periodicity, consistency, prudence (conservatism), materiality and full disclosures.

iii. Financial accounting standards: Concept, benefits, procedure for issuing accounting standards in India. Salient features of First-Time Adoption of Indian Accounting Standard (Ind-AS) 101. International Financial Reporting Standards (IFRS): - Need and procedures

UNIT- II

Accounting Process:

From recording of a business transaction to preparation of trial balance including adjustments

Business Income:

Measurement of business income-Net income: the accounting period, the continuity doctrine and matching concept. Objectives of measurement: ii. Revenue recognition: Recognition of expenses. iii. The nature of depreciation. The accounting concept of depreciation. Factors in the measurement of depreciation. Methods of computing depreciation: straight line method and diminishing balance method; Disposal of depreciable assets-change of method. iv. Inventories: Meaning. Significance of inventory valuation. Inventory Record Systems: periodic and perpetual. Methods: FIFO, LIFO and Weighted Average. Salient features of Indian Accounting Standard (IND-AS)

Final Accounts:

Capital and revenue expenditures and receipts: general introduction only. Preparation of financial statements of non-corporate business entities

UNIT- III

Accounting for Hire-Purchase and Installment Systems, Consignment, and Joint Venture

Accounting for Hire-Purchase and installment system: Transactions, Journal entries and ledger accounts including Default and Repossession.

Accounting for Joint Venture-Consignment: Features, Accounting treatment in the books of the consignor and consignee. **Joint Venture:** Accounting procedures: Joint Bank Account, Records Maintained by Covertures of (a) all transactions (b) only his own transactions. (Memorandum joint venture account)

UNIT- IV

Accounting for Inland Branches

Concept of dependent branches; accounting aspects; debtors system, stock and debtors system, branch final accounts system and whole sale basis system. Independent branches: concept accounting treatment: important adjustment entries and preparation of consolidated profit and loss account and balance sheet.

UNIT- V

Accounting for Partnership: Valuation of Goodwill – Calculation of Profit Sharing Ratio – Admission – Retirement

Note: Distribution of marks - 20% theory and 80% problems

Suggested Readings:

Text Book

1. Reddy and Moorthy. (2013). *Financial Accounting* Chennai. Margham Publications.

Reference Book

1. S.P. Jain and K.L.Narang. (2016). *Financial Accounting.* Chennai, Kalyani Publishers
2. M.C.Shukla, T.S. Grewal and S.C.Gupta. (2013).*Advanced Accounts*. [Vol.-I Revised Edition] New Delhi, S. Chand & Co.
3. S.N. Maheshwari, and. S. K. Maheshwari.(2012). *Financial Accounting*.[First Edition]. New Delhi, Vikas Publishing House.
4. Deepak Sehgal. (2014). *Financial Accounting*.[4th Ed]. New Delhi, Vikas Publishing House,
5. Tulsian, P.C. (2011). *Financial Accounting*, [4th Ed]. New Delhi, S.Chand Publishing
6. Compendium of Statements and Standards of Accounting. (2012). New Delhi, The Institute of Chartered Accountants of India.

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established under Section 3 of UGC Act, 1956)
Coimbatore - 641 021
Department of Commerce
I B.Com/B. Com (CA)/ B. Com (PA)/ B. Com (BPS) (2018-2021)
Financial Accounting (18CMU101/18CCU101/18PAU101/18BPU101)

UNIT I

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
The process of recording, classifying, analyzing and communicating the financial transactions is called as	single entry	accounting	journalising	ledger	accounting
Accounting begins ----------------- ends.	book keeping	voucher	business transactions	overdraft as per pass book	book keeping
The statement containing various ledger balances on a date is known as ---------------	trial balance	balance sheet	profit/loss a/c	net profit	trial balance
Ledger is a set of -------------	accounts	journal	transactions	overdraft as per pass book	accounts
Journal records transactions in a ----------- order.	chronological	analytical	sequence	capital account	chronological
Ledger records in an -------- order	Alphabetical	analytical	chronological	cash	analytical
When the goods are returned to the supplier a ---------- is sent to him	debit note	credit note	journal proper	ledger	debit note

In doubel entry system, every business transaction records ------------ aspect	one	two	three	four	two
Impersonal account are classified in to	three	two	four	five	two
The process of transferring the debit and credit items from a journal to their respective account in the ledger is termed as -----------------	posting	recording	both (a) and (b)	net profit	posting
An asset worth Rs. 1,00,000 is sold for Rs.85,000 the capital loss amounts to	Rs.85,000	Rs.1,00,000	Rs.15,000	Rs.1,85,000	Rs.15,000
Amount spent on acquiring a copy right is an example for	capital expenditure	revenue expenditure	deferred revenue expenditure	Profit and loss	capital expenditure
One of the current assets is	Stock	Machinery	land	Sales	Stock
cost means ---------	price	expenses	production	building .	price
An account which receives the benefit from a transaction is called --------	credit	debit	both debit and credit	not a transaction	debit
If investments having an original cost of Rs. 20,000 are sold for Rs.16,000, so what is the capital loss?	Rs. 20,000	16,000	Rs.4000	Rs.36,000	Rs.4000
Bank account is a	Personal account	Real account	nominal account	capital account	Personal account
A written document in support of a transaction is called --------------	Receipt	credit note	Debit note	total cost of asset	Receipt

Business transaction may classified in to ---------------- transactions	Three	Two	One	invoice book	two
Rent paid to land lord. Rent account is a	Personal account	Real account	nominal account	not an account	nominal account
Purchase return means goods return to the supplier due to -----------	good quality	defective quality	super quality	overdraft as per pass book	defective quality
Amount spent in order to produce and sell the goods and services is called	expense	income	revenue	total cost of asset	expense
Amount owned by the proprietor is ------------	assets	liabilities	capital	overdraft as per pass book	capital
The accounting equation is connected with -------------------	assets only	liabilities only	assets, liabilities, and capital	invoice book	assets, liabilities, and capital
Goods sold to 'X' should be debited to	cash a/c	X a/c	sales a/c	total cost of asset	X a/c
Purchased goods from ' Y' for cash should be credited to	Y a/c	Cash a/c	purchases a/c	overdraft as per pass book	Cash a/c
Withdrawals of cash from bank by the proprietor for office use should be credited to	drawings a/c	bank a/c	cash a/c	total cost of asset	bank a/c
Purchased goods from X on credit should be credited to	X a/c	Cash a/c	Purchases a/c	total cost of asset	X a/c
An entry is passed in the beginning of each current year is called	original entry	final entry	opening entry	invoice book	opening entry

As per business entity assumption the business is different from the	owners	banker	Government	total cost of asset	owners
Going concern assumption tells us the life of the business is	very short	very long	long	capital account	very long
Cost incurred should be matched with the revenues of the particular period is based on	matching concept	historical concept	full disclosure concept	invoice book	matching concept
As per dual aspect concept, every business transaction has	three aspects	one aspect	two aspects	total cost of asset	two aspects
Ledger is a book of	original entry	final entry	all cash transactions	invoice book	final entry
A brief explanation of the transactions with necessary details written under each journal entry within brackets.	journal	ledger	narration	account	narration
The column of ledger which links the entry with journal is	L.F column	J.F column	particulars column	overdraft as per pass book	J.F column
A date wise record of the transactions with details of the accounts debited and credited and the amount of each transactions.	journal	ledger	narration	account	journal
Nominal account having credit balance represents	income / gain	expenses/losses	assets	capital account	income gain
Nominal account having debit balances represents	income/gain	expenses/losses	liability	invoice book	expenses/losses
Real account always shows	debit balances	credit balances	nil balances	invoice book	debit balances

An account which contains details about expenses, losses, incomes and gains.	real account	nominal account	personal account	impersonal account	nominal account
When the total of debits and credits are equal, it represents	debit balance	credit balance	nil balance	total cost of asset	nil balance
Debit what comes in and credit what goes out is related to	real account	nominal account	personal account	impersonal account	real account
An accounting system based on the principle "for every debit there must be correspondent credit of equal amount and vice versa".	double entry system	single entry system	triple entry system	four entry system	double entry system
Purchase book is kept to record --------------	all purchases	cash purchases only	only credit purchases	total cost of asset	only credit purchases
Credit sales are recorded in ------------	sales book	sales return book	purchase return book	cash book	sales book
Goods returned by customers are recorded in	sales book	sales return book	purchase return book	cash book	sales return book
The cash book records -------------------	all cash payments	all cash receipts	all cash receipts and payments	overdraft as per pass book	all cash receipts and payments
Cash book is one of the ----------- books.	purchase book	subsidiary book	sales book	invoice book	subsidiary book
The balance of cash book indicates	net income	cash in a hand	debtors and creditors	Sales	cash in a hand
Purchase journal records only ---------- purchase of goods	credit purchases	cash purchases	credit sales	cash sales	credit purchases

Sales journal records all ----------- sales of goods	credit purchases	cash purchases	credit sales	cash sales	credit sales
Purchases Book, Sales Book, Purchase Return Book and Sales Return Book are	day books.	Cash book	Subsidiary book	debit book	Subsidiary book
Which is given to a customer who buys goods regularly or buys goods in large quantity?	Trade discount	Cash discount	Commission	Percentage	Trade discount
According to ------------------concept the revenue is recognized on its realizations and not on its actual receipt.	Business entity	cost	matching	accrual	accrual
As per accounting procedure, Investment account is a	Personal account	Real account	nominal account	not an account	real account
Sales book otherwise known as ----------	purchase book	sales return book	day book	purchases return book	day book
A ---------------- is a special journal which is used for recording all cash receipts and cash payments.	day books.	Cash book	Subsidiary book	debit book	cash book
In a business , very small expenses like postage, telegram are recorded in ------	cash book	day book	Subsidiary book	petty cash book	petty cash book
To find the arithmetical accuracy of all accounts, --------------- is prepared.	subsidiary	journal	ledger	trial balance	trial balance

UNIT- II

Accounting Process :

From recording of a business transaction to preparation of trial balance including adjustments

Business Income :

Measurement of business income-Net income: the accounting period, the continuity doctrine and matching concept. Objectives of measurement. ii. Revenue recognition: Recognition of expenses. iii. The nature of depreciation. The accounting concept of depreciation. Factors in the measurement of depreciation. Methods of computing depreciation: straight line method and diminishing balance method; Disposal of depreciable assets-change of method. iv. Inventories: Meaning. Significance of inventory valuation. Inventory Record Systems: periodic and perpetual. Methods: FIFO, LIFO and Weighted Average. Salient features of Indian Accounting Standard (IND-AS)

Final Accounts :

Capital and revenue expenditures and receipts: general introduction only. Preparation of financial statements of non-corporate business entities

ACCOUNT

Every transaction has two aspects and each aspect has an account. It is stated that '**an account is a summary of relevant transactions at one place relating to a particular head**'.

Classification of Accounts

Transactions can be divided into three categories.

i. Transactions relating to individuals and firms

ii. Transactions relating to properties, goods or cash

iii. Transactions relating to expenses or losses and incomes or gains.

Therefore, accounts can also be classified into Personal, Real and Nominal. The classification may be illustrated as follows

I. Personal Accounts: The accounts which relate to persons. Personal accounts include the following.

i. **Natural Persons:** Accounts which relate to individuals. For example, Mohan's A/c, Shyam's A/c etc.

ii. **Artificial persons:** Accounts which relate to a group of persons or firms or institutions. For example, HMT Ltd., Indian Overseas Bank, Life Insurance Corporation of India, Cosmopolitan club etc.

iii. **Representative Persons:** Accounts which represent a particular person or group of persons. For example, outstanding salary account, prepaid insurance account, etc. The business concern may keep business relations with all the above personal accounts, because of buying goods from them or selling goods to them or borrowing from them or lending to them. Thus they become either Debtors or Creditors.

The proprietor being an individual his capital account and his drawings account are also personal accounts.

II. Impersonal Accounts: All those accounts which are not personal accounts. This is further divided into two types viz. Real and Nominal accounts.

i. **Real Accounts:** Accounts relating to properties and assets which are owned by the business concern. Real accounts include tangible and intangible accounts. For example, Land, Building, Goodwill, Purchases, etc.

ii. **Nominal Accounts:** These accounts do not have any existence, form or shape. They relate to incomes and expenses and gains and losses of a business concern. For example, Salary Account, Dividend Account, etc.

Golden Rules of Accounting

All the business transactions are recorded on the basis of the following rules.

S. No.	**Name of Account**	**Debit**	**Credit**
1.	Personal	The receiver	The giver
2.	Real	What comes in	What goes out
3.	Nominal	All expenses and losses	All incomes and gains.

Books of Original Entry

The books in which a transaction is recorded for the first time from a source document are called *Books of Original Entry* or *Prime Entry*. *Journal* is one of the books of original entry in which transactions are originally recorded in a chronological (day-to-day) order according to the principles of Double Entry System.

Journal

Journal is a date-wise record of all the transactions with details of the accounts debited and credited and the amount of each transaction.

Format

Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)

Explanation:

1. ***Date:*** In the first column, the date of the transaction is entered. The year and the month are written only once, till they change. The sequence of the dates and months should be strictly maintained.
2. ***Particulars:*** Each transaction affects two accounts, out of which one account is debited and the other account is credited. The name of the account to be debited is written first, very near to the line of particulars column and the word **Dr.** is also written at the end of the particulars column. In the second line, the name of the account to be credited is written, starts with the word '**To**', a few space away from the margin in the particulars column to the make it distinct from the debit account.

3. ***Narration:*** After each entry, a brief explanation of the transaction together with necessary details is given in the particulars column with in brackets called **narration**. The words 'For' or 'Being' are used before starting to write down narration. Now, it is not necessary to use the word 'For' or 'Being'.
4. ***Ledger Folio (L.F):*** All entries from the journal are later posted into the ledger accounts. The page number or folio number of the Ledger, where the posting has been made from the Journal is recorded in the L.F column of the Journal. Till such time, this column remains blank.
5. ***Debit Amount:*** In this column, the amount of the account being debited is written.
6. ***Credit Amount:*** In this column, the amount of the account being credited is written.

Steps in Journalising

The process of analysing the business transactions under the heads of debit and credit and recording them in the Journal is called **Journalising**. An entry made in the journal is called a '**Journal Entry**'.

Step 1: A Determine the two accounts which are involved in the transaction.

Step 2: A Classify the above two accounts under Personal, Real or Nominal.

Step 3: A Find out the rules of debit and credit for the above two accounts.

Step 4: A Identify which account is to be debited and which account is to be credited.

Step 5: A Record the date of transaction in the date column. The year and month is written once, till they change. The sequence of the dates and months should be strictly maintained.

Step 6: A Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation Dr. in the same line. Against this, the amount to be debited is written in the debit amount column in the same line.

Step 7: A Write the name of the account to be credited in the second line starts with the word '**To**' a few space away from the margin in the particulars column. Against this, the amount to be credited is written in the credit amount column in the same line.

Step 8: A Write the narration within brackets in the next line in the particulars column.

Step 9: A Draw a line across the entire particulars column to separate one journal entry from the other.

Ledger

In the Journal, each transaction is dealt with separately. Therefore, it is not possible to know at a glance, the net result of many transactions. So, in order to ascertain the net effect of all the transactions relating to a particular account are collected at one place in the Ledger.

A Ledger is a book which contains all the accounts whether personal, real or nominal, which are first entered in journal or special purpose subsidiary books.

According to **L.C. Cropper**, 'the book which contains a classified and permanent record of all the transactions of a business is called the Ledger'.

The ledger that is normally used in a majority of business concern is a bound note book. This can be preserved for a long time. Its pages are consequently numbered. Each account in the ledger is opened preferably on a separate page. If one page is completed, the account will be continued in the next or some other page. But in bigger concerns, it is not practical to keep the ledger as a bound note book; Loose-leaf ledger now takes the place of a bound note book. In a loose-leaf ledger, appropriate ruled sheets of thick paper are introduced and fixed up with the help of a binder. Whenever necessary additional pages may be inserted, completed accounts can be removed and the accounts may be arranged and rearranged in the desired order. Therefore, this type of ledger is known as **Loose-leaf Ledger**.

Utility

Ledger is a principal or main book which contains all the accounts in which the transactions recorded in the books of original entry are transferred. Ledger is also called the **'Book of Final Entry'** or **'Book of Secondary Entry'**, because the transactions are finally incorporated in the Ledger. The following are the advantages of ledger.

i. Complete information at a glance:

All the transactions pertaining to an account are collected at one place in the ledger. By looking at the balance of that account, one can understand the collective effect of all such transactions at a glance.

ii. Arithmetical Accuracy

With the help of ledger balances, Trial balance can be prepared to know the arithmetical accuracy of accounts.

iii. Result of Business Operations

It facilitates the preparation of final accounts for ascertaining the operating result and the financial position of the business concern.

iv. Accounting information

The data supplied by various ledger accounts are summarized, analysed and interpreted for obtaining various accounting information.

FORMAT

Ledger Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
Year Month Date	To (Name of Credit Account in Journal)			Year Month Date	By (Name of Debit Account in Journal)		

Explanation:

i. Each ledger account is divided into two parts. The left hand side is known as the debit side and the right hand side is known as the credit side. The words 'Dr.' and 'Cr.' are used to denote Debit and Credit.

ii. The name of the account is mentioned in the top (middle) of the account.

iii. The date of the transaction is recorded in the date column.

iv. The word 'To' is used before the accounts which appear on the debit side of an account in the particulars column. Similarly, the word 'By' is used before the accounts which appear on the credit side of an account in the particulars column.

v. The name of the other account which is affected by the transaction is written either in the debit side or credit side in the particulars column.
vi. The page number of the Journal or Subsidiary Book from where that particular entry is transferred, is entered in the Journal Folio (J.F) column.
vii. The amount pertaining to this account is entered in the amount column.

Recording of Transactions in the ledger

Before recording transactions, we shall follow few steps that will help us know which account is debited and which account is credited. Please remember that in accounting we always look at things from the point of view of the business only.

1. State what are the accounts affected
2. Categorise each account under assets, liabilities, equity, revenue and expenses.
3. State whether each item is increasing or decreasing.
4. Translate the increase and decrease into debit and credit by using the table of balances below. (Same was given when we learnt the rules for assets, liabilities, equity, expenses and revenue)

CATEGORY	BALANCE	INCREASE	DECREASE
Assets	Dr	Dr	Cr
Liabilities	Cr	Cr	Dr
Equity	Cr	Cr	Dr
Revenue	Cr	Cr	Dr
Expenses	Dr	Dr	Cr

5. Verify that there are one debit entry and one credit entry of the same amount.
6. Record the transaction.

Problem 1. Pass journal entries for the following transactions in the books of Nikhil Bhusan:

1997 Jan. 1 Commenced business with a capital Rs. 20,000

3 Amount deposited in S.B.I Rs. 5,000

6 Goods purchased for cash Rs. 7,000

10 Furniture purchased from Chinmoy Rs. 5,000

11 Goods sold to Anil Majumdar for cash Rs. 8,000

13 Goods sold to Ashim Das Rs. 2,000

25 Cash drew for private uses Rs. 500

31 Salaries paid Rs. 800

Solution:

Journal

Date	Particulars	L. F.	Dr. Amount ₹	Cr. Amount ₹
1997 Jan. 1	Cash Account Dr. To Capital Account (Being capital invested)		20,000	20,000
3	Bank Account Dr. To Cash Account (Being cash deposited into bank)		5,000	5,000
6	Purchase Account Dr. To Cash Account (Being goods purchased for cash.)		7,000	7,000
10	Furniture Account Dr. To Chinmoy's Account (Being furniture purchased from Chinmoy.)		5,000	5,000
11	Cash Account Dr. To Sales Account (Being goods sold to Mazumdar on cash.)		8,000	8,000
13	Ashim Das' Account Dr. To Sales Account (Being goods sold to Ashim Das.)		2,000	2,000
25	Drawings Account Dr. To Cash Account (Being cash drew for personal use)		500	500
31	Salaries Account Dr. To Cash Account (Being salaries paid.)		800	800

Problem 2. Post the following transactions in the books of Amar's Ledger A/c and Balance them:-

2004

March 1 Bought goods for cash Rs. 25,000 2
Sold goods for cash Rs. 50,000

3 Bought goods for credit from Gopi Rs.19,000

5 Sold goods on credit to Robert Rs.8,000

7 Received from Robert Rs. 6,000

9 Paid to Gopi Rs.5,000
20 Bought furniture for cash Rs. 7,000

Solution :

Ledger Accounts
Cash Account

Dr. Cr.

Date	Particulars	J.F	Amount Rs.	Date	Particulars	J.F	Amount Rs.
2004				2004			
Mar 5	To Sales A/c		50,000	Mar 1	By Purchases A/c		25,000
7	To Robert A/c		6,000	9	By Gopi A/c		5,000
				20	By Furniture A/c		7,000
				31	By Balance c/d		19,000
			56,000				56,000
April 1	To Balance b/d		19,000				

Purchases Account

Dr. Cr.

Date	Particulars	J.F	Amount Rs.	Date	Particulars	J.F	Amount Rs.
2004				2004			
Mar 1	To Cash A/c		25,000	Mar	By Balance c/d		44,000
3	To Gopi A/c		19,000	31			
			44,000				44,000
April 1	To Balance b/d		44,000				

Sales Account

Dr. Cr.

Date	Particulars	J.F	Amount Rs.	Date	Particulars	J.F	Amount Rs.
2004 Mar 31	To Balance c/d		58,000	2004 Mar 2	By Cash A/c		50,000
				5	By Robert A/c		8,000
			58,000				58,000
				April 1	By Balance b/d		58,000

Furniture Account

Dr. Cr.

Date	Particulars	J.F	Amount Rs.	Date	Particulars	J.F	Amount Rs.
2004				2004			
Mar 20	To Cash A/c		7,000	Mar 31	By Balance c/d		7,000
			7,000				7,000
Apr 1	To Balance b/d		7,000				

Gopi Account

Dr. Cr.

Date	Particulars	J.F	Amount Rs.	Date	Particulars	J.F	Amount Rs.
2004				2004			
Mar 19	To Cash A/c		5,000	Mar 3	By Purchases A/c		19,000
31	To Balance c/d		14,000				
			19,000				19,000
				April 1	By Balance b/d		14,000

Robert Account

Dr. Cr.

Date	Particulars	J.F	Amount Rs.	Date	Particulars	J.F	Amount Rs.
2004				2004			
Mar 5	To Sales A/c		8,000	Mar 7	By Cash A/c		6,000
				31	By Balance c/d		2,000
			8,000				8,000
Apr 1	To Balance b/d		2,000				

TRIAL BALANCE

In the previous chapters, you have learnt how to record and classify the transactions in the various accounts along with balancing thereof. The next step in the accounting process is to prepare a statement to check the arithmetical accuracy of the transactions recorded so for. This statement is called **'Trial Balance'**.

Trial balance is a statement which shows debit balances and credit balances of all accounts in the ledger. Since, every debit should have a corresponding credit as per the rules of double entry system, the total of the debit balances and credit balances should tally (agree). In case, there is a difference, one has to check the correctness of the balances brought forward from the respective accounts. Trial balance can be prepared in any date provided accounts are balanced.

Definition

"Trial balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books" – **J.R. Batliboi.**

Objectives of Trial Balance

The objectives of preparing a trial balance are:

- To check the arithmetical accuracy of the ledger accounts.
- To locate the errors.
- To facilitate the preparation of final accounts.

Advantages of Trial Balance

The advantages of the trial balance are

- It helps to ascertain the arithmetical accuracy of the book-keeping work done during the period.
- It supplies in one place ready reference of all the balances of the ledger accounts.
- If any error is found out by preparing a trial balance, the same can be rectified before preparing final accounts.
- It is the basis on which final accounts are prepared.

Methods of Trial Balance

A trial balance can be prepared in the following methods.

The Total Method : According to this method, the total amount of the debit side of the ledger accounts and the total amount of the credit side of the ledger accounts are recorded.

The Balance Method : In this method, only the balances of an account either debit or credit, as the case may be, are recorded against their respective accounts. The balance method is more widely used, as it supplies ready figures for preparing the final accounts.

Problem 10. The following balances were extracted from the ledger of Rahul on 31st March, 2003. You are requested to prepare a trial balance as on that date in the proper form.

	Rs.		**rs.**
Salaries	36,320	Purchases	1,44,670
Sales	1,73,500	Sundry Debtors	1,430
Plant & Machinery	34,300	Travelling Expenses	2,630
Commission Paid	1,880	Carriage Inward	240
Stock on 1.4.2002	11,100	Sundry Creditors	14,260
Repairs	1670	Capital, 1.4.2002	62,500
Sundry Expenses	460	Drawings	3,500
Returns Inward	1,000	Cash at Bank	1,090
Discount Allowed	1,150	Returns Outward	400
Rent and Rates	3,220	Investments	6,000

Solution:

Trial Balance of Rahul as on 31/3/2003

S. No.	Name of the Account	L. F.	Dr. Rs.	Cr. Rs.	Nature of Balance (Why Dr. or Cr.)
1.	Salaries		36,320	–	Nominal A/c-expense
2.	Sales		–	1,73,500	Real A/c - goods
3.	Plant and Machinery		34,300	–	Real A/c - asset
4.	Commission Paid		1,880	–	Nominal A/c expense
5.	Stock on 1.4.2002		11,100	–	Real A/c - goods
6.	Repairs		1,670	–	Nominal A/c-expense
7.	Sundry Expenses		460	–	Nominal A/c-expense
8.	Returns Inward		1,000	–	Real A/c - goods
9.	Discount Allowed		1,150	–	Nominal A/c - loss
10.	Rent & Rates		3,220	–	Nominal A/c-expense
11.	Purchases		1,44,670	–	Real A/c - goods
12.	Sundry Debtors		1,430	–	Personal A/c – customers
13.	Travelling Expenses		2,630	–	Nominal A/c-expense
14.	Carriage Inward		240	–	Nominal A/c-expense
15.	Sundry Creditors		–	14,260	Personal A/c – suppliers
16.	Capital 1.4.2002		–	62,500	Personal A/c - owner
17.	Drawings		3,500	–	Personal A/c - owner
18.	Cash at Bank		1,090	–	Real A/c - asset
19.	Returns Outward		–	400	Real A/c - goods
20.	Investments		6,000	–	Real A/c. - asset
	TOTAL		2,50,660	2,50,660	

INCOME

One of the most significant accounting concepts is "**Concept of Income**". Similarly, measurement of a business income is also an important function of an accountant.

In General term, payment received in lieu of services or goods are called income, for example, salary received by any employee is his income. There may be different type of incomes like Gross income, Net income, National Income, and Personal income, but we are here more concerned for a business income. Surplus revenue over expenses incurred is called as "Business Income."

Objectives of Net Income

Following are the important objectives of a net income −

- Historical income figure is the base for future projections.
- Ascertainment of a net income is necessary to give portion of profit to employees.
- To evaluate the activities, which give higher return on scarce resources are preferred. It helps to increase the wealth of a firm.
- Ascertainment of a net income is helpful for paying dividends to the shareholders of any company.
- Return of income on capital employed, gives an idea of overall efficiency of a business.

Definition of Income

The most authentic definition is given by the American Accounting Association as −

"The realized net income of an enterprise measures its effectiveness as an operative unit and is the change in its net assets arising out of a (a) the excess or deficiency of revenue compared with related expired cost, and (b) other gains or losses to the enterprise from sales, exchange or other conversion of assets:".

According to the American Accounting Association, to be as business income, income should be realized. For example, to be a business income, only appreciation in value of assets of a company is not enough, for this, asset has really been disposed of.

Accounting Period

For the measurement of any income concerns, instead of a point of time, a span of time is required. Creditors, investors, owners, and government, all of them require systematic accounting reports at regular and proper intervals. The maximum interval between reports is one year, as it helps a businessman to take any corrective action.

An accounting period concept is directly related to matching concept and realization concept; in the absence of any of them, we could not measure income of the concerns. On the basis of matching concept, expenses should be determined in a particular accounting period (usually a year) and matched with the revenue (based on realization concept) and the result will be income or loss of the accounting period.

Computation of Business Income

To compute business income, following are the two methods −

Balance Sheet Approach

Comparison of the closing values (Assets minus outsider's liabilities) of a firm with the values at the beginning of that accounting period is called as Balance Sheet approach. In above value, an addition to capital will be subtracted and addition of drawings will be added while computing the business income of a firm. Since, income is calculated with the help of Balance Sheet hence called as Balance Sheet approach.

Transaction Approach

Transactions are mostly related to production or the purchase of goods and the sale of goods and all these transactions directly or indirectly related to the revenue or to the cost. Therefore, surplus collection of the revenue by selling goods, spent over for production or purchasing the goods is the measure of income. This system is widely followed by the enterprises where double entry system adopted.

Measurement of Business Income

There are following two factors which are helpful in the estimation of an income −

- **Revenues** − Sale of goods and rendering of services are the way to generate revenue. Therefore, it can be defined as consideration, recovered by the business for rendering services and goods to its customers.
- **Expenses** − An expense is an expired cost. We can say the cost that have been consumed in a process of producing revenue are the expired cost. Expenses tell us - how assets are decreased as a result of the services performed by a business.

Measurement of Revenue

Measurement of the revenue is based on an accrual concept. Accounting period, in which revenue earned, is the period of revenue accrues. Therefore, a receipt of cash and revenue earned are the two different things. We can say that revenue is earned only when it is actually realized and not necessarily, when it is received.

Measurement of Expenses

- In case of delivery of goods to its customers is a direct identification with the revenue.
- Rent and office salaries are an indirect association with the revenue.

There are four types of events (given below) that need proper consideration about as an expense of a given period and expenditure and cash payment made in connection with those items −

- Expenditure, which are expenses of the current year.
- Some expenditure, which are made prior to this period and has become expense of the current year.
- Expenditure, which is made this year, becomes expense in the next accounting periods. For example, purchase of fixed assets and depreciation in next up-coming years.
- Expense of this year, which will be paid in next accounting years. For example, outstanding expenses.

Recognition of Revenue

Most frequent criteria, which are used in recognition of the revenue are as follows −

- **Point of Sale** − Transfer of ownership title to a buyer is point of sale, in case of sale of commodity.
- **Receipt of Payment** − Criteria of cash basis is widely used by the attorneys, physicians, and other professionals in which revenue is considered to be earned at the time of collection of cash.
- **Instalment Method** − Instalment method is widely used in retail trading specially in consumer durables. In this system, revenue earned is treated in the same manner as is used in any other credit sale.
- **Gold Mines** − The accounting period in which gold is mined is the period of revenue earned.
- **Contracts** − Degree of contract completion, especially in long term construction contracts is based on percentage of completion of a contract in a single accounting year. It is based on total estimated life of the contract.

Allocation of Costs

Matching of expired revenue and expired costs on a periodic time basis is the satisfactory basis of allocation of cost as stated earlier.

Measurement of Costs

Measurement of costs can be determined by −

- **Historical Costs** − To determine periodic net income and financial status, historical cost is important. Historical cost actually means - outflow of cash or cash equivalents for goods and services acquired.
- **Replacement Costs** − Replacing any asset at the current market price is called as replacement cost.

Basis of Measurement of Income

Following are the two significant basis of measurement of income −

- **Accrual Basis** − In an accrual basis accounting, incomes are recognized in a company's books at the time when revenue is actually earned (however, not essentially received) and expenses is recorded when liabilities are incurred (however, not essentially paid for). Further, expenses are compared with revenues on the income statement when the expenses expire or title has been transferred to the buyer, and not at the time when the expenses are paid.
- **Cash Basis** − In a cash basis accounting, revenues and expenses are recognized at the time of physical cash is actually received or paid out.

REVENUE RECOGNITION

Revenue recognition is an accounting principle under generally accepted accounting principles (GAAP) that determines the specific conditions under which revenue is recognized or accounted for. Generally, revenue is recognized only when a specific critical event has occurred and the amount of revenue is measurable. However, there are several situations in which exceptions may apply.

Breaking Down Revenue Recognition

Revenue is at the heart of business performance. Everything hinges on the sale. As such, regulators know how tempting it is for companies to push the limits on what qualifies as revenue, especially when not all revenue is collected when the work is being done. Lawyers tend to bill clients in billable hours and present the bill after the case is completed. Construction managers often bill clients on a percentage-of-completion method. As a result, analysts like to know that revenue recognition policies for a company are relatively standard for the industry. This also helps to ensure an apples-to-apples comparison is being made between metrics using line items from the income statement.

Revenue Recognition Examples

If you pay for a candy bar with cash, it is considered a sale. If you pay for the candy bar with a piece of Monopoly money, it is not considered a sale. So, for example, assume Sue the store owner must report sales to her investors and knows that revenue is not the same as cash on paper. Sue is desperate to look good on paper, so she takes the Monopoly money and recognizes it as revenue. Investors think the company has positive earnings, but the revenues aren't real. Thankfully, investors are protected against such a scenario for many reasons, one of which is because there are certain rules about recognizing revenue to prevent managers like Sue from recording a fake sale.

Revenue recognition states that revenue should not be recorded until it is earned. However, not all sales are made in cash. The speed with which credit sales become cash is also a critical component of revenue recognition.

The classic case of misguided revenue recognition is a furniture company that is having a bad year. As a promotional gesture, the manager extends credit terms with no money down. The furniture company sells out of furniture and recognizes sales as revenue on the income statement, but the manager received no cash. The company is revenue-rich and cash-poor.

GAAP Changes to Revenue Recognition Policies

The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) jointly issued Accounting Standards Codification (ASC) 606, regarding revenue from contracts with customers. ASC 606 provides a uniform framework for recognizing revenue with contracts. The old guidance was based on industry specific guidance, which created a system of fragmented policies. The new guidance is industry-neutral and therefore more transparent. Most companies have until 2018 to implement changes.

Revenue is the amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income.

Revenue is calculated by multiplying the price at which goods or services are sold by the number of units or amount sold.

Breaking Down Revenue

Revenue is the amount of money that is brought into a company by its business activities. Revenue is also known as sales, as in the price-to-sales ratio, an alternative to the price-to-earnings ratio that uses revenue in the denominator.

There are different ways of calculating revenue, depending on the accounting method a business employs. Accrual accounting will include sales made on credit as revenue, as long as the goods or services have been delivered to the customer. It is therefore necessary to check the cash flow statement to assess how efficiently a company collects the money it is owed. Cash accounting, on the other hand, will only count sales as revenue if the payment has been received. When cash is paid to a company, this is known as a "receipt" to distinguish it from revenue. It is possible to have receipts without revenue, if the customer paid in advance for a service that has not been rendered or goods that have not been delivered.

Revenue is known as the "top line" because it is displayed first on a company's income statement. Expenses are then deducted from revenue in order to obtain net income, or profit – the "bottom line."

A company's revenue may be subdivided according to the divisions that generate it. For example, a recreational vehicles department might have a financing division, which could be as a separate source of revenue. Revenue can also be divided into "operating revenue," or sales from a company's core business, and "non-operating revenue," which derives from other, secondary sources. As these non-operating revenue sources are often not predictable or recurring, they can be referred to as one-time events or gains. For example, proceeds from the sale of an asset, a windfall from investments or money awarded through litigation would be considered non-operating revenue.

Investors will often consider a company's revenue and net income separately to determine the health of a business. It is possible for net income to grow while revenue remains stagnant, as a result of cost-cutting; such a situation does not bode well for a company's long-term growth. When public companies report quarterly earnings, the two figures that receive the most attention are typically revenue and earnings per share ("earnings" being equivalent to net income). Subsequent price movement in stocks generally correlates to whether a company beat or missed analysts' revenue and earnings per share expectations.

In the case of government, revenue is the money received from taxation, fees, fines, inter-governmental grants or transfers, securities sales, mineral rights and resource rights, as well as any sales that are made.

For non-profits, revenue is often referred to as "gross receipts." Its components include donations from individuals, foundations and companies; grants from government entities; investments; fundraising activities; and membership fees.

Cash Cost

Cash cost is a cash basis accounting cost recognition process that classifies costs as they are paid for in cash, and is recognized in the general ledger at the point of sale. This method is contrary to the accrual cost recognition method, which directly influences the operating cash flow figure.

Breaking Down Cash Cost

Cash costs are costs that businesses pay for when using cash, or a check, but not credit. On a cash accounting basis, the costs paid for by using credit would not be recorded in the general ledger until the actual cash has been paid. This is the main reason why firms moved away from the cash accounting method to the accrual method, as the accrual method will recognize credit transactions as well as cash transactions.

DEPRECIATION

All assets whose benefit is derived for a long period of time, usually more than one year period are called as **Fixed Assets.** These assets decrease in value year after year due to wear and tear or lapse of time. This reduction in value of Fixed Assets is called Depreciation. Generally, the term 'depreciation' is used to denote decrease in value, but in accounting, this term is used to denote decrease in the book value of a fixed asset. Depreciation is the permanent and continuous decrease in the book value of a fixed asset due to use, effluxion of time, obsolescence, expiration of legal rights or any other cause. For instance, a factory owner, owns a machinery worth Rs.1,00,000, may estimate the life of the machinery as five years. This means that the value of the asset is reducing every year. Hence, it is necessary to spread the cost over five years during which the benefit of the asset is derived. Thus depreciation Rs.20,000 (Rs.1,00,000 / 5 years) is to be treated as an expense, which is debited to Profit and Loss account.

DEFINITION

In the words of Spicer and Pegler, "Depreciation is the measure of the exhaustion of the effective life of an asset from any cause during a given period".

Carter defines depreciation as "the gradual and permanent decrease in the value of an asset from any cause".

According to ICMA (Institute of Cost and Management Accountants - London) Terminology "Depreciation is the diminution in intrinsic value of asset due to use and lapse of time".

The above definitions reveal that when fixed assets are used in business to generate income, they lose their production capacity or earning capacity and at a particular point of time they render themselves useless. This reduction in the production capacity or earning capacity is termed as depreciation.

NEED FOR PROVIDING DEPRECIATION

The need for providing depreciation in accounting records arises due to any one or more of the following reasons.

1. To ascertain correct profit / loss

For proper matching of cost with revenues, it is necessary to charge depreciation against revenue in each accounting year, to calculate the correct net profit or net loss.

2. To present a true and fair view of the financial position

If the amount of depreciation is not provided on fixed assets in the books of account, the value of fixed assets will be shown at a higher value than it's real value in the balance sheet. As such it will not reflect the true and fair financial position of the business. Hence, to present a true and fair view of the financial position of the business, it is necessary that depreciation must be deducted from the book value of the assets in the balance sheet.

3. To ascertain the real cost of production

For ascertaining the real cost of production, it is necessary to provide depreciation.

4. To comply with legal requirements

As per Section 205(1) of the Companies Act 1956, it is compulsory for companies to provide depreciation on fixed assets before it declares dividend.

5. To replace assets

Depreciation is provided to replace the assets when it becomes useless.

CAUSES OF DEPRECIATION

The causes of depreciation may be internal or external. The internal causes arise from operation of any cause natural to or inherent in the asset itself. External causes arise from the operation of forces outside the business. These are being discussed below:

I. INTERNAL CAUSES

1. Wear and tear: Wear and tear is an important cause of depreciation in case of tangible fixed asset. It is due to use of the asset.

2. Disuse: When a machine is kept continuously idle, it becomes potentially less useful.

3. Maintenance: The value of machine deteriorates rapidly because of lack of proper maintenance.

4. Depletion: It refers to the physical deterioration by the exhaustion of natural resources eg., mines, quarries, oil wells etc.

II. EXTERNAL CAUSES

1. Obsolescence: The old asset will become obsolete (useless) due to new inventions, improved techniques and technological advancement.

2. Effluxion of time: When assets are exposed to forces of nature, like weather, wind, rain, etc., the value of such assets may decrease even if they are not put into any use.

3. Time Factor: Lease, copy-right, patents are acquired for a fixed period of time. On the expiry of the fixed period of time, the assets cease to exist.

TERMS USED FOR DEPRECIATION

1. Amortization: This refers to loss in the value of intangible assets such as goodwill, patents and preliminary expenses.

2. Depletion: Decrease in the value of mineral wealth such as coal, oil, iron ore, etc. is termed as depletion. The more we extract mineral wealth, the more they are depleted.

3. Obsolescence: When an asset becomes useless due to new inventions, improved techniques and technological advances, it is termed as obsolescence.

FACTORS DETERMINING THE AMOUNT OF DEPRECIATION

1. Original cost of the asset It implies the cost incurred on its acquisition, installation, commissioning and for additions or improvements thereof which are of capital nature

2. Estimated life: It implies the period over which an asset is expected to be used.

3. Residual value : It implies the value expected to be realised on its sale on the expiry of its useful life. This is otherwise known as **scrap value** or **turn-in value**.

METHODS OF CALCULATING DEPRECIATION

1. Straight line method or fixed instalment method.
2. Written down value method or diminishing balance method

3. Annuity method.
4. Depreciation Fund method.
5. Insurance Policy method.
6. Revaluation method

Straight Line Method or Fixed Instalment Method or Original Cost Method

Under this method, the same amount of depreciation is charged every year throughout the life of the asset. The amount and rate of depreciation is calculated as under.

1) Amount of depreciation

= Total cost - Scrap value / Estimated Life

2) Rate of depreciation

= Amount of Depreciation / Original Cost x100

Problem 1

A company purchased Machinery for Rs.1,00,000. Its installation costs amounted to Rs.10,000. It's estimated life is 5 years and the scrap value is Rs.5,000. Calculate the amount and rate of depreciation

Solution:

Total cost = Purchase Price + Installation Charges
= Rs.1,00,000 + Rs.10,000
= Rs. 1,10,000
Amount of depreciation = Total cost - Scrap value / Estimated life
= Rs.1,10,000-Rs.5,000 / 5
= Rs.1,05,000 / 5
= Rs.21,000

Merits:

1. Simplicity: It is very simple and easy to understand.

2. Easy to calculate: It is easy to calculate the amount and rate of depreciation.

3. Assets can be completely written off: Under this method, the book value of the asset becomes zero or equal to its scrap value at the expiry of its useful life.

Demerits:

The amount of depreciation is same in all the years, although the usefulness of the machine to the business is more in the initial years than in the later years.

Written Down Value Method or Diminishing Balance Method or Reducing Balance Method

Under this method, depreciation is charged at a fixed percentage each year on the reducing balance (i.e., cost less depreciation) of asset. The amount of depreciation goes on decreasing every year. For example, if the asset is purchased for Rs.1,00,000 and depreciation is to be charged at 10% p.a. on reducing balance method, then

Depreciation for the 1st year = 10% on Rs.1,00,000, ie., Rs.10,000
Depreciation for the 2nd year = 10% on Rs.90,000
(Rs.1,00,000 – Rs.10,000)
= Rs. 9,000
Depreciation for the 3rd year = 10% on Rs.81,000
(Rs.90,000 - Rs.9,000)
= Rs.8,100

Merits:

1. Uniform effect on the Profit and Loss account of different years: The total charge (i.e., depreciation plus repairs and renewals) remains almost uniform year after year, since in earlier years the amount of depreciation is more and the amount of repairs and renewals is less, whereas in later years the amount of depreciation is less and the amount of repairs and renewals is more.

2. Recognised by the Income Tax authorities: This method is recognised by the Income Tax authorities

3. Logical Method: It is a logical method as the depreciation is calculated on the diminished balance every year.

Demerits:

It is very difficult to determine the rate by which the value of asset could be written down to zero.

Distinction between Straight Line Method and Diminishing Balance Method:

Points of distinction	Straight line method	Diminishing balance method
1. Charge of depreciation	Depreciation is charged on the original cost of the asset.	Depreciation is charged on the written down value of the asset.
2. Change in Depreciation amount	Throughout the life of the asset, the amount of depreciation remains to be equal	Amount of depreciation is more during earlier years of the life of asset than later years and therefore amount is never equal.
3. Balance in Asset's account	Asset's account at the expiry of the expected life becomes nil.	Asset's account never becomes nil.
4.Overall charge	The overall charge, i.e., depreciation and repairs taken together go on increasing from year to year.	Overall charge remains same for every year throughout the life of the asset.
5. Profits	Profits under this method are more during the earlier years of the life of the asset because of less charge of repairs.	Profits are less during the earlier years than the later years because of higher charge for depreciation.
6. Suitability	It is suitable for assets having shorter life and lesser value.	It is suitable for assets having long life and requiring additions or extensions in its life and substantial repairs in later years.

Annuity Method:

The annuity method considers that the business besides loosing the original cost of the asset in terms of depreciation and also looses interest. On the amount used for buying the asset. This is based on the assumption that the amount invested in the asset would have earned in case the same amount would have been invested in some other form of investment. The annual amount of depreciation is determined with the help of annuity table. This method is used to calculate depreciation amount on lease.

Depreciation Fund Method or Sinking Fund Method :

Under this method, funds are made available for the replacement of asset at the end of its useful life. The depreciation remains the same year after year and is charged to Profit and Loss account every year through the creation of depreciation fund. The amount of annual depreciation is invested in good securities bearing interest at a specified rate. The aggregate amount of interest and annual provision is invested every year. When the asset is completely written off or is to be replaced, the securities are sold and the amount so realised by selling securities is used to replace the old asset.

Insurance Policy Method:

According to this method, an Insurance policy is taken for the amount of the asset to be replaced. The amount of the policy is such that it is sufficient to replace the asset when it is worn out. A sum equal to the amount of depreciation is paid as premium every year. The amount goes on accumulating at a certain rate of interest and is received on maturity. The amount so received is used for the purchase of new asset, replacing the old one.

Revaluation Method:

Under this method, the assets like loose tools are revalued at the end of the accounting period and the same is compared with the value of the asset at the beginning of the year. The difference is considered as depreciation.

RECORDING DEPRECIATION

Depreciation is directly charged against the asset by debiting Depreciation account and crediting the Asset account. Depreciation account is closed by transferring to Profit and Loss account at the end of the year. The entries will be as under:

1) For the amount of depreciation to be provided at the end of the year:

Depreciation A/c Dr.
To Asset A/c

2) For transferring the amount of depreciation at the end of the year.

Profit and Loss A/c Dr.
To Depreciation A/c

Asset Account will be shown at cost less depreciation i.e., written down value at the end of the year in the Balance sheet.

1. On 1-1-99, A ltd., purchased machinery for Rs. 1,20,000 and on 30th June 2000, it acquired additional machinery at a cost of Rs.20,000. On 31st March 2001, one of the original machines, which had cost Rs.5,000 was found obsolete and sold as scrap for

Rs.500. It was replaced on that date by a new machine costing Rs.8,000. Depreciation is provided at the rate of 15% per annum on the written down value.

Show the ledger accounts for the first three years

(a) When depreciation is written off in the asset account; and

(b) When depreciation is accumulated in a separate account.

Solution:

Machinery Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-99	To Bank a/c	1,20,000	31-12-99	By Depreciation a/c	18,000
				By Balance C/d	1,02,000
		1,20,000			1,20,000
1-1-00	To Balance B/d	1,02,000	31-12-00	By Depreciation a/c	16,800
30-6-00	To Bank a/c	20,000		By Balance C/d	1,05,200
		1,22,000			1,22,000
1-1-01	To Balance B/d	1,05,200	31-3-01	By Bank	500
31-3-01	To Bank a/c	8,000		By Depreciation a/c	135
				By P&L a/c	2,977
			31-12-01	By Depreciation a/c (15,238 + 900)	16,138
			31-12-01	By Balance C/d	93,450
		1,13,200			1,13,200
1-1-02	To Balance B/d	93,450			

Depreciation account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31-12-99	To Machinery a/c	18,000	31-12-99	By P&L a/c	18,000
		18,000			18,000
31-12-00	To Machinery a/c	16,800	31-12-00	By P&L a/c	16,800
		16,800			16,800
31-3-01	To Machinery a/c	135	31-12-01	By P&L a/c	16,273
31-12-01	To Machinery a/c	16,138			
		16,273			16,273

(b) When depreciation is accumulated in a separate account:

MachineryAccount

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-99	To Bank a/c	1,20,000	31-12-99	By Balance C/d	1,20,000
		1,20,000			1,20,000
1-1-00	To Balance B/d	1,20,000	31-12-00	By Balance C/d	1,40,000
30-6-00	To Bank a/c	20,000			
		1,40,000			1,40,000
1-1-01	To Balance B/d	1,40,000	31-3-01	By Bank	500
31-3-01	To Bank a/c	8,000		By Prov. For dep. A/c	1,523
				By P & L a/c	2,977
			31-12-01	By Balance C/d	1,43,000
		1,48,000			1,48,000

Provision for Depreciation Account

Machinery Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31-12-99	To Balance C/d	18,000	31-12-99	By Depreciation a/c	18,000
		18,000			18,000
31-12-00	To Balance C/d	34,800	1-1-00	By Balance B/d	18,000
			31-12-00	By Depreciation a/c	16,800
		34,800			34,800
31-12-01	To Machinery a/c	1,523	1-1-01	By Balance B/d	34,800
31-12-01	To Balance C/d	49,550	31-3-01	By Depreciation a/c	135
			31-12-01	By Depreciation a/c	16,138
		51,073			51,073

Depreciation Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31-12-99	To Prov. For Dep. A/c	18,000	31-12-99	By P & L a/c	18,000
		18,000			18,000
31-12-00	To Prov. For Dep. A/c	16,800	31-12-00	By P & L a/c	16,800
		16,800			16,800
31-3-01	To Prov. For Dep. A/c	135			
31-12-01	To Prov. For Dep. A/c	16,138	31-12-01	By P & L a/c	16,273
		16,273			16,273

Workings:
Original cost of asset sold as on 1-1-99 Rs. 5,000
Less. Depreciation @ 15% for 1999 on 5,000 Rs. 750
Balance as on 1-1-2000 Rs. 4,250
Less: Depreciation @ 15% for 2000 on 4,250 Rs. 638
Balance as on 1-1-2001 Rs. 3,612
Less: Depreciation @ 15% for 3 months Rs. 135
(on 3,612) Rs. 3,477
Less: Sold as Scrap Rs. 500
Loss transferred to P&L a/c Rs. 2,977

Problem 2:
The cost of Machinery in use with a firm on 1-1-2000 was Rs.50, 000 against which the depreciation provision stood at Rs.19,190 on that date; the firm provided depreciation at 10% per annum on straight line method.

