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

Introduction:

Accounting is a business language. We can use this language to communicate financial transactions and their results. Accountings are comprehensive systems to collect, analyze, and communicate financial information.

The origin of accounting is as old as money. In early days, the numbers of transactions were very small, so every concerned person could keep the record of transactions during a specific period of time. Twenty-three centuries ago, an Indian scholar named *Kautilya* alias *Chanakya* introduced the accounting concepts in his book *Arthashastra*. In his book, he described the art of proper account keeping and methods of checking accounts. Gradually, the field of accounting has undergone remarkable changes in compliance with the changes happening in the business scenario of the world.

A bookkeeper may record financial transactions according to certain accounting principles and standards and as prescribed by an accountant depending upon the size, nature, volume, and other constraints of a particular organization.

With the help of accounting process, we can determine the profit or loss of the business on a specific date. It also helps us analyze the past performance and plan the future courses of action.

Definition of Accounting

The American *Institute of Certified Public Accountant* has defined Financial Accounting as:

"the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which in part at least of a financial character and interpreting the results thereof."

Objectives and Scope of Accounting

Let us go through the main objectives of Accounting:

- To keep systematic records: Accounting is done to keep systematic record of financial transactions. The primary objective of accounting is to help us collect financial data and to record it systematically to derive correct and useful results of financial statements.
- To ascertain profitability: With the help of accounting, we can evaluate the profits and losses incurred during a specific accounting period. With the help of a Trading and Profit & Loss Account, we can easily determine the profit or loss of a firm.
- To ascertain the financial position of the business: A balance sheet or a statement of affairs indicates the financial position of a company as on a particular date. A properly drawn balance sheet gives us an indication of the class and value of assets, the nature and value of liability, and also the capital position of the firm. With the help of that, we can easily ascertain the soundness of any business entity.
- To assist in decision-making: To take decisions for the future, one requires accurate financial statements. One of the main objectives of accounting is to take right decisions at right time. Thus, accounting gives you the platform to plan for the future with the help of past records.
- To fulfill compliance of Law: Business entities such as companies, trusts, and societies are being run and governed according to different legislative acts. Similarly, different taxation laws (direct

indirect tax) are also applicable to every business house. Everyone has to keep and maintain different types of accounts and records as prescribed by corresponding laws of the land. Accounting helps in running a business in compliance with the law.

Accounting Information – Characteristics:

Because the accounting information connected to the beneficiaries of the most important of the main objectives of accounting must therefore be that this accounting information has characteristics make them useful to achieve their purpose. These properties can be classified into basic and appropriate reliability or the so-called include the possibility of relying on the information and sub-properties and include the possibility of a comparison can be summarized as follows:

1) appropriate:

It is intended that the information that appears in the financial statements related to the decision or a link to be taken to be the same as any impact on the decision-maker when the maker Alaqrarbesdd Study oven cash flows of information of non-cash deemed inappropriate

And determine the appropriateness of accounting information in three elements

A) temporary: any information that comes at the right time delayed access to information wasted a lot of opportunities

B) the predictive ability of information: Ian accounting information enables the decision maker of Thin forecast results for future events

2) Reliability:

Reliability means or the possibility of relying on the so-called information that is characterized by information objectivity, impartiality and sincerity of expression or representation of events and Azawahralta supposed to reflect the accounting information is affected by the reliability of the following elements:

(A) neutrality means stay away from bias-based, which is intentionally access to pre-defined service specific category of beneficiaries Results

(B) objectivity means portability information for review by parties other than the party who prepared

(C) information sincerity in the representation of the phenomenon or event is the subject of research and study

3) comparability:

It means the possibility to make a comparison to the same established between different time periods or to make comparisons between facilities similar in the same activity, for example, compared to the sales of established similar of HR in the same industry. The value of accounting information increases with the increasing possibility of comparison is also worth noting that the possibility of a Mqarnaat between financial periods for the same entity affected by the extent of fortitude to follow the same accounting methods as ways and methods of calculating depreciation inventory valuation.

Functions of Accounting:

Modern Accounting operates within a broad socio-economic environment, and so, the knowledge required of the accountant cannot be sharply compartmentalized. It is therefore, difficult to discuss one area without relating to other areas of knowledge. We place a great emphasis on the conceptual knowledge. The accountant should not only know but he should understand.

From the above it is clear that no define accounting as such, is rather difficult. Many accountants have defined Accounting in very many languages.

Historical or Stewardship Function:

This part relates to the past transactions of the business firm, Accounting records, classifies, reports, analyses and interprets the transactions already effected. Accounting also calculates the profit or loss made during the year and prepares other financial statements and the statement of Assets and Liabilities or the Balance Sheet and reports and results to the proprietors, managers and other interested parties.

Managerial Function:

Accounting is to render such service to the management as to aid different levels of the managerial staff to carry out the operations of the business efficiently.Accounting is to present "information in such a way as to assist management in the creation of policy and in the day to day operation of an undertaking".-M.E.Murphy, Managerial Accounting.

Accounting is an advisory service function and is concerned with furnishing such information to the management as will facilitate efficient planning, operational control and coordination of future activities of the enterprise. Thus, Accounting is to "assist management in establishing a plan for reasonable economic objectives and in making of rational decisions"-Haynes and Massic, Management Analysis.

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.

Branches of Accounting:

Different branches of accounting came into existence keeping in view various types of accounting information needed by a different class of people viz. owners, shareholders, management, suppliers, creditors, taxation authorities and various government agencies, etc. There are three main branches of accounting which include financial accounting, cost accounting and management accounting.

FINANCIAL ACCOUNTING

Financial Accounting is based on a systematic method of recording transactions of any business according to the accounting principles. It is the original form of the accounting process. The main purpose of financial accounting is to calculate the profit or loss of a business during a period and to provide an accurate picture of the financial position of the business as on a particular date. The Trial Balances, Profit & Loss Accounts and Balance Sheets of a company are based on an application of financial accounting. These are used by creditors, banks and financial institutions to assess the financial status of the company. Further, taxation authorities are able to calculate the tax based on these records only.

COST ACCOUNTING

Cost accounting deals with evaluating the cost of a product or service offered. It calculates the cost by considering all factors that contribute to the production of the output, both manufacturing and administrative factors. The objective of cost accounting is to help the management in fixing the prices and controlling the cost of production. It also pin points any wastages, leakages and defects during manufacturing and marketing processes.

MANAGEMENT ACCOUNTING

This branch of accounting provides information to management for better administration of the business. It helps in making important decisions and controlling of various activities of the business. The management is able to take decisions efficiently with the help of various Management Information Systems such as Budgets, Projected Cash Flow and Fund Flow Statements, Variance Analysis reports, Cost-Volume-Profit Analysis reports, Break-Even-Point calculation, etc.

Management accounting and financial accounting are not to be confused with each other. Both are different. Management accounting serves the needs of the management in decision makings regarding minimization of the cost factor and enhancing of profit making. Financial accounting serves the needs of shareholders, creditors and financial institutions for ascertaining the financial position of the company. Management accounting records are kept secret for the use of management only. They are not made public.

Besides the above mentioned three branches of accounting, there are many other branches which are in practice and very useful for various purposes as mentioned below:

AUDITING

Auditing is a branch of accounting where an external certified public accountant known as Auditor inspects and certifies the accounts of a business for their accuracy and consistency. Sometimes internal auditing is also practiced where an employee of the same company audits the accounts on the regular basis and aids the management in keeping accurate records for audit purpose.

TAX ACCOUNTING

Tax Accounting deals with taxation matters. Its functions include preparation and filing of various tax returns and dealing with their legal implications. Tax accountants aid in minimizing tax payments and also help financial accountants in preparing financials for tax reporting to various authorities. Tax accounting involves consultancy regarding the effect of taxes on different aspects of business, minimizing tax through legal ways and also verifying consequences of tax payable on business.

FUND ACCOUNTING

It deals with keeping records for funds of non-profit business entities. Separate fund accounts are maintained for separate works like welfare schemes of different nature to ensure proper utilization of funds.

GOVERNMENT ACCOUNTING

It is done for Central Government (National Government) and State Government budget allocations and utilization. Keeping records ensures proper and efficient utilization of the various budget allocations and safety of public funds.

ORENSIC ACCOUNTING

Forensic Accounting also known as legal accounting enables calculating damages or settling disputes in legal matters. Investigations are done and calculations are carried out to evaluate the damages accurately.

FIDUCIARY ACCOUNTING

It is the accounting and evaluation of a third party's business and property maintained under the guardianship of another person.

Bases of Accounting:

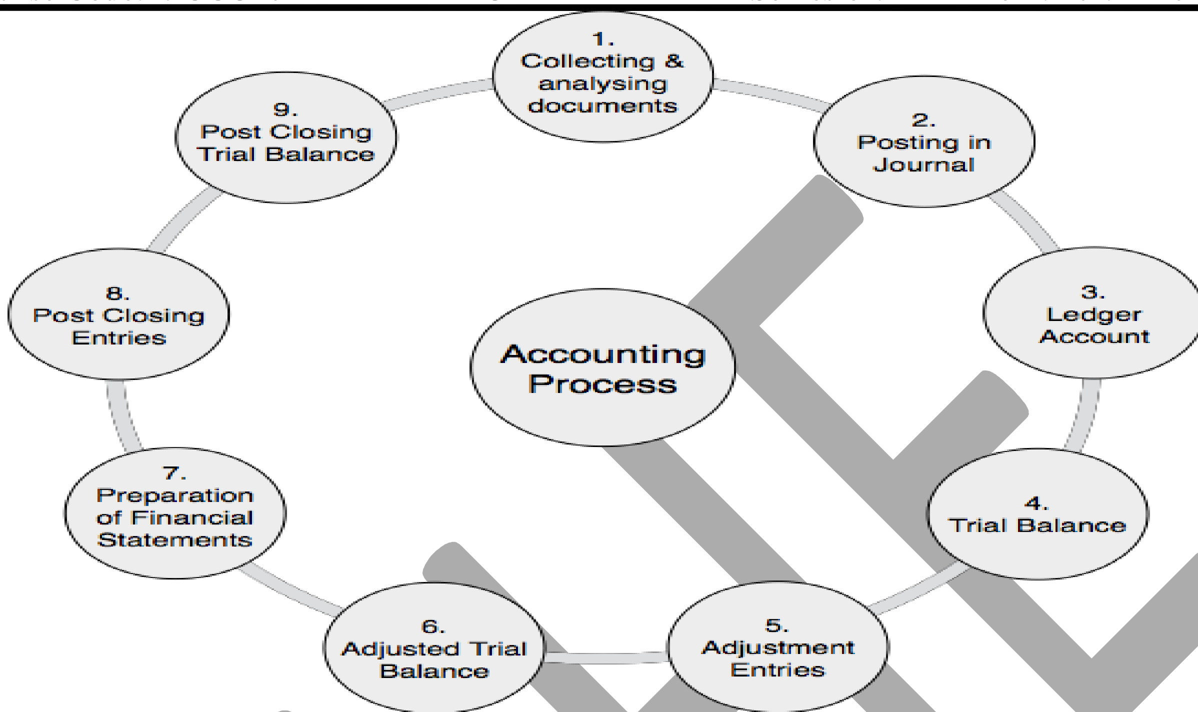
The basis of accounting refers to the methodology under which revenues and expenses are recognized in the financial statements of a business. When an organization refers to the basis of accounting that it uses, two primary methodologies are most likely to be mentioned:

Cash basis of accounting. Under this basis of accounting, a business recognizes revenue when cash is received, and expenses when bills are paid. This is the easiest approach to recording transactions, and is widely used by smaller businesses.

Accrual basis of accounting. Under this basis of accounting, a business recognizes revenue when earned and expenses when expenditures are consumed. This approach requires a greater knowledge of accounting, since accruals must be recorded at regular intervals. If a business wants to have its financial statements audited, it must use the accrual basis of accounting, since auditors will not pass judgment on financial statements prepared using any other basis of accounting

Accounting Process

Accounting cycle refers to the specific tasks involved in completing an accounting process. The length of an accounting cycle can be monthly, quarterly, half-yearly, or annually. It may vary from organization to organization but the process remains the same. The following chart shows the basic steps in an accounting



Accounting Process

The following table lists down the steps followed in an accounting process:

Collecting and Analyzing Accounting Documents	It is a very important step in which you examine the source documents and analyze them. For example, cash, bank, sales, and purchase related documents. This is a continuous process throughout the accounting period.
Posting in Journal	On the basis of the above documents, you pass journal entries using double entry system in which debit and credit balance remains equal. This process is repeated throughout the accounting period.
Posting in Ledger Accounts	Debit and credit balance of all the above accounts affected through journal entries are posted in ledger accounts. A ledger is simply a collection of all accounts. Usually, this is also a continuous process for the whole accounting period.

Preparation of Trial Balance	As the name suggests, trial balance is a summary of all the balances of ledger accounts irrespective of whether they carry debit balance or credit balance. Since we follow double entry system of accounts, the total of all the debit and credit balance as appeared in trial balance remains equal. Usually, you need to prepare trial balance at the end of the said accounting period.
Posting of Adjustment Entries	In this step, the adjustment entries are first passed through the journal, followed by posting in ledger accounts, and finally in the trial balance. Since in most of the cases, we used accrual basis of accounting to find out the correct value of revenue, expenses, assets and liabilities accounts, we need to do these adjustment entries. This process is performed at the end of each accounting period.
Adjusted Trial Balance	Taking into account the above adjustment entries, we create adjusted trial balance. Adjusted trial balance is a platform to prepare the financial statements of a company.
Preparation of Financial Statements	Financial statements are the set of statements like Income and Expenditure Account or Trading and Profit & Loss Account, Cash Flow Statement, Fund Flow Statement, Balance Sheet or Statement of Affairs Account. With the help of trial balance, we put all the information into financial statements. Financial statements clearly show the financial health of a firm by depicting its profits or losses.
Post-Closing Entries	All the different accounts of revenue and expenditure of the firm are transferred to the Trading and Profit & Loss account. With the result of these entries, the balance of all the accounts of income and expenditure accounts come to NIL. The net balance of these entries represents the profit or loss of the company, which is finally transferred to the owner's equity or capital account. We pass these entries only at the end of accounting period.

Post-Closing Trial Balance	Post-closing Trial Balance represents the balances of Asset, Liabilities & Capital account. These balances are transferred to next financial year as an opening balance.

Accounting Concepts

The most important concepts of accounting are as follows:

- Business Entity Concept
- Money Measurement Concept
- Going Concern Concept
- Cost Concept
- Dual Aspects Concept
- Accounting Period Concept
- Matching Concept
- Accrual Concept
- Objective Evidence Concept

The first two accounting concepts, namely, Business Entity Concept and Money Measurement Concept are the fundamental concepts of accounting. Let us go through each one of them briefly:

Business Entity Concept

According to this concept, the business and the owner of the business are two different entities. In other words, I and my business are separate.

For example, Mr A starts a new business in the name and style of M/s Independent Trading Company and introduced a capital of Rs 2,00,000 in cash. It means the cash balance of M/s Independent Trading Company will increase by a sum of Rs 2,00,000/-. At the same time, the liability of M/s Independent Trading Company in the form of capital will also increase. It means M/s Independent Trading Company is liable to pay Rs 2,00,000 to Mr A.

Money Measurement Concept

According to this concept, “we can book only those transactions in our accounting record which can be measured in monetary terms.”

Example

Determine and book the value of stock of the following items:

Shirts Rs 5,000/-

Pants Rs 7,500/-

Coats 500 pieces

Jackets 1000 pieces Value of Stock = ?

Here, if we want to book the value of stock in our accounting record, we need the value of coats and jackets in terms of money. Now if we conclude that the values of coats and jackets are Rs 2,000 and Rs 15,000 respectively, then we can easily book the value of stock as Rs 29,500 (as a result of 5000+7500+2000+15000) in our books. We need to keep quantitative records separately.

Going Concern Concept

Our accounting is based on the assumption that a business unit is a going concern. We record all the financial transaction of a business in keeping this point of view in our mind that a business unit is a going concern; not a gone concern. Otherwise, the banker will not provide loans, the supplier will not supply goods or services, the employees will not work properly, and the method of recording the transaction will change altogether.

For example, a business unit makes investments in the form of fixed assets and we book only depreciation of the assets in our profit & loss account; not the difference of acquisition cost of assets less net realizable value of the assets. The reason is simple; we assume that we will use these assets and earn profit in the future while using them. Similarly, we treat deferred revenue expenditure and prepaid expenditure. The concept of going concern does not work in the following cases:

- If a unit is declared sick (unused or unusable unit).
- When a company is going to liquidate and a liquidator is appointed for the same.
- When a business unit is passing through severe financial crisis and going to wind up.

Cost Concept

It is a very important concept based on the Going Concern Concept. We book the value of assets on the cost basis, not on the net realizable value or market value of the assets based on the assumption that a business unit is a going concern. No doubt, we reduce the value of assets providing depreciation to assets, but we ignore the market value of the assets.

The cost concept stops any kind of manipulation while taking into account the net realizable value or the market value. On the downside, this concept ignores the effect of inflation in the market, which can sometimes be very steep. Still, the cost concept is widely and universally accepted on the basis of which we do the accounting of a business unit.

Dual Aspect Concept

There must be a double entry to complete any financial transaction, means debit should be always equal to credit. Hence, every financial transaction has its dual aspect:

- we get some benefit, and
- we pay some benefit.

For example, if we buy some stock, then it will have two effects:

- the value of stock will increase (get benefit for the same amount), and
- it will increase our liability in the form of creditors.

Transaction	Effect

Purchase of Stock for Rs 25,000	Stock will increase by Rs 25,000 (Increase in debit balance) Cash will decrease by Rs 25,000 (Decrease in debit balance) Or Creditor will increase by Rs 25,000 (Increase in credit balance)

Accounting Period Concept

The life of a business unit is indefinite as per the going concern concept. To determine the profit or loss of a firm, and to ascertain its financial position, profit & loss accounts and balance sheets are prepared at regular intervals of time, usually at the end of each year. This one- year cycle is known as the accounting period. The purpose of having an accounting period is to take corrective measures keeping in view the past performances, to nullify the effect of seasonal changes, to pay taxes, etc.

Based on this concept, revenue expenditure and capital expenditure are segregated. Revenues expenditure are debited to the profit & loss account to ascertain correct profit or loss during a particular accounting period. Capital expenditure comes in the category of those expenses, the benefit of which will be utilized in the next coming accounting periods as well.

Accounting period helps us ascertain correct position of the firm at regular intervals of time, i.e., at the end of each accounting period.

Matching Concept

Matching concept is based on the accounting period concept. The expenditures of a firm for a particular accounting period are to be matched with the revenue of the same accounting period to ascertain accurate profit or loss of the firm for the same period. This practice of matching is widely accepted all over the world. Let us take an example to understand the Matching Concept clearly.

The following data is received from M/s Globe Enterprises during the period 01-04-2012 to 31-03-2013:

Particulars	Amount
1. Sale of 1,000 Electric Bulbs @ Rs 10 per bulb on cash basis.	10,000.00
2. Sale of 200 Electric Bulb @ Rs. 10 per bulb on credit to M/s Atul Traders.	2,000.00
3. Sale of 450 Tube light @ Rs.100 per piece on Cash basis.	45,000.00
4. Purchases made from XZY Ltd.	40,000.00
5. Cash paid to M/s XYZ Ltd.	38,000.00
6. Freight Charges paid on purchases	1,500.00
7. Electricity Expenses of shop paid	5,000.00
8. Bill for March-13 for Electricity still outstanding to be paid next year.	1,000.00

Based on the above data, the profit or loss of the firm is calculated as follows:

Particulars	Amount	Total
Sale		
Bulb	12,000.00	
Tube	45,000.00	
Less:- Purchases	40,000.00	57,000.00
Freight Charges	5,000.00	
Electricity Expenses	1,500.00	
Outstanding Expenses	1,000.00	47,500.00
Net Profit		9,500.00

In the above example, to match expenditures and revenues during the same accounting period, we added the credit purchase as well as the outstanding expenses of this accounting year to ascertain the correct profit for the accounting period 01-04-2012 to 31-03-2013.

It means the collection of cash and payment in cash is ignored while calculating the profit or loss of the year.

Accrual Concept

As stated above in the matching concept, the revenue generated in the accounting period is considered and the expenditure related to the accounting period is also considered. Based on the accrual concept of accounting, if we sell some items or we rendered some service, then that becomes our point of revenue generation irrespective of whether we received cash or not. The same concept is applicable in case of expenses. All the expenses paid in cash or payable are considered and the advance payment of expenses, if any, is deducted.

Most of the professionals use cash basis of accounting. It means, the cash received in a particular accounting period and the expenses paid cash in the same accounting period is the basis of their accounting. For them, the income of their firm depends upon the collection of revenue in cash. Similar practice is followed for expenditures. It is convenient for them and on the same basis, they pay their Taxes.

Objective Evidence Concept

According to the Objective Evidence concept, every financial entry should be supported by some objective evidence. Purchase should be supported by purchase bills, sale with sale bills, cash payment of expenditure with cash memos, and payment to creditors with cash receipts and bank statements. Similarly, stock should be checked by physical verification and the value of it should be verified with purchase bills. In the absence of these, the accounting result will not be trustworthy, chances of manipulation in accounting records will be high, and no one will be able to rely on such financial statements.

ACCOUNTING STANDARDS:

Accounting as a 'language of business' communicates the financial results of an enterprise to various stakeholders by means of financial statements. If the financial accounting process is not properly regulated, there is possibility of financial statements being misleading, tendentious and providing a distorted picture of the business, rather than the true state of affairs. In order to ensure transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardise the accounting principles and policies. Accounting Standards (ASs) provide framework and standard accounting policies so that the financial statements of different enterprises become comparable.

CONCEPT

Accounting standards are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, treatment, measurement, presentation and disclosure of accounting transactions and events in the financial statements. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in the company's economic performance. The accounting standards deal with the issues of-

(i) recognition of events and transactions in the financial statements;

(ii) measurement of these transactions and events;

(iii) presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader; and

(iv) the disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

The whole idea of accounting standards is centered around harmonization of accounting policies and practices followed by different business entities so that the diverse accounting practices adopted for various aspects of accounting can be standardised. Accounting Standards standardize diverse accounting policies with a view to:

(i) eliminate the non-comparability of financial statements and thereby improving the reliability of financial statements; and

(ii) Provide a set of standard accounting policies, valuation norms and disclosure requirements.

Accounting standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises.

Benefits

Accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. By setting the accounting standards, the accountant has following benefits:

(i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.

However, there are some limitations of setting of accounting standards:

(i) Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.

(ii) There may be a trend towards rigidity and away from flexibility in applying the accounting standards.

(iii) Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

Overview

In India, the Institute of Chartered Accountants of India (ICAI), being a premier accounting body in the country, took upon itself the leadership role by constituting the Accounting Standards Board (ASB) on 21st April, 1977. The main function of ASB is to formulate accounting standards so that such standards may be established in India by the council of the ICAI. The council of the Institute of Chartered Accountants of India has, so far, issued thirty two Accounting Standards. However, AS 8 on 'Accounting for Research and Development' has been withdrawn consequent to the issuance of AS 26 on 'Intangible Assets'. Thus effectively, there are 31 Accounting Standards at present. The 'Accounting Standards' issued by the Accounting Standards Board establish standards which have to be complied by the business entities so that the financial statements are prepared in accordance with generally accepted accounting principles.

Following is the list of Accounting Standards with their respective date of applicability.

List of Accounting Standards

Sl. No.	Number of the Accounting Standard (AS)	TITLE OF THE ACCOUNTING STANDARD
1.	AS 1	Disclosure of Accounting Policies
2.	AS 2 (Revised)	Valuation of Inventories
3.	AS 3 (Revised)	Cash Flow Statements
4.	AS 4 (Revised)	Contingencies and Events Occurring after the Balance Sheet Date
5.	AS 5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6.	AS 6 (Revised)	Depreciation Accounting
7.	AS 7 (Revised)	Accounting for Construction Contracts
8.	AS 8 (withdrawn pursuant to AS 26	Accounting for Research and Development
	becoming mandatory)	
9.	AS 9	Revenue Recognition
10.	AS 10	Accounting for Fixed Assets
11.	AS 11 (Revised)	The Effects of Changes in Foreign Exchange Rates

12.	AS 12	Accounting for Government Grants
13.	AS 13	Accounting for Investments
14.	AS 14	Accounting for Amalgamations
15.	AS 15 (Revised)	Employee Benefits
16.	AS 16	Borrowing Costs
17.	AS 17	Segment Reporting
18.	AS 18	Related Party Disclosures
19.	AS 19	Leases
20.	AS 20	Earnings Per Share
21.	AS 21	Consolidated Financial Statements
22.	AS 22	Accounting for Taxes on Income
23.	AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
24.	AS 24	Discontinuing Operations
25.	AS 25	Interim Financial Reporting
26.	AS 26	Intangible Assets
27.	AS 27	Financial Reporting of Interests in Joint Ventures
28.	AS 28	Impairment of Assets
29	AS 29	Provisions, Contingent Liabilities & Contingent Assets
30.	AS 30	Financial Instruments: Recognition & Measurement
31.	AS 31	Financial Instruments: Presentation
32.	AS 32	Financial Instruments: Disclosures

A brief overview of the above mentioned accounting standards is given below:

AS 1 Disclosure of Accounting Policies (Issued 1979)

This Standard is related with presentation/disclosure requirements of the significant accounting policies (specific accounting policies and the methods of applying those principles) followed in preparing financial statements. The true and fair state of affairs and the financial results of an entity is significantly affected by the accounting policies followed in accounting. The areas in which different accounting policies can be followed are accounting for depreciation, revaluation of inventories, valuation of fixed assets etc. The disclosure of the significant accounting policies should form part of the financial statement and any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in the later periods should be disclosed. If any of the fundamental accounting assumptions viz. going concern, consistency and accrual is not followed in financial statements, the fact should be specifically disclosed.

AS 2 Valuation of Inventories (Revised 1999)

AS 2 is a measurement related standard and specifies the methods of computation of cost of inventories and the method of determination of the value of inventory to be shown in the financial statements. As per the standard, the cost of inventories should comprise costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventory is valued by following conservatism principle i.e., at lower of the cost or the market price. With a view to bring about uniformity in inventory valuation practices, the revised AS 2 drastically reduces the alternative choices. The revised standard permits the use of only FIFO or weighted average cost formula for determining the cost of inventories where the specific identification of cost of inventories is not possible. The standard also dispenses with the direct costing method and permits only the absorption costing method for arriving at the cost of finished goods.

AS 3 Cash Flow Statements (Revised 1997)

This standard deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The cash flow statement is an important part of financial statement and helps in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of future cash flows of different enterprises. The requirement of presentation of cash flow statement would force the management to strive to improve the actual cash flows rather than the profits, which is ultimate goal of any business entity.

AS 4 Contingencies and Events occurring after the Balance Sheet date (Revised 1995)

Pursuant to AS 29 'Provisions, Contingent Liabilities and Contingent Assets becoming mandatory in respect of accounting periods commencing on or after 1st April, 2004, all paragraphs of AS 4 dealing with contingencies stand withdrawn except to the extent they deal with impairment of assets not covered by any other Indian AS. The project of revision of this standard by ASB in the light of newly issued AS 29 is under progress. Thus, the present standard (AS 4) deals with the treatment and disclosure requirements in the financial statements of events occurring after the balance sheet. Events occurring after the balance sheet date are those significant events (favourable as well as unfavourable) that occur between the balance sheet date and the date on which financial statements are approved by the approving authority (i.e. board of directors in case of a company) of any entity.

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies (Revised 1997)

This statement should be applied by an enterprise in presenting profit and loss from ordinary activities, extraordinary items and prior period items in the statement of profit and loss, in accounting for changes in accounting estimates, and disclosure of changes in accounting policies. As per AS 5, prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly. The prior period and extraordinary items are required to be disclosed in the profit and loss statement as part of the net profit for the period with separate disclosure of the nature and amount to show its impact on current year's profit or loss.

AS 6 Depreciation Accounting (Revised 1994)

This standard requires that the depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset and the depreciation method selected should be applied consistently from period to period. If there is a change in the method of providing depreciation, such a change should be treated as a change in accounting policy and its effect (deficiency or surplus arising from retrospective recomputation of depreciation as per new method) should be quantified and disclosed. In case any depreciable asset is disposed off, discarded or demolished, the net surplus/deficiency, if material, should be disclosed separately. The depreciation method used and depreciation rates are also required to be disclosed in the financial statements.

AS 7 Construction Contracts (Revised 2002)

The standard prescribes the accounting treatment of revenue and costs associated with construction contracts by laying down the guidelines regarding allocation of contract revenue and contract costs to the accounting periods in which the construction work is performed, since the construction activity is generally contracted and completed in more than one accounting period. An enterprise is required to disclose the amount of recognized contract revenue with the methods used to determine that revenue and the methods applied in determining the stages of completion of contracts in progress. As per the standard, the gross amount due from and to customers for contract works are shown as asset and liability respectively.

AS 8 Accounting for Research and Development

This standard stands withdrawn w.e.f. 1st April, 2003 i.e. the date from which AS 26 on Intangible Assets becomes mandatory.

AS 9 Revenue Recognition (Issued 1985)

The standard deals with the basis for recognition of revenue arising in the course of ordinary activities, from the sale of goods; rendering of services; and income from interest, royalties and dividends in the profit and loss statement of an enterprise. According to the standard, revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalty and dividends. The revenue arising from construction contracts, hire purchase and lease agreements, government grants and subsidies and revenue of insurance companies from insurance contracts are outside the purview of AS 9. In addition to disclosures required by AS 1, AS 9 requires an enterprise to disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

AS 10 Accounting for Fixed Assets (Issued 1985)

The standard deals with the disclosure of the status of the fixed assets in terms of value. The standard does not take into consideration the specialised aspect of accounting for fixed assets reflected with the effects of price escalations but applies to financial statements on historical cost basis. It is important to note that from the date of AS 26 on Intangible Assets, becoming applicable, the relevant paragraphs of this standard (AS 10) dealing with patents and know-how have been withdrawn. An entity should disclose the following information relating to (i) the gross and net book values of fixed assets at beginning and end of an accounting period showing additions, disposals, acquisitions and other movements, (ii) expenditure incurred on account of fixed assets in the course of construction or acquisition, and (iii) revalued amounts substituted for historical costs of fixed assets with the method applied in computing the revalued amount in the financial statements:

AS 11 Effects of Changes in Foreign Exchange Rates (Revised 2003, Applicable w.e.f. 1st April, 2004)

An enterprise may carry on activities involving foreign exchange in two ways – by transacting in foreign currencies or by indulging in foreign operations. In order to include foreign currency transactions and foreign operations in the financial statements of an enterprise, transactions must be expressed in the enterprise's reporting currency and the financial statements of foreign operations must be translated into the enterprise's reporting currency. The standard deals with the issues involved in accounting for foreign currency transactions and foreign operations i.e., to decide which exchange rate to use and how to recognize the financial effects of changes in exchange rates in the financial statements. The standard requires the enterprises to disclose (i) the amount of exchange differences included in the net profit or loss for the period (ii) the amount of exchange differences adjusted in the carrying amount of fixed assets, (iii) the amount of exchange differences in respect of forward exchange contracts to be recognised in the profit or loss in one or more subsequent accounting periods (over the life of the contract).

AS 12 Accounting for Government Grants (Issued 1991)

AS 12 deals with accounting for government grants and specifies that the government grants should not be recognized until there is reasonable assurance that the enterprise will comply with the conditions attached to them, and the grant will be received. The standard also describes the treatment of non-monetary government grants; presentation of grants related to specific fixed assets, related to revenue, related to promoters' contribution; treatment for refund of government grants etc. The enterprises are required to disclose (i) the accounting policy adopted for government grants including the methods of presentation in the financial statements; (ii) the nature and extent of government grants recognised in the financial statements, including non-monetary grants of assets given either at a concessional rate or free of cost.

AS 13 Accounting for Investments (Issued 1993)

The statement deals with accounting for investments in the financial statements of enterprises and related disclosure requirements. The enterprises are required to disclose the current investments (realisable in nature and intended to be held for not more than one year from the date of its acquisition) and long terms investments (other than current investments) distinctly in their financial statements. An investment property should account for as long-term investments. The cost of investments should include all acquisition costs (including brokerage, fees and duties) and on disposal of an investment, the difference between the carrying amount and net disposal proceeds should be charged or credited to profit and loss statement.

AS 14 Accounting for Amalgamations (Issued 1994)

AS 14 deals with accounting for amalgamation and the treatment of any resultant goodwill or reserves and is directed principally to companies although some of its requirements also apply to financial statements of other enterprises. An amalgamation may be either in the nature of merger or purchase. The standard specifies the conditions to be satisfied by an amalgamation to be considered as amalgamation in nature of merger. An amalgamation in nature of merger is accounted for as per pooling of interests method and in nature of purchase is dealt under purchase method. The standard also describes the disclosure requirements for both types of amalgamations in the first financial statements.

AS 15 Employee Benefits (Revised 2005)

The standard requires enterprises to recognise (i) a liability when an employee has provided services in exchange for employee benefits to be paid in future, and (ii) an expense when enterprise consumes the economic benefit arising from services provided by an employee in exchange for employee benefits. Employee benefits can be classified under (i) short-term employee benefits (e.g. wages, salaries etc.), (ii) post-employment benefits (e.g. gratuity, pension etc.), (iii) long-term employee benefits (e.g. long-term leave, long-term disability benefits etc.), and (iv) termination benefits (e.g. VRS payments). The standard lays down recognition and measurement criteria and disclosure requirement for all the four types of employee benefits.

AS 16 Borrowing Costs (Issued 2000)

The standard prescribes the accounting treatment for borrowing costs (i.e. interest and other costs) incurred by an enterprise in connection with the borrowing of funds. This standard deals with the issues related to identification of asset which qualifies for capitalisation of interest, determination of the period for which interest can be capitalized and determination of the amount that can be capitalised. The amount of borrowing costs eligible for capitalisation should be determined in accordance with provisions of AS 16 and other borrowing costs (not eligible for capitalisation) should be recognised as expenses in the period in which they are incurred.

AS 17 Segment Reporting (Issued 2000)

This standard requires that the accounting information should be reported on segment basis. AS 17 establishes principles for reporting financial information about different types of products and services an enterprise produces and different geographical areas in which it operates. The information helps users of financial statements, to better understand the performance and assess the risks and returns of the enterprise and make more informed judgements about the enterprise as a whole. The standard is more relevant for assessing risks and returns of a diversified or multilocational enterprise which may not be determinable from the aggregated data.

AS 18 Related Party Disclosures (Issued 2000)

This standard prescribes the requirements for certain disclosures which must be made in the financial statements of reporting enterprise for transactions between the reporting enterprise and its related parties. The requirements of the standard apply to the financial statements of each reporting enterprise as also to consolidated financial statements presented by a holding company. Since the standard is more subjective, particularly with respect to identification of related parties, obtaining corroborative evidence becomes very difficult for the auditors. Thus successful implementation of AS 18 is dependent upon how transparent the management is and how vigilant the auditors are.

AS 19 Lease (Issued 2001)

AS 19 prescribes the accounting and disclosure requirements for both finance leases and operating leases in the books of the lessor and lessee. The classification of leases adopted in this standard is based on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor and the lessee. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. An operating lease is a lease other than finance lease. At the inception of the lease, assets under finance lease are capitalised in the books of lessee with corresponding liability for lease obligations as against the operating lease, wherein lease payments are recognised as an expense in profit and loss account on a systematic basis (i.e. straight line) over the lease term without capitalizing the asset. The lessor should recognize receivable at an amount equal to net investment in the lease in case of finance lease, whereas under operating lease, the lessor will present the leased asset under fixed assets in his balance sheet besides recognizing the lease income on a systematic basis (i.e. straight line) over the lease term. The person (lessor/lessee) presenting the leased asset in his balance sheet should also consider the additional requirements of AS 6 and AS 10.

AS 20 Earnings Per Share (Issued 2001)

The objective of this standard is to describe principles for determination and presentation of earnings per share which will improve comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise. Earnings per share (EPS) is a financial ratio indicating the amount of profit or loss for the period attributable to each equity share and AS 20 gives computational methodology for determination and presentation of basic and diluted earnings per share.

AS 21 Consolidated Financial Statements (Issued 2001)

AS 21 deals with preparation and presentation of consolidated financial statements with an intention to provide information about the activities of group (parent company and companies under its control referred to as subsidiary companies). Consolidated financial statements are presented by a parent (holding company) to provide financial information about the economic activities of the group as a single economic entity. A parent which presents consolidated financial statements should present their statements in accordance with this standard but in its separate financial statements, investments in subsidiaries should be accounted as per AS 13.

AS 22 Accounting for Taxes on Income (Issued 2001)

AS 22 seeks to reconcile the taxes on income calculated as per the books of account with the actual taxes payable on the taxable income as per the provisions applicable to the entity for the time being in force. This standard prescribes the accounting treatment of taxes on income and follows the concept of matching expenses against revenue for the period. The concept of matching is more peculiar in cases of income taxes since in a number of cases, the taxable income may be significantly different from the income reported in the financial statements due to the difference in treatment of certain items under taxation laws and the way it is reflected in accounts.