The firm started its business on 1-1-1996. On 30-9-2000 two machines costing Rs.3,000 and Rs.2,400 respectively, both purchased on 1-7-1997 had to be discarded because of damage and had to be replaced by new machines costing Rs.4,000 and Rs.3,000 respectively.

One of the discarded machines is sold for Rs. 1,600; against the other it was expected that Rs.600 would be realized. Show the Machinery Account, Provision for Depreciation Account and Machinery Disposal Account for the year 2000.

Solution:

Machinery Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-00	To Balance B/d	50,000	30-9-00	By Machine Disposal a/c	5,400
30-9-00	To Bank a/c	7,000	31-12-00	By Balance C/d	51,600
		57,000			57,000
1-1-01	To Balance B/d	51,600			

Provision for Depreciation Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
30-9-00	To Machine Disposal a/c	1,350	1-1-00	By Balance B/d	19,190
31-12-00	To Balance C/d	22,475	31-12-00	By Depreciation a/c (On machinery in use)	4,635
		23,825			23,825
			1-1-01	By Balance B/d	22,475

Machinery Disposal Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
30-9-00	To Machinery a/c	5,400	30-9-00	By Prov. For Dep. A/c	1,350
				By Depreciation a/c (On two machines for 9 months)	405
				By Bank a/c	1,600
				By P & L a/c	1,445
			31-12-00	(Balancing figure) By Balance C/d	600
		5,400			5,400
1-1-01	To Balance B/d	600			

Working Notes:
1. Depreciation provided on two discarded machines
(Rs.3000 + 2400)
For 1997 (for 6 months) Rs. 270
For 1998 540
For 1999 540
Total depreciation till 1-1-2000 1350
Depreciation for 9 months to 30-9-2000 405

2. Depreciation on Machinery in use:

Cost of Machinery on 1-1-2000	Rs.50,000
Less: Cost of discarded machines	5,400
	44,600
Depreciation for one year on Rs.44,600	4,460
Depreciation for 3 months on Rs.7,000	175
Total depreciation on machinery in use	4,635

FINAL ACCOUNTS

Trial balance proves the arithmetical accuracy of the business transactions, but it is not the end. The businessman is interested in knowing whether the business has resulted in profit or loss and what the financial position of the business is at a given period. In short, he wants to know the profitability and the financial soundness of the business. The trader can ascertain these by preparing the final accounts. The final accounts are prepared at the end of the year from the trial balance. Hence the trial balance is said to be the connecting link between the ledger accounts and the final accounts.

Parts of Final Accounts

The final accounts of business concern generally include two parts. The first part is Trading and Profit and Loss Account. This is prepared to find out the net result of the business. The second part is Balance Sheet which is prepared to know the financial position of the business. However manufacturing concerns, will prepare a Manufacturing Account prior to the preparation of trading account, to find out cost of production.

Trading Account

Trading means buying and selling. The trading account shows the result of buying and selling of goods.

Need

At the end of each year, it is necessary to ascertain the net profit or net loss. For this purpose, it is first necessary to know the gross profit or gross loss. The trading account is prepared to ascertain this. The difference between the selling price and the cost price of the goods is the gross earning of the business concern. Such gross earning is called as gross profit. However, when the selling price is less than the cost of goods purchased, the result is gross loss.

Adjustments

1. **Closing Stock**

The unsold goods in stock at the end of the accounting period are called as closing stock. This is to be valued at cost or market price whichever is lower.

Value of closing stock will appear

i) On the credit side of trading account and

ii) On the assets side of balance sheet.

2. **Outstanding Expenses**

Expenses which have been incurred but not yet paid during the accounting period for which the final accounts are being prepared are called as **outstanding expenses**.

Outstanding expenses will be shown

i) On the debit side of Profit and Loss account by way of additions to the particular expenses and

ii) On the liabilities side of the Balance Sheet.

3. **Prepaid Expenses**

Expenses which have been paid in advance are called as **prepaid (unexpired) expenses**.

Prepaid expenses will be shown

i) On the debit side of the Profit and Loss account by way of deduction from the particular expenses and

ii) On the assets side of the Balance Sheet.

4. **Accrued Incomes or Outstanding Incomes**

Income which has been earned but not received during the accounting period is called as **accrued income**.

Accrued income will be shown

i) On the credit side of Profit and Loss account by way of addition to particular income and

ii) On the assets side of the Balance Sheet

5. **Incomes Received in Advance**

Income received during a particular accounting period for the work to be done in future period is called as **income received in advance**.

Incomes received in advance will be shown

i) On the credit side of the Profit and Loss account by way of deducting from the particular income and

ii) On the liabilities side of the Balance sheet.

6. **Interest on Capital**

In order to see whether the business is really earning profit or not, it is desirable to charge interest on capital at a certain rate.

Interest on capital will be shown

i) On the debit side of Profit and Loss account and

ii) On the liabilities side of the Balance Sheet by way of addition to the capital.

7. **Interest on Drawings**

Amount withdrawn by the owner for his personal use is called as **drawings**. When interest on capital is allowed, then interest on drawings is charged from the owner. Interest on drawings is an income for the business and will reduce the capital of the owner.

Interest on drawings will be shown

i) On the credit side of Profit and Loss account and

ii) On the liabilities side of the Balance Sheet by way of addition to the drawings which are ultimately deducted from the capital.

8. **Interest on Loan (Outstanding)**

Borrowings from banks, financial institutions and outsiders for business are called loans. Amount payable towards interest on loan is an expense for the business.

Interest on loan outstanding will be shown

i) On the debit side of the Profit and Loss account by way of addition to the appropriate interest account and

ii) On the liability side of the Balance sheet by way of addition to the particular loan account.

9. Interest on Investment:

Interest receivable on investments is an income for the business.

Accrued interest on investments (outstanding interest receivable) will be shown

i) On the credit side of the Profit and Loss account by way of addition to the appropriate interest account and

ii) On the assets side of the balance sheet by way of addition to the investments account.

10. Depreciation

Depreciation is the reduction in the value of fixed assets due to its use or obsolescence. Generally depreciation is charged at some percentage on the value of fixed asset.

Depreciation will be shown

i) On the debit side of Profit and Loss account and

ii) On the assets side of the Balance Sheet by way of deduction from the value of concerned asset.

11. Bad Debts

Debts which cannot be recovered are called **bad debts**. It is a loss for the business.

Bad debts will be shown

i) On the debit side of Profit and Loss account and

ii) On the assets side of the Balance Sheet by way of deduction from sundry debtors.

12. Provision for Bad and Doubtful Debts

Every business suffers a percentage of bad debts over and above the debts definitely known as irrecoverable and written off as Bad (Bad debts written off). If Sundry debtors figure is to be shown correctly in the Balance sheet provision for bad and doubtful debts must be adjusted. This Provision for bad and doubtful debts is generally provided at a certain percentage on Debtors, based on past experience.

While preparing final accounts, the bad debts written off given in adjustment is first deducted from the Sundry debtors then on the balance amount (Sundry debtors – Bad debt written off) provision for bad and doubtful debts calculated.

Provision for bad and doubtful debts will be shown

i) On the debit side of Profit and Loss Account and

ii) On the assets side of the Balance sheet by way of deduction from Sundry debtors (after Bad debts written off if any).

13. Provision for Discount on Debtors

To motivate the debtors to make prompt payments, cash discount may be allowed to them. After providing provision for bad and doubtful debts, the remaining debtors are called as **good debtors**. They may pay their dues in time and avail themselves of the cash discount permissable. So a provision for discount on good debtors at a certain percentage may have to be created.

Provision for discount on debtors will be shown

i) On the debit side of Profit and Loss account and

ii) On the asset side of the Balance sheet by way of deduction from Sundry debtors (after deducting bad debts written off and provision for bad and doubtful debts).

14. Provision for Discount on Creditors

Similar to cash discount allowed to debtors, the firm may have a chance to receive the cash discount from the creditors for prompt payment. Provision for discount on Creditors is calculated at a certain percentage on Sundry Creditors.

Provision for discount on creditors will be shown

i) On the credit side of Profit and Loss account and

ii) On the liabilities side of the Balance sheet by way of deduction from Sundry creditors.

SPECIMEN OF FINAL ACCOUNTS

Trading and Profit and Loss Account of Thiru ………… for the year ending 31st March, ……….

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		xxx	By Sales	xxx	
To Purchases	xxx		Less: Sales Return (or) Returns	xxx	
Less: Purchase Return (or)	xxx		inward		
Returns Outward		xxx			xxx
To Wages	xxx				
Add: Outstanding Wages	xxx		By Closing Stock		xxx
		xxx			
To Factory Rent	xxx				
Less: Prepaid Factory Rent	xxx				
		xxx			
To Freight		xxx			
To Carriage Inward		xxx			
To Clearing charges		xxx			
To Packing charges		xxx			
To Dock dues		xxx			
To Power (Factory)		xxx			
To Octroi Duty		xxx			
To Gross Profit c/d (Transferred to Profit and Loss A/c)		xxx			
		xxx			xxx
To Salaries	xxx		By Gross Profit b/d		xxx
Add: Outstanding Salaries	xxx		(Transferred to Trading A/c)		
		xxx			

			By Commission received	xxx	
To Insurance Premium	xxx		Add: Commission accrued but	xxx	
Less: Prepaid Insurance Premium	xxx		not yet received		xxx
		xxx	By Rent received	xxx	
			Less: Rent received in advance	xxx	
					xxx
Interest on Capital		xxx	By Interest on drawings		xxx
			By Discount received		xxx
Interest on Loan	xxx		By (New) Provision for		
Add: Interest on Loan Outstanding	xxx		discount creditors (given in	xxx	
		xxx	adjustments)		
To Depreciation on:		xxx	Less: (Old) Provision for	xxx	
Fixed Assets, Building, Machinery,			discount on creditors		xxx
Furniture, etc.,					
To Bad Debts	xxx				
Add: (New) Bad Debts (given in adjustment)	xxx				
	xxx				
Add: (New) Provision for bad and doubtful debts (given in adjustment)	xxx				
	xxx				
Less: (Old) Provision for bad and doubtful debts	xxx				
To Discount Allowed		xxx			
To (New) Provision for discount on debtors (given in adjustment)	xxx				

Less: (Old) Provision for discount on debtors	xxx	xxx			
To Net profit (Transferred to Capital A/c)		xxx			
		XXX			**XXX**

Balance Sheet of Thiru………… as on 31st March, …………

Particulars	Amount Rs.	Amount Rs.	Particulars	Amount Rs.	Amount Rs.
Capital	xxx		Cash in Hand		xxx
Add: Net Profit (or) Less: Net loss	xxx		Cash at Bank		xxx
	xxx		Sundry Debtors	xxx	
Less: Drawings xxx			Less: (New) Bad Debts written off	xxx	
Interest on Drawings xxx	xxx			xxx	
	xxx		Less: (New) Provision for Bad & Doubtful debts	xxx	
Less: income tax	xxx	xxx		xxx	
			Less: Provision for Discount on Debtors	xxx	xxx
Sundry Creditors	xxx				
Less: Provision for discount on creditors	xxx	xxx	Land and Building	xxx	
Loan	xxx		Less: Depreciation	xxx	xxx
Add: Interest on loan outstanding	xxx	xxx			
Outstanding Expenses		xxx	Plant and Machinery	xxx	
Income received in advance		xxx	Less: Depreciation	xxx	xxx
Bank overdraft					
			Furniture	xxx	
			Less: Depreciation	xxx	xxx

			Goodwill	xxx	
			Less: Written off	xxx	xxx
			Closing Stock		xxx
			Prepaid Expenses		xxx
			Accrued Commission		xxx
		xxx			**xxx**

Classification of Assets and Liabilities

Classification of Assets:

The properties and possessions of a business are called assets and they are classified into the following classes:

Fixed assets:

Fixed assets are assets which are acquired not for sale but for permanent use in the business e.g., land and buildings, plant and machinery, furniture etc. These assets help the business to be carried on.

Current Assets or Circulating Assets or Floating Assets:

Current assets denote those assets which are held for sale or to be converted into cash after some time e.g., sundry debtors. bills receivables, stock of goods etc.

Liquid Assets:

Liquid assets are those assets which are with us in cash or easily converted into cash e.g., cash in hand, cash at bank, investments etc.

Wasting Assets:

The assets that depreciate through "wear and tear", whose values expire with lapse of time or that become exhausted through working are known as **wasting assets**. This is a sub-class of fixed assets e.g., plant machinery, mines etc.

Intangible or Fictitious Assets:

There are assets which have no physical existence. Which can neither be seen with eyes not touched with hands. These are called **intangible assets** or **fictitious assets**. They do not represent anything valuable. They include debit balance of profit and loss account, goodwill etc.

Contingent Assets:

A **contingent asset** is one which comes into existence upon the happening of a certain event. If that event happens the asset becomes available, otherwise not. For example uncalled capital of a limited company.

Outstanding Assets:

Expenses paid in advance i.e., prepaid expenses, and income earned but not received are known as **outstanding assets**.

Classification of Liabilities:

The liabilities of a business are classified as follows:

Fixed Liabilities:

These are the liabilities which are payable immediately or in the near future. These liabilities are payable after a long period. Long term loans, capital of the proprietor are the examples of such kind of liabilities.

Current Liabilities:

These are the liabilities which are payable immediately or in the near future, such as creditors, bank loans etc.

Contingent Liabilities:

Contingent liabilities are those liabilities which arise only on the happening of some event. The event may or may not happen. Thus a contingent liability may or may not involve the payment of money. Examples of contingent liabilities are:

1. **Liabilities on bills discounted:** In case the bill is dishonored by the acceptor, the holder may be called upon to pay the amount to the discounter.

2. **Liability under guarantee:** In case the debtor fails to fulfill his obligation, the man who has given a guarantee or surety have to make good the loss to the creditor.
3. **Liability in respect of a pending suit:** A suit pending against a person in a court is a contingent liability because if the decision of the court goes against him, he may thereby become liable to pay compensation.

Contingent liabilities are not recorded in the books not they are included in the balance sheet. They are simply referred to by way of foot notes on the balance sheet.

Outstanding Liabilities:

Outstanding expenses and unearned income are examples of outstanding liabilities.

Classification of Capital:

The surplus or excess of assets over liabilities is called the capital or the proprietor. Capital may be classified as follows on the basis of the capital fund invested:

Trading Capital:

The portion of the funds of a concern which is represented by the fixed and floating assets is called the trading capital

Fixed Capital:

The portion of the funds of a concern which is represented by the fixed assets is called fixed capital.

Circulating Capital:

The portion of the funds of a concern which is represented by the floating or circulating assets is called the circulating or floating capital.

Working capital:

It is the amount which remains for the working of the business after the liabilities for acquiring the fixed assets have been discharged. The excess of the floating assets over the floating liabilities is also called the working capital.

Loan Capital:

The debentures and other fixed loans are sometimes called loan capital.

Watered Capital:

It is represented by fictitious assets.

PROBLEMS:

1. Prepare Trading, Profit & Loss A/c and Balance sheet from the following Trial Balance of Mr. V. Mohan Kumar.

Debit Balances	Amount Rs.	Credit Balances	Amount Rs.
Sundry Debtors	92,000	Mohan Kumar's Capital	70,000
Plant and Machinery	20,000	Purchase return	2,600
Interest	430	Sales	2,50,000
Rent, Rates, Taxes, & Insurance	5,600	Sundry Creditors	60,000
Conveyance charges	1,320	Bank overdraft	20,000
Wages	7,000		
Sales Returns	5,400		
Purchases	1,50,000		
Opening Stock	60,000		
Mohan Kumar's Drawing	22,000		
Trade expenses	1,350		
Salaries	11,200		
Advertising	840		
Discount	600		
Bad Debts	800		
Business premises	12,000		
Furniture and Fixtures	10,000		
Cash in hand	2,060		
	4,02,600		**4,02,600**

Adjustments:

(i) Stock on hand on 31-12-1996 Rs. 90,000

(ii) Provide depreciation on premises at 2.5%; Plant and Machinery at 7.5% and Furniture and Fixtures at 10%.

(iii) Write off Rs. 800 as further bad debts.

(iv) Provide for doubtful debts at 5% on sundry debtors.

(v) Outstanding rent was Rs. 500 and outstanding wages Rs. 400.

(vi) Prepaid insurance Rs. 300 and prepaid salaries Rs. 700.

Solution:

Trading and Profit and Loss A/c of V. Mohan Kumar for the year ending 31-12-96

Particulars	Amount Rs.	Amount Rs.	Particulars	Amount Rs.	Amount Rs.
To Opening stock		60000	By Sales	250000	
To Purchases	150000		Less: Sales return	5400	244600
Less: Purchase returns	2600	147400	By Closing stock		90000
To Wages	7000				
Add: Outstanding	400	7400			
To Gross Profit c/d (transferred to Profit and Loss A/c)		**119800**			
		334600			**334600**
To Trade Expenses		1350	By Gross Profit c/d (transferred from Trading A/c)		119800
To Salaries	11200				
Less: Prepaid salaries	700	10500			
To Conveyance Charges		1320			
To Advertising		840			
To Rent, Rates, Taxes and Insurance	5600				
Add: Outstanding rent	500				
	6100				
Less: Prepaid Insurance	300	5800			
To Discount		600			
To Interest		430			
To Bad Debts	800				
Add: Additional Bad Debts	800				
Add: (New) Provision for Bad Debts	4560	6160			
To Depreciation:					

Premises	300				
Plant and Machinery	1500				
Furniture and Fixtures	1000	2800			
To Net Profit transferred to Capital A/c		**90000**			
		119800			**119800**

Balance sheet of V. Mohan Kumar as on 31-3-1996

Liabilities	Amount Rs.	Amount Rs.	Assets	Amount Rs.	Amount Rs.
Capital	70000		Cash in Hand		2060
Less: Drawings	22000		Sundry Debtors	92000	
	48000		Less: Bad Debts	800	
Add: Net profit	90000	138000		91200	
			Less: Provision for Bad and		
Sundry Creditors		60000	Doubtful Debts	4560	86640
Bank Overdraft		20000			
Outstanding:			Prepaid:		
Rent	500		Insurance	300	
Wages	400	900	Salaries	700	1000
			Plant & Machinery	20000	
			Less: Depreciation	1500	18500
			Business premises	12000	
			Less: Depreciation	300	11700
			Furniture & Fixtures	10000	
			Less: Depreciation	1000	9000
			Closing Stock		90000
		218900			**218900**

2. From the following balances as at31st December 1994 of trader, prepare a Trading and Profit & loss A/c for the year 1994 and a Balance Sheet as on that date:

Debit Balances	Amount Rs.	Credit Balances	Amount Rs.
Salaries	5,500	Creditors	9,500
Rent	1,300	Sales	32,000
Cash	1,000	Capital	30,000
Debtors	40,000	Loans	10,000
Trade expenses	600		
Purchases	25,000		
Advances	2,500		
Bank balance	5,600		
	81500		**81500**

Adjustments:

(i) The closing stock amounted to Rs. 9,000.

(ii) One month's Salary is outstanding.

(iii) One month's rent has been paid in advance.

(iv) Provide 5% for doubtful debts.

Solution:

Trading and Profit and Loss Ac of a Trader for the year ended as on 31-12-1994

Particulars	**Amount Rs.**	**Amount Rs.**	**Particulars**	**Amount Rs.**	**Amount Rs.**
To Purchases		25000	By Sales		32000
			By Closing Stock		9000
To Gross Profit C/d		**16000**			
		41000			**41000**
To Trade expenses		600	By Gross Profit B/d		16000
To Salaries	5500				
Add: Outstanding Salaries	500	6000			
To Rent	1300				

Less: Rent paid in Advance	118	1182			
To Provision for Bad and Doubtful debts		2000			
To Net Profit C/d		**6218**			
		16000			**16000**

Balance Sheet a Trader as on 31-12-1994

Liabilities	Amount Rs.	Amount Rs.	Assets	Amount Rs.	Amount Rs.
Capital	30000		Bank Balances		5600
Add: Net Profit	6218	36218	Cash		1000
Creditors		9500	Debtors	40000	
Loans		10000	Less: Provision for Bad and Doubtful debts	2000	38000
			Advances		2500
Outstanding Salaries		500	Rent paid in Advance		118
			Closing Stock		9000
		56218			**56218**

3. From the following Trial Balance of Thiru. Rehman as on 31st March 1995, prepare Trading and Profit & Loss A/c and Balance Sheet taking into account the adjustment:

Debit Balances	Amount Rs.	Credit Balances	Amount Rs.
Land and Buildings	42,000	Capital	62,000
Machinery	20,000	Sales	98,780
Patents	7,500	Return Outwards	500
Stock 1-4-1994	5,760	Sundry Creditors	6,300
Sundry debtors	14,500	Bills payable	9,000
Purchases	40,675		
Cash in hand	540		
Cash at Bank	2,630		

Return Inwards	680		
Wages	8,480		
Fuel & power	4,730		
Carriage on Sales	3,200		
Carriage on Purchases	2,040		
Salaries	15,000		
General expenses	3,000		
Insurance	600		
Drawings	5,245		
	1,76,580		**1,76,580**

Adjustments:

(i) Stock on 31-3-1995 was Rs. 6,800.

(ii) Salary outstanding Rs. 1,500.

(iii) Insurance Prepaid Rs. 150.

(iv) Depreciate Machinery @ 10% and Patents @ 20%.

(v) Create a provision of 2% on debts for bad debts.

Solution:

Trading and Profit and Loss A/c Thiru Rehman for the year ending as on 31st March 1995

Particulars	Amount Rs.	Amount Rs.	Particulars	Amount Rs.	Amount Rs.
To Opening Stock		5760	By Sales	98780	
To Purchases	40675		Less: Returns Inwards	680	98100
Less: Return Outward	500	40175	By Closing Stock		6800
To Wages		8480			
To Fuel and Power		4730			
To Carriage on Purchases		2040			
To Gross Profit C/d		**43715**			
		104900			**104900**
To Salaries	15000		To Gross Profit B/d		43715
Add: Outstanding Salaries	1500	16500			
To Insurance	600				

Add: Prepaid Insurance	150	450			
To Carriage on Sales		3200			
To General Expenses		3000			
To Depreciation:					
Machinery	2000				
Patent	1500	3500			
To Provision for Bad Debts		290			
To Net Profit C/d		**16775**			
		43715			**43715**

Balance Sheet of Thiru Rehman as on 31st March 1995

Liabilities	Amount Rs.	Amount Rs.	Assets	Amount Rs.	Amount Rs.
Capital	62000		Cash in Hand		540
Add: Net Profit	16775		Cash at Bank		2630
	78775		Sundry Debtors	14500	
Less: Drawings	5245	73530	Less: Provision for Bad Debts	290	14210
Sundry Creditors		6300	Land and Building		42000
Bills Payable		9000	Machinery	20000	
Outstanding Salary		1500	Less: Depreciation	2000	18000
			Patents	7500	
			Less: Depreciation	1500	6000
			Prepaid Insurance		150
			Closing Stock		6800
		90330			**90330**

4. From the following trial Balance prepare Trading, profit and loss A/c for the year ended 31-12-1981 and Balance Sheet as on that date:

Dr. Balance	Rs.	Cr. Balance	Rs.
Purchases	11,870	Capital	8,000
Debtors	7,580	Bad debts recovered	250
Return inwards	450	Creditors	1,250
Bank Deposits	2,750	Return outwards	350
Rent	360	Bank overdraft	1,570
Salaries	850	Sales	14,690
Travelling expenses	300	Bills Payable	1,350
Cash	210		
Stock	2,450		
Discount allowed	40		
Drawings	600		
	27,460		27,460

Adjustments:

(i) The Closing Stock on 31-12-81 was Rs. 4,200

(ii) Write off Rs. 80 as Bad Debts and create a reserve for bad debts at 5% 0n sundry debtors.

(iii) Three month rent is outstanding

Solution:

Trading and profit and Loss A/c for the year ended as on 31-12-1981

Particulars	Amount Rs.	Amount Rs.	Particulars	Amount Rs.	Amount Rs.
To Opening Stock		2450	To Sales	14690	
To Purchase	11870		Less: Return Inwards	450	14240
Less: Return Outwards	350	11520	To Closing Stock		4200
To Gross Profit C/d		**4470**			
		18440			**18440**
To Rent	360		By Gross Profit B/d		4470
Add: Outstanding Rent	120	480	By Bad Debts Recovered		250
To Bad Debts		80			
To Reserve for Bad Debts		375			
To Salaries		850			
To Travelling Expenses		300			
To Discount Allowed		40			
To Net Profit		**2595**			
		4720			**4720**

Balance Sheet as on 31-12-1981

Liabilities	Amount Rs.	Amount Rs.	Assets	Amount Rs.	Amount Rs.
Capital	8000		Cash		210
Add: Net Profit	2595		Bank Deposit		2750
	10595		Debtors	7580	
Less: Drawings	600	9995	Less: Bad Debts	80	
Creditors		1250		7500	
Bank Overdraft		1570	Less: Reserve for Bad Debts	375	7125
Bills Payable		1350	Closing Stock		4200
Outstanding Rent		120			
		14285			**14285**

5. From the following Trial Balance of Senthur Traders, prepare Trading and Profit & Loss Account for the year ending December 31, 2006 and Balance sheet as on that date:

Dr. Balance	Rs.	Cr. Balance	Rs.
Land & Building	60,000	Capital	96,000
Plant and Machinery	33,000	Sundry Creditors	15,000
Stock	12,000	Sales	60,000
Investment	15,000	Provision for Bad & Doubtful Debts	1,100
Purchases	45000	Loan	20,000
Wages	2000	Rent Received in advance	1,000
Carriage	2000	Commission Received	3,000
Salary	5000	Bills payable	15,000
Rent	2,000		
Cash at Bank	3000		
Sundry Debtors	30,000		
Discount	300		
Bad Debt	500		
Sales Returns	1300		
	2,11,100		**2,11,100**

Additional Information:

1. Closing stock valued at Rs. 12,000.
2. Bad Debt 500 and Provision for Bad & Doubtful Debts at 5%.
3. Salary outstanding Rs. 1000.
4. Commission Received in advance 1,000.
5. Depreciate Machinery @ 3% & land and Builders @ 2%.

Trading and profit and Loss A/c of Senthur Traders for the year ending as on 31-12-2006

Particulars	Amount Rs.	Amount Rs.	Particulars	Amount Rs.	Amount Rs.
To Opening Stock		12000	By Sales	60000	
To Purchases		45000	Less: Sales Returns	1300	58700
To Wages		2000	By Closing Stock		12000
To Carriage		2000			
To Gross Profit C/d		**9700**			
		70700			**70700**
To Salary	5000		By Gross Profit B/d		9700
Add: Salary	1000	6000	By Commission Received	3000	
To Rent		2000	Less: Commission Received in Advance	1000	2000
To Discount		300	By Rent Received in Advance		1000
To Bad Debts	500				
Add: Bad Debts	500				
	1000				
Add: Provision for Bad and Doutful Debts	1475				
	2475				
Less: Provision for Bad and Doutful Debts	1100	1375			
To Depreciation:					
Plant and Machinery	990				
Land abd Building	1200	2190			
To Net Profit C/d		**835**			
		12700			**12700**

Balance Sheet of Senthur Trader as on 31-12-2006

Liabilities	Amount Rs.	Amount Rs.	Assets	Amount Rs.	Amount Rs.
Capital	96000		Cash at Bank		3000
Net Profit	835		Investment		15000
		96835	Sundry Debtors	30000	
Outstanding Salary		1000	Less: Bad Debts	500	
Loan		20000		29500	
Commission Received in Advance		1000	Less: Provision for Bad and Doubtful Debts	1475	28025
Bills Payable		15000			
Sundry Creditors		15000	Land and Building	60000	
			Less: Depreciation	1200	58800
			Plant and Machinery	33000	
			Less: Depreciation	990	32010
			Closing Stock		12000
		148835			**148835**

UNIT – III

ACCOUNTING PROCESS, BUSINESS INCOME AND FINAL ACCOUNTS

POSSIBLE QUESTIONS

PART – A (1 MARK)
ONLINE QUESTIONS

PART – B (2 MARKS)

1. Write golden rule of accounting?

2. Find out the rate of depreciation under straight line method:

Cost of the plant	Rs. 23,000
Installation charges	Rs. 2,000
Expected life in years	10 years
Scrap value	Rs. 5,000

3. A company purchased Furniture for Rs.28,000. Depreciation is to be provided annually according to the Straight Line Method. The useful life of the furniture is 5 years and the residual value is Rs.2,000. You are required to find out the amount of depreciation.

4. Define depreciation?

5. Prepare journal entries for
   (a) rent paid Rs.6000, (b) withdrew cash for personal office Rs. 10,000

6. Trial Balance (31.3.05) shows salaries paid Rs.15,000. Salary for May 2007 Rs.5,000 not yet paid. Pass adjusting entry and show how this item will appear in the Final accounts.

7. Journalise the following:

   Bought goods for cash Rs. 25,000
   Paid rent by cheque Rs. 250

8. Give a short note on outstanding expenses

PART – B (6 MARK)

1. Journalize the following transactions of Mr. Manoj for the Month of Jan 2017.

Jan 2 Started business with cash Rs.10000; paid into Bank Rs. 5,000.
3 Bought furniture Rs. 500.
5. Bought goods for Rs. 3,000.
6. Sold goods for Rs.600.
10. Bought one typewriter for Rs. 800.
13. Sold goods to Anand & co for Rs. 1000 on credit.
15. Bought goods from Mohindra for Rs. 2,000 on credit.
18 Paid telephone rent Rs. 240
22. Paid Rs. 100 for advertisement.
26. Sold goods for Rs. 800.
31. Paid Salaries Rs. 200.
31. Paid Rent Rs 100.

2. Deepak Manufacturing Company purchased on 1st April 2002, Machinery for Rs.2,90,000 and spent Rs.10,000 on its installation. After having used it for three years it was sold for Rs.2,00,000. Depreciation is to be provided every year at the rate of 15% per annum on the Fixed Installment method. Prepare machinery account and depreciation account for three years ends on 31st March every year.

3. From the following Trial Balance of Senthur Traders, prepare Trading and Profit & Loss Account for the year ending December 31, 2006 and Balance sheet as on that date:

Dr. Balance	Rs.	Cr. Balance	Rs.
Land & Building	60,000	Capital	96,000
Plant and Machinery	33,000	Sundry Creditors	15,000
Stock	12,000	Sales	60,000
Investment	15,000	Provision for Bad & Doubtful Debts	1,100
Purchases	45000	Loan	20,000
Wages	2000	Rent Received in advance	1,000
Carriage	2000	Commission Received	3,000
Salary	5000	Bills payable	15,000
Rent	2,000		
Cash at Bank	3000		
Sundry Debtors	30,000		
Discount	300		
Bad Debt	500		
Sales Returns	1300		
	2,11,100		**2,11,100**

Additional Information:

1. Closing stock valued at Rs. 12,000.
2. Bad Debt 500 and Provision for Bad & Doubtful Debts at 5%.
3. Salary outstanding Rs. 1000.
4. Commission received in advance Rs. 1,000.
5. Depreciate Machinery @ 3% & land and Builders @ 2%.

9. The Following Trial Balance is extracted from the book of Kavitha Agencies As On 31 Dec 2009.

Particulars	Debit (Rs.)	Credit (Rs.)
Capital		2,00,000
Drawing	12,000	
Buildings	78,000	
Motor Van	10,000	
Plant & Machinery	1,00,000	
Loan From Trail At 12%		15,000
Interest Received	1,000	
Sales		3,40,000
Purchase	2,20,000	
Commission Received		3,000
Opening Stock	40,000	
Establishment Expenses	10,000	
Insurance	3,000	
Wages	4,000	
Commission	3,000	
Sundry Debtor	1,35,000	
Sundry Creditors		70,000
Cash	12,000	
	6,28,000	**6,28,000**

Adjustments:
1. The Value of Closing Stock 31 Dec 2009 Was Rs.15,000
2. Outstanding Expenses on Establishment Rs.1,500
3. Allowed Interest on Capital 10%
4. Building 5%, Furniture 5%, Plant and Machinery 10%
5. Prepaid Insurance Rs 1,500
6. Advance Commission Received Rs 750.

You are required to Prepare Profit & Loss A/c And Balance Sheet as on that data.

10. From the following Trial Balance, Prepare Trading, Profit and Loss Account for the year ended 31.3.1981 and a Balance Sheet as on that date.

Debit Balances	Rs.	Credit Balances	Rs.
Purchases	11,870	Capital	8,000
Debtors	7,580	Bad debts recovered	250
Return inwards	450	Creditors	1,250
Bank deposit	2,750	Return Outwards	350
Rent	360	Bank Overdraft	1,570
Salaries	850	Sales	14,690
Travelling expenses	300	Bills payable	1,350
Cash	210		
Stock (1.4.1980)	2,450		
Discount allowed	40		
Drawings	600		
	27,460		**27,460**

Adjustments:
a) The closing stock on 31.3.81 was Rs. 4,200.
b) Write off Rs.80 as bad debts.
c) Create a provision for bad and doubtful debts at 5% on Sundry debtors.
d) Rent outstanding Rs.120.

11. A company purchased Machinery for Rs. 50,000 on 1st April 2002. It is depreciation at 10% per annum on written down Value method .The accounting year ends on 31st March of every year. Prepare Machinery account for the three years.

12. Prepare Trading, Profit & Loss A/c and Balance sheet from the following Trial Balance of Mr. V. Mohan Kumar.

Debit Balances	Amount Rs.	Credit Balances	Amount Rs.
Sundry Debtors	92,000	Mohan Kumar's Capital	70,000
Plant and Machinery	20,000	Purchase return	2,600
Interest	430	Sales	2,50,000
Rent, Rates, Taxes, & Insurance	5,600	Sundry Creditors	60,000
Conveyance charges	1,320	Bank overdraft	20,000
Wages	7,000		
Sales Returns	5,400		
Purchases	1,50,000		
Opening Stock	60,000		
Mohan Kumar's Drawing	22,000		
Trade expenses	1,350		
Salaries	11,200		
Advertising	840		
Discount	600		
Bad Debts	800		
Business premises	12,000		
Furniture and Fixtures	10,000		
Cash in hand	2,060		
	4,02,600		**4,02,600**

Adjustments:

(vii) Stock on hand on 31-12-1996 Rs. 90,000

(viii) Provide depreciation on premises at 2.5%; Plant and Machinery at 7.5% and Furniture and Fixtures at 10%.

(ix) Write off Rs. 800 as further bad debts.

(x) Provide for doubtful debts at 5% on sundry debtors.

(xi) Outstanding rent was Rs. 500 and outstanding wages Rs. 400.

(xii) Prepaid insurance Rs. 300 and prepaid salaries Rs. 700.

13. Prepare a Trading Account, Profit and Loss Account and a Balance Sheet from the following information.

Particulars	***(Rs)***	***Particulars***	***(Rs)***
Opening Stock	50,000	Purchases	80,000
Sales	3,00,000	Capital	4,00,000
Rent	6,000	Bills Payable	38,000
Printing & Stationery	7,000	Closing Stock	40,000
Bills Receivable	1,68,000	Machinery	2,00,000
Sales Return	25,000	Purchase Return	30,000
Wages	20,000	Furniture	1,37,000
Salaries	75,000		

14. From the following balances as at 31st December 1994 of trader, prepare a Trading and Profit & loss A/c for the year 1994 and a Balance Sheet as on that date:

Debit Balances	Amount Rs.	Credit Balances	Amount Rs.
Salaries	5,500	Creditors	9,500
Rent	1,300	Sales	32,000
Cash	1,000	Capital	30,000
Debtors	40,000	Loans	10,000
Trade expenses	600		
Purchases	25,000		
Advances	2,500		
Bank balance	5,600		
	81,500		**81,500**

Adjustments:

(v) The closing stock amounted to Rs. 9,000.
(vi) One month’s Salary is outstanding.
(vii) One month’s rent has been paid in advance.
(viii) Provide 5% for doubtful debts.

15. Journalise the following transactions of Mr.Pradeep and post them to proper ledger accounts relating to the month of January 2016.

Jan 1 Started business with	45,000
Jan 3 Goods purchased	7000
Jan 5 Goods sold	1,500
Jan 10 Goods purchased from raju	20,000
Jan 16 Goods returned to raju	5,000
Jan 23 Drew from bank	3,000
Jan 26 Furniture purchased	10,000
Jan 30 Paid rent	2,500
Jan 31 Salaries paid.	36,500

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established under Section 3 of UGC Act, 1956)
Coimbatore - 641 021
Department of Commerce
I B.Com/B. Com (CA)/ B. Com (PA)/ B. Com (BPS) (2018-2021)
Financial Accounting (18CMU101/18CCU101/18PAU101/18BPU101)

UNIT II

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
The main object of providing depreciation is:	To calculate true profit.	To show true financial position.	To reduce tax.	To provide funds for replacement.	To calculate true profit.
Depreciation arises because of:	Fall in the market value of an asset.	Physical wear and tear.	Fall in the value of money	Tax reduction	Physical wear and tear.
Depreciation is a process of:	Valuation	Allocation	Segregation	Both valuation and allocation	Valuation
Under the straight line method of providing depreciation it:	Increase every year.	Remain constant every year.	Floating every year	Decreases every year	Remain constant every year.
Under the diminishing balance method depreciation it:	Increase every year.	Remain constant every year.	Floating every year	Decreases every year	Decreases every year
Under the fixed installment method of providing depreciation it is calculated on:	Original cost	on balance amount	On scrap value	Installment value	Original cost
Under the diminishing balance method, depreciation is calculated on:	Scrap value	On original value	On book value	Cost value	On book value
The amount of depreciation charged on machinery will be debited	Machinery a/c	Depreciation account	Cash account	Repair account	Depreciation account

Loss on sale of plant and machinery should be written off against:	Share premium	Depreciation fund account	Sale account	Profit & loss account	Depreciation fund account
Loss on sale of machinery will be:	Debited on machinery A/c	Credited to machinery A/c	Credited to profit and loss A/c	Profit & loss account	Credited to machinery A/c
Asset which have a limited useful life are termed as:	Limited assets	Depreciation assets	Unlimited asset	Dummy assets	Depreciation assets
Process of becoming out of date or obsolete is termed as:	Physical deterioration	Depletion	Obsolescence	Amortization	Obsolescence
Which of the term is used to write off in reference to tangible fixed assets.	Depreciation	Depletion	Amortization	Both (b) and (c)	Depreciation
The economic factors causing depreciation:	Time factor	Obsolescence and inadequacy	Wear and tear	Money valuation	Obsolescence and inadequacy
Profit prior to incorporation is an example of:	Capital reserve	Revenue reserve	Secret reserve	Redemption	Capital reserve
Total depreciation cannot exceeds its:	Scrap value	Cost value	Market value	Depreciable value	Depreciable value
Depreciation value of an asset is equal to:	Cost + Scrap value	Cost + Market price	Cost – Scrap value	Cost + Market price– Scrap value	Cost – Scrap value
Depreciation does not depend on fluctuations as:	Market value of asset	Cost of price of asset	Scrap value of asset	Depreciable value	Market value of asset
Depreciation is:	An income	An asset	A loss	A liability	A loss
The book value of an asset is obtained by deducting depreciation from its:	Market value	Scrap value	Market + Cost price	Cost	Cost
Depreciation fund method is also known as:	Sinking fund method	Annuity method	Sum of years digits method	Depletion Method	Sinking fund method
In the provision method of depreciation the asset always appears at:	Cost price	Market Price	Scrap Value	Market value	Cost price

Depreciation on diminishing balance method of $2,000 at the rate of 10% p.a. after three years will be	Rs. 1400	Rs. 1,458	Rs. 542	No answer	No answer
The amount of depreciation charged on a machinery will be debited to	Machinery a/c	Depreciation account	Cash account	Repair account	Depreciation account
Loss on the sale of machinery should be written off against	Share premium account	Sales account	Depreciation fund account	Machinery a/c	Depreciation fund account
The main objective of providing depreciation is	To allocate true profit	To show the true financial position in the balance sheet	To reduce tax burden	To provide funds for replacement of fixed assets	To allocate true profit
In the accounting records, the fixed assets are normally recorded	At cost	At book value	At scrap value	At replacement value	At cost
Salvage value means	cash to be paid when asset is disposed off	estimated disposal value	definite sale price of the asset	Cost – Scrap value	estimated disposal value
Depreciation follows which accounting concept	Historical cost concept	Matching concept	Money measurement concept	Going concern concept	Matching concept
What method do we use for depreciating tools, crates	Diminishing balance method	Reducing balance method	Straight line method	Reducing balance method	Reducing balance method
The Profit and Loss account shows	Financial position of the concern	Net profit or Net loss	an asset	Gross profit or Gross Loss	Financial position of the concern
Returns inwards are deducted from	Purchases	Sales	Returns outward	Cost price	Sales
Rent outstanding is	a liability	an asset	an income	Receivable	a liability
Closing stock is shown in	Profit and loss account	Trading account and Balance sheet	Purchases	Net profit or Net loss account	Trading account and Balance sheet
Opening stock is shown in	Balance sheet	Profit and Loss account	Trading account	Sales	Trading account

Gross Profit is transferred to	Capital account	Profit and loss account	Balance sheet	Trading account	Profit and loss account
Interest on capital is added to	Expense A/c	Income A/c	Capital A/c	Asset Account	Capital A/c
Interest on drawings is deducted from	Income A/c	Capital A/c	Expense A/c	Profit and Loss account	Capital A/c
Outstanding interest on loan borrowed is to be added to	Asset A/c	Income A/c	Loan A/c	Capital A/c	Loan A/c
All the items given in the adjustment will appear at __________	Three places	Two places	One Place	Four Place	Two places
______________is the original form of accounting	Financial accounting	Cost accounting	Management accounting	Business Accounting	Management accounting
A person who owes money to the business is a ___________	Debtor	Creditor	Investor	Agent	Debtor
A __________ is a person to whom business owes money	Creditor	Debtor	proprietor	Investor	Creditor
Asset acquired for long period of time in the business is known as	Fixed asset	Current asset	Fictitious asset	Dummy assets	Fixed asset
_______________ is the major source of revenue of any business	Purchase	Sale	Interest	Commission	Sale
Excess of current asset over current liabilities is known as __________ capital	Fixed	Working	Current	Variable	Working
According to __________ concept it is assumed that the business will last for long time	Accounting entity	Going concern	Accounting period	Matching Concept	Going concern
Bank account is a __________	Personal accounting	personal accounting	Nominal account	Asset Account	Personal accounting
Capital expenditure are recorded in the ___________	Balance sheet	Profit & loss account	Asset Account	Trading account	Balance sheet
Nominal accounts are related to	Assets& liability	Expenses & losses	Debtors & creditors	Profit and Loss account	Assets& liability

Trading account is a ____________account	Real	Nominal	Personal	Capital A/c	Nominal
Income tax is debited to ________________	Profit and loss account	Cash accounting	Drawings account	Asset Account	Drawings account
Debit is the asset means	Increase	Decrease	No charge	Fixed	Increase
Credit in the liability means	Increase	Decrease	No charge	Fixed	Increase
Capital always have a __________balance	Debit	Credit	Payable	Receivable	Credit
description of every transaction made in the journal is called	Summary	Description	Narration	Information	Narration
Capital expenditure are recorded in the __________	Trading account	Profit & loss account	Asset Account	Balance sheet	Balance sheet
Tangible asset Bills receivable is a ___________	Trading account	Profit & loss account	Asset Account	Balance sheet	Trading account
Carriage outward is debited to___________	Trading account	Profit & loss account	Asset Account	Balance sheet	Profit & loss account
Sales return appearing in the trail balance are deducted from	Capital	Sales	Purchase	Asset	Sales

UNIT - III

Accounting for Hire-Purchase and installment system: Transactions, Journal entries and ledger accounts including Default and Repossession.

Accounting for Joint Venture-Consignment: Features, Accounting treatment in the books of the consignor and consignee. **Joint Venture:** Accounting procedures: Joint Bank Account, Records Maintained by Coventurer of (a) all transactions (b) only his own transactions. (Memorandum joint venture account).

INTRODUCTION TO HIRE PURCHASE AND INSTALLMENT SYSTEMS

Hire purchase and installment systems are responsible for bringing high value durable goods like car, televisions into the reach of middle class and lower middle class people. These systems have revolutionized the world of commerce.

Hire Purchase Systems

Definition:

According to the Hire Purchase Act 1972 Section 2(c) "Hire Purchase agreement is an agreement under which goods are let on hire and under which the hirer has option to purchase them in accordance with the terms of the agreement and includes an agreement under which

(i) Possession of goods is delivered by the owner thereof to a person on condition that such person pays the agreed amount in periodical instalments.
(ii) The property in the goods is to pass to such person the payment of the last of such instalments.
(iii) Such person has the rights to terminate the agreement at any time before the property so passes".

As per section 4 of the Hire Purchase Act 1972, every Hire Purchase agreement must state.

(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 hirer for cash
(c) The date on which the agreement shall be deemed to have commenced.
(d) The number of instalments by which the Hire Purchase price is to be paid , the amount of each of those instalments and the date or the mode of determining the date upon which its payable and the person to whom and the place where it is payable .
(e) The goods to which the agreement relates, the manner sufficient to identify them.

Some important terms in the Hire Purchase System

1. **Cash price:** This is the retail price of the articles at which they can be purchased immediately for cash`

2. **Hire Purchase Price:** This is the total amount payable by the buyer, in agreed instalments for the goods purchased. This the price includes cash price and interest.

3. **Interest:** This is the additional amount apart from the cash price payable by the buyer as compensation for postponed payments

4. **Hire or instalment:** This is the amount payable the buyer periodically. The instalments may be equal or different depending on agreement.

5. **Down payment:** This is the advance payable by the buyer while signing the hire purchase agreement. It is also a part of hire purchase price

6. **Hirer:** The buyer of the goods on hire purchase basis.

7. **Hire vendor or owner:** The seller of the goods on hire purchase basis.

MAIN FEATURES OF HIRE PURCHASE SYSTEM

1. The hirer or buyer gets possession of the goods on signing the hire purchase agreement and he has the right to use them.

2. The ownership of the goods continues to be with the seller or hire vendor.

3. The hirer as the duty to keep the goods in good condition and take reasonable precautions for their safety till last instalment is paid

4. Each instalment treated as hire charges.

5. The hirer as the option to returns the goods before the last instalment is paid

6. The hire vendor can repossess if the buyer fails to pay any instalment on the due date.

7. If goods are repossessed the value of goods on that date and the instalment paid are added and the total hirer purchase price is reduced .The balance is payable by the hire vendor to the hirer.

CHARACTERISTICS OF HIRE-PURCHASE SYSTEM

The characteristics of hire-purchase system are as under

- Hire-purchase is a credit purchase.
- The price under hire-purchase system is paid in instalments.