AS 23 Accounting for Investments in Associates in Consolidated Financial Statements (Issued 2001)

AS 23 describes the principles and procedures for recognising investments in associates (in which the investor has significant influence, but not a subsidiary or joint venture of investor) in the consolidated financial statements of the investor. An investor which presents consolidated financial statements should account for investments in associates as per equity method in accordance with this standard but in its separate financial statements, AS 13 will be applicable.

AS 24 Discontinuing Operations (Issued 2002)

The objective of this statement is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings, generating capacities, and financial position by segregating information about discontinuing operations from information about continuing operations. This standard is applicable to all discontinuing operations, representing separate major line of business or geographical area of operations of an enterprise.

AS 25 Interim Financial Reporting (Issued 2002)

An enterprise may be required or may elect to present information at interim dates as compared with its annual financial statements due to timeliness and cost considerations. The standard prescribes the minimum contents of an interim financial report and requires that an enterprise which elects to prepare and present an interim financial report, should comply with this standard. It also lays down the principles for recognition and measurement in a complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, trade payables and others to understand an enterprise's capacity to generate earnings and cash flows, its financial condition and liquidity.

AS 26 Intangible Assets (Issued 2002)

The standard prescribes the accounting treatment for intangible assets that are not dealt with specifically under other accounting standards, and requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met. The standard specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets. This standard should be applied by all enterprises in accounting intangible assets, except (a) intangible assets that are covered by another AS, (b) financial assets, (c) rights and expenditure on the exploration for or development of minerals, oil, natural gas and similar non-regenerative resources, (d) intangible assets arising in insurance enterprise from contracts with policyholders, (e) expenditure in respect of termination benefits.

AS 27 Financial Reporting of Interests in Joint Ventures (Issued 2002)

AS 27 set out principles and procedures for accounting of interests in joint venture and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors regardless of the structures or forms under which the joint venture activities take place. The standard deals with three broad types of joint ventures – jointly controlled operations, jointly controlled assets and jointly controlled entities. An investor in joint venture, which does not have joint control, should report its interest in a joint venture in its consolidated financial statements in accordance with AS 13, AS 21 and AS 23.

AS 28 Impairment of Assets (Issued 2002)

AS 28 prescribes the procedures to be applied to ensure that the assets of an enterprise are carried at an amount not exceeding their recoverable amount (amount to be recovered through use or sale of the asset). The standard also lays down principles for reversal of impairment losses and prescribes certain disclosures in respect of impaired assets. An enterprise is required to assess at each balance sheet date whether there is an indication that an enterprise may be impaired. If such an indication exists, the enterprise is required to estimate the recoverable amount and the impairment loss, if any, should be recognised in the profit and loss account. This standard should be applied in accounting for impairment of all assets except inventories (AS 2), assets arising under construction contracts (AS 7), financial assets including investments covered under AS 13, and deferred tax assets (AS 22). There are chances that the provision on account of impairment losses may increase sickness of companies and potentially sick companies may actually become sick.

AS 29 Provisions, Contingent Liabilities and Contingent Assets (Issued 2003)

The objective of AS 29 is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. This standard applies in accounting for provisions and contingent liabilities and contingent assets resulting from financial instruments (not carried at fair value) and insurance enterprises (other than those arising from contracts with policyholders). The standard will not apply to provisions/ liabilities resulting from executing controls and those covered under any other accounting standard.

AS 30 Financial Instruments: Recognition and Measurement (Issued 2008)

Accounting Standard 30 is issued by the Council of the Institute of Chartered Accountants of India, which comes into effect in respect of accounting periods commencing on or after 1.4.2009 and will be recommendatory in nature for an initial period of two years. The preparers of financial statements are encouraged to follow the principles enunciated in the accounting treatments contained in the standard. The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

AS 31 Financial Instruments: Presentation (Issued 2008)

Accounting Standard 31 is issued by the Council of the Institute of Chartered Accountants of India, which comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. The preparers of financial statements are encouraged to follow the principles enunciated in the accounting treatments contained in the standard.

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

AS 32 Financial Instruments: Disclosures (Issued 2008)

Accounting Standard 32 is issued by the Council of the Institute of Chartered Accountants of India, which comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. The preparers of financial statements are encouraged to follow the principles enunciated in the accounting treatments contained in the standard.

The objective of this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

POSSIBLE QUESTIONS

UNIT – I

ACCOUNTING INFORMATION SYSTEM

PART – A (1 Mark)
Online Questions

PART – B (2 Marks)

1. State the meaning of accounting.
2. Define Accounting
3. What are the Objectives of accounting?
4. What do you understanding by Accounting Concepts?
5. What is Cost Concept?
6. What is going concern Concept?
7. What are Accounting Conventions?
8. Write a note on Convention of Conservatism.
9. What is Accrual Concept?
10. What is objective of Evidence Concept?

PART – C (6 Marks)

1. How are accounting concepts classified?
2. Explain Accounting Conventions.

3. Explain Accounting Equation with examples.
4. Distinguish between Accounting and Book Keeping.
5. Explain the advantages and limitation of accounting
6. Explain about the internal and external users of accounting information and their requirement
7. Describe the branches of accounting in detail.
8. Enumerate the different methods of accounting.
9. Explain the Concept of Financial accounting standards.
10. Explain the salient features of first time adoption of Indian accounting standard(Ind – AS).

UNIT-II- Accounting Process

SYLLABUS

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

Accounting Processes:

A sequence of activities involving the recording of how cash is received and paid out in a company or organization. The accounting process in business is based on four accounting methods, which are: the accrual method, the consistency method, the prudence method and the going concern method

Accounting Processes & Procedures:

Accounting is a technical business function responsible for recording, reporting and analyzing financial information. Small business owners use accounting to determine the profitability of their company's operations. As small businesses continue to grow and expand, accounting processes and procedures may be needed to maintain the company's financial information. Accounting processes and procedures are usually based on the basic accounting cycle. The accounting process outlines how financial information flows through a company and which individuals are responsible the information.

- Identify Transactions

Identifying transactions or other financial events is the beginning of the accounting cycle. Business owners use written documents to track specific information relating to financial transactions. These documents classify transactions and usually include specific information regarding economic events. Business owners also use this information to have a historical record of business transactions. Once each transaction is identified and classified, the information is recorded in the company's general ledger.

Record Transactions

Recording transactions is the physical process of entering financial data into the company's general ledger. Small businesses may use manual or automated accounting ledgers in their business operations. Manual accounting requires business owners to maintain several paper ledgers for recording financial transactions. Accounting software provides business owners with an electronic process for recording transactions and maintaining financial information. Recording transactions may require business owners to prepare journal entries based on financial transaction documents.

Prepare Reports and Statements

The final output of the accounting cycle is the preparation of financial reports and statements. These reports and statements provide business owners with information regarding the efficiency and profitability of business operations. Business owners often use information to make decisions on improving operational performance. Business owners can also use this information to secure external financing for growing and expanding their company.

Reconciliation Procedures

Reconciliation procedures ensure all financial information is properly recorded in a company's accounting ledger. Business owners may also require reconciliations when reviewing internal financial information against vendor invoices, bank statements or other external documents. Reconciliation procedures ensure all business or financial information is correct and financial reports include accurate and valid information.

Review Procedures

Review procedures are an important part of the accounting process. Business owners implement these procedures to ensure financial information prepared by employees is correct. Larger organizations with accounting departments commonly use a controller or accounting supervisor to review an employee's work. This review process may discover errors and require changes prior to releasing financial information to business owners.

TRIAL BALANCE:

A trial balance is a list and total of all the debit and credit accounts for an entity for a given period – usually a month. The format of the trial balance is a two-column schedule with all the debit balances listed in one column and all the credit balances listed in the other. The trial balance is prepared after all the transactions for the period have been journalized and posted to the General Ledger.

Key to preparing a trial balance is making sure that all the account balances are listed under the correct column. The appropriate columns are as follows:

Assets = Debit balance

Liabilities = Credit balance

Expenses = Debit Balance

Equity = Credit balance

Revenue = Credit balance

A trial balance is used to check the accuracy of all ledger accounts normally at the end of an accounting period; the worksheet divides a company's accounts into credit and debits in an easy to read format. The balance sheet's aim is to equate the numbers in the two columns until both sections are equal, ensuring that there are no discrepancies or mathematical errors, as noted by Investopedia. The initial step for preparing a trial balance sheet involves listing all the accounts that have balances in the general ledger, as Accounting Coach states. Next, create the debit and credit columns to the right of the account names, and enter the account balances appropriately.

Particulars	Rs.	Particulars	Rs.
To Opening Stock To Purchases Less: Purchas Returns To Freight and Carriage To Wages To Coal & Coke To Gross Profit c/d To Salaries To Rent To Discount To Commission To Advertisement To General Expenses To Directors' Fees Too Bad Debts To Loss on sale of assets	xxx xxx xxx xxx xxx xxx xxx xxx xxx xxx xxx xxx xxx xxx	By Sales Less: Sales Returns xxx By Closing Stock By Gross Profit b/d By Interest Received By Rent Received By Discount By Commission By Profit on sale of Assets	Xxx Xxx Xxx Xxx Xxx Xxx Xxx Xxx Xxx

To Depreciation			

What is an adjusted trial balance:

An adjusted trial balance is a listing of all the account titles and balances contained in the general ledger after the adjusting entries for an accounting period have been posted to the accounts.

The adjusted trial balance is an internal document and is not a financial statement. The purpose of the adjusted trial balance is to be certain that the total amount of debit balances in the general ledger equals the total amount of credit balances.

Adjusted Trial Balance

An Adjusted Trial Balance is a list of the balances of ledger accounts which is created after the preparation of adjusting entries. Adjusted trial balance contains balances of revenues and expenses along with those of assets, liabilities and equities. Adjusted trial balance can be used directly in the preparation of the statement of changes in stockholders' equity, income statement and the balance sheet. However it does not provide enough information for the preparation of the statement of cash flows.

The format of an adjusted trial balance is same as that of unadjusted trial balance.

The totals of an adjusted trial balance must be equal. Any difference indicates that there is some error in the journal entries or in the ledger or in the calculations.

Business income:

Financial compensation generated from company or trade operations. Business income represents money gained from transactions before any expenses or other financial obligations are deducted.

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.

Liabilities	Amount	Assets	Amount
Share Capital: Authorized … shares of Issued: …. Shares Subscribed: …. Shares of Less: Calls Unpaid: (i) By Directors (ii) By others Add: Forfeited Shares Reserves and Surplus: 1.Capital Reserve	Xxx Xxx Xxx Xxx Xxx Xxx Xxx xxx	Fixed Assets a)Goodwil l (b)Land (c) Buildings (d) Leaseholds (e) Railway sidings (f) Plant and machinery (g) Furniture and Fittings: (h) Development of Property (i) Patents, trademarks	Xxx Xxx Xxx Xxx Xxx Xxx Xxx Xxx Xxx Xxx

		and designs	
2.Capital Redemption	xxx	(j) Livestock	
Reserve	xxx	(k) Vehicles etc.,	Xxx
3.Share premium A/c		Investments:	
		1. Investment in	
4. Other Reserves	xxx	Government or	
		trust securities	Xxx
5. Surplus	xxx	2. Investments	
6. Proposed		in shares,	
additions to Reserve	xxx	debentures and	Xxx
		bonds	
7. Sinking funds	Xxx	3. Immovable properties	Xxx
Secured Loans:	Xxx	.Investments in	Xxx
		the capital of	
1.Debentures	Xxx	partnership firms	Xxx
2.Loans and	Xxx	Current assets,	Xxx
advances from		Loans and	
Banks	Xxx	Advances:	Xxx
	Xxx	(A)Current	Xxx
3.Loans and		Assets	
advances from		1. Interest accrued	
subsidiaries	Xxx	on investments	Xxx
		2. Stores and Spare	
4. Other loans	xxx	Parts	xxx
and advances		3. Loose tools	
		4. stock in Trade	
Unsecured Loans:		5. Work in progress	
1Fixed Deposit	xxx	6. Sundry Debtors	xxx
2.Loans and	xxx	7. Cash in hand	xxx
advances from		and at bank	
subsidiaries		(B) Loans and	
	xxx	Advances:	xxx
3. Short term		8. Advances and	
Loans and		loans to subsidiaries	
Advances	xxx	9. Advances and	xxx
4. Other loans		loans to	
and advances	xxx	partnership	xxx
		10. Bills of	

Current Liabilities	xxx	Exchange	xxx xxx

Illustration 7 The Arun Manufacturing Company Limited was registered with a nominal capital of Rs. 60,00,000 in Equity Shares of Rs. 10 each. The following is the list of

Particulars	Amount

Calls-in-arrear	75,000
Premises	30,00,000
Plant and Machinery	
Interim dividend paid on 1st November, 2008	3,92,500
Stock, 1st April, 2008	7,50,000
Fixtures	72,000
Sundry Debtors	8,70,000
Goodwill Cash	2,50,000
in hand Cash at	7,500
Bank Purchases	3,99,000
Preliminary Expenses	18,50,000
Wages	50,000
General Expenses	8,48,650
Freight and Carriage	68,350
Salaries	1,31,150
Directors' Fees	1,45,000
Bad Debts	57,250
Debenture interest paid	21,100
Share Capital	1,80,000
12% Debentures	40,00,000
Profit and Loss Account (Credit Balance)	30,00,000
Bills Payable	2,62,500
Sundry Creditors	3,70,000
Sales	4,00,000
General Reserve	41,50,000
Bad debts Provision 1st April, 2008	2,50,000

Prepare Trading and Profit and Loss Account and Balance Sheet in proper form after making the following adjustments:

(a) Depreciate Plant and Machinery by 15%.
(b) Write off Rs. 5,000 from Preliminary Expenses. (c)
Provide for half year's debenture interest due.
(d) Leave Bad and Doubtful Debts Provision at 5% on Sundry Debtors. (e)
Provide for Income Tax @ 50%.
(f) Stock on 31st March, 2009 was Rs. 9,50,000.

Trading and Profit and Loss Account of Arun Manufacturing Company Limited
As on 31st March, 2009

Particulars	Amount	Particulars	Amount
To Opening Stock	18,50,000	By Sales	41,50,000
To Purchases	7,50,000	By Closing Stock	9,50,000
To Wages		By Gross Profit b/d	51,00,000
To Freight and Carriage	8,48,650	By Balance b/d	15,20,200
To Gross Profit c/d	1,31,150	By Net Profit b/d	
To Salaries	15,20,200		
To General Expenses	51,00,000		
To Directors' Fees			
To Bad debts			
21,100	1,45,000		
Add: New Provision	68,350		
43,500---64,600	57,250		
Less: Old Provision			
35,000--To Debenture interest paid			
1,80,000			
Add: Outstanding			
1,80,000___---------------------	29,600		
To Depreciation on Plant and Machinery			
To Preliminary Expenses	3,60,000		
To Provision for Income Tax			
To Net Profit c/d			
To Interim Dividend	29,600		
To Profit Transferred to Balance Sheet			
Rs. 10	3,60,000		
Per share			
Issued Capital :	4,95,000		
4,00,000 Equity Shares of			
Rs.10 per share Subscribed &			
Paid up Capital:	5,000		

4,00,000 Equity Shares Of Rs. 10 per share 40,00,000 Less: Calls in arrears 75,000------------- Reserves and Surplus: General Reserve Profit and Loss account	1,80,000 1,80,000 15,20,200 3,92,500 50,000 4,42,500	By Balance b/d By Net Profit b/d	15,20,200 2,62,500 1,80,000

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.

Matching Concept

It is a problem of recognition of revenue during the year and allocation of expired cost to the period.

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.
- Installment Method − Installment 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.

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.

Change in the Basis of Accounting

We have to pass adjustment entries whenever accounting records change from cash basis to accrual basis or vice versa specially in respect of the prepaid expenses, outstanding expenses, accrued income, income received in advance, bad debts & provisions, depreciation, and stock in trade.

Features of Accounting Income

1. Matching revenue with related cost or expenses is a matter of accounting income.
2. Accounting income is based on an accounting period concept.
3. Expenses are measured in terms of a historical cost and determination of expenses is based on a cost concept.
4. It is based on a realization principal.
5. Revenue items are considered to ascertain a correct accounting income.

Net income

Definitions (2)

1. In business, what remains after subtracting all the costs (namely cost of business, depreciation, interest, and taxes) from a company's revenues. Net income is sometimes called the bottom line. also called earnings or net profit.
2. For an individual, gross income minus taxes, allowances, and deductions. An individual's net income is used to determine how much income tax is owed.

Net income, also called net profit, is a calculation that measures the amount of total revenues that exceed total expenses. It other words, it shows how much revenues are left over after all expenses have been paid. This is the amount of money that the company can save for a rainy day, use to pay off debt, invest in new projects, or distribute to shareholders. Many people refer to this measurement as the bottom line because it generally appears at the bottom of the income statement.

Formula

The net income formula is calculated by subtracting total expenses from total revenues. Many different textbooks break the expenses down into subcategories like cost of goods sold, operating expenses, interest, and taxes, but it doesn't matter. All revenues and all expenses are used in this formula.

Net Income Formula:

Net Income = Total Revenue –Total Expenses

1. Aaron owns a database and server technology company that he runs out of his . house. He manages data, security, and servers for many different medical companies that require strict compliance with federal rules. As such, Aaron is able to make large amounts of revenue while keeping his expenses low. Here is a list of his income statement items for the year.

Revenues 200,000

Computer expenses 10,000

Salaries 50,000

Utilities 5,000

Taxes 2,500

Solution:

Net income = Total Revenue –Total Expenses

2,00,000 - 67,500

Net income = 1,32,000

Revenue recognition :

The revenue recognition principle is a cornerstone of accrual accounting together with the matching principle. They both determine the accounting period, in which revenues and expenses are recognized. According to the principle, revenues are recognized when they are realized or realizable, and are earned (usually when goods are transferred or services rendered), no matter when cash is received. In cash accounting – in contrast – revenues are recognized when cash is received no matter when goods or services are sold.

Cash can be received in an earlier or later period than obligations are met (when goods or services are delivered) and related revenues are recognized that results in the following two types of accounts:

- Accrued revenue: Revenue is recognized before cash is received.
- Deferred revenue: Revenue is recognized after cash is received.

Revenue realized during an accounting period is included in the income.

Expense recognition principle:

The expense recognition principle states that expenses should be recognized in the same period as the revenues to which they relate. If this were not the case, expenses would likely be recognized as incurred, which might predate or follow the period in which the related amount of revenue is recognized.

For example, a business pays 100,000 for merchandise, which it sells in the following month for 150,000. Under the expense recognition principle, the 100,000 cost should not be recognized until the following month, when the related revenue is also recognized. Otherwise, expenses will be overstated by 100,000 in the current month, and understated by 100,000 in the following month. This also has an impact on income taxes. In the example, income taxes will be underpaid in the current month, since expenses are too high, and overpaid in the following month, when expenses are too low.

Some expenses are difficult to correlate with revenue, such as administrative salaries, rent, and utilities. These expenses are designated as period costs, and are charged to expense in the period with which they are associated. This usually means that they are charged to expense as incurred.

Nature Of Depreciation:

Depreciation is closely allied to the repairs, renewals, improvements, and wear and tear, which have already been considered. While repairs represent the re-establishment of a diminished value arising from use, depreciation represents a shrinkage in the value beyond that which can be re-established by mere repairs.

Another characteristic feature of depreciation, and one which prevents it from being a proper offset to any appreciation of values, is the fact that it represents what has gone and is already lost, whereas appreciation is a thing hoped for - believed in, but not yet realized.

"A charge for depreciation has no relation to profits, and must be made whether profit is being made or not; or, to express it in other words, the true theory of depreciation requires the replacement of the continuous waste of capital assets by the capitalization of an equivalent amount of revenue."

Depreciation and Its Types:

The reduction in value of a tangible fixed asset due to normal usage, wear and tear, new technology or unfavorable market conditions is called Depreciation.

Assets such as plants and machinery, buildings, vehicles, etc. which are expected to last more than one year, but not for infinity, are subject to this reduction. It is an allocation of the cost of a fixed asset in each accounting period during its expected time of use.

Journal entry for depreciation (Assuming no provision is maintained)

Depreciation A/C	**Debit**
To Asset A/C	**Credit**

Types of Depreciation:

- Straight Line Method
- Diminishing Value Method
- Annuity method
- Machine hour rate method
- Revaluation method
- Sum-of-the-years' digit method
- **Straight Line Method**

  Also known as Original cost method, Fixed installment method, and Fixed percentage method.

  Simplest, most used and popular method of charging depreciation is the straight-line method. An equal amount is allocated for each accounting period. The rate of depreciation is the reciprocal of the estimated useful life of an asset, so, for example, the useful life of an asset is 5 years, the depreciation charged will be 1/5 = 20%.

  According to Straight Line Method,

Depreciation Amt = (Cost of asset − Salvage Value) / Useful life of asset in years

Example – Straight Line Method

Asset cost = 1,000,000

Depreciation Rate = 20%

Solution:

1. 1st year = 20/100 * 1,000,000

   =2,00,000
2. 2nd year = 20/100 * 1,00,000

   =2,00,000

Advantages of Straight Line Method are;

- Simple and easy to understand.
- The book value of an asset can be reduced to Zero.
- A fair evaluation of an asset each year on the balance sheet.

Diminishing Value Method

Also known as Written down value method, Reducing installment method and Fixed percentage on diminishing balance.

According to the diminishing value method, depreciation is charged on reducing balance & a fixed rate. Depreciation, in this case, is charged over the useful life of an asset over its written down value. The percentage, at which depreciation is charged, remains fixed, however, the amount of depreciation goes on diminishing year after year.

According to the Diminishing Value Method

$$D = 1 - \sqrt[n]{\frac{r}{c}}$$

D = Depreciation %
n = Useful life of the asset in years
r = residual value of the asset
c = Cost of asset

Example – Diminishing Value Method

Asset cost = 1,000,000

Depreciation rate = 20% (DVM)

Solution:

1st year = 20/100 * 1,000,000
=2,00,000
2nd year = 20/100 * (1,000,000-2,00,000)
=1,60,000

Advantages of Diminishing Value Method are;

1. More practical and easy to apply.
2. Decreasing charge for depreciation cancels out increasing charges for repairs.
3. This method is applicable for income tax purposes.

(Annual Depreciation charges

	Profit and Loss Account	Dr.	18,000	
	To Depreciation Account			18,000
	(Depreciation charges transferred to profit and loss account)			
2003				
31 Mar.	Depreciation Account	Dr.	18,000	
	To Machinery Account			18,000
	(Annual depreciation charges)			

	Profit and Loss account		18,000	
	To Depreciation Account			18,000
	(Transfer of annual depreciation to profit and loss account)			
2004				
31 Mar.	Depreciation Account	Dr.	18,000	
	To Machinery Account			18,000
	(Annual depreciation charges)			
	Profit and loss Account	Dr.	18,000	
	To Depreciation Account			18,000
	(Transfer of depreciation charges to profit and loss account)			
31 Dec.	Bank Account	Dr.	10,000	
	To Machinery Account			10,000
	(Machinery sold for Rs. 10,000 as scrap)			

2005				
21 Mar.	Depreciation Account	Dr.	13,500	
	To Machinery Account			13,500
	(Depreciation charges for 9 months on Rs. 1,00,000 @ 18%)			
31 Mar.	Profit Loss Account	Dr.	13,500	
	To Depreciation Account			13,500
	(Transfer of depreciation account to profit and loss account)			

1. A machine purchased on 1st January 2001 at a cost of Rs 14,000 and Rs 1,000 was spend on its installation .The depreciation is written off at 10% on the original cost every year The books are closed on 31st December each year the machine was sold for Rs 9,000 on 31st march 2003 show the machinery a/c for all the year (Under straight line method)

Solution:

Machinery account

Date	Particulars	Amount	Date	Particulars	Amount

1.2.2001	To bank (14,000+1000)	15,000	31.12.2001	By depreciation (15000x10/100)	1500
			31.12.2001	By bal c/d	13500
		15000			15000
1.2.2002	To bal b/d	13500	31.12.2002	By depreciation (15,000 x 10/100)	1500
				By bal c/d	12000
		13,500			13,500
1.2.2003	To bal b/d	12,000	31.12.2003	By depreciation (15,000 x 10/100x3/12)	375
				By bank	9000
				By profit and loss	2625
		12,000			12,000

Working notes :

Calculation of profit and loss on sale of machinery actual cost of machine on sale :

1.1.03 cost = 12,000

(-) depreciation	=375
(for last 3 months)	
31.3.03	11,625
(-) selling price	9,000
	2,625

3. A machine costing rs 11,000 is estimated to have a life of 10 years and the scarp value is estimated rs 1,000 at the end of its life the amount depreciation would be ?

Solution :

$$= \frac{\text{Cost price of assets - scrap value}}{\text{Estimated life}}$$

$$= \frac{11,000 - 1000}{10}$$

$= 1000$

Diminishing Balance Method of Calculating Depreciation

Under this method, the amount of depreciation is calculated as a fixed percentage of the reducing or diminishing value of the asset standing in the books at the beginning of the year, so as to bring down the book value of the asset to its residual value.

The amount of depreciation goes on decreasing every year. That is, the amount of depreciation charged in each period is not fixed but is a gradually decreasing sum.

This method is similar to the Fixed Installment Method with the exception that depreciation is charged every year at a fixed percentage, and not on the original cost of the asset but on the reduced opening balance of the asset as brought forward from the previous year. Therefore, the system is called Reducing Balance Method.

Illustration 1: (Depreciation by Diminishing Balance Method)

On 1st Jan. 2003 machinery was purchased for Rs 80,000. On 1st Jan. 2004 additions were made to the machinery of Rs 40,000. On 31st March 2005, machinery purchased on 1st January 2004, costing Rs 12,000 was sold for Rs 11,000, and on 30th June 2005, machinery purchased on 1st Jan. 2003 costing Rs 32,000, was sold for Rs 26,700. On 1st Oct. 2005 additions were made to the amount of Rs 20,000. Depreciation was provided at 10% p.a. on the Diminishing Balance Method.

Show the Machinery Account for the three years from 2003 to 2005 December 31st.

Solution:

Dr. **Machinery Account** Cr.

Date	Particulars	Rs	Date	Particulars	Rs
2003			2003		
Jan. 1	To Bank Account	80,000	Dec. 31	By Depreciation Account	8,000
			Dec. 31	By Balance c/d	72,000
		80,000			80,000
2004			2004		
Jan. 1	To Balance b/d	72,000	Dec. 31	By Depreciation Account	11,200
Jan. 1	To Bank Account	40,000	Dec. 31	By Balance c/d	1,00,800
		1,12,000			1,12,000
2005			2005		
Jan. 1	To Balance b/d	1,00,800	Mar. 31	By Depreciation A/c (for 3 months)	270
	To Profit and Loss Account	470[1]	Mar. 31	By Bank Account	11,000
Oct 1	To Profit and Loss A/c	2,076[2]	June 30	By Depreciation A/c (for 6 months)	1,296
June 30	To Bank Account	20,000	June 30	By Bank A/c	26,700
			Dec. 31	By Depreciation A/c	5,908[3]
			Dec. 31	By Balance c/d	78,172
		1,23,346			1,23,346
2006					
Jan. 1	To Balance c/d	78,172			

Notes:

Profit on Sale of Machinery:

		Rs
(1)	Cost of Machinery (1-1-2004)	12,000
	Less: Depreciation for 2004	1,200
		10,800
	Less: Depreciation for 2005 (3 months)	270
	Book Value on 31-3-2005	10,530
	Sale Proceeds Rs 11,000	
	Profit = Rs 11,000 – 10,530	470
(2)	Cost of Machinery (1-1-2003)	32,000
	Less: Depreciation for 2003	3,200
		28,800
	Less: Depreciation for 2004	2,880
		25,920

Disposable of Depreciable Assets:
Depreciable assets are disposed of by retiring, selling, or exchanging them. When a depreciable asset is disposed of, an entry is made to recognize any unrecorded depreciation expense up to the date of the disposition, and then the asset's cost and accumulated depreciation are removed from the respective general ledger accounts. Any recognized losses or gains associated with the disposition are recorded in a separate account and appear in the portion of the income statement named other income/(expense), net.

Income Statement For the Year Ended June 30, 20X3

Operating Income		
Other Income/(Expense), Net		245,500
Interest Income	$ 7,500	
Gain on Sale of Equipment	1,500	
Interest Expense	(18,000)	
Other Income/(Expense), Net		(9,000)
Net Income		$236,500

Retirement of depreciable assets. Retirement occurs when a depreciable asset is taken out of service and no salvage value is received for the asset. In addition to removing the asset's cost and accumulated depreciation from the books, the asset's net book value, if it has any, is written off as a loss.

Suppose the rs 90,000 truck reaches the end of its useful life with a net book value of rs 10,000, but the truck is in such poor condition that a salvage yard simply agrees to haul it away for free. The entry to record the truck's retirement debits accumulated depreciation-vehicles for rs 80,000, debits loss on retirement of vehicles for rs 10,000, and credits vehicles for rs 90,000. The loss is considered an expense and decreases net income.

Date	Particulars	Debit	Credit
May 31	Accumulated depreciation	80,000	
	Loss on reterimentnt vehicles	10,000	
	Vehicles		90,000

gain never occurs when an asset is retired. If the entire cost of an asset has been depreciated before it is retired, however, there is no loss. For example, if the company using the truck had expected no salvage value and, therefore, had allocated rs 90,000 in depreciation expense to the truck before its retirement, the disposition would be recorded simply by debiting accumulated depreciation-vehicles for rs 90,000 and crediting vehicles for rs 90,000.

Date	Particulars	Debit	Credit

May 31	Accumulated depreciation	90,000	
			90,000

Sale of depreciable assets. If an asset is sold for cash, the amount of cash received is compared to the asset's net book value to determine whether a gain or loss has occurred. Suppose the truck sells for rs 7,000 when its net book value is rs 10,000, resulting in a loss of rs 3,000. The sale is recorded by debiting accumulated depreciation-vehicles for rs 80,000, debiting cash for rs 7,000, debiting loss on sale of vehicles for rs 3,000, and crediting vehicles for rs 90,000.

Date	Particulars	Debit	Credit
May 31	Accumulated depreciation	80,000	
	Cash	7000	
	Loss on sale of vehicle	3000	90,000

Inventory:

1. An itemized catalog or list of tangible goods or property, or the intangible attributes or qualities.
2. The value of materials and goods held by an organization (1) to support production (raw materials, subassemblies, work in process), (2) for support activities (repair, maintenance, consumables), or (3) for sale or customer service (merchandise, finished goods, spare parts).

Inventory is often the largest item in the current assets category, and must be accurately counted and valued at the end of each accounting period to determine a company's profit or loss. Organizations whose inventory items have a large unit cost generally keep a day to day record of changes in inventory (called perpetual inventory method) to ensure accurate and on-going control.

HOW IT WORKS (EXAMPLE):

Inventory is commonly thought of as the finished goods a company accumulates before selling them to end users. But inventory can also describe the raw materials used to produce the finished goods, goods as they go through the production process (referred to as "work-in-progress" or WIP), or goods that are "in transit."

There are generally five reasons companies maintain inventories:

To meet an anticipated increase in demand;
To protect against unanticipated increases in demand;
To take advantage of price breaks for ordering raw materials in bulk;
To prevent the idling of a whole factory if one part of the process breaks down; and,
To keep a steady stream of material flowing to retailers rather than making a single shipment of goods to retailers.
Inventory can also be used as collateral to obtain financing in some cases.

The basic requirement for counting an item in inventory is economic control rather than physical possession. Therefore, when a company purchases inventory, the item is included in the purchaser's inventory even if the purchaser does not have physical possession of those items.

Inventory is usually classified in its own category as an asset on the balance sheet, following receivables. It is important to note that the balance sheet's inventory account should also reflect costs directly or indirectly incurred in making an item ready for sale, including the purchase price of the item as well as the freight, receiving, unpacking, inspecting, storage, maintenance, insurance, taxes, and other costs associated with it.

Significance Of Inventory:

The term 'inventory' means any stock of direct or indirect material (raw materials or finished items or both) stocked in order to meet the expected and unexpected demand in the future. A basic purpose of supply chain management is to control inventories by managing the flows of materials. It sets policies and controls to monitor levels of inventories and determine what levels should be maintained when stock should be replenished, and how large orders should be tackled.
Inventory is a stock of materials used to satisfy customer demand or support the production of goods or services. By convention, inventories generally refer to items that contribute to or become part of an enterprise's output. There are different types of inventories, however, the most commonly identified types of inventories are:

- Raw Materials Inventories: Parts and raw materials obtained from suppliers that are used in the production process.
- Work-in-process (WIP) Inventory: This constitutes semi-finished parts, components, sub-assemblies or modules that have been inducted into the production process but not yet finished.
- Finished Goods Inventory: Finished product or end-items.
- Replacement Parts Inventory: Maintenance Parts meant to replace other parts of machinery or equipment, either the company's own or that of its customers.
- Supplies Inventory: Parts or materials used to support the production process, but not usually a component of the product.
- Transportation (pipeline) Inventory: Items that are in the distribution system but are in the process of being shipped from suppliers or to customers.
- Manufacturing inventories is typically classified into raw materials, finished products, component parts, supplies, and work-in-process. In services, inventories generally refers to the tangible goods to be sold and the supplies necessary to administer the service.
- In simple terms, inventory is an idle resource of an enterprise comprising physical stock of goods that is kept by an enterprise for future purposes.
  Inventory valuation methods for pricing your products

Before we dive into valuation and costing, it's important to make the distinction between price and cost. Although this might seem obvious, in the frenzy of running your business it is possible to miscalculate on total costs and lose money on a sale.

Price is generally referred to as the dollar amount charged to your customer, while cost is the amount your business pays for your inventory.

However, costing your inventory is not necessarily just what you pay for the goods. As a general rule of thumb, inventory should include all costs that are "ordinary and necessary" to put the goods "in place" and "in condition" for resale.

This means when considering your pricing, you'll also want to include all the other "little" things that add up, such as:

- Shipping charges
- Packaging
- Custom and duties fees

Some merchants call these costs "non-vendor costs," meaning that they are not included in the wholesale purchase price. In most inventory-control software packages, you can add these non-vendor costs to any purchase order as a dollar amount or as a percentage.

The difference between periodic and perpetual inventory systems:

The difference between the periodic and perpetual inventory systems involves the general ledger account Inventory.

In a periodic system the account Inventory will:

- have a constant balance (the ending balance from the previous period)
- not include the cost of purchases (they are recorded in a Purchases account)
- be adjusted at the end of the accounting period (so the balance reports the costs actually in inventory)
- require a physical inventory at least once per year (and estimates within the year)
- require a cost flow assumption (FIFO, LIFO, average)
- require a calculation of the cost of goods sold (to be used on the income statement)

- In a perpetual system the account Inventory will:

- be debited when there is a purchase of goods (there is no Purchases account)
- be credited for the cost of the items sold (and the account Cost of Goods Sold will be debited)
- have its balance continuously or perpetually changing because of the above entries
- require a physical inventory to correct any errors in the Inventory account
- require a cost flow assumption (FIFO, LIFO, average)
- It is possible that a company will use the periodic system in its general ledger and use a different computer system outside of its general ledger to track the flow of goods in and out of inventory.

FIFO and LIFO accounting:

FIFO and LIFO accounting are methods used in managing inventory and financial matters involving the amount of money a company has to have tied up within inventory of produced goods, raw materials, parts, components, or feed stocks. They are used to manage assumptions of cost sheet related to inventory, stock repurchases (if purchased at different prices), and various other accounting purposes.

"FIFO" stands for first-in, first-out, meaning that the oldest inventory items are recorded as sold first but do not necessarily mean that the exact oldest physical object has been tracked and sold. In other words, the cost associated with the inventory that was purchased first is the cost expensed first. With FIFO, the cost of inventory reported on the balance sheet represents the cost of the inventory most recently purchased.

Number of units	Cost
100 units	$50

125 units	$55
75 units	$59

LIFO:

"LIFO" stands for last-in, first-out, meaning that the most recently produced items are recorded as sold first. Since the 1970s, some U.S. companies shifted towards the use of LIFO, which reduces their income taxes in times of inflation, but since International Financial Reporting Standards (IFRS) banned LIFO, more companies returned to FIFO.[citation needed]

LIFO is used only in the United States, which is governed by the generally accepted accounting principles (GAAP). Section 472 of the Internal Revenue Code directs how LIFO may be used.[1]

In the example above, the company (using FIFO accounting) would expense the cost associated with the first 75 units at $59, 125 more units at $55, and the remaining 10 units at $50. Under LIFO, the total cost of sales for November would be $11,800. The ending inventory would be calculated the following way:

Number of units	Price per	Total
Remaining 90	RS 50	Rs 4500 (rs 50 x 90) Rs 4500

Example of the Last-in, First-out Method:

Date Purchased	Quantity Purchased	Cost per Unit	Units Sold	Cost of Layer #1	Cost of Layer #2	Total Cost
March 1	150	210	95	(55 x 210)		11,550
March 7	100	235	110	(45 x 210)		9,450
March 11	200	250	180	(45 x 210)	(20 x 250)	14,450
March 17	125	240	125	(45 x 210)	(20 x $50)	14,450
March 25	80	260	120	(25 x 210)		5,250

Indian Accounting Standard

(abbreviated as Ind-AS) is the Accounting standard adopted by companies in India and issued under the supervison of Accounting Standards Board (ASB) which was constituted as a body in the year 1977. ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional bodies viz. ICAI, representatives from ASSOCHAM, CII, FICCI, etc.