- The goods are delivered in the possession of the purchaser at the time of commencement of the agreement.
- Hire vendor continues to be the owner of the goods till the payment of last instalment.
- The hire-purchaser has a right to use the goods as a bailer.
- The hire-purchaser has a right to terminate the agreement at any time in the capacity of a hirer.
- The hire-purchaser becomes the owner of the goods after the payment of all instalments as per the agreement.
- If there is a default in the payment of any instalment, the hire vendor will take away the goods from the possession of the purchaser without refunding him any amount.

DIFFERENCE BETWEEN HIRE-PURCHASE SYSTEM AND INSTALMENT PAYMENT SYSTEM

Instalment Payment System is system of purchase and sale of goods in which title of goods is immediately transferred to the purchaser at the time of sale of goods and the sale price of the goods is paid in instalments. In the event of default in payment of any instalment, the seller has no right to take back goods from the possession of the purchaser. He can file a suit for the recovery of the outstanding balance of the price of goods sold. The followings are the differences between Hire-purchase system and Instalment payment system:

- In Hire-purchase system, the transfer of ownership takes place after the payment of all instalments while in case of Instalment payment system, the ownership is transferred immediately at the time of agreement.
- In Hire-purchase system, the hire-purchase agreement is like a contract of hire though later on it may become a purchase after the payment of last instalment while in Instalment payment system, the agreement is like a contract of credit purchase.
- In case of default in payment, in Hire-purchase system the vendor has a right to back goods from the possession of the hire-purchaser while in case of Instalment payment system, the vendor has no right to take back the goods from the possession of the purchaser; he can simply sue for the balance due.
- In Hire-purchase system, if the purchaser sells the goods to a third party before the payment of last instalment, the third party does not get a better title on the goods purchased. But in case of Instalment payment system, the third party gets a better title on the goods purchased.
- In Hire-purchase system the provisions of the Hire-purchase Act apply to the transaction while in case of Instalment payment system, the provisions of Sale of Goods Act apply to the transaction.

Accounting In the books of Hire-purchaser

There are two methods of accounting in the books of Hire-purchaser. Their detailed description is as under:-

Asset Accrual Method:

Under this method it is considered that the hire-purchaser is the owner of the asset up to the value of the cash price paid by him in the form of down payment or the cash price paid included in various instalments. The following journal entries are recorded under this method.

(i)**On taking the delivery of asset:**

No entry is recorded.

(ii)**On making the down payment (if any)**

Asset A/c Dr.	(Amount of down payment)
To Cash/Bank A/c.	

(iii)**On becoming the instalment due**

Asset a/c. Dr	(Balancing figure)
Intt. A/c. Dr.	(Amt. of Intt.)
To Hire-Vendor A/c.	(Amt. of Instalment)

(iv)**On payment of instalment:**

Hire-Vendor A/c Dr.	(Amt. of Instalment)
To Cash/Bank A/c.	

(v)**On charging the Depreciation:**

Depreciation A/c Dr.	(Amt. of Depreciation)
To Asset A/c.	

(vi)**On Transfer of interest and depreciation to P/L A/c:**

P/L A/c.	(Total amt.)
To Interest A/c	(Bal. of Intt. A/c.)
To Depreciation A/c.	(Bal. of Dep. A/c.)

Under Total Assets Value Method:

Under this method of accounting in the books of hire-purchaser, is done on the assumption that the ownership of the asset is also transferred to the purchaser with the delivery of goods. The following journal entries are recorded under this method.

(i)**On taking the delivery of assets at the time of agreement:**

Asset A/c Dr. (Cash price of Asset)
To Hire vendor A/c.

(ii)**On making the down-payment (if any):**

Hire-Vendor....... A/c. Dr. (Amount of down payment)
To Cash/Bank A/c

(iii)**On becoming the instalment due:**

Interest A/c. Dr. (Amount of interest)
To Hire-Vendor A/c

(iv)**On payment of instalment:**

Hire-Vendor a/c Dr. (Amount of instalment)
To Cash/Bank A/c

(v)**On charging the depreciations:**

Depreciation A/c. Dr. (Amount of depreciation)
To Asset A/c.

(vi)**On Transfer of interest and depreciation to P/L A/c:**

P/L A/c. Dr. (Total)
To Interest A/c. (Bal. of Intt. A/c.)
To Depreciation A/c. (Bal. of Dep. A/c.)

Posting in Ledger Accounts: After passing journal entries under any of the methods discussed above, the following ledger accounts are opened in the ledger and the postings are made accordingly.

(i) Asset A/c. (e.g. Trucks A/c, Machinery A/c. etc.)
(ii) Vendor's A/c.
(iii) Interest A/c.
(iv) Depreciation A/c.

Note: Before recording the entries the amounts of interest and depreciation will be calculated in two separate tables showing the calculations of interest and depreciation.

CALCULATION OF INTEREST

The hire purchase price is always greater than the cash price. It includes interest payable over and above the price of the goods to compensate the seller for the sacrifice he has made by agreeing to receive the price by installment and the risk that he thereby undertakes. Interest is the charge for the facility to pay the price for the goods by the installments after they have been delivered. The rate of interest is generally higher than that is payable in respect of an advance or a loan since it also includes a charge to cover the risk that the higher may fail to pay any of the installments and in such a event, the goods may have to be taken back into positions in whatever condition they are at that time. A separate charge on this account is not made as that would not be in keeping with the fundamental character of the hire purchase sales. However, in an accounting system, the excess of total hire purchase price over the total cash price is treated as the payment for the interest.

Since each installment interest also which is financial gain or loss, it is essential to know the different methods ascertaining interest.

Interest included in each installment can be ascertained by making necessary calculations under the following circumstance.

(i) When the rate of interest the cash price and the installments are given.

(ii) When the rate of interest is not given.

(iii) When the total cash price is not given.

(iv) When the installment price is not given.

(v) When the cash price is calculated by annuity method.

(i) When the rate of interest, the cash price and the installments are given:

Under this method, the interest is to be calculated on the outstanding balance of the cash price at the rate. When the interest component is detected from installment, the balance represents the amount paid in the reduction of cash price. This amount is deducted from the cash price to facilitate the calculation of interest for next period. Since the installments are in around sums of money, the interest for final year should be taken as the difference between cash price outstanding at the end of that period and the amount of installments. This will be clearly understood by referring of illustration 1.

(ii) When the total cash price and installments are given but rate of interest is not given:

When the rate of interest is not given, the interest included in each installment will be calculated on the basis of hire purchases price outstanding in the beginning of each year. The following is the process of ascertaining interest included in various installments:

Method 1: When the amount and period of installments are not uniform (Product method)

Hire purchase price – Cash price = Total interest

Hire purchase price – first installment = First balance

First balance **-** second installment = Second balance

Second balance **-** Third installment = Third balance

Same method can be used for further installments.

(i) Hire purchase price x Period of first installment = A

(ii) First balance period x price of second installment = B

(iii) Second balance x price of third installment = C

(iv) Third balance x period of fourth installment = D

A, B, C and D have to be totalled and interest included in each installment is found as follows:

Interest included in I installment: Total interest x A / A+B+C+D

Interest included in II installment: Total interest x B / A+B+C+D

Interest included in III installment: Total interest x C / A+B+C+D

Interest included in IV installment: Total interest x D / A+B+C+D

Method 2: When the amount and period of installments are uniform (Inverse progression method)

Hire purchase price – cash price = Total interest

Assuming total interest is Rs. 800 and number of installments are four, interest included in each installment is calculated in the following manner:

Installments	No of outstanding installments	Ratio of interest	Interest
1st installment	4	4 / 10	800 x 4 / 10:Rs.320
2nd installment	3	3 / 10	800 x 3 / 10 : Rs.240
3rd installment	2	2 / 10	800 x 2 / 10 : Rs. 160
4th installment	1	1 / 10	800 x 1 / 10 : Rs. 80

(iii)when rate of interest and instalments are give but total cash price is not given`

When the amount of each instalment which includes interest is given and rate of interest is also given, cash price is found out in the following manner.

(a) First of all find out cash price of the last instalment.

Amount of last instalment X rate of interest / 100 + rate of interest =

Interest included in the last instalment.

This interest is deducted from last instalment and cash price of the last instalment is found out.

(b) (cash price of the last instalment + of prior instalment) X rate of interest / 100 + rate of interest = interest of the prior instalment

When the interest is deducted from prior instalment ,cash price of the prior instalment is found out.

(c) The same process may be repeated for earlier instalments.

(iv)When rate of interest and total cash price are given but the instalment price is not given.

In the method is also, the interest is to calculated on the outstanding balance of the cash price at the stipulated rate. Then cash price paid is deducted from the total cash price and interest is calculated for the next period falling between the dates of payment of first instalment. The instalment price is calculated by adding interest with cash price of each instalment.

(v)Calculated of cash price by annuity method:

When in place of cash price ,hire purchase price and annuity rate are given,the cash price is calculated by multiplying the amount of instalment with the annuity factor given and adding down payment to the product. The interest is calculated.

DEFAULT AND REPOSSESSION

DEFAULT

If the hire purchaser fails to make payment of any instalment, it is called 'default`. Unless he regularizes the matter, the hire vendor can take back the goods into his possession after default.

REPOSSESSION

The hire vendor has the right to take away the goods sold on hire purchase in the event of default made by the hire purchaser. As per hire purchase Act 1972 goods of small value or even goods of higher value when only certain number of instalments are paid, can be repossessed without court's permission. A court order is needed to repossess goods on which larger number of instalments than specified are paid.

The hire vendor can repair or recondition the repossessed goods and sell them to anyone else.

TYPES OF REPOSSESSION

(a)Complete repossession: the hire vendor may take away all the goods on which there is default of instalment.

(b)Partial repossession: the hire vendor may take away only a portion of the goods on which there is default of instalments Purchaser

Accounting treatment varies in the books of the hire vendor and hire Purchaser for each of the types of repossession.

(a)Complete repossession of goods

When complete of goods take place, the ledger accounts in the books of hire purchaser and the hire vendor are fully closed as far as the hire-purchase transaction is concerned.

Books of hire vendor

(1) On the date of default of instalment, entry for interest is passed. The hire purchaser's account is closed. Any balance is transferred to repossessed goods account.

(2) The repossessed goods may be reconditioned by spending necessary amount which is also debited to repossessed goods and crediting cash.

Books of hire purchaser

(1) On the date of default, entry for interest and for depreciation upto date on the asset must be passed.

(2) Hire vendor's account is to be closed and any balance is transferred to the asset account.

(3) Asset account is closed and any balance is transferred to profit and loss account which is the loss due to repossession of the asset.

(b)Partial repossession

When there is default on any instalment, the hire vendor may repossess the goods partially. This may be due to negotiation with the hirer who many agree to make some payment in future.

The hire purchaser might have depreciated the asset as per his assessment of the rate of depreciation. The hire vendor revalues the asset as per his own norms. Thus, there can be difference in the rates of depreciation charged by the hirer and the hire vendor.

While solving examination problems, it is essential to ascertain the value of goods at the time of repossession as per the purchaser's rate of depreciation and the hire vendor's rate of depreciation.

Books of hire vendor

(1) Entry for interest upto the date default is passed.

(2) Repossessed goods as per hire vendor's valuation are credited to hire purchasers account and debited to 'repossessed goods a/c'.

(3) The hire purchaser's account is balanced and balance is carried down.

(4) Repossessed goods may be repaired and sold later on.

Books of hire purchaser

(1) Entries for interest and depreciation on the asset are passed upto date.

(2) Hire vendor's a/c is debited and asset a/c is credited with the value of asset taken away as per hire vendor's valuation.

(3) In the asset account, the remaining asset which is not taken away is shown as closing balance. This is at a value as per hire purchaser's rate of depreciation.

(4) The asset account is balanced. Any balance is loss due to repossession and is transferred to profit and loss account.

ACCOUNTING TREATMENT FOR GOODS OF SMALL SALES VALUE

(Hire purchase trading account)

When numerous sales of small value are made in addition to normal sales, the hire vendor follows an alternative method of recording transactions. This method, known as 'stock method', avoids the maintenance of a separate account for each individual customer and also the tedious method of calculating interest in each case.

(i) stock of goods with customers

This is also termed as hire purchase stock, stock with the customer, instalments not yet due, or amount of instalments unpaid and not due. These are the total amount of those instalments in respect of goods sold on hire purchase which are to be received in the next accounting period. They have not yet become due by the end of the current accounting period since this information is given at hire purchase trading account, if it is opening balance and shown on the credit side if it is closing balance.

(ii) Purchase (goods sold during the year)

The term "purchase" is used when the business is run independently. But if the business is run as a department, the information relating to purchase made by the department is given under the term 'goods sold during at the hire purchase price, it must be reduced to cost price and then shown on the credit side of hire purchase trading account.

(iii) **Cash received**

It refers to the total amount received from the customers during the accounting year in the form of down payment and amount of instalments. It is shown on the credit side of hire purchase trading account.

(iv) Total instalments due but unpaid

It refers to the sum of instalments which have become due during the accounting year but has been paid by the customers. This is also termed as 'hire purchase debtors' 'instalment due', 'customers paying'. The instalment due but unpaid is shown on the debit side if it is closing balance. In order to calculate the real sales made during the accounting year, opening balance of instalment due but unpaid is shown on the debit side of the trading account and cash received from customers and closing balance of instalment due but unpaid are shown on the credit side.

(v) Stock at shop

It is shown on the debit side of hire purchase trading account, but when business is run as a department, this information is not required.

Methods of computation of profit

It profit made by the vendor on hire-purchase transactions in case of goods of small value, can be calculated by any one of the following methods:

(i)Debtors stock (ii)stock and debtors method

(i) Debtors method

Under this method, the profit or loss made on goods sold on hire purchase can be found out by preparing hire purchase trading account. The specimen ruling of the hire purchase trading account is a under:

Hire purchase trading account

To stock at the shop(opening)	xxx		
To stock out with customers(at cost)	xxx	By cash received from customers	xxx
To instalment due but unpaid(opening)	xxx	By goods repossessed	xxx
To purchase(or)cost of goods sold		By instalment due and unpaid(closing)	xxx
during the year	xxx	By stock out with customers(at cost)	xxx
To profit(bal.fig)	xxx	By stock at shop(closing)	xxx
		By loss(bal.fig)	xxx
	xxx		xxx

` **note:** (1) If stock out customer is given at hire purchase price in the question, then either stock reserve equal to the excess of hire purchase price over cost price should be shown on credit side (for opening stock) and debit side 9for closing stock) or it should e reduced to cost price

(2) Stock at shop should not be shown in hire purchase trading account when business is run as a department.

(ii) Stock and debtors system

The profit made on hire purchase transactions can also be calculated according to stock and debtors system. Under this method, the following ledger accounts are to be opened:

(1) Hire purchase stock account

(2) Stock at shop account

(3) Hire purchase debtors account

(4) Goods n hire purchase account

(5) Hire-purchase adjustment account

The following journal entries are to be passed if this method is followed.

(i)When goods are purchased for shop stock:

Stock at shop a/c Dr. (cost price)

To purchase a/c

(ii)When goods are sold on hire purchase:

Hire purchase stock a/c Dr. (at sale price)

To goods sold on H.P.a/c

(iii)For total instalments which become due:

Hire purchase debtors a/c Dr. (H.P.price)

To hire purchase stock a/c

(iv)When cash is received from debtors :

Cash account Dr.

To hire purchase debtors a/c

(v)For transfer of goods sold on H.P:

Goods sold on H.P a/c Dr.

To H.P a/c

To trading account

(vi)When goods are repossessed on default and loss is transferred to H.P adjustment a/c:

Goods repossessed a/c Dr. (for realizable value)

H.P adjustment a/c Dr. (loss)

To hire purchase debtors debtors a/c (instalment due and not received in cash)

To hire purchase stock a/c (for installment not yet due)

To H.P adjustment a/c (profit on repossession)

(vii)For loading in opening stock customers:

Stock reserve a/c Dr.

To H.P adjustment a/c

(viii)For loading in closing stock with customers:

H.P adjustment a/c Dr.

To stock reserve a/c

(ix)For loading in goods sold (sent) on hire purchase:

Goods sold on H.P a/c Dr.

To H.P adjustment a/c

(x)For transfer of profit on hire purchase:

H.P adjustment a/c Dr.

To profit and loss a/c

In case of loss, the entry will be reversed.

Problems1: On 1-1-86, X purchased Machinery on hire purchase system. The payment is to be made Rs.4,000 down (on signing of the contract) and Rs.4,000 annually for three years. The cash price of the machinery is Rs.14,900 and the rate of interest is 5%. Calculate the interest in each year's instalment.

Solution:

Particulars 1 Rs	Total cash price 2 Rs	Instalment paid 3 Rs	Interest paid 4 Rs	cash price paid 5(3-4) Rs
cash price down payment	14900 4000	4000		4000
1st instalment	10900 3455	4000	545	3455
2nd instalment	7445 3627.75	4000	(10900*5%) 372.25	3627.75
3rd instalment	3817.25 3817.25	4000	7445*5%) 182.75	3817.25
	Nil	**16000**	(4000-3817.25) **1100**	**14900**

Problem 2: X purchased a machine under hire purchase system. According to the terms of the agreement Rs.40, 000 was to be paid on signing of the contract. The balance was to be paid in four annual instalments of Rs.25, 000 each plus interest. The cash price was Rs.1, 40,000. Interest is chargeable on outstanding balance at 20% per annum. Calculate interest for each year and the instalment amount.

Solution:

Date of payment 1	Total cash price Rs 2	Instalment paid Rs 3=4+5	Interest paid Rs 4	Cash price paid Rs 5
down payment	140000 40000	40000		40000
1st instalment	**100000** 25000	45000	(100000*20%) 20000	25000
2nd instalment	**75000** 25000	40000	(75000*20%) 15000	25000
3rd instalment	**50000** 25000	35000	(50000*20%) 10000	25000
	25000		(25000*20%)	25000

4th instalment	25000	30000	5000	
	Nil	**190000**	**50000**	**140000**

Problem 3: From the following details, set out the Hire purchase Trading A/c in the books of a trader who sells a number of articles of comparatively small value daily on the hire purchase system, showing his profit on this department of the business for the year ended 31.12.88. For the purpose of charging his hire purchase customers, he adds 60% to the cost of the goods.

1.1.88	Stock in Customers hands at selling price	Rs. 1,620
31.12.88	Sale of goods on hire purchase during the year at selling price	Rs. 6,534
	Cash received from hire purchase customers at selling price	Rs. 2,100
	Stock in customers hand at selling price	Rs. 4,674
	Goods repossessed (Instalments due Rs. 1,000) valued at	Rs. 250

Solution:

Hire purchase trading A/c for the year ending 31-12-88

To stock with customers	1620	By cash	2100
To goods sold on H.P (purchase)	6534	By goods repossessed	250
To stock reserve (4674*60/160)	1753	By instalments due	380
To P & L A/c (profit)	555	By stock reserve (1620*60/160)	608
		By stock with customers	4674
		By load on goods sold on H.P (6534*60/160)	2450
	10462		10462

Instalments due A/c [at selling price]

To stock out with customers	3480	By cash	2100
		By goods repossessed	1000
		By balance c/d (Bal.fig)	380
	3480		3480

Stock out with customers A/c

To balance b/d To goods sold on H.P	1620 6534	By instalments due By balance c/d	3480 4674
	8154		8154

Problem 4: Krishna sells products on H.P. terms, the price being cost plus 33 1/3 %. From the following particulars for the year ended 31.12.95, prepare the necessary accounts on stock – debtors system to reveal the profit earned.

1.1.95	Stock out on hire at H.P. price	Rs. 16,00,000
	Stock in hand at shop	Rs. 2,00,000
	Instalments due (Customers still paying)	Rs. 1,20,000
31.12.95	Stock out on hire at H.P. price	Rs. 18,40,000
	Stock in hand, at the shop	Rs. 2,80,000
	Instalments due (Customers still paying)	Rs. 2,00,000
	Cash received during the year	Rs. 32,00,000

H.P. Debtors A/c (instalments due A/c)

To balance b/d To H.P stock A/c	120000 3280000	By cash By balance c/d	3200000 200000
	3400000		**3400000**

H.P. Stock A/c (stock out with customers A/c)

To balance b/d To goods sold on H.P	1600000 3520000	By H.P debtors A/c By balance c/d	3280000 1840000
	5120000		**5120000**

Shop Stock A/c

To balance b/d To purchase	200000 2720000	BY H.P stock A/c By balance c/d	2640000 280000
	2920000		**2920000**

H.P. Adjustment A/c

To stock reserve	460000	By stock reserve	400000
To P & L A/c (profit)	820000	BY H.P stock A/c	880000
	1280000		**1280000**

Stock Reserve A/c

To H.P. adjustment A/c	400000	By balance b/d	400000
To balance c/d	460000	By H.P. adjustment A/c	460000
	860000		**860000**

INTRODUCTION TO ACCOUNTING FOR CONSIGNMENT

Now-a-days it is quite common that manufacturers or wholesale dealers despatch goods to their agents at home and abroad to increase their sales. The knowledge of the agent of the local conditions where he resides proves useful in increasing the sales. Moreover it is very expensive for the manufactures to sell the goods directly either in home market or in foreign market. Therefore, different agents are appointed for different places.

MEANING OF CONSIGNMENT

It is common practice with practically all manufacturers or wholesalers to sell goods through agents both within the country and abroad. The goods are sent to be kept and sold on behalf of and at the risk of sender by the recipient. The person who forwards the goods for sale is consignor, the person to whom goods are forwarded for sale is 'consignee' and goods so sent are called 'Goods sent on Consignment'. Consignment is a means of facilitating sale but is not actually a sale. Consignment is different from sales. A consignment is returnable if goods are not sold but in case of sale, the goods are not returnable except for special reasons, such as on account of damage or if below standard goods are supplied. When goods are sold to a person the property in them passes to that person, but when goods are consigned to a person the legal ownership of the goods remains with the consignor. Hence when goods are sold the relationship between two parties is that of a creditor and debtor but when the goods are consigned relationship between the consignors and consignee is that of 'principal' and 'an agent'.

DIFFERENCE BETWEEN CONSIGNMENT AND SALES

1. Ownership:

Consignment: Ownership is not transferred to the consignee, it remains with the consignor.

Sales: Ownership passes to the buyer.

2. Relationship:

Consignment: Relationship between consignor and consignee is that of principal and agent.

Sales: Buyer is the debtor of seller until his account is settled.

3. Risk of Damages:

Consignment: Consignee holds the goods at the risk of the consignor, so any damage to the goods is a loss to the consignor.

Sales: Any damage to the goods is the loss of the buyer.

4. Return of Goods:

Consignment: The consignee may return the goods to the consignor if not sold.

Sale: Goods once sold are generally not returned.

5. Expenses after Delivery:

Consignment: Expenses after deliver are born by the consignor.

Sales: Expenses after deliver are born by the buyer

6. Forwarding Document:

Consignment: Forwarding document is proforma-invoice.

Sales: Forwarding document is invoice.

PROCEDURE TO BE FOLLOWED IN CASE OF CONSIGNMENT

When the goods are despatched by the consignor to the consignee, the consignor makes out a statement known as 'proforma invoice' like a regular invoice giving details about the consignment and price which is normally at cost, but occasionally it may be at invoice price which is above the cost.

The consignee does not become liable for the payment of amount named in the invoice, but as matter of advance for goods, he usually makes payment in advance either by accepting a bill or by remitting a bank draft.

(a) Account Sale : The consignee renders to his consignor regularly a statement showing sales, expenses incurred, commission charged and remittance made with the resultant balance due by him. This statement is known as 'Accounts Sales'.

On receipt of Account Sales the consignor shall make entries in his books of account and complete the Consignment account and the Consignee's account.

(b) Advance on Consignment : It is common practice for the consignor to ask the consignee for some deposit as a security for goods sent on consignment to the consignee. It may be paid by any mode of payment-cheque, cash or even bills of exchange.

(c) Commission : The consignee usually gets a commission for selling the goods on behalf of the consignor as a fixed percentage on sales. So more the sales more will be the commission earned by the consignor. But there are some other kinds of commission which are sometimes given to the consignee for extra burden and activities i.e. Del-Credre Commission and over-riding Commission.

(i) Del-Credre Commission : Ordinarily the consignee is not responsible to the consignor for the payment of money by the purchasers but sometime he undertakes to guarantee payment due for all the goods he sells on credit and cash whether his customers pay him or not. In consideration of this warranting the solvency of the buyers, he is paid an extra commission called a Del-Credre Commission. The consignee will pay the consignor whether he himself receives payment from debtors or not. The commission is payable on total proceeds.

(ii) Over-Riding Commission : It is an extra commission in addition to ordinary commission. This commission is also calculated on sales like ordinary commission. This commission is generally given by the consignor to the consignee to enhance the sale or to boost up the sales of a new product.

(d) Proforma Invoice : Since the goods sent on consignment cannot be treated as sales, the consignor does not prepare proper invoice. He simply prepares a Proforma invoice and sends it to the consignee, along with the goods despatched. This is prepared with a view to inform the consignee about price of goods, expenses incurred, mode of transportation and the minimum sale price at which the goods are to be sold.

(e) Expenses : Expenses relating to consignment of goods are divided into two categories vis. (i) Non-recurring expenses and (ii) Recurring expenses.

Non-Recurring Expenses : All the expenses which are incurred for bringing goods to the godown of the consignee are non recurring in nature. Such expenses are generally goods have reached the consignee's place or godown.

Recurring Expenses :

They are recurring in nature because they may be incurred repeatedly by the consignor and consignee. The examples of recurring expenses incurred by the consignor are advertising, discount of bills, commission on collection of cheques, travelling expenses of salesmen, bad debts etc. The examples of recurring expenses incurred by the consignee are godown rent, godown insurance, sales promotion etc.

ACCOUNTING TREATMENT OF CONSIGNMENT TRANSACTIONS

(A) Books of the Consignor : The consignor opens three accounts in his ledger.

(1) Consignment Account : It is prepared to ascertain profit or loss on each consignment e.g. Consignment to Bombay Account. It is not a personal account but a special Trading and Profit and Loss account or a nominal account.

(2) Consignee's Account : It is prepared to show the balance due to or from consignee at a particular date. It is a personal account; and

(3) Goods sent on Consignment Account : It is prepared to show the amount of goods sent to the consignee. This is real account. The balance is credited to Purchase or Trading Account.

Journal Entries

1 (a) When the goods are sent on consignment at cost or at invoice price:

Consignment A/c Dr.

To Goods sent on consignment A/c

(Being goods sent on Consignment at cost)

(b) If goods are sent at invoice price then one more entry is needed for making the adjustments. The amount of this entry is the difference between the invoice price and the cost price. The entry will be:

Goods sent on consignment A/c Dr.

To Consignment A/c

2. When expenses are incurred by the Consignor:
Consignment A/c Dr.

To Bank A/c

(Being expenses incurred)

3. When the Account Sales is received from the Consignee :
(i) Consignee A/c Dr.

To Consignment A/c

(Being the total sales by consignee)

(ii) Consignment A/c Dr.

To Consignee A/c

(Being the expenses incurred by consignee and with his Commission)

4. When the consignee remits the cash or bills:
Bank A/c/ Cash A/c/Bills receivable A/c Dr.

To Consignee A/c

(Being Cash/B/R received)

5. When bills is discounted with Bank:
Cash A/c/ Bank A/c Dr.

Discount A/c

To Bills receivable A/c

(Being B/R discounted with the Bank)

6. For Stock remaining unsold:

Consignment stock A/c Dr.

To Consignment A/c

(Being the value of stock plus proportionate expenses)

7. For Abnormal Loss of stock:

General Profit & Loss Account A/c Dr.

(with unrecoverable loss)

Insurance company A/c (with total recoverable loss) Dr.

To Consignment A/c (with total loss)

(For the abnormal loss of stock, amount recoverable and amount not recoverable)

ii) For Profit or loss on Consignment:

(i) If there is profit on Consignment

Consignment A/c Dr.

To general Profit and Loss A/c

(Being the Profit on consignment transferred to Profit and Loss A/c)

(ii) If there is loss on Consignment

General Profit and loss Account Dr.

To Consignment A/c

(Being the loss on Consignment transferred to Profit & Loss Account)

9. For settlement of account with consignee:
Bank/Bills recoverable Dr.

To Consignee A/c

(Being amount sent for final settlement)

The Goods sent on Consignment Account' which shows credit balance will now be transferred to the Trading Account. Then the entry is :

Goods sent on consignment Account Dr.

To Trading A/c

(Being the goods sent on consignment account transferred to trading account).

Ledgers

a) Consignment Account : Consignor prepares this account in his ledger. In it all transactions of a consignment are shown. This account discloses profit or loss incurred by each consignment. Debit side shows goods sent on consignment expenses incurred by consignor and consignee, consignee's commission, bad debts etc. Credit side shows total sales (cash and credit), goods returned, and unsold stock etc. The difference between the debit and credit totals of Consignment Account is regarded as profit or loss which is transferred to the Profit and Loss Account and the Consignment Account stands closed. It is in fact a nominal account and is just like Trading and Profit and Loss Account about which you must have studied earlier in final accounts. Therefore the principles applied to Trading and Profit and Loss Account hold good for this account also. Like Trading and Profit and loss Account all expenses and purchases are debited to this account and all sales and incomes are credited.

b) Goods sent on consignment Account : This account shows the goods 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 the 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.

c) Consignee's Account : This account discloses what amount is due from the consignee. The consignee's account is debited with all cash and is credited by sales effected by the consignee. The various expenses incurred by the consignee, the commission charged by him as well as the advance remitted by him are credited to this account. This account usually shows a debit balance indicating the amount due from the consignee. At times it may show credit balance, if the advance given by the consignee is more than the sale affected by him. The balance revealed

by this account is shown in the balance sheet of the consignor.

Problem 1 : Vimal Mills Ltd. sent 100 pieces of suiting to Lal Garments House of Delhi on consignment basis. The consignees are entitled to receive 5 per cent commission plus expenses. The cost of Vimal Mills Ltd. is Rs. 200 per suiting. Lal Garments House pays following expenses:

Railway Freight	Rs. 500
Godown Rent & Insurance	Rs. 1,000

Vimal Mills Ltd. draw on the consignees a bill for Rs. 10,000 which is duly accepted. Subsequently it is discounted for Rs. 9,500. The consignees informed the consignor of the sale of the entire consignment for Rs. 28,500. Show journal entries and ledger accounts in the book of the consignor.

Solution

Journal entries in the Book of Vimal Mills Ltd. (Consignor)

Date	Particulars		Dr.	Cr.
	Consignment A/c	Dr.	20,000	
	To goods sent on consignment A/c			20,000
	(100 pieces of suiting consigned to Lal Garments House at cost Rs. 200 per suiting)			

	Bill receivable A/c	Dr.	10,000	
	To Lal Garment House			10,000
	(Being of the bills of exchange received from consignee)			
	Cash Account	Dr.	9,500	
	Discount Account	Dr.	500	
	To bill receivable A/c			10,000
	(being bill discounted with the bank)			
	Lal Garment House	Dr.	28,500	
	To Consignment A/c			28,500
	(Being gross proceeds of the goods sold)			
	Consignment A/c	Dr.	1,500	
	To Lal Garment House			15,00
	(being the expenses incurred by Lal Garment house)			
	Consignment A/c	Dr.	1,425	
	To Lal Garment House			1,425
	(Being Commission @ 5% on sales)			
	Consignment A/c	Dr.	5,575	
	To Profit & Loss A/c			5,575
	(Being profit on consignment transferred)			
Goods on Consignment Account Dr.				
To Trading A/c				30,000
(Being goods sent on consignment A/c transferred to trading A/c				

Ledger Accounts
Consignment Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To goods sent on consignment A/c	20,000	By Lal Garment House (Sales)	28,500
To Lal Garments	1,500		
To Lal Garment House (commission)	1,425		
To Profit & Loss A/c (Profit on consignment)	5,575		
	28,500		28,500

Lal Garments House

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To consignment A/c	28,500	By bills receivable	10,000
		By Consignment A/c (Expenditure)	1,500
		By Consignment A/c (Commission)	1,425
		By Balance c/d	15,575
	28,500		28,500

Goods Sent on Consignment Account

Particulars	Rs.	Particulars	Rs.
To Trading A/c (transferred)	20,000	By Consignment A/c	20,000
	20,000		20,000

B. Books of the Consignee

Consignee need not pass any entry in his books on the receipt of goods by him or for expenses incurred by the consignor. He should, in principle, open the Consignor's Account in his books and route all the transactions through it in the following manner:

1. When cash is remitted or bill is accepted

   Consignor A/c Dr.

   To Cash A/c/Bills payable A/c

   (Being cash remitted or bills accepted).

2. When expenses are incurred

   Consignor A/c Dr.

   To Cash A/c

   (Being expenses incurred on consignment)

3. When sale is made on Consignment

   (i) For cash sales

   Cash a/c Dr.

   To Consignor's A/c

   (ii) For credit sales

   Debtor's A/c Dr.

   To Consignor A/c

   (Being goods sold on credit)

4. On remitting balance to consignor after commission
Consignor's A/c Dr.
To Cash A/c/Bank A/c
To Commission A/c
(Being cash remitted after commission)

Note : (A) For unsold stock lying with consignee, no entry is to be passed in his book of account.

(B) Consignee does not pass any entry for profit or loss in his books.

The consignee also prepares ledger accounts after passing all the journal entries. The Consignor's Account and Commission Account are the two important account prepared by the consignee in his books. Of course he will also do the postings to the other accounts such as Consignment Debtor's Account, Consignment Expenses Account and Bills Payable Account etc.

(a) Consignor's Personal Account : It is the main account of Consignee's books which is prepared for working out the amount due to the consignor. Whatever amount he receives from sales of goods is credited to this account. All expenses incurred by the consignor in relation to consignment the commission due to him and the advance given by him to the consignor will be debited to this account. Further, if the consignee does not get del-credre commission, the bad debts on account of credit sales are also debited to the Consignor's Account. The balance of this account indicates the amount payable to the consignor. This account is just the opposite of the Consignee's Account in the books of the consignor.

(b) Commission Account : It is nominal account. It shows the income earned by the consignee for the services rendered by him. All types of commission whether ordinary or special, due to the consignee is credited to this account. The commission account will be debited with bad debts if the consignee is to bear such loss because of del-credre commission.

To continue with the same illustration No. 1, the consignee will have the following journal entries and ledger accounts:

Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
	Vimal Mills Ltd.	Dr.	10,000	
	To Bills payable A/c			10,000
	(Being bill accepted)			
	Vimal Mills Ltd.	Dr.	1,500	
	To Cash A/c			1,500
	(Being expenses (incurred)			
	Cash A/c	Dr.	28,500	
	To Vimal Mills			28,500
	(Being Sales proceeds received on consignment)			
	Vimal Mills Ltd.	Dr.	1,425	
	To Commission A/c			1,425
	(Being 5% commission on total sales)			
	B/P A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being bill met on maturity)			

Ledger Account

Vimal Mills Ltd. (Consignor)

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Bill payable A/c	10,000	By Cash (sale proceeds)	28,500
To Cash A/c (expenses)	1,500		
To Commission A/c	1,425		
To Balance c/d	15,575		
	28,500		28,500

Problem 2. B. Ghosh of Bombay sent on consignment to Alok of Calcutta 300 cases @ Rs. 125 on 1st July 2006 to be sold on his account and at his risk for 10% commission B. Ghosh incurred Rs. 3,000 expenses on dispatching the goods to Alok. On July 10, 2006 B. Ghosh received a bill for Rs. 20,000 at 2 months from Alok. On September 30, 2006 Alok sent on account sales disclosing that 200 cases have been sold for Rs. 160/- each and the remaining cases @ Rs. 150/- each. The account sales also disclose that Alok has incurred unloading expenses Rs. 600 and selling expenses Rs. 900. He sends a draft for the net amount due.

You are required to :
(a) Prepare the account sales; and
(b) Enter the transactions in the books of both the parties.

Solution
Account sales of 300 cases received from B. Ghosh to be sold on his account and risk.

200 cases @ Rs. 160		32,000	
100 cases @ Rs. 150		15,000	47,000
Less : Expenses			
Unloading expenses	600		
Selling expenses	900	1,500	
Commission @ 10% on sales		4,700	6,200
RS. 47,000 (Rs. 32,000 + Rs. 15,000)			40,800
Less Bill given as an advance			20,000
on 10.7.1999			
Balance (draft enclosed herewith)			20,800

Journal Entries in the Books of B. Ghosh (Consignor)

Date	Particulars	L.F.	Dr.	Cr.
2006 July1	Consignment A/c Dr. To goods sent on consignment A/c (Being 300 cases @ Rs. 125 sent on consignment to Alok)		37,500	37,500
July 1	Consignment A/c Dr. To Bank A/c (Being expenses incurred on account of goods sent on consignment)		3,000	3,000
Sep 10	Bills receivable A/c Dr. To Alok (Being an acceptance for 2 months bill from Alok as an Advance)		20,000	20,000
Sep 13	Bank Account Dr. To Bills Receivable A/c (Being the acceptance of Alok on the due date)		20,000	20,000
Sep 30	Consignment A/c Dr. To Alok (Being unloading expenses Rs. 600 and selling expenses Rs. 900/- incurred by Alok)		1,500	1,500

Sep 30	Alok	Dr.	47,000	
	To Consignment A/c			47,000
	(Being goods sent on consignment sold by Alok-200 cases @ Rs. 160 and 100 case @ Rs. 150)			
Sep. 30	Consignment A/c	Dr.	4,700	
	To Alok			4,700
	(Being commission payable to Alok @ 10% on Rs. 47,000)			
Sep 30	Bank A/c	Dr.	20,800	
	To Alok			20,800
	(Being amount due from Alok received)			
Sep 30	Consignment A/c	Dr.	300	
	To Profit & Loss A/c			300
	(Being profit on consignment transferred to Profit and Loss A/c)			
Sep.30	Goods sent on consignment A/c	Dr.	37,500	
	To Trading A/c			37,500
	(Being goods sent on consignment transferred to Trading A/c)			

Ledger

Consignment Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006					
July1	To good sent on consignment A/c	37,500	Sep 30	By Alok (Sales) 200 cases @ 160 32,000 100 case @ Rs. 150 15,000	47,000
July 1	To Bank A/c (Exp)	3,000			
Sep 30	To Alok (Expenses)	1,500			
Sep 30	To Alok (Commission)	4,700			
Sep 30	To Profit transferred to profit & loss a/c	300			
		47,000			47,000

Goods sent on Consignment Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006					
Sept30	To Trading A/c	37,500	July1	By Consignment to Calcutta a/c	37,500
		37,500			37,500

Bills Receivable Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006			2006		
Jul10	To Alok	20,000	Sep.13	By Bank A/c	20,000
		20,000			20,000

Alok

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006			2006		
Sept 30	To Consignment a/c (Sales)	47,000	Jul 10	By bills receivable	20,000
			Sep 30	By consignment to Calcutta C/c (Exp)	1,500
			Sep 30	By Consignment A/c (Commission)	4,700
			Sep 30	By Bank a/c	20,800
		47,000			47,000

Bank Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006			**2006**		
July 1	To balance b/c		July 1	By consignment a/c	3,000
Sep 13	To Bills receivable	20,000			
Sep. 30	To Alok	20,800	Sep.30	By Bal. c/d	

Profit and Loss Account

	2006		
	Sep 30	By Consignment to Calcutta a/c	300

Entries in the Books of Alok (Consignee) Journal

Date	Particulars		Dr.	Cr.
Jul 10	B. Ghosh	Dr.	20,000	
	To Bills payable A/c			20,000
	(Being acceptance of bill for 2 months given)			
	Ghosh	Dr.	1,500	
	To Bank A/c			1,500
	(Being unloading expenses Rs. 600 and selling expenses Rs. 900 incurred on account of B. Ghosh)			
Sep 13	Bills payable A/c	Dr.	20,000	
	To Bank A/c			20,000
	(Being bill met on the due date)			
	Bank A/c	Dr.	47,000	
	To B. Ghosh			47,000
	(Being goods sold on behalf of B. Ghosh)			
Sep 30	B. Ghosh	Dr.	4,700	
	To Commission A/c			4,700
	(Being 10% commission on sales charged to B. Ghosh).			

Sep 30 B. Ghosh	Dr.	20,800	
To Bank A/c			20,800
(Being bank draft sent to B. Ghosh for the amount due)			

B. Ghosh

2006				
Jul 10	To Bills payable A/c	20,000	By bank A/c (sales)	47,000
	To Bank A/c (expenses)	1,500		
Sep 30	To commission A/c	4,700		
Sep 30	To Bank A/c	20,800		
		47,000		47,000

Bills Payable Account

2006					
Sep 13	To Bank Account	20,000	July 10	B. Ghosh	20,000

Commission Account

			2006		
			Sep 13	B. Ghosh	4,700

Problem 3

Suresh and Co. of Bombay sent on consignment to Mahesh & Co. of Delhi 60 cases cutlery goods costing Rs. 175 per case. Expenses incurred by the consignor at Bombay were : Freight Rs. 275, insurance Rs. 55 and loading charges Rs. 20.

Suresh & Co. draw on Mahesh & Co. 2 months bills at sight for Rs. 7,000 which the latter accepts. The charges paid by Mahesh & Co. at Delhi were unloading Rs. 30, Storage Rs. 85, insurance Rs. 15, Commission is payable to Mahesh & Co. at 2% on all sales in addition to 1½% del-credere commission.

The consignee sells for prompt cash 30 cases @ Rs. 225 per case; 25 cases @ Rs. 250 per case and the balance @ Rs. 280 per case. The account was settled immediately by means of a bank draft.

Write up the transactions and ledger accounts in the books of both the parties.

Solution

Consignor's Books Journal

Consignment to Delhi Account	Dr.	10,500	
To Goods sent on consignment Account			10,500
(60 cases consigned @ Rs. 175 per case)			
Consignment to Delhi Account	Dr.	350	
To Bank			350
(expenses on consignment paid)			
Bills receivable Acount	Dr.	7,000	
To Mahesh & Co.			7,000
(Being Expenses incurred by consignee)			

Consignment to Delhi Account	Dr.	130	
To Mahesh & Co.			130
(Being Expenses incurred by consignee)			
Mahesh & Co.	Dr.	14,400	
To Consignment to Delhi Account			14,400
(Sales affected by consignee)			
Consignment to Delhi Account	Dr.	504	
To Mahesh & Co.			504
(Being Commission due to the consignee including del-credre commission on sales i.e. 2% and 1½% of Rs. 14,400)			
Bank Account	Dr.	6,766	
To Mahesh & Co.			6,766
(Being Received bank draft in settlement of the accounts)			
Consignment to Delhi Account	Dr.	2,916	
To General Profit & Loss a/c			2,916
(Being Goods sent on consignment account closed)			

Ledger Account

Consignment to Delhi Account

Dr.				Cr.
July 1	To goods sent ton consignment a/c	10,500	By Mahesh & Co. (sales)	14,400
	To Bank (expenses)	350		
130	To Mahesh & Co. (Expenses)			
504	To Mahesh & Co. (Commission)	634		
	To General Profit & Loss A/c	2,916		
		14,400		14,400

M/s Mahesh & Co's Account

To consignment to Delhi A/c (sales)	14,400	By B/R A/c	7000
		By Consignment to Delhi Account Expenses 130 Commission 504	634
		By Bank a/c	6,766
	14,400		14,400

GOODS SENT ON CONSIGNMENT ACCOUNT

To Trading A/c (transfer)	10,500	By consignment to Delhi A/c	10,500

Consignee's Books

Journal

Suresh & Co.	Dr.	7,000	
To Bills payable accepted			7,000
(Suresh & Co's bill accepted)			
Suresh & Co.	Dr.	130	
To cash A/c			130
(Being cash sent on expenses)			
Cash account	Dr.	14,400	
To Suresh & Co.			14,400
(Sales effected on consignor's behalf)			
Suresh & Co.	Dr.	504	
To Commission A/c			504
(Commission @ 2% and del credre commission @ 1.5% on Rs. 14,400)			
Suresh & Co.	Dr.	6,766	
To Bank A/c			6,766
(Balance remitted vide draft			

Ledger Accounts

M/s Suresh & Co's Account

To bills payable A/c To cash (expenses) To Commission A/c To Bank A/c (draft)	7,000 130 504 6,766	By cash (sales)	14,400
	14,400		14,400

Till now we have presumed that all the gods consigned are sold. But in practice we find that at the time of submitting the 'account sale', a part of goods consigned may still be unsold and may be lying with the consignee. In order to calculate the true profit or loss on consignment, the unsold stock should be valued and accounted for.

VALUATION OF STOCK ON CONSIGNMENT

Valuation of unsold stock is usually done at cost. Cost, in case of consignment stock, would include the cost at which the goods are consigned plus, the proportionate non-recurring expenses. All the non-recurring expenses, whether incurred by the consignor or by the consignees, are to be taken into account. In the absence of details of expenditure incurred by the consignee, all expenses incurred by him are to be taken as recurring expenses and thus are not to be considered in the calculation of closing stock. In other words, while valuing the closing stock we add such proportionate expenses to the cost price that have been incurred upto the time the goods are brought to the place of the consignee. Any other expenses paid by the consignor or the consignee after this point will not be considered as these expenses do not add to the value of the goods. Such expenses are godown rent, selling expenses, carriage outwards, godown insurance, discount etc.

Usually following expenses are added for calculation of closing stock : Carriage and Freight, Loading Charges, Custom Duty, Clearing Charges, Dock Dues, Carriage paid upto the Godown, and Unloading charges.

Following are the expenses which are not considered for calculation of closing stock : Godown rent, Discount, Bad Debts, Insurance of the goods in the Godown, and Selling and Distribution expenses.

One can notice that all expenses incurred by the consignor are considered for valuation of the closing stock. The problem arises only selecting recurring expenses in case of consignee.

The value of unsold stock affects the profit or loss on any consignment so its valuation and recording in the books of consignor is very important. It is shown on the credit side of Consignment Account for which the journal entry passed would be as :

Stock on Consignment A/c Dr.

To Consignment A/c

(Being the values of sold stock)

On the other hand the Consignee, will not pass any entry for the closing stock. It is because he is not the owner of the goods and does not pass any entry even when the goods are received or he returns the goods.

ACCOUNTING FOR LOSS OF GOODS

Goods sent on consignment may be lost or damaged in transit. The loss of goods may be either (i) normal or (ii) abnormal Treatment in the books of accounts will depend upon the nature of loss.

Normal Loss : Loss of goods is sold to be normal when it is natural, unavoidable and is due to inherent characteristic of the goods despatched like evaporation, sublimation etc. The amount of stock to be carried down is the proportion of the total cost that the number of units on hand bears to be the total number units as diminished by loss.

Deficiency of Stock : When there is deficiency of stock at the time of stock-taking and the consignee is under a liability to account for the missing stock, the entry will be:

Consignee Dr.
To Consignment a/c
(Being the deficiency of stock charged to the consignee).

If, on the other hand, he is not liable, the stock of the consignment will be shown at the gross figure and the consignment account will be debited with the loss in stock.

Abnormal Loss : There are the losses which are accidental and not natural like theft. Abnormal loss may occur in the godown of the consignee or in transit. Let us see the effect of abnormal loss on the closing stock under both situations.

When the abnormal loss occurs in the godown of the consignee the valuation of closing stock is not affected because the expenses incurred after they reach the godown of the consignee are not to be taken into account for the purpose. Hence, the normal formula will be followed for the valuation of closing stock. Look at illustration 4 and see how the abnormal loss and the value of closing stock is calculated when the abnormal loss occurs in the godown of the consignee.

The treatment in accounts will depend upon whether the unforeseen loss has been insured against or not. In case of insurance the consignment account will be credited but the insurance companies or underwriter's account will be debited with the amount of loss (which shall be calculated like valuation of stock on consignment i.e. including proportionate non-recurring expenses of both the consignor and the consignee). If the goods are not insured, instead of Insurance Company's or Underwriter's Accounts being debited, Profit and Loss Account will be debited and consignment account will be credited. In this way the final net profit on consignment is not adversely affected.

Problem 4: X of Calcutta sent on 15th January, 2006, a consignment of 500 toys bicycles costing Rs. 100 each. Expenses of Rs. 700 met by the consignor. Y of Bombay spent Rs. 1,500 for clearance and the selling expenses were Rs. 10 per bicycle.

Y sold, on 4th April 2006, 300 pieces @ Rs. 160 per piece and again on 20th June 1999, 150 pieces @ Rs. 172.