The Ind AS are named and numbered in the same way as the International Financial Reporting Standards (IFRS). National Advisory Committee on Accounting Standards (NACAS) recommend these standards to the Ministry of Corporate Affairs (MCA). MCA has to spell out the accounting standards applicable for companies in India. As on date MCA has notified 41 Ind AS. This shall be applied to the companies of financial year 2015-16 voluntarily and from 2016-17 on a mandatory basis.

Based on the international consensus, the regulators will separately notify the date of implementation of Ind-AS for the banks, insurance companies etc. Standards for the computation of Tax has been notified as ICDS in February 2015.[1]

Mandatory Applicability from Accounting Period beginning on or after 1st April 2016

Every Company with Net worth of not less than 500 crores (5 billion).

Mandatory Applicability from Accounting Period beginning on or after 1st April 2017

Every Listed Company.

Unlisted Companies with Net worth greater than or equal to Rs. 250 crore (2.5 billion) but less than Rs. 500 crore (5 billion)(for any of the below mentioned periods).

Net worth shall be checked for the previous four Financial Years (2013-14, 2014-15, 2015-16, and 2016-17)

UNIT – II

Accounting process-Business Income-Nature of depreciation

POSSIBLE QUESTIONS

PART – A (1 MARKS)ONLINE QUESTIONS

PART – B (2 MARKS)

1. What is depreciation?
2. State Briefly the need for providing depreciation?
3. What are the causes of depreciation?

4. Explain the basic concept of effecting the causes of depreciation?
5. Distinguish between straight line method and diminishing balance method?
6. Distinguish between provision and reserves ?
7. Give four example of capital reserves?
8. What is trading accounting?
9. What is balance sheet?
10. What is fixed assets?

Part – c (6 marks)

1. Soloman purchases a machine for Rs. 1,00,000 and 1 January 2,000. Its estimated useful life is 5 years and scarpt Values Rs. 10,000. It is decided to write off depreciation under straight lien method. Pass necessary journal entries for five years and open necessary account in the ledger for the same period. The accounting period ends on 321 March every years.
2. A firm purchased a machine on 1st April, 1998 for Rs. 37,000 and spent Rs. 3,000 on its installation. Depreciation is written off at the rate of 10% on the original cost. Accounts are closed on 31st December every year. On 0th June, 2002 the machine was disposed off for Rs. 20,000. Write up the Machinery Account from 1998 to 2002.
3. Goodluck Ltd. purchased on 1 January 1997, certain machinery for Rs. 1,94,000 and spent Rs. 6,000 on its erection. On 1 July 1997 additional machinery costing Rs. 1,00,000 was pruchased. On 1 July and 1999, the machinery purchased on 1 January 1997 has been auctioned for Rs. 1,00,000 and on the same date, new machinery was purchased at a cost of rs. 1,50,000. Depreciation was provided annually on 31 December at the rate of 10% pa.a. on the original cost. No depreciation need be charged during the year of sale of machinery for that part of the year when the machine was used. In 2001, however the company has changed the method of depreciation to written down value method at the rate of 15% p.a. from the straight line method. Show the machinery account for the period from 1997 to 2001.
4. On 1 April, 1998 a new plant was purchased for Rs. 80,000 and a further sum of Rs. 4,000 was spent on its installation. On 1 October, 2000 another plant was acquired for Rs. 50,000. Due to an accident on 2 January, 2001 the first plant was totally destroyed and was sold for Rs. 2,000 only. On 21.1.2002 a second hand plant was purchased for Rs. 60,000 and a further sum of Rs. 10,000 was spent for bringing the same to use on and from 15.3.2002. Depreciation has been provided at 10 per cent on straight line bases. It was a practice to provide depreciation for full year on all acquisitions made at

any time during any year and to ignore depreciation on any item sold or disposed or during the year. None of the assets were insured. The accounts are closed annually to 31 March. It is now decided to follow the rate of 20 per cent on diminishing balance method with retrospective effect in respect of the existing items of plant and to make the necessary adjustment entry on 1 April, 2002. Required : (i) A plant Account; (ii) Provision for Depreciation Account. (ii) Journal Entries, where necessary.

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 Rs. 1,000.
5. Depreciate Machinery @ 3% & land and Builders @ 2%.

6. 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.

7. 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	85	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.

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).

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 during the year	xxx	By instalment due and unpaid(closing)	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	14900			
down payment	4000	4000		4000
	10900			
1st instalment	3455	4000	545	3455
	7445		(10900*5%)	
2nd instalment	3627.75	4000	372.25	3627.75
	3817.25		7445*5%)	
3rd instalment	3817.25	4000	182.75	3817.25
			(4000-3817.25)	
	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**
	140000			
down payment	40000	40000		40000
	100000	45000	(100000*20%)	25000
1st instalment	25000		20000	
	75000	40000	(75000*20%)	25000
2nd instalment	25000		15000	
	50000		(50000*20%)	25000
3rd instalment	25000	35000	10000	
	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

(a) d 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

		Commission	504	634
		By Bank a/c		6,766
	14,400			14,400

GOODS SENT ON CONSIGNMENT ACCOUNT

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	12,510

				commission (2) 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.)

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

B's Books

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

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 (Loss on sale)		23,400		
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
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 Credited Commission?
14. What is Valuation of Unsold Stock in Consignment?
15. Who is a Co- Venture?
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
	Installment 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

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.

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).

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

(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 during the year	xxx	By instalment due and unpaid(closing)	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	14900			
down payment	4000	4000		4000
	10900			
1st instalment	3455	4000	545	3455
	7445		(10900*5%)	
2nd instalment	3627.75	4000	372.25	3627.75
	3817.25		7445*5%)	
3rd instalment	3817.25	4000	182.75	3817.25
			(4000-3817.25)	
	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**
	140000			
down payment	40000	40000		40000
	100000	45000	(100000*20%)	25000
1st instalment	25000		20000	
	75000	40000	(75000*20%)	25000
2nd instalment	25000		15000	
	50000		(50000*20%)	25000
3rd instalment	25000	35000	10000	
	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

(a) d 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

		Commission 504	634
		By Bank a/c	6,766
	14,400		14,400

GOODS SENT ON CONSIGNMENT ACCOUNT

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	12,510

				commission (2) 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.)

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

B's Books

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

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	

Interest = 25,500 x $\frac{12}{100}$ X $\frac{1}{12}$ = 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 (Loss on sale)		23,400		
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
To Shares A/c (sale for cash) 25%	40,500		By X (final settlement)	70,000
50%	78,750		By Y (final settlement)	72,000
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
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 Credited Commission?
14. What is Valuation of Unsold Stock in Consignment?
15. Who is a Co- Venture?
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
	Installment 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

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.

Unit 4

Accounting for Inland Branches: Concept of dependent branches; accounting aspects; debtors system, stock and debtor system, branch final account 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.

Definition of Branch.

Branch is an establishment or division or unit of main establishment to meet a long term demand of the customers in providing of goods or rendering of services. These are directly or indirectly regulated by the parent unit.

Domestic / Inland Branches

These are the branches established within the geographical location of a country or state where the head office is located. Inland branches are established to meet the demand of local or domestic customers.

Independent Branches

These are the branches which are not depending on the head office for the goods or cash requirement. An independent branch maintains complete set of books of accounts separately. At the end of the year, the branch prepares branch trading account, profit and loss account and balance sheet.

Objectives of Branch account

- To know the number transactions occurred in the branch.
- To find out the nature of expenses incurred in the branch and its requirement.
- To know about the cash position of the branch
- To know the inventory level at the branch
- To know profit and loss of the branch
- To evaluate the performance of staff at the branch
- To calculate the commission amount payable to the sales staff on making cash sales and recovering against credit sales
- To know the profit and loss of each branch
- To know the financial position of each branch

- To control the activities of the branch
- To find out the requirement of goods or cash for each branch
- To provide concrete suggestions for the improvement in the working of different branches
- To compare the performance of one branch it that of another branch

Dependent branches:

These are the branches which are fully or partly depending on the head office for the requirement goods or cash to transact. They operate as per the guidelines and instructions of head office.

Features of dependent branches

- Branches, generally, depend on the head office for the goods and cash to transact.
- The head office may send the goods to branch at cost price or invoice price.
- The branch expenses are paid directly by the head office.
- Only petty expenses are allowed to be paid by the branch manager out of imprest cash maintained at the branch.

Methods of accounting for branch accounting:

These are four methods of accounting for branch accounting.

- Debtors Method

This system is adopted generally for those branches which are fairly small in size. Under this system, the head office simply opens a Branch Account for each branch in which it records all transactions relating to the branch. The Branch Account is prepared in such a manner that it also helps in ascertaining the branch profit or loss.

- Stock and Debtors Method

Under this system, the head office does not open any 'Branch Account. For each branch, it prepares a Branch Stock Account, a Branch' Expenses Account, a Branch Adjustment Account and Goods sent to Branch Account in order to find out the profit or loss of each branch.

- Final account method

Under this system, the head office prepares Trading and 'Profit and Loss Account 'in order to find out profit or loss of each branch and a Branch Account to find out the amount due to, or due from, that branch, In this case, the Branch. Account simply acts as a personal account.

- Whole sale branch method

DEBTORS SYSTEM

As stated earlier, under debtors system, the head office simply opens a Branch Account for each branch in which it records all transactions relating to the branch. The Branch Account also helps in ascertaining the profit or loss of the branch.

Goods may be invoiced to a branch at cost or at selling price (also called invoice price). Accordingly, there are two methods of preparing the Branch Account:

(i) Cost Price Method, and

(ii) Invoice Price Method.

1.In the books of branch account the entries are:

a.Cash/cheque received from h/o : cash/bank A/c---Dr

To,Head office A/c.

b.Expenses paid by branch : Respective Expenses A/c---Dr

To, Cash/Bank A/c.

c.Income in Branch : Head Office A/c---Dr

To, Respective Income A/c.

d.Cash/Cheque send to H/o : Head Office A/c----Dr

To, Cash/Bank A/c.

2.In the books of Head office:(incorporation of branch accounts):

a.Cash/Cheque send to H/O : Respective Branch A/c---Dr

To,cash/Bank A/c.

b.Expenses paid by Branch : Respective Expenses A/c---Dr

To, Respective Branch A/c

c.Income in Branch: : Respective Branch A/c ---Dr

To, Respectve Income A/c.

d.Cash/Cheque Received From H/o : Cash/Bank A/c---Dr

To, Respective Branch A/c.

Branch Accounts (8 Aspects):

(1) Credit Sales, Bad Debts, Discount Allowed, Sales Returns:

Credit sales, Bad debts, Discount allowed, Returns from Debtors to branch are not direct transactions from the Head office and as such they are not recorded in the Branch Account. However, these items will be taken into consideration while ascertaining the amount of Closing or Opening Balance of Debtors or Cash Received from Debtors, in the Memorandum Branch Debtors Account.

(2) Loss of Stock, Surplus of Stock:

Shortage or surpluses of stock at the Branch due to normal or abnormal reasons are not shown in the Branch Account.

(3) Depreciation of Fixed Assets:

Depreciation of Branch fixed assets is not shown in the Branch Account. However, the opening bal-ance of the fixed assets and closing balance of the fixed assets (of course deducting depreciation) are shown in the Branch Account.

It is important to note that when opening balance and closing balance of fixed assets are entered in the Branch Account, automatically the effect of depreciation is there.

(4) Goods in Transit:

Goods – in – transit is the difference between goods sent by Head Office and received by the Branch. Such goods will be shown either on both sides of the Branch Account or will be ignored altogether while preparing the Branch Account.

(5) Expenses Incurred by Branch:

Expenses actually paid by Branch are not shown in the Branch Account. But the amount remitted by Head Office to Branch for meeting expenses is debited in Branch Account. If actual amount spent by Branch is less, the cash balance is shown as a part of closing balance, in the credit side of the Branch Account.

Example:

If Opening Balance of Branch cash is Rs. 100; cash remitted by Head Office to Branch is Rs. 600 and the closing Balance of cash with Branch is Rs. 50; actual amount spent is Rs. 650 (Rs. 100 + Rs. 600 – 50), these items appear in Branch Account, as under:

Particulars	Amount	Particulars	Amount
To opening balance of cash To cash (remited)	100 600	By closing balance of cash	50

(6) Purchase of Fixed Asset by Branch:

When the Branch has purchased any fixed asset for cash, the remittance from the Branch to Head Office is to be reduced by the amount and fixed asset should be shown on credit side of Branch Account, as closing balance. If the Branch has purchased fixed asset on credit basis, the liability arising from such purchases should be shown on the debit side of Branch Account as closing balance of liability.

(7) Sale of Fixed Asset:

When the Branch has sold fixed asset for cash, the proceeds is remitted to Head office. The asset will reduce in value to be shown on the credit side of the Branch Account. If the Branch has sold fixed asset on credit basis, the amount due is shown as debtors at the Branch at the close of the accounting period. Loss or profit arising from such sale of fixed asset will not be shown in the Branch Account as this is automatically adjusted through the above adjustments.

(8) In case Opening or Closing balance of Branch Debtors are not given. Memorandum Branch Debtors Account has to be prepared to find out missing figure. This account is prepared on the same pattern on which Total Debtors Account is prepared under Single Entry System. Similarly, if opening or closing balance of Branch stock is missing, then Memorandum Branch Stock Account has to be prepared.

STOCK AND DEBTORS SYSTEM

Under Stock and Debtors System, the head office does not open a Branch Account in its books. It maintains a few control accounts for recording the various branch transactions. These accounts usually are: (i) Branch Stock Account, (ii) Branch Debtors Account, (iii) Branch Expenses Account, (iv) Branch Cash Account, (v) Goods sent to Branch Account, and (vi) Branch Fixed Assets Account. At the end of the accounting year, it prepares the Branch Adjustment Account and the Branch Profit & toss Account. This system is used only when goods are invoiced a selling price which the branch is not allowed to vary

Let us now study the working of each account opened by the head office when such a system is followed:

Branch Stock Account: This is the most important account which helps the head office in controlling the branch stock. It shows 'all branch transactions relating to goods. The goods sent to branches and the sales returns are shown on its debit side, and the sales (both cash and credit) and the goods returned to head office the credit side. All these items are recorded at the invoice price. Hence, if the figure of any of these items is given at cost, 'the same should be converted into invoice price before recording it in the Branch Stock Account. The balance of this account would show unsold goods (stock) lying with the branch. If it is found that the actual stock with the branch is less than the balance shown by the Branch Stock Account, it means that there is a 'shortage' in the stock with the branch. Similarly, if the actual stock with the branch is more than the balance shown by the Branch Stock Account, it would reflect 'surplus'. Both situations warrant investigation. But, so far as their - recording goes, the shortage will be shown on the credit side of the Branch Stock Account and if there is surplus, the same will be recorded its debit side. Then, the balance of the Branch Stock Account will be the exact amount of actual stock with the branch. In other words, while preparing the Branch Stock Account, you will show the actual stock with branch as the balance in this account, and then if the totals of both sides do not tally, you will show the difference as shortage or surplus as the case may be.

Branch Debtors Account:

This account shows all transactions relating to branch debtors. The credit sales are shown on its debit side, and cash received from debtors, sales returns, bad debts, discount allowed, etc. on the credit side. The balance of this account represents the closing debtors of the branch.

Branch Expenses Account:

This account shows all expenses incurred by the branch. In addition, the items like bad debts, discount allowed, depreciation on branch fixed assets, etc. are also debited to this account. This account is closed by transfer to the Branch Adjustment Account

Branch Cash Account:

This account shows all cash transactions of the branch where the branch is not required to remit all collection of cash immediately to the head office but use it for branch expenses and remit the balance to the head office from time to time. This account helps the head office to keep control over branch cash. Normally, the dependent branch is not allowed the freedom to retain cash collections. Hence, this account need not be maintained

Branch Fixed Assets Account: The head office maintains separate account for each type of branch asset such as furniture, equipment, building, etc. These accounts are prepared in the usual manner. The depreciation on branch fixed assets is, however, debited to Branch Expenses Account and credited to the respective account.

Goods Sent to Branch Account: This account is prepared in the same manner as in case of branches to which the goods are sent at the invoice price (Sub -section 1.5.2).

Branch Adjustment Account: This account is like a Trading Account of the branch. It is prepared to ascertain the gross profit or gross loss made at the branch by recording the loading (difference between invoice price and cost price) on various items. The loading on branch closing stock and shortage is shown on its debit side while -the loading on branch opening stock, goods sent to branch (less returns) and surplus on the credit side. The balance of this account reflects the gross profit or gross loss which is transferred to Branch Profit & Loss Account

Branch Profit & Loss Account: This account is prepared to ascertain the net profit or net loss made at the branch. As stated earlier, the gross profit or gross loss ascertained by the Branch Adjustment Account is transferred to this account. It is debited with branch expenses as per the Branch Expenses Account and the loss on account of shortage being the cost of such shortage. In case the Branch Stock Account reveals some surplus, the amount equal to the cost of such surplus will be shown on the credit side of the Branch Profit & LOSS A2count. The balance of the Branch Profit ' & Loss Account represents the net profit or net loss made at the branch which is transferred to the General Profit & Loss Account.

The following journal entries are passed in the head office books for opening the, above accounts relating to the various branch transactions:

Independent Branch

Meaning:

The branch which establishes its own double-entry bookkeeping system quite separate from head office is known as independent branch.

Procedure for Maintaining Accounts of an Independent Branch!

Independent Branch, like the Head Office, keeps all its records separately and independently on Double Entry System. Dependent Branches are those with little power and depend on Head Office for their supplies and expenses and is like a Minor Son.

Independent Branches are those which make purchases from outside, get goods from Head Office, supply goods to Head Office and fix the selling price by itself Thus an independent Branch enjoys a good amount of freedom like an American Son.

Characteristics of an Independent Branch:

1. Independent Branch keeps a complete set of books. Such Branch gets goods from Head Office and from outside parties. It has its own Bank Account. Thus, the Branch keeps frill system of accounting.

2. It prepares its own Trial Balance, Trading and Profit and Loss Account and Balance Sheet. Copies of these statements are sent to Head Office for incorporating in the Head Office Books.

3. The books contain an Account called “Head Office Account” or “Head Office Current Account” which is credited with everything received from the Head Office and debited with everything sent to Head Office. That is, all transactions relating to Head Office are recorded in this Account. The Head Office Current Account is thus a Proprietorship Account (i.e. Capital Account).

In-spite of the independent status, the Branch cannot function without resources, and the resources, specially at the initial stage, are provided by the Head Office. Thus, the investments made by the Head Office seen from the Head Office Account are a personal Account in nature.