Y was entitled to a commission of Rs. 25 per piece sold plus one fourth of the amount by which the gross proceeds less total commission thereon exceeded a sum calculated at the rate of Rs. 125 per piece sold. Y sent the amount due to X on 30th June 2006. You are required to show the Consignment Account and Y's Account in the books of X.

Solution

Consignment Account

2006		Rs.	2006		Rs.
Jan 15	To goods sent on consignment a/c 500 @ Rs. 100	50,000	Apr 4	By Y-sale of 300 pieces @ Rs. 160	48,000
Jan 15	To Bank A/c - Exp.	700	June 20	By Y-sale of 150 Pieces @ 172	25,800
	To Y-Clearing Exp	1,500	June 30	By consignment stock A/c	5,220
Apr 4	To Y-selling Exp	3,000			
Jun 20	To Y- selling Exp	1,500			
Jun 30	To Commission A/c	12,510			

June 30 To Profit & Loss A/c Profit on Consignment	9,810			
	79,020			79,020

Y Account

2006		Rs.	2006		Rs.
Apr 4	To Consignment A/c	48,000		By consignment A/c (clearing exp.)	1,500
Jun 20	To Consignment A/c	25,800	Apr 4	By consignment A/c (selling exp.)	3,000
			June 20	By consignment A/c (selling exp.)	1,500
			Jun 30	By consignment A/c commission (2)	12,510
				By Bank A/c	55,290
		73,800			73,800

Working Note

(1) Valuation of Closing stock

50 pieces @ Rs. 100 each Rs. 5,000

Plus : Proportionate Expenses

Expenses incurred by X on 500 pieces	= Rs. 700	
Clearing expenses incurred by Y	= Rs. 1500	
Total Expenses	Rs. 2,200	
Therefore, expenses on 50 pieces 2200x50/500	=	Rs. 220
		Rs. 5,220

(2) Calculation of Commission

Let Total Commission of Y be a

a = No. of pieces sold x Rs. 25 + ¼ [Gross sale proceeds - (Rs. 125x No. of pieces sold] - (a)

a = 450 x Rs. 25 + ¼ [R. 73,800 - (Rs. 125 x 450] -a)

a = Rs. 45,000 + Rs. 17,500 -a

5a = Rs. 62, 550

Therefore : a = 62,550/5 = Rs. 12,510

INVOICING GOODS HIGHER THAN COST

Sometimes the goods sent on consignment are priced not at cost but above cost i.e. at selling or near selling price. The purpose is to hide the real profit on the consignment from the competitive eye of the consignee. It does not affect the profits of the consignor. Here a few adjusting entries in respect of goods sent on consignment and stock are to be made at the end of the financial year. The entries are as follows :

To bring down the invoice of the goods sent on consignment to cost, debit goods sent on consignment account and credit consignment account with the difference in the invoice and the cost price.

(i) Goods sent on consignment A/c Dr.

To consignment A/c

(Being the excess of Invoice price written back)

To adjust the value of the stock lying unsold with the consignee, debit the consignment account and credit ‘Stock Reserve Account’ with the difference in prices.

(ii) Consignment A/c Dr.

To Consignment Stock Reserve A/c

(Being the excess of invoice price or value over cost Price of unsold stock adjusted).

The balance of the goods sent on consignment account will be transferred to the Trading Account as indicated earlier. The stock on consignment and Stock

Reserve Account will be closed and the balance will be shown in Balance sheet.

Next year the stock on consignment account will be transferred to the debit of the ‘Consignment Account’ and Stock Reserve Account will be transferred to the Consignment Account (of course at the end of the next year.)

Problem 5: B. Ltd. of Delhi consigned 1,000 cases of milk powder to S. of Bombay. The goods were charged at proforma invoice value of Rs 10,000 including a profit of 25% on invoice price.

The consignors paid Rs. 600 for freight and insurance. Consignee paid import duty Rs. 1,000, Dock Dues Rs. 200 and sent to the Consignors a bank draft of Rs. 4,000 as advance. They sold 80 cases for Rs. 10,500 and sent for the balance due to the consignors after deducting commission of 5% on gross sale proceeds. Show ledger accounts in the books of the consignor.

Solution:

Dr. **Consignment** **Cr.**

2006	Rs.	2006	Rs.
To goods sent on consignment A/c 25% over cost	10,000	By S of Bombay (consignee)	10,500
To Bank Expenses	600	By Goods sent on consignment	2,500
To S of Bombay (Exp)	1,200	By Consignment stock	2,360
To consignment stock reserve A/c (25% of stock Rs. 200	500		
To Profit transferred To P & L A/c	2,535		
	15,360		15,360

Dr. S of Bombay (Consignee) Cr.

2006	Rs.	2006	Rs.
To Consignment A/c	10,500	By Bank	4,000
		By Consignment A/c	
		Expenses 1200	
		Commission 525	1725
		By Bank	4,775
	10,500		10,500

Dr. **Goods sent on Consignment** **Cr.**

2006	Rs.	2006	Rs.
To consignment a/c	2,500	By Consignment a/c	10,000
To Trading a/c	7,500		
	10,000		10,000

Consignment Stock A/c

Dr. Cr.

2006	**Rs**	**2006**	**Rs.**
To Consignment A/c	2,360	By balance c/d	2,360
	2,360		2,360

Consignment Stock Reserves A/c

Dr. Cr.

2006	Rs.	2006	Rs.
To balance c/d	500	By consignment A/c	500
	500		500
		To balance b/d	500

Working Notes

Valuation of Stock

20 cases of Milk Rs. 100 = Rs. 2,000

Proportionate Expenses = Consignor expenses + Consignee Expenses = Rs. 600 (freight and insurance + Rs. 1000 (Import duty) + Rs. 200 (Dock Dues) = Rs. 1800 Expenses on unsold Stock

1800 x 20/100 = 360

Total value = Rs. 2000 + 360 = Rs. 2360

Adjustment Entries

Excess of invoice price over cost price in case of goods sent on consignment = 10,000 x 25/100 = Rs. 2500.

INTRODUCTION TO ACCOUNTING FOR JOINT VENTURE

Complexities of a business as huge funds requirements, lack of technical expertise, sometimes make it difficult to undertake a business assignment individually like constructing a big building. The alternative available is that two or more persons join hand to take up that assignment. Joining hand may be for finance, for technical know-how, for sharing risk etc. When two or more persons join together to carry out a specific business and share the profits on predetermined basis, it is known as a *Joint Venture.* Joint venture is defined as a partnership confined to a particular adventure, speculation, course of trade or voyage, and in which partners, either latent or known use no firm or social name, and incur no responsibility beyond the limits of the adventure. For example, Mr. John and Mr. Ibrahim agreed to construct a bridge for Municipal Corporation. They pool their resources and technical knowhow. After they completed this project, the profits arising thereof will be shared by them in proportion to their contribution. When they are undertaking this project, they are free to carry on their own business as usual unless otherwise agreed. As the project ends, the relationship between the parties i.e. co-ventures ceases. So life of joint venture depends on the duration in which a project completes. Joint venture is neither a partnership nor it is consignment.

MEANING OF JOINT VENTURE

A joint venture is usually a temporary partnership without the use of a firm name, limited to carrying out a particular business plan in which the persons concerned agree to contribute capital and to share profits or losses. The parties in a joint venture are known as co-venturers and their liability is limited to the adventure concerned for which they agree to contribute capital and share profits or losses. A joint venture may consist of a joint consignment of goods, speculation in shares, underwriting of shares or debentures, construction of a building, or any similar form of enterprise.

FEATURES OF A JOINT VENTURE

The main features of a joint venture are specifically made clear.

- Two or more persons are needed.
- It is an agreement to execute a particular venture or a project.

- The joint venture business may not have a specific name.
- It is of temporary nature. So the agreement regarding the venture automatically stands terminated as soon as the venture is complete.
- The co-ventures share profit and loss in an agreed ratio. The profits and losses are to be shared equally if not agreed otherwise.
- The co-ventures are free to continue with their own business unless agreed otherwise during the life of joint venture.

DIFFERENCES BETWEEN JOINT VENTURE AND PARTNERSHIP

In joint venture and partnership some business is carried on by two or more persons and the profits are shared by all of them. But there are some basic differences between the two which are given below:

- A joint venture involves two or more companies joining together in business, whereas in a partnership, it is individuals who join together for a combined venture.
- A joint venture can be described as a contractual arrangement between two companies that aims to undertake a specific task. Whereas, a partnership involves an agreement between two parties wherein they agree to share the profits as well as any loss incurred.
- In a partnership, persons involved are co-owners of a business venture and their aim is making a profit. But in a joint venture, it is not just profit that binds the parties together. Joint ventures can be formed for specific purposes. Normally the companies engage in joint ventures for undertaking certain ventures like research and development which will be expensive in nature and impossible to take the same individually.
- A partnership will last for many years until the parties involved have no differences. While a joint venture company will last for only a limited period until their goal is achieved.
- The members in a partnership can claim a capital cost allowance as per the partnership rules. Whereas, joint ventures can use as much or as little of the capital cost allowance.
- In a partnership, members cannot act according to their wishes because they do not have any individual identity. However, a member of a joint venture can retain the identity of his/her firm or property.
- Although a joint venture is very similar to a partnership, a joint venture is generally more limited in scope and duration.

- A joint venture is generally considered to be a partnership for a single transaction. Similarly, a joint venture is a less formal relationship than a partnership.
- The rights and liabilities of joint venturers are governed by the principles applicable to partnerships.

METHODS OF RECORDING JOINT VENTURE TRANSACTIONS

Joint venture accounts can be kept under any of the following three methods :

A) Each co-venture records the transaction in his own books and opens "Joint Venture Account" and accounts of his fellow partners.

B) One common Joint Venture Account on memorandum basis is prepared to find the profit or loss made on trading. It is not a part of the double entry system. Under this system each one of the partners open only one account which is of the nature of personal account. The account is called. "Joint venture with ....a/c."

C) Venturers agree to keep a separate set of books and a person is made incharge of recording of all transactions. Generally this method is not adopted.

A) Each co-venturer records the transactions

Under this system the "Joint Venture Account" is opened and debited with the value of goods bought and expenses incurred. Cash account or the party which has supplied the goods or incurred the expenses will be credited. When the sales proceeds are received, the party receiving it, will debit cash (for Debtors) account and credit the Joint Venture Account. The other parties will debit the recipient party and credit the Joint Venture Account.

Sometimes, a bill of exchange is drawn by one of the parties and is discounted. In such a case the discount on the bill should be charged to Joint Venture Account. Joint Venture Account will now show the profit or loss on trading. Under this system, each (Joint venturer) partner will open two accounts i.e. (i) Joint Venture Account (ii) The account of other parties.

Journal Entries : The following journal entries will be passed

1) For Investment in Joint Venture

Joint Venture A/c Dr.

To Cash/Good A/c

(Being the amount of goods supplied or cash put in for Joint Venture)

2) As goods are supplied by the Co-venturer or cash is invested in Joint Venture by him

Cash A/c (For cash sent) Dr.

Joint Venture A/c Dr.

To Co-venturer A/c (for goods sent)

(Being goods supplied or cash invested by the other partner)

3). For recording sale of joint venture goods

Cash A/c Dr.

To Joint Venture A/c

(Being Sale of goods made)

4) On sale of joint venture goods by the other party

Co-Venturer A/c Dr.

To Joint Venture A/c

(Being Joint Venture goods sold by the other partner)

5) a)For receipt of Bill of Exchange from the other partner

Bills receivable A/c Dr.

To Co-Venturer A/c

(Being bill receivable received)

b) For discounting the bill of exchange

Bank A/c Dr.

Joint Venture A/c Dr.

To Bills Receivable A/c

(Being bill discounted and discounting charges debited to Joint Venture A/c).

6) Entries in the books of other partner Acceptor's books regarding Acceptance of bills of exchange

Co-venturer A/c Dr.

To Bills Payable A/c

(Being acceptance given)

7) On discounting the bills of exchange by other party i.e. drawer

Joint venture A/c Dr.

To Co-Venturer A/c

8) On commission charged under Joint Venture

Joint Venture A/c Dr.

To commission A/c

9) On Commission charged by other partner

Joint Venture A/c Dr.

To Co-Venturer A/c

(Being Commission on sale effected by other partners)

10) When some products are left unsold and transferred to his own stock.

Purchase A/c Dr.

To Joint Venture A/c

(Being the unsold goods taken)

11) If the other partner has taken the unsold goods, the entry will be:-

Co-venturer A/c Dr.

To Joint Venture A/c

(Being the unsold goods taken by the other partner)

12) Now Joint Venture Account will be closed. If it shows profit then the profit will be divided in the agreed ratio. The entry will be

Joint Venture A/c Dr.

To P & L A/c (own share)

To Co-venturers A/c (their share)

(Being the profit on Joint Venture shared by the parties)

Format of Two accounts to be maintained

Joint Venture Account

Dr. **Particulars**	**Amount Rs.**	**Particulars**	Cr. **Amount Rs.**
To Cash A/c (purchased) To Cash A/c (Expenses) To Purchase A/c (Material supplied) To Outstanding Expenses A/c To Profit transferred to: Profit & Loss A/c Co-venturers A/c		By Cash A/c By Co-venturer A/c (Goods taken over)	

Co-venturer's Personal Account

Particulars	Rs.	Particulars	Rs.
To Joint Venture A/c		By Bills Receivables	
(Good taken over)			
To Cash a/c		By Joint Venture A/c	
	-------------		-------------
	-------------		-------------

Problem 1: X and Y entered into Joint Venture to sell a consignment of timber sharing profits and losses equally. X provides timber from stock at mutually agreed value of Rs. 50000. He pays expenses amounting to Rs. 2500. Y incurs further expenses on cartage, storage and collieage of Rs. 6500 and receives cash for sales Rs. 30,000. He also takes over goods to the value of Rs. 10000 for his own use. At the close, X takes over the balance stock in hand which is valued at Rs. 11000.

Pass Journal Entries to record the above transactions and open the necessary ledger accounts in the books of X and Y.

Journal entries in the Books of X

Particulars	L.F.	Dr. Rs.	Cr. Rs.
Joint Venture A/c	Dr.	52,500	
To Purchase A/c			50,000
To Bank A/c			2,500

(Being timber provided and expenses incurred)			
Joint Venture A/c	Dr.	6,500	
To Y			6,500
(Being expenses incurred by Y)			
Y	Dr.	30,000	
To Joint Venture a/c			
(Being the sale proceeds by Y)			30,000
Y	Dr.	10,000	
To Joint Venture A/c			10,000
(Y takes over the goods for his use)			
Purchase A/c	Dr.	11,000	
To Joint Venture A/c			11,000
(Being unsold goods taken)			
Y	Dr.	4,000	
Profit and Loss A/c	Dr.	4,000	
To Joint Venture A/c			8,000
(Being the loss on Joint Venture shared equally)			
Bank A/c	Dr.	37,500	
To Y			37,500
(Being draft received from Y)			

Ledger Account

Joint Venture A/c

Particulars	Rs.	Particulars	Rs.
To Purchase	50,000	By Y (sale proceeds)	30,000
To Bank (expenses)	2,500	By Y (goods for his use)	10,000
To Y (expenses)	6,500	By Purchases (goods)	11,000
		By Y (loss)	4,000
		By Profit and Loss A/c	4,000
		(Ratio being 1:1)	
	59,000		59,000

Y's Account

Particulars	Rs.	Particulars	Rs.
To Joint Venture (Sale)	30,000	By Joint Venture (Expenses)	6,500
To Joint Venture (goods)	10,000	By Bank	37,500
To Joint Venture (goods)	4,000	(Final Settlement)	
	44,000		44,000

Journal Entries in the Books of Y

Particulars		L.F.	Dr. Rs.	Cr. Rs.
Joint Venture A/c	Dr.		52,500	
To X				52,500
(Being the goods supplied and expenses incurred)				
Joint Venture A/c	Dr.		6,500	
To Bank				6,500
(Being the expenses paid)				
Bank	Dr.		30,000	
To Joint Venture A/c				30,000
(Being the receipt of sale proceeds)				
Drawing A/c	Dr.		10,000	
To Joint Venture A/c				10,000
(Being the goods withdrawn for own use)				
X A/c	Dr.		11,000	
To Joint Venture A/c				11,000
(Being the taking over the balance stock in hand by X)				
X A/c	Dr.		4,000	
Profit and Loss A/c	Dr.		4,000	
To Joint Venture A/c				8,000
(For sharing of loss in equal ratio)				

X A/c	Dr.	37,500	
To Bank A/c			37,500
(Being the draft remitted X)			

Ledger A/cs

Joint Venture A/c

Dr. Cr.

Particulars	Rs.	Particulars		Rs.
To X (goods supplied)	50,000	By Bank (by sales)		30,000
To X (expenses)	2,500	By Drawing of goods		10,000
To Bank (expenses)	6,500	By (Balance stock taken by X)		11,000
		By X	4000	
		P & LA/c	4000	
		(Loss)		8,000
	59,000			59,000

X's A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Joint Venture A/c	11,000	By Joint Venture A/c	52,500
		(Good and expenses)	
To Joint Venture A/c (Loss)	4,000		
To Bank	32,500		
	52,500		52,500

B) Memorandum Joint Venture Account Method

In the method discussed above each co-venturer records all transactions relating to the joint venture in the Joint Venture Account opened in his books. But, under the Memorandum Joint Venture Account Method each co-venturer will record only those transactions relating to the joint venture which are directly concerned with him and not those of others.

a) Under this method each co-venturer opens a Joint Venture Account including the name of the other co-venturer. The heading of the account is 'Joint Venture with (name of coventurer) Account'. The Joint Venturer with (name of co-venturer) Account is a personal account and it does not show any profit or loss. The following entries will be made in this account :

i) Joint Venture with.........................Account Dr.
To cash/Bank/Creditors Account
(Being payments by cheque or cash or liabilities incurred on Joint Venture)

ii) Cash/DebtorsAccounts Dr.
To Joint Venture............Account
(Being sale Cash/Credit made on account of Joint Venture)

b) A separate 'Joint Venture Memorandum Account' is prepared to ascertain profit or loss in Joint Venture. It is just like profit and loss account, all the expenses and losses are debited to it and all incomes and gains are credited to it. All the items of personal accounts will also appear on the same side of 'Joint Venture Memorandum Account'. The balance of Joint Venture Memorandum Account shows profits or loss on joint venture and each party makes an entry for his share of profits or losses. The journal entry is as under :

Joint Venture with................Account Dr.
To Profit and Loss Account
(Being profit earned on Joint Ventures)

Or

Profit and Loss Account Dr.
To Joint Venture with................Account
(Being loss effected on Joint Venture)

Problem 2: A and B entered into a Joint venture involving the buying and selling of old railway material with an agreement to share profit or loss equally. (*The amount is in Rs. Hundreds*). The cost of the material purchased was Rs. 30,000 which was paid by A, who drew bill of Rs. 20,000 on B at three months' period. The bill was discounted by A at cost of Rs. 160. The transactions relating to the ventures were:

1) A paid Rs. 200 for carriage, Rs. 600 for commission on sales and Rs. 100 for travelling expenses (ii) B paid Rs. 80 for travelling expenses and Rs. 120 for sundry expenses (iii) Sales made by A amounted to Rs. 21,400 less allowance for faulty goods Rs. 400 and (iv) Sales made by B were Rs. 15,000.

The remaining goods were retained by A and B for their private use and these were charged to them as Rs. 1600 and Rs. 2400 respectively. A was credited with sum of Rs. 300 to cover the cost for warehousing and insurance. The expenses in connection with the discounting to the bill were to be treated as a charge against the venture. Prepare the ledger accounts in the books of both the parties and also the memorandum joint venture account.

Solution

Dr. **Memorandum Joint Venture A/c** Cr.

(Rs. In 000)

Particulars	**Rs.**	**Particulars**	**Rs.**
To Materials	30,000	By Sales	36,000
To discount on Bill	160	(21000 + 15000)	
To carriage	200	By stock taken by	
To Commission	600	A 1600	4,000
To Travelling (100+8)	180	B 2400	
To Sundry expenses	120		
To Warehousing expenses	300		
To Profit A : 4220			
B : 4220	8,440		
	40,000		40,000

In the Books of A

Joint Venture with B A/c

(Rs. in 000)

Dr. Cr.

Particulars		**Rs.**	**Particulars**		**Rs.**
To Bank (material)		30,000	By Bank (sales)	21,000	
To discount on bill		160	By Stock taken	1,600	
To Bank			By Balance c/d	12,980	
Carriage	200				
Commission	600				
Travelling exp.	100				
Warehousing	300	1,200			
By Profit & Loss A/c		4,220			
		35,580			35,580
To Balance b/d		12,980			

In the Books of B

Joint Venture with A A/c

Dr. Cr.

(Rs. in '000)

Particulars		**Rs.**	**Particulars**		**Rs.**
To Bank			By Bank (Sales)	15,000	
Travelling Exp.	80		By Stock taken	2,400	
Sundry Exp.	120	200			
To Profit & Loss A/c		4,220			
To Balance c/d		12,980			
		17,400			17400
			By Balance b/d		12980

Sometimes the co-venturers invest money in Joint venture business and receive back the amounts on different dates. It is quite usual for them to agree to calculate interest at a certain rate. Each co-venturers is entitled to receive interest on the amounts invested by him and pay interest on the amounts received by him. Only net interest receivable from or payable to the conventurer is recorded in the joint venture account. Thus, the net amount of interest is also taken into amount before ascertaining the profit or loss on joint venture.

Problem 3: A and B enter into a joint venture sharing profits and losses equally. A purchased goods for Rs. 5,000 for cash on January 1, 1999. On the same day Bought goods for Rs. 10,000 on credit and spend Rs. 1,000 on freight etc. Further expenses were incurred as follows :

On 1.2.1999	Rs. 1,500 by B
On 12.3.1999	Rs. 500 by A

Sales were made by each one of them as follows :

15.1.1999	Rs. 3,000 by A
13.1.1999	Rs. 6,000 by B
15.2.1999	Rs. 3,000 by A
1.3.1999	Rs. 4,000 by B

Creditors for goods were paid as follows

1.2.1999	Rs. 5,000 by A
1.3.1999	Rs. 5,000 by B

On March 31, 1999 the balance of stock was taken over by B at Rs. 9,000. The accounts between the co-venturers were settled by cash payment on this date. The co-venturers are entitled to interest at 12% per annum. Prepare necessary ledger accounts in the books of venturers as per Memorandum Joint Venture Account Method.

Solution

Memorandum Joint Venture Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To A (cost of goods)	5,000	By A (sales)	6,000
To B (Cost of goods)	10,000	By B (sales)	10,000
To B (Freight etc.)	1,000	By B (interest)	50
To A (expenses)	500	By B (stock taken)	9,000
To B (expenses)	1,500		
To A (interest)	135		
Profit transferred			
A : 3457			
B : 3458	6,915		
	25,050		25050

Joint Venture with B Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1999			1999		
Jan. 1	To Bank A/c (Purchase)	5,000	Jan 15	By Bank A/c (Sales)	3,000
Feb. 1	To Bank A/c (Creditors)	5,000	Feb. 15	By Bank A/c (Sales)	3,000
Mar. 1	To Bank A/c (Expenses)	500	Mar. 15	By Bank A/c (Final settlement)	8,902
Mar. 31	To Interest a/c	135			
Mar. 31	To Profit & Loss A/c	3,457			
		14,092			14,902

B's Books

Joint Venture with A Account

Dr.					Cr.
Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
1999			1999		
Jan 1	To Bank A/c (Freight)	1,000	Jan 31	By Bank (Sales)	6,000
Feb. 1	To Bank A/c (Exp)	1,500	Mar. 31	By Bank (sales)	4,000
Mar. 1	To Bank A/c (Crs)	5,000	Mar. 31	By Goods A/c Stock taken over	9,000
Mar. 31	To Profit & Loss A/c	3,458	Mar. 31	By Interest A/c	50
Mar. 31	To Bank A/c (Amt. Paid in Final Statement)	8,092			
		19,050			19,050

Calculation of Interest :

Payment by A

Date	Amount	Month	Product (Rs.)	
1.1.99	Rs. 5,000	3	15,000	(5,000 x 3)
1.3.99	Rs. 500	1	500	(500 x 1)
1.2.99	Rs. 5,000	2	10,000	(5,000 x 2)
			25,000	

$$\text{Interest} = 25{,}500 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 255$$

Receipts by A

15.1.99	Rs. 3,000	2.5	7,500	(3,000 X 2 ½)
15.2.99	Rs. 3,000	1.5	4,500	(3,000 x 1 ½)
			12,000	

Interest = 12,000 x 12/100 x 1/12 = 120

Net Interest due = 265 - 120 = Rs. 135

Payment by B

1.1.99	Rs. 1,000	3	3,000
1.2.99	Rs. 1,500	2	3,000
1.3.99	Rs. 5,000	1	5,000
			11,000

Interest = 11,000 x 12/100 x 1/12 = Rs. 110

Receipts by B

31.1.99	Rs. 6,000	2	12,000
1.3.99	Rs. 4,000	1	4,000
			16,000

Interest = 16,000 x 12/100 x 1/12 = Rs. 160

Net Interest due from B = 160 - 110 = Rs. 50

C) Separate Books

Recording of transactions is done not in books of parties but in a separate set of books. Co-venturer first contributes to a common bank account and then all payments are made through it. Accounts of parties are also opened. Profit or Loss on Joint Venture is transferred to the respective partner's accounts in due ratios. Finally, the books are closed with the close of the venture.

Three main accounts opened under separate set of accounts are:

1. Joint Venture Account
2. Joint Bank Account, and
3. Personal Capital Accounts of Joint Venturers.

The following entries will be passed under this system

1) When cash is invested by Joint Venturer

 Joint Bank A/c Dr.
  To Capital Accounts of Joint Venturers.
 (Being cash invested by Joint Venturers and deposited into the Bank)

2) When purchases are made for joint venture out of bank A/c

 Joint Venture A/c Dr.
  To Joint Bank A/c
 (Being Purchase made for Joint Venture)

3) When expenses are incurred for joint venture out of Bank A/c

 Joint Venture A/c Dr.
  To Joint Bank A/c
 (Being expenses incurred for Joint Venture Account)

4) When sales are made

 Joint Bank A/c Dr.
  To Sales
 (Being sales made and receipts from sales deposited into Bank)

5) When some products are left unsold and are taken away by Joint Venturers

Capital accounts of Joint Venturer A/c Dr.
To Joint Venture A/c
(Being unsold stock taken by Joint Venturers)

6 (a) For Profit on Joint Venture account

Joint Venture A/c Dr.
To capital accounts of Joint Venturers A/c
(Being profit earned on Joint Venturers)

6 (b) The reverse entry will be passed in cases of losses on Joint Venture.

Problem 4: X and Y enter into joint venture to underwrite public issue of Reliance Ltd. They agree to guarantee the subscription at par on 1,00,000 shares of Rs. 10 each of Reliance Ltd. and sharing profits and losses in the ratio of 2:3. The terms with the company are 4.5 % commission payable in cash and 6,000 fully paid shares of the company. They agreed to pay expenses in connection with the issue of shares. The expenses incurred are advertisement Rs. 5,000; Printing and stationery Rs. 2,000 and postage Rs. 600. All expenses are paid by X. The public subscribed to 88,000 shares only. The remaining shares under the agreement were duly taken by X and Y who provided the necessary cash equally. The commission is received in cash and is shared by the co-venturers in the ratio of 4:5. The entire holding of the joint venture is then sold in the market through brokers as follows: 25% at a price of Rs. 9 per share, 50% at a price of Rs. 8.75 per share, 15% at a price of Rs. 8.50 per share and the remaining 10% is taken over by A and B equally at an agreed price of Rs. 8 per share. Prepare the Joint Venture Account, Joint Bank Account, Shares Account and the Accounts of X and Y showing the final statement.

Solution

Joint Venture Account

Dr. Cr.

Particulars		**Rs.**	**Particulars**	**Rs.**
To			By Joint A/c	45,000
Advertisement	5000		(commission)	
Printing	2000		By shares a/c	60,000
Postage	600	7,600	(commission)	
To Shares A/c		23,400		
(Loss on sale)				
To profit transferred to				
X:	29,600			
Y:	44,400	74,000		
		1,05,000		1,05,000

Joint Bank Account

Dr. Cr.

Particulars			**Rs.**	**Particulars**	**Rs.**
To X (contribution)			60,000	By Shares A/c	1,20,000
To Y (contribution)			60,000	By X (commission)	20,000
To Joint Venture (Commission)			45,000	By Y (commission)	25,000
				By X (final settlement)	70,000
To Shares A/c (sale for				By Y (final settlement)	72,000
cash)	25%	40,500			
	50%	78,750			
	15%	22,950	1,42,200		
			3,07,200		3,07,200

Share Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank a/c	1,20,000	By Joint Bank A/c (Sale of Shares)	40,500
To Joint Venture (commission)	60,000	By Joint Bank A/c (sale of shares)	78,750
		By Joint Bank A/c (Sale of shares)	22,950
		By X (shares taken over)	7,200
		By Y (shares taken over)	7,200
		By Joint Venture A/c	23,400
	1,80,000		1,80,000

X's Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank A/c (Commission)	20,000	By Joint Venture A/c (Expenses)	7,600
To Shares A/c	7,200	By Joint Bank A/c (Commission)	60,000
To Joint bank A/c (Final Settlement)	70,000	By Joint Venture A/c (Profit)	29,600
	97,200		97,200

Y's Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank A/c (Commission)	25,000	By Joint Bank A/c (Commission)	60,000
To Shares A/c	7,200	By Joint Venture A/c (Profit)	44,400
To Joint Bank A/c (Final Settlement)	72,200		
	1,04,400		1,04,400

Working Notes

1. Distribution of commission received in cash 4.5 % of Rs. 10,00,000 = Rs. 45,000

Xs shares 4/9 x 45,000 = Rs. 20,000 Y's shares 5/9 x 45,000 = Rs. 25,000

2. Treatment of shares received

Shares received by way of commission 6,000

Shares not subscribed by public 12,000

Total Number of shares received 18,000

a) Sold for cash

25% of 18,000 i.e. 4,500 shares sold @ Rs. 9 per share Rs. 40,500
50% of 18,000 i.e. 9,000 shares sold @ Rs. 8.75 per share Rs. 78,750
15% of 18,000 i.e. 2,700 shares sold @ Rs. 8.50 per share Rs. 22,950.

b) Dividend amongst X and Y

10 % of the remaining shares i.e. 1,800 shares are taken over equally by X and Y at an agreed price of Rs. 8 per share.

X : 900 shares @ Rs. 8 per share = Rs. 7200
Y : 900 shares @ Rs. 8 per share = Rs. 7200

UNIT – III

ACCOUNTING FOR HIRE-PURCHASE AND INSTALLMENT SYSTEM, ACCOUNTING FOR CONSIGNMENT AND JOINT VENTURE

POSSIBLE QUESTIONS

PART – A (1 MARKS)
ONLINE QUESTIONS

PART – B (2 MARKS)

1. What is meant by Installment System?
2. What is mean by Down Payment?
3. What is repossessed stock?
4. What is Hire purchase?
5. What is Cash Price?
6. What is Hire Purchase Price?
7. What is complete repossession?
8. What is partial repossession?
9. What are the features of consignment transactions?
10. What is Joint Venture?
11. Who is a Consignor?
12. Who is a Consignee?
13. What is Del Credere Commission?
14. What is Valuation of Unsold Stock in Consignment?
15. Who is a Co- Venturer?
16. What is over riding commission?
17. What is advance on Consignment?
18. What is non – recurring expenses?

PART – C (6 MARKS)

1. From the following details of a businessman who sell goods of small value at cost plus 50%, Prepare Hire Purchase Trading A/C.

		Rs.
1.1.90	Stock out with the customer at H.P price	9,000
	Stock at shop at cost price	18,000
	Instalment due but not received	5,000
31.12.90	Goods worth Rs. 500 repossessed (Inst. not due Rs. 2000)	
	Cash received from customer	60,000
	Purchase made during the year	60,000
	Stock at cost at shop (excluding the goods repossessed)	20,000
	Instalment due but not received	9,000
	Stock out at Hire- Purchase with the customer	30,000

2. Sundar sells goods on H.P system at cost plus 60% from the following prepare hire Purchase Trading A/C

		Rs.
Jan 1	goods out on H.P system at H.P price	32,000
Dec 31	Instalments not due and unpaid	72,000
	Instalment due and unpaid	4,000

The following transaction took place during the year

		Rs.
a)	Goods sold on H.P price	1,60,000
b)	Cash received from customer at H.P price	1,12,000
c)	Goods received back on default value at (Instalment due Rs. 4000)	800

3. On 1.1.93, a firm purchased a Track on instalment system. The cash price of a machinery was Rs. 11,175 and payment was to be made as follows: Rs. 3,000 was to be paid on signing of the agreement and the balance in three Instalments of Rs.3000 each at the end of each year. Interest at 5% is charged by the vendor. The firm has decided to write off 10% annually on the diminishing balance of cash price.

   Prepare ledger accounts in the books of the purchaser and Hire vendor.

4. Sriram sells goods on H.P system at cost plus 60%. From the following prepare Hire purchase Trading a/c.

Jan 1 Goods out on H.P system at H.P Price	Rs.3,20,000
Dec 31 Instalments not due and unpaid	Rs.7,20,000
Instalments due and unpaid	Rs. 40,000
The following transactions took place during the year:-	
a) Goods sold on H.P price	Rs.16,00,000
b) Cash received from customers at H.P price	Rs.1,12,0000
c) Goods received back on default valued at	Rs. 8,000
(Instalment due Rs.40,000)	

5. X purchased a machine under hire purchase system. According to the terms of the agreement Rs.40, 000 was to be paid on signing of the contract. The balance was to be paid in four annual instalments of Rs.25,000 each plus interest. The cash price was Rs.1, 40,000. Interest is chargeable on outstanding balance at 20% per annum. Calculate interest for each year and the instalment amount.

6. Distinguish between Hire Purchase System and Instalment Purchase system.

7. On 1-1-86, X purchased Machinery on hire purchase system. The payment is to be made Rs.4,000 down (on signing of the contract) and Rs.4,000 annually for three years. The cash price of the machinery is Rs.14,900 and the rate of interest is 5%. Calculate the interest in each year's instalment.

8. Ghosh of Bombay sent on consignment to Alok of Calcutta 300 cases @ Rs. 125 on 1st July 2006 to be sold on his account and at his risk for 10% commission B. Ghosh incurred Rs. 3,000 expenses on dispatching the goods to Alok. On July 10, 2006 B. Ghosh received a bill for Rs. 20,000 at 2 months from Alok. On September 30, 2006 Alok sent on account sales disclosing that 200 cases have been sold for Rs. 160/- each and the remaining cases @ Rs. 150/- each. The account sales also disclose that Alok has incurred unloading expenses Rs. 600 and selling expenses Rs. 900. He sends a draft for the net amount due.

   You are required to: Prepare the account sales

9. Write a difference between consignment and sale.

10. X and Y entered into Joint Venture to sell a consignment of timber sharing profits and losses equally. X provides timber from stock at mutually agreed value of Rs. 50000. He pays expenses amounting to Rs. 2500. Y incurs further expenses on cartage, storage and collie age of Rs. 6500 and receives cash for sales Rs. 30,000. He also takes over goods to the value of Rs. 10000 for his own use. At the close, X takes over the balance stock in hand which is valued at Rs. 11000. Pass Journal Entries books of X and Y.

11. Vimal Mills Ltd. sent 100 pieces of suiting to Lal Garments House of Delhi on consignment basis. The consignees are entitled to receive 5 per cent commission plus expenses. The cost of Vimal Mills Ltd. is Rs. 200 per suiting. Lal Garments House pays following expenses : Railway Freight Rs. 500 Godown Rent & Insurance Rs. 1,000 Vimal Mills Ltd. draw on the consignees a bill for Rs. 10,000 which is duly accepted. Subsequently it is discounted for Rs. 9,500. The consignees informed the consignor of the sale of the entire consignment for 11 Rs. 28,500. Show ledger accounts in the book of the consignor.

12. Kumaran of Tirupur sends 40 cases of Hosiery goods worth Rs.20,000 to Gokale of Bombay to be sold on consignment basis on 1st April 2005.Kumaran pays Rs.500 towards freight charges. The goods are received by Gokale and he accepts a bill drawn on him by Kumaran at 3 Months,for Rs.10,000 on 5th April 2005.The bills was discounted on the next day by Kumaran at 6% annum.On 5th July 2005,Gokale sends an account sales to Kumaran showing the sales of the entire stock have been effected totaling Rs.24,800. His expenses are: Godown rent Rs.500 and Insurance

Rs.250.Gokale is entitled to a commission of 6%on sale proceeds. Gokale sent a bank draft for the balance due to Kumaran and settled his account. Prepare Journal Entries for Kumaran and Gokale.

13. Contractor and Engineer undertook jointly to construct a building for a newly started Joint stock company for a contract price of Rs.2,00,000 payable as to Rs.1,50,000 in cash and Rs.50,000 in fulluy paid shares of the new company.A Joint bank account has been immediately opened in their joint names, Contractor paying in Rs.50,000 and Engineer Rs.30,000.They are to share profit or loss in the proportion of 5/8 and 3/8 respectively.Their transaction were as follows:

	Rs.
Wages paid	80,000
Materials purchased	1,00,000
Materials supplied by contractor	6,000
Materials supplied by Engineer	2,000
Architects fees paid by contractors	2,000

The contract was completed and the price duly received .The joint venture account was closed by contractor taking up all the shares at an agreed evaluation of Rs.45,000 and Engineer taking up the stock of materials at an agreed price valuation of Rs.5,000. Show the necessary ledger accounts.

14. Koshi and Joshi were venture sharing profit and losses in the proportion of three-fifths and two-fifths respectively. Koshi supplies goods to the value of Rs.10,000 and incurs on freight Rs.500. Joshi also supplied to the value of Rs.8,000 and incurs Rs.400 towards freight and other incidental charges. Joshi sells the entire stock of goods on behalf of the Joint Venture for Rs.25,000. Joshi is also entitled to a commission of 5% on sales. Joshi settles his account by remitting a bank draft.

Pass necessary Journal entries in the books of Koshi and Joshi.

15. X and Y enter into joint venture to underwrite public issue of Reliance Ltd. They agree to guarantee the subscription at par on 1,00,000 shares of Rs. 10 each of Reliance Ltd. and sharing profits and losses in the ratio of 2:3. The terms with the company are 4.5 % commission payable in cash and 6,000 fully paid shares of the company. They agreed to pay expenses in connection

with the issue of shares. The expenses incurred are advertisement Rs. 5,000; Printing and stationery Rs. 2,000 and postage Rs. 600. All expenses are paid by X. The public subscribed to 88,000 shares only. The remaining shares under the agreement were duly taken by X and Y who provided the necessary cash equally. The commission is received in cash and is shared by the co-venturers in the ratio of 4:5. The entire holding of the joint venture is then sold in the market through brokers as follows: 25% at a price of Rs. 9 per share, 50% at a price of Rs. 8.75 per share, 15% at a price of Rs. 8.50 per share and the remaining 10% is taken over by A and B equally at an agreed price of Rs. 8 per share. Prepare the Joint Venture Account, Joint Bank Account, Shares Account and the Accounts of X and Y showing the final statement.

16. X of Calcutta sent on 15th January, 2006, a consignment of 500 toys bicycles costing Rs. 100 each. Expenses of Rs. 700 met by the consignor. Y of Bombay spent Rs. 1,500 for clearance and the selling expenses were Rs. 10 per bicycle. Y sold, on 4th April 2006, 300 pieces @ Rs. 160 per piece and again on 20th June 1999, 150 pieces @ Rs. 172. Y was entitled to a commission of Rs. 25 per piece sold plus one fourth of the amount by which the gross proceeds less total commission thereon exceeded a sum calculated at the rate of Rs. 125 per piece sold. Y sent the amount due to X on 30th June 2006.

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

17. Suresh and Co. of Bombay sent on consignment to Mahesh & Co. of Delhi 60 cases cutlery goods costing Rs. 175 per case. Expenses incurred by the consignor at Bombay were : Freight Rs. 275, insurance Rs. 55 and loading charges Rs. 20. Suresh & Co. draw on Mahesh & Co. 2 months bills at sight for Rs. 7,000 which the latter accepts. The charges paid by Mahesh & Co. at Delhi were unloading Rs. 30, Storage Rs. 85, insurance Rs. 15, Commission is payable to Mahesh & Co. at 2% on all sales in addition to 1½% del-credere commission. The consignee sells for prompt cash 30 cases @ Rs. 225 per case; 25 cases @ Rs. 250 per case and the balance @ Rs. 280 per case. The account was settled immediately by means of a bank draft.

Write up the transactions and ledger accounts in the books of both the parties.

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established under Section 3 of UGC Act, 1956)
Coimbatore - 641 021
Department of Commerce
I B.Com/B. Com (CA)/ B. Com (PA)/ B. Com (BPS) (2018-2021)
Financial Accounting (18CMU101/18CCU101/18PAU101/18BPU101)

UNIT III

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Hire purchase act was force to came from--------------	1973	1974	1971	1975	1975
Hire purchase price = -------------+interest outstanding	Cash price	Purchase price	Interest price	Balance price	Purchase price
The possession or goods will be passed by the owner to the -------------	Seller	Owner	Hirer	None	Hirer
Initial payment is known as ------------------	Up payment	Down payment	Non cash payment	Last payment	Down payment
-------------price includes cash price and interest	Cash price	Non cash price	Sale price	Hirer purchase	Sale price
Hire purchase price includes cash price and----------------	Interest	Cash	Purchase	Sale	Interest
For closing interest a/c ----------------------- a/c is credited	P&L	Interest	Trading	Real	Interest
The additional amount apart from the cash price payable by the buyer as compensation for postponed payment is called ________.	hire purchase price	interest	cash price	invoice price	hire purchase price
The buyer of the goods on hire purchase basis is termed as ________.	owner	vendor	hirer	seller	hirer
The seller of the goods on hire purchase basis is termed as ________.	hire vendor	owner	both	none	hire vendor
Under _______ system ownership is transferred on payment of final instalment.	hire purchase system	instalment system	single entry system	all of these	instalment system
The parties involved in instalment system are called _______.	vendor and hirer	buyer and seller	debtor and creditor	owner and buyer	buyer and seller

In hire purchase system the relationship between the hirer and hire vendor is that of ________.	debtor and creditor	bailor and bailee	owner and hirer	buyer and seller	owner and hirer
In instalment purchases system, the relationship between the buyer and seller is that of --	debtor and creditor	bailor and bailee	owner and hirer	buyer and seller	debtor and creditor
Instalment purchase is governed by _________ Act.	sale of goods	hire purchase act	instalment purchase	contract	instalment purchase
Hire purchase act was passed in the year _______.	1980	1978	1975	1972	1980
In hire purchase system, for paying down payment ________ A/c is debited.	hire vendor	hirer	cash	assets	hirer
Hire purchase price – cash price = ________.	total interest	first balance	total amount	cash balance	total interest
If the hire purchaser fails to make payment of any instalment, it is called _______payment.	instalment price	hire price	default	cash price	default
The hire vendor has the right to take array the goods sold on hire purchase in the event of default is termed as ________.	default	repossession	both	none	repossession
A shipment of goods by a manufacturer to an agent to be sold by commission basis is known as-----------	Accounting	Transaction	Consignment	Joint venture.	consignment
------------ is a commission which is paid by the consignor to the consignee for taking additional risks.	Del credere commission	Proforma invoice	Over riding commission	Account sales	Del credere commission
------------ is sent by a seller to a buyer.	Bills	Cash	Price	Invoice	invoice
The consignee is entitled to remuneration by way of----------------	Commission	Increment	Profit	All	commission
Valuation of unsold stock remaining with the consignee is done on the basis of ------------------	Sales	Market	distribution	Purchasing.	sales
Entry of an unsold stock will be passed on the books of-----------------	Seller	Consignee	Consignor	Purchaser	consignor

In valuing the unsold stock,due consideration should be given to--------------	Abnormal loss	Normal loss	Quantity	Quality	normal loss
----------------- on consignment account is an asset and will be shown in the balance sheet of the consignor	Stock	Purchase	Sales	Opening stock	Stock
If the consignee is not the owner for the goods then no entry will be made in the books of----------------	Buyer	Consignee	Seller	ALL	consignee
------------ Loss is a loss which arises due to mischief.	More	Normal	Low	Abnormal	abnormal
-------------loss of goods should also be considered while valuing the stock.	Actual	Normal	Expensive	Damaged	normal loss
It is a ------------------ principle that stock must not be shown at more than the cost.	Fixed	Basic	High	Actual	Basic
Entries are passed in the books of the consignor on the basis of-------------- price	Purchase	Sales	Cost	value	cost
The column which is provided to record the invoice value also is called-----------	Consignment account	Joint account	Memorandum column	Sales account	Memoramdum column
----------------- is not merely the amount paid by the consignor to purchase the goods	Entry	Billing	Cost	Price	cost
The---------- of the parties can also be opened in joint venture account	Personal accounts	Commission account	Sales	Bills	Personal accounts
---------------balances are settled before the closure of the venture	Prepaid	Bills payable	Bills receivable	Outstanding balances	Outstanding balances
The expenses incurred on joint venture by the other party will be-----------	Accepted	Thrown	Ignored	None	Accepted
The joint venture account is debited with the value of the goods-------------	Sold	Bought	Exempted	Purchased	sold
The amount of----------------will be debited to the joint venture account.	Purchase	Expenses	Sales	All	expenses
The resultant profit or loss may be ----------------by all the concerned parties	Shared	Ignored	Exempted	All	Shared
The parties to the joint venture will have an-----------status	High	Low	Normal	Equal	equal

The profit or loss in case of a joint venture belongs to---------------	One	All	No one	None of the above	all
-------------------is a principal as well as agent	Consignor	Co –venturer	Consignee	joint venture	co -venturer
A joint venture is usually of------------ duration	Long	High	life	Short	short
Each party opens a joint venture account and the accounts of --------parties	Other	All	Single	All	other
Joint venture is a --------------- partnership	personal	single	particular	consignment	particular
Joint venture is a nature of	Personal account	real account	nominal account	not an account	Nominal account
Parties involved in joint venture are called ----	venturers	co-venturers	partners	agent	co-venturers
The profit of joint venture is transferred to ---	profit and loss a/c	Tradind a/c	co-venturers a/c	joint Bank a/c	Profit and loss a/a
Capital accounts of the co-venturers are of the nature of	Personal account	real account	nominal account	not an account	Personal accounts
When purchase are made for the joint venture out of joint bank account , the ---------- account is debited.	consignment	Joint venture	co-venturers a/c	personal	joint venture
Under hire purchase system, the risk of loss is borne by _____________.	buyer.	Hirer	hire vendor	Debtor	hire vendor
Under installment system the risk of loss is borne by _________.	buyer.	Hirer	hire vendor	Debtor	buyer.
Under hire purchase system who has the right of sell ___________.	buyer.	Hirer	hire vendor	Debtor	hire vendor
Under hire purchase system, if installment is not paid the hire vendor has right to ____________.	sell the goods	repossession of goods.	repair of goods	purchase of goods	repossession of goods.
Under hire purchase system, the agreement can be __________.	Renewed	Terminated	Registered	Endorsed	Terminated
Hire purchase system is governed by ____________.	1972	1973	1974	1975	1972
Installment system is governed by ________	Hire Purchase Act.	Sale of goods Act	Properties Act	Contract Act	Sale of goods Act
Cash price plus interest is __________.	installment price.	hire purchase price	maximum retail price.	retail price.	hire purchase price

UNIT - III

Accounting for Hire-Purchase and installment system: Transactions, Journal entries and ledger accounts including Default and Repossession.

Accounting for Joint Venture-Consignment: Features, Accounting treatment in the books of the consignor and consignee. **Joint Venture:** Accounting procedures: Joint Bank Account, Records Maintained by Coventurer of (a) all transactions (b) only his own transactions. (Memorandum joint venture account).

INTRODUCTION TO HIRE PURCHASE AND INSTALLMENT SYSTEMS

Hire purchase and installment systems are responsible for bringing high value durable goods like car, televisions into the reach of middle class and lower middle class people. These systems have revolutionized the world of commerce.

Hire Purchase Systems

Definition:

According to the Hire Purchase Act 1972 Section 2(c) "Hire Purchase agreement is an agreement under which goods are let on hire and under which the hirer has option to purchase them in accordance with the terms of the agreement and includes an agreement under which

(i) Possession of goods is delivered by the owner thereof to a person on condition that such person pays the agreed amount in periodical instalments.
(ii) The property in the goods is to pass to such person the payment of the last of such instalments.
(iii) Such person has the rights to terminate the agreement at any time before the property so passes".

As per section 4 of the Hire Purchase Act 1972, every Hire Purchase agreement must state.

(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 hirer for cash
(c) The date on which the agreement shall be deemed to have commenced.
(d) The number of instalments by which the Hire Purchase price is to be paid , the amount of each of those instalments and the date or the mode of determining the date upon which its payable and the person to whom and the place where it is payable .
(e) The goods to which the agreement relates, the manner sufficient to identify them.

Some important terms in the Hire Purchase System

1. **Cash price:** This is the retail price of the articles at which they can be purchased immediately for cash`

2. **Hire Purchase Price:** This is the total amount payable by the buyer, in agreed instalments for the goods purchased. This the price includes cash price and interest.

3. **Interest:** This is the additional amount apart from the cash price payable by the buyer as compensation for postponed payments

4. **Hire or instalment:** This is the amount payable the buyer periodically. The instalments may be equal or different depending on agreement.

5. **Down payment:** This is the advance payable by the buyer while signing the hire purchase agreement. It is also a part of hire purchase price

6. **Hirer:** The buyer of the goods on hire purchase basis.

7. **Hire vendor or owner:** The seller of the goods on hire purchase basis.

MAIN FEATURES OF HIRE PURCHASE SYSTEM

1. The hirer or buyer gets possession of the goods on signing the hire purchase agreement and he has the right to use them.

2. The ownership of the goods continues to be with the seller or hire vendor.

3. The hirer as the duty to keep the goods in good condition and take reasonable precautions for their safety till last instalment is paid

4. Each instalment treated as hire charges.

5. The hirer as the option to returns the goods before the last instalment is paid

6. The hire vendor can repossess if the buyer fails to pay any instalment on the due date.

7. If goods are repossessed the value of goods on that date and the instalment paid are added and the total hirer purchase price is reduced .The balance is payable by the hire vendor to the hirer.

CHARACTERISTICS OF HIRE-PURCHASE SYSTEM

The characteristics of hire-purchase system are as under

- Hire-purchase is a credit purchase.
- The price under hire-purchase system is paid in instalments.

- The goods are delivered in the possession of the purchaser at the time of commencement of the agreement.
- Hire vendor continues to be the owner of the goods till the payment of last instalment.
- The hire-purchaser has a right to use the goods as a bailer.
- The hire-purchaser has a right to terminate the agreement at any time in the capacity of a hirer.
- The hire-purchaser becomes the owner of the goods after the payment of all instalments as per the agreement.
- If there is a default in the payment of any instalment, the hire vendor will take away the goods from the possession of the purchaser without refunding him any amount.

DIFFERENCE BETWEEN HIRE-PURCHASE SYSTEM AND INSTALMENT PAYMENT SYSTEM

Instalment Payment System is system of purchase and sale of goods in which title of goods is immediately transferred to the purchaser at the time of sale of goods and the sale price of the goods is paid in instalments. In the event of default in payment of any instalment, the seller has no right to take back goods from the possession of the purchaser. He can file a suit for the recovery of the outstanding balance of the price of goods sold. The followings are the differences between Hire-purchase system and Instalment payment system:

- In Hire-purchase system, the transfer of ownership takes place after the payment of all instalments while in case of Instalment payment system, the ownership is transferred immediately at the time of agreement.
- In Hire-purchase system, the hire-purchase agreement is like a contract of hire though later on it may become a purchase after the payment of last instalment while in Instalment payment system, the agreement is like a contract of credit purchase.
- In case of default in payment, in Hire-purchase system the vendor has a right to back goods from the possession of the hire-purchaser while in case of Instalment payment system, the vendor has no right to take back the goods from the possession of the purchaser; he can simply sue for the balance due.
- In Hire-purchase system, if the purchaser sells the goods to a third party before the payment of last instalment, the third party does not get a better title on the goods purchased. But in case of Instalment payment system, the third party gets a better title on the goods purchased.
- In Hire-purchase system the provisions of the Hire-purchase Act apply to the transaction while in case of Instalment payment system, the provisions of Sale of Goods Act apply to the transaction.

Accounting In the books of Hire-purchaser

There are two methods of accounting in the books of Hire-purchaser. Their detailed description is as under:-

Asset Accrual Method:

Under this method it is considered that the hire-purchaser is the owner of the asset up to the value of the cash price paid by him in the form of down payment or the cash price paid included in various instalments. The following journal entries are recorded under this method.

(i)**On taking the delivery of asset:**

No entry is recorded.

(ii)**On making the down payment (if any)**

Asset A/c Dr.	(Amount of down payment)
To Cash/Bank A/c.	

(iii)**On becoming the instalment due**

Asset a/c. Dr	(Balancing figure)
Intt. A/c. Dr.	(Amt. of Intt.)
To Hire-Vendor A/c.	(Amt. of Instalment)

(iv)**On payment of instalment:**

Hire-Vendor A/c Dr.	(Amt. of Instalment)
To Cash/Bank A/c.	

(v)**On charging the Depreciation:**

Depreciation A/c Dr.	(Amt. of Depreciation)
To Asset A/c.	

(vi)**On Transfer of interest and depreciation to P/L A/c:**

P/L A/c.	(Total amt.)
To Interest A/c	(Bal. of Intt. A/c.)
To Depreciation A/c.	(Bal. of Dep. A/c.)

Under Total Assets Value Method:

Under this method of accounting in the books of hire-purchaser, is done on the assumption that the ownership of the asset is also transferred to the purchaser with the delivery of goods. The following journal entries are recorded under this method.

(i)**On taking the delivery of assets at the time of agreement:**

Asset A/c Dr.	(Cash price of Asset)
To Hire vendor A/c.	

(ii)**On making the down-payment (if any):**

Hire-Vendor....... A/c. Dr.	(Amount of down payment)
To Cash/Bank A/c	

(iii)**On becoming the instalment due:**

Interest A/c. Dr.	(Amount of interest)
To Hire-Vendor A/c	

(iv)**On payment of instalment:**

Hire-Vendor a/c Dr.	(Amount of instalment)
To Cash/Bank A/c	

(v)**On charging the depreciations:**

Depreciation A/c. Dr.	(Amount of depreciation)
To Asset A/c.	

(vi)**On Transfer of interest and depreciation to P/L A/c:**

P/L A/c. Dr.	(Total)
To Interest A/c.	(Bal. of Intt. A/c.)
To Depreciation A/c.	(Bal. of Dep. A/c.)

Posting in Ledger Accounts: After passing journal entries under any of the methods discussed above, the following ledger accounts are opened in the ledger and the postings are made accordingly.

(i) Asset A/c. (e.g. Trucks A/c, Machinery A/c. etc.)
(ii) Vendor's A/c.
(iii) Interest A/c.
(iv) Depreciation A/c.

Note: Before recording the entries the amounts of interest and depreciation will be calculated in two separate tables showing the calculations of interest and depreciation.

CALCULATION OF INTEREST

The hire purchase price is always greater than the cash price. It includes interest payable over and above the price of the goods to compensate the seller for the sacrifice he has made by agreeing to receive the price by installment and the risk that he thereby undertakes. Interest is the charge for the facility to pay the price for the goods by the installments after they have been delivered. The rate of interest is generally higher than that is payable in respect of an advance or a loan since it also includes a charge to cover the risk that the higher may fail to pay any of the installments and in such a event, the goods may have to be taken back into positions in whatever condition they are at that time. A separate charge on this account is not made as that would not be in keeping with the fundamental character of the hire purchase sales. However, in an accounting system, the excess of total hire purchase price over the total cash price is treated as the payment for the interest.

Since each installment interest also which is financial gain or loss, it is essential to know the different methods ascertaining interest.

Interest included in each installment can be ascertained by making necessary calculations under the following circumstance.

(i) When the rate of interest the cash price and the installments are given.

(ii) When the rate of interest is not given.

(iii) When the total cash price is not given.

(iv) When the installment price is not given.

(v) When the cash price is calculated by annuity method.

(i) When the rate of interest, the cash price and the installments are given:

Under this method, the interest is to be calculated on the outstanding balance of the cash price at the rate. When the interest component is detected from installment, the balance represents the amount paid in the reduction of cash price. This amount is deducted from the cash price to facilitate the calculation of interest for next period. Since the installments are in around sums of money, the interest for final year should be taken as the difference between cash price outstanding at the end of that period and the amount of installments. This will be clearly understood by referring of illustration 1.

(ii) When the total cash price and installments are given but rate of interest is not given:

When the rate of interest is not given, the interest included in each installment will be calculated on the basis of hire purchases price outstanding in the beginning of each year. The following is the process of ascertaining interest included in various installments:

Method 1: When the amount and period of installments are not uniform (Product method)

Hire purchase price – Cash price = Total interest

Hire purchase price – first installment = First balance

First balance **-** second installment = Second balance

Second balance **-** Third installment = Third balance

Same method can be used for further installments.

(i) Hire purchase price x Period of first installment = A

(ii) First balance period x price of second installment = B

(iii) Second balance x price of third installment = C

(iv) Third balance x period of fourth installment = D

A, B, C and D have to be totalled and interest included in each installment is found as follows:

Interest included in I installment: Total interest x A / A+B+C+D

Interest included in II installment: Total interest x B / A+B+C+D

Interest included in III installment: Total interest x C / A+B+C+D

Interest included in IV installment: Total interest x D / A+B+C+D

Method 2: When the amount and period of installments are uniform (Inverse progression method)

Hire purchase price – cash price = Total interest

Assuming total interest is Rs. 800 and number of installments are four, interest included in each installment is calculated in the following manner:

Installments	No of outstanding installments	Ratio of interest	Interest
1st installment	4	4 / 10	800 x 4 / 10:Rs.320
2nd installment	3	3 / 10	800 x 3 / 10 : Rs.240
3rd installment	2	2 / 10	800 x 2 / 10 : Rs. 160
4th installment	1	1 / 10	800 x 1 / 10 : Rs. 80

(iii)when rate of interest and instalments are give but total cash price is not given`

When the amount of each instalment which includes interest is given and rate of interest is also given, cash price is found out in the following manner.

(a) First of all find out cash price of the last instalment.

Amount of last instalment X rate of interest / 100 + rate of interest =

Interest included in the last instalment.

This interest is deducted from last instalment and cash price of the last instalment is found out.

(b) (cash price of the last instalment + of prior instalment) X rate of interest / 100 + rate of interest = interest of the prior instalment

When the interest is deducted from prior instalment ,cash price of the prior instalment is found out.

(c) The same process may be repeated for earlier instalments.

(iv)When rate of interest and total cash price are given but the instalment price is not given.

In the method is also, the interest is to calculated on the outstanding balance of the cash price at the stipulated rate. Then cash price paid is deducted from the total cash price and interest is calculated for the next period falling between the dates of payment of first instalment. The instalment price is calculated by adding interest with cash price of each instalment.

(v)Calculated of cash price by annuity method:

When in place of cash price ,hire purchase price and annuity rate are given,the cash price is calculated by multiplying the amount of instalment with the annuity factor given and adding down payment to the product. The interest is calculated.

DEFAULT AND REPOSSESSION

DEFAULT

If the hire purchaser fails to make payment of any instalment, it is called 'default`. Unless he regularizes the matter, the hire vendor can take back the goods into his possession after default.

REPOSSESSION

The hire vendor has the right to take away the goods sold on hire purchase in the event of default made by the hire purchaser. As per hire purchase Act 1972 goods of small value or even goods of higher value when only certain number of instalments are paid, can be repossessed without court's permission. A court order is needed to repossess goods on which larger number of instalments than specified are paid.

The hire vendor can repair or recondition the repossessed goods and sell them to anyone else.

TYPES OF REPOSSESSION

(a)Complete repossession: the hire vendor may take away all the goods on which there is default of instalment.

(b)Partial repossession: the hire vendor may take away only a portion of the goods on which there is default of instalments Purchaser

Accounting treatment varies in the books of the hire vendor and hire Purchaser for each of the types of repossession.

(a)Complete repossession of goods

When complete of goods take place, the ledger accounts in the books of hire purchaser and the hire vendor are fully closed as far as the hire-purchase transaction is concerned.

Books of hire vendor

(1) On the date of default of instalment, entry for interest is passed. The hire purchaser's account is closed. Any balance is transferred to repossessed goods account.

(2) The repossessed goods may be reconditioned by spending necessary amount which is also debited to repossessed goods and crediting cash.

Books of hire purchaser

(1) On the date of default, entry for interest and for depreciation upto date on the asset must be passed.

(2) Hire vendor's account is to be closed and any balance is transferred to the asset account.

(3) Asset account is closed and any balance is transferred to profit and loss account which is the loss due to repossession of the asset.

(b)Partial repossession

When there is default on any instalment, the hire vendor may repossess the goods partially. This may be due to negotiation with the hirer who many agree to make some payment in future.

The hire purchaser might have depreciated the asset as per his assessment of the rate of depreciation. The hire vendor revalues the asset as per his own norms. Thus, there can be difference in the rates of depreciation charged by the hirer and the hire vendor.

While solving examination problems, it is essential to ascertain the value of goods at the time of repossession as per the purchaser's rate of depreciation and the hire vendor's rate of depreciation.

Books of hire vendor

(1) Entry for interest upto the date default is passed.

(2) Repossessed goods as per hire vendor's valuation are credited to hire purchasers account and debited to 'repossessed goods a/c'.

(3) The hire purchaser's account is balanced and balance is carried down.

(4) Repossessed goods may be repaired and sold later on.

Books of hire purchaser

(1) Entries for interest and depreciation on the asset are passed upto date.

(2) Hire vendor's a/c is debited and asset a/c is credited with the value of asset taken away as per hire vendor's valuation.

(3) In the asset account, the remaining asset which is not taken away is shown as closing balance. This is at a value as per hire purchaser's rate of depreciation.

(4) The asset account is balanced. Any balance is loss due to repossession and is transferred to profit and loss account.

ACCOUNTING TREATMENT FOR GOODS OF SMALL SALES VALUE

(Hire purchase trading account)

When numerous sales of small value are made in addition to normal sales, the hire vendor follows an alternative method of recording transactions. This method, known as 'stock method', avoids the maintenance of a separate account for each individual customer and also the tedious method of calculating interest in each case.

(i) stock of goods with customers

This is also termed as hire purchase stock, stock with the customer, instalments not yet due, or amount of instalments unpaid and not due. These are the total amount of those instalments in respect of goods sold on hire purchase which are to be received in the next accounting period. They have not yet become due by the end of the current accounting period since this information is given at hire purchase trading account, if it is opening balance and shown on the credit side if it is closing balance.

(ii) Purchase (goods sold during the year)

The term "purchase" is used when the business is run independently. But if the business is run as a department, the information relating to purchase made by the department is given under the term 'goods sold during at the hire purchase price, it must be reduced to cost price and then shown on the credit side of hire purchase trading account.

(iii) **Cash received**

It refers to the total amount received from the customers during the accounting year in the form of down payment and amount of instalments. It is shown on the credit side of hire purchase trading account.

(iv) Total instalments due but unpaid

It refers to the sum of instalments which have become due during the accounting year but has been paid by the customers. This is also termed as 'hire purchase debtors' 'instalment due', 'customers paying'. The instalment due but unpaid is shown on the debit side if it is closing balance. In order to calculate the real sales made during the accounting year, opening balance of instalment due but unpaid is shown on the debit side of the trading account and cash received from customers and closing balance of instalment due but unpaid are shown on the credit side.

(v) Stock at shop

It is shown on the debit side of hire purchase trading account, but when business is run as a department, this information is not required.

Methods of computation of profit

It profit made by the vendor on hire-purchase transactions in case of goods of small value, can be calculated by any one of the following methods:

(i)Debtors stock (ii)stock and debtors method

(i) Debtors method

Under this method, the profit or loss made on goods sold on hire purchase can be found out by preparing hire purchase trading account. The specimen ruling of the hire purchase trading account is a under:

Hire purchase trading account

To stock at the shop(opening)	xxx		
To stock out with customers(at cost)	xxx	By cash received from customers	xxx
To instalment due but unpaid(opening)	xxx	By goods repossessed	xxx
To purchase(or)cost of goods sold		By instalment due and unpaid(closing)	xxx
during the year	xxx	By stock out with customers(at cost)	xxx
To profit(bal.fig)	xxx	By stock at shop(closing)	xxx
		By loss(bal.fig)	xxx
	xxx		xxx

` **note:** (1) If stock out customer is given at hire purchase price in the question, then either stock reserve equal to the excess of hire purchase price over cost price should be shown on credit side (for opening stock) and debit side 9for closing stock) or it should e reduced to cost price

(2) Stock at shop should not be shown in hire purchase trading account when business is run as a department.

(ii) Stock and debtors system

The profit made on hire purchase transactions can also be calculated according to stock and debtors system. Under this method, the following ledger accounts are to be opened:

(1) Hire purchase stock account

(2) Stock at shop account

(3) Hire purchase debtors account

(4) Goods n hire purchase account

(5) Hire-purchase adjustment account

The following journal entries are to be passed if this method is followed.

(i)When goods are purchased for shop stock:

Stock at shop a/c Dr. (cost price)

To purchase a/c

(ii)When goods are sold on hire purchase:

Hire purchase stock a/c Dr. (at sale price)

To goods sold on H.P.a/c

(iii)For total instalments which become due:

Hire purchase debtors a/c Dr. (H.P.price)

To hire purchase stock a/c

(iv)When cash is received from debtors :

Cash account Dr.

To hire purchase debtors a/c

(v)For transfer of goods sold on H.P:

Goods sold on H.P a/c Dr.

To H.P a/c

To trading account

(vi)When goods are repossessed on default and loss is transferred to H.P adjustment a/c:

Goods repossessed a/c Dr. (for realizable value)

H.P adjustment a/c Dr. (loss)

To hire purchase debtors debtors a/c (instalment due and not received in cash)

To hire purchase stock a/c (for installment not yet due)

To H.P adjustment a/c (profit on repossession)

(vii)For loading in opening stock customers:

Stock reserve a/c Dr.

To H.P adjustment a/c

(viii)For loading in closing stock with customers:

H.P adjustment a/c Dr.

To stock reserve a/c

(ix)For loading in goods sold (sent) on hire purchase:

Goods sold on H.P a/c Dr.

To H.P adjustment a/c

(x)For transfer of profit on hire purchase:

H.P adjustment a/c Dr.

To profit and loss a/c

In case of loss, the entry will be reversed.

Problems1: On 1-1-86, X purchased Machinery on hire purchase system. The payment is to be made Rs.4,000 down (on signing of the contract) and Rs.4,000 annually for three years. The cash price of the machinery is Rs.14,900 and the rate of interest is 5%. Calculate the interest in each year's instalment.

Solution:

Particulars 1 Rs	Total cash price 2 Rs	Instalment paid 3 Rs	Interest paid 4 Rs	cash price paid 5(3-4) Rs
cash price down payment	14900 4000	4000		4000
1st instalment	10900 3455	4000	545	3455
2nd instalment	7445 3627.75	4000	(10900*5%) 372.25	3627.75
3rd instalment	3817.25 3817.25	4000	7445*5%) 182.75 (4000-3817.25)	3817.25
	Nil	**16000**	**1100**	**14900**

Problem 2: X purchased a machine under hire purchase system. According to the terms of the agreement Rs.40, 000 was to be paid on signing of the contract. The balance was to be paid in four annual instalments of Rs.25, 000 each plus interest. The cash price was Rs.1, 40,000. Interest is chargeable on outstanding balance at 20% per annum. Calculate interest for each year and the instalment amount.

Solution:

Date of payment 1	Total cash price Rs 2	Instalment paid Rs 3=4+5	Interest paid Rs 4	Cash price paid Rs 5
down payment	140000 40000	40000		40000
1st instalment	**100000** 25000	45000	(100000*20%) 20000	25000
2nd instalment	**75000** 25000	40000	(75000*20%) 15000	25000
3rd instalment	**50000** 25000	35000	(50000*20%) 10000	25000
	25000		(25000*20%)	25000

4th instalment	25000	30000	5000	
	Nil	**190000**	**50000**	**140000**

Problem 3: From the following details, set out the Hire purchase Trading A/c in the books of a trader who sells a number of articles of comparatively small value daily on the hire purchase system, showing his profit on this department of the business for the year ended 31.12.88. For the purpose of charging his hire purchase customers, he adds 60% to the cost of the goods.

1.1.88	Stock in Customers hands at selling price	Rs. 1,620
31.12.88	Sale of goods on hire purchase during the year at selling price	Rs. 6,534
	Cash received from hire purchase customers at selling price	Rs. 2,100
	Stock in customers hand at selling price	Rs. 4,674
	Goods repossessed (Instalments due Rs. 1,000) valued at	Rs. 250

Solution:

Hire purchase trading A/c for the year ending 31-12-88

To stock with customers	1620	By cash	2100
To goods sold on H.P (purchase)	6534	By goods repossessed	250
		By instalments due	380
To stock reserve (4674*60/160)	1753	By stock reserve (1620*60/160)	608
To P & L A/c (profit)	555	By stock with customers	4674
		By load on goods sold on H.P (6534*60/160)	2450
	10462		10462

Instalments due A/c [at selling price]

To stock out with customers	3480	By cash	2100
		By goods repossessed	1000
		By balance c/d (Bal.fig)	380
	3480		3480

Stock out with customers A/c

To balance b/d To goods sold on H.P	1620 6534	By instalments due By balance c/d	3480 4674
	8154		8154

Problem 4: Krishna sells products on H.P. terms, the price being cost plus 33 1/3 %. From the following particulars for the year ended 31.12.95, prepare the necessary accounts on stock – debtors system to reveal the profit earned.

1.1.95	Stock out on hire at H.P. price	Rs. 16,00,000
	Stock in hand at shop	Rs. 2,00,000
	Instalments due (Customers still paying)	Rs. 1,20,000
31.12.95	Stock out on hire at H.P. price	Rs. 18,40,000
	Stock in hand, at the shop	Rs. 2,80,000
	Instalments due (Customers still paying)	Rs. 2,00,000
	Cash received during the year	Rs. 32,00,000

H.P. Debtors A/c (instalments due A/c)

To balance b/d To H.P stock A/c	120000 3280000	By cash By balance c/d	3200000 200000
	3400000		**3400000**

H.P. Stock A/c (stock out with customers A/c)

To balance b/d To goods sold on H.P	1600000 3520000	By H.P debtors A/c By balance c/d	3280000 1840000
	5120000		**5120000**

Shop Stock A/c

To balance b/d To purchase	200000 2720000	BY H.P stock A/c By balance c/d	2640000 280000
	2920000		**2920000**

H.P. Adjustment A/c

To stock reserve	460000	By stock reserve	400000
To P & L A/c (profit)	820000	BY H.P stock A/c	880000
	1280000		**1280000**

Stock Reserve A/c

To H.P. adjustment A/c	400000	By balance b/d	400000
To balance c/d	460000	By H.P. adjustment A/c	460000
	860000		**860000**

INTRODUCTION TO ACCOUNTING FOR CONSIGNMENT

Now-a-days it is quite common that manufacturers or wholesale dealers despatch goods to their agents at home and abroad to increase their sales. The knowledge of the agent of the local conditions where he resides proves useful in increasing the sales. Moreover it is very expensive for the manufactures to sell the goods directly either in home market or in foreign market. Therefore, different agents are appointed for different places.

MEANING OF CONSIGNMENT

It is common practice with practically all manufacturers or wholesalers to sell goods through agents both within the country and abroad. The goods are sent to be kept and sold on behalf of and at the risk of sender by the recipient. The person who forwards the goods for sale is consignor, the person to whom goods are forwarded for sale is 'consignee' and goods so sent are called 'Goods sent on Consignment'. Consignment is a means of facilitating sale but is not actually a sale. Consignment is different from sales. A consignment is returnable if goods are not sold but in case of sale, the goods are not returnable except for special reasons, such as on account of damage or if below standard goods are supplied. When goods are sold to a person the property in them passes to that person, but when goods are consigned to a person the legal ownership of the goods remains with the consignor. Hence when goods are sold the relationship between two parties is that of a creditor and debtor but when the goods are consigned relationship between the consignors and consignee is that of 'principal' and 'an agent'.

DIFFERENCE BETWEEN CONSIGNMENT AND SALES

1. Ownership:

Consignment: Ownership is not transferred to the consignee, it remains with the consignor.

Sales: Ownership passes to the buyer.

2. Relationship:

Consignment: Relationship between consignor and consignee is that of principal and agent.

Sales: Buyer is the debtor of seller until his account is settled.

3. Risk of Damages:

Consignment: Consignee holds the goods at the risk of the consignor, so any damage to the goods is a loss to the consignor.

Sales: Any damage to the goods is the loss of the buyer.

4. Return of Goods:

Consignment: The consignee may return the goods to the consignor if not sold.

Sale: Goods once sold are generally not returned.

5. Expenses after Delivery:

Consignment: Expenses after deliver are born by the consignor.

Sales: Expenses after deliver are born by the buyer

6. Forwarding Document:

Consignment: Forwarding document is proforma-invoice.

Sales: Forwarding document is invoice.

PROCEDURE TO BE FOLLOWED IN CASE OF CONSIGNMENT

When the goods are despatched by the consignor to the consignee, the consignor makes out a statement known as 'proforma invoice' like a regular invoice giving details about the consignment and price which is normally at cost, but occasionally it may be at invoice price which is above the cost.

The consignee does not become liable for the payment of amount named in the invoice, but as matter of advance for goods, he usually makes payment in advance either by accepting a bill or by remitting a bank draft.

(a) Account Sale : The consignee renders to his consignor regularly a statement showing sales, expenses incurred, commission charged and remittance made with the resultant balance due by him. This statement is known as 'Accounts Sales'.

On receipt of Account Sales the consignor shall make entries in his books of account and complete the Consignment account and the Consignee's account.

(b) Advance on Consignment : It is common practice for the consignor to ask the consignee for some deposit as a security for goods sent on consignment to the consignee. It may be paid by any mode of payment-cheque, cash or even bills of exchange.

(c) Commission : The consignee usually gets a commission for selling the goods on behalf of the consignor as a fixed percentage on sales. So more the sales more will be the commission earned by the consignor. But there are some other kinds of commission which are sometimes given to the consignee for extra burden and activities i.e. Del-Credre Commission and over-riding Commission.

(i) Del-Credre Commission : Ordinarily the consignee is not responsible to the consignor for the payment of money by the purchasers but sometime he undertakes to guarantee payment due for all the goods he sells on credit and cash whether his customers pay him or not. In consideration of this warranting the solvency of the buyers, he is paid an extra commission called a Del-Credre Commission. The consignee will pay the consignor whether he himself receives payment from debtors or not. The commission is payable on total proceeds.

(ii) Over-Riding Commission : It is an extra commission in addition to ordinary commission. This commission is also calculated on sales like ordinary commission. This commission is generally given by the consignor to the consignee to enhance the sale or to boost up the sales of a new product.

(d) Proforma Invoice : Since the goods sent on consignment cannot be treated as sales, the consignor does not prepare proper invoice. He simply prepares a Proforma invoice and sends it to the consignee, along with the goods despatched. This is prepared with a view to inform the consignee about price of goods, expenses incurred, mode of transportation and the minimum sale price at which the goods are to be sold.

(e) Expenses : Expenses relating to consignment of goods are divided into two categories vis. (i) Non-recurring expenses and (ii) Recurring expenses.

Non-Recurring Expenses : All the expenses which are incurred for bringing goods to the godown of the consignee are non recurring in nature. Such expenses are generally goods have reached the consignee's place or godown.

Recurring Expenses :

They are recurring in nature because they may be incurred repeatedly by the consignor and consignee. The examples of recurring expenses incurred by the consignor are advertising, discount of bills, commission on collection of cheques, travelling expenses of salesmen, bad debts etc. The examples of recurring expenses incurred by the consignee are godown rent, godown insurance, sales promotion etc.

ACCOUNTING TREATMENT OF CONSIGNMENT TRANSACTIONS

(A) Books of the Consignor : The consignor opens three accounts in his ledger.

(1) Consignment Account : It is prepared to ascertain profit or loss on each consignment e.g. Consignment to Bombay Account. It is not a personal account but a special Trading and Profit and Loss account or a nominal account.

(2) Consignee's Account : It is prepared to show the balance due to or from consignee at a particular date. It is a personal account; and

(3) Goods sent on Consignment Account : It is prepared to show the amount of goods sent to the consignee. This is real account. The balance is credited to Purchase or Trading Account.

Journal Entries

1 (a) When the goods are sent on consignment at cost or at invoice price:

Consignment A/c Dr.

To Goods sent on consignment A/c

(Being goods sent on Consignment at cost)

(b) If goods are sent at invoice price then one more entry is needed for making the adjustments. The amount of this entry is the difference between the invoice price and the cost price. The entry will be:

Goods sent on consignment A/c Dr.

To Consignment A/c

2. When expenses are incurred by the Consignor:
Consignment A/c Dr.

To Bank A/c

(Being expenses incurred)

3. When the Account Sales is received from the Consignee :
(i) Consignee A/c Dr.

To Consignment A/c

(Being the total sales by consignee)

(ii) Consignment A/c Dr.

To Consignee A/c

(Being the expenses incurred by consignee and with his Commission)

4. When the consignee remits the cash or bills:
Bank A/c/ Cash A/c/Bills receivable A/c Dr.

To Consignee A/c

(Being Cash/B/R received)

5. When bills is discounted with Bank:
Cash A/c/ Bank A/c Dr.

Discount A/c

To Bills receivable A/c

(Being B/R discounted with the Bank)

6. For Stock remaining unsold:

Consignment stock A/c Dr.

To Consignment A/c

(Being the value of stock plus proportionate expenses)

7. For Abnormal Loss of stock:

General Profit & Loss Account A/c Dr.

(with unrecoverable loss)

Insurance company A/c (with total recoverable loss) Dr.

To Consignment A/c (with total loss)

(For the abnormal loss of stock, amount recoverable and amount not recoverable)

ii) For Profit or loss on Consignment:

(i) If there is profit on Consignment

Consignment A/c Dr.

To general Profit and Loss A/c

(Being the Profit on consignment transferred to Profit and Loss A/c)

(ii) If there is loss on Consignment

General Profit and loss Account Dr.

To Consignment A/c

(Being the loss on Consignment transferred to Profit & Loss Account)

9. For settlement of account with consignee:
Bank/Bills recoverable Dr.

To Consignee A/c

(Being amount sent for final settlement)

The Goods sent on Consignment Account' which shows credit balance will now be transferred to the Trading Account. Then the entry is :

Goods sent on consignment Account Dr.

To Trading A/c

(Being the goods sent on consignment account transferred to trading account).

Ledgers

a) Consignment Account : Consignor prepares this account in his ledger. In it all transactions of a consignment are shown. This account discloses profit or loss incurred by each consignment. Debit side shows goods sent on consignment expenses incurred by consignor and consignee, consignee's commission, bad debts etc. Credit side shows total sales (cash and credit), goods returned, and unsold stock etc. The difference between the debit and credit totals of Consignment Account is regarded as profit or loss which is transferred to the Profit and Loss Account and the Consignment Account stands closed. It is in fact a nominal account and is just like Trading and Profit and Loss Account about which you must have studied earlier in final accounts. Therefore the principles applied to Trading and Profit and Loss Account hold good for this account also. Like Trading and Profit and loss Account all expenses and purchases are debited to this account and all sales and incomes are credited.

b) Goods sent on consignment Account : This account shows the goods 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 the 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.

c) Consignee's Account : This account discloses what amount is due from the consignee. The consignee's account is debited with all cash and is credited by sales effected by the consignee. The various expenses incurred by the consignee, the commission charged by him as well as the advance remitted by him are credited to this account. This account usually shows a debit balance indicating the amount due from the consignee. At times it may show credit balance, if the advance given by the consignee is more than the sale affected by him. The balance revealed

by this account is shown in the balance sheet of the consignor.

Problem 1 : Vimal Mills Ltd. sent 100 pieces of suiting to Lal Garments House of Delhi on consignment basis. The consignees are entitled to receive 5 per cent commission plus expenses. The cost of Vimal Mills Ltd. is Rs. 200 per suiting. Lal Garments House pays following expenses:

Railway Freight	Rs. 500
Godown Rent & Insurance	Rs. 1,000

Vimal Mills Ltd. draw on the consignees a bill for Rs. 10,000 which is duly accepted. Subsequently it is discounted for Rs. 9,500. The consignees informed the consignor of the sale of the entire consignment for Rs. 28,500. Show journal entries and ledger accounts in the book of the consignor.

Solution

Journal entries in the Book of Vimal Mills Ltd. (Consignor)

Date	Particulars		Dr.	Cr.
	Consignment A/c	Dr.	20,000	
	To goods sent on consignment A/c			20,000
	(100 pieces of suiting consigned to Lal Garments House at cost Rs. 200 per suiting)			

Bill receivable A/c	Dr.	10,000	
To Lal Garment House			10,000
(Being of the bills of exchange received from consignee)			
Cash Account	Dr.	9,500	
Discount Account	Dr.	500	
To bill receivable A/c			10,000
(being bill discounted with the bank)			
Lal Garment House	Dr.	28,500	
To Consignment A/c			28,500
(Being gross proceeds of the goods sold)			
Consignment A/c	Dr.	1,500	
To Lal Garment House			15,00
(being the expenses incurred by Lal Garment house)			
Consignment A/c	Dr.	1,425	
To Lal Garment House			1,425
(Being Commission @ 5% on sales)			
Consignment A/c	Dr.	5,575	
To Profit & Loss A/c			5,575
(Being profit on consignment transferred)			
Goods on Consignment Account Dr.			
To Trading A/c			30,000
(Being goods sent on consignment A/c transferred to trading A/c			

Ledger Accounts
Consignment Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To goods sent on consignment A/c	20,000	By Lal Garment House (Sales)	28,500
To Lal Garments	1,500		
To Lal Garment House (commission)	1,425		
To Profit & Loss A/c (Profit on consignment)	5,575		
	28,500		28,500

Lal Garments House

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To consignment A/c	28,500	By bills receivable	10,000
		By Consignment A/c (Expenditure)	1,500
		By Consignment A/c (Commission)	1,425
		By Balance c/d	15,575
	28,500		28,500

Goods Sent on Consignment Account

Particulars	Rs.	Particulars	Rs.
To Trading A/c (transferred)	20,000	By Consignment A/c	20,000
	20,000		20,000

B. Books of the Consignee

Consignee need not pass any entry in his books on the receipt of goods by him or for expenses incurred by the consignor. He should, in principle, open the Consignor's Account in his books and route all the transactions through it in the following manner:

1. When cash is remitted or bill is accepted
   Consignor A/c Dr.
   To Cash A/c/Bills payable A/c
   (Being cash remitted or bills accepted).
2. When expenses are incurred
   Consignor A/c Dr.
   To Cash A/c
   (Being expenses incurred on consignment)
3. When sale is made on Consignment
   (i) For cash sales
   Cash a/c Dr.
   To Consignor's A/c
   (ii) For credit sales
   Debtor's A/c Dr.
   To Consignor A/c
   (Being goods sold on credit)

4. On remitting balance to consignor after commission
Consignor's A/c Dr.
To Cash A/c/Bank A/c
To Commission A/c
(Being cash remitted after commission)

Note : (A) For unsold stock lying with consignee, no entry is to be passed in his book of account.

(B) Consignee does not pass any entry for profit or loss in his books.

The consignee also prepares ledger accounts after passing all the journal entries. The Consignor's Account and Commission Account are the two important account prepared by the consignee in his books. Of course he will also do the postings to the other accounts such as Consignment Debtor's Account, Consignment Expenses Account and Bills Payable Account etc.

(a) Consignor's Personal Account : It is the main account of Consignee's books which is prepared for working out the amount due to the consignor. Whatever amount he receives from sales of goods is credited to this account. All expenses incurred by the consignor in relation to consignment the commission due to him and the advance given by him to the consignor will be debited to this account. Further, if the consignee does not get del-credre commission, the bad debts on account of credit sales are also debited to the Consignor's Account. The balance of this account indicates the amount payable to the consignor. This account is just the opposite of the Consignee's Account in the books of the consignor.

(b) Commission Account : It is nominal account. It shows the income earned by the consignee for the services rendered by him. All types of commission whether ordinary or special, due to the consignee is credited to this account. The commission account will be debited with bad debts if the consignee is to bear such loss because of del-credre commission.

To continue with the same illustration No. 1, the consignee will have the following journal entries and ledger accounts:

Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
	Vimal Mills Ltd.	Dr.	10,000	
	To Bills payable A/c			10,000
	(Being bill accepted)			
	Vimal Mills Ltd.	Dr.	1,500	
	To Cash A/c			1,500
	(Being expenses (incurred)			
Cash A/c		Dr.	28,500	
	To Vimal Mills			28,500
(Being Sales proceeds received on consignment)				
Vimal Mills Ltd.		Dr.	1,425	
	To Commission A/c			1,425
(Being 5% commission on total sales)				
B/P A/c		Dr.	10,000	
	To Cash A/c			10,000
(Being bill met on maturity)				

Ledger Account

Vimal Mills Ltd. (Consignor)

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bill payable A/c	10,000	By Cash (sale proceeds)	28,500
To Cash A/c (expenses)	1,500		
To Commission A/c	1,425		
To Balance c/d	15,575		
	28,500		28,500

Problem 2. B. Ghosh of Bombay sent on consignment to Alok of Calcutta 300 cases @ Rs. 125 on 1st July 2006 to be sold on his account and at his risk for 10% commission B. Ghosh incurred Rs. 3,000 expenses on dispatching the goods to Alok. On July 10, 2006 B. Ghosh received a bill for Rs. 20,000 at 2 months from Alok. On September 30, 2006 Alok sent on account sales disclosing that 200 cases have been sold for Rs. 160/- each and the remaining cases @ Rs. 150/- each. The account sales also disclose that Alok has incurred unloading expenses Rs. 600 and selling expenses Rs. 900. He sends a draft for the net amount due.

You are required to :
(a) Prepare the account sales; and
(b) Enter the transactions in the books of both the parties.

Solution
Account sales of 300 cases received from B. Ghosh to be sold on his account and risk.

200 cases @ Rs. 160		32,000	
100 cases @ Rs. 150		15,000	47,000
Less : Expenses			
Unloading expenses	600		
Selling expenses	900	1,500	
Commission @ 10% on sales		4,700	6,200
RS. 47,000 (Rs. 32,000 + Rs. 15,000)			40,800
Less Bill given as an advance			20,000
on 10.7.1999			
Balance (draft enclosed herewith)			20,800

Journal Entries in the Books of B. Ghosh (Consignor)

Date	Particulars	L.F.	Dr.	Cr.
2006 July1	Consignment A/c Dr. To goods sent on consignment A/c (Being 300 cases @ Rs. 125 sent on consignment to Alok)	Dr.	37,500	37,500
July 1	Consignment A/c Dr. To Bank A/c (Being expenses incurred on account of goods sent on consignment)	Dr.	3,000	3,000
Sep 10	Bills receivable A/c Dr. To Alok (Being an acceptance for 2 months bill from Alok as an Advance)	Dr.	20,000	20,000
Sep 13	Bank Account Dr. To Bills Receivable A/c (Being the acceptance of Alok on the due date)	Dr.	20,000	20,000
Sep 30	Consignment A/c Dr. To Alok (Being unloading expenses Rs. 600 and selling expenses Rs. 900/- incurred by Alok)	Dr.	1,500	1,500

Sep 30	Alok	Dr.	47,000	
	To Consignment A/c			47,000
	(Being goods sent on consignment sold by Alok-200 cases @ Rs. 160 and 100 case @ Rs. 150)			
Sep. 30	Consignment A/c	Dr.	4,700	
	To Alok			4,700
	(Being commission payable to Alok @ 10% on Rs. 47,000)			
Sep 30	Bank A/c	Dr.	20,800	
	To Alok			20,800
	(Being amount due from Alok received)			
Sep 30	Consignment A/c	Dr.	300	
	To Profit & Loss A/c			300
	(Being profit on consignment transferred to Profit and Loss A/c)			
Sep.30	Goods sent on consignment A/c	Dr.	37,500	
	To Trading A/c			37,500
	(Being goods sent on consignment transferred to Trading A/c)			

Ledger

Consignment Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006					
July1	To good sent on consignment A/c	37,500	Sep 30	By Alok (Sales) 200 cases @ 160 32,000 100 case @ Rs. 150 15,000	47,000
July 1	To Bank A/c (Exp)	3,000			
Sep 30	To Alok (Expenses)	1,500			
Sep 30	To Alok (Commission)	4,700			
Sep 30	To Profit transferred to profit & loss a/c	300			
		47,000			47,000

Goods sent on Consignment Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006					
Sept30	To Trading A/c	37,500	July1	By Consignment to Calcutta a/c	37,500
		37,500			37,500

Bills Receivable Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006			2006		
Jul10	To Alok	20,000	Sep.13	By Bank A/c	20,000
		20,000			20,000

Alok

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006			2006		
Sept 30	To Consignment a/c	47,000	Jul 10	By bills receivable	20,000
	(Sales)		Sep 30	By consignment to Calcutta C/c (Exp)	1,500
			Sep 30	By Consignment A/c (Commission)	4,700
			Sep 30	By Bank a/c	20,800
		47,000			47,000

Bank Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006			**2006**		
July 1	To balance b/c		July 1	By consignment a/c	3,000
Sep 13	To Bills receivable	20,000			
Sep. 30	To Alok	20,800	Sep.30	By Bal. c/d	

Profit and Loss Account

	2006		
	Sep 30	By Consignment to Calcutta a/c	300

Entries in the Books of Alok (Consignee) Journal

Date	Particulars		Dr.	Cr.
Jul 10	B. Ghosh	Dr.	20,000	
	To Bills payable A/c			20,000
	(Being acceptance of bill for 2 months given)			
	Ghosh	Dr.	1,500	
	To Bank A/c			1,500
	(Being unloading expenses Rs. 600 and selling expenses Rs. 900 incurred on account of B. Ghosh)			
Sep 13	Bills payable A/c	Dr.	20,000	
	To Bank A/c			20,000
	(Being bill met on the due date)			
	Bank A/c	Dr.	47,000	
	To B. Ghosh			47,000
	(Being goods sold on behalf of B. Ghosh)			
Sep 30	B. Ghosh	Dr.	4,700	
	To Commission A/c			4,700
	(Being 10% commission on sales charged to B. Ghosh).			

Sep 30	B. Ghosh	Dr.	20,800	
	To Bank A/c			20,800
	(Being bank draft sent to B. Ghosh for the amount due)			

B. Ghosh

2006				
Jul 10	To Bills payable A/c	20,000	By bank A/c (sales)	47,000
	To Bank A/c (expenses)	1,500		
Sep 30	To commission A/c	4,700		
Sep 30	To Bank A/c	20,800		
		47,000		47,000

Bills Payable Account

2006					
Sep 13	To Bank Account	20,000	July 10	B. Ghosh	20,000

Commission Account

			2006		
			Sep 13	B. Ghosh	4,700

Problem 3

Suresh and Co. of Bombay sent on consignment to Mahesh & Co. of Delhi 60 cases cutlery goods costing Rs. 175 per case. Expenses incurred by the consignor at Bombay were : Freight Rs. 275, insurance Rs. 55 and loading charges Rs. 20.

Suresh & Co. draw on Mahesh & Co. 2 months bills at sight for Rs. 7,000 which the latter accepts. The charges paid by Mahesh & Co. at Delhi were unloading Rs. 30, Storage Rs. 85, insurance Rs. 15, Commission is payable to Mahesh & Co. at 2% on all sales in addition to 1½% del-credere commission.

The consignee sells for prompt cash 30 cases @ Rs. 225 per case; 25 cases @ Rs. 250 per case and the balance @ Rs. 280 per case. The account was settled immediately by means of a bank draft.

Write up the transactions and ledger accounts in the books of both the parties.

Solution

Consignor's Books Journal

Consignment to Delhi Account	Dr.	10,500	
To Goods sent on consignment Account			10,500
(60 cases consigned @ Rs. 175 per case)			
Consignment to Delhi Account	Dr.	350	
To Bank			350
(expenses on consignment paid)			
Bills receivable Acount	Dr.	7,000	
To Mahesh & Co.			7,000
(Being Expenses incurred by consignee)			

Consignment to Delhi Account	Dr.	130	
To Mahesh & Co.			130
(Being Expenses incurred by consignee)			
Mahesh & Co.	Dr.	14,400	
To Consignment to Delhi Account			14,400
(Sales affected by consignee)			
Consignment to Delhi Account	Dr.	504	
To Mahesh & Co.			504
(Being Commission due to the consignee including del-credre commission on sales i.e. 2% and 1½% of Rs. 14,400)			
Bank Account	Dr.	6,766	
To Mahesh & Co.			6,766
(Being Received bank draft in settlement of the accounts)			
Consignment to Delhi Account	Dr.	2,916	
To General Profit & Loss a/c			2,916
(Being Goods sent on consignment account closed)			

Ledger Account

Consignment to Delhi Account

Dr.				Cr.
July 1	To goods sent ton consignment a/c	10,500	By Mahesh & Co. (sales)	14,400
	To Bank (expenses)	350		
130	To Mahesh & Co. (Expenses)			
504	To Mahesh & Co. (Commission)	634		
	To General Profit & Loss A/c	2,916		
		14,400		14,400

M/s Mahesh & Co's Account

To consignment to Delhi A/c (sales)	14,400	By B/R A/c	7000
		By Consignment to Delhi Account Delhi Account Expenses 130 Commission 504	634
		By Bank a/c	6,766
	14,400		14,400

GOODS SENT ON CONSIGNMENT ACCOUNT

To Trading A/c (transfer)	10,500	By consignment to Delhi A/c	10,500

Consignee's Books

Journal

Suresh & Co.	Dr.	7,000	
To Bills payable accepted			7,000
(Suresh & Co's bill accepted)			
Suresh & Co.	Dr.	130	
To cash A/c			130
(Being cash sent on expenses)			
Cash account	Dr.	14,400	
To Suresh & Co.			14,400
(Sales effected on consignor's behalf)			
Suresh & Co.	Dr.	504	
To Commission A/c			504
(Commission @ 2% and del credre commission @ 1.5% on Rs. 14,400)			
Suresh & Co.	Dr.	6,766	
To Bank A/c			6,766
(Balance remitted vide draft			

Ledger Accounts

M/s Suresh & Co's Account

To bills payable A/c To cash (expenses) To Commission A/c To Bank A/c (draft)	7,000 130 504 6,766	By cash (sales)	14,400
	14,400		14,400

Till now we have presumed that all the gods consigned are sold. But in practice we find that at the time of submitting the 'account sale', a part of goods consigned may still be unsold and may be lying with the consignee. In order to calculate the true profit or loss on consignment, the unsold stock should be valued and accounted for.

VALUATION OF STOCK ON CONSIGNMENT

Valuation of unsold stock is usually done at cost. Cost, in case of consignment stock, would include the cost at which the goods are consigned plus, the proportionate non-recurring expenses. All the non-recurring expenses, whether incurred by the consignor or by the consignees, are to be taken into account. In the absence of details of expenditure incurred by the consignee, all expenses incurred by him are to be taken as recurring expenses and thus are not to be considered in the calculation of closing stock. In other words, while valuing the closing stock we add such proportionate expenses to the cost price that have been incurred upto the time the goods are brought to the place of the consignee. Any other expenses paid by the consignor or the consignee after this point will not be considered as these expenses do not add to the value of the goods. Such expenses are godown rent, selling expenses, carriage outwards, godown insurance, discount etc.

Usually following expenses are added for calculation of closing stock : Carriage and Freight, Loading Charges, Custom Duty, Clearing Charges, Dock Dues, Carriage paid upto the Godown, and Unloading charges.

Following are the expenses which are not considered for calculation of closing stock : Godown rent, Discount, Bad Debts, Insurance of the goods in the Godown, and Selling and Distribution expenses.

One can notice that all expenses incurred by the consignor are considered for valuation of the closing stock. The problem arises only selecting recurring expenses in case of consignee.

The value of unsold stock affects the profit or loss on any consignment so its valuation and recording in the books of consignor is very important. It is shown on the credit side of Consignment Account for which the journal entry passed would be as :

Stock on Consignment A/c Dr.

To Consignment A/c

(Being the values of sold stock)

On the other hand the Consignee, will not pass any entry for the closing stock. It is because he is not the owner of the goods and does not pass any entry even when the goods are received or he returns the goods.