Similarly, the Head Office in its books opens an Account “Branch Current” Account, which is also a running account between the Branch and the Head Office and incorporates all the transactions between Branch and the Head Office.

A special feature is that the Head Office Current Account in the books of Branch and Branch Current Account in the books of Head Office are maintained on a reciprocal basis.

The balance of these Accounts on any date will be equal to the difference between the assets and liabilities at the Branch on that date. The Branch Current Account in the Head Office books and Head Office Current Account in the Branch books show the same but opposite balance on a particular date.

4. There may be inter-branch transactions. That is, goods transferred by one Branch to another Branch of the same Head Office. Such entries have been explained later.

5. On receipt of the accounts and statements by the Head Office, the Head Office reconciles the balances, which is shown in Head Office Account in the Branch books with the Branch Account in Head Office books. Differences are reconciled. This is dealt with separately.

Accounting Entries, in the books of Branch, for Normal Transactions

1. Purchases made at Branch	Purchase Account Dr. To Cash/Creditors Account
2. Sales effected at Branch	Cash/Debtors Account Dr. To Sales Account
3. Payment of expenses at Branch	Expenses Account Dr. To Cash Account
4. Any income received by the Branch	Cash/Bank Account Dr. To Concerned Income Account

Accounting Entries for Transactions between Branch and Head Office

	Branch Book	*Head Office Book*
1. Goods supplied to Branch by Head Office	Goods Supplied by Head Office A/c Dr. To Head Office A/c	Branch Account Dr. To Goods Supplied to Branch Account
2. Cash received from Head Office	Cash Account Dr. To Head Office A/c	Branch Account Dr. To Bank Account
3. Goods .eturned to Head Office by Branch	Head Office A/c Dr. To Goods Supplied by Head Office A/c	Goods Supplied to Branch A/c To Branch Account Dr.
4. Cash sent to Head Office by Branch	Head Office Account Dr. To Cash Account	Bank Account Dr. To Branch Account
5. When asset purchased by Branch and the Asset Account is kept by Head Office	Head Office Account Dr. To Cash Account	Branch Asset Account Dr. To Branch Account
6. Depreciation for the above	Depreciation A/c Dr. To Head Office A/c	Branch Account Dr. To Branch Asset A/c
7. Head Office expenses chargeable to Branch	Expense Account Dr. To Head Office A/c	Branch Account Dr. To Profit & Loss A/c

Inter-Branch Transactions:

When a Head Office has several Branches, transactions may take place among themselves and such transactions are known as inter-branch transactions. No branch need carry an account with any other Branch. Inter-branch transactions are treated as the transactions with the Head Office.

The entries are:

In the books of Sending Branch	Head Office Account To Goods Supplied Account	Dr.
In the books of Receiving Branch	Goods Received Account To Head Office Account	Dr.
In the books of Head Office	Receiving Branch Account To Sending Branch Account	Dr.

Illustration:

A Head Office has three Branches in three places–A, B and C. They are independent Branches. But they are under the control of Head Office. They buy and sell goods at cost price from one another, under intimation to the Head Office. The following table shows the transactions amongst the Branches:

Buying Branches	*Sending Branches*		
	A	B	C
	Rs	Rs	Rs
A	–	10,000	9,000
B	8,000	–	16,000
C	12,000	13,000	–

Show the journal entries in the books of Branches as well as in the books of Head Office to record the above transactions. (*B.Com., Rohtak*)

SOLUTION

A Branch Journal

				Dr	Cr.
				Rs	Rs
For Buying	Goods Received from Head Office A/c To Head Office Current Account (Being goods received from B Branch Rs 10,000 and from C Branch Rs 9,000)	Dr.		19,000	19,000
For Selling	Head Office Current Account To Goods Supplied to Head Office A/c (Being goods supplied to B Branch Rs 8,000 and to C Branch Rs 12,000)	Dr.		20,000	20,000

B Branch Journal

				Rs	Rs
For Buying	Goods Received from Head Office A/c To Head Office Current Account (Being goods received from A Branch Rs 8,000 and C Branch Rs 16,000)	Dr.		24,000	24,000
For Selling	Head Office Current Account To Goods Supplied to Head Office A/c (Being goods supplied to A Branch Rs 10,000 and to C Branch Rs 13,000)	Dr.		23,000	23,000

C Branch Journal

				Rs	Rs
For Buying	Goods Received from Head Office A/c	Dr.		25,000	
	To Head Office Current Account				25,000
	(Being goods received from A Branch Rs 12,000 and B Branch Rs 13,000)				
For Selling	Head Office Current Account	Dr.		25,000	
	To Goods Supplied to Head Office A/c				25,000
	(Being goods supplied to A Branch Rs 9,000 and to B Branch Rs 16,000)				

Head Office Journal

				Rs	Rs
	B Branch Current Account	Dr.		8,000	
	C Branch Current Account	Dr.		12,000	
	To A Branch Current Account				20,000
	(Being goods supplied by A Branch to B Branch Rs 8,000 and C Branch Rs 12,000)				
	A Branch Current Account	Dr.		10,000	
	C Branch Current Account	Dr.		13,000	
	To B Branch Current Account				23,000
	(Being goods supplied by B Branch to A Branch Rs 10,000 and C Branch Rs 13,000)				
	A Branch Current Account	Dr.		9,000	
	B Branch Current Account	Dr.		16,000	
	To C Branch Current Account				25,000
	(Being goods supplied by C Branch to A Branch Rs 9,000 and B Branch Rs 16,000)				

In-transit Items:

Ordinarily, the balance shown by Branch Current Account in Head Office books is equal to the balance shown by Head Office Current Account in Branch books. The balances on these Current Accounts should be same, but in opposite sides, in both the set of books.

The difference arises under the following circumstances:

1. When a Branch sends goods or cash to the Head Office, an entry is made by the Branch in the Head Office Account. But the same is recorded in the Head Office books only on receipt of goods or cash. For instance, the goods or cash sent by the Branch just before the closing of the accounting year may not reach the Head Office in the same accounting year.

Therefore, in the books of the Head Office, Branch Account is not credited but at the same time in the books of Branch, Head Office Account is debited. Thus difference between the two books arises.

2. Similarly, Head Office may send cash or goods to Branch. On sending them, the Branch Current Account is debited in the books of Head Office. The corresponding entry is not passed in the Branch books, if the items are not received by them.

In this way, goods or cash sent by Head Office to Branch or Branch to Head Office and have not been received by the recipient, are known as in-transit.

1. When goods or cash sent by the Branch are in transit, the following entries are to be passed:

(a) Goods-in-transit	Goods-in-transit Account To Head Office Account	Dr.
(b) Cash-in-transit	Cash-in-transit Account To Head Office Account	Dr.

2. When goods or cash sent by Head Office are in transit, the following entries are to be passed:

(a) Goods-in-transit	Goods-in-transit Account To Branch Account	Dr.
(b) Cash-in-transit	Cash-in-transit Account To Branch Account	Dr.

The above said entries remain in the books for a short period or till the arrival of cash in transit or goods. When the in-transit goods or cash is received by the recipient, the entries made should be reversed and thus Transit Account is closed.

Incorporation of Branch Trial Balance in Head Office Books:

When the Branches are dependent, the accounting for such Branches is done at Head Office itself and therefore the incorporation of Branch results is relatively simple. The profit is transferred from Branch Account, under Debtors System or Branch Adjustment Account, under Stock Debtors System to General Profit and Loss Account. Independent Branch, which has its own accounting system 'prepares a Trial Balance and sends a copy of it to the Head Office.

After the receipt of Trial Balance from Branch, Head Office passes incorporating entries in order to prepare Branch Trading and Profit and Loss Account and a combined Balance Sheet. With the help of Branch Trial Balance Head Office records in its books regarding Branch; this process is known as Incorporation of Branch Trial Balance.

There are two ways:

(A) Incorporation of all the Items in Trial Balance:

The items are divided into two parts:

(a) Items relating to Trading and Profit and Loss Account

(b) Items relating to Balance Sheet.

(a) Items Relating to Trading and Profit and Loss Account

1.	Branch Trading Account To Branch Account (Being incorporation of Opening Stock, purchases, goods from Head Office, carriage etc. from Branch Trial Balance)	Dr.	
2.	Branch Account To Branch Trading Account (Being incorporation of Sales less returns, Closing Stock etc. from Branch Trial Balance)	Dr.	
3. (a)	Branch Trading Account To Branch Profit & Loss Account (Being transfer of gross profit)	Dr.	
(b)	Branch Profit and Loss Account To Branch Trading Account (Being transfer of gross loss)	Dr.	
4.	Branch Profit and Loss Account To Branch Account (Being incorporation of Salaries, Rent, and similar items)	Dr.	
5.	Branch Account To Branch Profit and Loss Account (Being incorporation of Branch incomes)	Dr.	
6. (a)	Branch Profit and Loss Account To General Profit and Loss Account (Being transfer of Net Profit)	Dr.	
(b)	General Profit and Loss Account To Branch Profit and Loss Account (Being transfer of Net Loss)	Dr.	

By passing the above six journal entries, the Head Office prepares the Branch Trading and Profit and Loss Account.

If the Head Office desires to close the Branch book by incorporating the assets and liabilities of the Branch, the following two more entries should be passed:

(b) Items Relating to Balance Sheet

7.	Branch Cash Account	Dr.	
	Branch Furniture Account	Dr.	
	Branch Stock Account	Dr.	
	Branch Asset Account	Dr.	
	To Branch Account		
	(Being incorporation of various assets from Branch Trial Balance)		
8.	Branch Account	Dr.	
	To Branch Liabilities Account		
	(Being incorporation of various liabilities from Branch Trial Balance)		

After passing all these eight entries, total of debit side of Branch Account will be equal to total of credit side Branch Account and thus the Branch Account in Head Office books will be automatically balanced. That is, if the branch assets and liabilities are incorporated, the Branch Account in Head Office books prepared after adjustments and incorporating will leave no balance.

If the Branch assets and liabilities are not incorporated, the Branch Account in Head Office books prepared in the above manner will leave a closing balance equal to net assets (Assets less liabilities) as on the closing date.

Illustration

The following is the Trial Balance of a Bellary Branch as at 30th September 2005:

	Dr. Rs	Cr. Rs
Head Offie Account	3,240	–
Stock on 1-10-2004	6,000	–
Purchases	16,800	–
Goods received from Head Office	9,000	–
Sales	–	37,000
Goods supplied to Head Office	–	6,000
Salaries	1,600	–
Debtors and Creditors	3,700	1,850
Rent	860	–
Office Expenses	470	–
Cash and Bank balance	1,820	–
Furniture	1,360	–
	44,850	44,850

Stock on hand was valued at Rs 2,700. The Branch Account in the Head Office books on 30th September 2005 stood at Rs 460 debit. On 27th September, the Head Office forwarded goods to the value of Rs 2 500 to the Branch where they were received on 4th October 2005. Similarly, a cash remittance of Rs 1,200 by the Branch on 28th September was received by Head Office on 2nd October 2005.

You are to give the journal entries necessary to incorporate the above in the Head Office books showing the result of Trading at Branch and Branch appearing finally in the Head Office books.

SOLUTION

In the books of the Head Office

			Dr.	Cr.
			Rs	Rs
30.9.2005	Bellary Branch Trading Account	Dr.	31,800	
	To Bellary Branch Account			31,800
	(Being Opening Stock, purchases and goods from Head Office incorporated)			
	Bellary Branch Account	Dr.	45,700	
	To Bellary Branch Trading Account			45,700
	(Being sales, goods to Head Office and closing stock incorporated)			
	Bellary Branch Trading Account	Dr.	13,900	
	To Bellary Profit and Loss Account			13,900
	(Being Branch Gross Profit transferred to Branch Profit and Loss Account)			
	Bellary Branch Profit and Loss Account	Dr.	2,930	
	To Bellary Branch Account			2,930
	(Being Branch salaries, rent and office expenses incorporated)			
	Bellary Branch Profit and Loss Account	Dr.	10,970	
	To General Profit and Loss Account			10,970
	(Being Net Profit transferred to General Profit and Loss Account)			
	Bellary Branch Account	Dr.	1,850	
	To Bellary Branch Creditors Account			1,850
	(Being Branch Creditors incorporated)			
	Goods-in-transit Account	Dr.	2,500	
	To Bellary Branch Account			2,500
	(Being goods sent to Branch are in transit)			
	Branch Cash & Bank Account	Dr.	1,820	
	Branch Debtors Account	Dr.	3,700	
	Branch Furniture Account	Dr.	1,360	
	Branch Closing Stock Account	Dr.	2,700	
	Cash-in-transit Account	Dr.	1,200	
	To Bellary Branch Account			10,780
	(Being various assets incorporated)			

In the books of Head Office
Bellary Branch Trading Account
for the year ended 30th Sept. 2005

Dr. Cr.

		Rs			Rs
To Bellary Branch Account			By Bellary Branch A/c		
Opening Stock	6,000		Sales	37,000	
Purchases	16,800		Goods to H.O.	6,000	
Goods from H.O.	9,000	31,800	Closing Stock	2,700	45,700
To Bellary Gross Profit		13,900			
		45,700			45,700

Bellary Branch Profit and Loss Account for the year ended 30th Sept. 2005

Dr.		Rs		Cr. Rs
To Bellary Branch A/c			By Bellary Branch A/c	
Salaries	1,600		Gross Profit	13,900
Rent	860			
Office Expenses	470	2,930		
To General Profit & Loss A/c		10,970		
		13,900		13,900

Bellary Branch Current Account

Dr.		Rs			Cr. Rs
To Balance b/d		460	By Bellary Branch Trading Account		
To Bellary Branch Trading Account			Opening Stock	6,000	
Sales	37,000		Purchases	16,800	
Goods to H.O.	6,000		Goods to H.O.	9,000	31,800
Closing Stock	2,700	45,700	By Bellary Branch P & L		2,930
To Branch Creditors		1,850	By Goods-in-transit A/c		2,500
			By Bellary Branch Assets A/c		
			Debtors	3,700	
			Cash & Bank	1,820	
			Furniture	1,360	
			Closing Stock	2,700	
			Cash in transit	1,200	10,780
		48,010			48,010

Illustration 2:

You are required to prepare the Trading and Profit and Loss account and consolidated Balance Sheet of Eve Ltd. in Calcutta and its Branch at Delhi. Give journal entries for incorporation of Delhi Branch Accounts in the Head Office and the Branch Account in Head Office books after incorporating therein the assets and liabilities.

The Trial Balance as on 31st December 2005 is as follows:

	H.O. Dr.	Branch Dr.	H.O. Cr.	Branch Cr.
	Rs	Rs	Rs	Rs
Manufacturing Expenses	30,000	10,000		
Salaries	30,000	10,000		
Wages	1,00,000	40,000		
Cash in hand	10,000	2,000		
Purchases	1,50,000	80,000		
Capital			2,00,000	
Goods received from H.O.		15,000		
Rent	8,000	4,000		
General Expenses	20,000	5,000		
Sales			4,50,000	1,50,000
Goods sent to Branch			15,000	
Purchases Returns			5,000	1,000
Opening Stock	50,000	30,000		
Discount earned			2,000	1,000
Machinery H.O.	1,50,000			
Machinery Branch	50,000			
Furniture–H.O.	7,000			
Furniture–Branch	3,000			
Debtors	40,000	15,000		
Creditors			30,000	5,000
H.O. Account				54,000
Branch Account	54,000			
	7,02,000	2,11,000	7,02,000	2,11,000

Closing stock at Head Office was Rs 40,000 and at Branch Rs 30,000. Depreciation is to be provided on Machinery @ 20 per cent and Furniture @ 15 per cent. Rent outstanding is Rs 500 (for Branch).

(I.C.W.A. Inter)

Head Office books
Journal

Date	Particulars			Dr. Rs	Cr. Rs
2005 Dec. 31	Delhi Branch Account		Dr.	10,450	
	To Delhi Branch Machinery Account				10,000
	To Delhi Branch Furniture Account				450
	(Being depreciation on Branch assets charged to Branch)				
	Delhi Branch Trading Account		Dr.	1,74,000	
	To Delhi Branch Account				1,74,000
	(Being incorporation of the following items:)				
	Stock	Rs 30,000			
	Net Purchases	79,000			
	Wages	40,000			
	Manufacturing Wages	10,000			
	Goods from H.O.	15,000			
		1,74,000			
	Delhi Branch Account		Dr.	1,80,000	
	To Delhi Branch Trading Account				1,80,000
	(Being incorporation of Branch Sales and Closing Stock)				
	Delhi Branch Trading Account		Dr.	6,000	
	To Delhi Branch Profit & Loss Account				6,000
	(Being the transfer of Gross Profit)				
	Delhi Branch Profit & Loss Account		Dr.	29,950	
	To Delhi Branch Account				29,950
	(Being incorporation of the following items)				
	Rent Rs 4,000 + 500	4,500			
	Salaries	10,000			
	General Expenses	5,000			
	Depreciation	10,450			
	Delhi Branch Account		Dr.	1,000	
	To Delhi Branch Profit & Loss A/c				1,000
	(Being incorporation of discount earned)				

General Profit and Loss Account	Dr.	22,950	
To Branch Profit & Loss Account			22,950
(Being the loss transferred to Profit and Loss Account of the Head Office)			
Branch Debtors Account	Dr.	15,000	
Branch Cash Account	Dr.	2,000	
Branch Stock Account	Dr.	30,000	
To Delhi Branch Account			47,000
(Being the transfer of various assets at Branch to Head Office books)			
Delhi Branch Account	Dr.	5,500	
To Branch Creditors Account			5,000
To Branch Expenses Outstanding Account			500
(Being the transfer of liabilities at Branch to Head Office books)			

Delhi Branch Account

Dr. Cr.

	Rs		Rs
To Balance b/d	54,000	By Delhi Trading Account–Opening Stock, purchases etc.	1,74,000
To Branch Assets–Depreciation	10,450	By Delhi Profit and Loss Account–Expenses	29,950
To Delhi Trading Account–Sales and Stock	1,80,000	By Sundry Assets	47,000
To Delhi Profit and Loss Account–Discount	1,000		
To Sundry Liabilities A/c	5,500		
	2,50,950		2,50,950

Trading and Profit and Loss Account of Eve Ltd.
for the year ended 31st Dec. 2005

Dr. Cr.