ACCOUNTING FOR LOSS OF GOODS

Goods sent on consignment may be lost or damaged in transit. The loss of goods may be either (i) normal or (ii) abnormal Treatment in the books of accounts will depend upon the nature of loss.

Normal Loss : Loss of goods is sold to be normal when it is natural, unavoidable and is due to inherent characteristic of the goods despatched like evaporation, sublimation etc. The amount of stock to be carried down is the proportion of the total cost that the number of units on hand bears to be the total number units as diminished by loss.

Deficiency of Stock : When there is deficiency of stock at the time of stock-taking and the consignee is under a liability to account for the missing stock, the entry will be:

Consignee Dr.
To Consignment a/c
(Being the deficiency of stock charged to the consignee).

If, on the other hand, he is not liable, the stock of the consignment will be shown at the gross figure and the consignment account will be debited with the loss in stock.

Abnormal Loss : There are the losses which are accidental and not natural like theft. Abnormal loss may occur in the godown of the consignee or in transit. Let us see the effect of abnormal loss on the closing stock under both situations.

When the abnormal loss occurs in the godown of the consignee the valuation of closing stock is not affected because the expenses incurred after they reach the godown of the consignee are not to be taken into account for the purpose. Hence, the normal formula will be followed for the valuation of closing stock. Look at illustration 4 and see how the abnormal loss and the value of closing stock is calculated when the abnormal loss occurs in the godown of the consignee.

The treatment in accounts will depend upon whether the unforeseen loss has been insured against or not. In case of insurance the consignment account will be credited but the insurance companies or underwriter's account will be debited with the amount of loss (which shall be calculated like valuation of stock on consignment i.e. including proportionate non-recurring expenses of both the consignor and the consignee). If the goods are not insured, instead of Insurance Company's or Underwriter's Accounts being debited, Profit and Loss Account will be debited and consignment account will be credited. In this way the final net profit on consignment is not adversely affected.

Problem 4: X of Calcutta sent on 15th January, 2006, a consignment of 500 toys bicycles costing Rs. 100 each. Expenses of Rs. 700 met by the consignor. Y of Bombay spent Rs. 1,500 for clearance and the selling expenses were Rs. 10 per bicycle.

Y sold, on 4th April 2006, 300 pieces @ Rs. 160 per piece and again on 20th June 1999, 150 pieces @ Rs. 172.

Y was entitled to a commission of Rs. 25 per piece sold plus one fourth of the amount by which the gross proceeds less total commission thereon exceeded a sum calculated at the rate of Rs. 125 per piece sold. Y sent the amount due to X on 30th June 2006. You are required to show the Consignment Account and Y's Account in the books of X.

Solution

Consignment Account

2006		Rs.	2006		Rs.
Jan 15	To goods sent on consignment a/c 500 @ Rs. 100	50,000	Apr 4	By Y-sale of 300 pieces @ Rs. 160	48,000
Jan 15	To Bank A/c - Exp.	700	June 20	By Y-sale of 150 Pieces @ 172	25,800
	To Y-Clearing Exp	1,500	June 30	By consignment stock A/c	5,220
Apr 4	To Y-selling Exp	3,000			
Jun 20	To Y- selling Exp	1,500			
Jun 30	To Commission A/c	12,510			

June 30 To Profit & Loss A/c Profit on Consignment	9,810			
	79,020			79,020

Y Account

2006		**Rs.**	**2006**		**Rs.**
Apr 4	To Consignment A/c	48,000		By consignment A/c (clearing exp.)	1,500
Jun 20	To Consignment A/c	25,800	Apr 4	By consignment A/c (selling exp.)	3,000
			June 20	By consignment A/c (selling exp.)	1,500
			Jun 30	By consignment A/c commission (2)	12,510
				By Bank A/c	55,290
		73,800			73,800

Working Note

(1) Valuation of Closing stock

50 pieces @ Rs. 100 each Rs. 5,000

Plus : Proportionate Expenses

Expenses incurred by X on 500 pieces	= Rs. 700	
Clearing expenses incurred by Y	= Rs. 1500	
Total Expenses	Rs. 2,200	
Therefore, expenses on 50 pieces 2200x50/500	=	Rs. 220
		Rs. 5,220

(2) Calculation of Commission

Let Total Commission of Y be a

a = No. of pieces sold x Rs. 25 + ¼ [Gross sale proceeds - (Rs. 125x No. of pieces sold] - (a)

a = 450 x Rs. 25 + ¼ [R. 73,800 - (Rs. 125 x 450] -a)

a = Rs. 45,000 + Rs. 17,500 -a

5a = Rs. 62, 550

Therefore : a = 62,550/5 = Rs. 12,510

INVOICING GOODS HIGHER THAN COST

Sometimes the goods sent on consignment are priced not at cost but above cost i.e. at selling or near selling price. The purpose is to hide the real profit on the consignment from the competitive eye of the consignee. It does not affect the profits of the consignor. Here a few adjusting entries in respect of goods sent on consignment and stock are to be made at the end of the financial year. The entries are as follows :

To bring down the invoice of the goods sent on consignment to cost, debit goods sent on consignment account and credit consignment account with the difference in the invoice and the cost price.

(i) Goods sent on consignment A/c Dr.

To consignment A/c

(Being the excess of Invoice price written back)

To adjust the value of the stock lying unsold with the consignee, debit the consignment account and credit 'Stock Reserve Account' with the difference in prices.

(ii) Consignment A/c Dr.

To Consignment Stock Reserve A/c

(Being the excess of invoice price or value over cost Price of unsold stock adjusted).

The balance of the goods sent on consignment account will be transferred to the Trading Account as indicated earlier. The stock on consignment and Stock

Reserve Account will be closed and the balance will be shown in Balance sheet.

Next year the stock on consignment account will be transferred to the debit of the 'Consignment Account' and Stock Reserve Account will be transferred to the Consignment Account (of course at the end of the next year.)

Problem 5: B. Ltd. of Delhi consigned 1,000 cases of milk powder to S. of Bombay. The goods were charged at proforma invoice value of Rs 10,000 including a profit of 25% on invoice price.

The consignors paid Rs. 600 for freight and insurance. Consignee paid import duty Rs. 1,000, Dock Dues Rs. 200 and sent to the Consignors a bank draft of Rs. 4,000 as advance. They sold 80 cases for Rs. 10,500 and sent for the balance due to the consignors after deducting commission of 5% on gross sale proceeds. Show ledger accounts in the books of the consignor.

Solution:

Dr. **Consignment** **Cr.**

2006	Rs.	2006	Rs.
To goods sent on consignment A/c 25% over cost	10,000	By S of Bombay (consignee)	10,500
To Bank Expenses	600	By Goods sent on consignment	2,500
To S of Bombay (Exp)	1,200	By Consignment stock	2,360
To consignment stock reserve A/c (25% of stock Rs. 200	500		
To Profit transferred To P & L A/c	2,535		
	15,360		15,360

Dr. S of Bombay (Consignee) Cr.

2006	Rs.	2006	Rs.
To Consignment A/c	10,500	By Bank	4,000
		By Consignment A/c	
		Expenses 1200	
		Commission 525	1725
		By Bank	4,775
	10,500		10,500

Dr. **Goods sent on Consignment** Cr.

2006	Rs.	2006	Rs.
To consignment a/c	2,500	By Consignment a/c	10,000
To Trading a/c	7,500		
	10,000		10,000

Consignment Stock A/c

Dr. Cr.

2006	**Rs**	**2006**	**Rs.**
To Consignment A/c	2,360	By balance c/d	2,360
	2,360		2,360

Consignment Stock Reserves A/c

Dr. Cr.

2006	Rs.	2006	Rs.
To balance c/d	500	By consignment A/c	500
	500		500
		To balance b/d	500

Working Notes

Valuation of Stock

20 cases of Milk Rs. 100 = Rs. 2,000

Proportionate Expenses = Consignor expenses + Consignee Expenses = Rs. 600 (freight and insurance + Rs. 1000 (Import duty) + Rs. 200 (Dock Dues) = Rs. 1800 Expenses on unsold Stock

1800 x 20/100 = 360

Total value = Rs. 2000 + 360 = Rs. 2360

Adjustment Entries

Excess of invoice price over cost price in case of goods sent on consignment = 10,000 x 25/100 = Rs. 2500.

INTRODUCTION TO ACCOUNTING FOR JOINT VENTURE

Complexities of a business as huge funds requirements, lack of technical expertise, sometimes make it difficult to undertake a business assignment individually like constructing a big building. The alternative available is that two or more persons join hand to take up that assignment. Joining hand may be for finance, for technical know-how, for sharing risk etc. When two or more persons join together to carry out a specific business and share the profits on predetermined basis, it is known as a *Joint Venture.* Joint venture is defined as a partnership confined to a particular adventure, speculation, course of trade or voyage, and in which partners, either latent or known use no firm or social name, and incur no responsibility beyond the limits of the adventure. For example, Mr. John and Mr. Ibrahim agreed to construct a bridge for Municipal Corporation. They pool their resources and technical knowhow. After they completed this project, the profits arising thereof will be shared by them in proportion to their contribution. When they are undertaking this project, they are free to carry on their own business as usual unless otherwise agreed. As the project ends, the relationship between the parties i.e. co-ventures ceases. So life of joint venture depends on the duration in which a project completes. Joint venture is neither a partnership nor it is consignment.

MEANING OF JOINT VENTURE

A joint venture is usually a temporary partnership without the use of a firm name, limited to carrying out a particular business plan in which the persons concerned agree to contribute capital and to share profits or losses. The parties in a joint venture are known as co-venturers and their liability is limited to the adventure concerned for which they agree to contribute capital and share profits or losses. A joint venture may consist of a joint consignment of goods, speculation in shares, underwriting of shares or debentures, construction of a building, or any similar form of enterprise.

FEATURES OF A JOINT VENTURE

The main features of a joint venture are specifically made clear.

- Two or more persons are needed.
- It is an agreement to execute a particular venture or a project.

- The joint venture business may not have a specific name.
- It is of temporary nature. So the agreement regarding the venture automatically stands terminated as soon as the venture is complete.
- The co-ventures share profit and loss in an agreed ratio. The profits and losses are to be shared equally if not agreed otherwise.
- The co-ventures are free to continue with their own business unless agreed otherwise during the life of joint venture.

DIFFERENCES BETWEEN JOINT VENTURE AND PARTNERSHIP

In joint venture and partnership some business is carried on by two or more persons and the profits are shared by all of them. But there are some basic differences between the two which are given below:

- A joint venture involves two or more companies joining together in business, whereas in a partnership, it is individuals who join together for a combined venture.
- A joint venture can be described as a contractual arrangement between two companies that aims to undertake a specific task. Whereas, a partnership involves an agreement between two parties wherein they agree to share the profits as well as any loss incurred.
- In a partnership, persons involved are co-owners of a business venture and their aim is making a profit. But in a joint venture, it is not just profit that binds the parties together. Joint ventures can be formed for specific purposes. Normally the companies engage in joint ventures for undertaking certain ventures like research and development which will be expensive in nature and impossible to take the same individually.
- A partnership will last for many years until the parties involved have no differences. While a joint venture company will last for only a limited period until their goal is achieved.
- The members in a partnership can claim a capital cost allowance as per the partnership rules. Whereas, joint ventures can use as much or as little of the capital cost allowance.
- In a partnership, members cannot act according to their wishes because they do not have any individual identity. However, a member of a joint venture can retain the identity of his/her firm or property.
- Although a joint venture is very similar to a partnership, a joint venture is generally more limited in scope and duration.

- A joint venture is generally considered to be a partnership for a single transaction. Similarly, a joint venture is a less formal relationship than a partnership.
- The rights and liabilities of joint venturers are governed by the principles applicable to partnerships.

METHODS OF RECORDING JOINT VENTURE TRANSACTIONS

Joint venture accounts can be kept under any of the following three methods :

A) Each co-venture records the transaction in his own books and opens "Joint Venture Account" and accounts of his fellow partners.

B) One common Joint Venture Account on memorandum basis is prepared to find the profit or loss made on trading. It is not a part of the double entry system. Under this system each one of the partners open only one account which is of the nature of personal account. The account is called. "Joint venture with ....a/c."

C) Venturers agree to keep a separate set of books and a person is made incharge of recording of all transactions. Generally this method is not adopted.

A) Each co-venturer records the transactions

Under this system the "Joint Venture Account" is opened and debited with the value of goods bought and expenses incurred. Cash account or the party which has supplied the goods or incurred the expenses will be credited. When the sales proceeds are received, the party receiving it, will debit cash (for Debtors) account and credit the Joint Venture Account. The other parties will debit the recipient party and credit the Joint Venture Account.

Sometimes, a bill of exchange is drawn by one of the parties and is discounted. In such a case the discount on the bill should be charged to Joint Venture Account. Joint Venture Account will now show the profit or loss on trading. Under this system, each (Joint venturer) partner will open two accounts i.e. (i) Joint Venture Account (ii) The account of other parties.

Journal Entries : The following journal entries will be passed

1) For Investment in Joint Venture

Joint Venture A/c Dr.

To Cash/Good A/c

(Being the amount of goods supplied or cash put in for Joint Venture)

2) As goods are supplied by the Co-venturer or cash is invested in Joint Venture by him

Cash A/c (For cash sent) Dr.

Joint Venture A/c Dr.

To Co-venturer A/c (for goods sent)

(Being goods supplied or cash invested by the other partner)

3). For recording sale of joint venture goods

Cash A/c Dr.

To Joint Venture A/c

(Being Sale of goods made)

4) On sale of joint venture goods by the other party

Co-Venturer A/c Dr.

To Joint Venture A/c

(Being Joint Venture goods sold by the other partner)

5) a)For receipt of Bill of Exchange from the other partner

Bills receivable A/c Dr.

To Co-Venturer A/c

(Being bill receivable received)

b) For discounting the bill of exchange

Bank A/c Dr.

Joint Venture A/c Dr.

To Bills Receivable A/c

(Being bill discounted and discounting charges debited to Joint Venture A/c).

6) Entries in the books of other partner Acceptor's books regarding Acceptance of bills of exchange

Co-venturer A/c Dr.

To Bills Payable A/c

(Being acceptance given)

7) On discounting the bills of exchange by other party i.e. drawer

Joint venture A/c Dr.

To Co-Venturer A/c

8) On commission charged under Joint Venture

Joint Venture A/c Dr.

To commission A/c

9) On Commission charged by other partner

Joint Venture A/c Dr.

To Co-Venturer A/c

(Being Commission on sale effected by other partners)

10) When some products are left unsold and transferred to his own stock.

Purchase A/c Dr.

To Joint Venture A/c

(Being the unsold goods taken)

11) If the other partner has taken the unsold goods, the entry will be:-

Co-venturer A/c Dr.

To Joint Venture A/c

(Being the unsold goods taken by the other partner)

12) Now Joint Venture Account will be closed. If it shows profit then the profit will be divided in the agreed ratio. The entry will be

Joint Venture A/c Dr.

To P & L A/c (own share)

To Co-venturers A/c (their share)

(Being the profit on Joint Venture shared by the parties)

Format of Two accounts to be maintained

Joint Venture Account

Dr. **Particulars**	**Amount Rs.**	**Particulars**	Cr. **Amount Rs.**
To Cash A/c (purchased) To Cash A/c (Expenses) To Purchase A/c (Material supplied) To Outstanding Expenses A/c To Profit transferred to: Profit & Loss A/c Co-venturers A/c		By Cash A/c By Co-venturer A/c (Goods taken over)	

Co-venturer's Personal Account

Particulars	Rs.	Particulars	Rs.
To Joint Venture A/c		By Bills Receivables	
(Good taken over)			
To Cash a/c		By Joint Venture A/c	
	-------------		-------------
	-------------		-------------

Problem 1: X and Y entered into Joint Venture to sell a consignment of timber sharing profits and losses equally. X provides timber from stock at mutually agreed value of Rs. 50000. He pays expenses amounting to Rs. 2500. Y incurs further expenses on cartage, storage and collieage of Rs. 6500 and receives cash for sales Rs. 30,000. He also takes over goods to the value of Rs. 10000 for his own use. At the close, X takes over the balance stock in hand which is valued at Rs. 11000.

Pass Journal Entries to record the above transactions and open the necessary ledger accounts in the books of X and Y.

Journal entries in the Books of X

Particulars	L.F.	Dr. Rs.	Cr. Rs.
Joint Venture A/c	Dr.	52,500	
To Purchase A/c			50,000
To Bank A/c			2,500

(Being timber provided and expenses incurred)			
Joint Venture A/c	Dr.	6,500	
To Y			6,500
(Being expenses incurred by Y)			
Y	Dr.	30,000	
To Joint Venture a/c			
(Being the sale proceeds by Y)			30,000
Y	Dr.	10,000	
To Joint Venture A/c			10,000
(Y takes over the goods for his use)			
Purchase A/c	Dr.	11,000	
To Joint Venture A/c			11,000
(Being unsold goods taken)			
Y	Dr.	4,000	
Profit and Loss A/c	Dr.	4,000	
To Joint Venture A/c			8,000
(Being the loss on Joint Venture shared equally)			
Bank A/c	Dr.	37,500	
To Y			37,500
(Being draft received from Y)			

Ledger Account

Joint Venture A/c

Particulars	Rs.	Particulars	Rs.
To Purchase	50,000	By Y (sale proceeds)	30,000
To Bank (expenses)	2,500	By Y (goods for his use)	10,000
To Y (expenses)	6,500	By Purchases (goods)	11,000
		By Y (loss)	4,000
		By Profit and Loss A/c	4,000
		(Ratio being 1:1)	
	59,000		59,000

Y's Account

Particulars	Rs.	Particulars	Rs.
To Joint Venture (Sale)	30,000	By Joint Venture (Expenses)	6,500
To Joint Venture (goods)	10,000	By Bank	37,500
To Joint Venture (goods)	4,000	(Final Settlement)	
	44,000		44,000

Journal Entries in the Books of Y

Particulars		L.F.	Dr. Rs.	Cr. Rs.
Joint Venture A/c	Dr.		52,500	
To X				52,500
(Being the goods supplied and expenses incurred)				
Joint Venture A/c	Dr.		6,500	
To Bank				6,500
(Being the expenses paid)				
Bank	Dr.		30,000	
To Joint Venture A/c				30,000
(Being the receipt of sale proceeds)				
Drawing A/c	Dr.		10,000	
To Joint Venture A/c				10,000
(Being the goods withdrawn for own use)				
X A/c	Dr.		11,000	
To Joint Venture A/c				11,000
(Being the taking over the balance stock in hand by X)				
X A/c	Dr.		4,000	
Profit and Loss A/c	Dr.		4,000	
To Joint Venture A/c				8,000
(For sharing of loss in equal ratio)				

X A/c	Dr.	37,500	
To Bank A/c			37,500
(Being the draft remitted X)			

Ledger A/cs

Joint Venture A/c

Dr. Cr.

Particulars	**Rs.**	**Particulars**		**Rs.**
To X (goods supplied)	50,000	By Bank (by sales)		30,000
To X (expenses)	2,500	By Drawing of goods		10,000
To Bank (expenses)	6,500	By (Balance stock taken by X)		11,000
		By X	4000	
		P & LA/c	4000	
		(Loss)		8,000
	59,000			59,000

X's A/c

Dr. Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Joint Venture A/c	11,000	By Joint Venture A/c	52,500
		(Good and expenses)	
To Joint Venture A/c (Loss)	4,000		
To Bank	32,500		
	52,500		52,500

B) Memorandum Joint Venture Account Method

In the method discussed above each co-venturer records all transactions relating to the joint venture in the Joint Venture Account opened in his books. But, under the Memorandum Joint Venture Account Method each co-venturer will record only those transactions relating to the joint venture which are directly concerned with him and not those of others.

a) Under this method each co-venturer opens a Joint Venture Account including the name of the other co-venturer. The heading of the account is 'Joint Venture with (name of coventurer) Account'. The Joint Venturer with (name of co-venturer) Account is a personal account and it does not show any profit or loss. The following entries will be made in this account :

i) Joint Venture with..........................Account Dr.
To cash/Bank/Creditors Account
(Being payments by cheque or cash or liabilities incurred on Joint Venture)

ii) Cash/DebtorsAccounts Dr.
To Joint Venture............Account
(Being sale Cash/Credit made on account of Joint Venture)

b) A separate 'Joint Venture Memorandum Account' is prepared to ascertain profit or loss in Joint Venture. It is just like profit and loss account, all the expenses and losses are debited to it and all incomes and gains are credited to it. All the items of personal accounts will also appear on the same side of 'Joint Venture Memorandum Account'. The balance of Joint Venture Memorandum Account shows profits or loss on joint venture and each party makes an entry for his share of profits or losses. The journal entry is as under :

Joint Venture with.................Account Dr.
To Profit and Loss Account
(Being profit earned on Joint Ventures)

Or

Profit and Loss Account Dr.
To Joint Venture with................Account
(Being loss effected on Joint Venture)

Problem 2: A and B entered into a Joint venture involving the buying and selling of old railway material with an agreement to share profit or loss equally. (*The amount is in Rs. Hundreds*). The cost of the material purchased was Rs. 30,000 which was paid by A, who drew bill of Rs. 20,000 on B at three months' period. The bill was discounted by A at cost of Rs. 160. The transactions relating to the ventures were:

1) A paid Rs. 200 for carriage, Rs. 600 for commission on sales and Rs. 100 for travelling expenses (ii) B paid Rs. 80 for travelling expenses and Rs. 120 for sundry expenses (iii) Sales made by A amounted to Rs. 21,400 less allowance for faulty goods Rs. 400 and (iv) Sales made by B were Rs. 15,000.

The remaining goods were retained by A and B for their private use and these were charged to them as Rs. 1600 and Rs. 2400 respectively. A was credited with sum of Rs. 300 to cover the cost for warehousing and insurance. The expenses in connection with the discounting to the bill were to be treated as a charge against the venture. Prepare the ledger accounts in the books of both the parties and also the memorandum joint venture account.

Solution

Dr. **Memorandum Joint Venture A/c** Cr.

(Rs. In 000)

Particulars	**Rs.**	**Particulars**	**Rs.**
To Materials	30,000	By Sales	36,000
To discount on Bill	160	(21000 + 15000)	
To carriage	200	By stock taken by	
To Commission	600	A 1600	4,000
To Travelling (100+8)	180	B 2400	
To Sundry expenses	120		
To Warehousing expenses	300		
To Profit A : 4220			
B : 4220	8,440		
	40,000		40,000

In the Books of A

Joint Venture with B A/c

(Rs. in 000)

Dr. Cr.

Particulars		Rs.	Particulars		Rs.
To Bank (material)		30,000	By Bank (sales)	21,000	
To discount on bill		160	By Stock taken	1,600	
To Bank			By Balance c/d	12,980	
Carriage	200				
Commission	600				
Travelling exp.	100				
Warehousing	300	1,200			
By Profit & Loss A/c		4,220			
		35,580			35,580
To Balance b/d		12,980			

In the Books of B

Joint Venture with A A/c

Dr. Cr.

(Rs. in '000)

Particulars		Rs.	Particulars		Rs.
To Bank			By Bank (Sales)	15,000	
Travelling Exp.	80		By Stock taken	2,400	
Sundry Exp.	120	200			
To Profit & Loss A/c		4,220			
To Balance c/d		12,980			
		17,400			17400
			By Balance b/d		12980

Sometimes the co-venturers invest money in Joint venture business and receive back the amounts on different dates. It is quite usual for them to agree to calculate interest at a certain rate. Each co-venturers is entitled to receive interest on the amounts invested by him and pay interest on the amounts received by him. Only net interest receivable from or payable to the conventurer is recorded in the joint venture account. Thus, the net amount of interest is also taken into amount before ascertaining the profit or loss on joint venture.

Problem 3: A and B enter into a joint venture sharing profits and losses equally. A purchased goods for Rs. 5,000 for cash on January 1, 1999. On the same day Bought goods for Rs. 10,000 on credit and spend Rs. 1,000 on freight etc. Further expenses were incurred as follows :

On 1.2.1999	Rs. 1,500 by B
On 12.3.1999	Rs. 500 by A

Sales were made by each one of them as follows :

15.1.1999	Rs. 3,000 by A
13.1.1999	Rs. 6,000 by B
15.2.1999	Rs. 3,000 by A
1.3.1999	Rs. 4,000 by B

Creditors for goods were paid as follows

1.2.1999	Rs. 5,000 by A
1.3.1999	Rs. 5,000 by B

On March 31, 1999 the balance of stock was taken over by B at Rs. 9,000. The accounts between the co-venturers were settled by cash payment on this date. The co-venturers are entitled to interest at 12% per annum. Prepare necessary ledger accounts in the books of venturers as per Memorandum Joint Venture Account Method.

Solution

Memorandum Joint Venture Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To A (cost of goods)	5,000	By A (sales)	6,000
To B (Cost of goods)	10,000	By B (sales)	10,000
To B (Freight etc.)	1,000	By B (interest)	50
To A (expenses)	500	By B (stock taken)	9,000
To B (expenses)	1,500		
To A (interest)	135		
Profit transferred A : 3457 B : 3458	6,915		
	25,050		25050

Joint Venture with B Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1999			1999		
Jan. 1	To Bank A/c (Purchase)	5,000	Jan 15	By Bank A/c (Sales)	3,000
Feb. 1	To Bank A/c (Creditors)	5,000	Feb. 15	By Bank A/c (Sales)	3,000
Mar. 1	To Bank A/c (Expenses)	500	Mar. 15	By Bank A/c (Final settlement)	8,902
Mar. 31	To Interest a/c	135			
Mar. 31	To Profit & Loss A/c	3,457			
		14,092			14,902

B's Books

Joint Venture with A Account

Dr.					Cr.
Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
1999			1999		
Jan 1	To Bank A/c (Freight)	1,000	Jan 31	By Bank (Sales)	6,000
Feb. 1	To Bank A/c (Exp)	1,500	Mar. 31	By Bank (sales)	4,000
Mar. 1	To Bank A/c (Crs)	5,000	Mar. 31	By Goods A/c Stock taken over	9,000
Mar. 31	To Profit & Loss A/c	3,458	Mar. 31	By Interest A/c	50
Mar. 31	To Bank A/c (Amt. Paid in Final Statement)	8,092			
		19,050			19,050

Calculation of Interest :

Payment by A

Date	Amount	Month	Product (Rs.)	
1.1.99	Rs. 5,000	3	15,000	(5,000 x 3)
1.3.99	Rs. 500	1	500	(500 x 1)
1.2.99	Rs. 5,000	2	10,000	(5,000 x 2)
			25,000	

$$\text{Interest} = 25{,}500 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 255$$

Receipts by A

15.1.99	Rs. 3,000	2.5	7,500	(3,000 X 2 ½)
15.2.99	Rs. 3,000	1.5	4,500	(3,000 x 1 ½)
			12,000	

Interest = 12,000 x 12/100 x 1/12 = 120

Net Interest due = 265 - 120 = Rs. 135

Payment by B

1.1.99	Rs. 1,000	3	3,000
1.2.99	Rs. 1,500	2	3,000
1.3.99	Rs. 5,000	1	5,000
			11,000

Interest = 11,000 x 12/100 x 1/12 = Rs. 110

Receipts by B

31.1.99	Rs. 6,000	2	12,000
1.3.99	Rs. 4,000	1	4,000
			16,000

Interest = 16,000 x 12/100 x 1/12 = Rs. 160

Net Interest due from B = 160 - 110 = Rs. 50

C) Separate Books

Recording of transactions is done not in books of parties but in a separate set of books. Co-venturer first contributes to a common bank account and then all payments are made through it. Accounts of parties are also opened. Profit or Loss on Joint Venture is transferred to the respective partner's accounts in due ratios. Finally, the books are closed with the close of the venture.

Three main accounts opened under separate set of accounts are:

1. Joint Venture Account
2. Joint Bank Account, and
3. Personal Capital Accounts of Joint Venturers.

The following entries will be passed under this system

1) When cash is invested by Joint Venturer

Joint Bank A/c Dr.
To Capital Accounts of Joint Venturers.
(Being cash invested by Joint Venturers and deposited into the Bank)

2) When purchases are made for joint venture out of bank A/c

Joint Venture A/c Dr.
To Joint Bank A/c
(Being Purchase made for Joint Venture)

3) When expenses are incurred for joint venture out of Bank A/c

Joint Venture A/c Dr.
To Joint Bank A/c
(Being expenses incurred for Joint Venture Account)

4) When sales are made

Joint Bank A/c Dr.
To Sales
(Being sales made and receipts from sales deposited into Bank)

5) When some products are left unsold and are taken away by Joint Venturers

Capital accounts of Joint Venturer A/c Dr.
To Joint Venture A/c
(Being unsold stock taken by Joint Venturers)

6 (a) For Profit on Joint Venture account

Joint Venture A/c Dr.
To capital accounts of Joint Venturers A/c
(Being profit earned on Joint Venturers)

6 (b) The reverse entry will be passed in cases of losses on Joint Venture.

Problem 4: X and Y enter into joint venture to underwrite public issue of Reliance Ltd. They agree to guarantee the subscription at par on 1,00,000 shares of Rs. 10 each of Reliance Ltd. and sharing profits and losses in the ratio of 2:3. The terms with the company are 4.5 % commission payable in cash and 6,000 fully paid shares of the company. They agreed to pay expenses in connection with the issue of shares. The expenses incurred are advertisement Rs. 5,000; Printing and stationery Rs. 2,000 and postage Rs. 600. All expenses are paid by X. The public subscribed to 88,000 shares only. The remaining shares under the agreement were duly taken by X and Y who provided the necessary cash equally. The commission is received in cash and is shared by the co-venturers in the ratio of 4:5. The entire holding of the joint venture is then sold in the market through brokers as follows: 25% at a price of Rs. 9 per share, 50% at a price of Rs. 8.75 per share, 15% at a price of Rs. 8.50 per share and the remaining 10% is taken over by A and B equally at an agreed price of Rs. 8 per share. Prepare the Joint Venture Account, Joint Bank Account, Shares Account and the Accounts of X and Y showing the final statement.

Solution

Joint Venture Account

Dr. Cr.

Particulars		**Rs.**	**Particulars**	**Rs.**
To			By Joint A/c	45,000
Advertisement	5000		(commission)	
Printing	2000		By shares a/c	60,000
Postage	600	7,600	(commission)	
To Shares A/c		23,400		
(Loss on sale)				
To profit transferred to				
X:	29,600			
Y:	44,400	74,000		
		1,05,000		1,05,000

Joint Bank Account

Dr. Cr.

Particulars		**Rs.**	**Particulars**	**Rs.**
To X (contribution)		60,000	By Shares A/c	1,20,000
To Y (contribution)		60,000	By X (commission)	20,000
To Joint Venture (Commission)		45,000	By Y (commission)	25,000
			By X (final settlement)	70,000
To Shares A/c (sale for			By Y (final settlement)	72,000
cash) 25%	40,500			
50%	78,750			
15%	22,950	1,42,200		
		3,07,200		3,07,200

Share Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank a/c	1,20,000	By Joint Bank A/c (Sale of Shares)	40,500
To Joint Venture (commission)	60,000	By Joint Bank A/c (sale of shares)	78,750
		By Joint Bank A/c (Sale of shares)	22,950
		By X (shares taken over)	7,200
		By Y (shares taken over)	7,200
		By Joint Venture A/c	23,400
	1,80,000		1,80,000

X's Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank A/c (Commission)	20,000	By Joint Venture A/c (Expenses)	7,600
To Shares A/c	7,200	By Joint Bank A/c (Commission)	60,000
To Joint bank A/c (Final Settlement)	70,000	By Joint Venture A/c (Profit)	29,600
	97,200		97,200

Y's Account

Particulars	Rs.	Particulars	Rs.
To Joint Bank A/c (Commission)	25,000	By Joint Bank A/c (Commission)	60,000
To Shares A/c	7,200	By Joint Venture A/c (Profit)	44,400
To Joint Bank A/c (Final Settlement)	72,200		
	1,04,400		1,04,400

Working Notes

1. Distribution of commission received in cash 4.5 % of Rs. 10,00,000 = Rs. 45,000

Xs shares 4/9 x 45,000 = Rs. 20,000 Y's shares 5/9 x 45,000 = Rs. 25,000

2. Treatment of shares received

Shares received by way of commission 6,000

Shares not subscribed by public 12,000

Total Number of shares received 18,000

a) Sold for cash

25% of 18,000 i.e. 4,500 shares sold @ Rs. 9 per share Rs. 40,500
50% of 18,000 i.e. 9,000 shares sold @ Rs. 8.75 per share Rs. 78,750
15% of 18,000 i.e. 2,700 shares sold @ Rs. 8.50 per share Rs. 22,950.

b) Dividend amongst X and Y

10 % of the remaining shares i.e. 1,800 shares are taken over equally by X and Y at an agreed price of Rs. 8 per share.

X : 900 shares @ Rs. 8 per share = Rs. 7200
Y : 900 shares @ Rs. 8 per share = Rs. 7200

UNIT – III

ACCOUNTING FOR HIRE-PURCHASE AND INSTALLMENT SYSTEM, ACCOUNTING FOR CONSIGNMENT AND JOINT VENTURE

POSSIBLE QUESTIONS

PART – A (1 MARKS)
ONLINE QUESTIONS

PART – B (2 MARKS)

1. What is meant by Installment System?
2. What is mean by Down Payment?
3. What is repossessed stock?
4. What is Hire purchase?
5. What is Cash Price?
6. What is Hire Purchase Price?
7. What is complete repossession?
8. What is partial repossession?
9. What are the features of consignment transactions?
10. What is Joint Venture?
11. Who is a Consignor?
12. Who is a Consignee?
13. What is Del Credere Commission?
14. What is Valuation of Unsold Stock in Consignment?
15. Who is a Co- Venturer?
16. What is over riding commission?
17. What is advance on Consignment?
18. What is non – recurring expenses?

PART – C (6 MARKS)

1. From the following details of a businessman who sell goods of small value at cost plus 50%, Prepare Hire Purchase Trading A/C.

		Rs.
1.1.90	Stock out with the customer at H.P price	9,000
	Stock at shop at cost price	18,000
	Instalment due but not received	5,000
31.12.90	Goods worth Rs. 500 repossessed (Inst. not due Rs. 2000)	
	Cash received from customer	60,000
	Purchase made during the year	60,000
	Stock at cost at shop (excluding the goods repossessed)	20,000
	Instalment due but not received	9,000
	Stock out at Hire- Purchase with the customer	30,000

2. Sundar sells goods on H.P system at cost plus 60% from the following prepare hire Purchase Trading A/C

		Rs.
Jan 1	goods out on H.P system at H.P price	32,000
Dec 31	Instalments not due and unpaid	72,000
	Instalment due and unpaid	4,000

The following transaction took place during the year

		Rs.
a)	Goods sold on H.P price	1,60,000
b)	Cash received from customer at H.P price	1,12,000
c)	Goods received back on default value at (Instalment due Rs. 4000)	800

3. On 1.1.93, a firm purchased a Track on instalment system. The cash price of a machinery was Rs. 11,175 and payment was to be made as follows: Rs. 3,000 was to be paid on signing of the agreement and the balance in three Instalments of Rs.3000 each at the end of each year. Interest at 5% is charged by the vendor. The firm has decided to write off 10% annually on the diminishing balance of cash price.

   Prepare ledger accounts in the books of the purchaser and Hire vendor.

4. Sriram sells goods on H.P system at cost plus 60%. From the following prepare Hire purchase Trading a/c.

Jan 1 Goods out on H.P system at H.P Price	Rs.3,20,000
Dec 31 Instalments not due and unpaid	Rs.7,20,000
Instalments due and unpaid	Rs. 40,000
The following transactions took place during the year:-	
a) Goods sold on H.P price	Rs.16,00,000
b) Cash received from customers at H.P price	Rs.1,12,0000
c) Goods received back on default valued at	Rs. 8,000
(Instalment due Rs.40,000)	

5. X purchased a machine under hire purchase system. According to the terms of the agreement Rs.40, 000 was to be paid on signing of the contract. The balance was to be paid in four annual instalments of Rs.25,000 each plus interest. The cash price was Rs.1, 40,000. Interest is chargeable on outstanding balance at 20% per annum. Calculate interest for each year and the instalment amount.

6. Distinguish between Hire Purchase System and Instalment Purchase system.

7. On 1-1-86, X purchased Machinery on hire purchase system. The payment is to be made Rs.4,000 down (on signing of the contract) and Rs.4,000 annually for three years. The cash price of the machinery is Rs.14,900 and the rate of interest is 5%. Calculate the interest in each year's instalment.

8. Ghosh of Bombay sent on consignment to Alok of Calcutta 300 cases @ Rs. 125 on 1st July 2006 to be sold on his account and at his risk for 10% commission B. Ghosh incurred Rs. 3,000 expenses on dispatching the goods to Alok. On July 10, 2006 B. Ghosh received a bill for Rs. 20,000 at 2 months from Alok. On September 30, 2006 Alok sent on account sales disclosing that 200 cases have been sold for Rs. 160/- each and the remaining cases @ Rs. 150/- each. The account sales also disclose that Alok has incurred unloading expenses Rs. 600 and selling expenses Rs. 900. He sends a draft for the net amount due.

   You are required to: Prepare the account sales

9. Write a difference between consignment and sale.

10. X and Y entered into Joint Venture to sell a consignment of timber sharing profits and losses equally. X provides timber from stock at mutually agreed value of Rs. 50000. He pays expenses amounting to Rs. 2500. Y incurs further expenses on cartage, storage and collie age of Rs. 6500 and receives cash for sales Rs. 30,000. He also takes over goods to the value of Rs. 10000 for his own use. At the close, X takes over the balance stock in hand which is valued at Rs. 11000. Pass Journal Entries books of X and Y.

11. Vimal Mills Ltd. sent 100 pieces of suiting to Lal Garments House of Delhi on consignment basis. The consignees are entitled to receive 5 per cent commission plus expenses. The cost of Vimal Mills Ltd. is Rs. 200 per suiting. Lal Garments House pays following expenses : Railway Freight Rs. 500 Godown Rent & Insurance Rs. 1,000 Vimal Mills Ltd. draw on the consignees a bill for Rs. 10,000 which is duly accepted. Subsequently it is discounted for Rs. 9,500. The consignees informed the consignor of the sale of the entire consignment for 11 Rs. 28,500. Show ledger accounts in the book of the consignor.

12. Kumaran of Tirupur sends 40 cases of Hosiery goods worth Rs.20,000 to Gokale of Bombay to be sold on consignment basis on 1st April 2005.Kumaran pays Rs.500 towards freight charges. The goods are received by Gokale and he accepts a bill drawn on him by Kumaran at 3 Months,for Rs.10,000 on 5th April 2005.The bills was discounted on the next day by Kumaran at 6% annum.On 5th July 2005,Gokale sends an account sales to Kumaran showing the sales of the entire stock have been effected totaling Rs.24,800. His expenses are: Godown rent Rs.500 and Insurance

Rs.250.Gokale is entitled to a commission of 6%on sale proceeds. Gokale sent a bank draft for the balance due to Kumaran and settled his account. Prepare Journal Entries for Kumaran and Gokale.

13. Contractor and Engineer undertook jointly to construct a building for a newly started Joint stock company for a contract price of Rs.2,00,000 payable as to Rs.1,50,000 in cash and Rs.50,000 in fulluy paid shares of the new company.A Joint bank account has been immediately opened in their joint names, Contractor paying in Rs.50,000 and Engineer Rs.30,000.They are to share profit or loss in the proportion of 5/8 and 3/8 respectively.Their transaction were as follows:

	Rs.
Wages paid	80,000
Materials purchased	1,00,000
Materials supplied by contractor	6,000
Materials supplied by Engineer	2,000
Architects fees paid by contractors	2,000

The contract was completed and the price duly received .The joint venture account was closed by contractor taking up all the shares at an agreed evaluation of Rs.45,000 and Engineer taking up the stock of materials at an agreed price valuation of Rs.5,000. Show the necessary ledger accounts.

14. Koshi and Joshi were venture sharing profit and losses in the proportion of three-fifths and two-fifths respectively. Koshi supplies goods to the value of Rs.10,000 and incurs on freight Rs.500. Joshi also supplied to the value of Rs.8,000 and incurs Rs.400 towards freight and other incidental charges. Joshi sells the entire stock of goods on behalf of the Joint Venture for Rs.25,000. Joshi is also entitled to a commission of 5% on sales. Joshi settles his account by remitting a bank draft.

    Pass necessary Journal entries in the books of Koshi and Joshi.

15. X and Y enter into joint venture to underwrite public issue of Reliance Ltd. They agree to guarantee the subscription at par on 1,00,000 shares of Rs. 10 each of Reliance Ltd. and sharing profits and losses in the ratio of 2:3. The terms with the company are 4.5 % commission payable in cash and 6,000 fully paid shares of the company. They agreed to pay expenses in connection

with the issue of shares. The expenses incurred are advertisement Rs. 5,000; Printing and stationery Rs. 2,000 and postage Rs. 600. All expenses are paid by X. The public subscribed to 88,000 shares only. The remaining shares under the agreement were duly taken by X and Y who provided the necessary cash equally. The commission is received in cash and is shared by the co-venturers in the ratio of 4:5. The entire holding of the joint venture is then sold in the market through brokers as follows: 25% at a price of Rs. 9 per share, 50% at a price of Rs. 8.75 per share, 15% at a price of Rs. 8.50 per share and the remaining 10% is taken over by A and B equally at an agreed price of Rs. 8 per share. Prepare the Joint Venture Account, Joint Bank Account, Shares Account and the Accounts of X and Y showing the final statement.

16. X of Calcutta sent on 15th January, 2006, a consignment of 500 toys bicycles costing Rs. 100 each. Expenses of Rs. 700 met by the consignor. Y of Bombay spent Rs. 1,500 for clearance and the selling expenses were Rs. 10 per bicycle. Y sold, on 4th April 2006, 300 pieces @ Rs. 160 per piece and again on 20th June 1999, 150 pieces @ Rs. 172. Y was entitled to a commission of Rs. 25 per piece sold plus one fourth of the amount by which the gross proceeds less total commission thereon exceeded a sum calculated at the rate of Rs. 125 per piece sold. Y sent the amount due to X on 30th June 2006.

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

17. Suresh and Co. of Bombay sent on consignment to Mahesh & Co. of Delhi 60 cases cutlery goods costing Rs. 175 per case. Expenses incurred by the consignor at Bombay were : Freight Rs. 275, insurance Rs. 55 and loading charges Rs. 20. Suresh & Co. draw on Mahesh & Co. 2 months bills at sight for Rs. 7,000 which the latter accepts. The charges paid by Mahesh & Co. at Delhi were unloading Rs. 30, Storage Rs. 85, insurance Rs. 15, Commission is payable to Mahesh & Co. at 2% on all sales in addition to 1½% del-credere commission. The consignee sells for prompt cash 30 cases @ Rs. 225 per case; 25 cases @ Rs. 250 per case and the balance @ Rs. 280 per case. The account was settled immediately by means of a bank draft.

Write up the transactions and ledger accounts in the books of both the parties.

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established under Section 3 of UGC Act, 1956)
Coimbatore - 641 021
Department of Commerce
I B.Com/B. Com (CA)/ B. Com (PA)/ B. Com (BPS) (2018-2021)
Financial Accounting (18CMU101/18CCU101/18PAU101/18BPU101)

UNIT III

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
Hire purchase act was force to came from--------------	1973	1974	1971	1975	1975
Hire purchase price = -------------+interest outstanding	Cash price	Purchase price	Interest price	Balance price	Purchase price
The possession or goods will be passed by the owner to the -------------	Seller	Owner	Hirer	None	Hirer
Initial payment is known as ------------------	Up payment	Down payment	Non cash payment	Last payment	Down payment
-------------price includes cash price and interest	Cash price	Non cash price	Sale price	Hirer purchase	Sale price
Hire purchase price includes cash price and----------------	Interest	Cash	Purchase	Sale	Interest
For closing interest a/c ----------------------- a/c is credited	P&L	Interest	Trading	Real	Interest
The additional amount apart from the cash price payable by the buyer as compensation for postponed payment is called ________.	hire purchase price	interest	cash price	invoice price	hire purchase price
The buyer of the goods on hire purchase basis is termed as ________.	owner	vendor	hirer	seller	hirer
The seller of the goods on hire purchase basis is termed as ________.	hire vendor	owner	both	none	hire vendor
Under _______ system ownership is transferred on payment of final instalment.	hire purchase system	instalment system	single entry system	all of these	instalment system
The parties involved in instalment system are called _______.	vendor and hirer	buyer and seller	debtor and creditor	owner and buyer	buyer and seller

In hire purchase system the relationship between the hirer and hire vendor is that of ________.	debtor and creditor	bailor and bailee	owner and hirer	buyer and seller	owner and hirer
In instalment purchases system, the relationship between the buyer and seller is that of --	debtor and creditor	bailor and bailee	owner and hirer	buyer and seller	debtor and creditor
Instalment purchase is governed by _________ Act.	sale of goods	hire purchase act	instalment purchase	contract	instalment purchase
Hire purchase act was passed in the year _______.	1980	1978	1975	1972	1980
In hire purchase system, for paying down payment ________ A/c is debited.	hire vendor	hirer	cash	assets	hirer
Hire purchase price – cash price = ________.	total interest	first balance	total amount	cash balance	total interest
If the hire purchaser fails to make payment of any instalment, it is called _______payment.	instalment price	hire price	default	cash price	default
The hire vendor has the right to take array the goods sold on hire purchase in the event of default is termed as ________.	default	repossession	both	none	repossession
A shipment of goods by a manufacturer to an agent to be sold by commission basis is known as-----------	Accounting	Transaction	Consignment	Joint venture.	consignment
------------ is a commission which is paid by the consignor to the consignee for taking additional risks.	Del credere commission	Proforma invoice	Over riding commission	Account sales	Del credere commission
------------ is sent by a seller to a buyer.	Bills	Cash	Price	Invoice	invoice
The consignee is entitled to remuneration by way of----------------	Commission	Increment	Profit	All	commission
Valuation of unsold stock remaining with the consignee is done on the basis of ------------------	Sales	Market	distribution	Purchasing.	sales
Entry of an unsold stock will be passed on the books of-----------------	Seller	Consignee	Consignor	Purchaser	consignor

In valuing the unsold stock,due consideration should be given to--------------	Abnormal loss	Normal loss	Quantity	Quality	normal loss
------------------ on consignment account is an asset and will be shown in the balance sheet of the consignor	Stock	Purchase	Sales	Opening stock	Stock
If the consignee is not the owner for the goods then no entry will be made in the books of----------------	Buyer	Consignee	Seller	ALL	consignee
------------- Loss is a loss which arises due to mischief.	More	Normal	Low	Abnormal	abnormal
--------------loss of goods should also be considered while valuing the stock.	Actual	Normal	Expensive	Damaged	normal loss
It is a ------------------- principle that stock must not be shown at more than the cost.	Fixed	Basic	High	Actual	Basic
Entries are passed in the books of the consignor on the basis of--------------- price	Purchase	Sales	Cost	value	cost
The column which is provided to record the invoice value also is called-----------	Consignment account	Joint account	Memorandum column	Sales account	Memoramdum column
------------------ is not merely the amount paid by the consignor to purchase the goods	Entry	Billing	Cost	Price	cost
The---------- of the parties can also be opened in joint venture account	Personal accounts	Commission account	Sales	Bills	Personal accounts
----------------balances are settled before the closure of the venture	Prepaid	Bills payable	Bills receivable	Outstanding balances	Outstanding balances
The expenses incurred on joint venture by the other party will be-----------	Accepted	Thrown	Ignored	None	Accepted
The joint venture account is debited with the value of the goods-------------	Sold	Bought	Exempted	Purchased	sold
The amount of----------------will be debited to the joint venture account.	Purchase	Expenses	Sales	All	expenses
The resultant profit or loss may be ----------------by all the concerned parties	Shared	Ignored	Exempted	All	Shared
The parties to the joint venture will have an-----------status	High	Low	Normal	Equal	equal

The profit or loss in case of a joint venture belongs to---------------	One	All	No one	None of the above	all
-------------------is a principal as well as agent	Consignor	Co –venturer	Consignee	joint venture	co -venturer
A joint venture is usually of------------ duration	Long	High	life	Short	short
Each party opens a joint venture account and the accounts of --------parties	Other	All	Single	All	other
Joint venture is a --------------- partnership	personal	single	particular	consignment	particular
Joint venture is a nature of	Personal account	real account	nominal account	not an account	Nominal account
Parties involved in joint venture are called ----	venturers	co-venturers	partners	agent	co-venturers
The profit of joint venture is transferred to ---	profit and loss a/c	Tradind a/c	co-venturers a/c	joint Bank a/c	Profit and loss a/a
Capital accounts of the co-venturers are of the nature of	Personal account	real account	nominal account	not an account	Personal accounts
When purchase are made for the joint venture out of joint bank account , the ---------- account is debited.	consignment	Joint venture	co-venturers a/c	personal	joint venture
Under hire purchase system, the risk of loss is borne by _____________.	buyer.	Hirer	hire vendor	Debtor	hire vendor
Under installment system the risk of loss is borne by _________.	buyer.	Hirer	hire vendor	Debtor	buyer.
Under hire purchase system who has the right of sell ___________.	buyer.	Hirer	hire vendor	Debtor	hire vendor
Under hire purchase system, if installment is not paid the hire vendor has right to ____________.	sell the goods	repossession of goods.	repair of goods	purchase of goods	repossession of goods.
Under hire purchase system, the agreement can be __________.	Renewed	Terminated	Registered	Endorsed	Terminated
Hire purchase system is governed by ____________.	1972	1973	1974	1975	1972
Installment system is governed by ________	Hire Purchase Act.	Sale of goods Act	Properties Act	Contract Act	Sale of goods Act
Cash price plus interest is __________.	installment price.	hire purchase price	maximum retail price.	retail price.	hire purchase price

UNIT- V

Accounting for Partnership: Valuation of Goodwill – Calculation of Profit Sharing Ratio – Admission – Retirement

INTRODUCTION TO ACCOUNTING FOR PARTNERSHIP

A business may be organised in the form of a sole proprietorship, a partnership firm or a company. The sole proprietorship has its limitations such as limited capital, limited managerial ability and limited risk - bearing capacity. Hence, when a business expands, it needs more capital and involves more risk. Then two or more persons join hands to run it. They agree to share the capital, the management, the risk and the Profit or Loss of the business. Such mutual relationship based on agreement among these persons is termed as **"Partnership".** The persons who have entered into partnership are individually known as **'Partners'** and collectively as **'Firm'**.

Definition

The Indian Partnership Act 1932, Section 4, defines partnership as "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all".

Features

Based on the above definition, the essential features of partnership are as follows.

1. **An association of two or more persons:** To form a partnership, there must be atleast two persons. Regarding the maximum number of persons, it is limited to 10 in banking business and 20 in other business.
2. **Agreement between the Partners:** The relationship among the partners is established by an agreement. Such agreement forms the basis of their mutual relationship.
3. **Profit sharing:** The agreement between the partners must be to share the profits or losses of the business.

4. **Lawful business:** The agreement should be for carrying on some legal business to make profit.
5. **Business carried on by all or any of them acting for all:** Partnership business must be carried on by all or any of them acting for all. Mutual and implied agency is the essence of partnership.

Accounting rules applicable in the absence of Partnership deed:

Normally, a partnership deed covers all matters relating to mutual relationship among the partners. But, in the absence of agreement, the following provisions of the Indian Partnership Act, 1932 shall apply for accounting purposes.

1. **Interest on Capital :** No interest is allowed on Capitals of the Partners. If as per the partnership deed, interest is allowed, it will be paid only when there is profit. If loss, no interest will be paid.
2. **Interest on Drawings :** No interest will be charged on drawings made by the partners.
3. **Salary/ Commission to partner :** No partner is entitled to salary/ commission from the firm, unless the partnership deed provides for it.
4. **Interest on loan :** If any partner, apart from his share capital, advances money to the firm as loan, he is entitled to interest on such amount at the rate of six percent per annum.
5. **Profit sharing ratio :** The partners shall share the profits of the firm equally irrespective of their capital contribution.

Partners' Capital Accounts

In partnership firm, the transactions relating to partners are recorded in their respective capital accounts. Normally, each partners capital account is prepared separately. There are two methods by which the capital accounts of partners can be maintained. These are

- Fluctuating Capital method
- Fixed Capital method.

Fluctuating Capital method:

Under the fluctuating capital method, only one account, viz., the capital account for each partner, is maintained. It records all adjustments relating to drawings, interest on capital, interest on drawings, salary and share of profit or loss in the capital account itself. As a result, the balance in the capital accounts keep on fluctuating. In the absence of any instruction, the capital accounts of the partners should be prepared under this method.

Format: *(Fluctuating Capital Method)*

Capital Accounts

Dr. Cr.

Particulars	**X** **Rs.**	**Y** **Rs.**	**Z** **Rs.**	**Particulars**	**X** **Rs.**	**Y** **Rs.**	**Z** **Rs.**
To Drawings To Interest on drawings To Balance c/d				By Balance b/d By Interest on capital By Commission By Salary By Share of Profit			
				By Balance b/d			

Fixed Capital Method:

Under this method, two accounts are maintained for each partner viz., (i) Capital account and (ii) Current account. The capital account will continue to show the same balance from year to year unless some amount of capital is introduced or withdrawn. In the current account, the transactions relating to drawings, interest on capital, interest on drawings, salary, share of profit or loss etc., are recorded. Hence, the balance in the current accounts change every year.

Format : *(Fixed Capital Method)*

Capital Accounts

Dr. Cr.

Particulars	**X** **Rs.**	**Y** **Rs.**	**Z** **Rs.**	**Particulars**	**X** **Rs.**	**Y** **Rs.**	**Z** **Rs.**
To Balance c/d				By Balance b/d			
				By Balance b/d			

Current Accounts

Dr. Cr.

Particulars	X Rs.	Y Rs.	Z Rs.	Particulars	X Rs.	Y Rs.	Z Rs.
To Drawings				By Balance b/d*			
To Interest on drawings				By Interest on capital			
				By Commission			
To Balance c/d*				By Salary			
				By Share of Profit			
				By Balance b/d*			

Preparation of Capital Accounts:

Problem : 1

Show how the following items will appear in the capital accounts of the partners, Anbu and Balu.

	Anbu Rs.	Balu Rs.
Capital on 1.4.2004 Drawings	90,000	70,000
during 2004 - 2005 Interest on	12,000	9,000
drawings	360	270
Interest on capital	5,400	4,200
Partner's salary	12,000	------
Commission		6,000
Share of profit for 2004-05	6,000	4,000

Solution:

a) When capital accounts are fixed:

Capital Accounts

Dr. Cr.

Date	Particulars	Anbu Rs.	Balu Rs.	Date	Particulars	Anbu Rs.	Balu Rs.
2005				2004			
Mar 31	To Balance c/d	90,000	70,000	Apr 1	By Balance b/d	90,000	70,000
		90,000	70,000			90,000	70,000
				2005			
				Apr 1	By Balance b/d	90,000	70,000

Current Accounts

Dr. Cr.

Date	Particulars	Anbu Rs.	Balu Rs.	Date	Particulars	Anbu Rs.	Balu Rs.
2005				2005			
Mar 31	To Drawings	12,000	9,000	Mar 31	By Interest on Capital	5,400	4,200
"	To Interest on drawings	360	270	"	By Partners' salary	12,000	—
				"	By Commission	—	6,000
"	To Balance c/d	11,040	4,930	"	By Profit & Loss A/c	6,000	4,000
		23,400	14,200			23,400	14,200
				2005 Apr 1	By Balance b/d	11,050	4,930

b) When capital accounts are fluctuating:

Capital Accounts

Dr. Cr.

Date	Particulars	Anbu Rs.	Balu Rs.	Date	Particulars	Anbu Rs.	Balu Rs.
2005				2004			
Mar 31	To Drawings	12,000	9,000	Apr 1	By Balance b/d	90,000	70,000
”	To Interest on drawings	360	270	”	By Interest on capital	5,400	4,200
”	To Balance c/d	1,01,040	74,930	”	By Salary	12,000	—
				”	By Commission	—	6,000
				”	By Profit & Loss A/c	6,000	4,000
		1,13,400	84,200			1,13,400	84,200
				2005 Apr 1	By Balance b/d	1,01,400	74,930

Problem : 2

Write up the capital and current accounts of the partners, Kala and Mala from the following and show how these will appear in the Balance Sheet.

	Kala Rs.	Mala Rs.
Capital on 1.1.2004	1,50,000	1,00,000
Current accounts on 1.1.2004 (Cr.)	20,000	15,000
Drawings during 2004	30,000	40,000
Interest on drawings	900	1,000
Share of profit for 2004	10,000	8,000
Interest on capital	6%	6%

Solution:

Capital Accounts

Dr. Cr.

Date	Particulars	Kala Rs.	Mala Rs.	Date	Particulars	Kala Rs.	Mala Rs.
2004				2004			
Dec 31	To Balance c/d	1,50,000	1,00,000	Jan 1	By Balance b/d	1,50,000	1,00,000
		1,50,000	1,00,000			1,50,000	1,00,000
				2005			
				Jan 1	By Balance b/d	1,50,000	1,00,000

Current Accounts

Dr. Cr.

Date	Particulars	Kala Rs.	Mala Rs.	Date	Particulars	Kala Rs.	Mala Rs.
2004				2004			
Dec 31	To Drawings	30,000	40,000	Dec 31	By Balance b/d	20,000	15,000
”	To Interest on drawings	900	1,000	’’	by Interest on capital	9,000	6,000
’’	To Balance c/d	8,100		’’	By Profit & Loss A/c	10,000	8,000
					By Balance c/d		12,000
		39,000	41,000			39,000	41,000
2005				2005			
Jan 1	To Balance b/d		12,000	Jan 1	By Balance b/d	8,100	

Balance Sheet of Kala and Mala as on 31.12.2004

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Current Account:	
Kala	1,50,000		Mala	12,000
Mala	1,00,000	2,50,000		
Current Account:				
Kala		8,100		

Goodwill

When a firm is reconstituted, goodwill is valued and shared by the existing partners. Goodwill is the present value of a firm's anticipated excess earnings in future and the efforts had already made in the past. Goodwill really arises only if firm is able to earn higher profit than normal.

Meaning and Nature

Goodwill is the value of the reputation of the firm which the business builds up due to its efficient service to its customers and quality of its products. It is a value of all favourable attributes relating to a business enterprise. It is not merely the past reputation but its continued existence in future that makes goodwill a valuable asset. It cannot be seen or touched. It is an intangible asset but not a fictitious asset.

Factors affecting the value of goodwill:

Goodwill relates to the profit earning capacity of the firm. Thus, the goodwill of a firm is affected by the following factors.

The factors are:

1. **Quality:** If the firm enjoys good reputation for the quality of its products, there will be a ready sale and the value of goodwill, therefore, will be high.

2. **Location:** If the business is located in a prominent place, its value will be more.

3. **Efficient management:** If the management is capable, the firm will earn more profits and that will raise the firm's value.
4. **Competition:** When there is no competition or competition is negligible , the value of those businesses will be high.
5. **Advantage of patents:** Possession of trade marks, patents or copyrights will increase the firm's value.
6. **Time:** A business establishes reputation in course of time which is running for long period on profitable line.
7. **Customers' attitude:** The type of customers which a firm has is important. If the firm has more customers, the value will be high.
8. **Nature of business:** A business having a stable demand is able to earn more profit and therefore has more goodwill.

Methods of valuation of goodwill:

There are three methods of valuation of goodwill. They are:

1) Average Profit method
2) Super Profit method
3) Capitalisation method

However, we are discussing only the first two methods in this chapter.

a) Average profit method:

In this method, past profits of a number of years are taken into account. Such profits are added and the average profit is found out. The average profit is multiplied by a certain number of years to arrive at the value of goodwill.

The steps involved under this method are:

Step 1 Calculate total profits by adding each year's profit and deducting loss, if any.

Step 2 Calculate the average profit by applying the following formula.

Average Profit = Total Profit / No of Years

Step 3 Calculate the Goodwill by applying the following formula.

Goodwill = Average Profit x No. of years' purchase

Problem : 3

The Goodwill is to be valued at two years' purchase of last four years average profit. The profits were Rs.40,000, Rs.32,000, Rs.15,000 and Rs.13,000 respectively. Find out the value of goodwill.

Solution:

a) Calculation of average profit:

	Rs.
I year	40,000
II year	32,000
III year	15,000
IV year	13,000
Total Profit	1,00,000

Average Profit = Total Profit / No of Years

$$= \frac{1\,00\,000}{4}$$

=Rs.25,000

b) Calculation of Goodwill:

Goodwill =Average Profit x two years' purchase

=25,000 x 2

=Rs. 50,000.

b) Super Profit method:

The excess of average profit over normal profit is called super profit. The goodwill under the Super profits method is calculated by multiplying the super profits by certain number of years purchase.

The steps involved under this method are:

Step 1 Calculate the average profit – it may be adjusted for partners remuneration.

Step 2 Calculate the normal profit on capital employed by applying the following formula.

Normal Profit = Capital employed x Normal rate of return

Step 3 Calculate the super profit is by applying the following formula.

Super profit = Average Profit - Normal profit

Step 4 Calculate the value of goodwill by multiplying the amount of super profit by the given number of years' purchase

Goodwill = Super Profit x No. of years of purchase

Problem : 4

A firm's net profits during the last three years were Rs.90,000 Rs.1,00,000 and Rs.1,10,000. The capital employed in the firm is Rs.3,00,000. A normal return on the capital is 10%. Calculate the value of goodwill on the basis of two years' purchase of super profit.

Solution:

a) Calculation of Average Profit:

	Rs.
I year	90,000
II year	1,00,000
III year	1,10,000
Total Profit	3,00,000

Average Profit = Total Profit / No of Years

$$= \frac{3\,00\,000}{3}$$

= Rs. 1,00,000

b) Calculation of Normal Profit:

Normal Profit = Capital employed x Normal rate of return

=Rs.3,00,000 x 1 0 / 1 0 0

=Rs. 30 000

c) Calculation of Super Profit:

=Average Profit – Normal Profit

=1,00,000 – 30,000 =Rs. 70,000.

d) Goodwill at two years' purchase of super profit:

Goodwill =Super Profit x No. of years of purchase

=70,000 x 2

=Rs. 1,40,000

(C) Capitalisation Method

Under this method, it is assumed that if capital invested by the firm earns a normal profit, there is no goodwill, but if firm earns more than normal profit, excess capital which might be invested to earn that excess profit is called goodwill. There are two ways of finding out goodwill under this method:

1. Capitalisation of Average Profit

Under this method goodwill is calculated as :

Goodwill = Normal Capital Employed - Actual Capital Employed

$$\text{Normal Capital Employed} = \frac{\text{Profit or Average Profit}}{\text{Normal Rate of Return}} \times 100$$

The normal rate of profit is 10 % and the firm earns Rs.10,000. If the actual capital employed is Rs. 80,000, then normal capital employed is calculated as under:

$$\text{Normal Capital Employed} = \frac{10{,}000\ (\text{Profit}) \times 100}{10\ (\text{Normal rate of return})}$$

= Rs. 1,00,0000

Goodwill = Normal Capital Employed - Actual Capital Employed

= 1,00,000 - 80,000 = Rs. 20,000

Thus, the excess of normal capital employed over actual capital is the value of goodwill.

PARTNERSHIP ADMISSION

A Partnership firm suffering from shortage of funds or administrative incapability may decide to admit a partner. Admission of a partner is one of the modes of reconstituting the firm. According to Section 31 (1) of the Indian Partnership Act 1932, a person can be admitted only with the consent of all the existing partners. A person who is admitted to the firm is known as an incoming or a new partner. On admission of a new partner, the existing partnership comes to an end and a new partnership comes into effect. In other words, a new firm is reconstituted under a fresh agreement.

Whenever a partner is admitted into the partnership firm, he acquires two rights.

a) Right to share the assets of the partnership firm.

b) Right to share the future profits of the partnership firm.

The amount that the new partner brings in for the right to share in the partnership assets is called his capital and is credited to his Capital account. Whereas the consideration which he pays to the old partners for the right to participate in the division of future profits is called Goodwill.

Adjustments:

While admitting a new partner, the following adjustments are necessary:

1. Recording the Capital of a new partner
2. Calculation of New Profit Sharing ratio and Sacrificing ratio
3. Revaluation of assets and liabilities
4. Transfer of Undistributed Profit or loss
5. Transfer of Accumulated reserves
6. Treatment of Goodwill

Recording of Capital of a New Partner

It is not compulsory that the new partner bring capital at the time of admission. He may be admitted in view of his talent, skill and reputation. However, in many cases, the incoming partner brings capital into the firm. With the consent of all the old partners, he may bring capital in cash or in kind or both.

The accounting treatment is

Cash A/c Dr
Stock A/c Dr
Furniture A/c Dr
To New partners Capital A/c .....

Problem : 5

Anandan and Balaraman are partners in a firm with capitals of Rs.70,000 and Rs.50,000 respectively. They decided to admit Chandran into the firm with a capital of Rs.40,000. Give journal entry for Capital brought in by Chandran.

Solution:

Journal Entry

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Cash A/c Dr To Chandran's Capital A/c (Cash brought in by Chandran as capital)		40,000	40,000

Calculation of New Profit Sharing ratio and Sacrificing Ratio

When a new partner is admitted, he acquires his share in profits from the old partners. This reduces the old partners' shares in profit hence, new profit sharing ratio for old partners have to be calculated.

New Profit Sharing Ratio:

The ratio in which all partners (including incoming partner) share the future profits and losses is known as the new profit sharing ratio.

The determination of new profit sharing ratio depends upon the ratio in which the incoming partner acquires his share from the old partners.

New share =Old share – Sacrifice

Sacrificing Ratio:

The ratio in which the old partners have agreed to sacrifice their shares in profit in favour of a new partner is called the sacrificing ratio.

Sacrificing ratio = Old profit sharing ratio – New profit sharing ratio

Sacrifice = Old share – New share

The purpose of this ratio is to determine the amount of compensation (goodwill) to be paid by the new partner to the old partners for the share of profit surrendered.

From the calculation point of view of sacrificing ratio, the following are the different situations:

If Share of New Partner is Given:

When the share of new partner is given and in the absence of any direction, the old partners will continue to share the remaining share in their old profit sharing ratio after deducting the share of the new partner.

Problem 6

Yogu and Ankit are partners sharing profits and losses in the ratio of 3:2. They admit Atul as a partner for one fourth share in the future profits. Calculate the new profit sharing ratio of partners.

Solution

Atul's share is 1/4

Thus remaining share = 1 - ¼ = ¾ Hence

Yogu's share = ¾ x 3/5 = 9/20 Now Ankit's

share = ¾ x 2/5 = 6/20 and Atul's share = ¼

or 5/20

= 9/20 : 6/20 : 5/20

Hence, the new profit sharing ratio will be = 9 : 6 : 5.

When the New Partner Purchases His Share From Old Partners in a Certain Ratio

In this case, the share of old partners will be calculated by deducting that portion which they have sacrificed in favour of a new partner. The remaining share will be treated as the share of old partners. This will be clear from the following example :

Problem 7

A and B are partners in a firm sharing profits and losses in the ratio of 3:2. A new partner C is admitted. A surrenders 1/5 share of his profit in favour of C, and B surrenders 2/5 of his share in favour of C. Calculate the new profit-sharing ratio of the partners.

Solution

Sacrifice by A to C

Sacrifice by B to C

Share of C A's new share B's new share Share of A, B and C

= 3/5 x 1/5 = 3/25
= 2/5 x 2/5 = 4/25
= 3/25 + 4/25 = 7/25
= 3/5 - 3/25 = (15-3)/25 = 12/25
= 2/5 - 4/25 = (10-4)/25 = 6/25
= 12/25 : 6/25 : 7/25
= 12 : 6 : 7

When Sacrificing Ratio is given

In this case, the sacrifice made by old partners towards the new partner is given. This is clear from the following example:

Problem 8

A and B are partners sharing profit or loss in the ratio of 7:5. They admit their manager C into partnership who is to get one sixth share in the profits. He acquires his share as 1/24 from A and 1/8 from B. Calculate the new profit sharing ratio

Solution

(Old Ratio - Share given to new partner)

A = 7/12 - 1/24 = (14-1)/24 = 13/24

B = 5/12 - 1/8 = (10-3)/24 = 7/24

C = 1/6

New ratio = 13/24 : 7/24 : 1/6

= 13 : 7 : 4

Sacrificing Ratio When Old and New Ratios are Given

In case, when old and new ratios of partners after admission of a partner are given, it is necessary to calculate the sacrificing ratio of the old partners by the formula:

Sacrificing Ratio = Old Ratio - New Ratio.

Problem 9

X and Y are partners sharing profits or losses in the ratio of 4:3. Z is admitted and the new ratios are X-7, Y-4 and Z-3 (7:4:3:). Calculate the sacrificing ratio.

Solution

Sacrificing Ratio = (Old Ratio - New Ratio)

X's sacrifice = 4/7-7/14 = (8-7)/14 = 1/14

Y's sacrifice = 3/7 - 4/14 = (6-4)/14 = 2/14

Thus, sacrificing ratio is 1:2 for X and Y.

REVALUATION OF ASSETS AND LIABILITIES

Revaluation is the valuation of assets and liabilities at the time of reconstitution of the partnership firm. At the time of admission of a partner, the assets and liabilities are revalued so that the profit and loss arising on account of such revaluation may be adjusted in the old partners' capital accounts in their old profit sharing ratio and the incoming partner may not be affected by the profit or loss on account of revaluation of assets and liabilities. For the purpose a **revaluation account** is opened.

Revaluation Account is credited with the following profit items:

1) Increase in the value of assets,

2) Decrease in the amount of liabilities and

3) Unrecorded assets now recorded.

Revaluation account is debited with the following loss items:

1) Decrease in the value of assets,
2) Increase in the amount of liabilities,
3) Unrecorded liabilities now recorded and
4) Creation of a new liability.

The balance of Revaluation account shows the net effect on account of revaluation which is transferred to old partners' capital accounts in their old profit sharing ratio. The assets and liabilities appear in the Balance Sheet of the reconstituted firm at their revised values.

Accounting entries to record the revaluation of assets and liabilities:

a. For increase in the value of an asset

Concerned Asset A/c	Dr	......	
To Revaluation A/c			......

b. For decrease in the value of an asset

Revaluation A/c	Dr	......	
To Concerned Asset A/c			......

c. For increase in the amount of a liability

Revaluation A/c	Dr	......	
To Concerned Liability A/c			......

d. For decrease in the amount of liability

Concerned Liability A/c	Dr	......	
To Revaluation A/c			......

e. For recording an unrecorded asset

Unrecorded Asset A/c	Dr	......	
To Revaluation A/c			......

f. For recording an unrecorded liability

Revaluation A/c	Dr	......	
To Unrecorded Liability A/c			......

g. For recording a new liability

Revaluation A/c	Dr	......	
To New liability A/c			......

h. For transfer of balance in revaluation account

i) If credit side exceeds debit side (profit).

Revaluation A/c	Dr	......	
To Old Partners' capital A/cs			......

ii) If debit side exceeds credit side (loss)

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

In short, only three entries are enough.

1. For profit items: i) Increase in the value of assets, ii) unrecorded assets recorded and iii) decrease in the amount of liabilities.

Concerned Assets A/c	Dr	......	
Concerned Liabilities A/c	Dr	......	
To Revaluation A/c			......

2. For loss items: i) Decrease in the value of assets, ii) increase in the amount of liabilities, iii) unrecorded liabilities recorded and

iv) new liabilities created.

Revaluation A/c	Dr	......	
To Concerned Assets A/c			......
To Concerned Liabilities A/c			......

3. To transfer profit or loss on revaluation

a) If Profit:

Revaluation A/c Dr ......

To Partners' Capital A/cs ......

b) If Loss:

Partners' Capital A/cs Dr ......

To Revaluation A/c ......

Format:

Dr **Revaluation Account** **Cr**

Particulars	Rs.	Particulars	Rs.
To Assets (Individually) - (Decrease in the value)	....	By Assets (Individually) (Increase in the value and unrecorded)	....
To Liabilities (Increase in the amount, unrecorded and newly created)	....	By Liabilities (Decrease in the amount)	....
To Partners' capital A/c (Profit on revaluation)	....	By Partner's Capital A/c (Loss on revaluation)	....
	....		....

Problem : 10

Sankar and Saleem are partners in a firm sharing profits and losses in the ratio of 3:2 as on 31st March 2005. Their Balance Sheet was as under:

Liabilities	Rs.	Assets		Rs.
Creditors	90,000	Cash		5,000
Bills payable	25,000	Bank		40,000
Capital Accounts		Stock		60,000
Sankar : 1,50,000		Furniture		20,000
Saleem : 1,20,000	2,70,000	Land and Building		2,00,000
		Debtors	62,000	
		Less: Provision for Bad debts	2,000	60,000
	3,85,000			3,85,000

On 1st April 2005, they admit Solomon into partnership on the following condition:

1. Solomon has brought Rs.1,00,000 as capital.
2. The value of land and building was to be increased by Rs.20,000.
3. Stock and furniture were to be depreciated by Rs.10,000 and Rs.5,000 respectively.
4. Rs.15,000 to be written off from Sundry creditors as it is no longer liability.
5. Provision for doubtful debts is to be increased by Rs.1,000.

Give journal entries, prepare Revaluation Account and the Balance Sheet.

Solution:

Journal Entries

Date	Particulars		L.F	Debit Rs.	Credit Rs.
2005	Land and Building A/c	Dr		20,000	
April 1	Sundry Creditors A/c	Dr		15,000	
	To Revaluation A/c				35,000
	(Profit items credited to Revaluation A/c)				
	Revaluation A/c	Dr		15,000	
	To Stock A/c				10,000
	To Furniture A/c				4,000
	To Provision for doubtful debts A/c				1,000
	(Loss items debited to Revaluation A/c)				
	Revaluation A/c	Dr		20,000	
	To Sankars Capital A/c				12,000
	To Saleems Capital A/c				8,000
	(Profit on revaluation transferred to old partner's capital accounts in the old ratio)				
	Bank A/c	Dr		1,00,000	
	To Solomon's Capital A/c				1,00,000
	(Capital brought in by Solomon)				

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Stock	10,000	By Land and Building	20,000
To Furniture	4,000	By Sundry Creditors	15,000
To Provision for doubtful debts	1,000		
To Profit on revaluation transferred to Sankar's Capital A/c12,000 Saleem's Capital A/c 8,000	20,000		
	35,000		35,000

Capital Account

Dr. **Cr.**

Particulars	Sankar Rs.	Saleem Rs.	Solomon Rs.	Particulars	Sankar Rs.	Saleem Rs.	Solomon Rs.
To Balance c/d	1,62,000	1,28,000	1,00,000	By Balance b/d	1,50,000	1,20,000	
				By Bank A/c			1,00,000
				By Revaluation A/c	12,000	8,000	
	1,62,000	1,28,000	1,00,000		1,62,000	1,28,000	1,00,000

Bank Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	40,000	By Balance c/d	1,40,000
To Solomon's Capital A/c	1,00,000		
	1,40,000		1,40,000

Balance Sheet of M/s. Sankar, Saleem & Solomon as on 1st April, 2005

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	75,000	Cash	5,000
Bills payable	25,000	Bank	1,40,000
Capital Accounts		Stock	50,000
Sankar : 1,62,000		Furniture	16,000
Saleem : 1,28,000		Land and Building	2,20,000
Solomon : 1,00,000	3,90,000	Sundry Debtors 62,000	
		Less: Provision for doubtful debts 3,000	59,000
	4,90,000		4,90,000

Problem : 11

Amar and Akbar are partners in a firm sharing profits and losses in the ratio of 2:1 as on 31st March 2005. Their Balance Sheet was as under:

Liabilities	Rs.	Assets	Rs.
Creditors	80,000	Cash	10,000
Bills payable	40,000	Bank	70,000
Capital Accounts		Stock	80,000
Amar : 2,70,000		Plant & Machinery	1,00,000
Akbar: 2,10,000	4,80,000	Land and Building	3,00,000
		Debtors	40,000
	6,00,000		6,00,000

On 1st April 2005, they admit Antony into partnership on the following conditions:

1. Antony has bring in a capital of Rs.1,50,000 for 1/5th share of the future profits.
2. Stock and machinery were to be depreciated by Rs.6,000 and Rs.15,000 respectively.
3. Investments of Rs.15,000 not recorded in the books brought into accounts.
4. Provision for doubtful debts is to be created at 5% on debtors.

5. A liability of Rs.4,000 for outstanding repairs has been omitted to be recorded in the books.

Give journal entries, prepare Revaluation Account, Capital Account, Bank Account and the Balance Sheet.

Solution:

Journal Entries

Date	Particulars		L.F	Debit Rs.	Credit Rs.
2005	Investments A/c	Dr		15,000	
April 1	To Revaluation A/c				15,000
	(Profit items transferred to Revaluation A/c)				
	Revaluation A/c	Dr		27,000	
	To Stock A/c				6,000
	To Machinery A/c				15,000
	To Provision for doubtful debts A/c				2,000
	To Outstanding repairs				4,000
	(Loss items transferred to Revaluation A/c)				
	Amar's Capital A/c	Dr		8,000	
	Akbar's Capital A/c	Dr		4,000	
	To Revaluation A/c				12,000
	(Loss on revaluation transferred to old partner's capital accounts in the old ratio)				
	Bank A/c	Dr		1,50,000	
	To Antony's Capital A/c				1,50,000
	(Capital brought in by Antony)				

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock	6,000	By Investments	15,000
To Machinery	15,000	By Loss on revaluation transferred to	
To Provision for		Amar's Capital A/c 8,000	
doubtful debts	2,000	Akbar's Capital A/c 4,000	
To Provision for outstanding repairs	4,000		12,000
	27,000		27,000

Capital Account

Dr. Cr

Particulars	Amar Rs.	Akbar Rs.	Antony Rs.	Particulars	Amar Rs.	Akbar Rs.	Antony Rs.
To Revaluation A/c	8,000	4,000		By Balance b/d	2,70,000	2,10,000	
By Balance c/d	2,62,000	2,06,000	1,50,000	By Bank A/c			1,50,000
	2,70,000	2,10,000	1,50,000		2,70,000	2,10,000	1,50,000

Bank Account

Dr. Cr

Particulars	Rs.	Particulars	Rs.
To Balance b/d	70,000	By Balance c/d	2,20,000
To Antony's Capital A/c	1,50,000		
	2,20,000		2,20,000

Balance Sheet of M/s. Amar, Akbar & Antony as on 1st April, 2005

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		80,000	Cash		10,000
Bills payable		40,000	Bank		2,20,000
Outstanding repairs		4,000	Stock		74,000
Capital Accounts			Plant & Machinery		85,000
Amar	2,62,000		Investments		15,000
Akbar	2,06,000		Land and Building		3,00,000
Antony	1,50,000		Sundry Debtors	40,000	
		6,18,000	Less: Provision for doubtful debts	2,000	38,000
		7,42,000			7,42,000

TRANSFER OF UNDISTRIBUTED PROFIT OR LOSS

Sometimes, the balance sheet of the partnership firm may show undistributed profits in the form of profit and loss account in the liabilities side. The undistributed loss in the business is generally shown at the assets side of the old Balance Sheet. The new partner is not entitled to have any share in the undistributed profit or loss. Therefore the undistributed profit or loss should be transferred to the old partner's capital accounts in the old profit sharing ratio.

The accounting treatment would be as follows:

a. For transfer of undistributed profit :

Profit and Loss A/c	Dr	.....	
To Old Partners' Capital A/cs			.....

b. For transfer of undistributed loss:

Old Partners' Capital A/cs	Dr	....	
To Profit and Loss A/c			....

Problem : 12

Sumathi and Sundari are partners of a firm sharing profit and loss in the ratio of 4:3. Their Balance Sheet shows Rs.14,000 as Profit and Loss A/c in the liabilities side. Pass entry.

Solution:

Journal Entry

Date	Particulars		L.F	Debit Rs.	Credit Rs.
	Profit and Loss A/c	Dr		14,000	
	To Sumathi's Capital A/c				8,000
	To Sundari's Capital A/c				6,000
	(Undistributed profit transferred to Old Partners' Capital Accounts in the old ratio)				

Problem : 13

Mahalakshmi and Dhanalakshmi are partners sharing profit and loss in the ratio of 3:2. They admit Deepalakshmi on 1st January 2005. On that date, their Balance Sheet showed an amount of Rs.25,000 as Profit and Loss A/c in the Asset side. Pass entry.

Solution:

Journal Entry

Date	Particulars		L.F	Debit Rs.	Credit Rs.
2005	Mahalakshmi's Capital A/c	Dr		15,000	
Jan 1	Dhanalakshmi's Capital A/c	Dr		10,000	
	To Profit and Loss A/c				25,000
	(Undistributed loss transferred to old partners Capital accounts in the old ratio)				

TRANSFER OF ACCUMULATED RESERVE

Sometimes, Partners of the firm, may set aside a portion or percentage of the profit earned to meet the unexpected or unforeseen losses arise in future in the name of Reserve, General Reserve, Reserve Fund, Contingency Reserve etc. At the time of admission of new partner, if there is any reserve, it should be transferred to the Capital accounts of the old partners in the old profit sharing ratio.

The accounting treatment would be as follows:

Reserve Fund A/c Dr .....

To Old Partners' Capital A/cs .....

Problem: 14

Mahendran and Narasimhan are partners of a firm sharing profit and loss in the ratio of 5:4. On 31.3.2005 the firm's books showed a Reserve fund of Rs.36,000. They decided to admit Aparajitha on 1st April 2005 for 1/3rd share. Pass entry.

Solution:

Journal Entry

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2005	Reserve Fund A/c Dr		36,000	
Apr 1	To Mahendran's Capital A/c			20,000
	To Narasimhan's Capital A/c			16,000
	(Reserve fund transferred to old partners' capital accounts in the old ratio)			

TREATMENT OF GOODWILL

The goodwill is the result of the old partners' efforts in the past. Therefore, at the time of admission of new partner the goodwill is to be adjusted in the old partners' capital account.

From the accounting point of view, the Goodwill can be adjusted in one of the following three methods:

1. Revaluation Method
2. Memorandum Revaluation Method
3. Premium Method

1. Revaluation Method:

Under this method, the new partner does not bring in cash for his share of goodwill. The following accounting treatment is required to adjust goodwill in the books of the firm.

a) Goodwill is raised in the books of the firm:

Goodwill does not appear as an asset in the balance sheet though it exists in the firm. It means that it is not yet recorded in its books and remains a silent asset. At the time of admission of a partner, Goodwill is raised to its present value and shared by the old partners in the old ratio.

The entry is

Goodwill A/c	Dr	.....	
To Old Partners' Capital A/cs			.....

(Goodwill raised to its present value and credited in the old partners' capital accounts)

b) Goodwill appears in the books - understated

If goodwill appears in the balance sheet of the old partners at a value less than the present value then the difference between the present value and the recorded amount of goodwill is transferred to the old partners' capital accounts in the old ratio.

The entry is

Goodwill A/c	Dr	.....	
To Old partners' capital A/cs			.....

(Increase in the value of goodwill transferred to Partners' capital accounts in the old ratio)

c) Goodwill appears in the books - Over stated

If the goodwill appears in the balance sheet at a value more than the present value of goodwill, the reduction in the value of goodwill debited to the old partners capital accounts in the old profit sharing ratio.

The entry is

Old Partners' Capital A./c Dr .....

To Goodwill A/c .....

(Decrease in the value of goodwill transferred to old partners in the old ratio)

Problem: 15

Damodaran and Jagadeesan are partners sharing profits in the ratio of 3:2. They decided to admit Vijayan for 1/5th share of future profit. Goodwill of the firm is to be valued at Rs.50,000.

Give journal entries, if

a) There is no goodwill in the books of the firm.

b) The goodwill appears at Rs.30,000

c) The goodwill appears at Rs.60,000.

Solution:

Journal Entries

Date	Particulars		L.F	Debit Rs.	Credit Rs.
	Case (a)				
	Goodwill A/c	Dr		50,000	
	To Damodran's Capital A/c				30,000
	To Jagadeesan's Capital A/c				20,000
	(Goodwill raised and credited)				

Case (b)				
Goodwill A/c	Dr		20,000	
To Damodaran's Capital A/c				12,000
To Jagadeesan's Capital A/c				8,000
(Goodwill raised from Rs.30,000 to Rs.50,000, the difference of Rs.20,000 credited to the old partners)				
Case (c)				
Damodaran's Capital A/c	Dr		6,000	
Jagadeesan's Capital A/c	Dr		4,000	
To Goodwill A/c				10,000
(Goodwill reduced from Rs.60,000 to Rs.50,000, the difference of Rs.10,000 debited to old partners)				

Preparation of Revaluation Account, Capital Accounts and Balance Sheet after admission of Partner

problem : 16

Anitha and Vanitha are partners. They share profits and losses in the ratio of 3:1. Their Balance sheet as on 31st March 2005 is as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	60,000	Cash	5,000
Bills payable	20,000	Debtors	70,000
General Reserve	40,000	Stock	30,000
Capitals:		Plant	25,000
Anitha 80,000		Buildings	1,00,000
Vanitha 40,000	1,20,000	Profit and Loss A/c	10,000
	2,40,000		2,40,000

On 1st April 2005, they agreed to admit Kavitha into the firm for 1/5th Share of future profits on the following terms:

a) Building is revalued at Rs.1,20,000

b) Stock is revalued at Rs.21,500

c) Goodwill is raised at Rs.40,000

d) Provision for bad debts is made at 5%

e) Kavitha to bring in a Capital of Rs.50,000

Give journal entries to give effect of above adjustments, prepare Revaluation account, Capital accounts, Cash account and the Balance Sheet of the reconstituted firm.

Solution:

Journal Entries

Date	Particulars		L.F	Debit Rs.	Credit Rs.
	Building A/c	Dr		20,000	
	To Revaluation A/c				20,000
	(Building appreciated)				
	Revaluation A/c	Dr		12,000	
	To Stock A/c				8,500
	To Provision for doubtful debts				3,500
	(Stock depreciated and provision for doubtful debts transferred)				
	Revaluation A/c	Dr		8,000	
	To Anitha's Capital A/c				6,000
	To Vanitha's Capital A/c				2,000
	(Profit on revaluation transferred to old partners in the old ratio)				
	Anitha's Capital A/c	Dr		7,500	
	Vanitha's Capital A/c	Dr		2,500	
	To Profit & Loss A/c				10,000
	(Undistributed loss transferred)				

			Dr (Rs.)	Cr (Rs.)
	Goodwill A/c Dr To Anitha's Capital A/c To Vanitha's Capital A/c (Goodwill raised and shared among old partners in the old ratio)		40,000	30,000 10,000
	Cash A/c Dr To Kavitha's Capital A/c (Capital brought in by Kavitha)		50,000	50,000
	General Reserve A/c Dr To Anitha's Capital A/c To Vanitha's Capital A/c (Accumulated reserve transferred to old partners in the old ratio)		40,000	30,000 10,000

Revaluation Account

Dr. Cr

Particulars	Rs.	Particulars	Rs.
To Stock	8,500	By Building A/c	20,000
To Provision for doubtful debts	3,500		
To Profit on revaluation transferred to Capital Accounts:			
Anitha 6,000			
Vanitha 2,000	8,000		
	20,000		20,000

Capital Accounts

Dr. Cr

Particulars	Anitha Rs.	Vanitha Rs.	Kavitha Rs.	Particulars	Anitha Rs.	Vanitha Rs.	Kavitha Rs.
To Profit Loss A/c	7,500	2,500	----	By Balance b/d	80,000	40,000	---
				By Cash A/c			50,000
To Balance c/d	1,38,500	59,500	50,000	By General Reserve	30,000	10,000	---
				By Goodwill	30,000	10,000	---
				By Revaluation A/c	6,000	2,000	---
	1,46,000	**62,000**	**50,000**		**1,46,000**	**62,000**	**50,000**

Cash Account

Dr. Cr

Particulars	Rs.	Particulars	Rs.
To Balance b/d	5,000	By Balance c/d	55,000
To Kavitha's Capital A/c	50,000		
	55,000		55,000

Balance Sheet of Anitha, Vanitha and Kavitha as on 1.4.2005

Liabilities		Rs.	Assets		Rs.
Creditors		60,00	Cash		55,000
Bills Payable		20,000	Debtors	70,000	
Capitals			Less: Provision		
Anitha	1,38,500		for Bad debts	3,500	66,500
Vanitha	59,500		Stock		21,500
Kavitha	50,000	2,48,000	Plant		25,000
			Building		1,20,000
			Goodwill		40,000
		3,28,000			3,28,000

Problem: 17

Sankari and Sudha are partners sharing profit and loss in the ratio of 3:2. Their Balance Sheet as on 31st March 2005 is as under:

Liabilities		Rs.	Assets		Rs.
Capitals:			Land & Buildings		1,20,000
Sankari	90,000		Plant & Machinery		90,000
Sudha	75,000	1,65,000	Stock		33,000
Profit and Loss A/c		30,000	Sundry Debtors	15,000	
Sundry Creditors		48,000	Less: Provision for		
Bills Payable		50,000	doubtful debts	1,000	14,000
			Cash		6,000
			Goodwill		30,000
		2,93,000			2,93,000

They decided to admit Santhi into the partnership with effect from 1st April 2005 on the following terms:

a) Santhi to bring in Rs.60,000 as Capital for 1/3rd share of profits.

b) Goodwill was valued at Rs.45,000

c) Land was valued at Rs.1,50,000

d) Stock was to be written down by Rs.8,000

e) The provision for doubtful debts was to be increased to Rs.3,000

f) Creditors include Rs.5,000 no longer payable and this sum was to be written off.

g) Investments of Rs.10,000 be brought into books.

Prepare Revaluation A/c, Capital A/c and Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock	8,000	By Land	30,000
To Provision for doubtful debts	2,000	By Creditors	5,000
To Profit on revaluation:		By Investments	10,000
Sankari 21,000			
Sudha 14,000	35,000		
	45,000		45,000

Capital Accounts

Dr. Cr

Particulars	Sankari Rs.	Sudha Rs.	Santhi Rs.	Particulars	Sankari Rs.	Sudha Rs.	Santhi Rs.
To Balance c/d	1,38,000	1,07,000	60,000	By Balance b/d	90,000	75,000	
				By Cash A/c			60,000
				By Goodwill	9,000	6,000	
				By Profit and Loss A/c	18,000	12,000	
				By Revaluation A/c	21,000	14,000	
	1,38,000	1,07,000	60,000		1,38,000	1,07,000	60,000

Balance Sheet of Sankari, Sudha and Santhi as on 1st April 2005

Liabilities		Rs.	Assets		Rs.
Capitals:			Land & Buildings		1,50,000
Sankari	1,38,000		Plant & Machinery		90,000
Sudha	1,07,000		Stock		25,000
Santhi	60,000	3,05,000	Sundry Debtors	15,000	
Sundry Creditors		43,000	Less: Provision for		
Bills Payable		50,000	doubtful debts	3,000	12,000
			Goodwill		45,000
			Cash		66,000
			Investments		10,000
		3,98,000			3,98,000

PARTNERSHIP RETIREMENT

According to section 32(1) of the Indian Partnership Act 1932, a partner may retire from the firm

1. with the consent of all the partners
2. in accordance with an express agreement by the partners
3. where the partnership at will by giving notice in writing to all the other partners of his intention to retire.

Sometimes, a partner may decide to retire from the firm because of old age, ill health etc. Technically, on retirement, the old partnership comes to an end and a new one comes into existence with the remaining partners. However, the firm as such continues. A person who is retired from the firm is known as an outgoing partner or a retiring partner. A retiring partner will be held liable for the debts incurred by the firm before his retirement. But, he will not be responsible for the firms' acts after his retirement.

When a partner retires, his share in the properties of the firm has to be ascertained and paid off. Certain adjustments have to be made in the books to ascertain the amount due to him from the firm. These adjustments are very similar to those which we saw in connection with the admission of a partner.

ADJUSTMENTS

When a partner retires, the following accounting adjustments are necessary

1. Calculation of New profit sharing ratio and Gaining ratio
2. Revaluation of assets and liabilities
3. Transfer of Undistributed Profit or loss
4. Transfer of Accumulated reserves
5. Treatment of Goodwill
6. Settlement of the retiring partner's claim.

Calculation of New Profit sharing ratio and Gaining ratio

At the time of retirement of a partner, the remaining partners acquire some portion of the retiring partner's share of profit. This necessitates the calculation of new profit sharing ratio of the remaining partners.

New Profit Sharing Ratio:

The ratio in which the continuing partners decide to share the future profits and losses is known as new profit sharing ratio.

New Profit sharing ratio =Old ratio + Gaining ratio

New share = Old share + Acquired share (gain)

Gaining Ratio:

The ratio in which the continuing partners acquire the outgoing partner's share is called as gaining ratio. This ratio is calculated by taking out the difference between new profit sharing ratio and old profit sharing ratio.

Gaining ratio =New ratio – Old ratio

Gain =New share – Old share

The purpose of this ratio is to determine the amount of compensation to be paid by each of the remaining partners as the firm to the retiring partner.

Distinction between Sacrificing Ratio and Gaining Ratio

Sacrificing Ratio and Gaining Ratio can be distinguished as follows:

Basis of Distinction	Sacrificing Ratio	Gaining Ratio
1. Meaning	It is the ratio in which the old partners have agreed to sacrifice their shares in profit in favour of new partner.	It is the ratio in which the continuing partners acquire the outgoing partner's share.
2. Purpose	It is calculated to determine the amount of compensation to be paid by the incoming partner to the sacrificing partners.	It is calculated to determine the amount of compensation to be paid by each of the continuing partners to the outgoing partner.
3. Calculation	It is calculated by taking out the difference between old ratio and new ratio.	It is calculated by taking out the difference between new ratio and old ratio.
4. Time	It is calculated at the time of admission of a new partner.	It is calculated at the time of retirement of a partner.

Problem: 18

i) A, B and C were sharing profit and loss in the ratio of 2:3:1. Calculate the new ratio and the gaining ratio when (a) A retires, (b) B retires and (c) C retires.

ii) A, B and C were partners sharing profit and loss in the ratio of 2:3:1. C retires and A and B decide to share future profit and loss in the ratio of 3:4. Calculate the gaining ratio.

iii) A, B and C were partners sharing profit and loss in the ratio of 2:3:1. C retires and his share is taken by A and B in the ratio of 2:1. Find the new ratio.

Solution

i) (a) When A retires, the new ratio of B and C will be 3:1. This will also be their gaining ratio.

(b) When B retires, the new ratio of A and C will be 2:1. This will also be their gaining ratio.

(c) When C retires, the new ratio of A and B will be 2:3 This will also be their gaining ratio.

ii) Gaining Ratio = New Ratio —Old Ratio

Gain of A = 3/7 - 2/6 = 4/42

Gain of B = 4/7 - 3/6 = 3/42

Thus, the gaining ratio of A and B is 4/42 : 3/42 or 4:3

iii) Share got by A from C = 1/6 × 2/3 = 2/18 Share got by B from C = 1/6 × 1/3 = 1/18 New ratio of A = 2/6 + 2/18 = 8/18 New ratio of B = 3/6 + 1/18 = 10/18

Hence, new ratio of A and B = 8/18 : 10/18 or 8 : 10 or 4 : 5

Adjustment of Goodwill

Having understood the gaining ratio of new partners, let us discuss how the goodwill will be adjusted in accounts. The following are the methods of treating goodwill in books in case of retirement:

1. When Goodwill account is raised with full value

Under this method, Goodwill Account is debited with full value of Goodwill and the partners' Capital Accounts, including retiring partner's Capital Account are credited in the old ratio.

Goodwill will be show in the Balance Sheet at full value.

2. When goodwill account is raised with full value and written off by remaining partners

Under this method, first of all Goodwill Account is debited with full value and all partners (including retiring partner) Capital Accounts are credited in the old ratio. Secondly, remaining partners' Capital Accounts are debited in new ratio and Goodwill Account is credited. Hence, the Goodwill Account is closed. It will be shown in Balance Sheet.

3. When goodwill is raised only with the share of the retiring partner and then written off by remaining partners

In this case, firstly Goodwill Account is debited and retiring partner's Capital Account is credited with his share of goodwill. Secondly, Capital Accounts of remaining partners are debited in their gaining ratio and Goodwill Account is credited. Hence, Goodwill Account will be closed.