	Head Office	*Delhi Branch*		*Head Office*	*Delhi Branch*
	Rs	Rs		Rs	Rs
To Opening Stock	50,000	30,000	By Goods sent to Branch	15,000	–
To Purchases: *Less* Returns	1,45,000	79,000	By Sales	4,50,000	1,50,000
To Goods from H.O.	–	15,000	By Closing Stock	40,000	30,000
To Wages	1,00,000	40,000			
To Manufacturing Wages	30,000	10,000			
To Gross Profit	1,80,000	6,000			
	5,05,000	1,80,000		5,05,000	1,80,000
To Rent + O/s	8,000	4,500	By Gross Profit	1,80,000	6,000
To Salaries	30,000	10,000	By Discount	2,000	1,000
To General Expenses	20,000	5,000	By Net Loss	–	22,950
To Depreciation:					
Machinery	30,000	10,000			
Furniture	1,050	450			
To Net Profit	92,950	–			
	1,82,000	29,950		1,82,000	29,950

Balance Sheet of Eve Limited
as on 31st December 2005

Liabilities		*Rs*	*Assets*		*Rs*
Share Capital		2,00,000	Fixed Assets:		
Profit & Loss:			Machinery: H.O.	1,50,000	
Head Office	92,950		Machinery Branch	50,000	
Less: Loss of Branch	22,950	70,000		2,00,000	
Sundry Creditors:			*Less*: Depreciation	40,000	1,60,000
Head Office	30,000		Furniture:		
Branch	5,000	35,000	H.O.	7,000	
Rent Outstanding		500	Branch	3,000	
				10,000	
			Less: Depreciation	1,500	8,500
			Current Assets:		
			Stock: Head Office	40,000	
			Branch	30,000	70,000
			Debtors: H.O.	40,000	
			Branch	15,000	55,000
			Cash: Head Office	10,000	
			Branch	2,000	12,000
		3,05,500			3,05,500

(B) Incorporation of Net Profit/Loss, Liabilities and Assets of Branch:

Instead of transferring all the items, the Branch may prepare a Trading and Profit and Loss Account and only the Net Profit or Loss may be transferred to Head Office with or without assets and liabilities.

If the assets and liabilities are transferred, the Head Office will leave no balance. If, however, the assets and liabilities are not transferred, there will remain a balance in Head Office Account equal to net assets. At the time of preparing consolidated Balance Sheet, however, this account is substituted by Branch assets and liabilities.

The entries are:

1. To transfer the assets	Branch Assets Account Dr. To Branch Account
2. To transfer the liabilities	Branch Account Dr. To Branch Liabilities Account
3. To transfer the profit Reverse entry for loss	Branch Account Dr. To General Profit & Loss Account

Illustration

The Agra Branch of the National Industry Ltd. sent the following Trial Balance to the Head Office on 31.12.2005:

	Dr. Rs	Cr. Rs
Sundry Creditors	–	8,600
Sundry Debtors	12,000	–
Cash on hand	6,250	–
Furniture	1,900	–
Stock on 1.1.2005	2,250	
Purchases	66,450	
Sales		1,12,500
Goods from Head Office	34,000	
Goods returned to Head Office		2,250
Wages and Salaries	5,500	
Trade Expenses	5,250	
Head Office Account		10,250
	1,33,600	1,33,600

The stock on hand on 31.12.2005 was Rs 5,200. Close the books of the Branch and prepare a Trading and Profit and Loss Account in the books of the Branch. Also prepare the Head Office Account.

(*B.Com., Madurai, Delhi, Madras*)

SOLUTION

In the books of Agra Branch
Trading and Profit and Loss Account
for the year ended 31st December 2005

Dr.	Rs		Rs Cr.
To Stock A/c 1-1-2005	2,250	By Goods Returned to Head Office	2,250
To Goods received from Head Office	34,000	By Sales	1,12,500
To Purchases	66,450	By Stock 31-12-2005	5,200
To Gross Profit c/d	17,250		
	1,19,950		1,19,950
To Wages and Salaries	5,500	By Gross Profit b/d	17,250
To Trade Expenses	5,250		
To Head Office A/c–Net Profit	6,500		
	17,250		17,250

Only the net profit is transferred to Head Office Account by debiting Profit and Loss Account and crediting Head Office Account, *i.e.*,

				Rs	Rs
	Profit and Loss Account	Dr.		6,500	
	To National Industries Ltd				6,500
	(Being transfer of profit to Head Office)				

In such case, Head Office and Balance Sheet appear as follows:

The National Industries Ltd. Account

Dr.	Rs		Rs Cr.
To Balance c/d	16,750	By Balance b/d	10,250
		By Profit and Loss A/c	6,500
	16,750		16,750

Balance Sheet
as on 31st December 2005

Liabilities	*Rs*	*Assets*	*Rs*
Sundry Creditors	8,600	Cash on Hand	6,250
Head office Account	16,750	Sundry Debtors	12,000
		Stock	5,200
		Furniture and Fixtures	1,900
	25,350		25,350

Alternatively, when branch assets and liabilities are transferred, Head Office Account shows no balance. In such case, the entries in the branch books are as follows:

				Dr.	Cr.
				Rs	Rs
	The National Industries Ltd. A/c	Dr.		1,13,450	
	To Opening Stock A/c				2,250
	To Goods received from Head Office A/c				34,000
	To Purchase A/c				66,450
	To Wages and Salaries A/c				5,500
	To Trade Expenses A/c				5,250
	(Being transfer of revenue items to Head Office)				
	Returns to Head Office A/c	Dr.		2,250	
	Sales A/c	Dr.		1,12,500	
	Closing Stock A/c	Dr.		5,200	
	To National Industries Ltd. A/c				1,19,950
	(Being transfer of revenue items to Head Office)				
	To National Industries Ltd. A/c	Dr.		25,350	
	To Cash on Hand A/c				6,250
	To Sundry Debtors A/c				12,000
	To Closing Stock A/c				5,200
	To Furnitre and Fixtures A/c				1,900
	(Being transfer of assets to Head Office)				
	Sundry Creditors A/c	Dr.		8,600	
	To National Industries Ltd. A/c				8,600
	(Being transfer of Creditors to Head Office)				

Dr. **The National Industries Ltd.** Cr.

	Rs		Rs
To Sundries A/c–Revenue Items Debit Balances	1,13,450	By Balance b/d	10,250
To Sundries A/c–Assets	25,350	By Sundries A/c–Revenue Items Credit Balance	1,19,950
		By Sundries A/c–Liabilities	8,600
	1,38,800		1,38,800

		Dr.	Cr.
		Rs	Rs
Profit and Loss A/c	Dr.	6,500	
To National Industries Ltd. A/c			6,500
(Being transfer of net profit to Head Office)			
The National Industries Ltd. A/c	Dr.	25,350	
To Cash in Hand			6,250
To Sundry Debtors A/c			12,000
To Stock A/c			5,200
To Furniture and Fixtures A/c			1,900
(Being transfer of assets to Head Office)			
Sundry Creditors A/c	Dr.	8,600	
To National Industries Ltd. A/c			8,600
(Being transfer of Branch Creditors to Head Office)			

Dr. **The National Industries Ltd.** Cr.

	Rs		Rs
To Cash A/c	6,250	By Balance b/d	10,250
To Sundry Debtors A/c	12,000	By Profit and Loss A/c	6,500
To Stock A/c	5,200	By Sundry Creditors A/c	8,600
To Furniture and Fixtures A/c	1,900		
	25,350		25,350

Illustration

X Ltd., whose Head Office is in Kolkata, has a Branch at Chennai which obtains supplies partly from HO at cost and partly from other local suppliers. The Branch keeps a separate set of books.

On 31st December 2005 the following balances were extracted:

	Kolkata		*Chennai*	
	Dr.	*Cr.*	*Dr.*	*Cr.*
	Rs	Rs	Rs	Rs
Share Capital	–	1,00,000	–	–
Fixed Assets	88,000	–	30,000	–
Opening Stock at cost	15,000	–	7,000	–
Profit and Loss A/c (1.1.2005)	–	15,000	–	–
Debtors and Creditors	18,000	6,000	5,000	3,000
Bank	17,000	–	4,000	–
Purchases and Sales	3,00,000	3,20,000	20,000	82,000
Sundry Expenses	12,000	–	9,000	–
Goods from HO to Branch	–	35,000	30,000	–
Current Accounts	26,000	–	–	20,000
	4,76,000	4,76,000	1,05,000	1,05,000

The difference between the balances of the Head Office and Branch Current Accounts is due to (i) Goods- in-transit, and (ii) Cash-in-transit as at the date of Trial Balance. Depreciation is to be charged @ 10% p.a. Stock on 31st December 2005 were Head Office Rs 25,000 and Branch Rs 12,000.

You are asked to prepare a combined Trading and Profit and Loss Account for the year ended 31st December 2005 and a Balance Sheet as on that date. (M.Com., Madras, Madurai, Bangalore)

SOLUTION

Balance Sheet
as on 31st December 2005

Liabilities		*Rs*	*Assets*		*Rs*
Share Capital		1,00,000	Fixed Assets:		
Profit & Loss A/c:			H.O.	88,000	
Balance (1.1.2005)	15,000		Branch	30,000	
Profit (During 2005)	69,200	84,200		1,18,000	
Current Liabilities:			*Less*: Depreciation		
Creditors:			(Rs 8,800 + Rs 3,000)	11,800	1,06,200
H.O.	6,000		Current Assets:		
Branch	3,000	9,000	Stocks:		
			H.O.	25,000	
			Branch	12,000	37,000
			Stock-in-Transit		5,000
			Debtors:		
			H.O.	18,000	
			Branch	5,000	23,000
			Bank:		
			H.O.	17,000	
			Branch	4,000	21,000
			Cash-in-Transit		1,000
		1,93,200			1,93,200

Note:

Goods-in-Transit and Cash-in-Transit:

	Rs
Difference between the two Current Accounts (Rs 26,000 – Rs 20,000)	6,000
Less: Goods-in-Transit (Rs 35,000 – Rs 30,000)	5,000
Balance, being Cash-in-Transit	1,000

Consolidation of Profit and Loss Accounts:

(1) The profit of the subsidiary company arising before the date of acquisition of shares in the subsidiary company and belonging to the holding company should be debited to the Con-solidated Profit and Loss Account and credited to Capital Reserve or Goodwill as the case may be. In case there is a loss, the Consolidated Profit and Loss Account will be credited and Capital Reserve or Goodwill debited.

(2) In respect of T the proportion of the profits of the subsidiary company which belongs to the minority shareholders, their account should be credited by debit to the Consolidated Profit and Loss Account. In ease of loss, the Minority Shareholders Suspense Account should be debited and the Consolidated Profit and Loss Account credited.

(3) All items internal to the holding and subsidiary companies should be eliminated. If thsubsidiary company has passed entries for proposed dividend and the holding company has also taken credit for its share of the dividends, there will be a cancellation from both sides of the Consolidated Profit and Loss Account.

(3) If the proposed dividend has not been passed through the holding company's books, the debit in respect of proposed dividend will be reduced by the holding company's share in the Consolidated Profit and Loss Account; the corresponding liability in the Balance Sheet will also be reduced.

(4) (4) Reserve for un-realised profit in respect of inter-company transactions relating to goods will have to be created by debit to the Consolidated Profit and Loss Account and credit to Stock Reserve Account.

Illustration 1:

H Ltd. holds 7,500 equity shares of Rs 10 each in S Ltd. whose capital consists of 10,000 equity shares of Rs 10 each and 14% 1,000 cumulative preference shares of Rs 100 each. S Ltd. has also issued 14% debentures to the extent of Rs 2,00,000 out of which H Ltd. holds Rs 1,00,000.

Solution:

₹

Particulars	*Note No.*	*Amount as at 31st March, 2012* H. Ltd.	S. Ltd.
Revenue from operations	1	19,00,000	15,00,000
Other income	2	56,000	
Total revenue I		19,56,000	15,00,000
Expenses:			
Purchases of stock in trade		17,00,000	11,50,000
Excess of closing inventory of goods over opening inventory of goods	3	(2,00,000)	(1,50,000)
Finance costs	4		28,000
Depreciation expense		58,000	34,000
Other expenses		1,00,000	1,50,000
Total expenses II		16,58,000	12,12,000
Profit before tax (I-II) III		2,98,000	2,88,000
Income tax IV		98,340	95,040
Profit for the period (III – IV)		1,99,660	1,92,960
Appropriations:			
Preference dividend			14,000
Interim (equity) dividend			56,000
Proposed (equity) dividend		1,00,000	84,000
		1,00,000	1,54,000
Balance		99,660	38,960

Notes:

	H. Ltd. ₹	S. Ltd. ₹
1. **Revenue from operations**		
Sales of Products	19,00,000	15,00,000
2. **Other income**		
Debenture interest	14,000	
Interim dividend	42,000	
	56,000	
3. Opening inventory of goods	3,00,000	2,00,000
Closing inventory of goods	5,00,000	3,50,000
Excess of closing inventory of goods over opening inventory of goods	2,00,000	1,50,000
4. **Finance costs**		
Debenture Interest		28,000

Ack Ltd. acquired control of Tick Ltd. and Tock Ltd. on 1st April, 2011. The respective balance sheets on March 31, 2012 were:

Solution:

₹

Particulars	*Note No.*	*Amount as at 31st March, 2012*		
		Ace Ltd.	*Tick. Ltd.*	*Tock. Ltd.*
I. Equity and Liabilities				
Shareholders' funds				
Share capital	1	1,50,000	80,000	50,000
Reserves and surplus	2	55,000	13,000	11,000
Non-current liabilities				
Long-term borrowings	3		4,000	
Current liabilities				
Trade payables	4	24.000	18,000	15,000
Total		2,29,000	11,5,000	76,000
II. Assets				
Non-Current assets				
Fixed assets				
Tangible assets		31,000	36,000	22,000
Non-current investments	5	1,25,000		
Long-term loans and advances	6	4,000		
Current assets				
Inventories		26,000	24,000	16,000
Trade receivables	7	30,000	48,000	27,000
Cash and cash equivalents	8	13,000	7,000	11,000
Total		2,29,000	1,15,000	76,000

Notes

1. Share Capital	*Ace LTD.* ₹	*Tick Ltd.* ₹	*Tock Ltd.* ₹
Issued, Subscribed and Paid up:			
Equity Shares of ₹ 10 cach, fully paid up	1,50,000	80,000	50,000

		₹	₹
Profit from Tick Ltd.			2,775
Profit from Tock Ltd.			2,400
			50,475
Less: Unrealised Profit on sale of Plant by Tock Ltd. to Tick Ltd. 3/4 of 4/5 of ₹ 250		150	
Unrealised Profit on Sale of Stock—3/4 of ₹ 400		300	
Proposed Dividend of Ack Ltd. @ 10%		30,000	30,450
Balance to Balance Sheet			20,025
(iii) *Minority Interest*			
Face value of shares held		20,000	10,000
Add: Proportionate share of profit brought forward from the previous year		2,250	1,600
Proportionate share of current year's profits*		925	600
		23,175	12,200
(iv) *Goodwill or Cost of Control :*			
Amount paid		75,000	50,000
Less: Face value of shares		60,000	40,000
		15,000	10,000
Less: Proportionate profits brought forward from 2010-2011		6,750	6,400
		8,250	3,600

Consolidated Balance Sheet of Ack Ltd. and its subsidiaries, Tick Ltd. and Tock Ltd., as on March 31, 2012

₹

Particulars	*Note No.*	*Amount as at 31st March, 2012*
I. Equity and Liabilities		
Shareholders' funds		
Share Capital	1	1,50,000
Reserves and Surplus	2	30,025
Minority interest [Working Note (iii)]		35,375
Current liabilities		
Trade Payables	3	55,000
Short-term provisions	4	30,000
Total		3,00,400
II. Assets		
Non-current assets		
Fixed assets		
Tangible assets	5	88,850
Intangible assets	6	11,850
Current assets		
Inventories	7	65,700
Trade receivables	8	1,03,000
Cash and cash equivalents	9	31,000
Total		3,00,400

possible questions

Part A

(Online Examination)

Part B

1. What is branch accounts?
2. What are the two types of branch accounts?
3. Define debtor system?
4. What is reserves?
5. Write about independend branch?
6. What is the concept of accounting treatment?
7. What is meant by Stock and Debtor System?
8. Mention any two objects of branch accounting?
9. What is Dependent Branch?

Part c

1. Manian Ltd of Calcutta has a branch at Patna. Goods are invoiced to the Patna branch, the selling price being cost plus 25%.

The Patna branch keeps its own sales ledger and transmits all cash received to Calcutta. All expenses are paid from Calcutta. From the following details prepare the Patna Branch A/c for the year 2009

Particulars	Rs.
Stock (1.1.2009) (Invoice Price)	1,250
Stock (31.13.2009) (Invoice Price)	1,500
Debtors (1.1.2009)	700
Debtors (31.12.2009)	900
Cash sales for the year	5,400
Credit sales for the year	3,500
Goods invoiced from Calcutta	9,100
Rent	400
Wages	340
Sundry Expenses	80

2. Naga of Trichy has a branch at Madras. Goods are sent by head office at invoice price which is at the profit of 20% on cost price. All expenses of the branch are paid by head office. From the following particulars, prepare branch account in the H.O books at invoice price.

	Rs.
Opening Balances	
Stock at Invoice price	1,100
Debtors	1,700
Petty Cash	100
Goods sent to branch at invoice price	20,000
Expenses paid by H.O	
Rent	600
Wages	200
Salary	900
Remittances made to H.O	
Cash Sales	2,650
Cash collected from debtors	21,000
Goods returned by branch at invoice price	400
Balance at the end	
Stock at invoice price	13,000
Debtors	2,000
Petty Cash	25

3. Explain in detail on various types of Branch Accounting.
4. The following information relates to Chennai branch:

Particulars	***(Rs)***	***(Rs)***
Stock on 01.01.2012		11,200
Branch debtors on 01.01.2012		6,300
Goods Sent to Branch		51,000
Cash Sent for Branch:		
Rent	1,500	
Salaries	3,000	
Petty Cash	500	5,000
Sales at Branch:		
Cash	25,000	
Debtors	39,000	64,000

Cash Received from Debtors		41,200
Stock on 31.12.2012		13,600

Prepare Branch Accounts for the year 2012.

5. A Delhi merchants has a branch at madras to which he charge out the goods at cost plus 25% .The madras branch keeps its owns sales ledger and transmits all cash received to the Head Office every day .All expenses are paid from the Head Office .The transaction for the branch were as follows:

Stock (1.4.94) at I.P	11,000	Returns inwards	500
Debtors (1.4.94)	100	Cheques sent to branch :	
Petty cash (1.4.94)	100	Rent	600
Cash sales	2,650	wages	200
Credit sales	23,950	salary	900
Goods send to Branch at I.P	20,000	Stock (31.12.94)	13,000
Collection on ledger account	21000	Debtors (31.12.94)	2000
Goods return to H.O	300	petty cash (31.12.94) (including miscellaneous income Rs 25 not remitted)	125
Bad debts	300	Collection from debtors	21,000
Allowances to customer	250		

Prepare branch Trading and Profit & Loss account and Branch Account for the Year 31.3.02

6. What is Branch Accounting? And explain its types?

UNIT- V

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

INTRODUCTION TO ACCOUNTING FOR PARTNERSHIP

A business may be organized 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 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*			

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

= <u>1 00 000</u>

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 10 / 100

=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		40,000	
	To Chandran's Capital A/c			40,000
	(Cash brought in by Chandran as capital)			

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 doubtful debts	2,000	Amar's Capital A/c 8,000 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)				
	Goodwill A/c	Dr		40,000	
	To Anitha's Capital A/c				30,000
	To Vanitha's Capital A/c				10,000
	(Goodwill raised and shared among old partners in the old ratio)				

Cash A/c Dr		50,000	
To Kavitha's Capital A/c			50,000
(Capital brought in by Kavitha)			
General Reserve A/c Dr		40,000	
To Anitha's Capital A/c			30,000
To Vanitha's Capital A/c			10,000
(Accumulated reserve transferred to old partners in the old ratio)			

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:

Dr. **Revaluation Account** Cr.