4. When retiring partner's share of Goodwill is to be adjusted in the Capital Accounts of remaining partners without raising Goodwill Account

In this case, the retiring partner's share of goodwill is calculated and debited to continuing partners Capital Accounts in their gaining ratio with corresponding credit being given to retiring partner's Capital Account.

Note : From the above explanation, it is clear that when we deal with the total value of goodwill (Opening Goodwill Account or Closing Goodwill Account), we should use either the old ratio or the new ratio. If we adjust the share of goodwill of the retiring partner only we should use only the gaining ratio.

Problem: 19

A, B and C are partners sharing profits and losses in the ratio of 4:3:2. B retires and on retirement the goodwill of the firm is valued at Rs. 43,200, No goodwill appears in the books. A and C agree to share future profits in the ratio of 5:3. Find the gaining ratio and pass the journal entries for goodwill in each of above cases.

Solution

Old ratio between A, B and C = 4:3:2

New Ratio between A and C = 5:3

Gaining ratio = New ratio — old ratio

A = 5/8 - 4/9 = (45 - 32)/72 = 13/72

C = 3/8 - 2/9 = (27 - 16)/72 = 11/72

Hence, A and C will compensate B in the ratio of 13 : 11

(a) When the full value of goodwill is raised in the books :

	Rs.	Rs.
Goodwill A/c Dr.	43,200	
To A's Capital A/c		19,200
To B's Capital A/c		14,400
To C's Capital A/c		9,600
(Goodwill raised and credited to partners capital accounts in old ratio)		

Note : Goodwil will appear in the Balance Sheet as an asset until it is written off.

(b) When the full value of goodwill is raised in the books and written off :

		Rs.	Rs.
Goodwill A/c	Dr.	43,200	
To A's Capital A/c			19,200
To B's Capital A/c			14,400
To C's Capital A/c			9,600
(Being the Goodwill credited to all partners in old ratio)			
A's Capital A/c	Dr.	27,000	
C's Capital A/c	Dr.	16,200	
To Goodwill A/c			43,200
(Being the Goodwill written off in the new ratio)			

(c) When the retiring partner's share of goodwill is raised and written off :

		Rs.	Rs.
Goodwill A/c	Dr.	14,400	
To B's Capital A/c			14,400
(Being B's share of Goodwill)			
A's Capital A/c	Dr.	7,800	
C's Capital A/c	Dr.	6,600	
To Goodwill A/c			14,400
(Goodwill written off in the gaining ratio of 13:11)			

(d) When the goodwill is adjusted in Capital Account without opening a Goodwill Account :

		Rs.	Rs.
A's Capital A/c	Dr.	7,800	
C's Capital A/c	Dr.	6,600	
To B's Capital A/c			14,400
(Being due to B adjusted between A and C in their gaining ratio)			

Note : In all the above cases, B gets a credit for Rs.14,400 being his share of goodwill of the firm which comes from A and C in their gaining ratio of 13:11.

When goodwill already exists in the books at the time of retirement, the need for its revaluation arises to find out increase or decrease in its value. If the value has increased, Goodwill Account will be debited and Capital Accounts of all partners will be credited in their old ratio with the amount of increase. On decrease in its value, a reverse entry will be made.

Revaluation of Assets and Liabilities

Revaluation of assets and labilities is also required at the time of retirement of a partner in the same way as it is done in case of admission of a partner. The profit or loss which results from revaluation will be transferred to all partners' Capital Accounts in their old profit sharing ratio. For this purpose, a "Revaluation Account" or "Profit and Loss Adjustment Account" is prepared. If the remaining partners wish to show assets and liabilities at their old values Memorandum Revaluation Account will be prepared.

Adjustment of Accumulated Reserves and Losses

At the time of retirement, if general reserve, credit balance of Profit and Loss Account or other undistributed profits are given in the Balance Sheet, they are credited in the old partners' Capital Accounts in old profit sharing ratio. For this, the following journal entry is made:

Reserve or Profit and Loss A/c Dr.
To Partners' Capital A/c
(Old ratio)

If the partners want that only retiring partner's Capital Account be credited with his share in undistributed profits, then the following entry will be made.

Reserves or Profit and Loss A/c Dr.
To Retiring Partner's Capital A/c
(With the share of retiring partner)

Remaining undistributed profits will be shown in the Balance Sheet after retirement. If the remaining partners want that, without changing the amount of reserves or profit, share be given to retiring partner, the following entry will be made :

Continuing Partner's Capital A/c Dr.
(In their gaining ratio)
To Retiring Partner's Capital A/c

Calculating the amount due to the retiring partner and its payment

The retiring partner's Capital Account is credited with his share of capital, share of goodwill, share of profit on account of revaluation and undistributed profits and reserves of last years. This account will be debited with his drawings, share in revaluation loss and other losses. If payment is no made to the retiring partner, the amount due is transferred to his loan account. According to Section 37 of Partnership Act, the retiring partner can have either interest @ 6% per annum on this amount due or the profit earned by remaining partners with the help of this amount from the date of retirement. For this, the journal entry will be :

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

If remaining partners bring cash to pay off the retiring partner then, journal entry will be :

Bank A/c Dr.

To Continuing Partner's Capital A/c

(For cash brought in by partners in the agreed ratio to pay off the retiring partner)

Payment in Instalments

Capital Account of the retiring partner is settled as per agreement. It may be settled in two ways:

1) Payment in instalments with interest
2) Payment in a fixed number of instalments of equal amount (including interest). Amount of instalment can be calculated with the help of Annuity Table.

Note : In the absence of any information, balance of retiring partner's Capital Account will be transferred to his Loan Account.

Problem: 20

A, B and C were carrying on business in partnership sharing profits and losses in the ratio of 3 : 2 : 1, respectively. On 31st December, 1985, the Balance Sheet of the firm stood as follows :

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	13,590	Cash	5,900
Capital Accounts :		Debtors	8,000
A : 15,000		Stock	11,690
B : 10,000		Building	23,000
C : 10,000	35,000		
	48,590		**48,590**

B retires on the above mentioned date on the following terms :

(i) Building be appreciated by Rs. 7,000.

(ii) Provision for bad debts be made @ 5% on Debtors.

(iii) Goodwill of the firm be valued at Rs. 9,000 and adjustment in respect be made without raising a Goodwill Account.

(iv) Rs. 5,000 be paid to B immediately and the balance due to him be treated as loan carrying interest @ 6% per annum. Such loan is to be paid in three equal annual instalments together with interest.

Pass the journal entries to record the above mentioned transactions and show the Balance Sheet of the firm as it would appear immediately after B's retirement. Prepare B's Loan Account till it is finally closed.

Solution:

Journal

Particulars		Dr. Rs.	Cr. Rs.
Building A/c	Dr.	7,000	
To Revaluation A/c			7,000
(Being appreciation in the value of Building)			
Revaluation A/c	Dr.	400	
To Provision for Bad Debts			400
(Being provision for bad debts created on debtors)			
Revaluation A/c	Dr.		
To A's Capital A/c			3,300
To B's Capital A/c			2,200

To C's Capital A/c			1,100
(Being profit on revaluation credited to old partners)			
A's Capital A/c	Dr.	2,250	
C's Capital A/c	Dr.	750	
To B's Capital A/c			3,000
(Being B's share of goodwill adjusted in gaining ratio of 3:1 in A and C)			
B's Capital A/c	Dr.	5,000	
To Bank A/c			5,000
(Being the amount paid to B on retirement)			
B's Capital A/c	Dr.	10,200	
To B's Loan A/c			10,200
(Balance of amount due to B transferred to his loan account)			

SETTLEMENT OF CLAIM OF THE RETIRING PARTNER

The retiring partner is entitled for the amount due to him from the firm. The amount due to the retiring partner is ascertained by preparing his capital account incorporating all the adjustments like the share of goodwill, undistributed profits or losses, accumulated reserves, profit or loss on revaluation of assets and liabilities etc.

The amount due is either paid off immediately or is paid in instalments. When it is not paid immediately, it will be transferred to his loan account.

a) When the amount due is paid off immediately

Retiring partner's capital A/c	Dr	....	
To Bank A/c			....

b) When the amount due is not paid immediately

Retiring partner's capital A/c	Dr	....	
To Retiring Partner's Loan A/c			....

c) When the amount is paid partly at once and the balance in instalments

Retiring partner's capital A/c	Dr	.....	
To Bank A/c			.....
To Retiring Partners loan A/c			

Problem: 21

A, B and C are partners sharing profits and losses in the ratio of 5:3:2 respectively. A retires from the firm on 1st April 2005. After his retirement, his capital account shows a credit balance of Rs.1,35,000 after the necessary adjustments made. Give journal entries, if

a) The amount due is paid off immediately.

b) When the amount due is not paid immediately.

c) Rs. 45,000 is paid and the balance in future.

Solution:

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	(a)			
	C's capital A/c Dr		1,35,000	
	To Bank A/c			1,35,000
	(The amount due Rs.1,35,000 is paid to C)			
	(b)			
	C's capital A/c Dr		1,35,000	
	To C's Loan A/c			1,35,000
	(The amount due to C is transferred to C's loan account)			
	(c)			
	C's Capital A/c Dr		1,35,000	
	To Bank A/c			45,000
	To C's Loan A/c			90,000
	(Rs.45,000 is paid and the balance transferred to C's loan A/c)			

Problem: 22

Lalitha, Jothi and Kanaga were partners of a firm sharing profit and losses in the ratio of 3:2:3. Set out below was their balance sheet as on 31st March 2003.

Balance Sheet

Liabilities		Rs.	Assets	Rs.
Bills payable		32,000	Cash in Hand	750
Sundry Creditors		62,500	Cash at Bank	2,04,500
Capitals:			Book-debts	89,000
Lalitha	2,00,000		Stock	1,11,500
Jothi	1,25,000		Furniture	17,500
Kanaga	1,50,000	4,75,000	Plant & Machinery	48,750
Profit & Loss A/c		22,000	Building	1,20,000
Outstanding expenses		500		
		5,92,000		5,92,000

Lalitha retired from the partnership on 1st April 2004 on the following terms:

1. Goodwill of the firm was to be valued at Rs.30,000
2. The assets are to be valued as under: Stock Rs.1,00,000; Furniture Rs.15,000; Plant and Machinery Rs.45,000; Building Rs.1,00,000.
3. A provision for doubtful debts be created at Rs.4,250.
4. Lalitha was to be paid off immediately.

Show the journal entries, prepare revaluation account, capital accounts, Bank account and balance sheet of the reconstituted partnership.

Solution:

Journal Entries

Date	Particulars		L.F	Debit Rs.	Credit Rs.
	Revaluation A/c	Dr		42,000	
	To Stock A/c				11,500
	To Furniture A/c				2,500
	To Plant and machinery A/c				3,750
	To Building				20,000
	To Provision for doubtful debts A/c				4,250
	(Loss items transferred)				
	Lalitha's Capital A/c	Dr		15,750	
	Jothi's Capital A/c	Dr		10,500	
	Kanaga's Capital A/c	Dr		15,750	
	To Revaluation A/c				42,000
	(Loss on revaluation transferred to partners capital A/c)				
	Goodwill A/c Dr	Dr		30,000	
	To Lalitha's Capital A/c				11,250
	To Jothi's Capital A/c				7,500
	To Kanaga's Capital A/c				11,250
	(Goodwill raised & transferred to partners capital A/c)				

Profit and Loss A/c Dr			22,000	
To Lalitha's Capital A/c				8,250
To Jothi's Capital A/c				5,500
To Kanaga's Capital A/c				8,250
(Undistributed profit transferred to Partners capital A/c)				
Lalitha's Capital A/c Dr			2,03,750	
To Bank A/c				2,03,750
(The amount due to Lalitha is paid off immediately)				

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars		Rs.
To Stock A/c	11,500	By Los transferred to		
To Furniture A/c	2,500	Lalitha's Capital A/c	15,750	
To Plant & Machinery A/c	3,750	Jothi's Capital A/c	10,500	
To Building A/c	20,000	Kanaga's Capital A/c	15,750	42,000
To Provision for doubtful debts A/c	4,250			
	42,000			42,000

Capital Accounts

Dr. **Cr.**

Particulars	Lalitha Rs.	Jothi Rs.	Kanaga Rs.	Particulars	Lalitha Rs.	Jothi Rs.	Kanaga Rs.
To Revaluation A/c	15,750	10,500	15,750	By Balance b/d	2,00,000	1,25,000	1,50,000
To Cash A/c	2,03,750	—	—	By Profit & Loss A/c	8,250	5,500	8,250
To Balance c/d	—	1,27,500	1,53,750	By Goodwill A/c	11,250	7,500	11,250
	2,19,500	1,38,000	1,69,500		2,19,500	1,38,000	1,69,500

Bank Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	2,04,500	By L's Capital A/c	2,03,750
		By Balance c/d	750
	2,04,500		2,04,500

Balance Sheet of K and G as on 1.4.2004

Liabilities		Rs.	Assets		Rs.
Bills Payable		32,000	Cash in Hand		750
Sundry Creditors		62,500	Cash at Bank		750
Capital A/cs:			Book debts	89,000	
Jothi	1,27,500		Less: Provision for		
Kanaga	1,53,750	2,81,250	doubtful debts A/c	4,250	84,750
Outstanding Expenses		500	Stock		1,00,000
			Furniture		15,000
			Plant & Machinery		45,000
			Building		1,00,000
			Goodwill		30,000
		3,76,250			3,76,250

Problem: 23

Pallavan, Pandian and Chozhan were carrying on partnership business sharing profits in the ratio of 3 : 2: 1. On March 31, 2005, the Balance Sheet of the firm stood as follows:

Balance Sheet

Liabilities		Rs.	Assets	Rs.
Creditors		30,000	Bank	65,000
Sundry Creditors		15,000	Debtors	40,000
Capitals:			Stock	80,000
Pallavan	2,00,000		Building	2,50,000
Pandian	1,20,000		Profit and Loss A/c	30,000
Chozhan	1,00,000	4,20,000		
		4,65,000		4,65,000

Chozhan retired on April 1, 2005 on the following terms:

1. Building to be appreciated by Rs. 15,000
2. Provision for doubtful debts to be made at 6% on debtors
3. Goodwill of the firm is valued at Rs.18,000.
4. Rs.50,000 to be paid to chozhan immediately and the balance transferred to his loan account.

Prepare Revaluation Account, Capital Accounts, Bank Account and the Balance Sheet after Chozhan's retirement.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Provision for doubtful debts	2,400	By Building A/c	15,000
To Gain transferred to Pallavan 6,300 Pandian 4,200 Chozhan 2,100	12,600		
	15,000		15,000

Capital Accounts

Dr. **Cr.**

Particulars	Pallavan Rs.	Pandian Rs.	Chozhan Rs.	Particulars	Pallavan Rs.	Pandian Rs.	Chozhan Rs.
To Profit & Loss A/c	15,000	10,000	5,000	By Balance b/d	2,00,000	1,20,000	1,00,000
To Bank A/c			50,000	By Goodwill A/c	9,000	6,000	3,000
To Chozhan's loan A/c			52,600	By Revaluation A/c	6,300	4,200	2,100
To Balance c/d	2,07,800	1,25,200	—	By Reserve	7,500	5,000	2,500
	2,22,800	1,35,200	1,07,600		2,22,800	1,35,200	1,07,600

Bank Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	65,000	By Chozhan's capital A/c	50,000
		By Balance c/d	15,000
	65,000		65,000

Balance Sheet of Pallavan and Pandian as on 1.4.2004

Liabilities		Rs.	Assets		Rs.
Creditors		30,000	Bank		15,000
Chozhan's Loan A/c		52,600	Debtors	40,000	
Capitals			Less: Provision for doubtful debts A/c	2,400	37,600
Pallavan	2,07,800				
Pandian	1,25,200	3,33,000			
			Stock		80,000
			Building		2,65,000
			Goodwill		18,000
		4,15,600			4,15,600

UNIT – V

Accounting for Partnership

PART – B (2 MARKS)

1. What do you understand by Admission of a new partner?
2. Define Partnership.
3. What is Gaining Ratio?
4. Who is an incoming partner?
5. The Goodwill is to be valued at two years' purchase of last four years average profit. The profits were Rs.40,000, Rs.32,000, Rs.15,000 and Rs.13,000 respectively. Find out the value of goodwill.
6. What is Drawings?
7. What is Goodwill?
8. What is Average profit?
9. What is Super profit?
10. What is Partner's Current Account?
11. What is Profit and Loss Appropriation Account?
12. What are the features of a partnership?

PART – C (6 MARKS)

1. From the following information, calculate the value of goodwill at three years' purchase of super profit.

   i) Average Capital employed in the business Rs.6,00,000.

   ii) Net trading profits of the firm for the past three years were

   Rs.1,07,600, Rs.90,700 and Rs.1,12,500.

   iii) Rate of interest expected from capital having to the risk involved is 12%.

   iv) Fair remuneration to the partners for their service Rs.12,000 p.a.

2. A and B are partners in a firm. They share profits and losses in the ratio of 3 : 1. their balance sheet is as follows.

Liabilities	Rs	Assets	Rs
Capital A	80,000	Buildings	1,00,000
B	40,000	Plants	25,000
Reserve	40,000	Stock	40,000
Creditors	60,000	Debtors	70,000
Bills payable	20,000	Cash	5,000
	----------------		-------------
	2,40,000		2,40,000

C is admitted into partnership for $1/5^{th}$ share of the business on the following terms:

a) Building is revalued at Rs 1,20,000.
b) Plant is depreciated to 80%
c) Provision for bad debts is made at 5%
d) Stock is revalued at Rs. 30,000
e) C should introduce 50% of the adjusted capital of both A and B. open various accounts and the new balance sheet after the admission of C.

3. Sun, Moon and stars are equal partners in a firm and their balance sheet as on 31-12-2009 is given below:

Liabilities	Rs.	Assets	Rs.
Creditors	4,05,000	Machinery	435,000
Reserves	45,000	Furniture	15,000
Capital		Debtors	3,00,000
Sun	150,000	Stock	1,50,000
Moon	120,000		
Stars	180,000		
	-----------------		-----------------
	9,00,000		9,00,000

Stars retired on 31-12-2009 and assets were revealed as under:

Machinery Rs. 5,10,000. Furniture Rs.12,000. Debtors Rs. 2,85,000. Stock Rs. 1,47,000. Goodwill of the firm is valued at Rs. 90,000 and Ravi's share of goodwill is to be adjusted to continuing partners capital without raising goodwill account. Prepare necessary ledger accounts and new balance sheet.

4. A and B are partners sharing profits in the ratio of 3:1. Their Balance Sheet stood as under on 31.12.95:

Liabilities	Rs.	Assets	Rs.
Capital		Stock	10,000
A: 30,000		Prepaid Insurance	1,000
B: 20,000	50,000	Debtors 8,000	
Salary Due	5,000	Less: Provision 500	7,500
Creditors	40,000	Cash	18,500
		Machinery	22,000
		Buildings	30,000
		Furniture	6,000
	95,000		**95,000**

C is admitted as a new partner introducing a capital of Rs.20,000, for his 1/4th share in future profit.

Following revaluations are made:

(i) Stock be depreciated by 5%
(ii) Furniture be Depreciated by 10%
(iii) Building be revalued at Rs. 45,000
(iv) The provision for doubtful debts should be increased to Rs.1,000

Prepare Revaluation Account and Balance Sheet after admission.

5. A firm earned net profits during the last three years as follows:

I Year Rs. 36,000
II Year Rs. 40,000
III Year Rs. 44,000

The Capital investment of the firm is Rs.1,20,000. A fair return on the capital having regard to the risk involved is 10%. Calculate the value of goodwill on the basis of three years purchase of Super profits.

6. Sankari and Sudha are partners sharing profit and loss in the ratio of 3:2. Their Balance Sheet as on 31st March 2005 is as under:

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital:			Land & Buildings		1,20,000
Sankari	90,000		Plant & Machinery		90,000
Sudha	75,000	1,65,000	Stock		33,000
Profit and Loss A/c		30,000	Sundry Debtors	15,000	
Sundry Creditors		48,000	Less: Provision for		
Bills payable		50,000	doubtful debts	1,000	14,000
			Cash		6,000
			Goodwill		30,000
		2,93,000			**2,93,000**

They decided to admit Santhi into the partnership with effect from 1st April 2005 on the following terms:

a) Santhi to bring in Rs.60,000 as Capital for 1/3rd share of profits.

b) Goodwill was valued at Rs.45,000

c) Land was valued at Rs.1,50,000

d) Stock was to be written down by Rs.8,000

e) The provision for doubtful debts was to be increased to Rs.3,000

f) Creditors include Rs.5,000 no longer payable and this sum was to be written off.

g) Investments of Rs.10,000 be brought into books.

Prepare Revaluation A/c, Capital A/c and Balance Sheet of the new firm.

7. Amar and Akbar are partners in a firm sharing profits and losses in the ratio of 2:1 as on 31st March 2005. Their Balance Sheet was as under:

Liabilities	Rs.	Assets	Rs.
Creditors	80,000	Cash	10,000
Bills payable	40,000	Bank	70,000
Capital Accounts		Stock	80,000
Amar : 2,70,000		Plant & Machinery	1,00,000
Akbar: 2,10,000	4,80,000	Land and Building	3,00,000
		Debtors	40,000
	6,00,000		6,00,000

On 1st April 2005, they admit Antony into partnership on the following conditions:

1. Antony has bring in a capital of Rs.1,50,000 for 1/5th share of the future profits.
2. Stock and machinery were to be depreciated by Rs.6,000 and Rs.15,000 respectively.
3. Investments of Rs.15,000 not recorded in the books brought into accounts.
4. Provision for doubtful debts is to be created at 5% on debtors.

5. A liability of Rs.4,000 for outstanding repairs has been omitted to be recorded in the books.

   Give journal entries, prepare Revaluation Account, Capital Account, Bank Account and the Balance Sheet.

8. A, B and C were carrying on business in partnership sharing profits and losses in the ratio of 3 : 2 : 1, respectively. On 31st December, 1985, the Balance Sheet of the firm stood as follows :

Liabilities	**Rs.**	**Assets**	**Rs.**
Sundry Creditors	13,590	Cash	5,900
Capital Accounts :		Debtors	8,000
A : 15,000		Stock	11,690
B : 10,000		Building	23,000
C : 10,000	35,000		
	48,590		**48,590**

B retires on the above mentioned date on the following terms :

(iii) Building be appreciated by Rs. 7,000.

(iv) Provision for bad debts be made @ 5% on Debtors.

(v) Goodwill of the firm be valued at Rs. 9,000 and adjustment in respect be made without raising a Goodwill Account.

(vi) Rs. 5,000 be paid to B immediately and the balance due to him be treated as loan carrying interest @ 6% per annum. Such loan is to be paid in three equal annual instalments together with interest.

Pass the journal entries to record the above mentioned transactions and show the Balance Sheet of the firm as it would appear immediately after B’s retirement. Prepare B’s Loan Account till it is finally closed.

9. A, B and C are partners sharing profits and losses in the ratio of 5:3:2 respectively. A retires from the firm on 1st April 2005. After his retirement, his capital account shows a credit balance of Rs.1,35,000 after the necessary adjustments made. Give journal entries, if

a) The amount due is paid off immediately.

b) When the amount due is not paid immediately.

c) Rs. 45,000 is paid and the balance in future.

10. Lalitha, Jothi and Kanaga were partners of a firm sharing profit and losses in the ratio of 3:2:3. Set out below was their balance sheet as on 31st March 2003.

Balance Sheet

Liabilities		Rs.	Assets	Rs.
Bills payable		32,000	Cash in Hand	750
Sundry Creditors		62,500	Cash at Bank	2,04,500
Capitals:			Book-debts	89,000
Lalitha	2,00,000		Stock	1,11,500
Jothi	1,25,000		Furniture	17,500
Kanaga	1,50,000	4,75,000	Plant & Machinery	48,750
Profit & Loss A/c		22,000	Building	1,20,000
Outstanding expenses		500		
		5,92,000		5,92,000

Lalitha retired from the partnership on 1st April 2004 on the following terms:

1. Goodwill of the firm was to be valued at Rs.30,000
2. The assets are to be valued as under: Stock Rs.1,00,000; Furniture Rs.15,000; Plant and Machinery Rs.45,000; Building Rs.1,00,000.
3. A provision for doubtful debts be created at Rs.4,250.
4. Lalitha was to be paid off immediately.

Show the journal entries, prepare revaluation account, capital accounts, Bank account and balance sheet of the reconstituted partnership.

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established under Section 3 of UGC Act, 1956)
Coimbatore - 641 021
Department of Commerce
I B.Com/B. Com (CA)/ B. Com (PA)/ B. Com (BPS) (2018-2021)
Financial Accounting (18CMU101/18CCU101/18PAU101/18BPU101)

UNIT V

QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
An ordinary partnership business can have:	Not more than 50 partners	Not more than 20 partners	Any number of partners.	Any number than 2 partners.	Not more than 20 partners
A banking partnership business can have:	Not more than 10 partners	Not more than 20 partners.	Not more than 50 partners	Any number of partners	Not more than 10 partners
In the absence of an agreement profit and loss are divided by partners in the ratio of:	Capital	Equally	Time devoted by each partners	On partners interest	Equally
In the absence of an agreement, Interest on loan advanced by the partner to the firm is allowed at the rate of:	6%	5%	12%	9%	6%
Current accounts of the partners should be opened when the capitals are:	Fluctuating	Fixed	Either fixed or fluctuating	Fixed and Fluctuating	Fixed
Investment in partnership is made by introducing	Cash	Non-Cash Assets	Cash or Non-cash assets	Cash and Non cash assets	Cash or Non-cash assets
Partnership is formed by the partners by	Written Agreement	Oral Agreement	Written Or Oral Agreement	Neither Written nor Oral Agreement	Written Or Oral Agreement
Any partner who investments in the business but does not take active part in the business is	Secret partner	Sleeping partner	Active partner	Nominal partner	Sleeping partner
The written agreement of partnership is called	Partnership deed	Articles of association	Memorandum of association	Certificate of incorporation	Partnership deed
Under fixed capital methods, profit will be credited to	Capital Account	Drawings	Current A/c	Profit & Loss	Current A/c
Partnership business in Pakistan is government by partnership Act of	1913	1932	1934	1928	1932

The members of partnership firm are individually called as	Director	Investor	Partner	Manager	Partner
The object of partnership is to	Earn profit	Not to earn profit	Welfare of members	Non welfare of members	Earn profit
Liability of partners in a partnership business is:	Limited	Un-limited	Limited & unlimited	Either Limited or Un-limited	Un-limited
Capital of the partners are maintained by	Fixed capital method.	Fluctuating capital methods	By any two above methods.	Neither Fixed nor Fluctuating	By any two above methods.
Drawings of the partners are	Debited to profit & loss A/c	Credited to profit & loss A/	Credited to capital A/c	Debited to capital A/c	Debited to capital A/c
A partners has to pay interest on drawings what is the entry in the personal A/c of the partner?	Credit partners capital A/c	Credit partners current A/c	Debit the partners current A/c	Debit partners current A/c	Debit partners current A/c
Interest on capital Account	Debited to profit & loss A/c	Credit to profit & loss A/c	Debit to profit & loss and credited to partners capital A/c	Only credited to partners capital A/c.	Debit to profit & loss and credited to partners capital A/c
At the time of admission of a new partner the firm is:	Dissolved	Continued	Not effected	Re-organized	Dissolved
At the time of admission an incoming partner contributes as goodwill	In cash	Does not pay cash	May or may not pay cash for good will	Reduces from his profit	May or may not pay cash for good will
Good will is valued as two years purchase of the average profits of three previous years are Rs. 15000, the value of good-will be	Rs. 15000	Rs. 30000	Rs. 20000	Rs. 50000	Rs. 30000
An incoming partner pays his share of good will in cash, and profit sharing ration of old partner is changed, Good – will be distributed among old partners	As their old profit ratio	According to new ratio	According to sacrifice ratio	According to gaining ratio	According to sacrifice ratio
At the time of admission of a new partner, general reserve is	Debited to capital of old partners	Credited to capital of old partners.	Debited to current account	Allowed to remain is balance sheet	Credited to capital of old partners.
A new partner may be admitted to a partnership	With the consent of all partners	With the consent of two third of old partners	With the consent of any one of the partners	Without consent of old partners	With the consent of all partners

At the time of admission of a new partner Good will	Belongs to all partners, new and old	Belongs only to the new partners who is going to be admitted.	Belongs only to the old partner who have credited it	Belong to none of the partners	Belongs only to the old partner who have credited it
In the revaluation account a decrease in the value of plant and machinery	Appears on the debit side	Appears on the credit side	Does not appear at all	Appears on the debit side of good will account	Appears on the debit side
In the revaluation account an increase in the value of land and building	Appears on the debit side	Appears on the credit side	Does not appear at all	Appears on the debit side of good will account	Appears on the credit side
The partnership may come to an end due to the	Death of a partner	Insolvency of partner	By giving notice	Death or insolvency of a partners or by giving notice	Death or insolvency of a partners or by giving notice
In case of retirement of a partner full good will is credited to the accounts of	All partners	Only retiring partner	Only remaining partner	New Partner	All partners
Revaluation account is operated to find out gain or loss at the time of	Admission of a partner	Retirement of a partner	Death of a partner	Admission or Retirement or Death of a partner	Admission or Retirement or Death of a partner
Partners equity is effected due to	Admission of a partner	Retirement of a partner	Death of a partner	Admission or Retirement or Death of a partner	Admission or Retirement or Death of a partner
The accounting procedure at the retirement of partner is valued	Revaluation of assets and liabilities	Ascertaining his share of good will	Finding the amount due to him	Revaluation of assets and liabilities, Ascertaining his share of good will and finding the amount due to him	Revaluation of assets and liabilities, Ascertaining his share of good will and finding the amount due to him
If the remaining partner want to continue the business, after the retirement of a partner, a new partnership agreement	Necessary	Not necessary	On the interest of the partners	Optioned	Necessary
An account operated to ascertain the loss or gain at the death of a partner is called	Realization account	Revaluation account	Execution account	Deceased partner A/c	Revaluation account
Amount due to out going partner is shown in the balance sheet as his	Liability	Asset	Capital	Loan	Loan
The loss or gain an account of revaluation at the time of retirement of a partner is shared by	Remaining partners	Retiring partner	All partners	New Partner	All partners

On the retirement of a partner any reserve being should be transferred to the capital account of	All partners in the old profit sharing ratio	Remaining partners in the new profit sharing ratio	Neither the retiring partner, nor the remaining partner	New Partner	All partners in the old profit sharing ratio
Old profit sharing ratio minus new profit sharing ratio is equal to	Sacirficing Ratio	Gaining Ratio	Capital Ratio	Profit sharing ratio	Sacrificing Ratio
For any decrease in the value of liability, revalutaion A/c is to be:	Debited	Credited	Both debited and Credited	Neither Debited nor Credited	Credited
Revaluation A/c is a:	Real A/c	Personal A/c	Cash A/c	Nominal A/c	Nominal A/c
When good will is brought in cash by new partner, method is known as	Premium method	Revaluation Method	Memorandum revaluation method	Initial Method	Premium Method
Section 37 of partnership act provided interest on the amount left by retiring or decreased partner at	5%	10%	6%	Bank rate	6%
When a partner dies, firm will receive the:	1/2 amount of policy	1/4 amount of policy	3/4 amount of policy	Full amount of policy	Full amount of policy
The profit or loss on revaluation of assets at the time of admission must be transferred to the partners in the ________	Capital Ratio	Old Profit Sharing Ratio	New Profit Sharing ratio	Sacrificing ratio	Old Profit Sharing Ratio
Any amount to be written off after admission of a partner is transferred to the capital accounts of the partners in	Old ratio	New Ratio	Capital Ratio	Sacrificing ratio	New Ratio
On admission of a new partner, decrease in the value of asset is debited to	Revaluation Account	Balance Sheet	Trading Account	Profit and Loss Account	Profit and Loss Adjustment Account
When a new partner is admitted the combined share of the old partners are	reduced	increased	Multiplied	Divided	reduced
A and B share in the ratio of 3:2. C is admitted as a partner and is given one fifth of the share. Then the ratio of sacrifice will be	3:2	4:2	5:2	6:2	3:2
The sum of shares sacrificed by the old partners is equal to the share given to the ________	Existing partner	Active partner	New Partner	Dormant Partner	New Partner
Profit on revaluation is to be credited to the old partners in the	Old ratio	New Ratio	Capital Ratio	Sacrificing ratio	Old ratio

All accumulated losses are transferred to the capital accounts of the partners in ______	Capital Ratio	Old Profit Sharing Ratio	New Profit Sharing ratio	Sacrificing ratio	Old Profit Sharing Ratio
Goodwill paid by a new partner must be shared by the old partners in their _______	Capital Ratio	Old Profit Sharing Ratio	New Profit Sharing ratio	Sacrificing ratio	Sacrificing ratio
Goodwill is a	Fixed Asset	Tangible Asset	Intangible Asset	Current Asset	Intangible Asset
It is necessary to value the goodwill at the admission of a new partner and credit should be given to	all partners	the old partners	new partner	retiring partner	the old partners
In the absence of specific agreement, the old partners contribute to the new partner's share of profit	equally	in proportion of their capital	in their profit sharing ratio	gaining ratio	in their profit sharing ratio
_______ = old ratio - new ratio	Gaining Ratio	Old Profit Sharing Ratio	New Profit Sharing ratio	Sacrificing ratio	Sacrificing ratio
Normal Profit = Capital employed x ___________	Average profit	Super profit	Normal rate of return	No of years of purchase	Normal rate of return
Super profit = Average profit - _________	Average profit	Normal profit	Normal rate of return	No of years of purchase	Normal profit
______ = Total profit/ No. of years	Average profit	Normal profit	Normal rate of return	No of years of purchase	Average profit
_____ = Average profit - Normal profit	Super profit	Normal rate of return	No of years of purchase	Average profit	Super profit
______ = Capital employed x normal rate of return	Super profit	No of years of purchase	Average profit	Normal profit	Normal profit

REG. NO……………….

[18CMU101/18CCU101/18PAU101/18BPU101]

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under section 3 of UGC Act 1956)
Coimbatore – 641021
(For the candidates admitted from 2018 onwards)
FIRST INTERNAL TEST – JULY, 2018

First Semester
B. Com./ B. Com.(CA)/ B. Com.(PA)/ B. Com.(BPS)
FINANCIAL ACCOUNTING

Time duration : 2 Hrs **Maximum Marks: 50**

PART – A (20 X 1 =20 MARKS)
MULTIPLE CHOICE QUESTIONS

1. Bank account is a
   (a) Personal account (b) Real account
   (c) Nominal account (d) Capital account

2. A written document in support of a transaction is called -------------
   (a) Receipt (b) Credit note
   (c) Debit note (d) Total cost of asset

3. Business transaction may classified in to --------------- transactions
   (a) Three (b) Two (c) One (d) Invoice book

4. Rent paid to land lord. Rent account is a
   (a) Personal account (b) Real account
   (c) Nominal account (d) Not an account

5. Ledger is a set of _________
   (a) Accounts (b) Journal
   (c) Transactions (d) Overdraft as per pass book

6. Journal records transactions in a _________order.
   (a) Chronological (b) Analytical
   (c) Sequence (d) Capital account

7. Ledger records in an _________ order
   (a) Alphabetical (b) Analytical
   (c) Chronological (d) Cash

8. When the goods are returned to the supplier a _________is sent to him
   (a) Debit note (b) Credit note
   (c) Journal proper (d) Ledger

9. Cash book is one of the ---------- books.
   (a) Purchase book (b) subsidiary book
   (c) sales book (d) invoice book

10. A person who owes money to the business is a __________
    (a) Debtor (b) Creditor
    (c) Investor (d) Agent

11. A _________ is a person to whom business owes money
   (a) Creditor (b) Debtor
   (c) proprietor (d) Investor

12. Asset acquired for long period of time in the business is known as
   (a) Fixed asset (b) Current asset
   (c) Fictitious asset (d) Dummy assets

13. An asset worth Rs. 1,00,000 is sold for Rs.85,000 the capital loss amounts to
   (a) Rs.85,000 (b) Rs.1,00,000
   (c) Rs.15,000 (d) Rs.1,85,000

14. Amount spent on acquiring a copy right is an example for
   (a) Capital expenditure (b) Revenue expenditure
   (c) Deferred revenue expenditure (d) Profit and loss

15. One of the current assets is
   (a) Stock (b) Machinery (c) land (d) Sales

16. cost means ---------
   (a) price (b) expenses (c) production (d) building

17. The process of recording, classifying, analyzing and communicating the financial transactions is called as
   (a) single entry (b) accounting **(c)** journalising (d) ledger

18. Accounting begins ----------------- ends.
   (a) book keeping (b) voucher
   (c) business transactions (d) overdraft as per pass book

19. The statement containing various ledger balances on a date is known as -----------
   (a) trial balance (b) balance sheet
   (b) (c) profit/loss a/c (d) net profit

20. Financial position of a business is ascertained on the basis of
   (a) Journal (b) Trial balance
   (c) Balance Sheet (d) Ledger

PART – B (3 X 2 = 6 Marks)
Answer ALL questions

20. What is accounting?

21. Draft the golden rules of accounting.

22. Prepare journal entries for

   (a) Rent paid Rs.6000, (b) Withdrew cash for personal use Rs. 10,000

PART – C (3 X 8 = 24 Marks)
Answer ALL questions

23. (a) Explain the various concepts of accounting.

(OR)

(b) Pass journal entries for the following transactions in the books of Nikhil Bhusan:

1997 Jan.	1	Commenced business with a capital Rs. 20,000
	3	Amount deposited in S.B.I Rs. 5,000
	6	Goods purchased for cash Rs. 7,000
	10	Furniture purchased from Chinasamy Rs. 5,000
	11	Goods sold to Anil for cash Rs. 8,000
	13	Goods sold to Ravi Das Rs. 2,000
	25	Cash drew for private uses Rs. 500
	31	Salaries paid Rs. 800

24. (a) Describe the conventions of accounting in detail.

(OR)

(b) Mr. Prem Kumar provides the following information for the month of March 2017. Pass journal entries in his books.

1	Started business with a capital of Rs. 1,25,000
3	Deposited cash into bank Rs. 25,000
8	Purchased goods from Ashiq Rs. 18,000
11	Sold goods for cash Rs. 8,000
15	Paid cheque to Ashiq Rs. 7,500
19	Sold goods to Joseph Rs. 3,500
22	Paid carriage inwards Rs. 500
29	Joseph paid Rs. 3,250 and settled his account
30	Paid Rs. 10,000 to Ashiq and settled his account
31	Paid Salaries Rs. 1,000 and rent Rs. 500

25. (a) Enumerate the advantages and disadvantages of Accounting.

(OR)

(b) Pass journal entries for the following transactions, post them in the ledger accounts and Prepare trial balance.

2017

June 1	Basu started business with cash Rs. 50,000
4	Purchased furniture by paying cash for Rs. 6,000
7	Purchased machinery on credit from Harish Rs. 10,000
10	Bought goods for cash s. 4,000
18	Paid insurance premium Rs.100

I CIA (Financial accounting)

Part – A

Answer ALL question

1. Personal account
2. Receipt
3. Two
4. Nominal account
5. Accounts
6. Chronological
7. Alphabetical
8. Debit Note
9. Subsidiary book
10. Debtor
11. Creditor
12. Fixed asset
13. Rs.15,000
14. Capital expenditure
15. Stock
16. Expenses
17. Accounting
18. Book Keeping
19. Trial balance
20. Balance sheet

Part – II

Answer All questions

21. **Accounting** is the systematic and comprehensive recording of financial transactions pertaining to a business. **Accounting** also refers to the process of summarizing, analyzing and reporting these transactions to oversight agencies, regulators and tax collection entities.
22. **Golden Rules of Accounting**

    Real Accounting:
    Dr - What comes in
    Cr - What goes out
    Examples of this kind of transaction include cash/bank and rent.
    Personal Accounting:
    Debit is the receiver.
    Credit is the giver.
    An example of this kind of transaction is Vendor/Customer relations.

    Nominal Accounting:
    All gains and income are credit.
    All losses and expenses are debit.
    An example of this kind of transaction is sales and/or purchases.

23.

Particulars	L.F	Debit (Rs)	Credit (Rs)
Rent a/c Dr To cash a/c (Being rent paid b cash)		6000	 6000
Drawing a/c Dr To Cash a/c (Being cash withdrawn for personal use)		10000	 10000

Part – C

Answer All question

24 (a). **Concept of accounting:**

There are a number of conceptual issues that one must understand in order to develop a firm foundation of how accounting works. These basic accounting concepts are as follows:

- ***Accruals concept*.** Revenues are recognized when earned, and expenses are recognized when assets are consumed. This concept means that a business may recognize sales, profits and losses in amounts that vary from what would be recognized based on the cash received from customers or when cash is paid to suppliers and employees. Auditors will only certify the financial statements of a business that have been prepared under the accruals concept.
- ***Conservatism concept***. Revenues are only recognized when there is a reasonable certainty that they will be realized, whereas expenses are recognized sooner, when there is a reasonable possibility that they will be incurred. This concept tends to result in more conservative financial statements.
- ***Consistency concept*.** Once a business chooses to use a specific accounting method, it should continue using it on a go-forward basis. By doing so, the financial statements prepared in multiple periods can be reliably compared.
- ***Economic entity concept*.** The transactions of a business are to be kept separate from those of its owners. By doing so, there is no intermingling of personal and business transactions in a company's financial statements.
- ***Going concern concept*.** Financial statements are prepared on the assumption that the business will remain in operation in future periods. Under this assumption, revenue and expense recognition may be deferred to a future period, when the company is still operating. Otherwise, all expense recognition in particular would be accelerated into the current period.
- ***Matching concept*.** The expenses related to revenue should be recognized in the same period in which the revenue was recognized. By doing this, there is no deferral of expense recognition into later reporting periods, so that someone viewing a company's financial statements can be assured that all aspects of a transaction have been recorded at the same time.

- ***Materiality concept.*** Transactions should be recorded when not doing so might alter the decisions made by a reader of a company's financial statements. This tends to result in relatively small-size transactions being recorded, so that the financial statements comprehensively represent the financial results, financial position, and cash flows of a business.

24. (b)

Date	**Particulars**	**L.F**	**Debit (Rs)**	**Credit (Rs)**
1.1.1997	Cash a/c Dr To Capital a/c (Being business commended)		20000	20000
3.1.1997	SBI a/c Dr To Cash a/c (Being amount deposited in SBI)		5000	5000
6.1.1997	Purchase a/c Dr To cash a/c (being goods purchased for cash)		7000	7000
10.1.1997	Furniture /c Dr To Chinasamy a/c (Being Furniture purchased for credit)		5000	5000
11.1.1997	Cash a/c Dr To Sale a/c (Being goods sold for cash)		8000	8000
13.1.1997	Ravi das a/c Dr To sale a/c (Being goods sold for credit)		2000	2000
25.1.1997	Cash a/c Dr To Drawing a/c (Being cash drew for personnel use)		500	500
31.1.1997	Salary a/c Dr To Cash a/c (Being salary paid)		800	800

25 (a) Accounting Conventions:

Convention of Consistency

To compare the results of different years, it is necessary that accounting rules, principles, conventions and accounting concepts for similar transactions are followed consistently and continuously. Reliability of financial statements may be lost, if frequent changes are observed in accounting treatment. For example, if a firm chooses cost or *market price whichever is lower* method for stock valuation and *written down value method* for depreciation to fixed assets, it should be followed consistently and continuously.

Consistency also states that if a change becomes necessary, the change and its effects on profit or loss and on the financial position of the company should be clearly mentioned.

Convention of Disclosure

The Companies Act, 1956, prescribed a format in which financial statements must be prepared. Every company that fall under this category has to follow this practice. Various provisions are made by the Companies Act to prepare these financial statements. The purpose of these provisions is to disclose all essential information so that the view of financial statements should be true and fair. However, the term 'disclosure' does not mean all information. It means disclosure of information that is significance to the users of these financial statements, such as investors, owner, and creditors.

Convention of Materiality

If the disclosure or non-disclosure of an information might influence the decision of the users of financial statements, then that information should be disclosed.

For better understanding, please refer to General Instruction for preparation of Statement of Profit and Loss in revised scheduled VI to the Companies Act, 1956:

- A company shall disclose by way of notes additional information regarding any item of income or expenditure which exceeds 1% of the revenue from operations or Rs 1,00,000 whichever is higher.
- A Company shall disclose in Notes to Accounts, share in the company held by each shareholder holding more than 5% share specifying the number of share held.

Conservation or Prudence

It is a policy of playing safe. For future events, profits are not anticipated, but provisions for losses are provided as a policy of conservatism. Under this policy, provisions are made for doubtful debts as well as contingent liability; but we do not consider any anticipatory gain.

25 (b) **Mr.Prem Kumar Journal Entry**

Date	**Particulars**	**L.F**	**Debit (Rs)**	**Credit (Rs)**
1.3.2017	Cash a/c Dr To Capital a/c (Being business commended)		125000	 125000
3.3.2017	Bank a/c Dr To Cash a/c (Being cash deposited into bank)		25000	 25000
8.3.2017	Purchase a/c Dr To Ashiq A/c (Being purchased goods from Ashiq)		18000	 18000
11.3.2017	Cash a/c Dr To Sale a/c (Being goods sold for cash)		8000	 8000
15.3.2017	Ashiq a/c Dr To Bank a/c (Being paid cheque to Ashiq)		7500	 7500
19.3.2017	Joseph a/c Dr To Sale a/c		3500	 3500

	(Being sale to Joseph)			
22.3.2017	Carriage inwards a/c Dr To cash a/c (Being carriage inwards paid)		500	 500
29.3.2017	Cash a/c Dr Discount A/c Dr To Joseph (Being Joseph amount settled)		3250 250	 3500
30.3.2017	Ashiq a/c Dr To Cash a/c To Discount a/c (Being Ashiq amount settlement regards)		10500	 10000 500
31.3.2017	Salary a/c Dr Rent A/c Dr To cash a/c (Being salary and rent paid)		1000 500	 1500

26.(a) Advantages and Disadvantages of Accounting:

Advantages of Accounting:

- Accounting helps to maintain the business records in a systematic manner.
- It helps in the preparation of financial statements.
- Accounting information is also used to compare the result of current year with the previous year to analyze the changes.
- It helps the managers in the decision making process.
- It provides information to other interested parties such as shareholders, creditors, investors, customers, government, employees, regulatory bodies etc.
- It helps in taxation matter
- Accounting information can be produced as evidence in the legal matter.
- It helps in valuation of business.

Limitations of Accounting

- The items expressed in monetary terms are recorded in the accountings where as the items which are nonmonetary nature not recorded.
- Sometimes accounting data are recorded on the basis of estimates and which could be inaccurate.
- Fixed assets are recorded as the original cost.
- Value of money does not remain stable so accounting value does not show true financial results.
- Accounting can be manipulated and biased.

26 (B). Journal Entry

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1.6.2017	Cash a/c Dr To Capital a/c (Being business commended)		50000	 50000
4.6.2017	Furniture a/c Dr To Cash a/c (Being furniture purchase for cash)		6000	 6000
7.6.2017	Machinery a/c Dr To Harish a/c (Being machinery purchased for credit)		10000	 10000
10.6.2017	Purchase a/c Dr To Cash a/c (Being bought for cash)		4000	 4000
18.6.2017	Insurance premium a/c Dr To cash A/c (Being insurance premium paid)		100	 100

Ledger A/c

Capital A/c

Particulars	Rs.	Particulars	Rs.
		By Cash	50000
	50000		**50000**

Cash A/c

Particulars	Rs.	Particulars	Rs.
To Capital	50000	By furniture	6000
		By Purchase	4000
		By Insurance Premium	100
	30900		**30900**

Furniture A/c

Particulars	Rs.	Particulars	Rs.
To cash	6000		
	6000		**6000**

Machinery A/c

Particulars	Rs.	Particulars	Rs.
To Harish	10000		
	10000		**10000**

Purchase A/c

Particulars	Rs.	Particulars	Rs.
		By Machinery	10000
	10000		**10000**

Insurance Premium A/c

Particulars	Rs.	Particulars	Rs.
To Cash	4000		
	4000		**4000**

Harish A/c

Particulars	Rs.	Particulars	Rs.
		By Machinery	10000
	10000		**10000**

Trial Balance

Particulars	Debit Rs.	Credit Rs.
Capital		50000
Cash	30900	
Furniture	6000	
Machinery	10000	
Harish		10000
Purchase	4000	
Insurance Premium	100	
Suspense	**9000**	
	50000	**50000**