Particulars		Rs.	Particulars	Rs.
To Stock		8,000	By Land	30,000
To Provision for doubtful debts		2,000	By Creditors	5,000
			By Investments	10,000
To Profit on revaluation:				
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
				By Goodwill A/c	9,000	6,000	3,000
To Bank A/c			50,000	By Revaluation A/c	6,300	4,200	2,100
To Chozhan's loan A/c			52,600	By Reserve	7,500	5,000	2,500
To Balance c/d	2,07,800	1,25,200	—				
	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		
Pallavan	2,07,800		doubtful debts A/c	2,400	37,600
Pandian	1,25,200	3,33,000			
			Stock		80,000
			Building		2,65,000
			Goodwill		18,000
		4,15,600			4,15,600

POSSIBLE QUESTION

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 1/5th 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 A: 30,000 B: 20,000	50,000	Stock	10,000
		Prepaid Insurance	1,000
		Debtors 8,000 Less: Provision 500	7,500
Salary Due	5,000	Cash	18,500
Creditors	40,000	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.

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FINANCIAL ACCOUNTING (19CCU101)

UNIT 1

S.NO	QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
1	The process of recording, classifying, analyzing and communicating the financial transactions is called as	single entry	accounting	journalizing	ledger	accounting
2	Accounting begins ----------------- ends.	book keeping	voucher	business transactions	overdraft as per pass book	book keeping
3	The statement containing various ledger balances on a date is known as ---------------	trial balance	balance sheet	profit/loss a/c	net profit	trial balance
4	Ledger is a set of -------------	accounts	journal	transactions	overdraft as per pass book	accounts
5	Journal records transactions in a ----------- order.	chronological	analytical	sequence	capital account	chronological
6	Ledger records in an -------- order	Alphabetical	analytical	chronological	cash	analytical
7	When the goods are returned to the supplier a ---------- is sent to him	debit note	credit note	journal proper	ledger	debit note
8	In doubel entry system, every business transaction records ------------ aspect	one	two	three	four	two
9	Impersonal account are classified in to	three	two	four	five	two
10	The process of	posting	recording	both (a) and	net profit	posting

	transferring the debit and credit items from a journal to their respective account in the ledger is termed as -----------------			(b)		
11	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
12	Amount spent on acquiring a copy right is an example for	capital expenditure	revenue expenditure	deferred revenue expenditure	Profit and loss	capital expenditure
13	One of the current assets is	Stock	Machinery	land	Sales	Stock
14	cost means ---------	price	expenses	production	building .	price
15	An account which receives the benefit from a transaction is called --------	credit	debit	both debit and credit	not a transaction	debit
16	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
17	Bank account is a	Personal account	Real account	nominal account	capital account	Personal account
18	A written document in support of a transaction is called --------------	Receipt	credit note	Debit note	total cost of asset	Receipt
19	Business transaction may classified in to ---------------- transactions	Three	Two	One	invoice book	two
20	Rent paid to land lord. Rent account is a	Personal account	Real account	nominal account	not an account	nominal account
21	Purchase return means goods return to the supplier due to -----------	good quality	defective quality	super quality	overdraft as per pass book	defective quality

22	Amount spent in order to produce and sell the goods and services is called	expense	income	revenue	total cost of asset	expense
23	Amount owned by the proprietor is ------------	assets	liabilities	capital	overdraft as per pass book	capital
24	The accounting equation is connected with -------------------	assets only	liabilities only	assets, liabilities, and capital	invoice book	assets, liabilities, and capital
25	Goods sold to 'X' should be debited to	cash a/c	X a/c	sales a/c	total cost of asset	X a/c
26	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
27	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
28	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
29	An entry is passed in the beginning of each current year is called	original entry	final entry	opening entry	invoice book	opening entry
30	As per business entity assumption the business is different from the	owners	banker	Government	total cost of asset	owners
31	Going concern assumption tells us the life of the business is	very short	very long	long	capital account	very long
32	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
33	As per dual aspect concept, every	three aspects	one aspect	two aspects	total cost of asset	two aspects

	business transaction has					
34	Ledger is a book of	original entry	final entry	all cash transactions	invoice book	final entry
35	A brief explanation of the transactions with necessary details written under each journal entry within brackets.	journal	ledger	narration	account	narration
36	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
37	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
38	Nominal account having credit balance represents	income / gain	expenses/losses	assets	capital account	income gain
39	Nominal account having debit balances represents	income/gain	expenses/losses	liability	invoice book	expenses/losses
40	Real account always shows	debit balances	credit balances	nil balances	invoice book	debit balances
41	An account which contains details about expenses, losses, incomes and gains.	real account	nominal account	personal account	impersonal account	nominal account
42	When the total of debits and credits are equal, it represents	debit balance	credit balance	nil balance	total cost of asset	nil balance
43	Debit what comes in and credit what goesout is related to	real account	nominal account	personal account	impersonal account	real account
44	An accounting system based on the principle "for every debit there must be	double entry system	single entry system	triple entry system	four entry system	double entry system

	correspondent credit of equal amount and vice versa".					
45	Purchase book is kept to record --------------	all purchases	cash purchases only	only credit purchases	total cost of asset	only credit purchases
46	Credit sales are recorded in ------------	sales book	sales return book	purchase return book	cash book	sales book
47	Goods returned by customers are recorded in	sales book	sales return book	purchase return book	cash book	sales return book
48	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
49	Cash book is one of the ----------- books.	purchase book	subsidiary book	sales book	invoice book	subsidiary book
50	The balance of cash book indicates	net income	cash in a hand	debtors and creditors	Sales	cash in a hand
51	Purchase journal records only ---------- purchase of goods	credit purchases	cash purchases	credit sales	cash sales	credit purchases
52	Sales journal records all ----------- sales of goods	credit purchases	cash purchases	credit sales	cash sales	credit sales
53	Purchases Book, Sales Book, Purchase Return Book and Sales Return Book are	day books.	Cash book	Subsidiary book	debit book	Subsidiary book
54	Which is given to a customer who buys goods regularly or buys goods in large quantity?	Trade discount	Cash discount	Commission	Percentage	Trade discount
55	According to ------------------concept the revenue is recognized on its realizations and not on its actual receipt.	Business entity	cost	matching	accrual	accrual
56	As per accounting procedure, Investment account is a	Personal account	Real account	nominal account	not an account	real account

57	Sales book other wise known as ----------	purchase book	sales return book	day book	purchases return book	day book
58	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
59	In a business , very small expenses like postage, telegram are recorded in ------	cash book	day book	Subsidiary book	petty cash book	petty cash book
60	To find the arithmetical accuracy of all accounts , --------------- is prepared.	subsidiary	journal	ledger	trial balance	trial balance

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UNIT II

S. no	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

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	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	Market value	Scrap value	Market + Cost price	Cost	Cost

	depreciation from its:					
	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 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	estimated disposal	definite sale price of the asset	Cost – Scrap value	estimated disposal

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UNIT II

		disposed off	value			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	Three places	Two places	One Place	Four Place	Two places

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UNIT II

	appear at __________					
	______________ 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

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UNIT II

	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	Capital	Sales	Purchase	Asset	Sales

	trail balance are deducted from					

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S.NO	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
7	Asset which have a	Limited assets	Deprecia	Unlimited	Dummy assets	

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1		limited useful life are termed as:		tion assets	asset		Depreciation assets
72		Process of becoming out of date or obsolete is termed as:	Physical deterioration	Depletion	Obsolescence	Amortization	Obsolescence
73		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	Rs. 1400	Rs. 1,458	Rs. 542	No answer	No

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	diminishing balance method of $2,000 at the rate of 10% p.a after three years will be					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 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

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	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	Fixed	Working	Current	Variable	Workin

	asset over current liabilities is known as __________ capital					g
	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

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S.NO	QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	ANSWER
	Branch which does not maintain its own set of books is ________________.	dependent branch.	independent branch.	foreign branch.	local branch	dependent branch.
	Branches not keeping full system of accounting are _________.	dependent branch.	independent branch.	foreign branch.	local branch	dependent branch.
	All branch expenses such as rent, salary, are paid by the head office in case of ______.	dependent branch.	independent branch.	foreign branch.	local branch	dependent branch.
	Dependent branch make ________.	only cash sales.	only credit sales.	cash and credit sales.	installment sales.	cash and credit sales.
	Under stock and debtors system the head office opens __________.	branch adjustment account.	branch debtors account.	branch creditors account .	branch cash account.	branch adjustment account.
	In branch account, goods sent	branch k.	branch x.	branch z .	branch y.	branch y.

	by branch X to branch Y, will be debited to ________.					
	Under branch accounts debtors system, the depreciation of an asset is ________.	show in debtors account.	shown in debit side of branch account.	not shown in branch account	shown in credit side of branch account.	not shown in branch account
	Under branch accounts debtors system, opening balance of assets are recorded in ____.	credit side.	debit side.	first credit and debit side.	first debit and credit side.	credit side.
	Under branch accounts debtors system, closing balance of assets are recorded in _________.	credit side.	debit side.	first credit and debit side.	first debit and credit side.	credit side.
	Under branch accounts debtors system, opening balance of	first credit and debit side.	first debit and credit side.	credit side.	debit side.	credit side.

	liabilities are recorded in ____________.					
	The difference between goods sent by head office and received by the branch is known as ____________.	goods in transit.	goods in godown.	goods in production.	goods in warehouse.	goods in transit.
	Under stock and debtors system of branch account, the account prepared to record all the transactions relating to branch debtors is recorded in _________.	branch expenses account	branch adjustment account.	branch debtors account.	branch creditors account.	branch debtors account.
	Under Debtors System, the Debtors at close are shown	On the credit side of the Head Office Account	On the debit side of the Branch account	On the credit side of the Branch account after adjusting for bad debts, discount allowed etc.	Are not shown in the Branch account	On the credit side of the Branch account after adjusting for bad debts, discount allowed etc.
	Under	Shown it on	It is not s	It is deduct	It is shown	It is deducted

	Debtors System treatment of Reserve for Bad debts is	the credit si de of Branc h a/c	hown in B ranch a/c	ed from the Branch Deb tors and the good Branc h debtors ar e shown in t he Branch a ccount	on the debit side of the g eneral Profit and Loss ac count	from the Bran ch Debtors an d the good Br anch debtors are shown in t he Branch ac count
	The treatment of petty expenses made by the Debtors System is as follows	It is not rec orded in the Branch acco unt	It is show n on the d ebit side o f the Bran ch account	It is shown on the gener al Profit and Loss accoun t of Head O ffice	Only the clo sing balance of Petty Cas h (Opening balance plus amount red uced from Head Office less petty ex penses) will appear in the credit side of the Branch account	Only the closi ng balance of Petty Cash (O pening balanc e plus amount reduced from Head Office l ess petty expe nses) willapp ear in the credit side of the Branch account
	Branch Adjustment Account is prepared:	By Dependent Branch	By H.O. of Dependent Branch	By H.O. of Independent Branch	By Independent Branch	By H.O. of Dependent Branch
	Which account is prepared to find out the amount of closing stock:	Head Office A/c	Branch A/c	Memorandu m Stock A/c	Dependent Branch A/c	Memorandu m Stock A/c
	Branch account under debtor system is:	Real account	Personal account	Nominal account	Head Office account	Nominal account
	Goods sent by the head office to	branch account	trading account	goods sent to branch account	goods-in-transit account	branch account

	the branch but not received by the branch before the close of financial year are credited by head office to					
	When a branch purchases fixed assets and the asset account is to be kept in the books of head office, the branch makes the following entry.	debits head office credits bank	debits branch credits head office	debits head office credits branch asset	debits branch asset credits bank	debits head office credits bank
	Depreciation on branch assets under debtors system is	not shown separately in branch account	shown in branch account	not accounted	shown in the profit and loss account of head office	not shown separately in branch account
	Independent Branch meant when separate account are maintained by :	H. O.	Branch	H.O and Branch	Dependent	Branch

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	When Branch pays expenses for H.O. the following account is debited in the books of the branch –	Expenses is debited	H.O. a/c is debited	Branch is debited	H.O. a/c is credited	H.O. a/c is debited
	Under the stock and debtor system, Branch A/c is treated as –	Joint a/c	Nominal a/c	Personal a/c	Real a/c	Real a/c
	When Branch assets a/c is kept in the books of H.O.,the H.O. will debit following a/c for its depreciation-	Branch P & L a/c	Depreciation a/c	Branch a/c	Joint a/c	Branch a/c
	Goods are sent to branch at cost plus 20% .If closing stock of the branch is Rs 60,000 at	Rs 10000	Rs 12000	Rs 6000	Rs 12600	Rs 10000

	invoice price , Rs____ will be credited to stock reserve a/c					
	For finding the amount of sundry expenses paid by the branch, the following a/c should be prepared.	Computer a/c	Creditors	Petty cash a/c	Debtors	Petty cash a/c
	Which of the following branches, taking into consideration the scope of authority and responsibility, prepares its own independent final accounts?	Independent Branch	Foreign Branch	Dependent branch	Independent and Foreign branch both.	Independent Branch
	Goods in transit are shown in the balance sheet at –	Head office	Branch	H.O and Branch	Dependent	Head office
	The adjusting entry for difference	Balance sheet	P & L a/c	Branch adjustment a/c	Joint a/c	Branch adjustment a/c

	between the invoice price and cost price of goods are shown in-					
	Stock and debtors system is generally used when goods are sent to the branch at –	Cost price	Invoice price	Selling price	purchasing price	Invoice price
	Goods sent by HO but not received by branch before the end of the year, by debiting it to goods in transit, which account should be credited?	Cash a/c	Branch a/c	Trading a/c	HO a/c	Branch a/c
	As per the cost of concept an asset is recorded at its_________	market cost	actual cost	normal cost	purchase cost	actual cost
	The system of operating at several	Department	Division	Office	Branch Organization	Branch Organization

	places through one's own establishments is called ___________ .					
	The main establishment located at the main place of activity is called ___________	Head Office	Office	Division	Branch	Head office
	Branches may be divided into ____________ categories, branches, branches and foreign branches.	2	3	4	5	3
	Goods supplied to Dependent __________by the Head Office may be either at or at price.	Head Office	Office	Branches	Department	Branches
	Debtors System is generally adopted when the	Office	Branch	Company	Department	Branch

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	_______________is fairly in size.					
	Branch Account is a in nature and is prepared in the Head Office Books.	Not Involve	not taken	not see	taken	Not taken
	Under Debtors System, bad debts and discounts allowed in the Branch Account___________________.	Credit side	Debit side	Income side	credit or debit	Credit side
	Petty expenses paid by the branch out of petty cash maintained on impressed system will be shown on the __________ branch account	Credit side	Debit side	Income side	credit or debit	Debit side
	Under the branch trading and profit and	Real account	Personal account	Nominal account	Head Office account	Personal account

	loss account system, the branch account is of the nature of …………….					
	Under trading and profit and loss system, the remittances made to the branch are ___________ to the branch account	Debited	Credited	Listed	accounted	Credited
	Under trading and profit and loss system, the profits of a branch are ___________ branch account	Debited	Credited	Listed	accounted	Debited
	The difference of the two sides of the branch account, under branch trading and profit and loss	amount paid	amount received	amount due	amount lost	amount due

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	account system, shows ________ from the branch					
	Branch adjustment account is in the nature of……….	Real account	Personal account	Nominal account	Head Office account	Nominal account
	If the branch has collected money from a customer of the head office, then (in the head office books) branch account is……….	Debited	Credited	Listed	accounted	Debited
	Goods sent by the head office to the branch not received by the branch are credited by H.O. to……… ………	Department Accounts	Branch Account	Profit and Loss Account	Trading Account	branch account
	Closing stock + cost of goods sold	Openiong Stock	Purchase return	closing cash balance	Opening cash balance	Opening Stock

	— Purchases =………… ………					
	Cash remitted by branch but not received by the head office is debited by the head office to……… ………	cash-in-transit account	branch account	department account	trading account	cash-in-transit account
	. __________ Account deals with all goods received, returned and sold by the branch	Branch Debtors	Branch stock	Branch Expenses	Branch Profit and Loss Account	Branch stock
	When Branch maintains its own books it is treated as an __________ branch.	Independent	Dependent	Independent and Dependent	Head Office	Independend
	under the system head office opens a separate account for each branch	profit & loss a/c	branch account	sales account	profit account	profit account

	called ________					
	The branch manager is normally expected to the goods for _________	Cash	assets	liabilites	loan	cash
	Branch expenses paid by the branch out of __________	petty cash	expensess	imprest system	debited	petty cash
	Branch account is a nominal account in nature and prepared in _________-only	Head office books	ledger	journal	subsidairy books	Head office books
	The main object of keeping branch accounts is dependend on ________	nature of business	accounts	commision on payment	syatem of accounting	nature of business
	under _________system the head office opens a separate account for each branch in order to record all	debtors system	final account system	stock and debtors system	wholesale system	debtors system

	transmission relating to a branch					
	goods are supplied by the head office to such branch eithter at cost price or at ___________	invoice price	debit price	recipt	cost price	invoice price
	under _________system head office opens trading and profit and losss account in order to find profit or loss of each branch	final account system	debtors system	stock system	branch system	final account system

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UNIT V

S.no	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	Secret partner	Sleeping partner	Active partner	Nominal partner	Sleeping partner

	the business but does not take active part in the business is					
	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	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

	the partner?					
	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	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.

	is					
	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	
	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 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	
	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	
	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	

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	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		
	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	Sacirficing Ratio	Gaining Ratio	Capital Ratio	Profit sharing ratio	Sacrificing Ratio

	minus new profit sharing ratio is equal to					
	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	Old ratio	New Ratio	Capital Ratio	Sacrificing ratio	New Ratio

	accounts of the partners in					
	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	Capital Ratio	Old Profit Sharing Ratio	New Profit Sharing ratio	Sacrificing ratio	Old Profit Sharing Ratio

	partners in ______					
	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

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FINANCIAL ACCOUNTING (19CCU101)

UNIT V